

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

_____)
Order Instituting Rulemaking to Address Natural)
Gas Distribution Utility Cost and Revenue Issues)
Associated with Greenhouse Gas Emissions.)
_____)

R.14-03-003
(Filed March 13, 2014)

**PREHEARING CONFERENCE STATEMENT OF
Patrick Wood, President, Ag Methane Advisors, LLC**

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April 10, 2014

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In accordance with Rule 7.2 of the Rules of Practice and Procedure of the California Public Utilities Commission (the Commission) and the *Order Instituting Rulemaking to Address Natural Gas Distribution Utility Cost and Revenue Issues Associated with Greenhouse Gas Emissions (OIR)*, issued March 13, 2014 , Ag Methane Advisors offer the following comments in advance of the prehearing conference.

**I.
INTRODUCTION AND SUMMARY**

The OIR includes a preliminary scoping memorandum, which indicates that this proceeding will address, among other issues, purchasing rules for natural gas distribution utilities. Ag Methane Advisors is a consulting firm representing more than 10 livestock anaerobic digestion projects that are active in the California Air Resources Board Compliance Offset Program. We appreciate the opportunity to submit preliminary responses and appropriate information to address questions raised in the OIR about natural gas utility procurement rules.

II.

DISCUSSION

A. **What rules and limits should govern how natural gas corporations acquire Cap-and-Trade compliance instruments?**

Ag Methane Advisors submits these comments on behalf of more than 10 Offset Project Operators that are independent family-owned dairy farms located in California and throughout the United States. The project operators/developers have installed anaerobic digesters on their farms to reduce methane emissions from anaerobic storage of manure. These projects diligently follow the project monitoring requirements of the California Air Resources Board's Livestock Projects Compliance Offset Protocol. In addition each project operator actively follows developments of pending regulatory processes related to their project(s), and operates their project(s) in accordance with all environmental permits, and health and safety regulations. The goal of all of these activities is to mitigate potential offset invalidation as much as possible both for their own interest, and that of potential future buyers. In addition, to officially reduce length of potential invalidation from 8 years to three all projects will hire a different verifier during the second round of regulatory verification.

As a result of these measures the projects have a low likelihood of invalidation risk, and therefore collectively will deliver a substantial annual volume of offsets into the compliance market. However, given the size and nature of these projects (and their parent companies) there are substantial barriers to contracting with utilities in California through the RFO process. These barriers simultaneously reduce the number of buyers and sellers in the marketplace, and prevent utilities from contracting directly with project operators. The offset project operators would like to engage in the market directly with natural gas

distribution utilities through a process that provides these utilities more flexibility to procure offsets than is currently allowed in the mandatory RFO process imposed on electric utilities.

B. Should these rules and limits governing acquisition of compliance instruments for natural gas corporations mirror those adopted in D.12-04-046 for electric utilities?

Even many of the largest and most profitable dairy farms in the country do not have publically available published investment grade credit ratings. In addition, given the uncertainty and potential volatility of the compliance offset market there is little interest from project developers in responding to RFOs that require financial deposits to participate. While some projects may have the capital to guarantee offsets and sell them as “Golden CCOs”, there is no interest in doing so when the RFO is structured as a race to the bottom from the perspective of a seller/project operator. It is public knowledge that certain RFOs released by electric utilities in California have not received sufficient responses to prove a viable market mechanism. There is a trend of market consolidation with a limited number of entities who possess the capital, credit rating, risk tolerance, appetite and offset project portfolio to participate in the RFO process. As a result the costs to energy consumers in California increase, as utilities have a smaller pool of potential suppliers. If the requirements of the RFO process were modified the number of sellers capable of supplying utilities would increase. This would increase the size of the realistic buyer pool as well. The ability for more offset project operators to contract directly with end users would lead to a more competitive market. While it may seem counter intuitive this could result in increased price for sellers, reduced price for the utilities and therefore reduced cost to consumers.

III.

CONCLUSION

For the reasons set forth above, Ag Methane Advisors respectfully request that the Commission consider the important role that offset developers play in providing transparency, liquidity, cost control opportunities, support for state public policy goals (e.g. biogas) and consider how best to develop procurement rules for natural gas utilities that encourage and facilitate the participation of a broad range of market participants.

Respectfully submitted,

By:  _____

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