September 5, 2017

Via Electronic Submittal LCFSworkshop@arb.ca.gov

Mr. Sam Wade
Branch Chief
California Air Resources Board
1001 I Street Sacramento, California 95814

Re: Exchange Based Trading (Aug 7th Workshop Handout slide 71)

Dear Mr. Wade,

I recently spoke with Mr Arpit Soni an Air Pollution Specialist in the Fuels Section, ISD at the California Air Resources Board regarding the potential listing of LCFS Credit Contracts on an exchange. As a follow up to that conversation I would like to submit this letter which outlines Idemitsu Apollo Corporations (IAC) position.

IAC would support the listing of an exchanged traded product for the reasons specified below with some minor changes to ensure liquidity in the contract.

What we see as the most critical reason for a listed contract is that it would allow projects in the development phase that would be profitable at a given LCFS price level to be realized. As the current bilateral trading market operates, it is extremely difficult to forward sell credits out more than 1 year. Even when you can find someone for such an offtake, interest is tepid at best for a fixed price deal that properly reflects current values. As a result, projects that require outside financing are often unable to secure the funds needed to move forward despite the ability to be profitable at current market pricing. Additionally, companies like ourselves which have rigorous stipulations on calculating investment returns when comparing potential Capital Expenditures cannot utilize the full value of the LCFS market in our calculations and instead must discount them. This disincentives investment dollars in projects that would facilitate LCFS credit generations in favor of those projects with a more stable return profile.

Another major benefit of an exchange based contract would be to allow hedging of future obligations for regulated parties without tying up large sums of cash. IAC makes every attempt to operate efficiency, however, we recognize the risks that LCFS values may be much higher in the future. To hedge our exposure we must purchase credits today paying full value. When you take the market as a whole the current surplus of ~9 million credits at a $95 credit price is tying up approximately $855 million of cash that could be put to use in California to invest in projects that would reduce GHGs and grow our economy. Instead it works as a drag, forcing companies to tie up cash and limiting their ability to invest in future technologies.

Two things would likely need to change to make an exchange traded contract useful. The first is allowing financial institutions with a bona fide interest in the LCFS market participate. By this I mean the Venture Capital, Private Equity and Banks that are involved directly with many of the companies generating credits today. By allowing these financial institutions to hedge LCFS price risk they would be better able to allocate capital to fund companies investing in low carbon fuels. The other small change would be the need to reduce to the invalidation to effectively zero on credits that may eventually be delivered through the clearing house upon settlement at an exchange. This is necessary for companies taking delivery as they would not have other ways of vetting the counterparty that ultimately delivers credits to them.

The Cap and Trade contracts listed on ICE have been a huge success for everyone involved and provide clear pricing indication to companies, including IAC, looking to make future investment decisions. We hope the ARB utilize the experience gained in this market and apply it successfully to the LCFS market.

We appreciate the opportunity to provide you with our comments. If you or your staff have any questions, or would like to discuss our comments further, please do not hesitate to contact me.

Respectfully submitted,

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