February 20, 2024

The Honorable Liane M. Randolph, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

(Comment submitted electronically)

RE: Recommendation of the Low Carbon Fuels Coalition, with Broad Support from Clean Fuel and Technology Organizations and Companies Requesting that the California Air Resources Board Restore Value to California's Low Carbon Fuel Standard by Recognizing the Full Potential of Electric, Gaseous and Liquid Low Carbon Fuels to Rapidly Decarbonize California While Delivering Criteria Pollutant Emission Reductions

Dear Chair Randolph,

The undersigned organizations and companies are ardent supporters of California's Low Carbon Fuel Standard (LCFS) and sincerely appreciate CARB's diligent and thorough work throughout this rulemaking process in hosting workshops and considering stakeholder feedback to inform the next phase of a historically successful emissions reductions program.

The extraordinary success of the LCFS program in accelerating the growth of a robust clean fuels industry has enabled an accelerated pace of carbon intensity (CI) reduction and a corresponding substantial oversupply of credits. The LCFS credit bank now exceeds 20 million metric tons of CI reduction credits generated in the transportation sector beyond the CI reductions required by the LCFS! But while celebrating this achievement, we also recognize that the profound success of this transformative market-based program has resulted in a precipitous drop in the LCFS credit price which, if unchecked, threatens to trigger a similar drop in clean fuels and technologies investment.

To continue to reap the tremendous greenhouse gas (GHG) and criteria pollutant reduction benefits that the LCFS can deliver, CARB must take aggressive action based on a thorough analysis of the full potential of clean fuels and technologies. Consistent with its history of dedication to the citizens of California, CARB should and consistently does seriously consider concerns raised regarding the possibility of unintended consequences resulting from the transformation to clean transportation. However, CARB should also hold to its history of dedication to empirical evidence, scientific analysis, and public process and not be swayed or intimidated by claims and positions not grounded in evidence and analysis.

The diverse set of companies and stakeholders below support the findings of ICF in two analytical reports commissioned to inform this rulemaking. ICF is the most experienced and respected technical consulting company in this field. Fully informed by the rulemaking record, the latest market information and current LCFS program data, ICF utilized scenario analyses to develop the most empirically based and market informed CI reduction reports for the LCFS rulemaking record:

- *Analyzing Future Low Carbon Fuel Targets in California, Central Case*[1]
- *Analyzing Future Low Carbon Fuel Targets in California, ISOR Case (ISOR Case)*

Deep Technical Engagement

Through this year-long process, we have highly appreciated CARB's willingness to deeply engage at key junctures. This process has included multiple iterative discussions such that ICF and CARB modelers could compare data and methodologies at a granular level thereby enabling ICF and our group to provide the most constructive input possible to the rulemaking record. In order to speak directly to the specifics of the regulatory proposal contained in the proposed regulation and explained in the Initial Statement of Reasons (ISOR), ICF has updated its analysis to fully recognize the policy decisions that are included in the rulemaking proposal. In other words, ICF's attached report does not reflect what the clean fuels industry (including electric, gaseous and liquid fuels as well as LCFS credit-generating projects and infrastructure) has recommended that CARB do in terms of policy decisions. Instead, the attached ISOR Case Report is based solely on what CARB has proposed to do in the LCFS rulemaking proposal.

Key Findings in the ISOR Case and Resulting Policy Recommendations

As previously noted, the LCFS credit bank has reached a historical peak, exceeding 20 million surplus credits. LCFS credit bank growth is continuing to accelerate due in part to the LCFS but now supplemented by Inflation Reduction Act and other federal funding that is more complementary to California's GHG policy structure than in prior years. Indeed, one of the key reasons for ICF's projected LCFS growth curve is the greater policy synergy between California and the federal government. This trend coupled with overperformance has driven LCFS credit to an eight-year low as reported by Aegis Hedging:

> *CARB reported an average California LCFS transfer price of $69.00/t in January 2024, down $4/t, or 5.5%, from December 2023. This marks the lowest transfer price since October 2015. January ICE futures averaged $64.08/t over the course of the month.*[2]

Credit bank growth has accelerated to over 8 million credits per year, and ICF forecasts that the bank will grow to 29-30 million credits by the end of 2024 under current conditions. Further, the ICF analysis indicates that ***the current proposal is insufficient to reverse this trend and will only slow credit market growth to about 4 million credits per year***. In order to rebalance the market, both the step down and Automatic Acceleration Mechanism (AAM) should be adjusted in the final rule as described in detail in the attached ICF ISOR Case Report.

