



October 21, 2011

To: Michelle Buffington

Cc: Mr. Bob Fletcher

Mr. Richard Corey

Mr. Mike Waugh

Ms. Carolyn Lozo

From: Max Baumhefner and Simon Mui

Re: Comments on the October 14, 2011 Low Carbon Fuel Standard Workshop

The Natural Resources Defense Council (“NRDC”) is pleased to provide comments to the California Air Resources Board (“CARB”) on the Low Carbon Fuel Standard (“LCFS”) workshop of October 14, 2011. We thank CARB staff for their tremendous efforts over the past year to ensure the LCFS is implemented in an effective manner.

I. SUMMARY

NRDC supports CARB’s goal of returning LCFS proceeds to electric vehicle (“EV”) customers and supports appropriate rate options and active education and outreach as preconditions for the receipt of LCFS credits. At this point in the early market, NRDC believes returning all LCFS proceeds to individual EV customers could be critical to the economics of electric vehicles. Requiring appropriate rates and active education and outreach as preconditions, while ensuring that all credit proceeds are returned directly to EV customers will minimize administrative burden on both regulated parties and CARB staff, and will further the goals of the LCFS. In the future, when the total value of LCFS proceeds in the electricity sector is more substantial, CARB may wish to re-direct some portion of proceeds towards additional activities that accelerate the electric vehicle market, informed by the knowledge and experience gained in the intervening years. For now, however, NRDC recommends that CARB keep it simple and ensure that individual customers, who are ultimately responsible for the creation of LCFS credits are provided with an additional incentive to drive on electricity.



II. NRDC SUPPORTS THE AVAILABILITY OF APPROPRIATE RATE OPTIONS AS A PRECONDITION FOR THE RECEIPT OF LCFS CREDITS AND SUPPORTS THE RETURN OF ALL LCFS PROCEEDS TO EV CUSTOMERS

A. NRDC commends staff for changes made to ensure that all appropriate rates comply with CARB's precondition on the receipt of LCFS credits

NRDC supports the requirement that regulated parties provide rate options that encourage off-peak charging and minimize adverse impacts to the electrical grid. NRDC commends staff for revising the previous language to ensure that all appropriate rate options comply with this pre-condition on the receipt of LCFS credits.

B. NRDC supports changes made to ensure that all LCFS credit proceeds are returned to EV customers which could prove critical to the economics of electric vehicles

NRDC supports the inclusion of the requirement that regulated parties must use all credit proceeds as direct benefits for current EV customers. As explained in previous comments, returning proceeds to EV customers, who are ultimately responsible for the creation of LCFS credits, will further the goals of the LCFS. Because the incremental cost of an electric vehicle relative to a comparable conventional vehicle is expected to remain high for some time, the economics of vehicle electrification depend upon savings relative to gasoline. The price of electricity as a transportation fuel is expected to rise for various reasons which may erode savings relative to gasoline. Returning LCFS credit value to EV customers will improve the economics of electric vehicles and could prove critical their prospects for widespread adoption.

C. Returning all LCFS credit value to EV customers is clean and simple

Returning LCFS funds directly to EV customers would require no "additionality" analysis. A regulated party would only need to demonstrate that all proceeds were returned to EV customers. This could be accomplished through various mechanisms, including discounts on off-peak prices that reduce operating costs and rebates that reduce up-front costs. CARB staff could easily verify that proceeds were used in such a manner. In sum, returning all proceeds directly to EV customers will further the goals of the LCFS, provide an additional incentive to drive on electricity, and minimize the burden on both regulated parties and CARB staff.



III. NRDC SUPPORTS THE INCLUSION OF EDUCATION AND OUTREACH AS A PRECONDITION, BUT BELIEVES LCFS PROCEEDS SHOULD NOT BE USED TO FUND SUCH EFFORTS AT THIS TIME

A. NRDC fully supports the inclusion of education and outreach as a precondition for the receipt of LCFS credits

NRDC advocated vigorously and successfully before the California Public Utilities Commission for strong utility education and outreach programs.¹ As noted in previous comments, all five of California's utilities are already pursuing activities in line with the example education and outreach activities included in the draft LCFS regulations. It is entirely appropriate for CARB to underscore the importance of such efforts by requiring active education and outreach as a precondition for the receipt of LCFS credits. Doing so is akin to requiring matching funds before awarding a grant. This will help ensure that existing sources of funding continue to support active education and outreach.

Verifying that this precondition is met would be easily accomplished through a simpler version of the reporting requirement already included in the draft regulations. A demonstration of additionality for education and outreach activities would be unnecessary. The regulated party would describe its education and outreach activities and CARB staff would determine whether or not those efforts complied with the regulatory requirements.

B. NRDC supports the staff goal of ensuring that LCFS proceeds only fund education and outreach activities that would not otherwise have occurred but believes it would be wiser to simply avoid the difficulty of demonstrating and verifying additionality

NRDC supports the goal of ensuring that LCFS proceeds provide an additional incentive for customers to drive on electricity. However, demonstrating "what would have happened anyways" in the education and outreach context is extremely challenging and could deter eligible parties from participating in the LCFS. At this point in the early electric vehicle market, determining a baseline of education and outreach activity to which additional efforts are compared would be very

¹ See "Comments of the Natural Resources Defense Council on Proposed Decision on Phase Two Issues," R. 09-08-009, April 5, 2011.



challenging. At this time, it would be much simpler if CARB required that all LCFS proceeds be returned to EV customers directly.

C. In the future, CARB could re-direct some portion of LCFS proceeds towards additional activities that accelerate the electric vehicle market

Even if all LCFS proceeds in the electricity sector in these early years were used to fund education and outreach efforts, the result would likely be unsatisfactory. The total value of LCFS credits in the early years will simply be too small to finance a meaningful public education and outreach campaign. However, during this nascent stage of the electric vehicle market, LCFS credit value could still provide a significant benefit to individual EV customers. In fact, doing so could be critical to the success of the market. In future years, the total value of LCFS proceeds will likely grow substantially, at which point CARB could allow a portion to be re-directed towards additional activities that encourage widespread vehicle electrification. At that point in time, a baseline of activity would be well established, minimizing the task of demonstrating additionality. Furthermore, in the intervening years more real world knowledge and experience would be gained to inform decisions about how best LCFS proceeds could be used to move the market.

IV. CONCLUSION

NRDC reiterates its support for the proposed regulations and for CARB’s willingness to examine these issues in detail.

Sincerely,

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