



6 October 2017

Samuel Wade
Branch Chief, Transportation Fuels
Air Resources Board
1001 I Street
Sacramento, CA 95814
Sent via LCFSWorkshop@arb.ca.gov

Re: Comments to Workshop to discuss proposed amendments to the Low Carbon Fuel Standard regulation - 22 September 2017

Dear Mr. Wade:

Thank you for the opportunity to provide comments to the California Air Resources Board (CARB) regarding its proposed amendments to the Low Carbon Fuel Standard (LCFS).

California has set lofty goals for carbon reduction, air quality improvement, and petroleum reduction. Neste supports these goals and has a long history of providing clean traffic fuels to California and has already supplied hundreds of millions of gallons of low-carbon, Neste MY Renewable Diesel to California. With the addition of more approved low-carbon pathways and California's continued commitment to clean and low-carbon fuel policies, Neste hopes to continue its supply of renewable diesel to California customers.

Post-2020 Targets

Neste, along with many other low-carbon fuel producers, has made significant capital investments in response to the LCFS implementing a demand for renewable and low-carbon fuels. Adopting post-2020 targets is a necessary next-step to fulfill the commitment California made to these producers, to support the investments, and to realize true change in the air quality resulting from California's transportation fuels. Adoption of increasing carbon reduction standards beyond 2020 will send the proper signals to fuel producers like Neste and will provide a significant driver to draw low-carbon fuels to the State.

The CI percent reduction targets outlined in the workshop are achievable. Already, the LCFS and other similar programs have demonstrated the success of low-carbon fuels. As a result, additional production capacity - in the form of new projects and existing capacity expansions - is following.

In order to take advantage of the new production and new feedstocks, CARB must continue with a clear and efficient pathway application process to ensure that new pathways are timely reviewed and approved. CARB should also remove arbitrary, internal feedstock classifications that disproportionately

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recognize some wastes and residues and improperly fails to apply the the same carbon intensity system boundaries to other wastes and residues.

The increasing production capacity, together with new developments in low-carbon feedstocks and California approvals of existing waste and residue pathways should result in an adequate supply of low-carbon fuels available to meet the proposed carbon reduction targets. A strong California market with increasing targets will continue to incentivise those volumes to California.

Alternative Jet Fuel

Neste offers strong support for the inclusion of Alternative Jet Fuel (“AJF”) as an opt-in credit generating fuel. Neste is the world’s leading producer of renewable diesel and has the capability to produce AJF with a view to expanding focus to include non-road markets. Currently, AJF is disincentivized in California because it is not eligible for LCFS credits. Amending the regulation to make AJF eligible to generate LCFS credits will remove the disincentive and encourage the supply expansion of low-carbon fuels and send a clear long-term market signal to fuel producers’ developments in the decarbonization of the aviation sector.

Feedstock Point of Origin

ARB proposed verification regulations seek to require “chain-of-custody evidence for feedstocks”. Neste supports robust sustainability requirements that provide transparent and reliable evidence regarding the source of renewable fuel feedstocks. However, the “point of origin” can vary for different types of feedstocks and should be clarified. Specifically, ARB has proposed new definitions for some feedstocks. Neste recommends that the “point of origin” be added to the definitions.

For animal fat and industrial food processing facilities, the point of origin is easily identified and traceable to the rendering facility or food manufacturing facility. However, for restaurant UCO collection, the volume of UCO collected from each restaurant is much smaller, varies, and needs to be aggregated which therefore, requires a very large (and often changing) number of restaurants within a collection region. A requirement for the fuel producer to confirm each individual restaurant is overly burdensome and the additional confidence in the result is only marginal.

The standard industry practice to identify the source of restaurant collected UCO, and the practice authorized by the US EPA, is to identify a specific geographic collection area (e.g. city or rural county) if a specific point source is not applicable. This is then supplemented by an attestation from the aggregator/collector regarding the quality, quantity, source, and confirmation of type of feedstock. Neste recommends that CARB incorporate this standard into its point of origin descriptions for UCO in the feedstock definitions.

Yellow Grease

ARB accurately describes “yellow grease” as a commercial commodity that often includes a mixture of used cooking oil and animal fats. However, ARB proposes require a low-carbon fuel producer to classify yellow grease as “animal fat” if it is not composed solely of used cooking oil. This is not ideal as a yellow grease supplier may intentionally combine multiple oils and fats to create specific feedstock physical profiles necessary for efficient feedstock conversion to fuel.

Neste recommends that if a yellow grease supplier can provide sufficient evidence to a low-carbon fuel producer and a verifier to specify the balance of animal fat and used cooking oil contained in the yellow grease, then the “yellow grease” can be reported as its constituent components and corresponding FPCs. Only absent sufficient evidence, the renewable fuel producer would characterize the yellow grease as animal fat as proposed.

Technical Corn Oil

Technical corn oil can be recovered from wet mill corn ethanol plants in addition to dry mill plants. Neste recommends that the definition be amended to account for the additional potential sources for TCO or DCO. To the extent that the carbon intensity associated with the extraction differs, then an corresponding FPC can be identified.

Clearing House

ARB staff requested comments regarding the potential of an exchange clearing service. Neste supports the use and development of such a clearing house.

In the current process, LCFS Credit brokers selectively report trades to one or more of the assessment publications (OPIS/Argus/Platts). In the case of a thinly traded commodity with sometimes minimal trades, an individual assessment may not include an adequate enough sampling to provide accurate or adequate price transparency. Additionally, brokers may often times misrepresent the buyer or the seller (or completed trades) intentionally to draw out a counterparty - reporting half truths on ICE messenger to try to persuade the traders on the fence to step up and buy or sell. A central clearing house would serve to limit or eliminate the ability for market participants to manipulate the market. Such transparency and would also reduce volatility and promote steady liquidity, which would also strengthen confidence in the LCFS program.

Cost Containment

Neste agrees with CARB’s assessment that there will be sufficient credits available for future compliance. Therefore, the need to continue the cost containment provision is unnecessary and is unduly burdensome.

A credit price cap does not accomplish the goal of increasing incentives to invest in low-CI fuels. The opposite is true. An investor knows that they will have only a fixed return that is not tied to performance, or other market conditions. This would serve as a destabilizing effect on the investment return calculations and will make new investments limited or non-existent.

Assuming an increase might be caused by a shortage of credits that caused the price to reach the ceiling, biofuel producers would have a disincentive to produce more low carbon fuels as that would increase the supply and put downward pressure on the credit pricing. A price ceiling might have the unintended effect of causing deliberate credit shortages to maximize the value of the credit.

In the unlikely event that CARB continues to assert a maximum price cap as a part of the Credit Clearance Market, it should not be immovably fixed. Such a cap must be able to react to current market conditions to properly function. Otherwise, reasonable, but unforeseen, future market conditions might cause the credit price to increase but for the price cap and would serve as a significant negative factor in the credit market economics.

We look forward to continued participation in the California fuel market and the continued success of the Low Carbon Fuel Standard. Please do not hesitate to contact me at 713.407.4415 or Dayne.Delahoussaye@neste.com if there are any questions regarding the foregoing.

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A handwritten signature in black ink that reads "Dayne Delahoussaye". The signature is written in a cursive, flowing style.

Dayne Delahoussaye
Head of North American Public Affairs