

# Department of Energy



## Energy Agency Reorganization Plan

*Senate Energy, Utilities and Communications  
Committee*

*Governor Schwarzenegger's Plan to  
Establish a Department of Energy*

Joseph Desmond, Chairman  
California Energy Commission  
August 24, 2005

### Questions Raised by the Little Hoover Commission

- What are the greatest energy problems facing California and what is the Schwarzenegger Administration's strategy for responding to these changes?
- How does the State's organizational structure contribute to these problems or impede the resolution of these problems? How does the reorganization plan resolve these deficiencies?
- What is the Administration expecting to accomplish with its energy policy and how will it measure progress toward these goals? How will the reorganization plan contribute to that progress? How will you implement and monitor the new structure to maximize its role in developing an effective energy policy?

### **Problems with Current Structure Are Well-Known**

- 1984: Little Hoover Commission found the Energy Commission lacks effective mechanisms to put policy recommendations into effect, and that there is overlap and duplication between the Energy Commission and the CPUC.
- 1989: California Senate Concurrent Resolution stated that the existing regulatory system has “resulted in significant fragmentation, duplication, overlap and confusion in the formulation and execution of State energy related functions.”
- 1990: Legislature's Joint Committee on Energy Regulation and the Environment observed that energy policies and agencies were significantly fragmented. It also observed that there is no State energy policy, and that the combination of the two result in a lack of accountability and effectiveness.

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### **Problems with Current Structure Are Well-Known**

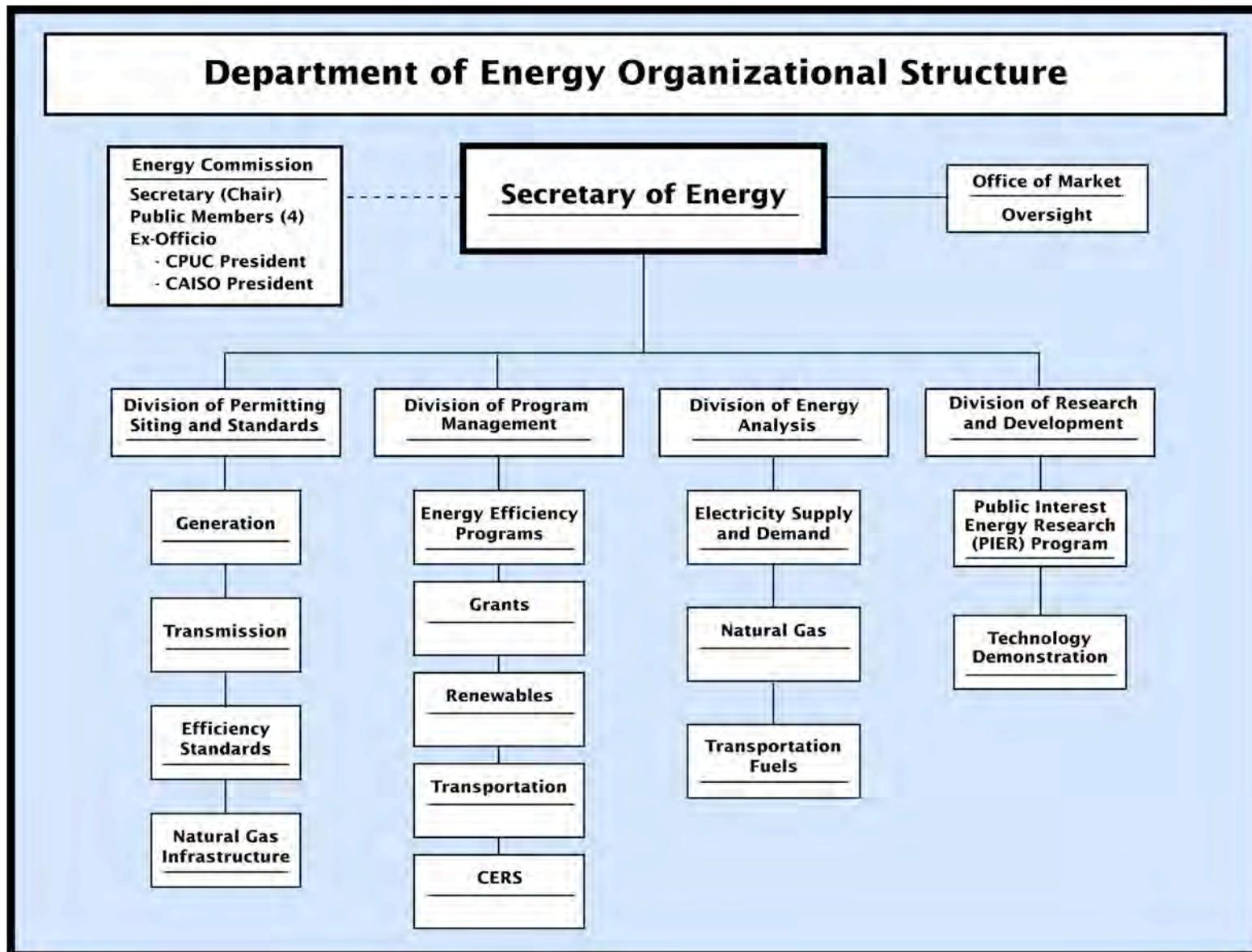
- 1995: Little Hoover Commission declared Governor Wilson's reorganization proposal to be "an important opportunity to align similar functions so that increased efficiency, effectiveness and accountability are achieved."
- 2002: Legislative Analyst's Office observed that existing energy agencies sometimes advocate different policies.
- 2003: Public Policy Institute of California stated that the fractured and overlapping set of agencies leads to inefficiencies and conflicts, and concluded that State energy policy has lost its coherence because the many facets of devising energy policy are addressed in so many separate forums.

