



**Proposition 7
November 2008 Ballot**

The California Taxpayers' Association Board of Directors opposes the Solar and Clean Energy Act of 2008, and urges a "No" vote on the initiative.

Title: The Solar and Clean Energy Act of 2008

Sponsors: Jim Gonzalez, Former San Francisco County Supervisor and current political consultant

Legislative History: None.

Major Provisions:

RPS Targets

- Establishes higher renewable portfolios standard (RPS) targets – 40 percent by 2020 and 50 percent by 2025.
- Requires electricity providers to meet these targets by increasing renewable energy generation by at least 2 percent per year – 1 percent annually above the current requirement.
- Subjects municipal utilities to same RPS targets as retail electricity sellers.

Administration and Enforcement Changes

- Authorizes Energy Commission to enforce these requirements.
- Expands Public Utilities Commission (PUC) authority regarding RPS enforcement over investor owned utilities (IOUs) to include electric service providers (ESPs) and community choice aggregators (CCAs).
- States enforcement mechanisms include review and approval of renewable resources procurement plans, rate-setting authority, establishment of compliance rules, and penalty authority.
- Authorizes the Energy Commission to exercise RPS enforcement authority over municipal utilities.
- Authorizes Energy Commission to permit IOUs to construct new transmission lines in network grid. May duplicate PUC authority.

- Imposes 6-month deadline for Energy Commission to issue permit for a qualifying renewable energy plant or related facility except when the facility would cause significant harm to the environment or the electrical system does not comply with standards.
- Shifts from PUC to the Energy Commission responsibility for determining the market price of electricity.
- Authorizes Energy Commission to permit new nonthermal renewable energy power plants and related infrastructure that unite the plant with the transmission network grid.
- Specifies that the Energy Commission must issue a permit for a qualifying renewable energy plant or related facility within six months of the filing of an application.

Mandatory 20-Year Procurement Contracts and Pricing Provisions

- Requires retail and municipal electricity providers to offer renewable energy procurement contracts of at least 20 years, with some exceptions.
- Requires electricity provider to accept all offers for renewable energy that are at or below the market price of electricity established by the Energy Commission.
- Relieves electricity providers of obligation to procure renewable energy when the renewable energy's price exceeds the market price of electricity by more than 10 percent.
- Deletes formula that limits the total amount of above-market costs for renewable energy incurred by IOUs and recoverable through rates. Replaces it with provision that allows IOUs to recover through rates the costs for a renewable energy contract that are no more than 10 percent above the Energy Commission-determined market price for electricity.

Penalty Provisions

- Prescribes penalty formulas for electricity providers that fail to procure sufficient renewable energy – one cent per kilowatt hour by which the provider falls short of the RPS target.
- Prohibits penalty caps.
- Prohibits electricity providers from raising rates to recover penalty costs.
- Provides exception to penalty for “good faith efforts” to meet RPS targets.

Solar and Clean Energy Transmission Account

- Establishes Solar and Clean Energy Transmission Account for deposit of RPS-related penalties and fee revenues. Monies in the account are to be used to facilitate acquisition of property or right-of-ways, as well as construction of transmission facilities to develop transmission infrastructure to achieve RPS targets.

Findings and Declarations

- Makes findings and declarations as follows:
 - Global warming and climate change is now a real crisis.
 - California suffers from drought, air pollution, poor water quality, and many other environmental problems.
 - The Solar and Clean Energy Act will reduce air pollution in California.
 - In the long-term, California's investment in solar and clean energy will result in no more than a 3 percent increase in electric rates – a small price to pay for a healthier and cleaner environment.
 - The Solar and Clean Energy Act will create jobs and improve the economy.

Background:

Electricity Providers. California has three main types of electricity providers: IOUs, municipal utilities and ESPs. Pacific Gas & Electric Company, Southern California Edison and San Diego Gas and Electric are examples of IOUs, while Sacramento Municipal Utility District (SMUD) is an example of a municipal utility. ESPs provide retail electricity service to customers who have entered into “direct access” contracts to deliver electricity through the local utility's transmission and distribution system. There are about 20 registered ESPs operating in the state, serving large, industrial businesses. IOUs comprise about 68 percent of retail electricity sales, municipal utilities account for around 24 percent and ESPs provide about 8 percent.

