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Petroleum Violation Escrow Account Funding Proposal Process

Senate Committee on Energy and Public Utilities

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California Legislature

SENATE COMMITTEE ON ENERGY AND
PUBLIC UTILITIES

Information Hearing
PETROLEUM VIOLATION ESCROW ACCOUNT
FUNDING PROPOSAL PROCESS



Tuesday, February 26, 1985
Room 112, State Capitol
Sacramento, California

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California Legislature

SENATE COMMITTEE ON ENERGY AND PUBLIC UTILITIES

Information Hearing PETROLEUM VIOLATION ESCROW ACCOUNT FUNDING PROPOSAL PROCESS



Tuesday, February 26, 1985
Room 112, State Capitol
Sacramento, California

85-16-158

SPEAKERS - ARRANGED IN ORDER OF APPEARANCE

Senator Herschel Rosenthal, Chairman of the Committee
Charles Imbrecht, Chairman
California Energy Commission
Don Wallace, California Energy Commission
John Caffrey, Department of Finance
Dr. Arthur Rosenfeld, Lawrence Berkeley Laboratory
Dr. Ed Vine, Lawrence Berkeley Laboratory
Robert Martinez, Office of Economic Opportunity
Beth Gould, Office of Economic Opportunity
James Hodges, CAL/NEVA
Portia Summers, Orange County Community Development Council
James Cassie, San Diego Gas and Electric Company
Marthe Schreiber, La Cooperativa Campesina de California
Yvonne Hunter, League of California Cities
Victor Pottorff, County Supervisors Association of California
Roxanne Miller-Mosley, City of San Jose
Rita Norton, City of San Jose
Sara Hoffman, Association of California Energy Officials
Lynn Nelson, Habitat Center
Michael Edwards, Center for Nonprofit Management
Mark Braly, State Assistance Fund for Energy
California Business and Industrial Development Corporation
Jon Pon, San Francisco Mayor's Office of Community Development
Herbert Aarons, Cal Coastal
Richard E. Baker, Ford Motor Company
Dr. Jan Hamrin, Independent Energy Producers Association
Dr. Larry Berg, South Coast Air Quality Management District
Eugene Fisher, South Coast Air Quality Management District
Harry W. Buchanan, Celanese Corporation
William DuBois, California Farm Bureau Federation

California Legislature

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AGENDA

Tuesday, February 26, 1985

1:30 P.M., Room 112, State Capitol

INFORMATIONAL HEARING

SUBJECT: Petroleum Violation Escrow Account (PVEA)
funding proposal process

ADMINISTRATION PANEL

John Caffrey
Department of Finance

Don Wallace
California Energy Commission

Dr. Arthur Rosenfeld
Lawrence Berkeley Laboratory

Dr. Ed Vine
Lawrence Berkeley Laboratory

LOW INCOME PANEL

Robert Martinez
and
Beth Gould
Office of Economic
Opportunity

James Hodges
CAL/NEVA

Portia Summers
Orange County Community
Development Council

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San Diego Gas
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California



LOCAL GOVERNMENT

Yvonne Hunter
League of California
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Association of California

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and
Rita Norton
City of San Jose

Sara Hoffman
Association of
California Energy
Officials

Lynn Nelson
Habitat Center

SMALL BUSINESS/NON PROFIT

Michael Edwards
Center for Nonprofit
Management

Mark Braly
State Assistance Fund
for Energy - California
Business & Industrial
Development Corporation

John Pon
San Francisco Mayor's
Office of Community
Development

Harold F. Brown
Superior Valley
Small Business
Development Corporation

Edmond L. Murray
William Murray & Son

COMMERCIAL/INDUSTRIAL/METHANOL/AGRICULTURAL

Richard E. Baker
Ford Motor Company

Jan Hamrin
Independent Energy
Producers Association

Dr. Larry Berg
South Coast Air Quality
Management District

Dan Port
California
Family Farmers

Harry W. Buchanan
Celanese Corporation

William DuBois
California Farm Bureau

CHAIRMAN HERSCHEL ROSENTHAL: Good Afternoon. Welcome to the third informational hearing of the session for the Senate Committee on Energy and Public Utilities. Today we'll hear testimony and discuss some proposals involving the Petroleum Violation Escrow Account, better known as PVEA.

The hearing is warranted because of some recent bad news and good news. The bad news is that Americans were overcharged for crude oil between 1975 and 1981 by oil companies which violated federal price control regulations. The good news is that the oil companies have been ordered to pay millions of dollars in restitution, plus interest, back to the U.S. Treasury.

Based on California's share of the nationwide consumption of petroleum products over that eight year span, we may receive up to \$500 million dollars for reimbursements into the PVEA fund, with about \$140 million of that due this year.

But we're not here today to rehash the history of the overcharge, rather we must move forward in the legislative process to adequately determine how to best use this sizable pot of money which was spent needlessly by our citizens for energy. It's true that the Governor has established the cabinet level task force to determine how these funds should be spent in the budget. However, we are here to fulfill our legislative responsibility of reviewing the best possible way to make sure that those who are most harmed by overcharges are provided adequate restitution.

Because the budget process alone can not provide adequate policy review, we must also seek to assure fellow Californians that the millions of dollars coming our way will be directed toward worthy programs, programs that fit comfortably within the energy priorities of the state.

We've brought together a number of qualified witnesses today to testify on the PVEA funding process and to identify specific energy needs within the state that might be assisted by such funds. We have five panels representing the concerns of the administration, the low income community, local government, small business, non-profit organizations, industrial and agricultural interests, and some others. With such a full agenda I want to ask each witness to present a short opening statement and each subsequent witness to refrain from presenting redundant material.

We'll start with the panel from the administration. Charles Imbrecht from the California Energy Commission will be our opening witness. Chuck. I might invite all of the other panel members to come up - John Caffrey,

Department of Finance, Dr. Arthur Rosenfeld, Lawrence Berkeley Laboratory, Dr. Ed Vine, Lawrence Berkeley Laboratory, and Don Wallace, California Energy Commission. Would you please come to the front so that we can move quickly from one speaker to the next in this administration panel. Thank you very much.

MR. CHARLES IMBRECHT: Thank you, Mr. Chairman and members. I appreciate very much your courtesy in taking me first. I am also presiding over an adjudicatory hearing for a major siting case and there are a substantial number of members of the public that are awaiting my return to the Commission to reconvene that hearing.

The Energy Commission's role in terms of providing an analytical tool by which the Legislature and the Administration might be able to make some reasonably evenhanded comparisons between what obviously will be a wide variety of proposals from a multitude of state agencies, local governments and other affected individuals and groups throughout the state, was given this responsibility as a result of an appropriation that was added to the budget about a year-and-a-half ago at your instigation, Senator Rosenthal. The Governor slightly modified the language, but the Energy Commission chose to in essence reflect the initial intent of your proposal; and that is, the Commission itself, rather than myself as chairman, has overseen the entire conduct of the independent contract that we ultimately let with Lawrence Berkeley Lab which, of course, is an arm of the University of California, in order to provide an analytical evaluation of the wide variety of proposals that are forthcoming.

We attempted in every respect to insure that this process was not only evenhanded, but also did not in any way favor Energy Commission proposals versus those which were initiated by other state agencies and other interested members of the public. To that extent we assigned jurisdiction over the conduct of this contract to what is known as the Budget Committee at the Energy Commission, that has traditionally, and is today, composed of the chairman and the vice-chairman, respectively, so that would be myself and Vice Chairman, Arturo Gandara, that also provided bipartisan oversight of the conduct of this contract as well.

What we attempted to do was establish broad and general criteria and in turn to invite literally every state agency or department that might have an interest in this issue to participate, as well as invite representatives of your own committee and respective committees in the Assembly, or your staff, I should say, to participate in the meetings as well. Ultimately, there was an interagency working group that was formally established as an advisory

committee to the Commission under our regulations. It was composed of 16 state agencies and various aspects of the higher education community as well, and you have an enumerated list of all of the agencies that participated in the formal testimony which I've submitted. That interagency working group met on nine occasions. There were ultimately 220 individual proposals that were generated from that group. In joint consultation the group ultimately distilled those down to 34 state agency proposals that were ultimately submitted to LBL for consideration.

The reason that that distillation occurred is that in many cases the proposals had a variety of coincidental or similar characteristics and in order to facilitate the evaluation process the determination of that working group was that they should be distilled down to that number. Originally, the contract that we had let to LBL allowed for the interagency working group through the Energy Commission to submit up to 40 proposals to them for evaluation.

In addition after that process was underway, there were 14 separate public hearings held throughout California and better than 5,000 public notices were distributed to literally every interested group that we could determine might want to be a participant in this process. That endeavor generated 500 individual proposals from local governments, from constituent organizations, and from the general public. In many cases those proposals were quite similar to those which had originally been propounded by the various state agencies. Ultimately from that another distillation process occurred and another 10 proposals were submitted to LBL for their further consideration.

There is now a two volume draft report which is the end product, or I should say nearly the end product, of this entire effort. That draft report is, and I believe your staff has copies of it, has then been distributed to all participants and we are currently in the process of asking for any critique if they feel that there were invalid assumptions applied to their own proposals or errors in the analytical process that was utilized.

As I indicated, we tried in a double blind situation to ensure that our agency's proposals were in no fashion favored over those submitted by other agencies. I'm not aware personally of any complaints or concerns, and to that extent I think it was a very evenhanded process.

One of the things that I would like to correct, I think to some extent, is the perception that is inaccurately held in some quarters that somehow the Energy Commission, and I know that obviously no member of the Legislature would feel this, but some members of the public somehow got the impression

that the Energy Commission was going to decide how California ought to expend or allocate the monies that you made reference to. I might mention parenthetically, it's our best information that the current dollar sum, because of interest since these monies have been impounded, has grown from \$140 million to approximately \$160 million. Nothing could be further from the truth in the sense of the Energy Commission doing that. Actually, all we were asked to do was provide that tool by which both the Administration and the Legislature hopefully could make evenhanded judgments in applying all the other policy considerations that would go into any decision we might make. In that context we are certainly not the end all and be all by any stretch of the imagination and I regret to any extent that people have that misperception.

From the Administration's standpoint, and I know Mr. Caffrey will speak in greater detail about how the task force that is chaired by the Director of the Department of Finance will operate, my latest information suggests...I might mention that task force is basically composed of cabinet secretaries, Secretary Van Vleck of the Resources Agency has designated myself as the representative for Resources. Because of the uncertainty generated by the Office of Management and Budget's effort to in essence recapture the PVEA funds to offset federal deficit problems, and the mechanism as I understand it can best be summarized as utilizing PVEA funds to fund ongoing conservation and renewable energy expenditures of the Federal Department of Energy, in turn, therefore, not requiring separate appropriations for those programs. At this juncture that issue is before the United States Congress. They have the ability, as I understand it, to relatively easily override that action and in essence compel the Department of Energy through the United States Treasury to disperse the funds to the various states. On behalf of the State of California we have indeed encouraged such a decision and have written to each of the members of the California delegation and other key members of Congress that sit on the respective committees that have jurisdiction over this issue. As yet, however, no action has been forthcoming.

It is our understanding, as a consequence, that the Department of Finance at this juncture is not inclined to deal with PVEA as a part of the current budget process in that the actual receipt of the monies remains speculative, both as to whether or not the monies will come, which is tied up obviously in the whole debate over the federal deficit, and secondarily, as to when they might come. It is my latest understanding that therefore other than a briefing similar to that which we're providing here as to the process we utilize, that the task force is not likely to be convened for the Administration to generate recommendations for expenditures in the near term,

but will wait for some decisive action by Congress when there is some certainty as to actual dollars flowing to the state.

As a consequence, the Energy Commission has not even formulated its own requests that we will submit to the Department of Finance. We've decided to withhold our own final recommendations.

It should be pretty clear from an evaluation of the final report that the total proposals in essence would expend something between three and five times the amount of money that is actually potentially available, and that therefore will require both the good judgment of both the Administration and the Legislature. We certainly intend to structure our own requests in light of the total dollars available. I think that if you were to add up the LBL evaluation of Energy Commission proposals alone, you would be knocking on the door of a total - however we recognize that to be utterly unrealistic and we certainly would appreciate the good grace of the Legislature in supporting most of our proposals, but we also know that other agencies have substantial interests and that would be unrealistic.

I believe that completes presentation on our role. If you have any questions as to that I would certainly be happy to answer them at this point in time.

CHAIRMAN ROSENTHAL: Let me just comment. After this hearing and certainly taking into consideration all of the input we're going to get today and hereafter, we'll be presenting some legislation to deal with this particular problem. I'm certain that a number of members of the committee and I know that I'll be presenting a bill to try to come up with a means of disbursing the funds and welcome all the input we can get as to how it ought to be divided up. Let me just ask you another question. Do you believe that the nonagency participants were placed at a disadvantage at the hearings that you held?

