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CIPA

California Independent Petroleum Association Comments on the December 7, 2021- LCFS Workshop

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Via electronic submittal to:
https://www.arb.ca.gov/lispub/comm2/bcsubform.php?listname=lcfs-wkshp-dec21-ws%20&comm_period=1

Thank you for the opportunity to share comments on behalf of the members of the California Independent Petroleum Association (CIPA)[1]. CIPA represents nearly 400 crude oil and natural gas producers, royalty owners, and service and supply companies who all operate in California under the toughest regulations. Our members are committed to innovation and investment to help the state reach its statutory emission reduction targets. CIPA's member companies have the assets and knowledge to play a significant role in helping lower the carbon intensity of California's liquid transportation fuel supply. ***CIPA strongly opposes any LCFS amendments in which in-state crude, produced under the strictest environmental standards in the world, is replaced with imported crude. A true and successful LCFS would not shift emissions, tax-base and jobs to other jurisdictions.***

The December 7th workshop staff presentation[2] laid out the possibility future changes to the LCFS program that would limit and ultimately phase out credit generation for petroleum projects. This would be a major step backward in reducing the carbon intensity (CI) potential of California's diverse transportation fuel mix. CIPA is opposed to any policy shift that discourages in-state carbon reduction investments at the risk of importing additional foreign crude. Our members appreciate the early opportunity to provide input, and in the spirit of transparent process based on robust science, CIPA submits these comments for CARB consideration.

- CIPA agrees that the timing of any LCFS amendments must follow the policy framework laid out in the latest adopted AB 32 Scoping Plan.
- A full technical update of OPGEE needs to occur prior to any regulatory policy considerations being developed based on the outdated and incorrect version used today.
- "Harmonization with Federal Policy" is a transitory endeavor and should not be the basis of developing California-specific policies.

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[1] The mission of CIPA is to promote greater understanding and awareness of the unique nature of California's oil and natural gas resources, and the independent producers who contribute actively to California's economy, employment and environmental protection.
[2] https://ww2.arb.ca.gov/sites/default/files/2021-12/LCFS%2012_7%20Workshop%20Presentation.pdf

The AB 32 Scoping Plan is currently being updated, with staff proposing four possible GHG modeling scenarios for inclusion in the updated version to be adopted late next year[3]. Any alternative that would require in-state industries, including oil production, stone, clay, glass and cement processing, to be *shut down* to meet state-only carbon neutrality goals would actually raise worldwide GHG emissions—see OPGEE discussion below. CIPA believes that any scenario where the State's industrial base is shuttered and product demand is replaced by imports is not only socially and economically unacceptable, but environmentally a worse option. The fundamentals of reducing GHG emissions under AB 32 is to avoid leakage, not accelerate it shifting emissions elsewhere. CARB should be asking, "How can we meet our carbon targets in the least-cost manner, and in a way that disrupts the lives of Californians the least?" As long as crude is used to produce transportation fuels in California, limiting or eliminating the incentive to lower its CI violates these principles.

The least-cost Scoping Plan Scenario is the one where forced retirement of existing assets and resources is minimized. Under that scenario, in-state crude production could continue for more than two decades. Does CARB really want that energy to not have an incentive to be less carbon-intensive? To date, the Innovative Crude provisions of the LCFS have produced real-world projects, and new technologies, that are accomplishing the Program's goals of reducing the carbon intensity of in-state transportation fuels.

Updating the Innovative Crude program to continually reward true innovation is policy consistent, while possibly eliminating the incentive to truly be innovative is not.

CIPA has previously submitted comments to the OPGEE model update under earlier LCFS workshops. Those comments go into great detail about the need to get the science right BEFORE policy decision are made, and describe a model in which the regulatory framework of California is ignored.[4,5] We incorporate those comments by reference and provide these additional thoughts.

California produced crude oil, is the only traditional fuel feedstock produced under California's Cap-and-Trade Program where the production emissions are *already accounted for, and capped*. Imported crude is neither subject to the State's methane rules, nor price on carbon. California's LCFS goals simple cannot declare victory by shifting the emissions math to other (higher-emitting) jurisdictions.

