5 LCFS Credit Management and Transfers

Credit Bank and Transfer System (CBTS) is closely integrated with LRT. It works with the LRT to ensure proper accounting and documentation of all credit transfers.

5.1 Credit Generation

Credits and Deficits are calculated by the LRT and generated in the CBTS based on fuel transaction data submitted in quarterly reports. The calculation is according to the equation in section 95486.1(a)(1) of LCFS regulation.

\[
\text{Credits}_{i}^{XD}/\text{Deficits}_{i}^{XD} \ (MT) = (\text{CI}_{\text{standard}}^{XD} - \text{CI}_{\text{reported}}^{XD}) \times E_{\text{displaced}}^{XD} \times C
\]

Where:

- \(\text{Credits}_{i}^{XD}/\text{Deficits}_{i}^{XD} \ (MT)\) is either the number of LCFS credits generated (a zero or positive value), or deficits incurred (a negative value), in metric tons, by a fuel or blendstock under the average carbon intensity requirement for gasoline (\(XD = \text{"gasoline"}\)), diesel (\(XD = \text{"diesel"}\)), or jet fuel (\(XD = \text{"jet"}\));

- \(\text{CI}_{\text{standard}}^{XD}\) is the average carbon intensity requirement of either gasoline (\(XD = \text{"gasoline"}\)), diesel (\(XD = \text{"diesel"}\)), or jet fuel (\(XD = \text{"jet"}\)) for a given year as provided in sections 95484(b),(c) and (d), respectively.

\[
\text{CI}_{\text{reported}}^{XD} = \frac{\text{Cl}_{i}}{EER^{XD}}
\]

\[
E_{\text{displaced}}^{XD} = E_{i} \times EER^{XD}
\]

\[
C = 1.0 \times 10^{-6} \frac{(MT)}{(g \text{CO}_2 e)}
\]

Below is a sample calculation of what is used in the system.

**Example:** This sample calculation is for a biodiesel fuel transaction that is “Sold with Obligation”:
\[ CI_{\text{standard 2018}} \text{ (average CI for Diesel Fuel for 2018)} = 96.91 \text{ gCO2e/MJ} \]

\[ CI_{\text{reported 2018}} \text{ (CI of Biodiesel BDC213)} = 34.02 \text{ gCO2e/MJ} \]

\[ \text{Volume of Biodiesel (CI 83.25 gCO2e/MJ)} = 200,000 \text{ gallons} \]

\[ EER \text{ (Energy Economy Ratio for Biomass-based diesel blends)} = 1.0 \]

\[ \text{Energy Density (FAME Biomass-based diesel)} = 126.13 \text{ MJ/gal} \]

\[ C \text{ (used to convert credits to units of metric tons from gCO2e)} = 1.0 \times 10^{-6} \text{ MT/gCO2e} \]

\[
\text{Credits}^{\text{Diesel}}_{\text{Deficits}^{\text{Diesel}}} (MT) = \left( 96.91 - \frac{34.02}{1.0} \right) \times (200,000 \times 1.0 \times 126.13) \times (1.0 \times 10^{-6})
\]

\[
= 1,568.46 \text{ MT}
\]

\[
\approx 1,568 \text{ MT}
\]

The LRT system rounds off the credits to nearest whole number for the obligation determined for each Fuel Pathway Code entered. Thus 1,568.46 MT will be recorded as \textit{1,568 MT} in the ledger. Also, as the fuel is “\textit{Sold with Obligation}”, which is a transaction with a negative obligation, the seller would see a deficit of 1,568 MT in their account. The buyer would see 1,568 MT of credits when they report this same fuel transaction as “\textit{Purchased with Obligation}.”

### 5.2 Credit Balance Ledger

<<not updated yet>>

### 5.3 Credit Transfer Scenarios

CBTS was designed to accommodate nine different credit transfer scenarios involving various combinations of either Seller (CF or Admin (SA)), or Seller Broker (S-Brkr), or Buyer Broker (B-Brkr) and a Buyer (CF or Admin (SA)). The Appendix F of the user guide is for reference and is a flow matrix format of the various LCFS Credit Transfer Scenarios 1-9. These are briefly described below.

