Oregon Department of Environmental Quality

Rulemaking Brief: Emissions cap

Climate Protection Program 2024 Rulemaking

Background

The Climate Protection Program established a declining limit, or cap, on greenhouse gas emissions from fossil fuels used throughout Oregon, including in transportation, residential, commercial, and industrial settings. Entities subject to the declining emission caps included liquid fuels and propane suppliers and natural gas utilities.

CPP was designed to reduce these fuel suppliers' emissions fifty percent by 2035 and ninety percent by 2050 from the 2022 base cap. The base cap was established using a baseline computed from the average emissions from 2017-2019. To reinstate the program beginning in 2025, DEQ could adopt the previously established cap level for 2025 to adhere as closely as possible to the original cap trajectory. However, restarting the program at the 2025 cap level would not account for a delay in reducing emissions during the CPP 2021 initial compliance period of 2022 – 2024 or early emissions reductions made by fuel suppliers.

RAC and public feedback

DEQ received numerous comments from both RAC members and other stakeholders on the topic of selecting a starting emissions cap. Many shared concerns that the invalidation of the CPP would delay reductions in emissions covered under the cap, resulting in higher cumulative emissions, and that the starting cap in a reinstated CPP should be tightened to achieve equivalent emissions reductions as would have been required during the initial first compliance period. Other RAC members and stakeholders have commented that DEQ should recognize and continue to incentive strategies that reduced emissions under the initial program and today. This would account for compliance instruments that would have been banked at the end of the first compliance period due to emissions reductions beyond those required under the cap. DEQ believes that these comments share a similar desire to restart the CPP in a manner that reproduces the intended emissions reductions of the original program, but with different perspectives of whether actual emissions in the early years of the CPP were above or below the cap.

Other RAC members commented that DEQ should instead use the initial CPP 2022 cap for the program restart in 2025 and possibly consider additional adjustments to represent a more recent emission reductions baseline.

2025 base cap adjustment

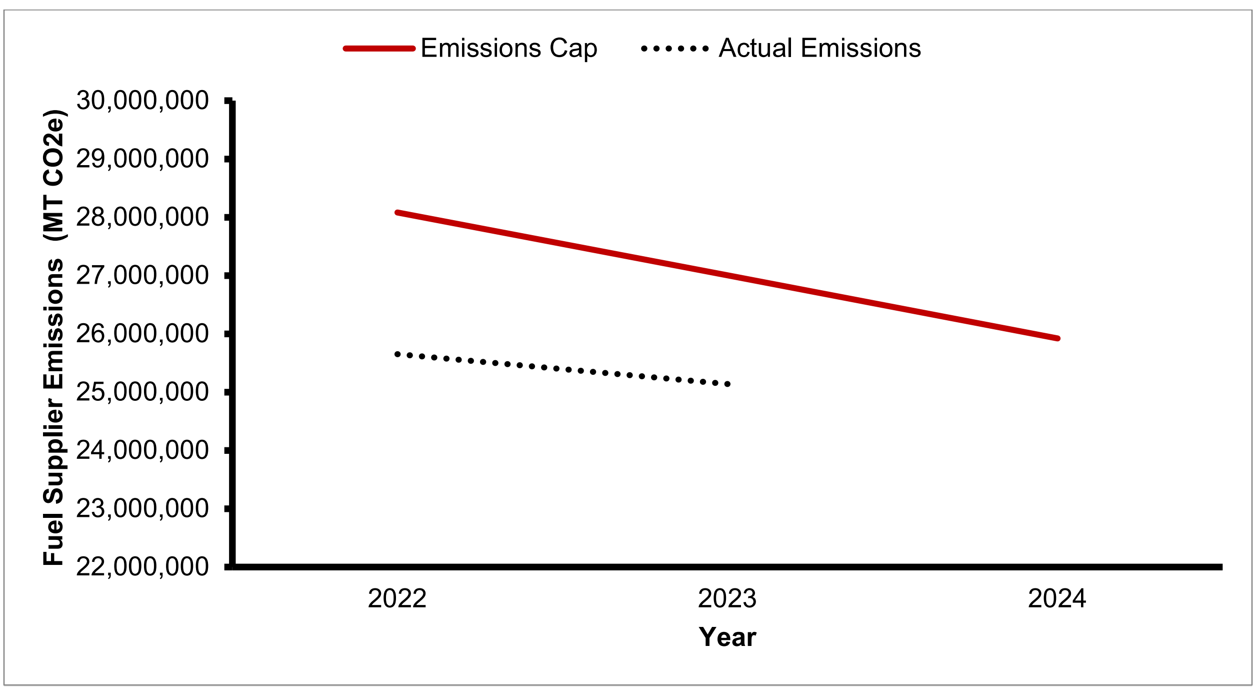
In response to these comments, DEQ is considering what a one-time adjustment to the initial 2025 emissions cap level would look like if DEQ were to reflect differences between actual emissions from 2022 – 2024 and the emissions cap from the original CPP. To calculate the cap adjustment, DEQ would consider the sum of covered emissions for 2022, 2023, and 2024 for all fuel suppliers covered by the original CPP cap (both natural gas utilities and liquid fuel suppliers) and compare this to the total emissions cap for these three years. If reported emissions are higher than the cap level, DEQ would reduce the 2025 base cap by an amount equal to the cumulative excess emissions; if reported emissions are below the cap level, DEQ would increase the 2025 base cap by an amount equal to these early emission reductions.

