

Climate Protection Program 2024

Rulemaking Advisory Committee Meeting 1

DEQ Office of Greenhouse Gas Programs

April 2, 2024

10 a.m. – 4 p.m.

Meeting Objectives

- Communicate the scope of the Climate Protection Program 2024 rulemaking and proposed workplan
- Introduce Rulemaking Advisory Committee members
- Begin to discuss key program elements:
 - Emissions caps
 - Regulated entities
 - Compliance instrument distribution

Opening Remarks

Leah Feldon

Director, Oregon Department of Environmental Quality

Karin Power

Natural Resources and Climate Policy Advisor for Governor Tina Kotek

DEQ and Kearns & West

Leah Feldon

DEQ Director

Colin McConnaha

Manager, Office of GHG Programs

Nicole Singh

Senior Climate Policy Advisor

Matt Steele

Climate Policy Analyst

Rachel Fernandez

Greenhouse Gas Program Analyst

Whitney Dorer

Climate Policy Community Engagement
Coordinator

Sylvia Ciborowski

Senior Facilitator

Gillian Garber-Yonts

Senior Associate



Rulemaking resources

CPP 2024 Rulemaking webpage:

<https://www.oregon.gov/deq/rulemaking/Pages/CPP2024.aspx>

Contact: Nicole Singh CPP.2024@deq.oregon.gov

Notifications: Subscribe to DEQ

https://public.govdelivery.com/accounts/ORDEQ/subscriber/new?topic_id=ORDEQ_655

Climate Protection Program

<https://www.oregon.gov/deq/ghgp/cpp/Pages/default.aspx>

Today's agenda

Time	Topic
10:25 a.m.	Agenda overview
10:30 a.m.	Committee meeting ground rules and procedures for public comment
10:40 a.m.	Advisory committee introductions
11:55 a.m.	Review Climate Protection Program 2024 rulemaking scope, timeline, and workplan
12:10 p.m.	Lunch break
1:10 p.m.	Public comment
1:40 p.m.	Initial Climate Protection Program development and implementation
2 p.m.	Key Program Elements to Review for CPP 2024 Rule: Emission Caps
2:40 p.m.	10-min Break
2:50 p.m.	Key Program Elements to Review for CPP 2024 Rule: Regulated Entities
3:20 p.m.	Key Program Elements to Review for CPP 2024 Rule: Compliance Instrument Distribution
3:55 p.m.	Rulemaking next steps

Meeting ground rules

- Honor the agenda and strive to stay on topic
- Provide a balance of speaking time
- Bring concerns and ideas up for discussion at the earliest point in the process
- Address issues and questions – focus on substance and avoid personal attacks
- Seek to learn and understand each other's perspective
- Listen and speak with respect

RAC members

Prepare for meetings and reviews materials

Share expertise, lived experience, perspective

- Whether rules will have a fiscal impact, and if so, extent
- Whether the rules will have a significant adverse impact on small businesses, and if so, how could DEQ reduce
- Consider any racial equity and environmental justice impacts

RAC members

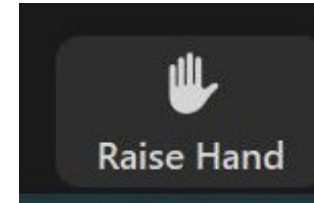
Consults regularly with membership, constituencies, or communities

Inform DEQ of any assigned alternate by sending an email to CPP.2024@DEQ.oregon.gov

Brief your alternate on relevant issues

Public participation protocols

- *Show of hands of those wishing to make public comment*
- Public comment period: 1:10 – 1:40 p.m.
- Public participation is welcome – thank you!
- When making public comments, please respect time limits and ground rules
- Members of the public welcome to provide written input to CPP.2024@deq.oregon.gov by **April 9, 2024**



Rulemaking Advisory Committee Introductions

10:40 to 11:55 a.m.

CPP 2024 RAC

- 27 advisory committee members
 - Potentially regulated industry
 - Potentially regulated fuel suppliers
 - Public interest groups
 - Environmental advocates
 - Tribal representatives
 - Community/equity advocates

RAC Introductions

Once around the table RAC Introductions:

1. Name
2. Affiliation/organization
3. What inspired you to be part of this effort to re-establish a Climate Protection Program for Oregon?
4. What would a successful rulemaking outcome look like to you?



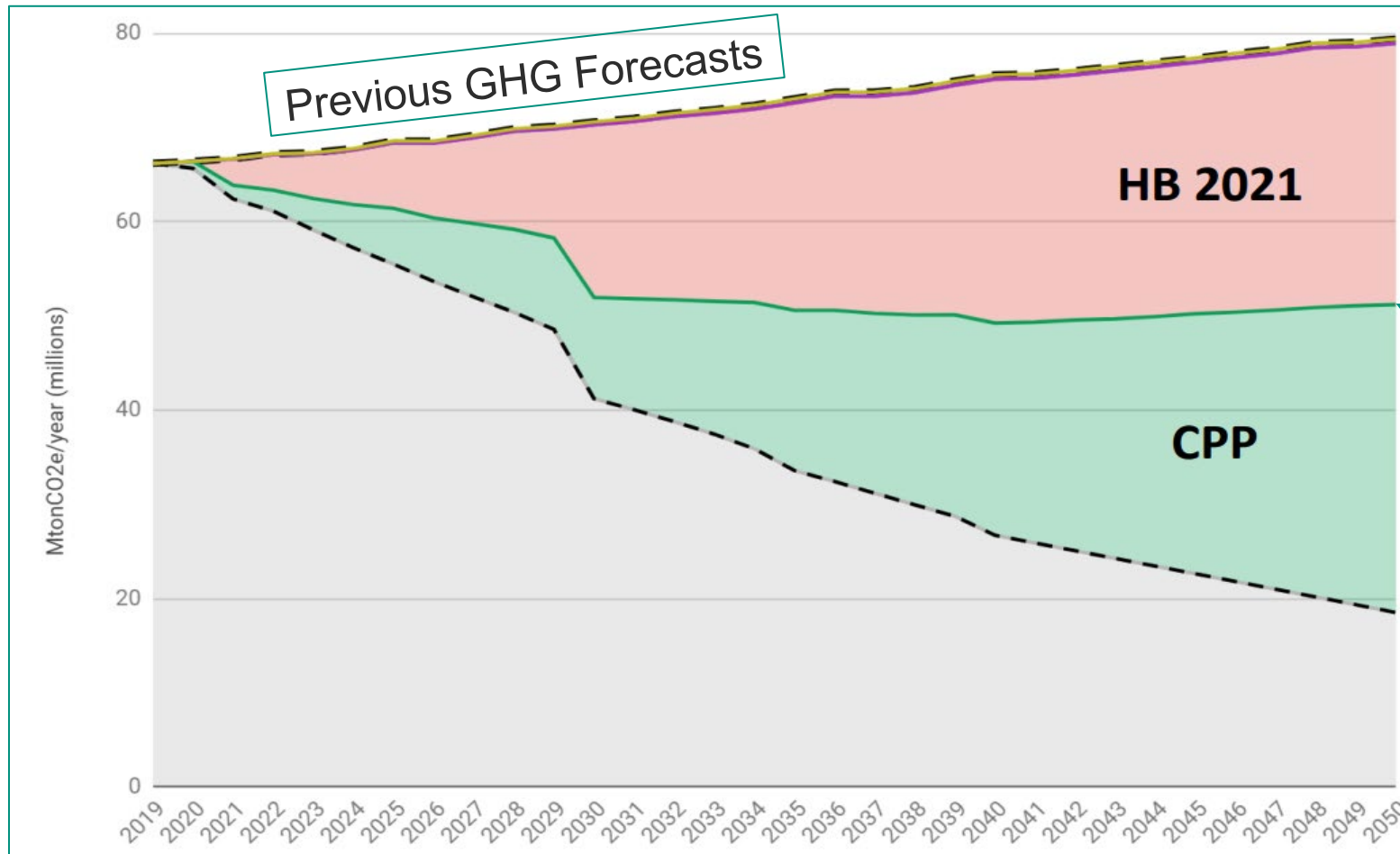
CPP 2024 Rulemaking Scope and Timeline

11:55 a.m. to 12:10 p.m.

Why CPP 2024 rulemaking?

- Court of Appeals invalidated CPP rules in December 2023
- DEQ failed to fully notice the rules correctly in 2021 rulemaking
- Reestablish climate program in place of Climate Protection Program

Why CPP 2024 rulemaking?



With the Climate Energy Targets bill (HB 2021)
Supported by DEQ's GHG Reporting and Verification Programs

With DEQ's Climate Protection
Supported by DEQ's GHG Reporting and Verification Programs

Source: Oregon Global Warming Commission

Why is CPP 2024 important?