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## Highlights of the Reorganization Plan

- Creates Department of Energy with cabinet-level Secretary of Energy.
- Consolidates the following existing agencies and departments:
  - California Energy Commission
  - California Power Authority
  - Electricity Oversight Board
  - California Energy Resources Scheduling Division (currently part of the Department of Water Resources)
- Transfers transmission and natural gas infrastructure siting from the CPUC to the Department of Energy.
  - Electric distribution siting remains at the CPUC.
- Maintains Energy Commission structure for generation and transmission siting, appliance efficiency standards and building efficiency standards.
  - Secretary of Energy serves as Chair of the Energy Commission.

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### **Benefits of the Reorganization**

- Establishes accountability for the implementation of energy policy.
- Focuses development of energy policy.
- Reduces fragmentation, duplication, and overlap in the formulation and execution of energy functions.
- Improves communications with legislature and the public.

Little Hoover Commission  
Comments on GRP 3

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### **Little Hoover Commission Response to GRP 3**

- LHC agrees organizational changes are necessary and enthusiastically supports proposal to create a Dept of Energy led by a secretary of energy
- Leg Counsel and AG opined that some regulatory functions cannot be done through the reorganization process
- As a reorg plan, cannot be amended
- LHC urged Governor and Legislature to expeditiously put in place reforms to improve leadership and accountability
- Encouraged Governor to resubmit plan, subject to concerns described in letter

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### **Little Hoover Commission Concerns**

- Progress made since crisis, but more needs to be done
- Compelling case can be made a more centralized structure is needed to forge and execute cohesive strategy for ensuring adequacy
- State does need to consolidate into a DOE, led by Secretary
- Should incorporate, with appropriate legislative checks and balances

### **Little Hoover Commission Concerns (Cont.)**

- Proposal also attempts to streamline permitting over electricity transmission and natural gas facilities from CPUC to CEC
  - Legal opinions conclude reorg statute presents challenges
  - Proposal needs additional planning and analysis to ensure changes improve decision-making
  - Carefully review and present to Legislature a comprehensive proposal to streamline, integrate and if necessary, consolidate authorities
- Modification of the proposal to have Secretary serve as Chairman of the Energy Commission could provide desired integration without jeopardizing fact-based analysis and independent decision-making
- Minor changes would help to clarify FERC coordination
- The plan and discussions have provided significant value

# Governor's Response to LHC

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### Governor's Response to LHC Suggestions

- GRP 3 bill language being introduced; has been submitted to Leg Counsel
- Attorney General's concerns have been resolved with new language and legislative approach
- Secretary of Energy is still member of new Energy Commission but is no longer chair
- Governor selects CEC chair from among other four public members every two years
- No longer transfers natural gas siting authority from CPUC to Department
- Clarifies with respect to electric transmission siting that is transferred from CPUC to DOE that the authority to recommend and approve a cost cap for an IOU facility remains with the CPUC