MR. IMBRECHT: I don't believe so. In fact, in reality more proposals were generated out of that process than out of the state process. I had certainly not heard any expressions of concern that that might have been the case. We endeavored to try to ensure that there was a complete and balanced approach and I might add, if you look at the distribution of agencies that did participate, I think that virtually every constituency interest that has in the past enjoyed funding for various types of energy programs from low-income groups and all of the various weatherization and intervention programs, as well as more traditional energy issues, such as conservation and renewable and alternative developments, and finally the transportation sector and the higher education branches, were all well represented.

CHAIRMAN ROSENTHAL: The reason I ask the question is because the public workshops were put off until late last year, even though we knew early in the year that the problem existed and various individual agencies had some input, but they didn't hear about the workshops until late November. So, I just wonder whether or not perhaps some of the non-agency participants were disadvantaged, but if you don't think that's...

MR. IMBRECHT: I don't think so, Senator. The only other thing I would say is that schedule and the way those work tasks were contemplated were in the original contract that was let with LBL and that was basically intended not to dump all the proposals on them simultaneously but give them a reasonably balanced work schedule in terms of evaluation. Also, I have to say in all honesty, it took a rare amount of give and take and back and forth evaluation. We went over many early attempts by LBL to ensure that all of the various considerations that I knew you were concerned about and that other members of the Legislature had written to me about on various occasions, were encompassed within the evaluation. That included not just an evaluation of energy savings that might be encompassed, but also the impact and distribution of the funds across all economic sectors, and also questions of restitution since fundamentally these are monies that were overcharged to various sectors of our community. One of the other issues is to what extent do the proposals actually provide a benefit to the people who paid the overcharge.

CHAIRMAN ROSENTHAL: Do you intend to, prior to the Administration's submission of a plan and the budget, to do anything further with the non-agency participants, or are you just going to wait to see what happens until later in the year?

MR. IMBRECHT: Aside from the fact that all of the participants have been distributed copies of the report and are being asked at this juncture to critique it and call to our attention any obvious errors before we finalize it, and ultimately the Commission will hold a hearing to finally adopt as a final work product, at this point it is a draft. I don't really contemplate anything beyond that.

CHAIRMAN ROSENTHAL: Any further questions to the committee?

MR. IMBRECHT: If you think that's appropriate, I might add, I would certainly welcome any direction or suggestions that you may care to offer.

CHAIRMAN ROSENTHAL: All right. They may come up as a result of the hearing today and we'll notify your office. Any further questions? Thank you very much.

MR. IMBRECHT: Thank you. I regret that I must excuse myself...

CHAIRMAN ROSENTHAL: Do you have any idea - of all the requests that you have run across in terms of the numbers of dollars that came up in these workshops - the total number that was requested?

MR. IMBRECHT: Somewhere over \$800 million. I have to say that your estimate of \$500 million that I heard in your opening statement is higher than I have been operating on as an assumption in terms of total dollars that would be available to California. I certainly hope that's the case.

I have to say to you one other thing in all honesty that we have not been terribly successful and that is getting what I consider to be a fair allocation of these monies to California. One of the things that I have discovered in terms of a lot of energy programs that are federally funded or are distributed on a basis of various federal formulas, it has been our conclusion for some time that California really hasn't gotten a fair shake. I guess that's the best way to describe it. In most instances we are lucky if we come even remotely close to our per capita share of the dollars involved. In many cases we're substantially below, and this is a broad range of federal energy programs. There has been a very strong lobby in Congress, a coalition of northeastern states in particular, that have built into the formulas a lot of what I consider to be fairly extraneous considerations, but nonetheless they are there and our best efforts to encourage both the Administration and Congress to rectify those formulas to date have not been successful, and that has included a number of meetings with appropriate individuals in DOE. I just might add that I think at some point it would probably be most helpful that our members of Congress might be memorialized by resolution from the Legislature and other appropriate communications to encourage them to assist us in those efforts. I know that the Governor's office in Washington is fully aware of it because we've gone over it in some detail with them and they've been working on it. We also have Energy Commission bid-retained counsel, both here in California and in Washington, D.C., and one of the tasks that we have asked them to pursue is that very issue.

Certainly when it comes to PVEA, in many cases you can take a look at the product classes involved where the overcharges occurred. Different cases against different companies involve different products. In the case of the distillates, some things as arcane as asphalt, sometimes gasoline, sometimes diesel, and so forth, and we know pretty clearly what the percentage of consumption is in each of those product classes within California. It just seems to me that from a perspective of equity that we ought to get something close to that percentage, but we're really not at this point in time.

CHAIRMAN ROSENTHAL: Again, thank you very much. I know you have

another meeting to go to and I hope everything works out successfully.

MR. IMBRECHT: Don Wallace, who is Assistant Executive Director of the Energy Commission, he had a general oversight in the conduct of the contract and so forth, and I'm sure he can answer any technical questions you may have.

CHAIRMAN ROSENTHAL: Thank you very much. Mr. Wallace, do you have anything to add further at this point?

MR. DON WALLACE: No, Mr. Chairman.

CHAIRMAN ROSENTHAL: All right. Thank you and if you'll just remain there in case some questions do come up. Mr. Caffrey, Department of Finance.

MR. JOHN CAFFREY: Thank you, Mr. Chairman and members. I'm here representing our Director, Jess Huff, and rather than repeat several of the items that Mr. Imbrecht has discussed, I would like to direct my comments primarily to the status of the funding for the Petroleum Violation Escrow Fund.

It is true that several months ago we were certainly considering the possibility of submitting a Department of Finance augmentation letter this spring, and that was of course when we thought that funding might be available this spring from the violation escrow settlements. However as you know, that is not the case at this time, so we have at this point decided as a fiscal matter not to submit a letter simply because there are so many unknowns involved in this situation.

I'm sure you know that the Federal '86 proposed budget is proposing that the funds from this account supplant existing federal conservation programs which could mean if that proposal were successful, that no funds would be available to California. Further, the earliest that we think that funds could be available to California would be October, November of 1985. That would be only if the Supreme Court refused to hear any appeal, and both sides in the case have indicated to us, in the Exxon case that is, have indicated to us they would appeal. So that's the earliest we might see funding. So, as a technical vehicle we are thinking now it would probably be more timely as a technical budget matter for the '86-87 budget at the earliest, or perhaps legislation, as you have mentioned here today.

We don't really know what the exact amount will be with interest included. On the Exxon case we expect, the number we hear oftentimes is \$140 million with interest, if that is the case, we do get interest, it could be up to \$150 to \$170 million. We also do not know what restrictions there may or may not be on the money. As you are aware, Senator and members, in the past when we worked with the Legislature and appropriated the \$18.9

million, we had contingency language in there for a portion of it in an attempt to get Congress to change the restrictions. They did not and so we had to notify the Legislature at a later date to prorate those funds back to the other purposes that were originally established for use of the funds.

So at this point, we don't have a priority set for how these funds would be spent. One of the concerns, not the least of the concerns, is the fact that oftentimes priorities are somewhat dictated by the amount of money that we have for these purposes, so the Petroleum Violation Escrow Task Force will not be called at this time until we have more information as to the timing and the amount and the availability of these dollars if there are to be any funds forthcoming.

That concludes my statement at this point. I'd be happy to answer any questions.

CHAIRMAN ROSENTHAL: Thank you very much. Are there any questions of the committee? Thank you. Now, and I don't know which of you two, Dr. Rosenfeld, Lawrence Berkeley Laboratory, please.

DR. ARTHUR ROSENFELD. Good afternoon. There are two of us here from LBL because I was asked to make a couple of remarks on the philosophy of what we did, and then Dr. Ed Vine, sitting on my right, who was half of the team that did most of the honest work, is going to talk about the actual procedures.

The group at LBL which I run is called Energy Efficient Buildings Research and we're mainly laboratory and field operation and, in fact, although I was the principal investigator, it was a group called Energy Analysis which did most of the work. That's why there are two of us here.

However, for two reasons I'm going to make a couple of remarks about some of the considerations which we put into the evaluation, because I presume you want to know what we had in mind. The other is because your committee is going to be handling this question henceforth. We've had a lot of experience with I would say fairly shabbily run mainly federal programs which we try to monitor at LBL and a little bit of disappointing experience. Having been in this game for ten years and seen the programs run inefficiently, we thought this was a good opportunity to see if we could inject a little quality control and monitoring and feedback into the system.

So I think I'm going to take two minutes to give you a sort of an example of the mess we're trying to avoid and maybe have California avoid on the PVEA money which is going to flow, which is a lot of money. That brings me then to discuss a couple of points about weatherization, that is, low-income weatherization, which guidelines are set by the federal government,

not by California. That doesn't mean we have to follow the federal government's incompetence. Basically, the problem is that these programs involve a lot of money which comes from Congress, or in this case from Exxon, and there that money is sitting burning holes in the pockets of agencies and contractors and they want to get the job done. There is always a certain amount of question as to what the job means, but it's typically meant in terms of evaluating the job - a lot of activity about evaluating activity rather than evaluating success and btu's saved and electricity saved. So if you looked at DOE's evaluation of weatherization, it's very easy to find out how many homes they went to and how many contractors they employed. It turns out to be impossible to find out how much energy they save because nobody ever asks that question.

Whereas, it seems I'm sure to all of us in this room, that what we're trying to do is save dollars for the occupants of the weatherized houses. So, over the ten years of the program what happened first of all for some reason, I think it's because the shells of houses, the outside envelope, is more visible than the heating system. All the original guidelines talked about "thou shalt caulk and weatherstrip and maybe wrap the water heater," and there was almost no attention paid to the fact that the furnace which was heating the house might have had a 35 percent efficiency because it was oversized and easy to fix, or the ducts might have leaked, or maybe you needed a new furnace entirely.

Now it didn't take more than a couple of years for the National Laboratories, who tried to monitor this, to go out and do experiments and show that in fact optimum weatherization consisted of doing the whole job. It consisted at a minimum of giving the auditors enough equipment to measure the furnace consistency so you could find out what the hell was going on. But it took from something like 1975 to 1984 for the federal government to recognize this, during which time we spent on the average \$100, \$200 million a year saving what looks like 13 percent of the energy bill of the houses. Although as early as 1976, I believe, the National Bureau of Standards went out and did optimum weatherization on houses around the country and showed that it was pretty easy to save 40 percent. Well, that's a big waste of money.

Basically, taking that sort of experience in mind, we tried to look at the agency proposals and we worked all this out with pleasure and pride with the working group who were telling us what to do, and tried to figure out how we could look at the agency proposals and see if the agency seems to have some idea of what they were doing and monitoring. And also to avoid a repetition of the same syndrome, namely, the money arrives in California, bam, now we've

got to spend it, without saying, look, the money's going to be here, we can spend it over five years and we can monitor how we're doing and we can tune up our program and we can call back on contractors who don't know what they're doing, and so forth and so on.

I guess if I have one thought behind this little sermon it is that when this committee is trying to figure out how to apportion the money and so on, that you remember that this is money which can be spread out over some time, which can be monitored, where there can be a quality control, and where you can give a lot of credit to the agencies who do know what they're doing and who do measure what they're doing and don't just assert that they've visited "n" houses.

In fact, there is one last thought at the bottom of my two-and-a-half page written testimony here, which says that in addition to carefully going through all these proposals, you see numbers like 60 proposals plus the public, the ones from the workshops, that we actually, along with the Energy Commission, concocted one at the end for which I'd like to put in some sort of a plug. I think it's sponsored by the Energy Commission but it says if PVEA money comes through, there are going to be a lot of administrators trying to design programs and very few experts telling them what's gone on in these programs in other states. We believe that what the state needs is a PVEA center devoted to the PVEA enterprise, which we'll have to call around some of the very experts that we had here evaluating these programs, which will give advice on monitoring analysis of the programs, feedback, and so forth and so on. We think that would add credit to the California program.

Well, that's my little bit about philosophy and I presume next you'll probably want to talk to Dr. Vine about what we actually tried to do.

CHAIRMAN ROSENTHAL: Let me just, before we move to Dr. Vine, let me ask a couple of questions because part of the contract, I guess, called for an evaluation of the impact of these past overcharges on the poor. Did you find anything, did you look at the low-income energy costs as a percentage of income in your evaluation?

DR. ROSENFELD: Yes, but since Ed in fact wrote that chapter of the report, it would only be fair if you asked him that in a minute. Yes, we absolutely did. We have a special section in the report in which we looked at low-income problems.

CHAIRMAN ROSENTHAL: A number of other states devoted about 50 percent of the funds they received to low-income energy assistance programs. Did you look at what other states are doing in this process?

