SUBMITTED VIA ELECTRONIC FILING

February 20, 2024

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

RE: CRTA Comments in Response to the Low Carbon Fuel Standard Proposed Amendments

Dear Chair Randolph,

The California Renewable Transportation Alliance (CRTA) appreciates the opportunity to provide these comments to you and the California Air Resource Board (CARB) on the *Proposed Amendments to the Low Carbon Fuel Standard Regulation*[1].

CRTA is a diverse coalition of renewable fuel producers, fleet operators, engine manufacturers, consumers, and utilities who, in partnership with the state, advance innovative, cost-effective solutions to decarbonize California's transportation sector and reduce the state's dependence on petroleum products.

The Low Carbon Fuel Standard (LCFS) is a successful program that has been nationally recognized as an effective mechanism for decarbonizing transportation fuel, reducing California's dependence on fossil fuel, and incentivizing the abatement of methane emissions from dairy operations. Today, there are at least 12 states nationally that have either adopted LCFS programs or are having conversations to establish similar programs. And, just last week, the New Mexico Legislature joined California, Washington state and Oregon in adopting a clean fuel standard program that will likely be signed by Governor Michelle Lujan Grisham soon.

The LCFS must remain fuel-neutral, driven by science-based analysis, focused on performance-based greenhouse gas (GHG) outcomes and able to incentivize real-world investments to accomplish the ambitious climate mitigation goals set forth in the *2022 Scoping Plan for Achieving Carbon Neutrality* within the allotted timeframe.

CRTA believes the proposed amendments related to the treatment of biomethane under the LCFS strike the right balance. The proposed language enables renewable natural gas (RNG) to provide significant emission reductions in the near-term while remaining a source of energy to power zero-emission platforms like electricity and hydrogen into the future.

[1] "Appendix A-1; Proposed Regulation Order; Proposed Amendments to the Low Carbon Fuel Standard Regulation." California Air Resources Board. Updated January 2, 2024.

Embracing this type of "balanced approach" to transportation decarbonization has been a hallmark of CRTA and we applaud its application in this context and encourage its adoption in other conversations. It is with this perspective in mind that we offer the comments below on the following provisions of the proposed amendments:

1. Increased Stringency of the Carbon Intensity (CI) Curve and Mid-Term Target

As you know, credit prices have been on the decline since the talks on the LCFS modifications began last year. In 2018, the average LCFS credit value was approximately $170. Most recently, however, the credit price hit an all-time low of $55 per metric ton of carbon dioxide. This decrease in value is mostly due to the imbalance between credit supply and demand due to the abundance of renewable diesel (RD) in the market.

The seriousness of this situation, and the need for a quick, corrective response, is captured in a new report by the University of California Davis, Policy Institute for Energy, Environment, and the Economy.[2] In this pre-publication document, entitled *Updated Fuel Portfolio Scenario Modeling to Inform 2024 Low Carbon Fuel Standard Rulemaking*,[3] the authors' emphasize that "[d]eployment of renewable diesel (RD) production capacity in the U.S. has greatly exceeded even very recent projections, and the majority of the production continues to flow to California. Current evidence indicates that this trend of rapid RD capacity growth is likely to continue through the mid-2020's, creating a massive pool of relatively low-cost biofuel (given incentives beyond the LCFS) produced with an established technology that could enter California's market. Under these conditions, it is unlikely that the proposed LCFS amendments will achieve their goal of stabilizing the credit market and supporting significantly higher credit prices."

CRTA supports increased stringency of the CI targets. It is necessary to restore the balance between credit supply and demand, thereby increasing prices and incentivizing project development. Given that staff already plans to reevaluate the proposed carbon intensity benchmarks, we urge them to consider these points for discussion at the upcoming April 2024 LCFS workshop:

<u>Increased Stringency</u>
While we see the 2030 midterm target of 30 percent a move in the right direction, we encourage staff to be bolder and adopt a target closer to 41-44 percent by 2030. ICF has performed extensive modeling of the market and has identified the need for an even deeper CI adjustment to maintain a healthy credit marketplace that will ensure that long-term investments are built.

<u>"Step-Down"</u>
We support the adoption of an immediate 10.5-11.5 percent "Step-Down" of the CI target in 2025 to quickly stabilize the carbon market.

[2] Murphy, C., & Ro, J. (2024). Updated Fuel Portfolio Scenario Modeling to Inform 2024 Low Carbon Fuel Standard Rulemaking. *UC Davis: Policy Institute for Energy, Environment, and the Economy*. http://dx.doi.org/10.7922/G25719BV Retrieved from https://escholarship.org/uc/item/5wf035p8

[3] This report was published online Friday, February 16, 2024.

