
Alternative Compliance Mechanism

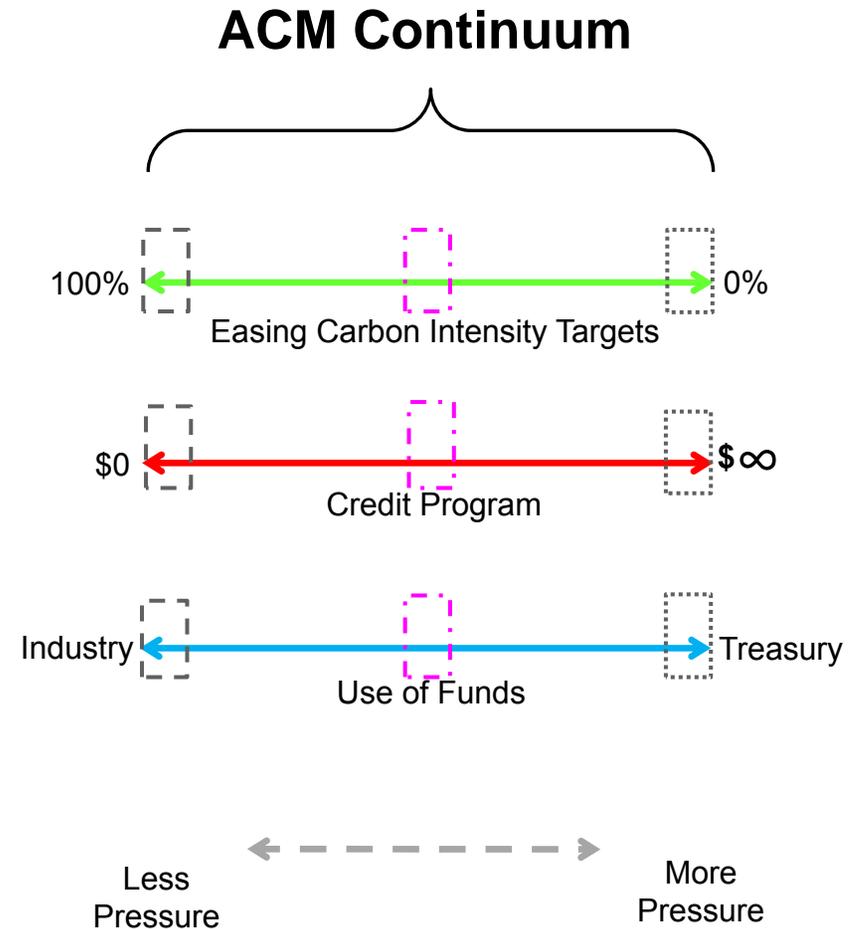
Design Options Discussion

LCFS Advisory Panel
August 2011

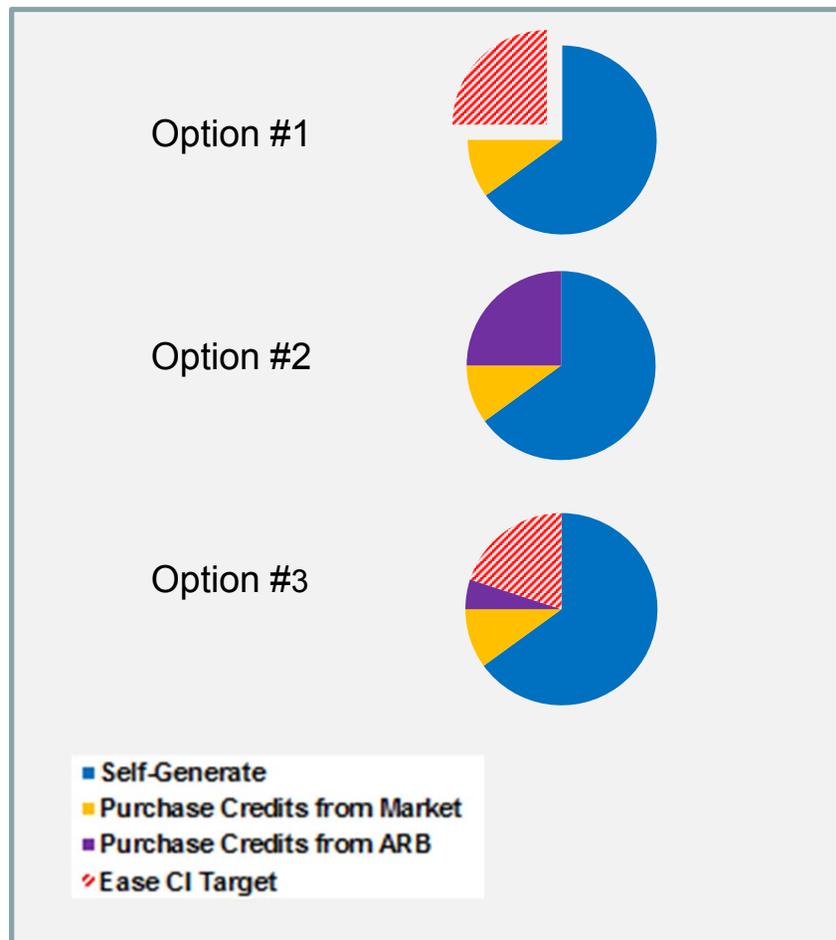


Three Key Decisions For Policymakers

- Annual CI Target
 - Should a carbon intensity target be eased in the event of limited supplies of low carbon fuels?
 - Maintaining the standard above available market supply requires a credit disbursement to avoid skyrocketing compliance costs
- Credit Program
 - What will credits cost?
 - How can they be used?
- Use of funds
 - Deposited in state treasury?
 - Used to fund related programs?
 - Recycled to generators of low-CI fuel?



Choices for Carbon Intensity Targets



- Option #1: The ACM could automatically reset the CI targets to the level of low-CI fuel anticipated, or actually in the market.
- Option #2: The ACM could leave the CI targets unchanged, but make compliance credits available for purchase from the government.
- Option #3: The ACM could reset the CI targets to a level somewhat better than the best performer, and also make compliance credits available for purchase.

Credit Program / Use of Funds

Credit Window Design Choices

- What would a credit cost?
 - What new fuel options would come at various prices?
 - University of Maine and ORNL examined a \$300/t LCFS credit price scenario