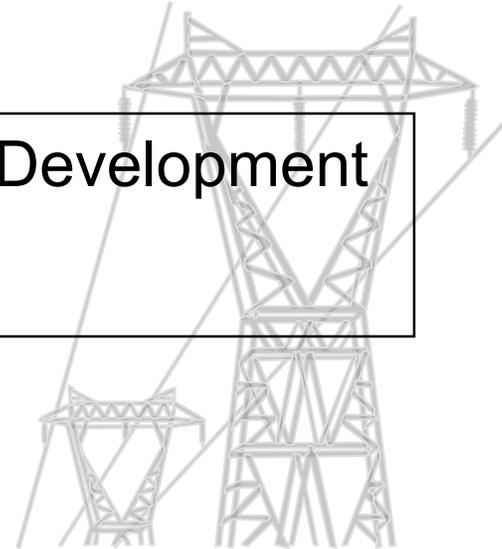
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### Governor's Response to LHC Suggestions

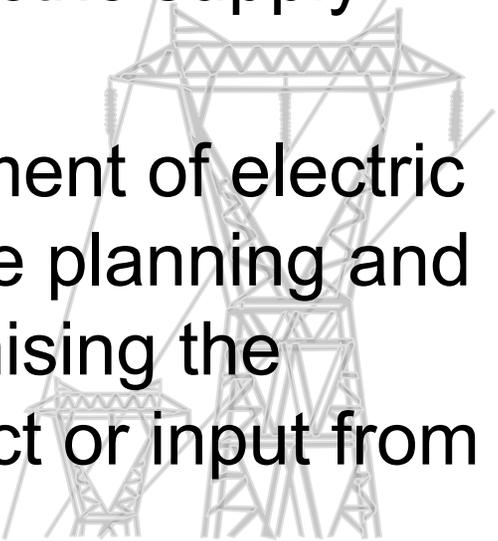
- Gives CEC authority to enact its own regulations for its functions rather than relying Department
- Requires 90 days notice to Legislature before commencing any use of CPA bond authority (was previously 30)
- Clarifies that scope of market investigation authority of DOE office of market oversight is "wholesale energy markets" (electricity, natural gas, transportation fuel)
- Retains authority to adopt tire efficiency standards with Energy Commission rather than broader Department
- Clarifies that conflict of interest provisions from Warren Alquist act will apply to all employees of Department
- Some obsolete references to the authority of the EOB over the Power Exchange are deleted and replaced with a single catch-all to preserve the EOB's rights in any continuing litigation regarding the Power Exchange.

# ***Transmission Development Process***

A Plan to Foster Transmission Development  
In California

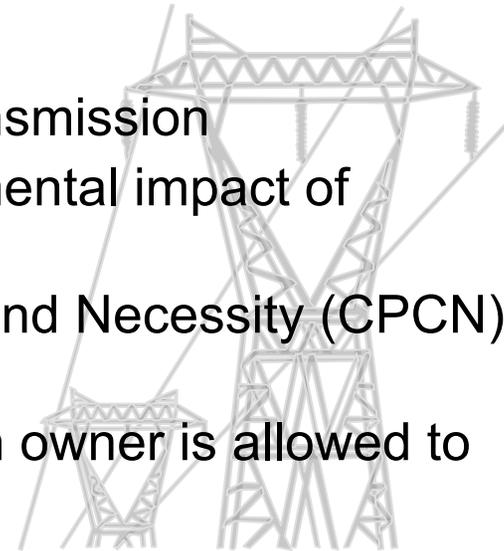


## Proposal Submitted to Little Hoover Commission

- **Problem** – Insufficient investment in Electric transmission has increased the cost and reduced the reliability of the electric supply
  - **Solution** – Foster the development of electric transmission by streamlining the planning and siting process without compromising the analysis of environmental impact or input from public
- 

# Pre-1998 Transmission Development

- **Utilities** - performed integrated resource planning for the development of transmission, generation and demand side management
- **CPUC Siting Analysis**  
regulated utility financial investment in transmission  
examined need, alternatives and environmental impact of transmission route  
Issued Certificate of Public Convenience and Necessity (CPCN)
- **FERC** – determined costs that transmission owner is allowed to recover; just and reasonable
- **CPUC** – allocated FERC approved costs to utility customers



