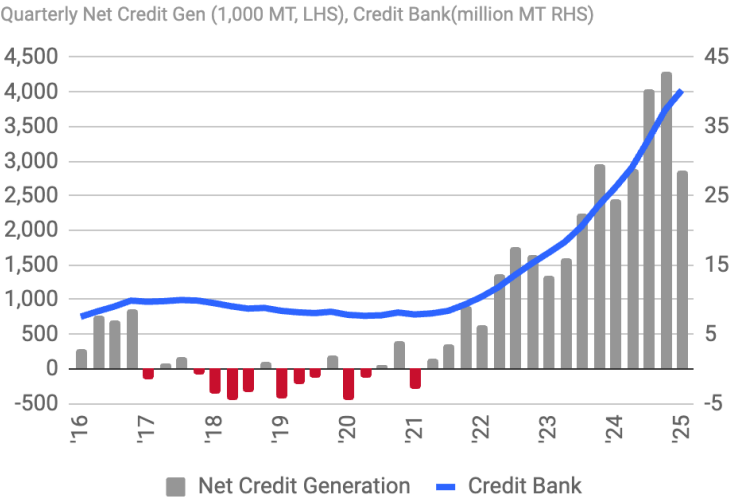


Net Credit Generation

CARB released [Q1 2025 data last week](#) showing a net credit build of 2.87 million MT bringing the credit bank to over 40 million MT. This is the lowest quarterly net credit generation since Q1-2024. Seasonality does play into this as Q1 is typically the lowest net credit generation quarter of the year.

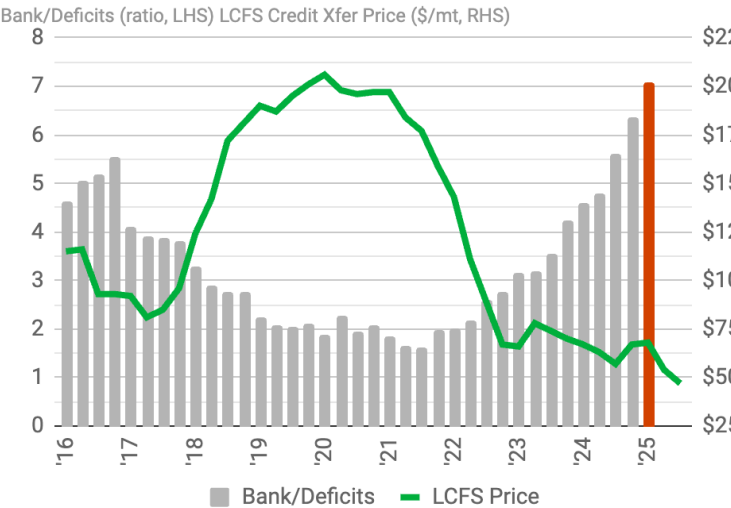
LCFS Quarterly Net Credit Generation vs Credit Bank



Credit Bank vs Price

With the 9% step-down being postponed until Q3 due to the CARB and OAL snafu, a net credit build was expected as the price of LCFS credits dropped below \$50/MT for a good portion of Q2 before bouncing back to nearly \$60/MT after the Q1 data release. As with most Supply & Demand curves, when supply goes up relative to demand, prices go down. And that is the case with LCFS prices have an inverse correlation to supply.

LCFS Quarterly Bank/Deficit Ratio vs Price

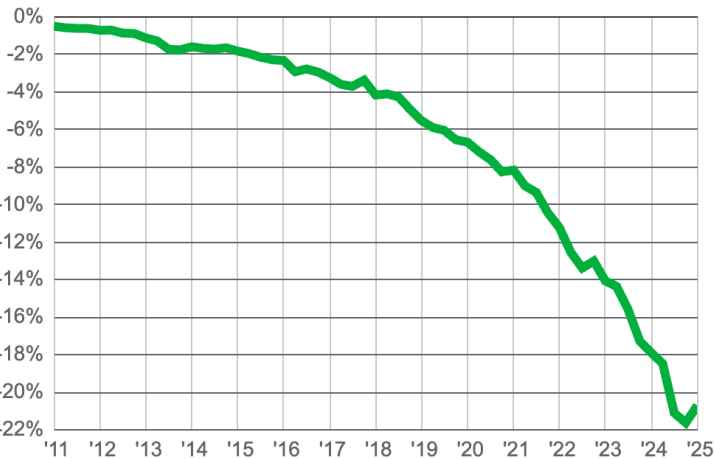


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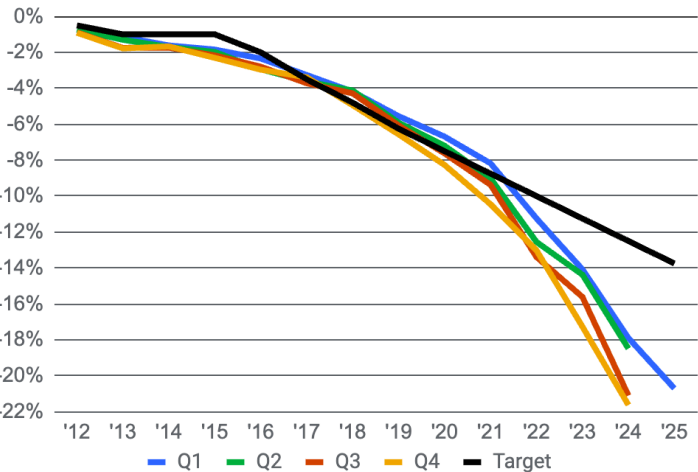
Actual CI Reduction

The CI reduction target dropped down to 13.75% in 2025 from a 12.5% target in 2024. Although actual CI reduction took a slight step backwards to 20.7% in Q1, as with net credit generation, Q1 is typically the lowest CI reducing quarter of the year.

