MINUTES

California Alternative Energy and Advanced Transportation Financing Authority
915 Capitol Mall, Room 587
Sacramento, California
February 22, 2011

1. CALL TO ORDER & ROLL CALL

Bettina Redway, Chairperson, called the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA or Authority) meeting to order at 11:27 a.m.

Members Present:	Bettina Redway for Bill Lockyer, State Treasurer Cindy Aronberg for John Chiang, State Controller Pedro Reyes for Ana J. Matosantos, Department of Finance Nancy Ryan for Michael R. Peevey, Director,Public Utilities Commission
Staff Present:	Christine Solich, Executive Director Deanna Carrillo, Program Manager
Quorum:	The Chairperson declared a quorum

2. MINUTES

Ms. Redway asked if there were any questions or comments concerning the January 25, 2011 meeting minutes. There were none.

Ms. Redway asked if there was a motion.

Ms. Aronberg moved approval of the minutes; upon a second, the minutes were approved by the following vote: Bettina Redway, aye; Cindy Aronberg, aye; Nancy Ryan, aye; Pedro Reyes, abstained; and California Energy Commission, absent.

3. EXECUTIVE DIRECTOR'S REPORT

Ms. Solich welcomed the new Board members. She began her report by informing the Board that the Authority received approval from the Department of General Services (DGS) to secure a contract with Montague DeRose, the financial advisor for CAEATFA. Staff members from Montague DeRose will attend the upcoming March 22, 2011 Board meeting to introduce themselves to the Board.

Ms. Solich reported that there were no new applicants on Agenda Item #3, the pipeline report of Senate Bill 71 (Padilla) applications. However, there may be two SB 71 applications to present to the Board for approval at the March 22, 2011 Board meeting.

She continued to report that to date twenty nine SB 71 applications have been approved; two have been withdrawn at the request of the applicants due to delays or significant changes to the projects. The Board has approved $86 million in Sales and Use Tax and exclusions (STE's) through the SB 71 program which represents approximately $950 million in manufacturing and production equipment purchases and the Authority is well under the $100 million soft cap for SB 71.

Ms. Solich reported on Staff's efforts in the Energy Upgrade California (EUC) Program. She indicated that EUC is a statewide web-based program to promote energy efficiency, renewable energy retrofits, consumer education, contractor information and financing options. CAEATFA is one of six major contractors involved in the program development and the Authority's role is to solicit lender participation, develop lending criteria for the financial clearinghouse and manage $4 million in federal subsidies available to reduce the cost of energy improvements to consumers. In prior reports, Ms. Solich had advised the Board that there were ongoing efforts to repurpose the $50 million in funds that were made available under the SB 77/PACE Bond Reserve Fund. Assembly member Nancy Skinner recently introduced a bill to expand the use of those funds to provide support for energy efficiency and retrofit financing under the EUC program.

Ms. Solich then introduced Martha Alvarez, a CAEATFA analyst, who has been handling a large portion of the workload regarding the EUC Program.

Ms. Redway announced that Paul Feist, representing the California Energy Commission, had arrived at the meeting (11:32 a.m.) to sit on the Board.

Ms. Alvarez supplied the Board with an overview of the outreach efforts to financial institutions in California on the EUC Program. Since mid-January, Staff has contacted thirty financial institutions including credit unions, commercial and national banks, and banking associations to introduce the EUC Program and gauge their interest in providing loans for energy efficiency and renewable energy improvements to both residential and commercial sectors. The feedback received from the financial institutions indicates they are interested in both the commercial and residential sectors. They remain concerned with unsecured lending, but it seems that providing some sort of a credit enhancement would alleviate some of their concerns and mitigate risk.

