

Climate Protection Program 2024 Rulemaking Advisory Committee Meeting 3

DEQ Office of Greenhouse Gas Programs

**June 25, 2024
10 a.m. – 4:30 p.m.**

DEQ, Kearns & West, and Governor's Office

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Senior Facilitator, Kearns & West

Gillian Garber-Yonts
Senior Associate, Kearns & West



Meeting Objectives

- Discuss proposed rules, highlighting changes from CPP 2021
- Discuss and receive committee input on fiscal and racial equity impacts

Today's Agenda

Time	Topic
9:45 a.m.	Rulemaking advisory committee registration
10 a.m.	Welcome, procedures for public comment, and agenda overview
10:15 a.m.	Discuss CPP 2024 Draft Rules
12:00 p.m.	Lunch
1:00 p.m.	Continue discussing CPP 2024 draft rules
1:30 p.m.	Remarks from Oregon Public Utilities Commission
1:45 p.m.	Review draft fiscal impact statement and third party CCI entity fee
2:50 p.m.	Break
3:00 p.m.	Public comment
3:30 p.m.	Discuss racial equity and environmental justice impacts
4:00 p.m.	Review rulemaking next steps
4:10 p.m.	Closing comments
4:30 p.m.	Adjourn meeting

RAC Member Introductions



Meeting Guidelines

- ✓ Honor the agenda and strive to stay on topic
- ✓ Provide a balance of speaking time
- ✓ Address issues and questions – focus on substance and avoid personal attacks
- ✓ Listen and speak with respect
- ✓ Seek to understand and consider each other's perspective
- ✓ Engage in dialogue and finding solutions together



Comment Period

- Public participation is welcome – thank you!
- Today’s public comment period will be held from **3:00 – 3:30 p.m.**
- Those wishing to give public comment will be called upon.
- Please respect time limits and ground rules when making comment.
- RAC and public may provide written comment to CPP.2024@deq.oregon.gov by **July 8, 2024**.

