

**The Senate Committee on Energy Utilities & Communications
Informational Hearing, March 16, 2010
Senator Alex Padilla, Chairman**

**Part Two – ARRA Funds
California Energy Commission**

On February 17, 2009 the President signed H.R. 1, the American Recovery and Reinvestment Act of 2009 (ARRA), a \$787 billion stimulus package hailed as the most sweeping financial legislation enacted in our nation's history.

The ARRA was enacted to preserve and create jobs and promote economic recovery; to assist those most impacted by the recession; to provide investments needed to increase economic efficiency by spurring technological advances in science and health; to invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits; and, to stabilize state and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The period of performance for ARRA grants is 36 months. In keeping with the agenda of ARRA, and supporting the goal of immediate investment in the economy, the California Energy Commission (CEC) is required to obligate/commit all funds within 18 months from the effective date of the award. In the event funds are not obligated/committed within 18 months, the Department of Energy can deobligate the funds and cancel the award.

The CEC has received \$314.5 million for energy efficiency and renewable energy programs from ARRA with very broad goals and great latitude in the design of programs and allocation of dollars. In 2009 the Legislature authorized the CEC to expend the ARRA funds in two separate measures. In July, as part of the Budget Act of 2009 the CEC was authorized to spend the first half of ARRA funds totaling \$113 million. Last fall the Legislature made a second appropriation of \$113 million for the CEC to make grants and enter into contracts to award the ARRA dollars. The CEC was directed to adhere to the "principle of accountability while also adhering to existing state policies to promote energy efficiency, including green building practices, promote water conservation, promote the development and use of renewable energy resources, protect the environment, and provide green job training."

The CEC developed five guiding principles for the implementation of ARRA and the allocation of funding:

- Stimulate the economy and create and retain jobs in California;
- Achieve lasting and measurable energy benefits;

- Expend money efficiently, with accountability and minimal administrative burden;
- Contribute to meeting California's energy and environment policy goals; and
- Leverage other federal, state, local and private financing through partnerships.

The ARRA funding was allocated among four programs administered by the CEC as indicated below.

State Energy Program -- \$226 million

The SEP is focused on increasing energy efficiency to reduce energy costs and consumption, cut reliance on imported energy, and shrink energy impacts on the environment.

- \$110 million was allocated to energy programs focused on existing residential and commercial building energy efficiency (and water efficiency) retrofits. The funding was to be awarded through a competitive solicitation program in three different areas: Eligible institutions included local jurisdictions, non-profits and private organizations under *California Comprehensive Residential Building Retrofit Program, the Municipal and Commercial Building Targeted Measure Retrofit Program, and the Municipal Financing Program.*
- \$25 million was allocated to the Department of General Services for the Energy Efficient State Property Revolving Loan Program through an interagency agreement that will result in energy efficiency retrofits in state buildings.
- \$25 million was allocated to an existing program – the Energy Conservation Assistance Act, which is a revolving loan program that will provide 1% loans to cities, counties, public care institutions, public hospitals schools, colleges, and special districts to fund projects including lighting systems, pumps and motors, streetlights and LED traffic signals, building insulation, renewable and combined heat and power generation, and heating and air conditioning modifications.
- \$20 million to the Green Jobs Workforce Training Program under which the CEC, the Employment Development Department, the Employment Training Panel, and the California Workforce Investment Board, in collaboration with The Green Collar Jobs Council, are leading a statewide partnership of state agencies, educational institutions, local workforce investment boards, community organizations and employers to deliver training to fill jobs in renewable energy development, climate change strategies, vehicle fuel technology and green buildings.
- \$30.6 million to the Clean Energy Business Finance Program to provide low-interest loans and/or grants to eligible private sector businesses that use biomass material to produce biomethane gas, or manufacture and/or assemble energy efficient or renewable energy products, systems, or technologies that are

commercially available and "shovel ready."

- \$15.4 million for Program Support and Contracts to audit, measure, and evaluate contracts for ARRA programs and projects.

