
Date: May 11, 2021

To: Environmental Quality Commission

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Subject: Item E: Update on Climate Protection Program rulemaking (Informational)
May 20, 2021, EQC meeting

Why this is important

DEQ is developing proposed rules for consideration by the Environmental Quality Commission that would establish Oregon's Climate Protection Program (CPP). The CPP is being designed to include enforceable and declining limits on major sources of greenhouse gas emissions in Oregon. The proposal will include emissions reductions from the use of transportations fuels (Oregon's largest source of emissions), and the use of other liquid and gaseous fossil fuels (including natural gas and propane as well as heating oil, diesel and petroleum) in residential, commercial and industrial settings.

DEQ expects to begin discussing draft rule language with the Rules Advisory Committee in the near future. This meeting is an opportunity to share some of the initial policy options being discussed in the RAC with the commission.

Prior EQC involvement

DEQ has been briefing the commission on development of this program periodically since work began a year ago. We intend to continue providing regular updates so that the commission is prepared for the full package to come before the EQC late this year.

Early program development

DEQ is using a three-phase approach to develop the new Climate Protection Program. Program development is being informed by extensive public engagement, including active engagement with environmental justice and impacted communities. This first phase was an initial assessment and public engagement on the process DEQ and EQC should use for the program development.

The second phase included a series of meetings and technical workshops for the public and stakeholders to share their goals, interests, concerns and ideas on the scope of the Climate Protection Program. Hundreds participated in these program scoping activities in 2020. One result was the identification of three program goals: achieving significant emissions reductions, while prioritizing

equity and containing costs.

Rulemaking activities

The third phase is the formal rulemaking process, which DEQ began at the start of 2021. The rulemaking advisory committee, which was approved by the EQC in December 2020, is scheduled to meet seven times in 2021. The advisory committee has held four meetings, all of which are open to the public with opportunities for public comment. Meeting attendance has averaged 150 attendees. The next and fifth meeting is scheduled for May 25th.

DEQ anticipates releasing a draft proposed rule in early fall, followed by a public comment period and public hearings, including one hearing before the commission. DEQ intends to request commission action in late 2021, so the program, if approved, could start in 2022.



As part of this rulemaking effort, DEQ is working with community-based organizations to support engagement with environmental justice and frontline communities in addition to their participation on the advisory committee. Staff meet regularly with environmental justice interests to support development of a proposed program centered on reducing emissions in ways that promote equity across Oregon’s communities.

DEQ also contracted for a modeling study to help inform the development of the Climate Protection Program. The study includes emissions, macroeconomic, and health modeling, along with an equity and co-benefits assessment. Informed by advisory committee and public input, DEQ staff has developed three initial modeling scenarios. These modeling scenarios do not represent final or complete program proposals, but provide information on how

different design elements would be likely to result in particular outcomes in terms of emissions reductions, economic effects, and effects on public health outcomes.

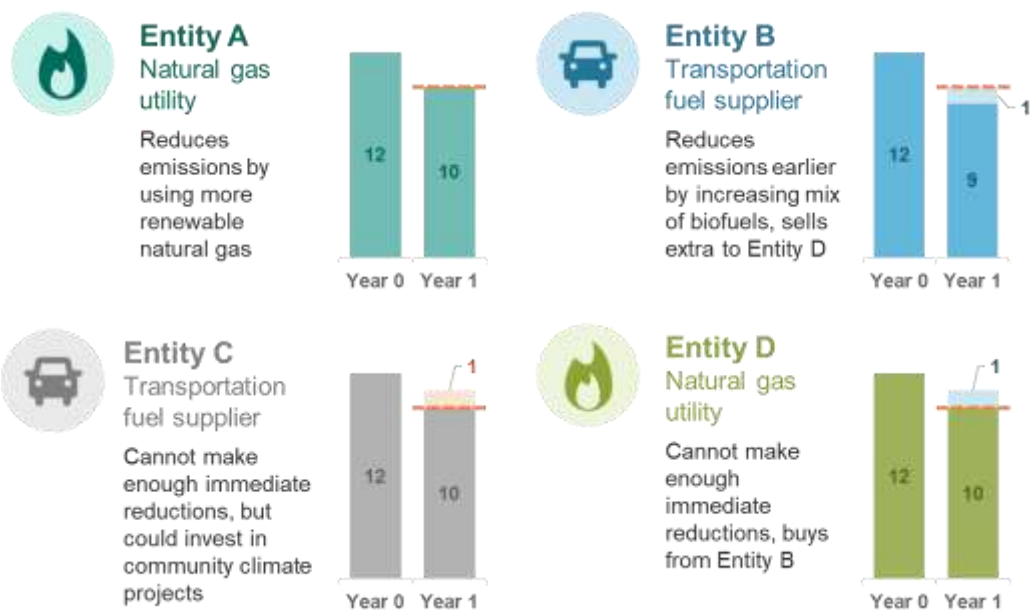
The [advisory committee roster](#), work plan, meeting and associated materials are available on the [rulemaking website](#), linked at the end of this report.

Climate Protection Program framework

DEQ envisions that each year the Climate Protection Program will establish an overall limit or emissions cap, and that this cap will decline steadily towards a long-term target or multiple long-term targets. DEQ would distribute a number of compliance instruments corresponding to the cap each year. One compliance instrument permits emissions of one metric ton of greenhouse gases (in CO₂ equivalent).

The following figure demonstrates how four different entities might comply. The four entities reduce emissions and/or use the program’s potential flexibility mechanisms to comply. These flexibility mechanisms could include buying or trading instruments, or receiving credits for funding actions that reduce emissions in Oregon communities.

In this example graphic, below, DEQ has 40 compliance instruments available to distribute to four regulated entities. Each entity receives 10 compliance instruments from DEQ, and all emitted 12 metric tons last year.



This framework allows for enforceable limits on emissions, but doesn’t specify

how regulated entities reach these limits. This can create cost savings and encourages innovation in achieving significant emission reduction target, but needs to be coupled with program features that support equitable outcomes and benefits. Additionally, this framework leverages the multiple federal, state and local initiatives which are already reducing emissions and tackling climate change.

Key issues

DEQ staff has identified several key design features that are likely to be important for the program's success. Advisory committee meeting discussions have included the following key design features:

- Emissions reduction targets for regulated sectors
- Potential compliance pathways in addition to onsite or source emission reductions
- Equity and cost containment measures
- Length of compliance period and point of regulation, applicability and thresholds for regulated entities
- Distribution of compliance instruments
- Compliance pathways in addition to onsite or source emission reductions

EQC involvement

There is no request for EQC action at this time. DEQ will continue to update the EQC on the development of the Climate Protection Program, and we will ask the commission to hold a public hearing on the proposed rules in the fall of this year. DEQ expects to present the final proposals to the EQC at the end of 2021.

Supporting materials

1. Rules Advisory Committee membership roster:
<https://www.oregon.gov/deq/Regulations/rulemaking/RuleDocuments/GHGCR2021ACRoster.pdf>
2. Rulemaking website:
<https://www.oregon.gov/deq/Regulations/rulemaking/Pages/rghgcr2021.aspx>

Report compiled from program information