Western States Petroleum Association
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Vice President

August 21, 2017

Mr. Sam Wade
Branch Chief
California Air Resources Board
1001 I Street
Sacramento, California 95814

sent via email: LCFSworkshop@arb.ca.gov

Re: WSPA Comments on Alternatives Relating to LCFS Program Economic Impacts

Dear Sam,

The Western States Petroleum Association (WSPA) appreciates this opportunity to provide initial feedback on the California Air Resources Board (ARB) staff presentation at the Low Carbon Fuel Standard (LCFS) Workshop, held on August 7, 2017 in Sacramento, CA. Specifically, this letter addresses the ARB request for feedback on "alternatives relating to economic impacts". WSPA is a non-profit trade association representing companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in California and four other western states.

Short Turnaround for Comments on Alternatives

While it is understood that ARB has a planned schedule for the development of the proposal regulation amendments and the associated Standard Regulatory Impact Assessment (SRIA), the deadline for comments (14 calendar days from the Workshop date) on "alternatives" is extremely restrictive. In addition, the public has yet to see draft regulation amendments on which to suggest alternative approaches. The quick turnaround for comments and the lack of proposed language may undermine if not preclude meaningful input from stakeholders with regard to economic and environmental alternatives.

Consideration of the Range of Alternatives

In the recent California Legislative Analyst's Office (LAO) review SB 617 (Calderon), dated February 3, 2017, on the effectiveness of the SB 617 (Calderon) requirements, LAO cited the following:

> ***Alternatives Outside the Scope of the Rulemaking.*** *Some regulations were not compared to alternatives outside the scope of the regulation. For example, the ARB's Low Carbon Fuel Standard (LCFS) regulation aims to reduce greenhouse gas (GHG) emissions by reducing the carbon content of fuel. The SRIA did not include a comparison of the costs of LCFS to other policies that can reduce GHG emissions, such as cap-and-trade or more stringent vehicle efficiency standards. Comparing a regulation to options outside the scope of the rulemaking is*

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particularly important when agencies have broad authority to issue multiple regulations to achieve a particular goal. Such authority has been given to the ARB to regulate air pollution and GHG emissions. However, this type of authority is relatively rare in California[1].

Consistent with the LAO finding in identifying a viable alternative pursuant to the SB 617 requirement as well as strongly supporting the dual LCFS goals of GHG emission reductions and incentives/support for sustainable low carbon fuel supplies, WSPA offers the following Alternative Approach:

Part 1 - To address GHG emissions, allow the GHG emissions currently attributable to the LCFS program to instead be achieved by the AB 32 Cap & Trade program in the most cost effective manner. *It is important to acknowledge that the LCFS program results in no incremental GHG emission reductions. Because fuel emissions are already covered under the Cap & Trade program, every emission reduction that results from the LCFS program simply displaces an emission reduction that would otherwise have had to occur in the Cap & Trade program. In that way, the LCFS does not result in any additional or incremental GHG reductions. It simply shifts the reductions from the Cap & Trade program to a method prescribed by ARB, in this case to the LCFS. Thus, the LCFS program forces and shifts emission reductions from an efficient, low-cost program where the market chooses how and where the emission reduction is achieved to a high-cost program where the emission reductions occur at multiple times the cost that could be achieved in the Cap & Trade program.*

Part 2 - In order to maintain a strong incentive for innovation in the transportation fuels sector, this alternative would include an incentive-based program as opposed to the current regulatory-based program. *ARB could start by assessing the current incentives in place for each of the fuels or activities covered by the LCFS program. Then, pursuant to discussions with alternative fuel suppliers and other stakeholders, ARB could determine what combined level of incentive is appropriate for each fuel. These incentives should be targeted, transitional, and designed for each fuel or activity. At some pre-determined time, each of these fuels must be able to stand on their own without incentives. Benefits of this alternative include incentives fit-for-purpose for each fuel and increased certainty, both in terms of economic/political sustainability as well as predictability of the incentive. The result should increase potential alternative fuels and low-emission vehicle market penetration as well as technology transformation. Further, this approach will augment and enhance an already robust suite of fuels and vehicle programs and policies (i.e., ZEV, RPS, CAFE).*

LCFS emission reductions are occurring at a significant cost relative to emission reductions from the Cap & Trade program with that premium sometimes exceeding a factor of 10. Currently, LCFS emission reductions are priced at approximately $75/tonne higher than reductions in the cap and trade program. As the LCFS compliance obligation becomes more stringent, many expect this differential to continue to increase. Assuming a $100/tonne differential between the LCFS and the Cap & Trade programs, and ARB expected emission reductions from the LCFS at some 15MMT by 2020 results in California fuel consumers paying more than $1.5 billion per year more for GHG emission reductions

[1] http://www.lao.ca.gov/Publications/Report/3542

than if these reductions were allowed to occur in the Cap & Trade program.

Further, the current ARB Scoping Plan has the CI reduction target of 10% specified in alternative 3. Recognizing that ARB will be finalizing an update 2030 Scoping Plan in the near future, ARB LCFS staff should consider analyzing an alternative similar to alternative 3 in the Scoping Plan as part of this analysis.

WSPA believes the potential savings to consumers, coupled with design elements that could retain all the benefits of the current LCFS program, provide strong incentive for ARB to evaluate and consider this alternative approach.

WSPA appreciates this opportunity to provide our feedback. If you have any questions, please contact me at (805) 701-9142 or via e-mail at tom@wspa.org.

Sincerely,

cc: Catherine Reheis-Boyd, WSPA

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