State of Oregon
DEQ Department of Environmental Quality

Clean Fuels Program 2026 Electricity Discussion Paper

This paper presents several options for how the Clean Fuels Program (CFP) could be adjusted that pertain to how the program evaluates and credits electricity. The proposals below are initial drafts for the purpose of soliciting detailed feedback and comments from the rulemaking advisory committee, interested parties, and the public.

Spending requirements for revenue from residential charging credits

Background

Clean Fuels Program credits are issued to reward activities that help Oregon progress to a cleaner transportation sector by reducing carbon emissions. Entities can generate credits by producing or importing low-carbon liquid fuels or dispensing credit-generating alternative fuels into vehicles.

In 2016-17, the program explored how to issue credits from residential charging of electric vehicles. Individuals purchasing EVs and installing chargers at their residences are making significant investments that cause that credit generation. However, during this time, there were several thousand EVs owned by Oregonians and the program does not have the staff to register individuals for credit generation. Individuals are also less likely to participate and would have a harder time navigating the program's market.

Instead, those discussions determined that the electric utility would be the primary credit generator for residential charging, with the backstop aggregator (a non-profit selected by the Oregon Environmental Quality Commission) as the fallback if a utility opted not to register. During that 2016-17 rulemaking, the state's electric utilities were in a good place to directly invest in transportation electrification or support other transportation electrification projects. That decision has played out largely as intended in the last decade, with the utilities investing tens of millions of dollars in transportation electrification projects and efforts.

While there were requests at the time to consider allowing automakers to generate credits for their EVs, we only heard from a handful of automakers, and the agency opted to propose an approach that would ensure that all EVs were able to generate credits.

In 2020-21, DEQ staff considered adding requirements on utility spending to ensure it went to transportation electrification. Instead, the CFP required utilities to report credit spending to DEQ and determined that the publication of those reports would help DEQ and other interested parties track how those funds were being invested.

Proposal

Since revenue reporting started after the 2021 rulemaking, there have been several cases of residential credit revenues being used for purposes outside of transportation electrification.

In order to ensure credit proceeds are aimed at returning value back to the utility customers who are responsible for them by making the choice to buy an EV or plug-in hybrid, DEQ is reviving the proposal to limit residential electric vehicle credit revenue to investments that help advance transportation electrification.

DEQ is proposing that all utilities must spend revenue related to sale of residential charging credits on transportation electrification. Utilities over a threshold – options detailed below for comment – could be required to spend at least half of their revenue on customer-focused incentives to purchase EVs, such as cash on the hood rebates or rebates that support purchases of an EV such as for home charging and potentially associated panel upgrades. This requirement would more directly tie the benefit of the CFP to customers whose EVs are responsible for the base credits being generated.

We will solicit comment on how to define transportation electrification spending. We could use the guidance from the Washington Department of Ecology's Category 1 and 3 project spending in the Clean Fuels Standard as a starting point, or the California Air Resources Board Guidance under their Low Carbon Fuel Standard (LCFS).

General spending on transportation electrification could include, but probably isn't limited to:

- Targeted grid upgrades to support increased residential or commercial electricity demand due to EVs, or to support the deployment of public or fleet fast charging stations
- Providing free public charging
- Supporting the installation of charging at existing or new multi-family or commercial properties
- Deployment of public charging in low-income areas, or areas where the ability to charge at single and multi-family homes is limited
- Providing incentives for school districts, fleets, and others to purchase medium- and heavy-duty electric vehicles

Customer-focused incentives would be defined here as being available to residential ratepayers or small business/commercial customers to help cover the costs of purchasing an EV, Level 2 charger, or customer-side improvements needed for a Level 2 charger, such as panel upgrades.

A number of Oregon utilities already have similar incentive programs for EVs and chargers, and these programs can help create a cycle where the number of EVs charging at residences will grow the number of residential credits those utilities will receive.

We understand that there may be budgeting limitations or other circumstances that could lead to situations where utilities aren't able to spend all credit revenue in a given year. We are proposing that utilities ensure they spend at least half of their revenue in the year after receiving it, and then they can rollover the remaining funds to their programs the following year.

For both the customer-focused incentives and the general transportation electrification spending, DEQ recommends that a portion of the revenue be used for projects that support equitable access to EVs for low and moderate-income Oregonians and those living in communities with environmental justice concerns, or reduce the pollution burden on these groups. The agency recognizes the difficulties this recommendation imposes on utilities with fewer credits or those whose customer populations may limit opportunities for that type of spending.

