



March 8, 2013

Mary Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Allocation of Cap & Trade Proceeds

Dear Chair Nichols:

The Agricultural Energy Consumers Association (AECA) appreciates the opportunity to submit these comments on the Cap-and-Trade Auction Proceeds Investment Plan Draft Concept Paper. AECA strongly supports two key funding recommendations outlined in the Cap-and-Trade Auction Proceeds Investment Plan Draft Concept Paper and looks forward to working with CARB's staff to further develop program funding options.

Diesel to Electric Agricultural Pump Conversions

Conversion of diesel agricultural pumping engines to electric motors is a proven, highly effective greenhouse gas reduction and air quality improvement program. According to the San Joaquin Valley Unified Air Pollution Control District (SJVAPCD), the existing conversion program is among the most cost effective programs they have ever implemented and represents an important opportunity to provide environmental benefits to disadvantaged communities throughout the San Joaquin Valley. While existing programs have been highly successful, they are set to soon expire (the program has been closed to new applicants since 2007) and several thousand diesel pumping engines continue to operate in the San Joaquin Valley. Funding to extend and expand the existing program could build on the substantial air quality benefits already achieved. Projects funded under existing programs by the SJVAPCD alone account for lifetime reductions of over 18,000 tons of NOX, 503 tons of PM and hundreds of thousands of tons of CO2.

The existing Agricultural Internal Combustion Engine (AG-ICE) Program was a joint program developed and supported by the AECA, California Farm Bureau Federation, the state's Investor Owned Utilities (IOUs) and state and regional air quality officials. The AG-ICE Program was approved by the California Public Utilities Commission (CPUC) in 2005. The program was highly successful due to the electricity rate certainty and conversion incentives provided to program participants. AECA worked closely with the IOUs to design electricity rates that were highly competitive with diesel operating costs and minimized risk of electric rate increases in future years (limited to 1.5% annual increases) during the 10 year program. No other rate changes were permitted for program participants. Additional funding was provided for "line extensions", based on an environmental adder (benefits) to offset upfront capital

costs of connection to the electric grid. Finally, funding was provided by regional air districts (Carl Moyer) to offset electric motor costs and additional line extensions needed for conversion. The programs significant success was due to clear price signals, appropriate incentives to reduce upfront costs and rate certainty to ensure program benefits would not be changed for at least 10 years.

AECA and its member agricultural associations believe we have a critical opportunity to extend and expand the existing AG-ICE program, representing an important funding opportunity for CARB. Initial discussions with SJVUAPCD officials indicate strong support for such a program. AECA is prepared to work with SJVUAPCD and CARB to provide the critical resources to review and re-design an efficient and effective program expansion and extension to both maintain existing conversions and expand the number of conversions to the maximum cost effective extent possible. Time is of the essence, as existing Tier 1 and Tier 2 diesel engines will begin being required to be replaced by January 1, 2015. AECA believes a cost effective program can be established if funding for line extensions and motor conversions can be made available from the Cap and Trade allowance auction proceeds during the 2013-2014 funding cycle. Funding for this program represents a unique “clean energy” opportunity to further achieve substantial direct reductions in carbon dioxide (CO₂), greenhouse gas, as well as criteria pollutants such as particulate matter (PM) and oxides of nitrogen (NO_x) in the Sacramento and San Joaquin Valleys and the multiple disadvantaged communities located there.

Sustainable Agricultural Bioenergy Projects

AECA also strongly supports and associates itself with the comments submitted by the Bioenergy Association of California regarding investment in bioenergy projects. Agricultural bioenergy projects, including biomass gasification projects and dairy biogas projects have the potential to provide the most direct greenhouse gas reduction benefits of any projects being considered. Dairy biogas projects, in particular, are among the most effective measures with the ability to reduce as much as 6 million metric tons of CO₂ equivalent emissions by capturing methane and converting it to renewable electricity and transportation fuels. Dairy digesters not only provide emission reductions by capturing and destroying methane emissions at dairies but also produce substantial GHG reduction benefits by displacing fossil fuel use for energy (electricity) and transportation fuel.

Equally important, dairy digesters provide one of only four opportunities for approved carbon offsets under the Cap and Trade program. As CARB has repeatedly recognized in the implementation of AB 32, offsets are an important tool to provide flexibility and cost containment for regulated entities. Finally, dairy digesters represent an important opportunity to reduce diesel emissions in the San Joaquin Valley as a viable transportation fuel source. Conversion of dairy biogas to renewable compressed natural gas (RCNG) represents an important opportunity to replace diesel burning fleets in the San Joaquin Valley with low-carbon RCNG. Dairy biogas to RCNG actually has the ability to create carbon-negative transportation fuel because of the combined methane capture and fossil fuel displacement. The resulting reductions in diesel particulate matter emissions would also go a long way to improving air quality for valley residents in the multiple disadvantage communities throughout the valley. The commercialization of dairy biogas to RCNG projects represents the exact sort of “transformative” program CARB is seeking to fund with revenues from the AB 32 program.

Despite their significant benefits, dairy digesters remain uneconomical due to high environmental compliance costs and low or non-existent energy power purchase agreements. As a result, funding to incubate and incentivize sustainable agriculture bioenergy projects is critically needed to ensure commercialization of this industry and the “transformative” clean transportation benefits they promise.

Conclusion

AECA again appreciates the opportunity to provide input to CARB and the Department of Finance as you craft an investment plan for Cap and Trade auction revenues. AECA firmly believes both of the program funding opportunities outlined above represent unique opportunities for CARB to invest resources in programs that have proven and demonstrated direct greenhouse gas and criteria pollutant reduction potential, as envisioned by AB 32. Moreover, the air quality benefits will accrue to the numerous disadvantaged communities identified by CARB in the San Joaquin Valley as required under SB 535 (2012, de Leon).

Sincerely,

A handwritten signature in blue ink that reads "Michael Boccadoro". The signature is fluid and cursive, written on a light blue rectangular background.

Michael Boccadoro
Executive Director