SENATE COMMITTEE ON APPROPRIATIONS
Senator Anna Caballero, Chair
2025 - 2026 Regular Session

SB 348 (Hurtado) - State Air Resources Board: Low Carbon Fuel Standard

Version: May 5, 2025
Urgency: No
Hearing Date: May 19, 2025

Policy Vote: E.Q. 6 - 0
Mandate: No
Consultant: Ashley Ames

Bill Summary: This bill would require the California Air Resources Board (CARB) to reconsider and revise the Low Carbon Fuel Standard (LCFS) to include specified analyses and policy changes.

Fiscal Impact:

- CARB estimates ongoing costs of $1.8 million annually (General Fund) and about 8 positions to perform economic analyses, identify and evaluate policy changes, describe limitations under state and federal law, and evaluate impacts of adjusting the credit price cap for the Credit Clearance Market on program cost and implementation capabilities, among other things.

Background: The LCFS is designed to encourage the use of cleaner low-carbon transportation fuels in California, encourage the production of those fuels, and therefore, reduce GHG emissions and decrease petroleum dependence in the transportation sector.

The LCFS standards are expressed in terms of the “carbon intensity” (CI) of gasoline and diesel fuel and their respective substitutes. The program is based on the principle that each fuel has “life cycle” GHG emissions that include CO_2, CH_4, N_2O, and other GHG contributors. This life cycle assessment (or “pathway”) examines the GHG emissions associated with the production, transportation, and use of a given fuel. The life cycle assessment includes direct emissions associated with producing, transporting, and using the fuels, as well as significant indirect effects on GHG emissions, such as changes in land use for some biofuels.

The carbon intensity scores assessed for each fuel produced are compared to a declining CI benchmark for each year. Low carbon fuels with a CI below the benchmark generate credits (tradeable compliance instruments), while fuels above the CI benchmark generate deficits they must purchase credits to cover. This effectively means that producers of fuels with higher CIs are subsidizing the production of lower-carbon fuels. One credit is equal to one ton of CO_2-equivalent GHG emission reductions from a low-carbon fuel being delivered.

The original LCFS set a goal of reducing the CI of fuels in the state to 10% below 2010 levels by 2020. Since the original LCFS was adopted, CARB set a new goal to reduce the CI of fuels in the state to 20% below 2010 levels by 2030. CARB is currently in the process of setting an even more ambitious target because of the extent to which the program is exceeding expectations for overall reduction of fuel CI.

CARB's November 2024 amendments. The latest amendments to the LCFS (and the subject of SB 2) were, after nearly eight hours of testimony, approved by the CARB Board on a 12-2 vote on November 8, 2024. Broadly speaking, the amendments, according to CARB's Informative Digest provided with the proposed amendments, focused on:

- Increasing the stringency of the program to more aggressively decarbonize fuels and thereby reduce our dependence on fossil fuels;
- Strengthening the program's equity provisions to promote investment in disadvantaged, low-income and rural communities;
- Supporting electric and hydrogen truck refueling;
- Incentivizing more production of clean fuels needed in the future, such as low-carbon hydrogen;
- Supporting methane emissions reductions and deploying biomethane for best uses across transportation; and
- Strengthening guardrails on crop-based fuels to prevent deforestation or other potential adverse impacts.

Within those general actions, however, many nuances and details were negotiated and discussed at length. In the end, while biofuel producers and some state climate advocates backed the changes, critics—including oil companies and consumer advocates—said the change would increase gasoline prices for Californians. Environmental groups also argued the policy would extend the production of oil and gas and prioritize fuels made from food crops and large dairy operations instead of encouraging a transition to electric vehicles (EVs). Nevertheless, a number of transportation electrification advocacy groups supported the amendments, citing the support for EVs the program does provide, even if they are not as substantial as those for low-carbon fuel-combusting vehicles. CARB's environmental justice advisory committee had urged it to reject the revisions, citing an exemption for jet fuel producers and large subsidies for dairy methane projects, among other concerns.

The cost impacts of the amendments were particularly controversial in the discussions. In an initial analysis released last year, CARB said the changes could increase the price of gasoline by an average of 37 cents a gallon from 2024 through 2030. But the Board has since said models cannot accurately predict future fuel prices.

As noted in a February 2024 letter to CARB from former CARB Branch Chief Jim Duffy, the initial methodology for determining the pass-through cost was in fact consistent with past approaches in the last two LCFS amendment rulemakings. Furthermore, the maximum of the range of the calculated pass-through costs then was borne out with data provided to the Energy Commission, suggesting that the methodology was sound and that deficit-generators were indeed passing along LCFS costs to fuel purchasers.

Proposed Law: This bill would require CARB to reconsider and revise the LCFS to reduce the program's financial burden on drivers in the state, including by:

1. Providing a complete analysis and evaluation of the passed-through cost of carbon credits to drivers in the state, including a comparison to methodologies

used in evaluating the cost impacts of previous amendments to LCFS and an explanation of why those methodologies were insufficient or inaccurate;

2. Prioritizing policy changes that directly benefit individual drivers, including by revising carbon credit structures, such as through multiplying credit generation for certain classes of pathways that are aligned with state policy priorities;
3. Evaluating the extent to which changes to LCFS can be made to prioritize in-state projects and benefits, and describing any limitations for doing so under existing state and federal law; and
4. Providing an analysis of the impacts that adjusting the credit price cap set for the Credit Clearance Market would have on program cost and investment capabilities.

Related Legislation:

SB 441 (Hurtado, 2025) would have, among other things, required the Legislative Analyst's Office to review all regulations proposed to be adopted by CARB with over $10 million of estimated impact. SB 441 failed passage in the Senate Environmental Quality Committee.

SB 709 (Allen, 2023) would have made a number of changes to how CARB administers the LCFS, specifically involving the accounting assumptions and credit guarantees for manure methane. SB 709 was held on the suspense file in this committee.

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