With that in mind, **DEQ staff have the following questions**:

- In crafting requirements to encourage that type of spending, is the "underserved community" definition[1] used by the investor-owned utilities under HB 2165 (2021 Legislature) workable more broadly around the state?
- What is the right proportion of spending to dedicate to these customers and communities? Should it be graduated by the utility size or class?
- Are there other mechanisms where we can support addressing disproportionate impacts and environmental justice through utility spending?

Threshold options

DEQ is considering how to formulate the threshold for requiring the larger utilities in the program to spend at least half of their residential credit revenue on customer focused incentives. The table below presents the number of EVs in each utility service territory and the credits they generated for the registered utilities last year.

Table 1. EV Population and 2025 base credits by registered utility

Utility	Number of EVs and PHEVs, December 2026	Total 2025 Residential Base Credits
Portland General Electric	82,530	143,777
Pacific Power (PacifiCorp)	28,519	71,418
Eugene Water & Electric Board	6,376	19,378
Central Electric Cooperative	1,978	6,040
Consumers Power	1,537	4,677
Central Lincoln PUD	1,363	4,175
City of Ashland Electric Department	1,233	3,881
Salem Electric	1,143	3,597
Springfield Utility Board	1,085	3,321
Columbia River PUD	955	2,929
Emerald PUD	1,011	2,837
McMinnville Water & Light	850	2,648
Lane Electric Cooperative	795	2,500
Forest Grove Light and Power	779	2,379
Midstate Electric Cooperative	673	2,075
Tillamook PUD	568	1,757
Coos-Curry Electric Cooperative	506	1,573
Oregon Trail Electric Cooperative	367	1,129
Umatilla Electric Cooperative	283	770
Douglas Electric Cooperative	233	722
Northern Wasco PUD	299	661
Canby Utility Board	353	629
Hood River Electric Cooperative	163	486
Blachly-Lane Electric Cooperative	123	376
Clatskanie PUD	121	358
Hermiston Energy Services	93	277
West Oregon Electric Cooperative	148	253

[1] See page 13 of appendix A of this Public Utility Commission order for a more detailed set of definitions used under that statute.

Utility	Number of EVs and PHEVs, December 2026	Total 2025 Residential Base Credits
City of Cascade Locks	47	149
Milton-Freewater Light & Power	44	130

Note: This list only presents the electric utilities that are currently registered in the Clean Fuels Program. Base credits refer to credits that are generated at either the statewide mix or a utility's specific mix, which can vary widely, but is generally much lower in its carbon intensity than the statewide mix.

We are considering separating the larger utilities from the smaller ones for the purpose of the requirement to spend half of the residential credit revenue on customer focused incentives by creating either a credit-based or revenue-based threshold.

The credit-based threshold would be relatively clear for both the utility and the program to administer. However, given that Clean Fuels Program credit prices have varied over the course of the program, from as low as the $20s/ton to $180/ton, if the threshold is set too low and the credit price is low in a given year or years, the administrative overhead of customer-focused incentives may outweigh the benefit they can provide.

Revenue may be a better threshold for determining if a utility is earning enough from credit market to pay for the customer incentives. That measure is more unpredictable, though, as it depends on when utilities sell credits and the price they obtain for them. These factors could create an incentive for utilities to hold onto credits in order to avoid crossing that threshold.

Given that, DEQ is soliciting feedback on the following questions:

- How many utilities should be required to offer customer focused incentives?
- How should we weigh the trade-off between simplicity under the credit-based approach versus making sure the utility has enough revenue to support the programs?
- Are there other approaches we should consider?

Utility reporting on residential credit revenue spending

Currently, utilities are required to submit an annual report to DEQ outlining how they spend their revenue from residential credits. Utility reports are then posted publicly on DEQ's website. There are not currently any formatting or other requirements for the reports.

As DEQ continues to align the Oregon Clean Fuels Program with neighboring jurisdictions' LCFS programs, as directed by Executive Order 25-29, we are considering modifying our reporting structure to ensure the information we receive from utilities is consistent and that we are able to determine that all spending is going toward transportation electrification.

