BP America, Inc.

Ralph J. Moran

1201 K Street, Suite 1990

Sacramento, CA 95814

DATE: July 3, 2018

Via Email
Mr. Sam Wade
California Air Resources Board
1001 I Street, Sacramento, CA

Re: BP Comments on CARB's Proposed 15-Day Modifications to the LCFS, Dated June 20, 2018

Dear Mr. Wade:

BP appreciates the opportunity to submit comments on the latest LCFS regulatory amendments as contained in the 15-day package released on June 20th of this year.

Section 95486.2. Generating and Calculating Credits for ZEV Fueling Infrastructure Pathways

We are deeply disappointed that the latest regulatory amendments propose allowing the building of hydrogen and EV charging infrastructure to generate credits within the LCFS program – beyond crediting of the actual supplying of fuel for transportation. As no other fuels within the LCFS program would be able to generate credits in this way we, and many other stakeholders, view this as a clear and unprecedented departure from a fuel neutral approach. Moreover, the proposal, if adopted, would seriously undermine the environmental integrity of the program by offering credits for activities for which no actual carbon intensity reductions occur.

The LCFS was designed, adopted, and has been heavily promoted as a market-based, fuel neutral program. While many other programs have been designed to subsidize and incentivize specific fuels – the LCFS has been promoted as a program that allows all fuels to compete on a level playing field – based only on their carbon intensity. Developers of alternative fuels of all kinds have invested based on a belief that their product could compete within the LCFS on a level playing field with other fuels, based solely on the carbon intensity of the fuels they produce. Now these alternative fuel investors must compete and invest with the knowledge that CARB sees the LCFS as just another program where a thumb on the scale will be used to advantage specific, chosen fuels.

Together, we have worked very hard, across multiple programs which comprise California's GHG reduction efforts, to ensure that all GHG reductions are real, quantifiable, verifiable and permanent. From the very detailed requirements on offset projects, to the rigor of pathway demonstration for biofuels crediting in the LCFS, to the verification of GHG emissions, and more – ensuring and maintaining environmental integrity is a bedrock principle to which an effective GHG reduction program must adhere. We believe very strongly that the LCFS must continue to adhere to this principle and that credits can only be awarded for activities that produce real, quantifiable, verifiable and permanent GHG reductions – using a fuel neutral approach.

The production of hydrogen and electricity for transport fuel will already receive LCFS credits under the current program – currently equivalent to a subsidy in the amount of approximately $180 per ton of carbon. In addition, developers of hydrogen and EV charging infrastructure collectively receive tens of millions of dollars annually in grants from the California Energy Commission and from other sources. The current LCFS proposal to also give credits for the activity of building infrastructure (in addition to credits for producing fuel) suggests that these current incentives are not enough. This begs the questions – how much is enough – and how much is too much?

Given the departures from fuel neutrality and environmental integrity that adoption of these proposals would represent, and the uncertainty that this introduces for producers of other fuels, we believe that CARB should pause – and consider whether the desire to pick winners within the LCFS is strong enough to sacrifice the very credibility of the program – or whether there are other methods and other programs that can be more appropriately be used to further subsidize favored outcomes.

Section 95483 Fuel Reporting Entities.
Under the proposed Section 95483(a)(3) Transfer Period, the ability to transfer a Fuel Reporting Entity's credit or deficit generator status is limited to three calendar quarters. The implications of imposing a time limit on the transfer of the credit/deficit generator status are undesirable because they can impinge on a party's ability to effectively balance supply-demand requirements and impose complex reporting and recording keeping requirements on producers who may be less sophisticated, resulting in additional costs and regulatory burden. If any time limit is to be imposed, one calendar year from production or import would provide parties with more flexibility and the ability to appropriately manage demand needs in the market.

Section 95491.1(b)(1)(C) Documenting Fuel Transfers Reported in the LRT-CBTS
Under the existing regulation, this section provides a reporting party the ability to specify the Transaction Date as either the Date of Title Transfer (for Non-Aggregated Transactions) or the Quarter End Date (for Aggregated Transactions). However, in the proposed amendments, this wording has been deleted and replaced with "Date of Title Transfer for Fuel." For Natural Gas, where delivery is occurring daily throughout a delivery period, the requirement to list every day that fuel is delivered will be administratively burdensome for both reporting entities and CARB - and seems extremely inefficient. Currently, aggregating these data to quarter end is consistent with the LCFS reporting obligations and manageable for all participants. Changing this to a daily requirement will increase costs in terms of reporting the flow daily and creating PTDs. We do not believe that it is CARB's intention to require parties to report daily transfers for

these types of transactions. We request that the intent of this amendment is clarified by staff.

Section 95488.9(f)(3)(B) - Avoided Methane Emissions from Dairy and Swine Manure
Livestock operations that capture manure methane and convert it to renewable natural gas (RNG) vehicle fuel should be allowed to generate LCFS credits based on the methane capture and destruction for at least a 20-year period. The proposed regulation limits credit generation to 10 years in event of regulation of livestock emissions. We believe this would be counter-productive to meeting the goals of both SB 1383 and the LCFS. The 10-year limit necessarily compels investors and lenders to assume a 10-year cut off on the LCFS revenue that comes from avoided methane emissions, making the projects less attractive to finance and therefore more difficult to develop. The result will be fewer projects built, in the near term, that capture and use this RNG. If the regulation allows livestock RNG projects to count the avoided methane emissions for a minimum of 20 years, more projects will be funded and built and therefore more methane emissions will be avoided without regulation of those methane emissions. If the incentive is large enough, the methane capture will happen irrespective of any future program that may limit or penalize these emissions.

As always, please feel free to contact me if you wish to discuss these comments in more detail.

Sincerely,

Ralph J. Moran
BP America, Inc