



Western States Petroleum Association
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Catherine H. Reheis-Boyd
President

December 2, 2011

Edmund G. Brown, Governor
State of California
California State Capitol
Sacramento CA 95814

Re: California Air Resources Board - Low Carbon Fuel Standard (LCFS)

Dear Governor Brown:

The Western States Petroleum Association (WSPA) and its members, who collectively produce the majority of transportation fuels used in California, strongly believe your immediate attention to the California Air Resources Board's implementation of the Low Carbon Fuel Standard (LCFS) is necessary.

As you know, the ARB adopted the LCFS as a "discrete early action" in 2009 in response to Governor Arnold Schwarzenegger's Executive Order.¹ Governor Schwarzenegger's intention was to establish a "first-of-its-kind" policy to reduce the greenhouse gas impact from California's use of transportation fuels and diversify the state's transportation fuels supplies.² The LCFS as adopted by the ARB, establishes a requirement that refiners, blenders, producers and importers of transportation fuels reduce the carbon intensity of transportation fuels by at least 10 percent by 2020.

The expectation then was that the LCFS would: 1) displace 20 percent of on-road gasoline consumption with low-carbon fuels, reducing consumption by up to 3.2 billion gallons of gasoline per year, 2) expand the size of the current renewable fuels market in California by 3 to 5 times, with more than half of the ethanol expected come from cellulosic feed stocks such as agricultural waste and switch grass, 3) grow California's clean energy industry, 4) help discourage "unclean" energy development, 5) reduce California's dependence on imported oil, and 6) reduce risk to the state's economy.³

¹ Executive Order S-01-07

² "The Role of a Low Carbon Fuels Standard in Reducing Greenhouse Gas Emission and Protecting our *Economy*," *White Paper*, David Crane & Brian Prusnek.

³ Crane, Prusneck White Paper

Today, one year into the implementation of this first-of-its-kind fuels policy, the ARB's rule design coupled with the realities of the alternatives fuels markets have led us to conclude that this policy will likely become infeasible and unworkable well before the 2020 compliance date. We have arrived at this conclusion based on outstanding issues related to an overly complex design, questions about adequate volumes of low carbon biofuels and potential high costs of designated low carbon intensity fuels or credits. These industry concerns and questions of volume availability and costs of low carbon fuels have also been expressed by the California Energy Commission (CEC). The CEC shared these concerns and their analysis of possible LCFS compliance scenarios recently in the context of developing the Commission's Integrated Energy Policy Report (IEPR).

The CEC noted the LCFS as proposed by the ARB assumes significant expansion of the advanced biofuels and cellulosic ethanol markets and also assumes that 50 percent of the US supply of these fuels will be available for LCFS compliance in California.⁴ The CEC's analysis also indicates that LCFS program costs may reach as much as \$5 billion in 2020 and increase to \$9 billion by 2024/2025. Given these concerns, we believe that it is necessary and timely for your Administration to consider whether this policy and its implementation schedule is the right fuels policy for California.

As you review this policy and the ARB moves forward with its planned implementation, we encourage you to consider the following recommendations as minimal safeguards:

- Creation of a crude oil treatment process that does not promote crude shuffling worldwide, and that treats all crude oils the same,
- Conduct annual reviews and analysis of LCFS program feasibility and costs in order to make needed adjustments,
- Develop appropriate triggers to alert of market concerns so the program can either be halted or altered
- Develop and analyze alternative approaches to reducing GHG emissions from transportation fuels that may be a better approach than the current policy.

Since 2007, WSPA has engaged constructively in the effort by the ARB to implement a workable LCFS and we will continue to do so in the future. At this point, however, we believe that your leadership and your attention to this fuels policy for California are critically important. WSPA and its members would greatly appreciate the opportunity to meet with you and your staff to discuss our concerns and the above recommendations in greater detail.

Sincerely,



⁴ California Energy Commission

cc: President pro Tempore Darrell Steinberg
Senate Republican Leader Bob Dutton
Speaker John Perez
Assembly Republican Leader Connie Conway
Nancy McFadden, Executive Secretary, Office of the Governor
Cliff Rechshaffen, Senior Advisor, Office of the Governor
Matt Rodriguez, Secretary, California Environmental Protection Agency
Anthony Eggert, Deputy Secretary for Energy Policy, California Environmental Protection Agency
Mary Nichols, Chairwoman, California Air Resources Board
James Goldstene, Executive Officer, California Air Resources Board
CARB Board members
Commissioners, CEC