December 21st, 2022

Dear CARB Staff,

As a developer of dairy digester biomethane projects in West Coast states, Promus Energy appreciates that LCFS credit value and stability drive the market for low carbon transportation fuels and that the program has made great strides in decarbonizing this sector. However, the precipitous slide in LCFS credit pricing over the past two years has severely hampered developers' ability to secure project financing and launch new digester projects. While it is encouraging that CARB has proposed adjustments to the LCFS program, a number of the options presented at CARB's November 9th Workshop are insufficient to bring credit generation and production into balance and ensure continued investment in low carbon fuels from biomethane projects.

With project financing for many dairy projects across the West on hold, methane emissions from those affected dairies will continue unabated. Our small company alone has $100m worth of potential dairy digester projects that could be launched quickly once market conditions improve enough to secure debt financing. CARB's goal of reducing transportation carbon emissions by 90% by 2045 can only be realized with sustained production of very low- and ultra-low CI fuels, such as dairy-based biomethane projects, that are by nature highly sensitive to credit values. Promus sees the following changes – consistent with CARB Proposal C -- as necessary to ensure the long-term incentives and stability of the LCFS program needed to grow and sustain production of such fuels:

1) *Implement at least a 35% CI reduction target by 2030* to reduce the cumulative credit bank surplus and restore credit prices to level that incentivizes low-CI project development. With recent credit prices in the mid-$60 range, investors are losing confidence in the LCFS program as a critical component of financing projects that rely on credits for the majority of project revenues. The LCFS program needs a major course correction to bring demand in line with supply and to restore investor confidence. Previously posted comments by CalBio indicate that a 30%+ CI reduction in addition to a variety of other policies, like the restriction of food-based feedstocks in the renewable diesel supply, would be necessary to bring demand in line with supply and to reduce the growing surplus in the credit bank.[1] Promus encourages CARB to act aggressively on a 2030 CI reduction target to reinvigorate the development of the lowest-CI projects, substantially reduce agricultural methane emissions, and bring valuable ultra-low CI fuel into the California market.

2) *Reject a phaseout of avoided methane emissions credits*. If avoided methane emissions were to be phased out, few, if any additional dairy digester projects would be built, as even a 10-year period of avoided emissions credits provides little financial incentive to project developers to construct projects. A phaseout of avoided methane emission credits would prompt digesters to shut down as operational costs exceed credit revenues, pushing dairies to return to a "business as usual" approach and a reversal of gains in avoided methane emissions.

[1] 2-lcfs-wkshp-aug18-ws-VDcAZwBtV2ZQP1U6.pdf

3) *Continue the "Book and Claim" accounting for RNG projects outside of California* to ensure the further development of ultra-low CI fuel projects across the country. Restricting LCFS market access for RNG projects outside of CA would only reduce the quantity of ultra-low CI fuel available to the CA market while still allowing producers of other liquid fuels to produce the fuel anywhere. Restricting the location of RNG projects would be akin to restricting the sources of feedstock for renewable diesel to only California.

4) *Consider implementing a mechanism to adjust near-term CI reduction targets to match or stay ahead of production*. The collapse of the LCFS credit value over the last two years due to unexpectedly high production highlights the need for CARB to act in a timely manner to adjust near-term CI reduction targets to bring the market into a balance that ensures the long-term price stability of the credit market. CARB could, for example, evaluate credit generation and production on an annual basis, as EPA does under the RFS, to restore equilibrium and prevent massive fluctuations that undermine program goals.

We appreciate the opportunity to provide feedback on the proposed changes to the LCFS program and thank you for your consideration.

Sincerely,

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