

November 26, 2008

# **To President-Elect Obama**

## **Energy and Climate Policy Recommendation:**

### **\$300 Billion “Climate Works” Bonds**

#### *The limits of current climate policy tools*

Cap and Trade “pollution markets” are an unproven method to address the unprecedented climate crisis, and are at high risk for market failure in achieving the necessary reduction in carbon emissions. Pressures from industry can overwhelm “goals” by pushing regulators to over-allocate carbon allowances, as has been seen in Europe. For this reason, California—a national leader in climate policy—minimizes the role of pollution trading in the state’s climate protection plan to only 21% of the carbon reduction targets.

Rebate programs, taxes and general goals also carry substantial risk of shortfall or failure. Utility rebates are limited because utilities have a vested interest in selling more electricity or natural gas. Taxes face an uphill battle and come with a steep political price. And “goals” are often delayed or ignored in the pressure of economic forces.

#### *Federal Role in Local Clean Energy Financing*

The best assurance of conversion to a clean energy infrastructure is to finance and build it. To accomplish this task, President-elect Obama must design a public works program to support the hundreds of municipal governments that are leading the climate protection and renewable energy movements in the United States.

We propose that the Federal Government direct \$300 billion in financial resources—appropriate to the scale of the challenge—toward large scale transition to a clean energy economy through three mechanisms:

1. Allow local governments to issue \$100 Billion in zero-interest bonds, using federal tax credits in lieu of interest payments, for renewable energy and demand-reduction infrastructure.
2. Provide up to \$300 billion Federal “Municipal Clean Energy Bond” (MCEB) insurance to lower interest rates on municipal bonds and provide a safe market for investors.
3. Mandate that participating local governments devise local clean energy and climate protection plans that direct public and private revenue streams toward climate protection.

The proposed “Climate Works” municipal bonds would be subscribed on a matching basis, meaning that local governments would have to 1) become financing partners in a broader clean energy program, and 2) develop comprehensive climate protection plans that use the zero-interest bonds as seed money to bring in larger public and private financial commitments. Municipalities have authority to issue low-interest bonds that are key to reducing the cost burden of capital intensive renewable energy projects. These funds are routinely used to finance local public works such as bridges and hospitals.

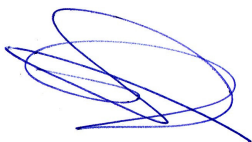
Participation by municipalities could take a number of forms in different energy sector markets, which are often defined by state and local law. In recent years, municipally-owned utilities and municipalities where customers are served by investor-owned gas and electric utilities, have developed financing mechanisms for renewable and energy demand-reduction infrastructure, using low interest bonds.

The 2005 US Energy Policy Act made \$800 million available for municipal governments to finance local renewable energy projects, using zero-interest bonds where investors were awarded generous tax credits in lieu of normal interest payments. The program was subscribed in a matter of months, proving that local governments are willing to invest in local clean energy projects if the federal government creates the right policy structure. “Climate Works” Bonds would require matching funds in order to multiply the impact and ensure accountability by participating local governments.

The Climate Works \$300 billion bond authority would co-finance hundreds of clean energy conversions in hundreds of communities. An example is San Francisco, which is in advanced stages of preparing a Community Choice clean energy program to achieve a 51% Renewable Portfolio Standard by 2017. A national green energy rollout would require a program commitment of \$30 billion to \$50 billion per year, over a period of five to ten years, based on the rate of subscription, program success and political support.

Under the program we propose, bond purchasers receive a tax write-off in lieu of interest payments— on up to \$100 billion in special purpose “Climate Works Bonds”. United States municipalities will propose local renewable energy and demand-side projects within the framework of a climate protection and clean energy conversion plan, supported by issuance of up to \$300 billion in bonds insured by the federal government. Both the projects and the local climate protection plan must meet program criteria to qualify for these federal bond benefits. The Secretary of the U.S. Department of Energy, in consultation with EPA and USDA, will have discretionary power over projects and authorization of bond benefits.

Thank you,



Paul Fenn, Chief Executive Officer  
Local Power, Inc.

