

Climate Protection Program 2024 Rulemaking Update

Environmental Quality Commission

September 26, 2024

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Today's agenda



CPP 2024 rulemaking process update



Key differences in proposed rule v. prior program

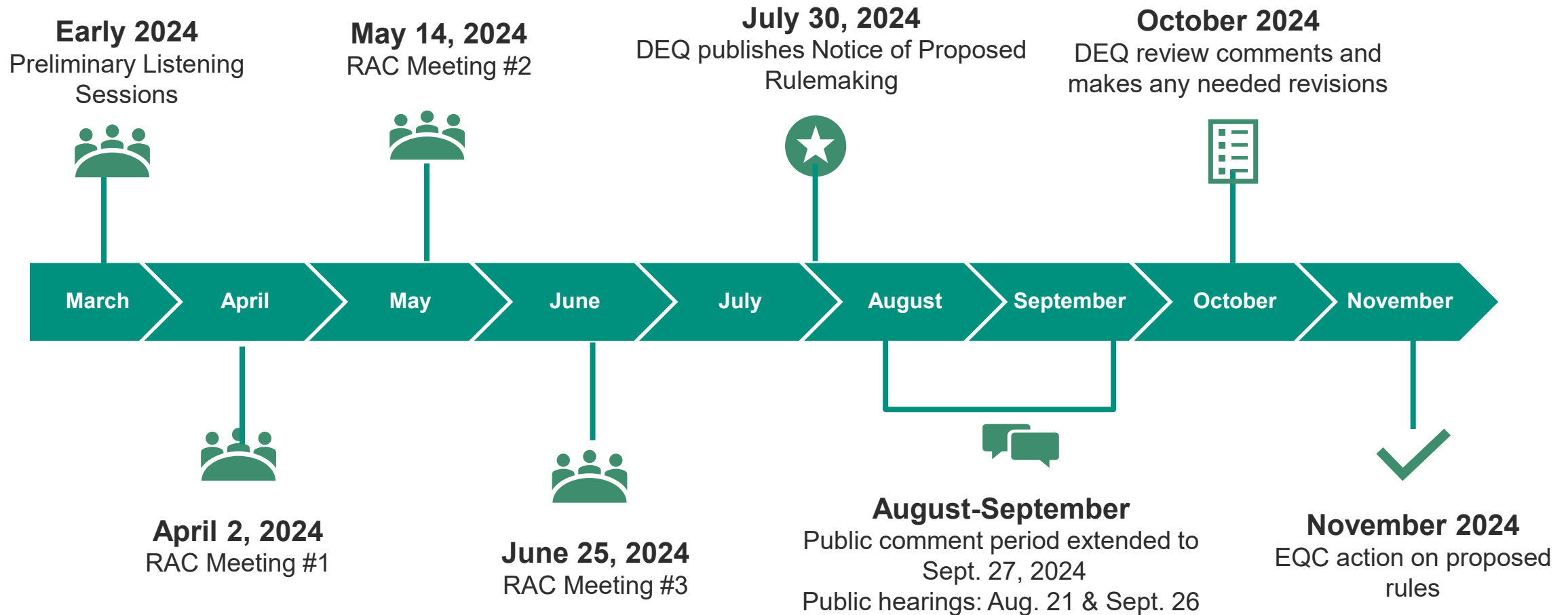


Themes in public input thus far

Why CPP 2024 rulemaking?

- In December 2023, Court of Appeals invalidated CPP 2021 finding that DEQ failed to notice rules correctly
- Reestablish climate program in place of CPP 2021
- Build off original CPP development and 2 years of program implementation
 - Comparable program scope and ambition
 - Open to new ideas for program design
 - Adjustments for 2025 program start

CPP 2024 rulemaking timeline



Changes from prior program

Industrial leakage prevention: Emission Intensive Trade Exposed businesses

Cost containment for gas utility ratepayers

Recognition of early emissions reductions prior to 2025

Shortened compliance periods

Improved Community Climate Investment oversight and accountability

CPP 2024 regulated entities

Covered Entities

Emission cap

Liquid fuels and propane suppliers

Natural gas utilities

NEW:
Emissions Intensive Trade Exposed facilities

Covered Stationary Sources (BAER approach)

Regulate EITEs for natural gas emissions

How are EITE's defined?

