



Public Goods' Political Control

By Arthur O'Donnell

With the clock ticking against a 2012 sunset for California's \$350 million per year "public goods charge" program, new legislation would extend it and add more money to the effort.

However, this program support comes with new conditions, higher expectations, and another layer of political involvement that could undermine the program's future effectiveness.

Administered by the California Energy Commission with funds collected via a monthly public goods charge on regulated utility customers, the research and grants program has allocated hundreds of millions of dollars to renewable energy projects, energy efficiency programs, emerging technologies, and research that otherwise would not find funding in utility budgets.

Currently, the state divides the public goods funding in this way: energy efficiency and conservation \$228 million; renewable energy, \$62.5 million (Renewable Energy Trust); and energy RD&D (Public Interest Energy Research, aka the PIER program), \$62.5 million. The energy efficiency money has been subsumed into the California Public Utilities Commission allocations for utility programs.

With a legislated sunset date of January 1, 2012, the program has been subject of several bills to extend, revamp, or eliminate continued support (*Current*, Aug. 26, 2011).

A revised Senate bill introduced this week for consideration under the budget emergency session, SBx1-28 by state Senators Alex Padilla (D-San Fernando Valley) and Senate president pro Tem Darrell Steinberg (D-Sacramento), increases those amounts and extends authorization through 2020. The new budget allocations would be \$250 million for efficiency, plus \$75 million each for renewables and research & development (see story in IT'S THE CAPITOL).

The need for such funding lies in the fact that the electric utility industry spends far less on research and development than any other major sector of the economy—about 0.1 percent of annual revenues. In contrast, industry sectors from pharmaceuticals to software routinely spend—from 12 percent to 20 percent.

Padilla previously introduced SB 35, which would have replaced the current Energy Commission program in favor of one much more subject to utility and third-party influence.

Padilla's bill was an attempt to address criticisms that the program is not spending funds as intended, that the application process is too complex, and that it is difficult to ascribe the kinds of ratepayer benefits to the public goods investments that the Legislature initially intended.

What we see in SBx1-28, therefore, is far more state-level political control over the funds. It includes two new layers of oversight of program priorities, and much more specificity as to how the money should be spent.

The proposed Clean Energy Jobs and Investment Act follows many of the same proposals under what SB 35 called the Clean Energy Research & Technology Act, but now couches the revised measure in the context of Governor Brown's initiatives for jobs and investment.

Two major administrative changes are included, creating a Clean Energy Investment Council to set priorities for public goods charge spending, and inserting the state Legislature into the disbursement process. The investment council would be made up of top officials from the CEC, the California Public Utilities Commission, the Air Resources Board, the Independent System Operator, the California Treasurer, and leaders of the state Senate and Assembly.

The PIER fund would turn into a Clean Energy Innovation Program fund within the Treasury, subject to appropriations by state lawmakers.

Padilla previously proposed a "coordinating council" structure with representatives of utilities, non-profit groups, state agencies, and universities along with several legislators. This idea remains in the new measure as an "advisory council" for the Innovation Program portion and would be expanded to about 25 members, with additional seats for environmental justice advocates, publicly-owned utilities, and representatives of the clean energy industry. This unwieldy body would meet no less than twice each year to identify funding opportunities and

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potential barriers to meeting state energy policy goals.

Program goals have now been expanded to include energy storage, smart grid and system integration applications in addition to renewable energy and efficiency programs. Other new wrinkles include a preference for funding California-based applicants “unless there is a unique need that can only be met by an entity outside of California.”

More importantly, the bill specifies that the funds should be spent for “projects that may lead to technological advancement and breakthroughs.” Applicants would have to show how they would achieve such breakthroughs, and would also have to agree to currently unspecified requirements by the state for sharing intellectual property rights and royalties.

These latter requirements raise the ante from the program’s current focus on “promising new energy technology concepts” in the Energy Innovations Small Grant program, or the emphasis on further developing “established concepts” in the larger PIER grant program (which was seen as a way to improve the odds of success). Also, there had never been an in-state requirement

before, only a need to show that the research is “relevant to the California market.”

While the existing PIER program has returned something like \$50 million in the form of royalties on patents and innovations, it is clear that the state will in the future expect more certain returns from its investments.

Research does not always lead to breakthroughs nor will valuable advances necessarily lead to royalties or direct intellectual property benefits that would completely pay back the investment. Even venture capitalists cannot point to such a track record—hoping at best that one in a dozen investments will be a rousing success, and often settling for an easy exit from far less successful funding experiments.

While it is good for the state to continue to fund research and other programs to advance its ambitious energy policy goals, the new regime should not hamstring future funding with unreasonable expectations from the start.

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Feds Spotlight PG&E’s Gas Blast Errors & Omissions

In the wake of a damning federal investigation of Pacific Gas & Electric’s gas explosion in San Bruno last year, the focus shifts to the California Public Utilities Commission’s pipeline safety enforcement role. The CPUC is expected to investigate additional details of the disaster and unlike the National Transportation Safety Board has the power to levy penalties on the company.

In a preliminary report released Aug. 30 after a year-long investigation, NTSB blamed the fatal September 9, 2010, blast south of San Francisco on PG&E’s deficient procedures, flawed integrity management, inadequate emergency response, and culture of putting profit over safety.

A day after the scathing report was released a leaking PG&E gas line blew in Cupertino, partly destroying

a home. According to news reports, it took the utility two hours to shut off the flow of gas.

Responding to the report, Michelle Cooke, CPUC Consumer Protection and Safety Division interim chief, said that key issues were PG&E’s flawed record keeping on the pipeline and its long-term management of records spanning decades.

“What information was out there, what should [PG&E] have known, and should they have taken remedial action,” are among the unanswered questions, Cooke said.

State investigators are assessing “whether PG&E’s activities and acts comported with federal law and CPUC codes, and whether they fit with safe and reliable operations or not,” Cooke added.

“Blind trust.”

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Rate of Return

What’s in Your Wallet? Credit card companies are likely to extract 20% on your debt. In California, ratepayers pay 8.5%-11.5% on investor-owned utilities’ debts & investments. In regulatory parlance, it’s known as the “rate of return” or “cost of capital.” Utilities can finance new investments, like new transmission lines, with a portion of their equity and gather debt funding. Utilities are roughly limited to a 50-50 split between the two. On debt, there’s about 9% profit. On equity, regulators require ratepayers to service around 11%.