CFS Workshop on Draft Rule Language

Climate Pollution Reduction Program

December 2024

Ecology Staff

<u>Presenters</u>

- Adam Saul, CFS Rule Lead

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Workshop Agenda

- General rulemaking timeline update.
- Discussion of rule language updates related to:
  - Avoided methane crediting.
  - Book-and-claim and other indirect accounting mechanisms.
  - Electrolytic/green hydrogen.
- Overview of other updates, including amendments to capacity crediting for zero emission vehicle infrastructure.
- Q&A and discussion about next steps.

Timeline Overview

- Initial draft language released on November 26.
  - Links to draft language, workshop presentation materials, and video recordings can be found on our rulemaking website.
  - This is the final "informal" rule development phase of our rulemaking.
- Comment period is open through December 13 at 11:59PM.
  - We realize this is a quick turnaround, but it's necessary to meet our internal timelines and to not conflict with other rulemakings.
  - Please contact us if you have any issues meeting this deadline.

Timeline Overview – Proposal and Adoption

- Our CR-102 filing (the “formal” rule proposal) is expected in **late February or early March 2025.**
- This filing will open our formal comment period, and we will announce public hearing details at this time.
  - Ecology staff will summarize and respond to all comments received during this period as part of the rule adoption materials.
- The CR-103 filing (or rule adoption) is expected in summer 2025.

Background on 11/26 Rule Changes

- These changes are primarily related to indirect accounting, avoided methane crediting, pathway application procedures, and similar issues that were not covered in our August 29 draft release.
- We also made miscellaneous updates related to comments received, internal discussions, etc.
- Additional miscellaneous issues (including some mentioned in comments) are *not* ready for inclusion in this current draft but **will** be addressed in the CR-102 release.

Avoided Methane Crediting Updates

Avoided Methane Crediting Overview

- We plan to update criteria to ensure that the most generous incentives go to **new** methane capture projects that create **additional** climate and decarbonization benefits.
- There are currently no WA anaerobic digester projects producing biomethane from dairy manure registered in the CFS, and our goal is to send a stronger, long-term market signal as soon as possible so that new projects can plan with greater certainty.
- Projects that existed before the CFS program began would still be eligible for avoided methane credits, at a reduced level and with a shorter timeline.
- The structure of the avoided methane requirement is developed after CARB's rule, but not identical.
- Additionality provisions like our proposal are used in climate and clean fuels programs, including for other fuel types in the CFS.

Avoided Methane – Continued

- We recognize concerns about digester operational costs.
- The goal of our draft proposal is to balance the need for stable, long-term funding with measures that ensure that the highest credit opportunities go to projects with the greatest environmental benefit. This includes meeting statewide greenhouse gas emission targets.
- It also attempts to balance methane capture needs with credit incentives for other low- and zero-carbon pathways to better maintain a healthy credit market.

New vs. Existing Projects

	"New" Projects	"Existing" Projects
Definition	Broke ground after implementation of the CFS (January 1, 2023)	Began operations before implementation of the CFS (January 1, 2023).
Crediting Period	Eligible for full avoided methane credits for a maximum of 15 years. Crediting broken into two separate 7.5-year periods.	Avoided methane credits gradually decrease over time relative to the start date of the project and fully expire 14 years after the project start date. Facilities that started operation before January 1, 2009, are not eligible for avoided methane credits.
Example Project (contingent on ECY pathway approval)	Project that begins operations in 2028 receives full avoided methane credits until 2042.	Project that began operations in 2020 receives avoided methane credits (albeit at a reduced level compared to new projects) until 2034.

Other Avoided Methane Updates

- For purposes of calculating the carbon intensity, we are establishing the baseline that:
  - All avoided methane credits *must* be calculated against any legal or regulatory requirements for the capture or destruction of biomethane.
  - For dairy and swine manure projects, the facility must have historically used liquid manure management.
- Introducing avoided methane pathways for:
  - Biogas produced from organic waste diverted from landfills.
  - Incremental biomethane production from existing facilities.

Book-and-Claim and Other "Part 6" Updates

Biomethane/RNG Background

- Why are these changes necessary?
  - Ensure the integrity of emissions reductions and reduce risks regarding double counting.
  - Better align with state greenhouse gas reduction targets by reducing in-state methane emissions.
  - Incentivize renewable investments that are delivered to Washington.
  - Better maintain the health of the credit market.
- These requirements *only* apply to projects that begin operations to capture biomethane after December 31, 2029.

RNG Book-and-Claim

- Requirement is similar to CARB LCFS: requires >=50% flow rate from the initial injection point toward the fuel dispensing facility.
- This requirement goes into effect in:
  - *2037* for biomethane used as a feedstock for hydrogen, AJF/SAF, and RD, or for producing electricity for EV charging.
  - *2032* for biomethane used directly as transportation fuel.

