

Why a Low Carbon Fuel Standard is Wrong for Wisconsin

AB 649, implementing recommendations from the Governor's Task Force on Global Warming, includes a provision that would adopt a "low carbon fuel standard" (LCFS). A LCFS would penalize corn ethanol and Canadian crude, the two fuels Wisconsin relies upon most. This legislation will therefore harm Wisconsin consumers by adversely affecting fuel prices and supply.

A Low Carbon Fuel Standard Will Target Corn Ethanol and Canadian Crude

- AB 649 would require LCFS include a life-cycle analysis of all motor fuels, which includes calculating emissions produced in the extraction, refining, and use of a fuel. As a result, two fuel sources critical to the Midwest will be targeted – corn-based ethanol and Canadian crude derived from oil sands.
- The bill will give the Department of Natural Resources (DNR) the authority to establish a LCFS by administrative rule. The DNR will need look to the California Resources Board (CARB) for technical direction, the only state agency moving forward to implement a LCFS.
- In December 2009 CARB published regulations to implement a LCFS. In that rule, CARB would impose a carbon intensity penalty on corn ethanol up to 45 percent. This means that corn ethanol will have a higher carbon intensity rating than baseline gasoline. Thus, corn ethanol would be essentially banned, or severely restricted, in Wisconsin if the DNR follows CARB's lead.
- Extracting oil from Canadian's oil sands is carbon intensive. As such, a LCFS would penalize oil extracted from Canada's oil sands. Therefore, Canada's oil sands similarly would be banned, or severely restricted, in Wisconsin if the DNR follows CARB's lead.

A Low Carbon Fuel Standard Will Harm Wisconsin and the Midwest

Adopting a LCFS will have an adverse impact on energy costs for consumers and transportation-dependent employers in Wisconsin. Moreover, adopting a LCFS will discourage oil imports from neighboring countries and instead force Wisconsin to obtain its oil from the Middle East. Adopting a LCFS could actually increase global carbon emissions.

1. ***Adopting California's LCFS – Square Peg, Round Hole.*** California's laws aren't for Wisconsin. Transportation accounts for more than 40 percent of California's annual greenhouse gas emissions – in Wisconsin that figure is just 24 percent. California also has its own crude supply and ranks third in the nation for refining capacity. Wisconsin only has one small refinery that uses Canadian crude and relies on refineries in surrounding states that also process mostly crude oil from Canada. Therefore, we should *not* base Wisconsin's energy regulations on California's laws.
2. ***A LCFS will Increase Gasoline Prices and Create Supply Problems.*** A recent study performed by the consulting firm CRA International concluded that fuel prices would increase to "extraordinary levels by 2015... [under] the LCFS requirements without large reductions in total fuel demand." According to a report published by the Marshall Institute, a LCFS will raise ethanol prices \$.91 per gallon and gasoline prices \$.61 per gallon.

Having a Wisconsin-only fuel specification could also isolate the state's fuel supply and leave it vulnerable to supply disruptions. Motorists in Southeast Wisconsin are well aware of the pricing implications of boutique fuels such as reformulated gasoline. Similarly, a Wisconsin-only low carbon standard creates a supply "island" precluding us from borrowing

from our neighbors when supplies run short. Instead, we would have to wait for supplies of Wisconsin LCFS to arrive from more distant supply sources. Moreover, if the fuel is difficult to produce, fewer suppliers will be available to respond when a problem occurs. All these supply hurdles could, in turn, lead to price spikes.

3. ***Discouraging North American Crude in favor of the Middle East.*** Once implemented, a LCFS will discourage the use of heavier crude from trading partners like Canada and Mexico. Combined, Canada and Mexico account for more than 20 percent of U.S. crude oil imports. Canada has the second largest proven oil reserves in the world (15 percent of world reserves), after Saudi Arabia. A LCFS will force the Midwest and Wisconsin to abandon secure sources of North American crude oil and replace it with crude oil from the Middle East.
4. ***A Negative for the Environment.*** Wisconsin has some of the cleanest burning fuels in the U.S., and emits less carbon than most other cold-weather states in the country (using Canadian crude). In addition, the U.S. is the most efficient transportation destination and refiner for Canadian crude oil.

If Wisconsin and other Midwestern states adopt a LCFS, existing and proposed pipeline infrastructure could be used to bypass the region. In addition, Canadian crude will likely be produced for export to developing nations such as China and India. These nations have lower environmental standards than the U.S., which means there would be a net increase in greenhouse gas emissions, and other air pollution, if that crude is ultimately refined elsewhere. It also would be less energy efficient and a potentially greater risk to the environment for Canada to transport its crude abroad by oil tanker versus keeping it in North America.

The Midwestern United States is the most efficient transportation destination and refiner of Canadian oil sands crude, which reduces its environmental impact. Oil sands crude oil is a growing resource that is attracting significant investment. If Wisconsin restricts Canadian crude oil, it will be used somewhere else in the world.

LCFS Mandate in AB 649 Is Not Linked to a Midwest Standard

- The bill requires DNR to develop a LCFS if two conditions are met: 1) a group known as the Low Carbon Fuel Standard Advisory Group makes recommendations on the design of a state low carbon fuel standard, and 2) those recommendations are “endorsed” by the majority of governors who endorsed the MGA Energy Security and Climate Stewardship Platform (Milwaukee, Nov. 2007).
- The LCFS Advisory Group is a group of industry, agency, and environmental groups organized to make general design recommendations. It is scheduled to release a design recommendations this year. Therefore, the first condition *will* be met.
- The second condition requires a majority MGA governors to “endorse” the design recommendations. This does not mean other Midwestern states must actually adopt such measures for the LCFS to go into effect in Wisconsin.
- It is expected that a number of Midwestern governors will “endorse” the LCFS design recommendations, but not actually adopt them. This would mean that Wisconsin would be required to adopt a LCFS, even though surrounding states have not done so.