California Municipal Utilities Association

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DAVID L. MODISETTE, EXECUTIVE DIRECTOR

August 5, 2011

Mr. Richard Corey, Chief
Stationary Sources Division
California Air Resources Board
1001 I Street
Sacramento CA 95814

Re: **Comments on the Proposed LCFS Amendments - Electricity Credits**

Dear Mr. Corey:

Thank you for the opportunity to submit our comments on the proposed amendments to the Low Carbon Fuel Standard (LCFS) Regulation, recently discussed at the July 11, 2011, electricity workgroup meeting and at the July 22, 2011, Air Resources Board (ARB) workshop. The California Municipal Utilities Association (CMUA) appreciates the ARB's efforts in holding the workgroup meeting and workshop. We also look forward to working with ARB staff on changes to the LCFS Regulation that may help to increase our members' ability to utilize LCFS credits. Any LCFS credits received will be used on behalf of their customers to support the State's goals for transitioning to increased electrification in the transportation sector.

CMUA was formed in 1933 to protect the interests of California's publicly-owned utilities (POUs) and their customers. CMUA represents over 40 electric utilities in California that provides electricity to more than one-fourth of all Californians.

POUs have no profit-motive. Our goal is simply to provide safe, reliable electricity, at reasonable rates, in an environmentally responsible manner. Furthermore; POUs are committed to meeting the goals that were outlined by AB 32, while keeping costs contained as we transition to a low carbon economy. CMUA members have supported many of the AB 32 regulatory measures approved by the Board over the last few years.

CMUA is providing comments today on the ARB's proposed changes to the LCFS Regulation regarding allocation of LCFS credits for Plug-in Electric Vehicle (PEV) charging, as presented at the recent public workshop and planned for Board approval later this year.

CMUA and its members feel strongly that LCFS credits for electricity used as a transportation fuel should go to regulated local distribution utilities

on behalf of their customers. In this way, the use of these LCFS credits and their value will be overseen by the regulated public agencies, in a way which returns these benefits to their customers and supports the transition to increased electrification in the transportation sector. We believe that this approach provides substantial benefits in three critical areas: (1) Promoting Innovation in the PEV Market; (2) Providing LCFS Credit Value to PEV Customers; and (3) Ensuring LCFS Credit Program Simplicity, Transparency and Efficiency. These three areas are discussed in detail below.

As mentioned above, POUs strongly support California's goals for transitioning to increased electrification in the transportation sector. POUs have been supporting both the ARB's and California's goals in this area since the early 1990s. However, increased electrification also means that there are some additional costs to the electricity sector which must be paid for, including: electricity infrastructure costs (local distribution and transmission upgrades); electricity generation costs; PEV charging infrastructure costs; PEV metering costs; load management and incentives; additional regulatory costs (33% renewables on new load; additional GHG emissions mitigation; reporting; etc.). CMUA and its members believe that some of the value of any LCFS credits generated from electric transportation should go back to the regulated local distribution utilities to offset these additional costs. The use of LCFS credit value in this manner will be a direct benefit to PEV purchasers and other ratepayers, because it will offset these additional costs and any resulting rate increases. CMUA and its members believe that any additional value from LCFS credits, after offsetting some of the additional costs, should be returned to PEV ratepayers in the form of reduced rates, rebates, or other benefits.

<u>Promoting Innovation in the PEV Market</u>

- POUs are developing hardware and software to improve PEV charging by linking with the new capabilities of smart-grid meters. This will allow automatic charging by a variety of algorithms, such as price per kWh. This would also allow remote controlled charging and vehicle-to-grid (V2G) electricity flow in the future.
- POUs offer time-of-use (TOU) rates (both separate meter for PEV Level 2 charging and whole house TOU) to reduce the cost of charging. Some members offer incentive rates, and other load management incentives. This is critical for load management, and tracking charging of PEVs in all applications.
- POUs conduct RD&D of PEV chargers, infrastructure, PEV components, batteries, fleet use, and secondary battery use. This information helps to improve products and reduce cost to the customer.
- Some POUs are installing PEV charging infrastructure for public, industrial, commercial, and residential applications, while providing service and support after installation.
- POUs provide outreach to prospective PEV purchasers, including information on vehicle features, efficiencies, cost of fueling, rate and incentive options, charger operation, charger safety, and discuss environmental and other impacts.