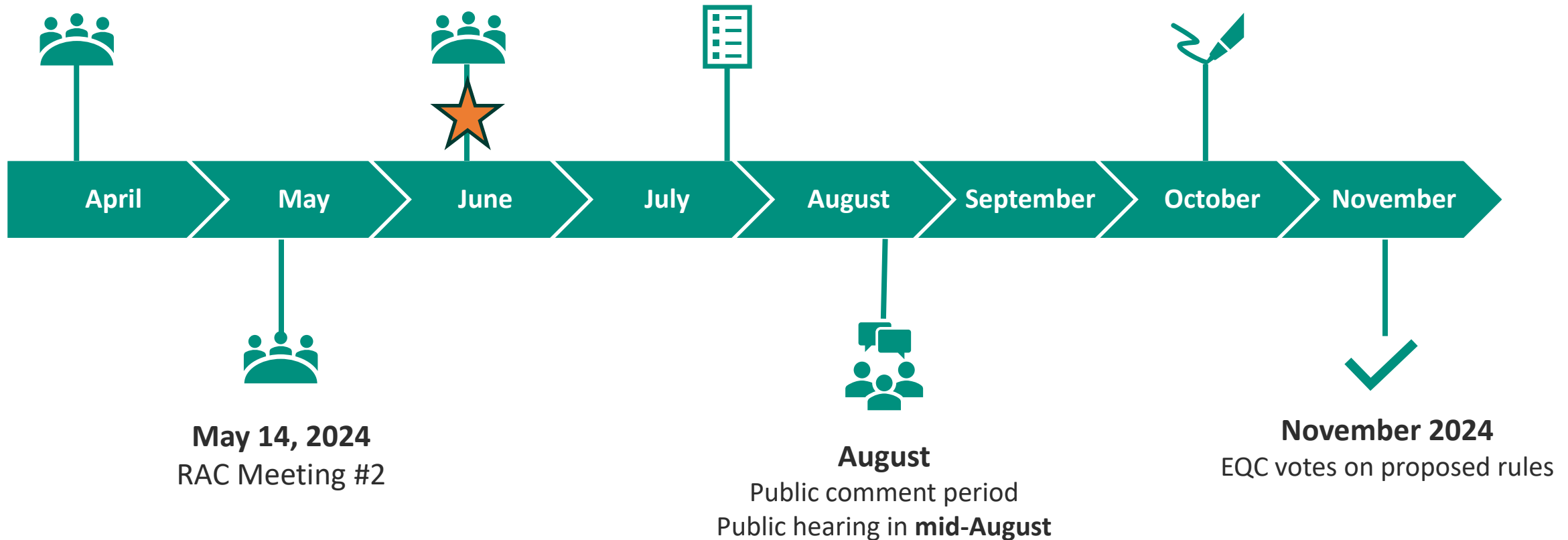
Rulemaking Timeline

April 2, 2024
RAC Meeting #1

June 25, 2024
RAC Meeting #3

Late July 2024
DEQ publishes Notice of
Proposed Rulemaking

Sept & Oct 2024
DEQ reviews comments and
revises proposed rules



CPP 2024 Draft Rules Discussion

10:15 a.m. to 12:00 p.m.

CPP 2024 Draft Rules Discussion

- Division 273
- Division 12
- Primary focus today: **Proposed changes from CPP 2021**

Community Climate Investments

- CCI Contribution amount is \$129 and first increases by \$1 and adjusted for inflation March 1, 2027
- CCI credits cannot be banked
- Adjusted CCI entity eligibility
- Adjusted the workplan due date for approved CCI entities
- Aligned the definition of Environmental Justice Communities to that used by the Governor's EJ Council

Community Climate Investments

- 15% allowable use of CCIs to demonstrate compliance in the first compliance period, 20% for future compliance periods
- No offsets
- No changes to the approved uses of the investments

CCI Contribution Amount

CCI Contribution amount is \$129 and first increases by \$1 and adjusted for inflation March 1, 2027

Example reference points for estimated costs per reduction – prioritizing Environmental Justice communities:

- Residential energy efficiency through ductless heat pumps and weatherization
- Solar for income qualified, multifamily, or community-based
- Oregon's Climate Pollution Reduction Grant which included building decarbonization, transportation electrification, and waste reduction.

Community Climate Investment Discussion

Focus comments on the CCI portions of the rule:

- What do you think about what is proposed in the rules, and why?
- What would you propose to improve in the rules?

Regulated Entities: Compliance Periods

- Three-year compliance periods
- First compliance period = 2025, 2026, 2027
- First demonstration of compliance: December 2028

Point of Regulation: Natural Gas Emissions

- EITE sources - all emissions from natural gas
- Natural gas utilities - all emissions from natural gas supplied by LDC except EITE sources

EITE sources: First compliance period

- Emissions threshold: 25,000 MT CO₂e (natural gas use)
- Demonstrate compliance for 2025-2027 covered emissions
- Distributed instruments equal to 100% of average 2017-2019 emissions each year
- Approximately 20 facilities
- Average 2017-2019 emissions about 1.5 million MT CO₂e

EITE sources: Future compliance period

- DEQ to propose "emissions intensity" allocation method in a future rulemaking
- DEQ to establish a "benchmark" for each EITE
 - X MT CO₂e/ per unit of applicable product
- DEQ to set a rate of decline from benchmark
- EITEs to provide production data and other needed information to DEQ

EITE sources: Future compliance period

If emissions intensity benchmarks not in place by second compliance period:

- EITEs will receive compliance instruments based on their 2017 – 2019 average emissions multiplied by an emissions reduction target
- Emissions reduction target declines by 7% each compliance period

EITEs and the Emissions Cap

- Compliance instruments distributed to EITEs from under annual caps
- Emissions cap would be increased to represent interstate pipeline emissions at EITEs
 - Not previously regulated by CPP emissions cap
 - 2025 cap to be increased approximately 230,000 tons to represent average 2017-2019 interstate pipeline emissions

Distribution to Natural Gas Utilities

- Natural gas supplier distribution now calculated annually as a share of total fuel supplier compliance instruments

Compliance instrument distribution percentages for natural gas utilities			
	Compliance Period 1	Compliance Period 2	Compliance Period 3
NW Natural	19.8 %	19.3 %	18.9 %
Cascade	2.6 %	2.5 %	2.4 %
Avista	2.4 %	2.4 %	2.3 %

