

Date of Hearing: August 3, 2022

ASSEMBLY COMMITTEE ON APPROPRIATIONS

Chris Holden, Chair

SB 1020 (Laird) – As Amended May 23, 2022

Policy Committee:	Utilities and Energy	Vote:	12 - 0
	Natural Resources		8 - 3

Urgency: No      State Mandated Local Program: Yes      Reimbursable: No

**SUMMARY:**

This bill modifies the existing policy that eligible renewable energy resources and zero-carbon resources supply 100% of all retail sales of electricity to California end-use customers by the end of 2045, allows retail sellers of electricity to utilize the Department of Water Resources (DWR) as a central procurement entity for eligible renewable energy resources and zero-carbon resources, and establishes the Climate Equity Trust Fund to help pay for the state’s decarbonization efforts.

Specifically, this bill, among other things:

- 1) Establishes new clean energy goals.
  - a) Establishes the policy that eligible renewable energy resources and zero-carbon resources supply 90% of all retail sales of electricity to California end-use customers by December 31, 2035, and 95% of all retail sales of electricity to California end-use customers by December 31, 2040.
  - b) Establishes the policy that eligible renewable energy resources and zero-carbon resources supply 100% of electricity procured to serve all state agencies by December 31, 2030, instead of by that date in 2045 as required by existing law.
  - c) Requires each state agency, except for the Department of Water Resources (DWR), to, among other things, meet its renewable energy and zero-carbon commitments through either (a) installing appropriate resources on state-owned or state-leased buildings to serve the state agency’s onsite load, or (b) procuring appropriate resources through the local publicly owned electric utility (POU) or load-serving entity (LSE), generally meaning an investor-owned utility, and community choice aggregator or an electric service provider) providing retail service to the state agency.
  - d) Requires any new procurement requirements made on behalf of a state agency, except for the Department of Water Resources (DWR), to meet all of the following criteria: (a) the resource be newly developed and reach commercial operation on or after January 1, 2023; (b) the resource meet the resources category types applicable to the Renewable Portfolio Standard (RPS) Program and commonly referred to as buckets one, two and three; (c) the resource be located in California and interconnected in front of a customer meter; (d) the POU or LSE require its contractors use a “multicraft project labor agreement;” and (e) give preference to resource options expected to yield maximum long-

term employment, stimulate new economic activity, generate local and state tax revenues and assist with the development of new industries.

- e) Directs DWR, according to specified preferences and consideration, to procure newly developed eligible renewable energy resources and zero-carbon resources to satisfy the clean energy obligations this bill imposes on the State Water Project and requires such procurement be for resources that are (a) newly developed and reach commercial operation on or after January 1, 2023; (b) located in California and interconnected in front of a customer meter; and (c) capable of being dispatched by the California balancing authority (meaning, currently, the California Independent System Operator, or CAISO) and operated for the benefit of the balancing area.
  - f) Requires DWR to invite all electrical corporations, community choice aggregators, electric service providers and POU's to voluntarily subscribe to DWR's procurement commitments, at DWR's cost.
- 2) Establishes the Climate and Equity Trust Fund.
- a) Establishes the trust fund to support the cost of decarbonization, clean energy and wildfire mitigation activities with funding sources outside of electricity rates and states the trust fund shall consist of all the following monies: (i) federal moneys transferred to the fund; (ii) Greenhouse Gas Reduction Fund monies transferred to the trust fund; (iii) monies from penalties assessed by the CPUC, CEC or Air Resources Board (ARB) that are transferred to the trust fund; (iv) interest earned on any moneys in the trust fund; (v) any properties or securities acquired through the use of moneys belonging to the trust and all earnings of those properties or securities; and (vi) all other moneys received by the trust fund from any other source.
  - b) Defines eligible uses of monies in the trust fund, upon appropriation, as transportation electrification programs and incentives; building electrification programs and incentives public purpose programs, including energy efficiency programs, research and development, and low-income customer discounts; programs to promote equity and affordability for low-income customers; wildfire mitigation activities; distributed energy resource incentives; administrative and overhead costs associated with the authority's operation; and any other purpose specified by the Legislature in an appropriation of moneys from the General Fund to the authority.
  - c) Authorizes the California Energy Commission (CEC) to approve disbursement of funds from the trust fund for eligible costs incurred by POU's their end-use customers, and authorizes the California Public Utilities Commission (CPUC) to disburse funds from the trust fund for eligible costs incurred by LSEs and their end-use customers.
  - d) Establishes the California Affordable Decarbonization Authority as a nonprofit public benefit corporation, to be jointly authorized and overseen by CEC and CPUC, and according to duties determined by the CEC and CPUC, to administer the trust fund.
  - e) Specifies the authority is to be governed by an independent board of governors of seven members each serving three-year, renewable terms and appointed as follows: three members by the Governor, subject to Senate confirmation; two members by the Speaker of the Assembly; and two members by the Senate Committee on Rules.

- 3) Authorizes the California Public Utilities Commission (CPUC) and the California Energy Commission (CEC), upon request of the California Independent System Operator (CAISO), to share confidential information regarding power purchase agreements.
- 4) Requires the Air Resources Board (ARB) conduct public workshops on ARB's periodic "scoping plan" to achieve reductions of greenhouse gas emissions in areas designated as "federal extreme nonattainment" in terms of air pollution.

**FISCAL EFFECT:**

- 1) DWR estimates this bill will result in additional costs to the State Water Project (SWP) of \$3.2 billion, \$2.6 billion of which will result from the need to enter into new contracts for electricity generated from renewable and zero-carbon resources to replace existing contracts that supply the SWP with electricity generated from greenhouse gas (GHG) emitting resources. These costs will be paid by the roughly 27 million ratepayers of 29 public water agencies.

