

23 June 2014

California Air Resources Board
Mike Waugh
Chief, Transportation Fuels Branch
Sent via email

Re: Response to CARB 2014-05-30 Workshop
Low Carbon Fuel Standard Re-Adoption

Dear Mr. Waugh:

Thank you for the opportunity to provide comments to the California Air Resources Board (CARB) regarding its re-adoption of the Low Carbon Fuel Standard (LCFS).

The following comments are respectfully presented for consideration by Neste Oil US, Inc., a Texas based company, which is a subsidiary of Neste Oil Oyj. Neste Oil continues its successful strategy of focusing on the production of cleaner traffic fuels and is currently producing non-ester renewable diesel marketed under the name NEXBTL® at locations in Porvoo, Finland; Singapore; and Rotterdam, The Netherlands. Neste Oil uses a wide variety of sustainably produced vegetable oil feedstocks including soybean oil, palm oil, rapeseed oil, camelina oil, and various biogenic waste oils and residues including animal tallow, technical corn oil, and other triglyceride oils and free fatty acids usually produced as wastes or residues from various industrial processes. Neste Oil has delivered and plans to continue to deliver commercial volumes of NEXBTL, which qualifies as low carbon fuel, to numerous customers in the United States and California. NEXBTL meets the ASTM D975 specification for diesel fuel, qualifies as CARB diesel, and is a fully fungible, drop-in fuel that can be used in existing diesel engines without a blend wall and which can utilize existing infrastructure.

Neste Oil is generally supportive of the proposals addressed in the May re-adoption workshop. We believe that the efforts to refine the program as a part of the procedural re-adoption are beneficial. Additionally, Neste Oil offers the additional comments below to specific issues.

FUEL PATHWAY APPLICATIONS

CARB has proposed a two-tiered framework for new pathway registrations. Neste Oil supports CARB's rejection of the previously proposed bin system and supports CARB's efforts to implement a streamlined review and approval process for pathway applications that are familiar to CARB staff (i.e. production process that has already been reviewed and approved, but that evaluates emissions associated with a different feedstock). Neste Oil further supports the use of a simpler and updated model; **provided that the updated model is inclusive enough to allow for adequate tailoring and calculation of CI variables and information.** (This would include variables and considerations for non-US producers.) Otherwise, the risk of first-generation pathway applications needing to be evaluated under a more robust and cumbersome Tier 2 methodology would not realize adequate CARB-staff time savings and would not justify the additional effort required to develop and implement the revised two tier system.

Neste Oil - Houston

1800 West Loop South, Suite 1700
Houston, Texas 77027-3219 USA
Tel. (713) 407-4400 Telefax (713) 407-4480



Neste Oil supports CARB's proposal to allow for currently approved pathways to remain without re-approval under the new model. It would be a considerable waste of resources to discard the previously approved pathway applications and require replacement pathway applications and approvals under a new system. Additionally, the currently approved pathways form an integral part of the LCFS participant's business plans.

POSSIBLE ALTERNATIVES

As a supplement to the pathway application processes proposed, Neste Oil reiterates its recommendation that CARB authorize third-party verifiers, who are unrelated to the applicant, to perform due diligence on the proposed pathway and verify the CI modeling and calculations. The role of CARB staff would then be focused on oversight and verification of Method 1 pathway applications and Tier 1 pathway applications, leaving Tier 2 for more specific staff review, if desired. This methodology is in place in jurisdictions of British Columbia, Alberta, and Ontario and is functioning well. Additionally, the European Union's Renewable Energy Directive (RED) similarly allows producers to calculate actual production values and then be confirmed by an independent third-party verifier.

CREDIT RETROACTIVITY

CARB has proposed to limit credit retroactivity to a maximum of two quarters. This should only be applicable to new pathway applications made after the re-adoption is complete. Neste Oil acknowledges and appreciates the diligent work of CARB staff in processing current Method 1 pathways, along with numerous Method 2A and 2B applications. However, based on the resource challenges, application approvals are often not completed within a 6 month timeframe. LCFS participants often elect to produce fuel with the prospective credits in mind. CARB should only limit the availability of retroactively generated credits if there is an equal, expected deadline for approval of pathway applications.

ENERGY DENSITY COMPONENT TO PATHWAY REGISTRATION AND CREDIT CALCULATION

As you are aware, credits are calculated using an energy density component. The current regulations are proscriptive regarding available energy densities. Specifically, a fuel producer is limited to one of the energy densities enumerated on Table 4. However, many fuels have energy densities that are different than the listed energy density values.

Neste Oil recommends that CARB modify Table 4 to allow for unique energy densities to be confirmed as part of the pathway application approval process and that such unique energy densities be used to calculate credits.

STAFF RESOURCES DURING RE-ADOPTION

CARB must keep the continued high functionality of the program during any transition phase as its highest priority during the re-adoption process. Already, the consideration of current pathway applications – including applications for pathways with real commercial volumes of fuel to be imminently delivered to California – are being deprioritized and delayed in favor of efforts to develop new models and complete the re-adoption process. The Court of Appeals chose to leave the LCFS program in place during the re-adoption and transition period; presumably to continue to realize the real benefits from low carbon fuels in California. However, such benefits will not be fully realized if the implementation of the current program suffers due to only looking forward.

CONCLUSION

Neste Oil appreciates the opportunity to comment on the re-adoption proposals. Like California, Neste Oil is proud of its continued leadership in producing clean transportation fuel. We look forward to continued participation in the California fuel market and the continued success of the Low Carbon Fuel Standard. Please do not hesitate to contact me if at 713.407.4415 or Dayne.Delahoussaye@nesteoil.com if you have any questions regarding the foregoing.

Respectfully submitted,

NESTE OIL US, INC.



Dayne Delahoussaye