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Automakers See California Low-Carbon Fuel Rule As Electric Vehicle Mandate

Auto industry representatives generally view the California air board's low-carbon fuel standard (LCFS) as another misguided sales mandate for electric vehicles (EVs) and hydrogen fuel-cell vehicles, but are not publicly challenging the rulemaking, according to sources, in part because of some companies' precarious economic situation and their close alliance with the federal government. However, the industry may be willing to voice its opposition if the LCFS heightens pressure on automakers to sell more zero-emission vehicles (ZEVs) by spurring substantial electric-fueling infrastructure growth, sources say.

The California Air Resources Board's (CARB) nascent LCFS, already being legally challenged by the national corn-ethanol industry, faces a litany of uncertainties and has far-reaching implications, including how and whether it can be carried out alongside U.S. EPA's national renewable fuels standard (RFS) without leading to refiner "fuel shuffling" that would for the most part fail to achieve its greenhouse gas (GHG)-reduction goals. The standard, adopted by CARB last April, requires fuel suppliers to reduce the "carbon intensity" of gasoline and diesel 10 percent between 2011 and 2021.

One relatively overlooked potential consequence of the LCFS is that fuel suppliers could invest in EV charging infrastructure as a compliance option, which in turn could hike pressure on automakers to build EVs to take advantage of that infrastructure, sources say.

Several auto industry spokespersons say they have taken no particular public position on the LCFS or the ethanol industry lawsuits challenging the state regulation, but one industry official says there is an underlying view that the LCFS is essentially a regulation aimed at substantially bolstering EV infrastructure.

This scenario is also seen as the most likely result of the LCFS in a white paper issued last year by The Martec Group, a consulting firm that serves major industry sectors, including auto manufacturing. The paper explains that there will be nowhere near the advanced biofuels available around the country over the next 10 years for fuel producers to meet the LCFS requirements through new blending practices. As a result, suppliers will seek the more generous compliance credits offered through advancement of infrastructure for near-zero or zero-emission vehicles, according to the paper.

"The LCFS provides credits to fuel refiners — the regulated parties — for substituting grid electricity and hydrogen into the liquid fuel pools," the white paper states. "This is accomplished by the establishment of Energy Economy Ratios (EERs) that claim to represent the efficiency of electric and fuel cell vehicles over baseline liquid-fueled vehicles. To receive credits, regulated parties need to 'prove' that the electricity and hydrogen directly or indirectly supplied as a substitute to the regulated fuel pool is used for vehicular transportation."

CARB's LCFS "provides an incentive for fuel refiners to pay for EV and fuel cell vehicle infrastructure on the promise that vehicles will be available to use these alternative fuels," the paper adds. "Yet, CARB's own vehicle technology and fuel cost assumptions prove plug-in hybrid electric vehicles, battery-electric vehicles and fuel cell electric vehicles are not commercially viable without heavy taxpayer subsidies beyond 2020."

This scenario could lead to a major clash between CARB and the auto industry if the state regulators pressure car makers to significantly increase their EV output based on the argument that there is finally adequate infrastructure. This issue has been one of the crucial points of debate over the past 20 years regarding CARB's ZEV sales mandate, with automakers arguing that one major impediment to selling EVs is that customers would not have adequate charging facilities.

Automakers and many other key stakeholders are closely watching two lawsuits filed recently by national corn-ethanol industry groups against CARB over the LCFS, also in both federal and state courts. The groups charge in part that the standard violates the constitution by discriminating against out-of-state products, and that it employs an unfair indirect land-use GHG emissions penalty.

Sources say auto companies are not publicly disputing the LCFS in part because they likely do not want to challenge regulators at a time when some of them have received billions in government bailouts and many of them are in sensitive behind-the-scenes discussions with state and federal agencies over fuel economy and GHG tailpipe-emission standards. In addition, California is separately advancing a revised zero-emission vehicle standard and crafting the second round of its GHG tailpipe standards, which will apply to 2017-2025 model-year passenger vehicles.