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California Energy Commission
Dockets Office, MS-4
Re: Docket No. 09-ALT-1
1516 Ninth Street
Sacramento, CA 95814-5512

Via Email: docket@energy.state.ca.us

Subject: Docket 10-ALT-1
2011-2012 Investment Plan Staff Report

Dear Energy Commission:

The American Biogas Council ("ABC") thanks you for the opportunity to provide comments regarding the preparation of the AB 118 Investment Plan for 2011-2012 and respectfully submits this comment to the Staff Report posted May 9, 2011, referred to as: *2011-2012 Investment Plan for the Alternative and Renewable Fuel and Vehicle Technology Program Staff Report. California Energy Commission, Fuels and Transportation Division. Publication Number: CEC-600-2011-006-CTD.*

The American Biogas Council supports the California Energy Commission's focus on biomethane derived from pre-landfill sources. The organic waste stream in California can be used to produce transportation fuel that is versatile (natural gas, electricity for electric vehicles, hydrogen and ethanol) and is the lowest carbon transportation fuel currently available. While ABC supports the \$8 million allocated to biomethane, California's energy goals could be realized more quickly with more emphasis on selecting the lowest carbon alternative.

ABC is the first anaerobic digestion industry association in the United States that represents a full range of anaerobic digestion technologies and projects, including farm-based digesters, centralized facilities processing a variety of municipal and industrial organic waste streams, and existing digesters at municipal wastewater treatment plants.

The ABC membership's central focus is the production of biogas through anaerobic digestion of organic matter and the beneficial use of the biogas and other by-products of the process. This includes dilute, wet, dry, or high solids digestion in any type of contained vessel, using agricultural digestible wastes and residuals; and digestible organic wastes, residuals and by-products from the industrial, commercial, municipal (residential and wastewater treatment), horticultural, floricultural and aquaponic sectors, as well as any purpose grown biogas-producing organic matter that doesn't fit into those categories.

These technologies are capital-intensive to deploy and although there is extensive private investment supporting their development, seed funding and support by the California Energy Commission will be extremely important in the near term development of these projects over the next 5 – 8 years. Our members believe that these low-carbon alternative fuel technologies will be much more commercially viable with the advent of pending future greenhouse gas (GHG) regulatory structures and low carbon fuel standards (LCFS) such as those being implemented in California. However, securing substantial monetary value in the form of GHG or LCFS credits from the production of low carbon fuel is still speculative at best and at least 5 years, or more, in the future. In the meantime, reliance on available state and federal funds, such as AB 118 funding, is essential to jump-start near term deployment of these technologies.

For biomethane technologies, support from AB 118 is especially important to re-level the playing field between its potential uses for production of transportation fuels versus distributed generation of electricity. Currently, the federal Investment Tax Credit and the Sec. 1603 “Grant in Lieu of Tax Credit” program are available to project developers only if they produce electricity and not if they take the same fuel and use it for transportation. We believe that both electricity production and transportation uses are important and need support, but the federally-supported “tilt” towards electricity production effectively discourages biomethane based transportation fuel projects and thereby undermines California’s and AB 118’s policy objectives. Increased support from the AB 118 Investment Plan for biomethane transportation projects would partially redress this imbalance.

We note with agreement the following highlights from this year’s draft, many of which restate important advantages that were noticed in the 2010-2011 Plan:

- “In the transportation sector, biomethane is a highly desirable alternative to fossil fuels as it has low carbon intensity values as determined by ARB on a well-to-wheels basis. Compared to traditional fuels such as gasoline, diesel, and fossil-based natural gas, biomethane can reduce emissions by up to as much as 87 percent As determined by the LCFS, biomethane is the lowest carbon intensity alternative fuel readily available in California.” (Page 114)
- California could produce 23 billion cubic feet of biomethane per year, which could displace “7 percent of the state’s on-road diesel use.” (Page 114)
- “In order for the biomethane for transportation industry to successfully develop, California will have to ensure supportive government policies and additional financial incentives. Because this is a relatively new industry, additional financial incentives are needed to help offset high capital costs. (Page 110)

The draft further notes that despite significant potential for biomethane production in California, there are only a small number of projects operational, and ABC agrees with this observation.

However, after noting the clear superiority of biomethane as a low CI fuel, and further noting the need for increased activity in this sector, and the need for Commission support, the report only allocates \$8m to biomethane. While any amount of State support is beneficial, this amount would only fund approximately 0.5% of the capital investment required to realize the 23 billion cubic foot potential.

The small amount of dedicated funding would not be so problematic if the Plan’s sections were not so rigidly divided. We suggest the Plan should be more flexibly constructed to emphasize the attainment of

AB 118's goals. As currently drafted, the new Plan continues to break the available funding into discrete categories (e.g., Electric Drive, Hydrogen, Ethanol, Natural Gas, Biomethane, etc.). The Commission would benefit from the ability to shift available funding between categories, as appropriate, to further the stated goals of the Investment Plan. We also urge the Commission to make it clear how projects can compete for dedicated/allocated funds as well as those that can be awarded to a project from various categories.

Carbon intensity should be the determinative factor. If 7% of the on-road diesel fuel were replaced with CNG from biomethane that had an 85% reduction in carbon intensity, that would be an effective carbon reduction of over 1.7 million tons CO₂-equivalent each year. ABC recommends that a stronger emphasis be placed in the Investment Plan to encourage the development of the lowest carbon intensity transportation fuels from available waste stream feed stocks. This Investment Plan (and its predecessors) identifies the following as key policy objectives: reducing GHG emissions, replacing fossil fuels with renewables, and producing those renewables in state. Therefore the Plan should emphasize the need to develop the lowest carbon intensity fuels possible.

Finally, if the Commission does retain the rigid program structure, we do support the important distinction made between landfill and pre-landfill generated biomethane. By contrast, Pre-landfill production of biomethane from anaerobic digestion of organic wastes is a much more nascent approach than landfill-production of biomethane. To the extent that only limited funds are available, funding for pre-landfill biomethane is more closely aligned with the AB118 directive to "develop and deploy *innovative* technologies that transform California's fuel and vehicle types to help attain the state's climate change policies." (emphasis added)

Thank you for the opportunity to provide these views for your consideration. Please contact me at wdavis@harvestpower.com or 781-314-9504 if you have any questions or require further information regarding the issues raised herein.

Sincerely,



Wayne H. Davis
Co-Chair, Legislative and Regulatory Affairs Committee
American Biogas Committee

cc: James Boyd (jboyd@energy.state.ca.us)
Charles Smith (csmith@energy.state.ca.us)