



January 30, 2015

NextGen Climate, Inc.  
111 Sutter St.  
San Francisco, CA 94104

Senate Committee on Environment and Natural Resources  
Oregon State Capitol  
900 Court Street NE, Room 347  
Salem, Oregon 97301

Dear Senator Edwards:

On behalf of NextGen Climate, I would like to thank the Senate Committee on the Environment and Natural Resources for the opportunity to comment on SB 324. NextGen Climate is a nonprofit Social Welfare Organization dedicated to preventing climate disaster and enabling American prosperity. We recognize the critical role transportation plays in climate policy and we strongly support extending Oregon's Low Carbon Fuel Standard<sup>1</sup>. We are, however, concerned with one section contained within SB 324: Section 2 (2(d)) (Lines 24-40 in Revision 1 of the bill), relating to suspension of the program if the cost of fuel is more than 4% above other PADD 5 states. ***We support SB 324 if amended to remove this section.***

Fuel carbon policies, like the Clean Fuels Program, are a critical element in a comprehensive climate policy and provide an essential incentive for bringing advanced low-carbon technologies into commercial deployment as economies transition to long-term sustainability. While we recognize the need for cost containment within the Low Carbon Fuel Standard, the mechanism described by Section 2 (2(d)) is insufficiently specific, potentially open to manipulation, and introduces an unacceptable level of uncertainty into the program.

### **Oregon's Low Carbon Fuel Standard Shows Leadership on a Key Climate Issue**

Transportation accounted for approximately 36% of Oregon's greenhouse gas (GHG) emissions in 2010<sup>2</sup>. The share of emissions from transportation is generally expected to go up over the next decade in western U.S. states due to reductions in emissions from non-transportation sectors of the economy. Recognizing the critical need for carbon reduction policies, Oregon joined California, Washington and British Columbia in agreeing to groundbreaking climate policy through participation in the Pacific Coast Collaborative

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<sup>1</sup> For the purposes of this letter, we use "Low Carbon Fuel Standard," "Clean Fuels Standard," and "Clean Fuels Program," interchangeably.

<sup>2</sup> [http://www.oregon.gov/deq/AQ/Documents/OregonGHGinventory07\\_17\\_13FINAL.pdf](http://www.oregon.gov/deq/AQ/Documents/OregonGHGinventory07_17_13FINAL.pdf)

(PCC). Through the collaborative, Oregon demonstrated its commitment to climate leadership. Low carbon fuels policy is a key element of the PCC agreement and a necessary element in achieving long term climate sustainability. If the emissions from transportation are not substantially reduced, it is virtually impossible for any state to meet its climate goals.

### **Low Carbon Fuel Standards Stimulate Innovation and Create Jobs In-State**

The traditional system of fueling transportation in Oregon relies on diesel and gasoline, which are refined outside the state from crude oil which is produced outside the state. The jobs and profit from this system accrue primarily to out-of-state interests. Low carbon fuels have an innate incentive to be produced locally, since fuel suppliers are required to account for the emissions created from transporting fuel into the state. The farther the fuel has to come, the less valuable it is because of these transport emissions. This helps local businesses compete against entrenched out-of-state interests; biodiesel produced from local waste oil would be more valuable than equivalent fuel produced elsewhere. This incentive for local production directly helps local farmers and restaurateurs, who would produce the biomass for low carbon fuels. Local sustainable businesses, such as biofuel producers and installers of electric vehicle charging stations would also directly benefit from low-carbon fuel policies. California has reaped substantial benefits from its commitment to sustainable transportation. According to a recent report from Advanced Energy Economy<sup>3</sup>, California's sustainable transportation policies, of which its Low Carbon Fuel Standard is the key element, have produced over 25,000 jobs.

### **Low Carbon Fuel Standards Enable a Smooth Transition to a Sustainable Future**

Low carbon fuel policies achieve two goals: direct reduction of carbon emissions and incentivizing commercial deployment of advanced technologies. The latter goal is a niche that few other options in the policy toolkit can address in as direct, efficient and timely a fashion. By creating a market-based incentive structure that provides greater rewards for fuels which yield greater carbon reductions, the Low Carbon Fuel Standard would help the most advanced technologies reach market sooner, so that future, more aggressive targets can be reached in a cost effective manner. Without technology-promoting policies like a Low Carbon Fuel Standard, there is a risk that highly efficient technology will not develop quickly enough to meet long term goals.

