



Western States Petroleum Association

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## **New Study Identifies Problems with Low Carbon Fuel Standard**

SACRAMENTO – A new analysis of California’s Low Carbon Fuels Standard concludes a key state climate change regulation is not feasible beyond the year 2015 and could increase the cost of fuel by as much \$54 billion.

The latest report, prepared for the Western States Petroleum Association by Sierra Research, Inc. of Sacramento, used data and information from government sources, including the federal Energy Information Administration (EIA), California Energy Commission (CEC) and the California Air Resources Board (CARB). It concluded:

- Based on EIA biofuel forecasts, California biofuel supplies will be inadequate for compliance with the Low Carbon Fuel Standard (LCFS) by 2015 when LCFS requirements start to become much more aggressive;
- Based on CEC biofuel price forecasts, even if the biofuel supplies CARB staff believes will be available are available, transportation fuel costs in California could increase dramatically;
- Even if supplies are available, the total cost of acquiring special biofuels in California in order to comply with the LCFS, could, based on CEC biofuel price forecasts, be as much as \$54 billion between now and 2020.

Based on EIA forecasts, Sierra concluded, “compliance with the LCFS targets will not be feasible beyond 2015.” A major underpinning of the LCFS was an expectation that significant quantities of innovative low carbon fuels as well as credits would be developed and available in a timeframe that would allow fuel providers to meet the LCFS targets.

“The Low Carbon Fuel Standard appears to be infeasible in the near future,” said Catherine Reheis-Boyd, President of the Western States Petroleum Association. “Regardless of CARB’s intentions behind this regulation, it has become highly questionable whether the LCFS will work – at least in the way it is currently written.”

Reheis-Boyd said WSPA has not opposed the goals of the LCFS.

The LCFS requires a 10 percent reduction on the “carbon intensity” of gasoline and diesel fuel by 2020. It relies heavily on the blending of low carbon biofuels to reduce the carbon intensity of petroleum-based fuels.

Recent forecasts of biofuel production indicate supplies of those fuels will not be adequate to meet the enormous demand created by the LCFS or at least will not become available within the required time frame.

“We have always said the Low Carbon Fuel Standard was a very complex and delicate regulation that must be closely monitored. This new information indicates it could result in serious disruptions to fuel markets in California if we’re not careful,” said Reheis-Boyd.

The Sierra Research analysis concluded a number of assumptions used by CARB to justify the program’s feasibility “do not appear to be reasonable.”

For example:

- CARB’s analysis of the LCFS assumes up to 2.73 billion gallons of ethanol per year from sugarcane will be available for use in California by 2020. Virtually all sugarcane ethanol, which has a lower carbon intensity than corn-based ethanol, comes from Brazil and according to CEC data no Brazilian ethanol has been exported to the U.S. since 2009. The Brazilian government’s own export projections, cited by the CEC, suggest only 500 million gallons of sugarcane ethanol will be sent to the entire U.S. market in 2020.

“It is clearly unlikely that the volumes of sugarcane ethanol assumed by CARB staff will be available in California during the period from 2012 to 2020,” Sierra concluded. Sierra also said based on data prepared by the CEC, the cost of sugarcane ethanol from Brazil could be as much as twice the cost of gasoline.

- CARB also assumed that as much as 2.35 billion gallons of cellulosic ethanol will be available each year for use in California. The Sierra analysis notes the U.S. Department of Energy estimates just 12.6 million gallons of cellulosic ethanol will be available in 2012 and only 2 billion gallons available for the entire United States by 2020. Sierra noted that CEC forecast the cost of cellulosic ethanol to be approximately 2.75 times that of gasoline blendstocks.

Cellulosic ethanol is made from wood fiber or other waste plant materials and therefore has a much lower carbon intensity than corn ethanol. However, production of cellulosic ethanol is more difficult and has not yet reached commercial scale.

- The Low Carbon Fuel Standard also depends on a significant increase in vehicles able to operate on 85 percent ethanol, called flex fuel vehicles. CARB’s analysis of the LCFS assumes the number of FFVs will increase to 4.6 million vehicles by 2020. The Sierra Research analysis notes only 400,000 FFVs are operating in California today and changes in federal incentives to build more FFVs will phase out starting in 2015.

“There is little reason to expect that the California FFV population will expand to the levels assumed by CARB staff between now and 2020,” Sierra concluded.

- California currently restricts the ethanol content of gasoline to not more than 10 percent. However, CARB’s own analyses of the LCFS program assume in some cases that 15 percent ethanol blends will be available. Sierra noted CARB has not initiated any of the actions that would be required to change the current 10 percent blend limit.

CARB is scheduled to review regulatory amendments to the LCFS at its December 16, 2011, meeting. WSPA is planning to request CARB:

- Conduct annual reviews and analysis of LCFS program feasibility and costs in order to make adjustments if and when they are necessary;
- Develop appropriate triggers to identify market disruptions so the program can 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, and;
- Initiate a thorough analysis of the potential cumulative impacts on the cost and availability of transportation fuels in California from numerous climate change regulations being implemented by CARB.

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