

AMENDED IN SENATE MAY 4, 2004
AMENDED IN SENATE APRIL 22, 2004
AMENDED IN SENATE APRIL 12, 2004

SENATE BILL

No. 1478

Introduced by Senator Sher

February 19, 2004

An act to amend Sections 25740, 25743, 25744, and 25748 of, and to repeal Sections 25745 and 25749 of, the Public Resources Code, and to amend Sections 399.11, 399.12, 399.13, 399.14, 399.15, and 399.16 of, and to add Section 399.17 to, the Public Utilities Code, relating to energy.

LEGISLATIVE COUNSEL'S DIGEST

SB 1478, as amended, Sher. Renewable energy.

(1) Existing law expresses the intent of the Legislature, in establishing the Renewable Energy Resources Program, to increase the amount of renewable electricity generated per year, so that it equals at least 17% of the total electricity generated for consumption in California per year by 2006.

This bill would recast that intent language so that the amount of renewable electricity generated per year is increased to an amount that equals at least 20% of the total electricity ~~consumed~~ *sold to retail customers* in California per year by 2010, rather than 2006. The bill would make conforming changes.

(2) The Public Utilities Act imposes various duties and responsibilities on the Public Utilities Commission (CPUC) with respect to the purchase of electricity and requires the CPUC to review and adopt a procurement plan and a renewable energy procurement plan

for each electrical corporation pursuant to the California Renewables Portfolio Standard Program. The program requires that a retail seller of electricity, including electrical corporations, community choice aggregators, and electric service providers, but not including local publicly owned electric utilities, purchase a specified minimum percentage of electricity generated by eligible renewable energy resources, as defined, in any given year as a specified percentage of total kilowatthours sold to retail end-use customers each calendar year (renewables portfolio standard). The renewables portfolio standard requires each electrical corporation to increase its total procurement of eligible renewable energy resources by at least an additional 1% of retail sales per year so that 20% of its retail sales are procured from eligible renewable energy resources no later than December 31, 2017.

This bill would instead require that each electrical corporation increase its total procurement of eligible renewable energy resources by at least an additional 1% of retail sales per year so that 20% of its retail sales are procured from eligible renewable energy resources no later than December 31, 2010.

(3) Existing law requires the State Energy Resources Conservation and Development Commission (Energy Commission) to certify eligible renewable energy resources, to design and implement an accounting system to verify compliance with the renewables portfolio standard by retail sellers, and to allocate and award supplemental energy payments to cover above-market costs of renewable energy.

This bill would require the Energy Commission to establish a renewable energy credit, as defined, trading program and to develop tracking, accounting, verification, and enforcement mechanisms for the program. The bill would additionally require the Energy Commission to require any retail seller of electricity that does not meet the requirements of the renewables portfolio standard by directly owning or purchasing electricity generated from eligible renewable energy resources, to purchase renewable energy credits for a quantity of electricity produced from eligible renewable energy resources, that is sufficient to make up the shortfall. The bill would require the ~~commission~~ CPUC to establish rules authorizing electrical corporations to meet the renewables ~~standard~~ portfolio *standard* requirements using renewable energy credits. The bill would make other technical and conforming changes.

(4) Under the Public Utilities Act, the CPUC requires electrical corporations to identify a separate rate component to fund programs



that enhance system reliability and provide in-state benefits. This rate component is a nonbypassable element of local distribution and collected on the basis of usage. The funds are collected to support cost-effective energy efficiency and conservation activities, public interest research and development not adequately provided by competitive and regulated markets, and renewable energy resources (renewable energy public goods charge). Under existing law, 51.5% of the money collected as part of the renewable energy public goods charge is required to be used for programs designed to foster the development of new in-state renewable electricity generation facilities, and to secure for the state the environmental, economic, and reliability benefits that operation of those facilities will provide. Existing law also provides that any of those funds used for new in-state renewable electricity generation facilities are required to be expended in accordance with a specified report of the Energy Commission to the Legislature, subject to certain requirements, including the awarding of supplemental energy payments.

This bill would require that these funds be awarded only to a project that is selected by ~~an electrical corporation in accordance with a retail seller pursuant to~~ a competitive solicitation procedure found by the CPUC to comply with the Renewables Portfolio Standard Program and that the project participant has entered into a purchase power agreement resulting from that solicitation that is approved by the CPUC.

(5) Existing law requires 17.5% of the money collected under the renewable energy public goods charge be used for a multiyear, consumer-based program to foster the development of emerging renewable technologies in distributed generation applications, and that certain of funds be expended in accordance with the above-described report, subject to, among other things, the requirement that funding for emerging technologies be provided through a competitive, market-based process.

This bill would recast the competitive process so that funding would be provided to projects chosen through a competitive, market-based process that is in place for not less than five years, and would be structured to allow eligible emerging technology manufacturers and suppliers to anticipate and plan for increased sale and installation volumes over the life of the program.

(6) Existing law requires 10% of the money collected under the renewable energy public goods charge be used for customer credits to customers that entered into a direct transaction on or before September



20, 2001, for purchases of electricity produced by registered in-state renewable electricity generating facilities.

This bill would delete this provision.

(7) Existing law requires the use of standard terms and conditions by all electrical corporations in contracting for eligible renewable energy resources.

