March 2, 2019

To:	**Joint Carbon Committee**
CC:	**Co-Chair Senator Michael Dembrow, Co-Chair Representative Karin Power, and Representative Ken Helm**
From:	**Joshua Skov**
Subject:	**Support of and Suggestions for House Bill 2020**

I appreciate the opportunity to comment on Clean Energy Jobs Bill, as set forth in House Bill 2020. I am currently an instructor and mentor to graduate students of business at the University of Oregon, where my courses include material on clean energy and corporate climate strategy. In addition, I have spent the past 18 years as a consultant to business and government on sustainability and climate change. I have consulted for over fifty public- and private-sector organizations in more than a dozen states and several foreign countries. I offer this testimony as an individual, and as a professional in relevant fields, not as a representative of any organization.

I would like to communicate three main points:

1. Pass this bill.
2. Do not give away so many allowances for so long.
3. Support industrial transition in ways other than the distribution of free allowances.

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1. Pass this bill

Overall, I'm in full support of the basic elements of HB 2020, including a strong policy mechanism that puts a price on carbon and puts revenue (from the sale of allowances) to work addressing equity and transition issues.

I share the sense of urgency you have heard from many parties; I will not belabor that point, but I will emphasize that the basic structure of this policy approach fits the task at hand. One need only consider the California case as proof that it can work. Given that we in Oregon will have California on our border, we should expect the approach to work even better for us.

2. Do not give away so many allowances for so long.

As proposed, HB 2020 gives away roughly 37% of allowances in the first year (2021) and an estimated 51% of allowances in 2029. This path, while understandable political compromise, is a counterproductive path.

It is vital *for the sake of the efficacy of the policy* that the legislation not give away so many allowances for free (so-called "direct allocation" of allowances). In addition to the equity concerns in allowing certain sectors to avoid full participation in the policy mechanism, there are two basic reasons to believe that these giveaways will compromise our progress toward a low-carbon economy: first, we will have less revenue to fund the transition; and second, we will shield many economic sectors from the full effect of a price on carbon.

First, the revenue question. By not auctioning more allowances, we are deliberately passing up the chance to get more and quicker revenue that we urgently need to fund the transition in a variety of sectors. Transportation and energy investments are capital-intensive, and it is only with revenue that we can make those investments happen. (We will also want industrial transition funds – see point 3 below.)

Second, “direct allocation” simply buys industries time without sending the vitally important price signal that makes markets work. Many industries make the argument that their emissions are “baked in” and inevitable; there is almost no evidence for that view. Energy intensity, materials selection, and industrial processes are all negotiable over time via innovation, but without a sufficient price signal, we cannot expect markets to deliver the low-carbon economy. In short, a well-intentioned program of “direct allocation” works against the purpose of a cap-and-trade system.

I urge you to consider a faster and fuller tapering of “direct allocation” of allowances. In combination with my third point below (better transition support), we should be able to eliminate direct allocation entirely within five years of initial implementation (by 2026).

3. Support industrial transition in ways other than the distribution of free allowances.

In short, we must provide means other than “direct allocation” to support the transition of our energy-intensive, trade-exposed sectors. There are at least two ways to do this:

1. Preferential terms for funds for innovation: Research and development can be expensive and uncertain. By providing support for firms that are working hard to develop and commercialize the new technologies for a low-carbon economy, we can accelerate that process of innovation.
2. Preferential terms for funds for investment: Many new technologies require large capital outlays to achieve economies of scale and become viable in the marketplace. There exist many ways for the public sector to support these investment needs, including loan guarantees and interest-rate buy-downs. Often such interventions are necessary only at the outset of a technology’s emergence; once the technology is proven and commonplace, conventional finance will step in at market rates and without insisting on a risk premium.

It is worth noting that, if we decrease “direct allocation” giveaways more quickly and eliminate them altogether sooner, we will have more funds for these more meaningful and effective industrial transition approaches.

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Thank you for your consideration, and please do not hesitate to contact me for additional information in support of the themes in my testimony.

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