

An act to add Section 457 to the Public Utilities Code, relating to electricity.

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THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. The Legislature finds and declares all of the following:

(a) California has long had a policy interest in promoting the use of renewable energy resources for the generation of electricity and mitigating the effects of climate change. Renewable distribution-connected generation offers significant environmental, economic, and energy resiliency benefits to California's communities and has the potential to address historical inequities, while distribution-connected energy storage systems can provide critical grid services. Together, renewable distribution-connected generation and distribution-connected storage should be a significant part of California's long-term energy and climate change strategies.

(b) Renewable distribution-connected generation provides unique value to energy consumers by generating clean energy in close proximity to customer need, thereby increasing the energy resiliency of communities, freeing up capacity on the transmission grid, and decreasing the need for additional transmission infrastructure.

(c) Renewable distribution-connected generation provides unique value to California's communities by providing local jobs in distributed energy resource installation and maintenance.

(d) Renewable distribution-connected generation can also alleviate the serious environmental justice challenges facing the state by displacing polluting fossil fuel generation, such as natural gas peaker plants and diesel electrical generation resources, which are disproportionately sited in environmentally disadvantaged communities.

(e) Current California policy supports only behind-the-meter distributed generating resources, but these resources are necessarily limited in size and in their ability to serve entire local communities and neighborhoods. Therefore, California should develop a robust renewable energy sector focused on local distribution-connected generation to capture greater economic, energy, and resiliency benefits.

(f) Limited transparency regarding the costs of delivering electricity, particularly transmission cost allocation, hampers the ability of load-serving entities procuring electricity for customers to make informed decisions that account for the full costs of electricity, including not only generation and delivery, but also the social, environmental, economic, and other significant costs.

(g) The Federal Energy Regulatory Commission requires that transmission costs be recovered from those who benefit from use of the transmission grid in ways that do not distort energy markets.

(h) California's transmission costs have grown sharply in recent decades and are projected to continue growing as electric vehicles and building electrification expand as part of California's efforts to reduce its contribution to climate change.

(i) The building of excess transmission facilities potentially costs California ratepayers billions of dollars, and causes environmental damage to natural ecosystems. Transmission facilities have been implicated in a series of massive fires that have caused tremendous damage in property and human life.

(j) The Independent System Operator cited the deployment of distributed generation as a driving factor in saving California ratepayers billions of dollars in transmission costs, yet the load-serving entities responsible for procuring distributed generation have not historically received appropriate credit for their contributions to reducing the growth of transmission costs for California ratepayers.



(k) The distribution-connected generation sector of the renewable energy industry remains underdeveloped in California, which hampers California's overall efforts to address local energy resiliency, outage mitigation, emissions reductions, and climate change and to foster beneficial community development.

(l) California's governance of transmission charges is fragmented among various utilities, the Public Utilities Commission, and the Independent System Operator, which hampers California's ability to craft a coherent and functioning transmission cost recovery system. Thus, California needs an integrated and streamlined process to develop a coherent mechanism that incorporates all necessary tariffs and rates throughout the state.

(m) In many areas of California, local publicly owned electric utilities that do not participate in the Independent System Operator have accounted for the contribution of distributed generation to avoided energy transmission costs for many years, which has facilitated their efforts to mitigate their impacts on the transmission grid.

(n) Many distributed energy resource technologies can mitigate the impacts on the transmission grid and the need for new transmission facilities, yet among those technologies, only in-front-of-the-meter generation and storage in the territory of electrical corporations that are transmission owners participating in the Independent System Operator do not reduce transmission cost allocations for avoided transmission grid usage. California would be better served if all distributed energy resources were treated consistently so that load-serving entities and other utilities had the full range of mitigation approaches available as economically viable alternatives to increased transmission grid investment.

SEC. 2. Section 457 is added to the Public Utilities Code, to read:

457. (a) For purposes of this section, the following definitions apply:

(1) "Avoided transmission cost" means all future transmission-related expenditures that would otherwise be incurred but for the role of distribution-connected generation or other distribution system technologies, including energy storage, including both specific costs of avoided projects and generalized costs not incurred resulting from reduced use of the transmission grid.

(2) "Distribution-connected generation" means an eligible renewable energy resource interconnected at the distribution level of the electrical grid, on the utility side of any customer meter, but used to serve a local load.

(3) "Eligible renewable energy resource" means a resource for the generation of electricity that meets the eligibility requirements of the California Renewables Portfolio Standard Program (Article 16 (commencing with Section 399.11) of Chapter 2.3).

