

SUBMITTED VIA THE WEB

November 1, 2013

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

Re: Climate Change Scoping Plan First Update, Discussion Draft for Review and Comments  
(October 1, 2013)

Dear Chair Nichols:

On behalf of Dairy Cares, thank you for the opportunity to submit the following comments on the above-referenced item, hereafter "Discussion Draft."

Dairy Cares is a coalition of California's dairy producer and processor organizations, including the state's largest producer trade associations (Western United Dairymen, California Dairy Campaign, Milk Producers Council and California Farm Bureau Federation) and the largest milk processing companies and cooperatives (including California Dairies, Inc., Dairy Farmers of America-Western Area Council, Hilmar Cheese Company, and Land O'Lakes, Inc.). Formed in 2001, Dairy Cares is dedicated to promoting the long-term sustainability of California's more than 1,500 family-owned dairy farms.

Dairy Cares agrees that voluntary implementation of manure digesters can be an important element in the state's efforts to reduce greenhouse gases pursuant to AB 32's mandate. For this reason Dairy Cares and its members have participated actively and aggressively over the past several years, including working closely with several federal and state agencies through the Federal and State Dairy Digester Initiative and participating on all three of its task forces (economic, technical and permitting) Working Group, to promote and improve the prospects for such projects. As a results of these collective efforts, several major dairy digester projects have been constructed, and more are expected to come on line in the near future.

However, we agree with and support the findings of California Air Resources Board's (hereafter "CARB") findings, found on pages 46-47 of the Discussion Draft that "*The voluntary installation of anaerobic digesters at dairies has not increased in California as was originally expected. This is due to the recent economic recession, increased feed and fuel prices, lack of sufficient financial incentives, and insufficient utility contracts.*" (emphasis added)

However, we are concerned that CARB continues to contemplate mandatory installation of dairy digesters at some future date, as also noted on pps. 46-47 of the Discussion Draft: *As new information becomes available, ARB will work with stakeholders to determine whether and how the program should become mandatory and/or more strongly incentivized by the next Scoping Plan Update due by 2018.*" (emphasis added).

Dairy Cares suggests that the word "mandatory" be eliminated from this portion of the Discussion Draft. As stated above, CARB acknowledges that economics typically do not support digesters, even with the potential for revenue from sale of Greenhouse Gas offsets. It follows that were CARB to make installation of digesters mandatory, this would eliminate revenue from offsets and this would further slow the potential for digesters to be economically feasible on a broad scale.

Even though CARB does not want to make digesters mandatory now, by stating that CARB is considering making them mandatory in the future, the result will discourage investors from building projects within California. This is because investors will realize that they are more likely to lose the income stream from offset credits if they build projects in California than they would be in other states, who are not considering mandatory digesters. This has the perverse result of actually discouraging investment in California while encouraging it elsewhere.

Worse, if the state actually followed through with a decision to make digesters mandatory, not only would digester projects be lost to other states but dairy farms themselves. And actually implementing such a policy would likely push more dairies to other states exacerbating the leakage issue.

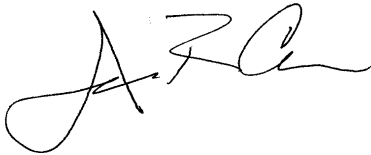
Instead of continuing to contemplate a mandate for digesters, CARB should focus on efforts to make voluntary projects viable. There are several avenues for doing this, including:

- a. Full and rapid implementation of SB 1122 (Rubio), Section 399.20 of the state's Public Utilities Code, to ensure that potential dairy digester projects have full access to long-term, economically viable contracts for sales of renewable electricity.
- b. Support for programs that provide assistance with meeting capital requirements for digester construction, including tax credits, grants, loan guarantees and other financial mechanisms. Recent expiration of certain federal programs has exacerbated the problem with availability of funds to offset capital costs; as Dairy Cares has commented previously, CARB should support such funding including through allocations of cap-and-trade auction proceeds to such projects.

- c. Additional focus on incentivizing and facilitating use of digester-produced biogas as a renewable vehicle fuel.
- d. CARB should encourage local land use agencies (counties) to assist with incentivizing local projects through streamlined permitting, infrastructure development assistance, and other measures.
- e. CARB should encourage programs that facilitate interconnection to the electricity grid or otherwise offset the costs of transferring power or biofuels from rurally located dairy digesters to customers using the fuels. Costs to interconnect to the grid currently often make the difference in determining whether a potential project is viable.

Once again, thank you for the opportunity to provide comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'J.P. Cativiela', written in a cursive style.

J.P. Cativiela  
Program Coordinator

C: Charles "Chuck" Ahlem, Chairman, Dairy Cares  
Michael Boccadoro, Executive Director, Dairy Cares  
Paul Sousa, Environmental Services Director, Western United Dairymen  
Kevin Abernathy, Director of Regulatory Affairs, Milk Producers Council  
Lynne McBride, Executive Director, California Dairy Campaign