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July 9, 2008

Elizabeth Hill
California Legislative Analyst
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RE: Proposition 10, California Renewable Energy and Clean Alternative Fuel Act.
\$5 billion state bond funding

Dear Ms. Hill,

As you analyze the fiscal impact of and develop ballot analysis for Proposition 10, we write to point out that measure will use taxpayer funds to benefit a specific technology and specific industry: compressed natural gas for motor fuel and producers of such fuel, specifically the measure's fiscal sponsor, T. Boone Pickens.

The measure would in effect transfer California taxpayer funds to the vanity project of a Texas billionaire and intentionally distort natural markets for "clean" vehicles. It would disfavor hybrids and plug-in hybrids, and exclude most bio-fuels. The measure's unstated but clear goal for the bulk of the taxpayer-paid bond funding is to artificially create a market for natural gas-fueled vehicles to the exclusion of other technology.

There is no requirement in Proposition 10 that the bond funds be spent in California, or that persons receiving up to \$50,000 for each purchase of a natural gas-powered vehicle either live in California or operate the vehicle in California.

Natural gas vehicles can certainly provide environmental benefits, for instance in heavy trucks at places like the Port of Los Angeles, and as fuel for public buses. Proposition 10, however, provides no funding at all for buses or other clean-fuel public transportation.

The financial sponsor and author of this measure is a company called Clean Energy, formed and controlled by former Mesa Petroleum Chairman Thomas Boone Pickens. Clean Energy primarily backs and funds wind power and compressed natural gas (CNG) vehicle technologies. Pickens, coincident with this ballot measure, has also launched a costly national campaign in favor of wind and CNG.

Specific points we ask you to consider:

Focus on vehicle rebates. While cloaked in broad language about clean energy, including wind and solar, the majority of Proposition 10 funding, \$2.875 billion, would

transfer taxpayer funds to purchasers or lessees of certain “pure alternative fuel” vehicles. Proposition 10 is, without specifically saying so, highly skewed to vehicles that run exclusively on CNG. It appears to exclude most bio-fuels (*see Chapter 2, subsection (c)*) and barely includes gas-electric hybrids (at 45 mpg, only the Prius could be included).

Non-CNG vehicles implicitly excluded. The measure calls, in somewhat vague language, for spending the vehicle rebate bond funds in 5 years. Hydrogen vehicles and even plug-in hybrids are unlikely to be fully commercial in that time frame, while CNG fueling is already broadly employed in some passenger vehicle fleets. Thus Proposition 10 forcibly skews the vehicle market toward CNG, even for passenger cars.

No CA residency or use required. The vehicle rebates of \$2,000 to \$50,000 per vehicle may be paid directly by dealers, who would be reimbursed by the state after showing only that state tax was paid on the purchase. There is no language in the measure requiring that the dealer confirm that the purchaser lives or does business in California, or that the vehicle will be registered in California. This amounts to a “grab it and drive away free” card for out of state purchasers.

2-year leases qualify for full rebates. The measure explicitly states a 2-year auto or truck lease qualifies for the full rebate. On a passenger vehicle, the \$10,000 rebate could well cover most or all of an entire lease period. There is no limit on rebates to any individual, meaning commercial fleets could essentially get four to six years of free CNG-vehicle leases, on California taxpayers’ tab.

CNG and greenhouse gases. While Proposition 10 purports to be aimed at reducing greenhouse gas emissions from vehicles, it defines a “clean alternative fuel vehicle” only as one producing “no net material increase in air pollution.” Such language is necessary because of the energy intensity involved in production of CNG fuel, and its relatively high greenhouse gas emissions in comparison to even current hybrid vehicles.

No petroleum reduction required. While the initiative is pitched as a method of reducing California’s petroleum consumption by 20% as of 2020, it *requires* no reduction at all in return for taxpayers’ \$10 billion (after carrying costs).

Solar funds may be robbed. The measure’s funds for (mostly solar) stationary energy can be transferred to the vehicle program at will, while the vehicle funds may not be transferred to solar or wind.

We ask for your clarifications of these points in your analysis of Proposition 10.

Sincerely,

Jamie Court
Chairman

Judy Dugan
Research Director