



Air Resources Board



Matthew Rodriguez
Secretary for
Environmental Protection

Mary D. Nichols, Chairman
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Edmund G. Brown Jr.
Governor

November 30, 2011

Commissioner Connie Hedegaard
European Commissioner for Climate Action
European Commission
Rue de la loi 200
1000 Brussels BELGIUM

Dear Commissioner Hedegaard:

As the European Union moves to vote on tightening the Fuel Quality Directive to address high-carbon-intensity crude oils (HCICO), I understand that there has been some misunderstanding concerning the California Air Resources Board's (ARB) treatment of crude oil under the Low Carbon Fuel Standard (LCFS). I am therefore taking this opportunity to clarify our position. In short, we believe that a robust greenhouse gas (GHG) regulation to address transportation fuels like the LCFS must account for differences in the carbon intensity (CI) of crudes—all crudes are not the same when it comes to their CI. We have continued to work with stakeholders on the most effective means for such accounting and are currently recommending further refinements to the LCFS regulation. However, the principle of accounting for the lifecycle GHG emissions of transportation fuels, including those associated with the production and transportation of crude oil continues to be an important feature of the LCFS. Below, I provide some additional details on our perspective.

First, it is important to be clear that the LCFS is a performance-based regulation and does not discriminate against any source of crude oil, nor does it prohibit any crude oil from being imported into or refined in California. The LCFS merely recognizes that GHG emissions from crude oil can significantly vary and accounts for it accordingly. We further believe that the proposed amendments to the LCFS that I mention below will improve upon this principle.

When ARB's Board adopted the LCFS in 2009, we recognized that the GHG emissions should be calculated on a full lifecycle basis, which includes emissions associated with the production and transport of crude oil. We included a methodology for calculating the GHG emissions from HCICOs. To ignore the higher GHG emissions from some types of crude production would run counter to the full lifecycle analysis approach of the LCFS and would compromise our ability to meet our target of a ten percent CI reduction in transportation fuels by 2020.

The energy challenge facing California is real. Every Californian needs to take immediate action to reduce energy consumption. For a list of simple ways you can reduce demand and cut your energy costs, see our website: <http://www.arb.ca.gov>.

California Environmental Protection Agency

Commissioner Connie Hedegaard

November 30, 2011

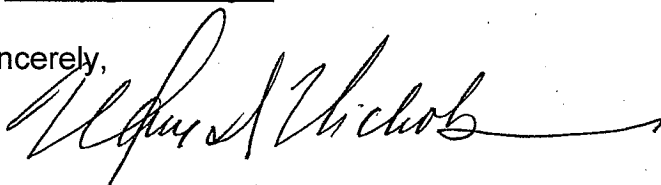
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As indicated, we have continued to be open to opportunities to improve upon the LCFS regulation. For example, staff is proposing amendments to the current HCICO provisions at a public Board hearing on December 16, 2011. Not only does the approach improve upon the accounting, it also further incents innovation. Specifically, staff is proposing that a regulated party could earn LCFS credits if it obtains crude from sources that have recently implemented innovative methods, such as carbon capture and sequestration, to reduce emissions for crude recovery. We believe that innovation is the answer to producing HCICO in an environmentally protective manner. To spur that innovation, we must recognize the GHG emissions associated with HCICOs.

Finally, the expected administrative burden for companies to comply with ARB's HCICO provisions is minimal. Oil companies already track and report their crude oil information as a normal course of business, both for internal purposes as well as government reporting requirements. Any additional production related reporting going forward would be no more burdensome than those currently placed on low carbon fuel providers.

I hope this helps to clarify our perspective on the treatment of HCICO under the LCFS. If your staff would like to discuss the LCFS or have questions, please contact Mr. Richard W. Corey, Chief, Stationary Source Division at (916) 445-0650 or rcorey@arb.ca.gov.

Sincerely,



Mary D. Nichols
Chairman

cc: Juergen Mueller
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