
**SENATE COMMITTEE ON ENERGY, UTILITIES AND
COMMUNICATIONS**
Senator Ben Hueso, Chair
2021 - 2022 Regular

Bill No: AB 2696 **Hearing Date:** 6/21/2022
Author: Eduardo Garcia
Version: 5/19/2022 Amended
Urgency: No **Fiscal:** Yes
Consultant: Nidia Bautista

SUBJECT: Electricity: transmission facilities: study

DIGEST: This bill requires the California Energy Commission (CEC), in consultation with other agencies, to conduct a study to review potential lower cost ownership and alternative financing mechanisms for new transmission facilities.

ANALYSIS:

Existing law:

- 1) Establishes the Federal Energy Regulatory Commission (FERC) has exclusive jurisdiction over the transmission of electricity in interstate commerce, over the sale of electricity at wholesale in interstate commerce, and over all facilities for the transmission or sale of electricity in interstate commerce. (Federal Power Act §§201, 205, 206 (16 USC 824, 824d, 824e))
- 2) Establishes and vests the California Public Utilities Commission (CPUC) with regulatory authority over public utilities, including electrical corporations. (Article XII of the California Constitution)
- 3) Establishes the State Energy Resources Conservation and Development Commission (also known as CEC) and requires the CEC to undertake a continuing assessment of trends in the consumption of electrical energy and other forms of energy and to analyze the social, economic, and environmental consequences of these trends, and to carry out, or cause to be carried out, under contract or other arrangements, research and development into alternative sources of energy, improvements in energy generation, transmission, and siting, fuel substitution, and other topics related to energy supply, demand, public safety, ecology, and conservation that are of particular statewide importance. (Public Resources Code §§25200 et seq. and 25216)
- 4) Establishes the California Independent System Operator (CAISO) as a nonprofit public benefit corporation and requires the CAISO to ensure efficient use and

reliable operation of the electrical transmission grid consistent with achieving planning and operating reserve criteria no less stringent than those established by the Western Electricity Coordinating Council and the North American Electric Reliability Corporation. (Public Utilities Code §345.5)

- 5) Provides it is the policy of the state that eligible renewable energy resources and zero-carbon resources supply 100 percent of all retail sales of electricity to California end-use customers and 100 percent of electricity procured to serve all state agencies by December 31, 2045. (Public Utilities Code §454.53)

This bill:

- 1) Requires the CEC, in consultation with the California Infrastructure and Economic Development Bank (I-Bank), the Governor's Office of Business and Economic Development (GO-Biz), the CAISO, and the CPUC, to conduct a study to review potential lower cost ownership and alternative financing mechanisms for new transmission facilities needed to meet the state's clean energy and climate targets.
- 2) Requires the CEC to submit a report to the Governor and the Legislature, on or before September 30, 2023, with findings and recommendations related to the study.

Background

CAISO. The CAISO is a nonprofit public benefit corporation created by California statute as part of the effort to deregulate the electricity market in the late 1990s. The CAISO manages the flow of electricity across the high-voltage bulk power system that makes up 80 percent of California's, and a small part of Nevada's, electric grid. CAISO is registered as both a transmission operator and balancing authority (BA) under federal reliability requirements. As a general matter, BAs may contain transmission operators. As with other BAs, the CAISO is regulated by federal statute and regulations with oversight by FERC and the North American Energy Reliability Corporation (NERC).

Transmission planning. Each year, the CAISO conducts its transmission planning process to identify potential system limitations, as well as, opportunities for system reinforcements that improve reliability and efficiency. The CAISO Transmission Plan provides a comprehensive evaluation of the CAISO transmission grid to address grid reliability requirements, identify upgrades needed to successfully meet California's policy goals, and explore projects that can bring economic benefits to consumers. The plan relies heavily on key inputs from state agencies in translating

legislative policy into actionable policy driven inputs. The plan is updated annually, and culminates in a CAISO Board of Governors approved transmission plan that identifies the needed transmission solutions and authorizes cost recovery through CAISO transmission rates, subject to federal regulatory approval, as well as identifying non-transmission solutions that will be pursued in other venues as an alternative to building additional transmission facilities. The plan is prepared in the larger context of supporting important energy and environmental policies while maintaining reliability through a resilient electric system. The plan is developed through a comprehensive stakeholder process and relies heavily on coordination with key energy state agencies – the CPUC and the CEC – for key inputs and assumptions regarding electricity demand side forecast assumptions as well as supply side resource development expectations.

SB 100 (De León, Chapter 312, Statutes of 2018). SB 100 established the 100 Percent Clean Energy Act of 2018 which increases the Renewables Portfolio Standard (RPS) requirement from 50 percent by 2030 to 60 percent, and created the policy of planning to meet all of the state's retail electricity supply with a mix of RPS-eligible and zero-carbon resources by December 31, 2045, for a total of 100 percent clean energy. SB 100 also required California Air Resources Board (CARB), CEC, and CPUC to issue a joint report by January 1, 2021, and at least every four years, that describes technologies, forecasts, affordability, and system and local reliability. The report is required to include an evaluation of costs and benefits to customer rate impacts, as well as, barriers to achieving the SB 100 policy. The first Joint Agency report was issued January 2021.

