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Strategies to Attract Private Investment - Five Principles for Leverage

Additional submitted attachment is included below.

June 1, 2020

California Energy Commission
1516 9th Street Sacramento, CA 95815

Re: Docket 20-FINANCE-01, "Strategies to Attract Private Investment in Zero Emission Vehicle Charging Infrastructure and Other Clean Transportation Projects"

Dear California Energy Commission Staff:

On behalf of the Governor's Office of Business and Economic Development (GO-Biz), we are pleased to submit the following comments relevant to your important explorations in this docket. GO-Biz is committed to helping mobilize private capital in support of the state's clean energy, climate change and sustainability agendas, believing them to be central to the future of our economy. These themes are central to the interagency Zero Emission Vehicle Market Development Framework initiative we are developing in partnership with the CEC and other agencies. We hope the CEC will consider our team to be a close partner as you move this initiative forward.

Sincerely,

Dan Adler
Senior Advisor for Climate Finance
Governor's Office of Business and Economic Development

Tyson Eckerle
Deputy Director, ZEV Market Development
Governor's Office of Business and Economic Development

Re: Docket 20-FINANCE-01, "Strategies to Attract Private Investment in Zero Emission Vehicle Charging Infrastructure and Other Clean Transportation Projects"

Members of the GO-Biz team, alongside the state's Infrastructure and Economic Development Bank (IBank), have been engaging a range of market actors regarding the financing of sustainable infrastructure. In summary form, our conclusions can be oriented around **five principles,** which we offer below. We would be interested to explore any or all of these in greater depth, to the extent they align with CEC's programmatic objectives.

Principle #1: Organize and ***optimize grant-based incentives,*** across all relevant state agencies, to focus on the capital gaps that matter to private finance.

California administers a wide range of grant-based programs attempting to motivate transformations in the climate and clean energy marketplace[1]. These programs have been crucial to California's success in moving these markets – to the world's benefit – and will remain important going forward. In an economic downturn, close coordination across programs, and focus on where private capital can be leveraged, becomes even more critical. We suggest a collaborative convening of private-sector capital providers, to explore how to better align grant programs for market acceleration, and to the macroeconomic conditions we now face. The aim would be to develop a record suitable for decision support, enabling agencies to make programmatic changes to their grant making strategies as appropriate.

Principle #2: *Be attentive to pre-development capital expenses*, which, while often relatively small, can make or break a project - and significantly influence the willingness of private capital to engage.

In many instances involving relatively small-scale, distributed clean energy technologies, the early-stage project development work – like site control, engineering assessments, and permitting – can prove very challenging to finance. Capital providers are generally unwilling to engage at this scale, as the investment sizes are too small, and the dynamics of these projects are diverse and disorderly. Project proponents are also rarely capitalized for this purpose. Providing capital for these pre-development exercises - as low-interest loans, "forgivable" loans that convert to grants under specific conditions of non-performance, or outright grants – could be a highly leverageable form of public capital provision. The aim is to address early-stage challenges and risks that project-level financing is unwilling to take, which could have the effect of mobilizing in train the multiples of private capital envisioned in this docket.

[1] According to the Senate Office of Research, there are upwards of 40 such programs, and our estimates suggest there are many more. Navigating these programs is challenging for those "in the know" inside state government; for private-sectors partners, upon whom the state is relying to deliver transformational market outcomes, this navigation may be all but impossible.

Principle #3: At the beginning of a capital intervention, ***seek clarity about project revenue models***, and understand how these can be leveraged to attract private debt at the appropriate time in the project's development.

One evident challenge for the state of California, as it looks to expand its engagement in clean energy finance, is to assess more deeply the economic prospects of the projects being supported. Grant programs do not require this level of assessment, for the simple reason that the state does not seek repayment – and therefore has no reason to evaluate future project cash flows. Private capital, for evident reasons, has an g interest in these questions, and is unlikely to lend or invest without a positive assessment. No amount of grant money will fix a broken revenue model. The state, therefore, should focus more attention on what determines revenue viability for a project – in order to make better grant decisions, to understand how policy shapes markets to this effect, and to identify the milestones at which private capital will be willing to participate. This last assessment of relevant project milestones should shape the state's capital market engagement strategy, which will be more efficient and effective as a result.

Principle #4: Recognizing the powerful role that state policy has played in creating the conditions for economic value in the clean energy sector, California should evaluate risks and rewards and ***consider monetizing future credit market revenue streams***.

As others have identified in this docket, the Low Carbon Fuel Standard credit marketplace could be fully or partially securitized to create a substantial pool of near-term investable or grantable capital. Similarly, the Greenhouse Gas Reduction Fund permit auction presents these "securitizable" characteristics. The complexities associated with these securitizations should not be underestimated, but should be addressable through a multi-agency collaboration. Given the crucial state of market development we are in, and limited other financial resources the state can presently bring to bear, it is worth seriously considering these interventions. GO-Biz is interested to be a partner in this effort.

Principle #5: Coordinate across agencies to ***source and deploy leveraged public capital,*** such as green bonds, providing low-cost debt and catalytic credit support to induce private investors to participate.

Embracing the four principles above, and improving the allocation of the state's scarce resources accordingly, will improve California's ability to access debt capital markets in support of our climate agenda. Crucially, attention to capital gaps and revenue model durability will improve our ability to raise capital in the bond market *without recourse to the state's general fund,* leveraging instead the state's world-class markets, technologists, entrepreneurs, and financiers. Debt capital markets remain eager for green bond issuance, on a global basis, even in the current economic environment – perhaps more so because of it, as investors seek stable, long-term opportunities. The cost of capital is at near-historic lows. As another example of multi-agency collaboration, California should cultivate a portfolio of infrastructure projects – nurtured by grant dollars strategically applied, and with an eye to the realistic economic prospects of those projects once deployed – and source investment capital via a significant green bond offering.