

REGIONAL TRANSIT ISSUE PAPER

Agenda Item No.	Board Meeting Date	Open/Closed Session	Information/Action Item	Issue Date
9	04/25/16	Open	Action	04/05/16

Subject: Declaring RT's Low Carbon Fuel Standards Carbon Credits and Renewable Identification Number Credit Surplus Property and Authorizing the General Manager/CEO to Dispose of the Said Property

ISSUE

Whether or not to declare RT's Low Carbon Fuel Standards (LCFS) Carbon Credits and Renewable Identification Number (RIN) Credits Surplus Property pursuant to Chapter 2 of RT's Procurement Ordinance and authorize the General Manager/CEO to dispose of the surplus RINs and LCFS accrued up to June 30, 2017.

RECOMMENDED ACTION

Adopt Resolution No. 16-04-____, Declaring RT's Accrued Low Carbon Fuel Standards (LCFS) Carbon Credits and Renewable Identification Number (RIN) Credits Surplus Property Pursuant to Chapter 2 of RT's Procurement Ordinance and Authorizing the General Manager/CEO to Dispose of the Surplus RINs and LCFSs Credits.

FISCAL IMPACT

Approval of this resolution will enable RT to receive funds for the sale of LCFS and RIN credits, which have and will accumulate in RT's California Air Resources Board and Environmental Protection Agency (EPA) Central Data Exchange (CDX) accounts respectively. The estimated fair market value of the accumulated credits net of broker commissions as of June 2016 is estimated at \$1,200,000. Budgeted revenues for LCFS and RIN credits for Fiscal Year 2016 and Fiscal Year 2017 are \$930,000 and \$1,200,000, respectively.

DISCUSSION

On January 19, 2007, Executive Order S-1-07 enacted an LCFS directive. The LCFS directive requires oil refineries and distributors to ensure that the mix of fuel they sell in the California market meets the established declining targets for greenhouse gas (GHG) emissions, measured in CO₂-equivalent grams per unit of fuel energy sold for transport purposes. The LCFS directive calls for a reduction of at least 10 percent in the carbon intensity of California's transportation fuels based on 2010 levels, by 2020. These reductions include not only tailpipe emissions, but also all other associated emissions from the production, distribution and use of transport fuels within the state. Therefore, California LCFS considers the fuel's full life cycle, also known as the "well to wheels" or "seed to wheels" efficiency of transport fuels. The standard also aims to reduce the State's dependence on petroleum, create a market for clean transportation technology, and stimulate the production and use of alternative, low-carbon fuels in California. The LCFS program mixes command and control regulation, and emissions trading to achieve its goal of reducing emissions, as it relies upon market-based mechanisms that allow providers to choose how they will reduce emissions while responding to consumer demand. Participants of the LCFS program like RT become market participants by opting into the California Air Resources Board's LCFS program as a regulated entity. RT applied for and began receiving LCFS credits for the quarter

Approved:

Presented:

Final 04/18/16

General Manager/CEO

Manager, Accounting

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ended December 31, 2014. As a regulated party, RT earns credits by dispensing and consuming compressed natural gas (CNG) for its bus fleet.

In addition to the LCFS program under the State of California's carbon credit regulatory scheme, RT is also a market participant in the Federal Environmental Protection Agency's (EPA) Renewable Fuel Standard Program, which aims to encourage the migration by producers and refiners away from traditional fossil fuels toward the development and use of renewable fuels like biogas rather than traditional CNG. In May 2015, RT migrated away from the use of standard Compressed Natural Gas (CNG) to biogas under an agreement with the State of California, Department of General Services (DGS). Pursuant to the terms of that agreement, RT began receiving RIN credits. Each gallon of biofuel is assigned an individual identification number known as a RIN, when the biofuel is blended by a refiner, the RINs are "separated" and they become tradable/sellable carbon credits that can be sold, traded, retired or held by market participant who owns them.