Provide certainty and clarity on Oregon's climate policy

- Regulated entities
- Businesses, consumers, all of us

CPP 2024 rulemaking process

- Deliberate but efficient
- Re-establish program for 2025 implementation

CPP 2024 rulemaking scope

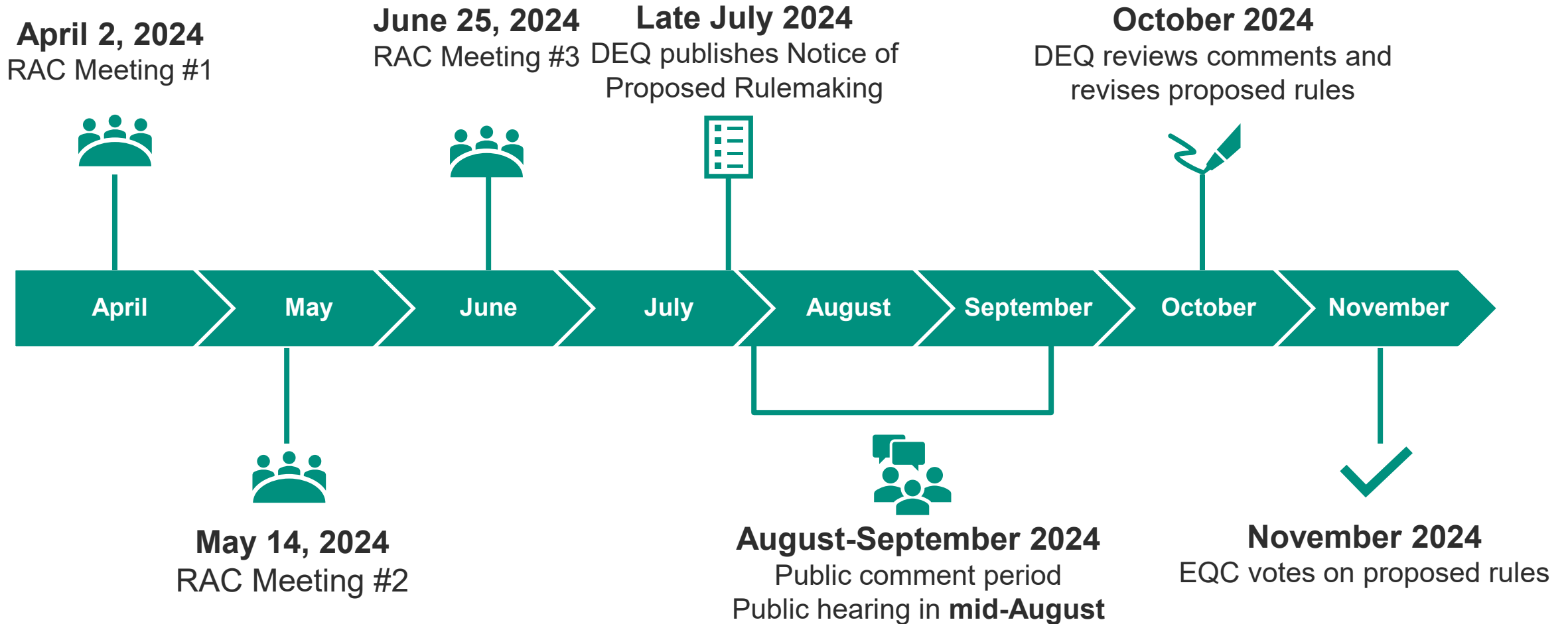
- Reestablish a program to set limits on emissions from significant sources in Oregon
 - Enforceable & declining limits on fossil fuels beginning in 2025.
 - Comparable scope and emissions reduction ambitions as CPP 2021
- Staff don't intend to propose a major program redesign, but
 - Open to hearing new ideas for program design and implementation
 - Adjustments needed for 2025 program start

CPP 2024 rulemaking scope

DEQ will consider modifications that would further strengthen the program.

- Opportunities to increase equitable outcomes while supporting or strengthening emissions reductions?
- Opportunities to further minimize costs to business and the public while supporting or strengthening emissions reductions?
- Developments in federal funding opportunities
- New state and federal energy/climate policies

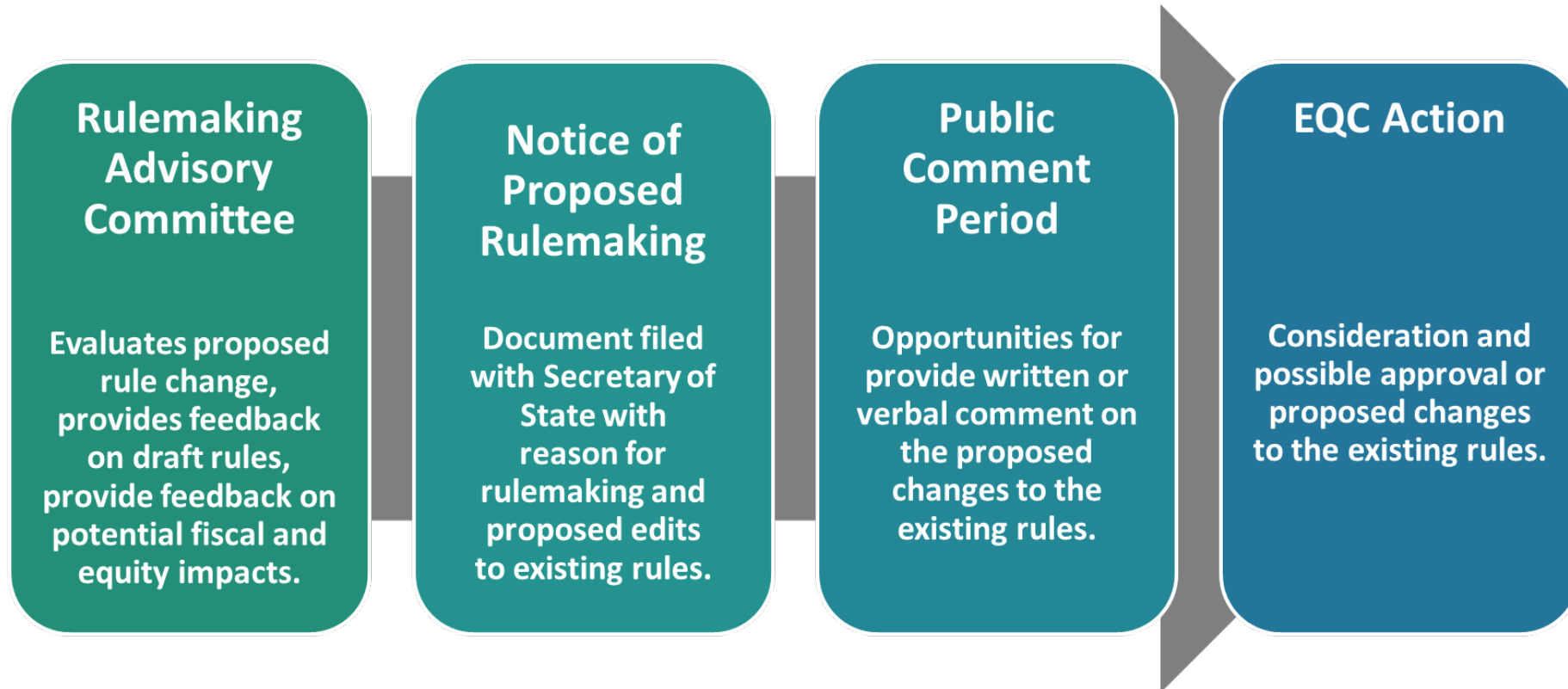
CPP 2024 rulemaking timeline



CPP 2024 RAC schedule

Meeting	Topics	Meeting Date	Comments Requested
RAC1	Convening, rulemaking scope and timeline, discussion of key program elements: 2025 emissions caps, regulated entities, distribution of compliance instruments	April 2, 2024	April 9, 2024
RAC2	Updates from RAC 1, draft rules, discussion of program elements: compliance instruments, banking and trading of instruments, Community Climate Investments (flexibility mechanisms) stationary sources and industrial emissions	May 14, 2024	May 21, 2024
RAC3	Updates from RAC 2, overview of draft rules, fiscal impacts statement and racial equity impacts, further discussion of rulemaking items, review next steps	June 25, 2024	July 2, 2024

DEQ rulemaking process



Questions?


Lunch Break

The meeting will resume at 1:10 p.m.

For Zoom technical issues, email CPP.2024@DEQ.oregon.gov

Public Comment (30 min)

We are taking public comments at this time.

Raise your hand  or press *9 if you wish to make public comment.
Your name will be called in the order of hands raised.

Please say your name and affiliation before speaking
and respect any time limits and ground rules.

