



Oregon Department of Environmental Quality

Background and Key Issues

MHD ZEV Rebate Rulemaking Advisory Committee Meeting 1

Date: 2/7/2024

Background

This summary outlines the key issues DEQ is considering during stakeholder engagement as Oregon establishes a new vehicle rebate program designed to accelerate the transition to zero emissions for medium and heavy-duty transportation sectors in Oregon. Outlined in [HB 3409](#), Sec. 33, and passed in 2023, the new rebate program will incentivize the adoption of zero emissions trucks and buses in Oregon. This initiative acknowledges the important role medium and heavy-duty trucks and buses fill transporting goods and people as well as their disproportionate amount of emissions relative to the number of vehicles operating in the state. By offering rebates for trucks and buses meeting zero emissions criteria, this program encourages fleets to embrace cleaner, sustainable technologies and reduce greenhouse gas emissions in Oregon.

The program's high-level policy objectives are to speed the transition to zero emissions vehicles and reduce the environmental and health impact of heavy-duty trucks and buses. Through the rulemaking effort DEQ will develop and propose administrative rules that establish a new medium and heavy duty zero emissions vehicle purchase and lease rebate program in Oregon. The proposed rules will establish a framework and process that enables DEQ to allocate rebates with the initial \$3M allocation and into the future if additional funding becomes available.

Program design will ensure equitable access to rebates and reduce emissions among frontline communities that are disproportionately burdened by diesel pollution. The program will work to allocate at least 40% of rebates to projects that will benefit air quality in communities disproportionately burdened by diesel pollution. DEQ's goal is to build broad consensus around high-level policy goals for program.

This whitepaper considers different approaches for the allocation of \$3 million in initial funding, 15% of which is reserved for administrative expenses, emphasizing the need to balance funding priorities and focus on medium-duty and vocational trucks and buses. DEQ's initial plan is to provide up to \$2.5 million in rebates for qualifying vehicles beginning in 2025. If the State of Oregon can secure additional revenue DEQ will provide additional rebates for vehicles, according to the rules governing the program.

Rebate amounts for each eligible class and type of vehicle are likely to vary based on several factors, including; gross vehicle weight rating (GVWR) and class of the vehicle, the difference between cost of the zero emissions vehicle compared to the cost of diesel counterparts (differential cost); the level of rebate and incentive nearby states are offering for equivalent vehicles; what information is available about the market value of a base model vehicle; and the cost effectiveness in reducing emissions. DEQ will consider these factors and others as highlighted by fleet owners in Oregon in determining initial rebate amounts. In the future,

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the program will need to be adaptable and flexible in design, allowing Oregon to be responsive to changes in market conditions and fleet owner needs by balancing incentive levels.

An additional issue related to program design that will be resolved during the formal administrative rulemaking process is the decision of whether to implement the program in-house at Oregon DEQ or partner with a sub-contractor to disburse rebates. Each approach bears its own advantages and challenges. In-house management grants direct control and flexibility but may strain existing agency resources. Alternatively, contractor support offers expertise and efficiency but comes with associated costs. Given that DEQ has a limited amount of revenue available for the initial launch of the program DEQ is considering in-house administration until additional funds become available, at which point the program would shift to contractor-based implementation.

The success of this program will rely on effective stakeholder engagement. Collaboration with industry experts, fleet owners, environmental organizations, and the public is vital. This input will shape the program's rules, guidelines, and rebate amounts, ensuring they align with real-world requirements, and increase the likelihood of broad adoption. DEQ will communicate with stakeholders throughout the rulemaking process and offer technical support to participants during implementation, with a focus on small business owners and COBID-owned fleets.

Program Design

The adoption of zero emissions trucks and buses is essential to reduce greenhouse gas emissions from transportation and Oregon's improve air quality. This paper introduces key considerations, recommendations, and questions for stakeholders and decision makers to inform the creation of Oregon Department of Environmental Quality's new rebate program for zero emissions medium and heavy-duty trucks and buses.

In December of 2022 Oregon Department of Environmental Quality and Oregon Department of Transportation published a report titled "[Incentives to Support the Transition to Zero Emissions for Medium- and Heavy-duty Sectors in Oregon](#)" which includes the following recommendations for rebate program design:

1. Can be established quickly and are flexible to reflect the changing ZEV ecosystem in the future.
2. Include dedicated sources of funding to support short- and long-term fleet and charging conversion.
3. Can be stacked with other incentives as funding levels do not remain consistent over time.
4. Emphasize outreach to all of Oregon's fleets in ways that are accessible to them.
5. Promote opportunities that are equitable to all parts of the state and fleet owners.