CA LCFS Quarterly Actual CI Reduction



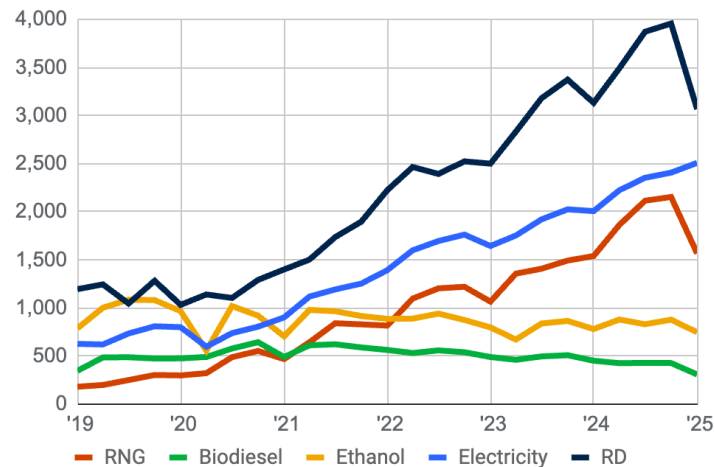
CA LCFS Quarterly Actual CI Reduction



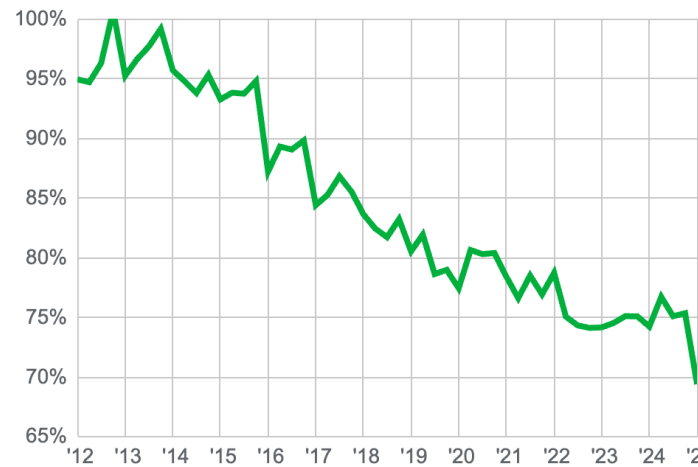
Credit Generation by Source & Biofuel %

With the CI reduction target dropping in Q1, credit generation specifically for Biofuels dropped with only Electricity credit generation growing as the grid-avg CI dropped 10 CI points to 70 gCO₂e/MJ in 2025 as the grid in California is importing less dirtier out-of-state electricity. Unlike what Enviro groups, Environmental Justice (EJs) and [Jigar Shah](#) is spitting out there, LCFS credit generation from Biofuels has been consistently dropping from 95% when the program first started to under 70% in Q1.

Quarterly Credit Generation (1,000 MT)



Biofuels LCFS Credit Generation of Total



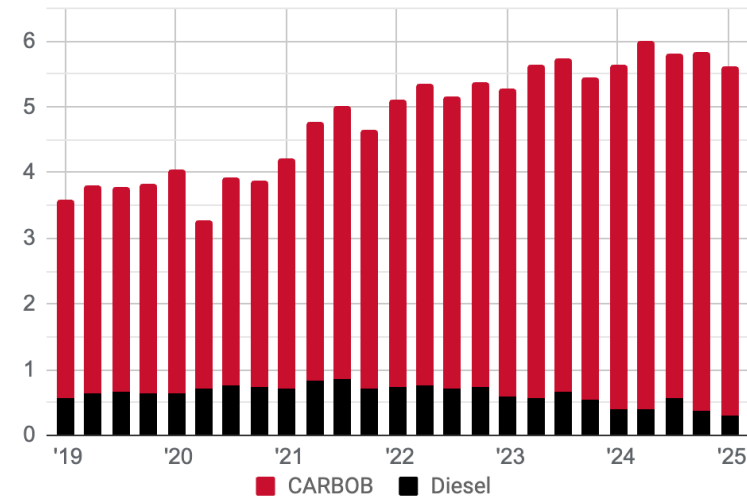
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Deficit Generation by Source

Deficit generation has been lacklusterly (is that a word?) stagnant for over a year hovering between 5.5-6.0 million MT per quarter. Renewable Diesel (RD) has taken market share from CARB Diesel on the volumetric basis. The less CARB Diesel volume is sold in California, the less deficits the fuel generates

(note: incremental deficits are included for both fuels)