This bill would require that those terms and conditions include the requirement that, no later than 6 months after the ~~commission's~~ CPUC's approval of a purchase power agreement, the following information about the agreement be disclosed by the ~~PUC~~ CPUC: party names, resource type, project location, and project capacity.

(8) This bill would delete certain obsolete and duplicative provisions and make technical and conforming changes.

(9) ~~Because Existing law makes a violation of the Public Utilities Act or a violation of an order of the PUC~~ CPUC is a crime ~~under existing law, the~~.

Because a violation of the provisions of the bill and of any CPUC order implementing these provisions would be a crime, this bill would impose a state-mandated local program by creating a new ~~crime~~ crimes.

(10) 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 a specified reason.

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

The people of the State of California do enact as follows:

1 SECTION 1. Section 25740 of the Public Resources Code is
2 amended to read:

3 25740. It is the intent of the Legislature in establishing this
4 program, to increase the amount of renewable electricity
5 generated per year, so that it equals at least 20 percent of the total
6 electricity ~~consumed~~ sold to retail customers in California per year
7 by the year 2010.

8 SEC. 2. Section 25743 of the Public Resources Code is
9 amended to read:

1 25743. (a) Fifty-one and one-half percent of the money
2 collected pursuant to the renewable energy public goods charge
3 shall be used for programs designed to foster the development of
4 new in-state renewable electricity generation facilities, and to
5 secure for the state the environmental, economic, and reliability
6 benefits that operation of those facilities will provide.

7 (b) Any funds used for new in-state renewable electricity
8 generation facilities pursuant to this section shall be expended in
9 accordance with the report, subject to all of the following
10 requirements:

11 (1) In order to cover the above market costs of renewable
12 resources as approved by the Public Utilities Commission and
13 selected by retail sellers to fulfill their obligations under Article 16
14 (commencing with Section 399.11) of Chapter 2.3 of Part 1 of
15 Division 1 of the Public Utilities Code, the commission shall
16 award funds in the form of supplemental energy payments, subject
17 to the following criteria:

18 (A) The commission may establish caps on supplemental
19 energy payments. The caps shall be designed to provide for a
20 viable energy market capable of achieving the goals of Article 16
21 (commencing with Section 399.11) of Chapter 2.3 of Part 1 of the
22 Public Utilities Code. The commission may waive application of
23 the caps to accommodate a facility if it is demonstrated to the
24 satisfaction of the commission that operation of the facility would
25 provide substantial economic and environmental benefits to
26 end-use customers subject to the funding requirements of the
27 renewable energy public goods charge.

28 (B) Supplemental energy payments shall be awarded only to
29 facilities that are eligible for funding under this subdivision.

30 (C) Supplemental energy payments awarded to facilities
31 selected by an electrical corporation pursuant to Article 16
32 (commencing with Section 399.11) of Chapter 2.3 of Part 1 of
33 Division 1 of the Public Utilities Code shall be paid for the lesser
34 of 10 years, or the duration of the contract with the electrical
35 corporation.

36 (D) The commission shall reduce or terminate supplemental
37 energy payments for projects that fail either to commence and
38 maintain operations consistent with the contractual obligations to
39 an electrical corporation or that fail to meet eligibility
40 requirements.

(E) Funds shall be managed in an equitable manner in order for retail sellers to meet their obligation under Article 16 (commencing with Section 399.11) of Chapter 2.3 of Part 1 of Division 1 of the Public Utilities Code.

~~(F) An electrical corporation may receive funds pursuant to this section only if the project is selected by the corporation~~

(F) A project may receive funds pursuant to this section only if it is selected by a retail seller pursuant to a competitive solicitation that is found by the Public Utilities Commission to comply with the California Renewables Portfolio Standard Program under Article 16 (commencing with Section 399.11) of Chapter 2.3 of Part 1 of Division 1 of the Public Utilities Code and that has entered a purchase power agreement resulting from that solicitation that is approved by the Public Utilities Commission.

(2) The commission may determine as part of a solicitation, that a facility that does not meet the definition of an “in-state renewable electricity generation technology” facility solely because it is located outside the state, is eligible for funding under this subdivision if it meets all of the following requirements:

(A) It is located so that it is or will be connected to the Western Electricity Coordinating Council (WECC) transmission system.

(B) It is developed with guaranteed contracts to sell its generation to end-use customers subject to the funding requirements of Section 381, or to marketers that provide this guarantee for resale of the generation, for a period of time at least equal to the amount of time it receives incentive payments under this subdivision.

(C) It will not cause or contribute to any violation of a California environmental quality standard or requirement.

(D) If the facility is outside of the United States, it is developed and operated in a manner that is as protective of the environment as a similar facility located in the state.

(E) It meets any other condition established by the commission.

(3) Facilities that are eligible to receive funding pursuant to this subdivision shall be registered in accordance with criteria developed by the commission and those facilities may not receive payments for any electricity produced that has any of the following characteristics:

(A) Is sold under an existing long-term contract with an existing in-state electrical corporation if the contract includes fixed energy or capacity payments, except for that electricity that satisfies subparagraph (C) of paragraph (1) of subdivision (c) of Section 399.6 of the Public Utilities Code.

(B) Is used onsite or is sold to customers in a manner that excludes competitive transition charge payments, or is otherwise excluded from competitive transition charge payments.

