

SENATE THIRD READING
SB 1194 (Sher)
As Amended August 21, 2000
2/3 vote

UTILITIES & COMMERCE 11-1 APPROPRIATIONS 19-2

Ayes: Wright, Pescetti, Calderon, Cardenas, Maddox, Mazzoni, Papan, Reyes, Villaraigosa, Vincent, Wesson	Ayes: Migden, Ackerman, Alquist, Aroner, Brewer, Cedillo, Corbett, Davis, Kuehl, Maldonado, Papan, Romero, Runner, Shelley, Thomson, Wesson, Wiggins, Wright, Zettel
Nays: Campbell	Nays: Campbell, Ashburn

SUMMARY : Reaffirms policy that each investor-owned utility (IOU) shall continue to operate its electric distribution grid in its service territory and have a reasonable opportunity to recover its costs, extends the collection of a nonbypassable system benefit charge to fund specified programs, requires various reports relating to these programs, and requires further legislative action before program moneys can be expended. Specifically, this bill:

- 1) Restates the policy of the state that each IOU operate its electric distribution grid in a safe, reliable, efficient, and cost-effective manner and that electric corporations continue to make prudent investments in their distribution grids.
- 2) Reaffirms California's doctrine, as reflected in regulatory and judicial decisions, regarding IOUs' reasonable opportunity to recover costs and investments associated with their electric distribution grid and the reasonable opportunity to attract capital for investment on reasonable terms.
- 3) Extends the collection of a nonbypassable system benefit charge to fund three specific programs: a) energy efficiency and conservation activities; b) public interest research, development, and demonstration (RD&D); and, c) in-state

operation and development of existing, new, and emerging renewable energy resources.

- 4) Requires IOUs and municipal utilities to collect specific dollar amounts for each of the programs beginning on January 1, 2002, through January 1, 2012, and requires the funds to be deposited in specified accounts until appropriation by the Legislature.
- 5) Requires the Energy Resources Conservation and Development Commission (CEC) to develop investment plans for renewable energy and RD&D. For renewable energy, CEC is required to submit an initial investment plan by March 31, 2001, addressing the application of moneys collected between January 1, 2002, and January 1, 2007. A subsequent investment plan is due March 31, 2006, relating to the application of moneys collected between January 1, 2007, and January 1, 2012. For RD&D, CEC is required to submit an initial investment plan by March 1, 2001, addressing the application of moneys collected between January 1, 2002, and January 1, 2007. A subsequent investment plan is due March 31, 2006, relating to the application of moneys collected between January 1, 2007, and January 1, 2012. No moneys may be expended in the years covered by these plans without further legislative action.
- 6) Requires the California Public Utilities Commission (CPUC) and CEC to continue to administer energy efficiency programs, as defined, following prescribed guidelines.
- 7) Requires the Governor, on or before January 1, 2004, to appoint an independent review panel that, on or before January 1, 2005, would be required to submit a report to the Legislature and CEC evaluating the programs funded under this bill, and including specific recommendations aimed at assisting the Legislature in determining whether to change or eliminate the collection of system benefits charge on or after January 1, 2007.

- 8) Requires CPUC to require IOUs to inform all customers who request residential service connections via telephone of the availability of the California Alternative Rates for Energy (CARE) program and how they may qualify for and obtain these services, and permits IOUs to recover the reasonable costs of implementing these provisions. Additionally, requires IOUs to accept applications for the CARE program according to

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procedures specified by CPUC.

- 9) Authorizes CPUC to include misrepresentation of a material fact by an applicant obtaining a registration as an electric service provider (ESP) as a reason to suspend or revoke their registration.
- 10) Makes related findings and declarations.

EXISTING LAW :

- 1) States legislative findings that the transmission and distribution of electric power are essential services imbued with the public interest that are provided over facilities owned and maintained by the state's IOUs.
- 2) Declares the delivery of electricity over transmission and distribution systems is currently regulated, and will continue to be regulated to ensure system safety, reliability, environmental protection, and fair access for all market participants.
- 3) Requires IOUs and municipal utilities to collect a public goods surcharge from each electricity customer to fund four specific programs: a) energy efficiency and conservation activities; b) public interest RD&D; c) in-state operation and development of existing, new, and emerging renewable energy sources; and, d) assistance to low-income users. Statutory authority to collect funds for the renewables programs sunsets on March 31, 2002.
- 4) Requires CEC to transfer funds collected for these programs to specified funds.
- 5) Provides that funds expended for production incentives for new in-state renewable electricity generation technology facilities are limited to facilities that are operational prior to January 1, 2002.
- 6) Authorizes CPUC to utilize enforcement provisions against electric service providers, including having their registration suspended or revoked for specified acts of misconduct.