Oregon has been increasingly focusing on reducing its greenhouse gas emissions and transitioning to cleaner modes of transportation. In 2023 the Oregon Legislature passed HB 3409 (key text in Appendix 7.1) directing the Oregon Department of Environmental Quality to develop a rebate program for the purchase and lease of medium and heavy-duty zero emissions trucks and buses in Oregon. This mandate will accelerate the shift to cleaner transportation, establishing rebates as a key policy tool to drive the adoption of zero emissions trucks and buses.

The foundation of Oregon's proposed rebate program for zero emissions medium and heavy-duty trucks and buses hinges on establishing clear policy goals. These goals will direct the program towards specific objectives, including reducing greenhouse gas emissions, improving air quality, and supporting the state's sustainability targets. Oregon DEQ will set clear, measurable goals to guide program design and implementation during the rulemaking process.

Key Program Design elements:

1. Develop agency approach to administering rebates, either in-house or with contractor support.
2. Consider variable rebate amounts for vehicle leases compared to vehicle purchases.
3. Propose program approach to direct dealer and consumer rebate processing
4. Establish rebate amounts and eligibility requirements for vehicle vocations and classes.
 - a. Class 2b-8
 - b. Personal vehicles, refuse haulers, port drayage, short haul truck, long haul truck, school bus, transit bus, shuttle bus, and other medium and heavy duty vehicles.
5. Respond to statutory requirement that 40% of rebates be provided to vehicles located in communities disproportionately burdened by diesel pollution and providing for additional rebates in these areas.
6. Determine strategy and approach with \$3M initial revenue allocation, including 15% for administrative expenses.

Rebate Amounts

Discussions with stakeholders during administrative rulemaking will help DEQ set rebate amounts and determine how to adjust the amounts over time. This chapter considers factors influencing rebate amounts, focusing on Class 2b-8 trucks and buses, and explores the need for variable rebates for leases versus purchases. Rebate amounts are not one-size-fits-all, given the diverse landscape of medium and heavy-duty trucks and buses. Each class and vocation has unique attributes that may impact the adoption of zero-emission technology.


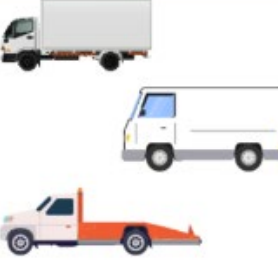
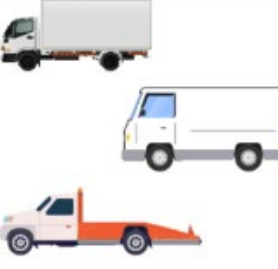
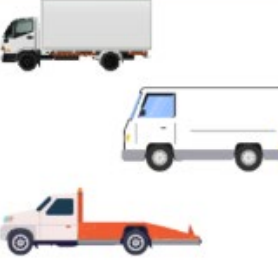



Class 2.b-8 trucks and buses, which encompass a broad range of vocational applications, will be included among the equipment eligible for rebates. School buses, transit buses, refuse haulers, delivery trucks, drayage trucks, and long-haul trucks all fall within this category. Oregon DEQ uses the following classification system, based on Gross Vehicle Weight Rating (GVWR) to determine the class of specific vehicles.

Table 1. Medium and Heavy-Duty Vehicles Classifications

Vehicle Class	GVWR (lbs.)
Class 2b	8,501 – 10,000
Class 3	10,001 – 14,000
Class 4	14,001 – 16,000
Class 5	16,001 – 19,500
Class 6	19,501 – 26,000
Class 7	26,001 – 33,000
Class 8	33,001+

Table 2. Medium and Heavy-Duty Vehicles Visualizations

Medium and Heavy Duty Vehicle Classification

Weight Class	Class 2b	Class 3	Class 4	Class 5	Class 6	Class 7	Class 8
Example Vehicles							
GVWR	8,500 – 10,000 lb 3,856 – 4,536 kg	10,001 – 14,000 lb 4,536 – 6,350 kg	14,001 – 16,000 lb 6,351 – 7,257 kg	16,001 – 19,500 lb 7,258 – 8,845 kg	19,501 – 26,000 lb 8,846 – 11,793 kg	26,001 – 33,000 lb 11,794 – 14,969 kg	> 33,000 lb > 14,969 kg

Source: NESCAUM Multi-state medium- and heavy-duty zero-emission vehicle action plan

Determining the recommended rebate amount for Oregon will require analysis of many factors, including the state's specific goals, economic considerations, and air quality and public health targets. The recommended rebate amounts are consistent with California's HVIP and Washington's MHD ZEV rebate programs. This proposal will ensure Oregon remains competitive with other state programs and attractive for national fleets. It also reflects a balanced approach that considers the need for cost-effectiveness, emissions reduction, and equitable distribution of incentives within the state. Oregon DEQ will use these amounts as a starting point for stakeholder engagement while designing the rebate program.