This approach would ensure that the cumulative emissions reductions and cap trajectory envisioned by the original CPP would be met, while also allowing fuel suppliers to be rewarded for any early action in reducing emissions and maintaining an incentive to continue reducing emissions in 2024. Based on verified 2022 and preliminary 2023 emissions data, DEQ estimates that emissions from covered fuel suppliers were below the original CPP cap by roughly 4.2 million tons over these two years.

Table 1. Fuel supplier emissions, 2017 – 2023. 2023 reported emissions are preliminary and have not been audited or verified. Data from DEQ's Greenhouse Gas Reporting Program.

Year	Natural Gas Utilities	Liquid Fuel Suppliers	Total
2017	7,459,202	20,484,321	**27,943,524**
2018	6,819,140	21,554,847	**28,373,988**
2019	7,342,812	20,554,185	**27,896,997**
2020	6,758,700	18,078,635	**24,837,335**
2021	6,971,188	20,107,954	**27,079,143**
2022	7,263,309	18,387,839	**25,651,148**
2023	7,428,135	17,758,502	**25,186,638**

Figure 2. Emissions cap for the original Climate Protection Program and actual emissions reported to the Greenhouse Gas Reporting Program. 2023 reported emissions are preliminary and have not been audited or verified.



CPP base cap distribution

DEQ has considered a variety of options for distribution of any additional compliance instruments added as part of a 2025 initial cap adjustment and seeks input from the RAC on the options described below.

Option 1: Add instruments into regular compliance instrument distribution

Additional compliance instruments could be added into the regular distribution of compliance instruments that would occur in 2025. This option presents a simple approach that would distribute instruments by market share to reset the cap trajectory and mitigate initial compliance burdens for all fuel suppliers.

Option 2: Distribute additional instruments based on biofuel supply

Additional compliance instruments could be distributed based on the volume of biofuels each covered fuel supply delivered in 2022, 2023, and 2024. With this option, DEQ would calculate the proportion of overall biofuels supplied by each covered fuel supplier and distribute to them this share of any additional compliance instruments to be distributed in 2025.

Table 1. Example of possible 2025 cap adjustment mechanism based on relative emissions from biofuels delivered during 2022 - 2024. A total of 4 million compliance instruments were assumed to be distributed among fuel suppliers in this example.

Covered Entity	Covered GHG Emissions (MT CO_2e)	Biofuel GHG Emissions (MT CO_2e)	Biofuel %	Share of Adjustment Distribution
Fuel Supplier A	1,000,000	250,000	25%	1,000,000
Fuel Supplier B	1,000,000	750,000	75%	3,000,000

Discussion questions

- What are your thoughts on calculating an adjustment to the 2025 cap based on 2022-2024 emissions data? What are your thoughts on restarting the program in 2025 with the 2022 cap? How does this align with the goal of maintaining the emissions reduction trajectory from the original CPP program?
- If the emissions threshold for fuel suppliers is lowered to 100,000 MT CO2e in 2025, should DEQ provide a similar cap adjustment to fuel suppliers who will become covered in 2025 but were not part of the original CPP?
    - How might this affect overall emissions reductions?
    - Any considerations for how this would be determined? For example, would DEQ review emissions reductions from this group of liquid fuels suppliers beyond what would have been required under the cap if they had been included in the CPP beginning in 2022.

More information

Please visit the Climate 2024 Rulemaking website for more information on this rulemaking. Additional information is also available on the CPP 2021 Rulemaking and the Climate Protection Program website.

Non-discrimination statement

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