(C) Is produced by a facility that is owned by an electrical corporation or a local publicly owned electric utility as defined in subdivision (d) of Section 9604 of the Public Utilities Code.

(D) Is a hydroelectric generation project that will require a new or increased appropriation of water under Part 2 (commencing with Section 1200) of Division 2 of the Water Code.

(E) Is a solid waste conversion facility, unless the facility meets the criteria established in paragraph (3) of subdivision (a) of Section 25741 and the facility certifies that any local agency sending solid waste to the facility is in compliance with Division 30 (commencing with Section 40000), has reduced, recycled, or composted solid waste to the maximum extent feasible, and shall have been found by the California Integrated Waste Management Board to have diverted at least 30 percent of all solid waste through source reduction, recycling, and composting.

(4) Eligibility to compete for funds or to receive funds shall be contingent upon having to sell the output of the renewable electricity generation facility to customers subject to the funding requirements of the renewable energy public goods charge.

(5) The commission may require applicants competing for funding to post a forfeitable bid bond or other financial guaranty as an assurance of the applicant's intent to move forward expeditiously with the project proposed. The amount of any bid bond or financial guaranty may not exceed 10 percent of the total amount of the funding requested by the applicant.

(6) In awarding funding, the commission may provide preference to projects that provide tangible demonstrable benefits to communities with a plurality of minority or low-income populations.

(c) Repowered existing facilities shall be eligible for funding under this subdivision if the capital investment to repower the

1 existing facility equals at least 80 percent of the value of the
2 repowered facility.

3 (d) Facilities engaging in the direct combustion of municipal
4 solid waste or tires are not eligible for funding under this
5 subdivision.

6 (e) Production incentives awarded under this subdivision prior
7 to January 1, 2002, shall commence on the date that a project
8 begins electricity production, provided that the project was
9 operational prior to January 1, 2002, unless the commission finds
10 that the project will not be operational prior to January 1, 2002, due
11 to circumstances beyond the control of the developer. Upon
12 making a finding that the project will not be operational due to
13 circumstances beyond the control of the developer, the
14 commission shall pay production incentives over a five-year
15 period, commencing on the date of operation, provided that the
16 date that a project begins electricity production may not extend
17 beyond January 1, 2007.

18 (f) Facilities generating electricity from biomass energy shall
19 be considered an in-state renewable electricity generation
20 technology facility to the extent that they report to the commission
21 the types and quantities of biomass fuels used and certify to the
22 satisfaction of the commission that fuel utilization is limited to the
23 following:

24 (1) Agricultural crops and agricultural wastes and residues.

25 (2) Solid waste materials such as waste pallets, crates, dunnage,
26 manufacturing, and construction wood wastes, landscape or
27 right-of-way tree trimmings, mill residues that are directly the
28 result of the milling of lumber, and rangeland maintenance
29 residues.

30 (3) Wood and wood wastes that meet all of the following
31 requirements:

32 (A) Have been harvested pursuant to an approved timber
33 harvest plan prepared in accordance with the Z'berg-Nejedly
34 Forest Practice Act of 1973 (Chapter 8 (commencing with ~~Sec.~~
35 *Section* 4511) of Part 2 of Division 4).

36 (B) Have been harvested for the purpose of forest fire fuel
37 reduction or forest stand improvement.

38 (C) Do not transport or cause the transportation of species
39 known to harbor insect or disease nests outside zones of infestation
40 or current quarantine zones, as identified by the Department of

Food and Agriculture or the Department of Forestry and Fire Protection, unless approved by the Department of Food and Agriculture and the Department of Forestry and Fire Protection.

SEC. 3. Section 25744 of the Public Resources Code is amended to read:

25744. (a) Seventeen and one-half percent of the money collected pursuant to the renewable energy public goods charge shall be used for a multiyear, consumer-based program to foster the development of emerging renewable technologies in distributed generation applications.

(b) Any funds used for emerging technologies pursuant to this section shall be expended in accordance with the report, subject to all of the following requirements:

(1) Funding for emerging technologies shall be provided to ~~projects that are chosen~~ through a competitive, market-based process that is in place for a period of not less than five years, and is structured to allow eligible emerging technology manufacturers and suppliers to anticipate and plan for increased sale and installation volumes over the life of the program.

(2) The program shall provide monetary rebates, buydowns, or equivalent incentives, subject to paragraph (3), to purchasers, lessees, lessors, or sellers of eligible electricity generating systems. Incentives shall benefit the end-use consumer of renewable generation by directly and exclusively reducing the purchase or lease cost of the eligible system, or the cost of electricity produced by the eligible system. Incentives shall be issued on the basis of the rated electrical generating capacity of the system measured in watts, or the amount of electricity production of the system, measured in kilowatthours. Incentives shall be limited to a maximum percentage of the system price, as determined by the commission.