The scenarios encompass transactions of the following four types:

1. **Non-Blind**: All information is displayed to the participants in the transfer.

2. **Seller-Blind**: Seller is “blind” to the identity of the buyer i.e. buyer’s identity is not disclosed to seller (seller’s identity is disclosed to buyer).

3. **Buyer-Blind**: Buyer is “blind” to the identity of the seller i.e. seller’s identity is not disclosed to buyer (buyer’s identity is disclosed to buyer).
4. **Double-Blind**: Neither the seller nor the buyer are aware of the other party in the credit transfer transaction.

**Note:** In all transfers except Scenario #1-4, the default settings provided some degree of anonymity for sellers and/or buyers where a broker is involved. This can be modified in the different scenarios depending of the selections made by the broker while setting up the transfer.

**Scenario #1** – This is a *Non-Blind* transaction with Seller Credit Facilitator (S-CF) or Seller Admin (SA) initiating the transfer and the Buyer Credit Facilitator (S-CF) or Buyer Admin (SA) completing the transfer. No anonymity for either party.

**Scenario #2** - This is *Non-Blind* with Seller Credit Facilitator (S-CF) or Seller Admin (SA) initiating the transfer and the Buyer Broker (B-Brkr) completing the transfer. No anonymity for either party.

**Scenario #3** - This is *Non-Blind* with Seller Broker (S-Brkr) initiating the transfer and the Buyer Credit Facilitator (B-CF) or Buyer Admin (SA) completing the transfer. No anonymity for either party.

**Scenario #4** - This is *Non-Blind* with Seller Broker (S-Brkr) initiating the transfer and the Buyer Broker (B-Brkr) completing the transfer. No anonymity for either party.

**Scenario #5** - This is *Seller-Blind* with Seller Credit Facilitator (S-CF) or Seller Admin (SA) initiating the transfer and the Buyer Broker (B-Brkr) completing the transfer. (No Buyer Organization is selected by Seller, only the B-Brkr is selected.) Anonymity for the Buyer only.

**Scenario #6** - This is *Seller-Blind* with Seller Broker (S-Brkr) initiating the transfer and the Buyer Broker (B-Brkr) completing the transfer. (No Buyer Organization is selected by S-Brkr, only the B-Brkr is selected.) Anonymity for the Buyer only.

**Scenario #7** - This is *Buyer-Blind* with Seller Broker (S-Brkr) initiating the transfer and the Buyer Credit Facilitator (S-CF) or Buyer Admin (SA) completing the transfer. Anonymity for the Seller only.

**Scenario #8** - This is *Buyer-Blind* with Seller Broker (S-Brkr) initiating the transfer and the Buyer Broker (B-Brkr) completing the transfer. Anonymity for the Seller only.

**Scenario #9** - This is *Double-Blind* with Seller Broker (S-Brkr) initiating the transfer and the Buyer Broker (B-Brkr) completing the transfer. Anonymity provided for both the Seller and the Buyer.

The next section describes four different examples of scenarios explaining how each scenario are “executed” within the system.
5.3.1 Seller Organization Initiated Credit Transfer to Buyer-Brkr (Scenario #2 – Appx. F)

The following is a step-by-step example explaining the execution of scenario #2. This is a transfer by the Seller Organization to the Buyer Broker (B-Brkr) and is “Non-Blind” transfer i.e. Seller’s Identity will be revealed to the Buyer. In this Example, PlanetRnew Fuels is the Seller, EarthRnew Fuels is the Buyer and John A Proctor is the Broker representing the Buyer.

To initiate a credit transfer, the Seller selects the Credit Transfers tab and clicks the “Initiate Transfer” button.