### **Recent Research Has Demonstrated that Oregon's Targets Can be Met with Likely Fuel Supplies**

Recent research from the International Council on Clean Transportation and E4tech has demonstrated that there are a variety of technological and supply pathways which can meet Oregon's low-carbon fuel demands in a cost-effective manner<sup>4</sup>. Already, electric vehicles, including plug-in hybrids, are demonstrating that they are cost-competitive and commercially attractive options in the passenger vehicle market. Existing biofuel production facilities are reducing their carbon emissions through efficiency enhancements and greater use of

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<sup>3</sup> <http://info.aee.net/hs-fs/hub/211732/file-2173902479-pdf/PDF/aei-california-advanced-energy-employment-survey-fnl.pdf>

<sup>4</sup> <http://www.theicct.org/potential-low-carbon-fuel-supply-pacific-coast-region-north-america>

renewable energy. The first two advanced cellulosic ethanol production facilities in the U.S. came online in the last quarter of 2014, with other projects in various stages of demonstration or commercialization, including in Oregon<sup>5</sup>. There are many combinations of fuels and technologies which would allow Oregon to meet its goals under the proposed Low Carbon Fuel Standard. This flexibility will help minimize cost by allowing fuel markets to find the lowest cost pathways for decarbonization.

### **We Urge an Amendment to Remove Section 2 (2(d)) of This Bill, Regarding the Automatic Suspension of the Law**

We recognize the need to protect the economy from excessive increases in fuel price resulting from the low carbon fuel standard. We are concerned, however, that the process put in place by Section 2 (2(d)), which suspends the program when the rolling 12 month average price is four percent higher than similar prices in PADD 5. This provision, while well-intentioned, could lead to adverse consequences for the program without providing the intended cost certainty. Specifically:

- External forces, such as pipeline disruption or change of ownership in West Coast Refineries could cause the price within Oregon to diverge from the PADD 5 average for a long enough period of time to significantly affect the 12 month rolling average. The success of a critical sustainability program should not be made contingent on stability within petroleum production and distribution markets, which are historically unstable.
- A period of low oil prices, such as the one we are currently experiencing, dramatically increases the likelihood that the Low Carbon Fuel Standard would be suspended, since the cost change from the proposed Low Carbon Fuel Standard would produce a larger percent change when base gasoline prices are low. Given that the intent of Section 2 (2(d)) is to protect consumers from high oil costs, it is counterintuitive to adopt a policy which increases the likelihood that the Low Carbon Fuel Standard would be suspended when prices are at historic lows.
- *Most importantly*, this provision interferes with gasoline and diesel provider market incentives to find the lowest-cost compliance pathways. Market based regulations, like Low Carbon Fuel Standards are preferable to command-and-control regulation because they allow market actors to choose technological and commercial portfolios which minimize costs. Low costs are then passed on to consumers through normal market operation. Nonetheless, oil companies have been antagonistic towards low carbon fuel policies, like the Low Carbon Fuel Standard. By triggering suspension of the regulation when costs exceed a certain percentage above PADD 5 averages, oil companies are now given an incentive to comply with the regulation in less efficient ways. Essentially, by choosing high-cost compliance pathways, they could trigger the suspension of the regulation and achieve the goal that they have explicitly sought during previous legislation and rulemaking periods.

Section 2 (2(d)) deeply undermines the basic premise of the Low Carbon Fuel Standard, introduces deep uncertainty about the long term viability of the program, allows the

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<sup>5</sup> <http://www.biofuelsdigest.com/bdigest/2014/04/14/zeachem-biofuels-digests-2014-5-minute-guide/>

petroleum industry an implicit veto over the program and strongly disincentivizes investment into low carbon fuels.

We recognize the need for cost certainty within the Low Carbon Fuel Standard and feel that there are other, superior, options including, but not limited to, establishment of a credit reserve at a maximum price, allowing credits towards future obligations to be brought forward and used to meet current obligations, or accepting a limited use of carbon offsets or other emission reduction instruments to substitute for reductions within the fuel sector. We urge the Legislature to explore one of these other options and we ***support the passage of SB 324 if Section 2 (2(d)), which comprises lines 24-40 in Revision 1 of the bill, is omitted or replaced with one of the options described above.***

We thank the Senators, Senate Staff and Department of Environmental Quality for their diligent work on this issue and greatly appreciate the chance to comment. We are happy to discuss or expand upon this letter if it would be of value to any interested parties.

Sincerely,

Colin W. Murphy  
Climate Policy Advocate  
NextGen Climate America, Inc.