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OREGON CLIMATE PROTECTION PROGRAMME

IETA Business Brief

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EXECUTIVE SUMMARY

Oregon's current Climate Protection Program (CPP) began on 1 January 2025. It establishes a declining emissions cap for fuel suppliers and natural gas utilities, with emission-intensive trade-exposed (EITE) and direct natural gas (DNG) sources entering compliance from 2028. The program distributes Compliance Instruments free of charge rather than through auctions and allows Community Climate Investment (CCI) Credits to meet a limited share of compliance obligations. The 2026 cap is 23.28 million tCO2e, and the program targets emissions reductions of 50% by 2035 and 90% by 2050.

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Years in operation	First compliance period: 2025-27 (three years). Second compliance period: 2028-29 (two years). Subsequent compliance periods follow a two-year cycle.
Overall cap and trajectory	The 2026 cap is 23.28 million tCO2e. It increases to 25.53 million tCO2e in 2028 as EITE and DNG sources enter the cap, before resuming a declining trajectory to 3.18 million tCO2e by 2050.
Target(s)	Reduce emissions by 50% by 2035 and 90% by 2050.
Sectors covered	Fuel suppliers; natural gas utilities, defined as Local Distribution Companies; EITE industry sources; and DNG entities. DNG entities are stationary sources in non-EITE industry sectors that use natural gas distributed by an entity other than a local distribution company.
GHGs covered	CO_2 CH_4 N_2O SF_6 HFCs PFCs
Number of covered entities	172 entities, comprising three natural gas utilities, 129 fuel suppliers, and 40 EITE and DNG entities.
Allocation method	Each year, the Oregon Department of Environmental Quality (DEQ) distributes a set number of free “Compliance Instruments” to covered entities. DEQ states that they will be allocated no later by June 30 each year. There are no auctions. DEQ completed the 2026 compliance instrument distribution on 25th June 2026. The method of allocation of Compliance Instruments differs depending on the type of entities: 1. Local Distribution Companies get a fixed percentage of the cap. This percentage is 24.75% in 2025-27, 24.14% in 2028-29, and 23.99% thereafter. 2. Fuel suppliers get their allocation based on their proportion of covered and biofuel emissions from all covered fuel suppliers in the previous year. 3. EITEs/ DNG entities get their allocation in line with their average emissions in 2022-23 multiplied with an Emissions Reduction target notified in the legislation. However, this is subject to change basis active DEQ rulemaking.
Trading rules	Compliance Instruments can be freely traded and banked and do not expire. However, CCI Credits cannot be traded and expire after two compliance periods. Any third parties, such as investors, are unable to hold compliance instruments. The legislation states that only covered entities can hold compliance instruments until they a) transfer them to another covered entity, b) use them to demonstrate compliance, or c) cease to be a covered entity. Only fuel suppliers have a holding limit. The limit is equal to 150% of an entity’s total covered and biofuel emissions from the previous compliance period. If, at the time the holding limit is calculated, a fuel supplier is holding more compliance instruments than this limit, the fuel supplier will receive reduced compliance instruments in future distributions by the amount they exceeded the limit.
Use of offsets / CCI Credits	Oregon CPP also has “Community Climate Investment Credits” (CCI Credits) as an option for compliance alongside compliance instruments. These CCI credits can be obtained by making payments to regulator-approved “CCI entities”. These CCI entities then undertake projects aimed at reducing GHG emissions in Oregon. The price for a CCI credit each year is notified in the legislation, plus an inflation adjustment which is notified by DEQ annually. The price for 2026 is $136. CCIs can be used to cover 15% of an entity’s compliance obligation in the first compliance period (2025-27), and 20% thereafter.

Other features	The program has a compliance reserve, aimed at assisting any new entities that may enter the program. The reserve is fixed at 800,000 compliance instruments for 2025-28, 500,000 for 2029-34, and at 250,000 for 2035 and beyond.
Penalties for non-compliance	Violations including failure to demonstrate compliance, improper trading of compliance instruments, and submitting false information, are treated as Class I offenses under Oregon Admin. Code § 340-012-0054. Base penalties range from $100 per day for each Class III violation with a minor magnitude, to $12,000 per day for each Class I violation with a major magnitude.
Use of revenue	No revenue generation from compliance instrument distribution. Contributions to CCI entities are used for projects aimed at reducing emissions in Oregon. Each approved CCI Entity must pay a fee equal to 4.5% of all CCI contributions that the entity receives from entities under the program to the DEQ.

