



**ENVIRONMENTAL ENTREPRENEURS®**

The *Independent* Business Voice for the Environment

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April 11, 2014

Michael Waugh  
California Air Resources Board  
1001 I Street  
Sacramento, CA 95814

Comment letter from March 11 LCFS re-adoption workshop

Dear Mr. Waugh,

Thank you for your consideration of enhancements to the Low Carbon Fuel Standard as part of the program re-adoption process. We appreciate the opportunity to participate in the ongoing ARB workshops and to provide feedback.

Environmental Entrepreneurs strongly supports the LCFS and its technology neutral approach to lower carbon emissions and diversify our transportation fuels. We applaud the efforts of Air Resources Board to implement a model program that is suitable for replication in other states. The program continues to succeed in part because of your ongoing integration of stakeholder feedback.

To continue to enhance the LCFS, we believe the following considerations should be incorporated:

**GHG Emissions Reductions at Refineries**

Thank you for incorporating this reduction opportunity. We agree with ARB that this is a fair way to assess lifecycle analysis.

**LCFS Compliance Schedules**

The flattened compliance for 2014 has depressed credit prices significantly (\$16/ton on April 9, according to OPIS). These credit prices, couple with weak Renewable Fuel Standard prices, are putting some of the most progressive fuel producers at significant risk over the coming months. ARB needs to act quickly to signal steeper compliance curves, or we will risk losing some of the businesses and jobs we're just starting to see come to market as a result of policies like LCFS. While we understand the rationale behind leaving 2015 compliance at 1%, it is likely that this flattened compliance will put some producers out of business, just when we'll need them the most for the higher mandates in 2016-2020. For this reason, please consider ways to resume the compliance schedule – even if it is mid-year. Just as importantly, please announce any intentions to resume compliance, as this will help stabilize credit prices. Alternative fuels, especially from small producers, depend on these market signals.

Signaling compliance schedules post-2020 might stabilize LCFS credit prices minimally, but it will not cease the plunging prices. Since the market is focused on near term supply and demand, longer-term market signals will not have the same effect as signaling an intent to resume the 2015 and 2016 compliance levels and announcing this decision promptly.

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**Fuel Pathway Process**

E2 respects the needs of ARB to streamline some aspects of LCFS implementation. The two-tier pathway approach is a reasonable proposal to solve constrained staff resources. We agree with ARB's proportional substantiality requirement as proposed in the April 4 workshop, as long as the substantiality requirements still meet the need to incentivize incremental improvements. When LCFS credit might be tight in later years of the program, these incremental improvements will be even more valuable.

**Cost Containment Mechanism**

We support a cost containment mechanism since it provides market certainty about regulatory responses to supply shortages and potential fuel price impacts. However, assured limits on compliance costs to regulated parties also limits credit revenue to biofuel producers. A cap on credit value should be paired with assured minimum values to investors for a cost containment mechanism to fully realize its goal of encouraging investment.

The credit clearance window proposed in the April 4<sup>th</sup> workshop appears to maximize the benefits of a CCM, as ARB succinctly summarized in Slide 13. However, a fixed credit clearance price should, at a minimum, adjust for inflation. Ideally, the price would be indexed to fuel prices.

In the coming weeks E2 will provide some guidance to ceiling and floor prices that will provide the desired credit stability with the need to encourage investments into low carbon fuels.

Thank you for considering our feedback. We look forward to continuing to support ARB's work on a strong but flexible LCFS program.

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