- POUs provide many innovative products and services to their customers, and over the last ten years, POUs have helped to curb growing electricity demand. Our members continue to invest in new technologies to meet the needs of their customers, such as investing in advanced enterprise based computer systems that help to manage distribution systems, load management and forecasting, and PEV management.
- The investments made in smart-grid technologies will also enable POUs to manage large networks of PEV charging loads to maintain effective grid reliability, security, and improved customer service. This effort may also assist in developing energy storage capability, and V2G load balancing programs, thereby making PEVs more attractive economically.
- Unlike third-party providers of PEV equipment and services, POUs are not only heavily regulated in California, but have no market preference regarding the types of charging equipment sold on the market.

Providing LCFS Credit Value to PEV Customers

- As previously stated, CMUA and its members believe that LCFS credits for electricity used as a transportation fuel should go to regulated local distribution utilities on behalf of their customers. In this way, the use of these LCFS credits and their value will be overseen by the regulated public agencies, in a way which returns these benefits to their customers and supports the transition to increased electrification in the transportation sector.
- POUs are evaluating how the LCFS credit value could be used to offset some additional costs associated with additional electrification of the transportation sector. POUs are still examining how any additional value should be returned to PEV customers in the form of reduced electricity rates, rebates, or additional direct benefits.
- Any value earned from LCFS electricity credits can be easily transferred to PEV customers, or to third-party PEV service equipment customers. The value can be integrated within ratepayers billing statements, helping to keep electric rates low for PEV customers, or for third-party PEV service and equipment charging customers located in a POU service territory.
- The value from LCFS credits could help support PEV grid upgrades, and help expand infrastructure market development.
- LCFS credits can be distributed efficiently since POUs have the network in place to track, account, and distribute any value associated with LCFS credits. Duplication of these efforts by third-party providers would only complicate the accounting process for ARB.
- POUs have experience running customer rebate programs, and have expertise in terms of running customer incentive programs, billing for services, communication resources (e.g., newsletters, bill inserts, websites) from a trusted source to alert customers to rate options, and charging requirements.

Ensuring LCFS Credit Program Simplicity, Transparency and Efficiency

- In order to make the LCFS program simple, transparent and efficient, ARB should restrict electricity LCFS credit generators to the relatively small number of existing regulated local distribution utilities. These utilities are overseen by public regulatory agencies that consider these issues in a public forum, and provide for public comment.

- Local distribution utilities are generally trusted by, and have relationships with, existing residential and business customers. New private third-party infrastructure providers do not have this regulatory oversight, and related consumer trust and confidence, nor are they currently regulated.
- POUs have a solid 30+ year track record of providing customer energy saving programs, collecting data, and are locally governed/regulated in California.
- The ARB may have significant challenges collecting information from the potentially large number of PEV service and equipment providers that could enter the market.
- As the charging station market begins to expand globally, the ARB will be challenged with tracking new businesses entering the LCFS credit market; some businesses may even base their business plan on solely selling and trading LCFS credits. Similar attempts were made by some California businesses within the Zero Emission Vehicle (ZEV) credit program and they have failed. This would only further compound ARB's LCFS credit program tracking capability.

CMUA stresses that the best place for LCFS credits for electricity used as a transportation fuel is with the providers/producers of electricity in California, which are the regulated local distribution utilities. The LCFS credit may help to offset the POUs' investment cost in PEV infrastructure and other costs, while helping to send a price signal to keep energy prices stable. The ARB staff must also recognize that significant work is still needed to identify standardization for sub-metering in order to maintain accurate energy measurement for credits generated and reported. Finally, charging station customers could receive the LCFS credit value through regulated local distribution utilities, while also taking advantage of the American Recovery and Reinvestment Act and other government grant funding opportunities, as well as tax incentives for their businesses.

CMUA members will continue to work with ARB staff and management to craft the LCFS credit rules for electricity that will provide benefits on behalf of PEV customers, administered by regulated utilities in an open and transparent manner, and to support California's goals for transitioning to increased electrification in the transportation sector.

Sincerely,

David L. Modisette

Executive Director
California Municipal Utilities Association

cc: Mary Nichols, ARB Chairman
Ellen Peter, ARB Chief Counsel
James Goldstene, ARB Executive Officer
Robert Fletcher, ARB Deputy Executive Officer
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