- Certain industrial classifications (NAICS), and
- >15,000 MT covered emissions

What emissions are EITEs regulated for?

- Natural gas supplied by interstate pipeline and utilities, and any solid fuel emissions
- Compliance obligation changes from gas utilities to the EITE businesses

What about BAER?

- Would remain in effect for non-combustion activities from certain industrial processes
- Fewer number of BAER regulated entities
 - Interstate pipeline gas now covered under cap rather than BAER

How will EITEs be regulated?

EITEs receive an annual distribution of compliance instruments

- Distribute instruments equal to 100% of historic emissions for first compliance period
- Decline of future distributions slower than the overall cap

2nd compliance period: Goal to develop emissions intensity basis

- Distribute instruments using MT CO₂e/per unit produced
- Specific to each EITE's manufacturing processes

Natural gas cost containment

Energy costs are key consideration as Oregonians transition to cleaner fuels

DEQ will consult with Oregon Public Utility Commission on changes to natural gas rates due to CPP

DEQ will propose changes to address any significant impacts to customer bills

Early reduction compliance instruments

- Many fuel suppliers made significant strides in reducing their emissions under prior program
- Previously would have been able to:
 - Bank unused compliance instruments for future use
 - Trade unused compliance instruments to others
- Proposing one time distribution of early reduction instruments

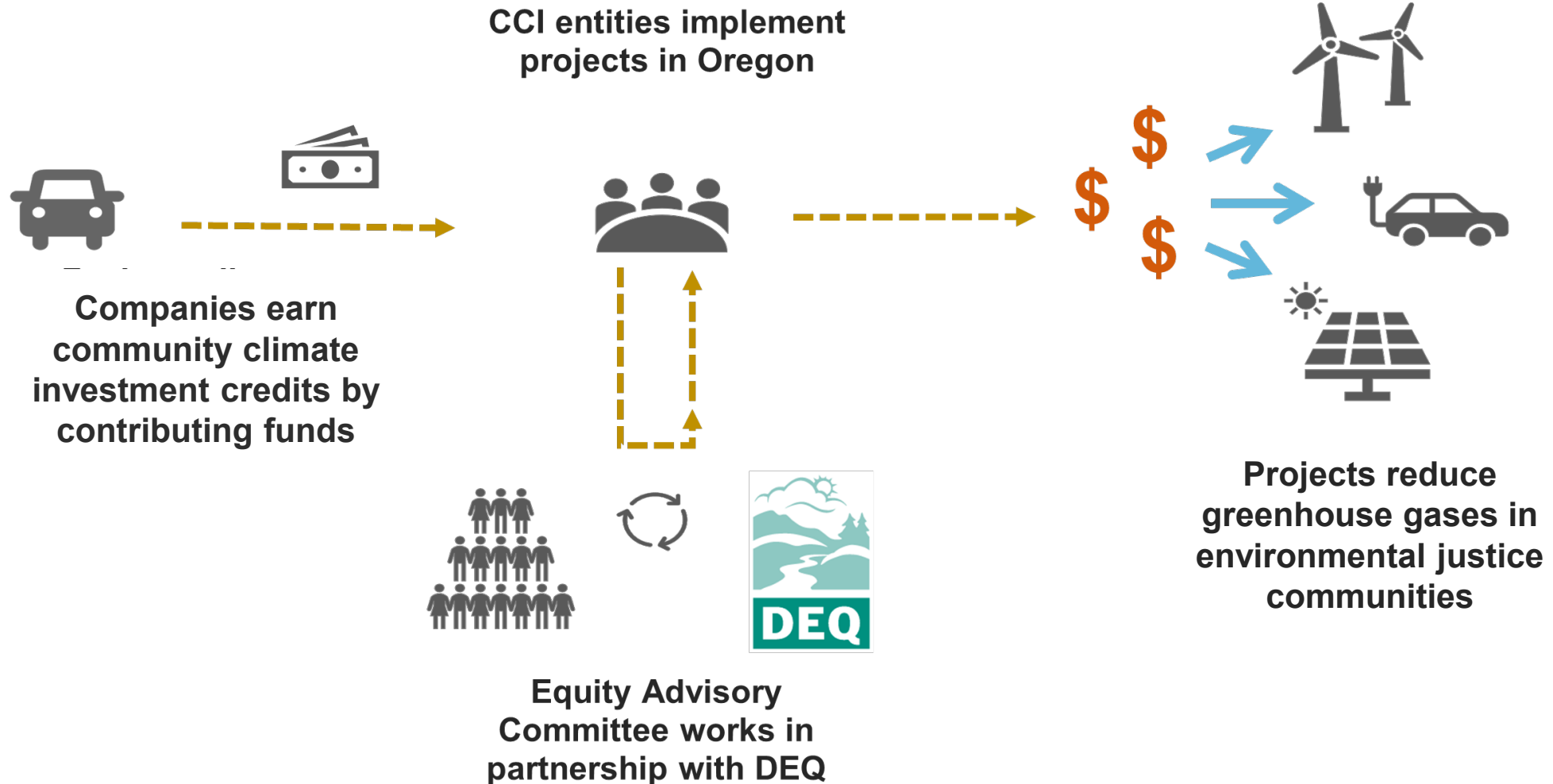
Why early reduction compliance instruments?