# Current Transmission Development

- **Change in Federal Energy Policy**
  - 1992 – Energy Policy Act created new class of independent power producers
  - 1996 – FERC Orders 888/889 required utilities to open wholesale power markets to competition
- **Change in California Energy Policy**
  - 1996 – In response to federal policy, AB1890 created CAISO that is responsible for system reliability and ensuring fair and open access to transmission grid.
- **Statewide Energy Policy and Strategic Transmission Planning**
  - 2002 - SB1389 [Bowen] directed CEC to biennially produce a report that sets forth energy policy and decisions affecting the state.
  - 2004 - SB1565 [Bowen] directed CEC to develop and adopt a strategic transmission planning process for the state's electric grid

# Problem with Current Process

- **Redundant**

Needs Assessment: CAISO and CPUC separately conduct an analysis to determine economic or reliability justification for a transmission project and

Alternatives Assessment: CEC and CPUC separately determine when transmission is the best option to meet the need

- **Ambiguous** – redundant analyses are not conducted in the same manner
- **Result** - The redundancy and inconsistency of the transmission planning and permitting process add to the risk, cost, and time to develop the transmission infrastructure.

### **Problem with Current Process** (cont.)

- **Example – Valley-Rainbow Transmission Line**

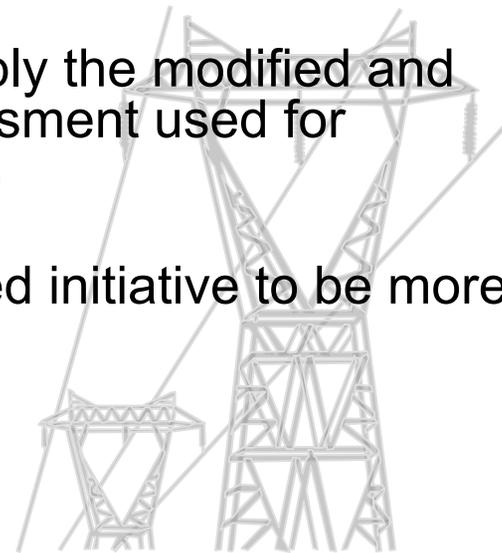
project denied by CPUC in 2003 because it did not pass CPUC economic needs test

CPUC test did not consider benefits after year five (5) of a project with a 50 year useful life

project would have saved customers \$191M in first two years of operations [Jim Avery, senior VP SDG&E, testimony at June 29, 2005 CEC Integrated Energy Policy Report hearing]