MAJOR DEVELOPMENTS

The current Climate Protection Program (CPP), which kicked off on January 1, 2025, is actually the second iteration of the program. Oregon's original Climate Protection Program was invalidated by the Oregon Court of Appeals in December 2023 due to procedural errors during its approval. In response, the Oregon Department of Environmental Quality (DEQ) initiated a new rulemaking process, leading to the new version of the CPP coming into force in November 2024, with the first compliance period having started in January 1, 2025.

Covered EITE and DNG sources are exempt from compliance obligations for the first compliance period and will not receive instruments for the same. Similarly, fuel suppliers which emitted less than 100,000 MtCO2e are not covered in the first compliance period. Fuel Suppliers with less than 100,000 MtCO2e emissions but more than 50,000 MTCo2e of emissions will be covered starting 2028, and the threshold will be similarly reduced to 25,000 in 2030.

EITE AND DNG ALLOCATION RULEMAKING

However, DEQ is developing a new allocation methodology for covered EITE and DNG sources based on benchmark GHG intensity expressed in tCO2e per unit of product or process output, a benchmark decline schedule, mechanisms to encourage actual reductions and treatment of new sources. DEQ completed Rulemaking Advisory Committee, or RAC, meetings on 28 May and 29 July 2026. DEQ have posted a Memo on Proposed Rule Changes, a Draft Rules document and a draft fiscal-impact statement for the third RAC meeting scheduled for 15 September 2026. The fourth RAC meeting is scheduled for 21 October. First EITE/DNG compliance obligations remain in the 2028–29 compliance period. If benchmark values and reduction schedules are not adopted in time for 2028, DEQ will distribute instruments as per existing regulation.

COMMUNITY CLIMATE INVESTMENT ENTITY

For CCIs, DEQ announced CALSTART and their partners as a provisional CCI entity on 9th July 2026, following a ten week request for application running from 7th January to 20th March 2026. Provisional means three conditions remain outstanding:

1. a written agreement with DEQ establishing financial and administrative oversight systems, targeted for completion by end-2026;

2. CALSTART becoming an approved CCI entity, without which CPP-regulated companies cannot make qualifying contributions; and

3. DEQ approval of CALSTART's workplan before any project investment occurs, with Equity Advisory Committee review and comment on the draft.

TEMPORARY FUEL VARIANCES

There have been several instances where due to emergencies causing disruptions in fuel supply, temporary variances have been notified which pause obligations from being accrued to fuel suppliers in the state for a specified period of time. An overview of two major instances at the time of writing is available below:

Olympic Pipeline disruption	After the Olympic Pipeline disruption, EQC on 24 November 2025 issued temporary variances which expired 1 December 2025. This order excluded qualifying truck- or rail-imported fuels delivered directly to filling stations, fleets and truck stops from covered emissions and from the allocation methodology for existing covered suppliers, and from the 100,000 tCO2e 2025 applicability threshold and the 50,000 tCO2e trigger for 2028 coverage for otherwise non-covered suppliers. Suppliers using the variance had 45 days after its end until 15 January 2026 to report the additional regulated fossil-fuel volumes imported.
Summer gasoline variance	EQC approved a summer gasoline variance on 14 May 2026 to align Oregon fuel specifications with federal emergency waivers, delegated extension authority to the DEQ director, and DEQ now posts a director's order extending that variance through 15 September 2026.

Winter-grade gasoline order	A separate order approved and signed on 10 September 2026 permits winter-grade gasoline supplied through Pasco, Washington and Boise, Idaho to enter Oregon through 15 September 2026, without altering summer specifications for fuel from other source locations.

List of all variances are available here.

LITIGATION

The program is currently under litigation as well. On 16th April 2026, Oregon Business & Industry and 28 other petitioners including the three principal natural gas utilities (NW Natural, Cascade Natural Gas, Avista) filed a petition for judicial review in the Oregon Court of Appeals challenging the 2024 CPP rule. They argued that the program's declining caps on natural gas, propane, petrol and diesel will impose very large compliance costs and allege that the replacement program exceeds EQC's statutory authority, lacks adequate protection against high energy costs and lacks an adequate program specific cost-benefit foundation. One of the alternatives proposed has been a cap-and-trade program like that of California or Washington state.

REFERENCES

Climate Protection Program - Oregon Department of Environmental Quality
Climate Protection Program 2024 Rulemaking - Oregon Department of Environmental Quality
Community Climate Investments - Oregon Department of Environmental Quality
Fuel Variances - Oregon Department of Environmental Quality

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