AMENDED IN ASSEMBLY MAY 25, 2000

AMENDED IN SENATE APRIL 20, 1999

# SENATE BILL No. 1194

**Introduced by Senator Sher**
*(Principal coauthors: Assembly Members Pescetti and Wright)*
***(Coauthors: Senators Alarcon and Murray)***
*(Coauthors: Assembly Members Battin, Calderon, Cardenas, Dickerson, Lempert, Maddox, Maldonado, Mazzoni, Papan, Strickland, Thomson, Vincent, Wesson, and Zettel)*

February 26, 1999

~~An act to add Section 381.5 to the Public Utilities Code, relating to public utilities.~~ *An act to amend Sections 381 and 383.5 of, and to add Article 15 (commencing with Section 399) to Chapter 2.3 of Part 1 of Division 1 of, the Public Utilities Code, relating to public utilities.*

LEGISLATIVE COUNSEL'S DIGEST

SB 1194, as amended, Sher. Electrical restructuring: public benefit programs.

*(1) Under the Public Utilities Act, the Public Utilities Commission, until December 31, 2001, and in certain instances until March 31, 2002, requires electrical corporations to identify a separate rate component to fund cost-effective energy efficiency and conservation activities, public interest research and development and development of renewable resources technology. This rate component is a nonbypassable element of local distribution and collected on the basis of*

*usage. Existing law requires specified electrical corporations to collect specific amounts to support each of these programs. Existing law also requires the State Energy Resources Conservation and Development Commission (Energy Commission) to transfer funds collected for these programs to specified funds. Existing law also provides that funds expended for production incentives for new in-state renewable electricity generation technology facilities are limited to facilities that are operational prior to January 1, 2002.*

*This bill would extend the production incentives for renewable electricity to January 1, 2007, if the Energy Commission makes specified findings. This bill would restate the policy of the state that each electrical corporation operate its electric distribution grid in a safe, reliable, efficient, and cost-effective manner and that electric corporations continue to make prudent investments in their distribution grids. The bill would also require the Public Utilities Commission and the Energy Commission to continue to administer energy efficiency programs, as defined, following prescribed guidelines.*

*This bill would extend the collection of this nonbypassable system benefit charge to support these programs through January 1, 2012, and would require the funds to be deposited in specified accounts until appropriation. The bill would require named electrical corporations to collect specific dollar amounts for each of the programs beginning on January 1, 2002. The bill would also require the Governor, on or before January 1, 2004, to appoint an independent review panel that, on or before January 1, 2005, would be required to report to the Legislature and the Energy Commission on, among other things, the benefits secured for residential customers. The bill would also require the Energy Commission to report to the Legislature on the renewable energy and research and development and develop and present to the Legislature investment plans. The bill would make related findings and declarations. Because a violation of the act is a crime, this bill would impose a state-mandated local program by expanding an existing crime.*

*This bill would result in a change in state taxes for the purpose of increasing state revenues within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of 2⁄3 of the membership of each house of the Legislature.*

*(2) 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.*

~~The Public Utilities Act requires the Public Utilities Commission to order specified electrical corporations to collect and spend certain funds for prescribed public benefit programs. The act specifically requires cost-effective energy efficiency and conservation activities to be funded by San Diego Gas and Electric Company, Southern California Edison Company, and Pacific Gas and Electric Company at specified levels, commencing January 1, 1998, through December 31, 2001.~~

~~This bill would require the commission, before January 1, 2002, to study the feasibility of administering those activities though a nonprofit public benefit corporation.~~

Vote: ~~majority~~ *2⁄3*. Appropriation: no. Fiscal committee: yes. State-mandated local program: ~~no~~ *yes*.

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

~~SECTION 1. Section 381.5 is added to the Public~~

*SECTION 1. Section 381 of the Public Utilities Code is amended to read:*

381. (a) To ensure that the funding for the programs described in subdivision (b) and Section 382 are not commingled with other revenues, the commission shall require each electrical corporation to identify a separate rate component to collect the revenues used to fund these programs. The rate component shall be a nonbypassable element of the local distribution service and collected on the basis of usage. This rate component shall fall within the rate levels identified in subdivision (a) of Section 368.

(b) The commission shall allocate funds collected pursuant to subdivision (a), and any interest earned on collected funds, to programs which enhance system reliability and provide in-state benefits as follows:

(1) Cost-effective energy efficiency and conservation activities.

(2) Public interest research and development not adequately provided by competitive and regulated markets.

(3) In-state operation and development of existing and new and emerging renewable resource technologies defined as electricity produced from other than a conventional power source within the meaning of Section 2805, provided that a power source utilizing more than 25 percent fossil fuel may not be included.