**Local Power Inc. (LPI)** has over 15 years of experience with energy policy, consulting and advisory services for a diverse group of energy sector clients. We have been at the forefront of electricity restructuring debate since 1993, and created the **Community Choice Aggregation (CCA)** program, municipal renewable energy finance, and local technology integration for well over a decade.

Local Power developed the Community Choice laws in Massachusetts and California, and LPI's pro-bono efforts assisted San Francisco to prepare for its Community Choice program. LPI combines the benefits of market structure theory, competitive power purchasing, and renewable energy financing. We have selected well-qualified companies and subcontractors to supplement our core employees: an integrated team possesses the technical, legal, and financial experience as well as knowledge and hands-on experience to maximize CCA project success.

***LPI drafted and supported passage of Community Choice Clean Energy laws:***

***California Community Choice Law:***  
*AB117 (Migden, 2002)*

***San Francisco Solar "H-Bond": Charter***  
*Section 9.107.8 (Ammiano, 2001)*

***San Francisco Energy Independence:***  
*Ordinance 86-04 (Ammiano, 2004)*

***CCA Program Design, Draft Implementation Plan and H Bond Action Plan:***  
*Ordinance 447-07 (Mirkarimi-Ammiano-Daly, 2007).*

For local government, Community Choice programs can deliver the benefits of energy independence and reliable, cost-effective clean energy service. To accomplish these goals, the program must be well executed, involve residents and businesses, and plan where renewable energy and efficiency technologies will be rolled out at a large scale according to a schedule.

A successful local clean energy program involves bringing together a number of interests, from the general public to the largest energy consumers, from the utility company to local and state regulators. A Community Choice authority will need to

evaluate and select an Energy Service Provider and other participants in a clean energy roll-out. CCA requires development of procedures and commercial documents addressing a wide range of subjects including legal, environmental, tariffs, taxation, bonding, and insurance. In most cases CCA will also involve development of a Design-Build-Operate-Maintain Contract for a performance-based approach to the roll-out.

Our resource base makes LPI qualified to implement and monitor the tasks that must be performed in order to receive prospective supplier contract and rate packages. LPI has in-company talent for planning and evaluation that is critical to success of a CCA program. A rollout of renewable energy and demand side technologies requires complex, parallel processes necessary to define a rollout platform for new resources, particularly those within the physical boundaries of the CCA.

The key concept that LPI brings for CCA programs is acceleration of renewable energy development, and scaling up of local distributed network of energy facilities on the public and private sector properties. This significant challenge is surmountable using LPI's site acquisition, permitting and zoning team. As CCAs must prepare "landing strips" for rapid development of the new technologies, concerted efforts are required among local agencies that demand commercial-grade know-how from the industrial development side. LPI has that resource in-house.

## Our Experience



**San Francisco Prepared CCA and H Bond Program.** LPI has contributed substantially to the drafting and refinement of San Francisco's CCA Program - drafting H Bond Authority (charter Section 9107.8, 2001), CCA Ordinance (86-04, 2004), which defined the overall program structure and established policies and procedures and schedule for the Implementation Plan and RFP process:

- CCA Program Design, Draft Implementation Plan and H Bond Action Program adopted by Ord. 447-07
- LPI drafted Draft CCA Implementation Plan, Program Design and H Bond Action Plan (adopted by Ordinance 447-07, 2007) in conjunction with SFPUC staff. Since then LPI won two RFQ processes by SFLAFCO and SFPUC to lead implementation of the CCA program RFP process, and are now completing a CCA Program Report.



**Sonoma County Climate Action Plan. Prepared Plan's Energy Element, 2007.** LPI prepared a detailed plan to use CCA and H Bonds as the basis for achieving a 66% Renewable Portfolio Standard by 2017 and Achieving a 63% Greenhouse Gas Reduction in the Power Sector. LPI conducted a survey of renewable resources in Sonoma County and neighboring areas, and coordinated with the Sonoma County Water Agency, on opportunities for renewable resource development. Most recently we were hired to manage a CCA data request, which we are now undertaking, the Sonoma County Water Agency hired us an advisor in the North American Climate Partnership