DR. ROSENFELD: We did one thing with respect to other states which is

not a direct answer. But we did spend the first few weeks of the project phoning around to every other state and saying, hey, what programs work best, what programs would you advise us never to try, and so forth and so on. And we also have a chapter on that. But with respect to low-income I think I'm just going to make the following sort of truism remark, and that is, I think everybody here, and certainly we are very sensitive to trying to tilt in the direction of low-income. Everybody knows that low-income people spend a larger fraction of their income on heating and gasoline. On the other hand, I guess I am going to make the following remark, that low-income, I think the following numbers are correct. If you look under the weatherization program at the families in this country who are eligible for low-income, and under weatherization I think it's defined as 125 percent of the poverty threshold. That turns out to be 13 million houses out of 90 million houses in the country, so that's about 15 percent. Now I think nobody would suggest that only 15 percent of the PVEA funds go to weatherization, that would be obscene.

On the other hand, the straight restitution angle is really only something like 15 percent. Now I'll be happy if we end up, personally, not representing LBL but just representing the citizens. I'll be happy if we end up spending 30 or 45 percent of the program on low-income people, but that's only because of social pressures. In the strict sense of the restitution which is what the law says the program is all about, I assert that you can't spend your dollar on low-income people. They only contributed like 15 percent of the, they were only screwed out of about 15 percent of what all of us were.

CHAIRMAN ROSENTHAL: All right. Thank you very much. Dr. Vine. Question? Yes.

SENATOR REBECCA MORGAN: Yes, and this may be answered by Dr. Vine. You can just say so, but under the written testimony that Mr. Imbrecht prepared, he talked about programs, not just for energy saving, weatherization, those kinds, but the possible use of this money for transportation programs, recognizing that that's where the oil was used. Dr. Rosenfeld, in your testimony I sense that you're really encouraging the use in homes as opposed to transportation.

DR. ROSENFELD: No, I'm sorry. I thought when I was preparing this testimony I ought to give one example of a very widespread program which we're all familiar with and try to make this one message: That if we do it right, we would save three times as much energy. But I assert that if I were a transportation expert - I happen to know something about buildings - I would feel the same way about transportation. If I were an agricultural

expert, I'd probably feel the same way about those programs. No, I don't think there was any attempt at all to tilt in the direction of residential conservation.

SENATOR MORGAN: Thank you.

CHAIRMAN ROSENTHAL: Dr. Vine.

DR. ED VINE: Thank you, Chairman and members. I'm going to talk about Lawrence Berkeley Laboratory's participation in the PVEA planning process and the criteria that was used in evaluating the proposals that were submitted to us.

We began working in July of 1984 and we met with the Energy Commission management for direction in terms of the schedule that we were to proceed with and the tasks that we were to conduct. At times during this process we met with Energy Commission budget committee to give them a status report on the progress we were making and also to hear, receive some direction in terms of the organization of the report and some of the concerns they'd heard from the Legislature and from within the Energy Commission and other agencies as well.

We attended the PVEA working group meetings that met almost perhaps twice a month to hear the concerns of the agencies that were there, and again to help receive direction in terms of progress we were making. We attended four PVEA public hearings and they were in San Diego, Los Angeles, Oakland, and Sacramento, and we heard the concerns of the people who presented testimony there.

We prepared three background documents to help the agencies and ourselves and other interested individuals in organizations to help determine how the money from the PVEA fund should be distributed. One of the major concerns we had was what were other states doing and was there something in California we weren't doing that other states were doing in terms of energy and in terms of how they were spending their PVEA money.

So one task was a survey of innovative programs in other states, and I believe it was about 17 or 18 states, and we had prepared a report on that and that is available from LBL.

We also analyzed the energy use patterns of low-income households in California. Again, that is a report that is available to the members here and other interested individuals.

And finally, we analyzed the distribution of petroleum products in California. This was one attempt to look at perhaps a mechanism for distributing the money back to those people who spent more money on these products. And I say it's just an intent because there are other mechanisms

and strategies one can take for determining how that should be done. That analysis will be part of the final report. Yes.

CHAIRMAN ROSENTHAL: Yes, Senator Russell.

SENATOR NEWTON RUSSELL: According to the charge you were given by the Energy Commission, you're not to rank or prioritize any of these proposals. Is that correct?

DR. VINE: That's correct.

SENATOR NEWTON: What good would be the report unless you who are experts, I'm not finding fault with you, these are your instructions, but how valuable is the report going to be if all of us legislators have got to put our own priority on top of it which relates to our own particular constituent needs and our getting reelected, which may have nothing whatsoever to do with what is in the best interests of the state in general, if you don't give us some guidance as to the cost benefit ratio, which is the most effective, you know, all of the different things?

DR. VINE: We do present a number of pieces of information to help you make that decision and I was going to talk about that in the discussion of the evaluation criteria.

SENATOR RUSSELL: Okay

MR. WALLACE: Senator, if I might just before Dr. Vine goes on - in part of the charge we gave LBL under the contract, it was to develop a tool that could be used by decisionmakers who may have their own priorities that they would like to see met in terms of different economic sectors, different ways of approaching the question of restitution. By selecting out certain bits of criteria and comparing those on a uniform basis, it was felt that we could provide a better tool to those policymakers who would then insert the priorities that they have to be able to look at the best projects and would fill the need of that particular sector through this tool that was developed by LBL. So they were not to determine overall, is a transportation project better than a weatherization project, or better than a water conservation project, but merely to, by evaluating certain criteria on each project, to give you a tool whereby you could make those kinds of determinations when ranking within various priorities various sectors.

SENATOR RUSSELL: I hear all the words. It sounds like throwing somebody into a prizefighting ring with a blindfold on and one arm tied behind him.

DR. ROSENFELD: Maybe we're being too inexplicit. Let me say, if you look at the book with the proposals in it, you will find benefit cost ratios for every proposal. We didn't avoid that issue. But as Don says,

what we were not going to do is try to tell you that saving ten dollars per dollar invested in the transportation sector was better than in the residential sector or in the agricultural sector. But the report is full of numbers. There's so many numbers you won't be able to swallow them. It's simply that we gave you 16 different sorts of numbers, not one sort.

SENATOR RUSSELL: So if somebody were able to make an objective decision on cost/benefit ratio or how it would affect the environment or any other criteria, that information is there?

DR. VINE: Right, but we were not going to take the liberty of saying that restitution is more important to cost benefit or what.

SENATOR RUSSELL: All right, I understand that. Thank you.

DR. VINE: I'll continue. We managed the evaluation of the PVEA proposals. The first thing we did was set up an LBL evaluation team that was comprised of experts in the field that we expected to focus on, for example, transportation, residential buildings, renewables, and low-income programs. These people came from the University of California at Berkeley, University of California at Davis. We had some private consultants who we couldn't find either at the university or at the lab, and we had a number of people from Lawrence Berkeley Lab who are experts in these fields.

We developed evaluation criteria and the assumptions and we prepared some additional information requests from the agencies for helping them prepare their proposals and for helping us to evaluate the proposals, and I'll discuss the criteria in a moment.

The whole purpose of this evaluation process was to ensure an objective and consistent evaluation of all proposals. That is one reason why we didn't say just focus on benefit/cost ratios or just focus on environmental impacts. We had an array of criteria that everyone received directions on how to proceed and analyze these proposals and we managed them, I would say, almost continuously; easily weekly, sometimes daily, when the evaluation process began.

We evaluated 76 state agency proposals and about 550 ideas from public hearings and I'd just like to address the question you raised earlier about public workshop proposals. We received almost 500 and we looked at each of them carefully and decided whether they needed to be developed as a full proposal as an agency proposal or whether they could fit under one of the agency proposals that was going to deal with an issue. For example, if there was a low-income weatherization program, we already had a low-income weatherization proposal so we would fit that in there.

However, there were some interesting ideas that really couldn't fit

under these proposals, and we decided to develop them on their own as full-blown proposals, and LBL developed six of them which incorporated about 18 agency proposals. At the same time, we felt that the agencies should see what the public had proposed and they saw which proposals fit under their proposals and they were able to modify their proposals, some of them, to include these concerns. In particular, two agencies, the California Energy Commission and the Department of Water Resources, came back with extensive modifications based on these workshop ideas. So, they weren't just people, just didn't go to the hearing and they weren't dealt with. We spent a lot of time on these workshop ideas.

We recently completed a draft final report which some of you have seen. It includes the following sections: A background of the whole PVEA process, a description of that process including evaluation criteria, the proposals themselves, a detailed evaluation of these proposals, then we had summary evaluations which are one pagers because the detailed evaluations were almost six to eight pages and varied, and from the summary evaluations we constructed a large table, almost a matrix, where we had presented all the proposals and some key criteria that people were interested in.

We are in the process of finalizing this report which we'll give to the Energy Commission around March 10th and they plan on publishing it later in March.

Now I'd like to go into the evaluation criteria that we used. There were a total of 15 criteria and I'll just briefly go over them: 1) projected energy savings or production over time; 2) projected cost over time; 3) the cost effectiveness of these proposals looking at societal and leveraged benefit/cost ratios; 4) leverage of private funds; 5) whether the proposals conformed with the Department of Energy rules, and we had a lot of help from the Energy Commission on that and the regional Department of Energy; 6) level of expansion over current efforts; 7) monitoring and feedback elements (we were very interested in how agencies evaluated the proposals to say, yes, these are good proposals, what kind of support did they have to say these numbers are good or they're not; 8) we were interested in minimum level of effort for project to be viable in case some people felt there was too much money given to a program, would it be possible if that money was cut, say, by 10 percent or 15 percent to still remain viable; 9) we were concerned about other programs serving the same clients simultaneously, were these proposals redundant or were there some clients who weren't receiving the necessary assistance they needed; 10) we were comparing what California was doing with other states, was there a level of programmatic or technological innovation

in these proposals which hadn't been seen before; 11) another concern was after all this funding is over and there's no more PVEA money, what will happen to these projects, will they disappear, will some continue, what kind of support will they receive; 12) low-income impacts again was a major concern, this was one of our concerns from the beginning of the process to the development of the LBL report on low-income households and was a major criteria that we used for evaluating all of the proposals; 13) also environmental impacts was important because we wanted to see the trade-offs between energy production, for example, in air quality; 14) job development, will some of these proposals really bring in jobs to either the whole state or certain regions or locales.

Those are the major criteria that we used for evaluating these proposals.

CHAIRMAN ROSENTHAL: Any questions of the committee? Thank you very much, Dr. Vine and participants. We will now move to the second panel. The second panel is the low-income panel. Robert Martinez and Beth Gould, Office of Economic Opportunity, James Hodges from CAL/NEVA, Portia Summer, Orange County Community Development Council, James Cassie, San Diego Gas and Electric Company, and Marthe Schreiber, La Cooperativa Campesina de California.

Let me set some guidelines here. Please keep your statements brief. We want to know your views on four simple issues: the impact that all price control violations had on the group you represent, the activities you recommend for PVEA funding, the adequacy of the Administration's review of the proposals, and legislative reforms that are needed for programs to enable the proper management of these funds. I'm going to limit each of you to five minutes. Please do not duplicate what someone else may have already said. With that, we'll go, and you may speak - is there an order? Why don't we just start here and move around the table. Robert Martinez, Office of Economic Opportunity.

MR. ROBERT MARTINEZ: Thank you very much, Mr. Chairman and members of the committee. I'll be brief in my comments which are basically aimed at dealing with the aspects of the committee's questions relative to our participation in terms of the PVEA and as it has come into California, and what we ascertain to be the energy needs of the low-income community for the State of California.

Basically, as the Department of Finance has indicated, we received approximately \$18 million of allocation in the Spring of 1983. Of that \$18 million the Office of Economic Opportunity was allocated some \$6 million which was used to specifically assist the poor in terms of meeting the energy crisis and weatherization needs that they might have had.

In addition to that direct involvement we have been involved with the PVEA working group, and as has been indicated, that was sponsored by the Energy Commission, and those recommendations have not yet been submitted to the Department of Finance or have been acted on by the Administration.

Obviously, we specifically believe that a substantial element of any potential allocation to the State of California needs to go to what we believe to be one of the most critically mandated portions of those that were overcharged, portions of the populations. By that I mean the low-income. We need to give some perspective and I think that 15 percent of the total fund that represents the amount of monies were overcharged doesn't give the perspective that we need, because 15 percent is a relative figure. Fifteen percent of the total, not 15 percent of the eligible poverty program or poverty impact.

I guess the best way to talk about that is in the State of California, according to a recent University of California at Davis study, approximately 210,000 households in California are below the poverty guideline. Of that 210,000 households, they pay 20 percent or more of their gross annual income on energy related costs. I'm talking about utility costs. That is in comparison to only one-half of one percent of the families above this poverty guideline level that spend 20 percent or more of their available income for utility costs. This represents 26.6 percent of those families that are at or below the poverty level in the State of California and that is a tremendous impact and that is why we believe that a substantial portion of any funds that come to the PVEA account should be allocated to low-income energy assistance programs.

Basically, rather than get into more information about this particular aspect of what we believe to be a mandate of the PVEA account, I'll get into what I believe to be our existing programs that the PVEA account could be directly funneled into, and I'll let my legislative assistant talk about that.

CHAIRMAN ROSENTHAL: Fine, thank you. Beth Gould.

