Investor Network on
CLIMATE RISK

November 10, 2009

Michelle Manion
Director, Climate and Energy Program
NESCAUM
89 South Street
Boston, MA 02111

Re. Low Carbon Fuel Standard for the Northeast Market

Dear Ms. Manion,

As long-term investors, and as members of the Investor Network on Climate Risk (INCR), which represents over $9 trillion in assets, we are writing to express our strong support for a regional Low Carbon Fuel Standard (LCFS). An LCFS is critical to sufficiently reducing our region's carbon footprint, and will have the additional benefits of reducing our dependency on petroleum and fostering a strong clean fuels market. Further, it would provide strong incentives to reduce the significant carbon emissions associated with the production of oil sands and other carbon-intensive sources of fuel.

The transportation sector represents approximately 28% of our domestic GHG emissions, and its emissions are growing faster than any other sector.[1] It is critical that we move forward aggressively to transform the transportation sector, and reducing the carbon content of fuel is essential to reducing the carbon footprint of the transportation sector sufficiently to achieve climate stabilization. We believe that, as a market based policy, an LCFS would be the most efficient way to transition to clean transportation fuels. In addition, given that 50% of the distillate oil demand is for heating oil, we believe that the LCFS should apply to heating fuel as well. Finally, in order to be effective, an LCFS should take all emissions associated with a particular fuel into account, including indirect land use effects.

An LCFS will reduce petroleum dependency, thereby reducing our region's vulnerability to volatile petroleum prices. In addition, an LCFS will avoid price spikes by providing for an efficient transition to cleaner fuels. Rather than dictating the use of particular fuels, it will allow the market to determine the most efficient way to reduce the carbon content of fuel. It is clear that such reductions will eventually be obligatory, and we must ensure that our economy is prepared for a carbon-constrained future. An LCFS would allow us to do so by sending a consistent signal that would encourage the growth of a robust clean fuels market.

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[1] Between 1990 and 2006, growth in US transportation GHG emissions represented almost half the increase in total US GHGs. 2009 *Moving Cooler* report, http://www.movingcooler.info/

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Further, an LCFS will provide incentives for improvements in the production process, and disincentives for the use of high-carbon fuels, by creating a market where high-carbon fuels (such as those derived from oil sands and coal to liquid) are costlier than cleaner fuels. Importantly, an LCFS would provide a strong economic incentive to reduce the carbon intensity of oil sands development, which is a growing threat to our ability to reach climate stabilization.

Collectively, Canada's oil sands hold the world's second largest proven oil reserves, after Saudi Arabia. Companies including Shell, Marathon, Devon, Chevron, ConocoPhillips, ExxonMobil and BP have announced plans to spend as much as $125 billion to expand operations with the goal of tripling oil production over the next 10 to 15 years, potentially supplying 20% of America's oil needs by 2020. Oil sands development is centered in Alberta, and impacts climate, biodiversity, water and air quality. Mining, upgrading and refining bitumen from oil sands is highly resource-intensive and requires the draining of wetlands, diversion of rivers, and the removal of trees and vegetation. Operations in oil sands are extremely energy intensive, and their unmitigated development and expansion will mean a substantial increase in GHG emissions.

Establishing an LCFS will have a significant impact on oil sands development because the oil sands industry will be dependent on the US market for the foreseeable future. While there are proposals to build pipelines to the west coast in order to open up the Asian export market, there is strong reason to doubt that these pipelines will ever actually be built. Enbridge's proposed Northern Gateway Pipeline, a critical link in opening the Asian market for Canada's oil sands, faces substantial opposition from many of the 42 First Nation and Metis Associations along the transport route. First Nations have significant legal rights under the Canadian constitution, making it unlikely that Enbridge will be able to build the pipeline unless the stance of the First Nations changes significantly. As a result, the United States is likely to remain the only viable export market for the oil sands, meaning that the broad adoption of LCFS in the US would force oil sands producers to significantly reduce the carbon intensity of production in order to maintain access to this critical market.

In sum, the implementation of an LCFS in the Northeast market would not only bring us closer to climate stabilization, but would also diminish our region's exposure to volatile petroleum prices, help foster a strong clean fuels market, and provide an important incentive for reducing emissions associated with oil sands development. We appreciate the opportunity to share our views regarding the importance of an LCFS, and look forward to supporting your efforts in the year ahead.

Sincerely,

William C. Thompson, Jr.,
New York City Comptroller

Thomas P. DiNapoli
New York State Comptroller

Jeb Spaulding
Vermont State Treasurer

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