



June 5, 2023

VIA ELECTRONIC FILING

Cheryl Laskowski, Ph.D.
Chief, Transportation Fuels Branch
California Air Resources Board
1001 I Street
Sacramento, Ca 95814

Re: Neste Comments on Auto-Acceleration Mechanism for Low Carbon Fuel Standard (LCFS) Workshop Held On May 23, 2023

Dear Dr. Laskowski:

Neste appreciates the opportunity to provide these comments to the California Air Resources Board (CARB) regarding the Auto-Acceleration Mechanism (AAM) for the LCFS Workshop on May 23, 2023. These comments are in addition to the comments submitted by Neste for the LCFS Rulemaking Workshops on July 7, 2022, August 18, 2022, November 9, 2022 and February 22, 2023, and we hope that CARB considers all of our recommendations as part of the upcoming LCFS rulemaking.

Neste would like to continue to emphasize that CARB should pursue the most aggressive carbon intensity (CI) reduction goals given the IPCC stating in 2023 that “There is a rapidly closing window of opportunity to secure a liveable and sustainable future for all (very high confidence)” and “The choices and actions implemented in this decade will have impacts now and for thousands of years (high confidence).” The time for action is **now**, and the future of our planet is counting on your leadership to address climate change. Modeling work being conducted by the Low Carbon Fuels Coalition (LCFC) will show that CARB can be aggressive without jeopardizing the stability of the LCFS. As such, we continue recommending that CARB pursue a CI reduction goal of 35% by 2030, the most aggressive option being considered.

Below are some detailed comments on the materials presented at the May 23, 2023 workshop. We appreciate your consideration of our recommendations.

The LCFS Continues to Drive Economic Growth in California

One of the major successes of the California LCFS program is the billions of dollars invested in the state to meet the renewable fuels demand created by the LCFS program. Per Bloomberg, renewable energy is the fastest growing business in the state, and greatly contributed to the GDP growth in California. It in fact helped California surpass Germany as the 4th largest economy in the world¹. The LCFS is not only advancing the state’s climate goals, it is generating economic growth, job creation and tax revenue growth that is helping drive the California economy. This further makes the case for CARB to continue taking aggressive action to further incentivize renewable fuels so that California continues to be the center of renewable fuels investments in the nation.

Step Down CI Reduction Is Needed Immediately to Stabilize the LCFS Carbon Market:

¹ <https://www.bloomberg.com/opinion/articles/2022-10-24/california-poised-to-overtake-germany-as-world-s-no-4-economy>

Neste sees an immediate step down in the CI as integral to quickly addressing the overperformance of the LCFS program and the depressed credit price. Overperformance is a lost opportunity of GHG reductions, and the longer the market overperforms the longer we pass up on significant reductions in GHGs and harmful air pollutant emissions. Neste supports a CI step change in the range of 3-5% for 2025, but it will ultimately depend on the credit/deficit generators that are modified as part of this rulemaking. This step down is needed before the AAM can be effectively implemented, otherwise the AAM could be triggered excessively and overperformance will persist.

The AAM Must Be Permanent, Require No CARB Intervention, and Based on Calendar Year Data:

In the current environment, where the credit price is lower than expected and the credit bank is at a record high level, it is important that adjustments to the CI reduction targets are made through a predictable process and send credible, long-term signals to the market. Adjustments to the CI targets triggered by the AAM should be permanent (and not frozen), so the predictability of the impact on the longer term fuel market would be better. Also, the changes to CI targets should be made automatically, without any approval process or intervention from CARB or its Board.

The AAM should work as a longer term solution and stabilize the market, so a full calendar year is seen as the best option to measure it. Otherwise, it would be too burdensome administratively.

The AAM Trigger Should be based on the Credit Bank:

The record high credit bank and unexpected rapid increases in the credit bank have been key reasons for increasing unpredictability of the market and the price. It is important that the market have a clear understanding of the LCFS credit market performance to predict whether the AAM trigger is based on price or credit or deficit. Credit or deficit triggers may have a reducing impact on credit banking, which has been one of the key reasons for increasing unpredictability of the market and the price. Long-term predictability and stabilization of the credit market is needed for investment decisions, and a credit or deficit trigger would provide a clearer view of the future. AAM trigger and associated CI adjustment should be based on the credit bank, and Neste recommends increasing the CI reduction target based on the increase in the credit bank in the prior calendar year. This is different from any of the proposals presented at the May 23, 2023 workshop, but it should bring stability to the market. Currently, it is difficult to predict the market as unexpected increases in the credit bank cause uncertainties around investment projects. The credit bank should not increase to the point that it can fill the majority of next year's CI reduction target.

Among the AAM triggers presented in the May 23, 2023 workshop, Neste supports an AAM based on the cumulative credit bank in the preceding calendar year. The easiest way to increase the CI reduction is to compare cumulative bank per credits per CI percent reduction. This would decrease the diluting effect of the credit bank. In the credit to deficit (CtD) ratio of 1.1 example included in CARB's Concept B, the success of the CtD ratio depends on how the CI value is increased based on this trigger and when. What is most important is that there is a strict timeline for the adjustment and a clear definition of the basis for adjustment, so the market operators have clear visibility. Advancing the CI reduction schedule by one year may fix the problem in the short term, but it does not fix the long-term problem thus our prior recommendation for CI adjustments be based on the bank changes. In any case, Concept B is a better solution than doing nothing, but the increase in the CI reduction might need to be deeper than one year's advance if the market is overheating. If CARB choses to advance the CI by one year, perhaps CARB can consider adding language that an LCFS rulemaking is triggered after triggering the AAM 3-4 years in a row, to adequately address overperformance in the market.

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Credit banking creates flexibility in the market, so it is an important mechanism. However, if the credit bank is not properly managed as part of the AAM trigger, then there should be some kind of limit on the banking. For instance, only a certain amount of the “overfilling” of the target can be moved to the credit bank. These kinds of mechanisms are used in many European countries, where the obligated party can only partially overfill the target and move the credits to fill next year's mandate.

Neste looks forward to continued participation in the LCFS rulemaking, and being a leader in the fight against climate change.

Please feel free to contact me if you want additional information or have questions regarding our submission.

We appreciate your consideration.

A handwritten signature in black ink, appearing to read "Oscar Garcia", with a stylized flourish at the end.

Oscar Garcia

West Coast Regulatory Affairs Manager
Neste US, Inc.