



# DOCKET

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October 3, 2011

California Energy Commission  
1516 Ninth Street  
Sacramento, CA 95814-5512

**RE: Docket # 02-REN-1038 – Biomethane Delivered via the Natural Gas Pipeline System for California Renewable Portfolio Standard**

Dear Commissioners:

On September 20, 2011, The California Energy Commission (CEC) staff conducted a workshop “to solicit comments from interested parties on the use of biomethane received into the natural gas pipeline system for use at an RPS eligible electric generating facility in California’s Renewables Portfolio Standard (RPS) program.” Specifically, staff requested comments on “if and how biomethane injected into the natural gas pipeline for delivery to an RPS-eligible electric generating facility meets the requirements in the law under SB X1-2.” Southern California Gas Company and San Diego Gas & Electric Company (Sempra Energy utilities) appreciate the opportunity to offer our perspective on these important questions.

Biogas/biomethane has the potential for substantial benefits both in the electric and transportation sectors because it produces a net saving of greenhouse gas emissions by avoiding the emissions of methane, which is 22 times more potent a greenhouse gas than carbon dioxide. Unfortunately, its potential in California is largely untapped, for a variety of reasons. Our comments in response to the Workshop focus on our perspective on the key issues the State should address to help to promote the greater development of these biofuels.

## **1. Policy Should Maximize Flexibility**

As the various presentations at the workshop revealed, there are a number of barriers to the development of renewable gas that makes the setting of policy particularly challenging. For example, because the production of biogas is site specific, many locations capable of generating biogas lack sufficient volumes of concentrated feedstock in aggregate to economically justify an on-site combined heat and power system or a biomethane injection project. Also the high cost of installation of the necessary equipment and the level of sophistication needed by small developers impedes more development. These are some of the reasons why virtually no dairies in the State are pursuing digesters to process animal waste. Yet, development of these sorts of facilities is an important component in meeting AB32 climate change goals.

Overall, the availability of centralized feedstock at volumes that will maximize efficiency and minimize costs is relatively limited. Furthermore, the proximity of projects to natural gas distribution or transmission pipelines for injection is a potential barrier that adds costs and time to projects, particularly if the pipelines require upgrades or expansion. But, the ability to deliver biogas into pipelines for directed use at other locations in the State seems to be the most efficient and economical use of biogas. Our sense is that appropriate incentives that are properly focused could help to make significant economic volumes more accessible.

Another source of gas discussed at the workshop is currently more problematic – in-state landfill gas. We discuss this issue further below, but given current uncertainties respecting the development of in-state landfill gas for off-site use, policies need to remain flexible as circumstances further develop.

Given the host of uncertainties and the different barriers that each option faces, policy needs to support the maximum number of options.

## **2. Existing Rules Governing Eligibility of Out of State Renewable Gas Continue to Be Reasonable**

One thing that is not new to the commission is the issue of how to treat out-of-state gas sources. The new 33% renewable portfolio standard does nothing to change the appropriate role of renewable gas from out-of-state nor narrow the sources that would make renewable generation eligible for the RPS when it uses such gas. There is no need for the commission to reconsider or revise the rules it has already developed and successfully applied for years. The existing rules strike the proper balance between allowing out-of-state biogas regardless of where it was located and allowing only in-state sources.

Some parties have raised another RPS issue that requires comments – specifically, some have questioned whether the source of renewable gas should affect which “bucket” the renewable generation should be classified in. SBx1 2 does not provide any degrees of freedom for classifying renewable generation into different buckets depending on the source of their renewable fuel. To the contrary, the rules in the statute are clear that the “bucket” categorization depends on the electric characteristics only -- location of interconnection, the mode of delivery of produced electricity, etc. Under SBx1 2, in-state generation, whether it is fueled by in-state or out-of-state biogas, qualifies as a “bucket one” resource. Arguments that urge the commission to categorize renewable generation in different buckets based on the source of renewable fuel are specious and not supported in the law. Furthermore, such categorization seems to be outside of the commission’s jurisdictional authority as interpretation and application of the applicable code section – Public Utilities Code Section 399.16 – rests with the Public Utilities Commission, not the Energy Commission.