Washington's Clean Fuel Standard has a standard template that entities are required to submit annually, and require itemized reporting of where dollars are going. California's LCFS program also requires detailed, itemized reporting and encourages use of their template for reporting. **With these other programs in mind, we are interested in hearing from you on the following questions:**

- Would a standard template be helpful for you to have for annual utility spending reports?
- How can we streamline annual utility spending reports to ensure the new spending requirements are met?
- What would be the right way to account for administrative and overhead costs in utility reporting?

Potential updates to electricity crediting

In order to help utilities plan and provide for customer-focused incentives while the program's targets increase, DEQ is considering two changes to how residential credits are generated:

First, DEQ proposes to update the light-duty electric vehicle energy economy ratio (EER). Our preliminary analysis is that the update will move the EER from 3.4 to 4.6, which will increase how utilities and other electricity participants generate credits by more than 30%.

Second, DEQ is considering an option where utilities that offer rebates for their residential and small business/commercial ratepayers to purchase electric vehicles would be eligible to have their residential base and incremental credits generated by calculating them against the gasoline baseline (96.50gCO2e/MJ) instead of the gasoline standard for five years, from 2027-31 (the standard for those years currently falls from 82.99 to 73.92g). This change would increase credit generation by 14-34% based on the year because the baseline carbon intensity is higher than that of the annual standard, which declines each year.

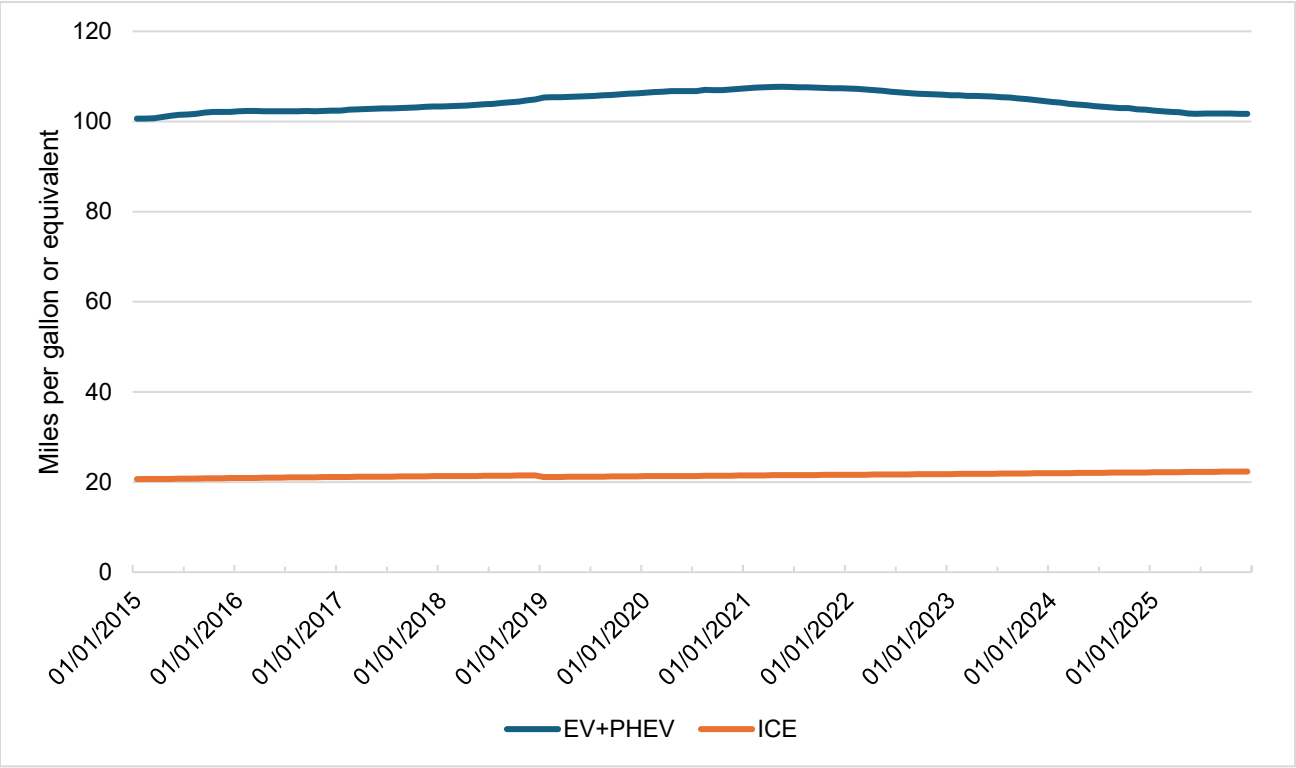
Light-duty electric vehicle Energy Economy Ratio updating mechanism and analysis

