

November 7, 2014

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Katrina Sideco
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Sent via email to ksideco@arb.ca.gov

Dear Mr. Waugh and Ms. Sideco,

We applaud your continued work to implement and improve the Low Carbon Fuel Standard (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.

Importantly, the LCFS is already driving tangible and valuable business activities in California. Companies are investing in infrastructure to expand retail availability of the low carbon-intensity (CI) fuels they are currently selling in the state. Meanwhile, California is the focus both for efforts to pioneer additional low CI fuel options and for investments to reduce the CI of conventional fuels such as petroleum and ethanol.

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.

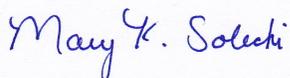
1. E2 strongly supports ARB's proposal to keep LCFS compliance at 10% in 2020. The ARB should maintain this compliance curves through 2020 and establish stronger compliance curves to continue progress beyond 2020. Of the proposed compliance curves, the more gradual path is our preferred approach, as it will still send the desired market signal, but provide additional time for new projects to scale. Compliance curves will determine the scale of the market opportunity, and therefore, the level of private sector interest in expanding the availability of low CI fuels. That, in turn, will be the foundation for investment in infrastructure and in innovative production strategies in California.
2. The ARB should adopt transparent and predictable market rules to ensure that temporary challenges 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 markets in the event of a lack of

liquidity in supply of either low CI fuels or LCFS credits. E2 supports the proposed \$200 as the price that triggers the credit clearance mechanism. In addition to the 3% interest rate ARB proposes on any carryover debt, adjusting for inflation at an additional 2-3% is warranted. A price floor will sustain investor confidence in the event of temporary excess liquidity in the supply of either. These steps will solidify investor confidence in the LCFS market opportunity.

3. In line with creating transparent and predictable market rules, ARB should more clearly define the penalty and enforcement provisions in the event fraudulent credit trades are discovered in the market. Clearly defined rules regarding the nature and scope of violations, culpable parties, and penalties will help deter violators, enable market participants to operate within demarcated compliance boundaries, and may facilitate the discovery of fraudulent credits by ARB.
4. Since lifecycle analysis is a continuously developing science, carbon intensity pathways will be updated on an ongoing basis. Providing a clearly defined process and timeline by which new science is considered and incorporated into pathways will provide more investor certainty, and inform alternative fuel project development.
5. Expanding the credit trading market to third parties in parcel with developing an exchange can: increase credit price transparency and frequency of trades; alleviate long-term staff resources to broker a credit market; allow ARB to focus on the regulation of credit transactions and credit verification; and provide a platform by which other states may easily harmonize with the LCFS credit market.

We look forward to working with you as you continue to strengthen and improve the LCFS.

Sincerely,



Mary Solecki
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