- Closer reflection of where previous program would have been
- Provide these fuel suppliers and other regulated entities with more options to comply
- Could stimulate trading amongst regulated parties
 - More efficient
 - Better price discovery

Shortened compliance periods

- Demonstration of compliance once every 2 years (v. 3 years)
- First demonstration of compliance end of 2027
 - 2025 and 2026 emissions
- Shorter compliance periods provide:
 - More market activity amongst regulated parties
 - Easier trading
 - Better price discovery
 - Encourage earlier actions to reduce emissions and fund Community Climate Investments

Community Climate Investments (CCIs)

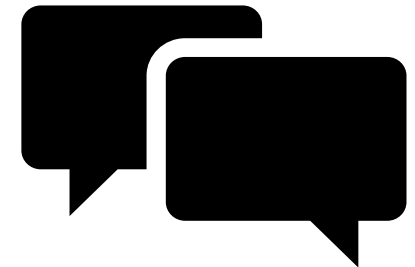


Improvement to CCI accountability

- Regulated entities can use more CCI credits at program start (15% v. 10%)
- Fee on CCI third-parties as directed by Legislature
 - Ensure agency oversight, administration, implementation
 - Allow for greater transparency on investments and impacts
 - Fund internal and external audits
- At least 15% of funds must benefit federally recognized Tribes and Tribal communities

Public comment themes to date

- Support for re-establishing the CPP protection without delay
- Support for implementing a climate program of similar emissions reduction and scope
- Support by fuel suppliers for recognition of emissions reductions prior to 2025
- Concern that early action instruments will delay CCI investments and penalize EJ communities



Public comment themes to date

- Industry requests to allow for cheaper offsets credits in place of reducing emissions
- Concerns about impacts to natural gas customer bills
- Broad support for inclusion of EITEs as regulated entities
- Industry interest for output-based allocation for EITEs immediately



Questions?

- CPP 2024 rulemaking webpage: [www.oregon.gov/deq/rulemaking/Pages/ CPP2024.aspx](http://www.oregon.gov/deq/rulemaking/Pages/_CPP2024.aspx)
- Submit written comment by email to: CPP.2024@deq.Oregon.gov
- Deadline for comments: In response to request, extended from Aug. 30, 2024, to **Sept. 27, 2024, at 4 p.m.**

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