



2929 Allen Parkway, Suite 4100, Houston, TX 77019

April 22, 2019

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

Via E-Submittal: LCFSworkshop@arb.ca.gov

RE: Potential Cost Containment Revisions to the LCFS

Dear Mr. Duffy:

Trillium appreciates the opportunity to comment on the preliminary concepts presented in the April 5, 2019 workshop¹. We believe cost containment is an important issue, but it must be done correctly, as such we will continue engaging in this Low Carbon Fuel Standard (LCFS) informal rulemaking process. Trillium, and the Love's family of companies, are committed to building the infrastructure, and using the low-carbon fuels necessary to help the state achieve its decarbonization and clean air quality goals. We support all forms of clean (low-carbon) transportation solutions including: hydrogen fuel cell, battery electric, biodiesel and renewable natural gas (RNG).

We must express our firm opposition to the firm price cap proposed for LCFS Credits, as well as serious concerns about funding the Credit Clearance Market (CCM) based on future utility credit generation. Both proposed measures would distort markets and hinder private investment, and the firm price cap would be extremely problematic to enforce. We feel that CARB's efforts would be better directed towards strengthening and clarifying the existing cost-containment provisions in the LCFS regulation.

The firm price cap for LCFS Credits runs counter to the stated mission of the LCFS program of creating "economic development opportunities and reduc[ing] emissions".² New technologies, new fuels, and customers' adoptions of the same require significant investment by private companies and vehicle fleets. Adding a price cap shows companies considering alternative fuel investments that CARB stands ready to intervene if market prices become subjectively unpopular. These market distortions signal the market and will hinder investment in future.

A hard price cap would require CARB to certify the pricing on all LCFS trades and transfers. The only way CARB could do so is to become the clearing exchange for LCFS credits – all trades would need to go through CARB, similar to how the NYMEX governs crude oil, gasoline, and other commodity trades. Even if CARB became a clearinghouse, it would also need to require companies transferring credits as part of other agreements enter a price, as well. As an example of how complex such a review can get, Trillium shares LCFS value with its RNG customers in California: per the contracts on those transactions, LCFS credits transfer with \$0 value. A true exchange would flag and potentially reject such trades, just like it would for trades above \$200 or any other cap. The hard price cap creates a lot of unintended consequences that will further distort the LCFS program and discourage further investment.

We must also express reservations about funding the CCM based on future utility credit generation. One major issue with the current design of the CCM is that there is no guarantee credit funding

¹ https://www.arb.ca.gov/fuels/lcfs/lcfs_meetings/040519presentation.pdf

² <https://www.arb.ca.gov/fuels/lcfs/eos0107.pdf>



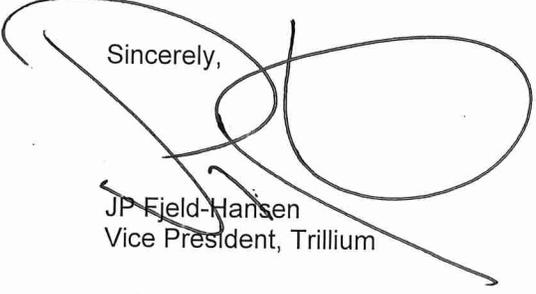
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mechanism. The staff proposal of "Advanced Credits" is a novel and interesting approach. If such an approach was implemented, and therefore sufficient LCFS credits were available to those entities that needed them, there would not be a need to limit trades in the open market. The CCM would function as the cost-containment mechanism it was meant to be, while leaving the "market" side of the regulation to operate as it was intended—to incent investment in low-carbon technologies and fuels.

The proposals, as presented, left a lot of questions unanswered, such as, how exactly it would work and how CARB would enforce such a price control on bundled transactions (fuel and carbon). Trillium does NOT support a hard price cap, but sees potential opportunities to improve the existing CCM. If CARB decides to move forward on this issue, we would recommend focusing on the CCM and dropping the hard price ceiling.

California is leading the country in the LCFS policy arena. Other jurisdictions are following the State's lead, so keeping private capital "in the game" is really critical. We look forward to additional details and the opportunity to continue engagement on this effort. If you have any questions, please contact Bill Zobel at WAZobel@trilliumcng.com

Sincerely,



JP Fjeld-Hansen
Vice President, Trillium