Clerk of the Board
California Air Resources Board
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Submitted electronically via: https://ww2.arb.ca.gov/lispub/comm/bclist.php

Comments: Proposed Amendments to the Low Carbon Fuel Standard (LCFS) Program

On behalf of the California Trucking Association, California Transit Association, and Pacific Merchant Shipping Association we appreciate the opportunity to provide comment regarding the proposed amendments to the Low Carbon Fuel Standard (LCFS) Program that would expand the applicability of third-party validation to most electricity transactions. Our organizations represent many of the leading fleets adopting electric vehicles and equipment in California and are participants in the LCFS program. Some of these organizations have already submitted comments to CARB under the prior 45-day and 15-day amendments on these issues. The comments submitted here represent the common concerns of a broad range of LCFS program participants that are leading electrification in their various categories and augment, not replace, the previously submitted comments by these organizations.

We welcome initiatives that promote the adoption of zero-emission technologies, while also maintaining the efficiency and sustainability of the program. Our comments aim to highlight areas where these requirements pose significant challenges and offer alternative approaches.

Unnecessary and Costly Verification for Electricity Transactions

We respectfully and strongly oppose the introduction of third-party verification for electric-powered equipment such as on-road electric vehicles and off-road electric equipment, including cargo handling equipment (eCHE), electric transportation refrigeration units (eTRU), and electric ocean-going vessels (eOGV), and fixed guideway electricity fueling in the manner proposed in the current 15-day amendments.

Specifically, the modifications to §95500 c(1)E "Verification of Quarterly Fuel Transactions Reports" adding the following electricity-based transaction types:

- EV Charging except 95491(d)(3)(A)
- Fixed Guideway Electricity Fueling
- eTRU Fueling
- eCHE Fueling
- eOGV Fueling
- Forklift Electricity Fueling

First, we note that the proposed changes exclude the single largest source of EV-related credit generation, non-metered residential EV charging. This category represents approximately half of all EV credit generation. By contrast, credit generation from eTRU, eCHE, eOGV, and HD on-road EVs combined represent only about 8 percent of all EV credit generation. While forklifts represent 25 percent of EV credit generation, CARB's proposed amendments will substantially reduce credit generation from forklifts and increase the stringency associated with measurement and reporting for this category.

In prior comments to the 15-day amendments, some commenters noted estimated verification costs at $100,000 to $150,000 per year per site subject to inspection and reporting. Other undersigned companies have estimated desktop-only verifications at $40,000-$50,000 (excluding site visits) based on costs for verification services under other carbon disclosure programs. Estimates from existing Verifiers in the LCFS program indicated verification costs at $10,000 per site where site visits are required. For organizations with multiple charging locations, costs of $50,000 to $100,000 per year or more are expected. This broad range of cost estimates is indicative of the uncertainty and lack of clarity for Verifiers regarding the requirements of electricity and hydrogen transactions being introduced under §95500 c(1)E.

For many fleets, these costs would exceed the total annual value of credits generated through their participation in the program. While we note that CARB proposes a "Less Intensive Verification" option for fleets reporting only electricity transactions, these fleets are still required to complete the initial verification and would likely be forced to exit the LCFS program in the first year that third-party verification is required due to the costs of the first full verification effort. Further, the allowance for "Less Intensive Verification" does not apply if a fleet experiences more than a 25 percent variation in the annual energy reported. Hence, even modest variations (including decreases rather than increases) in energy reported would be subject to the full annual verification costs, rendering the Less Intensive Verification option ineffective.

For example, consider a fleet that reaches the 6,000 credit per year threshold that makes them ineligible for deferred reporting. In this case, the fleet would be subject to a full verification of the quarterly reports in the first year. At current credit values (~$70/MT) the gross annual credit revenue would be $420,000. A $50,000 verification cost would represent an administrative cost of nearly 12 percent of gross revenue. When combined with other administrative costs, a fleet participant could be expected to spend between 20 and 30 percent of gross LCFS revenues solely on administrative costs rather than

additional ZEV deployments and infrastructure. If, in the following year, the fleet had an increase or decrease in credit generation of 1,500 credits, the fleet would then be subject to another year of full verification costs. This level of variation is to be expected based on normal business volatility as well as additional EV adoption, making it very likely that Less Intensive Verification will rarely be available to fleets and full verification costs would not be spread out over multiple reporting years.

Further, we note that the regulation allows for Deferred Verification of quarterly transaction reports if the number of credits generated in the prior year is less than 6,000 credits.[1] However, this means that a fleet that generates 6,000 credits in one year, and then generates less than 6,000 credits in the subsequent year would not be eligible for Deferred Verification. For example, a fleet than reports 6,000 credits in the previous year and then experiences a decline of 25% in throughput to 4,500 credits would be ineligible for deferred reporting and would be subject to full verification requirements. At current credit prices, the annual gross credit revenue would be $315,000 and $50,000 in verification costs would represent 16 percent of annual revenues. Hence, Deferred Verification does not act as protection against overly burdensome administrative costs for fleets experiencing decreases in throughput due to normal business volatility.

