Considerations for Non-Natural Gas Fuel Suppliers

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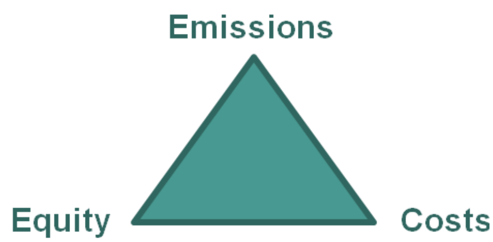
Overview

The Climate Protection Program will limit and reduce greenhouse gas emissions from some of the most significant sources in Oregon.

DEQ aims to design a program that:

- Promotes benefits and alleviates burdens for EJ and impacted communities
- Achieves significant emissions reductions
- Contains costs



The following brief reviews some key considerations for regulation of non-natural gas fuel suppliers: existing market conditions, threshold for inclusion and leakage risk. For the purpose of this brief, DEQ is focusing on these important topics in the context of the program design and program goals, while recognizing that this does not reflect a comprehensive list of all issues and considerations.

Key considerations

Existing market conditions

All non-natural gas fossil fuels, such as gasoline, diesel, propane and kerosene, supplied in Oregon are imported from production outside the state. The companies importing these fuels and the quantities they supply vary annually, particularly among smaller companies. Therefore, a company's market share can change significantly from year to year. Program design elements based on previous market activity may not reflect current or future activities, potentially making it more difficult for entities to comply with the regulation. For example, if DEQ distributes compliance instruments to regulated companies based on their past activity, it may not be representative of what they will do in the current year or future years. Additionally, the companies that could be regulated based on thresholds for inclusion using data in one year, could be completely different companies if using data from the following year.

Relatedly, fuel suppliers have more frequent change in company names, ownership or operations compared to other sectors. This may create challenges for using a static historic baseline when determining certain program elements, such as appropriate levels of compliance instruments to distribute to each entity in this dynamic sector, as it could quickly disrupt the fuel market.

Threshold for inclusion

Emissions thresholds affect the scope of emissions covered and define whether or not an entity is regulated. An entity with emissions at or above the threshold would be regulated, while an entity with emissions below the threshold would not.

Due to this sector's variability and the types of businesses operating in Oregon, threshold levels applied using a particular year of historic data could result in a set of regulated entities that could vary by year depending on the data set applied. However, this is dependent on the threshold level set as there are a relatively few number of entities importing the vast majority of fuels into Oregon. Therefore, applying certain threshold levels for fuel supplier inclusion may have more effect on the number of entities regulated than on the total amount of emissions covered. In other words, a high emissions threshold would cover most emissions from fuels, but only require regulation of a handful of entities. As an example, consider the following thresholds in metric tons of carbon dioxide equivalent:

- **At zero:** No minimum threshold would result in regulation of about 90 different suppliers of non-natural gas liquid and gaseous fuels. These fuel suppliers range from large international oil companies to locally owned small businesses.
- **At 5,000:** Threshold for inclusion of 5,000 metric tons of carbon dioxide equivalent might result in regulation of around 60 different suppliers and would cover 99.8 percent of emissions from this sector.
- **At 300,000:** Due to the types of entities in this sector, a threshold of 300,000 metric tons might result in regulation of around six different suppliers and would cover almost 90 percent of emissions from this sector.

Leakage risk

DEQ is interested in finding ways that program design can minimize the risk of leakage of emissions or business to outside the scope of the regulation.

Within Oregon

DEQ is likely to set a threshold for inclusion to determine regulated fuel suppliers. This could allow for entities below the threshold to grow their operations while always remaining unregulated. Alternatively, entities just above the threshold could quickly adjust their operations to fall and remain below the threshold. This would represent emissions leakage from regulated entities to unregulated entities within Oregon.

For example, Fuel Supplier A might have had emissions close to but above a threshold, therefore they could supply less fuel to reduce emissions, fall below the threshold, and not be regulated. If fuel demand is the same, Fuel Supplier B might have had emissions well below the threshold, but could now supply more fuel, increase emissions, and remain unregulated. The total emissions may not change in a given period at first, though now both fuel suppliers would not be regulated and would not be required to reduce emissions over time.

