SENATE RULES COMMITTEE AB 692

Office of Senate Floor Analyses
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THIRD READING

Bill No: AB 692
Author: Quirk (D)
Amended: 9/4/15 in Senate
Vote: 21

SENATE TRANS. & HOUSING COMMITTEE: 8-2, 6/30/15
AYES: Beall, Allen, Galgiani, Leyva, McGuire, Mendoza, Roth, Wieckowski
NOES: Cannella, Bates
NO VOTE RECORDED: Gaines

SENATE ENVIRONMENTAL QUALITY COMMITTEE: 5-2, 7/15/15
AYES: Wieckowski, Hill, Jackson, Leno, Pavley
NOES: Gaines, Bates

SENATE APPROPRIATIONS COMMITTEE: 5-2, 8/27/15
AYES: Lara, Beall, Hill, Leyva, Mendoza
NOES: Bates, Nielsen

ASSEMBLY FLOOR: 52-27, 6/4/15 - See last page for vote

SUBJECT: Low-carbon transportation fuels

SOURCE: Author

DIGEST: This bill requires 3% of the aggregate amount of bulk transportation fuel purchased by state agencies to be procured from very low-carbon fuel sources.

Senate Floor Amendments of 9/4/15 are technical.

ANALYSIS: The Air Resource Board (ARB) adopted the Low Carbon Fuel Standard (LCFS) regulation in April 2009, effective the following year. The LCFS:

1) Aims to reduce greenhouse gas (GHG) emissions from the transportation sector by about 16 million metric tons by 2020. It is also designed to reduce California's dependence on petroleum, create a lasting market for clean transportation technology, and stimulate the production and use of alternative low-carbon fuels.

2) Requires producers of petroleum-based fuels to reduce the carbon intensity (CI) of transportation fuels used in California by an average of 10% by 2020. It consists of two elements: a cap on total GHG emissions from the entire fuel sector, and a carbon credit-trading mechanism that incentivizes the production and use of low-carbon fuels. Petroleum importers, refiners, and wholesalers may either develop their own low-carbon fuel products or buy LCFS credits from other companies that sell low-carbon alternative fuels such as biofuels, electricity, natural gas, or hydrogen. The CI has been frozen at 1% since 2013 as a result of litigation, but ARB plans to re-adopt the LCFS this year. After re-adoption, the CI will begin to decrease toward the 10% reduction required by 2020.

3) Provides that the baseline LCFS fuels are reformulated gasoline mixed with corn-derived ethanol and low-sulfur diesel. Lower carbon fuels may include ethanol, biodiesel, renewable diesel, or blends of these fuels with gasoline or diesel as appropriate. Compressed natural gas may also be a low-carbon fuel, as well as hydrogen and electricity.

This bill:

1) Requires, beginning January 1, 2017, that at least 3% of the aggregate amount of bulk transportation fuel purchased by state agencies must be procured from very low-carbon fuel sources.

2) Requires the amount of very low-carbon fuel purchased to increase by 1% each year until January 1, 2024 (i.e., up to 10% by 2024).

3) Defines "very low-carbon transportation fuel" as a liquid or gaseous fuel having not more than 40% of the CI of the closest comparable petroleum fuel for that year as measured by LCFS methodology.

4) Requires the Department of General Services (DGS) to coordinate with state agencies that are buyers of transportation fuel and submit to the Legislature an annual progress report on implementation of the mandate in this bill.

5) Allows DGS, in consultation with ARB, to comply with the requirement only to the extent feasible if it determines that the very low-carbon fuel does not perform adequately or is not available at a reasonable price in a reasonable period of time.

Comments

Purpose. The author states that while the state has met the 1% GHG reduction commitment of LCFS, it has done so primarily by using corn and sugarcane ethanol and soybean biodiesel; only a very small fraction of the California fuel market is currently satisfied by fuels made from waste products. The main obstacle preventing other fuels from entering the LCFS market is access to capital. Building a commercial-scale low-carbon fuel production facility requires hundreds of millions of dollars. The market for low-carbon fuels is uncertain due to fluctuations in the petroleum markets, changes in the regulatory landscape, and the inherent uncertainty involved when deploying new technology. This bill guarantees a market for very low-carbon fuels by requiring the state fuel portfolio to include a minimum share of very low-carbon fuels. This requirement will give assurance to prospective producers of very low-carbon fuels that there will be a market for them, even if they are not cost-competitive in the short term.

