

Low Carbon Fuel Standard Proposed Amendments

July 22, 2011

Agenda

Morning Session

- Draft Regulatory Language
 - Opt-In/Opt-Out Provisions
 - Enhanced Regulated Party Provisions
 - Mandatory LCFS Reporting Tool (LRT) Use
 - Other Revisions
- Draft Regulatory Concepts
 - Credit Trading
 - Land Use Change

Afternoon Session

- Draft Regulatory Language
 - Revised Energy Efficiency Ratios (EERs)
 - Certification Process for Method 2A/2B
- Draft Regulatory Concepts
 - Low Energy Refining
 - High Carbon-Intensity Crude Oil (HCICO)
 - Electricity Regulated Party
- Non-Regulatory
 - Enhanced Biofuel Producers Registration

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Current Regulation

- Section 95480.1(b) - allows opting in to generate credits
- Fuel types available to opt in
 - Hydrogen
 - Electricity
 - CNG
 - LNG
 - Biogas
- Silent on how to opt in or out

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Opting In

- Voluntary option
- An opt-in party will be treated as a regulated party
 - Subject to all LCFS requirements

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Selection of Carbon Intensity Value

- Lookup Table (Method 1)
- Method 2A/2B
- Default CI value based on 2020 targets
 - Gasoline substitute 86.27
 - Diesel substitute 85.24

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Opting Out

- 30-day advanced notice
- Confirm opt out
- 30-day follow up
- End of the year report

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Record Keeping

Provisions and requirements in section 95484(d)(1) apply

- Retain following records for at least 3 years
 - Product transfer documents
 - Copies of all data and reports submitted to EO
 - Records related to each fuel transaction
 - Records used for compliance or credit calculations
- Provide records within 20 days of written request

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Current Regulation

- Section 95484(a) – Initial regulated party is:
 - Producer (in California)
 - Importer
- Not eligible as initial regulated party
 - Out-of-state fuel producers
 - Transloading operators

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Producer

- Out-of-state producers expressed interest in becoming regulated parties
 - Sell and bank credits
 - Transfer of partial compliance obligations
- Revise definition of “*producer*” to include out-of-state producers who voluntarily opt-in to become initial regulated party

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Import Facility

- “Importer” owns fuel when received in “import facility”
- “Import facility” excludes transloading facilities because no storage tank present
- Revise definition of “import facility” to include transloading facilities
- Add definition for “transloading facility”

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Mandatory LRT Reporting , §95484(c)(2)

- Current regulation requires “interactive, secured internet web-based” reporting tool
- Staff proposes to require use of ARB’s LCFS Reporting Tool (LRT)
- Online LCFS Reporting Tool (LRT)
URL: www.arb.ca.gov/lcfsrt

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Other Revisions

- Reporting Requirements
 - Section 95484(c)(5)(C) – Significant figures expressed in gasoline gallon equivalent (gge)
 - Eliminate reporting of fuel volume in terms of gge
 - Use units specified in §95484(c)(3)(A) to (D)
 - Section 95484(c)(3)(A)4. – Renewable Identification Number (RIN)
 - Remove RIN reporting
- Carbon Intensity Lookup Table
 - Table 6 – Replace “gasoline” with “CARBOB”

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LCFS Credit/Deficit Calculations, Credit Banking, Trading and Retirement

Section 95484(b) - Calculation of Credit Balance and Annual Compliance Obligation

New Section 95488 (a-d)

- (a) – Generation and Acquisition of Transferable Credits
- (b) – Credit Transfers
- (c) – Mandatory Retirement of Credits for the Purpose of Compliance
- (d) – Public Disclosure of Credit and Deficit Balances and Credit Transfer Information

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Proposed Revisions to Section 95484 (b)

- Proposed changes to Section 95484(b) include:
 - New definition/formula for *Compliance Obligation*
 - Revised formula for calculating *Credit Balance*
 - Criteria for meeting Compliance Obligation
 - Revised method to determine the credit to deficit ratio
- No material change to LCFS stringency or regulated party's compliance obligation

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Proposed Revisions to Section 95484 (b)

- **Section 95484(b) (1)** clarifies compliance period is annual, otherwise unchanged
- **Section 95484(b) (2)** defines *Credit Balance* and annual *Compliance Obligation* as follows:
 - Compliance Obligation** = (Deficits^{Gen} + Deficits^{Carried Over})
 - Credit Balance** = (Credits^{Gen} + Credits^{Acquired})
– Sum of (Credits^{Retired} + Credits^{Sold} + Credits^{Exported})
- **Section 95484(b) (3)** defines *Compliance Demonstration* and specifies how Compliance Obligation is met
- **Section 95484(b) (4)** defines *Deficit Carryover*
- **Section 95484(b) (5)** conforms *Deficit Reconciliation* to Section 95488

