Low Carbon Fuels Coalition

May 10, 2024

The Honorable Liane M. Randolph, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Response to CARB April 10 workshop request for feedback on Step Down and Auto Acceleration Mechanism

Dear Chair Randolph,

We again thank CARB for its diligent work throughout this rulemaking process, including rigorous modeling and analysis of empirical information; considering and balancing diverse stakeholder feedback; and hosting multiple workshops, including the workshop of April 10, 2024, which invited these comments.

The Low Carbon Fuel Standard (LCFS) has by all measures been a historically successful GHG emissions reductions program. However, the accelerated pace of carbon intensity (CI) reductions signifying this success have resulted in a corresponding substantial oversupply of credits, creating a precipitous drop in the LCFS credit price, which is already stalling clean fuels and technologies investments.

The Low Carbon Fuels Coalition and the diverse companies and stakeholders listed below are submitting these comments in response to CARB's request for feedback on the Step Down and Auto-Acceleration Mechanism (AAM). These comments build on two analytical reports by ICF commissioned and previously submitted for the record to inform this rulemaking[1,2], and reflect subsequent analysis by ICF based on the most recent program data and the additional technical information provided by CARB in conjunction with the April 10 workshop.

Summary Recommendations

LCFS credit prices have continued to decrease precipitously over the course of the LCFS rulemaking, declining even further this week from the new low of $56 reported on April 30, while accumulated credits are at an all-time high. In order to rebalance the market, we are writing to strongly encourage CARB to implement the following within the LCFS final rule:

[1] See Comment of the Low Carbon Fuels Coalition and Supporting Companies and Organizations, September 28, 2023, at https://www.arb.ca.gov/lists/com-attach/27-lcfsupdate2023-VWcGMwQ1VD5RZVJq.pdf
[2] See Comment of the Low Carbon Fuels Coalition and Supporting Companies and Organizations, February 20, 2024, at https://www.arb.ca.gov/lists/com-attach/7062-lcfs2024-BXAFcwFkWWsCcFA1.pdf

1.) **An initial step down of 9%**

2.) **An AAM implementation that can be triggered as early as 2026, with modifications to enact the AAM when the credit bank is more than 2.5 times greater than the quarterly deficits generated.**

Initial Step Down for 2025

The Initial Statement of Reasons (ISOR) analysis by ICF indicated that achieving a target credit bank equivalent of 2-3 quarters worth of deficits requires a step down of 10.5% to 11.5% in 2025, more than double the 5% initially proposed in this rulemaking.

Of the step-down alternatives presented at the April 10 workshop, a 9% initial step-down is closest to the ICF assessment, and therefore provides the most certainty to rebalance the LCFS credit bank as intended within this rulemaking. Implementing a 5% or 7% would virtually require the AAM to trigger in order to draw down the credit bank, delaying the necessary market correction at a time when credit prices are at an all-time low. **To avoid such a delay and restore investor and market confidence, we strongly encourage CARB to implement the 9% step-down in the final rule.**

Automatic Acceleration Mechanism

Despite being lower than ICF analysis indicates is necessary, the 9% step down may avoid the AAM trigger, should the step down itself rebalance the LCFS credit market. However, the AAM provides an important insurance mechanism, should the step down be insufficient.

If the AAM conditions are met in spite of the step down, **the corrective mechanism should be triggered sooner than later, as early as 2026** rather than delaying a potential correction to come into effect in 2027 or 2028. As stated in the ISOR Case Report by ICF:

> *ICF recommends that the Automatic Acceleration Mechanism be considered for implementation as soon as 2026, rather than waiting until 2028. ICF also recommends that the first criteria for the Automatic Acceleration Mechanism be modified such that the mechanism is enacted when the credit bank is more than 2.5 times greater than the quarterly deficits generated in a given year (down from the proposed value of 3 times).*

We support CARB's proposal to establish an AAM that will only trigger a CI reduction when the market metrics pertaining the credit bank size and credit/deficit generation ratio are fulfilled. In the event that credit generation decreases unexpectedly, we note that the AAM will not be triggered.

We also collectively urge CARB to avoid selectively limiting or disadvantaging technologies or pathways that can reduce GHG reductions within the LCFS program. The principle of technology neutrality has allowed the LCFS program to achieve GHG reductions more quickly and cost-effectively than anticipated, as reflected in the greater ambition proposed in this rulemaking. CARB's analysis presented at the workshop also reflects the risks of selective limitations, with a more selective approach resulting in fewer GHG reductions, more petroleum use, higher health costs due to pollution, and higher LCFS program costs overall.[3]

By maintaining its commitment to crediting GHG reductions from all sources related to transportation, additional LCFS ambition will ensure Californians will enjoy the benefits of clean transportation and California continues to lead the world in addressing the climate crisis and improving air quality, at the lowest cost.

Low Carbon Fuels Coalition

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[3] CARB Staff Presentation from April 10, 2024 workshop