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Mr. James Duffy  
Manager, Alternative Fuels Section  
California Air Resources Board  
1001 I Street  
Sacramento, California 95814

via email at [LCFSworkshop@arb.ca.gov](mailto:LCFSworkshop@arb.ca.gov)

Re: Comments on the April 5, 2019 CARB LCFS Workshop

Dear Mr. Duffy,

Shell Oil Products US appreciates the opportunity to provide the following comments in response to the California Air Resources Board (CARB) staff presentation during the April 5, 2019 Low Carbon Fuel Standard (LCFS) Workshop.<sup>1</sup> As noted in the CARB staff presentation, the CARB Governing Board in Board Resolution 18-34 provided the following directive:

*“[T]he Board directs the Executive officer to monitor the cost containment provision of the Low Carbon Fuel Standard, including the Credit Clearance Market, and to propose technical adjustments through future rulemaking if needed to further strengthen the cost containment features of the program.”*

Shell has long had an interest in the Credit Clearance Market (CCM) provision and is pleased that CARB is seeking to improve the provision. This is a significant priority for Shell and we look forward to engaging with CARB and other stakeholders on finding a practical, effective solution.

We last commented on this topic in response to a May 23, 2013 White Paper that discussed five options to further incent investments in low-CI (carbon intensity) fuels and provide additional compliance strategy options.<sup>2</sup> In those comments, we explained that the critical design element for a cost containment mechanism is that it ensures that any shortfall of credits resulting from standards that exceed what can be generated is filled. CARB’s new proposal seems to recognize

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<sup>1</sup> [https://www.arb.ca.gov/fuels/lcfs/lcfs\\_meetings/040519presentation.pdf](https://www.arb.ca.gov/fuels/lcfs/lcfs_meetings/040519presentation.pdf)

<sup>2</sup> [https://www.arb.ca.gov/fuels/lcfs/regamend14/shell\\_06142013.pdf](https://www.arb.ca.gov/fuels/lcfs/regamend14/shell_06142013.pdf)

that the CCM in the existing regulations do not meet this critical design element and should be revised.

Unfortunately, this new proposal still falls short by unnecessarily limiting the number of credits available through the CCM to 10 million. There is no guarantee this volume of credits will be sufficient to fill any credit gap that might result if the penetration of low-CI fuels in the market falls short of CARB's predictions. As a consequence, the proposal does not provide the intended regulatory stability for investments in low carbon technologies.

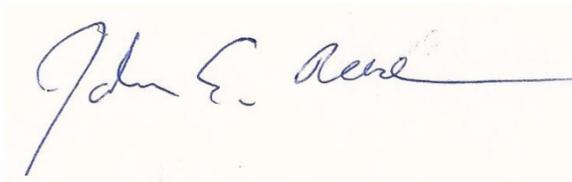
Shell recommends that CARB develop an approach that would not limit the number of credits available under the CCM. At the same time, it is important that the availability of credits through the CCM does not provide an alternative to supporting real investments. Therefore, it is critical that CARB maintain the requirement that obligated parties with a deficit first purchase credits offered for sale by other parties through the CCM mechanism before CARB offers credits to fill any remaining credit gap. Furthermore, if the number of credits is not limited, there would be no reason for CARB to cap the price of credit transactions outside of the CCM, as was proposed in the workshop.

Lastly, CARB should not promulgate provisions that treat a structural credit shortfall punitively. This could undermine the stability of the program and the magnitude and pace of investments in low carbon technologies that CARB seeks to improve with this proposal.

\* \* \*

We appreciate this opportunity to comment. If you should have any questions concerning these comments, please feel free to contact me at 713.201.4450 or [John.Reese@Shell.com](mailto:John.Reese@Shell.com).

Sincerely,

A handwritten signature in blue ink on a light-colored background. The signature reads "John E. Reese" in a cursive script.

John E. Reese

Downstream Policy & Advocacy Mgr., Americas