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To California Air Resources Board Staff

Submitted Electronically via On-Line Public Comment Form

California LCFS Rulemaking – Comment on August 12, 2024, "15-Day" Package

Dear CARB,

Phillips 66 Company (Phillips 66) appreciates the opportunity to comment on the proposed amendments to the LCFS regulation.

Phillips 66 has invested over a billion dollars at its Rodeo Renewable Energy Complex in Contra Costa County, California, to transform the facility into a world scale renewable fuels facility. The facility no longer processes crude oil. The facility currently produces renewable diesel, renewable naphtha and is gearing toward the production of sustainable aviation fuel. Phillips 66 also operates a petroleum refinery in Los Angeles. Both facilities in Rodeo and Los Angeles are operated by union labor.

Phillips 66 operates several fuel terminals and markets products under the 76® brand in California. Most 76® sites that previously dispensed petroleum diesel are now offering renewable diesel. Phillips 66 believes that renewable fuels are an important part of the transitioning energy market. With our significant investments and development of sustainable aviation fuel (SAF) production, Phillips 66 has demonstrated its support of sustainable programs that promote renewable fuel development and consider these proposed amendments in context of promoting SAF production and placement in California.

New Carbon Intensity (CI) Benchmarks – Section 95484

First, Phillips 66 supports a sustainable LCFS regulation, which allows compliance options and supports operation, expansion, and new project development of renewable fuel production and other transport decarbonization. While we recognize that the strong LCFS bank may stifle further investments in low carbon transport energy sources, we are concerned that the magnitude of the front-loaded reduction may serve to create instability in the program. Phillips 66 supports a step down of the program to allow the oversupply of credits to moderate. We caution against moving too much too quickly. Although the California LCFS credit bank has grown significantly in the last few years, with much more stringent standards ahead and only a small portion of diesel pool left for substitution with biofuels, the program may face challenges if the electrification of the vehicle parc does not occur at the pace anticipated by CARB. Under the proposed amendments, the LCFS now includes a mechanism to auto-advance the standards which we support. However,

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there is no provision to soften the standards if not enough credits are available to balance deficits. As such, Phillips 66 recommends that CARB reinstates a formal annual program review to evaluate the LCFS performance. CARB should consider adopting a similar process to the ones in place in Oregon and Washington under their LCFS programs. These processes require an annual fuel forecast and a mechanism to reevaluate the CI standards if credits are in a shortfall position.

Furthermore, the state has emphasized its desire to keep fuel costs affordable, which requires a balanced approach for the establishment of the CI benchmarks.

Renewable Feedstocks – Section 95482 (i)

Phillips 66 urges CARB to remove the twenty percent restriction on soybean oil and canola oil that is proposed under 95482 (i). Phillips 66 believes that CARB should allow relative CI scores of the renewable fuels to dictate the most efficient mechanism to decarbonize fuels. Additional arbitrary restrictions should not be used to limit renewable feedstocks and/or renewable products in the LCFS. Restricting feedstocks will increase the cost and availability of low carbon fuels, which will hurt California residents, and goes against the efforts of Senate Bill SB X1-2. If CARB decides to implement the 20% limit, the phase-in in 2028 should clearly be based on company fuel production, and imported product and purchases from third parties should be excluded from the 20% trigger.

Hydrogen Production – Section 95482 (h)

As mentioned above, CARB should not arbitrarily exclude feedstocks for the production of low carbon fuels. Restricting natural gas to produce hydrogen will reduce the availability of hydrogen at the time when CARB is trying to incentivize the development of hydrogen fuel cell vehicles. Once again, the fuel LCFS crediting should be based on its CI score, not on an arbitrary limit, such as the “color” of the fuel. CARB would preempt future technologies that may enable low CI hydrogen from natural gas coupled with carbon capture, for example, or other technologies not yet available or economical.

Furthermore, hydrogen is also used in renewable fuel production. Natural gas greenhouse gas emissions used in the production of hydrogen are accounted for in the life cycle emissions and the CI of renewable fuels. CARB should allow instead more flexibility for enabling book-and-claim options to lower the CI of hydrogen used in renewable fuel production.

Fuel Pathways – Section 95488 (d)

Phillips 66 recommends that CARB continues to allow new biomass-based diesel fuel pathways after 2031. Maintaining a fuel neutral approach will ensure that the lowest cost, lowest carbon intensity, most efficient projects can continue to be developed for all fuels used in California. The

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CI score will efficiently drive the market to supply the fuels best suited to meet the lowering standard.

Alternative jet fuel production is typically accompanied with renewable diesel at renewable fuel facilities. Preempting new diesel fuel pathway applications may shut the door to the development of sustainable aviation fuel beyond 2030, as fuel pathway applications typically cover all products at a given facility. Prohibiting new fuel pathway applications would be in contradiction with the goals of California and the Federal Government to increase the production of sustainable aviation fuels.

CARB should not close the doors today to future opportunities that may arise as technology evolves.

Indirect Land Use Change – Section 95488.3 (d)

CARB should undertake a separate rulemaking to revisit the indirect land use change (LUC) values. The values in Table 6 date back from the CARB 2015 LUC study. New research papers have showed evidence for lower LUC values, and lower LUC values have been adopted by other programs, including the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

Until new LUC values are established through rulemaking, if CARB wants to allow adjustments to the LUC values, not only factors that contribute to higher LUC values should be considered, but also factors that contribute to lower LUC values should be recognized.

Sustainability Requirements for Biomass – Section 95488.9 (g)

Phillips 66 encourages CARB not to develop new processes for sustainability tracking, but rather allow the use of existing protocols currently in place in the LCFS, the EPA Renewable Fuel Standard and other organizations such as the International Sustainability and Carbon Certification (ISCC).

CI Exceedance - Section 95486.1 (g)

Although not a change from the “45-day” package published in January 2024, Phillips 66 requests that CARB removes the four times penalty when the CI is verified above the operational CI. This penalty defeats the purpose of auto-adjustments of fuel CI. CARB should instead reset the CI score to the verified CI and true-up the credits and deficits, without adding an unjustified penalty of four times the incremental credit generation.

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This substantial penalty will force obligated parties to set overestimated CI scores, well above the actual pathway CI score to reduce the risk of a penalty. The LCFS program could not capture the full benefit of greenhouse gas reductions, while the CI standards become ever more stringent, and the benefit of this provision will be muted.

Jet Fuel – Section 95489

Phillips 66 supports CARB's latest proposal to keep petroleum jet fuel exempt from the LCFS and continue to allow alternative jet fuel to opt-in the LCFS based on CI scores. This will avoid higher costs for jet fuel.

Please reach out if you would like to discuss these items.

Thank you for your consideration.

Sincerely,

Marc Ventura

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