AECA Comments on February 22, 2023 Workshop to Discuss Potential Changes to the Low Carbon Fuel Standard

March 15, 2023

The Agricultural Energy Consumers Association (AECA) appreciates the opportunity to provide the following comments on the California Air Resources Board's (CARB) public workshop to discuss potential changes to the low carbon fuel standard (LCFS), held on February 22, 2023 ("Workshop"). AECA represents the energy related interests of the state's agricultural, food production, and dairy sector in California. AECA has been at the forefront of developing and facilitating implementation of dairy methane reduction programs and projects to help achieve the state's SLCP reduction goals. AECA works closely with the state's family dairy farms and the leading developers of dairy digesters in California.

AECA is attaching a copy of a recent UC Davis report that highlights California's unprecedented success to achieving the states ambitious dairy sector methane reduction targets. The report, *Meeting the Call: How California is Pioneering a Pathway to Significant Dairy Sector Methane Reduction* (December 2022) concludes:

> **"… continued implementation and commitment to the incentive-based climate-smart solutions that are currently driving voluntary dairy methane reduction in California should, by 2030, achieve the full 40 percent reduction in dairy methane sought by state regulators without the need for direct regulation."**

The LCFS program is a critical component of the state's success in reducing dairy methane emissions. With this in mind, AECA offers the following recommendations for the upcoming LCFS rulemaking:

1. The LCFS is critical to meeting SB 1383 methane reduction targets.
2. AECA supports acceleration of carbon intensity targets that are designed to provide consistent, long-term price certainty for alternative fuel projects.
3. Continuation of avoided methane crediting is critical to ongoing success of California's dairy methane reduction efforts.
4. AECA supports creation of a CI-target mechanism, which could dynamically maintain credit and deficit balance.

Each of these issues are discussed below:

The LCFS is Critical to Meeting SB 1383 Targets

AECA strongly supports CARB's efforts to continue to enable and strengthen methane reduction efforts at dairies through the LCFS program. The LCFS program has been critical to the state's highly successful dairy methane reduction efforts to date, which are on path to achieve the state's ambitious dairy methane reduction targets by 2030. This success is well documented in the attached UC Davis report. CARB and the California Department of Food and Agriculture have also concluded that additional dairy digester development is needed if the state hopes to achieve the ambitious SB 1383 methane reduction targets. As a result, a healthy, stable, and long-term LCFS price signal is critical. Dairy digester developers and farmers need long-term stable fuel markets to enable the capture and beneficial use of dairy biomethane.

Consistent price signals are also critical as the dairy sector seeks to implement methane reduction projects, including digesters, on smaller dairies in the state. These smaller dairies lack scale and require more price certainty and longer payback periods. California currently has some 120+ operational digesters on farms in the state. This will need to more than double over the next seven years to achieve the states 40 percent manure methane reduction target by 2030.

AECA Supports Acceleration of LCFS CI Targets

AECA strongly supports acceleration of carbon intensity (CI) targets, which will support appropriate credit values and provide greater long-term certainty for alternative fuel projects such as dairy-based renewable natural gas (RNG). Specifically, AECA strongly supports a 2030 CI target of at least 35 percent, including a step-down CI target of at least 18 percent in 2024.

Financial certainty and strong market price signals are critical for existing and future dairy digester projects, particularly at small dairies.

Continuation of Avoided Methane Crediting

AECA does not support proposals to phase-out avoided methane crediting for dairy projects in the LCFS program. California's successful voluntary incentive-based system is made possible due to avoided methane crediting. As a result, AECA recognizes that limiting such crediting opportunities will be counterproductive to the state's dairy methane reduction efforts. Limits on avoided methane crediting will discourage investment in new digester projects and put existing projects at long-term financial jeopardy. Avoided methane crediting will also be important as dairy RNG will be increasingly utilized in homes and businesses in the future to help decarbonize fossil natural gas usage.

AECA Supports Creation of a Dynamic Balancing Mechanism

AECA supports the concept of a "CI-target accelerator" or other mechanism which dynamically responds to evolving market conditions for low carbon fuels. Such a mechanism is critical to the long-term success of the LCFS program and will ensure long-term balance in credit and deficit production. Such balance is critical to providing long-term price signals to project developers and financers.

AECA also supports consideration of innovative financial mechanisms designed to provide increased price certainty in the LCFS markets as part of the upcoming rulemaking. CARB initially scoped potential market mechanisms in 2018 but has failed to formally develop and implement a mechanism as required by SB 1383.

Conclusions

AECA appreciates the opportunity to provide these comments and to continue partnering with CARB on the successful achievement of the state SLCP goals. All stakeholders recognize that additional dairy methane reductions through the use of dairy digesters will be critical to meeting state goals. These additional projects are critically dependent on a viable, stable, and healthy LCFS program moving forward. Dairy methane emissions leakage is also very real and will accelerate in the future if the state's successful voluntary incentive-based programs are discontinued. We appreciate the opportunity to participate in what has been a robust pre-rulemaking discussion and we look forward to participating in the upcoming formal LCFS rulemaking.