

Oregon's Proposed Low Carbon Fuel Standards - Safeguards

In 2009, the Oregon Legislature authorized the Environmental Quality Commission to develop low carbon fuel standards for Oregon. The goal is to reduce the average **carbon intensity** of Oregon's transportation fuels by ten percent over a ten-year period. Carbon intensity refers to the emissions per unit of fuel; it is not a cap on total emissions or a limit on the amount of fuel that can be burned. Carbon intensity encompasses emissions from the extraction (growing in the case of biofuels), refinement, distribution, and combustion of a fuel – a life-cycle approach to calculating carbon emissions.

Oregon's proposed low carbon fuel standards

DEQ plans to propose two standards, one for gasoline and its substitutes and one for diesel and its substitutes. This approach encourages innovation of lower carbon alternatives for both gasoline and diesel. Each standard will phase in gradually. Most reductions will occur in the last few years to allow time for the development of lower carbon fuel technologies, alternative fueling infrastructure and more widespread use of alternative fuel vehicles.

Safeguards

Protection of Oregon businesses and individuals are an important facet of the low carbon fuel standards. DEQ has designed the program to minimize the risk of fuel price spikes or low carbon fuel shortages. DEQ also plans to propose safeguards to protect Oregon businesses and individuals in the unlikely case that such price spikes or supply shortages occur. These safeguards are unique to Oregon's program and are intended to keep the low carbon fuel standards feasible, flexible, and cost effective.

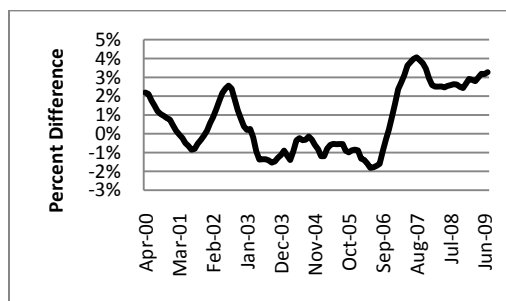
While protecting businesses and individuals from any unintended consequences is important, the standards must also prevent uncertainty in demand that could discourage investment in new low carbon fuel infrastructure. Construction of production, charging, and dispensing facilities has the potential to bring significant economic activity into Oregon and create a market in which low carbon fuels can prosper in the future.

Fuel Prices

Analysis shows that the low carbon fuel standards should result in lower fuel costs at the pump. In the event that this does not occur, a safeguard is included to monitor fuel prices and allows for the deferment of Oregon's standards if requirements cause fuel prices to rise. This **fuel price safety net** is discussed below.

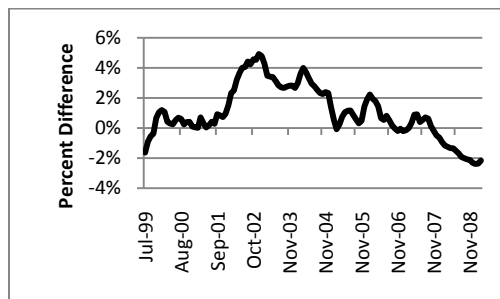
Natural fluctuations in fuel prices

The price of fuels fluctuates naturally due to seasonal or operational changes in the supply and demand of petroleum. During the past decade, the price of gasoline in Oregon has varied from two percent lower to four percent higher when compared to selected Western states.



Percent difference between gasoline prices in Oregon compared to Oregon, Washington, Nevada, and Arizona

Diesel shows the same range of fluctuation.



Percent difference between diesel prices in Oregon compared to Oregon, Washington, Nevada, and Arizona

Fuel price safety net

HB 2186 directed DEQ to monitor fuel prices in Oregon and selected Western states (Arizona, Nevada, and Washington) to ensure that Oregon fuel prices remain competitive after implementing the low carbon fuel standards. DEQ proposes that the threshold to determine "competitiveness" be set at 5 percent, in order to account for natural fluctuations in the price of fuel.

If the price of fuel in Oregon exceeds the price in the comparison states by more than 5 percent, DEQ would investigate whether the low carbon fuel standards are causing the uncompetitive price. The following types of information would be considered:



State of Oregon
Department of
Environmental
Quality

Air Quality Division Low Carbon Fuel Standards

811 SW 6th Avenue
Portland, OR 97204
Phone: (503) 229-5388
(800) 452-4011
Fax: (503) 229-5675
Contact: Cory-Ann Wind
<http://www.oregon.gov/DEQ/>

DEQ is a leader in restoring, maintaining and enhancing the quality of Oregon's air, land and water.

