Oregonians

FOR SOUND FUEL POLICY

488

SB 488: Frequently Asked Questions

Why are the members of Oregonians for Sound Fuel Policy opposed to SB 488?

A yes vote on SB 488 is a vote to implement the proposed Low Carbon Fuel Standard. SB 488 is strongly opposed by labor, business, agriculture, trucking, fuel providers, construction companies, service station owners and motorists because it is unnecessary, redundant, costly and unconstitutional. SB 488 would:

1) Very likely increase gasoline and diesel costs, lead to lost jobs and potentially suffocate the already tepid economic recovery Oregon is finally starting to experience.

2) Remove the sunset clause that legislators intentionally put in place in 2009, thereby removing Legislative oversight of a program that has floundered for four years.

What is the expected economic impact?

Economic studies indicate it will cost Oregon's fuel industry $0.33 to $1.06 per gallon[1] or over $1,200 per household per year.[2]

Between 2007 and 2011 Oregon lost over 113, 200 nonfarm payroll jobs. By 2022, there could be between 9,000 and 29,000 fewer net jobs in Oregon due to the LCFS imposed by SB 488.[3]

How would SB 488 lead to increased gas and diesel costs?

The price shock is caused by the large increase in production of low carbon fuels required to achieve the reductions in emissions required by the standard. Translation: there are not currently, nor is there forecast to be, sufficient supplies of low-carbon fuels, domestically or internationally, to meet the demand.

Doesn't development of new fuels require new regulation?

Thanks to current programs like the U.S. EPA's federal and Oregon's state Renewable Fuel Standards (RFS), Oregon currently is a national leader in biofuel consumption, requiring 10 percent ethanol in each gallon of gasoline and 5 percent biodiesel in each gallon of diesel sold in Oregon. We're also already one of the lowest per capita CO2 emitters in the nation. Oregon's proposed LCFS tries to achieve what Oregon is already doing.

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Associated Oregon Loggers

Oregon Concrete and Aggregate Producers Association

Oregon Farm Bureau

Oregon Metals Industry Council

Oregon People's Utility District Association

Oregon Petroleum Association

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Western States Petroleum Association

Source: 1. Boston Consulting Group Study - June 2012. 2. Charles River Associates Study - June 2010. 3. Ibid.

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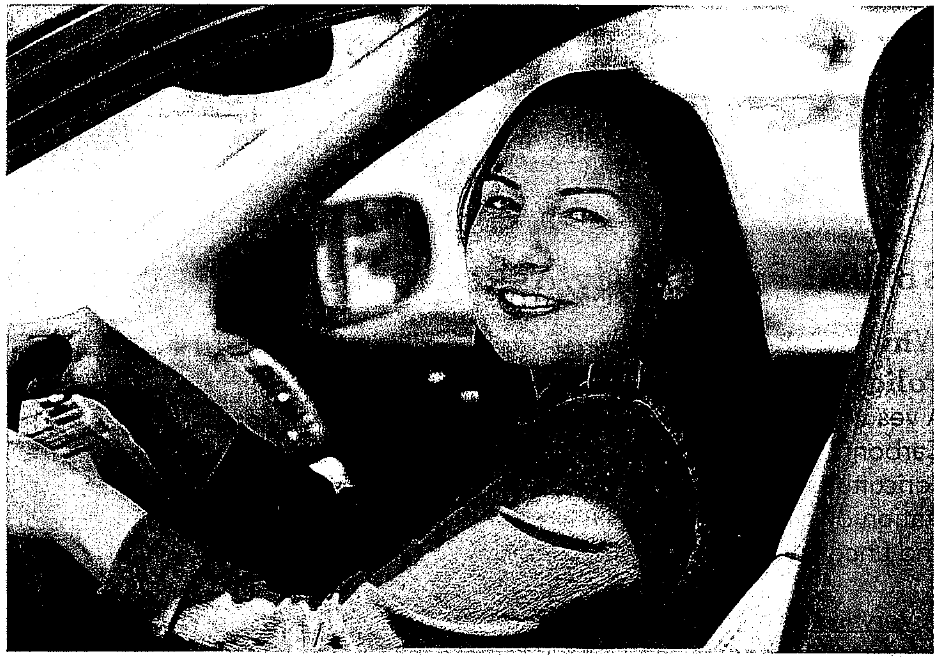
Why is it so important to allow the program to sunset? Can Legislators extend the sunset?

