

**CALIFORNIA ENERGY COMMISSION**

1516 Ninth Street Sacramento, California 95814  
Main website: [www.energy.ca.gov](http://www.energy.ca.gov)

**CALIFORNIA PUBLIC UTILITY COMMISSION**

505 Van Ness Avenue San Francisco, CA 94102  
Main website: [www.cpuc.ca.gov](http://www.cpuc.ca.gov)



July 13, 2010

The Honorable William W. Lockyer  
Treasurer, State of California  
915 Capitol Mall, Room 110  
Sacramento, CA 95814

RE: CAEATFA Alternative Energy Policy

Dear Mr. Lockyer:

We write you as President of the California Public Utilities Commission and Chairman of the California Energy Commission. As you know, we are fellow members of the Board of the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), which you chair. It has come to our attention that current CAEATFA policies may preclude CAEATFA from performing a full and complete review and providing informed recommendations to the Board with respect to certain applications by alternative energy projects for CAEATFA sales tax benefits made under prior and existing law.

In 2008, the CAEATFA provided policy direction for staff to review and process applications for zero emission vehicles projects, which permitted the Tesla Motors application to go forward. Building on that positive step, we believe it is also proper for the CAEATFA Board to so act with respect to alternative energy projects, and we hereby request that staff be given the go-ahead by the CAEATFA Board to do so at our upcoming July 28 meeting. Such action by our Board will align well with the broader state directive to achieve an aggressive renewable portfolio standard. We also note that this proposed policy directive is not based on SB 71. That recently-enacted statute neither addresses nor limits CAEATFA's long-standing authority to provide a sales tax exclusion for alternative energy projects.

Alternative energy source projects are defined in Public Resources Code Section 26003(c)(1) to include geothermal, wind, solar, biomass, and other energy projects that

The Honorable William W. Lockyer  
Page 2

reduce reliance on fossil and nuclear energy. Such projects, upon receiving authorization from CAEATFA under Resources Code Section 26003(g)(1), are afforded an exclusion from sales taxes under California Revenue and Taxation Code Section 6010.8. To date, the CAEATFA Board has only granted this benefit to the zero emission vehicles project of Tesla Motors. The benefit should be extended to other companies within the clean tech sector to more aggressively assist the state's economic recovery. We request the Board clarify and expand its policies to authorize staff to also review applications made by worthy alternative energy source projects for Board consideration.

We look forward to discussing this issue in more detail at the July 28 Board meeting.

Sincerely,



MICHAEL R. PEEVEY  
President  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102



KAREN DOUGLAS  
Chairman  
California Energy Commission  
1516 9<sup>th</sup> Street  
Sacramento, California 95814

**CALIFORNIA ALTERNATIVE ENERGY AND  
ADVANCED TRANSPORTATION AUTHORITY**

915 Capitol Mall, Room 457  
Sacramento, CA 95814  
(916) 651-8157  
FAX (916) 657-4821

**MEMBERS:**

Bill Lockyer, Chairman  
*State Treasurer*

John Chaing  
*State Controller*

Ana J. Matosantos, Director  
*Department of Finance*

Michael R. Peevey, President  
*Public Utilities Commission*

Karen Douglas, Chairperson  
*California Energy Commission*

**EXECUTIVE DIRECTOR:**  
Vacant

July 19, 2010

Karen Douglas  
Chairman  
California Energy Commission  
1516 9<sup>th</sup> Street  
Sacramento, CA 94814

Dear Ms. Douglas:

Thank you for your letter to Treasurer Lockyer regarding CAEATFA's Alternative Energy Policy. He asked that I respond to your letter with some additional background information. As you noted in your letter, the Zero Emission Vehicle (ZEV) Sales Tax Exclusion program is a positive step, and I appreciate your interest in discussing an extension of that program to include renewable energy projects. A related but slightly different request has also been submitted by MidAmerican Energy Holdings Company. They have requested that CAEATFA extend the sales tax exclusion to a geothermal project they are proposing. In order to respond to your request and to Mid American's request, staff have placed both items on the agenda for the July 28, 2010 Board meeting. I look forward to hearing the discussion and getting further direction from the Board.

