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June 6, 2023

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

Re: May 23, 2023, LCFS Workshop on Auto-Acceleration Mechanism and Step Down

Dear Dr. Laskowski:

Brightmark appreciates the opportunity to submit comments on the *May 23rd LCFS Workshop on Auto-Acceleration Mechanism and Step Down (May 23 Workshop)*. We appreciate the California Air Resources Board (CARB) engaging with stakeholders regarding potential changes to the Low Carbon Fuel Standard (LCFS) program.

California's leadership in climate action through aggressive reduction targets and corresponding programs like the LCFS accomplish actual pollution reduction outcomes by establishing market certainty and driving private investment. The state's leadership and programs provide key solutions to the global climate challenge.

Based on the *May 23 Workshop* proposals, Brightmark supports:

- A 2030 target of at least 35-40%,
- A step down to a ~18-19% target in 2024 to address current oversupply issues,
- An accelerator mechanism, using the mechanics laid out by AJW at the *May 23 Workshop*, to help avoid future oversupply situations.

Brightmark Overview

Brightmark was founded in 2016 with the mission of solving some of the greatest environmental challenges facing the United States. One of these solutions is capturing methane emissions from organic waste, and through the natural process of anaerobic digestion produce biogas and digestate.

Brightmark has low carbon intensity (CI) projects on dairy farms across the U.S., including in California. We work with dairy farmers to harness the energy potential of their dairy manure, provide them with solutions to meet their greenhouse gas reduction goals and enhance farm profitability. We are committed to reimagining waste and building projects that benefit farms, their dairy, their communities, and the planet.

These facilities provide a win/win scenario for farmers and local communities; they help address methane emissions from organic waste produced locally and turn that waste into renewable energy and fertilizers. To date, our projects have offset over 550,000 metric tons of CO2e.

The LCFS program, and the certainty it provides to the market, is a key factor in the long-term success of projects like these to address environmental challenges. The *May 23 Workshop* presentation highlighted the success of the LCFS, showing that the program is over-performing and helping California meet its reduction goals sooner than originally targeted.

Response to CARB's proposed auto-acceleration and near-term "step down" in program benchmarks

California Leadership in Climate Solutions based on Aggressive Targets

California has a long history of supporting aggressive actions to address environmental challenges, like climate change. Governor Newsom has called for an even more aggressive approach to achieve climate neutrality. As stated in the November 9th presentation, "[s]ignificant reductions in transportation emissions are needed to achieve state's air quality and climate goals."

We support CARB's proposal for a reduction target of at least 35% by 2030 and encourage CARB to consider even higher targets of 40% or more. As was demonstrated with the Renewable Portfolio Standard (RPS) program in California, industry rises to the occasion with aggressive targets.

An increasingly stringent target provides market and regulatory certainty and allows for continued biomethane crediting through avoided methane and book-and-claim under CARB's current regulations. Avoiding changes to biomethane crediting rules provides additional market and regulatory certainty. Participants in the LCFS program have already demonstrated the ability to invest in long-term assets that drive CI reduction targets that exceeded expectations.

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 in the 2024 target to at least 18-19%, anything less will be insufficient to rapidly reduce the oversupply of current credits. As CARB staff correctly stated at the *May 23 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. Brightmark supports a mid-year step down in 2024 if the LCFS amendments are unable to be implemented by January 1, 2024.

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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 18-19% 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 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 (C/D) 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 (B/D) 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 and straightforward.

Market and Regulatory Certainty

The success of the LCFS to date shows the market's ability to deliver together in partnership with CARB. The LCFS at its core is a market based, fuel agnostic regulation that does not pick winners and allows for all fuels to compete.

Market and regulatory certainty are based on trust in California as a reliable place to sell low carbon fuel and credits to meet and exceed climate goals. However, to continue to achieve aggressive targets, CARB must promote a long-term stable environment to encourage investors and teams to create CI reducing projects.

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Conclusion

The ultimate goal of California and the market participants, like Brightmark, is decarbonization and eventual carbon neutrality of not only transportation, but all sectors of the economy.

To reach this goal, California needs negative CI fuels for transportation and negative CI biogas for other uses (power, thermal, etc.). Negative CI fuels require significant economic incentives and market certainty, which has eroded with current LCFS prices.

We appreciate CARB proposing strong program targets and a mechanism to increase stringency automatically. These proposals will improve the investment certainty for clean fuel projects (including RNG projects) and increase the likelihood of more negative CI fuels entering the market.

We thank CARB for continued development of these topics and look forward to the upcoming LCFS rulemaking.

Respectfully Submitted,

Bob Powell,
Founder & CEO