

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD S. GORDON, CHAIR

**WEDNESDAY, MARCH 14, 2012
9:00 A.M. - STATE CAPITOL ROOM 447**

VOTE-ONLY CALENDAR

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VOTE-ONLY**3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION**

VOTE-ONLY ISSUE 1: SMART GRID POLICY

The Governor's Budget proposes the continuation of \$141,000 (Energy Resources Programs Account) to support 1.0, two year, limited-term position to provide continued support of the Commission's technical analysis and standards coordination needed to meet SB 17's goals of modernizing the electricity grid and developing a "smart grid". SB 17 (Padilla), Chapter 327, Statutes of 2009, established as state policy the modernization of the State's electric grid to maintain reliable and secure electricity service with an infrastructure that can meet future growth in demand for electricity.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 2: MEETING ENERGY INFORMATION DEMANDS OF CA'S ENERGY MARKET

The Governor's Budget requests authority to redirect one existing permanent position from the Siting Division to the Information Technology Services Branch to address critical support needs to build energy related information services. This proposal is in accordance with AB 2408 (Smyth), Chapter 404, Statutes of 2010, and under the directive of the California Technology Agency to develop technical experts in civil service employees.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 3: ESTABLISHING AND AUDIT AND INVESTIGATION UNIT

The Governor's Budget requests to redirect three existing permanent positions from the Siting Division to establish an Audit and Investigation Unit to ensure that Federal and State Funds are spent in accordance with applicable requirements and guidelines to prevent fraud, waste, and abuse. Since the creation of the Energy Commission in 1974, the Commission has grown in size and responsibilities – from 442 positions and \$68 million as a baseline appropriation to over 600 staff and administering \$275.7 million in Federal and State programs funded by 14 funding sources. With such growth, there is a need of an oversight function over operations and review of contractor/grantee expenditures.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 4: IMPLEMENTATION OF RENEWABLE ENERGY DEVELOPMENT GRANTS UNDER AB 13 X1

The Governor's Budget proposes \$7,376 million (Renewable Resource Trust Fund) to support 2.0, one year, limited-term positions to develop and administer \$7 million in grants, mandated by AB 13 X1 (Pérez), Chapter 10, Statutes of 2011-12 First Extraordinary Session, to qualified counties to coordinate state energy goals with local land use planning.

SB 2 X1 (Simitian), Chapter 1, Statutes of 2011-12 First Extraordinary Session expanded the Renewable Portfolio Standard (RPS) to 33 percent by 2020. Currently, counties lack a cohesive and complete planning and permitting framework for renewable energy development. The impetus of AB 13 X1 was to provide qualified counties with a mechanism to overcome local planning and permitting barriers to implement SB 2 X1.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 5: WORKFORCE CAP PLAN

The Energy Commission submitted a reduction plan for review and approval by Department of Personnel Administration and the Department of Finance. Implementation of the approved plan was completed prior to the June 30, 2011 deadline eliminating 27.0 positions at an annual savings of \$2.637 million.

Staff Recommendation: Informational Item Only

ITEMS TO BE HEARD

3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

ISSUE 1: OVERVIEW

The Energy Commission is responsible for ensuring a reliable supply of energy to meet state needs while protecting public health, safety, and the environment. Activities include: permitting energy facilities, designating transmission line corridors, assessing current and future energy demands and resources, developing energy efficiency standards, stimulating development of alternative sources of energy, analyzing transportation fuel supplies, prices, and trends and, maintaining capacity to respond to energy emergencies.

Decreases in the Commission's budget are largely due to the phasing down of the Public Interest Energy Research (PIER) Program and the Renewable Resources Trust Fund (RRTF) as a result of the failure to reauthorize the Public Goods Charge.

