November 13, 2015

The Honorable Edmund G. Brown, Governor
California State Capitol
Sacramento, CA 95814

Re: Cap-and-Trade Auction Proceeds Draft Second Investment Plan for Fiscal Years 2016-17 through 2018-19

Dear Governor Brown:

On behalf of the Coalition for Renewable Natural Gas (RNG Coalition), thank you for your support of the RNG industry and for your leadership on climate change issues, including through, but not limited to, the state's Cap-and-Trade Program. In consideration of your leadership, our industry experience in North America, and the work that remains to be done in California, we appreciate the opportunity to provide the following comments on the Air Resources Board's (ARB) Cap-and-Trade Auction Proceeds Draft Second Investment Plan (Investment Plan).

The RNG Coalition is an international, non-profit organization headquartered in California. On behalf of the renewable natural gas industry, we advocate for and support sound public policy that results in increased development, deployment and utilization of renewable natural gas. Our membership includes more than seventy leading companies who operate and excel at each stage of the renewable natural gas supply chain. RNG Coalition members are also responsible for 90% of the renewable natural gas (RNG, biomethane, or upgraded biogas) produced and injected into the natural gas grid in North America.

LOW CARBON TRANSPORTATION FUNDING

RNG Coalition members and the fuel they produce will continue to play an increasingly prominent and significant role in California's ability to meet it's respective 2020, 2030 and 2050 Low Carbon Fuel Standard, GHG, petroleum and short-lived climate pollutant (SLCP) reduction goals.

RNG is primarily composed of methane, a gas constituent that is 20x more potent than carbon as a GHG. RNG facilities are capital-intensive projects that cost tens of millions of dollars, but result in the capture and treatment of methane for beneficial end-use. This methane would otherwise be flared or worse, escape into the atmosphere as a fugitive emission. Historically, methane-rich RNG has been used to generate renewable electric power, including under California's RPS program, and to generate renewable heat. Increasingly, however, RNG is being recognized and utilized as a renewable, very-low carbon, alternative transportation fuel.

Increased development, deployment and utilization of RNG in California will require access to natural gas infrastructure, including transmission pipelines and fueling stations, and natural gas fueled vehicles. Because RNG is fungible with natural gas, it commonly injected into the natural gas pipeline - avoiding increased carbon emissions that would otherwise result by trucking the fuel from production facility to end-use location. The injection into and transportation of RNG via the common carrier pipeline also produces the added benefit of an incrementally de-carbonized pipeline. RNG is being blended with and or serves as a renewable fuel substitute in engines that are fueled or powered by natural gas. RNG is the lowest carbon-intensity transportation fuel available of any kind. Depending on the renewable feedstock developed and the specific transportation end-use, RNG can also be carbon-negative. When RNG is utilized in Class 7 or 8 heavy-duty vehicles as a renewable form of compressed natural gas (R-CNG), GHG emissions reductions greater than 100% are realized. When coupled with use of existing, new and innovative conversion and heavy-duty engine technologies, nitrogen oxide (NOx) emissions can be further reduced in the transportation sector by more than 90% compared to current standards.

Thus, the RNG Coalition strongly recommends that the Investment Plan allocate funding to help remove in-state regulatory cost barriers and enable RNG projects to be developed for dedicated transportation fuel purposes in California. Given the nexus between RNG and natural gas, and so that the environmental benefits associated with increased RNG utilization can be realized, we also urge funding be added for Class 7 and 8 heavy-duty vehicles fueled by RNG as part of the 2015-16 Low Carbon Transportation Fund.

RNG PRODUCTION & INTERCONNECTION FUNDING

Recent Low Carbon Fuel Standard (LCFS) data revealed that, as of the 3rd quarter of 2015, RNG represented 48.7% of all transportation fuel utilized by natural gas vehicles in California. Ironically, while California is one of the largest RNG consumers in the country, only a fraction of the RNG used is produced in-state; 99% of the RNG participating in the LCFS is produced outside of California.