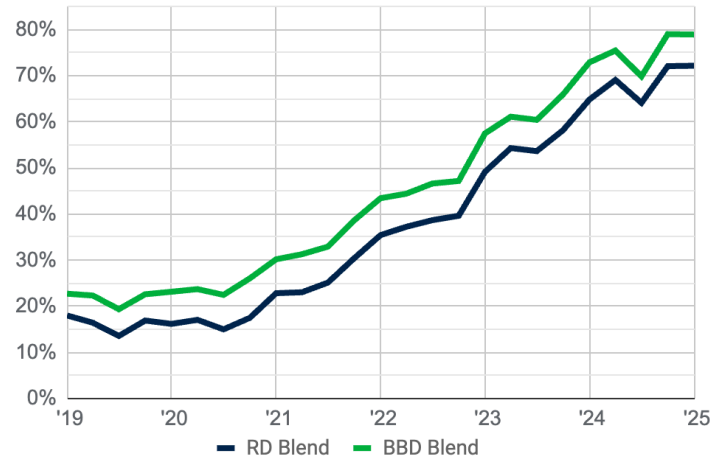
Quarterly Deficit Generation (million MT)



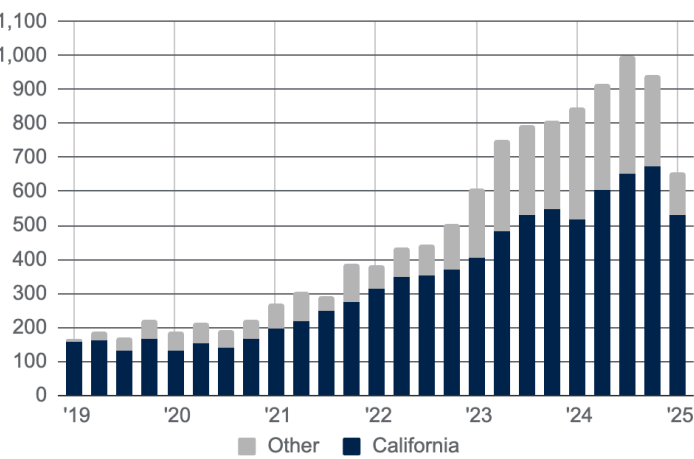
Renewable Diesel Blend & California vs US

Although total diesel and RD volumes were low (we will get to that in a moment) in Q1, the blend of RD was right in line with Q4 at 72%. Add in another roughly 7% of Bio and you get just below 80% BBD blend for the quarter. Imports of RD dropped to near zilch in Q1 and production in the US dropped to 630 million gallons. Other RD markets have been receiving more and more RD since 2023 but California received more than 80% of what was available in the US in Q1, the first >80% quarter since 2022.

Quarterly LCFS Biomass Based Diesel Blend



US Quarterly Available RD (million gallons)
US Production + Imports vs California

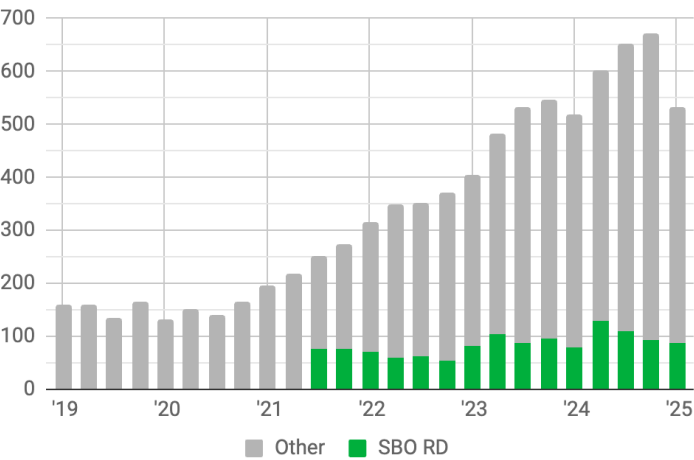


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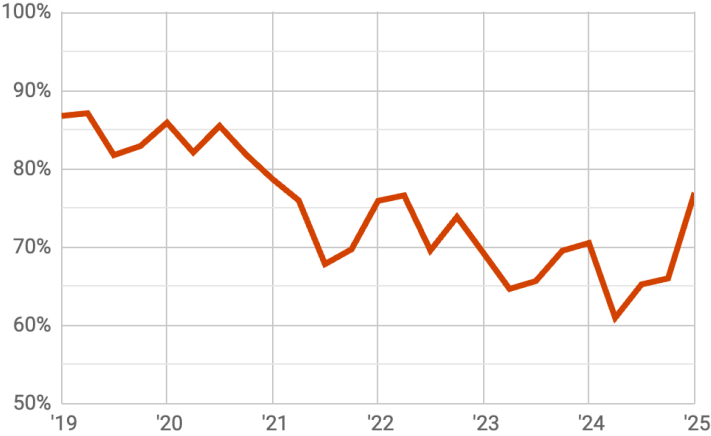
Renewable Diesel Feedstock Sources

During the most recent LCFS amendment process, Enviros, EJs, and Academia were concerned SBO RD was going to cause mass deforestation in the Amazon but the volume of SBO RD has remained range bound for the past 2 years while RD made from low-CI feedstocks on a percentage basis such as UCO, Tallow, and DCO rose to levels not seen in 3 years.