The sunset was put in the bill for a reason, to ensure the program was working and not costly. After four years, tens of thousands of dollars and advisory committee meetings, DEQ has failed to implement the carbon reduction program and for good reason: it is currently unachievable with any commercially available low carbon fuel alternative and the mandate it would create will most likely lead to higher costs on Oregon consumers at a time they can least afford it.



Don't programs like the one found in SB 488 have "off-ramps" or other emergency mechanisms?

For an off-ramp or trigger to be effective, it needs to be explicit, simple to compute, objective, transparent, unambiguous, and free from manipulation. None of those elements are present in Oregon's off-ramp system.[4] By the time an off-ramp would be enacted, the damage will already be done in the market.

How much progress has been made since 2009, when the Legislature began assessing the Low Carbon Fuel Standard?

HB 2186 initially envisioned a 10-percent reduction in carbon content beginning in January 2011. After four years of meetings and reams of documentation, DEQ withdrew the implementation rules and the EQC adopted rules only for reporting the carbon content of fuels.[5]

Why does OSFP say that fuel supplies can't and won't meet demands under SB 488?

There is currently not a sufficient volume of commercially available low carbon fuels that can meet this 10 percent reduction standard. The proposed LCFS mandates increased alternative fuel usage but disregards real-world alternative fuel data and trends.

Under Oregon's 10 percent ethanol blend, Midwest corn ethanol is unusable in year two. Midwest corn ethanol supplies over 80 percent of Oregon's 170 million gallons a year. Brazilian sugar cane ethanol achieves another one to two years of compliance. DEQ proposes companies buy credits to comply. It is highly likely to cost consumers more at the pump.[6] The result: fuel shortages resulting from increased competition for domestic biofuels, combined with decreased American energy independence.

What kinds of companies does Oregonians for Sound Fuel Policy represent?

OSFP is a truly broad coalition. We are rural and urban, Republicans and Democrats, Oregonians from the all across the state, and businesses that see that LCFS creates more problems than it solves. Oregonians for Sound Fuel Policy is made up of business groups, commercial, private and industrial road-users, farmers and ranchers. Our partner coalition organizations collectively represent thousands of Oregon businesses, ranches, farms, truckers, utilities and fuel users.

4. The LCFS off-ramp provisions don't work (HB 2186, Section 6(2)(d) and OAR 340-253-2200) state that DEQ shall exempt or defer the LCFS to mitigate the costs. They must first find that the 12-month average fuel price in Oregon is greater than 5 percent above the price of neighboring states. Consumers must continue paying these higher prices for over a year before DEQ will even consider taking action. Then DEQ decides if the LCFS caused the higher prices. At that point, the pocketbooks of consumers and businesses already will have been harmed. 5. Phase I would require reporting of the carbon contents of motor fuels. Phase II would be the actual implementation of the carbon reduction in the fuels beginning in 2015. 6. Boston Consulting Group - June 2012.

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FOR SOUND FUEL POLICY

OREGON'S PROPOSED LOW CARBON FUEL STANDARD:

MORE GOVERNMENT REGULATION IS NOT THE ANSWER TO IMPROVING OREGON'S ECONOMY... OR OUR ENVIRONMENT

Overview: Oregon's proposed Low Carbon Fuel Standard, also known as the Clean Fuels Program, is bad public policy designed to look and sound like good public policy. Assessments of existing regulations – and a look at the many critical flaws in the proposed program – illustrate that it is unnecessary, unproven, unachievable and likely unconstitutional.

Oregon's proposed Clean Fuels Program is redundant government regulation. Thanks to current programs like the U.S. EPA's federal and Oregon's state Renewable Fuel Standards (RFS), Oregon is already one of the lowest per capita CO2 emitters in the nation. Oregon is blending 170 million gallons of ethanol and 60 million gallons of biodiesel per year thanks to its Renewable Fuel Standard (RFS). The Federal RFS requires 16 billion gallons of biofuels to be blended in 2013 and increases to 36 billion gallons by 2022. Oregon's proposed LCFS tries to achieve what Oregon and the federal government are already doing.

The proposed program is unnecessary. Oregon currently is a national leader in biofuel consumption, requiring 10 percent ethanol in each gallon of gasoline and 5 percent biodiesel in each gallon of diesel sold in Oregon. We created this respected and lauded carbon-reduction success without an LCFS.

The program's framework may be invalid and unconstitutional. California's LCFS, which served as a model for Oregon's approach, was declared unconstitutional in federal court. While the decision is being appealed, the best approach for Oregon is to await the outcome before moving forward.

