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Dairy Cares Comments on October 23, 2017 Renewable Natural Gas Section of Draft IEPR

Additional submitted attachment is included below.

November 13, 2017

California Energy Commission
Dockets Office, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512

RE: **17-IEPR-10 Dairy Cares Comments on the October 23, 2017 Renewable Natural Gas Section of Draft IEPR**

Dear Chair Weisenmiller and Energy Commission Staff:

Dairy Cares[1] is pleased to provide the following comments on the 2017 Draft Integrated Energy Policy Report ("Draft IEPR"). This year's IEPR fills an important role in meeting the State's ambitious Short Lived Climate Pollutant ("SLCP") reduction targets because SB 1383 (Lara, Chapter 395, Statutes of 2016) calls on the CEC to identify and prioritize the development of cost effective opportunities for renewable natural gas development. Dairy Cares members were deeply engaged in the development of SB 1383, including the provisions relating to the IEPR. In setting the aggressive 40% by 2030 SLCP emissions reduction target, the Legislature recognized the integral role California dairies will play in meeting these targets. In directing the Commission to evaluate cost effective strategies, the Legislature also correctly recognized the need to prioritize near-term solutions at least cost.

As discussed below, Dairy Cares supports the findings and recommendations provided in the Renewable Gas chapter of the Draft IEPR. In particular, the Draft IEPR addresses the need to consider economic potential when considering the technical potential of renewable gas development in California. The Draft IEPR accurately portrays the cost effectiveness of existing dairy digester technologies and the need to focus on near-term development of dairy digester technologies as the State pursues the aggressive SLCP targets.[2] Streamlining and expanding existing state programs that create opportunities for in-state dairy digester development is the best way for California to realize the reductions required by SB 1383. Such focus will also best protect against emissions leakage risks as the California Air Resources Board evaluates the need

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[1] Formed in 2001, Dairy Cares (www.dairycares.com) is a coalition of California's dairy producer and processor organizations, including the state's largest trade associations representing dairy farmers (*California Dairy Campaign, California Farm Bureau Federation, Milk Producers Council and Western United Dairymen)*, other cattle ranchers (*California Cattlemen's Association*) and the largest milk processing companies and cooperatives (including *California Dairies, Inc., Dairy Farmers of America-Western Area Council, Hilmar Cheese Company, and Land O' Lakes, Inc.*), and others with a stake in the long-term environmental and economic sustainability of California dairies.

[2] Draft IEPR at p. 261.

for any mandatory emission reduction measures in the dairy sector. As noted by the ARB during the IEPR workshop on renewable gas, voluntary incentive-based installation of digesters may obviate the need for mandatory reduction measures in the dairy sector.[3] If fulfilled, the recommendations for renewable gas development in the draft IEPR chapter could achieve this goal and avoid potential job loss and emissions leakage that may result from any future emission reduction requirements. For these reasons, Dairy Cares supports the adoption of the 2017 Draft IEPR.

1. **Dairy Cares Supports the Characterization of Dairy Digester Development as a Cost Effective SLCP Strategy.**

SB 1383 states that "priority shall be given to fuels with the greatest greenhouse gas emissions benefits."[4] Unlike other covered sectors that are already subject to SLCP control measures, dairy sector SLCP emissions are not subject to direct regulation. Dairy also represents one of the largest sectors subject to SB 1383 in terms of the overall volume of SLCP emissions. Simply put, the dairy sector faces some of the greatest risks for emissions leakage in California, and at the same time, the sector has some of the greatest opportunities for achieving effective, near term emissions reductions. The Draft IEPR properly characterizes dairy digester development as a cost-effective strategy in concluding that "[t]his 2017 Integrated Energy Policy Report has revealed that renewable gas produced from anaerobic digestion used as a transportation fuel in near-zero emission, heavy-duty vehicles is the most likely near-term solution. Projects at dairies or utilizing organic waste diverted from landfills offer significant short-lived climate pollutant reductions."[5]

2. **Existing Policies Can and Will Support Renewable Gas Development and There is No Need for New Programs to Encourage RNG Development.**

The Draft IEPR discusses how renewable gas development is already encouraged in a variety of ways.[6] Developers can pursue grants from the California Department of Food and Agriculture, San Joaquin Valley Air Pollution Control District, US Treasury tax programs and USDA farm incentives. The primary sources of incentive-based revenue include the ARB's Low Carbon Fuel Standard ("LCFS") and Cap-and-Trade offset (livestock protocol) programs, the US EPA's Renewable Fuel Standard program ("RFS"), and the BioMAT program for electricity generation projects. Each of these resources provide financial options for dairy and organic waste digester developers.

