Comments
of the
California Municipal Utilities Association

on

Draft Energy Action Plan II
Implementation Road Map

COMMENTS
OF THE
CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION

The members of the California Municipal Utilities Association ("CMUA") share many of the goals expressed in the Draft Energy Action Plan II ("Draft EAP II" or "Draft"), but do not endorse all of the specific comments.

One Size Fits None

Draft EAP II states as follows:

> The Energy Action Plan is intended as an implementation roadmap for the entire state, not only the 75-80 percent of California that is served by investor-owned utilities. While some of the actions described herein apply solely to investor-owned utilities, in general they should be seen as applying equally to the customer-owned utilities, even when that aspect is not specified.

Draft EAP II at 3. The California Constitution and the California Legislature have recognized the importance of local control over publicly owned electric utilities. The more than 100 years of history of publicly owned utilities repeatedly points to the wisdom of that approach. Publicly owned utilities are economically viable,[1] providing reliable low cost energy to their customer-owners.

The state's record is not nearly so good. The last major CPUC energy policy, commencing with the Yellow and Blue Books and evolving through AB 1890, resulted in the disastrous restructuring of our electricity industry without adequate consumer

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[1] As Fitch Ratings has recently stated, "public power utilities are financially strong. In response to recent periods of substantial volatility in the wholesale electricity market and impending retail competition, many public power utilities enhanced their financial strength and improved their liquidity profile and their focus on risk management." Fitch Ratings, *US Public Power, Peer Study and Selected Highlights* at 7 (June 2005).

safeguards. By all estimates of which CMUA is aware, this mistake cost California consumers billions of dollars. It would not have been a good policy result to force all of the elements of the overall plan (power plant divesture, lack of forward resource commitment, transfer of transmission to the California Independent System Operator Corporation ("ISO") on publicly owned utilities. As a result of sound local decisions the state's publicly owned utilities remained financially sound and resource adequate. Of the three major state regulated utilities, one went through a protracted bankruptcy proceeding and another was near bankruptcy. It was certainly good for the state that 25% of the electric industry did not follow the policy that induced the electricity crisis.

Nevertheless, if the goal of the Draft EAP II is to foster greater coordination and cooperation to achieve common policy objectives, CMUA supports that goal, and suggests the following language to replace the above quotation:

> Local publicly-owned electric utilities are empowered by the California Constitution and statute to make energy policy determinations on behalf of their customer-owners, and we look forward to working with them on a co-equal basis to best achieve common energy policy goals that benefit all of California.

Renewable Portfolio Standard ("RPS")

California's publicly owned electric utilities have long been in the forefront of renewable technology development and other energy innovations. Decades ago, the City of Santa Clara established the nation's first Solar Utility that encouraged and installed solar water heaters for swimming pools. Publicly owned utilities have some of the most aggressive solar photovoltaic programs in the country. They were pioneers in developing geothermal and wind energy systems. Throughout their history publicly owned utilities developed hydroelectric projects which continue to provide clean low cost energy to California consumers. The vast majority of CMUA members have adopted RPS plans through local ordinance that are comparable to the plan adopted through legislation. Today, CMUA members have recently built or contracted for hundreds of megawatts of renewable resources over the last two years, despite already being resource sufficient. That trend continues, as Requests for Proposals are currently outstanding and will likely result in additional investment in renewable technologies.

The Draft EAP II endorses an acceleration of the RPS even though most of the participants in the CEC process have expressed doubts about the wisdom of that acceleration. What concerns CMUA most is that a critical and comprehensive analysis of the purpose and consequences of the RPS is lacking. The Draft contains no such analysis, yet the Draft endorses accelerating the goal without evaluating its purpose. For California to have an effective energy policy, the potentially competing goals of fuel diversity, reliability, air quality, and competitive rates must be considered. CMUA urges immediate commencement of that comprehensive analysis.

The Draft EAP II does recognize the importance of transmission to the acceleration of the RPS goal. Yet the Draft no where examines potential consequences of that decision. The information is available. Indeed, the report of the Tehachapi Study Group submitted to the CPUC identifies potential cost and operational issues presented by increased intermittent generation, in particular due to the lack of conformance of intermittent resource output with load shapes in California. Further, the Draft EAP II also does not address whether or not the market structures being implemented the California Independent System Operator will in fact facilitate cost-effective delivery of renewable resources, many of which may necessarily be distant from load centers and may not be able to secure long term transmission rights to lock in a delivered price of energy. CMUA has more comments on the wholesale market design below.