Table 3. Medium and Heavy-Duty Vehicles Classifications

Vehicle Class	GVWR (lbs.)	Proposed Incentive Amount
Class 2b	8,501 – 10,000	\$7,500
Class 3	10,001 – 14,000	\$45,000
Class 4	14,001 – 16,000	\$60,000
Class 5	16,001 – 19,500	\$60,000
Class 6	19,501 – 26,000	\$85,000
Class 7	26,001 – 33,000	\$85,000
Class 8	33,001 +	\$120,000

This table provides a starting point for determining rebate amounts based on a class-by-class approach, with further consideration of the specific needs and characteristics of different vehicle vocations. Additional examples from other programs are available in the recent report, "Incentives to Support the Transition to Zero Emissions for Medium- and Heavy-duty Sectors in Oregon".

Key Questions:

1. Should DEQ allocate rebate amounts by vehicle class or by vehicle vocation?
2. Should DEQ include a higher rebate amount for heavier class vehicles?

3. What type of triggering event, such as an influx of new revenue or changing market conditions, should DEQ establish as an event that will influence rebate amounts?

Equity

The new rebate program must respond to a statutory requirement that 40% of rebate revenue be provided to vehicles located in communities disproportionately burdened by diesel pollution and may provide for additional rebates in these areas.

Ensuring that the rebate program meets the statutory requirement to allocate at least 40% of rebates to trucks and buses located in communities disproportionately burdened by diesel pollution is a crucial step in promoting equity and addressing environmental justice concerns. The statute's guiding this program also provide an option for additional rebates in these areas. Meeting this requirement not only helps target emissions reduction efforts but also acknowledges the responsibility to support communities that have historically borne the brunt of pollution from diesel trucks and buses. By directing a significant portion of incentives toward these areas, the program demonstrates a commitment to addressing environmental disparities and their associated health impacts.

Identifying overburdened communities is essential to achieve the program's equity goals. Accurate mapping and data analysis are necessary to pinpoint areas disproportionately affected by diesel pollution, considering factors such as air quality, pollution sources, and public health indicators. Collaborating with local communities and environmental organizations can provide valuable insights into the identification process and foster partnerships that promote engagement and inclusivity.

DEQ is currently prioritizing equity in the existing Diesel Emissions Mitigation grant program, addressing air quality for vulnerable populations, using the following methodology.

DEQ addresses the impact of diesel emissions on vulnerable populations in Oregon while determining grant awards in the Diesel Emissions Mitigation grant program. For the purposes of this program, vulnerable population groups are defined as people under the age of 14 and over the age of 64; Black, indigenous and people of color; people with a household income less than or equal to twice the federal poverty level; people who are linguistically isolated; and people age 25 or older who have not earned a high school diploma or passed a General Educational Equivalent (GED) test.

DEQ created a map to display this criterion to address the impact of diesel emissions on vulnerable populations. Red and orange areas on the map (scores 4 - 5) are those with the highest proportion of people included in this definition of vulnerable and exposed to high levels of diesel. Yellow and green areas on the map (scores 1 – 3) are those with a lower proportion of people included in this definition of vulnerable or are exposed to relatively lower levels of diesel emissions.

DEQ evaluates the primary address where a project is based. Using this address, and other location information as needed, DEQ will apply a score of 1-5 for the emissions reduction benefits of a proposed project among vulnerable populations in the immediate area. DEQ recommends using a similar approach in prioritizing rebates for MHD ZEV purchases that benefit disproportionately burdened populations, meeting the 40% allocation requirement, and allowing for increased rebate amounts in these areas. The rulemaking advisory committee will discuss this recommendation to inform potential changes in the approach based on improvements on improvements in available data and consider potential increased rebate amounts.

Key Questions

1. Based on the 40% statutory set-aside requirement, how should DEQ prioritize program benefits among vulnerable populations? By increasing rebate amounts in priority areas, or maintaining uniform rebate amounts and offering additional rebates in priority areas?
2. Should DEQ consider additional demographic factors, in addition to existing vulnerable population criteria, when establishing priority areas for this 40% set aside?

Program Implementation

Administering rebates for medium and heavy-duty trucks and buses encompasses multiple facets, including application procedures, eligibility verification, and timely distribution of rebates. The administrative approach chosen must strike a balance between efficiency and adherence to program goals. During this rulemaking DEQ will seek input and make proposals based on prioritizing transparency, cost-effectiveness, and alignment with all policy goals.

