

August 18, 2008

California Energy Commission
Dockets Office, MS-4
Re: Docket No. 08-OIR-1
1516 Ninth Street
Sacramento, CA 95814-5512

ATTN: Mr. Charles Mizutani

RE: 08-OIR-1 Committee Workshop

Dear Mr. Mizutani:

The California Natural Gas Vehicle Coalition (CNGVC) is pleased to submit these comments on the proposed draft regulatory language regarding administration of the Alternative and Renewable Fuel and Vehicle Program under AB 118.

Advanced Vehicle Technology: This section seeks to clarify that just as projects to develop and deploy advanced fuels and technologies qualify for funding under AB 118, so do the production and manufacture of advanced vehicles and related technologies. Since the advanced vehicles needed to use alternative fuels are an essential part of the advancement of alternative fuel use in California, it is obvious to us that projects focused on the vehicles themselves should qualify.

But the proposed language also raises questions we hope the Commission will clarify. The language seems to suggest that only those vehicles and vehicle components that are manufactured or produced in California will qualify for funding. First, we assume, and urge you to confirm, that this restriction does not apply to projects that will demonstrate or deploy advanced vehicles manufactured outside California. Second, since very few of the advanced vehicles that use alternative fuels, such as natural gas, are manufactured in California, this restriction would severely limit the further development of advanced vehicles. We note that the language requires vehicles or components to be produced or manufactured in California “for the life of the project” to qualify for funding. We believe vehicles and related components should be allowed to be produced or manufactured outside California so long as the benefits accrue to California for the life of the project, and we hope this is the intent of the language. We hope the Commission will clarify this point.

Sustainability Goals: We will withhold specific comments on this section until draft language has been circulated for comment. We note that the draft staff paper “Regulatory Concepts on Sustainability Goals” identifies bridging technologies that offer long-term potential for substantial GHG reduction as a proposed sustainability goal. Natural gas is an excellent bridging technology for eventual broader use of hydrogen as a vehicle fuel: both are on-board gaseous fuels and both can be produced and dispensed to the public with the same fueling infrastructure. We urge the Commission to consider these attributes when considering projects to promote natural gas fuels and infrastructure.

The paper also notes that the Commission can encourage alternative fuel and transportation projects to minimize environmental impacts and natural resource use by supporting projects that maximize the use of waste stream materials as their feedstock. The CNGVC is very excited
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about the possibility of producing renewable fuel-grade biomethane from landfills, wastewater treatment plants, dairies and other similar sources, and we urge the Commission to consider the benefits of developing this source of renewable zero-GHG fuel.

Funding Restrictions: This section restates language already appearing in AB 118 and in AB 109 (pending in the Legislature). We support the language clarifying that funding may be provided for that portion of a project that exceeds what is required to comply with an applicable law or rule or that the applicant can show is not necessary to meet a law or rule.

The draft staff paper "Regulatory Scoping Paper" cites the Low Carbon Fuel Standard, which applies to refiners, importers and marketers of gasoline and diesel fuels, as an example of an existing rule. It notes that these entities will be ineligible for AB 118 funding as it relates to compliance with the LCFS, but also states that the Commission has the latitude to fund projects that are both upstream and downstream of the LCFS regulation, and cites alternative fuel producers and alternative fuel retailers and consumers as examples of each. The CNGVC supports this interpretation and believes it is consistent with the approach to the LCFS taken by the Air Resources Board.

The CNGVC supports the project applicant retention of any surplus externality benefits proportional to the level of funding over-and-above the AB 118 grant level.

Investment Plan: These regulations are needed to clarify the role of the Investment Plan in the program. AB 118 stipulates that the Plan will determine priorities and opportunities and that all funding shall be consistent with the Plan. The question posed at the workshop was whether the Plan should be specific or general in its identification of project priorities. The CNGVC believes that the Plan should be general and leave discretion to staff to consider all factors in individual project applications. We do, however, believe the Plan should prioritize *types* of projects, such as purchase incentives, technology validation and certification, and funding to field demonstration fleets, that would focus on significant impact in the near term. The CNGVC believes the success of AB 118 and of the state's efforts to increase its use of alternative fuels depend on demonstrated early successes, which can be achieved by deploying alternative fuels that are ready and available for increased use in the state.

CNGVC appreciates the opportunity to comment on these proposed regulations and looks forward to continuing to work with the Commission as these go through the formal rulemaking process.

Please contact Pete Price or Justin Malan at Price Consulting at (916) 448-1015 if you have any questions regarding this submission or CNGVC.

Sincerely,