



17731 Millux Road
Bakersfield, CA 93311
Tel: (661) 617-8610
Fax: (720) 475-5399

February 13, 2014

Chairwoman Mary Nichols
California Air Resources Board
1001 I Street
Sacramento, CA 95812

CC: All California Air Resources Board Members

Via online submission at <http://arb.ca.gov/lispub/comm/bclist.php>.

RE: comments regarding the proposed Alternative Diesel Fuel (ADF) Regulations and the Low Carbon Fuel Standard

Dear Chairwoman Nichols:

As California's largest in-state producer of biodiesel (we utilize used cooking oil and distiller's corn oil to produce an ultra-low carbon alternative diesel fuel with an average quarterly carbon intensity for 2013 and 2014 of 12 to 16.5), we are naturally very interested in the proposed Alternative Diesel Fuel (ADF) Regulations and the Low Carbon Fuel Standard (LCFS). Any proposed ADF regulations and/or changes to LCFS could have a profound impact on the California biodiesel market and on the ultimate viability of our Bakersfield biodiesel plant. The Crimson team would like to thank members of the ARB staff and Board Members for their hard work on this rulemaking and their ongoing willingness to engage with us and other industry stakeholders. We greatly appreciate the time that ARB staff members have taken and the positive relationships they've encouraged.

Economic Impact

Before getting into our comments on the proposed ADF regulations and the future direction of LCFS, I would like to provide some additional information about our biodiesel production facility in Bakersfield, California. Specifically, I hope this information will provide the Air Resources Board and its affiliated regional air districts a context to better understand the economic impact of proposed ADF regulations and LCFS.

Our biodiesel production facility in Bakersfield currently has 25 full time employees, and an additional 6 long term, full-time contractors. The plant was built in order to serve the market for very low carbon fuels created by the LCFS. Based on our spending in 2014, our annual direct economic contribution was \$40 million, of which approximately 87% was spent within California and significant portion of this was spent in Bakersfield and other parts of the Central Valley. The average annual 2014 compensation per person employed at the plant not including the senior management positions is approximately \$64,000. Furthermore, several of our plant employees came to us without the full range of experience that is required and we have invested significantly in their training.

We are also currently in the midst of an expansion project that began in early 2014 and will be completed in summer 2015 entailing a total investment of nearly \$10 million. The first phase of this project was completed in May 2014 enabling us to increase our annualized production rate from 9.5 mil gal/yr to 14mil gal/yr. Upon completion, our plant capacity will grow to 22 mil gal/yr. At that point, the plant will make a direct economic contribution of \$70 - \$90 million per year (depending on raw material prices) with 89-93% of this being spent within California, and 36-38 full time employees and long-term contractors.

Thus we believe that our biodiesel production facility is making a strong and growing economic and job creation contribution locally (which is also considered an economically disadvantaged area) and within California. However, it is important to note that we are but one plant out of 5 current biodiesel producers. The California Energy Commission estimated that in 2014 biodiesel production within California will be approximately 40 million gallons. Based on our Bakersfield plant's spending this year, this would come out to a total direct economic contribution of approximately \$122 million in 2014. The CEC has projected in-state biodiesel production to grow to 55 million gallons in 2016, representing an economic contribution of approximately \$200 million. These figures deserve serious

acknowledgement given the fact that the ADF Rulemaking will reduce the market opportunity for biodiesel in California and this would be disproportionately felt by in-state producers such as Crimson, especially given the markedly higher costs of operating in California as compared to elsewhere in the U.S. or internationally. The same is true if the ARB decides to push back the timeline for LCFS carbon reductions.

Emissions / Health Benefits

As we and other stakeholders have pointed out previously to ARB staff, biodiesel is a solution to very specific problems associated with petroleum diesel's emissions profile – namely the well-known toxics, particulates, and carcinogens that are currently causing unacceptable levels of respiratory illness in California, especially in the Central Valley, the areas surrounding the Port of Long Beach and Port of Los Angeles, and especially among California's children and elderly and its economically disadvantaged communities (such communities tend to be concentrated near industrial areas where truck traffic is disproportionately higher than in other communities). Indeed, "Biodiesel's reduction in PM emissions and associated risks" were acknowledged in the ARB staff presentations at previous ADF Rulemaking Workshops and some air districts in California are out of compliance for PM reductions. Besides PM reduction, biodiesel also provides significant reductions in polycyclic aromatic hydrocarbons (PAHs), nitrated PAHs, and the ozone potential of spectated hydrocarbons. According to the Union of Concerned Scientists and the American Lung Association (http://www.ucusa.org/clean_vehicles/trucks_and_buses/page.cfm/pageID=1429), PM and other hydrocarbon emissions within California are responsible for an estimated 3,000 premature deaths, 2,700 cases of bronchitis, and 4,400 hospital admissions, ultimately creating additional healthcare costs totaling \$21+billion.

Biodiesel also provides very large reductions in carbon/GHG emissions (85-95% reduction in carbon/GHG for biodiesel made from used cooking oil and distiller's corn oil from ethanol plants) that are critical to meeting LCFS carbon reduction requirements. According to ARB, in Q1/2014 biodiesel provided 18% of all LCFS credits generated.

