April 25, 2022

VIA ELECTRONIC FILING

Rachel Assink
Rulemaking Lead
Washington Department of Ecology
Air Quality Program
P.O. Box 47600
Olympia, WA 98504-7600

Re: Neste Comments on the Draft Clean Fuels Program Rule Language Presented at Various Stakeholder Meetings

Dear Ms. Assink:

Neste appreciates the opportunity to provide these comments on the Washington Department of Ecology's (Ecology's) draft Clean Fuels Program (CFP) Rule presented at several Stakeholder Meetings. Neste is the world's largest producer of renewable diesel and renewable jet fuel refined from waste and residues. During the past ten years, Neste's transformation journey has taken it from a local oil refining and service company to a global leader in renewable and circular solutions. Neste's goal is to achieve carbon neutral production by 2035 and supply Washington with products that will enable the state be carbon neutral by 2050.

Neste was one of the first major suppliers of renewable diesel into the state of California when it implemented the nation's first Low Carbon Fuels Standard (LCFS). As an early participant in California's LCFS program, as well as Oregon's Clean Fuels Program (CFP), we have extensive knowledge complying with low carbon fuel standards. We are also have extensive experience supplying renewable diesel and sustainable aviation fuels (SAF) that are significantly less carbon intensive than conventional transportation diesel and aviation fuels.

Neste looks forward to working with Ecology to address the following comments.

CI Standards Post-2033:

Neste strongly supports Option 2 to reduce the gasoline and diesel carbon intensity (CI) by 10% in 2034 as presented in the March 15th, 2022 Stakeholder Meeting. Compliance under Option 2 is made possible by the "pause" in the program starting in 2031 and ending in 2033, allowing obligated parties to build a credit bank to comply with the CI reduction in 2034. The wide range of low-carbon technologies projected to be available post-2030 will further increase the ability for obligated parties to comply. Option 2 is also more aligned with California, Oregon and British Columbia proposed CI standards, making Washington an attractive market for low carbon fuels. Deviating too much from the rest of the West Coast low carbon fuel standard regime could cause Washington to be a default market for second tier renewable fuels, potentially missing out on top tier, lower carbon intensive fuels. Ecology's decision to adopt Option 2 sends the appropriate market signal to renewable fuel producers and marketers that Washington intends to be a regional leader in low carbon fuels policy implementation and market development.

Neste encourages Washington to continue to pursue a technology neutral policy and its science-based approach when setting CI standards. This will instill in Washington consumers the confidence that available fuels have accurate carbon intensity (CI) values, and that the most advanced renewable fuels are made available faster and at the lowest cost possible.

Alternative Jet Fuel (SAF) and Tier 2 Pathway Delays:

Neste is very concerned by Ecology's proposal to delay implementation of the original Tier 2 pathway applications until July 1st, 2025 as presented in the March 15th, 2022 Stakeholder Meeting. Tier 2 fuels include alternative jet fuel, also known as sustainable aviation fuel (SAF). Neste does recognize that many SAF pathways will be able to leverage the California LCFS or Oregon CFP pathway approvals to supply Washington as allowed by WAC 173-424-4. However, under Ecology's current proposal, any SAF pathway not already approved by California or Oregon will not flow to Washington until 2025. This could delay sale of SAF into Washington, or worse, prevent a unique low CI SAF from entering the state. Neste requests that Ecology consider establishing adequate fees payable by industry stakeholders to cover expenses associated with Ecology's pathway review services and allow sales of all available aviation fuels in Washington at the onset of the CFP program on January 1, 2023. The Federal Government's Grand Challenge to produce 3 billion gallons of SAF by 2030 would be imperiled by state programs postponing introduction of drop-in fuels that can achieve immediate GHG emissions reductions in the hard to decarbonize aviation sector. As the U.S. center for aviation innovation and manufacturing, Washington should be leading in the decarbonization of commercial aviation by making all SAF available for the aviation industry starting on January 1, 2023.

Alternative Jet Fuel CI Standard:

Neste strongly supports comments requesting that conventional diesel and jet fuel have the same CI benchmark to maintain consistency with California and Oregon clean fuel standards. SAF has grown at a slower rate than renewable diesel primarily due to the aviation industry being preempted by the Commerce Clause from participating in state fuels mandates. However, firm, swift, and definitive policy support is needed to encourage production and supply of SAF that will be instrumental in decarbonizing the commercial aviation sector.