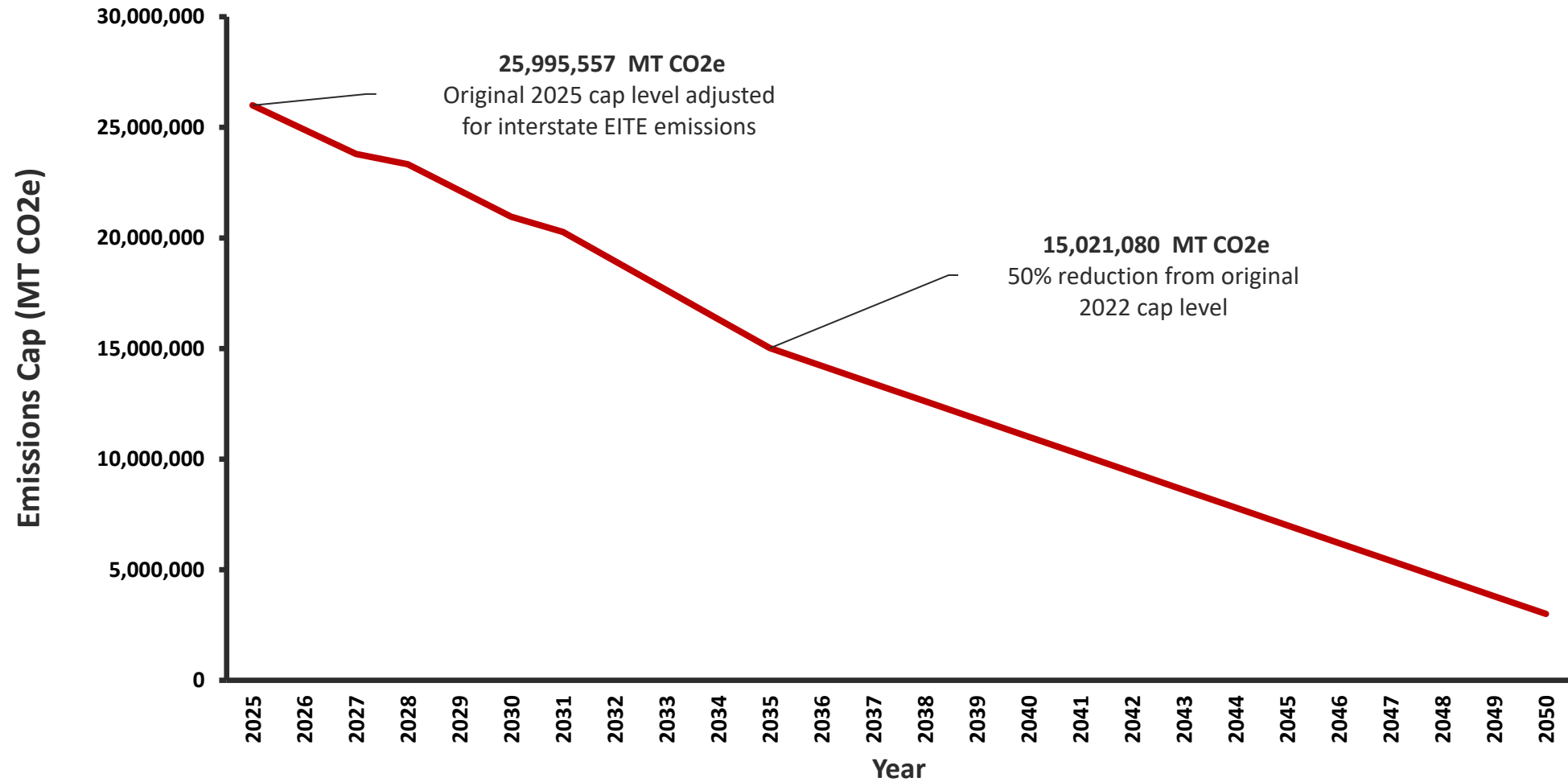
Covered Stationary Sources: BAER

- Site specific best available emissions reductions
- Emissions threshold: 25,000 MT CO₂e
 - All processes at the facility
 - *Does* include any interstate pipeline emissions if not an EITE
 - *Does not* include EITE covered emissions
 - *Does not* include emissions from natural gas distributed by utility

Point of Regulation Discussion

- What do you think about what is proposed in the rules and why?
- What would you propose to improve in the rules?