Total Quarterly RD Volumes (million gallons)



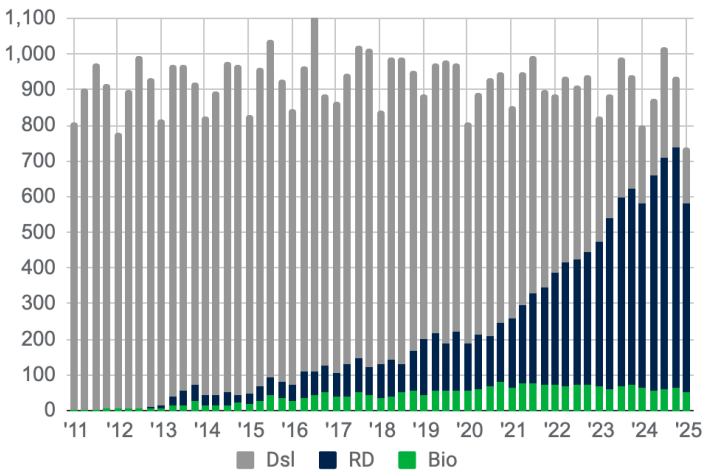
Quarterly LCFS Low-CI RD Blends
UCO, Tallow, DCO



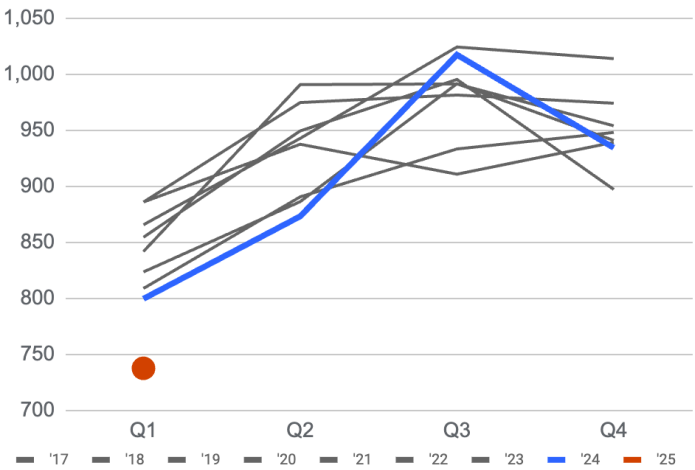
Total Diesel Volumes & Seasonality

Typically Q1 is the lowest total diesel (RD+Bio+Petro Dsl) volume quarter in the year but Q1-2025 was the lowest total diesel volumes in the program's history at 738 million gallons, a YoY drop of 62 million gallons. However, [PADD 5 total diesel volumes](#) dropped 100 million gallons in Q1.

Quarterly LCFS Liquid Diesel Pool (million gallons)



California Total Diesel Seasonality (million gallons)

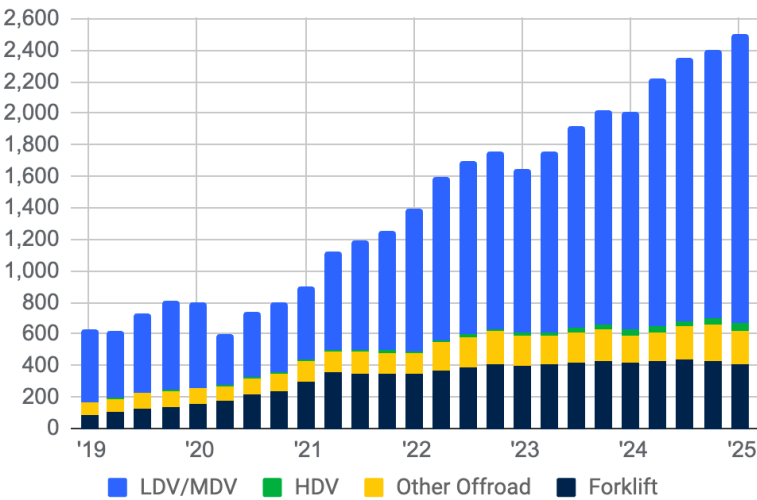


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EV Credit Generation by Source

Credit generation had only one primary source of growth in Q1 and that was from the Electricity part of the program. Although CARB is looking to slash all eForklift credit generation which will start to occur in Q3 when the new amendments kick in, requiring facilities to put in meters instead of the current estimation.

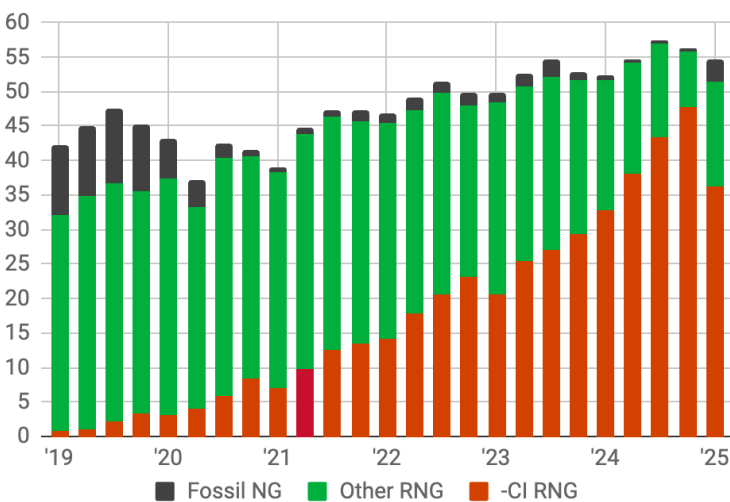
Quarterly Electricity Credit Generation (thousand MT)



CNG/LNG Volumes by Source

The category which surprised me the most was -CI RNG volume and market share falling QoQ. Total CNG/LNG volume slightly ticked down QoQ in Q1 to under 55 million dge but -CI RNG blend dropped to 66%, the lowest level in a year with volumes dropping to 36 million dge.

