

Date: November 22, 2010

To: Environmental Quality Commission

From: Dick Pedersen, Director

Subject: Agenda item P, Informational item: Low carbon fuel standards program update
December 9-10, 2010, EQC meeting

Purpose of Item The purpose of this information item is to familiarize the commission with low carbon fuel standards, update the commission on DEQ's work to design a low carbon fuel standards program for Oregon and seek input on next steps in the process.

Background The 2009 Oregon Legislature authorized the Environmental Quality Commission to adopt a low carbon fuel standards program to reduce greenhouse gas emissions from gasoline, diesel or any fuel that substitutes for gasoline or diesel. Oregon's program would be designed to reduce the average carbon intensity of Oregon's transportation fuels 10 percent over a ten-year period. Low carbon fuel standards are a key strategy for reducing greenhouse gases in Oregon and the program would assist Oregon in achieving state greenhouse gas reduction goals.

In late 2009, DEQ formed a 29-member advisory committee to evaluate a variety of technical and policy issues and make recommendations to DEQ for the design of Oregon's low carbon fuel standards program. The committee includes representatives from petroleum fuel producers, alternative fuel producers, environmental interests, businesses, citizens, local government, labor unions, and fuel users such as truckers, the driving public (represented by AAA), railroads, construction industry, the farming industry and marine users. The committee membership is presented in attachment C. The low carbon fuel advisory committee, chaired by Mark Reeve, is an extremely diverse group, and their discussions and recommendations have influenced DEQ's proposed program design. DEQ sought input from the committee, but not consensus.

Throughout 2010, DEQ discussed fundamental technical issues with the committee, including developing life-cycle carbon intensities for a wide variety of fuel types, as well as nineteen policy issues critical to the design of a low carbon fuel standards program. These key policy issues are presented in attachment B. Some design elements are required by the House Bill 2186 while others were added by DEQ in

order to design a successful program.

In addition to input from the advisory committee, DEQ formed an Interagency Consultation Team consisting of the Oregon Department of Agriculture, Oregon Department of Energy, Oregon Business, Oregon Department of Transportation, Oregon Public Utility Commission and DEQ. This team met periodically to discuss relevant issues affecting program design or implementation options. DEQ staff also met with key stakeholders such as electric utilities, bio-fuels producers, petroleum distributors and railroads, to get their input on low carbon fuel standards program design and implementation issues. DEQ consulted periodically with the Washington Department of Ecology, which is evaluating a low carbon fuel standard program for Washington state.

DEQ hired national experts in the field of fuel life-cycle assessment and economic analysis. DEQ and the advisory committee discussed the results of this work, with special emphasis on the economic impact assessment of an Oregon low carbon fuel standard. DEQ's presentation to the commission will summarize the highlights of the advisory committee process, proposed low carbon fuel standards program design, economic analysis results and next steps, which include continued discussions with stakeholders and the 2011 legislature, as well as formal DEQ rulemaking and EQC consideration of a low carbon fuel standards rule in late 2011

All committee materials as well as DEQ's draft-final report can be found at <http://www.deq.state.or.us/aq/committees/lowcarbon.htm>

Next steps	DEQ intends to have draft rules for stakeholder review by mid-January, 2011. At that time, DEQ plans a public vetting of the draft rules and low carbon fuel standards program design. DEQ will also be discussing the proposed program design with the Legislature. DEQ does not expect to propose rules for EQC adoption until next summer.
EQC involvement	Options for EQC involvement include participation in informational workshops during the public process in early 2011 or involvement in the formal rulemaking public process in mid-late 2011 as DEQ proposes rules for EQC action.
Attachments	A. Low Carbon Fuel Standards overview B. Key policy issues C. List of advisory committee members
Available upon request	The information below is available at: http://www.deq.state.or.us/aq/committees/lowcarbon.htm

- Summary of draft proposed low carbon fuel standards program design
- Advisory committee meeting agendas, notes and discussion papers
- Draft Low Carbon Fuel Standards Report

Approved:

Division: _____

Section: _____

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