

RENEWABLE ENERGY: AN OREGON ECONOMIC OPPORTUNITY

A REPORT TO THE OREGON ECONOMIC AND COMMUNITY DEVELOPMENT DEPARTMENT BY THE
OREGON BUSINESS ASSOCIATION AND THE OREGON ENVIRONMENTAL COUNCIL

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EXECUTIVE SUMMARY

Introduction

The Oregon Economic and Community Development Department (OECDD) asked the Oregon Business Association (OBA) and the Oregon Environmental Council (OEC) to research and prepare a report assessing the economic opportunities presented by the renewable energy industry. Because renewable resources take so many forms and affect so many different sectors of the national and state economies, OECDD asked OBA and OEC to concentrate their research on two sectors—transportation and electric generation. Part 1 of the report examines the economic potential for an Oregon renewable transportation fuels industry (ethanol and biodiesel). Part 2 discusses the economic potential for two representative renewable generating resources: wind and biomass.

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

Conclusions - Biofuels

Rarely does Oregon find the opportunity to attract a new industry to the state; the renewable fuels industry is such an opportunity. Put simply, there is a strong and growing West Coast demand for 100s of millions of gallons of renewable transportation fuels (ethanol and biodiesel), but there are not yet any large-scale West Coast plants to meet that demand. With a small amount of encouragement and a minimal impact on the state's budget, Oregon stands a very good chance of leading a West Coast biofuels industry—to the advantage of a wide swath of the state's economy.

Federal and state regulations and policy initiatives will stimulate significant West Coast demand for renewable transportation fuels. Renewable fuels markets will generate demand for oilseed crops, such as canola and mustard seed, that Oregon farmers can grow as rotational crops. These new industries will require oilseed crushing and processing facilities that will substantially stimulate local rural economies and generate new job growth during construction and operation.

There is already a very large West Coast ethanol market, but there are no large West Coast facilities to satisfy that market; nor are there any biodiesel plants to meet the expected 2006 national demand for biodiesel. Nonetheless, one of the West Coast

states *will* get the jobs the biofuels industry will generate for farmers, construction workers, metals industries, and operations personnel. Will it be Oregon? Our state can capture the economic growth from these industries but needs to ensure a stable local market for biofuels and to encourage construction of crushing and refining facilities.

Recommendations - Biofuels

This report recommends that Oregon

Stimulate Demand

- Institute a statewide Renewable Fuels Standard with the following requirements: (1) a minimum two percent biodiesel content (B-2) in all diesel fuel sold in the state for highway use after June 1, 2006, rising to five percent on January 1, 2010 for all diesel uses, and (2) a minimum ten percent ethanol content (E-10) in all gasoline sold in the state beginning January 1, 2010.
- Provide biofuels market analysis and strategy assistance by raising awareness of the uses and benefits of renewable fuels in target markets.
- In order to ensure a stable in-state ethanol market, ban the use of MTBE in the state, and require the use of ethanol to fulfill any oxygenate requirement imposed by state air quality regulations.

Establish Production Facilities

- Permit biodiesel production facilities to use the same property tax exemption that is now available for ethanol production facilities.
- Investigate tax credits or other financial incentives that will encourage construction and operation of oilseed crushing facilities in rural communities and that will enable growers to extract added value from feedstock crops for biofuels plants.

Develop Supplier Networks

- Develop biofuels industry supplier networks by coordinating and connecting state biofuels initiatives with private industry.
- Direct the Oregon Department of Agriculture to identify and recommend actions that could accelerate in-state feedstock cultivation to fulfill the expected demand from Oregon biodiesel production.

Conclusions— Electric Generation from Renewable Energy

Oregon legislators, policymakers, and regulators have consistently promoted the environmental and economic benefits of electricity from renewable resources. The legislature has also backed up its policy statements with incentives for development of these alternative generating resources. Despite all this well-intentioned state encouragement, widespread deployment of renewable generation faces many difficult institutional, regulatory, and, most importantly, market barriers. In particular, some higher cost renewable resources simply have not compared favorably with the state's historically lower electricity prices (wholesale and retail). More recently, some renewable generating resource costs have become more competitive with conventional

generation, notably large wind farms and some combined heat and power (CHP) projects using biomass as fuel. Nevertheless, many additional obstacles to renewable resource development remain. Overcoming these barriers requires committed state leadership and a coordinated effort by all state agencies. Utilities, regulators, ratepayer groups, and renewables advocates must also seek mutually beneficial solutions rather than maintaining their often-adversarial postures.

Recommendations – Electric Generation from Renewable Energy

- Removing the barriers to renewable resources development requires committed state leadership. The state should develop a unified message regarding the system and customer benefits of renewable and distributed generation. In particular, the state should actively encourage cooperation among affected groups, such as utilities, IPPs, ratepayer groups, economic development, and environmental advocates, by raising awareness of the opportunities for mutual gain.
- A broad-based stakeholder group should analyze the economic costs and benefits of a renewable portfolio standard and report the results to the governor and legislature.
- The state should encourage development of advanced electric system control and communications technologies—for both a more efficient grid and economic development.