Fund Source	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	\$0	\$0	\$0	0	0
Federal Funds	57,721	67,787	51,595	(16,192)	(24%)
Renewable Resource Trust Fund	54,317	105,360	88,944	(16,416)	(16%)
Energy Resources Programs Account	58,725	65,074	67,988	2,914	4%
Alternative and Renewable Fuel and Vehicle Technology Fund	130,521	162,586	122,324	(40,262)	(25%)
Other	102,003	153,532	62,256	(91,276)	(59%)
Total Expenditure	\$403,287	\$554,339	\$393,107	(161,232)	(29%)
Positions	560.6	626.3	595.6	(31)	(5%)

ISSUE 2: ARRA SPENDING

On February 17, 2009, the federal government enacted the American Recovery and Reinvestment Act (ARRA) of 2009, a \$787 billion stimulus package for the purpose of preserving and creating jobs, promoting economic recovery, and investing in environmental protection. On April 21, 2009, the California Energy Resources Conservation and Development Commission (Energy Commission) was awarded \$226 million in ARRA funds for energy efficiency, energy conservation, renewable energy, and other energy-related projects and activities.

In July, the Bureau of State Audits (Bureau) reported that the Energy Commission had only spent \$69.9 million, or 31 percent of the \$226 million in Recovery Act funds. Concern about the Commission's ability to spend the remaining ARRA funds by the April 30, 2012 spending deadline prompted the Executive Director of the Energy Commission to contract with the Department of Finance (DOF), Office of State Audits and Evaluations to perform an assessment of Energy Program sub-recipients. The assessment by DOF identified projects at risk of not being able to spend all funds by the deadline. As a result of these findings, the Commission worked with the sub-recipients to develop work plans and schedules to successfully complete their projects and confirm the amounts of funds that should be reallocated to other projects.

On January 30, 2012, the bureau released a follow-up review that revealed the Commission has made significant progress during the past six months in ensuring ARRA funds are spent at an increased pace. While the bureau notes that substantial amounts of ARRA funds remain, the Commission's current efforts and plans appear adequate to reduce the risk that the Recovery Act funds will revert. As of February 21, 2012, the Commission has spent a total of \$136,702,256, or 60 percent of the total \$226 million.

Further, new legislation, AB 1392 (Bradford & Williams), Chapter 488, Statutes of 2011, would allow the Energy Commission to allocate to the Energy Efficient State Property Revolving Loan program any remaining ARRA funds not spent by April 30, 2012, the federal spending deadline, thus avoiding reversion.

STAFF COMMENT / QUESTIONS

The Committee may wish to ask the Commission to highlight some of the projects funded with ARRA money. Also, the Committee should ask if it is likely that the Commission will meet the April 30, 2012 federal spending deadline or whether some funds will be allocated to the Energy Efficient State Property Revolving Loan program.

Staff Recommendation: Informational Item Only

ISSUE 3: ALTERNATIVE AND RENEWABLE FUEL AND VEHICLE TECHNOLOGY PROGRAM DRAFT INVESTMENT PLAN

The Alternative and Renewable Fuel and Vehicle Technology Program (ARFVT), created by AB 118 (Núñez), Chapter 750, Statutes of 2007, supports two state policy goals: reducing greenhouse gas (GHG) emissions; and reducing the State's dependence on petroleum. Currently, the transportation sector is the largest emitter of GHG emissions and nearly 96 percent of a transportation energy used in the State comes from petroleum-based fuels.

The ARFVT Program provides funding of up to \$100 million annually (for 7 years) to leverage public and private investment to develop and deploy clean, efficient, and low-carbon alternative fuels and technologies. Alternative and renewable fuels include electricity, natural gas, biomethane, propane, hydrogen, gasoline substitute fuels, and diesel substitute fuels.

The annual funding for this program comes from additional fees on vehicle registrations, special identification plates for various vehicles, and vessel registrations, plus \$10 million annually from the Public Interest Research, Development, and Demonstration Fund, which is derived from a portion of electric utility rates. The Commission, through a competitive process and pursuant to an appropriation in the State budget, allocates these funds to alternative fuel and vehicle technology projects. Eligible recipients include: public agencies, private businesses, public-private partnerships, vehicle and technology consortia, workforce training partnerships and collaboratives, fleet owners, consumers, recreational boaters, and academic institutions.