(c) The Public Utilities Commission shall order the respective electrical corporations to collect and spend these funds, as follows:

(1) Cost-effective energy efficiency and conservation activities shall be funded at not less than the following levels commencing January 1, 1998, through December 31, 2001: for San Diego Gas and Electric Company a level of thirty-two million dollars ($32,000,000) per year; for Southern California Edison Company a level of ninety million dollars ($90,000,000) for each of the years l998, 1999, and 2000; fifty million dollars ($50,000,000) for the year 2001; and for Pacific Gas and Electric Company a level of one hundred six million dollars ($106,000,000) per year.

(2) Research, development, and demonstration programs to advance science or technology that are not adequately provided by competitive and regulated markets shall be funded at not less than the following levels commencing January 1, 1998 through December 31, 2001: for San Diego Gas and Electric Company a level of four million dollars ($4,000,000) per year; for Southern California Edison Company a level of twenty-eight million five hundred thousand dollars ($28,500,000) per year; and for Pacific Gas and Electric Company a level of thirty million dollars ($30,000,000) per year.

(3) In-state operation and development of existing and new and emerging renewable resource technologies shall be funded at not less than the following levels on a statewide basis: one hundred nine million five hundred thousand dollars ($109,500,000) per year for each of the years 1998, 1999, and 2000, and one hundred thirty-six million five hundred thousand dollars ($136,500,000) for the year 2001. To accomplish these funding levels over the period described herein the San Diego Gas and Electric Company shall spend twelve million dollars ($12,000,000) per year, the Southern California Edison Company shall expend no less than forty-nine million five hundred thousand dollars ($49,500,000) for the years 1998, 1999, and 2000, and no less than seventy-six million five hundred thousand dollars ($76,500,000) for the year 2001, and the Pacific Gas and Electric Company shall expend no less than forty-eight million dollars ($48,000,000) per year through the year 2001. Additional funding not to exceed seventy-five million dollars ($75,000,000) shall be allocated from moneys collected pursuant to subdivision (d) in order to provide a level of funding totaling five hundred forty million dollars ($540,000,000).

(4) Up to fifty million dollars ($50,000,000) of the amount collected pursuant to subdivision (d) may be used to resolve outstanding issues related to implementation of subdivision (a) of Section 374. Moneys remaining after fully funding the provisions of this paragraph shall be reallocated for purposes of paragraph (3).

(5) Up to ninety million dollars ($90,000,000) of the amount collected pursuant to subdivision (d) may be used to resolve outstanding issues related to contractual arrangements in the Southern California Edison service territory stemming from the Biennial Resource Planning Update auction. Moneys remaining after fully funding the provisions of this paragraph shall be reallocated for purposes of paragraph (3).

(d) Notwithstanding any other provisions of this chapter, entities subject to the jurisdiction of the Public

Utilities Commission shall extend the period for competition transition charge collection up to three months beyond its otherwise applicable termination of December 31, 2001, so as to ensure that the aggregate portion of the research, environmental, and low-income funds allocated to renewable resources shall equal five hundred forty million dollars ($540,000,000) and that the costs specified in paragraphs (3), (4), and (5) of subdivision (c) are collected.

(e) Each electrical corporation shall allow customers to make voluntary contributions through their utility bill payments as either a fixed amount or a variable amount to support programs established pursuant to paragraph (3) of subdivision (b). Funds collected by electrical corporations for these purposes shall be forwarded in a timely manner to the appropriate fund as specified by the commission.

(f) ~~The commission shall determine how to utilize funds for purposes of paragraphs (1) and (2) of subdivision (b), provided that only those research and development funds for transmission and distribution functions shall remain with the regulated public utilities under the supervision of the commission. The commission shall provide for the transfer of all research and development funds collected for purposes of paragraph (2) of subdivision (b) other than those for transmission and distribution functions and funds collected for purposes of paragraph (3) of subdivision (b) to the California Energy Resources Conservation and Development Commission pursuant to administration and expenditure criteria to be established by the Legislature.~~

~~(g)~~ The commission's authority to collect funds pursuant to this section for purposes of paragraph (3) of subdivision (b) shall become inoperative on March 31, 2002.

~~(h)~~

*(g)* For purposes of this article, ‘‘emerging renewable technology’’ means a new renewable technology, including, but not limited to, photovoltaic technology,

that is determined by the California Energy Resources Conservation and Development Commission to be emerging from research and development and that has significant commercial potential.

*SEC. 2. Section 383.5 of the Public Utilities Code is amended to read:*

383.5. (a) As used in this section, the following terms have the following meaning:

(1) ‘‘In-state renewable electricity generation technology’’ means biomass, solar thermal, photovoltaic, wind, geothermal, small hydropower of 30 megawatts or less, waste tire, digester gas, landfill gas, and municipal solid waste generation technologies, as described in the report, defined in paragraph (2), including any additions or enhancements thereto, that are produced in facilities located in this state and placed in operation after September 26, 1996, or that were operational prior to that date, and that are also certified under Section 292.2904 of Title 18 of the Code of Federal Regulations as a qualifying small power production facility either located in California, or that began selling electricity to a California electrical corporation prior to September 26, 1996, under a Standard Offer Power Purchase Agreement authorized by the California Public Utilities Commission.