Consequently, it seems unreasonable to apply such substantial additional verification burdens and costs to what represents a small fraction of total EV-based credit generation, resulting in significant reductions incentives to electrification particularly for early deployments by leading fleets and for smaller fleets.

Obligations to Parties under Deferred Verification are Unclear

It is unclear what a fleet's obligations would be under the proposed modifications under §95500 c(1)E when opting out of the program. If a fleet takes advantage of Deferred Verification and then opts out of the program for any reason, they will be required to complete all annual reporting obligations per the "Opting Out Procedure" under 95483.1. The proposed modifications do not make it clear if the fleet would be required to complete a full annual verification prior to leaving the program. This creates significant cost risks to a fleet that does not achieve sufficient credit revenue generation prior to the third year of participation in the program.

[1] For clarity, we note that the proposed modification to increase the eligibility limit for Deferred Verification from 6,000 credits per year to 10,000 credits per year only applies to Pathway Verifications, not Quarterly Transaction Verifications.

For example, consider a transit or school bus fleet that generates 500 credits per year. The fleet could take advantage of deferred verification for two years and would then be subject to full annual reporting in the third year. At current credit prices, the fleet would receive $105,000 in gross credit revenue over the three years. If the fleet elected to leave the LCFS program because credit prices and/or throughput did not increase sufficiently to make continued participating economically viable, it is unclear if the fleet would still be required to complete a full annual verification to resolve their "deferred" verification obligations. For fleets that already struggle with generating sufficient revenue to cover the administrative costs of LCFS participation, the uncertainty around opt-out obligations would likely discourage participation as the value of "deferred verification" is unclear.

Data Integrity and Reporting Already Sufficient

In both on-road and off-road applications, data is collected predominantly through direct reporting from charging equipment, vehicle telematics, utility meters, or customer-installed utility grade meters. These data are already subject to audit by the California Air Resources Board (CARB) upon request. The proposed third-party verification would increase operational costs for participants without clear evidence of its value. To our knowledge, systemic or significant over-generation of credits has not been seen by CARB in the LCFS program.

Impact on Program Participation

The significant costs associated with third-party verification could discourage participation in the LCFS program, undermining its success. For example, in the context of both on-road and off-road vehicle applications, third-party verification could lead to increased expenses for electric fleet operators, further discouraging the broader adoption of zero-emission vehicles (ZEVs). These funds would be better utilized in expanding infrastructure and acquiring ZEVs, directly contributing to California's emissions reduction goals.

Alternative to Quarterly Verifications

We propose an alternative to the quarterly verification process for electricity transactions that meet certain criteria. We believe that historic performance and the nature of these types of EV transactions obviate the need for third-party verification at this time.

Specifically, EV transactions meeting the following requirements should be excluded from third-party verification:

1. The electricity transactions are reported only under Lookup Table pathways and do not contain site-specific carbon intensity assumptions.
2. Data is gathered from utility meters, charging logs, customer-installed meters meeting a minimum accuracy threshold of 2 percent, or telematics installed on the equipment (where allowed).
3. Going forward, all new FSE registrations are supported by independent documentation that such FSE have been installed and energized (e.g. signed building permits, utility Permission to Operate documents, manufacturer or installer statements that telematics have been installed, etc).

Further, we believe that CARB could implement a number of strategies to augment their existing audit processes and provide further confidence in reported data without requiring third party verification for all parties reporting the listed transactions under §95500 c(1)E.

1. Increased use of automated tools within CARB for fraud detection, identifying transactions for further review with participants.
2. Tiered review/escalating stringency of review based on targeted reviews/audits of transactions.
3. Alignment/acceptance of 3rd party verification statements developed under other regulatorily required carbon disclosures.

We believe that these provisions allow for increased confidence that FSE are real and operational, and that data are being collected from appropriate sources. These provisions would allow fleets to participate in the LCFS program without increasing the existing barriers to participation, while enhancing the confidence in the validity of the credits issued in the program.

As the addition of third-party verification for electricity transactions were not included in any significant workshop activities or discussions in the current rulemaking process, we respectfully request that CARB remove the proposed changes from the final rule. Instead, we request that CARB engage in workshops with stakeholders in 2025 to develop more cost-effective processes that can ensure program integrity while preserving as much revenue as possible for use in furthering the deployment of zero emission vehicles and infrastructure.

Barring removal of the proposed modifications, we request that CARB, at a minimum:

1. Apply the increased 10,000 credit limit for Deferred Verification of Annual Pathways in §95500 b(2)B to the credit limit for Deferred Verification of Quarterly Transactions in §95500 c(2)B.
2. Extend the initial year for verification under §95500 c(1)D and E from 2027 to 2028 to allow for sufficient time to complete the workshop and subsequent rulemaking process to implement the outcomes of the workshops.

Conclusion

We appreciate CARB's efforts to foster the expansion of zero-emission technologies, but we strongly urge reconsideration of the third-party verification requirements for both off-road and on-road electric equipment applications. By adopting a more balanced and flexible approach to verification, CARB can continue to support clean energy initiatives without deterring participants from the LCFS program.

Thank you for considering our comments. We welcome the opportunity for further dialogue and collaboration on these critical issues.

Sincerely,

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