DEQ is proposing to move to a system of updating the light-duty electric vehicle energy economy ratio (EER) every two years. This update is based on an analysis DEQ staff performed this spring of the average fuel economy of Oregon's conventional fleet versus the electric fleet as of the end of 2025. The existing light-duty EER of 3.4 has been in place since the start of the program and was based on an analysis from before 2016 that was based on directly comparing equivalent vehicle models that had an EVs and ICE version.

DEQ staff can track the actual fuel economy of the state's fleet using data provided by the Oregon Department of Transportation and the federal fuel economy ratings. That dataset uses the unique vehicle identification number – referred to as a VIN – and assigns the fuel economy based on the federal testing. It produces the average fuel efficiency by engine and fuel type (for example, gasoline, diesel, hybrid, plug-in hybrid, flex fuel), which we then composite into an average fuel efficiency for the battery electrics (full battery electric vehicles and plug-in hybrid vehicles) and an average fuel efficiency for conventional engine types (gasoline, diesel, conventional hybrid, and flex fuel).

The graph below shows how the average fuel economy for internal combustion engine (ICE) vehicles has increased since 2015 from 20.6 to 22.3 miles per gallon. The state's EVs and plug-in hybrid electric vehicles (PHEVs) have increased their average fuel economy from 100.7 to 101.7 as of December of 2025. The energy economy of different vehicles and the fleet as a whole changes based on factors like how efficient the engines are and the size and weight of the vehicles, which have been gradually increasing.

Chart 1. Average fuel economy in the Oregon fleet



Using the actual fleet data indicates that the actual energy economy ratio between the two engine types is now 4.6, which is the result of dividing the electric vehicle efficiency rating of 101.7 by the conventional fleet's rating of 22.3 miles per gallon.

The program's carbon intensity and credit calculations are set up to reward more efficient vehicles and accurately calculate the climate benefit of using more efficient engines. In the last year, federal greenhouse gas and vehicle efficiency standards have been repealed or the penalties for non-compliance have been eliminated, which makes it less likely for new internal combustion engine vehicles to continue becoming more efficient over time. DEQ proposes to set the light-duty EV EER at 4.6 for 2027 and 2028 and then review data and update the EER every other December for the following two years.

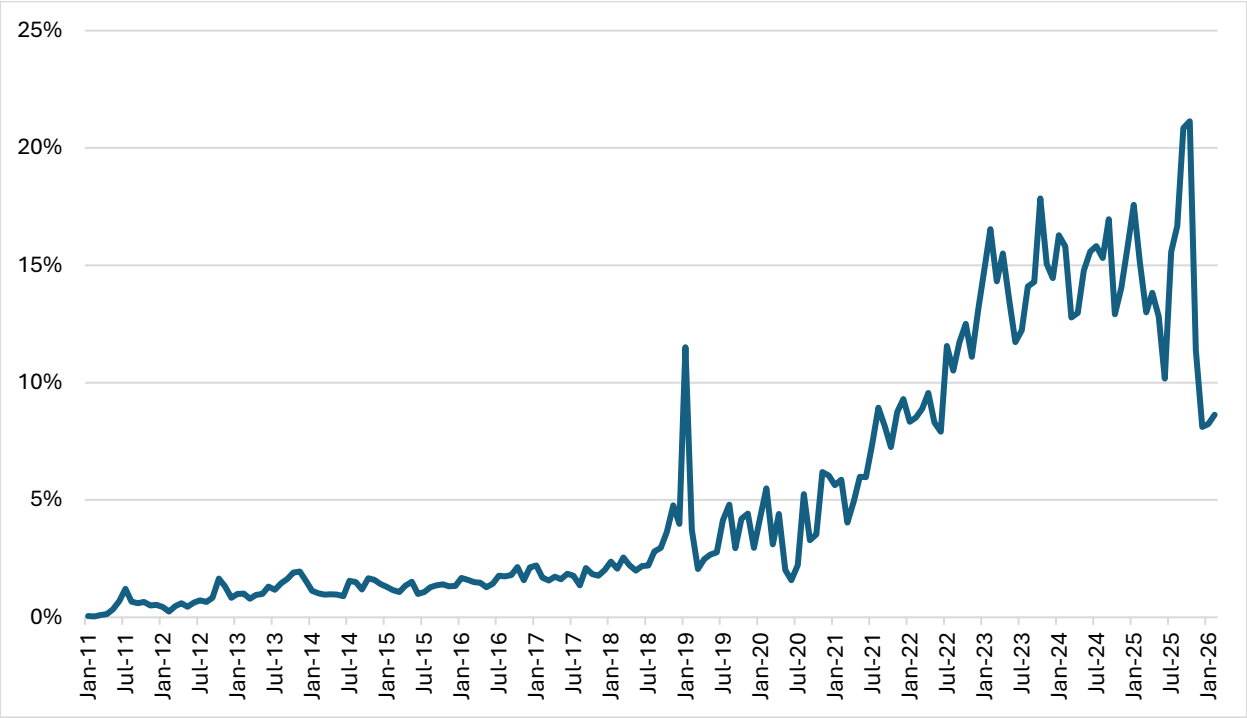
Baseline credits option for utilities who provide rebates to support EV purchases

