



December 19, 2023

Member Alert: CARB Releases Proposed Changes to LCFS

Today, the California Air Resources Board released its highly anticipated proposed rulemaking for the Low Carbon Fuel Standard. This package will trigger a 45-day comment period beginning January 5, 2024, followed by a public hearing and vote by the full CARB Board on March 21, 2024.

The ABC policy team is continuing to review and analyze the LCFS changes and will continue to provide detailed analysis. A direct link to the proposed changes [can be found here](#).

Following the release of the Standardized Regulatory Impact Assessment (SRIA) in September, a required step for any agency issuing a new regulation with an economic impact on California businesses and individuals exceeding \$50 million, the ABC policy team has been closely tracking several key issues addressed in this new rulemaking. We have been deeply engaged in the comment process and have encouraged the CARB Board and staff to follow the science as they consider changes to the LCFS — and will continue to do so.

Below is a brief overview of key proposed changes.

Biomethane recognized as key decarbonization tool (Page 29)

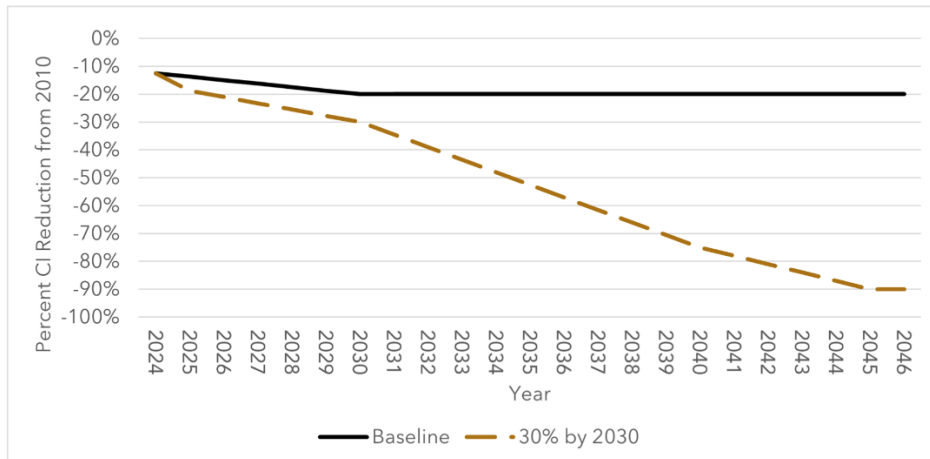
- Biomethane has supplied 97% of the CNG vehicle market, more or less saturating the available CNG uses in CA. Staff is using these LCFS changes to drive biomethane to new sectors. From the report:
- “There is clearly a role for biomethane in decarbonizing California’s energy use in the long term (particularly as a feedstock for renewable hydrogen production)”
- “These changes would continue to incentivize the methane reductions needed in the next decade, while aligning with the 2022 Scoping Plan Update to shift biomethane to the production of renewable hydrogen or for use in other sectors by 2045”
- “For the fuel to transition to other sectors in the long term, the existing market signals will need to transition accordingly to avoid stranded assets and the closure of methane capture projects.”

Annual Carbon Intensity Benchmarks (Page 64):

In line with the SRIA, CARB is keeping its 2030 benchmark at 30%, rather than higher targets ABC and others petitioned for in our comments earlier this year, and in research conducted with the Low Carbon Fuels Coalition and ICF. ABC recommendations were based upon status quo market conditions, with no limitations on biomethane supply to CA.

From the rulemaking report: *“Scenarios modeled both in-house by CARB and by external stakeholders indicate that a reduction of at least 30% by 2030 and 90% by 2045 is achievable and necessary to accelerate decarbonization of the transportation fuels sector and support the State’s broader climate goals.*

Figure 6: Current and Proposed Annual Carbon Intensity Benchmarks



Step Down (Page 64):

Given shifts in the market due to the rapid growth of ZEVs and increased biofuel production, CARB has proposed a one-time 5% reduction in the CI benchmark in 2025 that increases the stringency of the CI target. The step-down has widespread support from stakeholders and reflects the effectiveness of the LCFS, as it suggests the pace of CI reductions can be increased.