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Source: Charles River Associates, Economic and Energy Impacts Resulting from a National Low Carbon Fuel Standard, June 2010.

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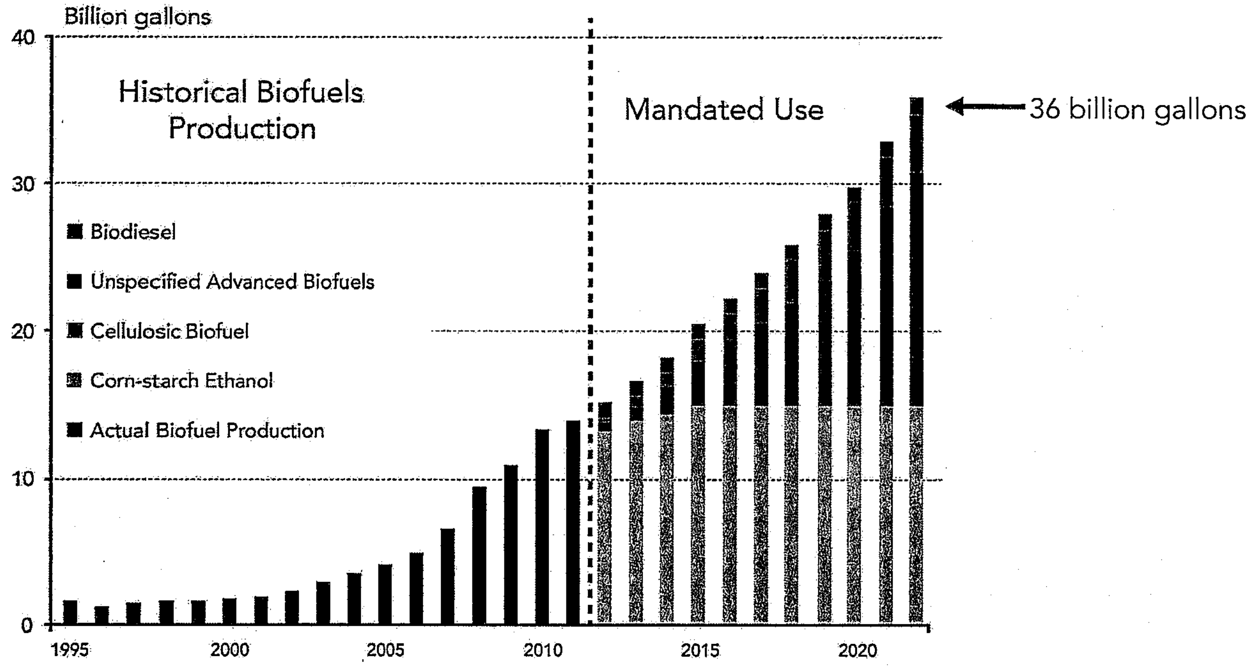
Renewable Fuels Standard (RFS2) vs. U.S. Ethanol Production Since 1995

The figure below shows that it is infeasible to comply with the LCFS Program's anticipated annual carbon intensity reduction requirements beyond 2017 to 2018 using commercially available low carbon intensity biofuels.



Oregonians for Sound Fuel Policy is a statewide coalition of fuel users, consumers, agriculture, motorists and business organizations. Combined, we represent thousands of Oregon families, small business owners, farmers, ranchers, and fuel producers who work in and contribute to Oregon's economy. While we support the goal of global greenhouse gas (GHG) emissions reduction, we oppose the adoption of the current, proposed Clean Fuels Program in Oregon, also known as a Low Carbon Fuel Standard (LCFS). We urge lawmakers to join us in collectively focusing on policies that put Oregonians back to work and find sensible solutions to reducing greenhouse gas emissions going forward.

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FOR SOUND FUEL POLICY

OREGON'S PROPOSED LOW CARBON FUEL STANDARD:

LCFS IGNORES EXISTING BIOFUEL CHALLENGES, WITH LOCAL AND GLOBAL CONSEQUENCES

Overview: The proposed Low Carbon Fuel Standard, known as the Clean Fuels Program, mandates increased biofuel usage but disregards real-world biofuel data and trends. The result: fuel shortages resulting from increased competition for domestic biofuels; decreased American energy independence; and more.