Electricity Infrastructure. There are four main components of California's electricity infrastructure: (1) electricity generating facilities; (2) the interconnected, interstate electricity transmission grid; (3) electricity transmission lines that connect generation facilities to the grid; and (4) electricity distribution lines that connect the electricity grid to electricity consumers.

Electricity Generating Facilities: Permit Authority. The Energy Commission issues permits for thermal electricity generating facilities capable of generating 50 megawatts or more of electricity, while most other electricity generating facilities – including renewable energy generating facilities – are permitted by local government.

Transmission Lines: Permit Authority. Construction of transmission lines that are part of the electricity transmission grid is subject to Federal Energy Regulatory Commission (FERC) permitting, as well as the permitting authority of the entity that regulates the service provider proposing the line. Distribution lines generally are permitted by local government.

RPS Targets Under Current Law. Under current law's renewable portfolio standard (RPS), electricity providers that are retail sellers must increase their share of electricity generated from renewable sources by at least 1 percent per year, so that, by 2010, 20 percent of each electricity provider's retail sales are generated from renewable energy sources. “Retail sellers” include IOUs, ESPs, and CCAs, but not municipal utilities. Only IOUs, however, must submit a procurement plan regarding RPS targets and offer procurement contracts for renewable resources of no less than ten years.

As of 2006, IOUs had 13 percent of their electricity generated from renewable sources and municipal utilities had 7 percent, not counting hydroelectric electricity facilities, which are not considered a statutory renewable resource.

Fiscal Impact: According to the legislative analyst, the measure would have the effect of increasing “state administrative costs of up to \$3.4 million annually for the regulatory activities of the Energy Resources Conservation and Development Commission and the California Public Utilities Commission, paid for by fee revenues.” In addition, the legislative analyst states that there are “potential, unknown increased costs and reduced revenues, particularly in the short term, to state and local governments resulting from the measure’s potential to increase retail electricity rates, with possible offsetting cost savings and revenue increases, to an unknown degree, over the long term to the extent the measure hastens renewable energy development.”

Policy Considerations:

- Are the RPS targets reasonably related to the availability of cost-efficient renewable energy?
- Does the initiative do anything to ensure that adequate transmission lines will be available to transmit the renewable energy to the power grid?
- Are the changes in permitting authority justified in light of the increased administrative costs that will be passed on to consumers via user fees?
- Will the measure increase the cost of electricity and pass on that cost to consumers?
- How will increased energy costs impact the economy and the state budget?
- Should energy policy be legislated by initiative?
- Won’t development of renewable energy be encouraged by market forces without the need for an additional mandate?

Analysis:

Unreasonable RPS Targets. This proposal would impose steep RPS targets without any assurance of transmission line availability to provide the energy to consumers. As one publication stated, “What good is power that can’t be connected to the grid?” According to the California Energy Commission and the California Public Utilities Commission, one of the greatest barriers to increasing development of renewable energy is transmission. According to a story written by Dan Walters for *The Sacramento Bee*: “Merely generating energy from renewable, nonpolluting sources is one thing. Transmitting it from generation sites to where people live is another, and environmental groups that tout renewable energy often oppose transmission lines that would carry the power to homes and businesses.” In addition, new “backup” power investment still will be required when renewable power is not available. This may impose additional costs on consumers both for renewable power and backup power.

Increased Administrative Costs and Consumer Costs. The measure imposes major responsibilities on the California Energy Commission related to transmission, market price setting and enforcement, some of which will be duplicated by local government and the Public Utilities Commission. According to the legislative analyst, this shift in responsibilities will likely

lead to administrative costs passed on to consumers through increased fees. Moreover, consumers are likely to experience an increase in electricity rates as well due to expansion of transmission, increased demand for renewable, and more delays resulting from the new regulatory processes. The RPS mandates and excessively long procurement contract requirements will exacerbate the problem of inflated prices by reducing competition. Furthermore, the six-month time-frame within which to process permit applications is unreasonably short and unworkable.

Harmful to Economy and State Budget. Increasing the price of energy at a time when the economy is on the brink of recession and the state's budget is facing a \$15 billion deficit seems unwise. Money spent on energy is money not available for investment and consumer purchases. Moreover, the state is a large consumer of energy and can ill afford to allocate more General Fund expenditures toward energy costs. Supporters claim that increased investment in renewable energy will generate economic growth. However, when the increased investment is not market-driven, that claim is dubious.

Initiative Inappropriate. Finally, it is questionable whether energy policy should be legislated by initiative, given its complexity and the risks involved with policy mistakes. To change the initiative would require another initiative, leaving no room for error.