One of the design decisions made in the program is to calculate both credits and deficits against the gasoline and diesel standards. As the standards progress, the credits no longer represent the full ton of CO2e reductions of a gallon of gasoline or diesel. Instead, they are calculated against a value that in 2025 was 10% lower than the carbon intensity of the baseline fuel and decreases as the program's reduction requirement increase – this year it is 12% lower, next year it is 14%, and so on.

That decrease is part of the operation of the program and provides an incentive for fuel producers to improve the carbon intensity of their operations and the fuels they provide to Oregon. However, for light duty vehicles that predominantly use gasoline, electricity currently provides the greatest opportunity for a decarbonized and affordable fuel. Other options, such as a renewable gasoline gallon, are not currently on the horizon of commercialization, and only a small fraction of the existing internal combustion engine fleet can use higher biofuel amounts – less than 5% are flex fuel vehicles and a bit less than 7% are diesels which can use biodiesel and renewable diesel.

EV sales in Oregon and nationally have fallen recently, due in part to the pullback of federal tax incentives for EV purchases, but also due to several federal actions that have caused automakers to write off more than $50 billion in investments that are now lessening the supply of EVs and PHEVs available to Oregonians.

Chart 2. Monthly EV and PHEV share of new vehicle registrations

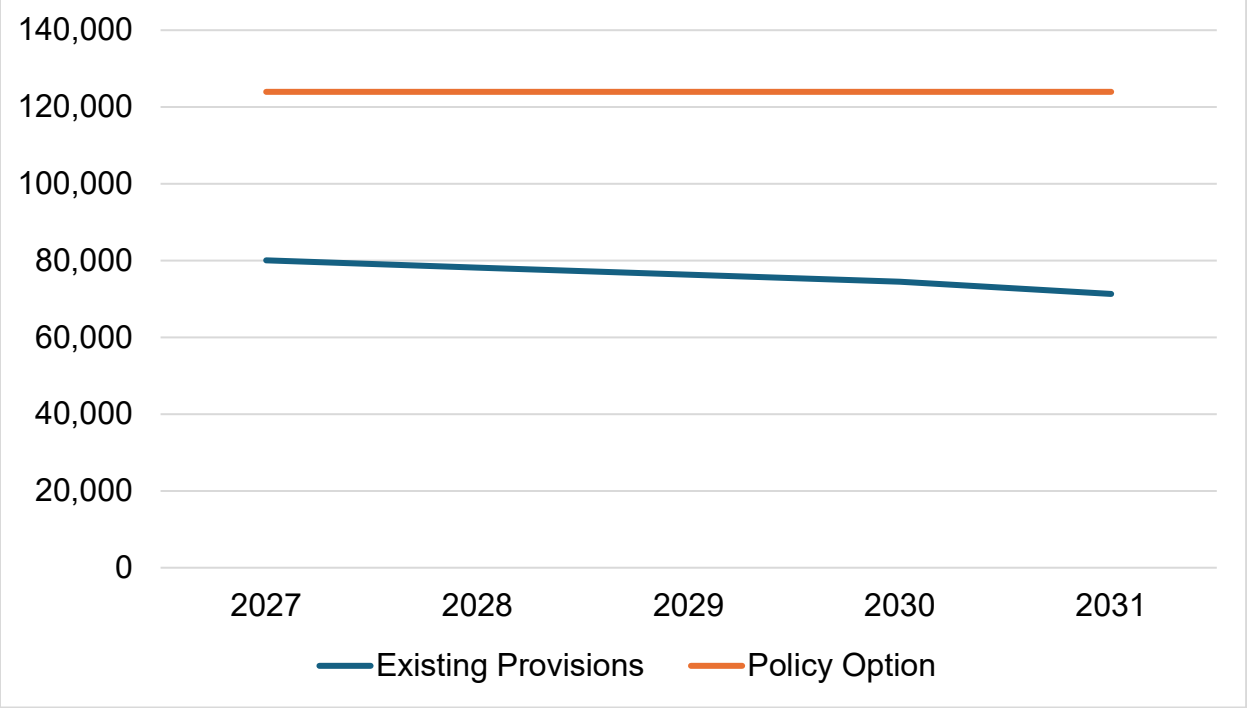


Given that, increasing the sales share of EVs and PHEVs is needed for the program to unlock deeper carbon intensity targets as those vehicles will displace future fossil gasoline demand.

To help the largest utilities plan for the first few years of providing incentives to individuals, we are considering an option for any utility that spends at least half of its base credit revenue on those incentives to be eligible for base crediting calculated against the gasoline baseline (96.50gCO2e/MJ) instead of the gasoline standard for five years, from 2027-31 (the standard for those years currently falls from 82.99 to 73.92g).

The graph below shows the net effect of both the EER adjustment and the move to crediting against the standard for a fixed number of about 25,000 EVs. Combined with the change to the EER, this option would boost credit generation by about 55-80% over those years. That boost comes from the EER change increasing the gasoline displacement credit because the EVs are even more efficient than the internal combustion engine vehicles they are replacing. In the out years, the concept to fix residential credit generation to the full greenhouse gas benefit by calculating them against the gasoline baseline for five years becomes more meaningful as the gasoline standard declines towards the 20% by 2030 and 37% by 2035 targets.

