



OREGON TRUCKING ASSOCIATIONS, INC.

Vote "No" On Removal of LCFS Sunset

Legislation anticipated for the 2015 session would eliminate the December 31, 2015 sunset of DEQ's Low Carbon Fuel Standard (LCFS). The purpose of the sunset is to allow the legislature to provide continuing oversight over this experimental program.

House Bill 2186, enacted in 2009, authorized DEQ to develop an LCFS. Late 2012, DEQ staff developed partial administrative rules to implement the LCFS. The rules are incomplete because they do not contain a process for buying and selling credits necessary if transportation fuel providers are unable to meet the carbon reduction targets and they do not include carbon intensity standards that would allow calculation of the actual carbon reductions.

In December of 2012, DEQ staff withdrew the rules from consideration by the Environmental Quality Commission (EQC). At this time, the actual LCFS program is unknown. It is inadvisable and unnecessary for the legislature to remove the sunset. Leaving the sunset in place will permit the legislature to continue to provide critical oversight over this program.

If DEQ were to implement an LCFS, the members of the Oregon Trucking Associations would continue to oppose it, assuming that it is substantially similar to California's program. California is the only state to implement an LCFS. Our limited experience with an LCFS causes the trucking industry to continue to have the following concerns:

The California Trucking Association commissioned a study of California's LCFS. **This study found that the LCFS would increase the cost of diesel fuel by approximately \$1.47 per gallon.** (See attached.) An increase of this magnitude would make Oregon's trucking industry uncompetitive in the marketplace because out of state trucks could fill up with lower cost diesel in states without an LCFS and then haul freight in Oregon. A highway truck has a range of about 1800 miles on a single fill up. Trucks currently transport approximately 75% of the freight in Oregon.

Truck engine manufacturers currently honor their warranties with blends of no more than 20% biodiesel. To meet the goal of the LCFS, it would require far

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more than a 20% biodiesel blend, thereby, voiding all current truck engine warranties.

One approach suggested to meet the LCFS is to **switch heavy trucks from diesel fuel to natural gas**. Currently, a heavy duty truck engine capable of using natural gas costs approximately \$40,000 more than a comparable diesel fired engine. In addition, new fueling facilities would have to be built at a cost of millions of dollars per facility. Truck maintenance facilities would also have to be retrofitted, at significant cost, to ensure a spark free environment. The trucking industry is working to transition to natural gas. However, because of the costs, it will take some time to make the switch.

The U.S. District Court for the Eastern District of California found California's LCFS standard to be unconstitutional. (Rocky Mountain Farmers Union et al v. California Air Resources Board et al, 843 F Supp. 2d, 1042.)

Oregon's proposed LCFS is modeled after California. The case is currently on appeal to the Ninth Circuit Court of Appeals. An initial decision by the Ninth Circuit also raised the issue of whether or not federal laws preempt states, except for California, from adopting a Low Carbon Fuel Standard.

The exemptions and off ramps will not provide relief to fuel users. DEQ staff has acknowledged that the exemptions for log and farm trucks will not work because fuel suppliers are unlikely to provide both LCFS compliant and non-LCFS fuel. The off ramps will not be timely because DEQ has indicated that they must first conduct an investigation to determine if the LCFS is causing the problem and then they must submit their findings to the EQC for approval. This process will take months while fuel users continue to suffer with higher cost fuel or shortages of compliant fuel.

DEQ's assumptions of benefits, from the LCFS, for Oregon's economy are unfounded. DEQ's economic analysis assumes that fuel cost will not increase as a result of the LCFS and the fuel consumed in Oregon will be made in Oregon. The California Trucking Association's study of California's LCFS refutes the assumption that fuel prices will not increase. It is also very unlikely that much of the fuel needs of Oregonians will actually be made here because it is cheaper to transport the finished fuel than it is to transport the feedstock to Oregon based refineries. Most biofuels are made from corn or soybeans grown in the Mid-West. Experts agree that large quantity cellulosic conversion is years away and are most likely to occur in the Southeast because of the availability of the necessary feedstock.

The Impact of the Low Carbon Fuel Standard and Cap and Trade Programs on California Retail Diesel Prices



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Table 4 shows that the cost of this Cap and Trade rule would raise the wholesale cost of diesel by \$0.42/gallon by 2020.

Table 4. Cap and Trade Wholesale Diesel Price Impacts²⁹

Price impacts	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cap and Trade	0	0	0	\$0.33	\$0.34	\$0.36	\$0.38	\$0.40	\$0.42

3. Total LCFS and Cap and Trade Program Costs

Table 5 displays the total program-based annual price impacts of the combined LCFS and Cap and Trade programs. By 2020, the joint wholesale impact of the two programs would be \$1.89.