The pop-up box appears with two options for credit transfer: Type 1 and Type 2, as shown below. The Seller will chose the transfer type based on whether the sale of credits will take place in less or more than 10 days from the date the parties enter into the transaction agreement. To initiate the credit transfer that will take place in no more than 10 days, the Seller clicks on the “Type 1” button.
The Credit Transfer eForm will open with these four sections:

1) Transferor (Seller) Details Section
2) Transferee (Buyer) Details Section
3) Credit Transfer Details Section
4) Review and Confirm

**Note:** Any quarterly or annual reporting that is past-due (not submitted by the deadline) will result in preventing a seller or buyer from initiating and completing credit transfers. CBTS will not allow credit transfers to occur after April 30th if the Annual Report for the previous compliance period has not been submitted. This is true regardless of whether the regulated party is the seller or the buyer. Once the Annual Report is submitted, credit transfers can be initiated by the seller and completed by the buyer organizations. Same is applicable to quarterly reports.
As shown above, the user can click on “Completing a Credit Transfer” box to open a screen which provides details about the eform with instructions on how to use it, as shown below.
Section 1: Transferor (Seller) Details

The system auto-populates the “Seller Organization” along with the contact information for their “Representative”. The FEIN is displayed to ensure identification of the seller organization. The upper right corner displays the total credits available for transferring. **If there are no credits available for transfer then it displays blank.** The organization must first generate credits before they can begin transferring credits. In this example, PlanetRnew Fuels has 884,723 credits available that they can transfer.
Under **Section 2: Transferee (Buyer) Details** the Seller will select the Buyer Organization to which the credits are to be transferred. The Seller Broker then selects a Broker authorized to represent the Buyer. Once the Buyer is selected, the Broker list is modified and only the Brokers authorized by that Buyer will appear. However, if a Seller wants to select any other broker registered in the CBTS then they can do that without selecting a Buyer Organization. An unfiltered list of brokers is displayed in the drop down as long as a Buyer Organization has not been selected. This is the case when credits are to be acted upon by the Buyer-Broker.

In this example, John A Proctor is one of the brokers authorized by EarthRnew Fuels (Buyer) and is selected by PlanetRnew Fuels (Seller) to complete the transfer on their behalf. EarthRnew Fuels will receive a notification email from the system once the credit transfer is completed. The resulting transfer will be posted to the Buyer’s ledger.

**Note:** CBTS produces system generated notification emails to the various parties involved whenever a credit transfer is initiated or completed. If a Representative Broker is not selected, the transfer notification emails will be emailed to the all the users with Admin (SA) and Credit Facilitators (CF) role in the selected Buyer Organization’s account. If a Representative Broker is selected from the drop down list, then only the Broker will receive these emails.
Section 3. Credit Transfer Details

Number To Transfer: 2500
Average Price Per Credit: $150.00

- Price per credit in USD ($) not available

Section 4. Review and Confirm

After reviewing the information entered on the CTF, print name of Seller or Buyer per the Confirmation below. By signing this form you declare that all information provided herein are true and correct to the best of your knowledge. Also, you must enter your Security Identification Code in the box below before submitting this eForm.

James Tindel

Security Identification Code

12/24/2018

Seller Representative Signature

Security Identification Code

Seller Confirmation Date

Submit | Save | Close

The Seller completes Section 3: Credit Transfer Details of the eForm by entering the number of credits to transfer and the average price per credit, if available. If the credit price is not available, check the box “Price per credit not available”. Upon checking this, the seller must select one of the options from the dropdown menu to explain the reason why the credit price is not available.
In Section 4: Review and Confirm, the Seller Representative is required to provide signature and the Security Identification Code (SIC). The SIC was provided via email to the Seller (to those accounts with Admin (SA) and CF roles) when their LRT-CBTS account was originally approved. The eForm is then submitted to the Buyer’s Broker for completion.

**Note:** A new Security Identification Code (SIC) can be provided by contacting the LCFS Systems Administrator.

To initiate the credit transfer that will take place in more than 10 days, the Seller clicks the **“Type 2”** button.

A pop-up window appears asking whether the credit transfer is based on new or existing transfer agreement. If it is a new agreement, click on “New” tab.
Fill in the information about the new credit transfer agreement, including selecting the pertinent credit delivery type (either single or multiple credit deliveries).
Then click on “Submit” button. If not ready yet for the submittal, it can be saved in the account by clicking on “Save”.

