November 3, 2020

Richard Corey
Executive Officer

Rajinder Sahota
Division Chief, Industrial Strategies Division

Arpit Soni
Manager, Alternative Fuels Section

California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Capacity Credits for Direct Air Capture

Dear Mr. Corey, Ms. Sahota, and Mr. Soni,

New Energy Risk (NER) appreciates the opportunity to provide comments following the October 2020 workshop. Our goal is to assist CARB in driving new low-carbon transportation innovation *and* in protecting the LCFS program from challenges arising from *capacity credits* for facilities that do not commission or operate at their expected level.

NER helps insure technical risk for breakthrough technologies. By transferring technical performance risk from the capital markets to the insurance markets, our clients are more likely to secure financing from risk-averse capital providers. One of NER's advantages is the support we have from leading global insurers and reinsurers. This allows NER to support projects spanning a wide range of sectors and geographies, with over $2 billion in capital unlocked for our clients. We are proud that our clients include several first-of-a-kind, LCFS-qualified facilities that are helping achieve the LCFS goal of deploying innovative technologies to produce low-carbon transportation fuels.

During the workshop, Occidental Petroleum and 1PointFive proposed[1] LCFS *capacity credits* be issued for up to four years during the engineering, construction, and commissioning phases of the DAC project preceding commercial operations. This treatment differs from other LCFS-qualified facilities which do not generate LCFS credit until after they begin commercial operations.

A key risk to the LCFS program from the proposed *capacity credits* is that the facility receiving the capacity credit might fail to commission or continue operating at the level upon which the capacity credits were granted. In such an underperformance scenario, the LCFS program risks funding facilities which are not ultimately realized. Experience shows that construction and commissioning are a particularly high-risk time for any project financing[2]. NER helps overcome this risky period by developing performance insurance solutions where coverage can be triggered if there is underperformance at commissioning or from ongoing operations below certain thresholds due to specified causes.

NER is a key service provider for new low-carbon transportation innovation and our insurance solutions could protect the LCFS program from challenges arising from *capacity credits* for facilities that do not commission or operate at their expected level. If CARB chooses to pursue capacity credits for DAC, NER would be interested in supporting this mission by developing insurance solutions that provide protection to the proposed LCFS credits in the event of underperformance during commissioning and/or ongoing operations. Based on our experience, this might be achieved by developing coverage that links the level of underperformance to the value of the associated LCFS credits. This would effectively protect the LCFS market from capacity credits from unrealized project performance. We look forward to discussing this opportunity further and thank you for your time and attention.

Respectfully,

Tom Dickson
CEO

Matt Lucas

Matt Lucas, PhD
Managing Director, Business Development

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[1] https://ww2.arb.ca.gov/sites/default/files/2020-10/101520presentation_oxy.pdf
[2] https://www.moodys.com/research/Moodys-Analysis-of-project-finance-bank-loans-shows-10-year--PBC_1217533