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SoCalGas Comments on EPIC 4 Bankability of New Clean Energy Technologies

Additional submitted attachment is included below.



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July 29, 2021

Mr. Braden Henderson
California Energy Commission
Docket Unit, MS-4
Docket No. 20-EPIC-01
1516 Ninth Street
Sacramento, CA 95814-5512

Subject: Comments on the EPIC 2021-2025 Investment Plan Scoping - Improving the Bankability of New Clean Energy Technologies

Dear Mr. Henderson:

Southern California Gas Company (SoCalGas) appreciates the opportunity to provide public comments on the California Energy Commission (CEC) Electric Program Investment Charge (EPIC) 2021-2025 Investment Plan Scoping Workshop to improve the bankability of new clean energy technologies. The CEC has an excellent track record for funding emerging clean energy technologies, especially in enabling technologies to overcome the valley of death. We applaud the leadership and effort that the CEC has put forth through EPIC and the successes that have resulted from bolstering the clean energy transition. As announced in our ASPIRE 2045 climate strategy, SoCalGas is working to achieve our goal of net zero greenhouse gas (GHG) emissions in our operations and delivery of energy by 2045.¹ Our strategy also includes completing five hydrogen pilot projects by 2025, demonstrating the gas system's essential role in advancing a carbon neutral economy.² Accordingly, SoCalGas offers the following comments in the spirit of collaboration to improve the bankability of clean energy technologies today and in the future:

1. Diversified utility programs can support the development, deployment, and commercialization of clean energy technologies.
2. Innovative financing models at the local level can advance clean energy technologies in distressed communities.

¹ SoCalGas Company, *ASPIRE 2045: Sustainability and Climate Commitment to Net Zero*, March 2021. Available at https://www.socalgas.com/sites/default/files/2021-03/SoCalGas_Climate_Commitment.pdf.

² Ibid.

1. Diversified utility programs can support the development, deployment, and commercialization of clean energy technologies.

SoCalGas' Research, Development, and Demonstration Division is a registered partner on the CEC's EmpowerInnovation.net, supporting new technologies that benefit energy customers in California through improved reliability and safety, environmental benefits, and operational efficiencies.³ While the EPIC Program is funded by electric investor-owned ratepayers, in many applications there are clear partnerships that can organically occur with gas utilities. For example, in 2019, SoCalGas partnered with Mainspring (formerly EtaGen), who was awarded CEC grant GFO-17-501, to develop and deploy a near-zero emissions generator that can quickly alternate between traditional gas and renewable fuels to provide energy resiliency at a local grocery store.^{4,5} As a result of this partnership, Mainspring garnered **\$150** million in funding to scale up its operations across the country and to expand to an additional 30 grocery stores.⁶ As this example demonstrates, it is beneficial and essential that the CEC allows gas utilities to participate in the EPIC program with respect to the bankability of new clean technologies.

Utilities can also leverage additional public funding for clean energy projects. In April 2021, the Biden Administration released a report detailing potential actions to utilize nearly **\$38** billion in federal funding that energy communities can seamlessly access for infrastructure, job creation, environmental protection, and community revitalization.⁷ Furthermore, the Biden Administration will "pair investments in 15 decarbonized hydrogen demonstration projects in distressed communities with a new production tax credit", spurring capital-project retrofits and installations that decarbonize the energy industry.⁸ SoCalGas will seek to partner and collaborate with the CEC on similar retrofit capital projects that will have the opportunity to positively impact distressed communities in California while advancing the State's climate goals.

2. Innovative financing models at the local level can advance clean energy technologies in distressed communities.

According to the Milken Institute, a green bond is a traditional fixed income security whose proceeds must be earmarked for environmentally friendly projects.⁹ Green bonds are currently a small percentage of the overall Environmental, Social, and Governance (ESG) market and can be a practical method to invest in distressed communities through the advancement of clean energy technologies. In a 2020 report, the Milken Institute found that the State can play a critical supporting role by eliminating or reducing the costs related to issuing green bonds which could motivate smaller municipalities to participate in the green bond market.¹⁰

³ Jeff St. John, "Mainspring Energy Lands \$150M Deal to Deploy Its Linear Generators with NextEra," 09 March 2021.

