Coalition Comments:

In Response to October 27, 2014 LCFS Workshop Regarding the Compliance Curve and Cost Containment Mechanism

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Respectfully Submitted to
California Air Resources Board
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Dear Members of the California Air Resources Board:

Thank you for the opportunity to provide written comments on ARB Staff's October 27, 2014 LCFS Workshop Presentation regarding the compliance curve and cost containment mechanism.

The Coalition for Renewable Natural Gas (RNG Coalition) is the non-profit organization representing the renewable natural gas industry. Our membership includes fifty leading companies including renewable energy project developers, financiers, engineers, organized labor, law firms, gas marketers, gas transporters, waste collectors, waste management & recycling companies, manufacturers, technology providers, gas utilities, environmental advocates and research organizations.

Compliance Curves

The Coalition for Renewable Natural Gas supports continued use of the "Base Case" compliance curve. We urge that ARB not adopt the "Straight Line" or "More Gradual Path" as the new LCFS default compliance curve.

The Base Case compliance curve best incentives new investments in low carbon fuels because it supports a strong credit price in the near term. The LCFS market is currently experiencing some of the lowest prices we have seen since the advent of the program. Decreasing compliance requirements now will keep credit prices low. Returning to the Base Case will allow the market to reset to conditions last seen prior to court intervention.

The LCFS and its goals are best served by a strong credit market. While we understand that all three compliance curves under consideration maintain the 2020 emission reduction goal, the reality is many projects that may contribute to meeting the goal will need to be started very soon in order to perform at maximum capacity and realize their full benefits by 2020. Actions by the ARB that favor near term price strength will best position the program for success.

If ARB Staff believes the "Straight Line" or "More Gradual Path" are necessary to ensure credit price pressures are not too heavy on obligated parties, then we urge these compliance curves be integrated, and used only in conjunction, with a cost containment mechanism.

By maintaining the Base Case curve, ARB signals its intent to continue the program as originally adopted and not bow to pressures created by parties who campaign against the LCFS. In the unlikely event that credit prices do spike and thereby reach the cap created by the cost containment mechanism, the cap will limit the credit price. If the price spike continues for an extended period (3 consecutive months, for instance), then the regulation should allow for the Board to temporarily move to one of the compliance curve alternatives and thereby alleviate price pressures. But in any case, each annual period should reset to the Base Case.

Cost Containment Mechanisms

The RNG Coalition supports ARB Staff's proposal for a Credit Clearance cost containment mechanism. We support implementation of a high price cap, an end of year credit clearance, and a price floor.

ARB Staff presented the Credit Clearance as their preferred option to improve market confidence in the program's durability. We agree with Staff that this mechanism creates considerable benefits to Conventional and Low Carbon Fuel Suppliers, including decreasing the risks of serious price spikes that might destabilize the program.

Staff proposed a price cap of $200 / credit (1 MTCO2e) in 2016, with annual adjustments for inflation. **We urge that staff adopt a price cap of $200 in 2015 and adjust at CPI + 5% annually.** A price cap should not often be reached. As much as possible a price ceiling (like a price floor) should impact the market merely by its presence and not by collision with actual credit prices. An indexed price cap will provide all of the Staff identified benefits of the $200 cap and decrease the likelihood the market reaches the cap.

We encourage Staff to recommend ARB's adoption of a price floor - or a mechanism that has substantially similar impact as a floor (see below). A floor will create real security for new investments in low carbon fuels. RNG Coalition members often relay to us the difficulties of financing a new project intended for California's transportation fuel market because underwriters cannot account for a guaranteed return from LCFS credits - even if the fuel is produced and delivered as promised. In the same way a price cap limits the effect of volatility on the high side, a price floor limits the effect of volatility on the low side.

We understand that a price floor will prove difficult to implement due to complications it would create for LRT reporting. To remedy, **we suggest creating a floor by allowing - under predetermined**

conditions - LCFS credits to be sold into the California Carbon Allowance ("CCAs") market. This solution limits administrative hurdles in LCFS credit trading and does not require ARB to collect funds from program participants. Instead, a controlled, one-way transfer opportunity from the LCFS into CCAs, which is an established and stable market, would create a reliable price floor for LCFS credit prices through the existing price floor of the CCAs market (current price floor for 2014 is set at $11.94, which increases at CPI + 5% annually).

Concluding Comments

In summary, the RNG Coalition supports maintenance of the Base Case compliance curve. We urge the ARB to use alternative curves only in periods of extended credit price abnormalities to help restore market equilibrium. We support ARB Staff's preferred option for cost containment and agree that a credit clearance, high price cap and price floor will best ensure program and market stability.

On behalf of the Coalition for Renewable Natural Gas, we again thank you for the opportunity to comment on the October 27th Workshop presentation.

Yours In Service.

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