Total CNG/LNG Market Feedstock (million dge)

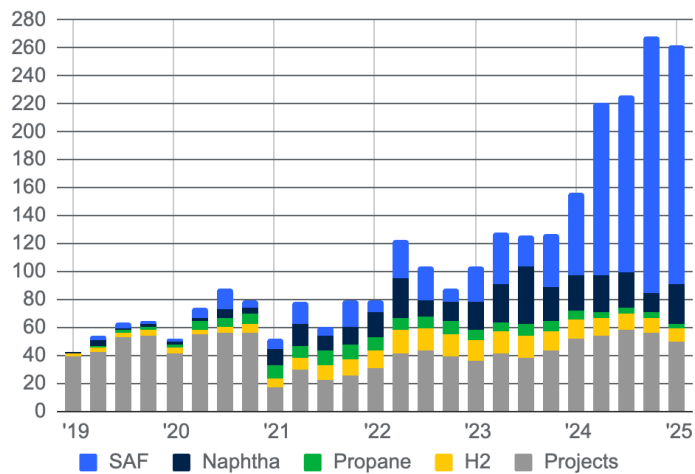


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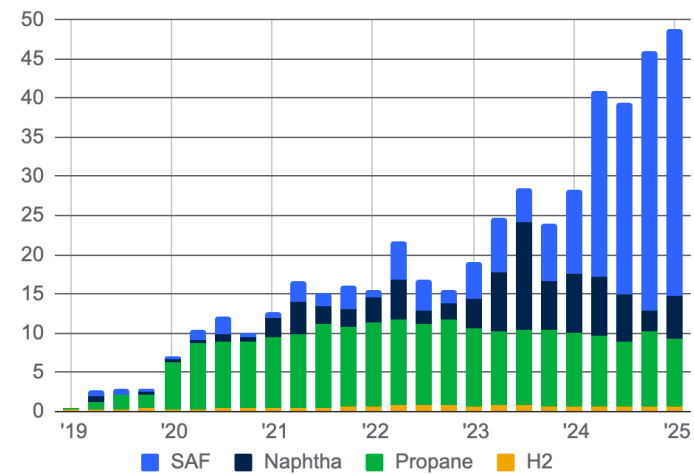
Other Credit Generating Fuels

Credit generation from Other Fuels such as SAF, Naphtha, Propane and Projects did not grow QoQ in Q1 with only 260k MT worth of credits being generated from <50 million gallons. [According to the EIA](#), Neste brought in 25 million gallons of jet fuel into California in Q1.

LCFS Other Credits Generation (1,000 MT)



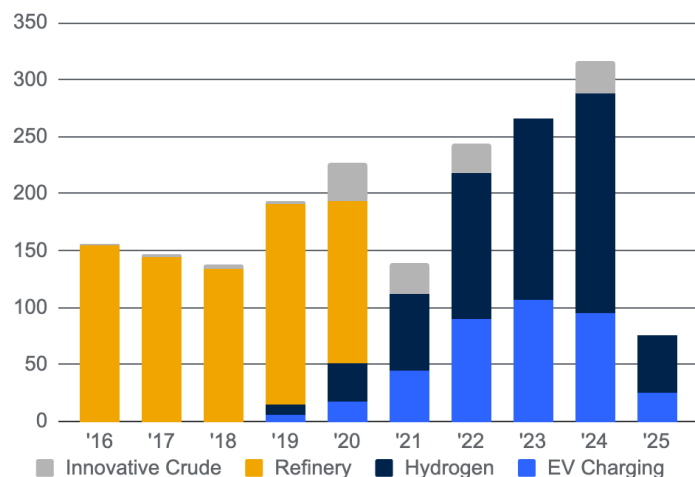
LCFS Other Credits Generation (million gallons)



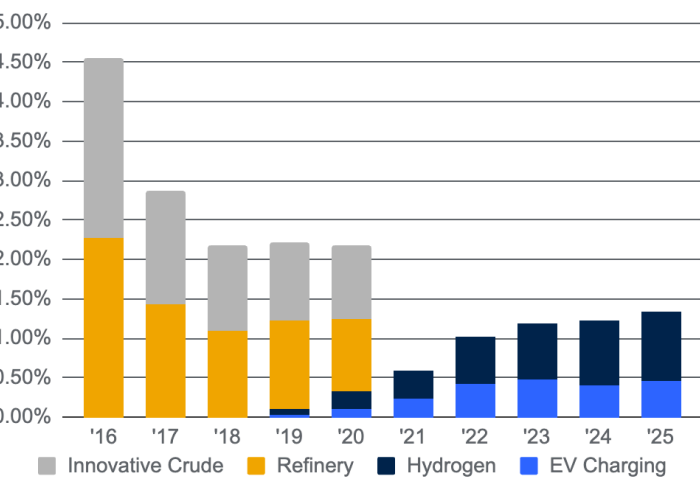
Project Credit Generation

Credits derived from projects - primarily H2 and EV charging infrastructure slowed in Q1, a sign EV chargers are being more utilized, to 75k MT in Q1. Credit generation from this category is capped based on the comparison vs total deficits, which current credit generation is below the max threshold.

