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CIPA

Comments of the California Independent Petroleum Association
on LCFS 1st 15-day Proposed Draft and Rulemaking Packet

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The California Independent Petroleum Association (CIPA) is pleased to submit these comments on the June 20, 2018, proposed amendments. CIPA has actively followed this rulemaking, and previously submitted comments last Fall and on the original 45-day package.[1,2]

The mission of CIPA is to promote greater understanding and awareness of the unique nature of California's independent oil and natural gas producer and the marketplace in which our members operate; highlight the economic contributions made by California independents to local, state and national economies; foster the efficient utilization of California's petroleum resources; promote a balanced approach to resource development and environmental protection and improve business conditions for members of our industry.

The proposed regulation and regulatory packet are important programmatic changes that will impact CIPA members for years to come. CIPA's comments are focused on the Crediting for ZEV and Hydrogen Pathways, Innovative Crude Provisions and revisions to the Oil Production Greenhouse Gas Estimator (OPGEE 2.0) and Table 9 Carbon Intensity for Crude Oils.

Generating and Calculating Credits for ZEV Fueling/Hydrogen Infrastructure Pathways
Since its inception, the LCFS (Low Carbon Fuel Standard) has been promoted as a fuel-neutral regulatory structure that credits and debits real transportation fuels used in the marketplace to generate emission reductions. However, the 15-day package proposes mechanisms to generate LCFS credits for installation of Fast Charging Infrastructure (FCI) and Hydrogen Fueling Infrastructure (HFI), independent of fuel sales. These provisions are contrary to CARB's description of the program:

[1] https://www.arb.ca.gov/fuels/lcfs/workshops/09082017_cipa.pdf
[2] https://www.arb.ca.gov/lists/com-attach/83-lcfs18-UDYGaVE+VmQFb1AP.pdf

> "The LCFS is performance-based and fuel-neutral, allowing the market to determine how the carbon intensity of California's transportation fuels will be reduced."

CIPA suggests that the pillar of fuel neutrality importantly provides for the most cost-effective reductions in the marketplace to avoid distortions that can undermine real-world progress in reducing the carbon intensity of transportation fuels.

As such, CIPA requests that the provisions for FCI and HFI be removed from the LCFS regulation.

Innovative Crude Provisions

CIPA appreciates the expansion of renewable energy sources to the Innovative Crude Provisions. However, requirements that renewable natural gas (RNG) and solar electricity be provided directly to field operations significantly reduces the application of these techniques without any real benefit to reducing greenhouse gases.

For example, several of CIPA's member companies are investigating the use of RNG in their operations as a substitute for natural gas that is produced and transported from out of state, because of the lack of sufficient in-state quantities. Like non-renewable natural gas, the sources of RNG are not frequently located adjacent to the uses of RNG and siting them adjacent is not a development consideration. Thus, application of this provision will be limited to chance occurrences. It should be noted that an additional benefit of allowing book-and-claim of RNG would be to incent control of methane emissions from sources such as dairy and swine operations from sources that would not be subject to California's SB 1383, expanding California's leadership in reducing global methane emissions.

Similarly, CIPA's member companies have been evaluating installations of photovoltaic solar projects in and adjacent to oil fields in California. However, the constraint that the power be direct supplied to oilfield operations reduces application of PV solar to flat undeveloped areas near existing electrical infrastructure, which many oil fields cannot access without running new transmission lines over several miles. This additional expense is enough to make projects uneconomic. During this rulemaking, CARB extended Book-and-Claim opportunities for EV charging. This accounting methodology should be allowed for Innovative Crude provisions as well.

CIPA therefore requests that the requirements for direct sourcing of RNG and electricity from solar be removed so that greater use of these provisions can be made.

Provisions for Petroleum-Based Fuels and Table 9

A key element to the accuracy of the Oil Production Greenhouse Gas Estimator (OPGEE2.0) tool is the availability of field data to support the complex model algorithms. Comparing California and Out-of-State crudes, there continues to be a large disparity in the numbers of field data and default inputs into the OPGEE model. A quick review of the Marketable Crude Oil Name (MCON) data file shows at least twice as many data inputs for California crudes as compared with non-California crudes. The ready availability of reported field data puts California crudes at a disadvantage in calculating carbon intensities as the default values substituted in the model for non-California crudes may tend to underestimate CIs due to the lack of the types of environmental controls required of California operators, such as tank and process vapor recovery, leak detection and repair programs, and installation of low-emitting or non-methane pneumatic control devices.

Further to this issue, we note that a great many California operators report greenhouse gas emissions from their oil production operations at both the federal and state level. Importantly, many of the state-level reporting is also third-party verified. However, when these greenhouse gas reports are combined with field production values (which are also reported and third-party verified) to generate field CIs, these values differ greatly from CIs modeled by OPGEE. As the data sources from production accounting and greenhouse gas inventory are from actual counts, sampling and analysis, and calibrated flow meters, this level of inventory is of a much higher validity. The lack of agreement with the OPGEE model calls into question the use of the OPGEE model in a regulatory setting such as the LCFS.

CIPA therefore suggests that CARB allow California operators to use verified emissions and production to calculate field-specific crude CIs for use in the LCFS at the discretion of the operator. CIPA proposes that CARB revisit the OPGEE model and incorporate MRR and other California data sources in future revisions to the model.

Carbon Capture and Sequestration Protocol (Attachment B)

CIPA remains in very strong support for CARB's efforts and recognition of the benefits of Carbon Capture and Sequestration (CCS) and or Carbon Capture for Enhanced Oil Recovery (CCEOR) projects. As pointed out in CARB's Scoping Plan, liquid fuels will be a significant component of California's transportation fuel mix for decades to come. It is also known that to achieve the longer-term greenhouse gas reduction goals, that CCS and CCEOR is an important policy to pursue.

Though many changes were made to the CCS and CCEOR Protocols, CIPA still believes the requirements are not written in a way which supports CCS and CCEOR. It is critically important to ensure that the requirements associated with CCS and CCEOR are achievable and realistic such that actual projects can be developed. There are a number of remaining technical issues CIPA is aware of and that have been submitted during this rulemaking process, by a coalition of experts. CIPA requests that CARB review the proposed CCS and CCEOR protocols to ensure the requirements are not overly burdensome that would prevent CCS and CCEOR from being part of California's long-term greenhouse gas reduction methodologies.

CIPA therefore requests that CARB provide a method within the regulation to adjust the protocols, now or in the future, as the technology is applied or improved in ways that assist CCS and CCEOR project development.

We hope to keep the lines of communication open on these very important issues as this rule progresses from adoption to implementation. Please do not hesitate to reach out to CIPA should you have any questions or if you or your staff would like to discuss these issues further.

Sincerely,

/s/

Rock Zierman
Chief Executive Officer
California Independent Petroleum Association