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Promoting Electric Reliability; Recent State Actions

PRESENTED TO:

Senate Committee on Energy, Utilities and
Communications
Hon. Steven Bradford, Chair



LEGISLATIVE ANALYST'S OFFICE

Strategic Reliability Reserve

Chapter 61 of 2022 (AB 205, Committee on Budget) established the Strategic Reliability Reserve, consisting of three programs intended to promote statewide electric reliability and funded with a total of \$3.4 billion from the General Fund across five years.

Electric Supply Strategic Reliability Reserve Program (ESSRRP, \$2.4 Billion). This program funds the Department of Water Resources (DWR) to secure additional electricity resources to help ensure reliability during extreme events. So far, these activities have included procuring temporary diesel generators and new energy storage, reimbursing utilities for imported electricity, and entering into new contracts to extend the life of three once-through cooling (OTC) gas plants that had been scheduled to retire.

- The ESSRRP provided between 554 megawatts (MW) and 1,416 MW of energy during September 2022's extreme heat event.
- The three OTC plants will provide the state access to a total capacity of 2,859 MW from 2024 through 2026 at a cost of up to \$1.9 billion.

Distributed Electricity Backup Assets (\$695 Million). This program, administered by the California Energy Commission (CEC), will provide incentives for certain distributed energy resources, such as fuel cells or energy storage, that can be used to support the state's electrical grid during extreme events. CEC is still developing the program, which is intended to fund zero- or low-emissions technologies at both existing energy facilities and new facilities.

Demand Side Grid Support (DSGS, \$295 Million). This program, administered by CEC, pays customers to reduce their energy usage during summer peak evening hours and extreme events. Utilities began enrolling participants in the program in the summer of 2022.



Additional Recent State Actions to Support Reliability

Extension of Diablo Canyon Power Plant (DCPP). Chapter 239 of 2022 (SB 846, Dodd) allowed for an extension of operations at DCPP through 2030.

- SB 846 also authorized the state to loan up to \$1.4 billion to Pacific Gas & Electric (PG&E) to maintain operations. The administration estimates that up to \$1.1 billion of the total loan will be reimbursed by the federal government.
- In March 2023, federal regulators temporarily authorized DCPP to remain operational while PG&E works on a renewal application, which is due December 2023. DCPP has the capacity to provide 2,240 MW of power when running.

Clean Energy Reliability Investment Plan (CERIP, \$1 Billion). SB 846 also directed CEC to develop a CERIP and expressed legislative intent to provide \$1 billion from the General Fund from 2023-24 through 2025-26 to support its implementation. The *2023-24 Budget Act* provided the first \$100 million installment for the following activities:

- \$33 million to the California Public Utilities Commission (CPUC) for renewable energy programs and equity programs.
- \$32 million to DWR for a potential new central procurement function.
- \$19 million to CEC to further support the DSGS program.
- \$11 million to the Governor's Office of Business and Economic Development to support permitting and interconnection.
- \$5 million to CEC for transmission studies and administration.



Additional Recent State Actions to Support Reliability

(Continued)

Other Significant Initiatives to Promote Expanded Electricity Resources.

- ***CPUC Expanded Procurement Orders.*** CPUC increased its planning reserve margin for load serving entities from 15 percent to 16 percent in 2023 and 17 percent for 2024.
- ***Offshore Wind.*** The state has undertaken various initiatives to spur offshore wind development, including providing additional resources to support an interagency strategic plan and authorizing CEC to enter in to a multistate consortium that is working to develop projects.
- ***Central Procurement.*** The Legislature is considering legislation to give DWR new authority to procure clean energy resources, with a focus on large, long-lead time resources.



Key Issues for Legislative Consideration

- ***What Reliability Gaps and Risks Currently Exist?*** Does the state have unmet near-term energy needs? How is the administration assessing and monitoring these needs? To what degree does the administration believe the recent investments in reliability will fill anticipated gaps? How are needs anticipated to change over the next few years? What key uncertainties exist?
- ***How Should the Legislature Monitor and Evaluate Reliability Programs?*** Has the state clearly defined its goals for energy reliability over the next few years? Does the Legislature have mechanisms in place for collecting the information it needs to evaluate the success and cost-effectiveness of the state's efforts towards meeting these goals?
- ***How Effective Are the New Reserve Programs at Ensuring Reliability?*** Are the investments proving successful at meeting the state's goals, including maintaining energy reliability during extreme events? Are the activities that are being funded the most cost-effective approaches to meeting those goals?
- ***How Should the Legislature Balance Reliability Goals Against Other State Goals?*** Depending on the activities undertaken, ensuring near-term energy reliability could mean producing more greenhouse gases, greater impacts on vulnerable communities, and higher costs for the state. What types of trade-offs is the Legislature comfortable with accepting? How should the state weigh its various goals and potential corresponding impacts?
- ***What Should the State's Role Be in Ensuring Energy Reliability?*** What role should the state play in assisting utilities in procuring energy? Should this role differ based on shorter-term versus longer-term reliability efforts? How should costs be distributed between utilities and ratepayers as compared to the state? How are new state reliability efforts impacting utilities' ability to engage in the energy market?
- ***How Will Reliability Efforts Affect Ratepayers?*** Does the administration have estimates for how electricity rates might be impacted by both near-term and longer-term reliability efforts? Are there steps the Legislature may want to take to help mitigate impacts, particularly for lower-income Californians?