Emissions Cap



2025 Distribution to Liquid Fuel Suppliers

Regular Distribution

- Compliance instrument pool =
Cap - EITE distribution - Natural gas supplier distribution - Reserve
- Distributed based on share of total covered and biofuel emissions from previous year (2024)

2025 Distribution to Fuel Suppliers

- One-time, additional distribution to reflect instruments that could have been banked into 2025 from previous program
- Additional compliance instrument pool =
81 million - Sum of covered emissions (2022 to 2024) for all covered fuel suppliers
- Distributed based on share of total biofuel emissions from 2022 through 2024

Banking, Trading, Liquidity

- EITE sources now able to receive, trade, and bank compliance instruments
- No other changes to banking or trading of compliance instruments

Discussion

- What do you think about what is proposed in the rules and why?
- What would you propose to improve in the rules?

Lunch Break

The meeting will resume at 1:00 p.m.

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

Additional Discussion of Draft Rules

- What do you think about what is proposed in the rules and why?
- What would you propose to improve the rules?

Remarks from Public Utilities Commission

1:30 p.m. - 1:45 p.m.

Climate Protection Program & Oregon Gas Utility Regulation

Presentation to DEQ's
Rule Advisory Committee



JP Batmale
Energy Resources and Programs, Division Administrator
June 25, 2024

Agenda

- Public Utility Commission (PUC): Overview and DEQ
- PUC's role in the Climate Protection Program (CPP)
- CPP and Rates
- CPP: Lessons Learned & Future Considerations
- PUC: How we Mitigate Risks & Rate Impacts
- Q & A



PUC Overview

Economic regulator of investor-owned utilities

- Electric – PGE, PacifiCorp, and Idaho Power
- Natural Gas – NW Natural, Cascade, and Avista
- Select telecom and small water companies

Must consider and approve all changes to
tariffed utility rates

Quasi-judicial and policy functions

3 full-time Commissioners – 142 FTE

Our **mission** is to ensure Oregonians have access to **safe, reliable and fairly priced** utility services that advance **state policy** and promote the **public interest**.

We use an **inclusive process** to evaluate differing viewpoints and visions of the public interest and arrive at **balanced, well-reasoned, independent decisions** supported by fact and law.

DEQ & PUC

Recent history of collaboration

HB 2021

Regional
Markets

CPP

GHG
Reporting

Low CO2 Fuel
Standard

Klamath Dam
Removal

CPP and PUC...

