

USA - Oregon - Climate Protection Program (CPP)

General Information

ETS Description

The Climate Protection Program (CPP) was adopted by Oregon's Environmental Quality Commission (EQC) in November 2024, following a court ruling that invalidated a prior program. The first compliance period began in January 2025.

The CPP is Oregon's ETS designed to reduce GHG emissions by 50% below average 2017 to 2019 levels by 2035, and by 90% by 2050. Beyond GHG mitigation, the program aims to improve air quality; 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. The cap is set top-down by the EQC, based on statewide emissions reduction targets aligned with Oregon's climate legislation. Covered entities must hold and surrender allowances or other eligible compliance instruments at the end of each compliance period equivalent to their verified emissions.

Each year, the Department of Environmental Quality (DEQ) issues a number of allowances (compliance instruments) corresponding to the cap, which decrease annually in line with the cap. These are distributed for free to covered entities based on sectoral characteristics and emission levels. The system also includes Community Climate Investment (CCI) credits, which covered entities can use to meet up to 15% of their compliance obligations in the first period and 20% thereafter.

The CPP covers emissions from liquid fuel and propane suppliers, natural gas utilities (local distribution companies), emission-intensive, trade-exposed (EITE) industries, and direct-use natural gas (DNG) sources. EITE sources and DNG sources will have compliance obligations starting in the second compliance period (2028 to 2029).

A key distinguishing feature of the CPP is the use of CCI credits, which fund in-state emission reduction projects and are priced initially at USD 129 per credit, with a 4.5% fee for oversight. 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 2025, Oregon's CPP entered into force, marking the start of its first compliance period (2025 to 2027). The DEQ oversaw the program's operational launch, including the first distribution of compliance instruments to covered entities.

In addition to the 2025 annual distribution of compliance instruments, DEQ also distributed, for one time only, early reduction compliance instruments. These represented early emission reductions in the fuels market from 2022 to 2024 and helped smooth the transition to the new compliance framework. The agency also issued guidance on compliance obligations, reporting procedures, and market oversight to support regulated entities in meeting their requirements.

Throughout 2025, preparatory work began for a future rulemaking to define declining emissions-intensity benchmarks for EITE and DNG sources ahead of their entry into the program in 2028.

Sectoral coverage

Fuel use in agriculture and/or forestry
Maritime
Mining and extractives
Transport
Buildings
Industry

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO₂e)

59 MtCO₂e (2023)

GHG reduction targets

By 2035: At least 45% below 1990 levels (Oregon legislature)

By 2040: 100% below baseline for electric utilities (Oregon legislature)

By 2050: 80% reduction below 1990 levels (“Executive Order 20-04”)

Size & Phases

Covered emissions (2023)

50.00%

Verified ETS Emissions

29.90MtCO₂e

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

An absolute cap limits the total emissions allowed in the system and is fixed ex-ante. 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 MtCO₂e, and by 2050, it will further drop to 3.2 MtCO₂e. 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.

A previous program started in 2022 with a cap of 28 MtCO₂e covering fuel suppliers and was set to decline to 25.9 MtCO₂e in 2024, before it was invalidated in December 2023. The current CPP rules adopted in 2024 include emissions from EITE sources under the cap, so an adjustment was made to account for those emissions.

FIRST COMPLIANCE PERIOD: 24.1 MtCO₂e (2025)

SECOND COMPLIANCE PERIOD: 25.5 MtCO₂e (2028)

THIRD COMPLIANCE PERIOD: 23.1 MtCO₂e (2030)

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).

DNG 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 liquid fuels and propane suppliers:

First compliance period:

Emissions of or greater than 100,000 tCO₂e in 2020 or any subsequent year.

Second compliance period:

Emissions of or greater than 50,000 tCO₂e in 2025 or any subsequent year.

Third compliance period:

Emissions of or greater than 25,000 tCO₂e in 2028 or any subsequent year.

Subsequent years:

If emissions meet or exceed 25,000 tCO₂e in any subsequent year, suppliers become covered in subsequent compliance periods.

Inclusion threshold for EITE and DNG facilities:

Covered if annual GHG emissions meet or exceed 15,000 tCO₂e 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 DNG sources

Type of entities

Installations (covered EITE Sources and direct natural gas sources), fuel distributors

Number of entities

75 entities (2025)

Suppliers of liquid fuels and propane: 35

Natural gas utilities: 3

EITE and DNG sources: 37

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:

Fuel suppliers:

First compliance period and beyond:

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. After the first compliance period, before allocating compliance instruments to natural gas utilities, the total number of compliance instruments allocated to EITE and DNG 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 only, DEQ distributed 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.

EITE and DNG sources:

First compliance period:

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

Second compliance period and beyond:

DEQ intends to conduct a rulemaking process to determine carbon emissions intensity targets for EITE and DNG sources 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. 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

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 1 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 for 2025 is USD 129 per credit, in 2024 dollars. The contribution cost increases by one dollar (in 2024 dollars) each year with incremental annual increases based on inflation. Due to inflation adjustment, CCI credits for 2026 are USD136.

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 1 tCO₂e 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. Borrowing is not allowed.

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.

Links with other Systems

The CPP is not linked with any other system.

Compliance

Compliance mechanism

Covered entities must surrender one compliance instrument or CCI credit per tCO₂e 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 do not have compliance obligations for the first compliance period.

Monitoring, Reporting, Verification (MRV)

FRAMEWORK: Division 215 of the Program Rules (OAR 340-215) was adopted in 2020, and establishes GHG registering, monitoring and reporting requirements for stationary sources, fuel suppliers, natural gas suppliers, and electricity suppliers. All entities report annually under Oregon OAR 340-215. Reporting deadlines vary by entity: March 31, April 30, or June 1, depending on the type of supplier or sources.

Division 272 of the Oregon Administrative Rules was adopted in May 2020 to establish third party verification requirements for verification of data submitted to the Greenhouse Gas Reporting and Clean Fuels Programs.

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. All trades must be reported to DEQ using the compliance instrument trade form provided.

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 tCO₂e 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 CCI credits where it plays an important role in determining what types of projects are supported by these investments and where they are located.

Regulatory Framework

[Division 215 – Oregon GHG Reporting Program](#)

[Division 272 – Oregon Third Party Verification](#)

[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 provide annual updates to EQC 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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