



City Council Agenda Item

City Council Meeting Date: December 7, 2021

TO: Jim Throop, City Manager

FROM: Steven Valle, Utility Conservation Coordinator
s_valle@ci.lompoc.ca.us

SUBJECT: Adoption of Resolution No. 6464(21) Approving Submittal of Registration Documents to the California Air Resources Board to Enroll the City of Lompoc in the Low Carbon Fuel Standard Program

Recommendation:

Staff recommends the City Council:

- 1) Adopt Resolution No. 6464(21) (Attachment 1), authorizing the City Manager, or his designee, to execute and submit all necessary documents to enroll the City of Lompoc (City) in the Low Carbon Fuel Standard (LCFS) program administered by the California Air Resources Board (CARB); and
- 2) Approve use of funds generated through the LCFS program to be used towards transportation electrification related programs and/or projects; or
- 3) Provide alternate direction.

Background:

Assembly Bill 32 (AB 32), otherwise known as the California Global Warming Solutions Act of 2006, marked a pivotal moment in California's history. AB 32 was the first state-introduced legislation in the country to take a comprehensive, long-term approach to addressing climate change, and did so in a way that aimed to improve the environment and conserve natural resources while maintaining a robust economy. By requiring a severe reduction of greenhouse gas (GHG) emissions, AB 32 set the stage for California's transition to a sustainable, low-carbon future.

The LCFS, authorized through AB 32 and implemented in 2011, is a transportation fuel market-based program with a specific focus on reducing the carbon intensity of fuels used within California. The LCFS is a key part of a comprehensive set of programs which aim to cut GHG emissions throughout the state, as well as other smog-forming and toxic air pollutants by improving vehicle technology, reducing fuel consumption and increasing transportation mobility options. In essence, the LCFS is designed to encourage the use

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of cleaner, low-carbon transportation fuels in California, as well as encourage the production of those fuels, consequently reducing GHG emissions and petroleum dependence in the transportation sector. In 2018, CARB approved amendments to the LCFS regulation including strengthening the program's carbon intensity benchmarks and prolonging the lifetime of the statewide program through 2030.

Discussion:

As a provider of low carbon fuels (electricity) used in the California transportation sector, the City, operating as an Electric Distribution Utility (EDU), is able to register in the LCFS program as an opt-in Load-Serving Entity (LSE) and generate LCFS credits. The City will acquire credits on a quarterly basis and may subsequently sell credits to LCFS regulated parties (RPs) who generate credit deficits by not meeting quarterly carbon intensity goals set by the LCFS. RPs who generate LCFS deficits are typically petroleum importers, refiners and wholesalers including Valero Marketing and Supply, Shell Oil Products, and Chevron Products Company.

LCFS Credit Generation Opportunities

By registering for the LCFS as an EDU, the City will generate credits for all City-owned non-residential electric vehicle (EV) chargers that are used to provide fuel to EVs. Those credits are generated based on metered data and would be reported to CARB on a quarterly basis by City staff.

As an EDU serving residential EV charging loads, the City will also obtain LCFS credits based on the amount of electricity required to fuel EVs in our service territory through residential EV charging. Credits generated for residential charging are calculated based on a cumulative amount of rebates that have been used towards purchased EVs registered in the City's electric service territory through the Clean Vehicle Rebate Project (CVRP) since 2011. Credits generated for residential EV charging are calculated by CARB.

There are also opportunities to generate LCFS credits for many different off-road electric vehicle categories, City-owned hydrogen stations, and electric forklifts used in the City's service territory which are unclaimed in the LCFS reporting tool.

Estimated Credit Generation

The City does not currently own any publicly-accessible EV charging stations, leaving no credit generation opportunities through reported EV chargers at this time. The City has issued a purchase order for two solar-powered EV charging stations to be located at the Lompoc Valley Medical Center, which are estimated to be delivered in December of 2021. The electricity dispensed to EVs through both of those chargers will be reported to CARB for the purpose of LCFS credit generation once they are delivered and available for use.

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As for the residential charging credit estimate, CARB staff has identified 130 EVs which have been: 1) purchased using a CVRP rebate; and 2) registered within the City's service territory. That cumulative total is current as of July 1, 2021. The CVRP forecasting team uses statewide EV mileage and electricity requirement averages, both approximated, for LCFS residential credit generation calculation purposes. Low carbon fuel providers like the City currently generate 2.65 LCFS credits per year, per EV.

Considering the above figures provided by CARB, the City has the potential to obtain approximately 344.5 credits annually by signing up for the LCFS. Also, as more residential electricity customers purchase EVs, using the CVRP rebate towards the purchase, the City's credit amount will continue to increase through the program's lifetime, as the credit generation total is cumulative.

In the past three years, LCFS credits have in general sold for a value of \$160 – \$199 per credit. Bearing in mind recent and historical LCFS credit values, the City's potential proceeds by registering as an EDU in the LCFS program is estimated to stand between \$50,000 - \$70,000 annually until the expiration of the LCFS program in 2030.

