

STATE OF CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

11-RPS-01

DOCKET

02-REN-1038

DATE SEP 30 2011

RECD. SEP 30 2011

In the matter of:

Developing Regulations and Guidelines
for the 33 Percent Renewables Portfolio
Standard

and

Implementation of Renewables Investment
Plan Legislation

Docket No. 11-RPS-01

Docket No. 02-REN-1038

COMMENTS OF THE UTILITY REFORM NETWORK ON THE USE OF
BIOMETHANE DELIVERED VIA THE NATURAL GAS PIPELINE SYSTEM FOR
CALIFORNIA'S RENEWABLES PORTFOLIO STANDARD



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September 30, 2011

**COMMENTS OF THE UTILITY REFORM NETWORK
ON THE USE OF BIOMETHANE DELIVERED
VIA THE NATURAL GAS PIPELINE SYSTEM
FOR CALIFORNIA'S RENEWABLES PORTFOLIO STANDARD**

In response to the August 16, 2011 workshop notification, The Utility Reform Network (TURN) submits these comments on the use of biomethane delivered via the natural gas pipeline system for purposes of compliance with the California Renewable Portfolio Standard (RPS). TURN offers a primary recommendation (pipeline biomethane should be deemed ineligible) and a series of alternate recommendations in the event that the primary recommendation is not adopted.

I. PRIMARY RECOMMENDATION - PIPELINE BIOMETHANE SHOULD BE INELIGIBLE BECAUSE THE GENERATING FACILITY CANNOT BE DEMONSTRATED TO ACTUALLY 'USE' BIOMETHANE

TURN urges the Commission to conclude that pipeline biomethane is not an eligible renewable energy resource because there is no demonstration that the designated generation facility actually "uses" the renewable fuel as required by §25741(a) of the Public Resources Code. As explained by Mr. Lingbloom of the Assembly Natural Resources Committee, this treatment is required pursuant to §25741(a) and the prohibition on awarding renewable energy credits to production using nonrenewable fuels (§399.12(h)(3)(A)).

As all participants recognized during the workshop, any biomethane injected into a pipeline in Pennsylvania is not the actual fuel used to run a Combined Cycle Gas Turbine (CCGT) in California. The fuel being used to actually generate the electricity is natural gas. Instead, industry proponents assert that the Commission should recognize that the procurement of biomethane from sources in other parts of the United States essentially transfers certain fungible attributes to the purchaser. These attributes are subsequently attached to the production of a CCGT in California burning conventional

natural gas solely to satisfy regulatory compliance requirements. This reality does not satisfy the requirement that the facility must “use” a bona fide renewable fuel.

In reality, the operation of the generating unit is wholly unchanged by the purchase of pipeline biomethane. Indeed, industry proponents argue that one of the benefits of these transactions is that it does not alter the operation of existing CCGT units, does not require the installation of any new equipment, and does not require any additional generation.¹ Retail sellers and Publicly Owned Utilities procuring biomethane intend to rely on existing output from units already under contract (or ownership) to produce this “new” renewable energy. This behavior demonstrates that the only real transaction is a purchase of tradable attributes, not the generation of actual renewable electricity.

The use of pipeline biomethane does not result in any new capacity being connected to, or scheduled into, a California Balancing Authority. As a result, even massive purchases of pipeline biomethane have zero impact on the amount of capacity and energy available to California. It is therefore impossible to argue that pipeline biomethane procurement is a legitimate substitute for actual generation using renewable fuels.

Allowing pipeline biomethane to count towards RPS compliance will only reduce the anticipated development of new renewable resources in the coming years and undermine the goals established by the Governor. Some POUs are already planning to procure sufficient quantities of pipeline biomethane to avoid any need for new renewable energy for many years. For example, Burbank Water and Power plans to procure 4,000 Dth/day of pipeline biomethane which equals 16% of their retail sales (and would increase their total portfolio from 9% to 25% renewable), thereby allowing them to defer any new renewable energy procurement until 2017 or later.² If more

¹ For example, see the April 19, 2011 memo by Burbank Water and Power General Manager Ron Davis to Burbank City Manager Michael Flad (http://burbank.granicus.com/MetaViewer.php?view_id=6&clip_id=2368&meta_id=104263)

² See http://burbank.granicus.com/MetaViewer.php?view_id=6&clip_id=3808&meta_id=116177

POUs and retail sellers take a similar approach, there will be insufficient demand to stimulate substantial new investments in both utility-scale and distributed renewable generation.