Chart 3. Residential EV credit generation for an example population of 25,000 EVs at the solar/wind electricity CI



Renewable electricity

As we discussed in the paper for the first advisory committee meeting, changes in broader electricity carbon accounting have created gaps between the renewable electricity that the Clean Fuels Program is looking to incentivize and what can qualify for certification under Green-e's standard for the voluntary market. We adopted the Green-e standard for RECs because the program's statute requires that all credits represent real reductions of carbon and that standard and its certification program is a well-known option for ensuring the carbon integrity of RECs.

The CFP team has limited resources and cannot take on internal review or verification of RECs at this time. Instead, DEQ proposes:

- RECs from facilities that are able to obtain Green-e certification could still do so
- Otherwise, reporting entities could have their RECs reviewed through DEQ's Third Party Verification process against the following requirements:
    - The generator's start date must be on or after January 1, 2016.
    - The generator must be located in Oregon or a neighboring state
    - The generator must be producing electricity via:
        - Solar
        - Wind
        - Geothermal
        - Small hydro
        - Biomass, biogas, or biofuels
        - Hydrogen fuel cells
        - Tidal or wave ocean energy

    - The carbon attributes of the REC must be maintained, so the verifier can check to see if the underlying electricity was reported by a load serving entity in California or Washington and counted under that state's cap and invest program, or any other state's clean electricity policy.

This approach would require training both existing and new verifiers to review the RECs and determining how the program could support verifiers in reviewing the carbon attribution claims.

We are currently in the first year of implementing electricity transaction verification requirements for reporting entities whose credit generation is over 6,000 per year. DEQ staff have been working with verifiers and credit generators as questions arise during this first year. **Staff are asking for feedback on the following questions around this proposal:**

- Can the existing verification bodies and verifiers take on this work?
- What areas or requirements need to be better defined?
- Does this proposal balance staff and verifier workloads by providing an incentive for additional renewable generation?
- Are there other protocols or standards that DEQ could reference around carbon attributes?
- Are there reasonably foreseeable updates to REC or other generation tracking systems that could take on the carbon attribute determination?

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