



City of Arts & Innovation

City Council Memorandum

City of Arts & Innovation

TO: HONORABLE MAYOR AND CITY COUNCIL **DATE: MARCH 13, 2018**

FROM: PUBLIC UTILITIES DEPARTMENT **WARDS: ALL**

SUBJECT: PARTICIPATION IN THE CALIFORNIA AIR RESOURCES BOARD'S ONGOING LOW CARBON FUEL STANDARD PROGRAM, INCLUDING THE SALE OF CREDITS TO GENERATE APPROXIMATELY \$120,000 ANNUALLY TO SUPPORT THE DEVELOPMENT OF PROGRAMS SUPPORTING ELECTRIC VEHICLE ADOPTION

ISSUES:

Approve Riverside Public Utilities participation in the California Air Resources Board's Low Carbon Fuel Standard Program, including authorization of secondary market transactions to sell credits, compliance reporting and account management, and other Low Carbon Fuel Standard Program activities as may be required pursuant to regulation.

RECOMMENDATIONS:

That the City Council:

1. Approve Riverside Public Utilities to participate in the California Air Resources Board's Low Carbon Fuel Standard Program, including secondary market transactions for the sale of Low Carbon Fuel Standard credits;
2. Authorize the City Manager, or designee, to execute the appropriate paperwork to enable Riverside's participation in the Low Carbon Fuel Standard Program, including secondary market transactions for the sale of Low Carbon Fuel Standard credits and retention of third-party verification services when required;
3. Authorize the City Manager, or his designee, to designate Riverside's primary and secondary account representatives and delegate the authority to these Riverside representatives to designate additional employees to conduct transfers of Low Carbon Fuel Standard credits, sell Low Carbon Fuel Standard credits on behalf of Riverside, and effect associated compliance activities; and,
4. Establish a Regulatory Requirement – Low Carbon Fuel Standard legally restricted reserve account within the Electric Fund, as determined by the Finance Department to deposit and segregate monies received from this program.

BOARD RECOMMENDATION:

On February 12, 2018, the Board of Public Utilities unanimously recommended that the City Council approve Riverside Public Utilities participation in the California Air Resources Board's Low Carbon Fuel Standard Program, including authorization of secondary market transactions to sell credits, compliance reporting and account management, and other Low Carbon Fuel Standard Program activities as may be required pursuant to regulation.

BACKGROUND:

The Low Carbon Fuel Standard (LCFS) Program is one of a number of programs established by the State of California and the California Air Resources Board (CARB) for the purposes of reducing statewide greenhouse (GHG) emissions to 1990 levels by 2020 and further reducing emissions to 40% below 1990 levels by 2030. These goals were put in place by the California Global Warming Solutions Act of 2006 (Assembly Bill 32 or "AB 32") and the Clean Energy and Pollution Reduction Act of 2015 (Senate Bill 350 or "SB 350"), respectively. The goal of the LCFS Program is to achieve a 10% reduction in the carbon intensity of transportation fuels by 2020. CARB is currently developing regulations to extend the LCFS Program to 2030 pursuant to SB 350.

Unlike many other State GHG reduction programs, Riverside Public Utilities (RPU) is not mandated to participate in the LCFS Program. Instead, RPU may voluntarily opt into the LCFS Program in order to generate credits which can then be sold in secondary markets to other LCFS Program participants that have compliance obligations. Selling credits will provide RPU with revenue that must be used for electric vehicle (EV) education and other programs benefiting customers who are or will be owners of EVs. Upon opting into the LCFS Program, RPU must meet certain reporting requirements and ensure that revenue generated by the sale of credits is used in a manner consistent with the regulatory requirements.

DISCUSSION:

