Western States Petroleum Association
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Catherine H. Reheis-Boyd
President

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Kevin Kennedy
Assistant Executive Officer
Office of Climate Change
California Air Resources Board
1001 "I" Street
Sacramento, CA 95814

Subject: WSPA Comments on the Cap and Trade Preliminary Draft Regulation: Accelerating Fuels under the California Cap and Trade Program to 2012

Dear Mr. Kennedy,

The Western States Petroleum Association (WSPA) is a non-profit trade association representing twenty-eight companies that explore for, produce, refine, transport and market petroleum, petroleum products, natural gas and other energy supplies in California and five other western states.

We are submitting the following comments in response to your solicitation for stakeholder input on accelerating inclusion of fuels under the California Air Resources Board (CARB) Cap and Trade Program to 2012.

WSPA opposes the acceleration of including fuels – transportation fuels and natural gas – under the Cap and Trade Program from 2015 to 2012. Since the inception of CARB's program to implement AB 32, WSPA has commented that CARB must first analyze the potential impacts, especially the economic impacts, of bringing fuels into the Cap and Trade Program before developing regulations to do so (see our comments below).

CARB must follow the requirements of AB 32 to consider the cost-effectiveness of its regulatory program. Further, given the critical role that transportation plays in California's economy and the importance of energy costs to nearly every resident and business, CARB must exercise diligence in meeting the "seek(s) to minimize costs and maximize the total benefits to California" standard established in AB 32.

This can only be done by conducting an appropriate and thorough evaluation, including economic impacts, of any planned actions to include fuels in the Cap and Trade Program.

Impact of Transportation Fuels in Cap and Trade on Energy Costs, the Carbon Market and the Economy

The Scoping Plan envisions adopting cap and trade regulations where, in the second trading period, transportation fuels would be brought under the Cap and Trade Program. CARB is already imposing an LCFS on the transportation fuel sector as an early action which is likely to have significant potential cost impacts.

WSPA's November 3, 2009 letter to CARB's EAAC urged evaluation of the impact of the LCFS on the overall AB 32 program. In that letter we highlighted a study by Sierra Research that indicates, depending on the compliance scenario, incremental costs for the LCFS range from about $14 billion to $47 billion over the period from 2010 to 2020 (emphasis added).

This is significantly different than the claimed $11 billion cost savings for the LCFS in the Scoping Plan (emphasis added). In light of this significant disparity in potential economic impacts, there is simply no need to rush putting additional measures on transport fuels in the early years of the program – especially in light of the economic problems the State is already facing..

WSPA has previously commented that CARB should carry out an analysis to determine the effects of putting fuels in a cap and trade system. At a minimum such an analysis should include consideration of the following:

- What effect would including transportation fuel emissions in a cap and trade market system have on fuel supply (including potential fuel supply disruptions) and on the fuel supply infrastructure?
- What effect would doing that have on the cost of fuel, including potential market volatility?
- How would the emissions allowance allocation process mitigate or exacerbate changes in fuel supply adequacy or costs?
- How would inclusion of transportation sector emissions in the Cap and Trade Program (essentially doubling the size of the market) affect the rest of the market?
- How would the inclusion of transportation emissions in a market integrate with, affect the design of, obviate the need for, or duplicate other transportation sector policies, e.g. such as a LCFS?
- What are the design elements necessary to ensure equity in a program in which both a regulated sector (the electricity sector supply, in which the price and rate of return are regulated by the Public Utilities Commission) and a non-utility sector (the fossil fuel sector) both produce products and generate the emissions that will be affected by the Cap and Trade Program?
- What is the appropriate regulatory structural design for ensuring that fuel consumers experience a transparent and consistent carbon price and that fuel producers are not unduly burdened while serving as the point of regulation for consumer fuel emissions?
- What are other market-based approaches for addressing transportation fuels and what might be their impact on potential fuel supply disruptions and price volatility for consumers?

WSPA believes that addressing inclusion of transportation fuels and natural gas in the 2015 timeframe allows California time to: i) transition the Cap and Trade Program that includes fuels, and, ii) address the above questions prior to doing so. WSPA also believes that CARB must investigate and address issues of economic impact, feasibility of implementation, and cost-effectiveness that is critical to the successful implementation of AB 32.

Failure to adopt the most cost-effective policies could have significant adverse consequences for the State. An increase in average emission reduction costs of just $5 per ton would impose nearly $1 billion in unnecessary additional annual costs on the California economy.

The contention that adding fuels into the Cap and Trade Program earlier will result in a broader market and therefore a better and more liquid market in the early years of the program is not correct. This is so because the ability to reduce carbon emissions through consumer behavior is uncertain and the application of widely available fuel technology improvements will be extremely limited in the 2012 to 2014 timeframe.

In 2012, California will likely have no other states to link with that have a cap and trade system that includes transportation fuels and natural gas. In addition, even if/when other states do have a program, it is not clear that any will be bringing in fuels until 2015 – creating significant challenges for any attempts to link the programs.

Again, we urge that fuels – transportation fuels and natural gas – not be included in the Cap and Trade Program before 2015.

Thank you for considering our comments. If you have any questions, please contact me at the number or e-mail address shown on the letterhead.

Sincerely,

cc: Linda Adams, CALEPA
Cindy Tuck, CALEPA
Dan Pellissier, CALEPA
CARB Board Members
Dan Dunmoyer, Governor's Office
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