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December 21st, 2022

Cheryl Laskowski, Ph.D.
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Low Carbon Fuel Standard November 2022 Workshop

Dear Dr. Laskowski,

SJI is an energy infrastructure holding company based in Folsom, New Jersey. It is comprised of two regulated natural gas utilities serving natural gas to approximately 700,000 South Jersey Gas and Elizabethtown Gas customers as well as several non-utility businesses which are primarily focused on clean energy develoment and decarbonization via renewable energy production and energy management activities. SJI strongly supports our nation's transition to a carbon-free economy and, accordingly, has developed a comprehensive clean energy plan that includes a timeline to achieve carbon-neutral operations and a series of sustainability initiatives including:

- Achieve a 70% carbon reduction of operational emissions and consumption by the year 2030
- Achieve 100% carbon neutral operations by 2040
- Commit at least 25% of annual capital expenditures on sustainability projects

SJI has become a leading developer of dairy digester projects in the United States. These projects generate renewable natural gas (RNG) which can be used as a vehicle fuel to power trucks, buses, and cars, as well as for other traditional applications such as home heating, cooking and industrial uses. SJI works closely with local dairy farmers, local utilities, the California Air Resources Board (CARB), the California Public Utility Commission (CPUC), the California Energy Commission (CEC), the Environmental Protection Agency (EPA), and the dairy industry to develop projects that reduce greenhouse gas (GHG) emissions, protect local air and water quality, create local jobs, and provide a new revenue stream along with other meaningful benefits to the dairy.

The California Low Carbon Fuel Standard (LCFS) program is the nation's leading and most successful example of a market-based carbon reduction regulation for the transportation sector. The program has been instrumental in supporting the growth of a broad portfolio of low carbon transportation fuels in California, their associated reductions in carbon and pollutant emissions, job growth in clean energy sectors, and other benefits. SJI would like to commend CARB on the implementation of this successful program as well as the considerable and significant efforts undertaken to manage and sustain it. However, the changes proposed during the most recent

workshop held on November 9, 2022 (the Workshop) pose some serious threats to existing RNG projects, projects under development, and future investment in development projects. SJI would like to comment on two items, 1) the potential limitations on book-and-claim accounting, and 2) the potential limitations on avoided methane calculations.

Book-and-Claim Accounting

During the Workshop, CARB staff raised the idea of harmonizing delivery requirements between electricity and RNG. More specifically, information presented at the workshop implies that CARB's scenario modeling will consider eliminating eligibility in 2025 for non-Western RNG projects. This policy shift would effectively eliminate the book-and-claim accounting that enables the delivery of RNG and its associated value to California's LCFS program. In that same vein of thinking, staff expressed the opinion that the long-term "best" end use for renewable gases may prove to be outside of the transportation sector. The Workshop material does not articulate CARB's underlying reasoning that would prompt a need to shift RNG geographic eligibility, making it hard to provide substantive input on these issues with respect to modeling assumptions or potential regulatory changes.[1]

SJI is concerned that the potential policy shifts noted above do not reflect market realities. The concept of harmonizing electricity and RNG markets through geographic constraints is actually an imposition of the constraints that one market faces (electricity) that another market does not (natural gas). To take this theoretical line of thinking to its conclusion, shouldn't all eligible low carbon fuels in the program be subject to some lowest common denominator? In that case, electricity and RNG would be subject to the same provisions for liquid biofuels that are produced in various states and subsequently shipped with tracking of the physical molecules from the origin to the destination. The reason that this constraint is not applied to electricity or RNG is simple; They are different energy carriers and the LCFS program has historically recognized these differences through nuanced project eligiblilty considerations.

With respect to staff's assertion(s) regarding the best use of renewable gases, it is critical that staff allow markets—including end users that face decarbonization costs—to determine the most cost-effective use of various energy carriers. If this line of thinking is used to reduce RNG opportunities for LCFS crediting, then analogous new incentives should be developed in other sectors. However, SJI cautions against this type of deterministic policy-making, as it can have lasting and unintended consequences that are detrimental to a) the communities in which we operate through reduced investment and b) the environment through the reversion to practices of venting uncaptured methane. Regardless, it is critical that CARB recognizes that the use of the existing gas systems does allow RNG to be a flexible resource that can also be used as a more cost effective low carbon solution for other applications such as building heating, cooking, and "hard to electrify" applications.