With biofuels in limited supply in the United States, and little indication that supplies will be able to meet rising demand, a Low Carbon Fuels Standard could trigger fuel shortages and spikes in fuel-production costs. Oregon's proposed Clean Fuels Program, patterned after a similar regulation in California, is infeasible because the biofuels necessary to meet the standard **do not yet exist in commercial quantities**. As demand outpaces supply, Oregon fuel-producers will likely see spikes in global biofuel prices, which could lead to fuel shortages and increased fuel-production costs.

Increased biofuel imports will undermine American energy independence and shift the burden of greenhouse-gas emissions to the developing world. No evidence exists to assume that new fuel standards would automatically attract new fuel-production facilities to Oregon, particularly in the short term. Rather, fuel producers would most likely pursue existing biofuel supplies like Brazilian sugar cane ethanol. Oregon's LCFS would then be in part responsible for new emissions resulting from the countless imported biofuel shipments coming to Oregon from thousands of miles away.

Many biofuels under development aren't *'ready for primetime.'* Oregon's motorists – from individual drivers to professional truckers – need to know that whatever they're putting in the tank will perform like it's supposed to. Yet, studies have shown that increased biofuel-blend fuels perform worse in cold weather, worse in mileage and may cause engine damage in many of the vehicles currently at work on Oregon's roads and highways.

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Source: Charles River Associates, Economic and Energy Impacts Resulting from a National Low Carbon Fuel Standard, June 2010.

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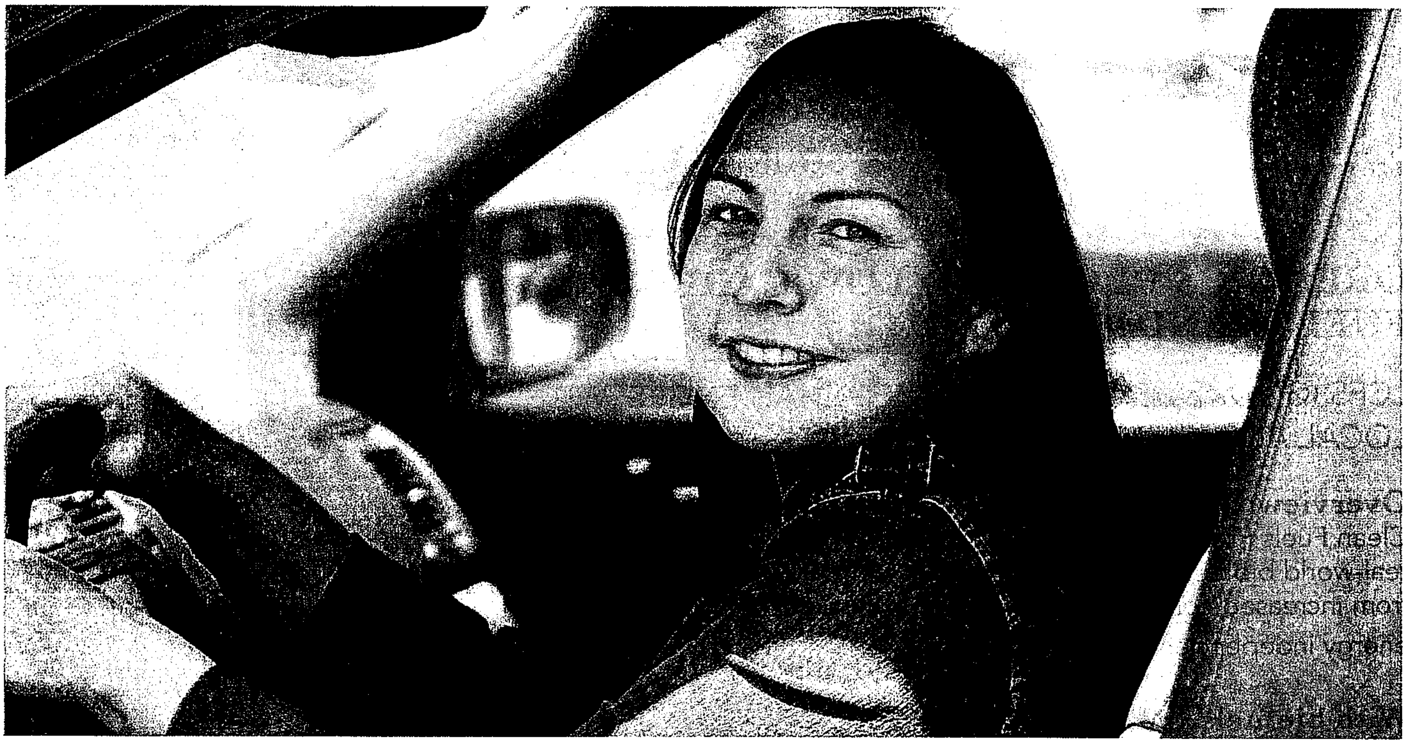
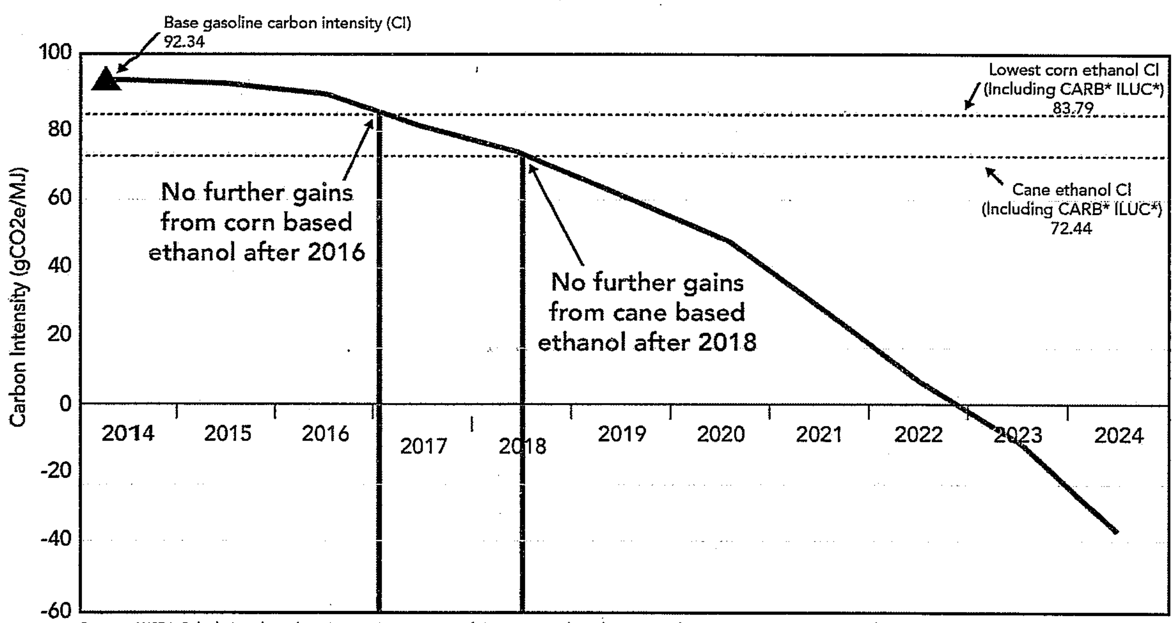


