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Via Email and Electronic Submittal
Michelle Buffington
Air Pollution Specialist
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Richard Corey
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California Air Resources Board

Re: Low Carbon Fuel Standard
Advisory Panel Topic 5

Dear Michelle and Richard:

The discussion at the April LCFS Advisory Panel meeting was interesting and useful, and BP America appreciates the opportunity to offer further comment on Topic 5 of the Panel Draft Workplan.

The regulatory language for Topic 5 asks the Advisory Panel to consider "the availability and use of ultralow carbon fuels to achieve the LCFS and the *advisability* of establishing additional mechanisms to incentivize higher volumes of these fuels to be used" (emphasis added).

We believe the outline should start with a strong focus on the "advisability" of establishing these mechanisms rather than what appears to be a current focus on the mechanisms that could be used to incentivize these fuels. Our concern is that any mechanism within a LCFS which is meant to provide additional incentives to specific fuels would:

1. Violate key principles of what is supposed to be a market-based, fuel neutral, performance standard
2. Assume that policymakers can pick winners better than the market
3. Assume that persistent hurdles to certain fuels can be addressed simply by more incentives
4. Undermine the environmental goals of the LCFS

The LCFS is designed to be a market-based, fuel neutral, performance standard that will allow alternative fuels to compete on a level playing field. A truly fuel neutral LCFS allows the market to decide where investment is directed and what compliance pathways are chosen. These decisions will be based on a complex and dynamic assessment of the relationship between carbon intensity of fuels, the availability of these fuels in material volumes, the cost of these fuels, the availability of infrastructure and vehicles to support these fuels and many other factors that effect the desirability of these fuels as compliance alternatives – and as investments.

Consideration of mechanisms within the LCFS to further incentivize specific fuels is a serious violation of the principle (and claim) that the LCFS should be (and is) market-based, fuel neutral, and performance-based. The regulation sets carbon intensity values for fuels and allows these fuels to compete on a performance basis. Because of this scoring of fuels, there are already significant incentives in place for the development and use of ultra low carbon fuels (ULCFs) in the LCFS. Simply put, the LCFS goals <u>cannot be met</u> without the development of ULCFs in very large volumes. As was discussed at the recent Advisory Committee meeting, blending a <u>zero carbon</u> biofuel at the current blend limit of 10% results in attaining only approximately 70% of the 2020 gasoline pool goal of the LCFS. This 10% blend volume requires that approximately 1.5 billion gallons of this zero carbon biofuel is available to be blended in California. Currently, US EIA estimates that only approximately 3 to 4 millions gallons of cellulosic ethanol (at a significantly higher carbon intensity) is being produced in the entire United States. This massive gap in what is needed to comply with the LCFS (or predominantly the federal RFS2) versus what is currently available, provides strong incentive for development and commercialization of these ULCFs.

Given the complex factors and relationships that must be continuously evaluated to guide investment and compliance efforts, it is difficult to envision how policymakers, through the design of simple, static incentives/mandates within a performance standard, can better guide these decisions than can the market and market participants. Because there are many factors beyond CI that will determine the success of alternative fuels, it is difficult to see how a workable determination or threshold for ULCF designation could be developed in a way that does not simply allow policymakers the ability to pick winners and losers. It has been widely documented that policymakers do not have a successful record in picking winners in alternative fuels.

The consideration of additional incentive mechanisms within a LCFS also assumes that the hurdles to development or commercialization of certain fuels can be addressed simply by additional incentives. In fact, some of the hurdles faced by particular fuels may be structural, persistent, and/or otherwise not able to be addressed by additional incentives in a reasonable timeframe. This is not to say that there should not be any incentives for alternative fuels beyond a true performance-based standard. However, any additional incentives should not occur within performance standards, should be as fuel neutral as possible, should look to address specific hurdles and should not result in policymakers picking winners and losers. In fact, there are many examples of existing, additional incentives outside of the LCFS - at both the state and federal level. AB118 funding is an example of a state level incentive.

Lastly, any incentive that results in additional LCFS credit for specific fuels will either undermine the goal of the LCFS, or have to remove credit from fuels that don't qualify as an ULCF. Either outcome would and should be objectionable to a wide range of stakeholders.

In conclusion, we strongly urge the inclusion of a robust discussion and analysis of the advisability of establishing these additional mechanisms – before time is spent on discussing the merits of any particular incentive mechanism.

I look forward to working with you on these and other important issues through our participation on the LCFS Advisory Panel.

Sincerely,

Ralph J. Moran
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