

**Comments of the California Independent Petroleum Association on the
Amendments to the Low Carbon Fuel Standard**

The California Independent Petroleum Association (CIPA) appreciates the opportunity to submit the following comments to the California Air Resources Board (CARB) for its consideration.

The mission of CIPA is to promote greater understanding and awareness of the unique nature of California's independent oil and natural gas producer and the market place in which he or she operates; highlight the economic contributions made by California independents to local, state and national economies; foster the efficient utilization of California's petroleum resources; promote a balanced approach to resource development and environmental protection and improve business conditions for members of our industry.

The members of CIPA believe that domestic petroleum production already plays a meaningful role in helping the state meet its policy goals for reducing greenhouse gas emissions in California. But we are deeply concerned that the current climate policy construct could lead to widespread curtailment of domestic production, which in turn will lead to increased use of imported crude feedstocks and the transportation necessary for the imports- crude produced under far less stringent environmental controls.

Low Carbon Fuel Standard Amendments

The Low Carbon Fuel Standard (LCFS) (Order issued on January 18, 2007), calls for a reduction of at least 10 percent in the carbon intensity of California's transportation fuels by 2020. The California Environmental Protection Agency was ordered to develop and propose a draft compliance schedule to meet the 2020 target.

One of the goals articulated for the program in the founding Executive Order (EO) was to reduce California's dependence on imported oil and keep more money in the state¹. Another was to not disrupt California's economy². In fact, according to the EO, transportation fuel volatility "imperils our economic security, endangers our jobs, and jeopardizes our industries."³

CIPA is concerned that certain amendments to the LCFS could have the unintended effect of disrupting supply or adding artificial volatility to transportation fuel costs that would be counter to the goals of the LCFS. Moreover, it is our view that the proposed changes to the program could have the perverse effect of increasing greenhouse gas emissions, even inadvertently and/or extra-regionally, which would be counterproductive.

These comments are submitted to express CIPA concerns over the current effort to adopt amendments to the LCFS, particularly in regards to the changes that move from a production default carbon score to a statewide average score with differentiation based upon marketed crude names and/or field names and compared against a statewide average.

While CIPA is not a directly regulated party under the LCFS, our members do have the potential to become collateral damage. The carbon intensity measurement is changing and there will be consequences, both intended and unintended to California heavy oil producers. As the program moves from a default scored basket to a statewide averaging approach, we entreat you to first do no harm to domestic production, which is an integral part of the California economy and currently responsible for nearly 40% of California's crude oil supply.

More specifically we are concerned about the drive to abandon the California baseline average toward full differentiation of crude feedstocks. By shifting towards a scheme

¹ Governor's Office Final White Paper, January 2007, p. 7.

² *Id.*

³ Executive Order S-01-07

that requires detailed reporting for California production, but relies on default assumptions for imported crude, the program could potentially have negative environmental and economic consequences for in state production.

According to the Staff Report⁴, “the intent of the regulation is to ensure that the LCFS benefits are not diminished due to increases in GHG emissions from higher carbon intensity crude supplies.” Moreover, the report states that “since the LCFS regulation takes into account full lifecycle GHG emissions for fuel pathways, including all stages of feedstock production and distribution, the upstream emissions from energy-intensive crude recovery methods need to be accounted for in the regulation⁵.”

And yet, the only operational understanding (not theoretical, hypothetical, modeled) of carbon intensity inputs available are those from domestic production, which is the most permitted, regulated, reported, environmentally sensitive production in the world. Carbon intensity values for the rest of the world are extrapolated from National Oceanic and Atmospheric Administration (NOAA) flaring data, with a transportation adder appended, and using a complex mix of non-standardized conversion factors and based upon numerous unsubstantiated assumptions⁶.

What this means practically is that we will have carbon intensity scores for domestic production based upon actual data, and carbon intensity scores for rest-of-world production that is either guesses or made up. This is less important under an averaging scheme than in a fully differentiated methodology, but in either case, domestically produced crude will suffer against imports based upon accurate scoring -or lack thereof- and the buying behavior of regulated parties who will suffer costly deficits for taking in too much crude feedstock with higher carbon intensity scores will be negatively influenced.

⁴ Staff Report: Initial Statement of Reasons; Proposed Amendments to the Low Carbon Fuel Standard, October 2011; p. 33.

⁵ *Id.* P. 30.

⁶ Appendix C, CALCULATION OF BASELINE CRUDE AVERAGE CARBON INTENSITY VALUE; p. C-2

Although CARB is attempting to answer this data gap by contracting with Acting Assistant Professor Adam Brandt of Stanford University to construct the Oil Production Greenhouse Gas Emissions Estimator (OPGEE)⁷, by its own admission the OPGEE scoping plan tells us there will be a tradeoff between accuracy and required data that will be addressed by presenting comprehensive default parameter values.

We are told that all required inputs to the model will be assigned default values that can be left as is or changed to match the characteristics of a given oil field, or marketable crude oil blend. If only a limited amount of information is available for a given project, then most of the values will remain at defaults. In contrast, the scoping plan notes, *if detailed data are available, a more accurate⁸ emissions estimate can be generated.* OPGEE- where there is data there is accuracy; no data, no accuracy?

So, under a fully differentiated construct using the Acting Assistant Professor's model domestic production, for which data is readily available, will be accurate and rest-of-world production will get default scores according to his own project scoping plan. This creates by definition an unlevelled regulatory playing field for California crude oil production as opposed to imports from foreign nations such as Libya or Venezuela.

Referring back to one of the desired goals of the amendments under consideration, namely a more accurate accounting of carbon intensity, it is reasonable to construe from the foregoing that we are likely to achieve less accuracy from the current proposed amendments, not more. Moreover, we will move from a structure that gave domestic production a default score and required imports to score their carbon intensity to the inverse- a structure that gives imported crude default scores and requires our own state resources to accurately score their carbon intensity. This is backward.

⁷ Project Scoping Plan: Oil production greenhouse gas emissions estimator (OPGEE), A life cycle assessment (LCA) tool for upstream petroleum emissions; Brandt, Adam R. and El-Houjeiri, Hasan.

⁸ Emphasis added.

At a minimum, CIPA requests CARB address this issue to ensure California production is not disadvantaged from a reporting standpoint with foreign imports before adopting the final regulatory changes.