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Cheryl Laskowski, Ph.D.
California Air Resources Board (CARB)
1001 I Street
Sacramento, CA 95814

March 15, 2023

Subject: Comments on Potential LCFS Program Changes Presented at the February 22, 2023 Public Workshop

Dear Dr. Laskowski:

Alpha Inception (AI) is an expert consulting firm, specializing in environmental and renewable energy commodity markets. We have been involved and have been working with clients who have invested large sums of money in facilities that produce LCFS credits for the last 10+ years.

Alpha Inception submits these comments and recommendations in response to the proposed changes to the LCFS program presented at the February 22, 2023 public workshop. Alpha Inception recognizes the urgency in making changes to the LCFS program to avoid a complete collapse of the program and investment in LCFS facilities. Our own internal modeling shows that the LCFS program ended last year with a surplus in credits of more than 15 Million and that the program is on track to finish 2023 with close to 30 Million credits in the bank and if changes are not made in 2024, end 2024 with more than 50 Million credits surplus. If that eventuality occurs, we predict theta prices will drop to below $30/credit and that in that new pricing environment, that almost all investments in new facilities that rely on LCFS credits for their economics will cease for years as investors abandon this market.

<u>General comments on what has been presented so far by CARB</u>

We are generally supportive of CARB modeling that shows that an increased CI reduction target of at least 30% by 2030 is prudent. Depending on the other how other changes such as a one-time adjustment to CI targets in 2024 and reduction of supply from other changes being considered by CARB, our modeling shows that this new 30% CI target for 2030 would bring the market surplus back below 10 million credits by sometime in 2027-2028 and that market prices would likely start to recover quickly once these changes are implemented. However, moving to a 35% or 40% target CI reduction by 2030 would quickly move the market back into a net short position as early as 2026 and would likely result in the price ceiling mechanism being triggered. With a CI reduction target of 35%,40% or even higher by 2030, as is being recommended by some and market prices at the ceiling in 2026, AI anticipates that the net cost of the program to California consumers starting as early as 2026 to be more than $12 Billion annually and increasing at more than 10% each year and would almost exclusively be borne by Gasoline consumers at a cost of around $1/Gallon, again increasing at more than 10% per year. This compares with a program cost to consumers this year of less than $2 Billion and a little less than $.15 per Gallon of petroleum-based fuels purchased by California consumers. While AI supports the objectives of the LCFS program and believes higher prices can provide good economic incentives to consumers to switch to lower emitting vehicles, we also believe that CARB and the industry that has been built up to provide lower carbon fuels for California, must also be cognizant of the political impacts of such a high gasoline levy and that such levies are also very socioeconomically regressive and impact the lower to middle classes of the economy significantly more. As such, while we are not philosophically opposed to a CI target higher than 30% by 2030, we also caution CARB that such targets may have unintended consequences and result in significant political opposition to the LCFS program, as the costs to the consumer and specifically to the lower socioeconomic parts of society become clear, public and much more visible. At these prices, the LCFS program's levy on Gasoline would be greater than all other Local,

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State and Federal taxes and environmental program costs combined, and that sort of a decision must not be taken lightly or without significant consultation with the Governor's office, the legislature and consumer groups.

Recommendation – CARB should bi-furcate this regulatory rulemaking into two

In this proposed rulemaking, CARB is undertaking a significant number of possible program changes, some of which are very important and timely, as discussed and highlighted in the previous section and some of which while important for the program to consider, are not nearly as timely or consequential to the overall program, but however carry significant possibility of legal challenges.

There seems to be almost universal support among stakeholders that the CI targets for 2030 need to be quickly changed to at least 30% by 2030 and that a one-time adjustment for 2024 be considered. Based on the modeling AI has done and which was discussed in the previous section of our comments, this market fix needs to be approved by the CARB Board quickly, put onto regulation in 2023, with the changes to CI targets enacted at the beginning of the 2024 compliance year to avoid a general price and market collapse.

However, some of the other changes being considered by CARB in this proposed rulemaking, are much more complicated, such as the automatic CI adjustment mechanism or some form of a price floor. These changes are so complicated and can have such significant long-term consequences that much more modeling and discussion are required before they can be even considered for approval. It is highly unlikely, in AI's expert opinion as a firm that does significant work in market design, that this analysis and consultation can be concluded in 2023, without some major mistakes or unintended consequences occurring. As such, AI strongly recommends that these market redesign concepts be put on a different regulatory change pathway, either on their own or as part of the other proposed changes to be discussed in the next paragraph.

Lastly, CARB is suggesting that certain program parameters such avoided methane crediting, deliverability of RNG to California, acceptability of virgin food grain oils being used in Biodiesel and Renewable Diesel production receiving LCFS credits and the potential of sunsetting LCFS credits for technologies such as electric forklifts. These changes all have very specific winners and losers and do not have anywhere near majority acceptance by the stakeholder community. Some sectors would lose hundreds of millions of dollars as a result of some of these proposed changes over the lifetime of their projects and as such may very easily sue to stop or delay these program changes. As we have seen previously in the LCFS program, such lawsuits can delay regulatory changes for years.

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Conclusion

As discussed above, the CI target changes must be implemented this year and be effective in 2024! To ensure that this happens, AI recommends that these changes be the focus of the current regulatory rulemaking and should not be combined with the more complicated and contentious changes discussed in the previous two paragraphs and currently being comingled into one very complex and contentious proceeding.

We deeply appreciate all the work that CARB does and your continued leadership worldwide in mitigating climate change and hope that our comments and suggestions will help inform your decisions in the future.

Respectfully,

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