ENERGY INDEPENDENCE NOW

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Commissioners James D. Boyd & Karen Douglas
Michael Smith
Peter Ward
California Energy Commission
1516 Ninth Street
Sacramento, CA 95814-5512

**Re: Comments on the AB118 Investment Plan** (CEC-600-2008-007-D)

Dear Commissioners and CEC Staff,

As a member of the AB118 advisory committee, I would like to offer further feedback on the AB118 Draft Investment Plan, presented to our committee on January 8th, 2009. My comments below are made both as an individual member of the advisory committee, and on behalf of *Energy Independence Now.* Some of the comments below reiterate the key points which we have raised during the public workshops, as well as comments raised jointly with other environmental organizations.

## 1. Support for the investment plan

We recognize and appreciate the extensive work that has been done in preparation of this investment plan, and the considerable progress since the first draft. In particular, we would like to emphasize that our support for the plan is strengthened by the following elements which are now better reflected:

- Long term, 2050 focus. The Plan's attempt to focus on the transport sector's long term challenge is notable. Our experience working with industry is that the strategic implications and the scale of investments, as well as the coordination needed among fuel, vehicle and infrastructure providers, requires an investment outlook and regulatory signals that span several decades. A focus on 2020 goals would therefore not only be insufficient, but could lock-in pathways that hinder our long term objectives. We therefore support all efforts to make AB118 provide the funding and investment signals for these long term objectives.
- Portfolio approach. The current investment plan, by setting specific allocations of funding to categories of fuels and technologies, as well as to cross-cutting funding needs, recognizes the importance of ensuring a portfolio approach to investment. While we have concerns about some of the allocations themselves, we support the CEC's efforts in developing this critical element of the Investment Plan.
- Wide range of support. EIN is encouraged by the investment plan's recognition of the wide range and types of support that are necessary. This includes the range of instruments (grants, loan guarantees, purchase & tax incentives), as well as the type of projects (fuel facilities, infrastructure, OEM and upfit support). We urge CEC, wherever possible, to prioritize support on new entrants to the transport field, those emerging California-based companies which must overcome technological, financial and regulatory barriers in challenging the status quo.

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2. **<u>Changes to the funding allocation</u>**

As stated at the advisory committee meeting, we strongly believe that the proposed allocation of funding is inappropriately weighted toward 2020 goals.

Based on the CEC scenario, the Super Ultra Low Carbon fuels are expected (and hoped) to contribute the vast majority of GHG reduction beyond business as usual by 2050 (a visual estimate from the charts shows over 55% of the available reductions in 2050 being met by this category. The cumulative amount is similar.) In contrast, the Low Carbon fuels category (primarily natural gas and propane for the heavy duty sector), although they provide substantial reduction in the short term (33% according to Table 3 of the document), do not appear to set us on a path toward substantial long term reductions. Our estimates from the graphs in the investment plan show fewer than 10% of cumulative gains from 2009 through 2050 being met by LC fuels.

In contrast to these expectations, the Investment Plan proposes allocating SULC only 28% of the technology specific funding ($41m out of $147m),[*] while the LC category receives 42% of the technology-specific fund ($62m out of $147m).

We strongly urge the CEC to revise these allocations, to send a clear market signal that the greatest investment need lies in development of SULC (super ultra low carbon) fuel pathways, and to set AB118 funding allocations in proportion with the 2050 expectations. We think there should be at least 40% of the technology-specific funding going to the SULC category for any given year, to match the expected gains more closely. In addition, since technology in this category is currently experiencing a surge in private sector investment, targeting these technologies and attracting them to California would be a more effective use of AB118's leverage potential.

Please note that for these and all the allocations, we support the CEC's right to modify the actual funding allocation if insufficient qualifying project proposals are received.

We also urge the Staff to consider that the Investment Plan gives the impression that there are no clear fuel pathways for GHG reductions in the heavy duty sector in the long term. The plan needs to better explain how the SULC category is envisaged in the heavy duty sector and what investments will be made from now through 2020 in order to establish the trajectory for these pathways. As it stands, it appears that the primary AB118 investment for the heavy duty sector will be to convert to natural gas and propane, with useful medium term reductions, but limited value for the 2020-2050 period.