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[1] See Comment of the Low Carbon Fuels Coalition and Supporting Companies and Organizations, September 28, 2023, at https://www.arb.ca.gov/lists/com-attach/27-lcfsupdate2023-VWcGMwQ1VD5RZVJq.pdf

[2] See Aegis Hedging, "AEGIS HEDGING West Coast LCFS Report February 2024 (LCFS Credit & Futures Pricing)," available at https://aegis-hedging.com/insights/aegis-hedging-west-coast-lcfs-report-february-2024-afmgbqerkb43b5btjwbreher#lcfs_credit_pricing (last viewed February 15, 2024).

Based on the ICF analysis, we are writing to strongly encourage CARB to implement three specific adjustments to the LCFS regulatory proposal:

1.) A Carbon Intensity (CI) reduction target between 41 - 44% for 2030.
2.) An initial step down of 10.5% to 11.5% in 2025 to achieve a target credit bank equivalent of two to three quarters worth of deficits.
3.) An Automatic Acceleration Mechanism (AAM) implementation that can be triggered in 2026, with a modification to enact the AAM when the credit bank is more than 2.5 times greater than the quarterly deficits generated in a given year.

In addition, we urge CARB to maintain the technology neutrality that has enabled the success of the LCFS program.

Increase Initial Step Down for 2025

Based on ICF's analysis of the ISOR, the credit bank will continue to build with the proposed step down of 5%. As stated in ICF's ISOR Case: *"[CARB's] proposed CI step down will slow the bank build by about 50% compared to previous years; however, the credit bank is still likely to grow by nearly 4 million credits by the end of 2025."*

The ICF analysis also shows that a 6.5% step down is necessary to flatten the credit bank build but will not result in a reduction of the credit bank. This analysis indicates that achieving a target credit bank equivalent of 2-3 quarters worth of deficits requires a step down of 10.5% to 11.5% in 2025.

Modify the Automatic Acceleration Mechanism

As stated in the ISOR Case Report:

> *ICF recommends that the Automatic Acceleration Mechanism be considered for implementation as soon as 2026, rather than waiting until 2028. ICF also recommends that the first criteria for the Automatic Acceleration Mechanism be modified such that the mechanism is enacted when the credit bank is more than 2.5 times greater than the quarterly deficits generated in a given year (down from the proposed value of 3 times).*

We recognize that there may be unforeseen market forces that impact the fuel market, as occurred due to the COVID 19 pandemic. Given this reality, we support CARB's proposal to establish an AAM that will only trigger a CI reduction when the market metrics pertaining the credit bank size and credit/deficit generation ratio are fulfilled. In the event that credit generation decreases unexpectedly, we note that the AAM will not be triggered.

Maintain Technology Neutrality

Building on successful programs—that have demonstrated environmental and economic benefits—is the lynchpin to continuing to achieve real-world targets. The ICF work shows what is possible if the LCFS remains fuel technology-neutral, driven by updated and sound science, 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.

The undersigned Low Carbon Fuels Coalition is a technology neutral trade association representing the entire value chain and types of clean fuels industry stakeholders. The other signatories below represent diverse sectors, technology and service providers, and pathways. We collectively urge CARB to maintain technology-neutrality with the LCFS program, and specifically to avoid provisions that disadvantage particular industries or sectors. That very neutrality has allowed the program to achieve GHG reductions more quickly and cost-effectively than anticipated, as reflected in the greater ambition proposed in this rulemaking.

We stand ready to follow your leadership to address the dire threat of climate change while improving air quality and quality of life for Californians. Additional LCFS ambition will ensure Californians will enjoy the benefits of clean transportation and California continues to lead the world in addressing the climate crisis and improving air quality.

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