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Cheryl Laskowski
Transportation Fuels Branch Chief
California Air Resources Board
P.O. Box 2815
Sacramento, CA 95812-2815

Subject: Comments on the California Air Resources Board Proposed Amendments to the Low Carbon Fuel Standard

Dear Dr. Laskowski:

Southern California Gas Company (SoCalGas) values the opportunity to provide feedback on the Proposed Amendments (Proposed Amendments) to the Low Carbon Fuel Standard (LCFS). The LCFS has played a critical function in decarbonizing the transportation sector and will continue to serve a crucial role in promoting the adoption of lower carbon transportation fuels to reduce greenhouse gas (GHG) emissions. To meet California’s ambitious GHG reduction targets outlined in the 2022 Scoping Plan, CARB should foster a stable, long-term environment that encourages investment in methane capture projects essential for reducing emissions from sources including landfills, dairies, and wastewater. As highlighted in the Staff Report’s Initial Statement of Reasons, “Capturing methane from California’s sources is critical for achieving climate targets, including those set by SB 32, SB 1383, and AB 1279.”¹

We commend CARB for thoughtfully incorporating a smooth transition to fuels supporting zero-emission vehicles while maintaining support for clean fuels that have driven the emission reductions thus far in the program. Without additional support and direction for new programs, however, the proposed incentive adjustments may not be sufficient to encourage investments in biomethane and the infrastructure necessary to achieve carbon neutrality by 2045.

As such, SoCalGas’s comments highlight the following: 1) CARB should establish a complimentary policy such as an industrial clean fuels standard to promote the growth of the biomethane market for use in hard-to-electrify sectors; and 2) the proposed deliverability requirements support rapid buildout of biomethane capture projects.

¹ Proposed Amendments to the Low Carbon Fuel Standard Staff Report: Initial Statement of Reasons; (ISOR) at 30.

1) CARB should establish a complimentary policy such as an industrial clean fuels standard to promote the growth of the biomethane market for use in hard-to-electrify sectors

SoCalGas appreciates that the Proposed Amendments recognize the need for more methane capture projects in California to reduce short-lived climate pollutants (SLCP) emissions.² We agree with CARB staff that immediate action to curtail these potent emissions will yield local health benefits and mitigate global warming as we transition to low-carbon energy systems and pursue carbon neutrality.³

More specifically, the proposed modifications to avoided methane crediting maintain a pathway for projects established before 2030 to recover initial capital costs of methane capture. These projects constitute some of the most cost-effective investments for carbon reduction in the state and merit fortification.⁴ A complementary program to advance the deployment of biomethane beyond the transportation sector is essential to the sustainability of methane capture projects post-crediting phase-out.

We support the policy direction outlined in CARB's 2022 Scoping Plan for the long-term deployment of biomethane for hydrogen production and its expanded use in stationary sources. To sustain this momentum, the State should establish a clear pathway with concrete milestones and appropriate offramps before the complete phase-out of avoided methane credits. Since California's industrial sector is a significant contributor to natural gas consumption and greenhouse gas emissions, incentivizing biomethane use in sectors beyond transportation becomes crucial.⁵ CARB could achieve this by opening the current LCFS program to stationary sources or using the current LCFS program as a model to create a new Industrial Clean Fuel Standard program. This new standard would aim to institute a set of gradually declining emissions-based targets for regulated entities, empowering the industrial sector to reduce emissions through diverse approaches including electrification, procuring low and zero-carbon fuels, carbon capture and sequestration, and enhancing energy efficiency. CARB should also evaluate pathways to utilize other programs such as the Cap-and-Trade Program to support the transition of biomethane into other sectors.

The ongoing success of the LCFS program is pivotal to fortifying the biomethane market, especially as its applications extend beyond transportation. To support a robust biomethane market with competitive pricing and a consistent supply, SoCalGas recommends expediting discussions on potential initiatives, such as an Industrial Clean Fuel Standard or expanding the utilization of

² DRAFT ENVIRONMENTAL IMPACT ANALYSIS for the Proposed Low Carbon Fuel Standard Regulation (Draft EIA) at 17.

³ ISOR at 29.

⁴ CARB, California Climate Investments 2022 Mid-Year Data Update, September 2022, indicates that investments in dairy digesters and diverted organic waste cut carbon emissions by approximately \$9 and \$10 per ton, respectively. CARB's 2021 Annual Report on Climate Investments also showed that investments in organic waste to energy were the most cost-effective of the State's climate investments; at 119.

⁵ California Industrial Energy Efficiency Market Characterization Study, XENERGY Inc., December 2001, available at <http://www.calmac.org/publications/California%20Ind%20EE%20Mkt%20Characterization.pdf>; at 3-22.

other program funds like Cap-and-Trade for biomethane procurement. The proposed amendments to the avoided methane crediting underscore the need for establishing a complementary policy before 2030. This proactive measure not only incentivizes the market to lower prices but also provides clear guidance and procedures for funding opportunities, encouraging businesses to invest in biomethane projects.

As championed by CPUC-supported programs⁶, the benefits of biomethane procurement are based on the avoided costs of well gas, encompassing upstream interstate transmission, and the avoided social cost of methane. Hence, it is crucial for CARB, as a regulatory body, to adopt programs that equally incentivize multiple cost-effective means of decarbonization to more rapidly achieve net-zero goals, benefiting society at large.

2) The proposed deliverability requirements support rapid buildout of biomethane capture projects

SoCalGas appreciates that CARB's proposed revisions to deliverability requirements acknowledge the importance of sustaining existing procurement agreements with out-of-state biomethane projects. The Proposed Amendments will encourage and expedite the expansion of biomethane capture projects throughout this decade, aligning with the imperative to reduce methane emissions.⁷ California will need both in-state and out-of-state supplies of biomethane to decarbonize hard-to-abate sectors, including cement and steel manufacturing, as well as promoting methane capture and GHG emissions throughout the west, since GHG emissions are a global pollutant rather than a local pollutant. An uninterrupted flow of biomethane into California is a strategic imperative that fosters its adoption across diverse economic sectors over time.

Furthermore, the Book-and-Claim (B&C) deliverability approach not only supports the production of clean fuel sources that mitigate global pollutants but facilitates the cost-effective procurement of biomethane in support of California's clean energy policies and prioritization of energy security for all Californians. This is crucial for maintaining affordability while decarbonizing challenging sectors. As biomethane phases out of the LCFS, its limited availability for hard-to-abate sectors underscores the need for current policies to concentrate on boosting both production and demand. Allocating funds for developer incentives and consumer programs can drive greater end-use applications, bolstering production. Hence, it is critical for CARB to maintain biomethane B&C provisions in future policies supporting biomethane. Such a measure is essential to maintaining the positive momentum and success attained in the realm of affordable and reliable procurement thus far.

Conclusion

SoCalGas is grateful for the chance to offer feedback and to participate in discussions with CARB and stakeholders during the LCFS Program regulatory update. We are dedicated to a unified and

⁶ Decision 22-02-025, Finding of Fact 16 at 53.

⁷ Draft EIA at 18.

collaborative shift towards cleaner energy and acknowledge CARB's thoughtful consideration given to all stakeholders throughout this process. We eagerly anticipate continued engagement with staff to collaboratively establish a framework for expeditiously transitioning biomethane for use in other sectors.

Respectfully,

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