(4) "Load-serving entity" has the same meaning as defined in Section 380, except that it additionally includes a local publicly owned electric utility.

(5) "Local load" means electricity consumption by customers located within the same area of the distribution grid on the customer side of a single transmission-distribution substation.

(6) "Market responsive feed-in tariff" means a tariff for transparent prices with a standard contract available on a first come, first-served basis for distribution-connected generation, or other distribution system technologies, connected in front of customer meters to serve local load. A market responsive feed-in tariff shall include a mechanism to adjust the transparent price offered on a periodic basis in response to the number



and size of projects offered at a given price, so that the transparent price decreases with increases in supply, and increases with decreases in supply, offered to the procuring entity.

(7) “Tariff” means a schedule of rates or charges of a business, public utility, or transmission operator.

(8) “Use,” in reference to the transmission grid, means the delivery of electricity from a generating resource that requires the transmission grid to transmit electricity to the customer served.

(b) It is the policy of the State of California that:

(1) All procurement of electricity in the state conducted based on cost should be based on the full cost consequences to ratepayers, including the costs of electrical generation, transmission, and distribution, including cumulative future delivery infrastructure costs driven by the procurement in question and similarly situated procurement.

(2) Load-serving entities should receive either direct financial benefits or indirect benefits on behalf of their ratepayers for any distribution-connected generation, or other distribution system technologies, that serves local load in order to recognize the value of those resources in avoiding transmission costs. The value of avoided transmission costs shall reflect both historical and prospective investments in distributed resources that have mitigated or will mitigate the impacts on the transmission grid and relieve the need for transmission grid investments to the benefit of all California ratepayers.

(3) Regulatory agencies, quasi-regulatory bodies, local agencies, districts, and corporations with jurisdiction or responsibility over transmission and delivery charges should exercise their authority to jointly provide for a mechanism for load-serving entities to receive compensation to reflect the value of avoided transmission costs.

(4) The recovery of transmission costs should be consistent across the state.

(c) (1) The commission, in consultation with all relevant stakeholders, including the Independent System Operator, shall convene a stakeholder process to develop modifications of the tariffs governing transmission access charges, wheeling access charges, or retail rate structures, as necessary to implement the policies specified in subdivision (b). These modifications may include any set of changes to any set of tariffs that is appropriate to implement those policies and conform to the standards set forth in this subdivision.

(2) The modifications of the tariffs developed pursuant to paragraph (1) shall ensure all of the following:

(A) Formulas for cost recovery reflect a combination of all of the following:

(i) Historical factors, drivers, or justifications for a transmission grid investment at the time the transmission grid investment is planned or approved.

(ii) Contemporaneous use of the transmission grid.

(iii) Incentives to mitigate drivers of future transmission grid investment.

(B) Transmission grid charges are predominantly assessed on the use of transmission grid capacity based on the amount of electricity delivered across the transmission grid.

(C) Load-serving entities derive financial credit, benefits, offsets, or incentives in the proportion to which they serve their customers with distribution-connected generation, or other distribution system technologies, including distribution



grid-connected energy storage, that serve local load where that generation or other technology offsets the use of transmission grid capacity.

(D) The basis for applying access charges to each electrical corporation, community choice aggregator, local publicly owned electric utility, and electric service provider is consistent in a manner that fully compensates each of those entities for the distribution-connected generation, or other distribution system technologies, within the entity's local distribution grid, unless the commission and Independent System Operator each makes a finding, based on substantial evidence, that differential bases are in the best interest of all California end-use electricity customers and further the achievement of California's environmental goals, including the California Renewables Portfolio Standard Program (Article 16 (commencing with Section 399.11) of Chapter 2.3) and the California Global Warming Solutions Act of 2006 (Division 25.5 (commencing with Section 38500) of the Health and Safety Code).

(E) Transmission charges recognize the value provided by distribution-connected generation resources, or other distribution system technologies, including, but not limited to, the economic, environmental, and system resiliency benefits of distribution-connected generation, or other distribution system technologies, and the potential to reduce the use of existing transmission grid infrastructure and the need for future transmission grid infrastructure and capacity.

(3) Any rate structure for allocating transmission costs shall be based on factual findings supported by a preponderance of evidence, and the analytical path from evidence to finding shall be readily discernible. Evidence for these purposes shall not include argument, speculation, unsubstantiated opinion or narrative, or evidence that is clearly erroneous or inaccurate.

(4) (A) On or before July 1, 2023, the stakeholder process undertaken pursuant to this subdivision shall develop the final set of modifications of the tariffs to implement the policies specified in subdivision (b).