Choosing an appropriate threshold to try to avoid this risk can be especially difficult in the fuels sector, because quantities delivered and the companies delivering fuels can vary greatly from one year to the next. However, it is important to try and avoid disrupting regular markets.

Outside Oregon

Virtually all fossil fuels consumed in Oregon are imported, with many terminals located in the Portland area and dispensed from there. Due to the location of terminals, fuel suppliers can easily shift their deliveries to just outside of Oregon, such as Vancouver or Pasco, Wash., or Boise, Idaho. This could enable these fuel suppliers to maintain their current business operations and emissions without being impacted by an Oregon regulation. As a result, two forms of emissions leakage could occur from Oregon to outside of Oregon:

- **Wholesale leakage:** The local distribution entities such as tankers and jobbers, which would not be directly regulated, could then analyze where the lowest-cost fuel is and adjust their route to go to those terminals that are just outside of Oregon, acquire fuels to be distributed within Oregon, and thus bring fuels in that have avoided the Oregon regulation completely.

- **Retail leakage:** Transportation fuel users, such as drivers of cars and trucks in the Portland Metro area and Eastern parts of the state could choose to fuel up at gas stations just outside of Oregon to avoid higher priced fuels in Oregon due to the regulation.

Connections to program goals

Enabling greater emissions reductions

As threshold levels are lowered, a greater amount of total emissions are covered and more entities are regulated. However, large changes in the threshold level for fuel suppliers would have a relatively small effect on total covered emissions since most emissions are from a small set of large fuel suppliers. By contrast, the threshold changes would have a relatively large effect on the number and types of covered entities.

Additionally, the market share for fuel suppliers can vary greatly from year to year, and some fuel suppliers may choose to supply fuels outside of Oregon. Others may increase supply within Oregon while remaining under the threshold. Proper consideration of the market may help to address leakage of emissions to jurisdictions outside of Oregon or to smaller suppliers within Oregon.

Promoting equity

Emissions from fuels are dispersed throughout the state whenever and wherever the fuels are combusted. Reducing greenhouse gas emissons from fuels like diesel also lowers co-pollutants which negatively impact public health. These types of negative health impacts can be disproportionately born by certain communities. For example, communities located near busy roadways. However, the threshold level for fuel suppliers would have a relatively small effect on total covered emissions. Relatedly, there’s no way to target emissions reductions from fuels to specific communities or locations through the application of different threshold levels.

Containing costs

A direct way to protect small businesses is to set emissions threshold levels in a way that excludes many from the program’s regulations. If small businesses are not required to comply with regulations, it eliminates their compliance costs and costs for their customers.

There are additional cost considerations that also tie in with establishing thresholds. Quantities that a given fuel supplier brings in to Oregon, as well as the individual companies transporting fuels, vary annually. Thresholds for fuel supplier inclusion must also consider these variables in order to maintain a competitive landscape and not prioritize one supplier over another. Additionally, fuel suppliers do not have direct control over all the ways in which fuel users could reduce emissions from these fuels. Improper consideration of these variables could lead to disproportionate cost increases for consumers.

Relatedly, DEQ is interested in regulating the businesses and sources of emissions best suited to be included in the program in an effort to ensure compliance and program success. Understanding the fuels sector and properly accounting for the dynamic market will help more companies comply with the program and reduce their emissions, while also maintaining a competitive business landscape in Oregon. This may help address leakage concerns to ensure business and economic benefits are not shifted from Oregon to other jurisdictions.

Discussion Questions

1. Do you have suggestions on ways to overcome the dynamic market challenges of this sector? Specifically, as it relates to the following topics:
    a. Determining which entities to regulate based on a set threshold?
    b. Determining the methodology for DEQ distribution of compliance instruments?
2. What are your thoughts on what the threshold for inclusion should be?
3. What other concerns might the annual variation present for regulated businesses? For consumers?

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.