Currently, there are only two RNG production facilities in California – only one of which (Waste Management's Altamont Landfill) is producing RNG for transportation fuel, and only to refuel it's own fleet on-site. An abundance of excess RNG from the site, which could be injected into the pipeline and used by other transportation fleets throughout the State, is being flared because the regulatory requirements and related costs to interconnect with the natural gas

utility pipelines are prohibitive. This unfortunate reality is reflective of a lack of investment by our state in both the development of RNG production facilities, and the interconnection to the natural gas distribution system necessary to deploy the RNG produced.

As an international organization the RNG Coalition supports the continued eligibility of out-of-state production to participate in California's LCFS (without it, there would be less than 0.01% of RNG available under the LCFS). However, it is imperative that we work to eliminate the in-state cost barriers that create an uneven playing field, and give existing projects located outside of California a competitive advantage over projects that could otherwise be developed here in-state.

The RNG Coalition is responsible for AB 1900 (Gatto, 2012), a bill that was introduced to facilitate and promote the production and distribution of RNG from a variety of in-state resources. Aside from the human health and safety standards which we supported, the culmination of a lengthy regulatory process before the California Public Utilities Commission (CPUC) only resulted in more regulatory burden and increased related costs for prospective RNG project developers. The token monetary incentive program approved by the CPUC ($40 million over five years) intended to offset some of the interconnection costs (up to $1.5 million per project) may never be accessed because the operational eligibility requirements that must be met in order to receive funding, are impossible to meet during the startup phase of an RNG project. Since AB 1900 was signed into law (2012), not a single RNG project has been developed in California.

With adequate Cap-and-Trade and or other state funding, it is possible for the biofuels industries, including RNG, to produce nearly one-billion diesel gallon equivalents of biofuel from California feedstocks by 2030. The RNG Coalition, in conjunction with the biodiesel and ethanol industries, continues to educate, advocate for and request a $210 million investment from Cap-and-Trade auction proceeds to increase development and deployment of low-carbon biofuels in California.

Specifically, the RNG Coalition requests that one-third of above requested amount ($70 million) be allocated to both offset the high capital cost of interconnecting an RNG production facility to the nearest common carrier pipeline, and the prohibitive regulatory costs of consistently meeting the non-human health and safety standards for siloxane and minimum heating value that are required before RNG can be injected into and transported via the natural gas pipeline.

ORGANIC WASTE DIVERSION FUNDING

The RNG Coalition's advocacy efforts support the development of RNG from all feedstocks, the most abundant availability of which is generally located at agricultural and commercial food waste facilities, landfills and wastewater treatment plants. We also recognize the inevitability of and support increased organic waste diversion requirements – much of which we believe will be co-located with and or incorporated as part of future RNG production facilities in California.

Our industry members are not only developing RNG projects from a diversity of feedstocks but they are doing so employing a variety of commercial and industrial technologies. As such, we support the inclusion of funding for organic waste diversion but request that such Investment Plan allocations are technology neutral and not limited to anaerobic digestion only.

RENEWABLE HYDROGEN FUNDING

Lastly, members of the RNG Coalition are producing and or exploring the production of renewable hydrogen derived from RNG. As such, we stand with the hydrogen and fuel cell industries in requesting that a portion of Cap-and-Trade auction proceeds be allocated for the development of clean and renewable hydrogen in California. We recommend the inclusion of hydrogen production within the scope of low carbon fuel incentives, the integration of a hydrogen component into the Waste to Fuel program, and select incentives for the use of biogas and syngas to produce clean and renewable hydrogen in a manner that results in the least possible GHG, criteria pollutant, and toxic air contaminant emissions.

The Coalition for Renewable Natural Gas appreciates the opportunity to provide comments on and to improve the Cap-and-Trade Auction Proceeds Draft Second Investment Plan.

Sincerely,

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