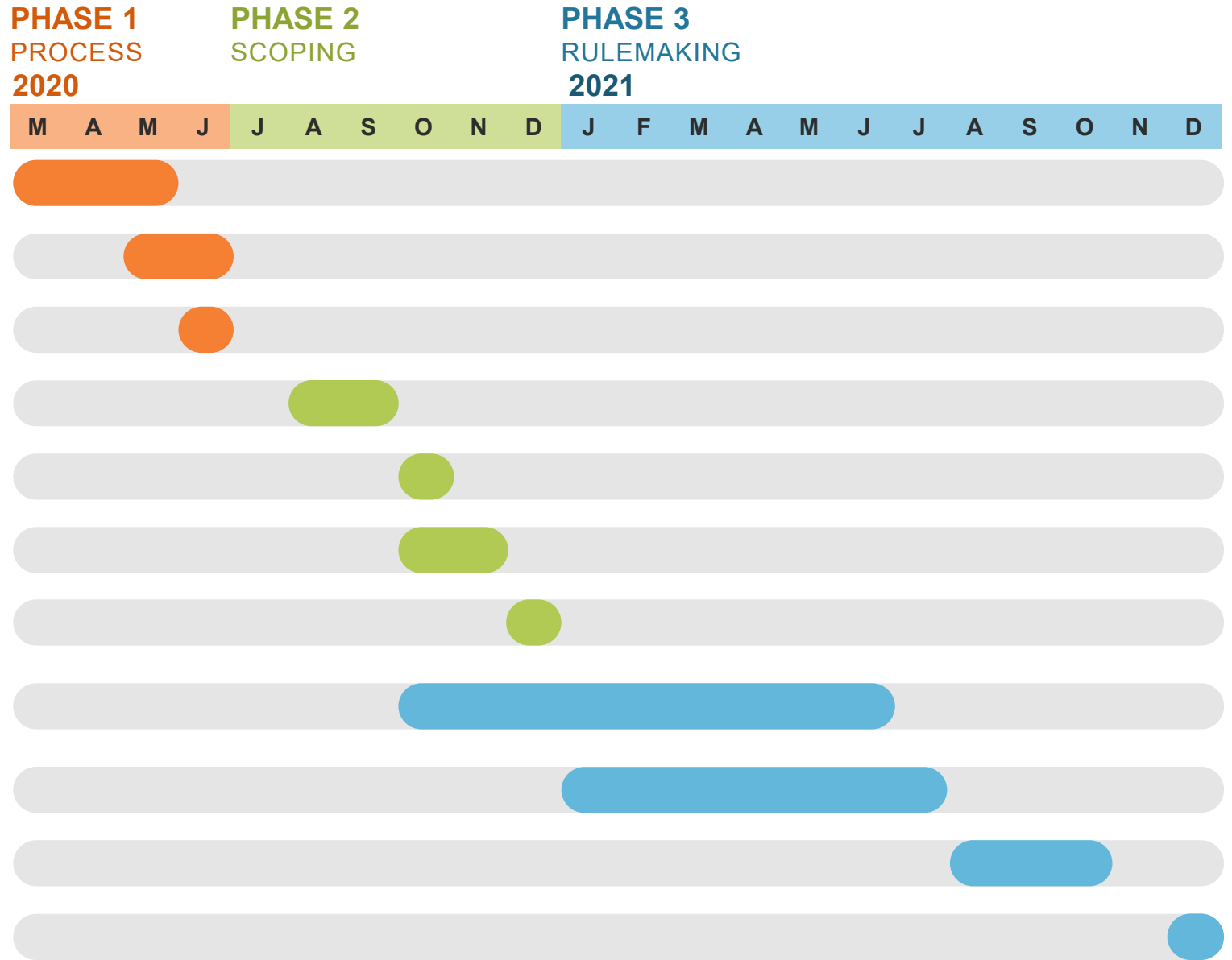
You may also send written comment on today's RAC discussion topics by **April 9th** to CPP.2024@DEQ.oregon.gov.

Initial CPP Development and Implementation

1:40 to 2 p.m.

CPP 2021

-  Preliminary report on public process
-  Listening sessions and open comment period
-  Final report on public process
-  Technical workshops on design
-  Town hall meetings and public input on design
-  EQC selection of Rulemaking Advisory Committee
-  Illustrative scenario discussion on design
-  Analysis of potential emissions, equity, health and economic effects
-  Rulemaking Advisory Committee meetings
-  Public notice and open comment period
-  EQC meeting to vote on proposed rules

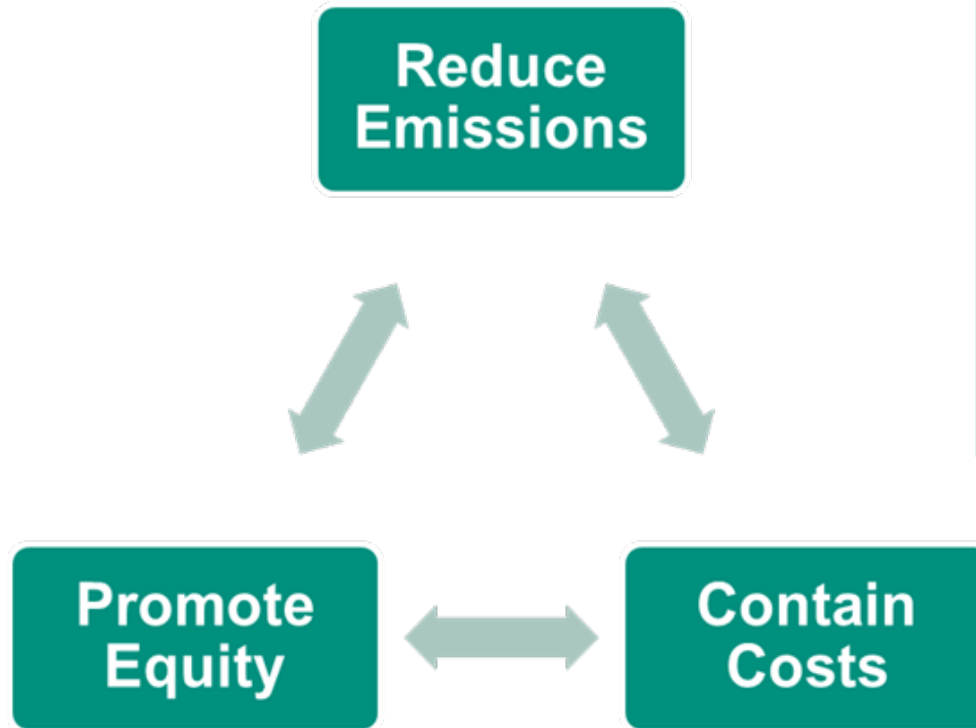


Significant engagement



- Hundreds of attendees at town halls and workshops in the pre-rulemaking process
- Hundreds of attendees at the rulemaking advisory meetings
- Oral and written comments at every step
- Thousand of comments in response to Notice of Proposed Rulemaking
- Extensive and diverse group of engaged stakeholders, regulated entities, communities, individuals

CPP 2021 program goals



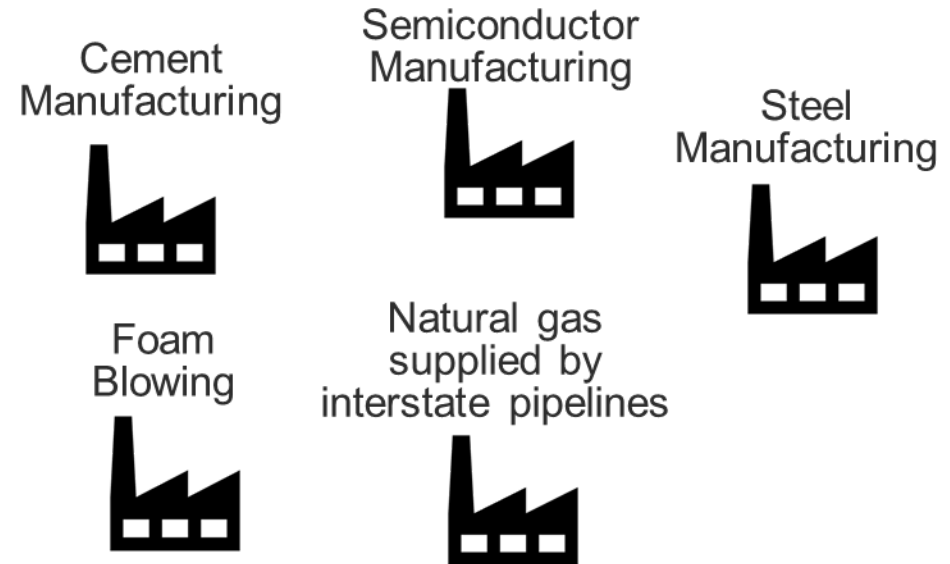
Environmental justice communities include communities of color, communities experiencing lower incomes, tribal communities, rural communities, coastal communities, communities with limited infrastructure