MS. BETH GOULD: Yes, Mr. Chairman and members of the Committee. Basically our request centered around augmenting our existing programs. We have three that currently serve low-income people in California. First is our weatherization program and what we want to do or what we currently provide is what we believe is a permanent fix toward reducing energy conservation and use. By doing this we reduce, as Mr. Martinez just indicated, the substantial percentage of the poor person's income in the energy needs. So we have a permanent way of reducing these energy costs as well as then

increasing their standard of living. We would recommend putting the PVEA funds in this program.

The second program is our energy crisis intervention program whereby we provide emergency assistance to people who have shut-off notices. We plan on serving about 82,000 households in the current year with an average payment of \$150 per household. To back up with our weatherization program, we plan on serving almost 19,000 homes this year.

Our third program is the home energy assistance program which provides a direct payment to qualified low-income, or eligible low-income households. It mitigates the high cost of heating and cooling homes, it's a one-time payment they can receive each year. We estimate paying about, \$129 is the payment this year to about 550,000 eligible low-income people. That's essentially our three programs.

CHAIRMAN ROSENTHAL: Thank you very much.

MR. MARTINEZ: Mr. Chairman, just to summarize, I think it's important to note that as the Chairman of the Energy Commission indicated at the beginning of his testimony, the State of California does not receive it's "fair share" of the federal funds that are allocated. When you add on top of that that the diversity of climatic conditions in California that face California's poor people throughout the state, whether it's increasing costs in terms of cooling or heating or both, we believe that this is something that must be addressed. We have an existing network and should that money become available and be realized this year, we hope we can use that network for it. Thank you.

CHAIRMAN ROSENTHAL: Yes, Senator.

SENATOR MORGAN: Just a question on your weatherization program. We have in Mr. Rosenfeld's testimony the concern that in many of these programs it's really been an activity count. How many people have you served as opposed to some evaluation of whether you saved any money or not? Have you done any of that evaluation through your agency?

MR. MARTINEZ: We have begun in this last year to gather that information from a number of sources and obviously some of the representatives that are here at this table will be able to comment specifically on their particular areas and information that they have received in terms of the impact of any of the costs, long-term wise and short-term wise, to their clients. But we're just getting that information. There is a long-term impact in the weatherization. The critical thing, Senator, is to find out which of those weatherization elements have the longest impact for the least amount of expense in terms of the funding because we're always looking at a diminishing

funding and it's important to know which of those aspects are most cost-effective and it is something...

(changing tape)

SENATOR MORGAN: ...in line with Senator Russell's question about who is going to help us prioritize. It's important to know what's worked and I'm not interested in numbers of homes, I'm interested in savings of dollars and energy.

CHAIRMAN ROSENTHAL: Thank you very much. Mr. Hodges, CAL/NEVA.

MR. JAMES HODGES: Thank you, Mr. Chairman and members of the committee. In the interest of time I'll let you know that I agree with the findings of the State OEO that as a proportion of income, low-income people have paid a higher amount and therefore the violations probably impact on them more severely than other segments of society. I would also agree that the most efficient thing to do to cut down on low-income energy bills is to weatherize their home. There needs to be a combination of bill assistance, but the most long-lasting thing you can do is to weatherize their home to reduce energy consumption.

As far as dollars saved, CAL/NEVA is under contract with Pacific Gas and Electric Company to weatherize low-income homes as part of their Zero Interest Loan Program. For poor people, they provide the service for free. That was based on PUC findings that the free weatherization is actually cheaper for ratepayers in the long run than the cost of subsidizing the Zero Interest loan over the payback period. We've weatherized approximately 75,000 homes in the last two years. We are in cooperation with PG&E. PG&E is using their computers to monitor the energy consumption of those homes that are weatherized and they hope within several months to come up with some figures on the actual amounts that have been saved by weatherization in that program.

There are a bunch of externalities like, do they, and this is one of the things we've suggested, when you weatherize a home it does make that home more energy efficient as long as the people know how to live in that home when it's weatherized. For example, unless they're told that it's not efficient to open their windows when it gets too hot, unless they're told otherwise, they may open the windows and then you've just lost all your energy savings. So we've always emphasized that any weatherization program should have an energy education component also so that low-income homes, the occupants, know how to make maximum energy savings out of the services they receive.

CHAIRMAN ROSENTHAL: Thank you very much. Ms. Summers, Orange County...

MS. PORTIA SUMMERS: ...Community Development Council. Thank you,

Mr. Chairman and members of the committee. It's always fun to be the fourth person because then everything you wrote is no longer valid because it's been repeated fourteen times.

CHAIRMAN ROSENTHAL: Let me just indicate that for those of you who have statements, if you'll provide the committee with those statements, they'll be part of the whole report.

MS. SUMMERS: Thank you. I would like to just briefly say that I had hoped to bring the perspective of a local operator to the hearing. Orange County Community Development Council is a community action agency and our counted low-income population right now is at 185,000. We are, I believe at this point, the single largest contractor for the low-income energy services in terms of population.

Again, we feel that the low-income segment of the population is being disproportionately damaged and harmed by the overcharges and as they are with anything which touches on their basic needs and their basic expenses, because that is all that low-income people use their money for are basic needs, that's all really that there is. We would like to see the major portion of the PVEA funds go towards low-income programs. We are, however, interested in assuring that they go for activities which provide long-term benefits.

Crisis intervention is necessary. It is necessary to maintaining health and life, however, we think it's most important to maintain long-range efficiency operation, a comprehensive type of program, which Mr. Hodges is absolutely correct in that education is one of the greatest benefits. We have run small projects within our own, with certain studies attached to it in savings, and we found that there are very basic practices that low-income people do not know about. We're told their whole behavior changes, bills are reduced and the responsibility of everyone is minimized.

I would like to address for a brief moment Senator Morgan's concern and just add something. There are standardized savings calculations for each type of weatherization measure that approximately, and my numbers are wrong, of 40 therms are saved annually by a water heater blanket, and you add 10 more therms annual savings with something additional. However, I think it may be interesting for you to know that low-income people usually live in the most dilapidated housing stock and when you therefore look at your standard numbers and you add very much to those, because a house that was previously being heated with 18 broken windows, which is really not an exaggeration, is definitely a greater energy waster than a house that is in pretty good structural repair. So the low-income programs really do address this. Thank you.

CHAIRMAN ROSENTHAL: Thank you very much. San Diego Gas and Electric.

MR. JAMES CASSIE: Mr. Chairman and Senators. My name is Jim Cassie. I represent San Diego Gas and Electric. We submitted a series of proposals to the Energy Commission and I'd like to talk about one of them. We suggested that we might build a nuclear plant in the desert.

(laughter)

I just wanted to see if you're listening. Seriously, some years back, you remember, we thought DOE might be dismantled so the utilities through the PUC got into the weatherization business. The fact is that didn't happen. Weatherization funds have been increased so what we have now in California are two parallel programs going to weatherize homes. We have one. OEO has one. Our suggestion to the Commission was to take the electric and gas ratepayer off the hook, if you will, and move the weatherization money, whatever the bulk is, for instance, last year we were authorized to spend \$30 million, all the utilities, to weatherize homes and I don't know what the OEO program was, but we both have administrative costs and it would make sense to us to put those two together and get the ratepayer out of the situation in California.

In our case, to date we've spent \$6 million of ratepayer money and we think that the committee and the Legislature should look at that.

CHAIRMAN ROSENTHAL: You made that suggestion to the Energy Commission as part of your...?

MR. CASSIE: Yes, with a series of others.

CHAIRMAN ROSENTHAL: What did they think of it?

MR. CASSIE: It's in the...

CHAIRMAN ROSENTHAL: Part of the proposal?

MR. CASSIE: That's right.

SENATOR RUSSELL: Mr. Chairman, I have a question.

CHAIRMAN ROSENTHAL: Yes, Senator Russell.

SENATOR RUSSELL: To the CAL/NEVA gentlemen, I have a mental picture based on what the lady from Orange County said and my own perception of what is low-income or poor housing that it's in some delapidated condition. How effective is it to weatherize? You go in and completely put insulation into the walls and attics and you tighten all the windows and put insulation around them, is that what you do? Or do you do the obvious things with the rest of the house leaking like a sieve? How do you do that?

MR. HODGES: In our program we do an assessment, a structural assessment of the home and the structural assessment was worked out with PG&E. Essentially we say this house beyond, does it cost too much to fix this

house up, and if that's the case we don't weatherize it, it's beyond us. You have to get into home rehabilitation. Only those homes that don't require an excessive amount of minor home repair which averages around in the OEO program, \$200, for example to patch a hole in the wall, some ceiling problems. But if you estimate that it's going to cost more than that then you forget it. It's beyond weatherization.

SENATOR RUSSELL: Thank you.

CHAIRMAN ROSENTHAL: As a follow up, obviously, you can't weatherize those homes, but does it make any sense to wrap the water heater?

MR. HODGES: I'm not sure, maybe Portia could answer that, but I know that in some programs when they find a home that's in that state of delapidation, the agency usually tries, if they have a home rehab program, to try to direct the rehab towards that house, and once it gets to a level it can be weatherized, and weatherize it. Perhaps Portia would know.

CHAIRMAN ROSENTHAL: Would you like to comment?

MS. SUMMERS: Just to kind of enlighten you. What we do is with the advent of utility weatherization we have combined them with our state and federal weatherization and we try to perform a comprehensive service. We do a partial assessment. If it needs basic measures it's done by a utility funded program. If it needs much more extensive measures, then we always make an attempt to do it. We do not weatherize homes where there would make no impact, however, we try never to leave the home without having made it energy efficient, even if we interact with a HUD program or something of that nature. You can wrap a water heater in a house without windows, but it would be foolish to weatherstrip.

CHAIRMAN ROSENTHAL: I understand. I'm trying to get at whether or not anything makes sense if the house is falling apart. So what you're saying is we save some energy by wrapping the water heater so you would go ahead and do that, is that correct?

MS. SUMMERS: You can save energy by doing that but most programs don't allow you to do only one measure, though.

CHAIRMAN ROSENTHAL: Thank you very much. Marthe Schreiber.

MS. MARTHE SCHREIBER: Thank you. I represent La Cooperativa Campesina de California, which is the migrant and seasonal farmworker counsel for the State of California. La Cooperativa decided to become proactive in this process of PVEA allocations because we believe that the farmworker has the lowest income and the highest energy burden in relationship to income of any population in the state. The median income for a farmworker family of six with the children often picking crops, is \$3,900 per year. Many of them live

in tents. It's important for you to know that the only section of the state's housing assistance plan...

CHAIRMAN ROSENTHAL: Senator Mello.

SENATOR HENRY MELLO: I've heard these figures a thousand times. Do you have any official statement to show us that's what they're making, the \$3,000?

MS. SCHREIBER: Yes, sir. I can provide that to you. I don't have it with me. I have a report on PVEA and I didn't expect to have to provide that.

SENATOR MELLO: Would you send it to me because in Salinas I have a study that shows they average \$19.50 an hour.

MS. SCHREIBER: We have figures that we'd be happy to share with you. We have a corporation that has offices in seventy different sites in all counties in California, except for San Francisco, and I'd be happy for you to meet with our representatives to talk about these figures.

SENATOR MELLO: Just send me the information, though. We're forever hearing these facts which I claim are really rare or are false because I can show you W-2 forms, the print-out, that shows that some of these poor farmworkers are making \$25...I hate to say this to legislators, because they're almost up to what we're making, and some of them work six months of the year and then they go on to Mexico or they go down to Arizona...

MS. SCHREIBER: Well I'm happy that I'm here today to talk about low-income and PVEA and not farmworker income because I'm not well versed on that subject. There are other people in our office who are.

SENATOR MELLO: The fact is you made a strong statement to show how impoverished they are which entitles them to some of this funding...

MS. SCHREIBER: The restitution. Actually, my statement will be primarily based on a low-income perspective because we believe the only way farmworkers are going to get any money out of this is to make sure low-income gets some money and that's the way we've approached this whole matter. Frankly, my background is in contracts management and budget analyses and what I've brought to you today has to do with the PVEA process and I would like to continue on that. I only have five minutes and I really don't want to get too involved in farmworker data.

CHAIRMAN ROSENTHAL: Please continue. I guess the confusion here is did you say that the average or the...

MS. SCHREIBER: The median.

CHAIRMAN ROSENTHAL: The median.

MS. SCHREIBER: The median income. Those are the figures that I brought here today. The median income.

CHAIRMAN ROSENTHAL: Okay.

MS. SCHREIBER: Thank you. In following the PVEA process for over a year, I've analyzed over 15 documents and I imagine some of those documents stand about as high as a utility company application for a rate increase. They're huge. Nowhere in those documents do you find the roll up of those dollars. You cannot find anywhere where the money is. You can find all kinds of calculations of cost benefit analyses, energy savings, life cycle costing, environmental impacts, but it's very difficult to find out where the money is going and who is going to get restitution.

