

SB 1383 Pilot Financial Mechanism

Industrial Strategies Division
Transportation Fuels Branch



CALIFORNIA
AIR RESOURCES BOARD

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Sacramento, CA

Introduction

- SB 1383 directs ARB to *“develop a pilot financial mechanism to reduce the economic uncertainty associated with the value of environmental credits, including credits pursuant to the Low-Carbon Fuel Standard regulations (Subarticle 7 (commencing with Section 95480) of Title 17 of the California Code of Regulations) from dairy-related projects producing low-carbon transportation fuels.”*

Agenda

- Draft White Paper Released
- Brief discussion of potential financial mechanism alternatives
- Information/Feedback Needed

Draft White Paper

- Draft white paper was released this Monday, May 21st, 2018.
- Includes:
 - Description of the alternative financial mechanisms considered
 - Current staff thinking on the potential design aspects of the financial mechanism
 - Staff's analysis on the funding needed to implement the financial mechanism
 - Staff's thoughts on what organizations could run the program
- Link to Draft White Paper:
<https://www.arb.ca.gov/cc/dairy/dsg2/pilot-financial-mechanism-white-paper.pdf>

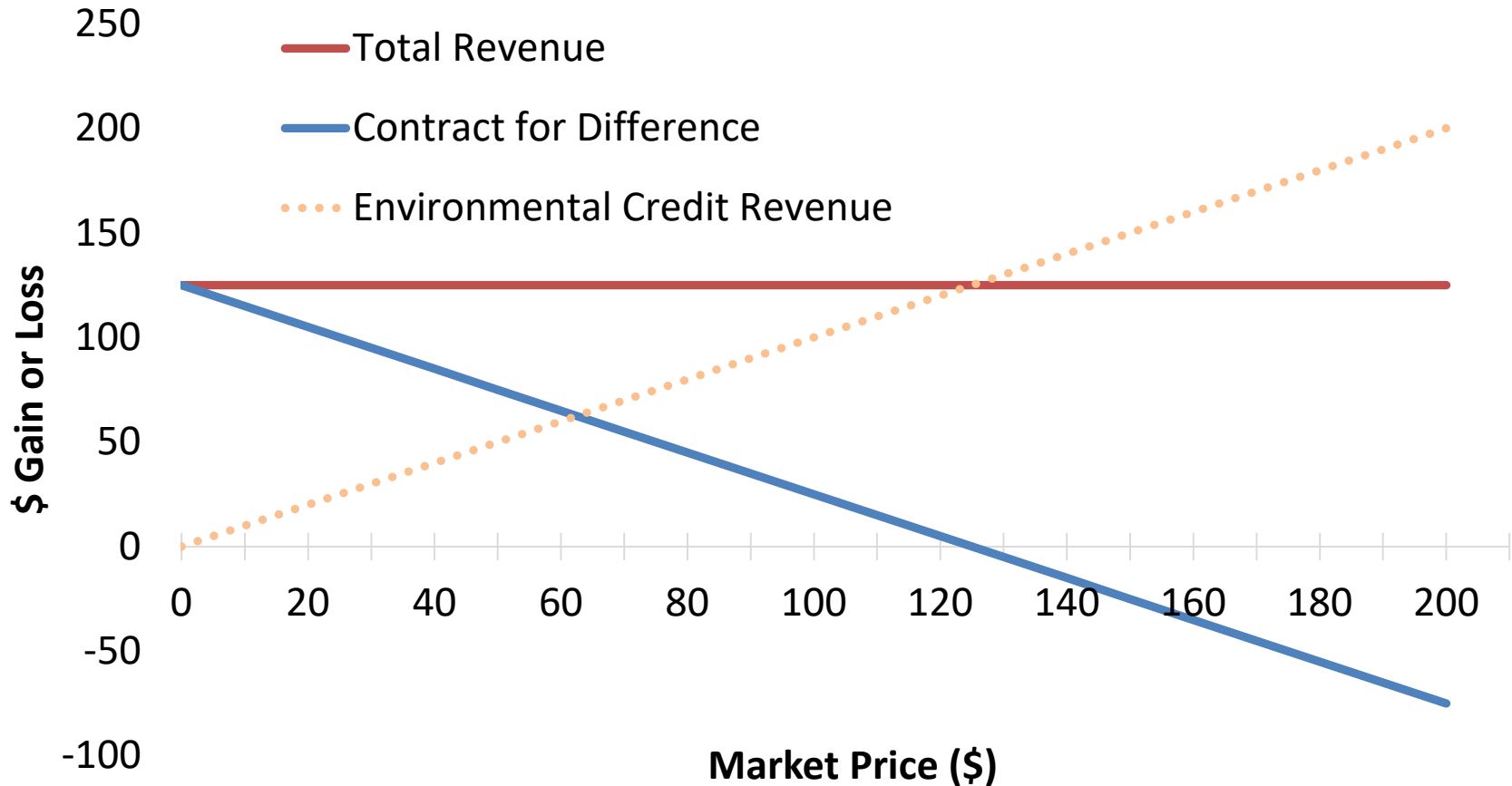
Possible Pilot Financial Mechanisms

- Two mechanisms are considered: Contracts for Difference and Put Options.
- Both mechanisms will reduce the risk of dairy digester projects substantially.
- Risk is not eliminated – some risk is transferred to the Program Administrator.

