Oil industry takes aim at California's war on carbon

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California's effort to combat climate change was subjected to a fresh round of scrutiny Thursday as oil-industry representatives urged regulators to ease off on the state's "low carbon fuel standard," a centerpiece of the effort to rein in greenhouse gases.

A California Air Resources Board hearing on whether to renew the standard, known as LCFS, turned into a three-hour debate on whether the regulation is workable or effective. Environmentalists and executives who produce ethanol, biodiesel and other alternative fuels urged the agency to stay the course and keep the standard intact, saying it has helped usher in a new generation of greener products.

Oil-industry executives countered that the LCFS is unrealistic and must be adjusted.

Nick Economides, manager of state fuels regulation at Chevron Corp., said the Air Resources Board must move away from its "strategy of higher-than-achievable goals." He said it relies heavily on the development of alternative fuels, many of which haven't yet panned out.

"We have invested heavily (in alternative fuels) and regretfully, we have not been successful," he said.

The agency is expected to make a final decision during the spring or summer.

The LCFS originally took effect five years ago. It's coming up for renewal as public debate intensifies over California's climate-change law, Assembly Bill 32. The state's cap-and-trade program, which puts a price on the right to emit greenhouse gases, was broadened in January to include motor vehicles. That resulted in an increase of several cents a gallon in gas prices shortly after New Year's Day.

The LCFS targets greenhouse gases from a different angle. It requires producers of transportation fuels to reduce the "carbon intensity" of their products by 10 percent by 2020. Carbon intensity doesn't just measure the carbon coming out of tailpipes; it takes into account the process of manufacturing and distributing the fuels. That includes, for example, the amount of carbon released into the air when corn is planted to create feedstock for ethanol, as well as the greenhouse gases generated when a refinery turns crude oil into gasoline.

While not as well known as cap and trade, the LCFS is highly controversial among those who work in the fuel business. It is up for renewal because the 5th District Court of Appeal ruled in 2013 that the Air Resources Board violated provisions of the California Environmental Quality Act when it adopted the LCFS in 2009. The court didn't throw the standard out but told the agency to redo the necessary environmental reviews and then vote whether to renew it. The agency also is proposing to revise some of the computer models used to measure the carbon intensity of various fuels.

It seemed clear Thursday that – regardless of industry complaints – the Air Resources Board will renew the standard later this year. A staff report to the board said the LCFS will eliminate an estimated 35 million tons of carbon between 2016 and 2020. Board Chairwoman Mary Nichols said the regulations "have all been working quite well despite the efforts over the years to undermine ... this rule."

Board member Daniel Sperling, a transportation professor at UC Davis who helped conceive of the LCFS, said he understands why the petroleum industry chafes against the regulation.

"We're telling them, 'We want you to change your business model and your main product,'" Sperling said. "I can sympathize with the oil industry."

A string of environmentalists and alternative-fuels providers chimed in with support for the standard. The LCFS works on market principles; fuel producers that surpass the standard are awarded credits, which they can sell to companies struggling to comply with the rules. The credits, currently worth around $25 per ton of carbon, have created financial incentives that are helping fledgling industries like biodiesel expand.

"Ten years ago, you were buying biodiesel by the jar," said Shelby Neal of the National Biodiesel Board, a trade association. Now the industry is creating 1.4 billion gallons a year of the low-carbon fuel.

"We're here today, and we're affordable," Neal told the agency.

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