Electricity Book-and-Claim

- Similarly, the draft rule includes an additionality provision for RECs used to lower the CI of electricity used as transportation fuel.
- This is necessary to:
  - Promote further renewable electricity generation in the Pacific Northwest.
  - Align the CFS with statewide greenhouse gas reduction targets.
  - Better maintain the health of the credit market.
- The additionality requirement is also balanced to ensure eligible RECs supply to promote investment in EV charging infrastructure.

Electricity Book-and-Claim Requirements

- Starting in 2026, RECs would have to be sourced from renewable energy facilities located in the Pacific Northwest (WA,OR,ID), that started operations **on or after January 1, 2019.**
    - Pre-2019 facilities are only eligible if sourced from incremental electricity from efficiency improvements made after January 1, 2019.
    - Any hydropower RECs would need to comply with CETA criteria.

Hydrogen for SAF

- In early 2024, we released an Interpretive Statement regarding claiming utility-specific electricity used as **process energy** for producing SAF.
  - Interpretive statements are intended to be advisory only.
  - At the time, we clarified that we planned to include this interpretation in rulemaking for public review and comments.

Hydrogen for SAF – Continued

- Proposed rule allows this for **SAF and alternative marine fuel**, as these are hard-to-decarbonize sectors relying on new and innovative fuel production techniques.
- The proposal is to sunset this credit mechanism at the end of 2033.
  - The goal is to incentivize in-state production of these fuels while balancing market conditions and long-term crediting opportunities.

Other “Part 6” Changes

- Clarified classifications of Tier 1 and Tier 2 fuels to align with CARB and OR-DEQ programs.
- Broadened types of eligible specified-source feedstocks, including forest residue.
- Included the specified source feedstock requirements, which is aligned with CARB and OR-DEQ requirements.
- Made various changes to align with the new third-party verification section (WAC 173-424-800 through 850).

Other “Part 6” Changes - Continued

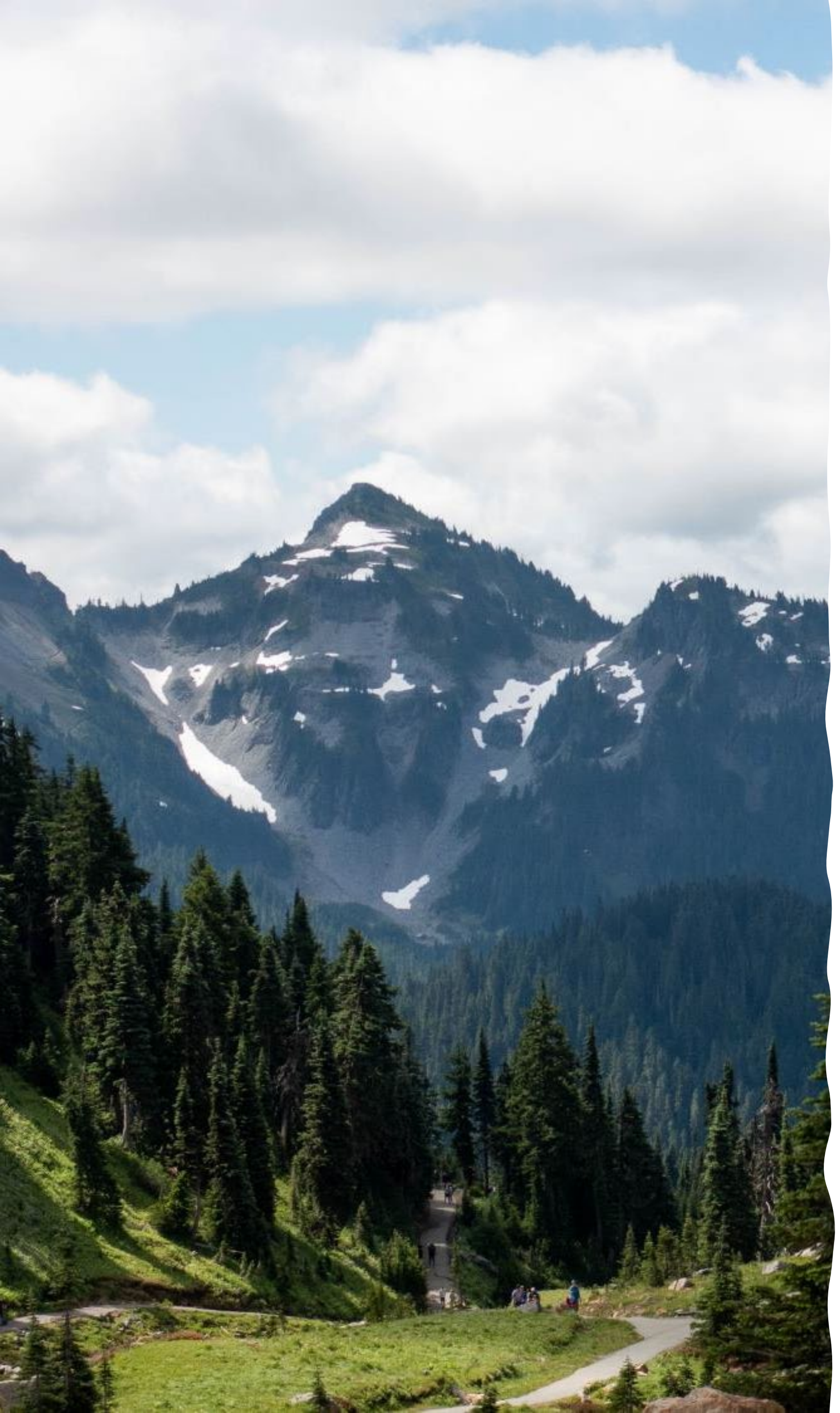
- Added provisions for both true-up (for circumstances where the operational CI is lower than the reported CI) and 4:1 deficit obligations (for circumstances in which the operational CI exceeds the reported CI and margin of safety).
- Adds “geothermal energy” to set of energy sources that must apply for a Tier 1 fuel pathway.
- Included some changes to reflect the actual process of pathway review and approval.