Once the credit transfer agreement has been submitted, it appears in the account as shown below:
If the credit transfer Type 2 is being done under an existing agreement, click on “Existing” tab and the credit transfer form opens. Please follow the same steps to fill the form as described above for Type 1 credit transfer.

5.3.2 Seller Organization Initiated Credit Transfer to Buyer (Scenario #1 – Appx. F)

This is a transfer by the Seller Organization to the Buyer Organization and is a “Non-Blind” transfer i.e. Seller’s Identity will be revealed to the Buyer. This is same as the previous example (scenario #2), but now the credits are being transferred directly to the Buyer Organization and no Buyer or Seller Brokers are involved. Here PlanetRnew Fuels is the Seller, EarthRnew Fuels is the Buyer and no Broker is involved.

The whole process is same as shown in the previous example, except in Section 2 of the e-Form the Seller does not selects the Broker Representative. This allows the credit transfer to go directly to the Seller Organization’s users registered as Administrator or Credit Facilitator.
5.3.3 Seller Side (Broker) Initiated Credit Transfer (Scenario #7 – Appx. F)

In the following example a Seller Broker initiates a credit transfer on behalf of a Seller without disclosing Seller’s identity to the Buyer. This is a Buyer-Blind transfer and represents scenarios #7. In this example, John A Proctor is the Seller Broker for PlanetRnew Fuels which is the Seller Organization and EarthRnew Fuels is the Buyer Organization.

The Seller’s Broker (S-Brkr) completes the four short sections of the Credit Transfer eForm (as described in section 5.3.1) and submits it. The contact information for the Seller Representative is auto-populated on the form. In this case it is the broker initiating the transfer and selects the Seller Organization. Seller Organization’s identity will not be disclosed to the Buyer side as indicated by the checked box. Unchecking this box, will result in the identity of the Seller Organization being disclosed to the Buyer (or Buyer’s Broker, if a broker is involved on the buy end of the transfer).
Once the Seller Organization is selected by the Broker, the total number of credits available for transfer is displayed at the top-right of the eForm. This number may also be limited based upon the buy-sell limits established by the Seller Organization for the broker. The process for setting credit transfer limits for is discussed in Setting Broker Profile section in this user guide.

PlanetRnew Fuels has added John A Proctor to their list of Broker Representatives and placed no limits for the Broker on their buy and sell transfers. Initially, the Broker is limited by the available credits of the Seller Organization, which are currently 879,723. This number will change depending on other PlanetRnew Fuel’s credit transfer activity.

In the next transfer, the broker has again selected PlanetRnew Fuels. In the interim, the company has placed a sell limit of 2,500 (for a single sell transaction) for the Broker John A Proctor. Thus, the total number of available credits for transfer to the Broker displayed is 2,500. Again, by default the Seller is not disclosed to the Buyer and everything else remains unchanged as in above case.

In Section 2 of the Credit Transfer Form, the Seller Broker (S-Brkr) selects the Buyer Organization from the drop down list. The Seller (S-Brkr) fills in Section 3 with the quantity of
credits to be transferred and the average price per credit. A signature and a Security Identification Code (SIC) are required entries in Section 4 before submitting the eForm. Once submitted, the buyer will be notified of the incoming transfer request by the Seller Broker via email.

Section 2. Transferee (Buyer) Details

Buyer Organization: EarthRnew Fuels

Note: The appropriate Buyer Reps will be notified.

Section 3. Credit Transfer Details

Number To Transfer: 2500

Average Price Per Credit: $150.00

Section 4. Review and Confirm

After reviewing the information entered on the CTF, print name of Seller or Buyer per the Confirmation below. By signing this form you declare that all information provided herein are true and correct to the best of your knowledge. Also, you must enter your Security Identification Code in the box below before submitting this eForm.

