By lowering allowance prices under Cap-and-Trade, the LCFS benefits the bottom line of all regulated industries and California’s economy as a whole, making emissions goals more affordable and achievable.

ICF forecasting found that the stronger the LCFS, the cheaper Cap-and-Trade allowances become, enhancing the cost-effectiveness of the program.

By 2030, a 20% carbon intensity reduction target cuts the overall Cap-and-Trade allowance price in half.

How a Stronger LCFS Makes Cap-and-Trade More Affordable

The Cap-and-Trade Program relies on the state’s Low Carbon Fuel Standard (LCFS) to spur innovation and diversity in California’s transportation fuels market.

The Cap-and-Trade Program lacks an adequate price signal to encourage fuel diversification.

Refiners and oil producers typically buy allowances rather than reduce emissions, and pass the costs on to consumers. This does nothing to encourage fuel diversification.

The LCFS steps in to create fuel diversity while reducing emissions.

By requiring gasoline and diesel providers to reduce the carbon intensity of their fuels by 10% by 2020, the LCFS lowers overall carbon emissions, lowering the cost of compliance in the Cap-and-Trade Program.

Under the LCFS, producers of high-carbon fuels create deficits, while suppliers of low-carbon fuels create credits. Producers with deficits buy credits from lower-carbon fuel suppliers. The funds are then directly invested in the low-carbon fuel market, sending a price signal that supports fuel diversity.

Allowance Costs Under Different LCFS Carbon Intensity Targets

<table>
<thead>
<tr>
<th>Carbon Intensity Reduction Targets</th>
<th>Allowance Price Per M/T</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$33/MT</td>
</tr>
<tr>
<td>15%</td>
<td>$36/MT</td>
</tr>
<tr>
<td>20%</td>
<td>$40/MT</td>
</tr>
</tbody>
</table>

By 2030, a 20% LCFS lowers allowance price by half.
The LCFS addresses key barriers that keep low-carbon fuels off the market, creating competitiveness in the fuels sector.

Stronger LCFS carbon intensity reduction targets can reduce dependence on oil even more by increasing fuel diversity:

- By 2030, a 15% carbon intensity reduction target will reduce 18% more oil use than a 10% target, while a 20% target will reduce oil use by 26%.

Read the full ICF report here: www.caletc.org/capandtradelcfsreport

For more information contact CalETC’s Eileen Tutt, Eileen@caletc.com, (916) 551-1943