Background on state fuel purchases. The largest state agency purchasers of fuel are the Departments of Transportation, Forestry and Fire Protection (CalFIRE), Corrections and Rehabilitation, Water Resources, and Fish and Wildlife. The state government purchases a significant amount of fuels for its fleet; in FY 2007-08, for example, the state purchased approximately 34 million gallons of gasoline, 11 million gallons of diesel fuel, 327,174 gasoline gallon equivalents of compressed natural gas and propane, and 66,183 gallons of E-85. In 2014, for the third year in a row, California was named the 18th "greenest" fleet out of 100 public-sector fleets in North America. Pursuant to legislative and gubernatorial directives, DGS has established multiple sustainable fleet policies emphasizing the purchase of more fuel-efficient vehicles and the reduction of petroleum use.

Amendments. This bill was amended in the Senate Appropriations Committee to restrict requirements to bulk purchases of fuel, to simplify compliance, and to ease the compliance requirement if DGS finds that the very low-carbon fuel does not perform adequately or is not available at a reasonable price on a reasonably timely basis. It was also amended to remove the provision allowing Greenhouse Gas Reduction Fund revenues to be used to offset any increased costs resulting from the purchase of very low-carbon transportation fuel.

Related/Prior Legislation

AB 1176 (Perea) establishes the Advanced Low-Carbon Diesel Fuels Access Program to fund low-carbon diesel fueling infrastructure projects in communities that are disproportionately impacted by environmental hazards and where the greatest air quality impacts can be identified. AB 1176 was held on the Senate Appropriations Committee suspense file.

AB 1992 (Quirk) would have authorized ARB to establish a very low-carbon fuel market program, in which transportation fuel providers could be required to include in their sales a specified percentage of very low-carbon fuels, defined as having no greater than 50% of the CI of the closest comparable petroleum fuel. AB 1992 failed passage in the Senate Transportation and Housing Committee in 2014.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee:

- Unknown costs, but potentially minor, to the General Fund and various special funds to the DGS to manage fuel purchases to meet the purchase requirements.

- Potential costs up to $175,000, but likely minor, to the Cost of Implementation Account (special) to ARB to assist state agencies with compliance with the purchase requirements.

SUPPORT: (Verified 9/4/15)

Biodico Sustainable Refineries
California Biodiesel Alliance
Coalition for Renewable Natural Gas
DuPont

OPPOSITION: (Verified 9/4/15)

CalTax

ASSEMBLY FLOOR: 52-27, 6/4/15
AYES: Alejo, Bloom, Bonilla, Bonta, Brown, Burke, Calderon, Campos, Chau, Chiu, Chu, Cooley, Cooper, Dababneh, Daly, Dodd, Eggman, Frazier, Cristina

Garcia, Eduardo Garcia, Gatto, Gipson, Gomez, Gonzalez, Gordon, Gray, Roger Hernández, Holden, Irwin, Jones-Sawyer, Levine, Lopez, Low, McCarty, Medina, Mullin, Nazarian, O'Donnell, Perea, Quirk, Rendon, Ridley-Thomas, Rodriguez, Salas, Santiago, Mark Stone, Thurmond, Ting, Weber, Williams, Wood, Atkins

NOES: Achadjian, Travis Allen, Baker, Bigelow, Brough, Chang, Chávez, Beth Gaines, Gallagher, Grove, Hadley, Harper, Jones, Kim, Lackey, Linder, Maienschein, Mathis, Mayes, Melendez, Obernolte, Olsen, Patterson, Steinorth, Wagner, Waldron, Wilk

NO VOTE RECORDED: Dahle

Prepared by: Erin Riches / T. & H. / (916) 651-4121
9/8/15 17:30:05

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