FISCAL EFFECT :

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- 1) CPUC indicates minor absorbable special fund costs to continue administering the energy efficiency program.
- 2) CEC indicates absorbable costs to prepare the investment plans for future legislative consideration to determine expenditure of funds collected for RD&D and renewable energy programs.
- 3) Absorbable special fund costs for CPUC and CEC to provide assistance to the independent review panel.

COMMENTS :

- 1) Electric Distribution Grid. Historically, California's electrical corporations were vertically integrated companies that owned, operated, managed and controlled electric generation, transmission and distribution. In 1996, California enacted landmark electric restructuring legislation AB 1890 (Brulte), Chapter 854, Statutes of 1996, which created a competitive generation market and transferred control of the investor owned utilities transmission to the Independent System Operator. With the passage of Chapter 854 and past decisions of CPUC, there has been uncertainty created regarding investments in new generation and transmission. In an effort to ensure that similar uncertainty does not occur

with regard to the distribution system, this bill reaffirms the core distribution functions that remain under the authority of CPUC. This bill also reaffirms the historical cost recovery doctrine governing investments in the electric distribution grid to ensure that essential investments continue to be made to the grid.

- 2) Public Purpose Programs. Another key component of Chapter 854 that this bill seeks to address is the collection of a separate component to fund specified public purpose programs such as: a) cost-effective energy efficiency and conservation activities; b) public interest research and development; and, c) renewable energy. Under existing law, the three investor owned utilities, Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E) and San Diego Gas and Electric Company (SDG&E), are required to collect specified amounts to fund these programs through 2001. CPUC's authority to collect funds to support the renewables program became explicitly inoperative on March 31, 2002. This bill extends the authority to collect funds to support these programs for

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up to 10 years in two five-year blocks. However, rather than simply extending the funding authorization, this bill requires CEC to develop investment plans for the renewable and RD&D programs covering each five year block. Further, the Legislature must take specific action before any of these moneys can be spent.

- 3) Program Improvements. It was the Legislature's intent that funding for the renewable program terminate after five years. California, however, has not reached the levels of renewable resources envisioned at that time. This bill seeks to optimize public investment and ensure that the most cost-effective and efficient investments in renewable resources are pursued and directs CEC to prepare an investment plan aimed at development of a fully competitive and self-sustaining California renewable energy supply. This bill also established revised guidelines to establish a level of parity amongst new, repowered, refurbished and existing sources of renewable energy. This bill also requires CEC to address issues regarding the organizational environment managing the RD&D program. Finally, this bill provides for improvements in the energy efficiency program by requiring CPUC to ensure local and regional interests, multifamily dwellings and energy service industry capabilities are incorporated into the program portfolio design. In past years, the program design left many of these entities incapable or unqualified to access the energy efficiency moneys.
- 4) Systems Benefit Charge. This bill establishes that the systems benefit charges to fund the energy efficiency, renewable energy, and research and development programs is nonbypassable for every customer of an electrical corporation. While this bill authorizes CEC to require each electrical corporation to collect the systems benefit charges through 2012, funds cannot be expended until the Legislature acts after review of the investment plans described above. This bill further includes provisions that place limits on program funding levels and customer surcharge rates which large users have indicated provides them greater certainty regarding costs to support these programs.
- 5) Independent Review Panel. This bill requires the Governor to appoint an independent review panel of members with expertise on the energy service needs of large and small electricity

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consumers to review the operation of the programs. The panel, to be appointed by January 1, 2004, is required to prepare a report on or before January 1, 2005 evaluating the public purpose programs. The report will also assess whether the programs are consistent with the statutory goals, if established targets for renewable generation are likely to be achieved, and whether changes should be made to result in more efficient use of public resources. The panel is also directed to compare CEC's programs with efforts in other states. The report is aimed at assisting the Legislature to determine whether to change or eliminate the collection of the system benefits charge.

Analysis Prepared by : Carolyn Veal-Hunter / U. & C. / (916)
319-2083

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