Dr. Rosenfeld from Lawrence Berkeley Lab said, I believe I'm quoting him properly in his testimony, that restitution and cost benefit analysis in his view were about the same. I think the restitution issue is the most important issue and then you can look at the various proposals and find out after you determine which end-use sector is deserving of those refunds, what kinds of proposals will best meet the needs of that sector.

I use a document developed by the Energy Commission called "Spending Restrictions under the Warner Amendment Programs," and in that document it specifies Warner Amendment Programs, which for your purposes if you're not familiar with them, are the State's Energy Conservation Plan, the Energy Extension Service, the Weatherization Program, the Low-income Home Energy Assistance Program, and the School and Hospital Program. When you look through the report most of the proposals are associated with the State's Energy Conservation Program because the Energy Extension Service Programs have a great deal of flexibility, but the OEO programs, the weatherization, the ECIP, HEAP program are all under LiHEAD, and the School and Hospital Program is fairly clean also, you can only do just about one thing and provide conservation measures in schools and hospitals.

So most of these innovative programs fall under the jurisdiction of the California Energy Commission in concert with other state agencies. I want to make a comment about OEO's program. Under the weatherization program there are very loose guidelines and you can do a lot of creative things with some of the proposals that we have from other state agencies, and we do endorse interagency agreements with OEO and EES, who have demonstrated a commitment and a track record in serving low-income.

In reviewing the document, the "Warner Amendment Programs," you find that there are several types of programs which may be funded under these five different programs and that includes things like technical assistance, administrative costs, capital outlay costs, consumer information, et cetera. There's also a description of end-use sectors to be benefitted and in the

beginning of the process these were identified as topics and the PVEA working group worked in committees under these various topics. Those disappeared as we went along because it was very difficult to describe within each proposal what end-use sector was going to get a direct benefit from these programs.

There's been some discussion here of the public workshop and the state agency process, was it fair. I have done an analysis of the entire LBL Volume I, Volume II February 5th report, and I find that there are new amended and deleted proposals and I tell you that there are - Proposal One, for example, started out at \$2,540,000 before the public workshop process. After the public workshop process, "1a" through "1h" totalled \$104,475,000 at the Energy Commission. The total Energy Commission proposals increased after the public workshops to \$140,225,000. The California Energy Extension Service's programs increased \$5,255,000. The Cal Trans proposals increased \$97,000,000 and some change. The University of California programs increased \$4,488,000. The Department of Water Resources which was never in the process before, I do not consider them modifications, they did not enter into this state agency competition, have proposals now for \$16,650,000.

In analyzing the state agency public workshop proposals, I went through the back of the document where they list out all the public workshop proposals that are associated with a state agency proposal and I found, for example, that there were 60 proposals which were associated with the full circle energy program for low-income. There were no dollars recommended for addition to that program. However, when you go along you see that there's conservation to state facilities under the General Administration where they merged the California Conservation Corps program, the Department of Correction program, and the Department of Forestry programs, which are very small in comparison to the General Services program, and they received four public workshop suggestions that complemented or associated with that program and that program increased \$75,000,000.

We have some recommendations. We feel very grateful that we had Lawrence Berkeley Lab and the Energy Commission take such an interest in developing this document. We think that some sight needs to be provided to make some funding decisions. There is no way to look at that report presently and do any budget analysis. I was a budget manager for the City and County of San Francisco and I know what the Board of Supervisors expects to see when they look at the Mayor's recommended budget, and you want to see where the money's going and that's what I've done for you here and I've also made some recommendations about how low-income can be provided with

restitution. Now the Lawrence Berkeley Lab's initial report shows that 55 percent of the money spent in those states where they actually were only surveying innovative programs, were spent in low-income programs. We find that to be an appropriate figure and we use that figure to base our recommendations on and I'd like to give you our recommendations.

CHAIRMAN ROSENTHAL: Would you do that very quickly, please? We're pressed for time.

MS. SCHREIBER: I'll do my best. The Lawrence Berkeley Laboratory's summary of distribution of oil overcharge funds in 15 other states provides information that shows that 55 percent of all the funds in the 15 states surveyed were allocated to direct benefit low-income programs. This report finds this an appropriate percentage and recommends that 55 percent of all PVEA funds received in California are used to provide direct benefits to low-income, migrant and seasonal farmworkers, and Indian tribes.

Number two: The spending restrictions under the Warner Amendment document provides information on types of programs which may be funded. Technical assistance is the primary example of an informational assistance type of program and capital outlay is the primary example of a financial assistance type of program. This report finds that most of the PVEA proposals recommended for low-income populations are for informational assistance. To assure that the conservation benefits that we've all discussed here so well today are provided to low-income, we want to make sure that all of these proposals provide capital outlay costs for low-income programs as well. That's to assure that conservation benefits and renewable resource opportunities are provided and we can demonstrate savings in energy consumption.

The California Petroleum Violation Escrow Account Evaluation Report totals \$1,087,621,837 in PVEA proposals. California only expects \$500 million from three oil overcharge settlements over a three to five year period.

CHAIRMAN ROSENTHAL: Would you get to the recommendations please.

MS. SCHREIBER: This is a recommendation.

CHAIRMAN ROSENTHAL: But we don't need the history.

MS. SCHREIBER: Okay. We recommend that one, we maximize energy conservation benefits and renewable resource opportunity awareness by assuring that each state agency which has participated in the state agency competition receives a share of PVEA funds from the remaining 45 percent. We would like to assure that the state agency proposals which received the widest range of support and had the greatest number of public workshop proposals associated, also receive a share of PVEA funds. We want to assure that each end-use sector injured by the oil overcharges receives a share of

PVEA Funds. We want to ensure that the PVEA proposals providing for the greatest innovation and promotion of energy related jobs receive a share of PVEA funds, and assure that those PVEA funds, PVEA proposals which provide for the development of jobs and renewable resource opportunities for the State of California through demonstrations on state and local government facilities, universities, schools and non-profit corporations receive a share of PVEA funds. Thank you.

CHAIRMAN ROSENTHAL: Thank you very much. Would you present your paper to the committee?

MS. SCHREIBER: Yes.

CHAIRMAN ROSENTHAL: Thank you. Yes, Senator Russell.

SENATOR RUSSELL: Just one quick one. I, maybe because I didn't understand all the recommendations you're making, I didn't see how some of those things related to the poor getting a benefit, other than maybe indirectly.

MS. SCHREIBER: For example, again, Dr. Rosenfeld mentioned all of this evaluation and making sure that there were energy savings demonstrated. If most of the PVEA proposals provide for information, not the same capital costs that you provide to demonstrate a savings in a state facility, you're going to have a real hard time measuring the savings for low-income population and we don't have any capital outlay in our proposals, we've got subsidies. We don't want subsidies.

SENATOR RUSSELL: What do you want?

MS. SCHREIBER: We want capital outlay costs so that we can improve our non-profit agency facilities, our low-income housing, so we can put up renewable resource measures, so we can provide jobs, those are the things that we'd like to do.

SENATOR RUSSELL: Thank you.

CHAIRMAN ROSENTHAL: The next panel is the one on local government. Yvonne Hunter, League of California Cities, Victor Pottorff, County Supervisors Association of California, Roxanne Miller-Mosley and Rita Norton, City of San Jose, Sara Hoffman, Association of California Energy Officials, and Lynn Nelson, Habitat Center. Let me again indicate, keep your statements brief. I'll be obliged to begin to cut you off as we get later into the afternoon. Now, we'll start at the other end now. Lynn Nelson. Are you prepared?

MS. LYNN NELSON: Do you want to start the other way around on this...

CHAIRMAN ROSENTHAL: All right. We'll start in the center and go both directions. All right. Yvonne Hunter, League of California Cities, please.

MS. YVONNE HUNTER: Now that we've got that straightened out, thank you

for the opportunity to testify. I'm going to address the four questions you proposed to the other panel and also include some additional comments. Again, I represent the League of California Cities and we feel very strongly that there needs to be a balance, reasonable balance between the allocation of PVEA monies to different groups. Certainly local governments were part of the injured parties due to increases in gasoline and diesel costs and therefore funds given to local governments will directly benefit not only the local governments themselves, but also indirectly citizens that live in the cities.

Some suggestions on how to allocate PVEA money to local government and the information I'm about to give you is based on the League of California Cities survey of 498 cities and counties in California in 1983. About half of cities and counties have done some moderate amount or greater amount of inhouse energy improvements. What this implies is that many cost effective improvement opportunities still remain for cities and counties, thus by no means can it be implied that all basic, no-cost, low-cost, or even more elaborate conservation measures, have been implemented. Next to personnel costs, energy is the largest budget item in the majority of cities and the largest energy user in cities, for energy users in cities and counties are pumping our water or wastewater, street lights, building operation - lights, heating, air conditioning - and vehicle operations. Thus, PVEA money and programs should be designated to address at least these areas plus some others.

In the area of small power production there is not quite as much activity in local government as there is in inhouse energy management, but it is growing. The most commonly evaluated technologies are co-generation, small hydro, methane, wind, and bio-mass, and local governments could benefit greatly from funds to get these technologies on line, such as grants and loans for feasibility studies, engineering assistance, legal, technical, financial analysis assistance.

A number of other key points that discuss the PVEA administrative process. We feel very strongly that any programs that are designed should be flexible and simple. For example, revolving funds are much more preferable to interest buy-downs. Also, local governments should be involved in the design of individual programs. Some sort of process or advisory committee needs to be instituted to assist in this area. We feel that some sort of process needs to be designed to ensure that cities that have a legitimate need for an energy program with PVEA money, but may not have the staff or resources to compete quite as effectively in the application

process still have a chance to receive monies.

And finally, the League strongly supports proposals to provide money to low-income groups, small businesses, agriculture, and we feel where appropriate, it's important for cities to be able to apply for these monies to provide those services.

One final comment about the working group process. While we feel that the working group really did a monumental job in trying to coordinate all of the potentially competing...

(changing tape)

...papers, and that individual staff members on the working group were extremely open for comment, to a certain extent we have the sense that the process broke down towards the end. There was really not that much lead time in notifying the public about the public hearings and I'm delighted to hear that the LBL report is in the mail for our comments. Hopefully it's in my "in box" because to date we have not had an opportunity to comment on our comments and see how they were incorporated.

CHAIRMAN ROSENTHAL: Do you have a question, Senator Morgan?

SENATOR MORGAN: Did I mishear? In the written material they presented they said it would be ready March 15th.

MS. HUNTER: Well, from what we understand they said it would be ready March...

SENATOR MORGAN: That was the written material. Now I may have missed something in the verbal commentary. I didn't want to hold out false hopes.

CHAIRMAN ROSENTHAL: I think we've heard two different opinions today. One that some had already seen a preliminary report and the other that the report would be out March 15th. So I don't know whether there's a pre-pre-report...?

MS. HUNTER: We had been told that it would be out later in March for comment and this is the first we had heard today that they were soliciting comments.

MR. WALLACE: Senator, maybe I can clarify. There is a draft report that has been circulated among state agencies that participated in the process and asks for their comments on the written material that was put in there and evaluated. It is our intention that when you get the final report in March we will circulate that to anyone who is interested.

CHAIRMAN ROSENTHAL: Thank you.

MR. VICTOR POTTORFF: Mr. Chairman and members of the committee, I'm Vic Pottorff, County Supervisors Association. For the record we would agree with the League of California Cities on their four major points. A balance

to local government, I note that the previous witnesses when we talk about those who are injured, local government, as you know, I think it is justified that a reasonable percentage is allocated representing the taxpayers and certainly the cost that you've heard as far as operating county government. Also, we're looking at people in transportation strategies and also looking at weatherization. So you, or through this budget process, are going to have to make that determination.

I would agree also with the League of Cities that we have to look at an administrative process that is workable for all of the 440 cities and the 58 counties in the State of California.

Just a couple of comments about confusion. I have to be honest with you as far as counties are concerned, there still remains a certain degree of confusion regarding this program and the process. I would have to say a question, will we receive or will we be eligible or will our program make it in '85-86, the answer is probably we don't know. And we probably won't know for a long time. I think if you review the Department of Finance comments we can't say for sure. It depends on the Supreme Court, it depends on the Congress, it depends on actions of where the revenue will come and go. I have to say that we have been contacted by certain state agencies and I would prefer not to identify them at this time, who are talking about soliciting our support for their particular programs as they would be allocated to cities and counties. So I think we're going to have some competing forces here, not only within the five categories that would be eligible.

As far as the concern of the process, the last witness on the panel, I think she did an excellent job and we would encourage you to look at her testimony when you have more time as to how the figures were increased for the state agencies. Again, they were increased and we would certainly say that there is some concern representing local government as to the trend that appears to be happening, which leads me to one of my final comments.

