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CIP Implementation comments

Additional submitted attachment is included below.

Activate

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November 29, 2022

Anthony Ng
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814

RE: Climate Innovation Program

Dear Mr. Ng,

I am writing to provide additional details for oral comments I made during the workshop to discuss implementation of the CEC's new Climate Innovation Program (CIP).

Activate is a non-profit that supports scientist entrepreneurs who are translating their research into new products and businesses that can address our society's most urgent needs such as climate change. Since 2015, Activate has supported nearly 150 hard-tech innovators who have launched 106 new companies that have raised over \$1 billion in follow-on funding and created more than 1,000 U.S.-based high-tech jobs. Activate's two-year fellowship program originated at Cyclotron Road, a program at Lawrence Berkeley National Laboratory that supports innovations developed at our local universities and also attracts the best entrepreneurial scientists to California. Our fellows build their businesses here and state funding is an important part of encouraging them to stay here.

In implementing the CIP, I would like to encourage you to define climate as broadly as possible. I have learned in my role that technologies such as more efficient computing and microelectronics will play an enormous role in mitigating climate change. Technologies that decarbonize manufacturing and mining will also play a huge role. Of course, technologies that directly reduce greenhouse gas emissions are critical, but so are technologies that enable deep reductions in the energy and carbon needed to conduct our everyday lives.

I would also like to recommend clarification of the provision that requires that the recipient repay the full amount of the financial incentive plus 20% if there is a liquidity event. If implemented broadly, I see this provision to be a major deterrent for startups to apply for these funds. The funds provided by CEC should align with a company's goal of a successful exit, therefore I recommend that guidelines be put around the repayment provision such that the funds need only be repaid if the liquidity event is many times

greater than (perhaps 100X) the dollar amount of the incentive. This would avoid scenarios where this term could be a major deterrent for companies. For example:

- What if the liquidity event is for less money than the Financial Incentive + 20%? Would the acquirer be on the hook for the remaining amount? This could be a major deterrent for the acquirer.
- What if the liquidity event is for less money than the Financial Incentive + 20% + the investment made by other investors? Would CEC get their money first and then investors? If so, this would make it hard for investors to invest in the company.

Follow-on funding is critical for the long-term success of these companies and provides the CEC with an important metric for quantifying the success of the program. Therefore it is important that the CEC incentivize follow-on capital, and not have terms that make it less attractive for investors to invest in companies that receive financial Incentives. Without clarification of this provision, the best climate companies will likely seek funding from other sources and the CEC will be left to fund second tier technologies.

The provision requiring recipients to headquarter in California for 10 years could also limit the success of climate companies. Ten years is a very long time for startups to have to commit to such a provision, especially for very early stage ideas and technologies. Requiring a California headquarters could prevent or steeply reduce the value of an acquisition by larger companies headquartered outside of California. These types of acquisitions are often crucial for the technologies developed by startups to achieve scale and impact. I recommend that flexibility be found around this location requirement such as allowing a large acquirer to have headquarters outside the state while keeping operations in California.

The California economy benefits from the success of climate startups in the form of jobs created and taxes paid and the climate benefits from the success of their technologies. We all want and need these climate technologies to succeed. California's Climate Innovation Program is an exciting opportunity to support climate startups. Let's work together to align this support with their success.

Sincerely,



Jill Fuss