In addition, DWR anticipates costs of \$110 million over a 20-year contracting period to procure electricity for other state agencies. DWR warns it would not be able to pass these costs on to SWP ratepayers.

- 2) The CEC estimates it will need 15% of total Climate and Equity Trust Fund program funds to jointly establish the California Affordable Decarbonization Authority, as well as \$500,000 for information technology costs. As the Legislature has yet to appropriate money for the fund, so the amount of CEC's costs are unknown, though they would likely be in the millions of dollars, were money to be appropriated to the fund.

In addition, the CEC foresees \$600,000 in ongoing annual costs for four personnel to provide administrative oversight and support of the authority. Presumably, these costs will be covered by any money appropriated for the Climate and Equity Trust Fund or the authority.

- 3) The CPUC estimates ongoing annual costs of \$1.5 million for five regulatory analysts, one program and project supervisor, three attorneys, two administrative law judges, an accountant and an accountant trainee, as well as about \$26,000 in administrative costs (Public Utilities Commission Reimbursement Account (PUCRA)).

The CPUC also estimates one-time costs of \$52,016 in consulting services to establish a domain, website and email accounts for up to ten users with the new authority (PUCRA).

- 4) ARB projects an ongoing need for one position in the Air Pollution Specialist classification, at an annual cost of \$210,000, as well as \$500,000 for contract funding in fiscal year 2023-24, primarily for community engagement (Air Pollution Control Fund (APCF)).

ARB also notes SB 1020 allows for the redirection of noncompliance penalties, which, on average, total \$32 million per year. ARB warns such a loss of funding would exacerbate an existing structural deficit in the APCF and severely hamper ARB's operations.

**COMMENTS:**

- 1) **Purpose.** The author intends this bill to enable and accelerate the state's efforts to decarbonize its energy economy and to provide an administrative structure to fund costs associated with reducing the state's emissions of GHGs and adapting to climate change.
- 2) ***Accelerated and Interim Clean Energy Goals.*** The state has ambitious GHG reduction and clean energy goals. State law requires statewide GHG emissions to be equivalent to what those emissions were in 1990, and that such emissions be reduced to at least 40% below the 1990 level by 2030. Under the Renewable Portfolio Standard (RPS) program, electricity providers must each meet at least 50% of their electrical load from renewable energy resources by December 31, 2026, and at least 60% by December 31, 2030. And state law establishes the policy that eligible renewable energy resources and zero-carbon resources supply 100% of all retail sales of electricity to California end-use customers and 100% of electricity procured to serve all state agencies by December 31, 2045. The law directs state agencies to plan to achieve the policy.

California has been successful at achieving these goals, at least so far. Statewide GHG emissions in 2020 were below 1990 levels. And the state's electric utilities are progressing towards their RPS goals. Still, continued progress is not guaranteed, and the latest projections show California failing to meet its 2030 GHG emissions reduction goals.

This bill establishes incremental clean energy policy goals on the way to the goal that 100% of the state's electricity come from clean energy sources by 2045. This seems wise, as 2045 is a long ways off, in some senses, and planning around interim goals can help the state achieve the ultimate goal.

State government is a significant user of electricity. Previous analyses have asserted the state agencies, collectively, consume about one percent of all electricity consumed in the state. Included in that percentage is the electricity used by the State Water Project (SWP), the single largest consumer of electricity in California.

State agencies are subject to the clean energy goals described above. This bill would accelerate those goals, as applicable to state agencies, so that eligible renewable energy resources and zero-carbon resources would need to supply 100% of electricity procured to serve all state agencies by December 31, 2030. The ARB and the state's energy regulators seem unphased by the acceleration, with ARB describing the 2030 goal as "achievable." DWR, however, which operates the SWP, has reservations.

According to DWR, the SWP currently produces about half the roughly 8,000 megawatts of electricity it uses to pump water across the state from its own zero-carbon hydro resources. DWR says it contracts for the other 50% of its electricity consumption, 20% of which comes from renewable resources, 5% of which comes from natural-gas fired powerplants and 25% of which comes from "market purchases," which this analyses understands to mean unspecified power, which is typically a mix of fossil-fuel and large hydro resources. DWR projects the SWP it would need to spend an additional \$3.2 billion, were it to need to replace its existing contracts for electricity generated from natural gas and "market purchases" with contract for electricity generated from renewable and zero-carbon resources. (The author's

office disputes the magnitude of these costs.) DWR notes it projects the SWP will meet the state's current policy goal of 100% renewable or zero-carbon electricity by 2045.

DWR also objects to the requirement the new resources it would need to procure must be located in front of the meter. DWR prefers to place the new resources, such as solar panel arrays, behind the meter on SWP land. DWR contends placing the resources in front of the meter will expose SWP to \$600 million in transmission access charges to move electricity over the state's electrical grid.

- 3) ***Climate Equity Trust Fund.*** Admittedly, decarbonizing the state and adapting to climate change will cost money. Those costs will often fall inequitably. To help address these costs, the bill establishes the Climate and Equity Trust Fund. Though the bill appropriates no money for the fund, it mentions various sources of monies that, upon appropriation, could go in to the fund. And the bill establishes a seven-member California Affordable Decarbonization Authority to administer the fund, with rules and roles to be determined by CEC and CPUC.

The Legislature could appropriate any of the monies mentioned in the bill for the purposes described in the bill, and assign the existing state agencies to administer and distribute the funds. It is unclear why a new administrative entity is needed for this purpose. For its part, the ARB objects to the bill's language that mentions moneys from noncompliance penalties assessed by the CPUC, CEC, or ARB as possible revenue for the fund. ARB notes, with concern, that penalty monies are "critical in sustaining the Air Pollution Control Fund (APFC) in the short term," and describes the penalty moneys as "funding ARB's existence."

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