



Memorandum

TO: RULES AND OPEN GOVERNMENT COMMITTEE **FROM:** Mayor Chuck Reed

SUBJECT: SEE BELOW

DATE: March 5, 2008

Approved

Date

3/5/08

SUBJECT: SOLAR SUMMIT RECOMMENDATION FOR CLEANTECH POLICY PRIORITIES

RECOMMENDATION

It is recommended that the Rules and Open Government Committee place the attached 2008-2009 CleanTech legislation agenda on the March 18th council agenda. This report will serve as the City's legislative priorities in the areas of solar and CleanTech for 2008-2009.

Once approved by the Council, my office will reach out to other Bay Area jurisdictions with the intention of working together to bring these policy priorities to state and federal governments and work toward uniform local polices and practices.

BACKGROUND

On December 21st, 2007 my office hosted a Solar Summit at San José City Hall. The Summit was broken down into three focus areas consisting of manufacturing, installation, and finance companies. Executives from SunPower, NanoSolar, SoloPower, REGrid, Akeena, Solar City, Bank of America, Chevron, and the Office of the Mayor of Berkeley testified to a panel consisting of state and federal elected officials along with representation from the California Public Utilities Commission and the California Energy Commission. The goal of the Summit was to have elected officials receive input from San José's solar companies as to how local, state, and federal governmental and regulatory agencies can foster and promote growth in the solar and CleanTech fields.

The panelists learned that a number of issues that need to be addressed at the local, state, and federal level to ensure growth in Silicon Valley CleanTech companies. These include creating a uniform permitting process, extending tax credits for renewable energy, and fostering CleanTech job training to name a few. Addressing these issues, along with the principles outlined in the attached report, would allow CleanTech business to grow and expand.

The attached guiding principles and legislative agenda is the result of this conference.



2008-2009 Clean Tech Legislative Agenda

Guiding Principles

Remove barriers to consumer adoption: Upfront costs and regulatory obstacles deter many consumers from adopting CleanTech products and energy efficient practices. Government should support policies that encourage consumer demand by making CleanTech products cost competitive with non-renewable technologies. Regulatory impediments should be reduced, and the installation process streamlined. Creative financing arrangements need to be explored and supported.

Spur national and international demand for renewable energy and energy efficiency technologies: Support policies that increase demand for clean energy and energy efficiency technologies such as renewable portfolio standards, green house gas emission reduction targets, green building policies and codes, energy efficiency standards, and fuel efficiency and emission standards.

Catalyze rapid innovation and production of CleanTech products: Policies should reward innovation and performance, and public investment in research and development should be supported. Demonstration projects and early public procurement of CleanTech products need to be encouraged. Company growth should be supported by reducing initial production costs and allowing companies to re-invest in development by deferring taxation and fees to the point of production or profit.

Take long-term view and increase market stability: Advocate for incentives with distant horizons that will spur continuous demand and promote continuous growth in the market. Eliminate uncertainty and market instability created by short-term sunset provisions that prevent long-term planning and investment. Adopt policies that will permanently transform the energy market, making government intervention ultimately unnecessary.

Encourage development of all technologies by promoting “technology neutrality”: Encourage development of a diverse range of clean, renewable energy technologies, energy efficiency products and alternative fuel vehicles with common incentives, allowing the market, not government, to determine winners and losers.

Prepare the “green collar” workforce of the future: Encourage dedication of workforce resources to train workers to benefit from employment opportunities in production, assembly, installation, maintenance, and monitoring of CleanTech products. Training programs should include secondary schools, vocational schools, community colleges, and workforce retraining programs, and provide opportunities for a diverse and well trained renewable energy workforce.

Level the playing field: Advocate for full-costing of carbon-based energy resources and products. Implement market-based compliance mechanisms that capture externalities and social costs of energy consumption. Eliminate subsidies and incentives for non-renewable energy sources to pay for investments in renewable energy and efficiency.

