February 20, 2024

BY ONLINE SUBMITTAL

California Air Resources Board
1001 I Street
Sacramento, CA 95814

ATTN: Liane Randolph, Chair
Steven S. Cliff, Ph.D., Executive Officer

Re: *SCE Support for Low Carbon Fuel Standard Regulation Amendments with Some Proposed Modifications and Clarifications*

Southern California Edison (SCE) appreciates the opportunity to comment on the California Air Resources Board's (CARB's) staff proposal to amend the Low Carbon Fuel Standard (LCFS) regulation (Proposed Amendment), which CARB posted on December 19, 2023. The LCFS Regulation has been instrumental in helping California move towards a decarbonized economy and SCE appreciates staff's willingness to consider and collaborate on opportunities to strengthen and provide clarity within the regulation.

Among other things, SCE supports the Proposed Amendment's recommendations to: (1) establish an automatic acceleration mechanism (AAM); (2) adjust the minimum contribution of large investor-owned utilities (IOUs) towards the Clean Fuel Reward program to 50% of their base residential credit proceeds; (3) list and provide detailed examples of pre-approved uses for utility Holdback credit proceeds; and (4) include Vehicle Grid Integration (VGI) and workforce development as pre-approved Holdback projects.

SCE also understands the need for a brief postponement of the public hearing to consider the amendments, given the number of items that require staff's attention and time to address. However, to ensure the timely implementation of important modifications to stringency, the statewide Clean Fuel Reward program, and utility Holdback project requirements, SCE requests that the extension not extend beyond the end of Q2 2024.

In addition to SCE's general support, SCE proposes that CARB (1) combine the separate holdback project lists proposed for equity and nonequity projects; (2) specify that utilities have discretion to select the most appropriate projects for their customers and require the large investor-owned utilities (IOUs) to fund at least three program options; (3) retain the 10% administrative cost cap for Holdback programs because 5% is insufficient; (4) align the administrative cost cap for the statewide Clean Fuel Reward Program with other large utility

incentive programs; (5) update vehicle eligibility for the Statewide Clean Fuel Reward Program to conform to CARB's goals; and (6) reject the 1-mile requirement for capacity credits in favor of greater flexibility.

I. CARB Should Combine the Separate Holdback Project Lists Proposed for Equity and Non-equity Projects

As mentioned above, SCE appreciates the staff's proposed amendments expanding the list of LCFS Holdback projects and activities but recommends that the final amendments do not contain separate lists for (1) Holdback Credit Equity Projects - for projects that are for the primary benefit of or primarily serving a defined list of underserved individuals and/or communities[1] and (2) Other Holdback Projects – for activities are not considered as equity Holdback projects.[2] As currently drafted, the Other Holdback funding list limits the IOUs' spending on non-equity projects to three project types: (1) vehicle grid integration (VGI), (2) investments in grid-side distribution infrastructure necessary for EV charging, and (3) hardware and software that decrease the costs of or avoid updates to infrastructure, including load management software or outlet splitting. Such limits are not consistent with broader CARB objectives and may contribute to confusion. For example: because VGI projects are found only on the "Other Holdback (aka non-equity)" list of projects in the proposed draft language, the proposed amendment, if adopted, would not authorize the IOUs to use LCFS funds to support a VGI program that could minimize charging costs for a low-income EV driver or equity communities.

SCE therefore supports the "one list" approach that a CalETC and the other IOUs' shared with CARB staff. CalETC's proposal proposes to authorize the IOUs to use LCFS holdback funds for any pre-approved LCFS Holdback projects for all types of customers and communities. To meet the proposed equity spending requirements, SCE supports a proposal to require the utilities to demonstrate that they distributed the funds to one of the defined underserved individuals or communities (*e.g.*, rebates issued as part of an income-qualified program, or public charging stations installed in a rural community, etc.). This streamlined approach enables utilities to deploy any of the projects and solutions when and where they are best for their service areas, while maintaining the requirement for utilities to direct funding to equity-focused activities.

II. CARB Should Specify that Utilities Have Discretion to Select the Most Appropriate Holdback Program Option(s) for their Customers and Require the Large IOUs to Fund At Least Three Program Options

California has a diverse mix of electric utilities, with differing customer needs and requirements. There are the large IOUs, like SCE, and smaller publicly owned utilities that serve customers across the state. Because individual utilities will have different needs and require different solutions to ensure an affordable and equitable transition to electrified transportation for their

[1] Proposed Amendments to LCFS Regulation, § 95483(c)(1)(A)(5)(a)
[2] Proposed Amendments to LCFS Regulation, § 95483(c)(1)(A)(5)(b)

customers, CARB should update the LCFS Regulation's *Restrictions on Use of Holdback Credits* section[3] to clarify that CARB does not require or prefer any particular program option, so long as the large IOUs use LCFS credit revenues for multiple categories to support their diverse customer classes.

