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October 31, 2011

Mr. Arthur Marin
Northeast States for Coordinated Air Use Management
89 South Street, Suite 602
Boston, MA 02111

RE: Comments on NESCAUM's "Economic Analysis of a Program to Promote Clean Transportation Fuels in the Northeast/Mid-Atlantic Region"

Dear Mr. Marin:

On behalf of Consumer Energy Alliance, I would like to submit the following comments regarding NESCAUM's recently published "Economic Analysis of a Program to Promote Clean Transportation Fuels in the Northeast/Mid-Atlantic Region."

Consumer Energy Alliance, a non-profit, non-partisan organization, was formed to help support the thoughtful development and utilization of all domestic energy resources to improve domestic energy security and reduce consumer prices. CEA has over 165 consumer and energy organizations across the country and more than 300,000 individuals that are dedicated to the development and implementation of a balanced energy policy that will ensure affordable, reliable energy while protecting the environment. CEA has been involved as an active stakeholder participant throughout NESCAUM's low-carbon fuel standard development project.

CEA believes that the assumptions relied upon by NESCAUM in its economic analysis are unrealistic and unsupported, and that its conclusions demonstrating broad economic benefits from a potential Northeast/Mid-Atlantic regional Clean Fuel Standard (CFS) must therefore be critically flawed and unreliable.

In response to the release of the economic analysis by NESCAUM in August, CEA commissioned a report by IHS CERA and IHS Global Insight to conduct an independent assessment of the analysis. The assessment completed by the IHS team demonstrates that the assumptions employed for prices, availability, infrastructure and technological performance of low-carbon fuels and alternative vehicles are unreasonable, unsupported and unattainable in the 2013-2022 timeframe of the NESCAUM analysis. The IHS assessment concludes that the assumptions underlying the scenario analyses presented in the NESCAUM economic analysis cannot be realistically achieved in the 2013-2022 timeframe for any of the scenarios in the analysis and that each of the scenarios presented in the NESCAUM report claim economic benefits and lower costs association with low-carbon fuels that are unattainable under any reasonable set of expectations for the period to 2022.

Specifically, the IHS assessment highlights several principal assumptions and assertions in the NESCAUM economic analysis that are particularly notable for their role in leading to the unreasonable and unattainable results claimed in the study, including:

- Assumptions about the availability of next generation biofuels: NESCAUM's assumptions about the availability of next generation biofuels, including cellulosic ethanol are dramatically higher than EPA estimates and contradict a recent report by the National Academy of Sciences regarding the projected availability of cellulosic ethanol. For example, NESCAUM assumes that cellulosic ethanol availability in the Northeast/Mid-Atlantic region in at 70 million gallons in 2013 going up to 2.6 billion gallons by 2022, whereas the EPA projects a potential national availability as low as 3.5 million gallons nationally in 2012 and recognizes that there have been zero gallons produced and commercially available in either 2010 or 2011.
- Price Assumptions regarding advanced biofuels: NESCAUM assumes that not only will advanced biofuels such as cellulosic ethanol and renewable diesel be available in sufficient quantities to meet the carbon intensity reduction goals of the CFS program, but that they will also be cheaper than traditional gasoline and diesel. Given that there are no gallons being commercially produced today, as well as the fact that the National Academy of Sciences has concluded that biofuels will be economic only at a crude oil price above \$191 per barrel, NESCAUM's price assumptions are not merely unsupported, they are completely unrealistic.
- Price Assumptions regarding Plug-in Hybrid Electric Vehicles (PHEVs): NESCAUM assumes that there will be no cost differential between PHEVs and internal combustion engine (ICE) vehicles whereas EPA and the National Highway and Transportation Safety Administration (NHTSA) projects a \$16,000 differential.
- Price Assumptions regarding Battery Electric Vehicles (BEVs): NESCAUM assumes that BEVs will range from \$15,000 in 2013 down to \$3,000 in 2022 higher in price compared to ICE vehicles, which is substantially lower than projections by the California Air Resources Board and the Department of Energy's Sandia Laboratory.
- Assumptions about the availability of PHEVs: NESCAUM assumes PHEV sales in the Northeast/Mid-Atlantic region of approximately 50,000 vehicles in 2013 up to approximately 275,000 vehicles in 2022, which is dramatically higher than the federal Energy Information Administration (EIA) projections of less than 10,000 nationwide in 2013 rising to approximately 25,000 nationwide in 2022.
- Assumptions about the availability of BEVs: NESCAUM assumes that there will be between 250,000 and 300,000 BEV sales in the region in 2022 under the biofuels future scenario and natural gas future scenario and approximately 800,000 BEV sales in the region in 2022 under the electricity future. These are in stark contrast to EIA projections of less than 10,000 BEV sales nationwide annually during the entire 2013-2022 timeframe.

In recent stakeholder meetings, NESCAUM has stated that these assumptions were actually arrived at by evaluating what the availability and price points of renewable and alternative fuels and alternative vehicles would need to be in order to achieve the programs goals of reducing carbon intensity of the fuel pool by 10% over 10 years without a negative impact on the region's economy. We strongly believe that this is completely at odds with how an economic analysis should be conducted. Therefore, we believe that NESCAUM should model the program using a realistic and supportable set of assumptions. Such an analysis would arrive at a dramatically different set of conclusions.

I have attached a copy of the completed IHS assessment of NESCAUM's economic analysis for your review. As we have previously discussed, CEA would like the opportunity to meet with the NESCAUM staff to discuss the results of the IHS study. We look forward to confirming a meeting with you and the NESCAUM staff in the near future.

Please contact me directly at 202-674-1750 if have any questions, or would like further information on the IHS report.

Thank you again for the opportunity to provide these comments.

Sincerely,

A handwritten signature in blue ink, appearing to read "M. Whatley". The signature is fluid and cursive, with a long vertical stroke at the end.

Michael Whatley
Executive Vice President