Federal Clean Technology Policy Priorities for 2008-2009

1. Extend the Renewable Energy Tax Credits: Many renewable energy technology companies will not survive and substantial “green collar” jobs will be eliminated if the renewable energy investment and production tax credits are not extended past 2008. The original version of the “Energy Independence and Security Act of 2007” (Energy Bill, H.R. 6) included extensions of production and investment tax credits for renewable energy technologies. These tax credits encourage investment in research and development through production of new technologies (increasing supply) and encourage early adoption by consumers by driving down cost and making the technology more competitive with traditional non-renewable power sources (increasing demand). Further, the tax credits add stability and predictability to the market, allowing CleanTech companies and investors to budget for the future and allow potential consumers to purchase alternative energy systems with confidence.

The current tax credits are scheduled to expire by December 31, 2008. It is estimated that more than 50,000 jobs and \$45 billion in economic investment in the solar industry alone will occur if the investment tax credits are extended. However, if these tax credits are not extended, customer demand will decrease due to the associated increase in cost. Solar companies will be forced to reduce staffing levels as consumer demand decreases. In addition, investment in research and development will decrease and more of the up front costs will be born by the companies and their investors which will make alternative energy a less attractive investment.

To create jobs and spur investment, the clean alternative energy industry needs tax credits extended and improved, specifically:

- Extend the 30% investment tax credit for both business and residential users and the production tax credit for a minimum of eight years to encourage development of solar, wind, and fuel cell manufacturing facilities and utility scale projects, which require long-lead times for completion
- Eliminate the existing \$2,000 limit on the value of the 30% residential solar investment tax credit
- Promote technology neutrality by eliminating existing limits on the value of the 30% commercial investment tax credit (i.e. different limits for fuel cells versus solar systems)
- Eliminate the public utility exception to the investment tax credit
- Allow individuals and corporations to claim the investment tax credit against the Alternative Minimum Tax

2. Exclude alternative energy technologies from “private use” definition in IRS code pertaining to use of tax-exempt bonds: Many of our Cities larger facilities were financed with tax-exempt bonds. Since the issuance of tax-exempt debt results in less tax revenues for the federal government, the IRS has issued regulations to ensure that facilities built with tax exempt debt are used exclusively for a governmental purpose, and that such facilities are not used for private activity. If the installer of solar panels continues to have an economic benefit from the panels

after installation, then the private activity issues must be analyzed before entering into the deal. Whether the private activity issues would prevent this type of arrangement depends on the portion of the facility dedicated to the solar panels and the amount of existing or planned private activity at the facility.

3. ***Adopt a national Renewable Portfolio Standard:*** California's adoption of a 20% standard by 2012 has encouraged significant innovation and investment in clean energy production. A national commitment will further catalyze innovation and create new markets for emerging technologies from Silicon Valley and the entire Bay Area. Ideally, the national standard would mirror California's standard. However any progress towards a national standard will benefit the economy.
4. ***Adopt Market Based Compliance Mechanisms:*** Market based policies have proven effective at reducing pollution, such as sulfur dioxide, in the United States and reducing carbon emissions in parts of Europe. A similar approach should be adopted at the national level in the United States to provide incentives for reducing carbon and other emissions.
5. ***Increase investment in CleanTech research, development, and commercialization:*** Similar to how previous waves of federal investment spurred the semiconductor industry and investments in the Internet spurred the dotcom boom, investment in CleanTech infrastructure and research and development will ensure that America will continue to lead the CleanTech movement.
6. ***Increase available resources for "green collar" job training programs:*** Local community colleges and workforce investment boards are developing curricula and paring potential workers with companies. The demand for workers is exceeding the supply, creating substantial opportunities for low and moderate-income individuals to find meaningful employment in occupations that cannot be outsourced. Additional federal resources for green collar jobs will accelerate employment opportunities and stimulate economic growth.