Available at: <https://www.greentechmedia.com/articles/read/mainspring-energys-linear-generators-to-roll-out-through-150m-deal-with-nextera>.

⁴ See CEC State of California Grant Request Form (GRF) for EtaGen, Inc. for High-Efficiency and Ultra-Low Emissions Linear Generator Demonstration Project in Southern California, GFO-17-501. Available at:

<https://www.energy.ca.gov/filebrowser/download/1028>.

⁵ See Press Release from Emerging Technologies Coordinating Council on "California Energy Commission releases several new grand funding opportunities." Available at: <https://www.etc-ca.com/news/california-energy-commission-releases-several-new-grant-funding-opportunities>.

⁶ Ibid.

⁷ See The White House Fact Sheet on "Biden Administration Outlines Key Resources to Invest in Coal and Power Plant Community Economic Revitalization," 23 April 2021. Available at: <https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/23/fact-sheet-biden-administration-outlines-key-resources-to-invest-in-coal-and-power-plant-community-economic-revitalization/>.

⁸ Ibid.

⁹ Milken Institute, *Financial Innovations Lab: Growing the US Green Bond Market: Lab 2*, " 2020. Available at https://milkeninstitute.org/sites/default/files/reports-pdf/MI_GreenBondsLab_FINAL%20WEB_0.pdf.

¹⁰ Ibid.

For instance, fees assessed by the California Debt and Investment Advisory Commission (CDIAC), are usually 2.5 basis points (0.025 percent), or up to \$5,000.¹¹ These substantial fees are an obstacle for smaller municipalities. Along these lines, the 2020 report suggested developing a “Best in Class” award program for exemplary green bond issuers to highlight municipalities exceeding expectations for issuances. This then signals to the rest of the market that green capital planning can have a strong positive effect on sustaining an equitable zero-carbon future.

Additionally, the 2020 report suggested that the State develop a pooled fund, which would aggregate smaller issuers that meet specific predefined criteria, such as the capital planning metrics, and help bring these smaller issuers to market at a lower cost through a credit enhancement.¹² In fact, debt backed by the State would lower the repayment risk for issuers, and the pooled structure would diversify the risk for investors. *“The credit enhancement could also be in the form of a reserve fund, where capital is collected on a schedule, and reserves are allocated towards requirements to ensure green bond issuance. Another avenue of attracting a broader investment base is to develop incentives that appeal to the tax-exempt market.”*¹³ In fact, tax-exempt investors derive no additional benefit from investing in tax-exempt bonds and typically prefer the higher yields available on taxable bonds. To attract these investors, the 2020 report stressed the importance of developing a taxable green bond market. *“One way to do that would be with a state-sponsored interest rate subsidy on tax-exempt green bonds, which would enable municipal issuers to compete with the higher yields of taxable bonds. The government subsidy would pay the spread between the issuer interest rate and borrower coupon.”*¹⁴

By collaboratively defining metrics and constructing fair pricing incentives, local municipalities, especially low-income and disadvantaged communities, can integrate sustainability into their capital planning process, which can help spur the green bond market as a financing mechanism in disadvantaged communities.

Conclusion

Overall, the bankability of clean energy technologies compels additional consideration of diversified utility programs that develop clean energy technologies and innovative financing models to advance clean energy technologies in distressed communities. SoCalGas provides these comments in the spirit of collaboration with the CEC to improve the bankability of clean energy technologies beyond their initial demonstration projects. To meet California’s aggressive carbon reduction goals, we recognize that the CEC’s continued focus on research and development through the EPIC Program is critical. The CEC’s willingness and openness to target bankability is a vital step in the process. SoCalGas looks forward to collaboratively pursuing our common interest of lowering greenhouse gas emissions today and in the future.

Respectfully,

/s/ Kevin Barker

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¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.