

**Subject:**Policy Working Group Comments

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**Policy Issue: Maintaining Compliance Neutrality**

Christina,

The issue of “fairness” was raised by Environmental Defense with regard to accounting for upstream impacts for oil and gas, and not just for the alternatives to fossil fuels (such as biofuels). We generally support efforts to account for upstream emissions. However, we are increasingly concerned that the low carbon alternatives are being examined and scrutinized more closely than today’s fuels. We have similar concerns about the U.S. EPA approach.

The most obvious example is ARB’s preference for a fixed, average value for conventional crude oil, juxtaposed against staff consideration of pessimistic default values for alternatives, such as biodiesel and ethanol. While there are merits to this approach, this program design places a greater compliance burden on alternative fuel companies, and less “behavior change” pressure on conventional petroleum producers.

Likewise, there are a myriad of upstream impacts of oil and gas extraction, storage, refining and security that could be considered by staff’s LUC or sustainability analysis. Environmental Defense mentioned the combustion of fossil fuels for maintaining security at major oil and gas extraction and distribution sites in the Gulf, and the displacement of wetlands by oil infrastructure. There are clearly many more impacts with regard to land use and GHGs.

Some of the issues related to compliance will be worked out later in the rulemaking process. And alternative fuel companies are capable of meeting certain critical compliance hurdles. However, we strongly encourage ARB staff to allocate enough resources early in the rulemaking process to properly analyze the direct and indirect upstream environmental impacts of oil and gas production, and to maintain sensitivity to the possible unintended consequences of inequitable process and compliance burdens on less financially stable “new fuels” companies.

We appreciate your consideration of these issues and look forward to working with staff on LCFS policy challenges as they develop.

Sincerely,

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