August 27, 2024

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

RE: Response to Proposed 15-Day Amendments issued August 12, 2024

Dear Chair Randolph,

The Low Carbon Fuel Standard (LCFS) has by all measures been a historically successful greenhouse gas (GHG) emissions reductions program. However, the accelerated pace of carbon intensity (CI) reductions signifying this success have resulted in a corresponding substantial oversupply of credits, creating a precipitous drop in the LCFS credit price, which has already stalled clean fuels and technologies investments.

The Low Carbon Fuels Coalition (LCFC) is submitting these comments in response to CARB's 15-Day Amendments released on August 12, 2024. These comments focus on the implications of key provisions within the latest amendments, within the context of the analytical work by ICF commissioned and previously submitted for the record to inform this rulemaking[1,2,3], as well as the analysis presented by CARB in conjunction with the April 10th workshop. The significance of the proposed 15-Day Amendments merits additional analysis; however, a 15-day comment period is insufficient to fully assimilate, analyze and provide resulting feedback. The following comments and recommendations are consequently limited in scope and detail by the abbreviated comment period.

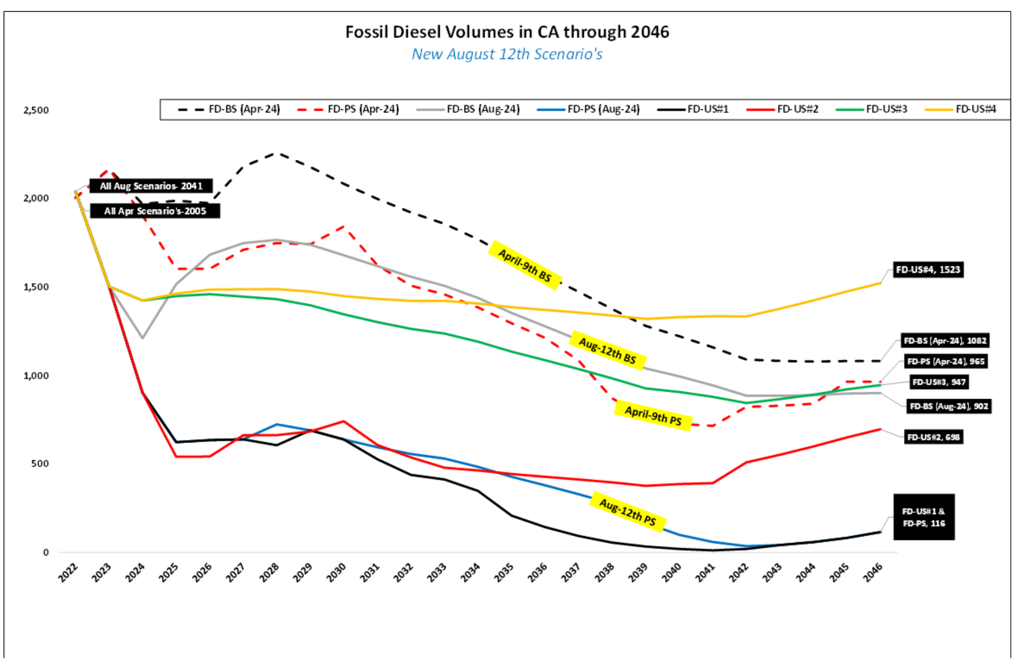
- ***The LCFC commends CARB for increasing the Step-Down from 5% to 9%, and for maintaining the Auto-Acceleration Mechanism, to better rebalance the credit bank.*** The increase is supported by the Initial Statement of Reasons (ISOR) analysis by ICF, which indicated that achieving a target credit bank equivalent of 2-3 quarters worth of deficits requires a step down of 10.5% to 11.5% in 2025.

- ***The LCFC again urges CARB to avoid selectively limiting or disadvantaging technologies or pathways that can reduce GHG emission reductions within the LCFS program.*** The principle of technology neutrality has allowed the LCFS program to

[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 Comment of the Low Carbon Fuels Coalition and Supporting Companies and Organizations, February 20, 2024, at https://www.arb.ca.gov/lists/com-attach/7062-lcfs2024-BXAFcwFkWWsCcFA1.pdf
[3] See comment letter dated May 10, 2024, at https://ww2.arb.ca.gov/system/files/webform/public_comments/12071/240510%20LCFC%20comment%20letter%20to%20CA%20_.pdf

achieve GHG emission reductions more quickly and cost-effectively than anticipated, as reflected in the greater ambition proposed in this rulemaking. CARB's analysis presented at the April 10 workshop and included in Attachment D of the amendment package clearly reflects the risks of selective limitations. A more selective approach, including a biomass-based diesel cap as proposed in the amendments and reduction of the Avoided Methane Credit eligibility for dairy projects built pre-2030 from 3 to 2 crediting periods, results in fewer GHG emission reductions, more petroleum use, higher health costs, and higher LCFS program costs overall.[4] Therefore, the 15-Day Amendments directly contradict CARB's own analysis by proposing a less favorable approach by all the analyzed measures. The anticipated higher program costs to achieve fewer GHG emission reductions, realize fewer health benefits and decrease petroleum reductions also reduces or reverses the overall benefits versus costs of the LCFS program.