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[1] The Workshop slide on book and claim accounting in Alternative A and B lacked sufficient detail to be able to determine which projects are at risk of not receiving LCFS credits and the Workshop material was not internally consistent about what RNG supply would be modeled as available.

SJI recommends against any changes to the book-and-claim accounting mechanism for tracking all use of renewable gases. The current framework supports the optimized growth of the RNG market and allows RNG to contribute most fully to California's GHG emissions reduction goals and leadership on climate issues. That said, SJI recognizes that it is likely that other state and provincial climate programs (including outside of the West) will emerge and create demand for RNG in the modeling timeframe contemplated in CARB's proposed scenario modeling. To that end, we welcome the opportunity to engage with CARB staff to discuss how RNG supply may be constrained as part of the modeling exercise to account for this potential emerging competition.

Avoided Methane Emissions

California's Short Lived Climate Pollutant Reduction Strategy codifies the immediate need to reduce methane emissions to reduce the impacts of the climate emergency facing the global community. SJI has invested in projects that will cost-effectively achieve *immediate* fugitive methane emission reductions from agricultural operations. The lifecycle GHG emissions accounting that underpins the LCFS program recognizes the benefit of these avoided methane emissions that would have otherwise occurred absent investments like those made by SJI. The RNG projects that we are developing will very likely be certified at deeply negative carbon intensity values because of this explicit and immediate benefit to methane emission reductions at agricultural operations.

At the Workshop, CARB staff indicated that in the scenarios being considered for modeling to support the rulemaking process, a phase-out of avoided methane emission crediting would be included. This method of scenario modeling for an impending rulemaking concerning the phase-out of avoided methane emission crediting, without stakeholder engagement, has had a chilling effect on current and future investments in dairy RNG projects. The current LCFS regulation (Section § 95488.9(f)(3)(B)) is quite clear with respect to avoided methane emission accounting:

> *"…in the event that any law, regulation, or legally binding mandate requiring either greenhouse gas* emission *reductions from manure methane emissions from livestock and dairy projects or diversion of organic material from landfill disposal, comes into effect in California during a project's crediting period, then the project is only eligible to continue to receive LCFS credits for those greenhouse gas emission reductions for the remainder of the project's current crediting period. The project may not request any subsequent crediting periods."*

RNG industry participants are accustomed to managing project development risks, including regulatory risks. Furthermore, SJI welcomes discussions around GHG emissions accounting as it pertains to dairy RNG projects to ensure that we are helping to achieve internal deep decarbonization targets while helping our partners achieve their targets as well. We support considering a scenario in any modeling associated with the LCFS rulemaking process whereby avoided methane emissions accounting is revisited. However, we are concerned that CARB staff is contemplating changes to the regulatory text cited above that would *require* phase-out of avoided methane emission crediting *without* a suitable replacement policy. This path will likely result in the unintended consequence of hindering the ability of investors like SJI to continue to make substantial investments in RNG projects and will set back the agricultural community that

has benefitted from investments in methane capture for RNG production as well as the fleets that use RNG to reduce their emissions. More critically, however, there is a direct line between a unilateral decision by CARB to phase-out avoided methane emissions accouting for dairy (and other animal manure) RNG projects and increased methane emissions from the agricultural sector. Accordingly, any such phase-out will likely set us back in our collective goals to improve our environment.

Conclusion

SJI appreciates the opportunity for continued engagement on these topics that are critical to achieve the decarbonization goals that we share. We remain committed to providing RNG to the California LCFS market and helping to reduce methane emissions, improve animal manure management in agricultural communities, and decarbonize California's transportation sector. We thank CARB for your continued work toward this end and look forward to a robust and effective LCFS rulemaking.

Sincerely,

Donna Schempp

President & COO, SJI Renewable Energy Ventures

SVP, SJI Energy Enterprises Group