Ag Methane Advisors

April 28, 2014

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

Re: AB32 Scoping Plan Update comments – Maintain financial incentives to support momentum of the livestock anaerobic digestion market.

Dear Chairwoman Nichols,

Thank you for the opportunity to submit comments regarding the AB32 Scoping Plan Update. These comments are focused on the growth of the livestock anaerobic digestion market within California and nationwide.

The financial incentives (i.e. carbon offsets and LCFS credits) provided by AB32 for methane reductions created by anaerobic digesters at livestock farms are an integral component to adoption of this technology. We were surprised to see within the Scoping Plan update consideration of a mandate for digesters on California farms. The goal of these comments is to describe perspectives of farmers operating these systems around the country and articulate the adverse impacts such a mandate could have.

The U.S. livestock biogas industry has been growing steadily in recent years. According to the U.S. EPA's AgStar database there are currently about 250 operational digesters on livestock facilities in the country. In 2008, the same year the Air Resources Board approved the first Scoping Plan only 120 of those were operational. It took 30-40 years to get those initial projects running. The past seven years has seen more than 200% growth in adoption of this technology. There are many reasons for this growth, but a crucial component is financial incentives for reduced methane emissions. In the Scoping Plan update, ARB notes that technology adoption in California has been slow, and cites "economic recession, increased feed and fuel prices, lack of sufficient financial incentives, and insufficient utility contracts" (pg.66) as some of the causes. Given that agriculture in general operates on small profit margins, 200% growth seems impressive when all the diverse challenges of implementing a project are considered. From a program evaluation standpoint ARB may want to see more rapid digester adoption but taking away important financial incentives is unlikely an effective means to that end.

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Several of our clients are among the few farms located in California that operate digesters. They often cite air and water quality regulations in the San Joaquin Valley as the biggest challenge. Most farms make electricity from the energy, and also benefit from tipping fees when they accept off farm substrates. Along with sale of environmental attributes these have been crucial to financing projects. The projects are hard to finance in general, but given additional costs to minimize criteria air pollutants, and nutrient constraints limiting the volume of substrates that can be accepted, many California projects don't pencil out. Even without an agricultural biogas mandate, some California Farms are already considering relocating their entire operations.

Recently more projects are looking to bio-methane and CNG as opportunities to use the energy and avoid air quality issues associated with electricity production. It has taken time for the biogas industry as a whole to adapt, but there is substantial momentum towards the energy uses. Much of this interest over the past several years is a result of the financial incentives provided by environmental credits through the California Low Carbon Fuel Standard and U.S. EPA's Renewable Fuel Standard. The strong signals from these markets provide a clear incentive that has a positive impact on the growth of the biogas industry. Taking such incentives out of the AB32 program will have a detrimental impact on mitigating methane emissions from the livestock sector.

ARB has invested substantial effort in the inclusion of livestock anaerobic digestion offsets in the Cap and Trade program, and we encourage ARB to maintain this voluntary incentive. Given the timelines for technology adoption, and the challenge of proving the reliability of environmental commodities to farmers that are new to the concept, it seems to early to write off the effectiveness of AB32 incentives. In many ways they are at a very young age, along with the Cap and Trade Program. Rather than concluding they are the wrong tool to for the job, we suggest giving them an opportunity to flourish. When the price of carbon allowances is near the Cap and Trade floor, the value of offsets is well below that floor. For the financial incentive to work the market value of the commodity will need to increase. This is especially true for California projects that are facing an uphill battle against regulatory barriers.

Taking away the voluntary incentive will lead to the perception from the sector that their contribution is not valued, and will not encourage participation. This will have an adverse impact on the livestock biogas market as a whole, causing people to be more scared of trying to implement a project in California than they already are. We encourage ARB to support the current momentum in the biogas industry, and strengthen the incentives for California projects.

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