Don Gilstrap
Manager, Fuels Regulations

February 19, 2024

Rajinder Sahota
Deputy Executive Officer – Climate Change and Research
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Dear Ms. Sahota:

Re: Technical Amendments

Chevron appreciates the opportunity to review and comment on the subject Low Carbon Fuel Standard rulemaking proposal.

Chevron is a major refiner and marketer of petroleum products and renewable fuels in the state of California and a regulated party under the Low Carbon Fuel Standard (LCFS). Chevron is also an international producer of lower carbon intensity fuels with a global integrated procurement, distribution, and logistics network and 11 biorefineries in the U.S. and Europe.

Chevron is submitting multiple letters on key topics under the 2024 LCFS rulemaking. Following are our comments on the technical amendments proposed.

<u>Key Messages</u>

- The Automatic Acceleration Mechanism (AAM) should not act as a substitute for future rulemakings.
- The pathway true up language does not address fundamental process issues with fuel pathway applications.
- Sunsetting project-related credits runs counter to the goals of the LCFS.

<u>Periodic Rulemakings Are Necessary to the Health of the LCFS</u>
Understanding that CARB is introducing the AAM to enable the LCFS to adjust more rapidly to strong performance, it is important that CARB continues to conduct rulemaking's every few years to allow technical adjustments in the recognition of improvements and modeling. Since the original proposal for rulemaking changes in 2022, there have been several legislative bills and executive orders passed affecting the transportation market in California alone, not to mention the hundreds of policy proposals made nationally and internationally. The assumptions made by CARB regarding the future of the transportation market, including both the vehicle market and fueling, should be continually reviewed. It would also be valuable to establish more frequent stakeholder engagement to hear concerns and recommendations well ahead of preparing for the next rulemaking.

The Credit True Up Language Needs Adjustment

Chevron supports the addition of true up language under §95488.10(b) as a means of recognizing demonstrated carbon intensity reduction. However, this language fails to address the extended period that often occurs between approval of a temporary pathway for a facility and the approval of a provisional pathway. Currently, it often takes several months or even years to move from temporary status to an approved provisional pathway. Fuel Pathway Reports are not required until a provisional pathway has been approved. Because the true up language was written so adjustments are only made after verification of an annual pathway report, the loss of credits incurred during extended operation under a temporary pathway is not addressed.

CARB's public comments on this topic indicate that it was not CARB's intention to leave the temporary pathway period out of the True Up process. This unintentional oversight can be remedied with small changes to the new language (see below). CARB may prefer to include separate equations for the two true up types as well. It would also be appropriate to replace the word "may" with "shall" in the first sentence.

(a) Credit True Up after Annual Verification or Application Validation. Beginning with the 2025 annual Fuel Pathway Report data reporting year, the Executive Officer ~~may~~ shall perform credit true up for a fuel pathway that has a lower verified operational CI upon receiving a positive or qualified positive verification statement for the associated annual fuel pathway report and quarterly fuel transactions reports, notwithstanding the prohibition on retroactive credit generation in section 95486(a)(2). A true up will also be performed for provisional pathway applications that receive a positive or qualified positive validation report. To implement this true up, the Executive Officer will calculate an equivalent number of credits representing the difference between the reported CI and the verified or validated operational CI from annual Fuel Pathway Reports and Provisional Pathway Applications for each fuel pathway code reported with non-liquid transaction types and with the following liquid fuel transaction types "Production in California," "Production for Import," and "Import" during a compliance year, and place those credits in the account of each appropriate fuel reporting entity after August 31 for the prior compliance year. For true ups from temporary pathways to provisional pathways, the true up shall apply to all quarters reported since the first approval of the temporary pathway. The credits will be calculated according to the following equation:

Process Issues Still Remain

While the true up language addresses a major symptom of the extended time it takes to approve fuel pathways, there are several procedural changes needed. CARB considers exportability of the LCFS to other jurisdictions to be a critical goal. Unfortunately, the complexity of the LCFS and the resources required to support the program are frequently cited by states reluctant to implement similar programs. Fuel pathway applications are one of the most resource-intensive elements, involving a significant number of handoffs between parties and considerable delays with each step. Considerable time could be saved if CARB's completeness review and duplicative engineering review were eliminated. Applicants could have their pathway materials validated prior to submittal to CARB and the CARB-approved verifiers should be trusted to do the bulk of the analysis needed to ensure accuracy and completeness. We urge CARB to conduct a comprehensive review of the pathway application process with producers to look for opportunities for streamlining, including measures that emphasize third-party review of applications. CARB staff are currently over-burdened, and certifying third-party engineering firms to review and endorse pathway applications would not only free up constrained staff resources, but also allow for the work to adapt to the growth rate of low-carbon industries.

Project-Related Credits Encourage Real GHG Reduction
Chevron opposes the phaseout of project-related credits proposed in this rulemaking. This is a counterproductive approach to targeting greenhouse gas reduction in transportation. While recognizing that reduced reliance on fossil fuels is a stated goal of the state, eliminating recognition of emission reductions in the production of those fuels while still part of the transportation fuel mix misses an opportunity to achieve real incremental change during the transition. Emission reductions today have a cumulative effect that should not be discouraged. Further, project-related crediting has not presented a threat to alternative fuel growth since its introduction but has incentivized several projects explicitly focused on emissions reduction.

The Proposed Penalties for CI Variations are Extreme
CARB has proposed to quadruple the penalization of carbon intensity scores that exceed the previously approved level. The language proposed makes no allowance for unplanned events that may impact a facility's score and would penalize good-faith operations that happen to see moderate changes in energy inputs and outputs. The LCFS already contains provisions to adjust credit balances based on such exceedances and CARB has the authority to pursue enforcement actions should a producer's actions demonstrate irresponsible behavior or ill intent. The proposed language seems intended to punish good actors for unplanned impacts, given that CARB already has sufficient authority to take action against bad actors.

Further Improvements to Verification Procedures Are Encouraged
CARB has proposed to allow credit generators for electric vehicle charging to forego site visits following a positive or qualified positive verification result. This is a disproportionate allowance given to a single credit source. CARB should extend this same allowance to all producers who receive a positive or qualified positive result. Now that the LCFS has several years of verification history, such a change is warranted. This is particularly true given the limited number of available verification firms and the growing number of LCFS and Cap-and-Trade style programs in place. This is another critical factor in the exportability of the program.

Limited rotation requirements for verifiers would also improve the flexibility of the LCFS. The LCFS already contains conflict of interest criteria that exceed those of other programs. We believe the rotation requirement to be unnecessary. Absent removal of the requirement, we recommend that CARB provides an exemption for CPA firms that provide verification services. Such firms are subject to considerable licensing requirements that exceed the independence goals of the LCFS. This would reduce the burden on regulated parties and encourage more firms to apply for CARB certification.

Thank you for the opportunity to comment on these matters. If you have any questions regarding our comments, please contact me at (925) 842-8903 or DGilstrap@chevron.com.

Sincerely,