

Acceleration Mechanism: *Charting the Path to Carbon Neutrality*

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Low Carbon
Fuels Coalition

About the Low Carbon Fuels Coalition

- Non-profit whose mission is to expand Clean Fuel Standards (CFS)
- Technology-neutral, Science- and Performance-based
- Diverse Membership
 - ✓ Producers
 - ✓ Service Providers
 - ✓ Market Participants
 - ✓ Off-takers
 - ✓ Other Associations



Why are some of the world's leading companies joining the LCFC?

- ▶ The LCFC's Mission is the support and expansion of Clean Fuel Standards (CFS)
- ▶ Liquid Fuel Producers benefit from CFS crediting
- ▶ Gaseous Fuel Producers benefit from CFS crediting
- ▶ Electricity Providers, Fleets, and Charging companies benefit from CFS crediting
- ▶ EPC Firms benefit from the existence of CFS crediting
- ▶ End Users benefit from fuel diversification and decarbonization
- ▶ Decarbonization is Imperative

What makes a CFS such a powerful policy tool?

- ▶ Long-term Program
- ▶ Does not require Recurring Appropriations
- ▶ Technology Neutral
 - ▶ Pays for Carbon Performance
 - ▶ Does not pick winners/losers
 - ▶ Low Carbon Fuel Competition
- ▶ Scientifically Based
 - ▶ Carbon metric
 - ▶ Life Cycle Analysis evolves over time
- ▶ Scalable
- ▶ Credit Value Supports Investment

What have we learned since the last major LCFS Rulemaking?

- ▶ The LCFS is the most important fuel policy in California
- ▶ The LCFS can drive investment and deployment
- ▶ Overperformance can undermine LCFS Goals
 - ▶ Credit Bank Surges
 - ▶ Credit Prices Drop
 - ▶ Investors become unwilling to rely on LCFS credit value
- ▶ Surprises Happen
 - ▶ COVID Disruption
 - ▶ Fewer Deficits
 - ▶ Rulemaking Delay
 - ▶ Crediting in New Sectors

LCFC Strongly Supports AJW's Policy Recommendations (with one modification)

Basis for
Triggering

Credit-based; two-
test verification

Magnitude of
Increased
Stringency

Jump forward in
compliance years
+ freeze

Duration of
Time

One calendar year

Lead Time

Decision by May 15
for Jan. 1 effective
date

Slide Credit: Mary Solecki, AJW Acceleration Mechanism, Primary Design Elements



Why Not Freeze?

