



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

June 6, 2023

RE: Potential Changes to the Low Carbon Fuel Standard

Dear Chair Randolph and Members of the Board:

California's Low Carbon Fuel Standard (LCFS) is the gold standard that drives investments in low carbon fuels and sound environmental policy across the country. The LCFS is working better than intended, and all fuel categories participating in the program need to be supported, not restricted, if the state is to achieve carbon neutrality by 2045. Clean Energy recognizes the achievements of the current policy and appreciates CARB pursuing ways to enhance the overall program through this update.

The comments herein are in response to the workshop held on May 23rd titled "Low Carbon Fuel Standard Public Workshop: Auto-Acceleration Mechanism and Step Down Benchmark." These comments are intended to accompany and build upon our previous comments from letters dated August 8, September 19 and December 21, 2022, and March 15, 2023. These previous communications reflect feedback on the following changes proposed by CARB staff in previous LCFS workshops, and include:

- Pursuing the most aggressive compliance curve reductions post-2030 and immediately in 2024 sends a strong signal to the market that CARB is committed to the LCFS, which will positively impact credit prices and ensure that capital investments in low carbon fuels continue;
- Restricting RNG projects to a geographic or functional area and elimination of book-and-claim capabilities would disrupt the market by stalling investment both in and outside of California, thereby reducing overall supply to California and subsequently missing SB 1383 targets that would otherwise be realized;
- Eliminating avoided methane crediting for dairy and swine projects would upend these industries and drastically reduce investments from the private capital markets. This has already slowed down as a result of the November CARB LCFS workshop;
- The need for a self-correcting "ratchet" mechanism to help ensure market stability and functionality when sustained overperformance occurs. The LCFS has multiple features to protect against price run-ups as well as credit shortfalls, but no "built-in" features that respond to overperformance. We encourage CARB to continue developing such a concept.

- Acceleration and simplification of the pathway certification process, which should include a pathway CI “true-up” on new pathways. A project would be able to apply its provisional CI retroactively to the start of a project. This would eliminate the need to store gas from a project and ensure the project is eligible to claim the full benefit of its project CI even when starting with the temporary pathway. This would correct for under-crediting to pathway holders who choose to use temporary CI scores at the outset of their credit generation and would help reduce the pressure on CARB from developers to process LCFS applications quickly.

We ask that CARB staff avoid making any controversial structural changes that do not deliver market certainty or ensure continued capital investment in markets, especially those which aim to capture Short-lived Climate Pollutants (SLCP).

AGGRESSIVE CARBON INTENSITY TARGETS DELIVER DESIRED EMISSIONS REDUCTIONS

Clean Energy is highly supportive of Alternative C: the proposed 35% carbon intensity (CI) reduction target by 2030 relative to a 2010 baseline. The vast majority of stakeholders and market participants support a greater level of stringency in the pre- and post-2030 compliance curve. We encourage CARB to be ambitious in setting future compliance targets and utilizing the full potential of all low carbon fuels to drive down carbon emissions today. The transportation sector is the largest carbon emitter in California apart from wildfires, and the LCFS should incentivize and accelerate the adoption and use of the lowest carbon transportation fuels commercially available.

The tightening of pre-2030 targets will accelerate the carbon intensity reductions leading up to 2045, boost investor confidence in the LCFS, and support higher LCFS prices that are required to drive the low carbon fuel production. In partnership with various stakeholder groups, ICF is preparing a study that will support how a steeper target is needed for California to meet its ambitious environmental goals required by law and outlined in the Scoping Plan. **In our view, Alternative C should be the minimum target recommended to the CARB governing board later this year.**

STEP-DOWN TO AN 18-19% TARGET IN 2024

Clean Energy would like to underscore and emphasize the need for a step-down target of 18-19% in 2024 to address the current imbalance of credits to deficits which is materially impacting LCFS credit prices and resulting in missed emissions reductions due to a slowdown in project investments. Making a large reduction in the compliance curve in 2024 may have an immediate impact on the credit bank, as outlined by several presenters in the workshop. Without a near-term improvement in the compliance curve, the oversupply of credits will likely result in price stagnation which will continue to erode investor confidence, green job growth, and carbon reductions for California.

SUPPORT FOR AJW'S "ACCELERATOR MECHANISM"

Clean Energy supports AJW's proposed "Accelerator Mechanism"¹. In conjunction with a tightened stringency of the LCFS and a one-time step-down in stringency, we highlight and agree with their excerpted rationale here:

"A mechanism that dynamically responds in the event of future sustained and significant underestimation of CI reduction targets by further tightening the stringency. This mechanism, called an acceleration mechanism, would complement the updated overall stringency of the program, complement existing mechanisms to avoid credit shortfalls, and better ensure that opportunities to deliver additional reductions of carbon and air pollutants are not foregone. An acceleration mechanism would keep innovation, investment, and emission reductions moving faster than they would otherwise."

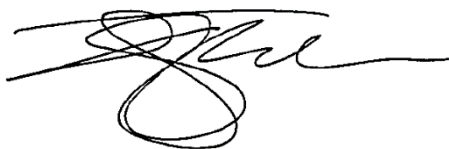
CONCLUSION

California has a substantial opportunity to meet its ambitious greenhouse gas, SLCP and carbon neutrality goals by aggressively focusing on tightening the carbon intensity curve. Now is a critical time for CARB to maintain confidence in its nation-leading policy and deliver real decarbonizing benefits by setting ambitious targets and stabilizing near-term credit values. We therefore encourage CARB staff to double its focus on compliance curve stringency and revisit other programmatic changes to the various fuel categories at a later date when the agency has more time to carefully review the costs and benefits of its policy decisions.

Clean Energy is committed to partnering with CARB and Governor Newsom to achieve California's climate and clean air goals and remains dedicated to ongoing engagement with CARB as this process moves forward. The best way to do that today is to pick Alternative C and its 35% reduction in the compliance curve along with an immediate step-down reduction in 2024 of 18-19%.

Thank you for your time and consideration of our comment letter.

Sincerely,



Todd R. Campbell
Vice President of Public Policy & Regulatory Affairs
Clean Energy

¹ "An Acceleration Mechanism for Low Carbon Fuel Standard," March 2023, AJW