CPP regulated entities

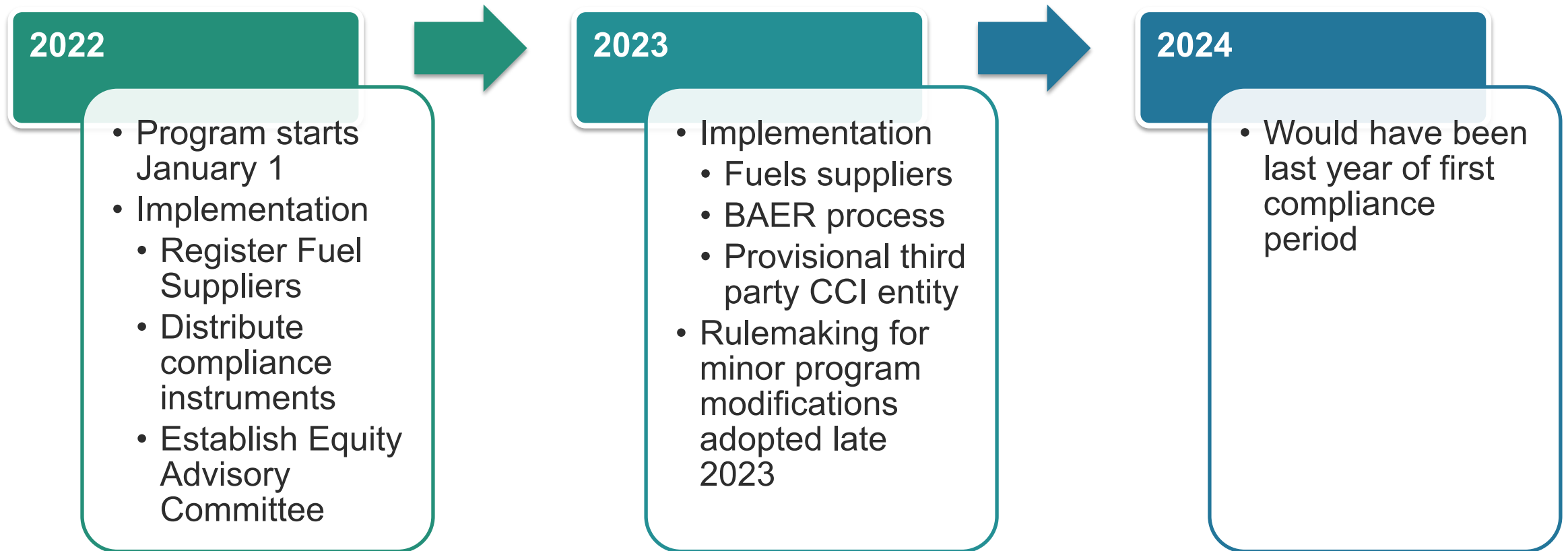
Fuel supplier type	Covered emissions	Applicability thresholds
Natural gas utilities	<p>Greenhouse gas emissions from natural gas supplied</p> <p>Excludes:</p> <ul style="list-style-type: none"> Natural gas used at electricity generating facilities Biomass-derived fuels 	No threshold
Liquid fuels and propane suppliers	<p>Greenhouse gas emissions from fossil fuels supplied</p> <p>Excludes:</p> <ul style="list-style-type: none"> Aviation fuels Biomass-derived fuels 	<p>Declining threshold (MT CO₂e) over time</p> <p>For 2022-2024: 200,000 Declined to 100,000 in 2025 and 25,000 by 2031</p>

Best Available Emissions Reduction

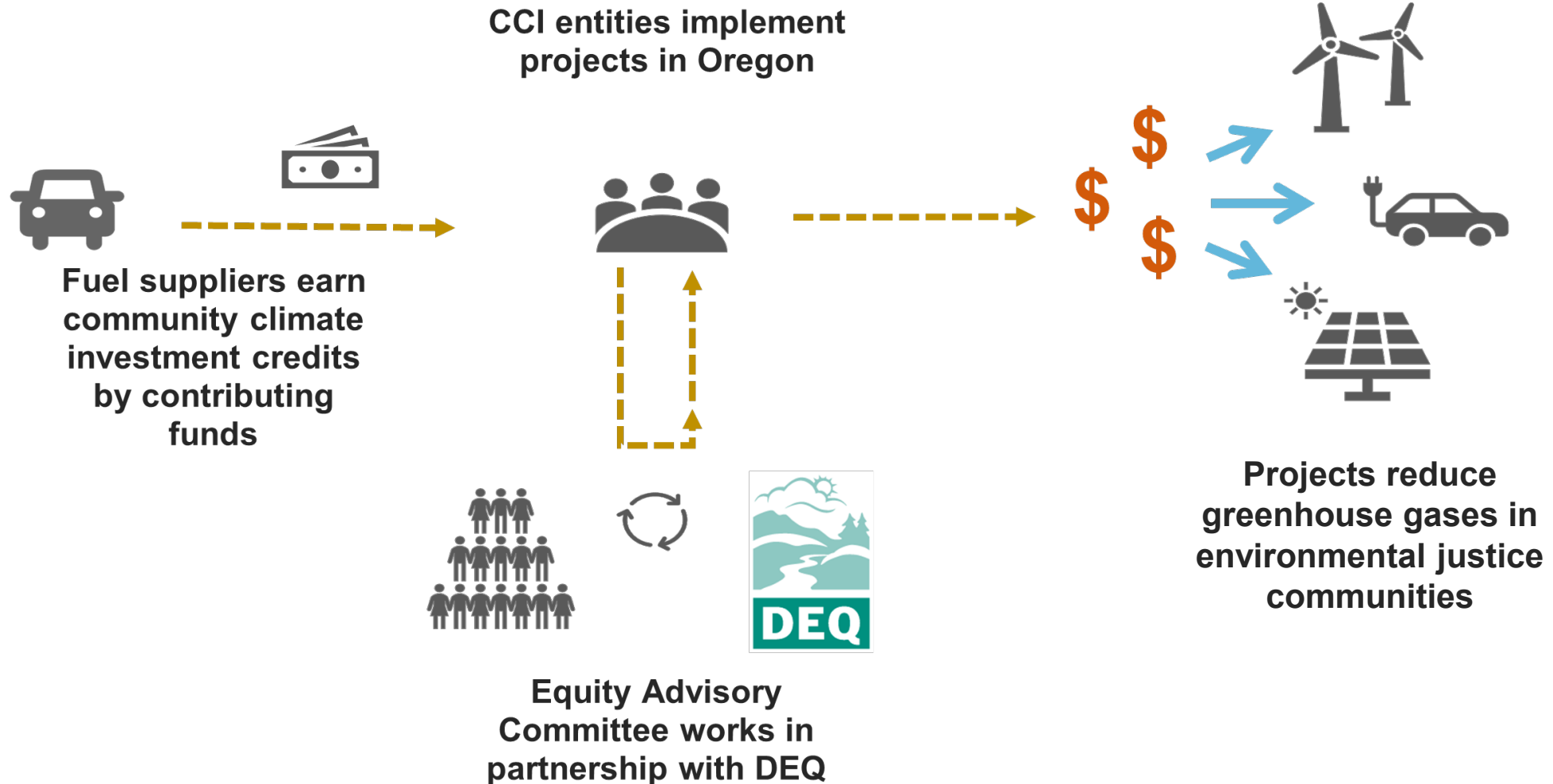
- Industrial “process” GHG emissions
- GHG emissions from solid fuel, interstate pipeline natural gas
- Stationary sources- Industrial facilities
- Site specific strategies to reduce emissions
- Annual emissions $\geq 25,000$ MT CO₂e
 - New: Potential to Emit
 - Existing: Actual Emissions
- Facility modification



