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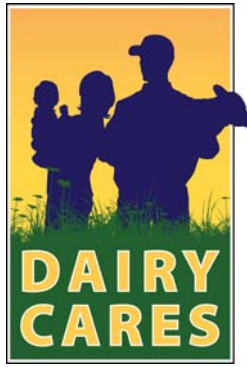
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Additional submitted attachment is included below.



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

**RE: 17-IEPR-10 Dairy Cares Comments on June 27, 2017 Renewable Gas Workshop
and Staff White paper**

Dear Chair Weisenmiller and Energy Commission Staff:

Dairy Cares¹ is pleased to provide the following comments on the CEC's implementation of Senate Bill ("SB") 1383 (Lara), Chapter 395, Statutes of 2016. 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 Short Lived Climate Pollutant ("SLCP") emissions reduction target, the Legislature recognized the integral role California dairies will play in meeting these targets. SB 1383 directs the Commission to identify and prioritize cost effective opportunities for achieving the SLCP reduction targets. The timely implementation of this requirement is critical as the dairy industry is working with the Air Resources Board ("ARB"), California Department of Food and Agriculture ("CDFA") and other state agencies to expeditiously reduce manure methane emissions through voluntary projects. The CEC will play a critical role in this endeavor. The CEC should focus its recommendations on maximizing near-term emissions reduction opportunities in the dairy sector. The Commission should focus its grant funding on existing cost-effective technologies and identifying areas where existing programs can be better coordinated and integrated.

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.

1. The Commission Should Focus Its Recommendations on Near Term Development Opportunities that Maximize GHG Emissions Benefits.

The SLCP reduction targets are especially ambitious for the dairy sector. SB 1383 sets a narrow window for the dairy sector to achieve a 40% reduction in manure methane emissions from 2013 emissions levels. As noted by the ARB staff at the June 27th workshop, the goal should be to achieve the emissions reductions before 2024 and avoid the need for mandatory control measures.² If the State does not focus and prioritize the various incentive programs, then California will see significant emissions leakage outside of the State. Dairies will not be able to pass the costs of mandatory manure management regulations onto customers due to the fact that the state sets the prices paid to dairy producers and competition with dairy production in other states for both national and international markets.³ The resulting emissions leakage would be counterproductive to the state's emissions goals and would have a significant local economic impact. Nearly all of California's dairies are family owned business and this emissions leakage would take a toll on the economic well-being in communities throughout the Central Valley, many of which are considered disadvantaged communities under SB 535.

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 have not been 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 Commission should therefore focus and prioritize its recommendations on the dairy sector.

2. The CEC Should Clearly Delineate Technical Potential for Renewable Gas Development from Cost Effective Opportunities for SLCP Reductions.

SB 1383 requires the Commission to identify “cost-effective strategies.” In this context, the Commission should focus on strategies that maximize benefits in terms of total GHG emissions reductions at least cost. Technology costs should be considered in conjunction with costs associated with emissions leakage. While it may be difficult to quantify the cost of emissions leakage (e.g., job loss, emissions occurring in other states, etc.), the Commission should nevertheless consider leakage as a critical cost to minimize by providing a qualitative discussion of this issue in the IEPR.

There was extensive discussion of the technical potential for renewable natural gas development at the June 27th workshop. However, there was little discussion of the costs of

² Cal. Health and Safety Code Sec. 39730.7(b)(4).

³ See Presentation of Dr. Sumner (May 23, 2017), available at:

https://arb.ca.gov/cc/dairy/documents/mainwgkickoff/ucd_presentation.pdf

⁴ Cal. Health and Safety Code Sec. 39730.8(e).

developing technologies. Consistent with the direction in SB 1383,⁵ the Commission should distinguish technologies for which there is no cost data or the cost data shows the technology is orders of magnitude higher than commercially available technologies. The CEC should focus on cost-effective, simple digesters that are reliable in real-world field settings. There are currently sixteen dairy digester projects operating in California, and at least five more are under construction.⁶ These figures highlight the existing viability and cost effectiveness of this technology. Equally important, CDFA recently received 36 applications requesting \$75 million in grant funding. With only \$27-36 million available, this program is oversubscribed by 2 to 3 times. Clearly, more funding needs to be made available.

The opportunity to reduce SLCP emissions at dairies in California is varied in terms of dairy size and proximity to the pipeline system. Facilitating dairy cluster projects is an important and cost effective SLCP strategy that should be a discussion point in the IEPR. There may be additional opportunities at smaller dairies that may present opportunities for cost effective biogas development. In some cases, smaller dairies may be able to join larger existing clusters. The Commission's recommendations and direction for grant funding should recognize opportunities for SLCP reductions at both large and small dairies.

3. The State Does Not Need Additional Programs to Meet the SB 1383 Emission Reduction Targets.

Dairy digester developers must navigate a number of different grant programs in order to build profitable projects. In addition to the grant programs available at the CEC, developers 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 revenue can 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. Dairy Cares does not see a need for additional programs. However, 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.

Currently the transportation fuels market presents an emerging opportunity for successful dairy biomethane projects. However, the transportation fuels market lacks the certainty necessary to facilitate longer term financing. Dairy Cares is hopeful that the innovative financial mechanism under discussion at the ARB will help address this uncertainty.

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

⁵ *Id.*

⁶ See Dairy Cares map of existing dairy digester projects (updated May 2017), available at: <http://www.dairycares.com/sites/default/files/2017%20Digesters%20Map.pdf>.

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.

Finally, the CEC should focus its grant funding on dairy biomethane project development. The need for additional funding was highlighted in the recent CDFA Dairy Digester Research and Development Program where many more applications were submitted than there is funding available. The interest in this grant program underscores the need to expand these programs in advance of the 2024 milestone in 1383.

Conclusion

The CEC IEPR recommendations will play a critical role in the implementation of SB 1383, which requires the Commission to identify cost effective SLCP emission reduction strategies that maximize total SLCP emission reductions. Dairy Cares encourages the Commission to focus its recommendations on maximizing emissions reductions in the dairy sector. The Commission should focus its recommendations on the dairy sector because the largest and most cost effective opportunities for SLCP emission reductions are at California's dairies. The Commission should use the IEPR to focus its own grant awards in the dairy sector and identify opportunities for better integrating and streamlining the various incentive programs. 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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