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Proposition 7
The Solar and Clean Energy Act of 2008

LEGISLATIVE ANALYST'S OFFICE

Presented to:

Assembly Committee on Natural Resources

Hon. Loni Hancock, Chair

Assembly Committee on Utilities and Commerce

Hon. Lloyd E. Levine, Chair

Senate Committee on Energy, Utilities and Communications

Hon. Christine Kehoe, Chair

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Summary and Background

Summary

- Proposition 7 would make numerous changes regarding the state's renewables portfolio standard and the permitting of electricity generating facilities and transmission lines. These changes include adding the requirement that all electric utilities, including municipal utilities, increase the amount of electricity they acquire from renewable resources to 40 percent by 2020 and to 50 percent by 2025.

Background

- ***California Electricity Providers.*** Californians generally receive their electricity service from one of three types of providers:
  - Investor-owned utilities (IOUs), including PG&E, Southern California Edison, and San Diego Gas and Electric, which provide 68 percent of retail electricity service.
  - Local, publicly owned utilities, such as Sacramento Municipal Utility District (SMUD) and Los Angeles Department of Water and Power (LADWP), which provide 24 percent of retail electricity service.
  - Electric service providers (ESPs), which provide 8 percent of retail electricity service.
- ***Electricity Infrastructure Permitting.*** Under current law:
  - The Energy Commission has authority to permit thermal power plants, such as natural gas-fired plants, with a generating capacity of 50 megawatts or more, as well as the transmission lines that connect such facilities to the transmission grid.

- Local governments have authority to permit specified non-thermal (including some renewable energy) power plants, such as wind farms and solar arrays, and thermal power plants with less than 50 megawatts generating capacity. Local governments also generally have authority to permit (1) the transmission lines that connect the facilities they permit to the grid and (2) distribution lines.

- The California Public Utilities Commission (CPUC) has the authority to permit IOU-proposed transmission lines within the larger electricity transmission grid.

■ ***Renewables Portfolio Standard (RPS).*** Under the RPS as set out in current law:

  - The RPS requires IOUs and ESPs to increase by at least 1 percent per year the amount of electricity that each acquires that is generated from renewable resources so that, by 2010, 20 percent of electricity comes from renewable resources.

  - The CPUC monitors and enforces IOU and ESP compliance with the RPS.

  - The CPUC may fine an IOU or an ESP that fails to meet its annual RPS target. The CPUC has administratively limited the amount of the penalty to 5 cents per kilowatt hour by which the IOU or ESP misses its RPS target and capped the maximum penalty amount charged to an IOU or ESP at $25 million each year.

  - The IOU obligations under the RPS are limited by a cost cap.

    - An IOU is required to acquire renewable electricity, even when its cost exceeds that of the CPUC-defined “market price of electricity” (reflecting the cost of conventionally generated electricity).

Summary and Background *(Continued)*

- An IOU's obligation to acquire such higher-cost electricity exists only to the extent that the above-market costs are less than the amount of money that would have been collected by that IOU under a previously operating state subsidy program.
- Publicly owned utilities are encouraged to meet same RPS requirements as IOUs and ESPs; however, publicly owned utility compliance is not enforced by any state agency.

– The CPUC projects that no IOU or ESP will meet the statutory RPS goal required of it by 2010.

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Proposition 7's Provisions

☑ **Establishes Additional, Higher RPS Targets for Electricity Providers.** Specifically:

- Adds, for each electricity provider, targets of 40 percent of electricity acquired be generated from renewable resources by 2020 and 50 percent by 2025.
- Requires each electricity provider to increase its share of electricity generated from renewable resources by 2 percent each year.

☑ **Applies RPS Requirements to Publicly Owned Utilities.**

- Requires publicly owned utilities to meet the same RPS requirements as IOUs and ESPs—20 percent of electricity from renewable resources by 2010, 40 percent from those sources by 2020, and 50 percent by 2025.
- Gives the Energy Commission authority to enforce publicly owned utility compliance with RPS.

☑ **Changes Cost Cap Provisions That Limit Electricity Provider Obligations Under the RPS.**

- Extends cost-cap provisions to ESPs (currently apply to IOUs only).
- Requires electricity providers to acquire renewable electricity per the RPS only so long as the cost of such electricity is no more than 10 percent above the "market price of electricity," as defined by the Energy Commission according to specified criteria.

Proposition 7's Provisions *(Continued)*

☑ **Expands Scope of RPS Enforcement.**

- Expands CPUC's RPS enforcement authority over IOUs to include ESPs.
- Grants the Energy Commission enforcement authority over publicly owned utilities that is similar to CPUC's authority over IOUs and ESPs.

