

Overview of the SB 324-3 Amendments

The goal of the amendments is to:

- **Provide the long-term certainty for businesses to comply with the program and that investors need to transform the clean fuels market.**
 - Repeal the sunset - delete Section 8
 - Make the program mandatory - changed “may” to “shall” in Section 6(2)(a)
 - Clarify the program will be implemented between 2015 and 2025 - modify Section 6(2)(b)(A)

- **Protect businesses that may be affected by fuel supply or fuel quality issues.**
 - Exempt fuel used in construction equipment - add new language to Section 6(5)(a)(E)
 - Exempt fuel used in watercraft - add new language to Section 6(5)(a)(F)
 - Exempt small importers from having to meet the carbon reduction standards - add new language to Section 6(2)(e)
 - Establish highest quality standards for biodiesel - add new language to Section 6(2)(f)

- **Clarify that propane is a clean fuel in the program.**
 - Remove exemption – add propane to Section 6(2)(b)(C) and delete propane from Section 6(2)(b)(E)

- **Provide a better way of managing the cost of complying with the program.**
 - Control costs by managing credits - add new language to Section 6(2)(d)
 - Replace fuel price deferral - delete old language from Section 6(2)(d) and the definition in Section 6(1)(d)

- **2016 Legislative Report**
 - DEQ will report on any rulemaking activities – modify Section 9

Cost Containment Provision

Description

The Clean Fuels Program requires that regulated parties (fuel importers) meet the annual carbon intensity standards. Fuels whose carbon intensity is above the standard generate deficits; those that are below the standard generate credits. The rule gives regulated parties the flexibility to design the lowest cost compliance strategy possible for their operation. The mix of possible compliance strategies include: investing in production of lower carbon fuels to self-generate credits; purchasing lower carbon biofuels for blending with traditional petroleum fuels; purchasing credits from other parties; and banking credits for use in future years.

Regulated parties can determine the most economical path to compliance by choosing one or a combination of strategies from above. Because the program provides regulated parties with flexibility to achieve compliance, some amount of uncertainty will always exist regarding the use of lower carbon fuels and the availability and price of credits.



Availability of Lower Carbon Fuels

The August 2014 report by ICF International analyzed the expected availability of lower carbon fuels and concludes that there will be sufficient fuels and credits available through 2025 for regulated parties to comply with Oregon's clean fuel standards. Nonetheless, the Clean Fuels Program can be enhanced by a cost containment provision that allows regulated parties to achieve compliance under a credit shortfall scenario.

Amendment

The amendment provides DEQ with a better way to manage the cost of complying with the program. DEQ will monitor the rate which credits are generated, sold and banked and then use that information to manage and contain the costs of the program.

DEQ discussed emerging cost containment mechanisms with its 2014 advisory committee and agreed that cost containment approaches currently under development by California ARB look promising for application in Oregon. The two mechanisms discussed in California includes one where the price of the credit is capped and the other provides regulated parties another way to access credits at a known price if there are not enough credits available in the open market.

Either of these additional compliance options will increase market certainty regarding maximum compliance costs, strengthen incentives to invest in and produce lower carbon fuels, and reduce the probability of credit shortfalls and price spikes.