LCFS Project Crediting (1,000 MT)



LCFS Project Crediting of Total Deficits

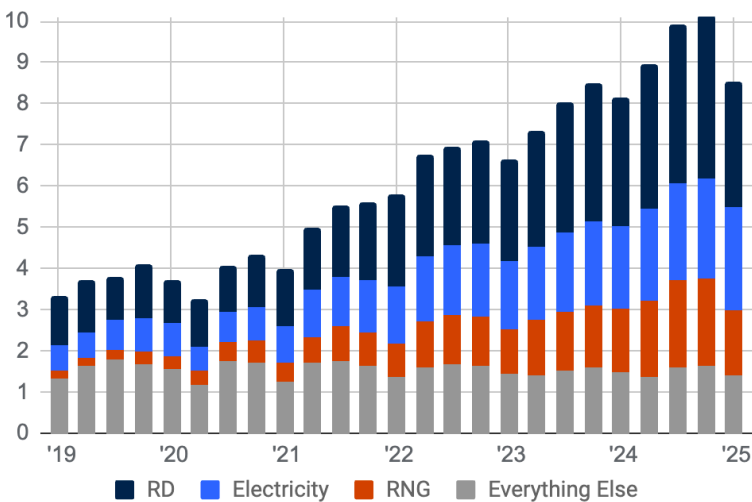


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Looking Ahead to Q2

The ‘Big 3’ credit generators (RD, EV, RNG) still dominate credit generation as credit generation from first generation Biofuels (Ethanol, Biodiesel) is on the downside caused by a stagnant drop in CI and stagnant blend into gasoline and diesel, respectively. A drop in -CI RNG fuel volume sets up the conversation of where growth in credit generation will come from, whereas the entire market is well aware of roughly 95% of deficit generation being dependent on gasoline demand.

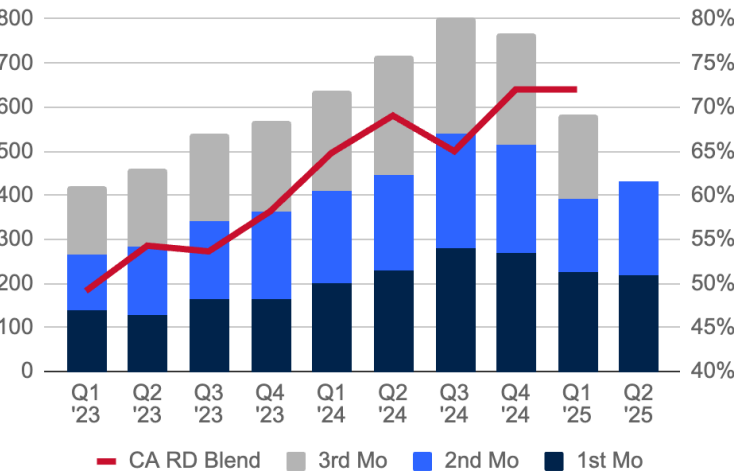
Quarterly Credit Generation (million MT)



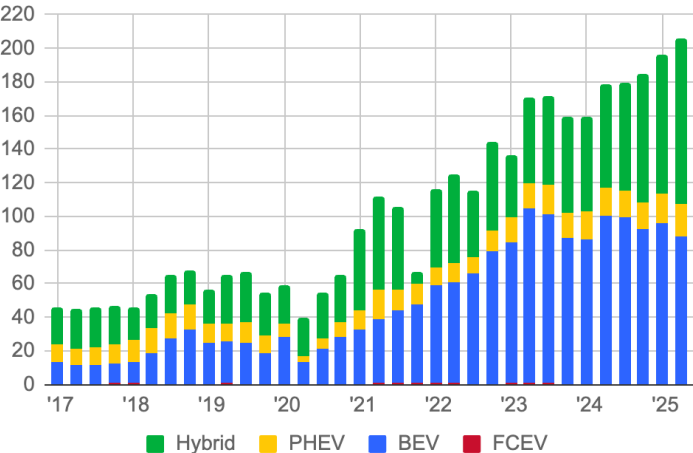
According to the EIA, PADD 5 RD availability - the combination of production, imports, and net receipts - has increased in the first two months of Q2 to around 425 million gallons, similar levels seen in H1 2024. The increase of RD availability in the region leads me to a shocking belief that RD credit generation will rise in Q2. And the same goes for EVs as a near record of EVs were sold/registered in Q2. Gasoline demand will likely increase QoQ as more drivers hit the road in the spring but California gasoline demand keeps trickling down YoY with more and more Californians purchasing more efficient drivetrains at record levels (EVs plus Hybrids). Roughly 95% of deficits come from the sale of gasoline in California in which EVs have an impact on. The real question I have going forward is when does EV credit generation surpass RD credit generation? It likely does not occur in Q2 but it is possible it happens in the back half of 2025.

