

Iowa Power Fund and the Energy Conservation Fund: A Critical Analysis

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### Bill citations

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### Energy Conservation Fund and Iowa Power Fund: Executive Summary

Faith Birol (2005) suggests in a speech to IAEE that global energy system faces significant strategic challenges through growing risk of disruption to energy supply, threat to environmental damage by energy production and energy poverty. Given these challenges to our future, we have to be ready to address the potential problems. At the same time, we can look forward to investing in newer technologies to help alleviate the problem by providing for pioneering economic development in Iowa. We can effectively bring the resources of the state together in a concentrated effort by funding innovation and economic development that addresses these three core challenges.

Iowa's Governor Chet Culver (2007) outlined a vision for energy independence in Iowa by focusing renewable sources of energy. Upon taking office in 2007, his administration worked with legislators to bring legislation forward to realize this concept and desire. Two of the bills are the Iowa Power Fund (IPF) that passed and the Iowa Energy Conservation Fund (IECF) in consideration. These give Iowa a great opportunity in energy production and research.

These two bills have similar objectives and means to obtain those objectives. Both set up funds by the legislature and both attempt to increase Iowa's "energy independence". Both use public institutions to carry out and to manage measures in the bill. Both bills have similar interested parties. Yet, they may not spur genuine innovation and economic development with

respect to energy development, transmission, and conservation as hoped if the funds do not get proper oversight, goals, and distribution.

The examination of the two bills, since one has passed and one is in consideration, helps to clarify the stakeholders and their interest in the bills. Using previous similar legislation like the Iowa Values Fund, and studies, we can examine the effectiveness of such measures. As well, we can determine if there is a method to increase the potential for success of this effort. Yet, we have to be willing to realize bold actions that can truly spur economic development and the IPF is in danger of missing a great pioneering opportunity.

#### The stakeholders of energy funds

There are a wide variety of interests in energy funds like the IPF and IECF. First and foremost, the utilities and Iowa Utility Board have a significant interest in these two bills since they affect potential research and development by companies like MidAmerican Energy towards developing and building wind, hydro, or solar energy systems. The Iowa Utility Board governs utilities and energy transmission in Iowa in to “ensure that reasonably priced, reliable, environmentally responsible, and safe utility services are available to all Iowans” (IUB, 2008). The companies and the IUB focus upon economic development, energy efficiency and reliability. The IPF could be used to help increase the percentage of renewable production like wind energy by lowering the setup or research cost for building the wind farms, or IPF could provide funds for better manufacturing of efficient solar devices in Iowa.

State universities and community colleges can help to educate the state about energy conservation and production. Research facilities at the major universities can help to discover and to engineer more efficient means of production, delivery, and consumption for renewable sources of energy. They and the state agencies as part of the IECF initiative can focus upon

developing effective building renovation technologies that significantly reduce energy consumption.

Since Iowa's principle business is agriculture, farmers, farmer representative groups (like Iowa Farm Bureau), and ag-processors (like ADM) have a significant interest in the legislation since bio-fuel is considered a renewable energy source. The ag-industry is tasked to develop more efficient bio-fuel and bio-mass processes so that surplus crops can be used as a renewable fuel source. Then, farmers do not have to rely so much upon government subsidies when the market price of the crop rises. The assumption, then, is that rising demand for corn and soybeans will help farmers and ag-processors that have significant operations in Iowa.

Environmental groups and the Iowa Environmental Council are interested in maintaining good natural resources in Iowa. A fund that helps to promote this objective such as the IECF is in their interests and IPF as an opportunity to reduce GHG. Even more so, Iowa taxpayers have an interest in how public money is being used since there are many projects in Iowa that have to compete for a part of the budget. Iowa requires a balanced budget, and the state legislature does not want to vote for another tax increase to support these funds.

#### Iowa Power Fund

The IPF is a simple bill that appropriates almost twenty-five million over the next three years as a fund for energy-related purposes. The bill allocates funding for workforce training at community colleges for energy industry expansion and development as well. The IPF is managed by the Iowa Office of Energy Independence (IOEI) and a board set up by that agency, but the fund administration can not exceed costs of 0.5% of the fund. The details have been reserved to the IOEI office for implementation and rules.

