April 22, 2009

Mary D. Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: CARB's Proposed Regulation to Implement the Low Carbon Fuel Standard

Dear Ms. Nichols,

The Alliance of Automobile Manufacturers (Alliance) welcomes the opportunity to comment on California's proposed regulation to implement a low carbon fuel standard.

The Alliance is an association of 11 vehicle manufacturers including BMW Group, Chrysler LLC, Ford Motor Company, General Motors, Jaguar Land Rover, Mazda, Mercedes-Benz USA, Mitsubishi Motors, Porsche, Toyota and Volkswagen. Formed in 1999, the Alliance serves as a leading advocacy group for the automobile industry on a range of public policy issues. This association, which is open to all new car and light truck manufacturers, is especially committed to improving the environment and motor vehicle safety.

We strongly support the low carbon fuel concept and appreciate the efforts of CARB staff to develop a workable program. To achieve large reductions in greenhouse gases both in the short term and well into the future, low carbon transportation fuels must play a substantial role to complement the ongoing contributions of automobile manufacturers. The proposed regulation moves us closer to that goal.

Our primary focus is for this program to be as effective as possible in bringing truly lower carbon fuels into more widespread usage. When CARB first introduced the program outlines last year, we were concerned the accounting for vehicle regulations would undermine the program's effectiveness by diluting the incentive to reduce fuel carbon content. This remains our top concern. CARB staff have improved the program's approach, however, and while still imperfect, we appreciate CARB's efforts and progress on this issue.

We are also interested in how the program will accommodate emerging vehicle and fuel technologies and address individual vehicle efficiency adjustments. We will continue working with the staff going forward regarding how to best incorporate new fuel production pathways and account for new and existing vehicle technologies, among other issues.

**Interaction with Vehicle Regulations**

The program's inclusion of vehicle efficiency factors has the potential to significantly dilute the effort to reduce carbon from transportation fuels. This effect is well illustrated through the interaction that occurs between the proposed low carbon fuel regulation and vehicle efficiency regulations. These interactions introduce the possibility of double counting emission reductions, which would undermine incentives to introduce lower carbon fuels. In the statewide scoping plan for greenhouse gases, vehicle efficiency regulations and the low carbon fuel standard are two of the

largest programs based on the forecast tonnage of emission reductions. This means that avoiding double counting is critical for state to meet its overall emission reduction goals in the near term. At least as important, and perhaps more so, we are wary of the possibility that interactions between the programs could thwart the move to lower carbon fuels over the long term.

The most prominent source of interaction between the two programs comes from the program's use of Energy Economy Ratios, or EERs. The EERs are adjustments for vehicle energy efficiency for certain vehicle powertrain and fuel combinations. If a fuel is used in a type of powertrain the regulation deems highly efficient, that fuel could receive a big credit for the improved vehicle efficiency without any actual changes to the fuel. In that case, the program would end up providing less low carbon fuel to the market.

EERs also introduce thorny analytical issues concerning the relative efficiencies of various future vehicle powertrain technologies, since efficiency differentials and uncertainties can be fairly large compared to California's 10% carbon intensity reduction goal for 2020. There is also a fundamental question concerning whether a certain fuel uniquely enables a more efficient powertrain design, and therefore should get EER credit, or whether the more efficient powertrain could also be used with other fuels.

In short, the EER tool raises many potential issues. This is why we urge the state to use them sparingly and conservatively to prevent EERs from dominating the program and as a result strongly favoring one fuel or technology over another, or to drop the EER tool altogether. One of the key benefits of the low carbon fuel concept is its ability to let the market operate freely, which will happen only if the program provides fuel and technology neutrality. We believe such neutrality is also needed for making the program sustainable and effective.

We agree with CARB's policy decision to separate the accounting for gasoline and diesel fuel when using EERs because this minimizes the potential for double counting. This approach, for example, prevents potential credits from a diesel EER from becoming a dominant means of complying with the low carbon fuel standard. Thus, putting light duty diesel and gasoline into separate categories requires improvements in the carbon content of both fuels. That is a better approach than combining all light duty fuels into one category where EER's could distort the outcome.

**New Fuel Pathways**

Eventually, CARB will need to evaluate new fuel supply pathways as low carbon fuel production technology improves, and we recommend that staff develop an open and simple process for creating such new pathways in a timely manner. CARB staff have put great effort into studying the lifecycle impacts of low carbon fuel production. While their effort has been commendable, this field of science is just in its infancy, and more research will continue to be needed.

As CARB refines its analytical techniques and assessments of fuel production pathways, we urge it to strive for minimizing the impact on price volatility and quality fluctuations in the marketplace, in addition to seeking improved accuracy. Market stability in fuel supply is important for many reasons and should be given considerable weight when considering program adjustments, such as revising fuel lifecycle calculations.

**Fuel Quality**

As the low carbon fuel standard is implemented, it will be important to maintain fuel quality so that progress on greenhouse gases does not come at the expense of deterioration in other important areas, such as air quality, water quality and compatibility with vehicle technologies. As the fuel compositions change, they will need to continue meeting specifications designed to ensure vehicle compatibility, good performance and low emissions. The state will need to closely monitor fuel

quality over time to make sure unintended changes do not occur. To the extent entirely new alternatives emerge in the marketplace, we will expect CARB to develop, implement and ensure additional quality standards if needed to protect vehicles, consumers and the environment.

**Federal LCFS**

Finally, while we appreciate California's leadership in developing a workable plan to encourage the introduction of low carbon fuels, we believe a single, integrated, national program would provide the most cost-effective approach to reducing the carbon content of transportation fuels. A federal approach to low carbon fuels also will help assure broad availability, market fungibility, maximum supply and lowest cost, both regionally and nationally. Ideally, a federal low carbon fuels program would provide the framework under which states may operate in a coordinated, harmonized fashion.

In conclusion, while we remain concerned about the potential impact of vehicle efficiency factors on the effectiveness of the program, we support CARB's effort to bring low carbon fuels closer to reality. We further recognize the need for additional efforts at both the state and federal levels. We commit to continue working with CARB to help make California's ground-breaking low carbon fuel program as successful as possible.

Sincerely yours,

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