- changes in the price of low carbon fuels or crudes;
- natural disasters;
- changes in population or other demands for fuel;
- changes in regulations;
- a change in the number of retail outlets for fuel;
- errors in the price or volume data; and
- other relevant factors.

If the Environmental Quality Commission finds that the low carbon fuel standards have caused the price increase, they would revise the standards to mitigate the fuel price increase. The revision could apply to the gasoline standard, the diesel standard, or both.

Possible revisions could include:

- temporarily delaying compliance with the standard;
- temporarily exempting all or a portion of the fuels from complying with the low carbon fuel standard; or
- temporarily deferring the entire standard.

Depending on the circumstances, the Commission could require the lost carbon reductions to be made up in a future year if that can be done without causing uncompetitive fuel prices.

Fuel Shortages

DEQ plans to propose two types of deferrals for fuel supply shortages, **temporary** and **forecasted**, both of which are described below.

In periods of deferrals, credits can still accrue for producers and suppliers of low carbon fuels. Allowing credits to accrue during deferral times provides more certainty for investors that demand will continue for the low carbon fuels that are available.

Temporary fuel supply deferrals

If there is an unplanned, short-term disruption of the supply of low carbon fuels to Oregon, DEQ could respond by providing a temporary fuel supply deferral. Upon learning about a fuel supply disruption, DEQ would gather information about the disruption including:

- type of fuels affected;
- anticipated duration of the disruption; and
- an estimate of the amount of low carbon fuel lost due to the disruption.

DEQ would estimate the magnitude of the disruption relative to the entire program and assess whether fuel suppliers can meet the required reduction goals.

If DEQ finds that the disruption will prevent fuel suppliers from being able to comply with the standard, then DEQ could issue temporary fuel supply deferrals. The deferrals would allow fuel suppliers to delay complying with the standard for up to one year. Depending on the size of the disruption, DEQ could require lost carbon reductions to be made up over future years.

Forecasted fuel supply deferrals

Once a year, DEQ will also determine whether anticipated supplies of low carbon fuels will be sufficient for fuel suppliers to meet the standards in

the coming year. In particular, DEQ will assess whether anticipated low carbon fuel production capacity and supporting infrastructure is on schedule or delayed.

In assessing whether the supply of low carbon fuel will be adequate, DEQ will consider the following types of information:

- the status of existing and new low carbon fuel production facilities;
- the status of existing and new electric vehicle charging infrastructure;
- the status of existing and new natural gas fueling station construction;
- the status of alternative vehicle availability;
- the projected amount of fuel consumed;
- trends in alternative fuel use;
- volumes of advanced biofuels and biomass-based diesel required under the federal renewable fuel standard; and
- the status of banked credits.

If DEQ finds that a shortage in low carbon fuels will prevent regulated parties from being able to comply with the standard, then DEQ will issue temporary fuel supply deferrals. The deferrals would allow regulated parties to delay complying with the standard for up to one year. If the forecasted shortages are severe enough, DEQ could also recommend that the Environmental Quality Commission revise the low carbon fuel standards through a rulemaking process to change the overall schedule of the program to match revised expectations for the supply of low carbon fuels.

Exemptions

Exemptions are part of the proposed low carbon fuel standards to ensure that fuels used in specific applications and with special performance needs are not adversely affected. HB 2186 exempted fuel used in farm vehicles and tractors, implements of husbandry, and log trucks. The low carbon fuel standards advisory committee recommended that DEQ expand the exemptions to include aircraft, racing vehicles, military tactical vehicles, ocean-going vessels and locomotives.

Reviewing the program

The science and policy underpinning the low carbon fuel standards is rapidly developing. DEQ will track this development and assess whether the standards need to be modified in the future. DEQ plans to include several formal program reviews in the proposed rules.

For more information please contact:

Cory-Ann Wind, Air Quality Planner (503) 229-5388.

Alternative Formats

Alternative formats of this document can be made available. Contact DEQ Public Affairs for more information (503) 229-5696.