CPP implementation



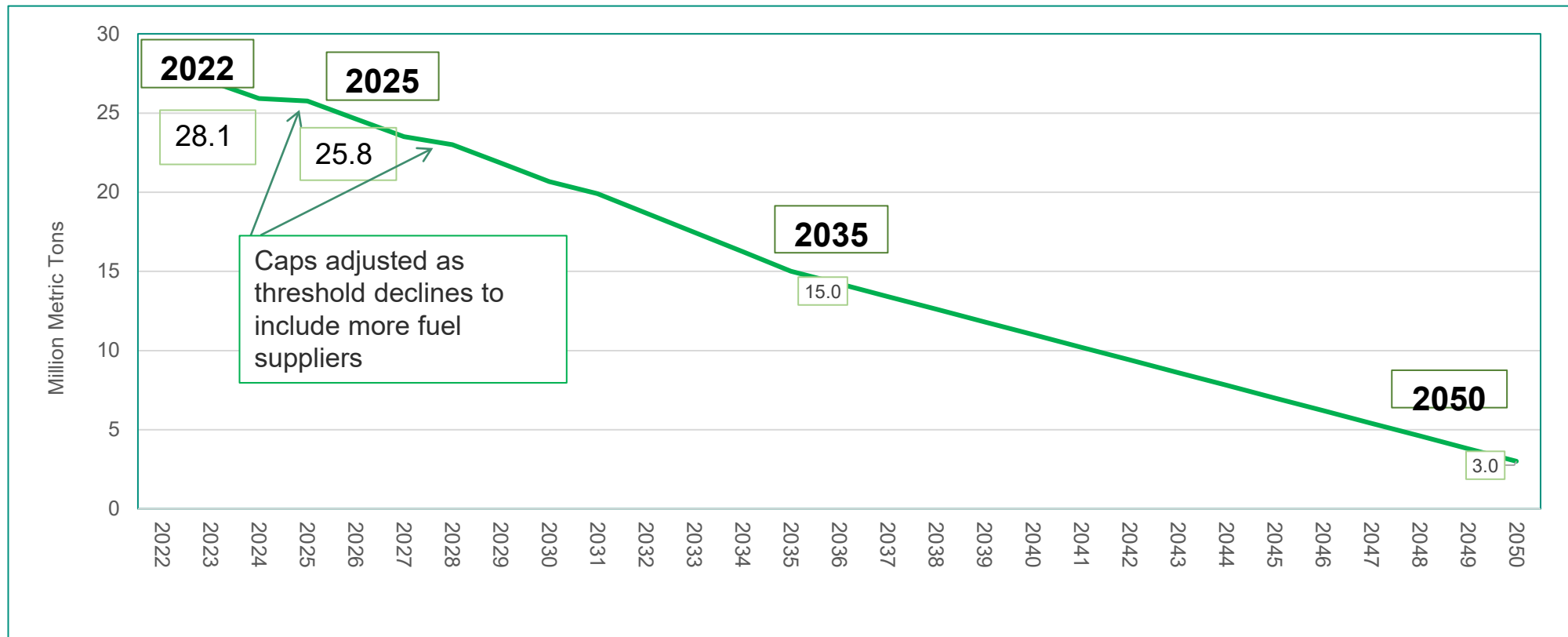
Community Climate Investments



CPP emission caps

50% emissions reduction by 2035

90% emissions reduction by 2050



CPP 2024: Emissions Caps

2 to 2:40 p.m.

CPP rule redline – Updated for 2025

- Minimum updates to adapt existing rule to 2025 program start date
- Intended as a foundation for current rulemaking process

Establishing emission caps

1. Cap coverage or emissions scope
 - Which emissions fall under the cap?

1. Cap baseline
 - What is the initial cap level? How is this set?

2. Cap reduction trajectory
 - How quickly does the cap decrease? Is the decrease consistent each year, or does it change over time?

CPP cap development

- Set emissions reduction targets of 50% by 2035 and 90% by 2050
- Established a cap on fuel supplier emissions and a site-specific regulatory approach for certain stationary sources outside of the cap
- Cap baseline averaged 3 most recent representative years of emissions data (2017-2019)
- Covered about half of Oregon's emissions

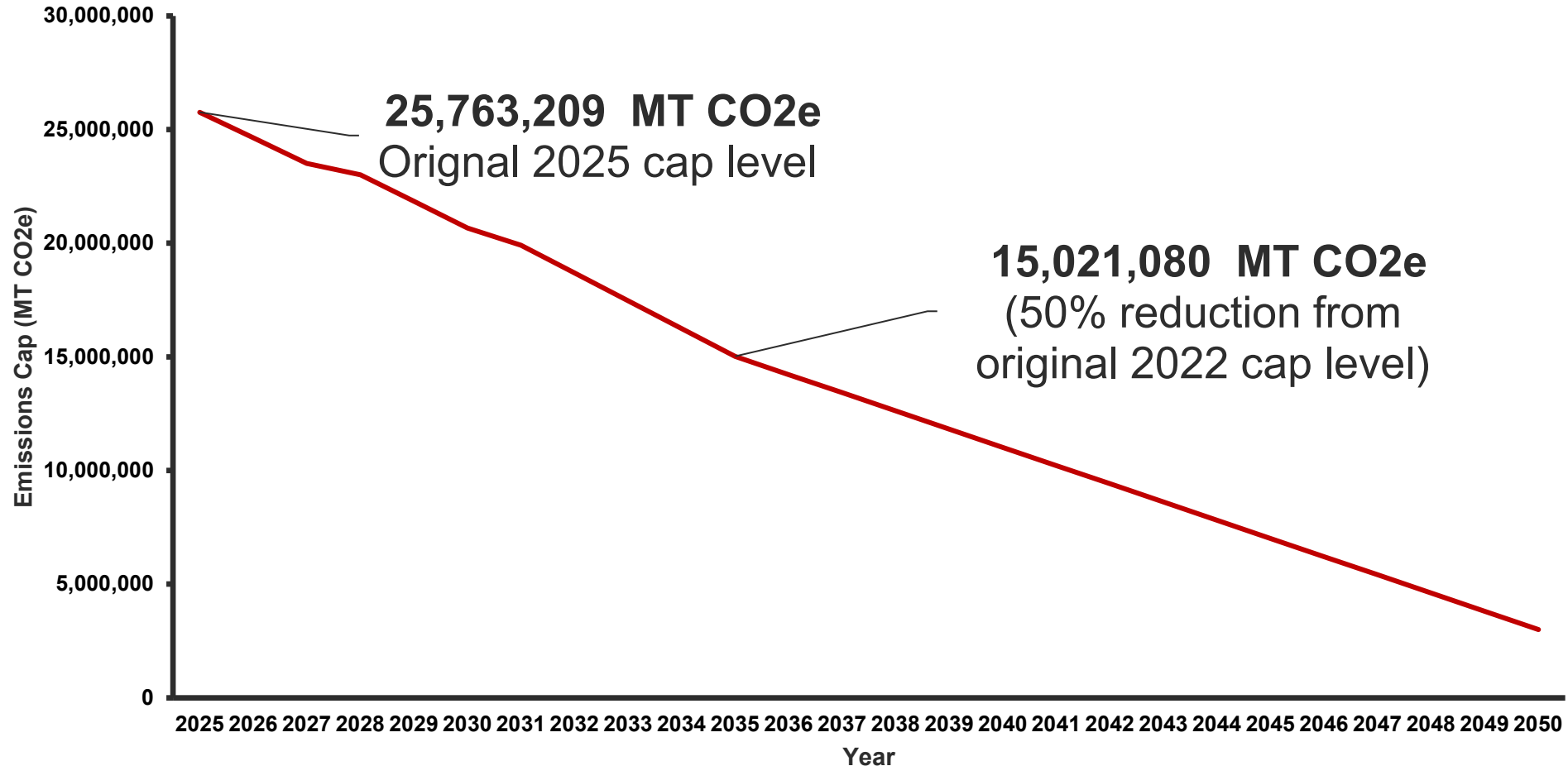
CPP cap development

- Cap coverage determined by types of covered sectors or sources AND emissions threshold for regulation
- Points to consider:
 - Emissions data available to DEQ
 - EQC authority
 - Additional costs versus emissions coverage from adding sources or lowering thresholds
 - Variable emission reduction potential across different sectors
 - Overall number of market participants