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Credit Banking and Trading

As of Q1 2011

- Credits generated quarterly are “banked”
- Credits banked may be:
 - Retained
 - Retired
 - Transferred
- Deficits tracked separately

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Credit Banking Key Concepts

Quarterly generated credits and deficits are independent

- **Example 1:** A deficit generated in Q1 does not displace a credit generated in Q1
- **Example 2:** A deficit generated in Q2 does not displace a credit generated in Q1
- **Example 3:** A credit purchased in Q4 is available for “re-sale” regardless of the number of outstanding deficits
- **Example 4:** A credit generated during Q1-Q4 is available for “sale” regardless of the number of outstanding deficits

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Meeting Obligation with Carried-Back Credits

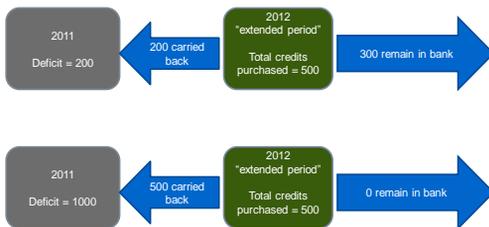
New provision would allow credits to be carried back

- Extended period to purchase credits for compliance
 - Q1 immediately after compliance period
- Regulated party can elect to “carry back” credits
 - Submit Credit Allocation Form along with annual report
- Carry back credits must
 - Have been generated in a prior compliance period
 - Be used to reconcile previous year deficit

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Example: Credit Carry-Back



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Performing Credit Transfer

- Total Credits available for transfer (see section 95484(b) for definition of variables) from Seller's Credit Balance

$$\text{Total Credits} = \text{Credits}^{\text{Gen}} + \text{Credits}^{\text{Acquired}} \\ - \text{Sum of } (\text{Credits}^{\text{Sold}} + \text{Credits}^{\text{Exported}} + \text{Credits}^{\text{Retired}})$$

- "Facilitators"
 - Non-regulated third-party "brokers" can facilitate transfers
 - May not own the credit
 - Credit Transfer Form (CTF)
- Must report required CTF information including the number of credits transferred and the price per unit credit

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Documenting and Reporting Credit Transfer

- Seller and Buyer may agree to transfer as often as needed
- Sellers:
 - Must provide Buyer a signed "Credit Transfer Form"
 - Must provide documentation for each trade regardless of number of credits
- Buyers:
 - Must verify information by signing and dating
 - Must submit transfer agreement to ARB
- Use "Interim" credit transfer process until available in LRT

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"Interim" Credit Transfer Process

- Manual Process using the Credit Trading Form developed by ARB
- Seller and Buyer complete and sign form
 - InfoPath with Digital Signatures
 - Word document /hardcopy with signatures
- Completed Credit Trading Form submitted to ARB
- ARB executes the transfer
- ARB maintains Credit Account for each regulated party
- Interim Credit Transfer & Credit Allocation Documents:
www.arb.ca.gov/fuels/lcfs/ReportingTool/DraftDocs.zip

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**LCFS Credit/Deficit Calculations,
Credit Banking, Trading and Retirement**

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Annual Compliance Obligation**

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of Compliance**
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and Credit Transfer Information

Credit Retirement

- Regulated party with credits at end of year with
remaining compliance obligation
 - Must retire enough credits to meet compliance obligation
 - Credit/Deficit ratio (per revised section 95484(b)(3))
recalculated
- Regulated party may specify which credits are to be
retired in Credit Allocation Form
 - If not specified, credits to be retired via “default”
retirement hierarchy

**LCFS Credit/Deficit Calculations,
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of Compliance
- (d) – **Public Disclosure of Credit and Deficit Balances
and Credit Transfer Information**

Public Disclosure of Reported Data

- Provide useful information to market participants and protect confidential data
- Monthly and Quarterly Reports on LCFS Credits and Deficits
 - Credit and Deficit Generation on a Quarterly Basis
 - Cumulative information on Credit and Deficit Balances
 - Trading activity: number of credits traded; number of trades; number of parties trading; and average price of traded credits

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Outline

- Contracts
- Pathways to be revised
- EWG recommendations to be incorporated
- EWG recommendations still under review
- Recent model updates (Wally Tyner)
- Schedule for short-term revisions
- Effect on LCFS compliance schedule

