



BP America, Inc

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March 23, 2012

Via email
Robert B. Weisenmiller
Chairman
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

Subject: Developing Regulations and Guidelines
For the 33 Percent Renewable Portfolio Standard
Docket No. 11-RPS-01
Docket No. 02-REN-1038

Dear Chairman Weisenmiller:

BP is a major energy provider in California and in the U.S. As the largest energy investor in the United States, we support an “all of the above” approach to energy development. This approach is embodied in our energy investment portfolio, which includes conventional transportation fuels, biofuels, wind, crude oil, natural gas – *and* biomethane. We support cost effective, sustainable policies that encourage the development of lower carbon energy sources in support of a diversified, sustainable energy portfolio.

Because of the scale and the investment risk involved in energy development, we strongly believe that energy investors require an investment environment that is stable, predictable, reliable and sustainable. Our experience in serving the energy needs of millions of customers each day also makes us acutely aware that energy consumers expect sources of energy that are reliable and affordable. This is why we are so concerned about the Commission’s plans to put a moratorium on, and potentially permanently curtail, a lawful, highly beneficial, cost effective, and long-included method of compliance with the RPS – i.e. biomethane for electricity generation. We urge the Commission to very carefully consider the wisdom of a moratorium on the use of biomethane with specific respect to its affect on the Renewable Portfolio Standard (RPS) - as well as with respect to the wider message this sort of abrupt shift would send to energy investors and compliance entities who are planning investments and compliance strategies for many AB32-related policies.

Biomethane's Important Role

Policymakers have questioned the benefits of biomethane in contributing to the goals of the RPS and of AB32 – as well as its ability to provide overall benefits to the state. The enabling legislation itself articulates several “unique benefits to California” that are envisioned to derive from the procurement of “various electricity products from eligible renewable energy resources.” The use of biomethane (without consideration or limitation on the location of production) is an “eligible renewable energy resource.” The legislation goes on to list the benefits to the state from a qualifying energy resource – virtually all of which are met by the use of biomethane (regardless of location of production). These envisioned benefits are:

- (1) Displacing fossil fuel consumption within the state.*
- (2) Adding new electrical generating facilities in the transmission network within the Western Electricity Coordinating Council service area.*
- (3) Reducing air pollution in the state.*
- (4) Meeting the state's climate change goals by reducing emissions of greenhouse gases associated with electrical generation.*
- (5) Promoting stable retail rates for electric service.*
- (6) Meeting the state's need for a diversified and balanced energy generation portfolio.*
- (7) Assistance with meeting the state's resource adequacy requirements.*
- (8) Contributing to the safe and reliable operation of the electrical grid, including providing predictable electrical supply, voltage support, lower line losses, and congestion relief.*
- (9) Implementing the state's transmission and land use planning activities related to development of eligible renewable energy resources.*

We will not take up the Commission's time or space in this correspondence to detail how the use of biomethane clearly provides virtually all of these “unique benefits to California”, though we are happy to do so in person with any Commissioner who so desires. However, it is important that the benefits of the use of biomethane on items 1, 4, 5 and 8 are especially well understood by the Commission. With respect to the displacement of fossil fuels, it is clear that as out of state biomethane is transported to California in natural gas pipelines, its use results in a direct one to one displacement of fossil fuels used in electricity generation. The use of biomethane also clearly meets the fourth benefit by reducing GHG emissions. As is well established, methane, if flared instead of captured, has a far greater impact on atmospheric concentrations of GHGs than does carbon dioxide. It is also well established that in combating the impacts of global climate change, the location of the emission or emission reduction makes no difference in its affect on global GHG concentrations. With respect to promoting stable retail rates, the use of the limited volumes of practicably available biomethane in the early years of the RPS can provide a measure of cost effective compliance while the hurdles to longer term, larger scale compliance alternatives are addressed. And finally, because biomethane provides a renewable option to act as dispatchable baseload power and because of a 95%+ capacity

factor – its inclusion is vital to meeting benefit 8 – i.e. contributing to the safe and reliable operation of the grid, including providing predictable electricity supply.

For these reasons, we believe it can be argued that the use of biomethane plays a role that is unique among other RPS compliance options in its ability to deliver on many of the desired benefits in a way that other compliance options cannot. In this way, and especially considering the limited scale that biomethane can contribute over the long term, we believe biomethane can be viewed as a unique and valuable bridge to other technologies. It is simply not justifiable or wise to abruptly limit or curtail the use of a technology that so clearly, and so uniquely, provides the benefits desired by the state of a renewable resource.