Specifically, SCE requests that CARB's final amendment clearly state that "utilities have discretion to select the most appropriate Holdback program option(s) for their customers, within the established requirements." Additionally, the regulation should require the "large IOUs to use their Holdback credit revenues to fund a minimum of three program options." Using funding for at least three program options will ensure that the IOUs meet diverse customer needs.

III. CARB Should Retain the 10% Administrative Cost Cap for Holdback Programs Because 5% Is Insufficient

The Proposed Amendments propose to reduce the allowed administrative costs on utility Holdback programs from 10% of total portfolio costs to 5%. This reduction in allowable administrative costs on utility Holdback programs will make it extremely difficult, if not impossible, to administer these programs given that these programs are designed to reach the most underserved individuals and communities. As Table 2 below shows, while SCE was able to operate its Clean Fuel Reward Program (CFRP) Rebate in years 2017-2020 with administrative costs at 5% or below, the moment SCE converted its program to a used EV rebate program with a targeted low-income rebate in 2021, SCE's administrative costs nearly tripled. While some of the 14% administrative cost in 2021 is the product of a combination of close-out costs from CFRP and launch costs from SCE's Pre-Owned EV Rebate (POEV), it required just under 11% administrative costs to implement POEV in 2022.

Table 2: SCE's LCFS Holdback Program Administrative Costs over Time

	2017	2018	2019	2020	2021	2022
Administrative Costs	$461,428	$339,590	$489,074	$1,678,204	$1,091,169	$1,002,251
Total LCFS	$10,554,478	$14,881,205	$28,876,538	$32,210,342	$8,037,704	$9,274,919
Administrative % of Total	4%	2%	2%	5%	14%	11%

SCE files the data in Table 2, which is public, in April of each year with both CARB and the California Public Utilities Commission (CPUC). While SCE has not compiled its calendar 2023 report, the administrative costs for SCE's LCFS Holdback programs from Q1-Q3 of 2023 were 8-9%. The targeted requirements of utility Holdback programs necessarily make them more expensive to operate than broad, unrestricted incentive programs. Thus, CARB should reject the Proposed Amendment's 5% cap and instead retain the 10% allowable administrative costs for utility Holdback programs, as authorized in the current version of the LCFS Regulation.

[3] Proposed Amendments to LCFS Regulation, § 95483(c)(1)(A)(5)(a -b).

IV. CARB Should Align the Administrative Cost Cap for the Statewide Clean Fuel Reward Program with Other Large Utility Incentive Programs

As the Program Administrator for the statewide Clean Fuel Reward Program since 2019, SCE can attest that not only is reducing the allowable administrative costs on the statewide Clean Fuel Reward from 10% to 5% an impediment to operating the program, but also does not comport to cost controls on other large utility programs. For example, the IOUs energy efficiency program portfolios, which have administered billions of dollars of incentive funds throughout the state with oversight from the CPUC, are operated under guidelines established in the Energy Efficiency Policy Manual (Version 6 published in April 2020 at this link). As shown in Table 3 below, Appendix C of the Energy Efficiency Policy Manual lists the cost caps (hard requirements) and targets that the CPUC established for the operations of these programs.

Table 3: Energy Efficiency Policy Manual APPENDIX C Cost Category Caps

Budget Categories	Cap	Target
Utility program administrative costs	10%	
Third-party / Gov't partnership administrative costs		10%
Marketing & outreach costs		6%
Direct implementation non-incentive (DINI) costs		20%
Evaluation, measurement & verification (EM&V) costs	4%	

In addition to being separate from ME&O costs, administrative costs, as defined in the Energy Efficiency Policy Manual, explicitly exclude third party implementer fees, ME&O costs, and also exclude *direct implementation non-incentive (DINI) costs* (which include activities such as software licenses, rebate processing, contractor training, etc.). By comparison, the Statewide Clean Fuel Reward program currently counts *all* of these costs towards its 10% Administrative and ME&O cost cap.

When the CPUC authorized SCE to administer the Statewide Clean Fuel Reward program in Resolution E-5015, it found that "A 10% cap of administrative funds is generally within the range of spending for other customer programs the utilities implement," and ordered SCE to "administer no more than 10% of the total Clean Fuel Reward program budget on administrative and marketing, education, & outreach spending, which must include all administrative spending related to the Clean Fuel Rewards program."

A 10% administrative cap on utility LCFS programs aligns utility LCFS programs with other similar utility programs and ensures the programs can operate as effectively as they will need to in order to help the state achieve its ambitious transportation electrification objectives.

V. CARB Should Update Vehicle Eligibility for the Statewide Clean Fuel Reward Program to Conform to CARB's Goals

SCE, as the Program Administrator for the statewide Clean Fuel Reward Program, supports CARB's proposed amendments to transition the statewide program from an incentive for all

new passenger EVs to one that will support the adoption of electric MDHD vehicles in the coming decade. However, it is necessary that CARB make minor changes to the vehicle eligibility in the draft amendments to ensure that that next iteration of the program can effectively implement CARB's ambitious plans for the commercial vehicle sector.

