International Carbon Action Partnership

USA - Oregon - Climate Protection Program (CPP)

General Information

ETS Description

The Climate Protection Program (CPP) is critical to meeting Oregon's GHG reduction goals. Oregon's emissions trading system is designed to reduce GHG emissions by 50%, compared with a baseline of 2017 to 2019, by 2035 and 90% by 2050.

Following a court ruling in December 2023 that invalidated the prior program due to procedural issues, the current program was adopted by Oregon's Environmental Quality Commission (EQC) in November 2024, with the first compliance period starting from January 2025. In addition to reducing GHG emissions, the CPP supports reductions in other types of air pollution; prioritizes equity by promoting benefits and reducing burdens for environmental justice communities including communities of color, tribal, low-income, and rural communities; enhances public health and welfare, particularly for environmental justice communities; and provides regulated companies with compliance flexibility options.

The program imposes a declining cap on emissions from covered entities, including emission-intensive, trade-exposed (EITE) sources, natural gas utilities, also called local distribution companies, and liquid fuel and propane suppliers. EITE sources and direct natural gas sources will first have compliance obligations in the second compliance period (2028 to 2029).

The CPP incorporates flexibility mechanisms, such as community climate investment (CCI) credits, which allow entities to meet up to 15% of their compliance obligations with credits during the first period (increasing to 20% thereafter). These credits fund future emissions reduction projects within Oregon and will initially cost USD 129 apiece, including a 4.5% fee for oversight and transparency. Additionally, the program includes safeguards to address potential cost impacts on consumers, with provisions for review in collaboration with the Public Utilities Commission.

ETS Status

in force

Jurisdictions

Oregon

Year in Review

In 2024, the Oregon Department of Environmental Quality (DEQ) and EQC focused on reinstating the CPP after its invalidation in 2023. The DEQ conducted an extensive rulemaking process, emphasizing transparency and public engagement through hearings and interested parties' input. DEQ convened listening sessions, a rulemaking advisory committee, public meetings, and received over 10,000 comments during the official comment period.

In November, the EQC adopted the current CPP, introducing enforceable and declining caps on GHG emissions from fossil fuels. The program targets a 50% reduction below a 2017 to 2019 baseline by 2035 and a 90% reduction by 2050, aligning with Oregon's climate goals.

Prior to the second compliance period, DEQ intends to conduct rulemaking to establish declining emissions intensity values for EITE and direct natural gas sources for future compliance periods. No other upcoming regulations or reviews have been announced; however, DEQ will monitor the CPP's implementation.

Sectoral coverage

Agriculture and/or forestry fuel use
Maritime
Mining and extractives
Waste
Transport
Buildings
Industry

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO2e)

62 $MtCO_2e$ (2021)

GHG reduction targets

By 2035: 45% reduction below 1990 levels ("Executive Order 20-04")
By 2050: 80% reduction below 1990 levels ("Executive Order 20-04")
By 2050: At least 75% below 1990 levels (Oregon Legislature)

Size & Phases

Covered emissions (2023)

48.00%

Verified ETS Emissions

29.50$MtCO_2e$

GHGs covered

CO2, CH4, N2O, HFCs, PFCs, SF6 NF3

Phases

FIRST COMPLIANCE PERIOD: Three years (2025 to 2027)

SECOND COMPLIANCE PERIOD: Two years (2028 to 2029)

THIRD COMPLIANCE PERIOD: Two years (2030 to 2031):

Cap or total emissions limit

A cap limits the total emissions allowed in the system. It is set to reduce carbon emissions from covered sources by 50% by 2035 and 90% by 2050, compared with the average of 2017 to 2019 covered emissions. By 2035, the cap will decline to 15.9 $MtCO_2e$, and by 2050, it will further drop to 3.2 $MtCO_2e$. DEQ will adjust the cap as it lowers the threshold for inclusion, bringing a greater portion of the emissions from covered sectors into the program.

The system started in 2022 with a cap of 28 $MtCO_2e$ covering fuel suppliers and was set to decline to 25.9 $MtCO_2e$ in 2024, before the program was shut down in December 2023. The updated CPP rules adopted in 2024 include EITE sources under the cap, so an adjustment was made to account for those emissions.