PADD 5 RD Supply vs CA RD Blend %

Production+Imports+Shipments (million gallons, LHS), Blend (% of Total, RHS)



California Quarterly Sales (1,000 vehicles)



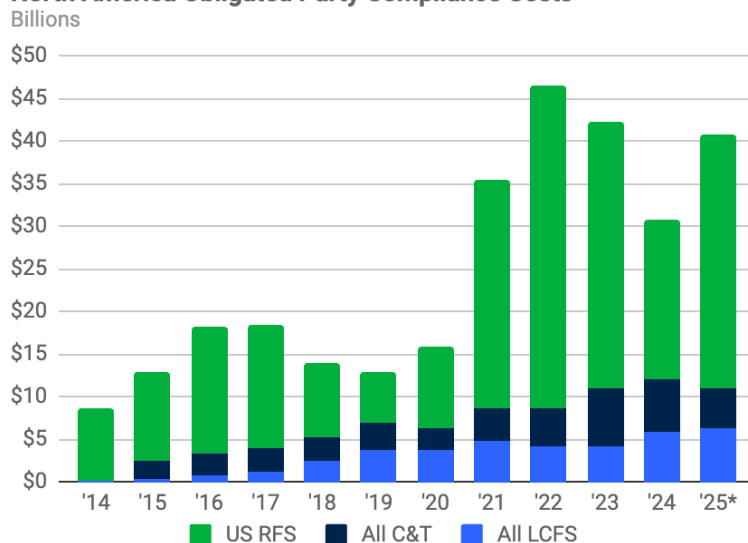
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Phillips 66 owes Propel Fuels \$830 million for ‘Last Mile Strategy’

After an 8-year ordeal, a jury and judge has ruled in favor of Propel Fuels awarding Propel [\\$830 million for unjust enrichment and exemplary damages](#) making it the largest trade secret case in US history. In September of 2017, P66 expressed interest in acquiring Propel but after nearly a year of exclusive due diligence, P66 then terminated the acquisition deal in late August 2018. However, multiple members of the P66 Due Diligence team kept Propels trade secrets (files) on their computers after the deal was terminated and used them to set up the P66 ‘Last Mile Strategy’.

With the proliferation of carbon policy along the US West Coast and steepening compliance curves, obligated parties like P66 were facing drastic increased foreseeable costs. During the due diligence period and under a strict NDA, Propel provided a set of solutions to P66 which included a proprietary site location algorithm, financial models, business strategies, amongst other Intellectual Property (IP) to help with P66’s increased compliance costs with the promise of a deal closing. After the deal was terminated, per the NDA, P66 was supposed to completely delete and not use anything from the due diligence process in its ongoing business. However, multiple P66 members kept Propel’s files on their computers and used them as they expanded their Renewable Fuel business, including a financial model which included Propel’s business strategy (amongst other trade secrets) for selling RD and E85 in California. What was that strategy? I will have the P66 Executive team explain it to you...

North America Obligated Party Compliance Costs



“...Renewable diesel also provides an opportunity to capture additional value while meeting our regulatory requirements. We’ll participate in the manufacturing, supply and sale of renewable diesel on the U.S. West Coast...”

-Brian Mandell (EVP Marketing & Commercial) P66 Investor Day November 2019

“...And same thing with all the renewable diesel. We want to be in control all the way to the last mile so that we get all of the credit, our CFS credit. So it's another great example of where that capture is so important in that total equation of creating value...”

-Greg Garland (Chairman & CEO) Scotiabank Energy Conference March 2021

"...In 2019 we stated that we wanted to be more in the retail business..."

-Brian Mandell (EVP Marketing & Commercial) Q3 2021 earnings call

*"...Our goal is to be able, at some point, to get the entire 50,000 barrels of diesel that we make to the end-user...As I said, **we upgraded all the stores to renewable diesel. We are looking at a lot of different opportunities to also get diesel to the end-user. But the goal is to get it to the end-user that way. We keep all of the margin and we think that's the best path...**"*

-Brian Mandell (EVP Marketing & Commercial) Q4 2021 earnings call

*"...I think Brian did a really nice job of talking about **renewable diesel and making sure we are capturing all the value we can...**"*

-Greg Garland (Chairman & CEO) Q4 2021 earnings call

*"...On the Unit 250, the renewables we have been running there, we continue to see profitability on that unit. And really what we have come to understand is that the price of soybean oil, the price of California diesel, the price of low carbon fuel standard, credits, RINs, cap and trade, **they all seem to sort of work in concert to incent us to continue to make renewable diesel and put it in the marketplace...**"*

-Bob Hermann (EVP Refining) Q1 2022 earnings call

*"...And I would add, we are able to **get all the volume out of Unit 250 to the end consumer through our retail and wholesale network in California...**"*

-Brian Mandell (EVP Marketing & Commercial) Q1 2022 earnings call

*"...**The pull-through with our retail presence is a competitive advantage...**"*

-Mark Lashier (President & CEO) Q2 2023 earnings call

*"...But the reality of this, **the economics around this project are centered around 4 programs as well as the retail price of diesel in the state of California** and other markets that recognize renewable diesel..."*

-Mark Lashier (President & CEO) Q2 2023 earnings call

*"...**We've seen product volumes in our businesses relatively flat, but we continue to optimize those volumes through higher-value distribution channels...**"*

-Brian Mandell (EVP Marketing & Commercial) Q3 2023 earnings call

“...So in 2021, we actually started in the renewable diesel business production business...we've learned a lot technically, but probably more importantly, more about the market and especially on the renewable diesel side. So that's -- after being in that for just a short period of time, **we learned very quickly that you need to own the last mile of delivery to the retail stations. That way, you don't have the leakage of value. So we've been growing out that retail presence in California to control that last bit...**”

-Rich Harbison (EVP Refining) Bank of America Refining Conference March 2024

“...I think it's supplemented as well by the **last-mile strategy that Brian's team has put in place. That prevents leakage of value** as we deliver the product to the end user there, and that should play out nicely as we increase production from the facility...”