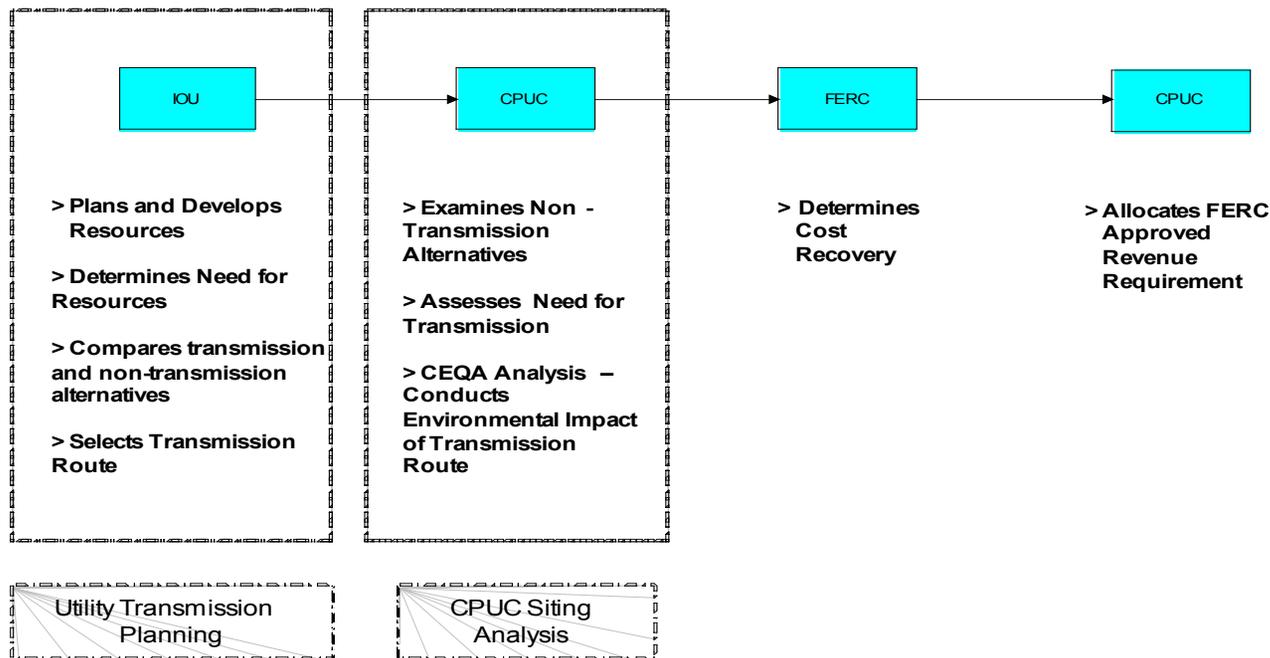
# Reorganization – Governor’s Proposal

- **Eliminates** redundancies and ambiguities in the needs and alternatives assessment
- **Retains** CEC and CAISO statewide transmission planning responsibilities including needs and alternatives assessments
- **Transfers** siting authority to CEC/DOE; apply the modified and improved CEC environmental impact assessment used for generation projects to transmission projects
- **Compatible** with CAISO recently announced initiative to be more proactive in transmission planning



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## ***Transmission Development Processes*** (Pre-1998, Prior to State and Federal Policy Changes)

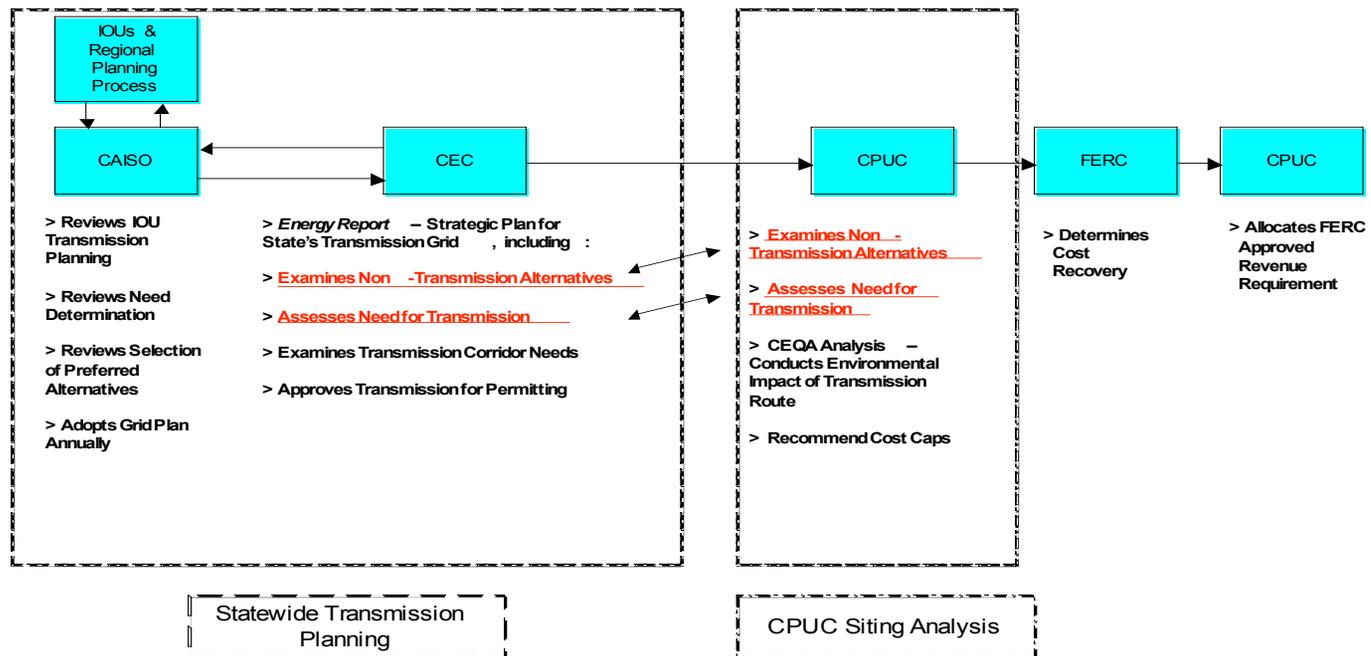


Regulatory functions were aligned with state and federal policy wherein utilities integrated development and operation of generation and transmission resources