Example of ethanol carbon intensity required for 10% fuel blend under OR LCFS with ILUC



Source: WSPA Calculations based on Oregon Department of Environmental Quality LCFS Advisory Committee Process and Program Design, January 25, 2011
* CARB - California Air Resource Board | ILUC - Indirect Land Use Charge

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OREGON'S PROPOSED LOW CARBON FUEL STANDARD:

TOO HIGH A COST FOR OREGON'S COMMUNITIES, FAMILIES AND SMALL BUSINESSES

Overview: Oregon's proposed Low Carbon Fuel Standard, also known as the Clean Fuels Program, will drive up fuel costs, scare away companies, cost Oregon up to 29,000 jobs and have no measurable impact on global warming. None.

Industry analysts forecast fuel costs will go up by as much as a dollar a gallon. Bringing down the carbon levels in our fuels requires blending in expensive, frequently imported biofuels that are already in tight supply thanks to increased global demand. The combined effect: higher costs for producing fuels.

A Low Carbon Fuel Standard would hurt Oregon's families, especially those families least able to afford the additional costs of the program, which could be as high as $1,280 per year. Credible studies of similar LCFS proposals around the nation have found serious negative economic impacts, including higher production costs coupled with diminished production and refinery capabilities. Translation: higher costs for gasoline for Oregon's families and small businesses.

The program could cost Oregon's economy as many as 29,000 jobs. Between 2007 and 2011 Oregon lost over 113,200 nonfarm payroll jobs. A recent study showed that, by the year 2022, there could be between 9,000 and 29,000 fewer net jobs due to the LCFS. When Oregon's unemployment rate is still above 8 percent, Oregon can't afford the prospect of more job losses.