-Rich Harbison (EVP Refining) Q1 2024 earnings call

“...So we can take renewable diesel from our Rodeo renewable energy complex and take it out to retail customers, out in our 76 stations. And we've also acquired some trucks fleet loading assets. **So we make sure that we can capture the full value and all of the benefits of producing renewable diesel in that marketplace. And we really do believe in that strategy and are looking for opportunities to continue to employ that strategy..**”

-Mark Lashier (President & CEO) JP Morgan Energy, Power & Renewable Conference June 2024

“...we're well positioned on the West Coast to deliver those renewable fuels all the way out to the retail end user...And we've got the pull through to our retail stations that we've built out in our last mile strategy around this asset...”

-Mark Lashier (President & CEO) Q2 2024 earnings call

Propel also scored all P66 retail locations in Propel's proprietary site location algorithm along with potential retail sites for P66 to acquire or form a joint venture. P66 was supposed to delete the algorithm output, but they did not. P66 then leaned on the algorithm output along with the financial model to select sites for the implementation of R95-99 (95%-99% Renewable Diesel), as well as go on a multi-year acquisition spree spending hundreds of millions of dollars. Here is the P66 Executive Team to help explain it...

*"...In Marketing, during the fourth quarter, we entered into a retail marketing joint venture with operations, primarily on the US West Coast. **The joint venture currently operates 580 retail sites. In addition, the joint venture is expected to close on an acquisition of approximately 100 additional sites in the first half of this year. The joint venture enables increased long-term placement of our refinery production and increases our exposure to retail margins...**"*

-Greg Garland (Chairman & CEO) Q4 2019 earnings call

*"...Marketing is a high-return, low-capital business...We also continue to strengthen our base business by investing and expanding in new channels of trade globally. **This includes pursuing equity partnerships in core markets both to secure the ratable placement of our products and to participate in strong retail margins...**we've signed an agreement for a joint venture with a large retail and wholesale operator. We're excited to partner with a strong operator to provide secure placement for refinery production and to **extend our value chain by capturing West Coast retail fuel** and in-store margins..."*

-Brian Mandell (EVP Marketing & Commercial) P66 Investor Day November 2019

*"...In Marketing, the **West Coast retail joint venture recently closed on a previously announced acquisition of 95 sites, bringing the total to approximately 680 sites. The joint venture enables increased long-term placement of our refinery production and increases our exposure to retail margins...**"*

-Greg Garland (Chairman & CEO) Q2 2020 earnings call

*"...Obviously, **we completed most of the West Coast retail joint venture late last year**, which is fortunate time for us...And we'll continue to take a look at opportunities to grow that joint venture and opportunities to integrate into our business. We think integration is very important as Greg mentioned earlier, and **we're looking for opportunities to integrate, particularly on the West Coast** and even more particularly in the Middle America, where we have large refining business."*

-Kevin Mitchell (EVP & CFO) Q2 2020 earnings call

"...We added, as you know, retail in late 2019 and also in 2020 on the West Coast, and that **retail has done better than [expected] ...**"

-Brian Mandell (EVP Marketing & Commercial) Q2 2021 earnings call

"...In marketing, **we're converting 600 branded retail sites in California to sell renewable diesel** produced by Rodeo facility..."

-Mark Lashier (President & COO) Q3 2021 earnings call

"...And I'll remind you that we've had a unit there operating and producing renewable diesel, what we call Unit 250 since April 2021. And I'll tell you what, **it's exceeded both, our operating expectations and our commercial expectations. And frankly, we're ready for more. We've got a great strategy out there, and we are implementing and executing...**"

-Mark Lashier (President & CEO) Q1 2023 earnings call

"...And we purchased retail in the past few years. **In fact, in mid-2019, we had 50 retail JV stores in the U.S. Now we have 1,000 retail JV stores in the U.S.**...And then on the Marketing side of the business, we're selling **almost all of our production through our branded and retail outlets directly to the end consumer.** And we've also sold volumes to geographic locations that offer higher credit incentives than California for some of the feedstocks. And then finally, on the credit side, the LCFS programs are currently available in California, Oregon, Washington and Canada, as you know, but we're seeing other states proposing these programs, and in fact, Minnesota and Pennsylvania are 2 states that recently proposed an LCFS program"

-Brian Mandell (EVP Marketing & Commercial) Q1 2023 earnings call

"... And as you remember, **starting 2019, we've added a lot of retail to our retail joint ventures in the U.S. We're up to 700 retail stores now, and they performed really well this quarter. We're also focused on what we've called the last-mile strategy internally, which is getting Rodeo complex RD to the market, directly to the market, and getting that value chain value at Phillips 66...**"

-Brian Mandell (EVP Marketing & Commercial) Q3 2023 earnings call

"...So we can take renewable diesel from our Rodeo renewable energy complex and take it out to retail customers, out in our 76 stations. **And we've also acquired some truck fleet loading assets...**"

-Mark Lashier (President & CEO) JP Morgan Energy, Power & Renewable Conference June 2024