John A Proctor

Security Identification Code

Seller Confirmation Date

5.3.4 Seller Side (Broker) Initiated Credit Transfer (Scenario #8 – Appx. F)

In the following example, a Seller Broker (S-Brkr) initiates a credit transfer on behalf of a Seller without disclosing the seller’s identity to the Buyer Broker (B-Brkr). This is a Buyer-Blind transfer and represents scenarios #8. John A Proctor (S-Brkr) is the Broker Representative for PlanetRnew Fuels, the seller. John Smith (B-Brkr) is the Broker Representative for the EarthRnew Fuels the buyer.

The whole process is identical to that shown in the previous example except in Section 2 of the e-Form. The Seller Broker will select a Broker “Representative” after selecting the Buyer Organization. The option to not disclose the Seller’s identity is checked.
Once both the Buyer Broker completes the transaction, the transfer will be reflected in the Credit Balance Ledger of both the Seller and Buyer Organizations.

Note: The same broker can represent both the Seller and Buyer Organizations. For this to occur both Organizations must authorize that Broker to transfer credits on their behalf.

5.4 Completing an Incoming Transfer

The above example was a Buyer-blind transaction where John A Proctor (S-Brkr) initiated a transfer of 2,500 credits on behalf of PlanetRnew Fuels (Seller) at an average price of $150 to EarthRnew Fuels (Buyer) through John Smith (B-Brkr). Here the B-Brkr receives a CBTS generated email notification of an “Incoming Credit” transfer along with the Transfer Identification Number (TIDN). The details for this Incoming Transfer are located under the Credit Transfer tab. A log of the transfer will also appear as “Outgoing Transfers” in the logs for both the Seller and S-Brkr. However, it will not be reflected at the EarthRnew Fuels (Buyer) end until the B-Broker completes the transaction.
Selecting the “Pending” option under CTF Status will open the eForm for the transaction with TIDN 4870. Note this is a Buyer-blind scenario, the Buyer cannot see the Seller Org and the Seller Rep (in this case its S-Brkr, but it can also be the employee of the PlanetRnew Fuel). To complete the Incoming Transfer the Buyer side (in this case it is B-Brkr) will have to complete the Section 4 of eForm and need to “Accept” or “Reject” the Incoming Transfer.

### Section 3. Credit Transfer Details

<table>
<thead>
<tr>
<th>Number To Transfer:</th>
<th>2500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Price Per Credit:</td>
<td>$150.00</td>
</tr>
</tbody>
</table>

- [x] Price per credit in USD ($) not available

### Section 4. Review and Confirm

After reviewing the information entered on the CTF, print name of Seller or Buyer per the Confirmation below. By signing this form you declare that all information provided herein are true and correct to the best of your knowledge. Also, you must enter your Security Identification Code in the box below before submitting this eForm.

- **John Smith**
- **[Redacted]**
- 12/28/2018

**Buyer Representative Signature** | **Security Identification Code** | **Buyer Confirmation Date**
---|---|---

**Note:** The Buyer, Seller and Broker can always add comments in the eForm when initiating or completing a transfer.
5.5 Carryback Credits

A regulated party may acquire additional credits during the “extended period” of January 1st through April 30th. These credits can be designated by the buyer as Carryback Credits (CBCs) at the time the credit transfer is completed. They are posted the ledger in quarter four of the previous year. The credits can then be used to meet a compliance obligation for the compliance period year immediately preceding the extended period. All CBC transfers must be initiated in the LRT-CBTS by April 30th and completed within 10 calendar days to be available in the account as CBSs. To mark and use credits as Carryback Credits, the buyer will need to select the Carryback Credits checkbox in Section 3 of eForm as shown below. These credits will be reported in Q4 of the previous compliance period for the Buyer Credit Balance Ledger and in Q1 of the current compliance period for the Seller.

Non-Blind transfer with the purpose to acquire Carryback Credits for the compliance year 2015.

Section 3. Credit Transfer Details

Number To Transfer: 2500
Average Price Per Credit: $120.00

These are for use as Carryback Credits

Section 4. Review and Confirm

After reviewing the information entered on the CTF, print name of Seller or Buyer per the Confirmation below. By signing this form you declare that all information provided herein are true and correct to the best of your knowledge. Also, you must enter your Security Identification Code in the box below before submitting this eForm.