



Western States Petroleum Association
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Joe Sparano
President

August 20, 2008

Arnold Schwarzenegger
Governor, State of California
State Capitol Building
Sacramento, CA 95814

Dear Governor Schwarzenegger;

The Western States Petroleum Association (WSPA) believes your immediate action is necessary to get the Low Carbon Fuel Standard (LCFS) implementation plan back on track. We are writing this letter to suggest actions your administration might take now.

As background - your California Air Resources Board (CARB) has fallen behind in their LCFS technical analysis and does not have a feasible implementation plan. CARB is still unable to determine which fuels have lower GHG intensity than gasoline, and by how much. CARB has also not done a multi-media analysis of the impacts that alternative fuels may have on soil, air and water supplies as required by California law for new fuel formulations.

Despite this lack of basic and critical information, CARB is pressing ahead with adoption of the LCFS this year. Staying this course despite a lack of critical information could easily lead to a fuel supply crisis much like the electricity supply crisis of 2001.¹

Here are the specific actions that we believe your administration must take:

- Update the 2007 University of California LCFS report, to reflect the recent academic debate on life cycle analysis (LCA). This update should also include recommended alternative policy options for moving forward with the LCFS if a sound LCA indicates that GHG intensity reductions in the early years are not cost effective or technically feasible.
- Engage in a proper cost-effectiveness and technical feasibility review of each alternative fuel option considered in the LCFS.

¹ This is exactly what CARB Member Dan Sperling cautioned when, pursuant to your Executive Order, CARB adopted the LCFS as an AB 32 Discrete Early Action in June of 2007: He said, "You know, we've had a bad experience in California a few years ago with the electricity deregulation. We want to make sure we do get it right this way."

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- Complete a multi-media analysis for alternative fuels that may be blended with gasoline and diesel, or that may be considered as low carbon fuel options.
- Properly consider the impacts of LCFS on California fuel supplies and on the fuel supplies of neighboring states that rely on California fuel.
- Include appropriate (i.e. fuel neutral) credit to fuel providers as well as vehicle suppliers for the use of diesel as a lower GHG fuel in the LCFS.
- Defer inclusion of GHG reductions for diesel fuel in the LCFS until CARB has successfully implemented a gasoline-based LCFS.
- Dismiss any recommendation to impose hidden taxes or fees on fuel in the LCFS, via onerous “alternative options” on the fuel providers.
- Immediately publish a plan that shows how CARB will complete these analyses and still adopt a rule before 2010 that will not result in hidden gasoline taxes or gasoline lines for California consumers, businesses and the public sector.

California’s economy relies on a reliable and affordable supply of transportation fuels for consumers, businesses and the public sector. Disruption of this supply is highly likely to harm the State’s economy. The LCFS must be implemented in a way that ensures adequate supplies of transportation fuels to all California users.

The LCFS depends on the ability of CARB to identify which fuels will lower the average GHG intensity of California’s passenger transportation fuel pool, by conducting a sound LCA of those fuels. CARB has not yet completed that LCA, despite its planned adoption of the LCFS rule by the end of 2008.

In the meantime, the US EPA is conducting a parallel life-cycle analysis process for the federal EISA program. Despite substantial time and resources being applied by EPA, they too are not ready to declare which fuels are “low carbon,” due to the inherent complexity of the issue.

Without a sound LCA, the LCFS will be a failure. CARB will only be able to guess at what alternative fuel blends will decrease GHG emissions, and may end up simply choosing winners and losers based on insufficient information.

As a result, the LCFS program is as likely to increase GHG emissions as it is to reduce them. It is also just as likely to misdirect investment into technologies that do not actually achieve the LCFS goals.

This situation we are highlighting poses unacceptable risks for California’s fuel supplies and its consumers, businesses and the public sector. A poorly developed LCFS program with a weak LCA might actually increase GHG emissions and may easily result in inadequate supplies of alternative fuels.

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A scenario such as this might tempt CARB to impose hidden gasoline taxes in the form of “alternative compliance fees.” This scenario would also likely lead to a very tight market for LCFS credits (since complying alternative fuels would be scarce) that could significantly impact the availability of transportation fuel in California.

WSPA would like to meet with you and your staff to discuss these concerns in greater detail. We cannot overstate the urgency of your engagement in this issue.

Your leadership will be necessary for California to have a Low Carbon Fuel Standard that reduces greenhouse gas while protecting the state’s consumers, businesses and public sector, and that avoids damaging the State’s economy. This would be a demonstration of leadership that California needs and deserves.

Sincerely,

A handwritten signature in black ink that reads "Joe Sparano". The signature is written in a cursive, flowing style.

Cc: Susan Kennedy, Chief of Staff, Office of the Governor
Dan Dunmoyer, Cabinet Secretary, Office of the Governor
Darren Bouton, Deputy Cabinet Secretary, Office of the Governor
Chris Kahn, Legislative Secretary, Office of the Governor
John Moffett, Deputy Legislative Secretary, Office of the Governor
Linda Adams, Secretary, California Environmental Protection Agency
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Mary Nichols, Chair, California Air Resources Board
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Senator Don Perata, President pro Tem, California State Senate
Senator Darrell Steinberg, President pro Tem Elect, California State Senate
Senator Dave Cogdill, Senate Minority Leader
Senator Christine Kehoe, Chair, Senate Energy, Utilities & Communications Committee
Senator Robert Dutton, Vice Chair, Senate Energy, Utilities, & Communications Committee
Assembly Speaker Karen Bass
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Catherine Reheis-Boyd, Chief Operating Officer, WSPA