FIRST COMPLIANCE PERIOD: 24.1 $MtCO_2e$

SECOND COMPLIANCE PERIOD: 25.5 $MtCO_2e$

THIRD COMPLIANCE PERIOD: 23.1 $MtCO_2e$

Sectors and thresholds

SECTORS:

Natural gas utilities: These include companies that import, sell, or distribute natural gas, compressed natural gas, or liquefied natural gas to end users in Oregon. Covered emissions include those resulting from the combustion or oxidation of supplied natural gas, excluding emissions from electric power generation plants with a capacity of 25 MW or greater, emissions captured and stored, and emissions from biomass-derived fuels.

Suppliers of liquid fuels and propane: These include entities that produce, import, sell, or distribute gasoline, distillate fuel oil, and propane for use in Oregon. Covered emissions are those from the complete combustion or oxidation of these fuels, excluding emissions from aviation fuels, biomass-derived fuels, and fuels used in non-combustive processes.

EITE sources: A source is classified as EITE if it belongs to a sector listed under specific NAICS codes in the program rules (including chemicals and plastics, pulp and paper, food and agriculture, other industrial processes, high-tech manufacturing, and aerospace).

Direct natural gas sources: These include industrial sources that are not classified as an EITE source but that use natural gas supplied by an entity other than a natural gas utility.

INCLUSION THRESHOLDS:

Inclusion thresholds for fuel suppliers:

First Compliance Period:

Emissions of or greater than 100,000 MtCO_2e in 2020 or any subsequent year.

Second Compliance Period:

Emissions of or greater than 50,000 MtCO_2e in 2025 or any subsequent year.

Third Compliance Period:

Emissions of or greater than 25,000 MtCO_2e in 2028 or any subsequent year.

Subsequent years:

If emissions meet or exceed 25,000 MtCO_2e in any subsequent year, suppliers become covered in subsequent compliance periods

Inclusion threshold for EITE and Direct Natural Gas facilities:

Covered if annual GHG emissions meet or exceed 15,000 MtCO_2e from 2020 or any subsequent year. Covered emissions include those from the use of natural gas and solid fuels but exclude emissions from biomass-derived fuels, liquid fuels, propane, interstate natural gas pipeline facilities, and emissions from electric power plants with a generating capacity of 25 MW or more.

Point of regulation

Upstream: natural gas utilities and liquid fuels and propane suppliers (mining and extractives, industry, buildings, transport, waste, forestry, maritime, agriculture/forestry)

Point source: selected EITE industrial sources and direct natural gas sources.

Type of entities

Installations (covered EITE Sources), fuel distributors

Number of entities

Suppliers of liquid fuels and propane: 31

Natural gas utilities: 3

EITE and direct natural gas sources: 40

Allowance Allocation & Revenue

Allowance allocation

DEQ generates compliance instruments in amounts equal to each annual emissions cap and distributes them for free to covered entities as follows:

FIRST COMPLIANCE PERIOD:

EITE and direct natural gas sources:

No allocation during the first compliance period. These sources also have no compliance obligations during this period.

SECOND COMPLIANCE PERIOD AND BEYOND:

EITE and direct natural gas sources:

DEQ intends to conduct a rulemaking process to determine carbon emissions intensity targets for EITE and direct natural gassources before the second compliance period. If DEQ is not able to establish carbon emissions intensity targets before the second compliance period, the allocation matches the average annual covered emissions from 2022 and 2023, multiplied by an emission reduction target that decreases each compliance period. If historical data is unavailable, the most recent years' emissions data (up to 2021) are used.

Reduction targets for EITE sources decrease progressively over compliance periods, aiming to reduce emissions by 55% by 2050 from baseline levels. Specific targets include:

- Second compliance period: 1
- Third compliance period: 0.95
- Fourth compliance period (2032 to 2033): 0.90
- Thirteenth compliance period (2050 to 2051): 0.45

Fuel suppliers:

• Natural gas utilities receive a fixed percentage of compliance instruments for each year under the cap. Each natural gas utility's share is adjusted slightly downward as the cap scope increases to reflect their lower share of overall historical emissions. Before allocating compliance instruments to natural gas utilities, the total number of compliance instruments allocated to EITE and direct natural gas sources is subtracted from the cap.

• Suppliers of liquid fuels and propane receive compliance instruments proportionate to their share of total covered and biofuel emissions. The calculation follows the formula:

*Number of Compliance Instruments = (Total compliance instruments to distribute * ([Covered fuel supplier covered emissions + covered fuel supplier biofuel emissions] / Total emissions)) ± Verified emissions data correction factor – Compliance instrument holding limit reduction*

Allocations are subject to corrections if discrepancies arise in emissions reporting, using a "verified emissions data correction factor". In 2025, DEQ will also distribute a limited number of early action or early reduction compliance instruments for reductions achieved from 2022 to 2024.