Subsequent legislation, AB 109 (Núñez), Chapter 313, Statutes of 2008, directs the Commission to adopt an investment plan, in consultation with an advisory group consisting of a wide array of stakeholders, in order to set priorities for the allocation of funds it receives pursuant to AB 118. Further, SB 855 (Budget and Fiscal Review Committee), Chapter 718, Statutes of 2010, requires that the Commission submit a draft investment plan to the Legislature each year concurrently with the Governor's budget.

In January, the Energy Commission released its' 4th Draft Investment Plan. Below is a chart showing the proposed funding amounts for various projects/activities. The draft plan reflects an enhanced focus on manufacturing and economic development. Proposed funding for these types of projects has increased from \$10 million in 2011-12 to \$20 million for 2012-13.

	Project/Activity	Proposed Funding FY 2012-2013 (Millions)	FY 2011-12 Funding (Millions)
Alternative Fuel Production	Biofuel Production and Supply	\$20	\$24
Alternative Fuel Infrastructure	Electric Charging Infrastructure	\$7.5	\$8.0
	Hydrogen Fueling Infrastructure	\$11	\$8.5
	E85 Fueling Infrastructure	Up to \$2.5	\$5.0
	Natural Gas Fueling Infrastructure	Up to \$2.5	\$8.0
	Propane Fueling Infrastructure	Up to \$1.0	\$0.5
Alternative Fuel and Advanced Technology Vehicles	Natural Gas Vehicle Incentives	\$12.0	\$12.0
	Propane Vehicle Incentives	Up to \$4	\$3.0
	Light-Duty PEV Incentives	Up to \$5	-
	Medium- and Heavy-Duty BEV Incentives	Up to \$4	-
	Medium- and Heavy-Duty Advanced Vehicle Technology Demonstration	Up to \$3	\$8.0
Emerging Opportunities	Innovative Technologies and Federal Cost-Sharing	\$1.5	\$3.0
Manufacturing	Manufacturing Facilities, Equipment and Working Capital	\$20	\$10.0
Workforce Training and Development	Workforce Training and Development Agreements	\$2.5	\$6.5
Market and Program Development	Sustainability Studies	Up to \$1	\$0.5
	Regional Alternative Fuel Readiness and Planning	\$3.0	\$1.0
	Centers for Alternative Fuels and Advanced Vehicles	Up to \$3	NA
	Technical Assistance and Analysis	\$2.0	\$2.0
	Measurement, Verification and Evaluation	\$0.5	\$0.0
	Total Available	\$100	\$100

Before the 2012-13 Plan is finalized in May, the Commission will conduct workshops and meetings with its Advisory Committee, and review input from stakeholders through a public docket and ongoing outreach efforts.

Since the first investment plan in 2008, the Energy Commission has invested approximately \$362 million in projects that will support alternative and renewable fuels and advanced vehicle technologies. The Commission has successfully leveraged state public investments with private financing and other public funding sources. Outside contributions to the funded projects are approximately \$375.5 million. So far, the largest public funds leveraged by the Program have been the federal dollars available through ARRA. The ARFVT Program funded nine projects totaling \$36.5 million that received a total of \$105.3 in ARRA funding.

A benefits report prepared by the Commission identifies a range of benefits from the fuels and technologies supported by the ARFVT Program. This includes a range of 380.4 million to 1.2 billion gallons of petroleum fuel displaced per year by 2020, as well as a reduction of 2.7 million to 9.7 million carbon dioxide equivalent metric tonnes of GHG emissions per year by 2020. For context, California's diesel and gasoline demand is expected to reach roughly 18 billion gallons per year by 2020.

STAFF COMMENTS

The Committee may wish to discuss with the Commission what kinds of things California should do to encourage alternative fuel vehicle/component manufacturing in California.

Staff Recommendation: Informational Item Only
