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SOUTH SAN FRANCISCO
SCAVENGER
COMPANY, INC.

The Honorable Liane Randolph
Chair, California Air Resources Board
1001 I St, Sacramento, CA 95814
Sacramento, California 95814

February 20, 2024

Re: Low Carbon Fuel Standard

Dear Chair Randolph:

We, the 51 undersigned clean fuel businesses and related organizations, write to emphasize our support for the key proposed amendments to the Low Carbon Fuel Standard (LCFS) and urge adoption of several additional amendments that will allow the state of California to effectively achieve climate and clean air goals.

We stand ready to follow your leadership to address the dire threat of climate change. The LCFS drives reductions in greenhouse gases (GHG), supports a rapid phase-out of petroleum, and bolsters a transition to electrification everywhere feasible. Also, as partners in California's transportation decarbonization efforts, we strongly support the conclusions in the *Initial Statement of Reasons* supporting science-based analysis. By doing so, the LCFS is well positioned to encourage the billions of dollars of investment required to implement the California Air Resources Board's (CARB's) *2022 Scoping Plan for Achieving Carbon Neutrality* in the transportation sector.

There is no more effective and immediate step we can be taking to address climate change now than to aggressively and rapidly reverse emissions of fugitive methane from all sectors, including society's organic waste streams through renewable natural gas (RNG) projects.

Many RNG projects in planning and construction across North America currently rely on LCFS revenues to be built, operated, and provide a return on investment for debt service. We are pleased that CARB, via the just-released *Proposed Amendments to the Low Carbon Fuel Standard Regulation,*[1] is proposing to allow projects that break ground by December 31, 2029 to retain the current approach to book and claim and avoided methane accounting. We are also supportive of the proposal that for projects that break ground after December 31, 2029, deliverability rules won't be modified until January 1, 2041 for pathways which include biomethane used in CNG vehicles and January 1, 2046 for biomethane used for hydrogen production. While these existing accounting rules are well functioning and do not need to be deviated from, we look forward to working with CARB to increase stakeholder understanding on these topics and plan for new accounting rules once more implementation details are developed.

Outstanding Problem: Making LCFS a Functional Program Requires a Strong CI Curve

We remain concerned that the proposed carbon intensity (CI) compliance curve falls short of stimulating the market and needs to be significantly strengthened to draw down the Program's credit bank which recently hit a new high of over 20 million surplus credits, with ICF forecasting that the program will have a bank of about 29-30 million credits by the end of 2024.[2] In fact, ICF continued to state, "[T]he proposed [CARB] CI step-down will slow the bank build by about 50%

[1] "Appendix A-1; Proposed Regulation Order; Proposed Amendments to the Low Carbon Fuel Standard Regulation," California Air Resources Board, January 2, 2024
[2] "Analyzing Future Low Carbon Fuel Targets in California; Response to Staff Report," Page 3, ICF, February 2024

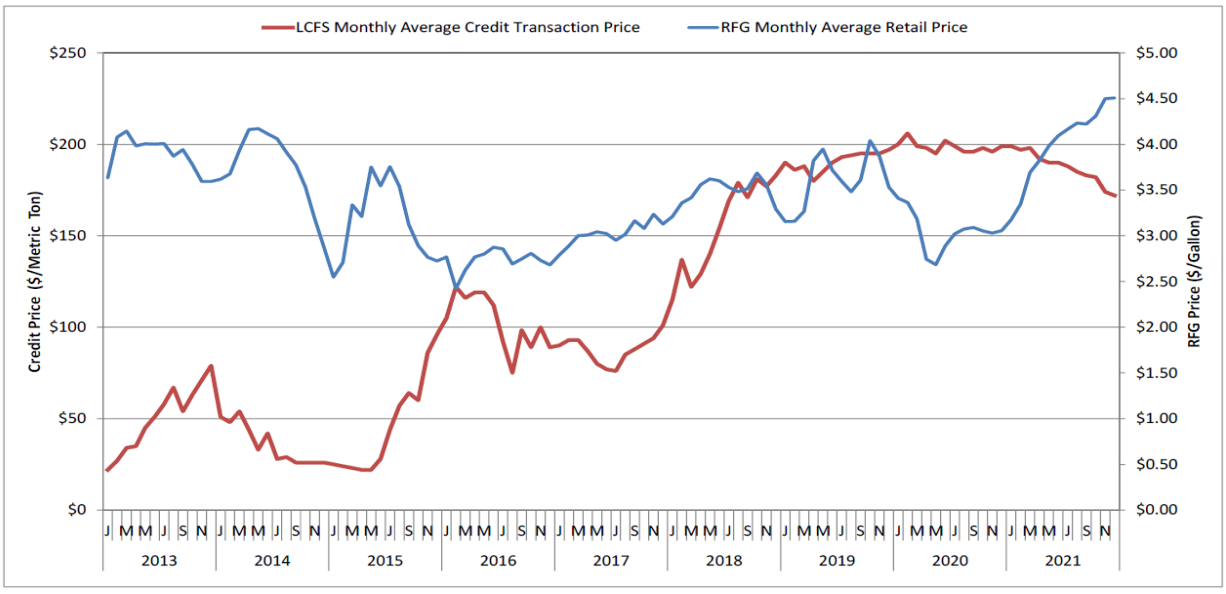
compared to previous years; however, the credit bank is still likely to grow by nearly 4 million credits by the end of 2025."