When considering the administrative approach for the rebate program, one key decision revolves around whether the program’s management will be handled entirely in-house at Oregon DEQ or managed by DEQ staff and outsourced to a contractor. Each option comes with its set of advantages and challenges, offering stakeholders an opportunity to consider the best approach during rulemaking. We will weigh the following pros and cons as well as additional comments and suggestions during rulemaking. Additionally, proposed program rules may allow for an initial in-house approach with current funding, followed by a change, based on need.

<p>In-house at DEQ, Pro:</p> <p>Direct Oversight: Managing the program internally provides direct oversight and control over all steps of the rebate process.</p> <p>Alignment with Goals: DEQ employees can ensure that the program aligns closely with public policy goals, reducing the risk of misalignment.</p> <p>Confidentiality: Data handling and sensitive information remain securely within DEQ control, maintaining confidentiality.</p>	<p>In-house at DEQ, Con:</p> <p>Resource Allocation: In-house administration can be resource-intensive, requiring staff, training, and infrastructure investments.</p> <p>Fixed Expertise: Limited expertise in specific areas may lead to suboptimal solutions.</p> <p>Scalability: To expand the rebate program and operate at scale, in-house processing may limit Oregon’s ability move significant resources.</p>
<p>DEQ Mgmt. w/ Contractor Support, Pro:</p> <p>Efficiency: Contractors bring specialized expertise, often streamlining program operations for maximum efficiency.</p> <p>Scalability: Private sector involvement can help manage fluctuating demand and accommodate program growth.</p> <p>Expertise: Access to a broader range of expertise can lead to innovative solutions and approaches.</p>	<p>DEQ Mgmt. w/ Contractor Support, Con:</p> <p>External Oversight: Arm’s length management may complicate and delay policy alignment, leading to potential conflicts of interest.</p> <p>Data Security: While secure, data handling must be carefully managed to maintain confidentiality.</p> <p>Loss of Direct Control: DEQ may have limited oversight of day-to-day operations, potentially limiting direct influence on program outcomes.</p>

Direct rebate processing involves determining whether rebates should be directed to dealers, consumers, or both. Distributing rebates directly to dealers can simplify the process for consumers but may reduce the ability to tailor incentives to specific needs. Distributing rebates directly to consumers offers greater flexibility but places the onus of navigating the process on individual vehicle purchasers or lessees.

As an example, in the light duty counterpart program, the Oregon Clean Vehicle Rebate, individuals can apply for rebates at the time of purchase or lease, at a participating dealership, called “point of sale” when purchasing a new eligible vehicle. Only Participating Dealerships may offer the rebate at point of sale. During rulemaking, DEQ will consider the current approach to providing light duty zero emissions vehicle rebates directly to consumers and through dealerships while considering the specific needs of medium and heavy-duty fleet owners and dealers to propose new rules for this program that attempt to accommodate all parties.

Oregon DEQ received a single allocation of \$3 million from the Legislature to establish the new rebate program and accelerate Oregon’s transition to zero emissions trucks and buses. This amount of revenue will provide incentives and support for a limited number of fleets looking to transition from fossil fuel to zero emissions vehicles. While it not possible to predict the amount of interest in the rebate program, DEQ’s related grant programs are consistently oversubscribed by tens of millions of dollars each year. This indicates that DEQ will likely need to suspend the program within the first couple weeks or months of initial rollout.

Given the anticipated shortfall and statutory requirement to allocate 40% of available revenue to vehicles that will be domiciled in communities disproportionately burdened by air pollution, setting funding priorities by geographic area and potentially by vehicle class and type will be essential when deciding how to distribute the initial allocation.

Medium-duty and vocational trucks and buses play a significant role in various industries, including local transportation and delivery services. During the rulemaking DEQ will consider the importance of supporting these trucks and buses with available revenue, both to reduce emissions where required and to encourage widespread adoption of the vehicles best suited for current battery electric technologies, those that conduct shorter day-trips out and back to charging facilities in their fleet yard each night.

Key Questions:

1. Should applicants to the program apply online, or with paper applications, during the initial launch of the program?
 - a. Paper applications being considered for initial in-house processing due to potential delays associated with getting an online application up and running through DEQ, a State approved contractor, or potentially lengthy RFP process.
2. What program elements would best support your existing fleet management? How can these rebates best support your fleet procurement process?
3. Should DEQ prioritize public vs private fleets?
4. Should DEQ set aside an allocation for small businesses or BIPOC owners?
5. Should DEQ set an annual limit on the total number of rebates per applicant?

Non-discrimination statement

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