Hydrogen for Transportation Fuel

- We are also planning to align with CARB's requirements for hydrogen used directly to fuel vehicles, which are:
  - *Starting in 2030,* hydrogen dispensed as vehicle fuel must be >= 80% renewable.
  - *Starting in 2035,* fossil-based hydrogen is ineligible for CFS credit generation unless biomethane is matched to production.

Mass Balance Accounting

- Added language allowing mass balance transfers out of co-mingled storage.
  - As mentioned at this summer's listening session on mass balance accounting, our proposed language is very similar to OR-DEQ's.
  - In response to some of the comments made during the listening session we clarified that mass balancing can be done out of a commingled tank or **multiple commingled tanks at the same facility.**
  - Intention is to create consistent reporting rules across the program and provide regulatory certainty.



FCI/HRI Capacity Credits

FCI and HRI Capacity Credit Changes

- Received concerns about the phase-out of light-duty pathways at the end of 2026.
- Goal is to expand opportunities for heavy-duty infrastructure while retaining light-duty credits.

Light-Duty vs. Heavy-Duty Credit Pools

- Aligned with CARB/comments and separated between light-and medium-duty (LMD) and heavy-duty (HD).
  - For each category, available credits equal 2.5% of the previous quarter's deficits.
- Incorporated heavy-duty FCI as its own category, which would share the 2.5% credit pool with heavy-duty HRI.
  - HRI credits for LMD would be removed under the proposed rules.
- Light-duty FCI would retain a separate 2.5% credit pool.
- Heavy-duty can be public and shared sites, while light- and medium-duty must be open to the public.

Other Capacity Credit Changes

- Amended definition of a “shared” site in response to CARB changes and comments about “required equipment training”.
  - New definition allows required training, provided it is accessible and available at no additional cost.
- Clarified that “operational” for purposes of the credit application means that the FSE is fully constructed and capable of refueling vehicles.
- Removed requirements about the “effective simultaneous power rating” for HD-FCI.

Other Updates

Miscellaneous Changes

- **Third-Party Verification:** removed provisions exempting electricity from “less intensive verification”.
- **Used Cooking Oil:** amended definition to allow a more flexible definition of “point of origin” for UCO collected from U.S.-based public collection sites.
- **Alternative Marine Fuel:** added a definition in response to public interest. Low-carbon marine fuels consumed within three miles of Washington’s coastline would be eligible for CFS credit generation.

Miscellaneous Changes - Continued

- **eTRU Registration:** Edited to require registration by facility, rather than individual equipment registration.
- **Credit Transfers:** Clarified that only registered parties with credits or deficits may conduct CFS market transactions.
- **Designator Fees:** clarified that aggregator withdrawal forms for designators must be submitted by March 31st of the reporting year to avoid annual participation fees.

Engagement Opportunities

- An informal comment period is ongoing and open until **December 13** at 11:59 PM PST.
- We will not be issuing responses to comments but will use them to help inform rule and policy development.
- We are still evaluating and discussing some changes suggested in prior comment periods.

Next Steps

- This is the **final** informal comment period before we begin preparations for the CR-102 filing.
- While we will not be holding workshops in the CR-102 prep period, we are always open to meet 1:1 to discuss the rulemaking or general feedback about the CFS program – please contact us with your availability and what topics you would like to discuss.

Q&A and Comments

Thank you

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