(3) Eligible distributed emerging technologies are photovoltaic, solar thermal electric, fuel cell technologies that utilize renewable fuels, and wind turbines of not more than 50 kilowatts rated electrical generating capacity per customer site, and other distributed renewable emerging technologies that meet the emerging technology eligibility criteria established by the commission. Eligible electricity generating systems are intended primarily to offset part or all of the consumer's own electricity demand, and shall not be owned by local publicly owned electric

1 utilities, nor be located at a customer site that is not receiving
2 distribution service from an electrical corporation that is subject
3 to the renewable energy public goods charge and contributing
4 funds to support programs under this chapter. All eligible
5 electricity generating system components shall be new and
6 unused, shall not have been previously placed in service in any
7 other location or for any other application, and shall have a
8 warranty of not less than five years to protect against defects and
9 undue degradation of electrical generation output. Systems and
10 their fuel resources shall be located on the same premises of the
11 end-use consumer where the consumer's own electricity demand
12 is located, and all eligible electricity generating systems shall be
13 connected to the utility grid in California. The commission may
14 require eligible electricity generating systems to have meters in
15 place to monitor and measure a system's performance and
16 generation. Only systems that will be operated in compliance with
17 applicable law and the rules of the Public Utilities Commission
18 shall be eligible for funding.

19 (4) The commission shall limit the amount of funds available
20 for any system or project of multiple systems and reduce the level
21 of funding for any system or project of multiple systems that has
22 received, or may be eligible to receive, any government or utility
23 funds, incentives, or credit.

24 (5) In awarding funding, the commission may provide
25 preference to systems that provide tangible demonstrable benefits
26 to communities with a plurality of minority or low-income
27 populations.

28 (6) In awarding funding, the commission shall develop and
29 implement eligibility criteria and a system that provides
30 preference to systems based upon system performance, taking into
31 account factors, including, but not limited to, shading, insulation
32 levels, and installation orientation.

33 (7) At least once annually, the commission shall publish and
34 make available to the public the balance of funds available for
35 emerging renewable energy resources for rebates, buydowns, and
36 other incentives for the purchase of these resources.

37 SEC. 4. Section 25745 of the Public Resources Code is
38 repealed.

39 SEC. 5. Section 25748 of the Public Resources Code is
40 amended to read:



25748. The commission shall report to the Legislature on or before May 31, 2000, and on or before May 31 of every second year thereafter, regarding the results of the mechanisms funded pursuant to this chapter. Reports prepared pursuant to this section shall include a description of the allocation of funds among existing, new and emerging technologies; the allocation of funds among programs, including consumer-side incentives; and the need for the reallocation of money among those technologies. The report shall identify the types and quantities of biomass fuels used by facilities receiving funds pursuant to Section 25743 and their impacts on improving air quality. The reports shall discuss the progress being made toward achieving the targets established under Section 25740 by each funding category authorized pursuant to this chapter. The reports shall also address the allocation of funds from interest on the accounts described in this chapter, and money in the accounts described in subdivision (b) of Section 25751. Money may be reallocated without further legislative action among existing, new, and emerging technologies and consumer-side programs in a manner consistent with the report and with the latest report provided to the Legislature pursuant to this section, except that reallocations may not reduce the allocation established in Section 25743 nor increase the allocation established in Section 25742.

SEC. 6. Section 25749 of the Public Resources Code is repealed.

SEC. 7. Section 399.11 of the Public Utilities Code is amended to read:

399.11. The Legislature finds and declares all of the following:

(a) In order to attain a target of 20 percent by the year 2010 renewable energy for the State of California and for the purposes of increasing the diversity, reliability, public health and environmental benefits of the energy mix, it is the intent of the Legislature that the California Public Utilities Commission and the State Energy Resources Conservation and Development Commission implement the California Renewables Portfolio Standard Program described in this article.

(b) Increasing California's reliance on renewable energy resources may promote stable electricity prices, protect public health, improve environmental quality, stimulate sustainable

1 economic development, create new employment opportunities,
2 and reduce reliance on imported fuels.

3 (c) The development of renewable energy resources may
4 ameliorate air quality problems throughout the state and improve
5 public health by reducing the burning of fossil fuels and the
6 associated environmental impacts.

7 (d) The California Renewables Portfolio Standard Program is
8 intended to complement the Renewable Energy Program
9 administered by the State Energy Resources Conservation and
10 Development Commission and established pursuant to Sections
11 383.5 and 445.

12 SEC. 8. Section 399.12 of the Public Utilities Code is
13 amended to read:

14 399.12. For purposes of this article, the following terms have
15 the following meanings:

16 (a) “Eligible renewable energy resource” means an electric
17 generating facility that is one of the following:

18 (1) The facility meets the definition of “in-state renewable
19 electricity generation facility” in Section 25741 of the Public
20 Resources Code.

21 (2) A geothermal generation facility originally commencing
22 operation prior to September 26, 1996, shall be eligible for
23 purposes of adjusting a retail seller’s baseline quantity of eligible
24 renewable energy resources except for electricity certified as
25 incremental geothermal production by the Energy Commission,
26 provided that the incremental electricity that is generated was not
27 sold to an electrical corporation under contract entered into prior
28 to September 26, 1996. For each facility seeking certification, the
29 Energy Commission shall determine historical production trends
30 and establish criteria for measuring incremental geothermal
31 production that recognizes the declining geothermal output of
32 existing steamfields and the contribution of capital investments in
33 the facility or wellfield.

34 (3) The electricity generated by a small hydroelectric
35 generation facility of 30 megawatts or less procured or owned by
36 an electrical corporation as of the date of enactment of this article
37 shall be eligible only for purposes of establishing the baseline of
38 an electrical corporation pursuant to paragraph (3) of subdivision
39 (a) of Section 399.15. A new hydroelectric facility is not an
40 eligible renewable energy resource if it will require a new or



increased appropriation or diversion of water under Part 2 (commencing with Section 1200) of Division 2 of the Water Code.