#### Iowa Energy Conservation Fund (IECF)

Iowa Senator Rob Hogg sponsors the bill and suggests the bill is meant to require most state building construction to meet "green building" standards which exceed minimum energy code requirements. The bill, however, does not specify goals of "exceeding". This bill started out as a way to reduce the state government's overall energy consumption by funding for renovations and building updates through state agencies, community colleges and universities and as a trust for citizen energy conservation. The bill also intends to use funds for financing energy conservation loans for commercial projects and nonprofit organizations.

The nonprofit Iowa Environmental Council (IEC, 2008), an alliance that works to protect Iowa's natural environment, published its support for SF 544 (IECF). Iowa Energy Council (April 2008) reports that "SF517 and 544 were rolled together and makes energy code applicable to commercial renovation and remodeling not residential remodeling and renovation". IEC suggests the bill has "gives Building Code Commissioner authority to establish sustainable design standards but not authority to decide when to use the design standards... authorized BCC to authorize inspections to projects on existing buildings." Ms. Tahtinen suggests the bill "reenergizes the energy bank, changes the structure, cleans up some archaic language, and establishes an energy bank fund". Mr. Mulqueen is concerned that "language inserted ... has to do with confidentiality by the municipal utilities where co-ops are not subject to the same requirements because they are only quasi-public."

#### Cost Effectiveness of General Funds

We have to examine the cost effectiveness of appropriating general funds like these and their potential of administrative manipulation (Hendrick, 1998). Iowa's experience with the CIETC fraud is a prime example of why this is a concern. Given the limited amount of money, we have to define performance measures and quality expectations in order to ensure that grant

money is used well. We also need to know if there is anything that we can do to help augment the projects' successes like tax policy to spur entrepreneurial activity (Metcalf, 2008; Berry Cullen & Gordon, 2007). Coburn and Farhar (2008) and Hendricks (1998) addresses how corruption can harm the best intentions of policy alternatives when the measurable success is difficult to ascertain or the vendors are not transparent with the information

As well, the funds are to be governed by oversight boards and due diligence committees that may have bias towards one method or a financial interest in a policy or administrative decision since the boards are to be comprised of qualified persons from the energy industry and environmentalists. The bill allows for tremendous leniency to the public administration for rule making for the fund distribution. As well, reliance upon non-general funds can promote financial mismanagement (Hendricks, 1998). The legislation, by itself, does not give specific rules for distribution; but the IOEI has oversight of the fund. Someone with significant interests in ag-processors may be more inclined to have money distributed to bio-fuels instead of wind energy regardless of actual market demands and potential.

Prejudice of this sort may have a negative impact upon the performance of the fund where the true potential is never realized due to personal economic interests. This indicates a significant need for transparency of the office, board members and with respect to the rules for decision making. Persons with personal economic interests should be heavily scrutinized for board appointments due to the lenient discretion allowed by the legislation. Less transparency, concealment of information and apparent give a sense of corruption and insider dealings similar to the impressions with Vice-President Cheney's energy task force (Montgomery, 2006).

Observing the current approved projects for the IPF (IDOED, 2008), the approved projects center around biomass or bio-fuel derivatives. Little over two million of over forty-five

million is dedicated to solar or wind projects (IOEI, 2008). The bio-fuels may marginally help to achieve energy independence but does little to help the environment or energy poverty since the fuel still emits carbon and does not lower the cost of producing energy (Biol, 2008). Some critics suggest bio-fuel may actually raise the cost of the energy (Metcalf, 2008). While the effort to become energy independent is commendable, this focus of implementation is missing a great opportunity.

We can choose to ignore the potential of wind, solar, or hydro power. Yet, the Iowa Power Fund Board could be approving projects that emphasize business strategies for the future and climate change and encourage entrepreneurial activity (Enkvist, Naucleur & Oppenheim, 2008; Berry Cullen & Gordon, 2007). Huge value and forward looking projects could help to build low-carbon technology like more efficient wind turbines technology in Iowa or better solar efficiency that lowers the KWH cost of energy production from these sources to be in line with coal-firing production. Additionally, this focus will help to achieve measurable energy independence, and creates sustained Iowa managed manufacturing jobs where Iowa workers build the turbines and solar equipment.

