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Climate Change:
REGULATIONS ROUNDUP

In the past several months, there's been movement by the Administration and the Environmental Protection Agency (EPA) on several different initiatives ultimately meant to curb emissions and combat climate change.

by Ed Burke

Climate Change Proposals

The comprehensive package and slew of new proposed regulations as a collective, from renewable use to methane emissions to power plant emissions, are aimed at substantially curbing environmental impacts in the name of reducing the impact of the United States on climate change.

The Renewable Fuels Standard (RFS)

In June, EPA began taking comments on its recent proposal covering the years 2014, 2015 and 2016. While the Agency took some serious heat for releasing their proposal late, it does provide some positive changes for the industry. Since the proposal was delayed, the EPA used the actual amounts of biofuels blended in 2014 as the required renewable volume obligations (RVO).

EPA's proposal cuts are more than 4 billion gallons per year lower than the 2007 legislation called for. The proposal for total renewable fuel volumes is 15.93 billion gallons for 2014, 16.3 billion gallons for 2015 and 17.4 billion gallons for 2016.

Announcing the proposal, EPA acknowledged the so-called blend wall (the inability of most vehicles to use gasoline with more than 10 percent ethanol) and the lack of infrastructure to deliver fuel with higher amounts of renewable fuels. EPA said that these realities are the reason the RFS volume obligations were lower than what Congress called for in the 2007 legislation.

Addressing a major contention with refiners, EPA also significantly reduced cellulosic biofuel volume requirements based on actual production and availability of the biofuel. EPA expects the final RFS standards will be issued by the end of November.

Fuel Efficiency

In June, EPA proposed new standards for medium- and heavy-duty vehicles that would improve fuel efficiency and cut carbon pollution. The proposed standards are expected to lower carbon emissions by approximately 1 billion metric tons, cut fuel costs by about $170 billion, and reduce oil consumption by up to 1.8 billion barrels over the lifetime of the vehicles sold under the program. These reductions are nearly equal to the greenhouse gas emissions associated with energy use by all U.S. residences in one year.

> "The EPA is ballparking the cost to comply with the proposal at $12,000 per vehicle, but argues the fuel savings garnered would offset the additional cost within 18 to 24 months."

Also in June, the Administration, EPA and Department of Transportation (DOT) unveiled details on the proposal for new regulations on emissions and fuel efficiency in heavy-duty trucks as part of a comprehensive push on stemming carbon emissions.

The proposals call for a one-third increase in fuel efficiency for all 2019 and later model year trucks. The diesel exhaust fluid (DEF) and selective catalytic reduction (SCR) technology regulations effective in 2010 have already made diesel vehicles cleaner than some of their gasoline-powered counterparts. The fuel efficiency proposals are essentially meant to "complete the cycle" by addressing what are viewed as extremely fuel-inefficient vehicles—namely, heavy-duty vehicles.

The EPA is ballparking the cost to comply with the proposal at $12,000 per vehicle, but argues the fuel savings garnered would offset the additional cost within 18 to 24 months.

The industry is fairly split on the issue. The proposal is open for comment and won't be finalized until sometime in 2016.

Methane Emissions

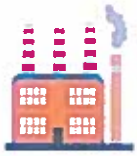
Another part of the climate change proposals was the proposed regulation on methane emissions—primarily from the agricultural and natural gas industries—that was released in 2014. However, there is a new proposal being considered in the form of the EPA's Natural Gas STAR program. Essentially, this program is a voluntary alternative to proposed regulations for oil and natural gas companies. The partnership encourages these companies to adopt cost-effective technologies and practices that will improve operational efficiency and reduce methane emissions.

Industry groups argue that voluntary programs are better than new regulation. For one, it's in the financial best interest of producers to capture the leaks responsible for the emissions in the first place. This is certainly true of upstream producers, however it is not the case with local utility companies. Since the ratepayers pay for the lost gas, the local gas companies don't have a financial incentive, but rather a disincentive to repair smaller leaks. As seen over the past year, these small leaks are a lot more prevalent than previously thought. Boston, for example, is leaking an estimated 90 million dollars' worth of natural gas annually—and that's just the City of Boston, not the State of Massachusetts.