(4) A facility engaged in the combustion of municipal solid waste shall not be considered an eligible renewable resource unless it is located in Stanislaus County and was operational prior to September 26, 1996. Electricity generated by ~~such facilities~~ *a facility meeting these requirements* shall be eligible only for the purpose of adjusting a retail seller's baseline quantity of eligible renewable energy resources.

(b) "Energy Commission" means the State Energy Resources Conservation and Development Commission.

(c) "Retail seller" means an entity engaged in the retail sale of electricity to end-use customers, including any of the following:

(1) An electrical corporation, as defined in Section 218.

(2) A community choice aggregator. The commission shall institute a rulemaking to determine the manner in which a community choice aggregator will participate in the renewables portfolio standard subject to the same terms and conditions applicable to an electrical corporation.

(3) An electric service provider, as defined in Section 218.3 subject to the following conditions:

(A) An electric service provider shall be considered a retail seller under this article for sales to any customer acquiring service after January 1, 2003.

(B) An electric service provider shall be considered a retail seller under this article for sales to all its customers beginning on the earlier of January 1, 2006, or the date on which a contract between an electric service provider and a retail customer expires. Nothing in this subdivision may require an electric service provider to disclose the terms of the contract to the commission.

(C) The commission shall institute a rulemaking to determine the manner in which electric service providers will participate in the renewables portfolio standard. The electric service provider shall be subject to the same terms and conditions applicable to an electrical corporation pursuant to this article. Nothing in this paragraph shall impair a contract entered into between an electric service provider and a retail customer prior to the suspension of direct transactions by the commission pursuant to Section 80110 of the Water Code.

~~(4) A local publicly owned electrical utility, as defined in Section 9604, shall comply with the renewables portfolio standard obligation pursuant to the requirements of Section 387.~~

~~(5)–~~

(4) “Retail seller” does not include any of the following:

(A) A corporation or person employing cogeneration technology or producing power consistent with subdivision (b) of Section 218.

(B) The Department of Water Resources acting in its capacity pursuant to Division 27 (commencing with Section 80000) of the Water Code.

(C) A local publicly owned electric utility, as defined in Section 9604.

(d) “Renewables portfolio standard” means the specified percentage of electricity generated by eligible renewable energy resources that a retail seller is required to procure pursuant to Sections 399.13 and 399.15.

(e) “Renewable energy credit” means a certificate of proof, issued by the Energy Commission, that one kilowatthour of electricity was generated by an eligible renewable energy resource and delivered to a retail seller, ~~a local publicly owned electric utility in compliance with the requirements of Section 387,~~ or the Independent System Operator. The renewable energy credit shall represent all renewable and environmental attributes associated with electricity production by an eligible renewable energy resource ~~and environmental resource. Environmental~~ attributes associated with electricity generated by an eligible renewable energy resource attributable to the use of nonrenewable fuels shall not result in the creation of any renewable energy credits.

SEC. 9. Section 399.13 of the Public Utilities Code is amended to read:

399.13. The Energy Commission shall do all of the following:

(a) Certify eligible renewable energy resources that it determines meet the criteria described in subdivision (a) of Section 399.12.

(b) Design and implement an accounting system to verify compliance with the renewables portfolio standard by retail sellers, to ensure that renewable energy output is counted only once for the purpose of meeting the renewables portfolio standard of this state or any other state, to certify renewable energy credits

1 produced by eligible renewable energy resources, and to verify
2 retail product claims in this state or any other state. In establishing
3 the guidelines governing this system, the Energy Commission
4 shall collect data from electricity market participants that it deems
5 necessary to verify compliance of retail sellers, in accordance with
6 the requirements of this article and the California Public Records
7 Act (Chapter 3.5 (commencing with Section 6250) of Division 7
8 of Title 1 of the Government Code). In seeking data from electrical
9 corporations, the Energy Commission shall request data from the
10 commission. The commission shall collect data from electrical
11 corporations and remit the data to the Energy Commission within
12 90 days of the request.

13 (c) Establish a system for tracking and verifying renewable
14 energy credits. The Energy Commission shall consult with other
15 states in the Western Electricity Coordinating Council
16 transmission system to develop consistent mechanisms and
17 protocols for verifying renewable energy credits and to prevent
18 double counting of the electricity generated from any renewable
19 energy resource.

20 (d) Allocate and award supplemental energy payments
21 pursuant to Chapter 8.6 (commencing with Section 25740) of
22 Division 15 of the Public Resources Code, to eligible renewable
23 energy resources to cover above-market costs of renewable
24 energy. ~~An electrical corporation may receive supplemental~~
25 ~~energy payments for projects selected by that corporation. A project~~
26 ~~may receive supplemental energy payments only if it is selected by~~
27 ~~a retail seller pursuant to a competitive solicitation that is found~~
28 ~~by the commission to comply with the California Renewables~~
29 ~~Portfolio Standard Program under this article and that has entered~~
30 ~~a purchase power agreement resulting from that solicitation that is~~
31 ~~approved by the commission. The Energy Commission may not~~
32 ~~award supplemental energy payments for the sale or purchase of~~
33 ~~renewable energy credits.~~

34 SEC. 10. Section 399.14 of the Public Utilities Code is
35 amended to read:

36 399.14. (a) The commission shall direct each electrical
37 corporation to prepare renewable energy procurement plans as
38 described in paragraph (3) to satisfy its obligations under the
39 renewables portfolio standard. To the extent feasible, this
40 procurement plan shall be proposed, reviewed, and adopted by the

1 commission as part of, and pursuant to, a general procurement plan
2 process. The commission shall require each electrical corporation
3 to review and update its renewable energy procurement plan as it
4 determines to be necessary.