Auto-Acceleration Mechanism (Page 64-65):

Staff has included an Automatic Acceleration Mechanism (AAM) to increase the stringency of the CI benchmarks of the program when specific regulatory conditions are satisfied. ABC expects this aid the price signals should oversupply be an issue in future years.

From the report, “Staff is proposing to include an AAM to increase the stringency of the CI benchmarks of the program when specific regulatory conditions are satisfied. Under the current staff proposal, the AAM would advance the upcoming year’s CI benchmark, and all subsequent years by one year.”

Phase Out of Pathways for Biomethane Combustion Crediting (Page 151):

For projects that break ground after December 31, 2029, staff is proposing to phase out pathways for crediting biomethane used in CNG vehicles after December 31, 2040. Pathways for biomethane used to produce renewable hydrogen would be eligible to receive credits until December 31, 2045.

The report states, “This concept aligns with the overall transition to non-combustion transportation technology highlighted in the 2022 Scoping Plan Update, as well as the shifting of biomethane resources to hydrogen production. In addition, staff is proposing two other mechanisms related to biomethane used as a transportation fuel, highlighted below.”

Pathways for Avoided Methane Crediting (Page 30):

For projects that break ground after December 31, 2029, staff is proposing that pathways for avoided methane crediting be available through 2040 for biomethane used as a transportation fuel, and through 2045 for biomethane used to produce hydrogen.

This is a change from the proposal released in the SRIA earlier this year, which would have “allow[ed] one 10-year crediting period inclusive of avoided methane for applications certified through December 31, 2029, allow a 5-year crediting period for recertified pathways between January 1, 2030 and December 31, 2034.”

Changes to Book & Claim, Biomethane Delivery Requirements (Page 148):

Staff has included a deliverability requirement “to ensure that California is making progress on the State’s methane reduction targets.”

For projects that break ground after Dec 31, 2029, staff is proposing to require deliverability starting January 1, 2041 for pathways that include biomethane used in CNG vehicles. For biomethane used as an input to hydrogen production, deliverability is proposed to start January 1, 2046.

Staff proposes to align with the deliverability policy for biomethane in the California Energy Commission’s Renewables Portfolio Standard (RPS) program (Public Utilities Code section 399.12.6) and the California Public Utilities Commission 1440 program. Specifically, the concept is to require demonstration that eligible biomethane is carried through common carrier pipelines that physically flow within California or toward end use in California. Such pipelines must flow toward California 50% of the time on an annual basis, as defined by the current RPS eligibility guidebook.

Biomethane fuel pathways that break ground before January 1, 2030 would not be subject to the deliverability requirements. The proposed deliverability requirements also would not apply to biomethane matched to hydrogen fuel pathways participating in the LCFS program.

Aviation Fuel (Page 27 & 33):

Staff is proposing to eliminate the current exemption for intrastate fossil jet fuel starting in 2028. The proposal is unclear, however, what feedstocks qualify and how biomethane may or may not be treated as feedstock to aviation fuel production

Changes to the Tier 1 Calculator (Page 34-35):

From the report: “*Staff is proposing to update the existing Tier 1 calculators to make them more user-friendly by streamlining inputs, updating emission factors, and changing the layout of the calculators. Staff also proposes to create a new Tier 1 CI calculator for hydrogen.*”

Other proposed changes are included with impacts to project-based crediting, crediting potential for electric forklifts, and zero emission vehicle infrastructure.

For More Analysis and Discussion:

This rulemaking is fresh off the presses, and we will continue to read it through in detail to provide guidance to ABC members. In addition, we will be discussing the rulemaking on tomorrow’s (Wednesday) ABC Ag Committee call and in future meetings as we move in to 2024. We can not overstate how important member feedback is with regulatory policy like this, so please be in touch with the ABC policy team if you have any feedback to offer.