



April 22, 2019

Jim Duffy
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Comments by the Sacramento Municipal Utility District on Cost Containment Proposals for the Low Carbon Fuel Standard Regulation

Dear Mr. Duffy:

SMUD appreciates the opportunity to comment on the Low Carbon Fuel Standard (LCFS) credit price cost containment proposals that were presented at the April 5, 2019 workshop by ARB staff. SMUD has a strong record of supporting vehicle electrification through participation in the LCFS program and establishing a robust set of programs to incentivize our customers' purchase of electric vehicles, growing the charging infrastructure needed for these vehicles, and educating our customers on the benefits of driving electric.

SMUD has supported the LCFS regulation from the very beginning and has made comments over time as the regulation has been improved with amendments. SMUD believes that cost containment is a key plank in environmental regulations, including the LCFS program. With a significant bank of credits in the program the current Credit Clearance Market (CCM) mechanism has not been very active, but as that bank has decreased slightly in recent years, prices for LCFS credits have risen to nearly the level established in the CCM.

SMUD agrees with ARB staff that "... existing mechanisms for deficit banking, CCM, and increased credit generation opportunities will be sufficient to manage compliance and costs (Staff presentation, April 5)." Nevertheless, SMUD supports a rulemaking to bolster cost containment in the LCFS market and supports the two proposals provided at the workshop: 1) a hard price cap in the daily market; and 2) establishing an advance credit mechanism.

SMUD supports adding a hard price cap in the daily market because we believe that such a cap could free up supply that is currently being held due to the prospect of credit prices in the daily market exceeding the price established in the CCM. Extending that CCM price as a cap in the daily market ties the CCM mechanism more closely to the market. Establishing a hard price cap should enhance market stability, reduce price volatility, and keep program costs reasonable.

SMUD also supports establishing an advance credit mechanism as proposed whereby a limited amount of electricity baseline credits would be forwarded from future years if required by strong early demand for LCFS credits. The current “accumulated deficit” mechanism, while acting in a similar way to provide cost containment in the market, is more complicated and optically problematic, and replacing that with the advance credit mechanism is appropriate. The advance credit mechanism essentially “borrows” credits from future years as the market suggests additional near-term supply is needed. Such an approach recognizes that the revenues from selling the borrowed credits will be required to be spent on additional acceleration of the EV market, in effect “replacing” the borrowed credits in later years even as the advance credits are “repaid” by reducing the baseline credits provided to utilities.

While we support the staff proposals, we believe that, like the current credit clearance market, the advance credit mechanism will only be required on rare occasions. Establishing the mechanism should again provide some price stability that in effect reduces the chances it will be utilized.

Thank you again for the opportunity to comment, and we look forward to participating in the proposed rulemaking.

/s/

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cc: Corporate Files (LEG 2019-0099)