June 6, 2023

VIA ELECTRONIC FILING

Cheryl Laskowski
California Air Resources Board
1001 I Street
Sacramento, California 95814

Re: RNG Coalition Comments on May 23 LCFS Workshop on Auto-Acceleration Mechanism and Step Down

Dear Dr. Laskowski:

The Coalition for Renewable Natural Gas (RNG Coalition) is a California-based nonprofit organization representing and providing public policy advocacy and education for the Renewable Natural Gas (RNG) industry.[1] RNG Coalition respectfully submits these comments to the California Air Resources Board (CARB) in response to the May 23, 2023, Low Carbon Fuel Standard (LCFS) Workshop (Workshop) focused on an auto-acceleration mechanism and near-term "step down" in program benchmarks.

As discussed in more detail below, RNG Coalition supports:

- A step down to a ~18-20% target in 2024 to address current oversupply issues,
- A 2030 target of at least 35%,
- An accelerator mechanism, using the mechanics laid out by AJW at the Workshop, that will help to avoid future oversupply situations.

All Low Carbon Fuels Have Exceeded Expected Performance, Will Continue to Expand Rapidly if Properly Incentivized

CARB staff is correct to focus on improving the ambition of the LCFS program. In a letter to Chair Randolph approximately a year ago, Governor Newsom called for CARB to pursue both a more stringent Low Carbon Fuel Standard and greater efforts to reduce methane.[2] Now is the time to put the Governor's important vision into practice through a new and ambitious set of LCFS program benchmarks.

Historically, almost all low carbon fuels—including RNG—have consistently overperformed relative to CARB expectations. This is a fantastic success story that needs to be recognized and built upon. To continue critical progress toward decarbonizing California's transportation sector, significantly increased

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[1] For more information see: http://www.rngcoalition.com/

[2] https://www.gov.ca.gov/2022/07/22/governor-newsom-calls-for-bold-actions-to-move-faster-toward-climate-goals/#:~:text=In%20a%20letter%20to%20the,plan%20incorporate%20new%20efforts%20to

ambition is needed. CARB should continue to provide strong signals that will simultaneously push low carbon fuels to become cleaner and to rapidly reach even greater scale.

Prior Rulemaking Scenario Work Underestimated Growth in Most Low Carbon Fuels

As shown in Figure 1, CARB's prior scenario work,[3] conducted during the most recent target-setting rulemaking in 2018, underestimated the availability and credit generation potential of almost all low carbon fuels relative to eventual observed values.[4]

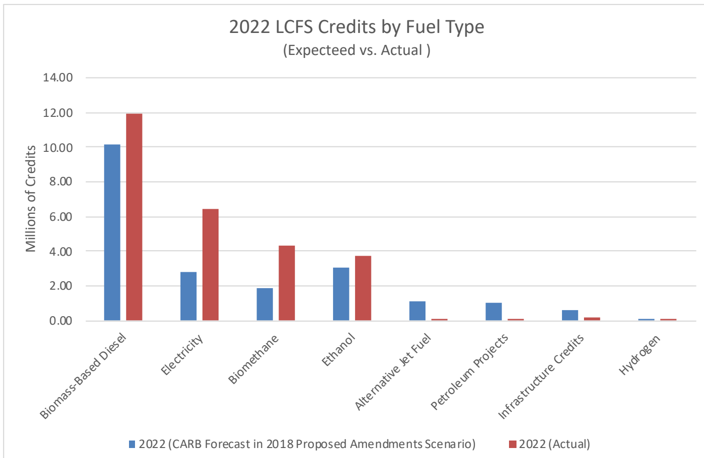

Figure 1. Prior CARB Target Setting Rulemaking Underestimated Potential Credit Contribution from Most Fuels

Estimating both what supply of clean fuels could be brought to market, and exactly how low-CI those fuels will be, is certainly not a simple exercise, and it is therefore unsurprising that uncertainty in credit supply has been a contributing factor to the current oversupply in the LCFS market.

This is not a rebuke on prior CARB scenario analysis and target setting efforts, only a suggestion that CARB should put even greater weight on well-informed estimates of potential future credit supply provided by clean fuel providers—and be careful not to underestimate the potential contribution from all low carbon fuels—in the forthcoming rulemaking.

From the perspective of the RNG industry, in both the near-term and long-term, rapid RNG growth and ambitious LCFS targets appear more feasible than ever before. The drivers behind this opportunity are both the rapidly scaling supply in response to prior California incentives[5] and, importantly, new federal support—including through tax credits enacted through the Inflation Reduction Act.