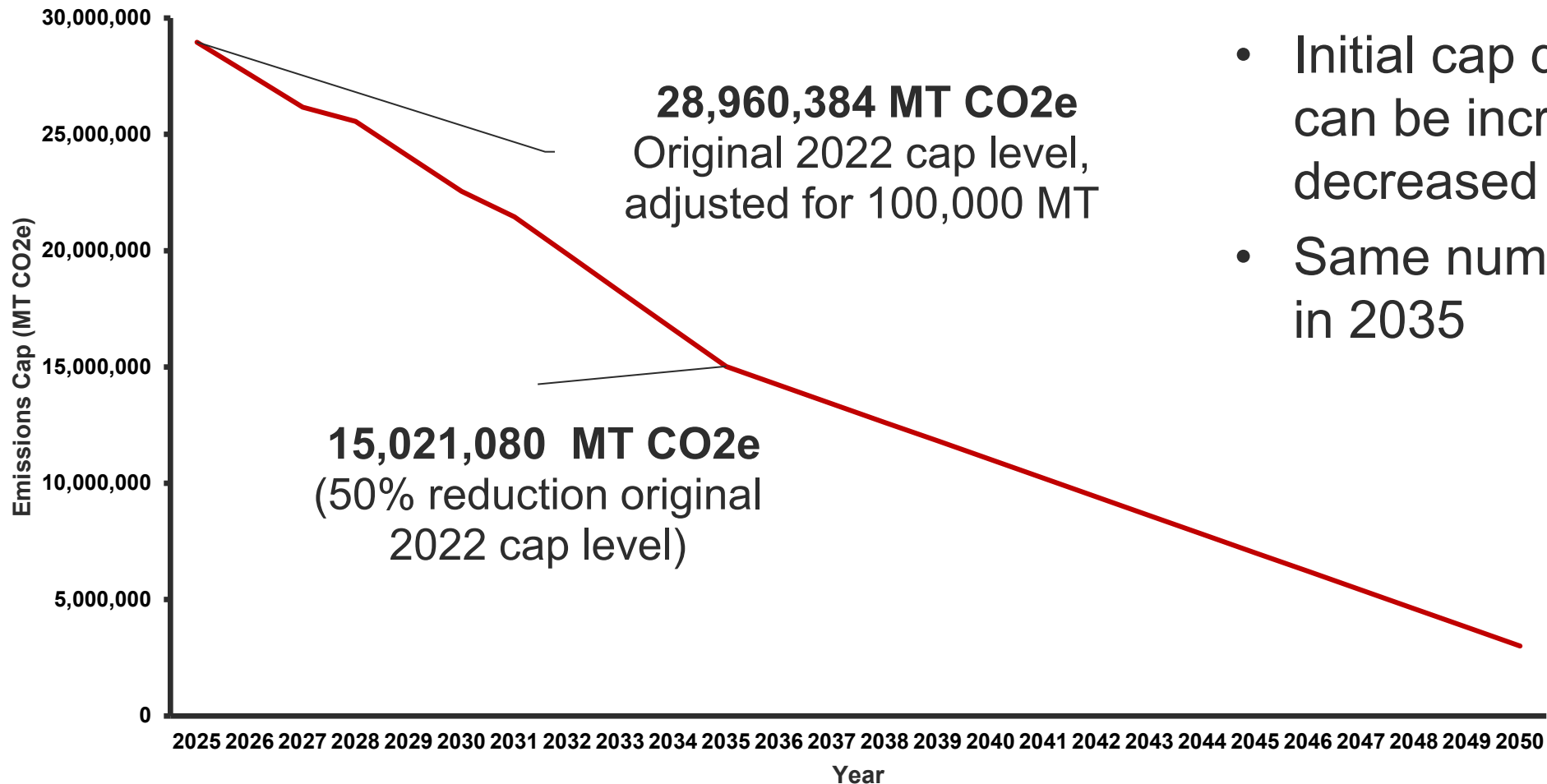
Considerations for 2025 cap

- What does it mean to start the emission cap again in 2025?
 - Cumulative emissions reductions
 - Reduction targets
 - 2017-2019 starting caps
 - 2022-2024 three- year period
 - Regulated entities thresholds

2025 cap baseline – Original 2025 cap level



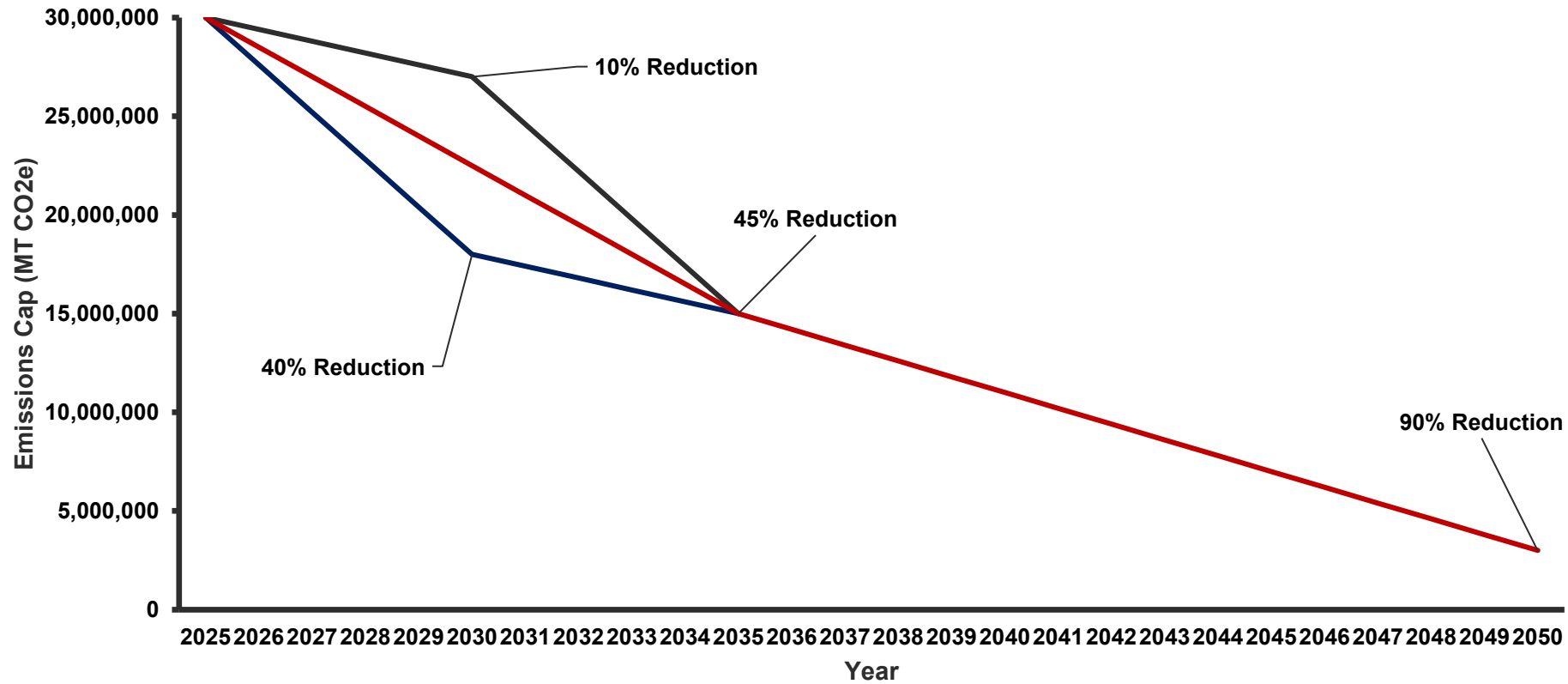
2025 cap baseline – Original 2022 cap level



- Initial cap decline can be increased or decreased
- Same numerical cap in 2035

Cap reduction trajectories

Variable Trajectory Slopes



Discussion

- Thoughts on using the 2025 cap and thresholds from the invalidated CPP program?
- Thoughts on starting with the 2022 base cap, but keep the same caps in 2035 and 2050 from original CPP?
- Methods DEQ should consider for incentivizing fuel suppliers that have been reducing emissions faster since 2022?
- Other considerations or approaches for re-establishing emissions reductions caps starting in 2025?

10-min Break

The meeting will resume at 2:50 p.m.

For Zoom technical issues, email CPP.2024@DEQ.oregon.gov

CPP 2024: Regulated Entities

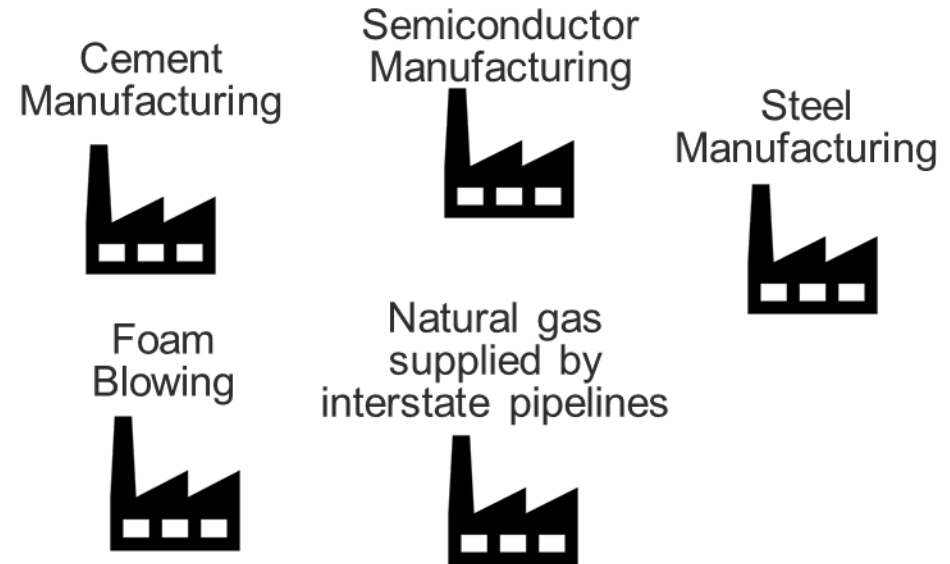
2:50 to 3:20 p.m.