For example: in *Appendix E: Purpose and Rationale of Proposed Amendments for the Low Carbon Fuel Standard Requirements,* CARB Staff states that the "Clean Fuel Reward will change from a universal new light-duty EV rebate to be focused on new and used rebates for medium- and heavy-duty trucks" because this " will jumpstart the transition for a harder to transition segment." However, the draft amendments define the Clean Fuel Reward as "a statewide program established by EDUs to provide a reduction in price on purchases or leases for new medium- or heavy-duty electric vehicles." SCE believes that CARB unintentionally omitted the word "used" from the draft amendments and recommends CARB add it to the final language.

Additionally, the definitions for *medium-or-heavy duty vehicle* in the draft amendments need updating to align with CARB's intentions. While CARB defines medium-duty vehicle in the Definitions and Acronyms as "MDV means a vehicle that is rated between 8,501 and 14,000 pounds GVWR," there is no accompanying definition for HDV, though HDV is reference in several locations throughout the Regulation as the acronym for *heavy-duty* vehicle. CARB should add the weight classification for completeness.

More significantly, that the combination of defining MDV and HDV solely by weight class and the proposed definition of the Clean Fuel Reward as "a statewide program established by EDUs to provide a reduction in price on purchases or leases for new medium- or heavy-duty electric vehicles" means that the program may be required to provide incentives for *all* vehicles that have a GVWR greater than or equal to 8,501, which includes many passenger vehicles such as the Rivian line of products, the extended range Ford F-150 Lightning, the electric Chevrolet Silverado, and the electric Hummer. Based on CARB Staff's published rationale, the Clean Fuel Reward should only provide incentives for these vehicles if the purchaser obtained them for *commercial* use. This distinction is important not only for the goals of the Clean Fuel Reward, but also the operations of the program, as implementing a program that is accessible to all commercial customers plus a narrow segment of the retail (passenger vehicle) market would be administratively challenging. Therefore SCE, as the Clean Fuel Reward Program Administrator, recommends that CARB revise the definition for the Clean Fuel Reward program as follows:

> *"Clean Fuel Reward" is a statewide program established by EDUs to provide a reduction in price for new* ***and/or used commercial*** *electric vehicles, greater than or equal to 8,501 GVWR, that are not subject to the High Priority and Federal Fleets requirements as specified in, title 13, California Code of Regulations, section 2015(a)(1) in California. The Clean Fuel Reward is funded exclusively through LCFS proceeds generated by EDUs from electricity fuel.*

For the avoidance of doubt, SCE also recommends that CARB add *commercial vehicle* to the definitions in the LCFS Regulation now that the CCFR is explicitly incentivizing them. HVIP is an

established and well understood definition that SCE recommends CARB adopt for the LCFS Regulation Definitions and Acronyms section:

> *"Commercial vehicle" for the purposes of this program means any vehicle used by a business, public or governmental agency, or non-profit to carry people, property, or hazardous materials.*

VI. CARB Should Reject the 1-Mile Requirement for Capacity Credits in Favor of Greater Flexibility

SCE commends Staff for including the new capacity crediting (FCI) provision for public and shared-private medium-duty and heavy-duty (MDHD) charging stations. The MDHD FCI provision is critical in assisting the deployment of these charging stations by allowing developers to recover a portion of their LCFS crediting potential while their utilization grows as the electric MDHD vehicle market matures. However, SCE is concerned that the requirement that these sites be located within one mile of an Alternative Fuel Corridor (AFC) creates incentives for developers to impose arbitrary constraints on the electric grid that may stall overall MDHD vehicle electrification.

An examination of SCE's public-facing Grid Needs Assessment (GNA) Load Capacity maps illustrates this point. In 2025, SCE expects to have a total of 12,921MW of carry capacity available on its system over a total of 4,285 circuits, with 75% of that carrying capacity located within one mile, and 95% of the capacity located within ten miles, of the AFC routes. However, MDHD charging stations are much larger than typical interconnection requests – usually greater than 5MW and often greater than 10MW. When applying this filter, only 36% of SCE's available circuit capacity is located withing one mile of AFC routes for circuits that can handle at least 5MW of additional load, and that value increases to only 45% when the radius is expanded to ten miles.

Because incentives drive market participant behavior, SCE is concerned that the strict geographic restrictions proposed in the draft amendments for MDHD FCI credits will cause developers to attempt to locate sites in areas that do not have immediately available circuit capacity. This scenario creates undue costs on SCE's ratepayers and delays the deployment of critical MDHD charging infrastructure that is necessary to achieve the state's decarbonization targets. For this reason, SCE recommends that CARB reject the 1-mile requirement and allow for greater flexibility in allowable locations for sites seeking to claim MDHD FCI credits.

Thank you for considering SCE's comments and recommendations.

Sincerely,

/s/ *Rosalie Barcinas*

Rosalie Barcinas

Director, Electrification & Customer
Services Policy, Regulatory Affairs Southern
California Edison