BILL ANALYSIS

CONCURRENCE IN SENATE AMENDMENTS
AB 2021 (Levine)
As Amended August 28, 2006
Majority vote

ASSEMBLY:	57-18	(May 31, 2006)	SENATE:	36-1	(August 31, 2006)

Original Committee Reference: U. & C.

SUMMARY : Requires all electric and natural gas utilities to meet energy efficiency savings targets established by the California Energy Commission (CEC) and the California Public Utilities Commission (PUC). Specifically, this bill requires:

1)CEC every three years, in consultation with PUC and municipal utilities, to identify all potentially achievable cost-effective electricity and natural gas efficiency savings and establish 10-year statewide energy efficiency savings targets.

2)PUC to use the information developed by CEC to establish efficiency targets for all electrical and natural gas corporations such that they meet unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible.

3)CEC to use the natural gas and electricity efficiency information to establish annual energy efficiency targets to be achieved by each local publicly owned utility (municipal utility). Permits CEC to either set separate targets for each municipal utility or set a single minimum target for all municipal utilities.

4)Municipal utilities to treat energy efficiency investments as procurement investments and limits the amount of public goods charge (PGC) money that can be used on energy efficiency programs.

5)Each municipal utility to contract for independent evaluation, measurement, and verification of the energy efficiency savings achieved by the municipal utility programs.

6)Each municipal utility to annually report to its customers and CEC on its investments in energy efficiency.

7)CEC to include in its integrated energy policy report a comparison of each municipal utility's annual energy savings target and the municipal utility's actual energy savings.

8)Each municipal utility to adjust its financial practices to ensure that the recovery of fixed costs is not dependent on the sales of electricity.

9)CEC to develop a plan to improve the energy efficiency of air conditioners in California and report to the Legislature on any changes in law needed to implement the plan.

EXISTING LAW requires:

1)PUC to establish efficiency targets for all electrical and natural gas corporations such that they meet all unmet resource needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible.

2)All electric and natural gas utilities, including municipal utilities to first meet their unmet resource needs through all available efficiency and demand reduction resources that are cost effective, reliable, and feasible.

FISCAL EFFECT :

1)One-time General Fund (GF) costs of about $200,000 for CEC to establish energy efficiency and demand reduction targets for each municipal utility and to develop the improvement plan for air conditioners. Ongoing costs should be absorbable.

2)To the extent CEC collects up to $0.03 per kwh from municipal utilities to fund remedial energy efficiency investments, and there are state facilities within the territories of these municipal utilities, the state will incur the increased energy costs. These costs are unknown, but given the number of state facilities in Los Angeles and Sacramento that are served by municipal utilities, the costs could be up to several million dollars on an annual basis.

COMMENTS : The purpose of the this bill is to ensure that the state meets the goal CEC established goal of saving 30,000 gigawatthours (GWh) of electricity over 10 years through energy efficiency measures by codifying energy efficiency rules in place for IOUs and making those rules applicable to all utilities. To reach the 30,000 GWh goal municipal utilities must meet their proportional share of just under a 7,000 GWh savings. However, based on information provided to CEC, current municipal utility electricity efficiency programs may only lead to an 840 GWh savings. Meeting these energy efficiency goals will help California meets its goals of reducing greenhouse gas emissions by reducing emissions to year 2000 levels by 2010 and to 1990 levels by 2020.

This bill codifies a process PUC established in developing its energy efficiency decision, ensures that the process will apply to all utilities, and takes the loading order's preference for cost effective energy efficiency programs one step further.

This bill requires that every three years CEC, in conjunction with PUC, identify all potentially achievable cost effective electricity and natural gas efficiency savings for the next 10-year period. PUC would then use this information to develop energy efficiency savings goals that investor owned utilities (IOUs) must meet and CEC would take the same data to establish energy efficiency savings goals for each municipal utility.

This bill also requires municipal utilities to treat energy efficiency as a procurement decision and requires that in the future only a limited amount of PGC funds can be used for energy efficiency programs. Like IOUs, the rest of the funding for the municipal utility's programs will come from procurement funds. The intent of this provision is to ensure that municipal utilities do not cap spending on energy efficiency programs if there are achievable cost effective options simply because the municipal utility has used all available PGC funds.

Municipal utilities account for approximately 27% of total electricity consumption in California. The state will not be able to meet its energy efficiency goals if the municipal utilities are not acting as aggressively as the other utilities. To meet the state's energy efficiency goals the municipal utilities need reduce projected demand by 7,000 GWh. However,

based on information provided to CEC, current municipal utility electricity efficiency programs may only lead to an 840 GWh savings.

A well designed energy efficiency program can bring multiple benefits to California. A program that looks for all achievable cost effective efficiency measures can lower ratepayer costs. According to PUC estimates, while IOUs will spend $2.7 billion on energy efficiency, their ratepayers will save $4.7 billion in electricity procurement costs over the same period. Meaning ratepayers could see a net savings of $2.7 billion.

Energy efficiency is a critical part of any program to reduce greenhouse gas emissions in California. Out of 42 different programs the identified by the Climate Action Team greenhouse gas report, energy efficiency programs accounted for the second largest total reduction in emissions: 21 million tons of carbon dioxide by 2020. Unlike other programs suggested in the report, energy efficiency programs do not add short-term economic costs and instead lead to immediate economic savings.

Opposition: Many municipal utilities have expressed opposition to this bill largely because they believe that since public power is directly accountable to their ratepayers/voters they will always set the best policies for their ratepayers and do not need state intervention to assure that statewide policies are met. They state that cost-effective energy efficiency "benefits its members by lowering the cost of providing electricity to its members" and then imply that this benefit will lead them to develop energy efficiency programs on their own.

Municipal utilities have expressed concerns that this bill takes away flexibility to set their own programs. They are also concerned that the bill treats smaller utilities like the City of Briggs the same as Los Angeles. The bill allows CEC to set energy savings targets for each municipal utility after an open process that determines the level of achievable cost-effective efficiency savings for each municipal utility. The bill would then leave it to the municipal utility to determine what types of programs they want to administer to most effectively meet these goals. This process is intended to account for the uniqueness of each municipal utility by allowing different targets to be set for each utility and for each utility to

determine how it will meet the targets.

This bill also requires CEC to investigate options to improve efficiency of air conditioners in California. Currently, air conditioner efficiency standards are developed by the federal government and are based on the average climate of the United States, which is not the hot, dry climate within which most air conditioners operate in California. Federal law preempts California from developing its own standards. Consequently, most air conditioners sold in California, and most air conditioners that qualify for efficiency incentives in California are not as efficient as they could be. The air conditioner provision in this bill is intended to help develop a policy in California that can encourage the development of efficient air conditioners for California's climate without conflicting with the federal rules.

Analysis Prepared by : Edward Randolph / U. & C. / (916) 319-2083

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