

**CALIFORNIA NATURAL GAS VEHICLE COALITION
COMMENTS ON THE CALIFORNIA AIR RESOURCES BOARD'S**

OCTOBER 2008 DRAFT

CALIFORNIA LOW CARBON FUEL STANDARD REGULATION

These comments do not reflect the position of Pacific Gas And Electric Company

NOVEMBER 14, 2008

**California Natural Gas Vehicle Coalition's Comments on the
California Air Resources Board's Draft "California Low Carbon Fuel Standard
Regulation"**

The California Natural Gas Vehicle Coalition (CNGVC) thanks the California Air Resources Board (CARB) for the opportunity to comment on the Draft California Low Carbon Fuel Standard Regulation (LCFS).

Consistent with the comments on the Conceptual Draft regulations that CNGVC provided to CARB in June 2008, CNGVC is generally supportive of most of the core elements in this outline.

Again, CNGVC asserts that the LCFS should be used to not only assure the 10% reduction in current carbon intensity of transportation fuels, but to also incentivize to the greatest extent possible low-carbon alternative fuel production. It is imperative that CARB, through these regulations, support *proven* technologies that provide alternative fuels with an immediate and demonstrable low-carbon footprint, such as natural gas. CNGVC and several of our members have challenged certain specific values in the LCA used to determine the greenhouse gas (GHG) emissions and has identified certain pathways for CNG and LNG that we believe should not be used in assessing natural gas lifecycle emissions. We will continue to work with CARB to make the needed changes. We do however agree with your conclusions that natural gas offers an immediately available fuel that already complies with 2020 reduction goals. Coupled with biogenic gas blending, these low carbon gas fuels offer a viable option for meeting our State's 2050 GHG reduction goals and should not be overlooked or discounted. The natural gas vehicle industry is motivated by the promising prospects of using biogas as an ultra-low or even zero GHG emission fuel. CNGVC aligns itself with the comments submitted by Waste Management under separate cover that landfill gases must be aggressively promoted as a vehicle fuel so that these and other biogenic gases are not simply flared and "wasted."

Our specific comments on select sections follow.

Section 95420: Applicability of the LCFS

As stated in our June 2008 comments, CNGVC supports the exclusion from these standards of all entities that provide fuels that already meet the 2020 standards. The significant cost of meeting the proposed recordkeeping and reporting requirements may be offset by providing these entities access to credit trading within the LCFS program. In this case, CNGVC recognizes the need for these entities to be subject to reporting requirements, but as we suggest below, we urge the adoption of a streamlined reporting process for these entities already in compliance with the 2020 standards, or allow them the opportunity to opt in only for those portions of their operations where they are seeking to generate LCFS credits.

Section 95421: Standards

The October 2008 draft has back-loaded the compliance schedule for the gasoline and diesel markets to allow refiners time to “gear up.”

Although the radical stepped compliance curve envisioned in the conceptual draft has been improved upon, the relatively flat compliance curve for the first four to five years grants the petroleum refiners excessive latitude in compliance. Insisting on significant reductions within the earlier years of the program will send a strong signal and provide the much needed impetus for the petroleum refiners to act expeditiously. It will also stimulate earlier penetration of low carbon fuels into the marketplace.

Section 95423: Compliance

Our individual members will comment on the transfer of compliance responsibility separately.

Section (a) (3) (G) appears to prohibit blending after the transfer of compliance responsibility. This restriction may preclude hydrogen and natural gas blends – a practice that promises to provide significant criteria pollutant and potentially GHG reduction benefits.

Section (c) (1) (A) establishes the compliance and progress reporting requirements. As noted above, CARB is urged to establish streamlined reporting requirements for those entities that already meet 2020 requirements or allow an opt in for credit generating operations.

Section (c) (3) (B) (1) and (2) requires separate metering of fuels used for HDVs and LDVs. This is impractical and would be excessively expensive for our industry. We recommend that alternatives be considered. CARB needs to consider other, lower cost means and allow appropriate transition time in order to place actual metering in place if ultimately required. Averaging the diesel and gasoline values may be a reasonable option provided that the two separate values are very close.

Section (c)(3)(B)(3) CNGVC also recommends that CARB develop an estimating technique for natural gas use rather than require separate metering for the home refueling appliances.

Section 95424: LCFS Credits

As stated in our June 2008 submission to CARB, to ensure that LCFS compliance is not undermined by overgenerous trading opportunities, CNGVC strongly supports the one-way credit trading OUT of the LCFS program but not INTO the LCFS program.

During the October 16 LCFS regulations workshop CARB staff commented that LCFS credits may be limited (capped) or discounted. Any such manipulation of the credit trading would undermine the early compliance advantage of the low carbon fuels. CNGVC urges CARB not to cap or discount early year credits unless the compliance schedule is adjusted to a straight-line projection that forces petroleum fuels to come into LCFS compliance sooner.

Section 95425: Determination of Carbon Intensity Values

The accuracy of the proposed “look-up tables” for carbon intensity values is crucial to the credibility and fairness of the proposed regulation. CNGVC will continue to work with CARB to ensure that the values used in these tables are scientifically defensible.

Method 2 provides for the use of Customized Lookup Table Values by a regulated party. However, ARB staff has proposed two conditions on the use of Method 2 which raise concerns:

1. The proposed Method 2 calculation must result in a carbon intensity value which is lower than the Method 1 (default) value by 10% or more; and
2. The regulated party can and will produce more than 10 million gge per year (1,156 MJ) of the regulated fuel.

First, we believe a requirement that a fuel meet a minimum 10% improvement in carbon intensity is too stringent and will restrict many new alternatives. We ask that staff provide the basis for the 10% requirement. We believe a lower requirement would be more reasonable and likely produce significant benefits longer term.

Second, we do not understand the basis for the 10 million gge threshold. While requiring a minimum volume threshold for use may reduce the administrative burden of the regulation, it is likely to have a dampening effect on the development of new alternative fuels.

Taken together, these two requirements can significantly deter new alternatives from coming to market. We recommend CARB staff review this policy and balance the need for new low carbon fuels against whatever basis was used to establish these thresholds.

As stated above, CNGVC strongly urges CARB to conform with the accounting method adopted by the International Panel on Climate Change (IPCC) to provide a definition for biogenic fuels and assign a zero emission factor for entirely biogenic fuels. We do recognize that that the LCA for these fuels which includes transportation, production and other considerations will result in a positive carbon intensity value for these biogenic fuel stocks.

In conclusion, CNGVC urges CARB to fully consider these proposals regarding the draft rule in order to strengthen the State’s commitment to and support for the existing low and ultra low carbon intensive natural gas fuels, notwithstanding the small market share they currently command.

Please do not hesitate to contact Pete Price or Justin Malan at Price Consulting at (916) 448-1015 or at pete@pricecon.com or justin@pricecon.com regarding these comments or the role natural gas fuels can play in meeting these ambitious goals.