CPP regulated entities

Fuel supplier type	Covered emissions	Applicability thresholds
Natural gas utilities	<p>Greenhouse gas emissions from natural gas supplied</p> <p>Excludes:</p> <ul style="list-style-type: none"> Natural gas used at electricity generating facilities Biomass-derived fuels 	No threshold
Liquid fuels and propane suppliers	<p>Greenhouse gas emissions from fossil fuels supplied</p> <p>Excludes:</p> <ul style="list-style-type: none"> Aviation fuels Biomass-derived fuels 	<p>Declining threshold (MT CO₂e) over time</p> <p>For 2022-2024: 200,000 Declined to 100,000 in 2025 and 25,000 by 2031</p>

Best Available Emissions Reduction

- Industrial “process” GHG emissions
- GHG emissions from solid fuel, interstate pipeline natural gas
- Stationary sources- Industrial facilities
- Site specific strategies to reduce emissions
- Annual emissions $\geq 25,000$ MT CO₂e
 - New: Potential to Emit
 - Existing: Actual Emissions
- Facility modification



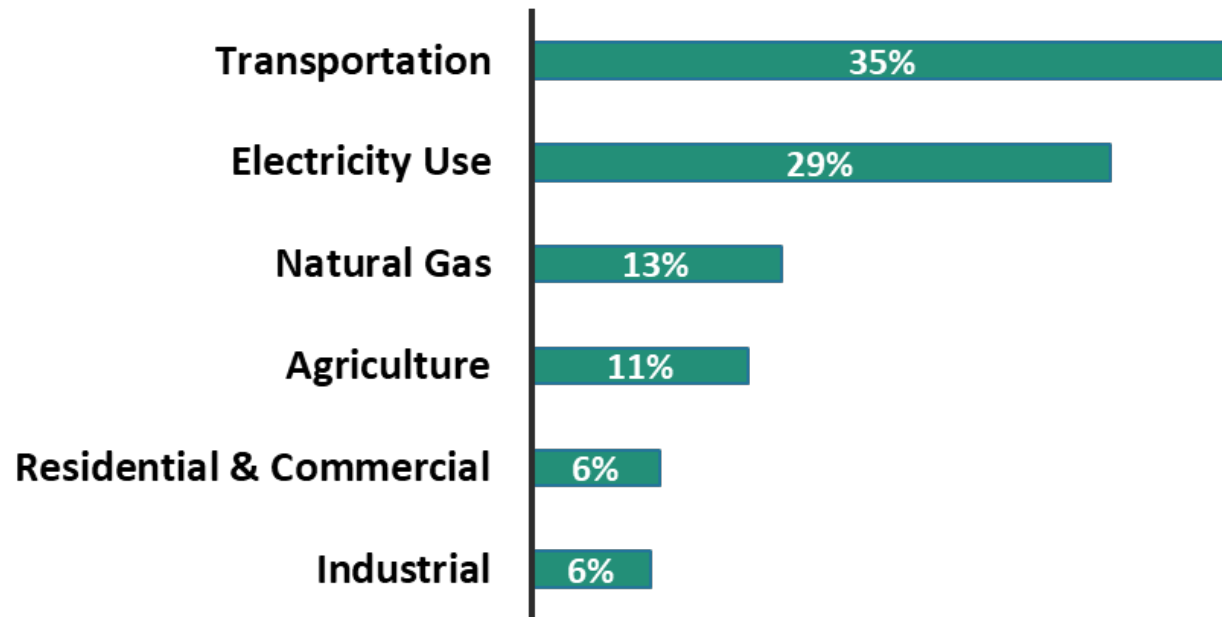
Point of regulation

- Regulate “upstream” at supplier level
 - Fewer points of regulation
 - Avoids burdening small entities
 - Suppliers best able to decarbonize fuel sources
- Regulate “downstream” at end-user level
 - End-user best able to reduce emissions through behavioral or technological change

Oregon emissions

Total 2021 Oregon Emissions: 61,377,000 MT CO₂e

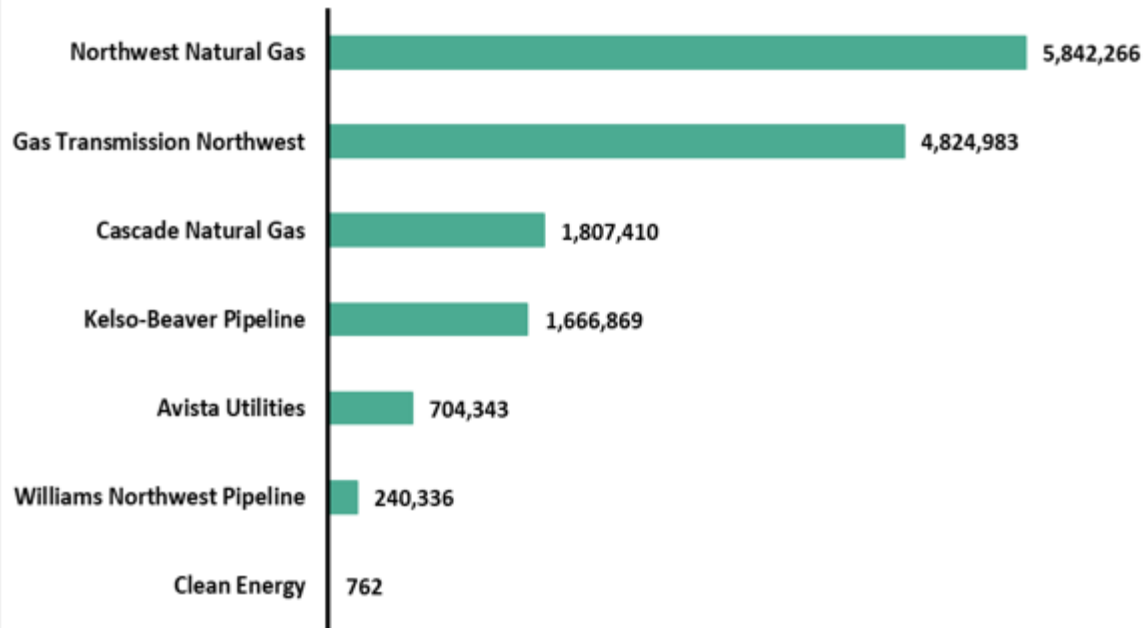
2021 greenhouse gas emissions, by sector



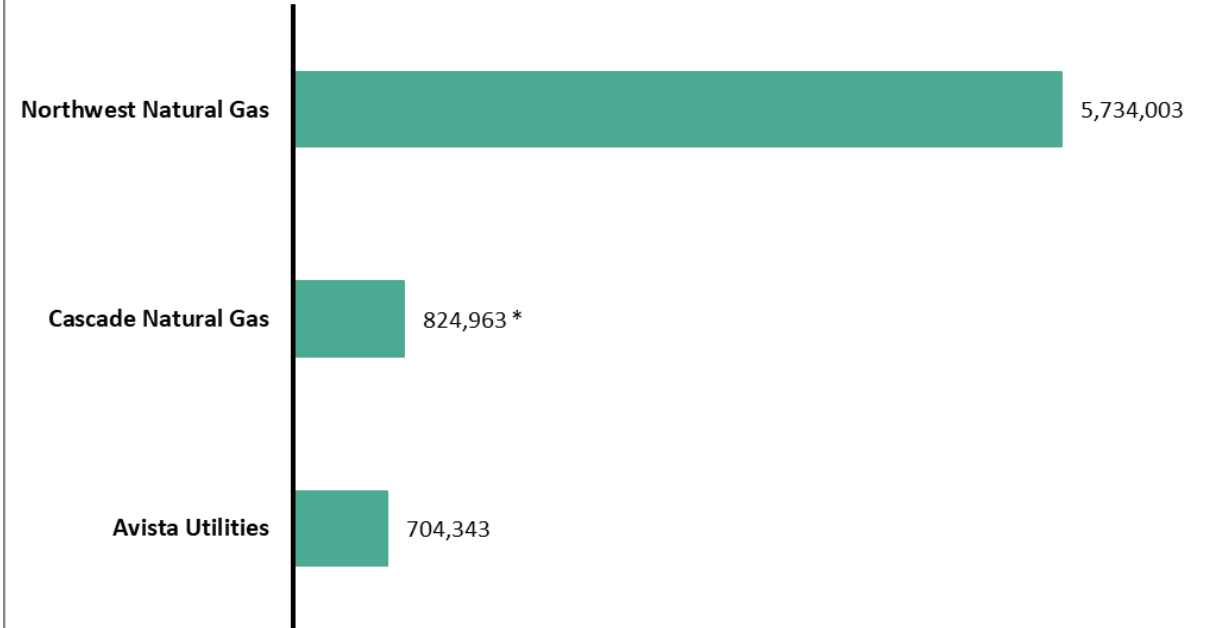
- Data from most recent emissions inventory, which is informed by data reported to GHGRP
- Includes emissions sources that are not reported to DEQ, such as agriculture
- Electricity use includes out of state emissions for imported electricity used within Oregon
- Natural gas sector emissions excludes natural gas used to generate electricity

Natural Gas emissions

2022 total natural gas emissions by supplier, GHGRP data



2022 CPP covered natural gas emissions by supplier



* Corrected April 16, 2024.

