



September 23, 2008

Governor Arnold Schwarzenegger
State Capitol
Sacramento, CA 95814



KERNTAX

Dear Governor Schwarzenegger:

RE: Principles for Implementing a Successful Low Carbon Fuel Standard



We are writing to express our support for the following principles for implementing the low carbon fuel standard (LCFS) which is proposed to reduce the carbon intensity of California's passenger transportation fuels 10% by 2020. It is an important element of the state's AB 32 plan to reduce greenhouse gas (GHG) emissions, and is expected to reduce GHG emissions by 16 million metric tons annually.



The potential costs of the low carbon fuel standard (LCFS) for California consumers are very significant. That's why it is vitally important that California's low carbon fuel standard be developed in such a way as to provide reliable and affordable transportation fuel supplies while encouraging and rewarding low carbon fuels innovation.

CONTRA COSTA TAXPAYERS ASSOCIATION

Low Carbon Fuel Principles

To achieve these objectives it will be important that the California Air Resources Board (CARB) apply the following principles in developing the Low Carbon Fuel Standard:



Scientifically Defensible Fuel Life Cycle Analysis

To ensure that the low carbon fuel standard actually reduces greenhouse gas emissions, the state must complete its Life Cycle Analysis, a methodology used to measure GHG emissions from the low carbon fuel options which is currently under consideration. A critical component of this measurement, according to University of California researchers, is accounting for the land use impacts of biofuels and other transportation fuels. Preliminary results show that the land use impacts of corn-based ethanol and other first-generation biofuels could be quite significant. Unfortunately, CARB has not yet clearly committed to including these impacts in its life cycle analysis. Without this inclusion, there is a great deal of uncertainty regarding the GHG benefits of some fuel options proposed by CARB. This creates serious doubt whether CARB can complete a sound rule by the end of 2008 and thus will not provide the regulatory certainty needed to stimulate the substantial investment essential to achieving the goals of the LCFS.





A Timeline that Encourages Technological Innovation

The low carbon fuel standard differs from most of CARB's other major changes in transportation fuel in which the fuel formulation was developed, tested and commercialized before regulations were implemented. In contrast, achieving the low carbon fuel standard goal will require first inventing, then developing and finally commercializing new low carbon fuels and the vehicles that use them. While private investors, fuel companies, academics and others are investing significant resources to develop these fuels, these advanced renewable fuels and vehicles that will allow us to achieve the 2020 goals and beyond are still under development and are not yet ready for commercialization. To encourage the development of these new fuels, the University of California's report on the low carbon fuel standard recommended a back-ended compliance timeline for introduction of these fuels into the marketplace. Attempts to artificially front-load the compliance timeline could force the investment in first-generation fuels such as corn-based ethanol that some research has shown would increase GHG emissions. Of even greater concern, this would direct investment away from the development of advanced renewable fuels and vehicles. Instead, these objectives should be met with interim milestone goals that drive technological innovation, leading to significant carbon intensity reduction targets in later years.



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Avoid Punitive Alternative Compliance Taxes

There is concern that CARB staff is contemplating setting unrealistic goals for early compliance, and then penalizing companies that don't meet these goals by imposing what is essentially an alternative compliance tax. Not only is such a scheme unfair and probably illegal, it creates perverse economic consequences by diverting capital away from developing advanced low carbon fuels which are the key to achieving the LCFS emission reduction goals.



LCFS Regulations Should be Fuel Neutral

The LCFS regulations should allow the various fuel options to compete on an even playing field based on their ability to reduce GHG emissions. One of the most effective near-term options identified in the UC LCFS studies for reducing GHG emissions is the use of clean diesel in the light-duty fleet because it is more fuel efficient and thus produces less GHG emissions than gasoline. The use of diesel would result in both GHG emission reductions and reductions in the use of petroleum for transportation – two key objectives of the LCFS. Light-duty diesel vehicles will be able to meet California's vehicle emission standards in 2009. In addition, allowing light-duty diesel vehicles would also help introduce advanced generation renewable diesel fuels. Unfortunately, CARB staff is unwilling to consider diesel as a means of complying with the LCFS.



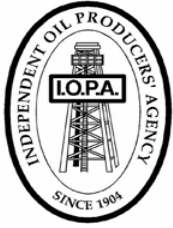
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Thorough Review on Impact to Fuel Supply and the Environment

Reliable fuel supplies are vital to the economic vitality of the California economy and to the millions of people that rely on their vehicles for work and pleasure. Disruptions to transportation fuel supplies can cause crippling fuel shortages costing the state and consumers billions of dollars. That’s why a thorough and balanced review of how the low carbon fuel standard will impact fuel supplies is critical before any decisions to move forward are made. Likewise, a thorough evaluation of the multi-media impact of LCFS itself and the specific new fuels and vehicles is also needed. A successful LCFS by definition must introduce substantial volumes of new low carbon fuels. The impacts on the environment and human health resulting from their introduction must be carefully examined to ensure no unintended environmental harm is caused by these new fuels.



Keep it Simple

The initial LCFS rulemaking should not, as proposed, set a separate carbon intensity reduction for diesel fuel. The life cycle analysis uncertainties, supply concerns, and concerns about technical feasibility and cost effectiveness are even greater for diesel than they are for gasoline. Diesel fuel drives California’s economy. Diesel-using industries use fuel as a business input and therefore have great incentives for fuel conservation (and resulting GHG reductions). These industries, and the economy that they serve, will already be subjected to very strict engine replacement/refit rules and are also more likely to be negatively impacted by fuel costs and supply impacts caused by a poorly written LCFS.



Los Angeles Area Chamber of Commerce

Harmonization with Related Federal Programs

CARB should closely monitor related federal EPA rulemakings to prevent conflicts in the requirements for regulated parties and there should be an assessment no later than 2015 to determine whether the state and federal programs should be merged. CARB should harmonize its life cycle modeling with that carried out by U.S. Environmental Protection Agency.



Monitor Compliance and Milestones

The LCFS rule should establish periodic milestones over the implementation period of the LCFS to gauge progress toward emission reductions and reliable fuel supplies.



There are several actions we believe that CARB and the Administration should take immediately:

- Update Parts 1 and 2 of the 2007 University of California LCFS report, to reflect the recent academic debate on indirect land use change, the proposed changes in how CARB is handling diesel and to recommend policy options for moving forward with LCFS if a full life cycle analysis indicates that fuel carbon intensity reductions in the early years are not cost effective or technically feasible.



- Provide CARB with adequate time to resolve basic life cycle analysis questions by extending the deadline for initial compliance of the LCFS regulation due to the delay in the analysis and implementation plan. Consideration should be given to making the timeline consistent with the 2012 AB 32 timeline for regulatory development and implementation.
- Engage in a proper review of the cost effectiveness and technical feasibility of each alternative fuel option considered in the LCFS regulation.
- Properly consider the impacts on California gasoline and diesel fuel supplies of the Low Carbon Fuel Standard.

These actions are necessary as a step forward in meeting the objectives of the low carbon fuel standard and will not impede the use of current generation biofuels. Federal fuel policy requires significant expansion of the use of biofuels over the next 15 years, including the use of advanced low carbon biofuels by the year 2015.

Thank you for your consideration.

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