- Should the price of a credit be fixed or vary / float?
- How would credits be used?
 - Bankable?
 - Tradable?
 - Who can purchase them?
 - Which transaction details are transparent?

Use of Funds Choices

- Options for use of funds from government sale of compliance credits include:
 - i. Pay to treasury / or specific government programs
 - ii. Recycle to obligated parties
 - iii. Recycle to generators of low carbon fuel
 - iv. Use to purchase unused credits from generators

Summary of Precedents

Program	Easing of Program Targets	Credit Program	Use of Funds
Acid Rain auction	●	◐	○
UK Renewable Fuel Program	●	◐	○
Federal RFS cellulosic credits	○	◐	●
California ZEV (Initial design)	●	●	NA
RECLAIM (Initial design)	●	●	NA
LCFS (current)	●	●	NA
California ZEV (As Modified)	○	○	NA
RECLAIM (As Modified)	○	○	NA
LCFS (Post 2015)	???	???	???

- Less Market Pressure to Achieve Policy
- ◐ Moderate Market Pressure to Achieve Policy**
- High Market Pressure to Achieve Policy

AJW, Inc.

AJW's work focuses on enhancing market opportunities and removing market barriers for innovative energy and environmental technologies.

1730 Rhode Island Ave, NW
Suite #700
Washington, DC 20036

202-296-8086
ajw-inc.com

2020 N. 14th Street
Suite #220
Arlington, VA 22201

