In response to the Draft Concept Paper titled, "*Cap-and-Trade Auction Proceeds Investment Plan*" (the "Investment Plan") released on February 15th, 2013, the following are US Renewables Group's ("USRG") suggestions for the highest and best use of the proceeds generated by AB32.

USRG, based in Santa Monica, CA, is one of the largest investment firms focused exclusively on the renewable energy industry. Founded in 2003, USRG investments have spanned the clean energy sector - including solar, wind, geothermal, hydropower, biomass, clean fuels and other low-carbon technology based companies and projects.

Based on USRG's investment experience in renewable energy, low-carbon fuel and other low-carbon projects and businesses, USRG believes the Investment Plan implemented by the Department of Finance should take into account the following:

- ***Allocations under the Investment Plan should be evaluated based on the amount of leverage generated.***

  Because AB32 proceeds are limited, the amounts will likely vary from year-to-year and are targeted at achieving carbon reduction as quickly as possible while at the same time fostering job creation and economic growth in California, the success of the Investment Plan – in both economic and environmental terms – should be judged on the technological, financial, economic, and timeframe leverage the Investment Plan provides. Specifically, any group or strategy receiving allocations should be required to demonstrate how their approach:

  - Attracts external capital (equity and debt);
  - Creates intellectual capital (patents and other know-how);
  - Builds capacity in underserved communities or regions to succeed in a low-carbon economy;
  - Establishes California as a low-carbon leader in the US and around the world; and
  - Accelerates the pace at which California reaches its low carbon goals

- ***Allocations under the Investment Plan should be evaluated by the expected timeframe of their environmental and/or economic impact.***

  Any allocation under the Investment Plan should be evaluated and judged by when the allocation can be expected to produce measurable and positive results toward meeting AB32's stated carbon goals. Specifically, USRG believes allocations should be broken into two timeframes:

  - Near-term impact <36 months
  - Long-term impact >36 months

  Given California's stated goal to use AB32 proceeds to reduce carbon over both the near-term and long-term, any Investment Plan that fails to include capital for both segments would be incomplete and less effective in meeting the state's carbon reduction goals.

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- ***Investments that are likely to provide the most leverage toward achieving California's low-carbon goals will be different in the near-term versus the long-term.***

  In the near-term, the greatest leverage in terms of accelerating a low-carbon energy infrastructure will be achieved by supporting the development of energy projects – including generation, storage, transmission, and efficiency - that employ commercial stage technologies.

  USRG believes the most effective and highest leveraged means of support for the development of commercial stage energy projects is to provide various forms of credit enhancement such as loan guarantees or insurance to strengthen the ability of these projects to access the capital markets for funding, particularly for debt financing.

  In the long-term, continuing to achieve carbon reductions will require investing in the development and commercialization of new technologies.

  USRG believes the Investment Plan must include allocations designed to attract and deploy investments in early-stage clean energy technologies.

- ***Project risk and technology/commercialization risk are different and should be evaluated and addressed separately.***

  Because these two risk types are so divergent and require different criteria to properly evaluate, USRG believes any capital allocations to address these risks under the Investment Plan should be managed through separate programs with distinctly separate goals and criteria.

  Project risk is typically characterized by having little or no technology risk with fixed inputs (sunlight, wind, long-term contracts for energy inputs, etc.) and fixed off-takes (i.e., power purchase agreements and/or long-term fuel purchase agreements). This type of risk fundamentally differs from early-stage technology risk, which is often characterized by commercializing university research or corporate research and development. These latter types of risk are very unclear at the point in time an investment is made and thus are largely unbounded in nature.

  In order to generate sustainable jobs, market-based financial returns and near-term carbon reduction benefits (defined as <36 months), most projects assume very low levels of technology risk, utilize financial leverage (e.g., bank loans and term debt), take advantage of government incentives (e.g., tax credits and accelerated depreciation) and engage highly rated counterparties (e.g., municipal utilities). Thus, project risk serves to capture near-term carbon value, rarely fails and ***does not*** involve manufacturing or market risk.

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In contrast, technology/commercialization risk is typically characterized by high failure rates, rarely utilizing debt leverage (due to poor or non-existent cashflow), lack of utilization of government incentives, and often has both sales and manufacturing risk. However, when technology/commercialization risks are successful, they often create entirely new markets, provide outsized returns (in some cases in excess of 10x on invested capital) and position the investors who have taken the risk to reap disproportionate gains with respect the value that investors attribute to the new market segment (examples include: GOOG, AMZN, MSFT, INTL, etc.).

In light of the considerations outlined above, USRG recommends the Department of Finance consider allocating proceeds from the Investment Plan in the following manner and amounts:

- ***Allocate $50 million to establish a California Low Carbon Credit Enhancement Fund ("CLCCEF") to strengthen the ability of California carbon reduction projects to attract commercial financing, through the use of credit guarantees, project insurance, or other credit enhancement instruments.***

    - Fund the Investment Plan's allocation to CLCCEC over a two (2) year period, beginning in FY13;
    - Issue a Request for Proposal (RFP) for an external manager to evaluate, underwrite and monitor the credit guarantees or other credit enhancement instruments issued by the CLCCEC;
    - Require all qualifying RFP submittals to demonstrate at least 1x matching investment commitments from regional partners (private foundation, corporations, local pension funds, municipal entities high net worth individuals, etc.); and
    - Designate the CLCCEC as an "evergreen fund" where all proceeds generated are recycled back into the fund for more investments.

- ***Allocate $200 million to establish four (4) regional California Low-Carbon Technology Commercialization Funds ("CLCTF") to provide financing for early-stage technologies with the potential to contribute to California's carbon reduction goals***

    - Fund the California Low Carbon Technology Funds with a $200 million allocation invested over a two (2) year period beginning in FY13;
    - Designate four (4) regional funds located in Los Angeles, Orange County/San Diego, Sacramento and San Francisco;
    - Issue a Request for Proposal (RFP) for external fund managers to evaluate, invest in, and monitor the companies in which the regional funds invest;
    - Require all qualifying RFP submittals to demonstrate at least 1x matching commitments from regional partners (private foundation, corporations, local pension funds, municipal entities high net worth individuals, etc.); and
    - Designate the CLCTF funds as "evergreen funds" where all proceeds from the funds are recycled back into the funds for more investments.

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- ***<u>Designate the California Pollution Control Finance Authority ("CPCFA") or another qualified government entity as the oversight authority for the CLCCEC and CLTCF funds.</u>***

  USRG believes fund level investments should be made by external managers selected through an RFP process. The CPFCA, with its existing mandate to support the financing of pollution control measures (or a similar suitable entity) should be tasked with oversight and accountability of the CLCCEF and CLCTF funds. Oversight should be limited to board-level participation on a non-control basis, having annual access to all accounting records and all standard information rights that any institutional investor would reasonably expect to be provided. In order to ensure that no political pressure can be used by parties seeking access to the funds controlled by CLCCEC or CLCCF, the CPCFA would neither directly nor indirectly engage in the direct investment activities of the funds.

Please direct any questions/clarifications to:

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