State Clean Technology Policy Priorities for 2008-2009

1. ***Create incentives for CleanTech companies seeking to grow or relocate in California:*** Innovative companies are being lured by large incentives (tax subsidies, grants, low-interest loans, etc) to locate in other states and nations. California has important competitive advantages, namely access to talent and capital. However, these advantages alone are insufficient to ensure that CleanTech companies will grow in California. While local governments are dedicating resources to attracting these companies, the State's participation has been fairly limited to date. Innovative incentives like deferring the payment of sales/use tax on equipment purchased until the point of production, or deferring property tax until a company is turning a profit would substantially help companies invest in their technologies, grow their business, and create jobs.
2. ***Create a "feed-in" tariff for solar and other renewable energy producers and allow consumer production to count toward a utility's Renewable Portfolio Standard:*** In Germany, the establishment of a consistent rate at which utilities purchase power generated from individual entities encouraged residents, companies, and local governments to adopt solar and other technologies by increasing the profitability of the technologies and reducing the payback period. In addition, allowing two-way net metering would further encourage adoption and would contribute to the ability of utilities to meet Renewable Portfolio Standards. Such a change by California's Public Utility Commission would significantly increase consumer demand, spurring innovation and job creation.
3. ***Simplify and standardize the available incentives for solar installation and alternative energy production:*** Currently, California has an exceedingly cumbersome administrative process to receive solar rebates. Where other states and nations offer one-page forms, California's reporting requirements include several hundred pages of forms, scores of signatures, and unclear information about calculating rebate amounts. Simplifying this paperwork will reduce costs for consumers and companies, making solar more cost-effective. Also, extending and expanding current solar rebates, particularly due to the uncertainty at the federal level, will add stability to the solar market and encourage companies and consumer to make long-term plans for adoption and production.
4. ***Develop a uniform statewide Green Building Code:*** Building codes currently differ across jurisdictions. A statewide Green Building Code should be adopted to reflect consumer desires and current practices. A minimum LEED rating of silver should be adopted for new commercial construction, and a minimum Green Point Rated standard of 50 points, as determined by Build It Green standards, should be used for residential construction. This will not only help to reduce operating costs of facilities, but will encourage the usage of solar and other renewable energy systems on construction. A system for retrofitting existing buildings should also be examined.

5. ***Increase available resources for “green collar” job training programs:*** Local community colleges and workforce investment boards are developing curricula and pairing potential workers with companies. The demand for workers is exceeding the supply, creating substantial opportunities for low and moderate-income individuals to find meaningful employment in occupations that cannot be outsourced. The state should partner with local companies and institutions to develop standard certification programs with clear standards and quality control.

Local Clean Technology Policy Priorities for 2008-2009

- 1. *Develop uniform Green Building code across Bay Area and California:*** While statewide Green Building Codes are also advocated for in this report, local leaders should not wait for statewide standards. Regional codes should be adopted using LEED silver standard for commercial buildings, and a Build it Green standard of Green Point Rated 50 or higher for residential construction. Cities are always encouraged to exceed these minimum standards. However, creating a baseline for new development will help to stabilize the market by creating long-term demand for renewable energy.
- 2. *Standardize and simplify permitting and review process within local jurisdictions:*** Inspection times for solar projects should be shortened, and inspectors should work with solar companies to group inspections based on geography which would result in an increase in efficiency of inspectors, thus shortening inspection time. The review and permitting processes currently take many forms across the Bay Area and Silicon Valley. These processes should be both standardized and simplified to allow for solar and other renewable energy systems to be installed at a faster rate.
- 3. *Reduce upfront costs for consumers with creative payment plans:*** A major prohibitive factor for residential solar is the upfront cost involved in the system. Local jurisdictions should look towards every option to reduce this upfront cost, making solar and other renewable energy a viable option for a greater number of citizens. Voluntary assessment districts should be created. These districts would allow for the installation cost of solar to be attached to the property tax bills, spreading out payments over 20 years. Power purchase agreements (PPAs) should be examined to enable both public and private facilities to pay for the cost of solar through cost savings. Energy Service Companies (ESCOs) will also allow for operation and maintenance savings to alleviate the upfront cost of installation.