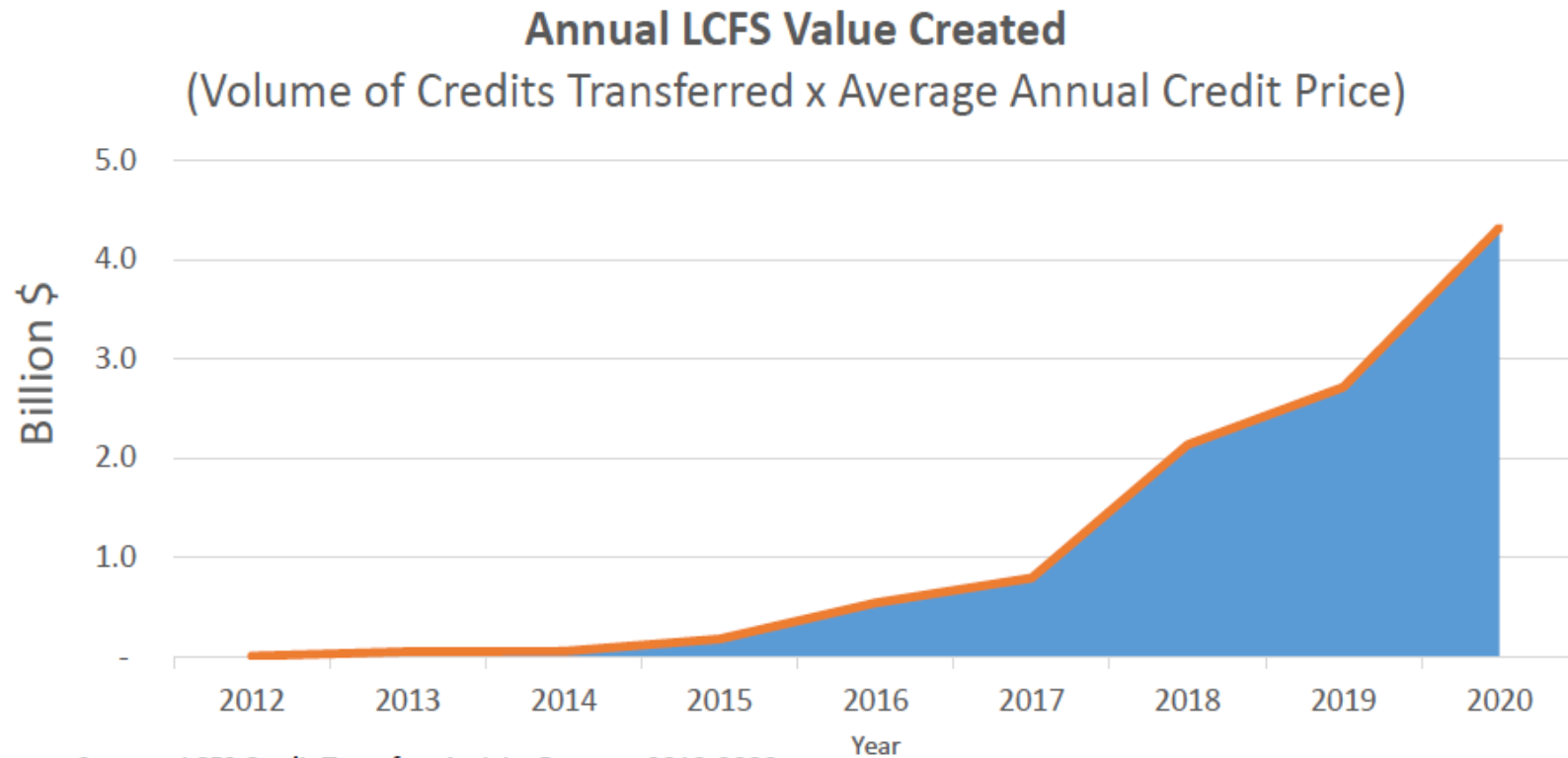
Because Climate
Change is an
Existential Threat.

And the Acceleration
Mechanism is Safe.



California LCFS (the Growth Years)

LCFS Promotes Investment in Low Carbon Fuels



Source: LCFS Credit Transfers Activity Reports, 2012-2020



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Source:
California Air Resources Board

California LCFS 2020-2023 (the Flattening)

	<u>CI Deficit Growth</u>	<u>Total Credits</u>	<u>Growth Rate</u>	<u>Credit Value</u>	<u>Market Value</u>
2020	1.25%	15M	3%	\$199	\$4.3B
2021	1.25%	25.3M	16%	\$188	\$4.8B
2022	1.25%	32.4M	28%	\$122	\$3.9B
2023 (Basis Jan-April)	1.25%	42.6M	31%	\$75	\$3.2B

Baseline for 2020 Growth Rate Figure for 2019= 14.1M Credits

Source for all figures: Low Carbon Fuel Standard Dashboard at

<https://ww2.arb.ca.gov/resources/documents/lcfs-data-dashboard>

Spreadsheet underlying Figure 4 entitled “Credit Price Series_Apr 2023,” at

https://ww2.arb.ca.gov/sites/default/files/2023-05/Credit%20Price%20Series_Apr%202023.xlsx



Impact on Fuel/ Project/ Infrastructure Investors

- ▶ Value per LCFS credit reduced by over 60% in three years
- ▶ Values per LCFS credit in pro forma economic analysis similarly discounted
- ▶ Extended rulemaking demonstrated difficulty of adjusting CI reduction rate
- ▶ If Projects don't Pencil, Investors don't fund Projects
- ▶ Acceleration Mechanism speaks clearly to these Investors

Why Not Freeze?



- ▶ The Acceleration Mechanism has multiple conservative components:
 - ▶ Credit Bank Size Test ensures existence of credit inventory
 - ▶ Credit/Deficit Ratio Test requires clear trajectory of credit expansion
 - ▶ Lead Time of 7.5 Months provides ample time for market to react
 - ▶ Use of Existing CI Table and Transparent Triggering Factors enable predictability
- ▶ If CI can be reduced more quickly, there is no benefit gained by impeding a necessary and appropriate reduction
- ▶ The Credit Clearance Mechanism provides a backstop of reliable price-protection



BUSINESSES SUPPORT CALIFORNIA'S LCFS: Let's keep up the Pace!

Thank You for Your Time

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