[*] In calculating the proportion, we exclude the cross-cutting funds ($19m for non GHG and $10m for manufacturing)

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**3. Clearer outline of implementation partnerships**

The AB118 statute calls for the investment plan to identify areas where CEC will leverage existing programs. Given this requirement, and given the scope and the challenge of implementing the AB118 program, and the fact that significant programs and capacity already exist throughout the state, we feel strongly that CEC should highlight these opportunities and its plans to leverage them more clearly. The CEC's partnership strategy cannot be buried in an appendix – it needs to be an integral part of the Investment Plan.

For example the South Coast Air Quality Management district has a strong history of implementing alternative vehicle and fuel incentives and deployment programs. Likewise, CARB staff that manages the hydrogen highways program is well positioned, with collaboration with CEC, to implement the hydrogen components of the program. They have history of working with OEMs, clear strategies and it would be a mistake to reinvent the wheel and not take full advantage of these resources.

**4. Analysis of Renewable Diesel & High Blends**

We are pleased to see that in the presentation made to the Advisory Committee on January 7 by Peter Ward, Renewable Diesel was included in the Ultra Low Carbon category of Biofuels, together with ethanol, rather than in the Low Carbon group. We hope this correction will be reflected consistently in the Investment Plan revisions. However, several concerns remain:

- Only Low Blends considered. We believe the CEC, in its analysis and funding allocations, is perpetuating a policy and market signal that under-values the potential role of high-blend renewable diesel for meeting GHG objectives. We have commented repeatedly on this issue during the analytical work undertaken as part of the Alternative Fuels Plan (AB1007), and are extremely concerned that this significant market and GHG opportunity is being ignored.

  Renewable diesel, when made from waste and other low GHG feedstocks, and when used in a high blends (rather than in B5 and B20), offers a significant pathway toward reducing GHG emissions in the heavy duty sector. The current AB118 investment plan highlights how few heavy duty sector options there are in the long term, with only mediocre achievements projected for the 2020-2050 timeframe. We believe that a re-examination is warranted of the contribution which high blends of renewable diesel can provide for the heavy duty sector. The CEC must begin to analyze the two pathways of renewable diesel in the same way as it does for ethanol: Low blends (B20 and E10) for existing fleets, and high blends (E85 and B100) for modified new vehicles.

- No change in funding. One concern is that tt appears that renewable diesel was moved from one category to another, but there was no accompanying change in the funding allocation. This gives the impression that no significant investment in renewable diesel was planned in the initial allocation, an alarming sign of the missed opportunity described above.

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**5. Removing barriers for new entrants**

We applaud the CEC for recognizing that there are several critical barriers to alternative fuels development that cut across specific technologies and fuels, and for establishing the "Non-GHG" category. In particular, the support for work on standards and certification is commendable, and begins to address a need our organization has repeatedly highlighted as a significant regulatory barrier.

We would encourage CEC to add to the "Non GHG" category in two ways. One is to expand the description of the *Certification and Standards* funding to include funding for authorities having jurisdiction (AHJs) to modify and update regulations, standards, and certifications that pertain to alterative fuel production and distribution. This could include review of fire, health and safety-related codes that were developed in relation to liquid fuels but need review to apply to gases and electricity handling. It could also extend to revisions of codes relating to waste-treatment; a local government agency wishing to enable development of a waste-to-fuel facility could receive funding aimed at harmonizing old standards with new technology.

Secondly, we believe the CEC should consider adding a "Regulatory & Process related Expenses" funding category that specifically supports companies with regulation-related expenses for truly innovative products. This could include expenses related to standards, compliance, warranty issues, or liability. Another example might be expenses relating to multi-media analyses.

**6. Use of Upfit.**

We are pleased to see that the current investment plan includes support for upfitting & retrofits. We believe these accelerate the mainstreaming of new technologies and also send a clear signal to OEMs of the marketability of new technologies. We would urge CEC to consider these upfits and retrofits under all categories of funding, not just the SULC and LC, acknowledging the critical importance to keeping all sectors competitive. Additionally, we believe CEC should consider upfit incentives that target both consumers and manufacturers, and that the key criteria be the level of innovation embedded in the upfit.

We hope that the above comments and suggestions are helpful to you and your staff as you continue to develop the AB118 Investment Plan, and we look forward to further engagement with your team.

Sincerely,

Daniel Emmett
Executive Director

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Clean Transportation Program