**State of California. LPI drafted AB117 and was a lead Intervenor in California Public Utilities Commission** proceeding to create the policies, rules and procedures for implementation of Community Choice Aggregation, R.03-10-003 (2003-6) Local Power was an Intervenor Representative in CPUC Gas Procurement Regulations 2003-4, of Ratepayers for Affordable Clean Energy (R.A.C.E.), in CPUC proceedings on California gas utility procurement opposing Liquefied Natural Gas terminal (R.04-01-025); LPI was Intervenor Representative, 2003 preparing all filings for R.A.C.E. in CPUC proceedings on electric utility power procurement (R.01-10-024) and natural gas-fired generation; - LPI was Expert 2003-2004 in CPUC proceedings on Energy Efficiency programs (R.01-08-028) regarding the CPUC Public Goods Charge Funds Policy Definition.



**Imperial Irrigation District. LPI evaluated RFP bids** for development of solar photovoltaics and other innovative renewable energy technologies, 2007.



**Sacramento Municipal Utility District. Prepared Performance Based Incentive Photovoltaic Commercialization Program**, Sacramento, CA. 2004 including a Program Design and Program Elements Report that identified program goals, a typology of PBI, Elements of PBI Programs, a survey of American PBI Programs and of European PBI Programs, and establishing Value Criteria, a Market Sectors Report including Residential, Commercial and Public Sector PV Market, and Value Elements for PV Markets.



**Environmental Health Coalition, Chula Vista. Prepared Chula Vista-San Diego County Green Energy Options Report** and Presented to City Council and Mayor, Chula Vista, CA, 2007. LPI prepared a specific portfolio of renewable resources and demand side technologies for Replacing the South Bay Power Plant, forecasting the power facility and portfolio power costs compared to San Diego Gas & Electric's forecasted rates.



**U.S. Nuclear Regulatory Commission. Expert Witness on Policies and Procedures** for the use of Natural Gas at Nuclear Energy Facilities, Washington, DC. LPI was Expert Witness for Public Citizen, April 2004, Nuclear Regulatory Commission Proceeding: "The Hazards of Natural Gas at Nuclear Energy Facilities," Opposing Application of Louisiana Energy Services to Build a National Uranium Enrichment Facility in New Mexico



**Massachusetts. Drafted Nation's First Community Choice Law**, Boston, Massachusetts. In 1993-4 LPI CEO Local Power co-drafted the nation's original CCA bill, Senate 447 (January, 1995), adopted in 1997 (Chapter 164). Local Power advised the Massachusetts Senate, House of Representatives, Division of Energy Resources, the Governor's Roundtable on Electric Restructuring, the Massachusetts Department of Public Utilities (Now Mass DTE) and the National Council on Competition in the Electric Industry on CCA as part of electric industry restructuring.



**State of Ohio Advised in Drafting of Community Choice Law.** Local Power advised stakeholders and legislators on the drafting of Ohio's Community Choice law in Ohio (Senate Bill 3, Section 4928.20, 1999).



**State of New Jersey Advised in Drafting of Community Choice Law,** Local Power advised the New Jersey Ratepayer Advocate's office, the New Jersey League of Municipalities, and legislators in the drafting New Jersey's Community Choice Aggregation Law (Chapter 24 of 2003).

## Our Staff

**Chief Executive Officer – Paul Fenn, Founder**, has developed a matrix of market structures, financial tools and risk management strategies to make possible an accelerated deployment of renewable and demand-side energy technologies. Fenn authored California's 2002 Community Choice law, Assembly Bill 117, after co-authoring the nation's original such law in Massachusetts in 1994 and going on to draft San Francisco's 2001 H Bond authority – the nation's first municipal revenue bond authority to finance renewable energy development.



**Chief Strategic Advisor – Howard V. Golub, Nixon Peabody LLP** has thirty years of experience in the energy industry. He provides services to a wide range of clients in the energy industry nationwide including investor-owned and publicly owned utilities, independent power producers, and developers of technologies for the production of energy.



**Chief Financial Officer / Co-Founder – Julia A. Peters**, manages Local Power's political campaigns and daily operations, including finances and subcontractor operations. Ms. Peters ran Local Power's coalition and nonprofit fundraising activities prior to 2007 and managed San Francisco's Proposition H campaign in 2001, helping form and managing the San Francisco Community Choice Energy Alliance.



