

December 21, 2022

Submitted electronically via arb.ca.gov

California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Tesla comments on the November 9, 2022, Public Workshop to Discuss Potential Changes to the Low Carbon Fuel Standard (LCFS)

Dear Ms. Laskowski and California Air Resources Board's (CARB) Transportation Fuels Branch Staff:

Tesla thanks CARB staff for the thoughtful consideration demonstrated in the November 9, 2022, LCFS workshop and agrees staff that the LCFS is a key strategy that supports displacing of fossil fuels. And foundational to the continuance of a successful LCFS program, Staff rightly considers both overall stringency and mechanisms to accelerate stringency through a self-adjusting CI mechanism. Tesla appreciates Staff's recognition that 2021 reported CI reduction has fallen below the compliance target¹ and congratulates CARB as this is an indicator of policy efficacy. However, with that success, the bar graph in slide 7 shows that since Q2 reporting in 2021, crediting has exceeded deficits contributing to a growing overall cumulative credit bank² and the creation of a more challenging period for low-carbon project builders. As a project investor, charging provider and EV manufacturer, Tesla respectfully submits the following comments in response to Staff's questions during the November 9th workshop.

Tesla Supports an initial step-change in the compliance curve during the first year in which this rulemaking becomes effective. Carbon reductions in the transportation space in California continue to outperform the LCFS mandate, leading to a large surplus of credits. A step-change would acknowledge this success and rebalance the program to continue accelerating emissions reductions. Without an initial step-change, changes to the compliance curve will have a muted effect on low-carbon promoting projects. Bloated credit banks of potentially tens of millions of credits would take years to reduce thus perpetuating low credit values, limiting financing and value available for project investment. With respect to reducing carbon emissions and a slumbering credit value, an initial step-change should be top-of mind.

While continuing to evaluate and consider the particulars of any self-adjusting CI target mechanism, Tesla supports the idea of a CI acceleration mechanism. Conceptually, the self-adjusting mechanism would address both incremental changes over the duration of the LCFS program update while also providing an initial-step change referenced above. The LCFS program already includes multiple mechanisms which come into play should the LCFS program underperform, including, 1) the Credit Clearance Market and its Maximum Credit Price, 2) Carryback Credits, 3) Accumulated Deficits, and 4) Advanced Credits. Each of these mechanisms provides obligated parties with options to avoid the full \$1000/MT penalty when the industry underperforms and fails to meet the LCFS standard. These mechanisms provide obligated parties with the business certainty they need to


¹ Slide 6, CARB Nov. 9, 2022 LCFS Workshop Presentation

² Slide 7, CARB Nov. 9, 2022 LCFS Workshop Presentation

continue operating in California. On the contrary, no such mechanisms exist to ensure business certainty for credit generators when the industry outperforms the LCFS requirements. This current unbalanced status quo results in credit generators having to take additional risk, resulting in slower progress in California's Energy Transition.

Of the scenarios provided, preliminarily, Tesla supports alternative scenario design C with a 35% CI reduction target in 2030. Tesla further appreciates CARB Staff's transparency in releasing the CATS model. While Tesla continues to consider the model, Tesla believes that a CI reduction target approaching 35% may be reasonable. Specific to Staff assumptions, Tesla also supports medium and heavy-duty ZEV infrastructure. We continue to refine our own analysis with peers, recognize that there may be additional alternatives identified through further consideration, and anticipate sharing more specifics over the course of the LCFS workshops and rulemaking.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Thad Kurowski". The signature is fluid and cursive, with a large initial "T" and "K".

Thad Kurowski

Public Policy & Business Development