Either way, don't get too excited about a voluntary alternative. Firm, non-voluntary regulations are still being proposed and are expected to be released later this summer.

The goal of the Administration is to reduce methane emissions by 40 to 45 percent below 2012 levels by 2025. Industry groups argue that regulations are costly and onerous versus voluntary compliance and incentives. However, as critics point out, less than one percent of industry companies reportedly take part in the EPA's voluntary program.

Power Plant Emissions



On August 3rd, President Obama unveiled the next portion of the Administration's Climate Change Proposal—new regulations on power plant emissions that aim to drop carbon emissions to 32 percent below the 2005 benchmark levels by 2030. This is the first time federal regulations would cap off power plant emissions, but the Administration and EPA cite the Clean Air Act as expressly giving them the authority to do so.

The earlier iterations of the proposal—before it became official—included implications that a switch to natural gas from coal would be the main catalyst of dropping plant emissions. That makes sense, given that natural gas would generate about 50 percent less emissions, which is obviously a significant move forward. However, the official proposal from August stipulates that a large portion of the reductions must come from renewable sources – wind, solar or nuclear. The Clean Power Plan will lead to 30 percent more renewable energy generation in 2030. The current level of renewable energy generation is around 13 percent.

This stipulation has the industry as well as some legislators up in arms. Not only is this perceived as another intended nail in the coal industry's coffin, but the billions in infrastructure cost to move to renewables in the time frame allotted is extremely problematic. The EPA projects the annual cost of the new regulations at $8.4 billion annually, but argues that it is essentially offset by the projected benefits (including projected health benefits), which are estimated to be between $34 and $54 billion annually.

The plan stipulates that states map out and ratify a formalized plan indicating how they will hit the new emissions targets by 2018 and the initial projected targets by 2022.

Several states are already filing suit, arguing the proposal far exceeds the authority granted by the Clean Air Act, and legislators from coal states are predictably outspoken about refusing to adopt the measures. Given that the Supreme Court has upheld suits against proposals based on the Act in recent months, there is some doubt about which proposals, if challenged, have much chance of being overturned or amended.

State Initiatives

On a local view, states and regional partnerships adapting stronger environmental protection and climate change regulations that cut emissions and promote Clean Air Act initiatives. They're looking at what works best for their states as well as what helps drive their economies and tourism industries.

For every state that is pushing back on the regulations in order to protect their state, it seems there is another state moving to embrace or even exceed the proposed targets.

In short, many states are already moving in the right direction. The U.S. electric sector has already achieved almost half of the carbon dioxide emissions reductions that the Clean Power Plan aims to achieve.

California and the Northeast, for example, have been promoting, regulating and subsidizing moves to trim carbon emissions and are leaning to more renewable energy sources. California officials say they're right in step with the new proposals. They say the state is on target to exceed the reductions required over the next two years with the existing plans in place. In Massachusetts, there's a ballot initiative proposed for 2016 to meet 100 percent of the Commonwealth's electric load by the year 2050 with renewable and alternative energy generation.

States in the Northeast and Mid-Atlantic regions have been working to slash the sulfur content in heating oil. By July 2018, heating oil dealers in all but a few of these states will be loading their trucks with an ultra-low sulfur heating oil (15 ppm). The environmental benefits from these dramatic reductions in sulfur content move the heating oil industry into a much better position for transitioning to a low-carbon future. Additionally, most of the Northeast states have biodiesel products available at the rack.

In states where shale plays and drilling are major sectors, they're already adapting much tougher methane regulations on wellheads, transfer stations, and pipelines.

At the End of the Day

It remains to be seen how the final versions of each proposal shake out over 2016 before there's a real clear picture of how the U.S. will be regulating the move to combat climate change.

Ed Burke

Ed is chairman of the board of Dennis K. Burke, Inc., one of New England's leading suppliers of diesel fuel, gasoline and motor oil products. Headquartered in Chelsea, Massachusetts, the fuel distributor provides services to commercial, industrial and municipal accounts in eleven states. The family-owned business has over 50 years of reliable service. Contact Ed at: email support@burkeoil.com; phone 617.884.7800.

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