



TO: Members, Senate Select Committee on Clean Energy

FROM: Scott Manley, Environmental Policy Director

DATE: February 10, 2010

RE: Senate Bill 450 – Wisconsin Global Warming Legislation

Wisconsin Manufacturers & Commerce (WMC) is opposed to a number of transportation-related provisions in Senate Bill 450 (SB 450) that would increase fuel costs for consumers, cede Wisconsin's regulatory authority to California, and unnecessarily burden our transportation infrastructure planning process. The transportation policies discussed below are costly from an economic standpoint, and will not result in meaningful reductions in Wisconsin greenhouse gas emissions.

WMC is the state's largest business trade association, with roughly 4,000 members in the manufacturing, health care, retail, energy, banking, insurance and other service sectors of our economy. WMC is dedicated to making Wisconsin the most competitive state in the nation to do business, and toward that goal, we support consistent, cost-effective and market-driven regulatory approaches that recognize a balance between environmental protection and the competitiveness of Wisconsin's jobs and economy.

Unfortunately, misguided policies which seek to implement California-style global warming regulations in Wisconsin fail to achieve the critical balance between economic cost and environmental benefit. Specifically, the proposed Low Carbon Fuel Standard (LCFS) and California vehicle emission standards will significantly increase both fuel and vehicle costs for Wisconsin citizens, without achieving a meaningful reduction in Wisconsin greenhouse gas (GHG) emissions.

Low Carbon Fuel Standard

A Low Carbon Fuel Standard (LCFS) picks winners and losers in the fuel market. The proposed LCFS seeks to reduce the carbon content of transportation fuels based upon a "lifecycle" GHG emissions analysis. Calculating the lifecycle GHG emissions of a given transportation fuel depends significantly upon the assumptions used in the analysis, and those assumptions may be very specious and subjective. In essence, the process of assigning a lifecycle GHG emission "score" to transportation fuels allows regulators to pick winners and losers in the fuel market based upon the assumptions they use for each fuel. California regulators, for example, chose to penalize Midwest corn ethanol by assigning to it a lifecycle GHG emission score that is worse than many petroleum-based gasoline fuels.

The LCFS targets Canadian crude oil. WMC is concerned that the subjectivity inherent in scoring transportation fuels for GHG emissions, coupled with the broad authority given to the DNR under SB 450, will result in a bias against Canadian crude oil. Both nationally and locally, the proponents of a LCFS have very transparently indicated their opposition to the use of Canadian crude oil in Wisconsin, often referring to it as "dirty gas." It was clear during the Global Warming Task Force deliberations on this policy that Canadian crude oil was the target of this proposal, despite the best efforts of supporters to declare the policy as "fuel neutral."

Penalizing Canadian crude oil with a LCFS would harm Wisconsin consumers with significantly higher fuel costs. Canadian oil is Wisconsin's dominant source of motor fuel, with more than half of our

gasoline derived from this product. In fact, our state's only oil refinery in Superior utilizes Canadian crude oil as its primary feedstock. Additionally, Canadian crude oil is the predominant source of oil for the refineries that surround Wisconsin in Minnesota, Illinois and Indiana – all of which serve as suppliers to Wisconsin's fuel market.

A LCFS could result in fuel supply shortages and disruptions. If Wisconsin creates a boutique fuel standard with a LCFS, and thereby makes it less economical to supply Canadian crude oil to our marketplace, refiners are likely to send gasoline derived from Canadian crude oil to other states. If that occurs, it will leave a significant gap in Wisconsin's motor fuel supply, leading to higher prices and gasoline shortages. Worse yet, the alternative to friendly Canadian oil is likely to be lighter crude oil products from unfriendly and unstable regimes in the Middle East. Making Wisconsin more reliant upon fuel from the Middle East will not enhance our energy security.

Higher gas prices from a LCFS will harm Wisconsin consumers. Assessing the cost of a Wisconsin LCFS is difficult because we do not have commercially available alternative fuels or other technologies at a scale that would allow Wisconsin to reduce GHG emissions to meet a LCFS. A massive shift to ethanol, for example, was found to achieve a 1.5% reduction in transportation GHG emissions according to a recent study published by the Wisconsin Policy Research Institute (WPRI). While falling well short of the 10% mandatory reduction in SB 450, the shift to ethanol was projected to increase costs to Wisconsin motorists by \$3.2 billion over a ten year period.

Another study of the economic impact of a LCFS was conducted by the George Marshall Institute in April of 2009. Their study concluded that a LCFS would increase ethanol use and demand, resulting in a 46% increase in ethanol prices. *The price of blended gasoline would therefore increase by 61-cents per gallon under a LCFS.* Generously assuming a 25% GHG benefit from ethanol use, which is inconsistent with recent findings by California and EPA regulators, the study found that ethanol could achieve a net 7% GHG emission reduction – significantly less than the 10% reduction target.