Energy Efficient Conservation Block Grants -- \$49.6 million

- \$35.4 million has been allocated to 237 small cities and 42 small counties on a per capita basis for local governments to invest in cost-effective, energy efficient products and/or projects that would include various types of lighting retrofits, building upgrades, mechanical equipment, clean energy systems, and various energy management controls.
- \$3.6 million for auditing, measurement and evaluation contracts for ARRA programs and projects and administration and program support.
- \$10.6 million remains unallocated.

State Energy Efficient Appliance Rebate Program -- \$35.2 million

The CEC will provide rebates to consumers for purchasing qualified home appliances during the rebate period. The California Appliance Rebate program will begin April 22, 2010. Three residential appliance categories were selected to be eligible to receive rebates: clothes washers (rebate \$100), refrigerators (rebate \$200), and room/window air conditioners (rebate \$50). These rebates are in addition to existing rebates offered by California's utilities and appliance manufacturers.

State Energy Assurance Initiative – \$3.6 million

This funding is intended to assist the CEC in improving emergency preparedness plans and ensure electric grid resiliency on a regional basis, including staff training on smart grid technologies integration, interdependencies, and cyber-security.

A portion of the funding will be used to improve the state's emergency preparedness plans and ensure quick recovery and restoration from any energy supply disruptions. The CEC will update the state's Energy Assurance Plan to include recent advancements in technology (such as smart grid), critical infrastructure interdependencies, cyber security, energy supply systems, energy data analysis, and communications. In addition, the CEC will develop in-house expertise on energy assurance planning as well as a process for tracking the duration, response, restoration and recovery time of energy supply disruption events. The CEC will also participate in a minimum of two state and regional energy emergency exercises.

ISSUES FOR THE COMMITTEE TO CONSIDER

California State Auditor Review

In December 2009 the California State Auditor presented a review conducted by the Bureau of State Audits (BSA) concerning the preparedness of the CEC to received and minister federal ARRA funds. The BSA found that the CEC was not “not fully prepared to award and monitor millions in Recovery Act funds and lacks controls to prevent their misuse.”

The BSA reported the following key findings:

- The CEC has made little progress in implementing its subprograms, and none of the ARRA funds are currently being used to provide benefits to Californians.
- The CEC has approved the use of \$51 million for Energy Program services, and of this amount has entered into contracts totaling about \$40 million; however, none of the \$40 million has been spent.
- Although it began applying for ARRA funds in March 2009, the CEC has not yet implemented a system of internal controls adequate to ensure that those funds are used appropriately.
- The state is at risk of either having the funds redirected by the U.S. Department of Energy or awarding them in a compressed period of time without first establishing an adequate system of internal controls, which increase the risk that ARRA funds will be misused.

The BSA recommended that the CEC take the following actions:

- Take the steps necessary to quickly implement a system of internal controls adequate to provide assurance that ARRA funds will be used to meet the purposes of the ARRA.
- Promptly solicit proposals from entities that could provide the services allowable under the ARRA and execute contracts, grants, or loan agreements with these entities so that California can realize the benefit of the funds.

What progress has the CEC made in executing contracts, grants, or loan agreements to expend the ARRA dollars?

Has the CEC instituted the necessary internal controls to properly account for ARRA funds and meet federal program guidelines?

Geographic Disparity of ARRA Awards

The CEC has made some progress since the BSA's review of the ARRA funds. However, in a joint letter to the CEC, Senator Alex Padilla, along with the chair of the Assembly Utilities & Commerce Committee, Assemblyman Felipe Fuentes, noted an inequitable distribution of funds awarded under the State Energy Program. They noted that 57 % of the state's unemployed live in Southern California but this region received only 5% of the awards for the State Energy Program, and that 19 of 20 applications from Southern California either failed to meet the minimum technical score or were disqualified prior to technical evaluation.

What options are there for the CEC to reconsider the awards made to date to ensure a more equitable distribution of funds?

What can and should be done to ensure that such inequitable distribution of ARRA funds is not repeated?

RELATED REPORTS AND BACKGROUND

California Economic Recovery Energy-Related Programs

<http://www.energy.ca.gov/recovery/index.html>

California State Auditor: California Energy Resources Conservation and Development Commission: It Is Not Fully Prepared to Award and Monitor Millions in Recovery Act Funds and Lacks Controls to Prevent Their Misuse

<http://www.bsa.ca.gov/pdfs/reports/2009-119.1.pdf>