Table 5. Program-Based Diesel Price Impacts

Price impacts	2012	2013	2014	2015	2016	2017	2018	2019	2020
LCFS	\$0.06	\$0.11	\$0.19	\$0.41	\$0.46	\$1.11	\$1.20	\$1.31	\$1.47
Cap and Trade	0	0	0	\$0.33	\$0.34	\$0.36	\$0.38	\$0.40	\$0.42
Net Program Costs	\$0.34	\$0.40	\$0.50	\$0.74	\$0.80	\$1.47	\$1.57	\$1.71	\$1.89

4. Impact of Combined Program Costs on Wholesale Diesel Prices Table 6 displays the impact of the combined program costs on wholesale diesel prices. The base forecast is the CEC's high price forecast. The net wholesale price is the sum of the combined program impacts and the base case, not including taxes. By 2020, the wholesale price of diesel would be \$5.37.

Table 6. Impact of Combined Program Costs on Wholesale Diesel Prices

Price impacts	2012	2013	2014	2015	2016	2017	2018	2019	2020
Base Forecast ³⁰	\$3.04	\$3.17	\$3.30	\$3.39	\$3.42	\$3.45	\$3.47	\$3.48	\$3.48
Net Program Costs	\$0.34	\$0.40	\$0.50	\$0.74	\$0.80	\$1.47	\$1.57	\$1.71	\$1.89
Total Price, ex tax ³¹	\$3.10	\$3.26	\$3.47	\$4.13	\$4.22	\$4.91	\$5.04	\$5.18	\$5.37

5. Program-Based Retail Diesel Price Impacts Table 7 displays the retail impacts of the combined LCFS and Cap and Trade costs. The retail impact is the difference between the retail CEC base price forecast and the retail price forecast that includes program costs. Retail prices are calculated using current federal, state and local tax rates³².

Table 7 shows that the retail impact of the combined LCFS and Cap and Trade programs will increase retail diesel prices by \$2.22/gallon by 2020, increasing the retail cost of diesel by 50 percent to \$6.69/gallon.

²⁹ The carbon intensity of diesel is 0.43 MT CO₂/barrel. See 40 CFR Parts 86, 87, 89 et al. Mandatory Reporting of Greenhouse Gases: Final Rule. The diesel CI multiplied by the average carbon credit price and divided by 42 gallon/barrel gives the per-gallon cost.

³⁰ CEC High Oil Price Diesel Price Forecast, Ex Tax

³¹ Sum of forecast and total program price increment

³² Includes 24.4 cpg federal excise tax, 13 cpg state excise tax, 2 cpg state UST fee, 9.12% state tax and 8.11% local tax

Heavy Truck Emission Reduction Strategies

Oregon has established a goal to reduce greenhouse gas emissions by 75%, from 1990 levels, by 2050. The transportation sector currently contributes approximately 34% of the greenhouse gas emissions in Oregon. Of that, heavy trucks are responsible for 16%.

There are essentially three ways to reduce greenhouse gases from heavy trucks:

1. Replace petroleum based fuels with non-petroleum fuels.
2. Reduce consumption of petroleum fuels.
3. Change the engine technology used to propel heavy trucks.

The following regulations have been adopted to reduce greenhouse gas emissions from heavy trucks operating in Oregon:

1. EPA pollution control technology on 2010 and newer truck engines that reduces particulates and NOx by approximately 95% compared to engines built in 2001.
2. EPA regulation requiring a 20% improvement in heavy truck MPG by 2018.
3. EPA Renewable Fuel Standard requiring increased use of biofuels.
4. EPA SmartWay program that encourages fuel savings technologies.
5. EPA SuperTruck program. EPA has provided grants to heavy truck manufacturers in the amount of \$115 million to reduce fuel consumption by 50%.
6. Oregon Renewable Fuel Standard requiring diesel blends that include 5% biodiesel.
7. Oregon truck idling regulation that sets a basic standard of 5 minutes of idling or less in any given 60-minute period.

The trucking industry strongly prefers that regulatory programs, designed to reduce emissions be implemented by the federal government rather than by the states. Federal programs impact all trucking companies equally so that the competition between trucking companies is not affected.

During the 2013 session of the Oregon Legislature, two bills were passed and signed into law by the Governor that will assist Oregon's trucking industry to transition to natural gas to fuel heavy trucks. SB 583 provides a 35% tax credit for the increased cost of purchasing natural gas powered trucks and for natural gas fueling stations. Tax credits for fueling stations are available now and beginning 1/1/15 for trucks. SB 844 requires PUC to establish a voluntary program to encourage use of alternative fuels such as natural gas.