Stationary source emissions

Primarily emissions from natural gas use, whether reported to DEQ as combustion or other processes

Emissions type	2022 emissions (MT CO ₂ e)
Natural gas use	~3,200,000
Other fuel use	~65,000
Process emissions (Natural gas component)	~10,300,000 (~7,000,000)
Total Emissions	~13,500,000 (~75% natural gas)

Emissions level	Number of sources
All reporting sources	257
> 2,500	198
> 25,000	51

Discussion

- What should DEQ consider in reestablishing a program in 2025 for regulated entities?
- Should DEQ reconsider the point of regulation for any emissions?
- Should DEQ include facility-specific regulations similar to the Best Available Emissions Reduction regime in the CPP? Should all emissions be covered by the cap?

Compliance Instrument Distribution

3:20 to 3:55 p.m.

Compliance instrument distribution

- Provide predictable distribution amounts that allow covered entities to plan
- Adjust to account for changes in volatile liquid fuels market
- Incentivize shift from fossil fuels to biofuels

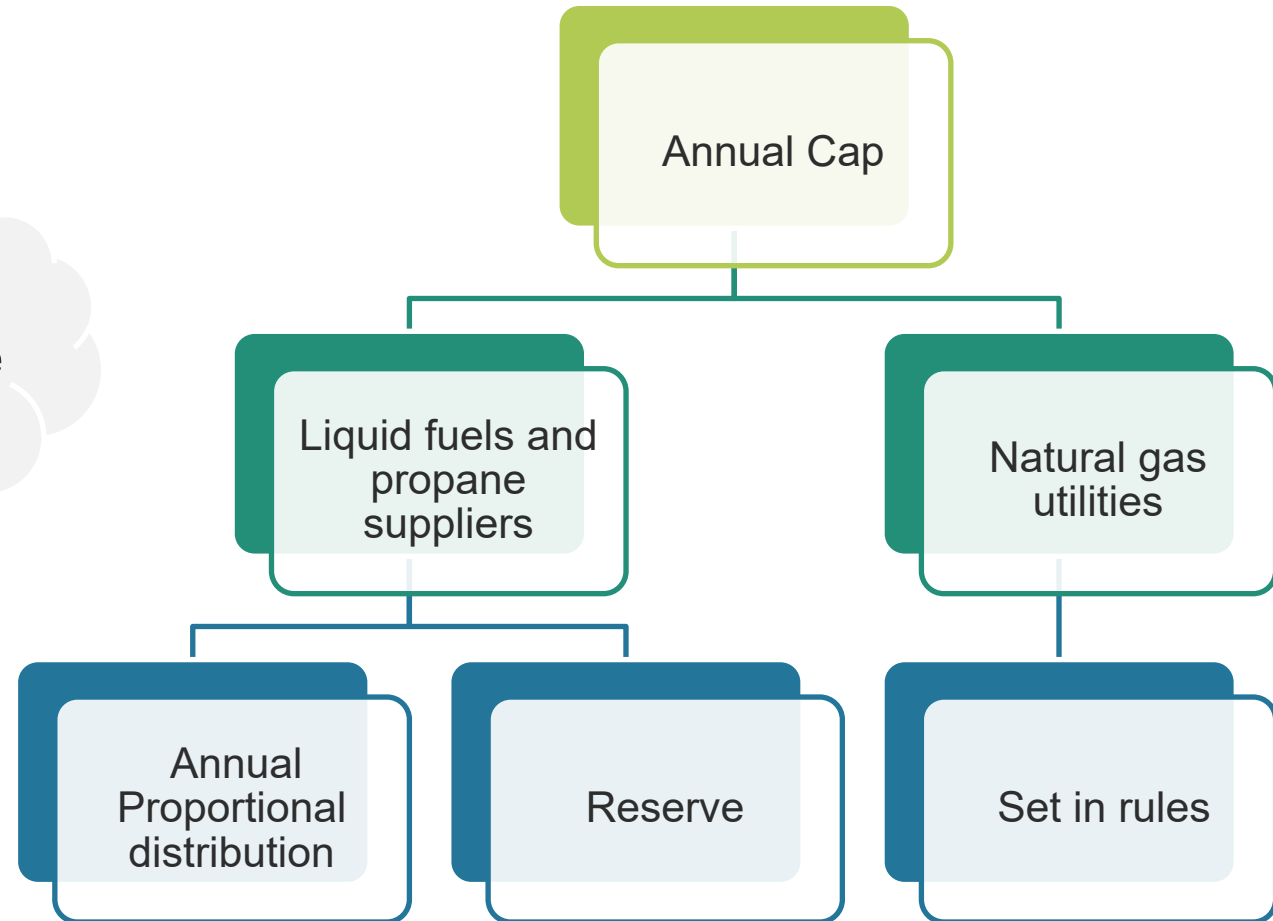
Compliance instrument distribution

How we implement the cap

One compliance instrument =

1 MT CO₂e

Distributed for free by DEQ



Compliance instrument distribution method

Proportional distribution

Compliance instruments for proportional distribution =

Annual cap - Natural gas utility distribution - Reserve replenishment

- Each liquid fuel and propane supplier receives a number of compliance instruments proportional to their share of previously reported emissions
- Proportional share is based on both covered AND biofuel emissions

Compliance instrument distribution method

2023 rulemaking goals

- Allow new market entrants to enter the regular distribution process more quickly
- Reduce reliance on reserve distributions
- Make compliance instruments distributions more adaptive to growing or shrinking market share

Compliance instrument distribution method

2023 rulemaking changes

- Moved from 3-year to 1-year evaluation period to determine proportional emissions share
- Changed to using reported data from the prior year.
 - Distribution date changed from March 31 to June 30
 - 2024 distribution would have used 2023 data, instead of averaged 2020 – 2022 data
- Added “true-up” mechanism to correct for changes to reported emissions during data verification process
- Removed cap on individual reserve distributions

Compliance instrument distribution method

Example

2025 Cap distribution	Natural gas utility distribution	Reserve replenishment	Proportional
25,763,209	6,375,468	0	19,387,741

	2024 covered emissions	2024 biofuel emissions	2024 total emissions	Share of emissions	2025 distribution
Fuel Supplier A	10,000,000	0	10,000,000	30%	5,857,323
Fuel Supplier B	10,000,000	3,000,000	13,000,000	39%	7,614,521
Fuel Supplier C	100,000	10,000,000	10,100,000	31%	5,915,897
TOTAL	20,100,000	13,000,000	33,100,000	100%	19,387,741

Next Steps

3:55-4:00

Next Steps: Written Comments

DEQ is currently accepting written comment on today's discussion items.

Public: Please submit comments by end of day **April 9** to CPP.2024@deq.oregon.gov

RAC Members: Please submit comments by end of day **April 9**.

Discussion

- Should any adjustments be made to natural gas suppliers fixed distribution? Any additional considerations?
- Is the proportional distribution the most effective method available to DEQ to distribute compliance instruments?
- Is compliance instrument reserve size still appropriate based on threshold discussed earlier?

Rulemaking next steps

- DEQ intends to post written comments and a meeting summary
- Next Rulemaking Advisory Committee Meeting #2
 - **May 14, 2024, 10 a.m. to 4 p.m. PT**
 - Continued discussions from RAC 1
 - Flexibility mechanisms and Community Climate Investments
 - Stationary sources and industrial emissions

Rulemaking resources

CPP 2024 Rulemaking webpage:

<https://www.oregon.gov/deq/rulemaking/Pages/Cpp2024.aspx>

Contact: Nicole Singh CPP.2024@deq.oregon.gov

Notifications: Subscribe to DEQ

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Climate Protection Program

<https://www.oregon.gov/deq/ghgp/cpp/Pages/default.aspx>

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