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Prop 39: Leveraging Existing Energy Efficiency and Clean Energy Delivery and Accountability Structures to Maximize Effectiveness

Proposition 39 (Prop 39), approved by California voters in November 2012, launches a $2.65 billion clean energy job creation initiative. This document summarizes a proposal written by California's Investor Owned Utilities' (IOU) – Pacific Gas and Electric (PG&E), San Diego Gas & Electric (SDG&E), Southern California Edison (SCE), and Southern California Gas (SCG) – on how Prop 39 funds can be effectively invested.

Leveraging IOU Delivery and Accountability Structures Maximizes Prop 39 Investments

By utilizing the IOUs' existing energy efficiency expertise, programs and infrastructure, the State would minimize—and in some cases completely avoid—using limited duration funds to set up program administration, data collection processes and infrastructure.

- **Prop 39 should build off of the State's existing infrastructure to save taxpayers money, avoid duplication, and take advantage of the IOUs' knowledge, expertise, and long history of cost-effective delivery.** For K-12 schools and most other sectors, any entity other than the IOUs would have to build infrastructure and delivery channels to utilize the Prop 39 funds, potentially delaying implementation substantially. The IOUs currently run several programs focused on K-12 schools, and maintain partnerships with California Community Colleges (CCC), the California State University (CSU) system, and the University of California (UC) system. The existing IOU/CCC, UC, and CSU partnerships already manage large energy efficiency and clean energy programs. These partnerships should be leveraged. Other entities would need to create the structure already in place for this target audience. For CCCs, funds could go directly to the Chancellor's office to distribute among campuses and districts.

- **With IOU involvement, the State can immediately launch a large-scale, reliable, and accountable new energy efficiency and jobs initiative.** Energy efficiency program expenditures and savings are tracked and verified through the IOUs with oversight from the California Public Utilities Commission (CPUC), using detailed accountability and verification methods developed by the State over many decades. The IOUs currently manage $1 billion in annual, CPUC-authorized energy efficiency activities and are accountable to the CPUC for both the funds and activities. This accountability would be extended to Prop 39 implementation.

Specific Recommendations for Implementing Prop 39 and Leveraging Existing Programs

Allocation of Funding. The Legislature has shown interest in phasing in the allocation of Prop 39 funds to different sectors. The IOUs provide an example that may assist the Legislature in realizing a phased approach to funding, targeting the high priority educational sector first.

- **Use a phased approach to funding to kick-start efficiency upgrades in schools.**
  - <u>Year 1</u>: Target K-12 schools, California Community Colleges (CCC), UCs, CSUs. Prop. 39 funds would allow the IOUs to pay for measures that would not currently be funded due to the size and scale of the existing programs and projects. Prop. 39 funds could act as leveraging, matching, or additional funds to help schools access ratepayer-funded incentives for more complicated custom projects.
  - <u>Years 2-5</u>: Add other sectors: Municipalities, Business Improvement Districts (BIDs) and small businesses, hospitals, low-income housing.
- **Expand workforce education and training for energy efficiency and clean energy, including training to the skilled and semi-skilled, as well as field and office positions** (starting Year 1).

- Expand IOU partnerships with YouthBuild, Urban Corps, Greenlining, and others
- Include adult, veterans, and K-12 classroom and apprenticeship opportunities

- **Leverage the IOUs' new financing programs and infrastructure with Prop 39 funds** (starting Year 1).
  - Allow financing of longer payback measures
  - Provide loan loss reserves to reduce interest rates
  - Increase the pool available to a given school district, college or university

Prioritization of Schools. By involving the IOUs in the school prioritization process, allocation of Prop 39 funds would permit the IOUs to protect the State-mandated, proprietary, confidential customer information as well as Department of Education information. The IOUs would internally leverage the State-mandated, confidential customer information to maximize Prop 39 funds, while still preserving customer confidentiality. IOUs would be in the best position to utilize both public and proprietary information to obtain an Opportunity Score by analyzing the following three weighted variables:

- Need: School demographics and facility condition
- Performance: Actual energy usage, implemented projects, energy savings opportunity
- Capacity: Implementation capacity; staff to implement project

Example of K-12 School Prioritization and Funding Flow

- IOU prioritizes schools using Opportunity Score, sends scores to the State agency. State agency allocates a portion of funds to each IOU and publically owned utility territory, indicating priority school districts.
- State agency transfers allocated funds to the lead energy utility company who serves the school district; a portion of this funding would go to the lead energy company for program management.
- IOU Program Administrator assigns a project manager to serve selected district. Project manager explains IOU and Prop 39 funding options and coordinates energy audit and selected retrofits.

Future Considerations. The IOUs recognize that other sectors merit funding for clean energy improvements. The IOUs are poised to leverage existing infrastructure to assist the State in reaching additional sectors with energy efficiency opportunities. Additional sectors may include hospitals, small businesses and Business Improvement Districts, and the low- to moderate-income residential sector.

- **Small Business Energy Makeover**: Utilizing existing IOU infrastructure, partnerships, and resources with Business Improvement Districts (BIDs) could increase the impact and reach of Prop 39 funds in the small business arena. BIDs offer strong member relationships, know their neighborhoods and their needs, and can jump start and encourage greater participation in the program.
- **Low to Moderate Income Residential Properties**: The low to moderate income residential market continues to offer significant opportunities for energy savings, as well as diverse opportunities for clean energy job creation. Prop 39 funds could expand existing energy efficiency and demand response offerings to explore more comprehensive retrofit measures.
- **Hospitals**: In-patient healthcare is a 24/7, 365 days-a-year, business with vast complexity and tremendous cost pressure. Continual energy usage presents an opportunity for small efficiencies to yield big results. Prop 39 funds can build off of existing programs, allowing the State to efficiently tackle these improvements.

Coordination with Municipalities. All of the IOUs partner with local governments to deliver energy efficiency improvements to municipalities. San Diego Association of Governments Partnership, the Coachella Valley Association of Governments Partnership, and the East Bay Local Government Partnership are just three of the successful partnerships that should be leveraged and enhanced with Prop 39 funds.