Possible Mechanism: Contracts for Difference

- 1. Contracts for Difference (CfD):** the program administrator (**Administrator**) will guarantee the fuel producer (**Producer**) a certain value for environmental credits (**Strike Price**) for a specified period of time (**Contract Period**).
 - If market prices of the environmental credits (**Market Price**) are lower than the Strike Price, the Administrator will pay the Producer the difference.
 - If the Market Price of the environmental credits is higher than the Strike Price, the Producer will pay the Administrator the difference.

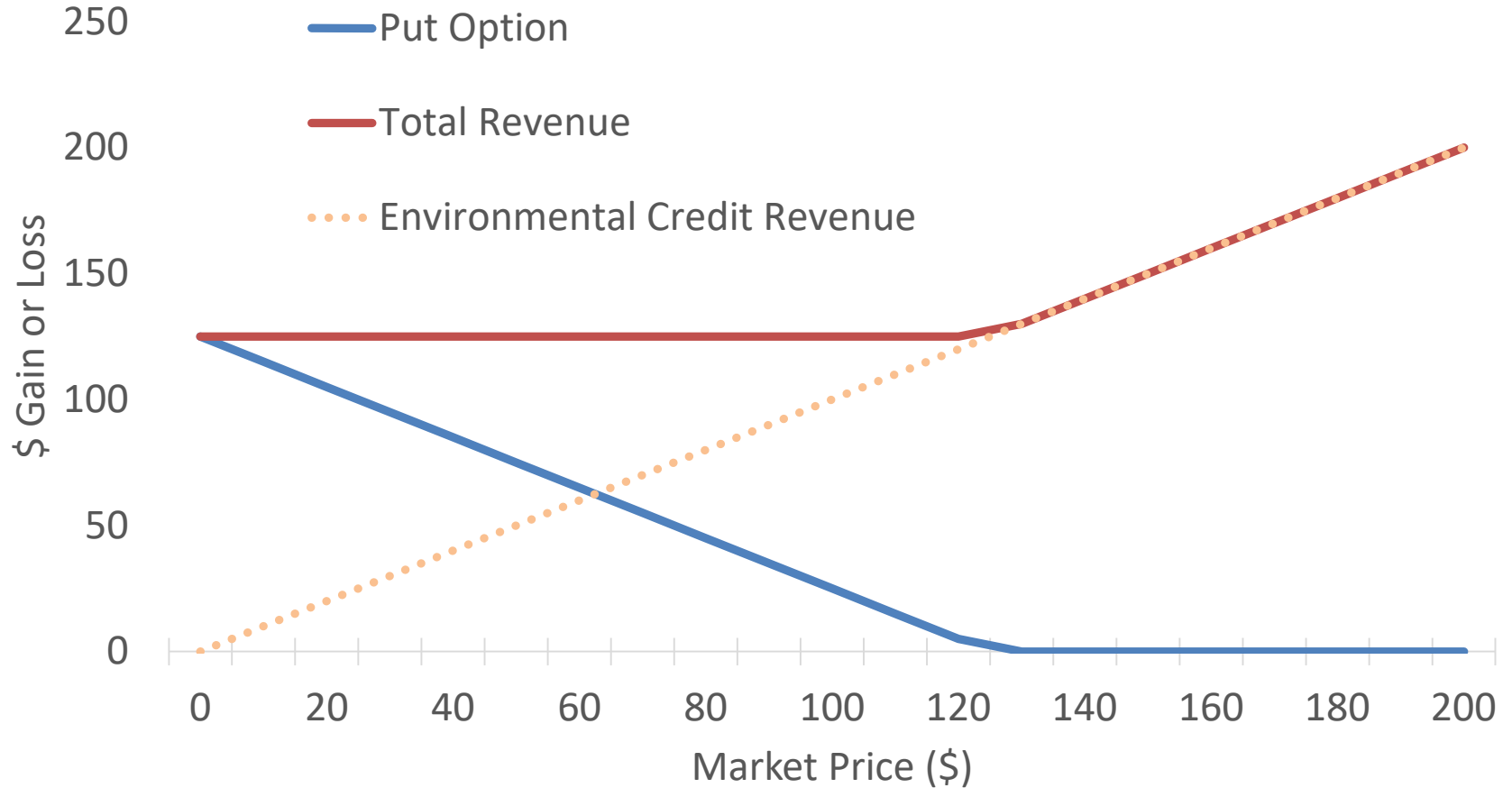
Example: Contracts for Difference



Possible Mechanism: Put Options

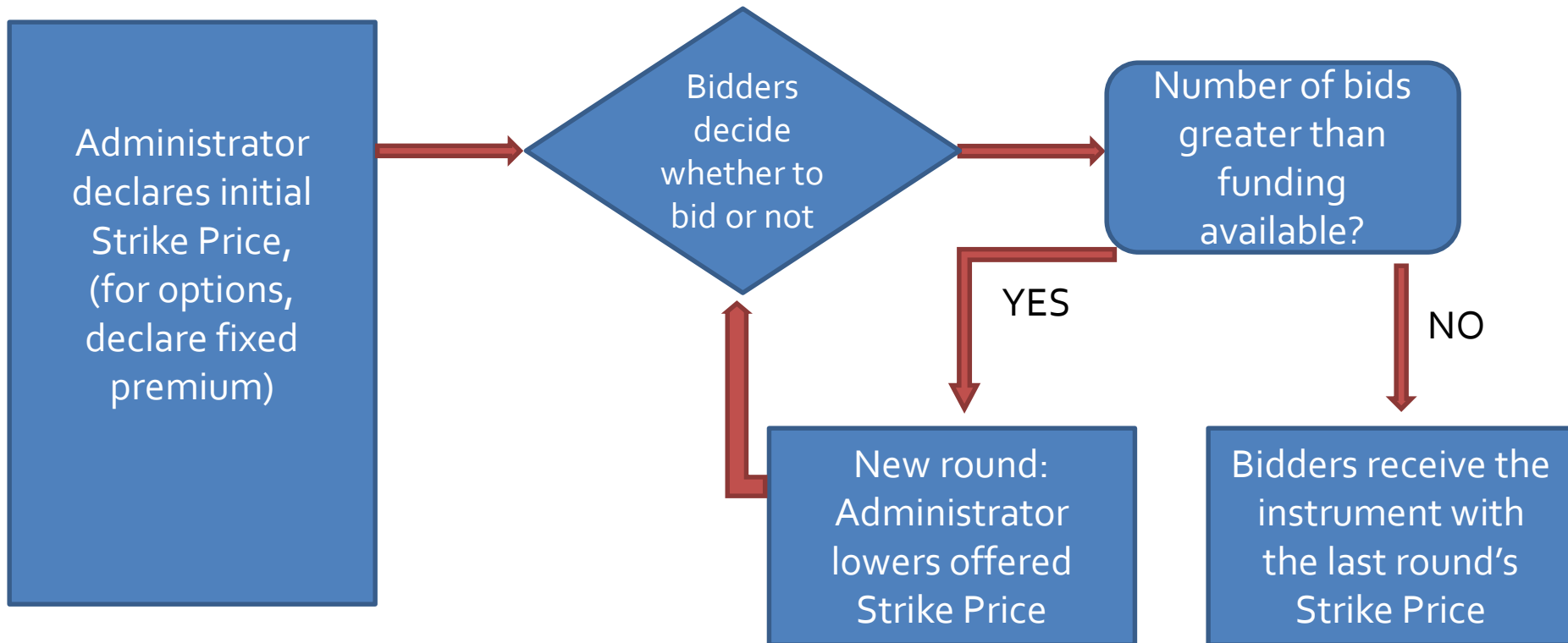
2. **Put Option:** Similar to a price insurance, the Administrator will guarantee a minimum value for the environmental credits for a specified period of time.
 - The Producer will pay the Administrator the price of the option (**Premium**). Proceeds will be used exclusively to fund the future payments by the mechanism.
 - If the Market Price is lower than the Strike Price, the Administrator will pay the Producer the difference.
 - If the Market Price of the environmental credits are higher than the Strike Price, then no money is exchanged.

Example: Put Options



Determination of Strike Price

- The Strike Price for both CfD and Put Options could be determined by a reverse auction



Determination of Market Price

- Current staff thinking is to include the widest definition of project revenues for the market price.
 - Value of LCFS credits
 - Value of RFS credits
 - Value from fuel sale
 - Any other future environmental credit generated by the sale or use of the fuel

Potential Administrators

- California State Treasurer: e.g. the California Pollution Control Financing Authority
- CEC
- CDFA
- Independent non-profit organization: e.g. Climate Trust
- CARB: not recommended since agency influences prices of LCFS credits, a major revenue components for projects.

Information/Feedback Needed

- Preferred mechanism
- Market price: what values to include (LCFS, RFS, fuel sale?)
- Auction mechanics
 - Will there be enough bidders to make auctions competitive?
- Adjustments to contracts for projects which received grants
- Additional suggestions on most appropriate administrator

Questions/Feedback

For questions please contact:

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Please send your comments to the Dairy and Livestock Subgroup #2 Comments Docket, which can be found at the bottom of this link:

<https://www.arb.ca.gov/cc/dairy/dsg2/dsg2.htm>