5 (1) (A) The commission shall not require an electrical
6 corporation to conduct procurement to fulfill the renewables
7 portfolio standard until the commission determines either of the
8 following:

9 (i) The electrical corporation has attained an investment grade
10 credit rating as determined by at least two major rating agencies.

11 (ii) The electrical corporation is able to procure eligible
12 renewable energy resources on reasonable terms, those resources
13 can be financed if necessary, and the procurement will not impair
14 the restoration of an electrical corporation's creditworthiness. This
15 provision shall not apply before April 1, 2004, for any electrical
16 corporation that on June 30, 2003, is in federal court under Chapter
17 11 of the federal bankruptcy law.

18 (B) Within 90 days of the commission's determination as
19 provided in subparagraph (A), an electrical corporation shall
20 conduct solicitations to implement a renewable energy
21 procurement plan. The determination required by this paragraph
22 shall apply only to the requirements established pursuant to this
23 article. The requirements established for an electrical corporation
24 pursuant to Section 454.5 shall be governed by that section.

25 (2) Not later than six months after the effective date of this
26 section, the commission shall adopt, by rule, for all electrical
27 corporations, all of the following:

28 (A) A process for determining market prices pursuant to
29 subdivision (c) of Section 399.15. The commission shall make
30 specific determinations of market prices after the closing date of
31 a competitive solicitation conducted by an electrical corporation
32 for eligible renewable energy resources. In order to ensure that the
33 market price established by the commission pursuant to
34 subdivision (c) of Section 399.15 does not influence the amount
35 of a bid submitted through the competitive solicitation in a manner
36 that would increase the amount ratepayers are obligated to pay for
37 renewable energy, and in order to ensure that the bid price does not
38 influence the establishment of the market price, the electrical
39 corporation shall not transmit or share the results of any
40 competitive solicitation for eligible renewable energy resources

until the commission has established market prices pursuant to subdivision (c) of Section 399.15.

(B) A process that provides criteria for the rank ordering and selection of least-cost and best-fit renewable resources to comply with the annual California Renewables Portfolio Standard Program obligations on a total cost basis. This process shall consider estimates of indirect costs associated with needed transmission investments and ongoing utility expenses resulting from integrating and operating eligible renewable energy resources.

(C) Flexible rules for compliance including, but not limited to, permitting electrical corporations to apply excess procurement in one year to subsequent years or inadequate procurement in one year to no more than the following three years.

(D) Rules that authorize the use of renewable energy credits to satisfy annual procurement targets. At minimum, the rules shall do all of the following:

(i) Prohibit a renewable energy credit from being counted more than once by any retail seller who purchases the credit.

(ii) Prohibit a renewable energy credit from being resold to any other retail seller of electricity and used for the purposes of complying with the renewable portfolio standard established under this chapter.

(iii) Prohibit the sale of a renewable energy credit to a retail seller in the state for the purposes of complying with the renewable portfolio standard established under this chapter unless the seller of the credit is an in-state renewable electricity generation technology facility, as defined in Section 25741 of the Public Resources Code.

(iv) Ensure that any revenues received by an electrical corporation for the sale of excess renewable energy credits are credited to ratepayers.

(v) In approving a renewable energy procurement plan, the commission may limit the quantity of renewable energy credits that can be separately procured to meet the annual procurement targets.

(vi) Prohibit any electrical corporation from selling or buying renewable energy credits from eligible renewable energy resources already included in the electrical corporation's baseline quantity of eligible renewable energy resources.

(vii) Require every electrical corporation demonstrate that all purchased retail energy credits comply with the requirements of this article, before purchase expenses may be recovered in rates.

(E) Standard terms and conditions to be used by all electrical corporations in contracting for eligible renewable energy resources, including performance requirements for renewable generators. A contract for the purchase of electricity generated by an eligible renewable energy resource shall include the renewable energy credits associated with all electricity generation specified under the contract. The standard terms and conditions shall include the requirement that, no later than six months after the commission's approval of a purchase power agreement entered ~~under~~ *into pursuant to* this article, the following information about the agreement shall be disclosed by the commission: party names, resource type, project location, and project capacity.

(3) Consistent with the goal of procuring the least-cost and best-fit eligible renewable energy resources, the renewable energy procurement plan submitted by an electrical corporation shall include, but is not limited to, all of the following:

(A) An assessment of annual or multiyear portfolio supplies and demand to determine the optimal mix of renewable generation resources with deliverability characteristics that may include peaking, dispatchable, baseload, firm, and as-available capacity.

(B) Provisions for employing available compliance flexibility mechanisms established by the commission.

(C) A bid solicitation setting forth the need for renewable generation of each deliverability characteristic, required online dates, and locational preferences, if any.

