

December 17, 2010

Michael R. Peevey, President
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, California 94102

RE: Support for Expansion of Biogas Projects

Dear President Peevey:

The California Wastewater Climate Change Group's (CWCCG) mission is to address climate change policies, initiatives, and challenges through a unified voice advocating for California wastewater community perspectives. Together, CWCCG treats over 90% of the municipal wastewater in California, including beneficial use of products such as biosolids and biogas.

CWCCG supports the continued expansion of biogas production, conditioning, and energy generation and requests that the California Public Utilities Commission (CPUC) facilitate programs and incentives that enable this expansion. Over the last decade, there has been increasing attention, interest and discussion paid to the role that anaerobic digestion at California wastewater treatment plants can play in reducing greenhouse gases (GHGs) and producing renewable energy. This interest has increased in recent years as California seeks ways to reduce GHG emissions under the landmark "Global Warming Solutions Act of 2006"-- AB 32. Through effective management of our renewable resources, the wastewater community sees itself as playing a key role in helping the state to achieve its climate change goals.

Many wastewater treatment plants across the state have been generating renewable power for onsite use for decades. Several options exist for agencies to beneficially re-use biogas, including the following:

1. Use the biogas in an onsite internal combustion engine or turbine to produce combined heat and power
2. Use the biogas onsite in a fuel cell to generate power
3. Condition the biogas to pipeline quality and sell the biomethane to a third party (energy utility, fuel cell operator, etc)

Each of these options comes with challenges. Increasingly stringent air quality regulations governing stationary combustion are limiting agencies' ability to run internal combustion engines, the traditional workhorses of biogas energy generation. Many agencies find fuel cell technology to be prohibitively expensive. Similarly, the economics of adding biogas conditioning equipment make it challenging for agencies to consider pipeline injection projects.

In addition, many agencies are beginning to increase their biogas production by adding additional organic waste streams such as food waste and fats, oils, and grease (FOG). These organic waste co-digestion projects have multiple environmental benefits in that they divert these wastes from landfill while also increasing renewable energy production. Current low feed-in-tariffs, however, prevent these agencies from selling the excess green power they are generating at a price that covers the required investments.

CWCCG requests that CPUC act to incentivize use of wastewater treatment biogas. In particular, we request action on the following:

- **Approve Southern California Gas Company (SoCalGas®)'s Request for Authorization to Offer Biogas Conditioning Services and Bioenergy Production Facilities Services on a Non-Tariffed Basis.** As noted above, many wastewater agencies, particularly in the South Coast Air Basin, are under increasing pressure to cease use of the internal combustion engines they have relied on for years to produce onsite renewable power using biogas. These agencies are looking for alternatives, including putting the biomethane into natural gas pipelines; however the cost of biogas conditioning equipment can tip the economic balance away from these projects. We therefore support the entry of new players in the market to capitalize biogas conditioning facilities, thereby making these projects more feasible. In addition, we encourage CPUC to consider providing direct economic incentives for biogas conditioning projects. Currently, projects of the type proposed by SoCalGas are only economically viable for the largest biogas producers. With some supplemental funding, smaller to mid-sized wastewater agencies may also have the opportunity to condition and sell their biogas, making California's overall natural gas portfolio even greener.
- **Provide economic incentives for additional onsite power generation.** As described above, the move to replace internal combustion engines with more expensive, lower emitting technologies such as fuel cells is tying the hands of many wastewater agencies looking to continue and expand onsite heat and power generation. In addition, the economic incentives for generating extra power through co-digestion are limited. We encourage CPUC to consider a funding program or other framework for economically incentivizing biogas production and use. The success of the California Solar Initiative provides a model for expanding uptake of distributed renewable energy technology. These types of incentives nudge projects toward an economic tipping point, making them economically feasible while technology continues to improve and costs naturally go down.
- **Adopt an interim renewable energy feed-in tariff in advance of SB 32 implementation.** As described above, the current rates at which third-party power generators sell can renewable power to the grid are not high enough to incentivize projects such as co-digestion for increased energy production. On October 21, 2010, the Federal Energy Regulatory Commission (FERC) issued an order that enables the CPUC establish multi-tiered tariffs, allowing the state to take into account the cost of different energy producing technologies. The order further states that the new rates need to be commensurate with the avoided costs that utilities receive for *comparable energy* developed under the state's Renewable Portfolio Standard. This ruling has the potential to greatly enhance the economic benefits that owners of small-scale renewable energy and combined-heat and power (CHP) facilities such as wastewater treatment agencies receive under California's Feed-In Tariff (FIT) programs, thereby incentivizing new project development.

We recognize that CPUC is about to undertake proceedings to implement SB 32, and as part of those proceedings will be considering updates to FIT programs. We look forward to participating in those proceedings, however we are concerned that significant time may elapse before this process is complete, and in the meantime, distributed renewable energy generation will continue to languish. Therefore, we recommend that, CPUC establish an appropriate interim FIT consistent with FERC's order. We believe that this rate can be set based upon the actual avoided cost/Market Price Referent (MPR) equivalent data from comparable renewable energy projects approved over the last five years by the CPUC for the regulated utilities. We further recommend that the 3 MW cap on power eligible for FITs be lifted. These limits create disincentives for wastewater agencies looking to expand current onsite generation capacity in order to sell power to the grid.

We believe that with the right options, funding mechanisms, and price signals, biogas power generation in California can be significantly increased, getting us closer to our AB 32 commitments. We look forward to working with the CPUC to realize these mutual goals.

Thank you for your consideration. Please contact me if you have any questions at (510) 206-3820 or jkepke@ch2m.com. We would welcome the opportunity to meet with you to further discuss the wastewater community's interest in creating opportunities for biogas energy production.

Sincerely,



Jackie Kepke, P.E.
Program Manager
California Wastewater Climate Change Group

cc:
Commissioner Dian Grueneich,
Commissioner John Bohn
Commissioner Nancy E. Ryan
Commissioner Timothy Alan Simon
Richard Myers, Energy Division
Julie Fitch, Energy Division
Judith Ikle, Energy Division