A Near-Term Step Down in Program Benchmarks is the Most Impactful Tool for Signaling that California Desires Further Rapid Investment in Low Carbon Fuels

The most impactful change CARB can make in this rulemaking is to increase the ambition of the near-term program benchmarks. We recommend an adjustment to in the 2024 target to at least 18-20%,

[3] https://www.arb.ca.gov/fuels/lcfs/2018-0815_illustrative_compliance_scenario_calc.xlsx?_ga=2.255456973.411384456.1685402850-188703561.1626734718

[4] https://ww2.arb.ca.gov/sites/default/files/2023-04/quarterlysummary_042823.xlsx

[5] Of which the LCFS is the most significant.

anything less will be insufficient to begin to reduce the current credit oversupply rapidly enough.[6] As CARB staff correctly stated at the Workshop, a near-term step down will increase credit prices, reduce the size of the credit bank and, ultimately, result in more low-carbon fuels to California and greater greenhouse gas (GHG) reduction.

2030 is a Milestone Year and Targets Greater Than 35% by 2030 Are Feasible

Importantly, the primary near-term milestone year in statute for GHG reduction is 2030. The 2030 statutory goal for economywide GHG reductions is a 40% reduction.[7] Further, CARB's Scoping Plan[8] predicts that even greater reductions (on the order of 48% by 2030) may be possible. However, it seems unlikely that this economywide ambition will be achieved if the largest emitting sector—transportation fuels—achieves only a 30% reduction by 2030.[9]

An Accelerator Mechanism Provides an Appropriate Guardrail Against Low Prices and Increases Investor Certainty, We Support AJW's Proposed Mechanics

In addition to a near-term 2024 adjustment to the range of 18-20% and tightening the stringency to achieve a minimum 35% reduction by 2030, CARB should also adopt a target accelerator mechanism to reduce the likelihood of future oversupply scenarios. An accelerator mechanism is not a substitute for appropriate changes in the targets but does offer an attractive additional tool to CARB if they wish to minimize the likelihood of future minor target-adjustment rulemakings.

The details of the accelerator mechanism mechanics proposed by AJW at the Workshop are well thought out and administratively feasible. A high credit-to-deficit ratio is the most important signal indicating that there is an imbalance in credit supply and demand fundamentals. Thus, C/D ratio should be thought of as the most important trigger.

A high bank-to-deficit ratio indicates that any oversupply issue is likely not just a short-run imbalance. Therefore, using a B/D ratio may prevent unnecessary triggering driven by issues that will eventually resolve themselves. Avoiding frequent triggers would help reduce market uncertainty.

A dual trigger, consisting of both a C/D ratio and a B/D ratio, as proposed by AJW, will likely strike an appropriate balance, and only activate when there is a high likelihood of systemic long-run oversupply. Further, the proposed trigger values appear appropriate based on historical data from the CA LCFS system.

Once the trigger conditions are met, responding with a jump ahead in compliance targets is a straightforward and transparent way to create increased stringency. Aligning the timing of correction with the existing process to address significant undersupply (through the Credit Clearance Market) is appropriate.

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[6] We support BTR's position, as presented at the Workshop, that something approaching a 20% target in 2024 is needed. Additional forthcoming analytical work from clean fuel stakeholders will help sharpen this recommendation.

[7] CA HSC § 38566

[8] https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf

[9] For the purposes of this point, we abstract away from differences in GHG accounting between the economy-wide goal and LCFS carbon-intensity-based lifecycle emissions.

CATS Tool Remains Opaque and Appears to Not Be Able to Correctly Model Current RNG Supply and Other Important Program Realities

We remain concerned that CARB has not yet analytically explored targets higher than 30% in 2030. We note that Alternative C from CARB's November 2022 workshop included a 35% target[10] and this scenario was mentioned again at the May 2023 Workshop. We request that this scenario be analyzed, and the CATS results shared with stakeholders in a transparent fashion as soon as possible.

We also encourage CARB to remain open to results of external analytical work and to continue to explore improvements to the CATS tool. The CATS model does not correctly account for many low carbon fuel options. For example, CATS currently underrepresents California supply potential for RNG and does not contain *any* representation of out-of-state RNG supply.

Conclusion

RNG Coalition appreciates the opportunity for continued engagement on these topics. Providing strong program targets and a mechanism to increase stringency automatically is self-reinforcing—it improves the investment certainty for clean fuel projects (including RNG projects) and makes outcomes with a high supply of low carbon fuels more likely.

We thank CARB staff for your continued hard work on these topics and look forward to a robust and effective LCFS rulemaking.

Sincerely,

/S/

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[10] https://ww2.arb.ca.gov/sites/default/files/2022-11/LCFSPresentation.pdf