The Policy limited access to the power grid by independent power producers and resulted in weaknesses in the grid between the utilities and adjacent states

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## Transmission Development Processes Current - Post AB1890 (1996), SB1389 (2002) & SB1565 (2004)

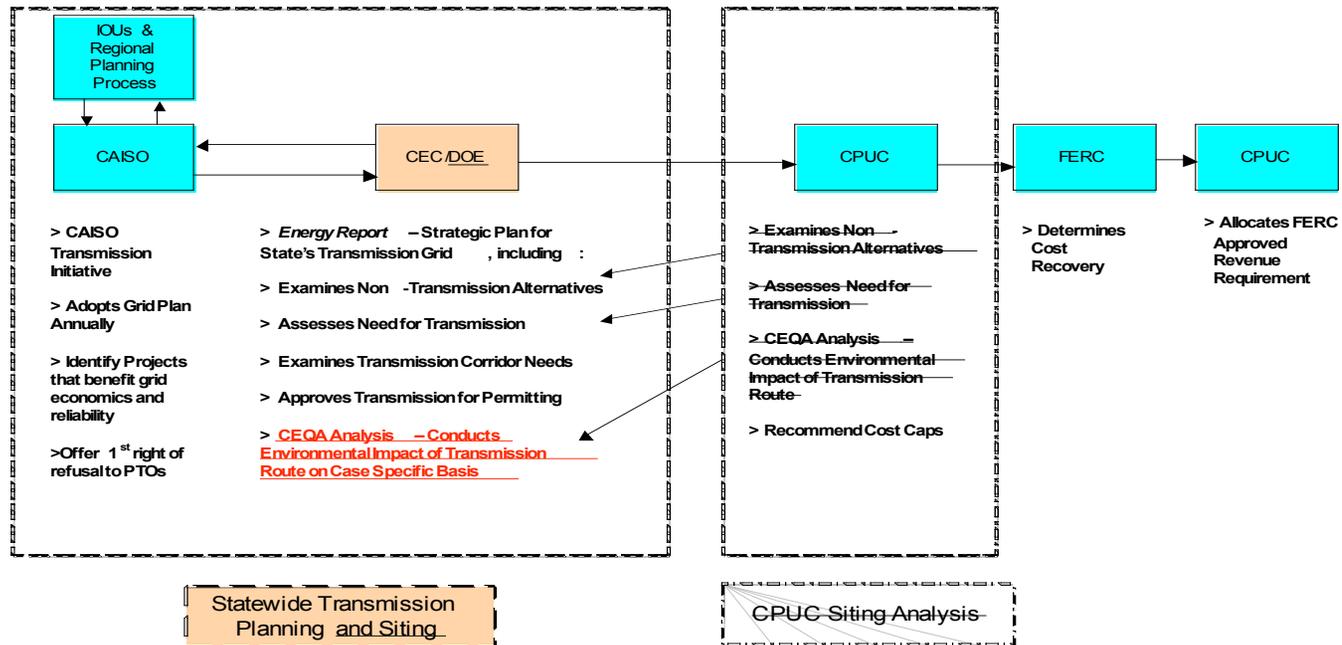


AB 1890, the Restructuring Legislation, created CAISO to maintain grid reliability and Open Access in response to FERC Order 888/889

SB 1565 (Bowen, 2004), directs the CEC to develop a statewide, strategic plan for transmission, establishing the Energy Commission's Energy Report proceeding as the forum for the state to conduct transmission planning

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## Transmission Development Processes (Governor's Proposal)



Administration Proposal to transition transmission siting responsibilities to CEC

