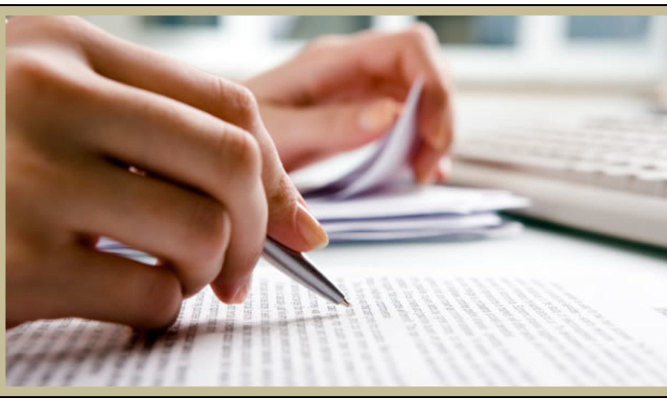

Understanding the Impact of AB 32

Fact Sheet

Boston Consulting Group

www.cafuelfacts.com

In order to better identify the cumulative impacts of AB 32 regulations, WSPA engaged the services of the Boston Consulting Group (BCG) assess the impact those policies are likely to have on transportation fuel markets. The results are disturbing.

Key Findings

The Low Carbon Fuel Standard (LCFS)

- The LCFS, as currently being implemented, is infeasible. Inadequate supplies of low carbon intensity (CI) biofuels and LCFS credits leave refiners no viable compliance options.
- Even if it were feasible, the LCFS would produce a steep decline in demand for refined products, particularly gasoline, in California, resulting in the loss of 20 percent to 30 percent of the state's refining capacity by 2017 and 25 percent to 35 percent by 2020.
- Between five and seven of California's 14 fuel refineries could cease production by 2020, potentially compromising California's security of fuel supply.
- The cost of compliance would be between 33 cents per gallon and $1.06 per gallon by 2020 using current sugar cane price forecasts. The actual cost could be much higher if California's or other states' significant incremental demand increases the price of low CI biofuels.

Cap and Trade

- California's cap-and-trade auction program, as currently written and being implemented, will increase the cost of making gasoline and diesel 14 cents per gallon to 69 cents per gallon, depending on the cost of carbon allowances.
- The cost of compliance could be significantly higher if the cost of carbon rises above CARB's projected auction prices.
- Carbon costs could be extremely volatile initially, creating the potential for market disruptions.

Fuel Supplies

- There is a "likely" scenario where the cost of compliance requires refiners to recover in excess of $2.50 per gallon of fuel *and* refiners are forced to reduce supply to the California market because they cannot obtain adequate supply of low CI biofuels or LCFS credits to meet the LCFS requirements.
- This could happen in the 2015-2016 timeframe if LCFS regulations are not modified.

WSPA
Western States Petroleum Association

Employment

- Refinery closures could result in the loss of 28,000-51,000 jobs, including many high-paying skilled manufacturing jobs, as a result of cumulative impacts.
- Twenty percent to 25 percent of the job losses could come from refineries ceasing production.
- At the same time, only a small number of jobs (2,500 to 5,000 direct and indirect jobs) are expected to be added as a result of energy efficiency projects and even these will be project based, not permanent in nature.

Lost Tax Revenue

- California could lose \$3.1 billion to \$3.4 billion per year in tax revenues due to AB 32-related regulations by 2020.
- Most lost tax revenue (approximately \$2.9 billion per year) will come from lost excise taxes on fuels, as petroleum fuel consumption decreases and LCFS shifts consumption to alternative fuels with lower tax rates.
- This net loss of excise tax could be even higher (up to \$4.4 billion per year in 2020) if the number of alternative technology vehicles increases and volume of E-85 fuel consumed is lower than projected.
- Reductions in property taxes are expected to account for \$15 million to \$20 million per year in tax losses, but could disproportionately impact counties and cities where refining facilities are located.

Global Emissions

- While AB 32 should achieve its goal of reducing emissions in California by 80 million metric tons, some of this reduction will be at the expense of increased emissions elsewhere.
- A substantial amount of the emissions reduction will occur from shifting the composition of gasoline consumed in California from hydrocarbons to biofuels.
- There will also be unintended consequences that will increase global emissions and not decrease stationary emissions in proportion to the decline in hydrocarbon gasoline consumed in California.
- The regulations will likely result in crude and biofuels shuffling that could *increase* global emissions.
- Reduced fuel demand, driven by AB 32, will force refiners to export fuels, leaving behind the stationary carbon emissions in California. Finally, new infrastructure will be required to accommodate new product imports and exports and developers of that infrastructure will face California siting restrictions and delays.