Supporters' Arguments. The goal of the initiative is to reduce reliance on fossil fuels and accelerate California's use of renewable energy to reduce global warming and prevent climate change. Proponents argue an initiative is necessary because current RPS targets are insufficient and traditional energy interests exert too much control on the Legislature to ensure a timely transition to clean energy.

According to *The Sacramento Bee*, Peter Sperling, son of the founder of the online University of Phoenix, is a large contributor to the measure. The measure is opposed, however, by many environmental groups, renewable technology companies and labor unions.

Support:

Peter Sperling, founder, University of Phoenix
Neil Eisenberg, Chairman of the Board, Oceanic Society
James Gollin - Chair, Board of Directors, Rainforest Action Network
Senator Martha Escutia - Former Chair of the State Senate Energy Committee
Randall Hayes - environmental activist
Dolores Huerta - Co-Founder of the United Farmworkers Union
Senator Art Torres - Chair of the California Democratic Party
Gordon Roddick - Environmental Activist and Co-Founder, The Body Shop
Christine Pelosi - Former Executive Director, California Democratic Party
Das Williams, Santa Barbara City Councilman
Senator John Vasconcellos
Dr Yogi Goswami, Past President, International Solar Energy Society

Opposition:

California Taxpayers' Association
California League of Conservation Voters
Acterra: Action for a Sustainable Earth
Endangered Habitats League
Orange County Coastkeeper
San Jose Conservation Corps

Trees for Seal Beach
World Wide Green Corps
California Solar Energy Industries Association
Independent Energy Producers Association
California Alliance for Consumer Protection
Consumers Coalition of California
Consumers First, Inc.
California Chamber of Commerce
California Council for Environmental and Economic Balance
California Manufacturers & Technology Association
California Retailers Association
California Small Business Association
California Business Properties Association
California Grocers Association
National Association of Industrial & Office Properties, California Chapter
Bay Area Council
Orange County Business Council
Antelope Valley Chambers of Commerce
Cerritos Regional Chamber of Commerce
East Los Angeles Chamber of Commerce
Gardena Valley Chamber of Commerce
Gateway Regional Chambers Alliance
Greater Huntington Park Area Chamber of Commerce
Palm Desert Chamber of Commerce
West Covina Chamber of Commerce
Whittier Area Chamber of Commerce
San Mateo County Economic Development Association
Economic Development Corporation of Southwest California
Antelope Valley Board of Trade
My Place Hair Salon, Los Angeles
American Federation of State, County and Municipal Employees
Coalition of California Utility Employees
International Brotherhood of Electrical Workers, Local 47
International Brotherhood of Electrical Workers, Local 1245
International Brotherhood of Electrical Workers, 9th District
Sacramento County Taxpayers League
Kern County Taxpayers Association
Alliance of Contra Costa Taxpayers
Orange County Taxpayers Association
Contra Costa Taxpayers Association
Inland Empire Taxpayers Association
Lafayette Taxpayers Association
League of Placer County Taxpayers
San Diego Tax Fighters
Valley Taxpayers' Coalition, Inc.
Waste Watchers, Inc.
California Senior Advocates League
Asian Business Association
Asian Americans in Commercial Real Estate
Orange County Hispanic Chamber of Commerce
Regional Hispanic Chamber of Commerce
League of California Cities
California Special Districts Association
California Municipal Utilities Association

PG&E Corporation
Sempra Energy
Southern California Edison Company
Various local elected officials
(partial list)

Recommendation:

- This initiative will result in an adverse business climate and make government less efficient, two things Cal-Tax has consistently worked to oppose.
- The initiative imposes unreasonable mandates for RPS targets without adequate assurance that transmission lines will be available to achieve those targets and provide energy to consumers.
- The shift and duplication of regulatory authority under this measure likely will result in increased administrative costs passed on to consumers in the form of higher fees.
- Consumers are likely to experience an increase in electricity rates due to expansion of transmission, increased demand for renewables, and more delays resulting from the new regulatory processes.
- Increasing the price of energy at a time when the economy is on the brink of recession and the state's budget is facing a \$15 billion deficit is unwise.
- Money spent on energy is not available for investment or consumer purchases.
- Energy policy should not be legislated by initiative due to its complexity and the high cost of policy errors.

For the foregoing reasons, Cal-Tax is **Opposed** to this initiative.