CITY OF BEND

City Hall
710 NW Wall Street
Bend, OR 97703

MEMORANDUM

To: Bend City Council and Participants in the 4/8/2026 Electrification Policy Roundtable
From: Cassie Lacy, Senior Management Analyst, City Managers Office
Date: March 31, 2026
Re: City of Bend Electrification Policy – Climate Pollution Fee Updates

The City of Bend is exploring the adoption of a fee on new gas appliances in new, single-family residential buildings. The use of gas appliances generates fossil fuel emissions. These emissions impose social costs on Bend and surrounding communities. The purpose of the fee is to ensure that at least some of those costs are reasonably attributed to those choosing to install these appliances, which will in turn promote the health, safety, and general welfare of Bend residents and visitors. This fee, as well as programs supported by revenue generated by the fee, may serve as an incentive to use electric equipment, potentially reducing fossil fuel emissions and the associated economic costs to the City and its residents from those emissions. Revenue from the fee will be used to pay for the cost of preventing and mitigating present and future climate impacts from fossil fuel emissions, including potentially funding an incentive program supporting installation of efficient electric equipment in homes within the city.

The purpose of this memo is to provide updates made to the fee design since the December 2025 Fee Option Memo and outline proposed discussion items for the April 2026 Roundtable engagement session. Updates to the fee design are based on guidance and decisions from Bend City Council from December 2025 to February 2026.

FEE DESIGN UPDATES

Since the original fee design proposal memo in December 2025, the following four adjustments have been applied to the fee structure and formula:

1. Calculating Net Carbon Emissions
2. Updating the Social Cost of Carbon value to reflect the proposed effective date
3. Applying a tiering factor for smaller and larger households
4. Applying a 20% multiplier to the baseline fee to reduce the overall fee amount

Net Carbon Emissions

The proposed climate pollution fee is based on the total amount of lifetime carbon emissions produced when burning natural gas. However, the electricity provided to run electric equipment within a home also produces carbon emissions, with the amount depending on the

fuel mix of the electricity produced. To more accurately capture the change in the amount of carbon produced by installing electric equipment, the City proposed to use the difference in carbon emissions attributable to each type of appliance (i.e., the total amount of carbon produced by natural gas equipment minus the amount of carbon produced by electric equipment).

Updated Social Cost of Carbon

The Social Cost of Carbon is not a single value, but instead a range of potential values based on the future value of carbon emissions (the discount rate) and the year in which those emissions are being assessed. The City has chosen to follow the EPA methodology, which is the most recently updated model. The table below provides the EPA estimates of the Social Cost of Carbon per Metric Ton (MTCO2) in annual increments from 2024 to 2035[1].

The specific SCC value selected would be based on the year of implementation. For example, a fee that would become effective January 1, 2028 would use the SCC equivalent to the 2028 values ($223 at a 2% discount rate). The City may choose to update the fee amount each year based on the rate schedule shown in Table 1 below.

Table 1: EPA Emissions by Year and Discount Rate

Emissions Year	EPA 1.5%	EPA 2.0%	EPA 2.5%
2024	$356	$208	$128
2025	$360	$212	$130
2026	$365	$215	$133
2027	$370	$219	$136
2028	$375	**$223**	$139
2029	$380	$226	$141
2030	$384	$230	$144
2031	$389	$234	$147
2032	$394	$237	$150
2033	$398	$241	$153
2034	$403	$245	$155
2035	$408	$248	$158

[1] Individual year EPA estimates from 2020-2080 are available in Table A.5 of this report: **EPA Report on the Social Cost of Greenhouse Gases: Estimates Incorporating Recent Scientific Advances**

Fee Tiering Factors

The estimates of carbon produced, and therefore the fee amount, are based on the estimated energy use of an average-size, single-family new home. However, smaller homes are known to use less energy, and larger homes use more energy, resulting in either less or greater carbon emissions. To account for these differences, the City proposed to structure the fee by tiers, adjusting the fee to account for these changes in energy use and expected carbon emissions. The fee tiers are as follows by home size:

a. Tier 1: 0-1,600 square feet
b. Tier 2: 1601-3,000 square feet
c. Tier 3: >3,000 square feet

The average home size in Bend is about 2,300 square feet, which would place the average home in Tier 2.

With tiers in place, the City then conducted analysis to understand the estimated difference in carbon emissions across tiers. Using data based on modeled energy usage estimates of natural gas heating systems in new construction homes, the City estimates that Tier 1 homes (less than 1,600 sq ft) use about 35% less energy than the average home, and Tier 3 homes (greater than 3,000 sq ft) use about 50% more energy than the average home. This would result in the following scaling factors by homes size as shown below in Table 2.

Table 2: Home Size Tiers and Scaling Factors

Tier	Square Footage	Scaling Factor[2]
Tier 1	1600 or less	65%
Tier 2	1601-3000	100%
Tier 3	Greater than 3000	150%

These scaling factors are then applied to the total fee amount to calculate the fee across each Tier size. These scaled amounts are shown below in Table 4.

