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Schwarzenegger Talks Pro-Competition and Green Power But Walks Electric Monopoly, and Gas Plants

CPUC Vote Next Week Could Hand SDG&E Monopoly Back to Sempra

On April 28, California Governor Arnold Schwarzenegger, in a letter to California Public Utilities Commission President Michael Peevey, called for speedier approval of rules which would encourage utilities to sign long-term power contracts and build new gas-fired power plants, alarming green power advocates, consumer advocates, and dozens of California cities now seeking to escape utility procurement to aggressively develop green power.

Yet again, Schwarzenegger used the threat of blackouts to justify the multi-billion giveaway to monopolies.``Currently, wholesale electricity prices are relatively low. Now is the time for utilities to lock in these low prices through long-term contracts," Schwarzenegger said in a letter sent to the commission today.

The Governor's move reflects a mobilization of the state's monopoly utilities and their client unregulated merchant generators to lock California ratepayers into new power contracts. Not coincidentally, the proposal comes just a week before San Diego Gas & Electric, owned by unregulated multinational Sempra Energy, is seeking CPUC approval to acquire the 500 Megawatt Palomar gas-fired power plant from its unregulated affiliate and sign a 10-year Power Purchase Agreement with Calpine for power from its Otay Mesa gas-fired power plant, even though these acquisitions on ratepayers' backs are not needed according to state power agencies.

The California Energy Commission has predicted no shortages for several years except for the remote possibility of afternoon peak shortages - shortages that cannot be met with gas-fired generation. The California Independent System Operator expects demand to rise 3.5 percent to a peak of 44,422 megawatts in August. At that time, the state expects to have 42,850 megawatts of local generation available and to import 5,862 megawatts, giving it 16.4 percent reserve margin. Reserves. The grid operator's assessment of summer afternoon peak demand, released earlier this month, called on Californians to conserve power and said a power supply shortfall that had been predicted for 2006 may occur sooner.

According to the California Energy Commission, the two leading causes of power shortages in 2000-1 were caused by over-reliance on gas-fired power plants: first, contrived shortages from the manipulation of interstate gas pipelines to drive up prices, and second, federal Clean Air Act power plant shut-off orders resulting from air pollution that new power plants will only make worse. With the federal government requiring gas pipeline shutdowns over the next four years that the CEC predicts will force numerous gas-fired power plant shutdowns for the foreseeable future, gas fired generation is not a solution to shortages but the leading cause.

SDG&E A Bold Effort to Subvert CPUC Process, Re-Establish Monopoly

Ever since the Community Choice law was passed by the legislature in late 2002, the utilities have been seeking the right to lock their ratepayers into long term contracts and power plant investments that would in effect block their customers from leaving for competitive suppliers even though AB117 entitles them to leave. Last Summer, SDG&E issued a Request for Proposals ("RFP") for merchant generators like Calpine to serve its short-term reliability needs for 2005-7. Among the bidders, SDG&E chose five contracts, and is now asking the Commission to rate base the contracts, putting SDG&E ratepayers on the hook for the recovery of costs for these contracts.

TURN, ORA and other parties have pointed out that whereas SDG&E's 2005-7 RFP period only needed 250 MW of capacity to meet short term needs, largest two of the five contracts alone total more than 1000MW. Furthermore, because the Otay Mesa power plant will not come online until 2008, it doesn't meet criteria of original RFP, and would amount to over-buying power, locking SDG&E customers into power contracts they do not need

The RACE coalition believes that the May 6 SDG&E plan is an underhanded attempt to block communities in its service territory from leaving by creating new stranded costs (and stranded assets), imposing new Exit Fees on anyone who attempts to escape their contracts by implementing the Community Choice law. There are currently over a dozen cities representing over 10% of the California investor-owned utility market that are spending money on seeking to depart, and another 10% not far behind.

There is an Alternate Decision in the works in which the RACE coalition wishes to limit SDG&E's procurement to the 250 MW of capacity SDG&E actually needs in 2005, leaving the remainder to the electric procurement proceeding, R.01-10-024.

Schwarzenegger Would Block Community Choice, Green Power

In his letter, Schwarzenegger said monopoly utility power contracts will ensure utilities can recover costs - ignoring the fact that the contracts would also block millions of California communities now seeking to escape the contracts under existing law - AB117 (Migden). Saying that reliance on day-to-day supplies during the state's energy crisis in 2000 and 2001 caused seven separate days of rolling blackouts and left two utilities insolvent, the governor is urging the state's Public Utilities Commission to reverse its January 22, 2004 decision that had established a schedule for utility procurement that would leave time for green power and allow dozens of Communities seeking to leave utility procurement for green power to do so. Currently, over a dozen cities representing over 10% of the state's utility markets are seeking to leave for green power providers, including San Francisco, Marin County, Oakland, and other cities together representing 3 million residents. Dozens of other cities are investigating Community Choice at various stages of development.