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Contracts/Outside Work

- Holly Gibbs: Spatially explicit carbon stocks
- Rich Plevin: Emission factor model
- Wally Tyner: Short term GTAP revisions to update LUC values for existing pathways
- Purdue: Long term GTAP revisions
 - Update LUC values for existing pathways
 - Develop LUC CI values for additional pathways

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Pathways to be Revised

- Corn Ethanol
- U.S. Soy Biodiesel and Renewable Diesel
- Brazilian Sugarcane Ethanol

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EWG: Short-Term Revisions to be Made

- Incorporate cropland pasture for U.S. and Brazil
- Use updated energy sector elasticity values
- Incorporate improved treatment of DGS
- Incorporate modified structure of livestock sector
- Use revised estimates for yield on new cropland
- Use revised emission factors

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EWG: Revisions Under Review

- Developing new emission factors
- Price-yield elasticity value(s)
- Reduce or eliminate LUC credit for reduced food consumption

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Emission Factors

- Holly Gibbs to develop spatially explicit carbon stocks for forest and pasture
- Rich Plevin to develop emission factor model, assisted by Sonia Yeh and ARB
- Model will account for:
 - Above and below ground biomass, litter and deadwood
 - Soil carbon
 - Foregone sequestration
 - Conversion by fire
 - Harvested wood products
 - Peatland conversion and cropland pasture conversion

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Price-Yield Elasticity Value(s)

- Considerable disagreement among experts on proper value(s) to use for yield response
- ARB staff intends to use value(s) less than 0.25
- Actual value(s) for short-term model revisions still under review

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LUC Credit for Reduced Food Consumption

- Run new model scenario(s) with and without food consumption held constant
- Considering reducing or eliminating LUC credit for reduced food consumption

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Recent Model Updates

- GTAP 7 Database
- Land supply nesting structure
- Greater flexibility in crop switching in response to price changes
- Endogenous yield adjustment for cropland pasture in response to changes in land rent

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GTAP Modeling Changes Over the Past Year

Wallace E. Tyner, Professor
Purdue University

Schedule

- Early September – preliminary modeling results for corn ethanol, soy biodiesel, and sugarcane ethanol
- Early October – final modeling results

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Effect on Compliance Schedule

- If corn ethanol LUC CI is reduced:
 - Baseline CI for CaRFG decreases
 - Compliance schedule targets for gasoline shift down
- Compliance schedule for diesel is unaffected

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Revised Energy Economy Ratio (EER)

- Bifurcate natural gas for HD vehicles
 - 1.0 for compression ignition
 - 0.9 for spark ignited
- Revise electricity for LD PHEV/BEV to 2.6

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Data for EER Calculation for PHEV/BEV

- Chevy Volt (electricity only): 93 mpg
- Chevy Cruze (reference vehicle): 28.3 mpg
- $EER = 93 / 28.3 = 3.29$
- Nissan Leaf: 99 mpg
- Nissan Versa (reference vehicle): 28.4 mpg
- $EER = 3.49$
- Average $EER = (3.29 + 3.49) / 2 = 3.39$
- Average EER is divided by 1.3 to reflect 30% mpg improvement for gasoline vehicles due to Pavley Regs.: $EER = 3.39 / 1.3 = 2.6$

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2A/2B Certification Program

- Adding new pathways to Lookup Table now requires full rulemaking:
 - Formal comment period(s)
 - Executive Officer Hearing
 - OAL approval
- Cumbersome process
- Certification process would be more efficient (Resolution 09-31)

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2A/2B Certification Program

The certification program will:

- Be used to
 - Evaluate and approve/deny Method 2A/2B applications
 - Evaluate and approve/deny staff-developed pathways
- Be modeled after existing ARB certification programs
 - Gasoline Additives (13 CCR § 2257)
 - Aromatic Hydrocarbon Content of Diesel Fuel (13 CCR § 2282)
- Benefit from lessons learned in current 2A/2B program

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2A/2B Certification Program

Overall approach

- General requirements for all applications
- Specific requirements for subset
 - Corn ethanol
 - Biodiesel from animal waste
 - Fuels from outside the U.S.
- Required application contents
 - Completed 2A/2B application form
 - Report containing life cycle analysis on proposed pathway

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2A/2B Certification Program (Cont.)

