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January 30, 2009

Commissioner Jim Boyd
Commissioner Karen Douglas
California Energy Commission
Dockets Office, MS-4
1516 Ninth Street
Sacramento, CA 95814-5512

RE: AB 118 draft Investment Plan; Docket No. 08-ALT-1

Dear Commissioners Boyd and Douglas,

We are writing to offer our congratulations and feedback to you and the California Energy Commission staff on the draft Investment Plan for the Alternative and Renewable Fuel and Vehicle Technology Program established under Assembly Bill 118 (Núñez, Chapter 750, Statutes of 2007) and subsequently amended by AB 109 ((Núñez, Chapter 313, Statutes of 2008). The document released for public review clearly represents significant dedication and hard work on staff's part, and shows progress in outlining the Commission's priorities for this critically important funding program.

We offer these comments in the spirit of working together to build a strong funding program that will help put our state on the path to meeting our greenhouse gas, air quality and petroleum reduction goals. With this plan CEC must send a message that the state is seeking to advance fuels and technologies that not only meet our 2050 greenhouse gas reduction goals, but that also contribute to meeting the state's criteria air pollutant and air toxics reduction goals.

While the draft Investment Plan outlines accurately and factually the basis for the program, we believe it could be strengthened to highlight the critical need for AB 118 funding to invest in clean fuels and technologies of the future. We urge CEC to build a stronger and more compelling case for the program, highlighting how the program will help the state meet its aggressive greenhouse gas and petroleum reduction goals while also improving air quality.

We strongly recommend the plan directly link state investment of AB 118 funds with economic stimulus potential. State investment would spur job creation and economic growth both in the short and long term, ushering in a new generation of transportation technologies and fuels. The document should clearly capture and convey the long-term economic benefit of the AB118 program. Given the current economic downturn and pressing climate challenges, California can't afford to miss critical opportunities to invest in its nascent low, ultra-low and super ultra-low carbon fuels industry; this program is the foundation for leveraging much more public and private investment in California's clean transportation industry.

We also recommend that the plan acknowledge the existence of market and technology barriers and note how proposed funding could help to overcome these barriers.

In addition to these overarching recommendations, we have three key requests.

1. Build the foundation for a super-ultra low-carbon fuel future by significantly increasing funding to this category
2. Provide greater detail on proposed distribution within each funding category
3. Outline the role of sustainability in the criteria for funding

1. Build the foundation for a super ultra-low carbon fuel future by significantly increasing funding to this category

Staff has done an excellent job of synthesizing our state's multiple goals including the 2050 Vision in the State Alternative Fuels Plan, AB 32 greenhouse gas reduction goals by 2020, and our state's 2050 greenhouse gas reduction goals. Staff has also prepared a comprehensive analysis of relative greenhouse gas reductions, and conducted a detailed gap analysis. These analyses provide a sound foundation for the plan.[1]

Staff has articulated a priority of achieving the 2020 transportation fair-share greenhouse gas emission reductions. We believe this plan should also emphasize the importance of establishing pathways toward meeting our longer term 2050 greenhouse gas reduction goals. CEC should make it clearer that the allocation of funds for each category, as well as the selection of each project, will be based on how each category and project meets the dual objectives of 1) near-term greenhouse gas reductions by 2020, and 2) the trajectory necessary to meet the 2050 goals.

[1] However, we note that given the recent, rapid shifts in the global transportation economy, and the likelihood that significant funding will be targeted toward the domestic and international transportation industry, it will be important for the Energy Commission to update its gap analysis within the next two years and before the round of funding for 2010.

The staff's proposed Investment Plan for 2008-2009 and 2009-2010 apportions the greatest amount of funding, $62 million, to the low-carbon category. While this approach reduces greenhouse gases in early years, it does not provide a long-term solution in either the light-duty or heavy-duty sector. Furthermore, the 2020 focus risks undermining the development of the super ultra-low carbon fuels that are critical to meet our long-term goals and diverts investment away from technological innovation and industries that have the potential to meet the long-term goals. While we acknowledge CEC's need for flexibility in its final funding decisions, the Commission must send a strong signal early in the program that California is committed to and recognizes the critical need to develop super ultra-low carbon fuels and technologies for 2020 *and beyond*. Therefore, we recommend the Investment Plan more evenly distribute funds between the low-carbon and super ultra-low carbon categories so that they are approximately equal for this funding cycle, with the expectation that the super ultra-low carbon category would continue to grow in future funding cycles.

Finally, we believe the plan could benefit from greater detail on how the SULC category will contribute to long-term solutions for the heavy-duty sector. The current proposal focuses on fleets and buses, but does not lay out any funding programs of SULC development for heavy-duty trucks.

2. **Provide greater detail on proposed distribution within each funding category**

While the draft AB 118 Investment Plan serves as a roadmap for the AB 118 program, we urge the commission to further articulate its funding priorities within each category and provide greater detail on the emphasis that is sought on both the target of the investment (fuel production, infrastructure, vehicles, education and research), or the instruments that are needed (grants, consumer incentives, loan guarantees, etc.) The information from the gap analysis could provide helpful insight in this regard, and be more clearly integrated into this distribution detail. Additionally, the allocations within categories should be based on the performance-based metrics and sustainability criteria outlined in the regulations and to be detailed in the solicitation. With clearer prioritization, the plan would be a stronger reference point for all interested stakeholders and potential applicants and more clearly meet the requirements of AB 109 (Nunez).

3. **Outline the role of sustainability in the criteria for funding**

We are pleased to see that the Investment Plan recognizes the importance of sustainability in AB 118's alternative fuel and vehicle technology funding program. We also appreciate that the Investment Plan currently states that achieving sustainability in the production and use of energy is paramount in the design, preparation and implementation of the AB 118 program. This is a critical point. We believe this point will be significantly strengthened if the Investment Plan also clearly states how sustainability will be incorporated into the funding program. Providing more clarity regarding implementation of sustainability will inform project funding applicants as well as the larger investment community that sustainability is not just an ideal in this program, but a mandate that will be concretely factored into funding decisions.

Suggested language: [add as last sentence of **Creating a Framework of Sustainabili**ty section]

> To ensure the sustainability of projects funded under AB 118, CEC will include sustainability criteria in solicitation guidelines and will score projects based in part on specific sustainability metrics applicable to the project category. The development of sustainability criteria and metrics will be guided by the sustainability goals set forth in the AB 118 regulations, information derived from public sustainability meetings and workshops, CEC's ongoing research and studies, and public input.

We also appreciate that the Investment Plan proposes to fund ongoing sustainability studies and best management practices; this work is critically necessary. The plan lacks clarity, however, on the types of studies that are likely to be funded in the program. We understand that the CEC recognizes there are many issues in the sustainability realm that will benefit from further research, and it would be helpful for the public to be able to provide input to CEC on the issues it is considering funding within this category.

We appreciate the opportunity to provide constructive comments on this draft plan and again applaud your efforts in producing an excellent draft Investment Plan. We look forward to seeing the revised plan incorporating our comments.

Sincerely,

Bonnie Holmes-Gen
American Lung Association of California

John Shears
Center for Energy Efficiency and Renewable Technologies

Tim Carmichael
Coalition for Clean Air

Remy Garderet
Energy Independence Now

Danielle Fugere
Friends of the Earth

Roland J. Hwang
Natural Resources Defense Council

Patricia Monahan
Union of Concerned Scientists