Clean Fuels Program 2017 Rulemaking

Advisory Committee Meeting #4

Summary

March 3, 2017
Portland State Office Building
800 NE Oregon
Portland, OR 97232

<u>Committee Members in Attendance:</u>
David Rocker, Oregon Fuels Association
Mark Gram, Oregon Fuels Association, Jubitz
Beth Vargas Duncan, Oregon Refuse and Recycling Association
Jeanette Shaw, Drive Oregon
Danelle Romain, Oregon Fuels Association
Matt Herman, REG
Miles Heller, Tesoro
Tuba Avcisert, PacifiCorp
Annie Stuart, Coleman Oil
Jessica Spiegel, Western States Petroleum Association
Marie Dodds, AAA
Bob Russell, Oregon Trucking Association
Jana Gastellum, Oregon Environmental Council
Micah Berry, Chevron
Brendan McCarthy, PGE
Ian Hill, SeQuential
Jessica Hoffmann, RPMG

<u>Committee Members on Phone:</u>
Jon Costantino, Tradesman Advisors
Eric Hesse, TriMet
Connor Nix, Shell
Kim Kaminski, Waste Management

<u>Members of the Public on the Phone:</u>
Mark Ventura, Phillips 66
Elizabeth Hepp, Valero
Jim Mladdenik, BP

<u>DEQ and Other Agency Staff and Contractors in Attendance:</u>
Cory-Ann Wind, Oregon Clean Fuels Program
Bill Peters, Oregon Clean Fuels Program
Jeff Rosenfeld, ICF (Consultant to DEQ for this rulemaking)
Elizabeth Elbel, DEQ
Colin McConnaha, DEQ Climate Change Policy Advisor
David Collier, DEQ Air Quality Planning Manager

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

Summary of Input

General Business
Cory-Ann Wind, DEQ

- Report out on electricity sub-workgroup meeting
- New material posted to webpage: Q3 data summary, January 2017 credit activity, guidance documents for electric utilities and Q4 reporting, obligation estimator, credit generator registration form
- Updates to CFP Online system: new upload template, addition of buy board
- New meeting dates added: May 12, June 9. Remove May 24.

Agenda Item A & B: Final 2014 Scenarios and Draft 2017 Scenarios
Jeff Rosenfeld, ICF

<u>Questions and Comments:</u>

- Review of the 2014 scenarios and then focus on the 2017 scenarios
- New item for 2017 is a third scenario → looking at all fuel options, minimizing credit banking and looking past 2025 when credits meet deficits annually.
- Utilizing OR specific data, updated ZEV mandate, include fixed guideways, forklifts and electric buses with 2012 baseline, similar overarching scenarios, incudes a 3rd scenario
- 2012 baseline – anything 2012 and earlier is partial credit and later is full credit - consistent with how we use the baseline for the program.
- What baseline year will we use for electricity? Electricity not in the baseline. There is a CI for electricity in the rule based on 2014 data. May move to the multi-year average.
- Based on feedback from last meeting, there is still banking but less banking early on. Can we do more of a year to year compliance scenario to see what's possible? You still have credit banking but less reliance on it.
- ZEV Mandate methods → Current registration data informed selection of ARB high technology compliance scenario to forecast BEV and PHEV sales.
- Fixed Guideway and forklifts → No final decision yet about inclusion of forklifts.
- Electric buses → Used Lane Transit and Trimet to gauge future e-bus purchasing.
- Added in 2026 and 2027, by 2027 we get to the point where credits meet deficits.
- Why does the deficit line go down? Because we're staying at a 10 percent. This suggests at the 10% level this is sustainable out to 2027.
- The Q3 data shows there's a gap between actual credits banked in 2016 vs what was in the forecast. What's the reason? Mostly residential EV credits not generated and some alternative fuel credits not registered.
- If were using a formula to calculate residential EV, we could go back and retroactively generate credits for 2016. No decision has been made yet.
- Overall reductions in GHG are less because we are adding in electricity credits that weren't accounted for in the 2014 model. This reduces the GHG reductions associated with the program because less biofuel blending needs to happen. Also, now that were are post-recession, vehicles are driving more.
- ZEV emissions reductions are accounted for in the business as usual case and not attributed to CFP. This is one reason why the CFP sees less GHG emission

reductions in using a high ZEV scenario. DEQ will direct ICF to separate out the ZEV and the non-ZEV reductions in the final report.

