CRIMSON
RENEWABLE ENERGY, LP

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November 12, 2014

Michael Waugh
Chief, Transportation Fuels Branch
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Katrina Sideco
Air Resources Engineer, Fuels Section
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Sent via email to ksideco@arb.ca.gov

Dear Mr. Waugh and Ms. Sideco,

As a Low Carbon Fuels Standard (LCFS) stakeholder and active renewable fuels market participant (Crimson Renewable Energy's Bakersfield facility is the largest biodiesel producer in California), we believe the LCFS program has worked well thus far and has met or exceeded program goals to date. Indeed, the banking of LCFS credits by Obligated Parties in excess of the required carbon reductions in 2013 through 2014 year-to-date points to the increasing availability of low carbon fuels, and is an example of the success of LCFS thus far. We support the California Air Resources Board's ongoing work to implement and improve the LCFS. As a direct result of the LCFS, California is leading the world in the effort to establish commercially-viable fuel options that will contribute to lower greenhouse gas (GHG) emissions from transportation.

California's first three years of LCFS experience have proven program critics wrong by strengthening rather than weakening the state's economy. The LCFS is already driving tangible and valuable business activities in California by incentivizing technological innovations that reduce carbon intensity ("CI"). Companies are developing new CI fuels, investing in infrastructure to expand availability of low CI fuels, and making investments to reduce the CI of conventional petroleum fuels and biofuels.

As the Air Resources Board (ARB) moves toward the re-adoption of the LCFS in early 2015, it is crucial that the program be strengthened in ways that will increase and accelerate private sector investment activities. To that end, we strongly recommend that the following actions be part of the re-adoption of the LCFS.

1. **Compliance Curve / Timeline.** We strongly support ARB's proposal to maintain the original LCFS CI reduction at 10% by 2020. We further encourage the ARB to establish

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stronger compliance curves to continue progress beyond 2020. Of the proposed compliance curves, the straight line is our preferred approach, as it unambiguously sends the desired market signal and incentivizes early compliance. Given the availability of banked credits, the straight line approach is feasible and will immediately motivate the market. The entire US fuels market, and Oregon and Washington, in particular, is watching California's progress on LCFS and will benefit from aggressive leadership given the increasing severity of climate change.

2. **Cost Containment**. The ARB should adopt transparent and predictable market rules to ensure that temporary reductions in the supply of low CI fuels or LCFS credits will not disrupt the market for either. Adoption of a Credit Clearance Market will protect obligated parties in the event of a lack of liquidity in supply of either low CI fuels or LCFS credits. We support the proposed $200 ceiling price that triggers the credit clearance mechanism. In addition to the 3% interest rate ARB proposes on any carryover credit deficits, indexing the interest rate to market interest rates (i.e. the Wall Street Journal Prime Rate or to LIBOR) is warranted and make logical sense.

3. **Program Integrity**. In line with creating transparent and predictable market rules, ARB should adopt rule proceedings in the event that fraudulent credit trades or other invalid activities are discovered. Clearly defined rules dictating culpable parties and penalties will ensure that market participants behave within acceptable compliance boundaries, and may facilitate the discovery of fraudulent credits by ARB. We would recommend that ARB carefully consider the experience of the US Environmental Protection Agency ("EPA") in its enforcement of the Renewable Fuel Standard ("RFS"). Delayed prosecutions and a lack of concern for collateral damage caused to good faith market participants undermined respect for the RFS program and the value of RFS credits. We would encourage ARB to insulate good faith market participants from disproportional impacts and to avoid wholesale invalidation of credits. Due to the complex and novel nature of environmental attribute markets, regulators and enforcement officials must exert concerted efforts to maintain the integrity of credits and respect for the overall program.

4. **Predictable CI Scores**. While lifecycle analysis is a continuously developing science, CI pathways should not be in constant flux. Long-term fuel off-take agreements are essential to industry expansion. These agreements require predictable LCFS CI scores rather than fluctuating and uncertain CI scores. Any updating of CI scores should be on a schedule that is firmly established in advance. Providing a clearly defined process and timeline by which new science is incorporated into pathways will provide more investor certainty, and inform alternative fuel project development.

5. **Expanded Credit Market**. Expanding the credit trading market to third parties and developing an exchange will be consistent with the American free enterprise system, increase credit price transparency and the frequency of trades, reduce demands on ARB staff to participate in the market, allow ARB to focus on the regulation of credit transactions and credit verification, and facilitate harmonization with a LCFS credit market spanning multiple jurisdictions.

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We look forward to working with you as you continue to strengthen and improve the LCFS. Please feel free to contact me with any questions.

Sincerely,

Harry Simpson
President

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