A proportion of the compliance instruments are held in a reserve for liquid fuel suppliers that are new entrants to the market.

Flexibility & Linking

Offset credits

Covered entities may cover a percentage of their compliance obligations with CCI credits, earned by contributing funds to DEQ-approved non-profit entities that implement community projects that reduce anthropogenic GHG emissions in Oregon. Investments are prioritized for projects that benefit environmental justice communities. Overall, the CCI program is responsible for reducing an average of one tCO2e per credit awarded. The quantity of CCI credits used to meet compliance obligations must not exceed the allowable percentage specified below.

The contribution cost for CCI credits begins at USD 129 per credit in 2024 dollars, with incremental annual increases based on inflation.

To obtain CCI credits, covered entities must apply using DEQ-approved forms and provide detailed documentation. Applications for CCI credits must be submitted to DEQ by November 14 of the compliance year. DEQ will generate and distribute credits based on verified contributions from covered entities.

DEQ-approved CCI entities must be non-profit organizations, but subcontractors need not be. The Equity Advisory Committee helps to ensure the program generates equitable outcomes and benefits communities that are overburdened by pollution and climate change and have historically been marginalized (see ‘Institutions Involved’ section).

QUANTITATIVE LIMITS:

First compliance period: 15%

Second compliance period and beyond: 20%

QUALITATIVE LIMITS: A CCI entity may only use funds received by regulated entities to implement eligible projects in Oregon that reduce anthropogenic GHG emissions. CCI priorities include:

- providing compliance flexibility for covered entities;
- reducing emissions by an average of at least one tCO_2e per CCI credit;
- reducing emissions of other air contaminants;
- providing benefits for environmental justice communities in Oregon; and
- accelerating the transition from fossil fuels to zero or low emission energy sources to protect environmental justice communities

Banking and borrowing

Covered entities may bank compliance instruments indefinitely.

Covered fuel suppliers that are not natural gas utilities are subject to a holding limit. Each year after a compliance period ends, the compliance instrument holding limit reduction is calculated by DEQ. The holding limit equals the number of compliance instruments held from prior years that exceed 1.5 times the sum of the fuel supplier's annual covered and biofuel emissions for each year of the prior compliance period.

If a fuel supplier holds compliance instruments above their holding limit, their compliance instrument distribution in the following year will be reduced by the amount they are in exceedance. If the holding limit is exceeded by more compliance instruments than the covered fuel supplier would have received in the following distribution, the holding limit reduction can be carried over for a second year.

CCI credits may be used during the compliance period in which they are received or banked for one compliance period.

Borrowing is not allowed.

Links with other Systems

The CPP is not linked with any other system.

Compliance

Compliance mechanism

Covered entities must surrender one compliance instrument per tCO_2e emitted for all their covered emissions.

Covered entities may cover a percentage of their compliance obligations with CCI credits, earned by contributing funds to DEQ-approved non-profit entities that implement community projects that reduce anthropogenic GHG emissions in Oregon.

Compliance Period

First compliance period: Three years

Second and future compliance periods: Two years

Covered entities must demonstrate compliance by December 9 of the year following the compliance period or 40 days after notification from DEQ, whichever is later (December 2028 for the first compliance period). Covered entities must demonstrate compliance for the total emissions by surrendering an equivalent number of compliance instruments and/or CCI credits, subject to the limits above, as their covered emissions. EITE and direct natural gas sources are not required to demonstrate compliance for the first compliance period.

Monitoring, Reporting, Verification (MRV)

MONITORING: Covered entities must retain records related to trades, CCI contributions, and demonstrations of compliance for a minimum of seven years following the submission date. This includes financial records and any additional data requested by DEQ.

REPORTING: Covered entities are subject to the detailed emission reporting requirements established by the state's GHG emissions reporting program. This emissions data is used to implement the CPP, including calculations of covered emissions and compliance obligations, and determining compliance instrument distribution.

Covered entities are required to provide certain information about compliance instrument trading, including but not limited to, the number of instruments traded, the agreed upon date of the trade(s), and the total price per compliance instrument (USD). All trades must be reported to DEQ using the compliance instrument trade form provided by DEQ.