As I understand your letter, you are requesting that the Board ask staff to consider including alternative energy projects in the sales tax exclusion program that the Board created for zero emission vehicles. The ZEV Program was approved by the CAEATFA board prior to passage of SB 71 (Padilla), which was enacted into law just this March. SB 71 specifically authorizes CAEATFA to award the sales tax exclusion, but only for qualified projects as defined in SB 71. That new definition clearly includes manufacturers of advanced transportation technologies or alternative energy source products, components or systems.

In addition, SB 71 requires CAEATFA to determine the extent to which a project provides a "net benefit" to the state, and establishes a soft cap of \$100 million for the entire program. CAEATFA staff are in the midst of promulgating regulations, including net benefits criteria, to implement SB 71, and hope to take

Karen Douglas

Page 2

the first sales and use tax exemption applications later this fall. During this process, CAEATFA staff have received public comment that renewable energy generation facilities should be considered as qualified "projects" under the SB 71 program. I will be providing an update on this during the Executive Director's report at the July meeting, and look forward to talking with you further.

Please do not hesitate to call me if you have any questions.

Sincerely,



Christine Solich  
Executive Director (Designate)  
CAEATFA

Cc: Treasurer Bill Lockyer, Chairman, CAEATFA  
Ana Matosantos, Director of Finance  
Cynthia Bryant, Department of Finance  
John Chiang, State Controller  
Cindi Aronberg, Deputy State Controller  
Michael R. Peevey, California Public Utilities commission

**CALIFORNIA ALTERNATIVE ENERGY AND  
ADVANCED TRANSPORTATION AUTHORITY**

915 Capitol Mall, Room 457  
Sacramento, CA 95814  
(916) 651-8157  
FAX (916) 657-4821

**MEMBERS:**

Bill Lockyer, Chairman  
*State Treasurer*

John Chaing  
*State Controller*

Ana J. Matosantos, Director  
*Department of Finance*

Michael R. Peevey, President  
*Public Utilities Commission*

Karen Douglas, Chairperson  
*California Energy Commission*

**EXECUTIVE DIRECTOR:**  
Vacant

July 19, 2010

Michael R. Peevey  
President  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Dear Mr. Peevey:

Thank you for your letter to Treasurer Lockyer regarding CAEATFA's Alternative Energy Policy. He asked that I respond to your letter with some additional background information. As you noted in your letter, the Zero Emission Vehicle (ZEV) Sales Tax Exclusion program is a positive step, and I appreciate your interest in discussing an extension of that program to include renewable energy projects. A related but slightly different request has also been submitted by MidAmerican Energy Holdings Company. They have requested that CAEATFA extend the sales tax exclusion to a geothermal project they are proposing. In order to respond to your request and to Mid American's request, staff have placed both items on the agenda for the July 28, 2010 Board meeting. I look forward to hearing the discussion and getting further direction from the Board.

As I understand your letter, you are requesting that the Board ask staff to consider including alternative energy projects in the sales tax exclusion program that the Board created for zero emission vehicles. The ZEV Program was approved by the CAEATFA board prior to passage of SB 71 (Padilla), which was enacted into law just this March. SB 71 specifically authorizes CAEATFA to award the sales tax exclusion, but only for qualified projects as defined in SB 71. That new definition clearly includes manufacturers of advanced transportation technologies or alternative energy source products, components or systems.

In addition, SB 71 requires CAEATFA to determine the extent to which a project provides a "net benefit" to the state, and establishes a soft cap of \$100 million for the entire program. CAEATFA staff are in the midst of promulgating regulations, including net benefits criteria, to implement SB 71, and hope to take

Michael R. Peevey

Page 2

the first sales and use tax exemption applications later this fall. During this process, CAEATFA staff have received public comment that renewable energy generation facilities should be considered as qualified "projects" under the SB 71 program. I will be providing an update on this during the Executive Director's report at the July meeting, and look forward to talking with you further.

Please do not hesitate to call me if you have any questions.

Sincerely,

A handwritten signature in cursive script that reads "Christine Solich". The signature is written in black ink and is positioned above the typed name.

Christine Solich  
Executive Director (Designate)  
CAEATFA

Cc: Treasurer Bill Lockyer, Chairman, CAEATFA  
Ana Matosantos, Director of Finance  
Cynthia Bryant, Department of Finance  
John Chiang, State Controller  
Cindi Aronberg, Deputy State Controller  
Karen Douglas, California Energy Commission