

California LCFS insurance product rolls out

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San Francisco, 22 August (Argus) – Market participants in California's Low-Carbon Fuel Standard (LCFS) may now be able to seek out a measure of protection as credit prices hover close to \$200/metric tonne.

Energy and climate risk finance company Parhelion has rolled out an insurance product designed for the fuels program and concerns around the validity of compliance credits. "We want to do what insurance has always done best, which is to add liquidity and certainty to new markets," Parhelion US director Mike Newman said.

The firm will underwrite insurance policies, backed by Lloyd's of London, that will replace invalidated LCFS credits and cover any associated penalties. It is the first such product offered for the California program, according to Newman.

The Air Resources Board (ARB) has reached five different settlements for LCFS violations, dating back to 2017. Some of the penalties were tied to [misreported data](#), while others involved a failure to retire a sufficient amount of credits.

The ARB also carries out "account balance adjustments" for more minor errors, including 14 this year that have led the agency to add 245 deficits and remove 5,403 credits from companies' accounts.

The LCFS requires a 20pc reduction in the carbon intensity of transportation fuels by 2030 and measures compliance in terms of deficits and credits. Fuels with carbon intensity scores below the program targets generate credits, while fuels with higher scores generate deficits.

The demand for an insurance product may grow as the LCFS market expands, more participants enter and credit prices near all-time highs.

Argus assessed the California LCFS credits for spot delivery at \$198/t yesterday.

The ARB last year adopted a series of changes to the LCFS that included a third-party verification system. The measure should help reduce the risk of later credit invalidation or fraud.

But Newman thinks insurance can still play a role.

"Our view is that things like verification generally are good for the market, but they do not quite go all the way that an insurance policy would go," Newman said.

Parhelion also offers insurance for carbon offsets associated with California's cap-and-trade program and credits in the federal Renewable Fuels Standard.

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