California Fuels and Convenience Alliance

2520 Venture Oaks Way, Suite 100

Sacramento, CA 95833

916.646.5999

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California Air Resources Board
1001 I Street
Sacramento, California 95814

RE: Modified Text and Availability of Additional Documents and/or Information for the Proposed Low Carbon Fuel Standard Amendments

The California Fuels and Convenience Alliance (CFCA) represents about 300 members, including nearly 90% of all the independent petroleum marketers in the state and more than one half of the state's 12,000 convenience retailers. Our members are small, family- and minority-owned businesses that provide services to nearly every family in California. Additionally, CFCA members fuel local governments, law enforcement, city and county fire departments, ambulances/emergency vehicles, school district bus fleets, construction firms, marinas, public and private transit companies, hospital emergency generators, trucking fleets, independent fuel retailers (small chains and mom-and-pop gas stations) and California agriculture, among many others.

We must respectfully oppose the proposed amendments to the Low Carbon Fuel Standard (LCFS) program. Our analysis of the proposed changes reveals significant concerns about their potential impacts on fuel supply, consumer prices, and the overall effectiveness of the state's energy transition strategy. We specifically oppose the following amendments:

1. **Modification of Average Carbon Intensity Benchmarks:** The proposed increase in the carbon intensity (CI) reduction targets for gasoline, diesel, and jet fuels to a near-term increase in stringency to a 9% CI reduction in 2025 represents an abrupt shift in the regulatory framework. This accelerated target poses several substantial challenges that could impact various aspects of the fuel market and broader economy:

    A. **Feasibility and Technological Constraints**

        I. **Technological Readiness:** Achieving a 9% reduction in carbon intensity within such a short timeframe requires advanced technological solutions that are not yet fully developed or commercially available. Many of the technologies necessary to meet these stringent targets, such as next-generation biofuels, carbon capture and storage, and advanced engine technologies, are still in the research or early deployment stages. The rapid escalation of targets may outpace the development and deployment of these critical technologies, making it difficult for industry stakeholders to achieve compliance.

        II. **Infrastructure Limitations:** Existing infrastructure, including refineries and distribution networks, may not be adequately equipped to support the rapid shift required by the new CI benchmarks. Upgrading infrastructure to handle new

types of fuels or technologies involves substantial investment and time. The lack of readiness in infrastructure could lead to bottlenecks and inefficiencies in fuel production and distribution.

B. **Supply Shortages and Market Impact**

I. **Fuel Supply Disruptions:** The short timeline for achieving a 9% CI reduction could lead to significant disruptions in fuel supply. As companies scramble to meet the new standards, there could be a shortage of compliant fuels, affecting availability and reliability. This would particularly impact sectors that depend heavily on consistent fuel supplies, such as transportation and logistics.

II. **Increased Fuel Prices:** Meeting the accelerated CI targets may involve higher production costs, which are likely to be passed on to consumers. The additional costs associated with adopting new technologies, reformulating fuels, and upgrading infrastructure could lead to higher prices at the pump. This price increase would disproportionately affect consumers, particularly those in lower-income and disadvantaged communities who are less able to absorb such costs.

C. **Impact on Consumers and Disadvantaged Communities**

I. **Economic Burden:** The increased cost of fuels resulting from the rapid escalation of CI reduction targets could impose a significant economic burden on consumers. Low-income and disadvantaged communities are often more vulnerable to fluctuations in fuel prices and may struggle to cope with higher costs, exacerbating existing inequities.

II. **Access to Affordable Energy:** Higher fuel prices could reduce access to affordable energy, affecting the cost of goods and services that rely on transportation and fuel. This could further strain household budgets and impact the overall quality of life for individuals in vulnerable communities.

D. **Market Stability and Innovation**

I. **Regulatory Uncertainty:** Abrupt changes to CI benchmarks without adequate lead time can create regulatory uncertainty. Companies may face difficulties in long-term planning and investment, leading to reduced confidence in the market. This uncertainty could discourage investment in new technologies and infrastructure, potentially stalling innovation and progress in the sector.