(4) In soliciting and procuring eligible renewable energy resources, each electrical corporation shall offer contracts of no less than 10 years in duration, unless the commission approves of a contract of shorter duration. Any bid solicitation or contract of less than 10 years in duration shall be considered nonconforming and shall not represent more than 10 percent of the total amount solicited or purchased by a utility in any single solicitation.

(5) In soliciting and procuring eligible renewable energy resources, each electrical corporation may give preference to projects that provide tangible demonstrable benefits to communities with a plurality of minority or low-income populations.

(b) The commission shall review and accept, modify, or reject each electrical corporation's renewable procurement plan 90 days prior to the commencement of renewable procurement pursuant to this article by the electrical corporation.

(c) The commission shall review the results of a renewable energy resources solicitation submitted for approval by an electrical corporation and accept or reject proposed contracts with eligible renewable energy resources based on consistency with the approved renewable procurement plan. If the commission determines that the bid prices are elevated due to a lack of effective competition amongst the bidders, the commission shall direct the electrical corporation to renegotiate ~~such~~ the contracts or conduct a new solicitation.

(d) If an electrical corporation fails to comply with a commission order adopting a renewable procurement plan, the commission shall exercise its authority pursuant to Section 2113 to require compliance.

(e) Upon application by an electrical corporation, the commission may authorize another entity to enter into contracts on behalf of customers of the electrical corporation for deliveries of eligible renewable energy resources to satisfy the annual portfolio standard obligations, subject to similar terms and conditions applicable to an electrical corporation. The commission shall allow the procurement entity to recover reasonable costs through retail rates subject to review and approval.

(f) Procurement and administrative costs associated with long-term contracts entered into by an electrical corporation for eligible renewable energy resources pursuant to this article, at or below the market price determined by the commission pursuant to subdivision (c) of Section 399.15, shall be deemed reasonable per se, and shall be recoverable in rates.

(g) For purposes of this article, "procure" means that a utility may acquire the renewable output of electric generation facilities that it owns or for which it has contracted. Nothing in this article is intended to imply that the purchase of electricity from third parties in a wholesale transaction is the preferred method of fulfilling a retail seller's obligation to comply with this article.

(h) Construction, alteration, demolition, installation, and repair work on an eligible renewable energy resource that receives production incentives or supplemental energy payments pursuant

1 to 25742 of the Public Resources Code, including, but not limited
2 to, work performed to qualify, receive, or maintain production
3 incentives or supplemental energy payments is “public works” for
4 the purposes of Chapter 1 (commencing with Section 1720) of Part
5 7 of Division 2 of the Labor Code.

6 (i) Renewable energy credits attributable to electricity
7 generated by a source other than an electrical corporation that is
8 delivered to an electrical corporation under the terms of an
9 electricity purchase contract executed prior to January 1, 2001,
10 shall be the property of the electrical corporation at no additional
11 cost and go towards fulfilling the electrical corporation’s baseline
12 procurement until the expiration of the contract.

13 SEC. 11. Section 399.15 of the Public Utilities Code is
14 amended to read:

15 399.15. (a) In order to fulfill unmet long-term resource
16 needs, the commission shall establish a renewables portfolio
17 standard requiring all electrical corporations to procure a
18 minimum quantity of electricity generated by eligible renewable
19 energy resources, or an equivalent quantity of renewable energy
20 credits, as a specified percentage of total kilowatthours sold to
21 their retail end-use customers each calendar year, if sufficient
22 funds are made available pursuant to paragraph (2), and Section
23 399.6, and Chapter 8.6 (commencing with Section 25740) of
24 Division 15 of the Public Resources Code, to cover the
25 above-market costs of eligible renewables, and subject to all of the
26 following:

27 (1) An ~~electric~~ *electrical* corporation shall not be required to
28 enter into long-term contracts with eligible renewable energy
29 resources that exceed the market prices established pursuant to
30 subdivision (c) of this section.

31 (2) The Energy Commission shall provide supplemental
32 energy payments from funds in the New Renewable Resources
33 Account in the Renewable Resource Trust Fund to eligible
34 renewable energy resources pursuant to Chapter 8.6 (commencing
35 with Section 25740) of Division 15 of the Public Resources Code,
36 consistent with this article, for above-market costs. Funds may be
37 provided or awarded by the Energy Commission only to a project
38 that is selected by an ~~electric~~ *electrical* corporation under a
39 competitive solicitation that is found by the commission to comply
40 with the California Renewables Portfolio Standard Program under



this article and that has entered *into* a purchase power agreement resulting from that solicitation that is approved by the commission. Indirect costs associated with the purchase of eligible renewable energy resources, such as imbalance energy charges, sale of excess energy, decreased generation from existing resources, or transmission upgrades shall not be eligible for supplemental energy payments, but shall be recoverable by an electrical corporation in rates, as authorized by the commission.

(3) For purposes of setting annual procurement targets, the commission shall establish an initial baseline for each electrical corporation based on the actual percentage of retail sales procured from eligible renewable energy resources in 2001, and, to the extent applicable, adjusted going forward pursuant to subdivision (a) of Section 399.12.