We're not sure how this is going to be resolved. Questions come in. Will it be in the budget, will it be in a bill, and I think we've heard some comments early on that they may be out of timing with the budget process. You might get this book or it might be evaluated, whatever the dates are, you're going to get it late in the budget process. So there's going to have to be a combination of that, and Mr. Chairman, with your bill, and we'd certainly appreciate the opportunity of working with you on that.

So at this point, we agree with the League of Cities, their four points. We have to tell you there is confusion. There is a little concern in how the process was handled, and I think you would agree that no one is

sure which horse is going to come out of this gate. Is it going to be in the budget process, is it going to be with a bill, and we're going to have to deal with all sides frankly. Thank you very much.

CHAIRMAN ROSENTHAL: Comments? Thank you very much. Roxanne-Miller Mosley, City of San Jose.

MS. ROXANNE MILLER-MOSLEY: Thank you, Mr. Chairman. Roxanne Miller-Mosley, City of San Jose. We're pleased to be here today to participate in your hearing and indicate to you again the importance of involving local governments as eligible to participate in the state process. We too share the concern with other forms of local government that the state process for allocation and the present state concept appears to be showing substantial bias towards projects for state agencies.

We recommend that a significant percentage of the PVEA monies be available for direct use by local agencies so long as it doesn't decomply with the statutory requirements. We believe that distribution of the funds to local governments is consistent with Congress and with the courts as closely as possible to be received or to be the benefit of injured parties. Certainly the increased prices seen by the consumers for both gasoline and petroleum were felt most strongly at the local level.

Again, we appreciate this opportunity. Local government hopefully will be given a formal role in establishing the PVEA funding priorities and we would urge this committee to pursue the legislative approach at this time in light of the comments made with regard to the budget process. I would like to introduce you, if I may, to Rita Norton, who is our energy advisor for the City of San Jose. The City of San Jose has a very active energy program as well as having been one of the local agencies who participated throughout this process thus far. Thank you.

CHAIRMAN ROSENTHAL: Ms. Norton.

MS. RITA NORTON: Thank you. I appreciate the opportunity to report to you today on the local government perspective for PVEA monies. I'd like to report to you that the City of San Jose has been participating with the National Conference of Local Energy Officials which is the national organization as part of the National League of Cities. Through that organization a report was adopted by the National League of Cities that encouraged distribution of the PVEA monies, both to state and to local government. The city has also participated in the hearings and followed closely the events within the state, along with the California association of energy officials.

One of the questions that you presented to us at the outset was what is the impact of the oil overcharge with respect to the constituents that we

represent, I'd like to report that in terms of local government there were both direct impacts in terms of operating city fleets, as well as indirect effects of the dollars that were expended and exported out of our local community that were not available for local commerce that otherwise would have been there with the direct relationship with the hardship to low-income community within our community.

I'd like to present to you this afternoon an argument that local government is one of several, but a very important, mechanism to provide restitution in keeping with the intent of the PVEA restitution considerations. Local government at the community scale is an aggregation of public buildings and public services and working very closely with and giving emphasis to local government programs, we would be able to achieve both state and sector goals by identifying sectors at the local level to achieve more efficient energy use. Programs that do take place at the local level and that result in and are accomplished through day to day contact with local population include work with regard to new construction of new buildings, retrofit of existing buildings, traffic operations, and planning for new transportation systems, community development to encourage energy at lower costs, water treatment. Local government certainly has a role to play with respect to low-income energy assistance and targeting dwelling unit weatherization and meeting long-term goals for renewable supplies.

Okay, we would like to encourage as representing local government that any program that is developed respond to program flexibility. We'd like to see programs that respond to both cities that have ongoing energy programs, as well as cities that wish to get started. We would suggest that if a local government program was developed with respect to PVEA monies that we would be interested in having a local government community advisory committee.

We would also recommend that proposed funding areas would look at five broad areas that come within the domain of local government community. We would suggest that there be an area to look at municipal operations and public buildings. This could include audits and studies for assistance in energy improvements to public facilities as broad as the range of street lights, water treatment, and existing facilities - housing, police and fire.

We also suggest that local government be viewed as an area to promote energy efficient community development of working towards partnerships with the building community at the local level to attract businesses and retain businesses in our community by reducing energy costs. We could be utilizing technology such as co-generation, renewable, solar, and other cost saving measures.

We recommend that local government have a role to play with respect to residential assistance, comprehensive service to ensure that goals are met by the various programs that are implemented. We would recommend that transportation management have a key role and that local government have a role in playing that to improve traffic light synchronization, gas cap, fleet management, and use of methanol vehicles ride-sharing incentives.

And we would also recommend that local government programs include a focus on water and wastewater management, specifically with regards to reducing demand through water conservation measures. Thank you. If you have any questions on a perspective from local government, I'd be pleased to answer.

CHAIRMAN ROSENTHAL: Thank you very much. We'll now hear from Sara Hoffman, Association of California Energy Officials.

MS. SARA HOFFMAN: Thank you very much. The Association of California Energy Officials is an association statewide of local government officials. We have both county and city members. There are about 120 of us.

In reviewing PVEA we sent out several informational bulletins to our members, we sent out a membership alert before the public hearings, and we got a diversified response. When you talk about people have talked about restitution as a goal of PVEA and we've discussed among ourselves whether or not local government is appropriate and our conclusion is in two different ways. One is reducing our own local government utility bills. My county, I work for Contra Costa County, we spend about \$3 million a year on utility bills. This supplants our ability to provide local community services and programs impacting of all areas of the community. Secondly, we have community programs that both directly and indirectly affect the different sectors - our traffic signal optimization programs, our traffic management programs, our weatherization programs, our community development efforts which through land use we can locate businesses near residential areas and minimize the need to travel back and forth between and commute.

Many of the jurisdictions have "disclosure at time of sale" ordinances which require information transfer to let prospective homebuyers know whether or not their home is energy efficient. Contra Costa County has taken a lead in one program, residential time of use rates, which encourage people to use electricity during the off-peak hours. This one program we've calculated if implemented during the PG&E service territory, could be the equivalent of a 600 megawatt power plant if people only shifted five percent of their energy use. So from our members we hear a wide diversity of programs.

And this panel has talked about how to prioritize between programs and

I think that's a very vital public policy issue. We suggest that that public policy issue can be partially resolved with the idea of flexibility among local jurisdictions. Give us a performance standard. Say, save or produce so many btu's per dollar and you, according to your local community needs, can decide what programs best save or produce that money or that energy. And I would say that the innovation of local government would give you a very good return on your dollar, so we suggest that to prioritize, to give flexibility to local government.

We'd like to second many of the comments heard today about a voice in the process. We think that an advisory committee of local government officials is very necessary in order to keep the programs as simple as possible and to make them as relevant as possible to local government.

Finally, we'd like to second the notion of "fair share" and remind the committee once again that local government activities affect all the sectors, the residential, the commercial, the industrial, the low-income sectors, and I've heard PVEA called "the biggest lottery of them all" and I think this committee's decision to look at it from a public policy issue perhaps makes it a little less of a lottery and more of a decisionmaking process that considers all the needs of the community. Thank you.

CHAIRMAN ROSENTHAL: Thank you very much. Lynn Nelson from Habitat Center.

MS. LYNN NELSON: Yes, I'm Lynn Nelson. I'm the director of the Habitat Center. I'm sort of at one end of the spectrum here. I've been asked to testify on behalf of Indian tribes as local governments which seems to have landed in this category by virtue of the fact that we've done extensive work in the energy area with California Indian tribes over the last six years. We're concerned that a case can be made for native American groups sharing in the PVEA funds, both on a low-income and local government front, and we hope that this strengthens the likelihood that their needs are going to be served in this process rather than that they sort of get lost in the shuffle between these two categories.

Native Americans are probably the most underserved of all groups in all areas of services provided. In general, services provided to them are extremely fragmented and hence not very effective. However, in the area of energy there is currently no agency charged with addressing energy needs of California tribes and the many agencies involved in providing services to them at this time very often are working against rather than for their needs in terms of lowering energy costs to them. There's a critical need for this to be addressed, basically on two fronts, both on the fronts of the individual

Indian homeowners and the Indian tribal governments. What's currently going on right now is that mainly HUD and BIA are involved with the funding of housing being built on Indian reservations. In many cases the programs actively work against energy conservation and renewables being included in those programs. It's resulting in low-income families on reservations, unemployment and poverty level incomes often approach 80 percent. These people are being moved into new homes and finding that their energy bills are going up as much as five times. So, on one hand they're getting told, here, you have a wonderful new house, on the other hand, once they wind up in it they find themselves unable to afford to heat or cool it. The problem is going to get worse rather than better as energy costs continue to rise, but because of the allocation program those are the homes they're going to remain in for many years to come.

The problem is equally true of tribal governments. Indian reservations often get one or two structures out of which they have to run their entire administrative program and find a proportionately high percentage of their tribal administration budget simply going to heating and cooling buildings because it was designed and built without energy conservation in mind. There is a great need for the money being spent on energy costs going to maintaining the programs on their reservations. It's a serious problem and it's going to get worse rather than better unless there can be specifically targeted programs to do that.

There have been a few cases in which that's happened. One through the California Energy Extension Service seems to have been very effective in terms of relatively low amounts of funding being able to produce very high energy benefits and quick payback periods that are providing enormous benefits to tribes, and we would like to see these continued basically on three fronts. One is working with the federal agencies that are now programming out rather than programming in energy conservation and use of renewables in building programs, to stop the construction of buildings that are already obsolete and unaffordable for the families who are going to live in them and for the tribes. The second is an extensive retrofit program that will deal with buildings already in place in which this need was not address and current weatherization programs are not meeting this need by a long way. And the third area is wherever possible, linking economic development projects with renewable energy production projects or other links with energy projects that will have the combined benefit of lowering energy costs to tribes, as well as providing economic development to the tribes as well. The goal here being not continued maintenance, but a move toward tribal self-reliance

and self-sufficiency which is what the tribes more than ever want these days.

Restitution has been an issue for native Americans on every front for a very long time, but it's true on the energy front as well and we hope that their need will be addressed. Thank you.

CHAIRMAN ROSENTHAL: Thank you very much. I just want to indicate that some of the things we're hearing I'm certainly going to be interested in balancing expenditures and I'm also going to be looking at the increased amounts that were indicated that some of the state agencies came in for at some of these hearings so that we do have a balanced approach. I want to thank you for your participation in this particular panel. Now I'd like to call on small business and the nonprofit group. Michael Edwards, Center for Nonprofit Management, Mark Braly, State Assistance Fund for Energy - California Business and Industrial Development Corporation, John Pon, San Francisco Mayor's Office for Community Development, Herb Arrons, California Coastal, and Edmond Murray of Murray and Son. I want to again remind everyone that we are limited in time. Please do not repeat what somebody has already said. If you want to say, "me too," that's fine. Mr. Edwards, are you the first one?

MR. MICHAEL EDWARDS: Looks like it. I've been asked to appear here today to talk a little bit about the nonprofit interest in the PVEA funds. Primarily, the thing that we're looking at is the fact that the nonprofit community has had a substantial effect of the energy costs, basically two to three percent of nonprofit's budgets go towards energy costs. These are figures developed by United Way. There's no way to return that to them through tax breaks because of their being nonprofit, so the PVEA funds at this point are the only way of looking towards any restitution for that group.

The Center for Nonprofit Management is primarily a technical assistance organization and their concern is for nonprofits as a whole, not for their organization itself. They prepared a scientific study that was funded by the Conrad Hilton Foundation to take a look at the needs of nonprofits in the area of energy and found a number of things were there as barriers, primarily funds. What we would like the group to entertain is the fact that we would like to do some technical assistance in conjunction with public/private partnerships and to establish an energy fund as an ongoing type of thing for loans to ease some of the pressures from the nonprofits. It's estimated that they could reduce their energy costs by approximately 15 percent if this were available to them. It's being done in approximately ten different areas of the country currently - the New York Community Trust was the first, followed by Boston, Chicago, St. Louis, Akron, Ohio, Philadelphia, et cetera.

The process basically is to set up the technical assistance followed by implementation and the loans to follow in the implementation. In succeeding years what we would like to do is operate the energy conservation fund from the interest earned off those loans so that we're not coming back year after year looking for funds to provide energy conservation. That would then have a geometric effect over the years over these 20,000 nonprofits that are in the Southern California area.

CHAIRMAN ROSENTHAL: Thank you very much. Mr. Braly, SAFE-BIDCo.

MR. MARK BRALY: Thank you, Mr. Chairman and members. The proposal that we're making is basically to make small loans to small businesses with the PVEA money and the proposal is similar to one that was passed by the State Legislature a couple of years ago, Assembly Bill 1315. That bill was vetoed by the Governor with a message that said we want to do the systematic approach that you've been talking about today to allocate the PVEA money, but I think not with an objection to the fundamental thrust of that program.

