



State of Oregon Department of Environmental Quality

## Preliminary Work Plan to Expand the Oregon Clean Fuels Program

May 15, 2020

Contact: Cory-Ann Wind

[wind.cory@deq.state.or.us](mailto:wind.cory@deq.state.or.us)

**Background:** In 2009 the Oregon Legislature passed HB 2186 authorizing the Environmental Quality Commission (EQC) to adopt a low carbon fuel standard to reduce the carbon intensity, or lifecycle greenhouse gas emissions per unit of energy, of Oregon’s transportation fuels. HB 2186 contained a sunset provision, however, and this together with legal challenges to the program delayed implementation of the Clean Fuels Program until 2016. Under the CFP, all parts of a fuel’s lifecycle – extracting/growing, transporting, bio/refining, distributing, and combusting – are accounted for in a fuel’s carbon score – creating multiple opportunities to reduce carbon emissions. Common strategies to lower the average carbon intensity of transportation fuels in Oregon include: blending higher levels of biofuels into petroleum fuels, developing new feedstocks and technologies to make new lower carbon fuels, making existing technologies more efficient, and increasing the number of alternative fuel vehicles available. The current CFP is designed to reduce the average carbon intensity of transportation fuels used in Oregon by at least 10% below 2015 levels by 2025. The CFP is in its fourth year and the program has been successful in creating new supplies of low carbon fuels in Oregon, bringing new jobs to the state while also reducing greenhouse gas emissions.

**Executive Order:** Governor Brown issued Executive Order 20-04 on March 10, 2020 that directs DEQ and the EQC to expand the CFP to achieve reductions in average carbon intensity of transportation fuels used in Oregon of at least 20% (relative to 2015) by 2030, and of at least 25% by 2035. EO 20-04 also directs DEQ and the EQC to “advance methods [for] accelerating the generation and aggregation of clean fuels credits by utilities that can advance the transportation electrification goals set forth in Senate Bill 1044 (2019). The goals set forth in SB 1044 include having at least 50% of the new motor vehicles sold in the state by 2030 be zero-emission vehicles, and at least 90% by 2035.

**Work Plan:** The following work plan describes the steps necessary to carry out this expansion of the Clean Fuels Program, along with a high-level summary of some of the key policy issues that will be addressed leading up to and including rulemakings by the EQC. The work plan is summarized in the following chart, and then described in more detail on the following page.

	2020												2021												2022												
	Q1			Q2			Q3			Q4			Q1			Q2			Q3			Q4			Q1			Q2			Q3			Q4			
	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	
1				5/15 Memo		★	Webinar																														
2				Contracting																																	
3							Electricity Rulemaking									★	EQC																				
4							RAC Mtgs																														
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1. **Report to the Governor’s Office establishing a timeline for clean fuels rulemaking:** This document provides a high-level summary and proposed timeline for the steps that will be taken to expand the Clean Fuels Program as directed by EO 20-04. DEQ will hold a webinar on May 22, 2020 to talk through the elements of the timeline and process, including what is in scope and the opportunities for public engagement.

2. **Develop contracts for technical analyses:** These contracts are designed to provide foundational information for the EQC and participants in the rulemaking process to help evaluate how Oregon’s fuels market could continue to develop in ways consistent with the targets established in EO 20-04. The analyses will include: 1) multiple scenarios that describe ways that the fuels market could achieve the targets in EO 20-04; 2) evaluating potential areas of new credit generation; and 3) assessing the impacts of these scenarios on tailpipe emissions and associated changes in social and health costs.

3. **Electricity Rulemaking:** EO 20-04 also directs DEQ and the EQC to advance methods of accelerating the generation and aggregation of clean fuels credits by utilities that can advance the transportation electrification goals set forth in Senate Bill 1044 (2019). The preliminary work plan anticipates that this aspect of the program development will begin in July 2020, followed by the work of a rules advisory committee in the second half of the year, and consideration of proposed rules by the EQC in March of 2021. DEQ recognizes that this is a relatively short period, in order to make it possible to speed increased credit generation in 2021. To accommodate this condensed timeline, DEQ and the EQC will need to focus work on a narrower set of issues where there are higher levels of consensus - leaving other issues for future resolution.

**4. Study #1 – Expanding the Clean Fuels Program:** This study will focus on the first two items described in item 2, above. DEQ expects to hold two meetings related to this effort: one to receive input on the design of the illustrative scenarios for how Oregon’s fuels market could change to meet the expanded targets outlined in EO 20-04; and a second meeting to receive feedback on the initial results of the consultant report.

**5. Study #2 – Health and Social Impacts of the Clean Fuels Program:** This study will focus on the third item described in item 2, above (evaluation of changes in tailpipe emissions under each of the scenarios developed in the first study). DEQ expects to hold at least one meeting to receive input on a draft of this study.

**6. Program Review to Legislature:** HB 2017 (2017) requires DEQ to submit a Clean Fuels Program Review to the Oregon legislature by Feb. 1, 2022 that reviews the following:

- Progress towards achieving 10% below 2010 levels by the year 2025
- Environmental, economic, health and other benefits realized
- Projected availability of low carbon fuels and credits through the year 2025
- Additional mechanisms that may be necessary to manage and contain the costs of compliance with the low carbon fuel standards
- Whether adjustments to the low carbon fuel standards are necessary
- The effects of the maximum price for credits in the credit clearance market
- Adjustments that could serve to strengthen and enhance the low carbon fuel standards

Although this requirement is not expressly connected to EO 20-04, DEQ plans to conduct this review as a step in designing the program to achieve the 2030 and 2035 target reductions, so that both the agency and the public are informed of results of the review before going into the rulemaking process to expand the program. DEQ expects to hold two public meetings to discuss and provide input on the items listed above. Results of the program review may be presented at the September 2021 legislative days, and subsequently to relevant committees in the 2022 legislative session.

**7. 25% by 2035 Rulemaking:** After all of the steps above are completed, the formal rulemaking to expand the CFP will begin. This process will likely include at least three meetings of the rules advisory committee, with consideration by the EQC tentatively targeted for July 2022 with a Jan. 1, 2023 effective date. The scope of the rulemaking will include at least the following issues:

- a. A set of proposed program options to support reductions of twenty % by 2030 and twenty-five % by 2035, informed by the results of the studies and the program review.
- b. Options for the “slope of the reduction curve” and how annual standards will be set from 2023 through 2035.
- c. The fiscal, economic, health and social impacts of the proposed program expansion.

#### **Alternative formats**

DEQ can provide documents in an alternate format or in a language other than English upon request. Call DEQ at 800-452-4011 or email [deqinfo@deq.state.or.us](mailto:deqinfo@deq.state.or.us).