We oversee gas utility planning & rates

Upfront

Planning in Public Interest

Est. Bill Impacts

During

Costs into Rates

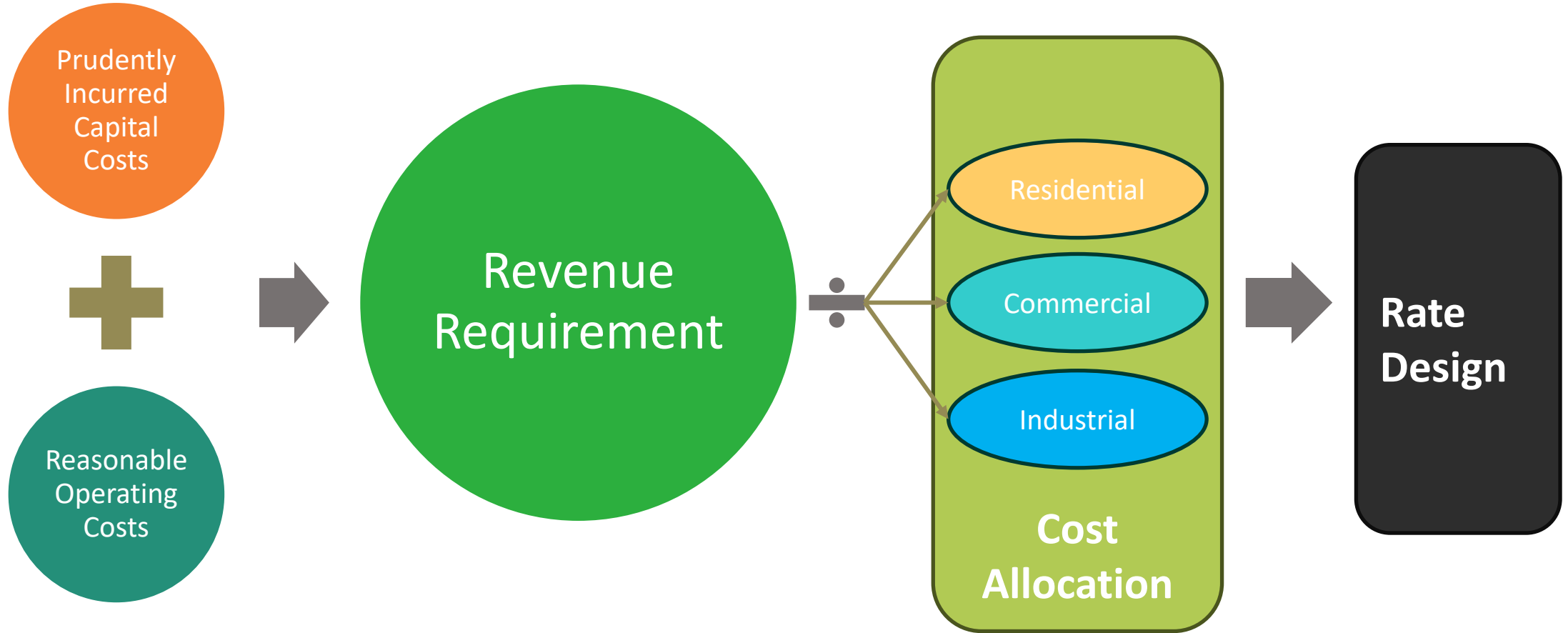
Rate Design & Spread

Performance Monitoring

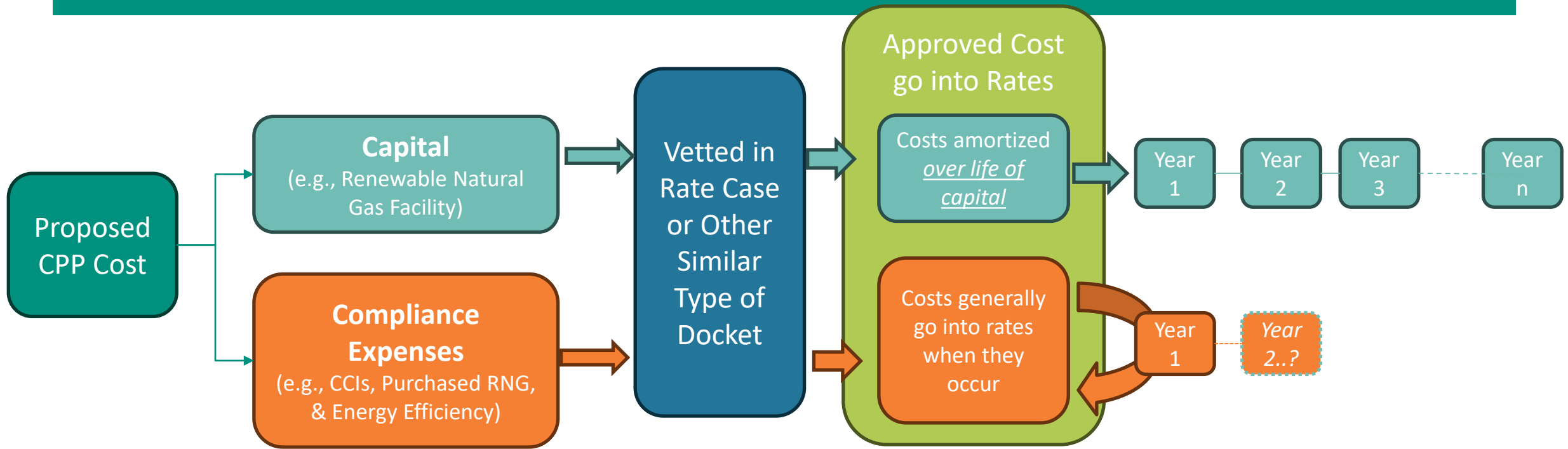
CPP Results and Costs to Ratepayers



General Ratemaking Formula



Example: How approved CPP Costs “Appear” in Rates



CPP Implementation Lessons Learned from 2023

Rates: CCIs

- Max Every Year into 2030's
- Over \$150+ M across gas utilities in 2024-25
- Immediate rate impact, ~ +10% in year one

