Point Source Emissions under Oregon Climate Action Program – HB 2020A

Industrial Manufacturing Facilities

**Manufacturers with emissions over 25,000 metric tons of CO2 equivalent annually**
The proposed Oregon Climate Action Program would regulate large manufacturing facilities with an air quality permit and annual onsite emissions from natural gas and certain industrial processes over 25,000 mtCO2e.

Process emissions are emissions not from combustion, such as carbon dioxide released in the manufacture of steel or cement. In this category, the facility holds the obligation to comply with the cap and trade program, and is responsible for reducing emissions or acquiring enough allowances and offset credits to account for its emissions over a multi-year compliance period.

**Emissions Intensive, Trade Exposed Industries**: Many of the manufacturers over the 25,000 tons/year threshold compete on price and are price takers in competitive national and international markets. This means their ability to absorb or pass through a carbon price is limited. In this case, carbon pricing can lead to leakage, meaning production, and the associated emissions and economic activity, could shift to another location with a lower or no carbon price.

To inform the Legislature on how to avoid leakage, the Carbon Policy Office contracted with Vivid Economics to conduct a study of leakage risk across these manufacturing sectors¹. The report found that all potentially regulated manufactures in Oregon are emissions intensive and trade exposed (EITE) and should receive some allowances at no cost to mitigate the potential for leakage at these facilities. There are about 30 manufacturers in this category, ranging from cement production to frozen potato production to semiconductor manufacturing.

**Manufacturers with emissions under 25,000 mtCO2e**
Manufacturers below this threshold would not be regulated directly for their natural gas use or their industrial process emissions. The natural gas used by these manufacturers will be covered upstream of the facility, at the natural gas utility or supplier level. Process emissions are very low for these manufacturers, and are not regulated.

**Ability to Opt In**: If a manufacturer in this category is in an industry identified as emissions intensive and trade exposed, they will have the option to opt into the program to be directly regulated for their emissions and participate in the market. This will allow the opt-in entities to receive direct allowance allocation at no cost to mitigate the competitiveness impacts of carbon pricing.

**Allowance allocation to emission intensive, trade exposed industries**
Direct allocation of allowances to EITE manufacturers will be calculated on a per-product basis, annually calculated based on the annual output of each product and an emissions benchmark. During the first four years of the program, these benchmarks will be based on 95% of recent historic average emissions intensities per product tailored to each specific manufacturing facility.

¹ This report is available on the Carbon Policy Office’s website here:
Beginning in 2025, the benchmarks will be based upon the emissions estimated from production at each facility if the facilities were using the “best available technology” (BAT). BAT will be determined for each facility, and informed by a third-party audit commissioned by each manufacturer. Assessments of BAT will assess the fuels, processes, equipment and technology that will most effectively reduce the GHG emissions associated with the manufacture of a product, without changing the characteristics of the product. BAT must also be technically feasible, commercially available, and economically viable. The BAT benchmarks will be reevaluated every nine years to reflect the changing technologies and manufacturing methods.

**Updating allowance allocation**

In the event of significant changes beyond the control of an EITE entity to the emissions attributable to their manufacturing processes, the allocation of allowances may be adjusted in order to reduce leakage risk. In such cases, the entities must apply for an adjustment. The state may contract with a third-party to evaluate the merits of this application.

**Other Point Sources**

Other point sources, such as fossil fuel-powered electricity generators or natural gas compressor stations, are also covered under the cap. For details, see explanatory one pagers on electric and natural gas point of regulation.