- ***Unexplained modifications in modeling and analysis.*** Ultra-low sulfur diesel (ULSD) volumes have varied considerably across the various iterations of analysis supporting the rulemaking process. ICF and others have highlighted specific oddities that call into question some of the changes made in the 15-Day Amendments regarding the volumes of ULSD, and the implications for modeled outcomes of the LCFS program that inform this rulemaking. Specifically: 1.) the baseline ULSD consumption in the most recently published analysis has decreased substantially from what was presented in April 2024; 2.) there is also an unexplained substantial decrease in the ultra-low sulfur diesel in the proposed scenarios, thereby making the most recent Proposed 15-Day Amendments relatively more attractive; 3.) it is unclear why both the starting baseline and the expected market changes in the modeled scenarios have changed so much between iterations. The ULSD volume discrepancies are graphed below.



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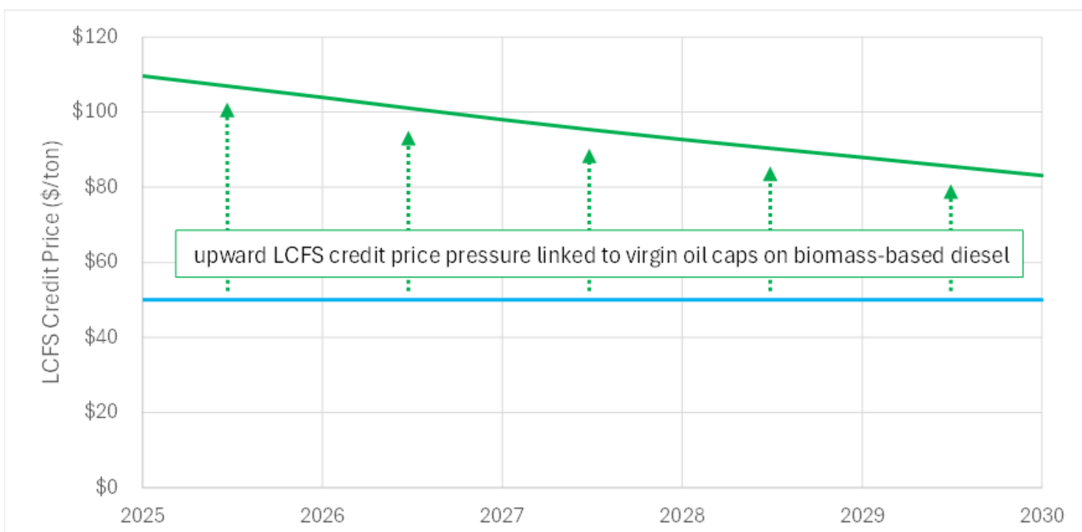
[4] CARB Staff Presentation from April 10, 2024 workshop and Attachment D of 15-Day Amendment package

- ***The LCFC remains concerned that the four-to-one CI penalty is likely to have a dampening effect on project investments.*** The proposed regulation, which was not developed or vetted in a workshop, would apply a four-to-one CI penalty if it moves unfavorably to the credit-generating CI during the true-up. Operators will be forced to apply a very conservative margin of safety to the CI of projects, reducing its quarterly revenues. Entities that intend in good faith to comply with the true-up, but fall short, will be disproportionately penalized, resulting in a disincentive for investment when more investments are needed to achieve the LCFS program goals.

- ***The proposed individual company 20% virgin oil cap can create upward pressure on LCFS credit prices****.* ICF analysis found that the proposed caps and assigned CI scores for incremental volumes of virgin oil-derived on-road diesel above the cap "is more likely to increase the LCFS credit price in the market in ways that are not reflected in Staff analysis". The following graphic is an illustrative example based on ICF's analysis of potential upward pressure on LCFS credit prices relative to a theoretical constant credit price of $50/ton.



  Furthermore, while the proposed cap applies only to on-road diesel fuels, the provision is likely to dampen the investment and production prospects for renewable diesel-SAF projects by shrinking the value stream from incremental volumes.[5]

- ***CARB has the opportunity to refine the 15-Day Changes so that the LCFS program will disincentivize less-sustainable biofuels and <u>incentivize</u> more-sustainable biofuels by encouraging lower-CI practices.*** The proposed sustainability provisions increase compliance costs for biofuel pathways without providing any commensurate incentive for feedstock providers or producers to reduce CI, which would advance the underlying objective of the LCFS program to reduce GHG emissions. Rather than selectively disadvantaging biofuel CI scores, the LCFS program should adjust CI scores favorably or

[5] See ICF comment letter in response to 15-Day Amendments

unfavorably depending on real-world performance, to better reflect the fundamental LCFS principles of technology-neutrality and science-based performance measurement. Such an approach can expand and enhance the global sustainable fuels market and minimize the risk of unintended consequences, and be in accord with the rapid phase down of petroleum-based fuels now codified into California law.

Maintaining a commitment to crediting GHG emission reductions from all sources and feedstocks related to transportation within the LCFS program will ensure that California continues to lead the world in addressing the climate crisis, at the lowest possible cost.

Sincerely,

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Robin Vercruse
Executive Director
Low Carbon Fuels Coalition

Low Carbon Fuels Coalition