POET ethanol products

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Michelle Buffington
California Air Resources Board

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Dear Michelle,

Poet Ethanol Products would like to submit its comments on several of the chapters of the LCFS 2011 Program Review Report Working Draft presented to the Advisory Panel at the October 26th and November 17th meetings.

Chapter 6, Meeting the Targets and Assessment of Whether Adjustments are Needed: As written, this section leaves the reader with an overly optimistic impression of the attainability of compliance in future years and draws a seemingly logical conclusion that any serious consideration of 'flexible' or 'alternative' compliance mechanisms is premature or potentially even unwarranted. I'm sure the point is not lost on staff that the need for this consideration to begin immediately and in earnest represents one of the few, if not the only, item where there was virtual consensus of the Advisory Panel Members. Even the CEC conceded that CARB's 'illustrative' scenario's, while possible to realize, represented highly unlikely scenarios without having profound increases in the cost of transportation fuel and\or vehicles.

Obviously, with the varied interests represented by the panel, you will never find agreement on which scenario is most probable, but it seems highly misleading to present all 8 scenarios to the Board as showing paths to compliance when there would be an equivalent number of equally plausible scenarios that would show the compliance effort will fall short. This is critical because the data as it is presented points to the conclusion drawn in the chapter that suggests the need for a 'flexible' or 'alternative' compliance mechanism is so far removed that time is not of the essence for its evaluation. I agree a mechanism does not appear to be needed for 2012, but believe the Board should be left with the viewpoint that staff understands there is a strong sense of urgency from the panel to consider one.

Chapter 10, LCFS Credit Market: As discussed in the Credit Trading Workgroup, it is important to clarify that the 'trading' of credits that is talked about primarily in this chapter and that is the subject of much of the revisions to Section 95488, pertains to credits trading outside of the established process for transferring compliance obligations with the fuel. We would strongly oppose any proposal that attempts to insert itself, especially with fees involved, between the fuel providers and fuel blenders that exist today.

With that said though, there are points that commonly apply to either scenario that are worth CARB's immediate consideration. The more frequent reporting of trades than quarterly is going to be necessary to assure parties that CARB has appropriately shown the transfer of credits the trading partners have anticipated. Likewise, a fully electronic transfer process should be considered a minimum requirement for any trading system. The volume and complexity of information is too high to resort to 20th century means of recordkeeping on paper. Finally, additional clarification of CARB's role, if any, in validating the credits on a real time basis will be critical for parties to determine what extent they are willing to participate in that market and with whom. Without some assurance that a buyer acting in good faith, performing a reasonable amount of due diligence, can rely on the validity of the credits they are buying, the market participants will be wary of venturing outside of their previously established business relationships.

Sincerely,

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