(2) ‘‘Report’’ means the Policy Report on AB 1890 Renewables Funding (March 1997, Publication Number P500-97-002) submitted to the Legislature by the State Energy Resources Conservation and Development Commission.

(b) (1) Forty-five percent of the money collected pursuant to paragraph (3) of subdivision (c) of Section 381, up to two hundred forty-three million dollars ($243,000,000), shall be used for programs that are designed to improve the competitiveness of existing in-state renewable electricity generation technology facilities, and to secure for the state the environmental, economic, and reliability benefits that continued operation of those facilities will provide.

(2) Any funds used to support in-state renewable electricity generation technology facilities pursuant to

this subdivision shall be expended in accordance with the provisions of the report, subject to all of the following requirements:

(A) Funding for existing renewable electricity generation technologies shall be grouped into three technology tiers, as follows:

(i) Twenty-five percent of the money, up to one hundred thirty-five million dollars ($135,000,000), shall be used to fund first tier technologies, including biomass, solar thermal, and whole waste tire technologies.

(ii) Thirteen percent of the money, up to seventy million two hundred thousand dollars ($70,200,000) shall be used to fund second tier wind technologies.

(iii) Seven percent of the money, up to thirty-seven million eight hundred thousand dollars ($37,800,000), shall be used to fund third tier technologies, including geothermal, small hydropower, digester gas, landfill gas, and municipal solid waste technologies.

(B) The State Energy Resources Conservation and Development Commission shall establish a cents per kilowatt hour production incentive, not to exceed the payment caps per kilowatthour established in the report representing the difference between target prices and the market clearing price for electricity, if sufficient funds are available. If there are insufficient funds in any payment period to pay either the difference between the target and market price or the payment caps, production incentives shall be based on the amount determined by dividing available funds by eligible generation. The target price for Tier 1 technologies shall not be based on less than four cents ($0.04) per kilowatthour. The market clearing price for electricity shall be the energy prices paid to nonutility power generators as provided in Section 390.

(C) Funding for each type of existing in-state renewable electricity generation technology shall be reduced each year during the period from January 1, 1998, to January 1, 2002, to encourage the development of increasingly competitive technologies.

(D) Facilities that are eligible to receive funding pursuant to this section shall be certified in accordance with the requirements set forth in the report and may not receive payments for any electricity produced that has any of the following characteristics:

(i) Is sold under a fixed energy price payment under a long-term contract with an existing in-state electrical corporation.

(ii) Derives from utility-owned facility that is receiving, or is eligible to receive, recovery of above-market facility costs through a competitive transition charge.

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

(c) (1) Thirty percent of the money, up to one hundred sixty-two million dollars ($162,000,000), collected pursuant to paragraph (3) of subdivision (c) of Section 381, shall be used for programs designed to foster the development of new in-state renewable electricity generation technology facilities, and to secure for the state the environmental, economic, and reliability benefits that continued operation of those facilities will provide. Funds to further the purposes of this subdivision may be committed for multiple years.

(2) Any funds used for new in-state renewable electricity generation technology facilities pursuant to this subdivision shall be expended in accordance with the report, subject to all of the following requirements:

(A) Funds shall be allocated for proposed projects based on a competitive solicitation process whereby production incentives, not to exceed one and one-half cents ($.015) per kilowatthour, are awarded to the lowest bidders, provided that not more than 25 percent of the funds allocated pursuant to paragraph (1) may be awarded to a single project.

(B) Funds expended for production incentives shall be paid over a five-year period commencing on the date that a project begins electricity production, provided that the project shall be operational prior to January 1, 2002, *unless the State Energy Resources Conservation and Development Commission finds that the project will not be operational prior to January 1, 2002, due to circumstances beyond the control of the developer. Upon making this finding, the State Energy Resources Conservation and Development Commission shall pay production incentives over a five-year period, commencing on the date of operation, provided that the date that a project begins electricity production may not extend beyond January 1, 2007*.

(C) The amount of funds expended shall be increased for each successive year during the period from January 1, 1998, to January 1, 2002, as fewer projects are expected to be funded during the first few years after funding becomes available.

(D) Facilities that are eligible to receive payments from the New Renewable Resources Account created pursuant to paragraph (2) of subdivision (a) of Section 445 of the Public Utilities Code shall be certified as specified in the report and may not receive payments for any electricity produced that has any of the following characteristics:

(i) Is sold under an existing long-term contract with an existing in-state electrical corporation if the contract includes fixed energy or capacity payments.

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

(iii) Is produced by a facility that is owned by customer-owned electricity generating systems.

