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Re: Low Carbon Fuel Standard – Comments on Proposed Economic Analysis



California's businesses rely on a reliable and affordable supply of transportation fuel to meet their business needs. California businesses experience some of the highest energy costs in the United States, and this is true of transportation fuel in particular. California regulations which affect the availability and cost of fuel are of extreme interest to us. It is in this light that we are providing the following comments on the importance of sound economic analysis of the Low Carbon Fuel Standard, the very first significant regulation scheduled to be adopted under the AB 32 Scoping Plan.



The Low Carbon Fuel Standard (LCFS) has the potential to significantly increase fuel costs for California consumers and businesses, and also to create supply disruptions. An objective, comprehensive economic analysis is essential to the development and implementation of an LCFS that will not disrupt the availability of reliable and affordable transportation fuels, while encouraging and rewarding low carbon fuels innovation. Our recommendations for achieving that result follow.

Elements of a meaningful economic analysis

The ARB's Resolution approving the Proposed Climate Change Scoping Plan ("Scoping Plan Resolution") establishes very clear responsibilities that must be met with regard to economic analysis in the LCFS regulation.

The economic analysis should include the following components to ensure the final LCFS minimizes consumer cost increases and supply disruptions:

Accurate assessment of specific annual costs

The economic analysis must include an assessment of the actual impacts of the LCFS regulation for each year from 2010 to 2020, as opposed to applying an average figure equally for each period, or simply looking at 2020. Since some periods will require, on a cash flow basis, greater investments and expenditures than others this detail is critical to understanding and preparing for cyclical consumer and supply impacts. This analysis must include, according to the Scoping Plan Resolution, estimates of the timing of capital investments and the expenditures necessary to repay those investments.

Timely life cycle analysis

For the economic analysis to be meaningful, the Life Cycle Analysis, to determine which biofuels, electric fueling systems and other alternatives will qualify to reduce gasoline and diesel emissions, must be completed BEFORE the analysis is finalized. An assessment of the availability of these alternatives must be completed as well, in consultation with the California Energy Commission and other appropriate agencies, as directed in the Scoping Plan Resolution.





Proper Baseline Consideration

ARB should start from a baseline consideration of likely future costs for both petroleum based and alternative fuels in the absence of the LCFS, and should identify the likelihood of alternatives being more or less expensive than petroleum fuels in the future. This is a critical element of the analysis, because if low carbon fuels are less expensive than gasoline and diesel in the future, then they are likely to be adopted without requiring the LCFS. On the other hand, if they are more expensive, then the LCFS will impose very significant costs.



Comparison to AB 32 cap-and-trade proposal

The Scoping Plan resolution requires that regulatory alternatives be developed and analyzed. The analysis should separately identify the cost per ton of GHG reductions attributable to offsetting gasoline emissions and offsetting diesel emissions. It should compare the cost of these reductions to the estimated costs of reducing GHG emissions through the proposed cap-and-trade program under AB 32. This comparison of costs of reducing emissions through cap-and-trade must be based on the updated economic analysis of the entire scoping plan, which ARB is required to complete by the Scoping Plan Resolution. Without completion of the updated Scoping Plan economic analysis, comparison of costs of regulatory alternatives cannot be done meaningfully.



Coordination with WCI economic analysis

The Scoping Plan Resolution requires that the economic analysis of the LCFS be coordinated with the economic analysis for the Western Climate Initiative.



Impact on Small Business

The Scoping Plan Resolution requires that ARB consult with small business in the development of the LCFS and, consider the size of the businesses and types of industries impacted by the regulation, and to identify financing programs that could help alleviate costs to small business.



CIPA

Impact from introduction of passenger diesel vehicles

The analysis should also identify the tonnage reductions that would result from the penetration of passenger diesel vehicles into the California market. ARB staff has acknowledged that there are fewer relative GHG emissions for these diesel powered vehicles than for comparable gasoline vehicles, but those reductions have not yet been taken into account in LCFS projections.

Technological feasibility and cost-effectiveness

The tonnage reductions that are required for the first four years of the program should be based on materials and technologies that are currently technologically feasible and cost effective, since it will not be feasible to cost-effectively deliver new materials and technologies to market before that timeframe.

Periodic review and adjustment

In addition to preparing a comprehensive economic analysis prior to plan finalization, provision should be made in the LCFS regulation for an explicit program review every three years. That review must include adjustment of reduction targets as necessary to ensure that reductions to be made in the coming three year period take into account current conditions, and are technologically feasible and cost-effective using materials and technologies available at the time the review is conducted.

This is critical to avoid supply disruptions and/or shortages if supplies of alternatives are not available. Failure to provide this key information could lead to significant price



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volatility and possibly to the necessity of fuel rationing, depending on the length and severity of any such supply shortfalls.

Peer Review

ARB's economic analysis for the low carbon fuel standard must be subject to a peer review under an established independent process such as that for the Scoping Plan Economic Analysis which was conducted for California EPA.

These recommended components are essential to the development and execution of an economic analysis that will provide the foundation for an LCFS that encourages and rewards innovation in the low carbon fuels arena. They will also safeguard the continuation of reliable and affordable supplies of transportation fuels for California's consumers and businesses.

Thank you for your consideration.

AB 32 Implementation Group

American Council of Engineering Companies of California

American GI Forum

Building Owners and Managers Association of California

California Automotive Wholesalers' Association

California Building Industry Association

California Business Properties Association

California Business Roundtable

California Chamber of Commerce

California Hispanic Chambers of Commerce

California Independent Oil Marketers Association

California Independent Petroleum Association

California League of Food Processors

California Manufacturers and Technology Association

California Nevada Cement Association

California Retailers Association

California Small Business Alliance

California Small Business Association

California Taxpayers' Association

Contra Costa Taxpayers Association

Kern County Taxpayers Association

California Trucking Association

Independent Oil Producers Agency

Industrial Association of Contra Costa County

Industrial Environmental Association

International Council of Shopping Centers



Latin Business Association
 Los Angeles Area Chamber of Commerce
 Metal Finishing Association of Northern California
 Metal Finishing Association of Southern California
 National Association of Industrial and Office Properties
 National Federation of Independent Business
 Orange County Business Council
 Printing Industries of California



Regional Legislative Alliance of Ventura and Santa Barbara Counties
 Retail Industry Leaders Association
 San Diego Urban Economic Corporation
 San Mateo County Economic Development Association (SAMCEDA)
 Santa Rosa Chamber of Commerce
 Sidel Systems USA, Inc.
 United Chambers of Commerce~ SFV & Region
 Valley Industry and Commerce Association (VICA)
 Western States Petroleum Association

