

Environment & Energy

Low-Carbon Fuel Standards Hit Snags Beyond West Coast States

By Zach Bright

April 12, 2022, 5:30 AM

- Washington's transportation plan permits Clean Fuel Standard
 - Rules failed in New Mexico, could portend efforts elsewhere
-

A low-carbon fuel standard to cut vehicle emissions is moving ahead in Washington state but running into roadblocks elsewhere, leading some experts and opponents to pin blame on what they called a flawed policy.

Washington's nearly \$17 billion transportation plan (S.B.5974) signed March 25 makes it the third state—after Oregon and California—to implement a low-carbon fuel standard. Starting next year, fuel producers can earn credits for meeting steadily stricter carbon reduction targets, a policy that exceeds the national Renewable Fuel Standard with a wider array of gasoline and diesel beyond biofuels.

It's the tool of choice advocates have pushed for in multiple states, seeking to lower greenhouse gas emissions and tackle climate change.

But some program critics have voiced fears that the standards could exacerbate record-high gas prices spurred by the war in Ukraine, while others say they are neither clean nor quick enough to meet climate goals.

New York state's newly passed budget excludes a clean fuel standard that advocates and lawmakers sought. Minnesota left the policy out of its 2022 climate and energy omnibus package, in favor of further study. And New Mexico's twice-failed effort serves as a reminder that gubernatorial support and party control can't automatically make West Coast policy wins happen elsewhere, observers said.

That's because low-carbon fuel standards often face three broad challenges that prevent their passage, according to Neelesh Nerurkar, a senior analyst for energy consulting firm ClearView Energy Partners.

"Lawmakers are concerned about fuel price impacts; the program doesn't generate revenue that can be spent to win support; and some climate action advocates are skeptical of market-based policy," said Nerurkar, a former Obama administration energy official.

Washington's Approach

Auto emissions make up nearly 24% of the United States' greenhouse gas emissions, according to 2019 numbers from the Environmental Protection Agency. In Washington, auto emissions numbers have totalled nearly 31%, which its Clean Fuel Standard aims to cut by 20% by 2038.

Washington Senate Transportation Chair Marko Liias (D) told Bloomberg Law the new standard is “a significant part of our greenhouse gas reduction strategy.”

A 2020 Oregon Department of Environmental Quality study that found its Clean Fuels Program added fewer than four additional cents per gallon, while a 2021 analysis from Stillwater Associates—a transportation fuel markets firm—estimated that California's standard added 22 cents to each gallon of gas. In Washington state, fuel industry groups like the Western States Petroleum Association had expressed concerns the rule would mean a gas price hike.

But Liias said that a Clean Fuel Standard and other state-level decisions minimally affect fuel prices, noting that Washington's initial compliance requirements are “modest” and “what happens in Ukraine or what happens in Iraq or what happens in Venezuela will have an impact.”

Washington's clean fuel standard also won't generate spending money like the state's 2021 cap-and-trade program did, Nerurkar said. That constraint prevented the state from putting forward a standard in 2021 without linking it to a gas tax—a lack of profitability that could present another obstacle for advocates.

And in New York and Minnesota, clean fuel standard opposition has come from environmental advocates, who see it as an ineffective approach that could stymie the transition to zero-emission vehicles and spur agricultural development on natural ecosystems for biofuels.

'Policy of the '90s'

New York state Sen. Kevin Parker (D) and Assemblywoman Carrie Woerner (D) sponsored S.B. 2962B/A.B. A862B, which would reduce on-road transportation carbon intensity by 20% in 2030. Two-thirds of legislators from each house are co-sponsors.

It's drawn support from groups like Clean Fuels NY, which includes environmental advocates, labor unions, automobile companies, agricultural interests, and health associations. Parker—who chairs the Senate Energy Committee—and Woerner also called for a fuel rule to be included in the newly approved state budget, but their amendments were omitted and the policy must pass in their separate bill.

Plenty of environmental advocates oppose the proposal, too. Among them is NY Renews, a coalition of 300 environmental, justice, faith, labor, and community groups that said a fuel rule wouldn't meet goals outlined by the Climate Leadership and Community Protection Act, passed in 2019 to move New York's away from fossil fuels.

Earthjustice, a NY Renews member, said in a statement that by 2030, emissions from on-road transportation sources must decrease by 33% to reach mandated emission limits: “significantly deeper than what this legislation provides.”

The legal nonprofit's New York policy advocate, Liz Moran, called a low-carbon fuel standard a "policy of the '90s," adding that many fuel producers have come around in support of low-carbon fuel standards for the sake of prolonging fossil fuel use.

Minnesota and Beyond

In the Midwest, a low-carbon fuel standard called the "Future Fuels Act" would reduce Minnesota's aggregate carbon intensity of fuels by 25% in 2030, 75% by 2040, and 100% by 2050. H.F. 2083/S.F. 2027 was first introduced last year and recently recalled, then re-referred this March to the House Climate and Energy Finance and Policy Committee.

It missed the deadline to be included in the state's newly introduced climate and energy omnibus package, but Future Fuels Act was backed by Gov. Tim Walz (D) and has seen bipartisan support.

Tim Sexton, the state's assistant transportation commissioner, called it the "single biggest policy lever the state can use to reduce greenhouse gas emissions" at a March 29 hearing.

But as in New York, Minnesota's efforts has also drawn resistance on environmental grounds. A group of 22 environmental organizations released a letter in January citing environmental risks from a clean fuel standard, claiming it encourages agricultural development on natural lands for the sake of producing more biofuels.

In neighboring Iowa, Gov. Kim Reynolds (R) is making a second attempt at a renewable fuels standard, backing a legislative study to encourage higher biofuel blend sales. Nearby, Michigan is considering incentives to encourage clean fuel production in S.B. 814, which would offer a 5 or 8.5 cent-per-gallon tax credit for selling ethanol fuel blends.

Failure in New Mexico

New Mexico's recent attempt to put forth a clean fuel standard featured Democrats with a numerical advantage and Gov. Michelle Lujan Grisham's (D) full-throated support. It still wasn't enough.

While the state Senate passed the bill 25-16, it received a 33-33 House vote in the 70-person chamber, where Democrats nearly outnumber Republicans 2 to 1. But the 30-day session ended, killing the bill.

State Sen. Mimi Stewart (D), who sponsored S.B. 14, said it fell short because of "pure politics at the end." Democrats were fractured in their support while all Republicans opposed the legislation, she said.

Stewart said she plans to introduce the bill again next year, but said several colleagues still fear claims of higher gas prices.

"People believe untrue narratives when they're said enough," Stewart said, "and legislators are just as gullible as anyone."

To contact the reporter on this story: Zach Bright at zbright@bloombergindustry.com

To contact the editors responsible for this story: Chuck McCutcheon at cmccutcheon@bloombergindustry.com; John Crawley at jcrawley@bloomberglaw.com

© 2022 The Bureau of National Affairs, Inc. All Rights Reserved