RT staff estimates that RT will accumulate 9,000 LCFS carbon credits and 160,000 RIN credits that will be available for sale prior to June 30, 2016. In accordance with accounting rules governing revenue recognition, RT will need to sell these credits prior to the end of the fiscal year, if RT wants to record the revenue as of June 30, 2016. Before RT can sell the LCFS carbon credits, RT's Board must declare the credits surplus property pursuant to Chapter 2 of RT's Procurement Ordinance. Staff recommends that the Board declare RT's current allotment of LCFS and RIN credits surplus property.

At this time, RT does not have a Board adopted Policy or Plan for the sale of its LCFS and RIN credits. Consequently staff does not have the authority to sell the carbon credits. While staff is working on developing a comprehensive plan for presentation to the Board later this calendar year, there is a current pressing need to sell RT's LCFS and RIN carbon credits, because there is strong indication that the LCFS market is peaking and RT's RINs are close to their full shelf life. If the Board agrees to declare all of RT's currently accrued LCFS and RIN credits, and all LCFS and RIN credits to be earned between now and June 30, 2017, the General Manager/CEO will authorize release of a Letter of Solicitation (LOS) to hire a broker on a short term contract expiring June 30, 2017 to sell RT's carbon credits. RT does not have the internal expertise to sell its carbon credits on the open market. To ensure that RT obtains the maximum value for its LCFS and RIN credits and that the process of transferring the credits is followed, RT staff would like to employ a broker with expertise and experience in the sale of such carbon credits. Based on the current value of RT's LCFS and RIN credits, staff has estimated that the total fees RT will incur through use of a broker are below the threshold for issuance of an RFP. Instead, RT may rely on a more informal LOS, which gives RT much more flexibility and can generally result in a contractor being hired within weeks, rather than the months a full blown RFP will require. In the meantime, RT staff will work on developing an RFP and Carbon Credit Disposition Policy for the Board's consideration. Staff's goal is to secure the Board's approval of a multi-year plan for the disposition of credits over the next 3 to 5 years.

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In the short term, staff requests that the Board declare all LCFS and RIN credits earned through June 30, 2017 as surplus property and authorize the General Manager/CEO to dispose of the credits through a qualified broker.

RESOLUTION NO. 16-04-_____

Adopted by the Board of Directors of the Sacramento Regional Transit District on this date:

April 25, 2016

DECLARING RT'S ACCRUED LOW CARBON FUEL STANDARDS (LCFS) CARBON CREDITS AND RENEWABLE IDENTIFICATION NUMBER (RIN) CREDITS SURPLUS PROPERTY PURSUANT TO CHAPTER 2 OF RT'S PROCUREMENT ORDINANCE AND AUTHORIZING THE GENERAL MANAGER/CEO TO DISPOSE OF THE SURPLUS RINS AND LCFS CREDITS

BE IT HEREBY RESOLVED BY THE BOARD OF DIRECTORS OF THE SACRAMENTO REGIONAL TRANSIT DISTRICT AS FOLLOWS:

THAT, the Board hereby declares RT's Low Carbon Fuel Standards (LCFS) carbon credits earned through the California Air Resources Board Low Carbon Fuel Standard Program accrued through June 30, 2017, surplus property pursuant Chapter 2 of RT's Procurement Ordinance; and

THAT, the Board hereby declares RT's Renewable Identification Numbers (RINs) carbon credits earned through the Federal Environmental Protection Agency Renewable Fuel Standard Program accrued through June 30, 2017, surplus property pursuant to Chapter 2 of RT's Procurement Ordinance; and

THAT, the Board hereby authorizes the General Manager/CEO or his/her designee to sell RT's LCFS and RIN credits through the employment of a broker or other authorized dealer of LCFS and RIN credits; and

THAT, the General Manager/CEO is authorized to execute any agreement, document, contract or other form(s) necessary to effectuate the sale of RT's LCFS and RIN credits.

JAY SCHENIRER, Chair

A T T E S T:

MICHAEL R. WILEY, Secretary

By: _____
Cindy Brooks, Assistant Secretary