**Vice President, Research – Robert S. Freehling**, His work includes include technical analysis of performance based incentives for solar photovoltaics for SMUD's solar program and the concept, design, and economic modeling of clean energy replacement for a fossil fuel power plant for Chula Vista, California. Mr. Freehling contributed to modeling elements of San Francisco's Implementation Plan for CCA electricity purchases, with emphasis on photovoltaics and renewables as a hedge to mitigate natural gas price risk.



**President – John H. Cutler**, brings a deep knowledge of project roll out and business development from his 20-year career at T-Mobile USA and related wireless communication companies. Mr. Cutler managed the acquisition of cellular telephone operating licenses, radio and backhaul network design, real estate acquisition, site zoning and permitting, network roll out, and the expansion and rebranding of direct sales channels. He has been an advisor to Local Power for ten years.



**Carbon Initiatives Director – Dave Erickson**, works to quantify and mitigate greenhouse gas emissions at a local level. As Technical Director of the award-winning Sonoma Climate Protection Campaign, he led development of the Community Climate Action Plan. He has worked on GHG analysis of water and wastewater systems, GHG inventories and energy efficiency projects for local government and businesses. Prior to receiving a second bachelor's degree in Energy Management and Design, Mr. Erickson worked in high tech startup companies as a software engineer.



## Design-Build-Operate-Maintain Public Works Contracting Structure

**Bradley Turner**, Booz Allen's lead for Local Power, is an attorney with over 16 years experience structuring contracts for public-sector projects valued at over \$7B across a range of technologies. Founded in 1914, Booz Allen Hamilton has over 19,000 employees world-wide including many professionals experienced in helping government agencies to meet infrastructure needs. Booz Allen is one of the largest and most highly regarded management consulting organizations in the world. Since 2004, Mr. Turner has contributed to Local Power's CCA Program Design, adopted by San Francisco, designing an innovative Design-Build-Operate-Maintain contract structure for the City's renewable rollout.

**Independent Subcontractors.** LPI draws from established experts in the following areas:

Urban Power Permitting

Climate Action Plans and Community Energy Modeling

Solar Photovoltaics

Renewable Power Generation

Public Finance Deal Origination

Energy Efficiency

Transmission & Distribution Tariffs

Utility Operation

Utility Data Analysis

Architecture & Design

Land Use Planning

Power Storage

Transportation

Cogeneration

Emissions & Scrubber Engineering

Public Relations

## Our Story

From 1999 through 2002, Local Power wrote and worked to support implementation of California State CCA Law, AB117 (advising Assembly Member Carole Migden from 2000-2) and San Francisco's H Bond Authority (advising Supervisor Ammiano from 2000-1). In 2003, Mr. Cutler began to work with Local Power on site acquisition strategies for distributed solar electric systems, and Robert Freehling joined Local Power in 2004 as Research Director.

Between 2003 and 2007 Local Power advised Supervisor Ammiano's office on CCA implementation and drafted San Francisco's CCA Ordinance (86-04) pro-bono. During this time we were retained by Sacramento Municipal Utility District, the Environmental Health Coalition, the Imperial Irrigation District, and the Sonoma County Community Climate Action Plan and others to perform work pertinent to structured finance for renewable energy. Local Power received a grant from the Compton Foundation, but Local Power and a group of its advisors participated as paid intervenors representing ratepayers at the California Public Utilities Commission's CCA and Energy Efficiency Proceedings.

During 2006 Local Power prepared San Francisco's Draft CCA Implementation Plan, funded by a grant from the San Francisco Foundation. In 2006 and 2007 Local Power worked with SFLAFCO, SFPUC, the Board of Supervisors and Mayor to arrive at a consensus on the adopted "Program Design, H Bond Action Plan and Draft CCA Implementation Plan" (Ordinance 447-07, 2007). In 2008 Local Power was retained by SFPUC and SFLAFCO to prepare the CCA Program Basis Report and Request for Proposals.

John Cutler joined Local Power in 2007, and Julia Peters became its Treasurer and Chief Financial Officer received investment from Acorn Energy, Inc. (NASDAQ:ACFN). Howard Golub joined us as Chief Strategic Advisor in 2008. David Erickson joined us as Carbon Director in 2008.

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