Ms. Alvarez advised the Board that in March 2011, Staff will conduct two to three small focus groups with lenders who have either expressed an interest in the program, are familiar with the CPCFA Capital Access Program for small business lending, or have experience in the energy efficiency financing market. Based on the feedback received as a result of those focus groups and market research, Staff will develop an initial framework on minimum lending criteria that interested financial institutions must meet in order to participate in the program and to have access to the $4 million in subsidies. Staff will also work with the Authority's financial advisor, Montague DeRose, to review the various credit enhancement structures that Staff is considering which include; a loan loss reserve, an interest rate buy-down or a senior subordinate structure. In addition, Staff will review information from other states that have similar energy efficiency financing programs, including Michigan and Pennsylvania. Ms. Alvarez continued, in addition to the focus groups, Staff will hold three to four public workshops throughout California in April and May 2011 to present the initial framework and obtain feedback on lending criteria and structure of the credit enhancement/subsidies. The input from stakeholders and market research conducted by Staff will result in regulations, which Staff anticipates will be brought to the Board for approval in May 2011.

Ms. Alvarez continued to report that over the next several weeks Staff will issue a Request for Proposal (RFP) to request services for a Fund Trustee to manage the $4 million in subsidies. She confirmed the information Ms. Solich had stated in her report and reminded the Board that this credit enhancement could be up to $54 million if the use of the PACE Bond Reserve Funds is expanded. Staff's goal is to begin enrolling and training qualified financial institutions by September of 2011.

Ms. Alvarez ended her report and welcomed questions from the Board.

Mr. Reyes asked if banks would be competing against each other to participate or if the program would be open to everyone.

Ms. Alvarez replied the program would be open to all financial institutions who supply both commercial and residential loans.

Ms. Redway stated that it is difficult to get lenders to make unsecured loans but the Board is hopeful that the program will be successful.

Ms. Redway asked if there any further comments from Board members or the public. There were none.

4. BUSINESS ITEMS

A. DISCUSSION AND CONSIDERATION OF APPLICATIONS FOR SB 71 SALES AND USE TAX EXCLUSION

Presented by: Cheryl Ide, Analyst

1) Simbol, Inc.

Staff recommended approval of the Resolution replacing "Simbol Mining Corporation" with "Simbol, Inc." to reflect the Applicant's name change.

On December 15, 2010, the CAEATFA Board approved an STE in the amount of $42,484,174 of Qualified Property for Simbol Mining Corporation. The Authority subsequently received notice from Simbol Mining Corporation of its legal name change from Simbol Mining Corporation to Simbol, Inc. effective October 12, 2010. The ownership of Simbol has not changed. Per the authority delegated to the Executive Director in Section 6 of the original resolution, the Executive Director approved the ministerial change of the legal name, and it is subsequently being brought to the Board for ratification.

Ms. Redway asked if there were any questions or comments from the Board or public. There were none.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the item; upon a second, the item was unanimously approved.

B. DISCUSSION AND CONSIDERATION OF A FINANCIAL ASSISTANCE AGREEMENT UNDER THE CALIFORNIA ETHANOL PRODUCERS INCENTIVE PROGRAM (CEPIP) (PURSUANT TO CAEATFA'S INTERAGENCY AGREEMENT WITH THE CALIFORNIA ENERGY COMMISSION)

Presented by: Cheryl Ide, Analyst

1) Calgren Renewable Fuels, LLC
2) AE Advanced Fuels Keyes, Inc.

Mr. Feist, at the direction of Robert Weisenmiller, Chair of the California Energy Commission (CEC), requested that these items be deferred.

Ms. Redway clarified that the reason for the deferment was due to questions that had been raised by CEC Staff and stated that the Board would defer the items at the request of the CEC.

Ms. Redway recognized Andy Foster, President & Chief Operating Officer of AE Advanced Fuels Keyes, Inc., for public comment.

Mr. Foster thanked the Board for the opportunity to speak on the item. He stated that on Friday, February 18, 2011, AE Advanced Fuels was informed by CAEATFA staff that the item would be deferred. He said that he and the staff of AE Advanced Fuels were surprised at the decision to defer the item and felt there was no explanation of the reason for the deferment. He added that the deferment is very disruptive to AE Advanced Fuels, as the company has been working with the CEC since the summer of 2010, had a signed contract, and the CEC has begun payouts to Pacific Ethanol under the CEPIP program. He stated that AE Advanced Fuels has invested over $4 million in jobs, materials to repair the plant, and the total cap on the project is approximately $12 million. He explained that he is not trying to be insensitive to the economic condition of the State; but when the total amount of tax revenues that will be put into the State's economy are considered, the $12 million is a relatively small amount as AE Advanced Fuels is a $100 million a year business. He continued to say that currently the plant is idle and is paying over $600,000 in property taxes. When the plant is up and running that amount will double to $1.2 million and will generate significant revenue in property, income and payroll taxes. He stated that legislation passed some years ago in California stated low carbon fuels standard were an important priority for the State. He stressed that if there were no ethanol producers in California the State will have to continue to bring in ethanol from the Midwest which has higher carbon intensity.