Potential Uses of LCFS Proceeds

Entities generating LCFS credits using electricity pathways are required to use the proceeds from those LCFS credits to benefit their customers and EV drivers, and to promote transportation electrification in California. The credit spending requirements within the LCFS regulation is defined very broadly, allowing the City flexibility in considering the use(s) of credit proceeds once available. Below are examples of allowable uses of LCFS proceeds:

- Providing rate options or incentives to encourage EV charging during off-peak hours to provide grid benefits, including the procurement of an integratable EV charger management software.
- Providing incentive or direct investment for installing residential or non-residential EV charging infrastructure, including electric infrastructure upgrades required to meet the needs of increasing energy demands.
- Providing incentive support for purchasing or leasing EVs or other electric transportation equipment (e.g. electric bikes, electric forklifts, electric buses, electric trucks, etc.).
- Providing on-bill credit or other incentives to promote use of electric transportation.
- Marketing, education and outreach programs to provide information to the public on the benefits of EV transportation. This includes information on the environmental, health and economic benefits of EV ownership, including comparisons of the total cost of an EV versus an internal combustion engine alternative.

The above examples of allowable uses of LCFS credit proceeds is not exhaustive. The City may use LCFS credit proceeds to support other transportation electrification projects which are not included in the list but would meet the LCFS requirements. The City may also choose to spend all electricity credit proceeds on a single program or project.

Spending Requirements for LCFS Credit Proceeds

LCFS credits do not expire, however, CARB requires all opt-in EDUs like the City to contribute a portion of generated credits to the California Clean Fuel Reward (CCFR) program, beginning with credits generated in 2023. For the purpose of this program, the City is considered a “small publicly-owned utility,” having served an annual load of approximately 137 GWh in calendar year 2017. According to the CCFR contribution categories in Table 1 and Table 2 below, the City will be obligated to contribute 2% of LCFS credit proceeds to the CCFR program. The City will also be required to pay a one-time start-up fee to contribute to the CCFR program upon commencement of credit sale transactions in 2023, approximated to cost \$5,000 – \$6,000. The City will have adequate LCFS credit proceeds generated through the next calendar year to incur the CCFR start-up fee.

Table 1

EDU Category	CCFR % Contribution (2019 – 2022)	CCFR % Contribution (2023 and onwards)
Large Investor-owned Utilities	67%	67%
Large Publicly-owned Utilities	35%	45%
Medium Publicly-owned Utilities	20%	25%
Small Publicly-owned Utilities	0%	2%

Table 2

EDU Category	Definition (per Section 95481(46) of LCFS Regulation)
Large Investor-owned Utilities	An IOU with annual load served equal to or more than 10,000 Gigawatt-hours (GWh) in 2017.
Large Publicly-owned Utilities	A California POU with annual load served equal to or more than 10,000 Gigawatt-hours (GWh) in 2017.
Medium Publicly-owned Utilities	A California POU with annual load served of less than 10,000 GWh and equal to or more than 700 GWh in 2017.
Small Publicly-owned Utilities	A California POU with annual load served of less than 700 GWh in 2017.

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The CCFR program is available to anyone who buys or leases a new electric vehicle with a battery capacity greater than 5 kWh from a participating automotive retailer. Customers who wish to participate in the program must register the vehicle in California and must provide proof of residency in California. Depending on the vehicle battery size, EV customers can get up to \$1,500 discounted on EV purchases using the CCFR.

Recent LCFS regulation amendments also require opt-in EDUs like the City to spend at least 50 percent of LCFS credit proceeds to support transportation electrification equity projects which benefit disadvantaged, low-income and rural communities, beginning with credits generated in 2022.

While none of the census tracts within the City are considered disadvantaged communities, per SB 535, a majority of the City's census tracts are considered Low-Income Communities (LIC), per CARB's California Climate Investments Priority Populations Map (Attachment 4). Incentives or direct investments, which assist the development of EV charging infrastructure in an LIC, would assist with following this guideline. Below are some examples of equity projects the City would be obligated to use a minimum of 50% of LCFS proceeds towards:

- Electrification and battery swap programs for school or transit buses.
- Investment in public EV charging infrastructure and EV charging infrastructure in multi-family residences.
- Investment in electric mobility solutions, such as EV sharing and ride hailing programs.
- Multilingual marketing, education and outreach designed to increase awareness and adoption of EVs and clean mobility options, including information about: the environmental, economic, and health benefits of EV transportation; basic maintenance and charging of EVs; electric rates designed to encourage EV use; and local, state, and federal incentives available to use towards EV purchases.
- Additional rebates and incentives for low-income individuals beyond existing local, federal and state rebates and incentives for purchasing or leasing new or previously owned EVs, installing EV charging infrastructure in residences, promoting use of public transit and other clean mobility solutions, and offsetting costs for residential or nonresidential EV charging (e.g. permitting fees and electric infrastructure upgrades).

