



San Diego Gas & Electric
8335 Century Park Court
San Diego, CA 92123

March 11, 2011

Michelle Buffington, Air Pollution Specialist
California Air Resources Board
P.O. Box 2815
Sacramento, CA 95812

Re: Recommendations on Top Five LCFS Priorities

Dear Ms. Buffington,

Thank you for requesting input on the top 5 priorities for the Advisory Committee should focus on this year. SDG&E is actively engaged in promoting and supporting the use of low carbon fuels therefore I appreciate the opportunity to submit a recommendation.

My recommendation is based within the 13 mandatory topics that the LCFS regulation requires ARB staff to include in its report to the Air Resources Board by January 1, 2012. However, two other topics also deserve top priority attention that are not within the 13 topics listed in the regulation. The first of these is establishing the necessary institutional structure to facilitate purchase and sale of LCFS credits. The second is to encourage opt-in by regulated parties for low carbon fuels that qualify under section 95480.1(b) by establishing clear procedures for both opt-in and opt-out. Regulated parties may begin accruing LCFS credits after January 1, 2011. Therefore, these two matters must be completed quickly to support initial functioning of an LCFS market.

My recommendation for priority issues among those listed in the regulation is set forth below, along with rationale for considering them high-priority. The topics are linked such that analysis of one tends to flow from one to another topic. Therefore, I have also recommended an analytical order so that results of one inquiry feed into the next.

I believe that top priority is increasing the use of low carbon fuels to facilitate compliance with LCFS standards. Since the regulations require an additional analysis of air quality and public health issues, this analysis would ideally precede identification of impediments to, and priorities for, expanding the availability and use of such fuels.

Recommended Topic Priorities Within Sec. 95489 List

1. An assessment of supply availabilities and the rates of commercialization of fuels and vehicles (Topic 6 on regulation list). Include an analysis of the availability and use of ultralow carbon fuels to achieve the LCFS standards (included within topic 5 on regulation list)

Rationale: An update on market penetration of various fuels serves as a foundation point for the balance of the analysis

2. An analysis of the public health impacts of the LCFS at the state and local level, including the impacts of local infrastructure or fuel production facilities in place or under development to deliver low carbon fuels, using an ARB approved method of analysis developed in consultation with public health experts from academia and other government agencies (Topic 9).
3. An assessment of the air quality impacts on California associated with the implementation of the LCFS; whether the use of the fuel in the State will affect progress towards achieving State or federal air quality standards, or result in any significant changes in toxic air contaminant emissions; and recommendations for mitigation measures to address any adverse air quality impacts identified (Topic 10).

Rationale: These two items are closely related. They are each mandated by the regulation. An analysis of these issues may shed light on whether particular fuels should be emphasized when designing additional incentives to greater market penetration of low carbon fuels and how any environmental tradeoffs should be managed.

4. Identification of hurdles or barriers (e.g., permitting issues, infrastructure adequacy, research funds) and recommendations for addressing such hurdles or barriers (Topic 11)

Rationale: Permitting and infrastructure impediments have been identified in the past for biogas. An update on current permitting and other requirements would be useful to help establish near term possible regulatory and legislative priorities.

5. Advisability of establishing additional mechanisms to incentivize the use of higher volumes of low carbon fuels (Topic 5)

Rationale: Increased availability of low carbon fuels; such as biofuels, natural gas and electricity is a key California goal. These fuels can substantially reduce the carbon intensity of transportation fuels and related GHG and possibly other emissions. Financial and regulatory incentives should be established early in order to provide potential investors a more certain basis for investment decisions.

Respectfully submitted,

Alex Y. Kim

Director, Customer Innovations

San Diego Gas & Electric