The new regulation will hurt Oregon's small businesses. The overwhelming majority of Oregon's companies are small businesses. With studies showing increased fuel costs, Oregon's small businesses will be forced to cut costs, defer hiring, or increase their prices and become less competitive than businesses operating outside of Oregon.

A Low Carbon Fuel Standard will make Oregon less competitive with other states in attracting new businesses. By implementing redundant, expensive regulations, Oregon will become less competitive than other states, states that would jump at the chance to recruit the kinds of companies that have, until now, chosen to invest in Oregon.

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Sources: Charles River Associates, Economic and Energy Impacts Resulting from a National Low Carbon Fuel Standard, June 2010.
Boston Consulting Group, Understanding the impact of AB 32, June 6, 2012

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www.OregonFuelPolicy.com

What Oregon's Business, Labor and Community Leaders Are Saying About Oregon's Proposed Low Carbon Fuel Standard

"After considering the information presented and researching issues, ***we are opposed to the implementation of a low carbon fuel standard in Oregon****... We believe a low carbon fuel standard will increase fuel prices which will affect our employers – utilities, municipalities, contractors, public and people's utilities districts and cooperatives as well as our members directly... we believe that a LCFS will present an additional risk and may* ***deter employers from locating in this state****."*

– International Brotherhood of Electrical Workers, Local 125 (IBEW)

"We are convinced that the proposed (LCFS) rules assume market factors (e.g. availability of cellulosic ethanol) that are ***not realistic****, nor that reflect a sound understanding of how such market factors evolve and interrelate to this effort... As a result of these challenges, we are concerned that the rules proposed by the DEQ won't accomplish what they set out to accomplish, and/or their effect will be* ***extremely costly*** *and potentially* ***harmful to the economy****."*

– AAA Oregon/Idaho

"Of even greater concern is the fact that a LCFS and the increase of fuel costs will ***disproportionately affect Oregon's small businesses****. 93% of Oregon's construction companies are small businesses – 20 or fewer employees...* ***Oregon has already taken significant steps to reduce greenhouse gas emissions*** *and has created programs that continue our state's leadership in reducing per capita GHG emissions. Given the current economic recession and forecasts that show the state's recovery will span multiple years, it is important not to impose any additional unnecessary financial burdens on our state's businesses at this time."*

– Associated General Contractors, Oregon Columbia Chapter

"High fuel prices from a state-specific low carbon fuel standard will be a ***major deterrent to job creation*** *in this state."*

– Oregon Petroleum Association representing retailers, fuel distributors, commercial fueling, and heating oil marketers

"The Oregon Trucking Associations respectfully requests that DEQ not proceed with a Low Carbon Fuel Standard... There is no doubt in our minds that an ***LCFS will increase the cost of fuel****. It is not possible to add a complex set of regulations and not expect them to increase the cost of transportation fuels. Not only will increased fuel prices have an adverse impact on Oregon's trucking industry but it will also* ***adversely impact Oregon's economy*** *as the trucking industry transports the vast majority of the freight in our state."*

– Oregon Trucking Associations

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Oregonians for Sound Fuel Policy is a coalition of fuel users, consumers and business organizations opposed to the adoption of the proposed Clean Fuels Program in Oregon, also known as a Low Carbon Fuel Standard.

Oregonians for Sound Fuel Policy is concerned that the proposed Clean Fuels Program will only expose Oregonians to increased price volatility at the pump, additional government regulations of small businesses, and increase our already aggressive blending requirements for ethanol and other forms of bio diesel.

The Coalition has reached the conclusion, based on available research and analysis, that the Clean Fuels Program puts consumers, businesses and the state's economy at risk.

The Coalition shares the goal of reducing Oregon's greenhouse gas emissions but is persuaded the limited reductions in GHG emissions created by the Clean Fuels Program are outweighed by the cost to the state's consumers, businesses and jobs. The Clean Fuels Program punishes consumers and businesses that have already made significant contributions to reducing greenhouse gas emissions through energy efficiency programs, wise choices in vehicles and adoption of alternative transport modes and technologies.

"A Low Carbon Fuel Standard will raise fuel costs, slow the state's economic recovery, and create unnecessary overlap and confusion between Oregon's existing alternative fuels programs."

– Mike Salsgiver, Executive Director, Oregon Columbia Chapter of Associated General Contractors

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