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BP Comments – NESCAUM LCFS Proposal

BP recognizes the importance and the challenge in addressing greenhouse gas (GHG) emissions from the transportation sector as part of a comprehensive approach to tackling global climate change. That's why we have long supported a broad-based cap and trade system, including fuel emissions, as the cornerstone of a GHG reduction program. We have also supported complimentary policies that operate in parallel to an economy-wide approach, where these complimentary policies are warranted and well designed.

However, BP believes that a Low Carbon Fuel Standard (LCFS), as has been discussed in the Northeast states and elsewhere in the U.S., is deeply flawed and unnecessary policy. A LCFS is often portrayed as a fuel neutral, performance-based policy for reducing emissions from transportation fuel. However, as it has been designed in some regions and discussed in others, we believe the LCFS is flawed policy because it:

- is not a fuel neutral approach, and instead picks winners and losers
- puts a price on carbon emissions for conventional fuel above that of an economy-wide GHG program
- misaligns incentives and compliance obligations with the ability to influence, and rewards for, bringing various fuels to market.

As both a leading provider of conventional fuel and a leading investor in low carbon fuels, BP is supportive of sound policy that will encourage innovation in and deployment of low carbon fuels, as we are supportive of policy to address vehicle efficiency and vehicle miles travelled. We believe that the right policy to address GHG emissions from transportation fuels will:

1) Encourage and reward emerging low carbon technologies which demonstrate long-term carbon reduction potential at scale and that can be done cost effectively;
2) Encourage and reward technologies commensurate with their stage of technological and commercial development;
3) Properly align incentives, rewards and compliance obligations with those who have the ability to control and benefit from outcomes;
4) Encourage and reward low carbon fuel technologies based on their actual GHG lifecycle reductions; and,
5) Avoid regulating hydrocarbon fuels in a way that directly imposes a carbon price on them that is higher than the economy-wide carbon price.

Unfortunately, we believe a LCFS misses the mark on each of these key characteristics of sound GHG fuels policy. Because we see little chance that the design flaws and biases contained in a LCFS can be resolved in a way that results in effective fuels policy, BP opposes the adoption of a LCFS at either the state or federal level.

A key challenge in designing a complementary policy for fuels is to design one that provides adequate reward to drive innovation in low carbon fuels – without imposing a carbon price on conventional fuels that is in excess of the economy-wide price of carbon. To do so is economically inefficient and arguably unfair. The federal RFS meets these conditions – the LCFS does not. Given the presence of existing policies to address fuels innovation (the federal RFS) and carbon reduction (GHG cap and trade) as well as policies potentially available to more efficiently address innovation in both liquid and non-liquid fuels, the incremental burden of a LCFS outweighs the limited incentives for innovation that may emerge.

We continue to believe that the transportation sector, including lower carbon fuels, must and will play a role in moving our society to a lower carbon future. Fortunately, we believe that there exist clear and viable alternatives to a flawed LCFS. We believe that policy to address GHG emissions from transportation fuel may ultimately consist of:

1) A broad-based, market-oriented system (such as a cap and trade), which includes emissions from transportation fuels, and exposes a large segment of the economy to a consistent price of carbon.
2) A transitional complementary policy (such as a federal RFS-type approach) that recognizes that short to mid-term targets will be met through the blending of biofuels, largely in existing infrastructure, and that advanced technologies like ligno-cellulosic biofuels should receive enhanced support (such as the advanced technology provisions of the federal RFS2).
3) A <u>separate</u> set of transitional policies and incentives designed to encourage and accelerate commercialization and deployment of non-liquid fuels alternatives, recognizing that these non-liquid alternative fuels are controlled by a different set of actors than those involved in the liquid fuels market, require different and separate infrastructure – and are on a different commercialization/deployment timeline.

BP will continue to remain engaged in discussions around the best fuels policy for enabling of a low carbon transportation sector. We welcome the opportunity to meet to more fully discuss what we believe to be the flaws in a LCFS, as well as the clear policy alternatives that exist.

Sincerely,

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