

2017-2018 California Energy Policy Report

The 2017-2018 California legislative session came to an end on August 31, 2018. During the two-year session the legislature considered several far-reaching energy policies and mandates as well as a comprehensive response to mounting utility-caused wildfires. While some suggest that California leads the nation in decarbonizing its electric grid, renewable energy procurement, energy storage, and electric vehicles, it is also increasingly clear the state lacks a strategic unifying vision for the future. California's transition to a clean energy future is based on a series of political goals and piecemeal mandates, rather than a unified, comprehensive, and clear vision of how to actually get there. Far too little consideration is also being given to how much it will cost and potential short and long-term implications to the economy. Following are highlights and outcomes of some of the major energy policies considered by the state:

SB 901 (Dodd, D-Napa) – IOU Wildfire Liability

As the legislature concluded deliberations for the year, a legislative conference committee was initiated to address growing utility wildfire risks and liability. Under a legal concept known as “inverse condemnation,” the utilities can be held financially liable for fires caused by utility infrastructure even if the companies did nothing wrong. This potentially leaves both utility shareholders and ratepayers at significant risk as wildfires become more common and increase in severity. Unfortunately, the legislature enacted a major reform of liability allocation that will significantly shift costs from shareholders to ratepayers, even when the utility was negligent in actions that caused a fire. Key provisions include, but are not limited to, the following:

Utility Fire Prevention and Planning - The measure requires utilities to adopt new comprehensive wildfire prevention plans. These plans will require the utilities to spend billions of dollars to “harden” their systems (pole replacements, undergrounding and automated shut-off systems). This hardening will be paid for by utility customers going forward.

Forestry Management - Provisions improve forestry management practices that have lagged in California resulting in the dangerous buildup of dead and dying trees and other fuels. The measure calls for up to \$1 billion in Greenhouse Gas Reduction Funding (GGRF) to be made available over the next five state budget cycles for these improved practices. The measure also extends the contracts of existing biomass plants that are utilizing wood fuel from high risk fire zones.

Liability Allocation - The measure dramatically changes the cost allocation process of the CPUC for utility liability responsibilities. Under current practice, if the utility acted “imprudently” the costs are borne by utility shareholders. Under SB 901 the Commission can allocate costs based on several additional factors including weather and changing climate patterns. As a result, more liability will be shifted to ratepayers both for the 2017 wildfires and wildfires that occur in the future.

Securitization - The measure allows the utilities to securitize past and future wildfire liability costs and include them as a surcharge on all ratepayer bills over the next twenty years. Estimates of PG&E’s liability resulting from the 2017 fires alone could add up to 1 cent or more for every kilowatt hour of electricity used by ratepayers in each of the next 20 years.

Worker Protection - The measure includes provisions to protect IOU workers in the event of IOU insolvency.

The measure passed despite broad and vigorous opposition from ratepayer groups and being labeled as a “PG&E Bailout” by the media.

Status: Passed legislature; awaiting action by the Governor

SB 100 (de Leon, D-Los Angeles) – Clean Energy

Sources

As originally introduced, this measure sought to increase the Renewable Portfolio Standard (RPS) to 100% renewable energy by 2045. As amended in the Assembly, the measure now requires all power generation come solely from clean or “carbon-free” energy sources. In the interim, the bill expedites the state’s RPS requirements which is currently set at 50% by 2030. Additionally, the bill creates a goal for the state to meet all its retail electric supply with a mix of RPS-eligible and zero carbon resources by 2045. New requirements under SB 100 include:

2026: 50% RPS

2030: 60% RPS

2045: Planning goal of 100% mix of RPS-eligible and zero carbon resources

Status: Passed legislature; awaiting action by the Governor

AB 813 (Holden, D-Los Angeles) – Western Grid Regionalization

This measure outlined a process for creating bylaws and governing rules for a multistate regional transmission system organization that would ultimately be reviewed and approved by the Energy Commission, in consultation with the Air Resources Board (ARB) and the Public Utilities Commission. The proposed rules and governance would be subject to Federal Energy Regulatory Commission review and willing participation and adoption by other western states.

Despite being a top priority of Governor Brown and the California Independent Systems Operator (CAISO) the measure failed passage for a third straight year. Strong opposition from labor and some environmental organizations fearful of losing control of grid operations doomed the measure.

Status: Failed passage

The legislature showed some modest restraint on a host of other energy procurement mandates, as follows:

AB 893 (E. Garcia, D-Coachella) – Geothermal Energy

This measure would have required the state to procure 3,000 megawatts of qualified geothermal energy resources. The measure was designed to benefit the development of geothermal resources in the Assemblyman's district in the Salton Sea area. The measure also would have required the PUC and CEC to undertake a joint assessment of options for establishing a central statewide entity to procure electricity for all end-use retail customers in the state.

Status: Failed passage

AB 2787 (Quirk, D-Hayward) – Bulk Energy Storage

This measure would have required the CAISO to procure 1,000 - 2,000 megawatts of bulk energy storage and allocate the cost to all load-serving entities under the Transmission Access Charge or TAC. The measure was designed largely to benefit the controversial Eagle Crest pumped-hydro storage project near Joshua Tree in the Southern California desert. The measure was a last-minute "gut-and-amend" play by the project proponent, Next Era Energy and their building trades labor allies. The measure was opposed by the CPUC and CAISO.

Status: Failed passage

SB 1347 (Stern, D-Canoga Park) – Energy Storage Procurement

This measure would have required the CPUC to consider procuring an additional 2,000 MW of energy storage capacity, for a total of 4,000 MW across the state. The CPUC is currently implementing a 2,000 MW procurement mandate. The measure was opposed by business, agricultural and residential ratepayer groups due to costs concerns.

Status: Failed passage

Other Energy Legislation:

SB 237 (Hertzberg, D-Los Angeles) – Direct Access

This measure would increase the annual maximum limit of direct access services for non-residential customers by 4,000 GWH. Direct Access allows large commercial, industrial and agricultural customers to purchase energy from a competitive market, instead of through their IOU. The customer then pays the IOU to deliver the energy on their distribution system. With the proposed increase, the Direct Access program would represent about 15.4% of IOU load - up from 13.25% currently. The measure was strongly supported by the business and agricultural communities and was opposed, ironically, by Customer Choice Aggregation entities.

Status: Passed legislature; awaiting action by the Governor

SB 1440 (Hueso, D-San Diego) – Biomethane Procurement

This measure was originally designed to establish a very limited biomethane procurement requirement for IOU gas corporations. Assembly amendments instead requires the CPUC to “consider” establishing a modest biomethane procurement policy, including its cost-effectiveness.

This measure enjoyed broad support from biogas and biomethane interests including dairy and agricultural groups.

Status: Passed legislature; awaiting action by the Governor

SB 1369 (Skinner, D-Berkley) – Electrolytic Hydrogen

This measure requires the PUC, ARB and CEC to consider green electrolytic hydrogen an eligible form of energy storage. Electrolytic hydrogen, or power-to-gas (P2G), is an emerging energy storage concept that transforms excess renewable electricity into

hydrogen gas that can be stored. The measure, as amended in the Assembly also requires P2G to be targeted for increased utilization in the state.

Status: Passed legislature; awaiting action by the Governor