- Required application contents
 - Invoices for all forms of energy consumed (2 typical years)
 - Receipts for fuel sales (same period as above)
 - Documentation of transportation distances if different from LCFS defaults
 - CA-GREET model run for pathway
 - List of all combustion-powered equipment used in fuel production
 - Process flow diagrams for production process

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2A/2B Certification Program (Cont.)

- Air pollution control permits
- Descriptions of co-located facilities (e.g. co-gen)
- Review process has two main components:
 - 30 days for completeness determination
 - 90 days for action on complete application (includes Executive Order)
- Executive Order will contain terms and conditions
 - Modification or revocation if operational conditions not met

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2A/2B Certification Program (Cont.)

- Record-keeping and reporting requirements:
 - To demonstrate operational conditions are being met
 - Records for
 - Feedstock purchases
 - Fuel volume
 - Produced
 - Sold in California (should reconcile with Reporting Tool data)
 - Energy consumption (electrical and thermal)
 - Quantities of co-products produced

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Low-Energy-Use Refineries

- Board directed staff in Resolution 10-49 to consider provisions for low-energy-use refineries
- Simple refineries use less energy to produce transportation fuels
- Staff is:
 - Reviewing submitted proposal
 - Considering other approaches

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What is a HCICO?

- Some processes use more energy/emit more GHGs to produce/preprocess oil
- Examples of high intensity production processes
 - Thermal enhanced oil recovery
 - Bitumen mining
 - Upgrading of ultra heavy crude or bitumen
 - Excessive flaring of produced gas
- LCFS based on full lifecycle GHG emissions; need to account for HCICO

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Outline

- Current HCICO provision
- Crude Screening Workgroup activities
- Alternative regulatory approaches
- Criteria for evaluating alternatives

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Current HCICO Provision

Definitions

- “included in the 2006 CA baseline crude mix” or “baseline crude source”
 - Location which contributed two percent or more of the total crude refined in CA in 2006
 - CA, Alaska, Saudi Arabia, Ecuador, Iraq, Brazil, Mexico, and Angola
- “High carbon intensity crude oil” or “HCICO”
 - Crude source with a carbon intensity for “well to refinery gate” of more than 15 g/MJ
 - Average “well to refinery gate” CI for the CARBOB and ULSD pathways is 8.07 g/MJ

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Current HCICO Provision

- Compliance schedule targets based on average Lookup Table values for CaRFG and ULSD
- The average Lookup Table values were calculated using the 2006 baseline crude sources
- Base Deficit: applies to all CARBOB and Diesel
- Incremental Deficit: only applies to fuels derived from HCICO
- Incremental Deficit can be avoided by implementation of emission reduction technologies which reduce the production and transport CI to less than 15 g/MJ

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Purpose of HCICO Provision

- Account for additional emissions beyond the 2006 baseline from the use of HCICO
- Encourage emission reduction activities from these HCICO sources

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Screening Process

- Crude Oil Screening Workgroup met six times
- Developed draft screening process to quickly identify non-HCICO sources
- Sources failing initial screen labeled as potential-HCICO, subject to more rigorous assessment
- Screening process applied to approx. 250 sources, 80 percent identified as non-HCICO

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Regulation Revision

- Proposed revisions to HCICO provision in December
- Alternatives range from amendments to complete revision
- Staff has summarized five potential approaches
- Not limited to these five

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Approach 1: Amendments

- Amendments which provide details for implementing the current provision
- Based on draft screening proposal
- Codifies method used to generate non-HCICO list
- Outline a process to address potential-HCICO sources

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Approach 2: California Average

- Removes designation of “baseline crude sources”
- Base deficit same as current provision
- Calculate a current CA average CI each year
- Incremental deficit applies to all CA refiners if current average CI is greater than baseline CI
- Allows crude slate to shift without penalty if it does not become more emissions intensive

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Approach 3: Hybrid

- Removes designation of “baseline crude sources”
- Base deficit same as current provision
- Incremental deficit applies only to companies with crude oil that becomes more intensive relative to their baseline supply
- Allows companies to shift their crude supply and not be penalized if it does not become more carbon intensive

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Approach 4: Company Specific

- Removes the designation of “baseline crude sources”
- Each oil company would have distinct Lookup Table values and Compliance Targets based on crude slate refined by that company in baseline year
- Incremental deficit applies only when a company's crude supply intensity exceeds its baseline CI

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Approach 5: Worldwide Average

- Removes any reference to crudes refined in CA
- Bases average Lookup Table values and Compliance Schedule on worldwide average crude oil supply
- Incremental deficit incurred by all refiners if worldwide average crude supply becomes more carbon intensive over time

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Evaluating Alternative Approaches