IECF could be used to further the mission of the IPF by promoting reduced commercial expenses through carbon-efficient operations or building new low-carbon businesses (Enkvist, Naucleur, & Oppenheim, 2008). Initiatives like the San Diego SheaHomes project could be a model for new development in Iowa but taken further to realize cost efficient ways to renovate existing structures (Corburn & Farhar, 2008). We could enhance the IECF through a Vision Iowa-style objective of holding “efficiency” development and renovation industry fairs that show other communities how they may want to model Iowa’s initiatives in their communities.

Parallels from Iowa History

Governor Vilsack signed into law two funds that were meant to help reinvigorate Iowa industry and commerce: Iowa Values Fund and Vision Iowa. Both grants are managed by the Iowa Department of Economic Development, but they have different goals. Vision Iowa grants are meant to help tourism in Iowa cities and towns by providing assistance (no more than 50%) to projects. The Iowa Values Fund was meant to help business in Iowa by providing low cost loans and grants for business located or starting in Iowa.

This program has been criticized due to how some businesses have used the money to provide economic benefit to Iowa while they were being funded. When the grants were discontinued, some jobs dwindled with the grants as observed in Marshalltown with respect to Lennox (Hancock, 2006). Solicitations for the IPF should be made and demonstrated for the benefit of Iowans via sustained job creation, technology innovation/education in Iowa, or better long term economic process in Iowa. Financial transparency of projects, contingency planning and matching funds will help to reduce the mismanagement of IPF (Hendricks, 1998). Contractual agreements should be enforced to make companies show long-term plans for the future of the jobs and development assisted by the fund.

There are lessons from the Vision Iowa fund where promotion of tourism in Iowa is promoted and applied by Iowa political subdivisions. IPF money should be distributed only to Iowa companies, or companies that intend to stay in Iowa well after the fund have been exhausted. Without this legislated restraint, the fund's local money effectiveness is diluted across the country or globally where companies request grant money but do not directly improve Iowa with the money.

The IPF should be used as an investment tool in conjunction with other tools. The United States energy supply is based upon an abundance of coal and coal-burning facilities that make

the cost of this energy cheaper than most forms of energy (MEC, 2008; Corburn & Farhar, 2008; Stein, 2008). Demand for energy is ultimately dictated by the market, but the production of the energy is affected by the development and research for new technology, efficient production and more efficient transmission of the energy (Hansen, July 2008). The combination of the Iowa Values Fund, IECF and IPF could be used in conjunction to “create” jobs that remain in Iowa based upon new energy technologies and pursuing the growth of energy technology in Iowa.

### Conclusion

There are conflicting opinions about energy policy alternatives. The climate change and environmental issues have intertwined with energy policy since burning of fuels for energy creates an environmental concern. The legislature provided a great opportunity to fund energy innovation in Iowa but may have left the door wide open for manipulation of that goal. Already the requests for IPF funding are significantly centered upon carbon burning technology instead future technologies in wind, hydro or solar efficiency, and thus, they may have already missed a great opportunity for encouraging significant pioneering in Iowa. The legislature, the governor and the IOEI have a tremendous responsibility with the money that has been allocated for energy related purposes. They must endeavor to look towards the future of energy and the potential industries that could be developed in Iowa.

We can use tax policy to augment the efforts by the IPF and IECF. Using regulatory action in addition to tax policy to further the goal of energy independence, we still need to be sure that the methods we promote actually lower energy costs, further our security interests, leaves the environment well for the next generation, and reduce our carbon emissions. As well, the IPF and IECF have to learn from the Iowa Values Fund and Vision Iowa where local money should be used to encourage local development and education rather than dilute the effectiveness

of the Iowa money in national companies or international companies that have little intention of directly helping Iowa.

The challenge of building cohesive energy policy that coordinates efforts of environmental interests with economic security and energy supply security is difficult but not impossible. To completely ignore the challenge and to push back on some presumed assumption that burning fuels is the only future for Iowa will inevitably leave Iowa vulnerable to more economic changes and leave the state without pioneering opportunities. Thus, public policy will have to adjust to encourage demand for the products and services and the focus has to remain upon the goal before getting mired special interest detail. While we could continue to argue the debate between an Oklahoma congressmen and the former Vice-President regarding climate change, we can be building the foundation for energy innovation and industry pioneers in the state of Iowa.

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