Rates: RNG

- Several new projects proposed
- Some are capital, some are "offtakes"

Rates: Transport EE

- New Category of EE
- ~ \$5 M in across gas utilities in 2024

Planning: Long-Term

- Near-term IRP actions: acknowledged
- Long-term IRP actions: **not** acknowledged
- Difficult to identify practicable, long-term solutions
- Many improvements slated for next round

Revised CPP and Future Rate Considerations

- Compliance will have near-term rate impacts.
- Capital costs (RNG) while spread over longer time periods, may offer greater performance risks.
- CCIs and more EE are generally in rates sooner, but most likely carry lower risks than investments
- Program design choices encouraging Compliance Instrument “banking” may drive bills higher in the near-term.

Mitigating Risks & Rate Impacts

Policy & Regulatory Tools

Policy

- Cost Caps
- Income Qualified Bill Discounts

Regulatory Tools

- Least-Cost, Least-Risk Planning
- Ratemaking processes
- Mitigating stranded asset risks
- More targeted and increased levels of cost-effective EE

Thank you!

Contact Information

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Division Administrator, Energy Resources & Planning

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Fiscal and Economic Impact and CCI Entity Fee

1:45 p.m. - 2:50 p.m.

Fiscal and Economic Impact Statement

Committee reviews fiscal impact statement and provides recommendations on:

- Draft rule's fiscal impact
- Extent of those impacts
- Any significant adverse impacts on small businesses, and
- How DEQ can mitigate impacts

DEQ:

- Documents and considers committee input
- May revise based on committee comments for version for public notice

Informed by

- Comments provided by this committee to date
- Prior DEQ analysis to support development of an emission reduction program for Oregon
- Prior analyses provided by stakeholders on development of an emission reduction program for Oregon
- Experience implementing CPP prior to invalidation

Covered entities

- Administration, permitting, reporting, and recordkeeping costs
 - May be no cost
 - Estimated costs from \$0 to \$6,854 per year
 - Estimated from \$0 to \$13,000 per year
 - Estimated costs \$4,000 to up to \$40,000 per year.
 - Higher ranges labor, recordkeeping, and reporting costs for an entity that may need to train new staff

Covered stationary sources (BAER)

- BAER assessment may take approximately 150-300 hours of facility staff time and/or consultant time.
 - \$200 per hour, estimated costs are \$30,000-\$ 60,000.
- Don't have specific information to quantify all costs associated with BAER assessment

Reducing emissions: Covered fuel suppliers

- Compliance instruments distributed for free
- Costs if quantity of compliance instruments insufficient to cover the emissions associated with the volumes of fuels supplied
- Multi year compliance periods, banking, trading, option to earn CCI credits
- Fuel suppliers more likely to choose to earn CCI credits or purchase via trade if either less expensive than reducing emissions
- Cost of acquiring a compliance instrument via trade may be less than the contribution amount to earn a CCI credit.

Reducing emissions: Covered fuel suppliers

- Combinations make it difficult to estimate the potential fiscal impacts
- DEQ does not have specific information to quantify all costs associated
- DEQ anticipates contributions to earn CCI credits may be the highest compliance cost for covered fuel suppliers, particularly in early years of the program.

Example CCI Scenario: Covered fuel suppliers

- Baseline annual emissions of 100,000 MT CO₂e
- Receives 95,000 compliance instruments or 2026
- Needs to either reduce emissions or find a way to comply with the remaining 5,000 MT CO₂e
- Chooses to earn CCI credits at \$129 contribution price CCI credit in 2026
- Total \$645,000 to earn 5,000 CCI credits

EITE stationary sources

- Similar options as covered fuel suppliers
- Energy intensive and trade exposed industries potentially greater negative economic impacts of the declining emission cap to their industries and work force
- Direct regulation for natural gas emissions allows for more control
- DEQ has proposed a different emission reduction trajectory for EITE sources

Covered stationary sources (BAER)