TURN recognizes that the Commission previously approved this type of transaction for RPS eligibility and that some retail sellers and POUs have already executed contracts for pipeline biomethane in reliance on the existing eligibility rules. If the Commission agrees that pipeline biomethane should no longer be deemed eligible under the RPS program, it should apply this change prospectively and grandfather any contracts executed prior to September 30, 2011.

II. ALTERNATE RECOMMENDATIONS

In the event that the Commission does not agree with the primary recommendation, TURN offers a series of alternate recommendations intended to ensure the use of pipeline biomethane provides some potential benefits to California.

A. BIOMETHANE MUST BE PHYSICALLY DELIVERABLE TO CALIFORNIA

Current CEC guidelines allow retail sellers and POUs to receive renewable credit for biomethane even when it is physically impossible to actually deliver the gas to California. As noted in the Aspen presentation, gas from the Eastern 3/5 of the United States cannot physically flow to California.³ This means that there is no possibility that either the biomethane could actually be delivered into California or that such transactions will have any impact on the supply of natural gas to California.

In order to remedy this serious loophole, the Commission should require that any biomethane be scheduled via pipelines where the physical flow of gas leads to

³ Aspen workshop presentation, page 3.

California. Allowing scheduling against the flow of a pipeline highlights the fact that these transactions are simply an exercise in procuring environmental attributes from far-flung locations. Requiring the biomethane to physically displace natural gas that would otherwise be flowing into California should be a minimum condition of eligibility.

B. ANY FOSSIL FUEL USED TO COMPRESS BIOMETHANE SHOULD BE NETTED AGAINST THE ALLOWABLE RENEWABLE CREDIT

The process of injecting and transporting biomethane from a distant source to California involves non-trivial quantities of non-renewable fuel. This fuel is used to compress the biogas for pipeline injection and to maintain sufficient pressure to transport the biomethane over the entire distance between injection and final delivery. Any nonrenewable fuel used for this purpose must be netted against the renewable credit provided under the RPS program. Pursuant to Public Utilities Code §399.12(h)(3)(A), “any electricity generated by an eligible renewable energy resource attributable to the use of nonrenewable fuels....shall not result in the creation of a renewable energy credit.”

In order to comply with this requirement, the Commission should develop standardized estimates for the amount of nonrenewable fuel required for injection of biogas into the pipeline. The Commission could use tariff “fuel rates” to calculate the amount of gas used for transportation over interstate pipelines. The entire contribution of nonrenewable fuels should be netted against the gross contribution of the biomethane in order to determine a final quantity eligible to receive RPS credit.

C. IN ORDER TO PREVENT DOUBLE COUNTING, ANY CERTIFIED GREENHOUSE GAS ATTRIBUTES ASSOCIATED WITH THE CREATION OF THE BIOMETHANE MUST BE TRANSFERRED TO THE PURCHASER AND RETIRED

TURN assumes that producers may certify greenhouse gas (GHG) reductions associated

with the creation of biomethane with regional, national or international entities. The Commission should require any certified reductions to be transferred to the final purchaser of the biomethane and retired. Absent such a requirement, the greenhouse gas benefits may be double counted if the producer sells biomethane to a California POU or retail seller and the GHG attributes to another unrelated entity. There is no justification for counting such benefits more than one time.

As a condition of eligibility, the retail seller or POU should provide documentation demonstrating that the purchaser owns any transferrable environmental attributes associated with the production of any quantities of biomethane used for RPS compliance. The retail seller or POU should further affirm that any such attributes have been, or will be, retired in the relevant accounting system without being resold to another entity.