In terms of restitution, it's certainly been my experience and BIDCo's experience that the small businesses are the ones who don't get the volume discounts in their fleet purchases of fuel, and certainly I have a little, rates that generally in terms of per capita energy costs the small commercial customers pay the most. So I think it is a group that should not be neglected in terms of the restitution formula. And it's a group, particularly the smallest businesses, which have experienced very rapid energy costs that are a growing proportion of their operational costs and therefore affecting the bottom line. What we've also seen is that small businesses generally don't have, are not inclined to use, they have limited borrowing capacity and they are not inclined to use that limited borrowing capacity for anything except their primary line of business. Therefore, with the program that we're proposing to do would supplement their borrowing capacity and make it possible without tapping that to make a cost effective investment in energy conservation that would improve their profits, reduce their operating costs.

What are their alternatives? Well the utility program, utilities have excellent programs for the small commercial customers but not one of them include financing of projects. They generally do technical assistance and they do rebates. For the smallest commercial customers to get access to those very attractive rebates or to implement the advice they get in the technical assistance program, they need financing. So their alternatives are not utility financing, those programs aren't available, would be financing at rates that are generally like a credit card rate or a personal loan rate, or

equipment lease financing rate, generally over a 20 percent in today's market.

The program that we're proposing would make available financing, we estimate it at about prime rate, which is an excellent rate and one I think which would very much improve the payback on most of the investments that would be made. SAFE-BIDCo is in the business of making small business loans in the energy and energy conservation fields so you might say why don't we just make loans like this. Well, as a matter of fact our program is tied, by law, to obtaining an SBA guarantee for our loans and that's very important to us because when we get a guarantee from the SBA on one of our loans then we can sell that loan to a private investor and we can recycle money in that way. The state originally - SAFE-BIDCo, I don't think I mentioned this, is state-sponsored but not a state agency - we were created by an act of the State Legislature and we are nonprofit and self-supporting. So it's very important to us to leverage our funds by selling those loans to private investors. I don't want to get too deeply involved in that but the gist of it is that the smallest economical sized loan that we can make with our present capital is about \$100,000. With this kind of money we could make available loans that wouldn't require an SBA guarantee, that would go out at that prime rate or possibly a little bit lower, it could be done with minimum red tape, it could sustain higher loss rates, and would make available money also to another group of small businesses that we do business with, namely, the suppliers of these conservation services and products, who tell us that one of their major problems is finding financing that is viable for their small business customers. So we would propose to market this program through utilities, certainly, but also through the small businesses who supply these products and services. I think they'd do a very effective job of marketing that program for us.

CHAIRMAN ROSENTHAL: Thank you very much. Mr. Pon, San Francisco Mayor's Office of Community Development.

MR. JON PON: Thank you, Mr. Chairman and members of the committee. I'm here representing Mr. Johnson, Director of the Mayor's Office of Community Development. We present this statement to you to bring to your attention the hundreds of nonprofit organizations in San Francisco relating to energy consumption and utility costs. During the past 11 years the Mayor's office through the Federal Community Development Block Grant Program, has provided grants to over 140 different nonprofit...

CHAIRMAN ROSENTHAL: Would you please just tell us what's in this paper?

MR. PON: Okay, yes. What we'd like to propose is to see some type of

matching arrangement where PVEA funds could be provided to a city where the Federal Community Development Block Grant funds would be used in conjunction to fix up a neighborhood center, a nonprofit owned neighborhood center, like Chalker Center, senior centers, that would benefit from having their facilities brought up to efficient energy standards and their operating costs would then be reduced substantially so that their staffing could be at least maintained without having to go through a budget crisis each year. I think what we would like to see is grants provided to these nonprofits so they don't have to worry about paying back on a loan basis, and that with the obligation that they maintain it solely for five years to benefit low and moderate-income persons. The statement pretty much spells that out.

CHAIRMAN ROSENTHAL: Thank you for this paper which we will include in our analysis and it will be part of the suggestions in the legislation or whatever comes out after this hearing is over. I guess we now hear from Mr. Aarons from Cal Coastal.

MR. HERB ARRONS: Yes, I'd like to thank the committee. Cal Coastal is one of seven nonprofit development corporations which was established by the State of California and has been in operation since 1968. What these corporations do is provide loan guarantees for small businesses.

(changing tape)

...except that we have a large constituency of small businesses because we have seven offices. Each corporation is an independent corporation, each corporation has its own board of directors and we're able to get out in all sectors of the community, in all sectors of the small business community to provide what we consider the essential means for economic development, which is finance.

Now every study that's ever been done in economic development has shown that small business is the generator of jobs, that in study after study they've shown that the Fortune 500 companies have actually decreased employment in the last 20 years. And all the increase in employment has been taken up by companies with less than 500 employees. So what that means to me and what it means to all the corporations is by providing PVEA funds to small businesses, you're basically lessening the factors that retarded economic growth in the last two or three years and giving a stimulus to job creation, because small business is job creation.

We very strongly support a bill by Sam Farr, which is AB 239. AB 239 would provide the seven regional corporations with \$25 million in addition to the funds that are already provided by the state, which have been provided since 1968, to directly promote small business growth. We think this

is a very good stimulus to economic development within the State of California.

The regional corporations have demonstrated competence in working with small business. It's one thing to say, well, we're going to work with businesses with loans of less than \$100,000. The loans that we make, the loans that ourselves and the other corporations guarantee, are loans between \$20,000 and \$80,000. When you're making loans to companies of that size it means that you're basically providing a tremendous amount of technical assistance because those size companies don't have established bookkeeping staffs, they don't have established accountants, et cetera. But those are the companies that in five or ten years will be the providers of economic growth, that will provide the jobs for the State of California.

So in summary I'd just like to advise the committee that we think that AB 239 is an effective instrument for economic growth and is something that should be considered in allocating the PVEA fund. Thank you.

CHAIRMAN ROSENTHAL: Thank you very much. That bill, I guess, is still over in the Assembly and we'll deal with that if and when it gets here. Thank you very much. We now have the final panel. I note that Mr. Murray was either here...

UNIDENTIFIED VOICE: I don't see him. Apparently he couldn't make it.

CHAIRMAN ROSENTHAL: Probably could not make it. Fine. We'll ask him if he has a statement to present. If so, we'll include it in our record. The commercial/industrial/methanol/agricultural panel. Richard Baker, Ford Motor Company, Jan Hamrin, Independent Energy Producers Association, Dr. Larry Berg, South Coast Air Quality Management District, Harry Buchanan, Celanese Corporation, and William DuBois, California Farm Bureau. I guess the five became three. Oh, Mr. Buchanan is expected later and Dr. Berg is not here. All right, please, Mr. Baker.

MR. RICHARD BAKER: Thank you very much, Mr. Chairman. By way of introduction let me just say that I'm manager of the fuels and lubricants department in our research staff. That includes our work on alternative fuels, including the methanol vehicle work that we've been doing, and I want to specifically address the methanol vehicle programs. You may know Vernon Nichols who continues to be our program manager on the methanol vehicle programs at Ford.

The statement you have before you is several pages describing our assessment of the situation and identifying some needs, and also describing a new concept that we're working on that you might be interested in, and then the bulk of the document are some references that may be of some use to you, a

past statement on a couple of technical statements. Let me just go through this and I'll try to highlight some of the points that we'd like to make.

CHAIRMAN ROSENTHAL: Five minutes.

MR. BAKER: All right, fine. Specifically, as you know we've been participating in the L.A. County fleet since 1981. That program is going along now very well. We've retired the highest mileage vehicle at 125,000 miles without any serious problems. Of course, the 1983 fleet is continuing. We feel these fleets are very valuable to us. They're giving us a lot of practical information and what problems could be experienced in the field. We're very much interested in continuing those fleets. We have a commitment to support those vehicles with parts and field service for the program content, a total of five years, and we're confident that the state will continue to do their part to make those programs successful.

While we're learning a great deal from those fleets, there is more work to be done. We feel that Ford Motor Company, we hope that we can be helpful in identifying those areas where technology needs further research and development, and we have identified some of those points here. Also, we'd like to make the point that technological contributions from others besides ourselves will be very helpful and beneficial to resolving those issues.

On the second page of this document I've listed a number of technical items for your reference. Let me just skip down and make one point, emphasize under "Emission Control" part way down the page. We do want to point out that one of the most effective first uses of methanol to improve air quality concerns, and certainly it could be considered for that, would be to replace intercity diesel vehicles, such as heavy duty trucks and buses. Of course, we're aware of the program that you have in that area and we just wanted to emphasize that point.

Let me go on to say as you look over those issues you can see that there are some technical problems to deal with. There are also a number of implementation issues, such as adequate refueling sites, vehicle costs, and fuel costs. Adequate refueling infrastructure is one of the most crucial issues. With that in mind, we've been looking at that problem and we want to mention to you a research vehicle concept that we've been developing. We think that this will offer potential for bridging this difficult transition period gap - the methanol infrastructure supply system. We call this a flexible fuel vehicle. It involves an onboard optical sensor to determine fuel composition with automatic compensation adjustments for the type of fuel that's there. This vehicle concept, including the sensor, is currently a laboratory experiment. It's not fully developed to a commercial standard.

When it is developed beyond this research phase this flexible fuel vehicle would allow operation on gasoline if necessary. That should help considerably with the phase-in period.

CHAIRMAN ROSENTHAL: Excuse me, you're developing an engine that could run on either gasoline or methanol?

MR. BAKER: That's correct. An engine that will run on either fuel and it will determine which fuel is in the fuel supply system by having a detector observing that fuel composition, make appropriate adjustments to the way the engine operates and proceed to operate on either fuel, invisible to the operator.

CHAIRMAN ROSENTHAL: Senator Russell.

SENATOR RUSSELL: What are you doing in terms of developing a vehicle that will run on hydrogen?

MR. BAKER: Our work on hydrogen is not active. We do not feel that hydrogen is a shorter term potential fuel. We have done work on hydrogen in the past. We think we have an understanding of the issues there. Primarily a question of supply and storage of the fuel on board, but we do not have any current programs active on hydrogen.

SENATOR RUSSELL: Supply and storage. You mean because of it's volatility?

MR. BAKER: Yes, it's a very difficult fuel to handle in bulk. On board storage of the fuel is a difficult problem. Carrying enough energy density with you to provide driving range is very difficult with hydrogen. It's really an energy carrier and the fuel has to be in essence manufactured at another site and so it does not have nearly the energy density or capability to store, or enough energy on board the vehicle, as liquid petroleum or methanol does.

CHAIRMAN ROSENTHAL: One further question. How do you deal with the mixture?

MR. BAKER: Of gasoline and methanol? As long as the fuels are relatively dry they're admissible in any concentrations. The issues of blends that we've run into recently have been because of some water content. We would anticipate that with such a vehicle methanol would be by far the larger constituent most of the time, but not necessarily. With any real through put of methanol through the vehicle there wouldn't be any problem of water collection. So I wouldn't anticipate problems that might have shown up with blends. We anticipate that this vehicle will run on straight gasoline or up to the fuel methanol, whatever that is completely. And in fact we've built such a vehicle and demonstrated that that is possible at

the research level. We wanted to make you aware of that concept, we think it's an important concept that might have bearing for the transition phase for your information.

The only other point that I wanted to make today is that we are aware of the considerable work that's going on in air quality. We're aware that methanol does offer some potential, we believe that a reasonable would be at least a 5 to 10 percent reduction in the ozone, perhaps more depending on how studies come out, and others will have to help us decide whether or not that provides sufficient incentive to introduce methanol vehicles into the marketplace and whether or not that cost will be less than other control means.

CHAIRMAN ROSENTHAL: Thank you very much. Let me at this point, I see that Dr. Berg has come into the room. Would you please join us here and let me, since we're talking about methanol, perhaps turn to you because I understand it's also part of your testimony.

DR. LARRY BERG: Yes, Senator.

CHAIRMAN ROSENTHAL: Let me apologize to Mr. Hamrin for that.

DR. BERG: I'm Larry Berg from the South Coast Air Quality Management District and we have a very brief statement to say. One, to thank you for providing this opportunity, and also to suggest that as the agency that has to try to deal with the problem of very dirty air in Southern California, that it is our view that methanol represents a potential for us to get a handle on several areas.

One, in terms of reducing the emissions from smog producing contaminants of gasoline powered vehicles, we think that in terms of moving toward methanol will help us deal with the very real problem of NO_x or oxides of nitrogen. And secondly, along that line also from the question of diesels, and diesels are a very real problem, not only in Southern California, but all over, and we feel that in terms of moving in the direction of methanol that would help us in that area.

We also are interested in terms of stationary sources in the use of methanol in industrial boilers and turbines and then we get into the whole question of co-generation, which we've talked about, Senator, before. In short, we feel that the opportunity in terms of this particular fund that in the projects that we're interested in, one would be a demonstration in terms of methanol co-generation, which would help us meet that very difficult area. Two, the bulk purchase of methanol. Part of the problem that seems to occur again and again is the chicken and egg syndrome and whether it's here or it's not here, whether or not the cars will be there to sell it, and the oil

companies, whether or not they have the methanol.