(E) Eligibility to compete for funds or to receive funds shall not be contingent upon the location or nature of the power purchaser.

(3) Repowered wind projects shall be eligible for funding under this subdivision if the new investment is at least 80 percent of the value of the repowered facility.

(d) (1) Ten percent of the money collected pursuant to paragraph (3) of subdivision (c) of Section 381, up to fifty-four million dollars ($54,000,000), shall be used for a multiyear, consumer-based program to foster the development of emerging renewable technologies in distributed generation applications. Funds to further the purposes of this subdivision may be committed for multiple years.

(2) Any funds used for emerging technologies pursuant to this subdivision shall be expended in accordance with all of the following requirements:

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

(B) The program shall provide monetary rebates, buydowns, or equivalent incentives, subject to subparagraph (C) of paragraph (2) of subdivision (d), 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 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 capacity of the system measured in watts. The amount of the per-watt incentive shall decline over the term of the program, with a corresponding increase in the amount of total electrical capacity eligible for the incentive, thereby encouraging the manufacturers and suppliers of eligible systems to reduce system costs. Incentives shall be limited to a maximum percentage of the system price, as defined by the State Energy Resources Conservation and Development Commission, and the maximum incentive percentage shall decline over the term of the program, as shall the per-watt incentive, in amounts to be determined by the State Energy Resources Conservation and Development Commission.

(C) Eligible distributed emerging technologies are photovoltaic, solar thermal electric, fuel cell technologies that utilize renewable fuels, and wind turbines of not more than ten kilowatts rated electrical capacity per customer site, provided that the technologies meet the emerging technology eligibility criteria contained in the report prepared by State Energy Resources Conservation and Development Commission. Eligible electricity generating systems are intended primarily to offset part or all of the consumer's own electrical energy demand, and shall not be owned by electrical corporations or publicly owned utilities, be located at a customer site that is not receiving distribution service from existing in-state electrical corporations. Not less than 60 percent of the available incentive funds shall be reserved for systems of 10 kilowatts rated electrical capacity or smaller, and not less than 15 percent of the funds shall be reserved for systems of 100 kilowatts rated electrical capacity or smaller. All eligible electricity generating system components shall be new and unused, and shall not have been previously placed in service in any other location or for any other application. Systems and their fuel resource shall be located on the premises of the end-use consumer of the electricity produced, and all eligible electricity generating systems shall be connected to the utility grid in California.

(D) The State Energy Resources Conservation and Development Commission shall also determine, in collaboration with industry and consumer interests, if a program provision limiting the amount of funds available for any single project is warranted, and determine how federal, state, or other funds or incentives not related to this section that are already available, or that may become available for eligible electricity generating systems, may impact the availability of funds allocated under this section, if at all. The emerging renewable technologies program shall be implemented not later than March 31, 1998, and incentives shall be available for eligible electricity generating systems that are placed in service after January 1, 1998, in accordance with the program provisions developed by the State Energy Resources Conservation and Development Commission. However, projects placed in service after January 1, 1998, and prior to September 1, 1998, shall not be subject to limits, if any, that may be determined by the commission, pursuant to this subparagraph.

(e) Fifteen percent of the money collected pursuant to paragraph (3) of subdivision (c) of Section 381, up to eighty-one million dollars ($81,000,000), shall be used for programs designed to provide customer credits for purchases of renewable energy produced by certified energy providers, to disseminate information regarding renewable energy technologies, to promote purchases of renewable energy, to help develop a consumer market for renewable energy, and to help develop a consumer market for renewable energy technologies, as provided in the report, subject to the following requirements:

(1) (A) Fourteen percent of the money, up to seventy-five million six hundred thousand dollars ($75,600,000), shall be expended to provide customer credits for purchases of renewable energy produced by certified energy providers. Customer credits shall be awarded to California retail customers located in the service territory of an investor-owned utility that is subject to Section 381 who purchase qualifying renewable electric power through transactions traceable to specific generation sources by any auditable contract trail or equivalent that provides commercial verification that the electricity source claimed has been sold not more than once to a retail customer. Credits may be given without regard to whether the power supplier is also receiving funds under any other subdivision of this section.

(B) Credits awarded pursuant to this paragraph may be paid directly to energy marketers, aggregators, or generators if those persons or entities account for the credits on the recipient customer's utility bills. Credits shall not exceed one and one-half cents ($.015) per kilowatthour. Credits awarded to members of the combined class of customers, other than residential and small commercial customers, shall not exceed one thousand dollars ($1,000) per customer in 1998 and 1999. Thereafter, the State Energy Resources Conservation and Development Commission shall determine by January 10 of each year the average customer incentive rebate level paid over the preceding calendar year. In the event that the payments have remained at the one and one-half cents ($.015) per kilowatthour cap over the preceding calendar year, the one thousand dollars ($1,000) per customer cap shall be removed for that calendar year, except that in no event shall more than fifteen million dollars ($15,000,000) of the total customer incentive funds be awarded to members of the combined class of customers other than residential and small commercial customers.