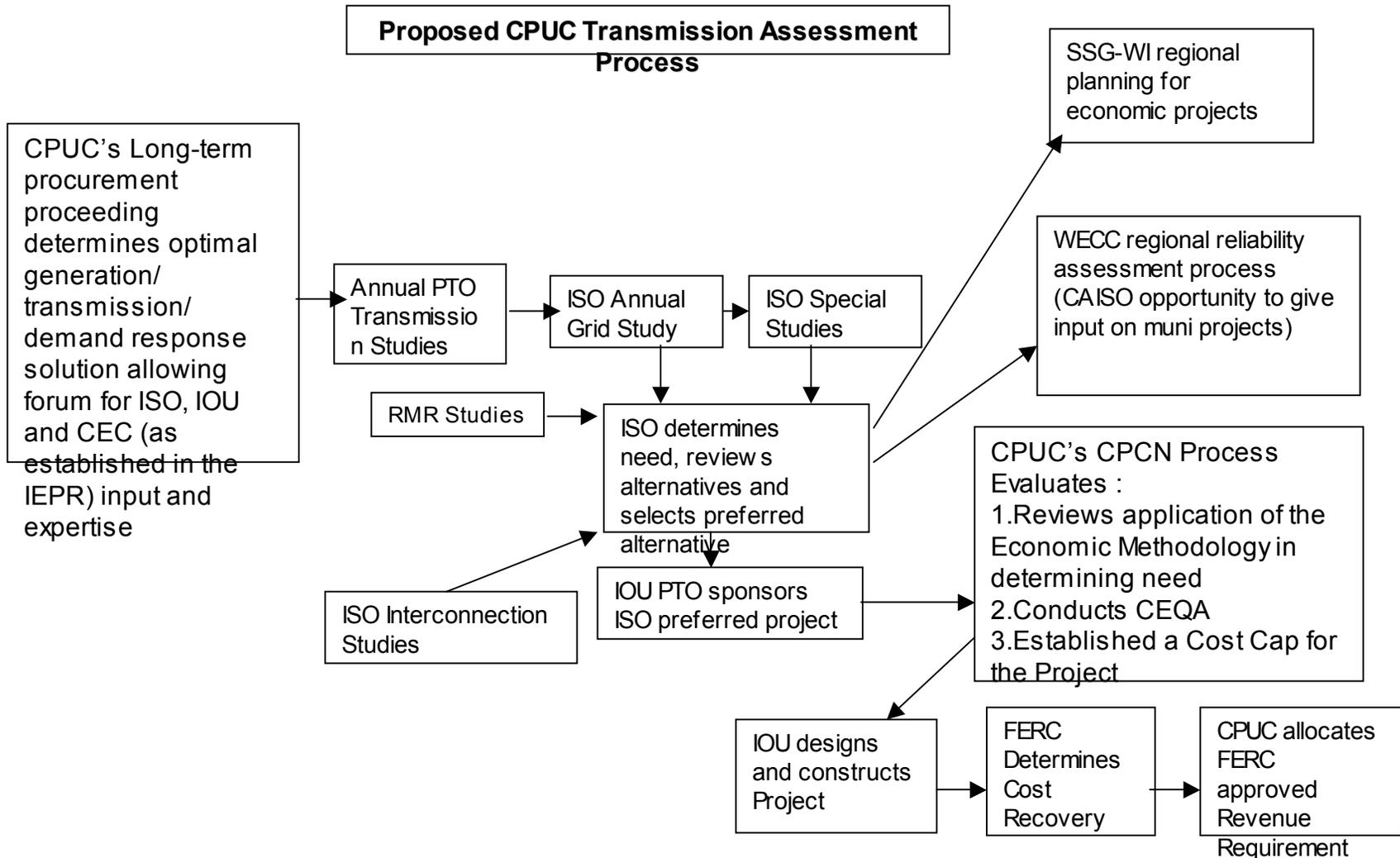
/DOE is consistent with existing California policy and legislation

Administration Proposal also eliminates redundancies in Transmission Development Process without compromising public input and environmental review

Responsibilities to specify characteristics or a cost cap for a transmission project would not be transferred to the Department of Energy  
CPUC would continue to have authority to make these specifications and advise the Department of Energy on its Findings

Under the Proposal, the

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From: R0401026 Attachment B Electric Transmission CPCN Reform Rulemaking: Report on the Current Transmission Planning Process for Investor Owned Utilities, Kerry Hattevik, The Division of Strategic Planning, December 29, 2003