- Costs to implement emissions reduction strategies vary
- May be no costs
- Analysis conducted by ICF for CPP 2021
 - Estimated costs to reduce emissions based on various strategies and industries
 - Ranged from \$47 to \$190
 - Different costs may be borne by different parties

Public Impacts: Liquid fuels

- Analysis submitted to DEQ for CPP 2021
 - Higher prices for gasoline and diesel
 - Projected increases generally greater after 2035
 - For gasoline, analysis showed program add \$0.10 to \$0.36 per gallon to the cost of motor gasoline, between 2025 and 2050
 - Similar for diesel

Public Impacts: Liquid fuels

- Costs of renewable and lower carbon fuels continue to declining relative to fossil fuels as production volumes, such as for renewable diesel, continues to increase.
- For 2022-2023, as a whole liquid fuels suppliers were reducing emissions faster than the applicable emissions cap for those years, though no demonstration of compliance.
- DEQ had yet to conduct a program evaluation, but no immediate obvious shocks to the supply of these fuels.

Public Impacts: Natural gas

- Biomethane, demand response, electrification, hydrogen, and future technologies all support compliance
- More limited availability of biomethane
- Draft Initial comments submitted for CPP 2024
 - One utility estimated monthly bill impact for residential customers at 34% and 43% percent for 2025 and 2030,
 - 38% and 48% for commercial customers
 - 41% and 51% percent for industrial customers.

Public Impacts: Natural Gas

- Another utility projected rate increases for residential customers for a normal weather year as
 - 5.2% for compliance period 1,
 - 16.6% for compliance period 2 and
 - 26.9% for residential customers period 3
- For small commercial customers: 6.6%, 20.6% and 32.2%
- Range of assumptions includes utility as point of regulation for gas supplied to EITE sources

Public Impacts: Macroeconomic Impacts

- Analysis conducted by ICF for CPP 2021
 - Emissions reduction program could significantly reduce emissions while maintaining the overall health of the economy.
 - Small but net positive trends for gross state product, income, and jobs.
 - Creation of green jobs
 - Significant monetized health benefits

Public Impacts: Macroeconomic Impacts

- Analysis submitted to DEQ for CPP 2021
 - Most significant negative impacts after 2035
 - Different job impacts
 - Most impacted industries petroleum and natural gas suppliers
 - Certain industries that are more reliant on natural gas
 - Broader manufacturing sector overall economic gains through 2050.

FEIS: Impact to Large Businesses (more than 50 employees)

- Anticipates 72 large businesses may be directly impacted
 - Suppliers of liquid fuels and propane-DEQ estimates 46 businesses
 - Natural gas utilities- DEQ estimates 3 businesses.
 - Covered stationary sources subject to BAER -DEQ estimates 11 businesses
 - EITE sources- DEQ estimates 20 businesses
 - Three also subject to BAER

FEIS: Impact to Small Businesses

(50 or fewer employees)

Covered Sector	Threshold	Count of Small Businesses
Covered fuel suppliers that are liquid fuels and propane suppliers	Greater than or equal to 100,000 MT CO ₂ e (covered beginning 2025)	3
	Greater than or equal to 50,000 MT CO ₂ e and less than 100,000 MT CO ₂ e (covered beginning 2028)	1
	Greater than or equal to 25,000 MT CO ₂ e and less than 50,000 MT CO ₂ e (covered beginning 2031)	1
Covered fuel suppliers that are natural gas utilities	N/A (covered beginning 2025)	0
Covered stationary sources (BAER and EITE stationary sources)	Greater than or equal to 25,000 MT CO ₂ e (covered beginning 2025)	0

Mitigating Impacts for Small Businesses

- Compliance flexibility options
- Few small businesses covered by program thresholds
 - Declining threshold for liquid fuels and propane suppliers means more time before some small businesses are regulated
 - Threshold for BAER approach for stationary source

FEIS: Questions and Discussion

- Comments on proposed fiscal impacts for regulated entities?
- Do the proposed rule amendments have a significant adverse impact on small businesses?
 - Anything additional that DEQ could consider to mitigate any such impacts?
- Anything else DEQ should consider to mitigate any other potential fiscal impacts?