VERIFICATION: Covered entities are subject to third-party verification of calculations of covered emissions, compliance obligations, and distribution of compliance instruments.

Penalties and enforcement

DEQ's enforcement provisions and civil penalties include significant penalties for failing to comply with the program. Civil penalty amounts are determined based on DEQ's general enforcement and civil penalty rules, with a base penalty of USD 12,000 per violation. This penalty amount may be modified based on the economic benefit from the violation and other aggravating and mitigating factors. Each tCO_2e of a compliance obligation not covered by a corresponding compliance instrument or CCI credit is considered a separate violation. In addition to failure to comply, covered entities can face financial penalties for providing untrue, inaccurate, or incomplete information when reporting, applying, or providing information to the DEQ under the CPP.

Covered entities also face penalties for failing to comply with the requirements for trading compliance instruments under the CPP, for operating covered facilities without a CPP permit, or for violating any requirement under the CPP.

Market Regulation

Market Stability Provisions

RESERVE FOR NEW ENTRANTS

Instrument type: Quantity-based instrument

Functioning: DEQ establishes a reserve for covered liquid fuels and propane suppliers that are new to the program. DEQ will hold instruments in the reserve as a subset of compliance instruments under the cap. DEQ can only distribute the instruments in the reserve to covered suppliers of liquid fuels and propane.

A covered supplier of liquid fuels and propane may request a distribution from the reserve if it did not receive compliance instruments in the corresponding annual distribution due to a lack of information, or if it became a covered entity after DEQ had distributed the compliance instruments.

DEQ may also decide to distribute the instruments in the reserve as it adjusts the reserve size over time. DEQ can also choose to retire these instruments. DEQ will only distribute instruments if there are at least 10,000 compliance instruments above the applicable reserve size limit.

Market Design

MARKET PARTICIPATION: Only compliance entities may hold and trade allowances.

MARKET TYPES:

Primary: Compliance instruments are distributed for free by DEQ.

Secondary: Covered entities may only trade compliance instruments with other covered entities. Trading must be notified to DEQ, and both parties must sign and submit a compliance instrument trade form. CCI credits cannot be traded.

LEGAL STATUS OF ALLOWANCES:

A compliance instrument is a regulatory instrument and does not constitute personal property, a security, or any other form of property.

Other Information

Institutions involved

Oregon Department of Environmental Quality (DEQ): Implementing state agency for the CPP.

Oregon Environmental Quality Commission (EQC): Panel appointed by the governor of Oregon to serve as DEQ's policy and rulemaking board. EQC adopted the CPP rules in 2024.

Equity Advisory Committee: Selected from across Oregon, the committee is a key partner for the program, particularly the Community Climate Investment credits playing an important role on what types of projects are supported by these investments and where they are located.

Regulatory Framework

Division 273 – Oregon Climate Protection Program 2024 Rules

Division 12 – Enforcement Procedure and Civil Penalties

Evaluation / ETS review

DEQ will report on alternative compliance credits with the first report by August 30, 2027, and a report every two years thereafter. Reports include credits distributed, estimates of GHG emissions reductions that are anticipated to be achieved by completed projects, estimates of other air pollutants anticipated to be achieved by completed projects, average anthropogenic GHG emissions reductions achieved per CCI credit distributed, and description of community benefits achieved due to investments.

DEQ will report to the EQC on the CPP's implementation, with the first report due in 2029 and at least once every five years thereafter. The review will provide a complete review of covered entities, compliance instrument distributions, trading, and demonstrations of compliance. DEQ will also continually evaluate necessary changes to achieve CPP goals and provide annual reports on ongoing program implementation starting in 2026.

DEQ tracks the average annual statewide retail cost of gasoline, diesel, and natural gas in Oregon, and if these prices increase year-over-year by an amount more than 20% higher than the average change in cost for the same fuel over the same period in Washington, Idaho, and Nevada, DEQ will investigate the cause(s) of the increase and report to the EQC regarding whether changes are needed to ameliorate a relative increase in costs in Oregon.

Lastly, DEQ will work closely with the Oregon Public Utilities Commission to request information on changes to customer rates for different classes of utility customers that may be attributed to compliance costs under the CPP. If significant rate increases are identified or projected, DEQ may recommend further adjustments to program caps, compliance instruments, or allowable CCI credit usage to mitigate these impacts.

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