February 19, 2024

Chair Randolph and Members of the Board
California Air Resources Board
1001 I St.
Sacramento, CA 95814

RE: AJW Comments on the Proposed Amendments to the Low Carbon Fuel Standard

Dear Chair Randolph and Members of the Board,

AJW appreciates the opportunity to submit comments on the proposed amendments to the Low Carbon Fuel Standard (LCFS). AJW applauds the California Air Resources Board (CARB) and is encouraged to see that the proposed amendments are designed to increase overall program stringency and set forth a blueprint to achieve 90% reduction in carbon intensity (CI) of California's transportation fuels by 2045. First and foremost, a strong carbon intensity target is critical to ensure that the LCFS continues to drive down greenhouse gas (GHG) emissions in the transportation sector and decrease the state's reliance on fossil-based fuels.

More specifically, AJW would like to provide the following comments on the Auto Acceleration Mechanism (AAM). Throughout 2023, AJW engaged in a stakeholder process to develop and socialize the concept of an acceleration mechanism – a self-adjusting tool that would complement existing mechanisms to avoid credit shortfalls, a strong 2030 CI target, and a one-time step-down in program stringency. An AAM would aim to keep innovation, investment, and emission reductions on track when there is sustained overperformance of the program. From that stakeholder process, AJW developed a white paper with recommendations for CARB on how to successfully design and implement the mechanism.[1] AJW is pleased to see that much of what was proposed by CARB staff is aligned with the recommendations in our white paper and strongly supports the overall concept and inclusion of the mechanism into the LCFS. However, with the benefit of weighing and modeling the proposed design details against the 2030 target and step-down as proposed by staff, we are updating our recommendations on a few design elements.

As proposed in the draft regulation, the first year that the AAM could influence program stringency is 2028 (triggered from 2026 data), but a fundamental principle of the mechanism is to be able to respond to overperformance of the program in a timely manner. We have observed quick market reactions to CARB's Standardized Regulatory Impact Assessment (SRIA) and initial proposal. This stands at odds with the implicit year of waiting before the first proposed AAM assessment. The additional year that staff proposed is presumably designed to allow for the market to fully adjust to the new LCFS targets after implementation in 2025, but this stepped approach does not appear necessary with the immediacy of market response. Thus, **AJW recommends that CARB pull forward the date for triggering the AAM by one year.** In the event the cumulative credit bank continues to grow in 2025, in spite of the step-down and new compliance targets, we believe it is appropriate for a first assessment in 2026, with a change in benchmark in 2027. In fact, 2025 is the most important year for CARB to consider, as it will be imperative to make any adjustments to the compliance target before an oversized credit bank deters further investment into alternative fuels and vehicles. Using this approach, the AAM could potentially be utilized in 2027 and 2029, which will yield more opportunities for potential emission reductions and still give

[1] AJW White Paper on Designing an Acceleration Mechanism. Submitted in response to CARB's May 23, 2023, LCFS Workshop. https://ww2.arb.ca.gov/form/public-comments/submissions/3701

ample lead time for deficit and credit generators to adjust their operations to anticipate a stricter compliance curve.

Additionally, AJW encourages CARB to reassess the proposed threshold when considering the credit bank to average quarterly deficit ratio formula, which is currently proposed at 3.0 (i.e., three quarters of credits in the credit bank). This, when combined with the threshold of 1.0 for the credit generation to deficit generation formula (i.e., credits are continuing to contribute to a growing cumulative bank), is an overly conservative proposal as it would not allow for the AAM to trigger in situations where there is general consensus on the overperformance of the program. For example, looking at recent LCFS history, this 3:1 ratio the AAM would not have been triggered even in 2022 despite most stakeholders observing that the LCFS was overperforming and needed adjustments to program stringency to course correct. After backcasting recent LCFS activity, **we are instead recommending the average quarterly deficit ratio should be 2.0.** The impact of this threshold would mean that the credit bank is able to cover one-half a year of deficits. Today, that would mean that credit production would need to fall by 50% to create that level of demand. Given this, a threshold of 2.0 appears ample, when taken in combination with the consideration of whether credits are continuing to outperform deficit generation.

Backcasting Recent LCFS Activity with CARB-Proposed AAM Triggers							
Year	Formula	Trigger	2018	2019	2020	2021	2022
Cumulative Credit Bank	(B)		8,918,202	8,439,052	8,343,187	9,568,451	15,393,990
Total Credits	(C)		11,310,472	14,934,921	15,364,400	20,186,741	26,871,733
Total Deficits	(D)		12,366,566	15,487,415	15,488,232	18,864,647	21,233,457
Credit Bank to Avg Quart Deficit	(B/ (0.25 x D)	>3.0	2.885	2.180	2.155	2.029	2.900
Annualized Credits to Deficits	(C/D)	>1.0	0.91	0.96	0.99	1.07	1.27

Lastly, AJW recommends increasing the size of the step-down. A 5% step-down is a good start at beginning to address the size of the cumulative credit bank, however, it does not go far enough. The cumulative credit bank is anticipated to increase its rate of growth throughout 2024 and a 5% step-down will not sufficiently address the problem considering current market conditions. Thus, as stated in previous AJW comment letters, **we encourage staff to increase the step-down to at least 7%** while staying within the boundaries of the existing environmental and economic analysis. Even though a 7% step-down will not completely resolve the problem of the cumulative credit bank, this one-time adjustment will set the program down a path of course correction – one where hopefully the AAM will not be required to make continuous adjustments.

AJW supports CARB's work to improve the LCFS and ensure its long-term viability. We encourage CARB staff to address the recommendations listed above and for the Board Members to adopt the finalized amendments. Doing so will accelerate technological innovations and investments in fuel decarbonization options, increase LCFS credit availability, and secure market stability for years to come.

Sincerely,

Mary Solecki
Partner
AJW, Inc