The primary reason for the substantial surplus in credits is the increasing supply of renewable diesel fuel due to additional projects coming online and various projects passing significant milestones. Without changes, this will continue to drive the credit bank up and keep LCFS prices depressed for multiple years. In fact, we are seeing the same occurrence in Oregon's program with a steady increase in renewable diesel going there, causing credit prices to fall as more credits are flowing into that market.

The oversupply of credits in the market hurts existing and proposed projects, but additionally it sends a signal to investors that we should not invest. In fact, based on the spot and futures markets, Wall Street believes California has lost its urgency to decarbonize transportation. Investment banks are viewing credits as stranded assets over proactively investing in production projects that move California closer to its climate and clean air goals. And while the Program has been successful in driving down carbon intensity of transportation fuels, this situation also demonstrates the need to tighten the CI curve so that the market can move off its eight-year low credit price of $55, when the credit bank by the end of this year will have enough credits for nearly 2 years' worth of compliance and is still growing.

It is important to note that research[3] has concluded there is not a causal relationship between the LCFS and prices at the pump. Analysis of market prices demonstrates that the LCFS is not a significant driver of retail fuel prices in California, as the primary driver is the cost of crude oil. Lower carbon fuels are displacing Californians' exposure to foreign crude and delivering alternatives that bring home cost savings, in addition to the California jobs required to build low carbon fuel supply, clean fuel networks, and maintenance infrastructure of clean fuel vehicles. This conclusion is consistent with that in the ISOR on pages 82-83. This graph shows this lack of causal relationship over time:

Figure 1: LCFS Credit Price and Retail Gasoline Price[1]



[3] "Low Carbon Fuels Standards; Market Impacts and Evidence for Retail Fuel Price Effects," Bates White Economic Consulting, April 2022

In conclusion, the LCFS program must be fixed to be functional, but won't achieve California's climate goals if the CI curve is not effective.

Solution

We urge CARB to set an ambitious compliance curve course that immediately draws down the credit bank and ensures a steady market to 2030. We support the ICF conclusion on the step-down for 2025 that "[A] CI [reduction] of 25% in 2025 is likely needed to ensure that the credit bank reverses and that the bank is drawn down to a level that is in line with a credit bank of only two quarters' worth of deficits. This level of stringency, while seemingly high, is likely what is needed to achieve CARB's stated intent of correcting for the 'near-term over-performance' of the program."[4] We are also supportive of at least a 41% CI reduction target by 2030, which to our industry's extensive quantitative modeling[5] concludes that implementing the above strategy would increase the current approximate $55 credit price to $100-$120 by the end of 2025 and maintain at least that price through 2030.

Additional Amendments

Additional RNG-related changes are also needed to improve investor confidence and increase the pace of methane emissions abatement. We urge CARB to please consider:

- A full credit True-up remains necessary to properly recognize the true environmental performance of all pathways. Approvals take 18 months or more which puts financial hardship on a project and those in the entire value chain. A project would be able to apply its actual CI performance retroactively to the start of a project and thus eliminate the need to store gas. The project would be eligible to claim the full benefit of its project CI even when starting with the temporary pathway (also known as the project start up period);

- The Auto Acceleration Mechanism should be able to trigger as early as 2026. This would dynamically respond in the event of future sustained and significant underestimation of CI reduction targets by further tightening the stringency and complement the updated overall stringency of the program, complement existing mechanisms to avoid credit shortfalls, and better ensure that opportunities to deliver additional reductions of carbon and air pollutants are not foregone;

- We support the revised Tier 1 calculators and urge improving pathway processing times. The current review delay of over a year deters future investment and decreases return on investment of projects that California needs. For example, a multi-million dollar project built today must endure an 18-month administrative review on average to certify the project's LCFS pathway. Certification should be performed in less than a six-month window.

The success of the LCFS is due to the broad portfolio of clean fuels working together to achieve substantial emissions reductions. Unwinding these successful partnerships would strand billions

[4] "Analyzing Future Low Carbon Fuel Targets in California; Response to Staff Report," Page 4, ICF, February 2024
[5] "Analyzing Future Low Carbon Fuel Targets in California; Initial Results for Accelerated Decarbonization, Central Case," ICF, June 2023

of dollars in clean technology investment, delay transportation decarbonization, and extend the period where petroleum is the dominant fuel in California. The LCFS must remain fuel-neutral, driven by CARB's science-based analysis, capable of incentivizing real-world investment, and focused on performance-based GHG outcomes. Remaining true to these core concepts will ensure California leads the world in rapid transportation sector decarbonization.

Sincerely,

Arsen Sarkisian, President and Chief Executive Officer, NASA Services, Inc.

Chris Akers, Chief Executive Officer, Northern Biogas

Tom Bachman, Vice President, Mead & Hunt

Ashley P. Beaty, Vice President of Policy and Partnerships, Bridge To Renewables, Inc.

Nejteh Der Bedrossian, Operations Manager, Nationwide Environmental Services

Michael Boccadoro, Agricultural Energy Consumers Association

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Charlie Ker, Senior Director, Business Development (North America), Westport Fuel Systems

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