

WHAT IS THE TRUE COST OF A LOW CARBON FUEL STANDARD?

There are plenty of competing messages about the potential costs of a low carbon fuel standard, but the truth is no one knows for sure because there are so many variables.

- **Is it 6-19 cents per gallon?** That's how much the Oregon DEQ estimates a similar LCFS being proposed there would increase fuel costs.
- **Is it 33 cents to \$1.06 per gallon?** That's the estimated fuel cost impact of the California LCFS at full implementation, according to study by the Boston Consulting Group – which also noted that costs could be higher if multiple states simultaneously adopt the LCFS.
- **Is it an 80% increase in fuel costs in five years and 170% increase in ten?** That's the conclusion of a 2010 study of a national LCFS, conducted by Charles River Associates for the Consumer Energy Alliance (CEA), a non-profit, non-partisan organization
- **Is it a doubling of gas prices?** That's the conclusion of another Charles River Associates study for the CEA, this one of a regional LCFS in the Northeast and Mid-Atlantic states

One thing we do know is that the **LCFS comes at a high cost.** In fact, the analysis of the LCFS conducted by Life Cycle Associates for the Climate Legislative and Executive Workgroup (CLEW), concluded that the **LCFS was the most expensive carbon reduction strategy being considered.**

The initial years of the LCFS program involves **blending conventional fuels with alternative fuel stocks,** along with **massive consumer investment and/or public subsidies.** But later-year compliance is tougher because those fuel stocks **do not currently exist in commercial quantities and/or cost significantly more** than conventional fuels.

WHAT ABOUT THE GOVERNOR'S 2¢ PER GALLON CLAIM?

The Governor's OFM report, completed in November 2014 asserts that the LCFS would only cost 2¢ per gallon but **ignores major expenses while relying on some dubious assumptions:**

- ✓ **Assumes** private individuals will spend \$1 billion or more buying electric and alternative fuel vehicles
- ✓ **Assumes** public investment of \$1 billion or more in building out public infrastructure like electric vehicle charging stations or E-85 fueling stations.
- ✓ **Assumes** three cellulosic ethanol plants – at a hefty price tag of \$500 million each – will be built in Washington
- ✓ **Assumes** Washington could receive more than 80% of the United States' projected sugar cane-based ethanol imports from Brazil

DOES THE CALIFORNIA EXPERIENCE PROVIDE ANY CLUES?

California adopted a state LCFS in 2013, but for the past few years it has been frozen at a 1% reduction in carbon intensity. That requirement can be met by blending traditional corn-based ethanol, the same ethanol that is currently mixed with fuels sold in the state of Washington.

It's impossible to predict exactly what will happen when more aggressive reductions are required. But UC Davis report on the economics of California CLFS states: **"We believe that compliance costs may increase rapidly in the future ..."** The report also states in the introduction, "Because of the large degree of uncertainty regarding future compliance paths, there is **concern that LCFS credit prices may become both costly and volatile.**"

LCFS PROPONENTS ARGUE FOR HIGH CREDIT PRICES – WHAT COULD THAT MEAN FOR CONSUMERS?

The Life Cycle Associates report on a potential Washington LCFS calls for **a complicated credit trading scheme.** Because of limited availability and high cost of blending stocks, **out-year compliance will rely on fuel producers purchasing credits from low carbon intensity industries like natural gas or electric in the early years of the program and "banking" those credits for future usage.**

But the price of those credits ultimately influence fuel production costs. That's scary when:

- Environmental consulting firm Promotum recently analyzed California's LCFS, and estimates that credits would have to cost at least **\$100 per metric ton of carbon to attract investment in alternative fuels and infrastructure to meet the LCFS.**
- Other LCFS proponents are **urging California to consider a \$200 per metric ton credit price.** Here are a couple examples of what they're saying:
 - "The **proposed \$200 per ton cap is a minimum to ensure the clean fuels industry has a strong incentive** to make the large investments needed to scale up the clean fuels." (From UCS LCFS comment letter)
 - "[The] proposed **\$200/ton cap is reasonable as a "low ceiling"** and could even be slightly higher." (From NRDC/NGO Coalition LCFS comment letter)

WHAT DOES WASHINGTON GET IN RETURN FOR TAKING ON ALL THIS EXPENSE AND RISK?

Not much. In fact, the Life Cycle Associates analysis of the LCFS concludes that the **"business as usual" scenario results in 70 percent of the greenhouse gas emission reductions** compared to the banking and trading scenario of the LCFS.