California Policymakers Should Not Pick Winners and Losers

The 33% RPS is designed as a challenging, performance-based policy. It purports to set a goal, defines what technologies qualify for compliance, and purports to let the market and individual compliance entities determine the compliance pathway.

The Commission's actions in this matter could significantly undermine the benefits of a performance-based goal as well as investor confidence, by picking winners and losers in what is supposed to be a market-based, performance standard. Policymakers do not have a good track record when it comes to picking winners and losers in technology – with energy technology being no exception.

The enabling legislation makes frequent use of the term “balanced portfolio” in setting out the goals of the RPS. The benefits of a balanced portfolio are articulated throughout the legislation. The use of biomethane in electricity generation is and has been a legally defined, qualifying part of this balanced portfolio. By attempting to manage the proportion of the various lawfully allowed technologies that can contribute to RPS compliance, the CEC is potentially falling into the trap of believing that policymakers can or should determine the precise “recipe” of technologies that should be deployed in order to meet the goal of the RPS. We do not believe, nor does there exist a track record to support the concept, that policymakers possess this ability. Policymakers should instead focus on setting feasible, cost effective and necessary goals – and let the market decide what mix of acceptable technologies develop in a cost effective manner to meet the goal.

Concerns about a “Flood” of Biomethane are Mistaken

We understand that much of the consternation over the use of biomethane to meet the goals of the RPS is driven by a belief that widespread use of biomethane will crowd out the development and deployment of “favored” technologies such as wind and solar. As a leading investor in U.S wind development, we strongly believe that this assertion is simply and clearly not supportable by the facts of available biomethane supply.

BP's independent analysis of available data concludes that approximately 50,000 MMBTU/day of CEC eligible biomethane is practicably available for the California market. Under reasonable assumptions, this volume of biomethane translates into approximately 280 MW of electricity. To accomplish the goal of the 33% RPS will require approximately 9,700 MW of renewable generation. That means that the biomethane practicably available to California can supply only approximately 2.9% of the generation necessary to meet the goal of the RPS. Moreover, from 2002-2011, the CPUC approved

189 contracts for approximately 17,000 MW of renewable capacity. Of these contracts, only 27 contracts for 114 MW were made up from biomethane. During the 2011 RPS solicitation, the three large IOUs received over 1,000 unique bids and 3,000 proposals representing over 91,000 MW. From these, only 30 proposals were short-listed – none of which were biomethane. In 2011, over 830 MW of new renewable capacity was brought online – all of which was made up of wind and solar photovoltaic. This can hardly be characterized as a flood of biomethane. Because of the limited volumes of biomethane that are practicably available for the California market, we believe deliberations over how to curtail the longer term use of biomethane are a solution in search of a problem.

All Available Cost Effective Measures Needed

In their March 24, 2011 joint submittal to the CPUC, the 3 large IOUs express great concern over the cost of the RPS, the impact on electricity rates, and a potential ratepayer backlash against AB32, and the RPS. The IOUs estimate a total cost of \$32 billion on the electricity sector from just the combination of the AB32 cap and trade program, the RPS and the California Solar Initiative (CSI). The joint IOU submittal says that “customers simply will not tolerate significant rate increases,” and “there is a real risk that, upon seeing costs in excess of the significant GHG premium already included in rates for existing AB 32 measures, the public may perceive the overall AB 32 program as a failure, generally leading to resistance to future cap-and-trade programs or GHG-reduction programs in other jurisdictions even before those programs begin.” The joint submittal estimates that even if 100% of the cap and trade allowance value allocated to the IOUs is used to reimburse ratepayers, the additional cost of the RPS and CSI alone will exceed the value of allowances by over \$19 billion – with the bulk of these costs attributable to the RPS.¹

With this in mind, it is vital that the CEC and the RPS allow use of all legally defined, available, cost effective compliance options.

Finally, we strongly urge the Commission to avoid taking action that would curtail the use of such a clearly beneficial RPS compliance option – and in doing so sending a chilling message to energy investors and compliance entities alike. Any action that is taken by the Commission in these deliberations must seek to preserve and respect contract discussions and investments that are underway – in the widest possible manner.

Please do not hesitate to contact me should you have questions regarding this correspondence.

Sincerely,

Ralph J. Moran
Sr. Director, Government and Public Affairs
BP America, Inc.

¹ REVISED JOINT PROPOSAL AND SUPPLEMENTAL INFORMATION OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E), SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E), AND SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) ON THE APPROPRIATE USE OF ALLOWANCE AUCTION REVENUES, March 24, 2011

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