TAX FAIRNESS OREGON

House Committee on Energy and Environment

SB 324

David Roth, Feb 26, 2015

I recommend to the Committee a report by the UC Davis Institute of Transportation Studies called "Status Review of California's Low Carbon Fuel Standard", published in January 2014. (Res Report - UCD-ITS-RR-14-01). It analyzes the experience of the program from 2011, when it started, through 2013.

At the end of the report, it raises the prospect of unforeseen developments in the credits market that could raise fuel costs excessively.

"Given that the LCFS is a performance standard that relies on market mechanisms to achieve compliance, there are uncertainties associated with the costs of compliance. High costs, low availability, or consumers' reluctance to adopt alternative fuels/vehicles could all limit the availability of low-cost fuels on the market and potentially raise the overall fuel costs that ultimately introduce additional uncertainty about program implementation." (P. 10)

When such hazards present themselves, the authors recommend "hard cost containment mechanisms" such as selling emergency credits at a given price, instead of soft mechanisms like postponing the next scheduled increase in the fuels standard.

"Hard caps (e.g., selling emergency credits at a given price, instituting a non-compliance penalty, combined with instituting a reinvestment plan where regulated parties may contribute to a fund used to invest in lowcarbon fuels) are recommended as alternative compliance mechanisms for the LCFS over soft caps (e.g. using a low-carbon fuel credit multiplier, or relaxing/freezing the standard on an annual basis) as the latter do not guarantee costs will be contained, and may have adverse effects on market outcomes (e.g. reduced incentives for very low-carbon fuel)." (P. 11)

If such difficulties arise in the Oregon marketplace there will be plenty of controversy among the public and among legislators. It will be important to have a Sunset date to prod the corrections along.