At a reduction cost of \$457 per ton, the study found that a LCFS is among the most costly and least economical means to reduce GHG emissions. Rather than adopting expensive new global warming policies that penalize certain fuels to pick winners and losers in the marketplace, Wisconsin should focus on incentives for the research and development of clean energy technologies.

A LCFS threatens Wisconsin manufacturing jobs. In addition to the enormous consumer costs associated with a LCFS, WMC is concerned the policy will adversely impact Wisconsin manufacturing jobs at companies who supply the Canadian oil industry with heavy equipment. Manufacturers like Bucyrus International and P&H Mining Equipment are exclusive suppliers of the enormous mining machinery used to extract Canadian oil. These pieces of mining equipment cost millions of dollars, and their manufacture is a source of family-supporting jobs and income for many Wisconsin workers. In addition, the Canadian oil sands have been a significant market for other state manufacturers like the Manitowoc Co. and Rockwell Automation. Fuel policies that seek to reduce demand for Canadian oil will result in reduced demand for equipment manufactured by Wisconsin employees.

Wisconsin should not create a boutique fuel for our state. Earlier this year, the U.S. Congress had the good sense to reject a national LCFS, recognizing it would harm consumers. The go-it-alone LCFS proposed in SB 450 would trigger mandatory DNR rulemaking to implement a LCFS in Wisconsin based upon the political whim of neighboring Governors who merely indicate their "support" for the policy. In all likelihood, Wisconsin may find itself as the only state in the Midwest that actually implements this expensive fuel policy – which has already been rejected in Minnesota. Wisconsin consumers simply cannot afford to pay higher prices for gasoline, nor can our economy bear the burden of Wisconsin-only boutique fuel prices. We therefore respectfully ask that you reject a Low Carbon Fuel Standard in Wisconsin.

California Vehicle Emission Standards

SB 450 proposes to opt Wisconsin into California's vehicle emission standards, and thereby reject federal tailpipe and fuel economy standards. As a general matter, WMC believes that aligning our regulations with those of national standards is preferable to ensure that we remain on a level economic playing field with our national competitors. Furthermore, national standards are written by federal lawmakers and federal agencies that are accountable to Wisconsin citizens. Voters can voice their concerns through elected officials at the federal level of government, including U.S. Senators, U.S. Representatives and the President.

By contrast, SB 450 would place regulatory decisions regarding motor vehicles into the hands of unaccountable bureaucrats in California, who likely do not have the best interests of Wisconsin citizens at the forefront of their decision-making. As a policy matter, WMC believes it makes no sense to cede Wisconsin's regulatory authority on these matters to unelected bureaucrats in another state. This unprecedented and permanent abdication of legislative authority is troubling and should be rejected.

Adopting California's emission standards will be expensive for Wisconsin motorists. Automobile manufacturers estimate the additional regulations will increase costs between \$2,000 and \$3,000 per vehicle. Even if California regulators' assumptions regarding fuel savings are accurate, consumers would face a net cost increase of at least \$1,000 per vehicle. The WPRI study estimated Wisconsin consumers would pay higher costs for vehicles under this proposal of \$353 million per year. These are avoidable costs that Wisconsin should not layer on top of consumers at a time when our state is struggling to emerge from a deep economic recession.

The California vehicle emission standards could also result in the rationing of pickup trucks and sport utility vehicles (SUVs) in Wisconsin. Because of their larger size, these vehicles simply cannot meet the aggressive emission standards proposed by California. This will necessarily force automakers to shift sales of pickup trucks and SUVs to other states that have not adopted California's standards. In addition to significantly limiting consumer choice for Wisconsin citizens, this policy will economically disadvantage Wisconsin automobile dealers who are likely to lose truck sales to neighboring states. For these reasons, we respectfully urge you to reject California vehicle emission standards in Wisconsin.

Carbon Audited Transportation Planning

SB 450 would require the Wisconsin Department of Transportation (DOT) to conduct an evaluation of the GHG emissions and energy use that will result from proposed transportation projects that require an environmental analysis or impact statement. The audits would require DOT to calculate the monetary value of the GHG emissions and energy use that will result from the project. In addition, DOT would be required to consider greenhouse gas emissions and energy use in identifying, prioritizing, evaluating, or assessing transportation facility or service needs for the statewide transportation system.

We are concerned that these prescriptive requirements will hamper efforts to expand the capacity of Wisconsin's transportation infrastructure in the future. Moreover, we believe the DOT lacks the expertise to estimate GHG emissions associated with a transportation project, as well as the ability to assign a dollar value to GHG emissions. While the purpose and benefit of this proposal is unclear, we believe it would likely lead to significant uncertainty in the transportation planning process. The subjective nature of the analysis required in this policy is likely to invite lawsuits intended to stifle road building projects in the future. We therefore ask that you reject carbon audited transportation planning requirements.

Thank you for your thoughtful consideration of our concerns with this legislation. Please feel free to contact me if you have any questions, or if I can provide you with additional information at (608) 258-3400 or smanley@wmc.org.