(C) Funding for credits pursuant to this paragraph shall be increased for each successive year during the period from January 1, 1998, to January 1, 2002, to encourage the increasing use of those credits.

(D) The State Energy Resources Conservation and Development Commission shall develop interim criteria and procedures for the certification of energy providers and for the identification of energy purchasers who are eligible to receive funds pursuant to this paragraph through a process consistent with this paragraph. Such criteria and procedures shall apply only to funding eligibility and shall not extend to other renewable marketing claims.

(2) One percent of the money, up to five million four hundred thousand dollars ($5,400,000), shall be expended to promote renewable energy and to disseminate information on renewable energy technologies, including emerging renewable technologies, and to help develop a consumer market for renewable energy and for small-scale emerging renewable energy technologies.

(f) (1) The State Energy Resources Conservation and Development Commission shall adopt guidelines governing the funding programs authorized under this section, at a publicly noticed meeting offering all interested parties an opportunity to comment. Substantive changes to the guidelines shall not be adopted without at least 10 days' written notice to the public. The public notice of meetings required by this paragraph shall not be less than 30 days. Notwithstanding any other provision of law, any guidelines adopted pursuant to this section shall be deemed to satisfy the requirements of Chapter 3.5 (commencing with Section 11340) of Division 3 of Title 2 of the Government Code.

(2) The State Energy Resources Conservation and Development Commission shall, in collaboration with eligible emerging technology industry stakeholders and consumer interests, complete the emerging technology program design, as outlined in subdivision (d), and implement its provisions.

(3) Awards made pursuant to this section are grants, subject to appeal to the State Energy Resources Conservation and Development Commission upon a showing that factors other than those described in the guidelines adopted by the State Energy Resources Conservation and Development Commission were applied in making the awards and payments. Any actions taken by an applicant to apply for, or become or remain eligible and certified to receive, payments or awards, including satisfying conditions specified by the State Energy Resources Conservation and Development Commission, shall not constitute the rendering of goods, services, or a direct benefit to the State Energy Resources Conservation and Development Commission.

(g) The State Energy Resources Conservation and Development 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 section. 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 reports shall also address the allocation of funds from interest on the accounts described in this section, money in the accounts described in subdivision

(e) of Section 381, and money included in the accounts pursuant to Section 385. Notwithstanding paragraph (4) of subdivision (b) of Section 383 or subdivisions (b), (c), (d), and (e) of Section 383.5, 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.

*SEC. 3. Article 15 (commencing with Section 399) is added to Chapter 2.3 of Part 1 of Division 1 of the Public Utilities Code, to read:*

*Article 15. Reliable Electric Service Investments Act*

*399. (a) This article shall be known, and may be cited, as the Reliable Electric Service Investments Act.*

*(b) The Legislature finds and declares that safe, reliable electric service is of utmost importance to the citizens of this state, and its economy.*

*(c) The Legislature further finds and declares that in order to ensure that the citizens of this state continue to receive safe, reliable, affordable, and environmentally sustainable electric service, it is essential that prudent investments continue to be made in all of the following areas:*

*(1) To protect the integrity of the electric distribution grid.*

*(2) To ensure an adequately sized and trained utility workforce.*

*(3) To ensure cost-effective energy efficiency improvements.*

*(4) To achieve a sustainable supply of renewable energy.*

*(5) To advance public interest research, development and demonstration programs not adequately provided by competitive and regulated markets.*

*(d) It is the intent of the Legislature to reaffirm, without requiring revision, California's doctrine, as reflected in regulatory and judicial decisions, regarding electrical corporations' reasonable opportunity to recover costs and investments associated with their*

*electric distribution grid and the reasonable opportunity to attract capital for investment on reasonable terms.*

*(e) The Legislature further finds and declares all of the following:*

*(1) Acting under applicable constitutional and statutory authorities, the Public Utilities Commission and the boards of local publicly owned electric utilities have included in regulated electricity prices, investments that are essential to maintaining system reliability, reducing California electricity users' bills, and mitigating environmental costs of California users' electricity consumption.*

*(2) Among the most important of these "system benefits" investments categories are energy efficiency, renewable energy, and public interest research, development and demonstration (RD&D).*

*(3) Energy efficiency investments funded from California's usage-based charges on electricity distribution help improve systemwide reliability by reducing demand in times and areas of system congestion, and at the same time reduce all California electricity users' costs. These investments also significantly reduce environmental costs associated with California's electricity consumption, including, but not limited to, degradation of the state's air, water, and land resources.*

*(4) California's in-state renewable energy resources help alleviate supply deficits that could threaten electric system reliability, reduce environmental costs associated with California's electricity consumption, and increase the diversity of the electricity system's fuel mix, reducing electricity users' exposure to fossil-fuel price volatility.*