He stated that from a public policy, business and timing perspective, finding out the Friday before President's Day weekend that the items would be deferred is not the way AE Advanced Fuels runs their business and he felt there should be further explanation as to why it is being deferred. He reiterated that the program is up and running; there are agreements in place with all the ethanol producers; one of the producers has already received payment; and, if there were problems in the program, those should have been identified some time ago. He thanked the Board Members for their time and offered to answer any questions they may have.

Ms. Redway thanked Mr. Foster for speaking and said that she understands his frustration in the matter. Though she did not have a specific answer as to why the CEC was requesting the items to be deferred, she understood that some questions have come up in the program.

Mr. Feist thanked Mr. Foster for his comments and assured Mr. Foster that his concerns would be relayed to the CEC Chairperson.

Mr. Foster questioned if there would be a further explanation as to what the issues are.

Ms. Redway replied that if the issue is resolved before the next scheduled Board meeting, a special Board meeting could be considered in order to move the items along in a timely manner.

Mr. Foster reiterated that AE Advanced Fuels' interaction with the Board and CAEATFA Staff has been positive and responsive in terms of communication and hoped that the CEC would be proactive and attempt to consult with the ethanol producers in the State before a decision is made.

C. REQUEST TO APPROVE RESOLUTION AUTHORIZING THE TRANSFER OF CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE (CDLAC) REALLOCATION OF QUALIFIED ENERGY COMMISSION BONDS (QECB)

Presented by: Heather Williams, Analyst

1) Yuba Community College District

Staff recommended approval of the Resolution to consent to a transfer of CDLAC's reallocation of QECB's from CAEATFA to Yuba Community College District for an amount not to exceed $20,500,000.

Ms. Redway asked if there were any questions or comments from the Board or public. There were none

Ms. Redway asked if there was a motion.

Ms. Aronberg moved approval of the item; upon a second, the item was unanimously approved.

D. REQUEST TO AUTHORIZE STAFF TO REQUEST AN EXTENSION OF THE SB 71 REGULATIONS PROMULGATED UNDER THE EMERGENCY RULEMAKING PROCESS AND BEGIN THE REGULAR RULEMAKING PROCESS

Presented by: Heather Williams, Analyst

Staff recommended approval of the resolution to authorize CAEATFA Staff to request any necessary extension of the SB 71 Regulations promulgated under the emergency rulemaking process and begin the regular rulemaking process.

At the September 22, 2010 CAEATFA Board meeting, the Board approved emergency regulations for CAEATFA's SB 71 Program. Staff requested Board approval to extend these Program regulations promulgated under the emergency rulemaking process as Staff navigates the regular rulemaking process for the Program.

SB 71 signed into law on March 24, 2010, authorized the CAEATFA to approve projects for sales tax exclusions on qualified property utilized for the design, manufacture, production or assembly of Advanced Transportation Technologies or Alternative Source products, components or systems. Pursuant to this legislative mandate, Staff proposed and the Board adopted emergency Program regulations at the September 22, 2010 Board meeting. The Office of Administrative Law approved the emergency regulations on October 4, 2010, putting them into affect for 180 days until April 5, 2011. CAEATFA began accepting applications October 5, 2010 and has continued with Program implementation as outlined in existing Program regulations.

Ms. Redway asked if there were any questions or comments from the Board or public. There were none.

Ms. Redway asked if there was a motion.

Mr. Feist moved approval of the item; upon a second, the item was unanimously approved.