The LCFS registration form (Attachment 2) and a cover letter (Attachment 3) are the only documents required by CARB to join the LCFS program as an opt-in EDU. There are no deadlines or registration periods; the City is able to join the LCFS program at any time.

NCPA Member Feedback and Experiences with LCFS

City of Healdsburg

The City of Healdsburg owns eight publicly-accessible EV charging stations, and recently signed up for the LCFS program in 2019. They have yet to sell any of their credits, and are in the review and preparation stage for LCFS-funded programs once they start selling credits. They have not incurred a CFR start-up fee yet, as they have not sold any of their credits since joining the LCFS program.

Healdsburg staff encouraged us to offer programs for school buses, e-bikes, and used EVs for residents. Healdsburg currently offers an electric discount for residential EV charger owners using Public Benefit (PB) funds, as well as a rebate for electric bikes and cars.

City of Colton

The City of Colton has been involved in the LCFS since the program's inception. Their intent to join the program and offer EV charging was to be involved and implement a control on the local EV charging market, as they didn't want the community to be solely susceptible to 3rd party profiteers (EVCS network providers).

Colton uses LCFS proceeds as the sole mechanism of funding to offer EV-related programs, such as an EV charger rebate program, an electric rate discount for EV owners, and a used EV program, as they are not comfortable using PB funds to use towards transportation electrification programs. Colton also used a SCPA support service contract to create an educational website to assist their community in exploring local, state and federal incentives for EVs using approximately \$12,000 of LCFS funds, as there is a plethora of local and state programs for all current or potential EV owners which many are unaware of.

Fiscal Impact:

There is no direct impact to the City's General Fund due to the adoption of Resolution No. 6464(21) approving submittal of registration documents to the California Air Resources Board to enroll the Electric Division in the Low Carbon Fuel Standard program. There are also no additional direct fiscal impacts to the City's Electric Utility Fund because there are no expenditures related to registering in the LCFS program. Any resulting programs or projects which use LCFS credit proceeds will be budgeted.

The Northern California Power Agency (NCPA) and its members maintain a registered LCFS broker who will assist with selling credits generated by the City through the LCFS program using existing resources, allowing the City to sell LCFS credits generated with no additional fiscal impact. Upon commencement of LCFS credit sale transactions in 2023, the City will incur a one-time start-up fee to contribute to the CCFR program, approximated to cost \$5,000 – \$6,000. The one-time start-up fee will be paid using LCFS

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proceeds generated through the 2022 calendar year. A total of 2% of all LCFS credit proceeds will also be transferred to the CCFR program annually beginning with credits generated in 2023, per LCFS credit proceed spending requirements.

LCFS reporting requirements for the City are estimated to take a maximum of 5 administration hours annually, including four quarterly reports and one annual report. Administrative costs to complete reporting requirements amounts to less than \$200 annually. Staff does not foresee quarterly reporting to be a time-intensive procedure and annual reporting will solely encompass detailing LCFS credit generation figures and expenditures or plans for those credits, which is marginal as well.

Conclusion:

In reviewing the potential benefits and drawbacks of the City joining the LCFS program, the benefits incurred by joining LCFS for the City and Lompoc community outweigh the drawbacks. Any programs or projects carried out by the City using LCFS credit proceeds will be limited to available funding and will be evaluated annually through budgeting processes. Any programs or projects will assist in encouraging transportation electrification in Lompoc, helping meet the increasing demand for EVs and the subsequent need for more EV infrastructure.

As the City waits to join the program, LCFS credits which could be used to further assist the City and Lompoc community in all facets encompassing transportation electrification are being forfeited. If the City does not foresee offering EV charging as a service in the future, the City can still leverage LCFS credit revenues as a mechanism to fund transportation electrification support services (e.g. EV and e-bike rebates, EV charging permit and infrastructure fee reductions, educational resources, etc.).

Upon City Council approval and adoption of Resolution No. 6464(21), staff will submit LCFS registration documents to CARB, uptake and complete all LCFS reporting requirements, and further strategize the use of LCFS funds towards transportation electrification programs or projects in Lompoc.

Respectfully submitted,

Steven Valle, Utility Conservation Coordinator

APPROVED FOR SUBMITTAL TO THE CITY MANAGER:

Charles Berry, Utility Director

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APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:

Jim Throop, City Manager

- Attachments:
- 1) Resolution 6464(21) Approving Submittal of Registration Documents to CARB to Enroll the City of Lompoc's Electric Division in the LCFS Program
 - 2) Executed Cover Letter for LCFS Account Registration
 - 3) Executed LCFS Reporting Tool and Credit Bank & Transfer System Account Registration Form
 - 4) AB 1550 Low Income Communities Priority Populations Map