CIPA members are currently investing in large-scale carbon reduction projects, such as renewable thermal and electrical energy and/or carbon capture and storage. CIPA has supported its members in these GHG-reducing endeavors for years. We believe there should be an analysis that looks at the *global* impact of replacing California crude, with its methane monitoring rules, flaring rules, vapor recovery rules and short pipeline transport distances with the equivalent volume of less regulated, long-distance transported foreign crude. Such an analysis needs to consider all the emission reduction efforts highlighted in the previous CIPA OPGEE letters to CARB. It is also known that California refineries are limited in the types of crudes they can accept, and that they are already optimized to received California crude.

The possibility of eliminating California produced crude, and replacing it with foreign crude will completely be undermined once the OPGEE model is updated to take into account California's

[3] https://ww2.arb.ca.gov/sites/default/files/2021-12/Revised_2022SP_ScenarioAssumptions_15Dec.pdf
[4] https://www.arb.ca.gov/lists/com-attach/53-lcfs-wkshp-oct20-ws-WjldMgBxUmACWwVp.pdf
[5] https://www.arb.ca.gov/lists/com-attach/4-opgee-general-ws-AGMBbgNyVmQAWVI9.pdf

regulatory regime and scientifically assesses the impact of these other crude sources. CIPA is working to show that the OPGEE model clearly overestimates the CI of California crude oil, and underestimates the CI of foreign crudes, most notably those from Saudi Arabia and Ecuador, the two largest suppliers of oil to California. The data supports the common-sense conclusion that California's demand for oil is best met by locally produced, locally regulated, and lesser greenhouse gas emitting oil than that foreign sources which require long transport distances in addition to non- or under-reported greenhouse gas emissions and environmental protections.

Bottom-line is that the technical work is not yet completed for the next OPGEE update, therefore no policy decisions should be made in advance of that work.

Even with the state's incredible vehicle efficiency rules, VMT reduction strategies, and vehicle technology requirements, California consumes among the most energy on the planet outpacing France, Germany and the United Kingdom[6]. Owing to the sheer size of its demand and California's continued reliance on energy imports, state policies (or changes to those policies) can have wide ranging impacts around the U.S. and the world as a whole. Other energy producing regions simply do not have our environmental programs. Rather than increasing our dependence on foreign imports, California should embrace an energy portfolio that prioritizes California produced energy, which benefits both state and local economies as well as the environment.

On the issue of Federal policy 'harmonization', CIPA believes CARB and California are inconsistent in their position. Federal policy can, and has shifted dramatically at least twice in the last five years. It has swung wildly depending on Presidential administration. CIPA finds it completely disingenuous of CARB who claims to 'lead the nation' for years, only justify action and to want to follow the Federal government when policies seem to align. Businesses and large capital investments like those needed to achieve the goals of AB 32 and SB 32 require a steady policy hand. Whipsawing between 'leading' and 'following' only serves as a disincentive to GHG reduction investment. Since 2008 California has embraced the idea of a 'price on carbon' that allows investment decisions to be made knowing full well the risk to capital. The staff implication in the December 7th workshop to phase out potential crediting projects has a chilling impact. CARB would be better served retaining the policy signal that innovation will be rewarded, rather than artificially dictating where potentially game-changing investments can come from.

California will need petroleum and natural gas fuels for decades, a fact confirmed by the AB 74 report conclusions. In fact, the state could replace all passenger and fleet cars with electric cars, achieve 100% renewable energy generation, and STILL need every drop of domestically produced oil. During this time, we should not only prioritize in-state supply but incent its carbon intensity reduction. Any other regulatory proposals would run counter to the ultimate goal of reducing GHG emissions worldwide. Artificially hitting an incorrect accounting target is not success.

The last barrel of oil used in this state should be produced in this state, home to the world's only California Climate Compliant Crude. Renewable electrical and thermal energy and utilizing carbon capture and sequestration that was enabled through consistent policy

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[6] CA - 7.96 quadrillion BTUs https://www.eia.gov/state/print.php?sid=CA
Country ranking: https://www.eia.gov/international/rankings/world?pa=12&u=0&f=A&v=none&y=01%2F01%2F2017

implementation will help achieve this goal. Thank you for continuing the dialogue with us. We look forward to working with CARB on this important topic.

Sincerely,

Rock Zierman
Chief Executive Officer
California Independent Petroleum Association