E. DISCUSSION AND CONSIDERATION OF PROGRAM ALTERNATIVES IN DEVELOPING THE SALES AND USE TAX EXCLUSION PROGRAM FOR RENEWABLE ENERGY GENERATION PROJECTS

Presented by: Deana Carrillo, Program Manager; Heather Williams, Analyst

At the January 25, 2011 CAEATFA Board meeting, the Board determined to delay its consideration of various alternatives in developing a STE program for renewable energy generation projects until the February 22, 2011 Board meeting.

In September 2010, Staff began the rulemaking process to establish a STE program for renewable energy generation projects. Staff, in consultation with interested parties and stakeholders, developed an initial framework for a short-term limited Program of $50 million of STE awards. The initial Program framework was designed to balance the need for a responsible use of the STE resource with the incentive to encourage job creation and economic growth, while advancing the State's goals for the reduction of emissions of greenhouse gases pursuant to the California Global Warming Solutions Act of 2006 (AB 32). Staff requested Board direction on the proposed short-term limited Program.

Staff identified four scenarios in which CAEATFA could proceed and was seeking direction from the Board on which course of action to take. The four scenarios are outlined below.

1. <u>Short-Term Limited Program Only</u> – CAEATFA would proceed with implementing a short-term limited Program with the framework outlined in this agenda item or with other parameters, as indicated by the Board.

2. <u>Short-Term Limited Program and Long-Term Program</u> – In addition to implementing the short-term limited Program, CAEATFA would proceed with developing a long-term program as outlined in this agenda item and consider other eligibility and evaluation criteria as indicated by the Board and through the rulemaking process.

3. <u>Long-Term Program Only</u> – CAEATFA would not proceed with the short-term limited Program, and instead would focus on developing a long-term program as outlined in this agenda item and consider other eligibility and evaluation criteria as indicated by the Board and through the rulemaking process.

4. <u>No Program</u> – CAEATFA would not move forward with a STE program for renewable energy generation projects at this time.

Ms. Redway asked if there were any questions or comments from the Board.

Ms. Ryan asked if the per megawatt proposal from various stakeholders had been addressed.

Ms. Williams replied that the per megawatt proposal was one suggestion received from various parties. Staff received counter responses from stakeholders who believed the per megawatt option would favor larger projects, not be technology neutral, would exceed the $5 million per project cap, and not allow the program to extend to as many applicants.

Ms. Carrillo further explained that the per megawatt comment was also received prior to the January 25, 2011 Board meeting. Since that time Staff had not taken any additional action on considering various alternatives. It would be considered if the Board directed Staff to move forward with any of the proposed program options.

Ms. Ryan stated that the Public Utilities Commission (PUC) would like to see some action taken in favor of the per megawatt option.

Ms. Redway asked if there were any further comments from the Board. There were none.

Ms. Redway asked if there were any comments from the public.

Joshua Bar-Lev, Bright Source Energy, stated that he is in support of the per megawatt option rather than the $5 million per project cap. He suggested that if a project may exceed the cap, then the per megawatt amount can be lowered. He stated that the program cap of $50 million is half the size of the manufacturing STE Program. He explained if 2,000 megawatts come to the State this year, there will be approximately $10 billion in investments. Also, he stated the financing situation is difficult, that this program would help significantly with employment and that it is imperative that companies get assistance from the State. He did not understand why large scale solar projects would be supplied with half of the funding amount of the SB 71 Program which has a $100 million annual soft cap.

Keith Davidson, Solar Turbines, stated that Solar Turbines employs approximately 3,500 people in the San Diego area. The company manufactures industrial gas turbines in the 3-23 megawatt size range and the primary market is cogeneration using natural gas. He explained that cogeneration was mentioned in the CARB AB 32 scoping plan and CARB set a goal of 4,000 megawatts of new cogeneration by the year 2020. He expressed concern that the program seems to be narrowly defined around renewable energy and other distributed generation technologies that provide significant green house gas benefits. He would like to see consideration and specific reference given to efficient combined heat and power in the eligibility criteria. He also noted that the incentive would help spur market implementation in the State and that Solar Turbines creates manufacturing, engineering and steel service jobs at this facility as well as other manufacturing, equipment suppliers, construction, operating or service organizations involved in these projects. He believes demand size technologies, whether they are renewable or combined heat and power, should be included in the program. He believes it is wrong to limit the program to Renewable

Portfolio Standards (RPS) which is directed at wholesale power generation and would like to see broader recognition given to non-RPS projects. He supports the per project cap and would like to see it lower than $5 million so that more projects could participate in the program.