The separate conventional jet CI standard presented at the March 15th, 2022 Stakeholder Meeting could result in renewable diesel sales to California and Oregon taking priority because renewable diesel would generate more credits in these markets. California and Oregon recognize conventional diesel and jet have similar CI's, and thus have the same CI standard starting as early as 2023. As additional SAF production comes online and clean fuels markets expand, renewable diesel and SAF production are often interchangeable, with renewable diesel production most often taking priority due to higher margins.

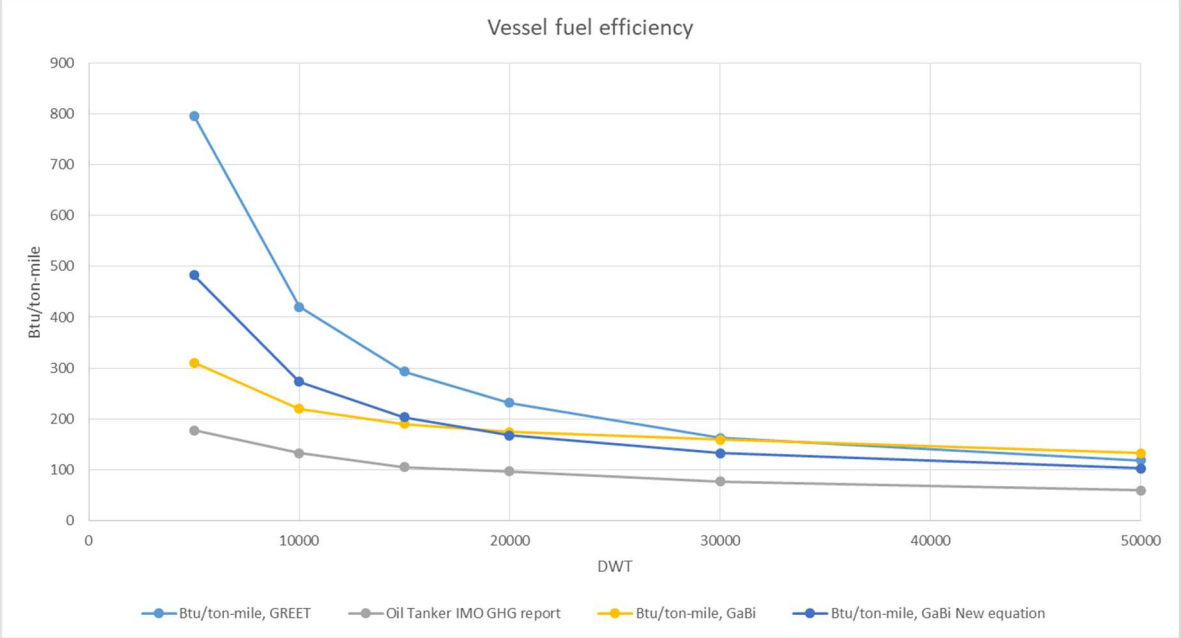
Furthermore, Ecology acknowledges that "[n]o changes were made to jet refining parameters and inputs", suggesting that the jet CI standard was established using California refinery inputs. See page 10 of the document "WA-GREET 0.7a Supplemental Document and Tables of Changes." Because California refinery data was used to establish the Washington jet standard, Washington should likewise maintain consistency between the jet and diesel CI standard. It is important that the CFP recognize important market considerations and establish policy to drive production of SAF fuels by setting the same benchmark for conventional diesel and jet like in California and Oregon.

Washington GREET Model:

Neste strongly supports comments that Ecology should use the most up to date GREET model developed by Argonne National laboratory and other best available data to establish the Washington GREET (WA-GREET) model. Argonne's GREET model has improved over time and is seen as a valuable independent tool to determine CI values of renewable fuels. Therefore, the new WA-GREET should use the most up-to-date GREET model and associated GHG data.

One major improvement opportunity in the WA-GREET is how the vessel transport emissions for renewable diesel and associated feedstocks are calculated. The current calculation approach does not reflect the reality of vessel transport emissions when considering chemical product tankers with sizes of 30,000 deadweight tonnage (DWT) and under. The model estimates emissions that are too high for vessel transport and the situation worsens as vessel size decreases. This over-estimation is primarily due to two factors: (1) the vessel fuel efficiency curve and (2) the assumption of a return trip with an empty vessel (back-haul). The assumption of an empty return trip results in overall vessel payload capacity utilization is 50% at best. In practice the type of chemical product tankers used to transport both feedstock and final products for renewable fuels have a much higher capacity utilization ratio than what is assumed in the WA-GREET. In most cases, these vessels do not return empty as they have flexibility in terms of the type of goods that they can transport. This is in contrast to crude oil vessels that may return empty because they are not be able to load other cargo types.