II. **Hindrance to Innovation:** Rapid regulatory changes may lead to a focus on short-term compliance measures rather than long-term innovation. Companies might prioritize meeting immediate targets over investing in more sustainable and innovative solutions that could offer greater benefits in the long run.

2. **Caps on Credits for Biomass-Based Diesel from Virgin Soybean and Canola Oils:** The proposed amendment introducing a company-wide 20% cap on credits for biomass-based diesel produced from virgin soybean and canola oils raises several significant concerns:

A. **Market Distortion**

I. **Artificial Barriers to Market Access:** Imposing a cap of 20% on credits for biomass-based diesel from specific feedstocks, such as virgin soybean and canola oils, creates an artificial barrier that restricts market dynamics. This cap favors particular feedstocks over others, which could skew market incentives and lead to an imbalanced biofuel market. By limiting credit eligibility for certain feedstocks, the policy risks creating a market where only a few feedstocks are economically viable, reducing competition and innovation.

II. **Stifling Innovation:** The proposed cap on credits for biomass-based diesel produced from virgin soybean and canola oils could unintentionally stifle innovation by creating an uneven playing field within the biofuel market. While the cap does not restrict biofuels produced from other feedstocks, it may still shift focus and resources toward optimizing the production of non-capped feedstocks, potentially diverting attention away from the exploration and development of new and innovative biofuel technologies. This could result in a market that prioritizes the use of available feedstocks rather than fostering a diverse and forward-thinking approach to biofuel development. An approach that avoids such specific caps and incentivizes a wider range of biofuels would better support a competitive and innovative market, driving advancements across various technologies and more effectively contributing to California's clean energy goals.

B. **Compliance Burden**

I. **Uneven Implementation Timeline:** The proposed amendment introduces additional compliance complexities by setting different timelines for companies. Those with existing certified pathways prior to the adoption of the amendment have until January 1, 2028, to adjust their feedstock contracts, while other companies must comply immediately. This uneven timeline creates a competitive disadvantage for companies that must adapt quickly without the benefit of a transition period.

II. **Administrative and Financial Strain:** Companies will face increased administrative and financial burdens as they navigate the new compliance requirements. The need to renegotiate feedstock contracts, adapt production processes, and manage the associated costs can strain resources, particularly for smaller or less resourced companies. This added complexity could lead to operational inefficiencies and increased costs, further impacting the overall market.

III. **Market Uncertainty:** The discrepancy in compliance timelines may lead to uncertainty in the market. Companies may be hesitant to invest in long-term projects or make strategic decisions due to the potential for regulatory changes and the associated risks. This uncertainty can undermine confidence in the biofuel market and impede progress toward clean energy objectives.

C. **Price Increases**

I. **Disruption of Long-Term Contracts:** The shift in feedstock requirements imposed by the cap could disrupt existing long-term contracts for feedstocks. Companies that have invested in and committed to contracts based on the

previous regulations may face financial losses or supply chain disruptions as they adjust to the new requirements. This disruption can lead to increased production costs for biodiesel and renewable diesel.

II. **Higher Fuel Prices:** As a result of increased production costs and potential supply shortages, fuel prices are likely to rise. Higher costs for biodiesel and renewable diesel would be passed on to consumers, directly impacting the affordability of lower-carbon alternatives. This price increase could diminish the economic benefits of transitioning to lower-carbon fuels and potentially reduce consumer adoption of these cleaner options.

III. **Impact on Consumer Affordability:** The increased fuel prices resulting from the proposed changes will disproportionately affect consumers, particularly those in lower-income communities. The rise in fuel costs can strain household budgets and exacerbate existing financial challenges, making it harder for these communities to benefit from cleaner, lower-carbon energy options.

D. **Program Integrity**

I. **Slowing the Transition from Petroleum Diesel:** The proposed cap on credits could undermine the effectiveness of the LCFS program by potentially slowing the pace at which petroleum diesel is displaced. By focusing on limiting credit eligibility for specific feedstocks, the program may divert resources and attention away from more comprehensive and innovative low-carbon solutions.