*(5) California's public-interest research, development and demonstration (RD&D) investments enhance private and regulated sector investment in electricity system technologies, and are designed specifically to help ensure sustained improvement in the economic and environmental performance of the distribution, transmission, and generation and end-use systems that serve California electricity users.*

*(6) California has established a long tradition of recovering system benefits investments through usage-based electricity charges, which is reflected in at least two decades of electricity price regulation by the commission, the boards of local publicly owned electric utilities, and the mandate of the Legislature in Chapter 854 of the Statutes of 1996 (Assembly Bill 1890 of the 1995-96 Regular Session of the Legislature) and Chapter 905 of the Statutes of 1997 (Senate Bill 90 of the 1995-96 Regular Session of the Legislature).*

*(7) Unless the Legislature acts to extend the mandate of Chapter 854 of the Statutes of 1996 for minimum levels of usage based system benefits charges, California electricity users are at substantial risk of higher economic and environmental costs and degraded reliability.*

*399.1. (a) As used in this article, the term "Energy Commission" means the State Energy Resources Conservation and Development Commission.*

*(b) As used in this article, the term "local publicly owned electric utility" has the same meaning as set forth in subdivision (d) of Section 9604.*

*399.2. (a) (1) It is the policy of this state, and the intent of the Legislature, to reaffirm that each electrical corporation shall continue to operate its electric distribution grid in its service territory and shall do so in a safe, reliable, efficient, and cost-effective manner.*

*(2) In furtherance of this policy, it is the intent of the Legislature that each electrical corporation shall continue to be responsible for operating its own electric distribution grid including, but not limited to, owning, controlling, operating, managing, maintaining, planning, engineering, designing, and constructing its own electric distribution grid, emergency response and restoration, service connections, service turnons and turnoffs, and service inquiries relating to the operation of its electric distribution grid, subject to the commission's authority.*

*(b) In order to ensure the continued efficient use, and cost effective, safe, and reliable operation of the electric distribution grid, each electrical corporation shall*

*continue to operate its electric distribution grid in its service territory consistent with Section 330.*

*(c) In carrying out the purposes of this section, each electrical corporation shall continue to make reasonable investments in its electric distribution grid. Each electrical corporation shall continue to have a reasonable opportunity to fully recover from all customers of the electrical corporation, in a manner determined by the commission pursuant to this code, all of the following:*

*(1) Reasonable investments in its electric distribution grid.*

*(2) A reasonable return on the investments in its electric distribution grid.*

*(3) Reasonable costs to operate its electric distribution grid.*

*(d) For purposes of this section, the term "electric distribution grid" means those facilities owned or operated by an electrical corporation that are not under the control of the Independent System Operator and that are used to transmit, deliver, or furnish electricity for light, heat, or power.*

*(e) Nothing in this section shall be construed to alter or to affect any of the following:*

*(1) Section 216, 218, or 2827.*

*(2) The authority of the commission to establish and enforce standards and tariff conditions for the interconnection of customer-owned facilities to the electric distribution grid.*

*(3) The ratemaking authority of the commission under the this code.*

*(f) Nothing in this section shall be construed to alter or affect any authority or lack of authority of the commission regarding the ownership and operation of new electric generation used in whole, or in part, for the purpose of maintaining or enhancing the reliability of the electric distribution grid.*

*(g) Nothing in this section shall be construed to preclude any of California's local publicly owned electric utilities from exercising its authority to operate its electric distribution grid as provided under relevant state law.*

*(h) Nothing in this section diminishes or expands any existing authority of a local governmental entity.*

*(i) The commission shall require every electrical corporation operating an electric distribution grid to inform all customers who request residential service connections via telephone of the availability of the California Alternative Rates for Energy (CARE) program and how they may qualify for and obtain these services and shall accept applications for the CARE program according to procedures specified by the commission. Electrical corporations shall recover the reasonable costs of implementing this subdivision.*

*399.4. (a) (1) In order to ensure that prudent investments in energy efficiency continue to be made that produce cost-effective energy savings, reduce customer demand, and contribute to the safe and reliable operation of the electric distribution grid, it is the policy of this state and the intent of the Legislature that the commission shall continue to administer cost-effective energy efficiency programs authorized pursuant to existing statutory authority.*

*(2) As used in this section, the term "energy efficiency" includes, but is not limited to, cost-effective activities to achieve peak load reduction that improve end-use efficiency, lower customers' bills, and reduce system needs.*

*(b) The commission, in evaluating energy efficiency investments under its existing statutory authorities, shall also ensure both of the following:*

*(1) That local and regional interests, multifamily dwellings, and energy service industry capabilities are incorporated into program portfolio design and that local governments, community-based organizations, and energy efficiency service providers are encouraged to participate in program implementation where appropriate.*

