



CANADIAN ASSOCIATION  
OF PETROLEUM PRODUCERS

June 24, 2011

The Honorable Mary Nichols  
Chairwoman, California Air Resources Board  
1001 I Street  
P.O. Box 2816  
Sacramento, CA 95812

Dear Chairwoman Nichols,

**Re: California Air Resources Board Low Carbon Fuel Standard (LCFS) and its Treatment of Crude Oil**

The Canadian Association of Petroleum Producers (CAPP) represents companies, large and small, that explore for, develop and produce natural gas and crude oil throughout Canada. CAPP's member companies produce more than 90 per cent of Canada's natural gas and crude oil. CAPP's associate members provide a wide range of services that support the upstream crude oil and natural gas industry. Together CAPP's members and associate members are an important part of a national industry with revenues of about \$100 billion-a-year.

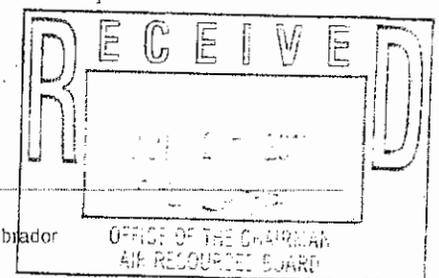
Low Carbon Fuel Standards (LCFS) are intended to reduce the role of petroleum products from any crude source in the transportation system by increasing the role of alternative fuel sources such as biofuels and electricity. CAPP does not take issue with efforts in support of and objectives to achieve carbon reductions by jurisdictions.

CAPP understands that the LCFS Advisory Panel is intending to address the Air Resources Board's crude oil approach at the end of June 2011. On behalf of our members, CAPP appreciates the opportunity to revisit the California LCFS regulation that discriminates specifically against oil sands derived crudes under the label *high carbon intensity crude oil* – a position that CAPP strongly disagrees with.

The LCFS law in California includes all petroleum products from crude supplies that comprise 2% or more of 2006 state supply in one basket, which would include higher GHG emission crudes such as California thermal heavy oil. Supplies comprising less than 2% of the state total must use individually calculated life cycle intensities. In 2010, Canadian crude imports climbed to 7%, moving from 38,000 b/d to 52,000 b/d. We believe this change is significant and qualifies oil sands derived crudes to be included in the California basket.

2100, 350 – 7 Avenue S.W.  
Calgary, Alberta  
Canada T2P 3N9  
Tel (403) 267-1100  
Fax (403) 261-4622

403, 235 Water Street  
St. John's, Newfoundland and Labrador  
Canada A1C 1B6  
Tel (709) 724-4200  
Fax (709) 724-4225



Regardless of the supply volume, CAPP believes that there is no benefit in differentiation between crude oils for many reasons including:

- The fact that there is a broad range of possible intensities associated with the production and transportation of crude oil, and the methods to determine these intensities are not applied consistently – for example boundary definitions, allocation type and treatment of inputs within the life cycle analysis may vary depending on the study and methodology, resulting in an apples-to-oranges comparison of GHG emissions intensities. There are currently several studies underway that are further analyzing the Life Cycle Assessment (LCA) approach. Minimally, we would encourage California to delay further action until these studies are concluded and the results available to inform this critical issue.
- Significant information gaps currently exist with respect to the data collected on LCA emissions from various crude sources. It is inappropriate that the transparency of Canadian oil sands emissions data should lead to its exclusion from an average North American basket value. Without credible and verifiable data on emissions associated with all incoming crudes, oil sands derived crudes are penalized for being transparent in measuring and reporting its emissions. This is in contrast to other crude sources that are not as transparent with their life cycle data.
- Current LCFS ignores other relevant factors that are applied to the production of crude in the producing jurisdiction and that in many cases reduce emissions to or below the emissions cutoff for the low carbon intensity fuels. For example, with respect to oil sands production, there is significant variation in crudes due to differences in reservoir characteristics and differences in extraction technologies as well as the application of co-product technologies such as co-generation, all of which influence and, in the case of technologies, reduce the emissions intensity.
- Further, CAPP would highlight that oil sands crude is already subject to GHG reduction regulations in Alberta. The regulatory system, in place since 2007, mandates a 12% intensity improvement targets and places a clear carbon price of \$15/tonne on obligations arising from these targets. As the oil sands crude upstream emissions are already regulated in the producing jurisdiction, the California system will be duplicative and inequitable by further penalizing these emissions in a well-to-wheels life cycle analysis.

Over the past 40 years, the Canadian oil sands industry has developed leading edge technologies and incorporated technological improvements to make significant reductions in their GHG emissions intensity on a per barrel basis. These advances have resulted in a 29% reduction in GHG intensity since 1990 (Environment Canada – 2011 National Inventory Report).

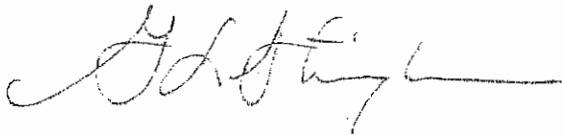
To achieve future reductions industry is primarily focused on reducing GHG emissions by using less energy input. Technological advances include the use of low energy extraction technologies, underground combustion technologies (THAI™ process) and additives to reduce the need for both water and energy (steam) requirements. Other initiatives focus on reducing energy waste/losses,

capturing waste heat and implementing co-generation for the production of power and steam. Industry is also focused on advancing and implementing Carbon Capture & Storage (CCS) technologies. For example Shell Quest pilot project for the Scotford Upgrader represents a significant investment on carbon capture and storage.

CAPP believes that there are significant unintended consequences of CARB's LCFS policy. Specifically, CAPP believes it will lead to crude shuffling and a concomitant increase in overall GHG emissions. If oil sands derived crude oil, for example, becomes less attractive to import into California as a result of the LCFS, that crude will find another, albeit more distant, market and California would import the volume of needed crude from other more distant markets. There would be significant GHG emissions associated with inefficiently transporting it away from its natural market.

CAPP commends California for addressing the GHG emissions associated with transportation fuels, but strongly urges a reconsideration of the policy details. CAPP is emphasizing that Canadian oil sands should not be treated differently from other crude sources into California, based solely on its current volume level in the California market. Treating all crude oils equitably reduces the risk of unforeseen consequences such as crude shuffling and the associated increase in overall GHG emissions; does not unduly penalize Canadian oil sands for the transparency of its emissions data; and will result in a better, more streamlined and administratively simpler policy. We appreciate the opportunity to provide these comments and look forward to continuing engagement on these issues.

Yours truly,

A handwritten signature in black ink, appearing to read "G. Stringham", written in a cursive style.

Greg L. Stringham  
Vice President, Markets & Oil Sands