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Via Electronic Submittal

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CARB LCFS Advisory Panel portal - **lcfsadvpanmembers-ws**

Re: Comments on Draft Work Plan

Shell Oil Products US (SOPUS) appreciates this opportunity to comment on ARB's draft Work Plan for the LCFS Review Advisory Panel. In general, we believe that the draft does a good job identifying the issues that should be analyzed by the Panel. In our view, the most important over-arching issue for the Panel to consider is whether adjustments need to be made in the standard to ensure that it is, in fact, feasible.

It Is Critical For ARB To Ensure That The Standards Are Feasible

One key aspect of the LCFS construct is that it links and ultimately limits the supply of petroleum-derived gasoline and diesel fuel to the availability of volumes of low carbon alternative fuels. Thus, if the actual volumes of low-carbon alternative fuels produced or imported to California are too low, the likely result will be reduced supply of gasoline and diesel fuel in the State. This could have significant adverse impacts on consumers and the State's economy. It is critical, therefore, that ARB carefully analyze the availability of low carbon alternative fuels in the California market and ensure that the LCFS standards are feasible over time. We support the suggestion made during the meeting that the State fully analyze the potential impacts of the standards on consumers and the State's economy.

To ensure a robust analysis of the feasibility of the standard, we suggest that ARB look beyond the immediate short term data contained in recent reports from obligated parties and instead shift the focus to the next five years. Because the standard's stringency increases over time, and the standard in the first few years is not very stringent, focusing on the short term data, namely 1Q and 2Q LRT reports from industry, could give the incorrect impression that the standard is feasible. However, we would encourage the Panel to consider that using the carbon intensities of commercially available renewable fuels found in ARB's look up tables and forecasted volumes indicates that the LCFS will likely become infeasible before 2016. It should not be assumed that significant volumes exist for all approved CI pathways found in the look up tables. For the LCFS to be feasible beyond that time, new renewable fuels that are not currently commercially available will have to come to market in sufficient quantities and must obtain superior

carbon intensity values. It is important that ARB analyze the prospects for such fuels carefully. Information available in registration applications (or lack thereof) may help ARB to critically examine this situation. ARB should also consider using consultants to develop a realistic view concerning supply of low carbon alternative fuels to California, especially in regard to competition with other biofuel programs in Canada, the EU, and around the world.

At the last advisory committee meeting, it was suggested that ARB should consider placing limits on the life of LCFS credits. SOPUS does not agree with this suggestion. Moreover, we believe that ARB should first consider how doing so could accelerate the date upon which the LCFS will become infeasible, and the potential impacts on consumers and the economy of the State. Theoretically, obligated parties can now extend the date by which the LCFS becomes infeasible by over-complying in early years and carrying credits forward. If ARB were to limit the life of credits that would have the likely effect of accelerating the date upon which the LCFS becomes infeasible. However, any analysis of the feasibility of the LCFS should NOT be based on an expectation that industry will over comply in the early years and build credits as a path to feasibility, or a bridge to an unknown technological breakthrough.

At the last advisory committee meeting, it was also suggested that additional states adopting LCFS programs could somehow reduce the cost of lower carbon alternative fuels. ARB should consider how increased competition for all low-carbon alternative fuels by other states or countries adopting LCFS programs might affect the supply and price of alternative fuels in California, and how consumers and the State's economy might be affected if other states adopt LCFS programs.

Barriers to Compliance with the LCFS

In addition to barriers that exist within California, it is important to consider existing federal barriers to increased biofuels usage.

Renewable diesel features in CARB's listing of fuel pathways and appears to be a viable route to credit generation. However, the Energy Independence and Security Act's (EISA) renewable diesel labeling requirement limits renewable diesel to 5% as a practical matter. EISA includes "renewable diesel" in the definition of "biomass-based diesel" and requires that all "biomass-based diesel" above 5% be labeled. The result of this is that pipelines have not allowed renewable diesel above 5% in the fungible diesel system. This real world limitation adversely affects the economics of renewable diesel and likely hinders investments in renewable diesel.

EPA's rules pertaining to RIN generation for foreign renewable fuels also present barriers to imported biofuels. In order to be assigned RINs under EPA's program, foreign producers must demonstrate that the feedstock for the renewable fuel qualifies as "renewable biomass." This requires that the producer be able to track all of the feedstock to the fields on which it was grown and to establish that such land was in agricultural use at the time of EISA's enactment. Recently, EPA promulgated a rule revision to allow foreign countries or regions to establish that the amount of agricultural

land has not increased since the passage of EISA. If they are able to demonstrate this, their renewable fuels will be treated the same as domestically produced renewable fuel and they will not be required to track all the feedstock back to the specific field. However, to date, we are not aware of any such petitions being approved by EPA. The inability to qualify for RINs under EPA's RFS2 program would have an adverse impact on the economics of imported biofuels.

High Carbon Intensity Crude Oil (HCICO) Differentiation

We are pleased to see that the Panel will also consider the impacts of high carbon intensity crude oil (HCICO) differentiation. HCICO differentiation in the LCFS regulation will penalize those crudes classified as potential HCICO's and essentially reduce the supply options for economically viable crudes to California refineries producing gasoline and diesel for California consumers. ARB should consider how increased competition for non-HCICO crudes fuels might affect the supply and price of crude, gasoline and diesel in California, and how consumers and the State's economy might be affected. ARB should also consider that the net result of HCICO differentiation is likely to be "crude shuffling" where potential HCICO's that would otherwise be imported into California are shipped further away, and more distant non-HCICO crudes being transported to California. Rather than decrease greenhouse gases, this increase in the distances crude oils are transported by tanker will increase vessel fuel consumption and actually increase greenhouse gas emissions. The panel should consider the benefits of treating all crudes equally by assigning them all a single global average carbon intensity value that could be periodically updated as the methods and technology used in global crude oil production change over time.

We appreciate this opportunity to comment on ARB's draft Work Plan and look forward to continued engagement in the Panel's discussions. Should you have any questions concerning these comments, please feel free to contact me.

Sincerely yours,

/s/ John E. Reese

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