CCI Fee – DEQ Estimated Costs

Estimated DEQ Annual Expenses for Costs Associated with Administering and Overseeing CCI Program					
	Year 1	Year 2	Year 3	Year 4	Year 5
Personnel (fringe included)	\$1,394,895	\$1,464,639	\$1,537,871	\$1,614,765	\$1,695,503
Materials	\$50,000	\$52,500	\$55,125	\$57,881	\$60,775
Subcontracted	\$375,000	\$677,500	\$711,375	\$746,944	\$784,291
Annual Total	\$1,819,895	\$2,194,639	\$2,304,371	\$2,419,590	\$2,540,569

Note: Expenses adjusted annually for 5% inflation

Note: This assumes covered entities choose this optional compliance mechanism

CCI Fee Scenarios

Scenarios:

- **Scenario 1:** 25% of covered entities choose to demonstrate compliance with 10% Community Climate Investments.
- **Scenario 2:** 25% of covered entities choose to demonstrate compliance with 5% Community Climate Investments.
- **Scenario 3:** 0% of covered entities choose to demonstrate compliance with Community Climate Investments.

Assumptions:

- CCI contribution is \$129, and will first increase March 1, 2027, by \$1 and then adjusted for inflation.
- CCI contributions will not be made in 2025, while DEQ is getting CCI entity(ies) approved.

Compliance period	Emissions Cap (MTCO ₂ e)	Scenario 1	Scenario 2	Scenario 3
2025 (year 1)	25,995,557	\$83,835,671	\$41,917,836	\$0
2026 (year 2)	24,898,109	\$80,296,402	\$40,148,201	\$0
2027 (year 3)	23,800,661	\$76,757,132	\$38,378,566	\$0
Average	24,898,109	\$80,296,402	\$40,148,201	\$0

CCI Fee % and Annual Fee

- **Scenario 1:** 25% of covered entities choose to demonstrate compliance with 10% Community Climate Investments.
- **Scenario 2:** 25% of covered entities choose to demonstrate compliance with 5% Community Climate Investments.
- **Scenario 3:** 0% of covered entities choose to demonstrate compliance with Community Climate Investments.

CCI Fee %	Scenario 1	Scenario 2	Scenario 3
1.0%	\$802,964	\$401,482	\$0
2.0%	\$1,605,928	\$802,964	\$0
3.0%	\$2,408,892	\$1,204,446	\$0
4.0%	\$3,211,856	\$1,605,928	\$0
4.5%	\$3,613,338	\$1,806,669	\$0
5.0%	\$4,014,820	\$2,007,410	\$0

CCI Admin and Oversight Fee Discussion

- Any questions or comments on DEQ's proposed fee for administration and oversight of the Community Climate Investment Program?

10-min Break

The meeting will resume at 3:00 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



to join the queue

Or, if joining by phone, *9 to raise hand (and *6 to unmute)

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 **July 8** to CPP.2024@DEQ.oregon.gov.

Racial equity and environmental justice considerations

3:30 p.m. - 4:00 p.m.

Racial Equity Impacts

- Reducing GHG emissions and co-pollutants from sources in Oregon
- Achieving co-benefits and enhancing public welfare for Oregon communities, particularly EJ communities
- Communities of color are disproportionately impacted by pollution from transportation
 - Significant public health benefits

Racial Equity Impacts

- Community Climate Investments, including the Equity Advisory Committee
- CCI project impacts will vary and could include:
 - Reduced energy burden
 - Increased access to clean transportation
 - Improved indoor air quality

Environmental Justice Considerations

- Climate Protection Program will reduce the environmental burden on EJ communities by reducing GHG emissions and other air contaminants in Oregon.
- Covered entities can choose to contribute CCIs that will be prioritized for projects centering and benefiting EJ communities.

Racial Equity and EJ Discussion

- Do you think DEQ has missed anything in the assessment of impacts on racial equity?
- Are there any ways DEQ can improve the assessment of impacts on environmental justice communities?

Closing remarks

4:10 p.m. - 4:30 p.m.

Rulemaking resources

- **Rulemaking web page:** [Department of Environmental Quality : Climate Protection Program 2024 : Rulemaking at DEQ : State of Oregon](#)
- **Rulemaking contact:** CPP.2024@deq.oregon.gov
- **RAC 3 comments:** Requested by **July 8, 2024.**
- [Sign up for rulemaking notifications via email or text](#)

Title VI and alternative formats

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