The Governor would instead have the CPUC approve new rules that include a requirement that utilities maintain a 15 percent power reserve by 2006 rather than 2008 as the CPUC voted on January 22 - specifically in order to create room for the Community Choice cities seeking competitive power providers. Schwarzenegger said that he wants utilities to hold power reserves of 15 percent to ensure adequate supply and prevent blackouts, a requirement the utilities commission has said should take effect by 2008. Schwarzenegger called on the commission to move up that requirement to 2006. Accelerating the adoption of electricity reserves, Schwarzenegger said, will force utilities to enter into long-term contracts sooner and will result in more power plants being built to serve California's growing demand. "A strong reserve margin will prevent future electricity shortages and blackouts ... I am concerned that the commission's phase-in date of 2008 is too slow," he wrote.

Ignoring the right of all customers to leave utility power contracts under existing law, Schwarzenegger said he wants a new law to give large corporations the exclusive choice of leaving their regulated utility service and contracting directly for their power needs, leaving the vast majority of residential and business customers captive to utility contracts, the so-called "Core-Noncore"model favored by de-regulators.

Schwarzenegger also ignored the plans of San Francisco to invest hundreds of millions of dollars in green power technologies in the next few years - the very solar, wind and efficiency measures that will actually address the state's very specific summer afternoon peak shortage issue.

``Enacting these measures will encourage investment in California's energy infrastructure, ensure long-term electricity reliability and reduce the likelihood of blackouts," Schwarzenegger said in a prepared statement, even though the CEC and other agencies widely acknowledge that increased reliance on gas supplies (which new power plants will have to import from the Middle East or elsewhere) will only increase the threat of blackouts. ``I encourage the PUC to move quickly to adopt this regulatory framework so that California's consumers and businesses can begin to realize the benefits of lower electricity costs and stable energy supplies."

Under Schwarzenegger's plan, unregulated affiliate corporations of Edison and PG&E might be able to bid on the contracts and build plants to serve the parent utility. Schwarzenegger didn't say who should build power plants, generating companies or the utilities.

``It's my hunch we'll have a hybrid model," that allows the state's utilities and plant developers to build new generation, Robert Glynn, PG&E's chairman and chief executive, said in an interview before the governor's proposals were released. The process for building new power plants and signing long-term purchase contracts ``needs to be transparent and quick," Glynn said.

Sempra Energy's San Diego Gas & Electric unit is already acting to sign up new long-term supplies. The utility wants state approval to spend about $600 million to buy new power plants and long-term electricity supplies for its 1.3 million customers in Southern California. Michael Peevey, president of the California Public Utilities Commission, has said he supports the plan, and scheduled a vote for their next meeting on May 6.

The purchases and plants would add 1,250 megawatts of electricity, enough for about a million homes, starting as early as 2005.

The state's merchant power plant owners, who hold permits to build gas-fired power plants but no bank willing to invest in them, support the proposal for providing them with monopoly utility power contracts. ``The governor's getting good advice. The letter encourages an open, transparent procurement that will help get plants built in an efficient way. There's nothing here to stop utilities from building plants themselves, but if it's a fair process, they probably won't be building many on their own," said Jan Smutny- Jones, who represents independent generators in the state. ``There's 10,000 megawatts of new generation approved that's just waiting for a customer," apparently unconcerned that the measure would rebuild the state's power monopolies and undermine the competitive market.

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"Currently, wholesale electricity prices are relatively low. Now is the time for utilities to lock in these low prices through long-term contracts," Schwarzenegger wrote.

California suffered an energy crisis in 2000-2001 linked partly to flawed rules governing the deregulation of its markets. These included encouraging utilities to buy the power they needed on the spot market, a measure that contributed to extreme price volatility.

Legislation passed in 2002 called for the development of clear rules under which the state's utilities could sign long-term deals and receive upfront approval they would be able to recover costs. The same year, however - the same day in fact - the Governor signed Community Choice legislation allowing customers to leave utility procurement for alternative sources as communities.

While in effect propping up monopoly utilities under a PURPA-style wholesale regime, Schwarzenegger nevertheless employed the rhetoric of competition, proposing that contracts should be agreed through a "transparent competitive procurement process," a requirement that received the backing of the state's largest power producer, Calpine Corp, which is seeking to sell power and power plants to utilities.

"We are for a strong competitive market. This is the best way to bring new generation supplies to California at the lowest cost for ratepayers," said Joe Ronan, senior vice president for government affairs at San Jose-based Calpine.

The governor's plan "could remove uncertainties and set a very clear process to move forward and guarantee long-term cost recovery for new plants," Ronan said, not mentioning that the guarantee would be made by ratepayers without their consent, despite the fact that the state's utilities have been bailed out repeatedly to give up their monopolies along with the right to make ratepayers captive.

California regulators recently approved a proposal from the state's second largest utility, Southern California Edison, to create a new subsidiary to buy the Mountainview power plant project, which would then sell power to the utility. Calpine and other independent power producers complained the move created the potential for self-dealing between the utility units and stymied the competitive bidding process - but also want lucrative contracts with utilities themselves, ignoring the fact that this will suppress retail competition that is needed for Community Choice to work.

Schwarzenegger did not comment directly on Mountainview and his officials declined to elaborate on the issue. Nor did he mention anything about the 10-20% of the California's customer load now seeking competitive suppliers and green power development. Following San Francisco's lead, a dozen cities representing 2 million customers are seeking to implement a 40% Renewable Portfolio Standard ("RPS") with their new suppliers, representing a 28% increase of green power over current levels, compared to the 8% increase required by California's 2002 RPS law.