Automatic Accelerator

We strongly support the incorporation of the Automatic Accelerator Mechanism (AAM) concept and making it available for activation as early as 2026. This will allow CARB to maintain market stability in the outyears, thus providing greater certainty for long-term investments.

2. Avoided Methane Crediting & Book and Claim Provisions

CRTA initially commented in 2022 that both the Avoided Methane Accounting and "Book & Claim" provisions in the LCFS, as originally designed, are effective tools to maintain the RNG supply envisioned under the 2022 Scoping Plan Update and to achieve the required reductions of Senate Bill 1383. That said, we support the approach taken by CARB staff in the proposed amendments related to these two provisions. It is a balanced approach that enables RNG to continue providing achievable emission reductions for existing and emerging technologies, resulting in better air quality today and into the future.

The effective and abundant capture of methane today is critical to limiting the planet's warming to 1.5 degrees Celsius, thus preserving the health of our planet and its inhabitants. Methane is a potent GHG and short-lived climate pollutant that accelerates climate change if left unabated. It accounts for almost 30 percent of the rise in global temperatures in the post-industrial era and is 80 percent more potent than carbon dioxide over a 20-year period.

LCFS has proven to be a key driver for the effective capture and reuse of otherwise unabated methane emissions, particularly from dairy operations. It does this by converting raw methane into RNG for use in transportation and other industry sectors. The use of RNG not only helps to decarbonize internal combustion engines like low NOx natural gas trucks and buses, it also can be used to power and decarbonize battery-electric and hydrogen-based platforms.

Therefore, CRTA strongly supports CARB staff's recommendation to continue its application of avoided methane accounting and the program's use of "book and claim" deliverability for RNG projects developed on or before December 31, 2029 that support the transportation sector. By doing so, it restores project planning predictability for investors thereby avoiding stranded assets and incentivizing continued low carbon fuel production. Maintaining strong RNG pathways in the short term maintains its availability for use in other industry sectors as envisioned in the 2022 Scoping Plan Update. We also support CARB staff's recommendations to provide additional time for RNG-supported hydrogen pathways to boost production of this versatile fuel and capitalize on initial funding for infrastructure and production.

3. A Full Credit True-up should be inclusive of the Temporary Pathway Period

New dairy digester projects must apply to CARB staff for pathways to generate LCFS credits. Assuming that there are no major problems with the application, it still takes up to 27 months to receive a provisionally certified LCFS pathway from CARB, which is primarily the result of processing timelines. Consequently, the developer must bear the financial burden during this process delay, which becomes a major impediment to project development.

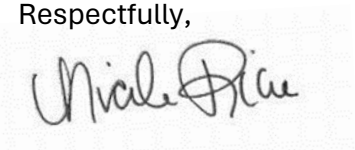
CRTA therefore supports CARB's proposed amendments that include a "Credit True Up" after Annual Verification. However, the credit true up concept should also cover the temporary pathway period that can take up to 27 months to certify a project. This would help alleviate the pressure for CARB to process LCFS applications in a shorter time period.

4. **"Less Intensive Verification" Provision -** Section § 95501

CRTA appreciates the inclusion of the "Less Intensive Verification" concept found in Section 955011(h). However, we urge staff to make it applicable to all quarterly fuel transaction reports (QFTR) identified in Section 95500(c)(1) and not just to electricity transactions, as provided in Section 95500(c)(1)(E). A verification site visit for a QFTR primarily consists of a visit to an entity's headquarters or other location of central data management and reviewing of electronic records. As the recent pandemic demonstrated successfully, these visits can easily be done virtually. Allowing for less intensive verifications for QFTRs is consistent with the flexibility provided under the Regulation for the Mandatory Reporting of Greenhouse Gas Emissions[4] and still allows for a full verification if the project-specific details suggest it.

We look forward to continued conversations with you and the Board on the LCFS amendments. Feel free to contact me at nicolerice@ca-rta.org if you have any questions regarding our position.

Respectfully,



Nicole Rice, President
California Renewable Transportation Alliance

cc: CARB Board Members
Ms. Hazel Miranda, Chief of Staff and Policy Advisor to Chair Randolph, CARB
Mr. Matt Botill, Division Chief, Industrial Strategies Division, CARB
Ms. Lauren Sanchez, Senior Advisor for Climate, Office of the Governor
Mr. Grant Mack, Deputy Legislative Secretary, Office of the Governor

[4] California Code of Regulations, Title 17, Section 95130(a)(1)