# CALIFORNIA MUNICIPAL UTILITIES ASSOCIATION

915 L STREET, SUITE 1460 ● SACRAMENTO, CALIFORNIA 95814
(916) 326-5800 ● (916) 326-5810 FAX ● www.cmua.org

**DAVID L. MODISETTE,** EXECUTIVE DIRECTOR



November 1, 2011

Mr. Stuart Drown, Executive Director
Little Hoover Commission
925 L Street, Suite 805
Sacramento, CA 95814

Re: CMUA Comments on the State's Coordination of Energy-Related Activities

Dear Mr. Drown:

The California Municipal Utilities Association (CMUA) would like to thank the Little Hoover Commission (LHC) for the opportunity to provide our initial comments to the posed general topics on the coordination of energy-related activities in California.

As you know, CMUA represents the interests of virtually all the State's publically-owned electric utilities (POUs), and many municipal water agencies as well. Our members provide electricity to over one-fourth of California's citizens.

POUs are units of local government, and as such have no profit motive. They have governing boards that are either elected, like a city council, or appointed by elected officials. Decisions of the governing boards are made in public, as required by law, with opportunity for public comment.

California's POUs have an excellent track record in providing reliable electricity at low rates. California's POUs have also demonstrated leadership on environmental issues, climate change, renewable energy, and energy efficiency. CMUA members supported AB 32, 33% renewables by 2020, the public goods charge, and all cost effective energy efficiency. California POUs are also committed to local economic development and job creation.

CMUA member electric utilities plan to attend the LHC Hearing on November 15, 2011. As requested by the LHC in your recent letter, our initial responses are provided below.

- **Describe the utility's progress toward helping the State meet its renewable goals.**

  Many of California's POUs adopted goals to meet a 33% renewable requirement by 2020 before the recent statewide legislation was enacted. And some of our members actually meet this standard today, while others have plans to exceed 33% by 2020.

  POUs have been both building new renewable power sources, and soliciting proposals from private developers, for years now. POUs report their progress to the California Energy Commission (CEC) on an annual basis, and more frequently update their local governing boards.

  The CEC put together an "Updated POU Database as of September, 2010," which can be found on the CEC website and is attached to this letter. This database shows in detail the progress that POUs are making toward the 33% Renewable Portfolio Standard (RPS) goal. However, this database only includes data through calendar year 2009, and does not include the significant progress that was made in 2010. POUs have filed their 2010 data with the CEC, and this data should be officially available by mid-November on CEC's website. Preliminary 2010 data highlights 25 POUs meeting on average a 23% RPS.

  POUs also provide other incentives and information to encourage renewable energy development within our service territories, including: Incentives for solar installations, Net Energy Metering, Feed-in-Tariffs, and interconnection mapping.

- **How the cost of implementing these goals will be absorbed or passed to customers?**

  As mentioned above, CMUA supports the 33% renewables goal by 2020, and our members are working to meet this goal. Having said that, it is important for policy makers to recognize that meeting this goal comes with significant additional cost. Unlike investor-owned utilities (IOUs), POUs have no shareholders (stockholders), and have no "profit" in rates that goes to shareholders. Electric rates for POUs are largely based on "cost-of-service" (i.e., we charge customers just what it costs the utility to provide the service, and nothing more), and as achievement of renewable and other goals increases cost-of-service, rates increase as well. For CMUA members, rates are cost-based and generally lower than their IOU counterparts. Nevertheless rates and rate pressures have increased at a time when our customers are hard-pressed to cover these costs.

The cost implication from cumulative State policies and mandates is an issue that has not received adequate attention. This has two elements: (1) the overall cost of achieving State goals; and (2) the lack of coordination of overall policy objectives to allow achievement of primary goals at least-costs. For example, if the overarching goal of State energy policy is to reduce greenhouse gas (GHG) emissions, various tools to achieve that goal should be compared and balanced. Those tools may include the RPS, demand initiatives, energy efficiency, and other direct environmental regulation on the energy sector. However; today's policy approach results in separate GHG, energy efficiency, and RPS policies, when savings may be realized if these policies were part of an integrated whole. This results in higher costs for consumers.

- **Has the experience improved in recent years?**

The State Legislature and agencies have enacted many mandates and programs in recent years, including: AB32 rules such as the Cap & Trade program, SF6 for utilities, Mandatory Reporting; the 33% RPS by 2020 under recently signed SBX1 2 legislation; AB 1368 limitation on new higher-GHG base load generation; termination of Once-Through-Cooling; the California Solar Initiative; Net Energy Metering; energy efficiency and demand response targets, smart-grid development, and a Feed-in-Tariff. The Governor is also pushing for 12,000 megawatts (MW) of additional distributed generation by 2020.

There are multiple State and federal agencies that have some regulatory jurisdiction or influence over these many mandates and programs. These agencies include: the CEC, the California Public Utilities Commission (CPUC), the California Air Resources Board (CARB), the California Balancing Authority (CAISO), and the Federal Energy Regulatory Commission (FERC). In some instances, these agencies have joint jurisdiction on issues, in others overlapping jurisdiction, and in virtually all cases one agency can directly or indirectly affect the policies and regulations of the others with their own actions. Unfortunately, this has created the situation where stakeholders such as POUs must spend scarce resources to monitor and participate in the many proceedings being run by all these agencies. Again, this has a significant cost impact, which is borne directly by our customers.

This problem is made even worse, not by the overall program goals or targets established by the Legislature or the regulatory agencies, but by layers of detailed restrictions which dictate to POUs exactly HOW they must go about meeting the goals.  We frequently urge the Legislature and regulatory agencies to adopt performance-based goals or standards, which specify the ultimate goal(s) they want POUs to meet, but then leave it up to the individual POU governing board to determine how to best meet the goal(s) in the most cost-effective manner.  POU governing boards are in the best position to make these decisions in a way that keeps rates as low as possible, and also meets other local needs (e.g., reliability, reduced environmental impacts, local economic development, etc..).

- **The need for governance or organizational challenges & recommendations.**

  The State needs to recognize and support the governance structure of local POUs.  It is a structure that has served California citizens and ratepayers very well for over the past 100 years.  Proof of that lies in the fact that POU rates are generally lower than those of IOUs, our reliability is better, we make decisions in an open and transparent process, we are responsive to our local communities and their specific needs, and most importantly – our residential customers and businesses prefer our service.  The efforts of State agencies should be complementary to the governance structure of local POUs.  Absent specific statutory direction to the contrary, regulatory oversight, compliance, program design and funding should remain with the local elected or appointed governing boards.

CMUA appreciates this opportunity to provide these comments, and looks forward to discussing these issues further on November 15, 2011.

Sincerely,

David L. Modisette
Executive Director

Attachment