Updated Fee Formula and Fee Level Adjustment

Baseline Fee Amount

The City proposed the following fee formula[3] at the February Council work session:

Social Cost of Carbon x Net Carbon Produced x Life of Equipment x Tier Factor = Baseline Fee Amount

The definitions for this formula are as follows**:**

1. **Social Cost of Carbon**: A monetary value of each metric ton of CO2 produced – incorporating both the year(s) when emissions are produced and the value of future year damages (discount rate).[4]
2. **Cabon Produced**: The total amount of carbon produced by each appliance or equipment within an average size single family home. This is calculated through the equipment's estimated annual energy usage[5] and multiplied by the EPA's estimate[6] for carbon produced per Therm of energy consumed.
3. **Net Lifetime Carbon Produced:** The net lifetime carbon produced is the difference between the total amount of gas carbon produced of each equipment ("Carbon Produced") less the carbon produced from the equivalent electric appliance. Using a net value recognizes that electric energy generation also produces carbon emissions.
4. **Life of Equipment**: The estimated total number of years the equipment remains in service[7] and produces carbon emissions.
5. **Tier Factor**: Staff proposes scaling the fee to the size of the home to account for lower or higher anticipated energy usage and carbon emissions.

Applying this formula by equipment type results in the total fee values shown in Table 3.

Table 3: Fee Amounts by Equipment

Equipment	Net Carbon Produced (MTCO2)	Life of Equipment (Years)	Social Cost of CO2	Tier 1 Fee Amount	Tier 2 Fee Amount	Tier 3 Fee Amount
Gas Furnace	2.95	15	$223	$5,108	$7,859	$11,788
Gas Water Heater	0.67	15		$751	$1,156	$1,733
Gas Stove	0.37	10		$486	$748	$1,122

[3] The definitions of this formula are available in Appendix A

[4] As described above, the EPA and IWG are generally accepted sources of these estimates, however the City must decide which specific value within the range should be used.

[5] For this analysis, energy usage by equipment type comes from the Regional Technical Forum

[6] **Emission Factors for Greenhouse Gas Inventories**

[7] For this analysis, service life comes from the Regional Technical Forum

Gas Dryer	0.22	10		$279	$429	$643
Gas Fireplace	0.46	16		$450	$692	$1,038
Whole-House Baseline Fee				$7,074	$10,134	$16,324

Fee Adjustment

At the February 2026 work session, Council discussed the fee level, including options to lower the fee from the baseline fee level. Council members supported a reduction in the fee levels, proposing a fee at 20% of the baseline level.

Table 4 provides the reduced fee amounts at 20% of the baseline fee level across tiers.

Table 4: Fee Amounts at Reduced Levels by Tier

Equipment	Tier 1 Fee Amount	Tier 2 Fee Amount	Tier 3 Fee Amount
Gas Forced Air Furnace	$1,022	$1,572	$2,358
Gas Water Heater	$150	$231	$347
Gas Stove	$97	$150	$224
Gas Dryer	$56	$86	$129
Gas Fireplace	$90	$138	$208
Total	$1,415	$2,177	$3,265

PUBLIC ENGAGEMENT FEEDBACK TOPICS

The City is facilitating a public roundtable to engage with local stakeholders. Specifically, the City is seeking ideas and feedback on potential fee exemptions and the effective date of the fee.

Fee Exemptions

The City is seeking input on exemptions to the new fee. For discussion at the roundtable, staff have identified three specific exemption ideas for discussion that have come up consistently in public comment and/or discussions with stakeholders:

1. **Deed-restricted affordable housing.** Deed-restricted affordable housing is a residential property with legal covenants recorded on its title that limit the maximum rent or resale price to keep it affordable for low-to-moderate income households for a

set period. The City's climate pollution fee is not proposed for multifamily properties, so this exemption would be focused on affordable housing in single family, duplex, townhome or other building types that are defined as applicable in the code.

2. **Homes installing dual-fuel equipment**. Dual-fuel equipment includes equipment such as a heating, ventilation, and air conditioning (HVAC) system that pairs an electric heat pump with a gas furnace, and automatically switches between the energy sources. These equipment types rely on the electric heat pump for the majority of their power needs. The gas furnace is used as a backup power source, primarily when outdoor temperatures are low and the heat pumps efficiency drops. Dual-fuel systems can also be used for water heating systems.
3. **Homes using renewable natural gas (RNG).** Renewable natural gas is pipeline-quality gas processed from decomposing organic waste, such as in landfills, livestock manure, sewage sludge, and food waste that is fully interchangeable with conventional natural gas and can be injected into existing natural gas pipelines. RNG projects reduce greenhouse gas emissions by capturing methane emissions that would otherwise enter the atmosphere and offsetting fossil-fuel based natural gas in gas distribution systems.

Specifically, the City is seeking input on the scope and level of support of these exemptions, the feasibility of implementation, and any identifiable risks. The City is also seeking additional exemptions from roundtable participants for discussion and consideration.

Fee Effective Date

The City is proposing an effective date of January 1, 2028. A 2028 effective date will allow those affected by the fee to effectively plan and will allow time to further understand and monitor PacifiCorp's progress towards its clean energy goals. A 2028 effective date also allows for time to understand any implications of the 2027 Oregon legislative session, to the extent that new legislation may alter the City Council's approach to the fee. The fee amounts shown above are based on the social cost of carbon value and estimated net carbon emissions at 2028 values. Changes to the effective date would result in changes to the initial fee amounts as well.

In addition to feedback on the effective date, the City is seeking input at the stakeholder roundtable on the approach to the implementation of the fee, such as considering a phased roll out, a time-limited pilot, or other interim steps that may mitigate stakeholder concerns about full-fee implementation.