- This is the right way to approach the scenarios if you're trying to look at possibilities in 2026.

Agenda Item C: Rule Improvements
Cory-Ann Wind & Bill Peters, DEQ

- General items found in the rule that need attention. These are not the big picture items, cost containment and electricity, those will be addressed separately. This is for everything else.
- Renewable diesel (RHD) – We don't have complete information on all the RHD that is coming into Oregon because it's currently an opt-in fuel. There are types of RHD that are not credit generating.
- There is a default CI table now and are proposing to add a temporary CI table in the rulemaking. Currently there is no palm default CI so a temporary CI would have to be used.
- When would this come into effect? January 1, 2018, no retroactive application.
- Is the language for the credit aggregator registration tight enough to keep a single aggregator from managing credits from multiple parties? We need to look at the aggregator form.
- Do we have perspective on how many brokers are in the system? None.
- Use "an agent of a credit generator" to refer to the aggregator.
- Could a regulated party or small importer have someone act on their behalf? Manage deficits in addition to credits. Not as currently proposed but we could consider that.
- Propose that definitions line up with weights and measures.
- SB 324 EN15751 standard – oxidation stability issue. It needs to be incorporated into the regulation. Maybe require that the biodiesel purchasers to put it in the fuel specs. It would be on the buyers and blenders because otherwise their credits would be invalid.

Agenda Item D: Cost Containment
Cory-Ann Wind and Bill Peters

<u>Questions and Comments:</u>

- Thank you for your comments! Trying to move the concepts along so in April we will be in a position to make a recommendation.
- Retail fuel markets depend on many things outside of CFP credit prices. The credit price is minor compared to these other factors.
- Proposed thresholds are too sensitive for a new market – but we didn't get any other proposed options.
- The CCM cap is the backstop so you don't need to do a month to month analysis. It's not an appropriate timeframe.
- If there is a temporary problem early in the year, it could affect consumers all year. The annual system is so flawed we believe we need something to react to a market problem.
- The trigger needs to be clear and the actions defined so the market knows when something will happen and what will happen. Creating certainty.

- Clean fuel providers need certainty as well, short term and long term. Automatic rollback won't work because investors need certainty too.
- Do we have an overlay of retail prices? That's what we are talking about, that's a big spike what did retail prices do? Do we even need triggers beyond a cap? We want the dynamics in the market.
- DEQ proposes to beef up the recordkeeping rules to make sure we have the proper documentation for credit transaction. Clarify how we define illegitimate credits are and who is responsible should this occur. What happens if we have bad credits?
- Initial intent is to try and go back to whomever generated the credit, this might not always be a possibility.
- DEQ proposes to adopt emergency fuel supply deferral to include market disruptions. The goal is to provide transparency to a process that DEQ would engage in should a market disruption occurs.
- Still haven't defined what a disruption is, but have created a menu of mitigating actions.
- What about designing a trigger back-calculated from some consumer impact in terms of cost per gallon. More analysis or review that would stop short of rolling back the program.
- We already have short term supply disruption. How do we layer this in? What does it add?
- There should be an interest rate to create a disincentive to carry over. Is it better to enter into the CCM or to carry over? The choice maintains flexibility for obligated parties.
- The graph may be misleading because the incremental cost for the lower carbon ethanol isn't included in the calculation.
- The curves makes sense. The consumer buys a mix of the fuels so you're arguing that costs pass through but savings do not. This graph is saying this program supports low fuels at the expense of high carbon fuels. We're not going to talk about the retail cost of ethanol we're talking about credits. The consumer pays a mixed price.
- This doesn't make sense, you're not going to see the spread between the low CI and the high CI. The lower the CI the more credits so you're going to pay a premium. There is a direct correlation between the CI and the price you pay.
- Having higher prices in the earlier years has much less impact than in the later years. It doesn't matter as much to the consumer in the first few years.
- What is different than the current regulation? Currently, if the buyer is also an importer the obligation could be passed below the rack. The amended language would not allow this to happen.
- Importers would still generate deficits but would not take obligation at the rack in Oregon. Stop obligation for in state racks at the rack.

Comments due Friday, March 24, 2017.

Next meeting scheduled: April 12, 2017 at the Portland State Office Building, 800 NE Oregon St., Portland, OR 97232