We appreciate the work the US Davis Institute for Energy, Environment and the Economy put into its review of the Boston Consulting Group analysis of the cumulative impacts of AB 32 policies on California refiners. The report issued Monday reflects the seriousness of this issue and the urgent need to address the economic implications of current policies.

We accept there are other assumptions that could be used in an analysis of this type and that different assumptions will lead to different conclusions. BCG was selected to conduct this analysis because of our broad and deep understanding of global refining economics. While there may be other plausible assumptions or scenarios, as the Institute report noted, we selected what we believe are the most plausible assumptions to make. We remain confident those assumptions best represent the decision-making process of California refiners.

We agree the BCG report did not look at potential impacts of AB 32 policies on other sectors of the California economy. As noted in the Institute’s report, that was not the purpose of the study. However, that does not change the fact that AB 32 policies, including the Low Carbon Fuel Standard (LCFS), will result in profound disruptions to the state’s transportation fuel supply market.

The UC Davis report notes that changes in the availability of low-carbon biofuels like sugar cane ethanol from Brazil or cellulosic ethanol, as well as increased adoption of alternative transport technologies like electric vehicles, will significantly change the LCFS compliance options for refiners. While we agree with those findings, they fail to recognize or acknowledge that these changes will not and cannot occur with sufficient speed or magnitude to avert the disastrous consequences of these policies in the next 2-3 years (see attached supporting analysis).

California fuel refiners and fuel consumers will begin to see and feel the disruptions identified by BCG in the next two to three years. Changes in the transportation fuel and technologies portfolios considered in the Institute’s review will occur over the next 10 to 20 years – too late to prevent major and permanent damage to fuel supplies and markets in California.

While the UC Davis report noted on several occasions the very real potential for serious problems associated with the AB 32 policies, it declined to offer any practical or feasible solutions to the issues raised in the BCG analysis. This is unfortunate because the BCG report identifies several outcomes that will be quite harmful to consumers, refiners and the environment.

It is unfortunate that the UC Davis report continued to rely on data and information that is clearly incorrect even after those errors and inaccuracies were brought to the panel’s attention.

The UC Davis report suggests that a different set of assumptions about job multipliers will change the likely impacts of AB 32 policies on refinery closures and job losses in California. However, given California’s current economic slowdown, any additional job losses should be avoided if possible.
We are encouraged by recent changes that ARB has made to ease the cost of compliance with AB 32. While this will help all interested parties the biggest beneficiary will be consumers as they will eventually bear most of the cost of compliance.

We support the suggestion to develop leading indicators that policy makers can use to track compliance with AB 32. We also take this opportunity to strongly encourage policy makers to develop practical, viable and cost effective alternatives to the current legislation. The time to take action is now because without significant changes the market disruptions forecasted in the BCG report will begin to manifest themselves in the next 2-3 years at which point it will be too late to take corrective action.