*(2) That no energy efficiency funds are used to provide incentives for the purchase of new energy-efficient refrigerators.*

*399.6. (a) In order to optimize public investment and ensure that the most cost-effective and efficient investments in renewable resources are vigorously pursued, the Energy Commission shall create an investment plan as set forth in paragraphs (1) to (3), inclusive, to govern the allocation of funds provided pursuant to this article. The Energy Commission's long-term goal shall be a fully competitive and self-sustaining California renewable energy supply. The investment plan shall be in accordance with all of the following:*

*(1) The investment plan's objective shall be to increase, in the near term, the quantity of California's electricity generated by in-state renewable energy resources, while protecting system reliability, fostering resource diversity, and obtaining the greatest environmental benefits for California residents.*

*(2) An additional objective of the plan shall be to identify and support emerging renewable energy technologies that have the greatest near-term commercial promise and that merit targeted assistance.*

*(3) The investment plan shall contain specific numerical targets, reflecting the projected impact of the plan, for both of the following:*

*(A) Increased quantity of California electrical generation produced from emerging technologies and from overall renewable resources.*

*(B) Increased supply of renewable generation available from facilities other than those selling to investor-owned utilities under contracts entered into prior to 1996 under the Public Utilities Regulatory Policies Act of 1978 (P.L. 95-617).*

*(b) The Energy Commission shall, on an annual basis, evaluate progress on meeting the targets set forth in subparagraphs (A) and (B) of paragraph (3) of subdivision (a), or any substitute provisions adopted by the Legislature upon review of the investment plan, and assess the impact of the investment plan on reducing the cost to Californians of renewable energy generation.*

*(c) In preparing these investment plans, the Energy Commission shall recommend allocations among all of the following:*

*(1) (A) Except as provided in subparagraph (B), production incentives for new renewable energy, including repowered or refurbished renewable energy.*

*(B) Allocations may not be made for renewable energy that is generated by a project that remains under a power purchase contract with an electrical corporation originally entered into prior to September 24, 1996, whether amended or restated thereafter.*

*(C) Notwithstanding subparagraph (B), production incentives for incremental repowered or refurbished renewable energy from existing projects under a power purchase contract with an electrical corporation originally entered into prior to September 24, 1996, whether amended or restated thereafter, may be allowed in any month, if all of the following occur:*

*(i) The project's power purchase contract provides that all energy delivered and sold under the contract is paid at a price that does not exceed commission approved short-run avoided cost of energy.*

*(ii) The power purchase contract is amended to provide that the kilowatt hour used to determine the capacity payment in any time-of-delivery period in any month under the contract shall be no greater than the five-year average of the kilowatt hour delivered for the corresponding time-of-delivery period and month, in the years 1995 to 1999, inclusive.*

*(iii) The production incentive is payable only with respect to the kilowatt hour delivered in a particular month that exceeds the corresponding five-year average calculated pursuant to clause (ii).*

*(2) Rebates, buydowns, or equivalent incentives for emerging renewable technologies.*

*(3) Customer credits for renewables not under contract with a utility.*

*(4) Customer education.*

*(5) Incentives for reducing fuel costs that are confirmed to the satisfaction of the Energy Commission*

*at solid fuel biomass energy facilities in order to provide demonstrable environmental and public benefits, including but not limited to, air quality.*

*(6) Solar thermal generating resources that enhance the environmental value or reliability of the electricity system and that require financial assistance to remain economically viable, as determined by the Energy Commission. The Energy Commission may require financial disclosure from applicants for purposes of this paragraph.*

*(7) Specified fuel cell technologies, if the Energy Commission makes all of the following findings:*

*(A) The specified technologies have similar or better air pollutant characteristics than renewable technologies in the investment plan.*

*(B) The specified technologies require financial assistance to become commercially viable by reference to wholesale generation prices.*

*(C) The specified technologies could contribute significantly to the infrastructure development or other innovation required to meet the long-term objective of a self-sustaining, competitive supply of renewable energy.*

*(d) Notwithstanding any other provision of law, moneys collected for renewable energy pursuant to this article shall be transferred to the Renewable Resource Trust Fund of the Energy Commission, to be held until further action by the Legislature. The Energy Commission shall prepare and submit to the Legislature, on or before March 31, 2001, an initial investment plan for these moneys, addressing the application of moneys collected between January 1, 2002, and January 1, 2007. The initial investment plan shall also include an evaluation of and report to the Legislature regarding the appropriateness and structure of a mandatory state purchase of renewable energy. On or before March 31, 2006, the Energy Commission shall prepare an investment plan proposing the application of moneys collected between January 1, 2007, and January 1, 2012. No moneys may be expended in the years covered by these plans without further legislative action.*