To illustrate the scenario above, Neste compared IMO (International Maritime Organization)[1] and GaBi LCA software data to GREET model values of fuel efficiency. The graph clearly shows a significant difference between GREET and the other fuel efficiency curves with vessels size of 5,000 – 30,000 DWT.



The CI difference between data based on international studies and LCA databases, and current GREET model calculations can be several points higher, depending on the transport distance and vessel size. The difference can be as high as a 15-20% increase in the total CI score of a pathway. This gap should be addressed by Ecology by adjusting the WA-GREET to take into account this discrepancy when calculating the actual transportation CI scores for renewable diesel and other renewable fuels that rely on smaller vessel sizes.

Neste is very appreciative of Ecology's commitment to review a pathway CI at least every 3 years or sooner, as noted in WAC 173-424-2. This ensures the incorporation of new information into CI pathway modeling.

1 https://wwwcdn.imo.org/localresources/en/OurWork/Environment/Documents/Third%20Greenhouse%20Gas%20Study/GHG3%20Executive%20Summary%20and%20Report.pdf

Finally, Ecology should use the most current data to guarantee that the CI calculations reflect best available science, data and current emissions calculation methodologies. As Ecology is aware, the first version of the WA-GREET model has the potential to include data that in some cases is more than 10 years old.

Stationary Generators and Rail Opt-In Use of Renewable Diesel:

Washington, along with several states, experienced significant growth in the installation of stationary backup generators. These stationary sources provide emergency backup power for the data center industry or provide essential power for critical infrastructure like hospitals, factories, and public safety. Since renewable diesel is a drop-in fuel that can decarbonize this growing emissions source, operators of stationary generators expressed strong interest in creating incentives to replace conventional diesel with renewable diesel. Ecology should add stationary generators as an opt-in use of renewable diesel. Adding this unique use of renewable diesel is no different than current proposals that allow forklifts and other non-road equipment to use lower CI fuels.

The rail sector similarly indicated to Neste an interest in using renewable diesel if incentivized under the CFP. As a direct drop-in replacement of fossil diesel, renewable diesel could play an important role in decarbonizing the rail sector in Washington if allowed as an opt-in fuel under the CFP.

Incentivizing use of renewable diesel by stationary generators and rail will likely provide significant environmental and health benefits to nearby communities by reducing criteria and toxic air pollutant emissions, and these benefit are unique to renewable diesel use. See discussion in CARB's Alternative Diesel Fuels Regulation.[2]

Administrative Streamlining:

Neste greatly appreciates being able to use fuel pathways approved by CARB or OR-DEQ as proposed in WAC 173-424-4 and presented in the March 15th, 2022 Stakeholder Meeting. This will minimize administration of Washington's CFP, and ensure a successful launch on January 1st, 2023. This approach has been very successful in Oregon and we support its application by Ecology.

We also have a few suggestions that could further optimize the administration of the CFP:

- Optional Expedited Application Fee: Allow regulated parties to pay an optional expedited application fee for fuel pathways that require a more urgent approval. This will ensure faster delivery of the most advanced renewable fuels, and could make Washington the top destination of new lower CI fuels that do not have a CARB or OR-DEQ pathway approval.
- Establish Pathway Processing Time: Ecology should consider adding to "WAC 173-424-OIC Obtaining a Carbon Intensity" the time required for Ecology to process and approve a complete pathway application. This commitment gives renewable fuel producers certainty on when pathways CIs will be finalized. This is common regulatory language, especially in the air permitting sector, and Neste would like to request that this be added to the CFP regulation. Neste believes that 6 months is sufficient time to process a complete pathway application and therefore this timing should be added into the regulation
- Phase in pathway verification and monitoring plan requirements: Ecology proposes to immediately require verification of fuel pathways and the creation of a monitoring plan that outlines compliance requirements. These two compliance requirements were phased in by California and Oregon after several years of administering their programs. We recommend Washington focus on the rollout of

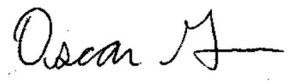
[2] https://ww2.arb.ca.gov/our-work/programs/alternative-diesel-fuels

the reporting and the fuel pathway application process, and delay these additional compliance requirements for 4-5 years when the CI standards are more material.

- Record Retention: Apply the EPA record retention policy of 5 years to prevent exorbitant recordkeeping.

Please feel free to contact me if you want additional information or have questions regarding our submission.

We appreciate your consideration.



Oscar Garcia

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