II. **Compromising Long-Term Goals:** The potential diversion of focus and resources away from broader, more effective clean energy solutions could compromise the long-term goals of the LCFS program. Ensuring that the program remains effective requires a balanced and inclusive approach that encourages the development of various low-carbon technologies and maintains momentum toward achieving comprehensive clean energy targets.

3. **Exclusion of Hydrogen Produced from Fossil Fuel Gas:** The proposed amendment to exclude hydrogen produced using fossil fuel gas from LCFS credit eligibility, effective January 1, 2031, presents several issues:

A. **Supply Constraints**

I. **Drastic Reduction in Supply:** Hydrogen produced from fossil fuels, specifically through methods such as steam methane reforming (SMR), currently represents a substantial portion of the hydrogen supply in the market. This production method is well-established and forms the backbone of the existing hydrogen infrastructure. Removing this source could lead to a significant reduction in available hydrogen, as renewable hydrogen production capacities are still developing and are not yet able to meet current demand levels.

II. **Increased Costs:** With a reduced supply of hydrogen, the costs associated with hydrogen production are likely to rise. The infrastructure and economies of scale that currently support fossil-based hydrogen production are not as advanced for renewable hydrogen. Consequently, excluding fossil-based hydrogen could result in higher prices for hydrogen, which would be passed on to end-users.

III. **Market Instability:** The sudden exclusion of a major hydrogen source could cause volatility in the hydrogen market, affecting not only supply but also pricing stability. This could create uncertainty for businesses and investors, potentially stalling further investments in hydrogen infrastructure.

B. **Transitionary Challenges**

I. **Infrastructure Development:** Building the infrastructure necessary to produce, transport, and distribute renewable hydrogen at scale requires substantial time and investment. Renewable hydrogen technologies such as electrolysis are still emerging, and their infrastructure is not yet sufficient to replace fossil-based hydrogen in the short term. Excluding fossil-based hydrogen prematurely could disrupt ongoing efforts to develop this infrastructure and slow down the transition process.

II. **Technological Advancements:** The renewable hydrogen sector is evolving, but the pace of technological advancements and cost reductions is not uniform across all areas. Immediate exclusion of fossil-based hydrogen may outpace the development and commercialization of new technologies, impeding the smooth transition to fully renewable hydrogen solutions.

III. **Strategic Planning:** Energy policy should provide a gradual and strategic path towards renewable alternatives. Abrupt policy shifts can create misalignment between current capabilities and future goals, making it difficult for stakeholders to plan and implement the necessary changes effectively.

C. **Consumer Impact**

I. **Increased Costs:** As the supply of hydrogen decreases and production costs rise, the price of hydrogen will inevitably increase. This price hike will directly affect consumers and businesses that use hydrogen as a transportation fuel.

II. **Impact on Decarbonization Efforts:** Many industries are investing in hydrogen technologies to reduce their carbon footprints. The increased cost and reduced availability of hydrogen could slow down the adoption of hydrogen technologies, hampering efforts to achieve broader decarbonization goals.

III. **Economic Disruption:** Higher hydrogen costs could lead to increased operational expenses for companies that rely on hydrogen as a transportation fuel, potentially resulting in higher prices for goods and services. This economic impact could be particularly severe for small and medium-sized enterprises that may struggle to absorb the increased costs.

In light of these concerns, we urge the California Air Resources Board to reconsider these proposed amendments. An effective energy transition strategy should support a diverse array of lower-carbon alternatives while balancing environmental goals with practical industry realities. Implementing a more measured and inclusive approach will help ensure a reliable, accessible, and affordable energy future for all Californians.

We welcome the opportunity to engage in further discussions and provide additional insights on these critical issues. If you have any questions, please contact Alessandra Magnasco at alessandra@cfca.energy.

Sincerely,

Alessandra Magnasco
Governmental Affairs & Regulatory Director