API Comments on NESCAUM's "Economic Analysis of the Northeast/Mid-Atlantic Low Carbon Fuel Standard: Draft Data and Assumptions, Part I" May 7, 2010

API fully understands and appreciates the challenge facing NESCAUM in their task to provide the governors of the northeast with an economic analysis of a possible Low Carbon Fuel Standard (LCFS). Additionally, API appreciates that NESCAUM is taking time to present their analysis to stakeholders, and to outline the assumptions and seek input and comments regarding the best sources for data in providing a complete and carefully constructed economic analysis of an LCFS program functioning in the northeast. However, despite API's request, at this point NESCAUM has not clarified to the stakeholders the necessary details on methodology, key assumptions, data sources, and consistency checks. Such information is essential for the credibility of any economic analysis. As a result, API is unable to offer thorough and constructive comments on the NESCAUM analysis. For example, API is unable to duplicate even what should be the simple calculations on slides 25 through 36 of the panel set from the April 22 webinar. If NESCAUM uses EIA's outlook for energy demand, there seem to be inconsistencies with the types of fuels used in the analysis. It is impossible to understand, for instance, what fuels are being replaced in the fuel pool as increased levels of advanced and cellulosic biofuels are being added to the fuel pool, or if the energy demand of the states is being assumed to increase. If informed, robust stakeholder input is the goal, it is critically important that NESCAUM provide all data and underlying assumptions with adequate time to thoroughly review.

In any economic modeling analysis, it is especially important that the model inputs for the baseline be completely transparent – and justifiable. At this point, NESCAUM has not provided stakeholders with all of the baseline data. API had requested in earlier comments that the baseline be simply created by the Energy Information Administration's 2010 Annual Energy Outlook (2010 AEO). The AEO is a widely accepted outlook on future energy needs, the data are publicly available and stakeholders clearly understand and accept. While NESCAUM has commented that some data for the baseline are being taken from the AEO, at other points NESCAUM is augmenting the model with additional unknown data and assumptions and, in doing so, they may violate the underlying energy demand assumptions. Such examples include scenarios along the lines of full compliance with the Federal Renewable Fuel Standard. At this point, such an assumption would have very little support, and should not be included in the baseline, as established by the 2010 Annual Energy Outlook. Furthermore, in the baseline assumptions, NESCAUM should strive for consistency. EIA's 2010 AEO should be used to provide not just some, but all energy demand needs, as well as projections for market penetration of flex-fuel and other alternative energy vehicles.

API supports the use of peer reviewed data for assumptions. For the carbon intensity values, NESCAUM's approach to use both EPA and CARB data to provide a range appears to be a reasonable mechanism to bracket feasible carbon intensity reductions. However, additional details on how NESCAUM uses these data in its calculations are needed for constructive input.

NESCAUM's "economic evaluation" approach of using assumed policy scenarios will likely mean that the results of this "economic analysis" will be of little real value. Determining the relative economics of three unrealistic scenarios will do little to inform decision makers on the merits of a regional LCFS program. Specifically, in the three policy scenarios, one of each of the three energy sources (Biofuels, CNGs, or EVs) are assumed to contribute 6% of the 10% carbon intensity reduction, while the other two energy sources each contribute 2%. Given the number and significance of the needed technology breakthroughs required for the success of any of these scenarios, the feasibility of the level of assumed carbon intensity reduction from any one energy source is a significant issue left unaddressed. Moreover, it is unclear why NESCAUM would limit any potential energy source that could move the policy closer to the 10% goal. The levels at which each energy source can contribute to the 10% reduction in carbon intensity should be limited only by (and by the same measure allowed by) the technical and economic feasibility of those energy sources. The analysis should not simply assume that all three policy scenarios are achievable. The technical and economic feasibility of achieving a 10% reduction in carbon intensity in ten years must be realistically studied. The threshold issue of feasibility must be addressed in a way that makes the economic analysis meaningful.

Additionally, it is unclear why NESCAUM would evaluate a "High Economic Growth Scenario" and not a "Low Economic Growth" scenario in addition to the baseline scenario. Further, NESCAUM's allocation assumptions of biofuel alternatives to address a northeast LCFS seems arbitrary and distorted by assuming that California receives priority volumes of low carbon biofuels with remainder evenly distributed to the balance of the U.S. Also attached are API's previously submitted general comments.

In summary, API appreciates the opportunity to comment and requests that NESCAUM provides details on the assumptions, data sources, and analysis to facilitate a meaningful peer review. API looks forward to engaging in such a discussion with NESCAUM at a face-to-face meeting in the near future.