CAISO 20-year Transmission Outlook. The CAISO embarked on creating a 20-Year Transmission Outlook for the electric grid, in collaboration with the CPUC and the CEC, with the goal of exploring the longer-term grid requirements and options for meeting the state's greenhouse gas (GHG) reduction and renewable energy objectives reliably and cost-effectively. The CAISO also intends for the expanded planning horizon to provide valuable input for resource planning processes conducted by the CPUC and CEC, and to provide a longer-term context and framing of pertinent issues in the CAISO's ongoing annual 10-Year Transmission Plan.

Transmission Development Forum. The Transmission Development Forum is a recent joint effort between the CAISO and the CPUC to discuss and track Participating Transmission Owners expansion and network upgrade projects and schedules. The Transmission Development Forum creates a single forum to track the status of transmission network upgrade projects that affect generators and all other transmission projects approved in the CAISO's transmission planning process. The effort allows for increased transparency for all stakeholders about

transmission projects and enhances accountability of transmission owners by having them explain schedule changes, delays, and address stakeholders' questions.

Tracking Energy Development (TED) Task Force. The TED Taskforce is also a recent joint effort of the CPUC, CEC, CAISO, and Office of Business and Economic Development (GO-Biz) to track new energy projects under development. According to the CPUC, the objective is to build on the success of ad hoc 2021 efforts to provide energy resource project development support, as appropriate, and identify barriers and mitigation strategies to accelerate energy project development. Currently, the TED Taskforce is focused on near-term projects, roughly 200 contracted projects needed for summer reliability in 2022 and 2023.

Report to Governor on Priority SB 100 Actions. In September 2021, the CEC, CPUC, CARB, and CAISO published and sent a *Report to the Governor on Priority SB 100 Actions to Accelerate the Transition to Carbon-free Energy*. Among the many issues and recommendations included in the report was a discussion regarding transmission planning, permitting, and interconnection. The report notes that the build out of new electric transmission lines and upgrades to existing lines is “essential to support the interconnection of new resources.” However, the report noted that over the past 10 years the cost of transmission for the average California ratepayer has increased by over 150 percent. Large transmission projects were identified as driving much of the increase. As a cost-cutting measure to help mitigate against increasing electric utility rates, the report recommended consideration of “statutory changes for the formation of a new entity for energy and transmission financing.” The report specifically noted creation of a “California transmission authority as a new public benefits corporation that can, either on its own or through public private partnerships, fund and build new transmission projects needed to meet clean energy goals.”

Comments

AB 2696. This bill would require the CEC, in consultation with the I-Bank, GO-Biz, the CAISO, and the CPUC, to conduct a study to review potential lower cost ownership and alternative financing mechanisms for new transmission facilities needed to meet the state's clean energy and climate targets. This bill would also require the CEC to submit a report to the governor and the Legislature, on or before September 30, 2023, with findings and recommendations related to the study.

Need to investigate opportunities for cost savings. As noted above, included in the *Report to the Governor on Priority SB 100 Actions*, the state agencies and CAISO recommended consideration of a new authority to help finance the needed transmission buildouts to achieve the state’s clean energy goals. The report noted that, “creating a new entity to finance or build some transmission projects could reduce the long-term cost and bill impacts of the movement to a 100 percent carbon free grid by reducing the costs of new transmission projects.” The report stated the need to address opportunities for cost savings in the state’s efforts to achieve its policy goals in order to mitigate cost impacts on electricity utility bills. Public financing or ownership of transmission projects may present opportunities to yield savings to electric customers based on potentially better financing terms and the elimination of any rate of return to the electric investor-owned utilities, among other considerations. Though these potential savings may be possible, they are not a guarantee. Given the myriad of questions associated with an approach that utilizes public financing and/or public ownership of transmission projects, this bill appropriately directs the state energy and financing agencies, to investigate the opportunities for costs savings associated with such approaches. The author may also wish to consider other operational changes that could provide cost savings to California customers, including the elimination of adders by the FERC and uniform definition of distribution and transmission lines that could result shifting rate recovery processes to the CPUC, instead of FERC rate review and approval.

Prior/Related Legislation

SB 887 (Becker, 2022) adjusts the planning horizon for the annual electricity transmission plan from 10-years to 15-years. The bill is pending in the Assembly Committee on Utilities and Energy.

SB 1032 (Becker, 2022) requires the CEC, in consultation with energy and financing agencies, on or before January 1, 2024, to submit to the Governor and the Legislature a study identifying proposals to accelerate the development of the state’s electrical transmission grid to achieve the state’s goals to reduce the emissions of greenhouse gases (GHGs) and to reduce costs to electric utility customers. The bill is pending in the Assembly Committee on Utilities and Energy.

SB 1174 (Hertzberg, 2022) requires specified reporting related to electric transmission projects, and also requires the CPUC in coordination with other state agencies to prioritize necessary approvals processes for interconnections or transmission projects, as specified. The bill is pending in the Assembly Committee on Utilities and Energy.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT:

Clean Power Campaign, Sponsor
350 Bay Area Action
Independent Energy Producers Association
Large-scale Solar Association
Solar Energy Industry Association

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: According to the author:

While the State has made tremendous strides in meeting our renewable energy goals, the closer we get to that 2045 deadline, the more difficult it will be to reach that goal. California is falling behind in planning and building the electric transmission facilities needed to meet our clean energy and climate targets.

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