CMUA urges the state energy agencies to work with local publicly owned electric utilities on RPS plans. Publicly owned utilities take renewable energy very seriously. It should be remembered, however, that since publicly owned utilities also take resource adequacy and costs seriously, there are competing objectives. Further, many of the individual characteristics of smaller utilities may point toward policies that stress different technologies, or energy efficiency, over a particular renewable fuel source. It is only through a dialogue that recognizes the differences between entities and reflects competing policy goals that a comprehensive and effective energy policy for California will be developed.

Million Solar Roofs

While CMUA and its member agencies support the goal of making photovoltaic energy more available and more cost effective, the Draft EAP II should assess the costs of such a program. Photovoltaics are still very expensive. If the goal is to provide more fuel diversity and reliability, demand response, energy efficiency, or other forms of renewables (including solar thermal) may be a better expenditure of funds. No reason for supporting a million solar roofs is provided in the report.

Lowering Rates

California's IOU customers pay very high electricity rates. Those rates are directly related to the policies adopted by the state. The Plan should not repeat past errors, drive costs even higher, and drive employers from California. The Plan must recognize and tackle to cost consequences of policy choices before the policy choices are made.

Wholesale Market Structure; Market Redesign and Technology Upgrade ("MRTU")

CMUA was surprised and disappointed to see the Draft endorse the ISO's MRTU proposals for wholesale market design. To our knowledge, neither the CPUC nor the CEC has held any investigation into whether or not the MRTU will benefit California consumers. So far the MRTU process has produced nothing but uncertainty and implementation costs.

CMUA has consistently expressed concern that a market design similar to that adopted for Regional Transmission Operators in the Eastern United States is ill-suited to the West, primarily because of our transmission infrastructure and resource mix. CMUA simply does not believe MRTU will support the infrastructure development that California requires. Indeed, the design of MRTU, which focuses on spot energy markets and short term financial instruments to manage price risk, is coming under increasing scrutiny across the nation. The Electricity Consumers Resource Council ("ELCON"), an organization representing large energy consumers and which championed industry restructuring, has called for a suspension of efforts to encourage further development of Organized Markets until infrastructure development increases and other conditions are met.[2] ELCON's observations are instructive, as they are borne out of experience in

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2 *Problems in Organized Markets, A Special Report by the Electricity Consumers Resource Council* at 2 (April 2005). This document can be found at: http://elcon.org/Documents/Publications/ELCONSpecialReportApril2005.pdf.

Eastern markets and are virtually identical to concerns raised regarding MRTU, including:

- that locational pricing unnecessarily fragments the markets (ELCON Report at 5);
- that "the logical extension" of locational pricing and resource adequacy rules would be to force resource adequacy to the nodal level, sacrificing efficiency and increasing costs (ELCON Report at 6);
- that markets using locational pricing have seen increased congestion costs since inception and little or no transmission investment to solve the congestion problems (ELCON Report at 6); and
- that LMP has not been shown to be superior to the prior method of managing congestion through physical rights and should be reconsidered (ELCON at 7).

The CATO Institute, not known for its left-leaning proclivities, has also raising fundamental concerns about the direction of electricity markets;[3] it is not just public power that is raising fundamental concerns. California should learn from the experiences of others and not rubber-stamp a policy initiative simply because it appears to be the current federal policy preference.

This is not to say that the clock should be turned back to a full reintegration of the old control area operations. However, CMUA does urge that the state energy agencies take a closer look, perhaps through more formal procedures, at the advantages and disadvantages of adopting MRTU as the preferred market design. The Draft EAP II should not endorse MRTU without such analysis. After the first debacle, California consumers are owed no less.

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3 Van Doren and Taylor, *Rethinking Electricity Restructuring,* The Cato Institute (November 30, 2004). This policy analysis can be found at http://www.cato.org/pubs/pas/pa530.pdf.

Statewide Planning

The Draft EAP II erroneously assumes that the problem with transmission infrastructure is lack of planning. Nothing could be further from the truth. Joint planning has always gone on, but the regulatory structure and the market structure have not provided the proper incentives to actually build what is planned. Publicly owned utilities have continued to plan and build transmission necessary to reliably serve their customers because they had a clear linkage between the expenditure and the benefit of a particular project. As a result Publicly Owned Utility customers have made much more investment in transmission than have IOU customers, another area in which local control of resource and investment choices has benefited California consumers.

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Respectfully submitted,

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