The dairy sector is evidence of the effectiveness of the state's existing programs. Six new dairy digester projects have been built in 2017 with support from the CEC and California Department of Food and Agriculture. Eighteen additional projects were recently awarded grants by CDFA through their highly cost-effective Dairy Digester Research and Development Program. While previous dairy digester projects have focused on electricity production, all eighteen of the new projects support or produce transportation fuel and will be further

[3] See Transcript from June 27, 2017 IEPR Workshop at pp. 25-27.
[4] Cal. Health and Safety Code Sec. 39730.8(e).
[5] Draft IEPR at pp. 292 – 293.
[6] Draft IEPR at p. 291.

incentivized by the state's LCFS program. CDFA will be awarding additional funding in 2018 that is expected to support up to an additional 40 new projects that are already in various stages of design. All total, the state could have 100-120 dairy digester projects operating in California in the next 4-5 years, far surpassing the methane reduction efforts of every other state in the country. This rapid and successful expansion will be done entirely with existing programs and the ongoing commitment of the Brown Administration. For these reasons, Dairy Cares supports the Draft IEPR's recommendation to "focus on near-term opportunities that maximize GHG emissions reduction benefits."[7]

3. The CEC Should Focus on Improving Existing Programs, Specifically the LCFS Financial Mechanism.

There are three areas the state should focus its efforts to improve the existing programs: creating greater certainty, reduction of administrative burden, and expanding available funding. Many of the incentive programs require a considerable amount of time to complete the grant applications, apply for fuel pathways, and demonstrate initial and ongoing compliance with fuel pathways and offset protocols. The time and resources needed to apply for and obtain the various incentives takes away from time that could be spent actually developing projects. To the extent that the state can harmonize programs through common reporting and verification requirements, the state will enable the pursuit of more projects. In addition, as more funding becomes available, the agencies should consider designing grant programs that have guaranteed funding awards when certain criteria are met.

The LCFS pilot financial mechanism for dairy projects is a key state policy discussed in SB 1383. The Draft IEPR notes that this policy will help facilitate financing for dairy digester projects.[8] Historically, prices in the LCFS credit market have been subject to considerable fluctuation. We are hopeful that as the ARB considers new program refinements next year, there will be greater certainty in the program and prices may begin to stabilize over the longer term. However, in the near term, there is market uncertainty, which has hindered financing for projects that rely on the LCFS credit markets. There is a clear need for the ARB to expeditiously develop and implement the pilot financial mechanism in the near term in order to ensure that projects can obtain financing and proceed to development within the timeframe envisioned in SB 1383 (i.e., before mandatory measures are considered in 2025). To this end, the Draft IEPR should recommend that the ARB develop and implement a pilot financial mechanism as soon as possible.

4. Costs of Renewable Gas Development Should Not Fall on Utility Gas Customers.

A critical component of developing future renewable gas policies is to ensure that the costs of meeting the policies should not simply be shifted to natural gas customers simply because they are captive, and the utilities are already regulated entities by the State. To this end, it is not clear how a renewable gas standard (as suggested by SoCal Gas) would benefit end-use gas customers. It is also not clear why gas customers should be required to pay for an expensive renewable gas standard when end use gas emissions are already covered by the cap-and-trade.

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[7] Draft IEPR at p. 292.
[8] Draft IEPR at p. 294.

The potential cost of even a modest RGS standard could be as much as $1,500 MTCO2(e).[9] Such extraordinary costs would be a burden for California's dairy production and processing industry. Dairy processors (and other users of natural gas) would effectively pay for GHG costs twice if the state pursued a renewable gas standard. GHG costs are already included in natural gas insofar as the natural gas sector has been part of the cap-and-trade program since 2015. Capped entities, such as dairy processors are also purchasing GhG allowances to offset their emission of CO2e caused by natural gas usage at their facilities. Duplicative costs of a renewable gas standard would create new leakage risks for gas consumers, which is a particular concern for the dairy sector. Dairies cannot pass on additional regulatory costs due to an inability to control milk prices and significant competition from national and global competitors.

Instead of simply looking to gas customers, the costs should be shifted to those that actually benefit from increased renewable gas development. For example, renewable gas development provides considerable benefits for the transportation sector in terms of criteria pollutant reductions and vehicle efficiency improvements. Moreover, passing costs of renewable gas to the transportation sector can help facilitate a choice as between different technologies (e.g, CNG vs. other low or no-emission technologies). In a similar vein, Dairy Cares also supports the Draft IEPR's recommendation that the waste sector should pay for renewable gas development through increased tipping fees.[10] Finally, to the extent that state programs are used to further renewable gas development, it is critical that these programs benefit in-state projects, to the exclusion of out-of-state projects. The CEC and other state agencies should review and consider program changes that further this in-state focus.

Conclusion

The Draft IEPR recommendations will play a critical role in the implementation of SB 1383. Dairy Cares supports the Commission's identification of cost effective SLCP emission reduction strategies that maximize total SLCP emission reductions. Dairy Cares supports the Commission's stated focus on maximizing emissions reductions from anaerobic digestion in the dairy sector. The dairy sector represents the largest and most cost-effective opportunities for SLCP emission reductions. Dairy Cares looks forward to continuing to work the Commission and staff in the successful implementation of SB 1383.

Respectfully submitted,

/s/

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[9] Draft IEPR at p. 276.
[10] Draft IEPR at p. 295.