Mr. Reyes stated he was aware Staff had been working on this program for quite awhile. He explained that the new administration is dealing with budget cuts and now is not the best time for the allocation of additional STEs. He directed Staff to put the item aside for one year and look to the CEC for leadership on the issue.

Ms. Redway confirmed for the Board that what Mr. Reyes had suggested was to put consideration of developing the short and long-term programs aside for at least one year until the budget situation stabilizes.

Mr. Reyes confirmed.

Ms. Ryan stated the PUC feels that the time to get benefits to project developers is now. She explained there has been a concerted effort by the State to speed up the permitting of the projects to encourage them to take advantage of American Recovery and Reinvestment Act (ARRA) funds and does not think it makes sense to delay the program at this time. She agreed with Mr. Bar-Lev's proposal and feels his response to lowering the per megawatt exemption to prevent one or two big projects from exhausting the cap is legitimate. She also felt that the $5 million per project cap was not technology neutral. Some technologies tend to focus exclusively on the smaller end of the size range while solar and solar thermal tend to focus on the larger end. She felt that a per megawatt STE allocation that is right sized based on the expected subscription over the year is a way to give the same percentage reduction across the board to all projects regardless of the technology. The PUC requested that these issues receive further consideration and is in favor of moving immediately to the short-term program as well as developing a long-term program.

Mr. Feist stated that CEC recognizes the value of a long-term program but is mindful of the comments from the Department of Finance (DOF) regarding the State's current financial situation. He explained that now is not the time to develop a program that deals with utility scale and distributed generation and to wait a year. He also recommended Staff go through a workshop process.

Ms. Redway clarified the position of Mr. Reyes, that Staff stop all efforts in regard to this program for the rest of the year and then re-evaluates if the budget could sustain it and consider the size program the budget could sustain before beginning workshops.

Ms. Aronberg stated that the Office of the Controller is mindful of the budget concerns and understands the frustration of some of the parties in wanting the program to move forward, but is willing to defer.

Ms. Redway stated that the prior Administration from the DOF and the Treasurer's

Office had been in support of a limited program of $50 million because there is not specific legislative authority establishing a specific STE program for energy generators. The Treasurer is also mindful of the budget crisis. She stated that entities are supportive of a limited program but would like to see a larger program. She explained that the Treasurer's Office is in support of a one year deferment on this issue.

Ms. Redway asked if there were any additional comments from the public.

Mr. Bar-Lev stated that there is a disconnect between what is going on in the industry now and what will be going on a year from now. He explained that many companies rushed to get qualified under ARRA and a delay will put many of the companies in an unfavorable position. He acknowledged the condition of the State and the Board's position but felt that the companies need the money now

Ms. Redway stated that the Board would feel more secure in moving forward on developing this new program if it were authorized through legislation.

Ms. Ryan suggested that Staff take advantage of the extra time to consider the apparent differences or patterns across projects of different sizes in terms of job creation and tax revenue they generate that would justify giving different percentages of STEs.

Ms. Redway asked Ms. Solich if she felt a vote was needed on the issue.

Ms. Solich stated that a vote on the issue by the Board would be the best course of action.

Ms. Redway asked if there was a motion.

Mr. Reyes moved approval of the one year no program option; the motion was approved by the following vote: Bettina Redway, aye; Cindy Aronberg, aye; Paul Feist, aye; Pedro Reyes, aye; and, Nancy Ryan, opposed.

5. PUBLIC COMMENT

Ms. Redway asked if there were any comments from the public. There were none.

6. ADJOURNMENT

There being no further business, public comments, or concerns, the meeting adjourned at 12:24 p.m.

Respectfully submitted,

Christine Solich
Executive Director