D. ANY BIOMETHANE TRANSACTION SHOULD BE REQUIRED TO SATISFY AN ADDITIONALITY TEST

While proponents of pipeline biomethane assert that any purchase of this fuel results in incremental GHG emission reductions, TURN is concerned that not all transactions will satisfy this standard. If the Commission agrees to allow unlimited use of pipeline biomethane in the RPS program, existing producers may be tempted to redirect this fuel from other uses to capture premium prices available in the California market. To prevent this potential ‘reshuffling’ of the deck, the Commission should require a verified showing of additionality for any pipeline biomethane used for RPS compliance.

TURN recommends that the Commission apply the following tests, at a minimum, as a precondition to a finding of additionality:

- The fuel is not being diverted from another onsite use such as electric generation, direct heating or anything other than direct environmental release or flaring.
- The production capacity was not previously used to provide pipeline biomethane to other generation facilities in the United States.

Absent such requirements, producers will be tempted to redeploy existing production of biomethane to serve California. In this event, there could be zero displacement of fossil fuels and no incremental environmental or public health benefits associated with the transaction. With such a standard in place, the Commission can be assured that the procurement of biomethane by California POUs and retail sellers is resulting in new investment, incremental production and net global reductions in GHG emissions.

E. PIPELINE BIOMETHANE TRANSACTIONS SHOULD BE CLASSIFIED WITHIN THE THIRD PRODUCT CATEGORY FOR PURPOSES OF RPS COMPLIANCE

In separate comments filed at the Public Utilities Commission, TURN has proposed that any pipeline biomethane transaction be treated as a §399.16(b)(3) product for purposes of compliance with the RPS requirements. In order to ensure consistency between agencies, TURN urges the Commission to adopt the same treatment in its program rules. The mere fact that the Commission has previously certified this fuel as eligible for participation in the RPS program does not relate to its classification within the newly established product categories.

Under current CEC guidelines, the procurement of biomethane does not necessarily result in any change in the actual operation of any generation connected to, or scheduling energy into, a California Balancing Authority. If the biomethane is not physically deliverable to California, there cannot be any demonstrated displacement of in-state fossil fuel use. Even if the fuel can be physically delivered, it does not reduce

local air pollution, add any new generating capacity to California (or the WECC) or assist with meeting local or statewide Resource Adequacy requirements.⁴

As a result, the use of pipeline biomethane is akin to the purchase of unbundled renewable attributes and should be treated accordingly under the RPS program product categories. Just as the Commission would not allow a retail seller to receive first product category credit for an attempt to attach unbundled RECs from Wyoming to the output of a California nuclear plant, it would be unreasonable to allow such treatment for the procurement of environmental attributes from Pennsylvania landfill gas tagged to the output of a California CCGT. Allowing pipeline biomethane to count towards the first product category would therefore severely compromise consistency across resources.

The use of pipeline biomethane may well lead to increased air pollution in California since any reductions in local air pollution associated with the initial capture of the biomethane could occur in Texas, Pennsylvania or Colorado. The burning of any additional natural gas in California tied to a biomethane transaction results in incremental in-state pollution when compared to electric generation from another renewable generation. This outcome is not consistent with the goals of the RPS program.

Notwithstanding the claims made by certain industry proponents, there is no evidence that new generating capacity is being developed for the purpose of burning pipeline biomethane. The notion that inefficient and currently mothballed plants would be used in conjunction with pipeline biomethane is nonsensical given their high heat rates. Any rational buyer would tag the pipeline biomethane to an existing operating CCGT facility with the lowest possible heat rate. In fact, this is the strategy being pursued by the IOUs and POUs.

⁴ See Cal. Pub. Util. Code §399.11(b).

TURN strongly urges the Commission to conclude that pipeline biomethane is an exercise in trading renewable attributes and therefore classified as an unbundled REC subject to the procurement limitations associated with product category 3.

Respectfully submitted,

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Dated: September 30, 2011