(B) Each commission, board, corporation, or agency with the authority to do so shall approve those elements of the final set of modifications to those tariffs or rules under its jurisdiction on or before October 31, 2023.

(C) Once approved, any element of the final set of modifications requiring approval by the Federal Energy Regulatory Commission shall be submitted by the relevant commission, board, corporation, or agency to the Federal Energy Regulatory Commission for approval, by January 1, 2024.

(D) Within one year of the date of approval by the Federal Energy Regulatory Commission of the last approved element submitted pursuant to subparagraph (C), the Independent System Operator, the commission, each electrical corporation, and any other load-serving entity with jurisdiction over any of the final set of modifications shall fully implement all modifications to the tariffs and rules to meet the policies specified in subdivision (b).

(d) On or before June 30, 2023, the commission shall develop standards to credit load-serving entities for meeting local resource adequacy requirements with distribution-connected generation, or other distribution system technologies.

(e) The commission shall adopt requirements to explicitly plan for distribution-connected generation, or other distribution system technologies, within the integrated resources planning process to allow for planning of the appropriate mix of distribution-connected and transmission-connected generating resources, or other

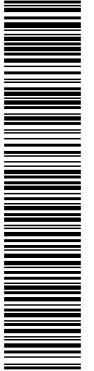


electrical system technologies, including energy storage, in serving electrical load in consideration of the different impacts on transmission grid investment that are driven by serving electrical load with each category of resources. These requirements shall be adopted on or before December 31, 2022.

(f) The commission shall develop a model market responsive feed-in tariff, including a model pro forma contract, for use in procuring distribution-connected generation, or other distribution system technologies, by a load-serving entity.

SEC. 3. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because a local agency or school district has the authority to levy service charges, fees, or assessments sufficient to pay for the program or level of service mandated by this act or because costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.

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LEGISLATIVE COUNSEL'S DIGEST

Bill No.

as introduced, _____.

General Subject: Electrical service: renewable distribution-connected generation and energy storage: policies and rates.

Under existing law, the Public Utilities Commission (PUC) has regulatory authority over public utilities, including electrical corporations, while local publicly owned electric utilities are under the direction of their governing boards. 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. Existing law establishes the Independent System Operator (ISO) as a nonprofit public benefit corporation, with electricity transmission duties regulated by the FERC and with authority to secure electrical generation resources and transmission facilities necessary to guarantee achievement of specified minimum planning and operating reserve criteria.

This bill would establish certain state policies, including (1) that all electricity procurement in the state conducted based on cost should be based on the full cost consequences to ratepayers, including the costs of electrical generation, transmission, and distribution and (2) that load-serving entities, including local publicly owned electric utilities, should receive direct financial benefits or indirect benefits on behalf of their ratepayers for certain distribution-connected generation, as defined, for avoided transmission costs. The bill would require the PUC, in consultation with all relevant stakeholders, including the ISO, to convene a stakeholder process to develop modifications of the tariffs governing transmission access charges, wheeling access charges, or retail rate structures as necessary to implement those state policies and to ensure the tariffs conform to specified standards. The bill would require the stakeholder process, on or before July 1, 2023, to develop the final set of those modifications. The bill would require each commission, board, corporation, or agency with the authority to do so to approve those elements of the final set of modifications under its jurisdiction on or before October 31, 2023. For elements of the final set of modifications that require approval by FERC, the bill would require the submission of those elements to FERC by January 1, 2024, and would require the ISO, commissions, and load-serving entities with jurisdiction over any of the modifications to implement them within one year of FERC's approval of the last approved element. The bill would require the PUC, on or before June 30, 2023, to develop standards to credit load-serving entities for meeting local resource adequacy requirements with distribution-connected generation, or other distribution system technologies, including distribution-connected energy storage. The bill would require the PUC to adopt requirements to explicitly plan for those resources within the integrated resources planning process by December 31, 2022. The bill would require the PUC to develop a model market responsive feed-in tariff, including a model



pro forma contract, for use in procuring those resources by a load-serving entity, as specified.

Under existing law, a violation of the Public Utilities Act or any order, decision, rule, direction, demand, or requirement of the PUC is a crime.

Because the above provisions would be part of the Public Utilities Act, and the PUC would be required to issue an order, decision, rule, direction, demand, or requirement to implement those provisions, a violation of any of which would be a crime, this bill would impose a state-mandated local program. Because the bill would impose additional duties on local publicly owned electric utilities, this bill would impose a state-mandated local program.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for specified reasons.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: yes.