We would propose then that one phase of this would be a bulk purchase of methanol to the tune of approximately \$6.8 million. We also are interested in, we think it would help us in terms of emissions, to get into the area of methanol overfiring and we would like to see an experimental project along those lines that could deal with that.

In looking over the research our staff is convinced and I as a board member am convinced, that methanol represents the best chance in terms of an alternative fuel, and we also still believe that as our AQMP has said, we cannot meet the air quality standards in Southern California if we cannot move in terms of alternative fuels. We are up against the wall on it. We're regulating, we have regulations as some of the people in the audience are well aware of, that are tightening down and tightening down, and there is only so far we can go in that area in terms of cost. So we feel that methanol is an alternative that we need to move into and we would like to respectfully urge your support for this type of approach.

CHAIRMAN ROSENTHAL: Senator Russell.

SENATOR RUSSELL: What's the major source of methanol if we move into that?

DR. BERG: I'm sorry.

SENATOR RUSSELL: What will be the major source of methanol if we move into that area?

DR. BERG: You mean in terms of supply?

SENATOR RUSSELL: Yes. Where does it come from?

DR. BERG: The largest supplier, to my knowledge, is the Celanese Corporation and I believe Mr. Buchanan is one of the members of this panel. Secondly, ARCO, of course, is involved in methanol and there are others.

SENATOR RUSSELL: No, not who gives it to us. From what?

DR. BERG: Natural gas.

SENATOR RUSSELL: From natural gas? How about from coal?

DR. BERG: It can be made in other ways. It can be made, as I understand it and I'm not an expert in methanol per se, it can be made from a variety of sources.

SENATOR RUSSELL: Does it come from coal?

DR. BERG: It can.

SENATOR RUSSELL: Does it come from vegetable products?

DR. BERG: It can. It also can come from landfills. We have methanol now coming out of landfills.

MR. BAKER: Senator, could I add in Mr. Buchanan's absence who could

really answer that question for you well, it could come from any carbonatious source. The most economical, certainly in the short term, would be natural gas supplies from a variety of countries around the world, including our own, and Canada and Mexico and so on.

SENATOR RUSSELL: What would be the relative price compared to today's price of gasoline? Do you know?

MR. BAKER: Well, and that of course depends very much on natural gas and natural gas pricing strategies.

DR. BERG: It also depends on the volume used.

SENATOR RUSSELL: Yes, I know, but given the volume would it generally be more expensive?

DR. BERG: I think that given the volume it would not be, but at the present time it is.

MR. BAKER: It's somewhat more, I think, than the equivalent price of gasoline today, depending upon of course one's assumptions as to the source of supply.

SENATOR RUSSELL: My concern is, I forget when it was, I think it was '79 or '80, that we were told in this committee, that was when I think now Lieutenant Governor McCarthy was Speaker, and there was a big fight over the natural gas up at Point Conception, that we had to have that, if we didn't have it we'd run out of gas and all of that, and in a very short while that turned around. Now we have many good reasons for that and I'm not taking issue with anyone who made that statement at that time, but are we if we go with natural gas as a resource, are we then subject to the same volatile forces that play in the world market of petroleum resources?

DR. BERG: I can't speak for Mr. Buchanan, but I would think not. The primary source if we're going outside the United States as I understand it, today would be Canada and Canada is very anxious to sell more in this area. I would not think that that would be the same situation, for example, as when you're dealing with the Middle East. So I would not think that would be that much of a problem, Senator.

CHAIRMAN ROSENTHAL: May I ask a question? You mentioned methanol overfire. What is that?

DR. BERG: May I ask Mr. Fisher to come up?

CHAIRMAN ROSENTHAL: Well, can you do it in about a minute?

DR. BERG: I can do it in 30 seconds.

MR. EUGENE FISHER: Senator, the boilers for producing electricity or steam is a some petroleum based fuel. After the fuel is burned there is a residual fuel that wasn't completely burned. The methanol then would be

used as an afterfire to completely burn the emissions.

CHAIRMAN ROSENTHAL: I see. Now in the South Coast Basin, are there problems of pollution as a result of methanol?

DR. BERG: No. I think that this is what attracts us to it. It is clean and quite frankly, we don't see a lot of other alternatives. The technology is basically here as we have heard and we have heard that before. We have test vehicles some of which are at our own agency. Also there is a bus test in San Francisco. There are a number of fleets out. We would like to see a larger fleet test as well. But as of right now the staff is convinced and I am convinced that it represents the best alternative in trying to meet our severe air quality problems. It can't solve them but it certainly will help.

CHAIRMAN ROSENTHAL: Thank you very much. Now Jan Hamrin, Independent Energy Producers Association.

MS. JAN HAMRIN: Thank you, Mr. Chairman and Senator Russell and staff.

CHAIRMAN ROSENTHAL: We'll be able to use less of what you produce, right?

MS. HAMRIN: Well, I just wanted to give a couple of overview comments and I'm not pushing any particular project or proposal. I do believe in the area of restitution, that it is obvious that the commercial/industrial/agricultural sectors were injured, did suffer from overcharges and should be included in any program that you finally develop and recommend. The alternative energy projects are not only part of the federal goals and proposals, but are certainly consistent with and have been a major portion of the goals and projects proposed in California and by this committee and by the Legislature.

Alternative energy projects are a particularly good way of linking economic development with the other goals and benefits that we're looking for in the program, so my primary recommendation is to include in your final program monies for the commercial/industrial/agricultural sectors, with guidelines that provide this sector with maximum flexibility while meeting the goals and intent of this program. The types of programs that could be included, as you've already heard, there's a number of things that could be done with methanol, there are demonstration programs for new technologies for improving the efficiency of existing technologies, reducing short-term and long-term energy costs to the ratepayers, many more of the types of things you included in SB 2302 last year, and I think that you could very effectively hold together those kinds of recommendations into some additional funding which could benefit everyone in all of these sectors, but

particularly commerical/industrial/agricultural.

CHAIRMAN ROSENTHAL: Thank you very much. Mr. Buchanan, the Celanese Corporation. You were not here for part of the testimony but I think we've indicated some questions that we'd like you to relate to or anything else that you want to say in about five minutes.

MR. HARRY BUCHANAN: All right, sir. Would you like to take the questions first, sir? Why don't we take the questions first. We should cover those.

CHAIRMAN ROSENTHAL: Fine.

SENATOR RUSSELL: I have a question. It's a question I asked earlier. Was the supply of natural gas, if we move to methanol as a source of fuel for our vehicles and that's supplied by natural gas, are we then under the same volatile problems that we find we're under the petroleum circumstances around the world? Is there a similar approach to this or a similar result?

MR. BUCHANAN: I understand the question, I believe, Senator Russell. The situation with methanol is quite different than that of petroleum products. Natural gas occurs very heavily in our hemisphere, in the western hemisphere. It is in Canada, in Alaska, Mexico, all down through the Caribbean basin. The World Bank has written a rather complete report as to the number of sources of natural gas that produces methanol. It is their judgment and those of us who are in the business that the price of methanol and the availability will not go above, much above the level that we're at at the present time in '82 dollars. We testified to that in Congress both as to, from an industry source and from the World Bank.

SENATOR RUSSELL: You say '82 dollars?

MR. BUCHANAN: In 1982 dollars is what we used at that particular time and went out to the year 2000. Beyond the matter of natural gas, which there's a great deal in the world that's available and cannot be effectively used and may never be effectively used, and this is where the World Bank has entered the picture in that many of these countries, our country and others, have to support, and they have very little visible means to have earned foreign currency, whereas, if the World Bank would finance plants that would fit in with their natural gas, they would then be viable countries. So their interest is very high. When you look at that the reinvestment costs throughout the world kind of takes methanol and flattens it out to about the price wars in 1982.

SENATOR RUSSELL: When you compare methanol with petroleum, I guess you have to compare it on the basis of btu's?

MR. BUCHANAN: That's correct, sir.

SENATOR RUSSELL: Well, the btu's in a barrel of oil, how does that compare, which costs now \$29, how does that compare with a barrel of btu's of natural gas?

MR. BUCHANAN: All right, and it then does vary throughout the world, but methanol in transportation methanol kind of levels it out. As far as gasoline is concerned in a vehicle versus methanol in a vehicle, in California it costs about 10 percent less than gasoline to run that vehicle and that's because methanol is clean burning and has a very natural high octane. When it comes to diesel, as to the diesel buses that have been converted or designed for methanol, both in San Francisco and in Europe, it's about the same as diesel fuel. So the economics of methanol versus gasoline and diesel are in the general same range. Have I answered your question?

I'd just like to be very clear on the fact that our own government in looking at security of supply, crude oil occurs only in certain parts of the world. Natural gas that is more or less shut in occurs throughout the world. In other words, we have enormous plants being built in Indonesia, Malaysia, Trinidad, these are the established ones. We have some in the middle east and I think those could be long-term considered the same as crude oil, but we have other plants in Canada, in Mexico, Brazil and those countries would not be affected by OPEC-type requirements.

SENATOR RUSSELL: Do we have a goodly supply of natural gas in this country?

MR. BUCHANAN: In the United States I think the general philosophy is that that natural gas should be used in pipelines for homes. There's an enormous gas supply just outside our borders, north and south and in the Caribbean and that can be transported for effective use by methanol, which is a liquid, can be transported the same as fuel.

SENATOR RUSSELL: What do you see for the future of the average driver using methanol as a fuel? You have to get Detroit to manufacture a car that will use it and you have to get a dispersal system. Are we looking at...

MR. BUCHANAN: I think there's a way of looking at it that might put that in perspective. Fifteen percent of all the gasoline and diesel used in the United States, which is about 15 billion gallons, is centrally fueled, that is, fleets of like utility companies, newspapers, corporations, and in those cases we have given various cities and anybody else, both Celanese and other companies buying methanol, long-term agreements that methanol will be available for the life of their vehicles. We've done that in the bus fleets and we've done it in Europe. So the result is that there is a source of fuel for people in the central fuel vehicles. The Ford organization is

pioneering a new car that will be a flexible fuel vehicle. It's in the early stages. It can use either methanol or gasoline and there's a little device in there that sorts it out. I should let Mr. ...

SENATOR RUSSELL: We've mentioned that already. Thank you.

CHAIRMAN ROSENTHAL: Do you have anything further you'd like to add?

MR. BUCHANAN: I just think that we'd like to add something in a little different field than the vehicle field and we have completed some work throughout the world with gas turbines for peak and power and I guess when you burn methanol it reduces the amount of NO_x enormously and in that case is a very practical point of view for peaking turbines in areas where you have difficult air problems. I think, if the time is short, I'd just like to put the rest in the record.

CHAIRMAN ROSENTHAL: Thank you very much. If you have a prepared statement, we'd like to have that for the record. Now Mr. DuBois, California Farm Bureau.

MR. WILLIAM DuBOIS: Thank you. My name is William I. DuBois, I represent the California Farm Bureau Federation. We're the state's largest general farm organization with a membership of about 100,000 voluntary dues paying members. Our members require very large amounts of fuels and lubricating oils and petroleum based chemicals and the overcharges of a few cents a gallon for these products add up to substantial amounts very quickly for many farms and processors.

The currently depressed farm economy could certainly benefit from encouragement to modify operations in order to increase efficiency in energy consumption. It's our understanding that penalty funds may not be used for the acquisition of capital goods except for capital goods required for demonstration projects. Since almost any modification in farm practices requires capital expenditures, we expect that the range of projects which benefit agriculture may be severely limited. It is our hope that those demonstration projects which may receive encouragement from these penalty funds would be restricted to only those projects which if adopted without subsidies or grants would still make economic sense.

We support the encouragement of developing alternative energy resources of all kinds, certainly the methanol that you've been discussing here, as we do not believe petroleum resources will always be as plentiful as they are now. One of the primary factors which discourages long-term investment in alternative generation facilities is the lack of predictability or stability in prices of foreign oil. We've experienced rapid changes in commodity production costs which resulted when oil producing nations changed their

pricing policy and we're therefore of the benefit of self-sufficiency in energy supplies.

One of the most essential aspects of energy conservation is education so that the general public may have accurate unbiased information as to the true costs of various forms of energy production and consumption. It appears that vast resources are available to this country but public fears of real and imagined dangers which frequently prevent rational decisions in government policy as to the development of those resources. We therefore endorse increased efforts to develop and disseminate facts through the public school systems. We thank you for this opportunity to express our concern.

CHAIRMAN ROSENTHAL: Thank you very much. Any questions from the committee? Well that concludes this session of the Energy and Public Utilities Committee as an oversight into this whole problem of Petroleum Violation Escrow Account, PVEA. We've had enough input, I think, if we're creative and do the right thing to be able to provide some funds for everyone. Not necessarily all that they would need or require, but perhaps some sort of a balance and our legislation will attempt to move in that direction and the input we've had today will affect that legislation and other bills that may come in this particular arena.

Thank you very much for your participation and the committee is adjourned.

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