Thus we strongly urge the ARB to consider the PM, hydrocarbon toxics, and carbon/GHG reductions and associated health benefits when evaluating any ADF regulatory proposal. Additionally, we urge the ARB to consider that the proposed ADF regulations would be in effect during a period when New Technology Diesel Engines (NTDEs, which reduce all tailpipe NOx emissions by 90% regardless of type of fuel) are being phased in due to existing California law.

Comments on LCFS Reauthorization and Specific Aspects of the Proposed ADF Regulations

We ask that ARB Members consider the following points as it continues deliberations on LCFS reauthorization and the proposed ADF regulations.

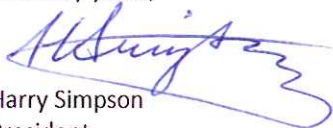
1. LCFS is working as intended – ARB reporting on LCFS credit generation and deficits from 2011 through Q3/2014 shows 9.80 mil MT credits generated and 5.84mil MT in deficits, creating excess credits of 3.96 mil MT. This data is consistent with original ARB staff projections for the rate of credit generation at this point in the program. Clearly the LCFS has created sufficient market signals to attract the necessary volumes of alternative fuels. Our plant in Bakersfield is but one example among many of how LCFS has influenced investment decisions to create alternative fuel production capacity.
2. LCFS carbon reduction timelines – We strongly urge the ARB and its Members to maintain the original LCFS CI reduction at 10% by 2020. We further encourage the ARB to establish stronger compliance curves to continue progress beyond 2020. Maintaining the 10% reduction in 2020 is absolutely critical to send the right market signals to encourage the availability of large volumes of alternative fuels, development of new low carbon fuel technologies, and incentivize significant alternative fuel utilization. Any pushing back of this timeline would send the opposite signal, devalue alt fuel investments made thus far, and discourage future investment. We believe the 10% reduction is fully achievable in 2020. We agree with the findings in the 2/2/15 Promotum report sponsored by the National Resource Defense Council, stating a \$100/MT LCFS credit price will incentivize sufficient volumes of alt fuels to be produced and imported into California and reducing CI intensity of petroleum based fuels. Using alternative diesel fuels as a case in point, there is sufficient excess industry-wide production capacity to greatly increase the volumes of biodiesel and renewable diesel

imported into California (the National Biodiesel Board reports 2.5 bil gal of current U.S. biodiesel production capacity vs actual 2014 domestic production of 1.6 bil gal).

3. **LCFS Program integrity** – In line with creating transparent and predictable market rules, ARB should adopt rule proceedings in the event that fraudulent credit trades or other invalid activities are discovered. We would recommend that ARB carefully consider the experience of the US Environmental Protection Agency in its enforcement of the Renewable Fuel Standard (RFS). Delayed prosecutions and a lack of concern for collateral damage caused to good faith market participants undermined respect for the RFS program and the value of RFS credits. We would encourage ARB to insulate good faith market participants from disproportional impacts and to avoid wholesale invalidation of credits. Due to the complex and novel nature of environmental attribute markets, ARB must invest in sufficient resources and personnel to ensure effective enforcement.
4. **Impact of ADF Regulations on California Biodiesel Industry** – From a California biodiesel producer’s perspective the proposed ADF regulations are not ideal for the simple fact that, despite the various economics, emission and health benefits offered by biodiesel, limits will be placed on biodiesel usage in California. However, we do believe that the proposed ADF regulations reflect input from the biodiesel industry and many other stakeholder groups. ARB Staff was really done outstanding job in reaching out to all stakeholders for consistent engagement. As such we feel that the biodiesel usage limits prescribed by the proposed ADF regulations are not unreasonable. They are workable and will achieve the desired goals for NOx management while retaining the ability to meaningfully take advantage of the significant benefits offered by biodiesel blending in California.
5. **ADF Regulation implementation timeline** – The proposed ADF regulations will require significant change within the industry, including new labeling at each retail dispenser and the joint development of new compliance and tracking mechanisms. Other agencies such as the Division of Weights and Measures will require time to adapt their biodiesel related regulations (there may be a need to change the current California labeling requirements at retail dispensers). Thus we believe the implementation timelines as stated in the proposed ADF regulations are reasonable and necessary.
6. **Mitigation options** - We applaud the ARB’s understanding that DTBP additive is not an ideal mitigation option for several safety, financial and operational reasons, and thus preserved in the proposed ADF regulations the ability to approve other NOx mitigation additives. We would only add that we hope ARB staff will diligently pursue this in a timely manner in partnership with the biodiesel industry, and consider the use of current commercially available cetane enhancers.
7. **Accounting for NTDE and Sunset Provisions** - . NTDE vehicles which reduce NOx by 90%+ already make up 25%+ of the current heavy duty diesel fleet in California and will grow to 95% by 2023 as required by ARB fleet turnover regulations. In light of this, we believe it is completely reasonable and appropriate that the ADF regulations will sunset when vehicle miles travelled by NTDE heavy duty vehicles reach 90% of the total miles travelled by the California heavy-duty diesel vehicle fleet.

We greatly appreciate this opportunity to comment. Please feel free to contact me should you have any questions.

Sincerely yours,



Harry Simpson
President

hsimpson@crimsonrenewable.com

Tel: 720-475-5409