California Electric Transportation Coalition

David L. Modisette
Executive Director

Julee Malinowski-Ball
Legislative Director

1015 K Street Suite 200
Sacramento CA 95814

916-551-1943
FAX-441-3549
dave@ppallc.com
caletc@ppallc.com

A non-profit association promoting cleaner, healthier air through the development and use of zero-emission electric vehicles, hybrid electric vehicles, electric mass transit buses and rail.

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Clerk of the Board
Air Resources Board
1001 "I" Street, 23rd Floor
Sacramento, California 95814

Re: Comments of the California Electric Transportation Coalition on the ARB's July 27, 2009 Public Meeting, "Linking California's Cap-and-Trade Program to Other Greenhouse Gas Trading Programs."

The California Electric Transportation Coalition (CalETC) is pleased to provide the following comments on the Air Resources Board's (ARB's) July 27, 2009 Public Meeting, "Linking California's Cap-and-Trade Program to Other Greenhouse Gas Trading Programs." The members of the Board of Directors of CalETC are: Southern California Edison Company, Sacramento Municipal Utility District, San Diego Gas & Electric Company, Pacific Gas & Electric Company, and the Los Angeles Department of Water & Power.

In the ARB Staff Presentation for the July 27th Public Meeting, slide 34 describes "Linking to LCFS." That slide notes that the LCFS regulation left open the possibility for a unilateral link between the programs, i.e., that LCFS credits could meet cap-and-trade obligations but not vice versa. The slide also poses questions about the effect of LCFS regulations on ARB's cap-and-trade program.

In the LCFS proceeding, CalETC supported the concept that LCFS credits could be used in other AB 32 trading markets, including the cap-and-trade program.[1] On May 1, 2008, CalETC wrote:

> **"We support the initial ARB staff recommendation that one-way trading of GHG credits from electric transportation be allowed from the LCFS trading market to other AB32 trading markets, as this will encourage further investment in fuel electricity delivery. We also recommend that LCFS credits from electric transportation be tradable into any market in which they qualify. Expanded trading opportunities can be considered as part of the overall design of integrated AB 32 trading markets.**

[1] See May 1, 2008 letter to Christina Zhang-Tillman of the ARB, "CalETC Feedback on the Proposed Concept Outline for the California Low Carbon Fuel Standard Regulation," page 13, comment 11.

> Allowing emission reduction credits generated through the LCFS to be used in complying with AB32 cap requirements, or sold into any carbon trading in which they qualify, would advance the stated public policy objectives of the LCFS. See our Comment #2 for a complete list of options for using the net transportation emission reductions. Allowing load serving entities (LSE) to transfer their LCFS credits to AB32 would enhance the shortage value of LCFS credits in the LCFS market, and provide an added impetus for technology development and investment in low-GHG fuels. Without broader fungibility with the AB32 program, LSEs and other LCFS credit holders will be forced to sell all of their transportation emission reduction credits into the LCFS market. This would result in an increased supply of transportation emission reduction credits in the LCFS market and lower LCFS credit prices. This effectively reduces the value of innovation.
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> A policy allowing access to a broader trading market would also provide an incentive for AB32-regulated firms to generate more transportation emission reduction credits than they otherwise might, knowing they would be tradable into other carbon markets.
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> Additionally, and of critical importance, a one-way trade of LCFS credits into the broader AB32 market would alleviate some of the uncertainty associated with credit value in the LCFS market. Although there will be uncertainty about AB32 and other trading markets as well, firms will likely be more willing to invest in low-carbon fuels if there is greater assurance that the generated credits will have value.
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> Some organizations have expressed concern about allowing one-way trading of intensity-based LCFS credits into AB32 markets that are capped, thinking that large volumes of intensity-based credits would effectively erode the cap. We do not believe that this will occur, and we believe the positive aspects of one-way trading (to encourage greater GHG reductions in the difficult transportation sector) outweigh the possibility of negative consequences. However, there are safeguards that could be put in place to address the concerns. For example, in the initial years, one-way trading might be limited to "ultra-low carbon fuels." Alternatively, one-way trading transactions could be reported and closely monitored by the ARB and others."

CalETC's position on this issue remains the same today. The transportation sector is the largest single source of greenhouse gas (GHG) emissions in California, with almost 40% of total GHG emissions. Meeting California's long-term GHG goals requires the widespread development and use of very low-carbon transportation fuels such as electricity. Experts agree that it will be very difficult to make the transition from today's high-carbon transportation fuels to very low-carbon transportation fuels. Although the LCFS is California's principal tool for achieving this transition, there remains great uncertainty as to whether the LCFS will be able to provide sufficient incentives for the development and widespread use of very low-carbon transportation fuels.

Under the LCFS, very low-carbon transportation fuels, including electricity, have the option to "opt-in" the program, thereby generating LCFS credits equal to the net carbon displacement of replacing petroleum fuels with low-carbon fuels. However, these LCFS credits for electricity only have value if they are purchased by regulated entities under the LCFS, or if they can be used outside of the LCFS in other AB 32 markets. Currently, it is uncertain whether regulated entities under the LCFS will want or need to purchase electricity credits, or what the purchase value of these credits might be. With such uncertainty in the LCFS, the regulations intention to reward the use of low carbon fuels may not be achieved. This uncertainty can be alleviated by allowing the use of LCFS credits into cap-and-trade and other AB 32 markets. This will also further the goals of the LCFS to develop very low-carbon transportation fuels.

CalETC agrees that issues of double-counting could arise under this structure and that the ARB should carefully evaluate these issues. Although ARB might allow "double-crediting" between some AB 32 programs (such as LCFS and cap-and-trade) to achieve specific goals, there should not be "double-counting" in terms of the total GHG reductions coming from these specific programs. CalETC believes ARB can correct for any double-counting in the GHG reductions it attributes to specific programs as it evaluates the historic success of these programs.

Thank you for this opportunity to provide comments. If you have any questions, please do not hesitate to contact me or Julee Malinowski-Ball at (916) 441-0702.

Sincerely,

David L. Modisette
Executive Director

cc: Lucille Van Ommering