☑ **Revises RPS-Related Contracting Period and Obligations.**

- Requires all electricity providers, including publicly owned utilities, to offer renewable energy procurement contracts of no less than 20 years, with certain exceptions.
- Requires electricity providers to accept all offers for renewable energy that are at or below the "market price of electricity" as defined by the Energy Commission.

☑ **Sets Lower Penalty Rate and Removes Cap on Total Penalty Amount for Failure to Meet RPS Requirements.**

- Lowers, from 5 cents per kilowatt hour to 1 cent per kilowatt hour, the rate used to determine monetary penalties for an electricity provider that fails to meet annual RPS targets.
- Specifies that, unlike current CPUC practice, the total amount of RPS-related penalties levied upon an electricity provider in a given year shall not be capped.
- Prohibits an electricity provider from recovering RPS penalties through rates paid by its customers.
- Provides conditions under which CPUC or the Energy Commission may waive RPS-related penalties.

Proposition 7's Provisions *(Continued)*

☑ **Directs the Use of RPS Penalty Revenues.**

- Requires that any RPS-related penalty monies and other specified revenues to be used to facilitate development of transmission infrastructure necessary to achieve RPS targets. (Generally, such penalty monies would otherwise be deposited into the state General Fund.)

☑ **Expands Energy Commission's Permitting Authority.**

- Grants Energy Commission authority to permit new nonthermal renewable energy power plants capable of producing 30 megawatts of electricity or more. (Currently, this permitting authority rests with the local government.)
- Gives the Energy Commission authority to permit IOUs to construct new transmission power lines within the electricity transmission grid (currently a responsibility solely of CPUC). It is unclear whether the measure relieves CPUC of its existing authority in this regard.

☑ **Declares Limited Impact on Ratepayer Electricity Bills.**

- States that, in the short term, California's investment in solar and clean energy will result in no more than a 3-percent increase in electricity rates for consumers.
- Includes no specific provisions to implement or enforce this declaration.

Fiscal Impact of Proposition 7

A. State and Local Government Cost and Revenue Impacts

☑ **Measure's Primary Fiscal Effect Is on Electricity Rates.** The primary fiscal effect of this measure is from its effect on electricity rates—a variable that affects both government costs and revenues.

- Changes in electricity rates would affect government costs, since state and local governments are large consumers of electricity. Higher rates increase costs, while lower rates decrease costs.
- Changes in electricity rates would also affect government revenues in two ways.
  - First, some local governments charge a tax on electricity use. To the extent the measure increases or decreases electricity rates, there will be a corresponding effect on local tax revenues.
  - Second, state and local government tax revenues are affected by business profits, personal income, and taxable sales—all of which are affected by electricity rates. Higher electricity rates will lower government revenues, while lower electricity rates will raise them.

☑ **Measure's Effect on Electricity Rates Is Unknown.**

- Both in the short term and in the long term, the measure has the potential to increase or decrease electricity rates from what they would otherwise be.
- Measure's effect on electricity rates would depend upon the relative costs of renewable resources and conventional resources, such as natural gas, as well as the extent to which the measure advances development of renewable energy resources and technology, both of which are difficult to predict.

Fiscal Impact of Proposition 7 *(Continued)*

- Prospect for higher electricity rates is greater in the short term; long-term effect of measure on electricity rates is more uncertain.
- Increase in electricity rates may be limited by "cost cap" provisions. Because the measure allows the Energy Commission substantial discretion in setting the "market price of electricity"—a key variable in the operation of the cost cap—the effect of the cap on the price of electricity is unknown.

Fiscal Impact of Proposition 7 *(Continued)*

B. State and Local Administrative Impacts

☑ **Increased Energy Commission Administrative Costs.**

- Increased annual administrative costs of approximately $2.4 million resulting from new responsibilities, such as determination of market price of electricity and permitting of transmission lines within the electricity grid, and expansion of existing duties.
- Under current law, additional costs would be funded by fees paid by electricity customers.

☑ **Increased CPUC Administrative Costs.**

- Increased annual administrative costs of up to $1 million resulting from greater workload associated with increased RPS targets.
- Under current law, additional costs would be funded by fees paid by electricity customers.

☑ **Uncertain Effect on Local Government Administrative Costs.**

- Measure shifts from local government to the Energy Commission responsibility for permitting certain renewable energy facilities, which will result in administrative costs savings of an unknown amount to local government.
- However, local government may face new costs associated with representing their interests before the Energy Commission.
- Uncertain whether, on balance, savings to local government will outweigh costs, though net impact is likely to be minor.