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August 22, 2019

Via Electronic Submittal to: LCFSworkshop@arb.ca.gov

Jim Duffy
Chief, Transportation Fuel Branch
California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: RPMG Comments on July 30, 2019 Cost Containment workshop

Dear Jim and LCFS Staff,

RPMG Inc. (RPMG) appreciates the opportunity to comment on these modified concepts envisioned by CARB staff for LCFS Cost Containment. RPMG and our affiliated producers are committed to the continuation of innovation at ever increasing rates for the products we supply to California. We believe the basic market fundamentals of the LCFS drive this innovation, and it is with this spirit of innovation that we submit the following comments.

As a daily participant in the LCFS marketplace, RPMG is in favor of open markets and the ability to reward timely investment and reduction of GHGs. *Therefore, we respectfully oppose the combination of proposed regulatory changes that will reward negative market dynamics.* These comments will focus on the market behavior that will be incented with the changes proposed to the program.

We have previously submitted comments, and would like to incorporate by reference our previous concerns over stifling innovation, CARB's ability to fairly implement the proposal, its necessity to implement at this time, and other policy concern with these proposals.[1] The small tweaks presented at the last workshop do not assuage our concerns.

Impact of Proposal on LCFS Market Dynamics

RPMG is concerned that the combination of 1) limiting price exposure and 2) removing buyer liability for participation in the Credit Clearance Market (CCM) will incentivize and may lead to less LCFS market liquidity, investment, and proactive compliance. These impacts will serve to push the LCFS marketplace to have less credits and higher prices—the exact outcomes CARB has professed that they seek to avoid.

If a price cap were in place today with the current market conditions[2], there would be a greater monetary risk in acquiring and holding an LCFS credit for compliance in the regular market due to the risk of invalidation compared to its CCM counterpart. There is also an introduction of regular market price risk exposure to the negative from these program modifications. At the workshop it was described as "asymmetric market risk." This can be summed up as "Why should I buy fuels with obligation at market value today when I could buy CARB guaranteed CCM credits at a discount later?" This is another forcing factor against an already ill-liquid market. *CARB's goal should be to incent compliance through non-CCM credit transactions, rather than cushioning the penalty for non-participation.*

Given there is limited cost risk, and no invalidation risk associated with CCM purchases, what analysis has been done to show that these policies don't change market behavior? It is concerning that there was not any

[1] https://ww3.arb.ca.gov/fuels/lcfs/workshops/05012019_rpmg.pdf
[2] https://ww3.arb.ca.gov/fuels/lcfs/credit/lrtcreditreports.htm

comprehensive analysis on this issue in either concept presentation provided so far.

In Closing

RPMG would like to reiterate that the LCFS program is intended to place a price signal on lower-carbon fuels. Limiting that signal is self-defeating. If there truly are concerns from staff about the cost of the LCFS program, RPMG welcomes a broad discussion with CARB about steady policy direction to incent large capital investments needed to secure the quantum CI gains that will be necessary in the near future.

This consideration of high credit values can't be addressed with such a narrow proposal. Please contact me with any questions or comments at (952) 465-3247 or jwhoffmann@rpmgllc.com.

Sincerely,

/s/

Jessica W. Hoffmann
Regulatory and Compliance Manager
RPMG Inc.