

Energy - Docket Optical System

From: kent hawkins [kent@colonyenergypartners.com]
Sent: Monday, June 24, 2013 10:30 AM
To: Energy - Docket Optical System
Cc: O'Neill, Garry@Energy
Subject: FW: Challenges to Bio Methane into Pipeline docket no. 13-IEP-1M

Gary, I read the comments to your workshop you and the panel held a few weeks past. I thought several of the comments were very good. Waste Management hit on most of the topics.

From Colony Energy's perspective, and from a company processing 4 commercial scale projects in the So Cal Gas region, and one in Tulare that is shovel ready with all CEQA permits, air permits and Cal Recycle permits in hand, we are most interested in the following three areas.

- 1) As mentioned several times, Financing. Project finance is critical to getting any of these projects built. Even with our team, and our ability to process CEQA in each of these municipalities, we need to bring together the financing. The three ingredients are long term feedstock agreements, a fixed price contract with qualified contractor (EPC) and a guaranteed off take partner with no regulatory outs in the contract.
 - A) Long term feedstock contract can basically come from a municipal backed contract. I.e. waste haulers with long term contracts who pick up the trash have to have an incentive to bring the sorted organic material to a digester. Right now, as was mentioned, Ab 323 got stalled. We need to help the haulers in partnering up with companies like ours, and help give incentives to have them divert their organic materials to us, so that we can get long term contracts that help with financing. We can get many types of feedstock, but many of the contracts are short term. Under 5 years and lenders cannot underwrite to short term contracts. We charge tipping fees, which is critical to our return of capital. Our tipping fees have to be attractive enough to get them to bring their material to us. That's where grants can really help us so we can charge them less to offset our costs.
 - B) Having in place a EPC contract, or guaranteed price contract is critical as they provide all operating warranties necessary for the lender, including operating and gas production, gas upgrade to pipeline quality gas as well as Co-generation production.
 - C) Third, having a long term purchaser of the pipeline gas, and not having any regulatory outs. The Gentleman from SMUD mentioned they don't want to take regulatory risk for their Rate payers. Well, nor does the bank. We (and Utilities, or gas purchaser's) need to have certainty from the CEC that regulations in place at contract signing will hold for the term of the contract, and that the Utility does not have to take that risk. Without this, IOU's(and others)are asking for out clauses, and that will prevent contracts from getting done as the lenders wont except them.
- 2) Last comment for LCFS and RIN's, the idea to have Cap and Trade purchase RINS and LCFS credits up to 10 years, and then sell them annually to the oil companies could be a good idea as long as the CEC puts a floor on them and then we could capture the added value of the long term contract value. If we

were able to do that, we could offer lower tipping fees to the haulers, and thus giving them an incentive to bring us their organic materials. We could even produce some on-site CNG to help fuel their trucks, they mentioned they need to fill.

- 3) As far as getting into the pipeline, it is very expensive and we do need to have the utility pay for this cost if they want more projects done. Or let the utility help by providing an upgrade system and charging a tariff, and that can be offset by the purchase of the gas.
- 4) Lastly, we do need more grants. The 1603 grant, which provided up to 30% of the project cost got hundreds of projects built for wind and solar. We need to have similar grants available to get biomethane projects built in CA. At least for now, the EPIC program and R&D should recognize bio methane injection into pipeline as a qualified project, and would hope that all the equipment necessary to build the project would qualify as the majority of our gas will be used to RPS standards anyway.