(b) The commission shall implement annual procurement targets for each electrical corporation as follows:

(1) Beginning on January 1, 2003, each electrical corporation shall, pursuant to subdivision (a), increase its total procurement of eligible renewable energy resources by at least an additional 1 percent of retail sales per year so that 20 percent of its retail sales are procured from eligible renewable energy resources no later than December 31, 2010. An electrical corporation with 20 percent of retail sales procured from eligible renewable energy resources in any year shall not be required to increase its procurement of ~~such~~ *eligible renewable energy* resources in the following year.

(2) Only for purposes of establishing these targets, the commission shall include all power sold to retail customers by the Department of Water Resources pursuant to Section 80100 of the Water Code in the calculation of retail sales by an electrical corporation.

(3) In the event that an electrical corporation fails to procure sufficient eligible renewable energy resources in a given year to meet any annual target established pursuant to this subdivision, the electrical corporation shall procure additional eligible renewable energy resources in subsequent years to compensate for the shortfall if sufficient funds are made available pursuant to paragraph (2), and ~~Sections~~ *Section* 399.6, and Chapter 8.6 (commencing with Section 25740) of Division 15 of the Public Resources Code, to cover the above-market costs of eligible renewables.

(4) If supplemental energy payments from the Energy Commission, in combination with the market prices approved by the commission, are insufficient to cover the above-market costs of eligible renewable energy resources, the commission shall allow an electrical corporation to limit its annual procurement obligation to the quantity of eligible renewable energy resources that can be procured with available supplemental energy payments.

(c) The commission shall establish a methodology to determine the market price of electricity for terms corresponding to the length of contracts with renewable generators, in consideration of the following:

(1) The long-term market price of electricity for fixed price contracts, determined pursuant to the electrical corporation's general procurement activities as authorized by the commission.

(2) The long-term ownership, operating, and fixed-price fuel costs associated with fixed-price electricity from new generating facilities.

(3) The value of different products including baseload, peaking, and as-available output.

(d) The establishment of a renewables portfolio standard shall not constitute implementation by the commission of the federal Public Utility Regulatory Policies Act of 1978 (Public Law 95-617).

(e) The commission shall consult with the Energy Commission in calculating market prices under subdivision (c) and establishing other renewables portfolio standard policies.

SEC. 12. Section 399.16 of the Public Utilities Code is amended to read:

399.16. The Energy Commission may consider an electric generating facility that is located outside the state to be an eligible renewable energy resource if the facility meets the criteria described in Section 399.12 and all of the following requirements:

(a) It is located so that it is, or will be, connected to the Western Electricity Coordinating Council (WECC) transmission system.

(b) It is developed with guaranteed contracts to sell its generation, and demonstrates delivery of the contracted amount of electricity, to a retail seller or a local publicly owned electric utility in compliance with the requirements of Section 387. ~~electricity.~~

(c) It participates in the accounting system to verify compliance with the renewables portfolio standard by retail sellers, once established by the Energy Commission pursuant to subdivision (b) of Section 399.13.

SEC. 13. Section 399.17 is added to the Public Utilities Code, to read:

399.17. (a) Subject to the provisions of this section, the requirements of this article apply to an electrical corporation with 60,000 or fewer customer accounts in California that serves retail end-use customers outside California.

(b) For an electrical corporation with 60,000 or fewer customer accounts in California that serves retail end-use customers outside California, an eligible renewable energy resource includes a facility that is located outside California, if the facility is connected to the Western Electricity Coordinating Council (WECC) transmission system, provided all of the following conditions are met:

(1) The electricity generated by the facility is procured by the electrical corporation on behalf of its California customers, and is not used to fulfill renewable energy procurement requirements in other states.

(2) The electrical corporation participates in, and complies with, the accounting system administered by the Energy Commission pursuant to subdivision (b) of Section 399.13.

(3) The Energy Commission verifies that the electricity generated by the facility is eligible to meet the annual procurement targets of this article.

(c) The commission shall determine the annual procurement targets for an electrical corporation with 60,000 or fewer customer accounts in California that serves retail end-use customers outside California, as a specified percentage of total kilowatthours sold by the electrical corporation to its retail end-use customers in California in a calendar year.

(d) An electrical corporation with 60,000 or fewer customer accounts in California that serves retail end-use customers outside California, may use an integrated resource plan prepared in compliance with the requirements of another state utility regulatory commission, to fulfill the requirement to prepare a renewable energy procurement plan pursuant to this article,

1 provided the plan meets the requirements of Sections 399.11,
2 399.12, 399.13, and 399.14, as modified by this section.

3 (e) Procurement and administrative costs associated with
4 long-term contracts entered into by an electrical corporation with
5 60,000 or fewer customer accounts in California that serves retail
6 end-use customers outside California, for eligible renewable
7 energy resources pursuant to this article, at or below the market
8 price determined by the commission pursuant to subdivision (c) of
9 Section 399.15, shall be deemed reasonable per se, and shall be
10 recoverable in rates of the electrical corporation's California
11 customers, provided the costs are not recoverable in rates in other
12 states served by the electrical corporation.

13 SEC. 14. No reimbursement is required by this act pursuant
14 to Section 6 of Article XIII B of the California Constitution
15 because the only costs that may be incurred by a local agency or
16 school district will be incurred because this act creates a new crime
17 or infraction, eliminates a crime or infraction, or changes the
18 penalty for a crime or infraction, within the meaning of Section
19 17556 of the Government Code, or changes the definition of a
20 crime within the meaning of Section 6 of Article XIII B of the
21 California Constitution.