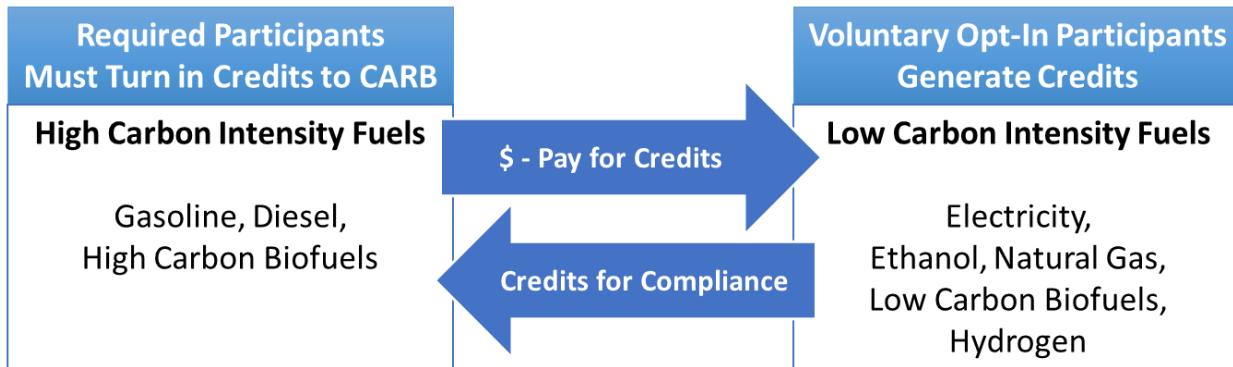
How the LCFS Program Works

The LCFS Program is a basic "carrot and stick" program in which participants with transportation fuels that exceed specified targets must turn in LCFS credits to CARB (the stick), while participants that produce fuels below the specified target generate a credit (the carrot). Credit generators receive revenue when they sell the LCFS credits to the participants that have to turn them in.

Fuel providers, such as refineries and fuel importers, that produce or import transportation fuels exceeding the target must participate in the LCFS Program and are required to turn in LCFS credits each year. These fuels include gasoline and diesel which have a higher carbon intensity than the target set by the LCFS Program regulation. Refineries and fuel importers report the carbon intensity of their fuels in terms of GHG emissions per unit of energy, and then turn in an LCFS credit for each metric ton of carbon dioxide equivalent that exceeds the annual target.

LCFS credits are generated by fuel providers of low carbon intensity fuels, such as electricity when it is used in place of higher carbon intensity fuels for transportation purposes. Since the regulation applies to fuel providers, electric utilities such as RPU are eligible to opt into the program, accrue LCFS credits from electricity provided for charging EVs, and sell the credits to

higher carbon intensity fuel providers that are required to submit LCFS credits. The diagram below illustrates the basic operations of the LCFS Program:



RPU can generate LCFS credits from electricity used as a transportation fuel for the following types of electric transportation:

- EV charging at single- and multi-family residences
- Public access EV charging provided by RPU
- RPU and City EV fleets
- Electric forklifts and electric forklift fleets

CARB did not establish an auction or other formal market mechanism for credit transactions; instead, all transactions take place in the secondary market between buyers and sellers. Brokers may be used to help identify LCFS credit buyers. RPU anticipates selling its LCFS credits utilizing well-established internal controls, including mirroring oversight for secondary market transactions for power purchase and sale.

LCFS Program Requirements

Revenue from the sale of LCFS credits is legally required, per CARB regulation, to be used to provide benefits to customers who are or will be EV owners. Programs could include, but are not limited to, providing rebates for EV chargers, promoting EV use in low-income and disadvantaged communities, incentivizing companies to provide electric fleets, and/or educating the public on the benefits of EVs. Future use of the LCFS credit proceeds for new rebate programs or infrastructure investment will be subject to Board and Council approval. LCFS Program participants are also required to submit quarterly and annual reports on how much revenue was received from sale of LCFS credits, how the revenue has been or is planned to be spent, and how the LCFS Program is being administered. Revenues will be expended on programs administered by RPU that benefit customers and are compliant with the LCFS Program regulation. To the extent allowed by law, RPU will ensure that it recovers its administrative costs incurred as a result of the LCFS Program.

FISCAL IMPACT:

Participation in the LCFS Program is anticipated to generate approximately \$120,000 in revenue for RPU in the first year (FY 2018-19), with revenues increasing in subsequent years as the

number of EVs and LCFS credits increase over time. Revenues will be recorded to revenue account number 0000510-344514 and deposited into the Regulatory Requirement – LCFS legally restricted reserve account.

Prepared by: Todd Jorgenson, Interim Public Utilities General Manager
Certified as to
availability of funds: Adam Raymond, Chief Financial Officer/City Treasurer
Approved by: John A. Russo, City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachment:

1. Presentation
2. Draft February 12, 2018, Board of Public Utilities Meeting Minutes