

April 22nd, 2019

Re: UCS Comment on potential amendments to the cost containment features

Thanks for the opportunity to comment on your proposal to amend the cost containment provisions of the Low Carbon Fuel Standard presented at the Public Workshop on April 5th.

The proposal to allow CARB to issue advance credits is a sensible alternative to allowing obligated parties to bank deficits in the event of a credit shortfall at the credit clearance market. Allowing all obligated parties to fully satisfy their obligations each year should resolve any concerns that obligated parties might be unwilling to carry deficits on their books, which could render the cost containment mechanism less than fully effective. It is not clear to me that the cost containment provision is inadequate in its current form. But given the guidance in board resolution 18034 we encourage CARB to initiate a rulemaking to consider implementing this change.

In the workshop, staff suggested that credit value from advance credits might be treated differently than credit value from base residential credit generation and focused on disadvantaged communities. Providing substantial support for disadvantaged communities is important, but it is not clear that this is an appropriate source of funds for that purpose for two reasons. First, there is only a small chance that this advance credit mechanism will be activated, and the circumstances that would lead to its activation are independent of the needs of disadvantaged communities, so this is not a reliable source of support for disadvantaged communities. Also, to avoid altering the overall balance of credits, the same party that receives the advanced credits should ultimately repay these credits. Having a different party repay the advanced credits could skew the incentive structure the policy is meant to achieve. Thus we encourage CARB to ensure that the needs of disadvantaged communities are addressed through revenue streams that do not disproportionately disadvantage other pathways. We look forward to discussing this topic further with staff before or during any rulemaking process.

The advance credit mechanism should provide increased certainty and stability to the credit market. Based on our analysis, it is unlikely that this mechanism will ultimately be activated, but it is prudent to plan for the possibility that the deficit bank is depleted, and this plan is a reasonable alternative to loaning credits that accrue interest.

Sincerely,

A handwritten signature in black ink, appearing to be "J. R. D.", written in a cursive style.

Jeremy Martin, Ph.D.
Director of Fuels Policy, Senior Scientist
Clean Vehicles Program