

FOCUSING OUR THOUGHTS

The League and Energy



Over the past two years the LWVC Energy Update Study Committee has posted a series of four short papers designed to acquaint you with the ways in which the electricity system in California functions, with its weaknesses and strengths, and with the ways in which it is governed.

Now we are approaching the time for discussion and consensus. This fifth paper presents you with a series of thought-provoking questions intended to help you put together values and priorities that have emerged from your study. **THESE ARE NOT THE CONSENSUS QUESTIONS.** They are intended as aids as you organize your thoughts. A brief background statement precedes each question.

1. *Background:* It was thought that a competitive day-ahead and spot market for power generation would lead to the creation of more energy producers. In fact, the availability of long-term contracts has proved to be a greater inducement to investment. The California Public Utilities Commission (CPUC) has called for an open competitive generation procurement process to be conducted by the investor-owned utilities (IOUs) leading to long-term contracts.

Question: Do you believe that this will foster a competitive market structure? Can you perceive potential problems that might develop?

2. *Background:* Direct access to the wholesale energy market (non-utility generation) has been opened to communities and other aggregated consumer groups.

Question: If your community voted to enroll in the Community Choice Aggregation plan, what would you expect of the service, as compared with the service you currently receive from the investor-owned utility (IOU) in your area? E.g., rates, reliability, green energy sources, conservation programs, other.

3. *Background:* Since deregulation, and the subsequent failure of the market-based system that followed, decision makers have been struggling with the challenge of designing a new system that combines a healthy electricity industry with the reliability, fairness, and transparency of operation that the public deserves. Introduction of the competitive market into what was previously a regulated monopoly system has resulted in what is called a "hybrid" system with unregulated merchant generators providing much of the state's power.

Question: Is there some way that reliability, fairness, and transparency of operation can be achieved under a hybrid system? Are there facets of the electricity industry that must be regulated to ensure these ends? In a hybrid system, how can comprehensive integrated long range planning be effectively implemented?

4. *Background:* In the Energy Action Plan, the California Public Utilities Commission and the California Energy Commission have designated renewable energy sources as second, after efficiency and conservation, on California's list of preferred electricity sources. Utilities contract for power from renewables from many independent generators, generally paying rates that are subsidized by the public goods charge on the utility bill. Due to the distributed location of these sources, additional transmission lines are needed to deliver this power to demand centers, and there is some debate as to who should bear the cost of this new transmission. Some of this new renewable generation will be owned by the utilities, but most will probably be built and owned by independent producers.

Question: Given that much renewable generation will be procured from a mix of relatively small, non-utility generators, distributed around the state, how should the costs of additional transmission lines be allocated?

5. *Background:* Municipal utilities provide about 25 percent of the electricity sold in California; much of the power they buy comes from outside the state. "Munis" are not regulated by the CPUC.

Question: Should municipal utilities be expected to adhere to the same requirements for renewable energy and energy efficiency, reserve capacity and controls on greenhouse gas emissions as the investor-owned utilities? If not, what requirements should be enacted?

6. *Background:* The role of the public in determining the direction of California's electricity system is taking on increased importance. Consumer response as to choice of servers, demand-side management, and efficiency measures of many kinds is being factored into utilities' resource plans. Photovoltaic installations are encouraged by net-metering, performance-based rates and subsidies. (Subsidies are rebates that are based on the manufacturer's rated system capacity, the kilowatts, not the actual amount of energy produced, the kilowatt-hours. Performance-based rates take into account the amount of energy produced, and the time of day that it is produced, as well as corollary values, such as mitigating environmental impacts and stabilizing the voltage of the distribution system.)

Question: How important is it to you to have choices in your use of electricity? What programs or techniques would most likely be of interest to you? How would you prefer to pay the initial costs of installation of a new technology? Would you prefer subsidies to rates based on performance?

7. *Background:* An integrated electricity system requires that all aspects of generation, transmission, and distribution be incorporated into a comprehensive, long-term plan. With the hybrid (regulated/non-regulated) system, statewide integrated planning seems to be evolving, though not all of the energy service providers are interested in participating.

Question: What measures should be undertaken to achieve integration: executive order, regulatory review, permitting and licensing requirements, etc.? Do you feel that municipal utilities and independent energy service providers should not be required to participate in a statewide integrated planning process?

8. *Background:* Efficiency is now accepted as an energy resource (producing "negawatts")—in fact, energy-not-needed is the least-cost source of new supply. To facilitate planning and to assure adequate supplies, natural gas and other traditional fuel sources can be bought with long-term contracts.

Question: How can long-term contracts for resources be used to assure achievement of a certain level of energy efficiency over the long term, so that "negawatts" can be built into a long-term resource-adequacy program?

9. *Background:* Regulation and rate making for the electricity industry is the responsibility of the CPUC. It is an enormously complex process, in which adjudication plays a major role. As a result, expert, and expensive, legal counsel is required for the public to participate, and it takes months to arrive at decisions.

Question: Would regulation and rate making be just as well accomplished through public workshops and discussion?

10. *Background:* Governor Schwarzenegger has proposed that state agencies with roles and responsibilities for energy planning and permitting, operational coordination, and rates and rulemaking be consolidated into a single state Department of Energy. The roles of the current agencies are diverse and depend upon a range of competencies and experience. In the case of the Energy Commission, planning and analysis is the major responsibility. For the CPUC, their rulemakings and rate-setting are largely adjudicatory proceedings. The California Independent System Operator (CAISO) is largely a technical operational entity, with a further role in protecting Californians against future market manipulation. Over the past three years, the existing agencies have instituted a collaborative process that has become manifest in the Energy Action Plan and is leading to a more rational process for transmission siting.

Question: Is establishing a California Department of Energy the preferred option, or are there other alternatives for fostering effective state governance?