## **3. Incentives for Biogas Should Give Priority to In-State Sources, But Not to the Exclusion of Out-of-State Sources Used for In-State Purposes.**

As discussed above, appropriate incentives that are properly focused could help to make economic volumes of renewable gas more accessible. While we think that the priority for such incentives should go to California sources, the State should retain the flexibility to provide incentives for appropriate sources of out-of-state gas, since those sources provide many of the same environmental benefits as in-state sources. We are also very concerned about the rate impact, both of added incentives, as well as resulting from the procurement of renewable generation. Accordingly, the State needs to maintain a balance among several different sources to protect electric customers from unfair rate impacts as it promotes the development of renewable gas sources. Electric customers are not an unlimited source of funds. Accordingly, SBx1 2 has directed the Public Utilities Commission to establish cost limitations in carrying out the 33% RPS program. The State should not circumvent these rate considerations simply by shifting the mode of funding above-market renewables. These considerations will be difficult to balance, but decisions must carefully consider and balance the competing tensions.

## **4. Policies Governing Use of Landfill Gas In Pipelines Are Premature Until GTI Completes Its Studies and The Results Have Been Assessed**

Current law limits the ability to inject in-state landfill gas into pipelines. This law recognizes the potential, but unknown level of public safety hazard created by such injection, both in terms of its impact on pipeline integrity and on end use customers resulting from combusting landfill gas that may contain toxic chemicals. The Sempra utilities do not want to subject the public to such safety hazards, particularly when the level of risk is not known. We have supported the Gas Technology Institute’s effort to assess such gas and make available all test data relative to the technology capability existing in the market place that can upgrade the raw landfill gas to meet our natural gas quality specification for injection. That study is underway, but not

complete. Until the results are completed and analyzed, it is far too premature to develop any kind of policy governing landfill gas being injected into intra-state pipelines, and we would oppose any effort to do so without the completion of the GTI study and the opportunity to analyze the results and conclusions fully. To do otherwise, unnecessarily subjects our customers and the citizens of the State to undue risk.

This exemplifies the importance of developing other sources – e.g., digester gas from waste treatment and dairies and other anaerobic digester sources and of continuing to allow delivery of qualifying biogas from out of state resources. The world of biogas does not have to stagnate while landfill gas issues are sorted out. There are other sources of in-state and out-of-state supply that can be supported.

## **5. Permitting Remains a Major Barrier to Biogas Development**

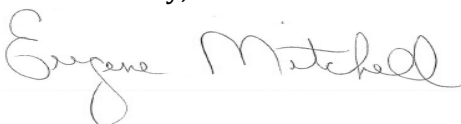
As with other renewable sources, the issues relating to permitting are a significant source of potential limitation and delay of biogas projects. The permitting process is complex and not uniform across agencies. For example, different local air districts do not have the same interpretation of applicable rules. Local agency approvals are sometimes inconsistently applied and seem to depend mainly on agency whim. Notwithstanding a State policy supporting renewables, that policy is frequently not translated into a resolve at the local levels to process permit applications quickly, consistently, and with an eye to promoting the development of renewables. In many cases, the barrier is less the provisions of law or regulation and more the execution: a lack of understanding of both biogas and digesters, plus the will and priority for renewables held by local agencies. This problem may have no easy solution.

## **6. Conclusion**

The Sempra Energy utilities appreciate attention to these important issues. There are many potential roadblocks to the development of biogas. Accordingly, it is essential that the State not erect further ones, such as modifying already effective RPS eligibility rules or adding additional barriers. At the same time, there are significant issues that require resolution, some of which are not yet ripe. The development and application of incentives requires a careful balance, which, to date, has not been uniformly applied to the marketplace. Permitting can also be a huge problem, and the State and local agencies have not shown a common resolve toward addressing those permitting issues. Landfill gas may have a future role, but more needs to be known to ensure that public safety is protected.

The Sempra Energy utilities have great interest in the development of renewable gas sources and stand ready to work with the State to help develop a successful set of policies to promote renewable gas.

Yours sincerely,

A handwritten signature in cursive script that reads "Eugene Mitchell". The signature is written in dark ink on a light-colored background.