- Criteria identified to evaluate “pros and cons” of alternatives
- Requires refiners to provide significant amount of data and analysis

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Outline

- Purpose of Modifications
- Current Language
- Charging Infrastructure Growth in California
- Proposed Modifications
- Justification for Regulated Party Designation

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Purpose of Modifications

- Provide clarification of regulated party designation
- Clearly award potential credits for home and public access vehicle charging
- Incorporate vehicle charging applications not foreseen when the regulation was adopted

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Current Language

- Utility is eligible to receive credit for home charging, some public charging
- Non-utility EVSP is eligible to receive credit for electricity supplied through equipment they install
- Business owner with charging equipment is eligible to receive credits through contract with utility
- Homeowner is eligible to receive credits through contract with utility

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Charging Infrastructure Growth in California

- Non-utility EVSP are installing home and public access charging equipment
- Utilities are offering EV rates that encourage off-peak charging
- Utilities are installing second meters for those customers who choose EV rate

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Proposed Language

- Utilities eligible to receive credits for single and multi-family home EV charging if they
 - offer EV time-of-use rate schedule
 - provide user-friendly online tool for rate comparison
- Non-utility EVSP and utilities eligible to receive credits for public access EV charging equipment they install if they
 - have contract with property owner to maintain or service equipment, or contract with EV owners
- Fleet operators can opt-in to regulation to be eligible to receive credits, or may relinquish regulated party status to utility through written agreement

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Justification for Credit Allocation

- Utilities expected to upgrade distribution systems in the future due to increasing loads, including EV home charging
- Utilities may return credit revenues to EV owners (if CPUC approves)
- Non-utility EVSP are establishing public access charging infrastructure

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Biofuel Producer Registration: The Basics

- Voluntary, non-regulatory program
- Biofuel producers register to identify:
 - Fuel pathways and carbon intensity (CI) values
 - Physical pathway demonstration (required for LCFS credits)
- Provides regulated parties information needed for LCFS reporting and compliance
- Approximately 200 facilities currently registered

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Biofuel Producer Registration: Facility Information

- Biofuel producers provide facility information to support identifying fuel pathway and CI value:
 - Facility location
 - Type of fuel produced (ethanol or biomass-based diesel)
 - Feedstock type and origin
 - Process fuel/type
 - Co-products
- Biofuel production information
 - Production capacity
 - Annual production volume
 - Annual sales to California
- Producer certifies accuracy of information

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Biofuel Producer Registration: A Tool for Regulated Parties

- CI values and physical pathway information for registered facilities on LCFS website at <http://www.arb.ca.gov/fuels/lcfs/reportingtool/registerfacilityinfo.htm>
- Biofuel producer information uploaded from registration to LCFS Reporting Tool (LRT)
- Regulated parties need confidence in information for LCFS reporting and compliance

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**Biofuel Producer Registration:
Achieving GHG Goals**

- Accuracy of CI values is essential for achieving LCFS GHG reduction objectives
- How can we improve the registration program to:
 - Provide regulated parties greater confidence in CI values for registered facilities?
 - Help producers identify fuel pathway and CI value?

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**Enhanced Biofuel Producer Registration:
Concepts**

We seek input on enhanced registration process:

- Information or records for reporting
- Records to be retained for submittal upon request
- Updates to reflect significant facility change affecting fuel pathway and CI value
- Periodic update to the registration

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**Enhanced Biofuel Producer Registration:
Concepts for Proposed Information**

Proposed information to submit with registration

- Copy of RFS2 Registration Engineering Review
 - Includes process flow diagrams, feedstocks, co-product list
- List of permitted equipment from air pollution permit
 - Identifies boilers, dryers, fuel type
- Documentation of wet distillers grain (wet DGS) production and sale
 - Identification of purchasers
- Production capacity and annual sales to California for each registered fuel pathway/CI

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Enhanced Biofuel Producer Registration: Concepts for Proposed Information

Proposed records to retain and submit upon request:

- Energy use records (utility bills for previous calendar year)
- Annual co-product sales for wet, dry DGS
- Air pollution permit(s)

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Next Steps

- Comments due Aug 5, 2011
- Next public workshops
 - September 2011
 - October 2011
- 45-day comment period begins Oct 24, 2011
- Board hearing – Dec 2011

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High Carbon-Intensity Crude Oil (HCICO)	Manisha Singh (916) 327-1501 mansingh@arb.ca.gov

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<http://www.arb.ca.gov/fuels/lcfs/lcfs.htm>

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Thank You