*399.7. (a) In order to ensure that prudent investments in research, development and demonstration of energy efficient technologies continue to produce substantial economic, environmental, public health, and reliability benefits, it is the policy of this state and the intent of the Legislature that funds made available, upon appropriation, for energy related public interest research, development and demonstration programs shall be used to advance science or technology that are not adequately provided by competitive and regulated markets.*

*(b) Notwithstanding any other provision of law, moneys collected for public-interest research, development and demonstration pursuant to this section shall be transferred to the Public Interest Research, Development, and Demonstration Fund of the Energy Commission to be held until further action by the Legislature. The Energy Commission shall prepare and submit to the Legislature, on or before March 1, 2001, an initial investment plan for these moneys, addressing the application of moneys collected between January 1, 2002, and January 1, 2007. The initial investment plan shall address the recommendations of the PIER Independent Review Panel Report, dated March 2000, to either transform the RD&D program within the Energy Commission, or to administer it through, or in cooperation with, an external organization. The initial investment plan shall include criteria that will be used to determine that a project provides public benefits to California that are not adequately provided by competitive and regulated markets. On or before March 31, 2006, the Energy Commission shall prepare an investment plan addressing the application of moneys collected between January 1, 2007, and January 1, 2012. No moneys may be expended in the years covered by these plans without further legislative action.*

*399.8. (a) In order to ensure that the citizens of this state continue to receive safe, reliable, affordable, and environmentally sustainable electric service, it is the policy of this state and the intent of the Legislature that* *prudent investments in energy efficiency, renewable energy, and research, development and demonstration shall continue to be made.*

*(b) (1) Every customer of an electrical corporation, shall pay a nonbypassable systems benefit charge authorized pursuant to this article. The systems benefit charge shall fund energy efficiency, renewable energy, and research, development and demonstration.*

*(2) Local publicly owned electric utilities shall continue to collect and administer system benefits charges pursuant to Section 385.*

*(c) (1) The commission shall require each electrical corporation to identify a separate rate component to collect revenues to fund energy efficiency, renewable energy, and research, development and demonstration programs authorized pursuant to this section beginning January 1, 2002, through January 1, 2012. The rate component shall be a nonbypassable element of the local distribution service and collected on the basis of usage.*

*(2) This rate component may not exceed, for any tariff schedule, the level of the rate component that was used to recover funds authorized pursuant to Section 381 on January 1, 2000. If the amounts specified in paragraph (1) of subdivision (d) are not recovered fully in any year, the commission shall reset the rate component to restore the unrecovered balance, provided that the rate component may not exceed, for any tariff schedule, the level of the rate component that was used to recover funds authorized pursuant to Section 381 on January 1, 2000. Pending restoration, any annual shortfalls shall be allocated pro rata among the three funding categories in the proportions established in paragraph (1) of subdivision (d).*

*(d) The commission shall order San Diego Gas and Electric Company, Southern California Edison Company, and Pacific Gas and Electric Company to collect these funds commencing on January 1, 2002, as follows:*

*(1) Two hundred twenty-eight million dollars ($228,000,000) per year in total for energy efficiency and*

*conservation activities, one hundred thirty-five million dollars ($135,000,000) in total per year for renewable energy, and sixty-two million five hundred thousand dollars ($62,500,000) in total per year for research, development and demonstration. The funds for energy efficiency and conservation activities shall continue to be allocated in proportions established for the year 2000 as set forth in paragraph (1) of subdivision (c) of Section 381.*

*(2) The amounts shall be adjusted annually at a rate equal to the lesser of the annual growth in electric commodity sales or inflation, as defined by the gross domestic product deflator.*

*(e) The commission and the Energy Commission shall retain and continue their oversight responsibilities as set forth in Sections 381, 383, 383.5, and 445, and Chapter 7.1 (commencing with Section 25620) of the Public Resources Code.*

*(f) (1) On or before January 1, 2004, the Governor shall appoint an independent review panel including, but not limited to, members with expertise on the energy service needs of large and small electricity consumers, system reliability issues, and energy-related public policy. On or before January 1, 2005, the panel shall prepare and submit to the Legislature and the Energy Commission a report evaluating the energy efficiency, renewable energy, and research, development and demonstration programs funded under this section. Reasonable costs associated with the review in each of the three program categories, including technical assistance, may be charged to the relevant program category under procedures to be developed by the commission for energy efficiency and by the Energy Commission for renewable energy and research development and demonstration.*

*(2) The report shall also assess all of the following:*

*(A) Whether ongoing programs are consistent with the statutory goals.*

*(B) If established targets for increased renewable generation are likely to be achieved.*

*(C) What changes should be made to result in a more efficient use of public resources.*

*(3) The report shall also compare the Energy Commission's programs with efforts undertaken by other states and assess, as an alternative, the relative costs and benefits of adopting a tradeable minimum renewable energy requirement in California. The evaluation shall include recommendations intended to optimize renewable resource development at the least cost.*

*(4) For energy efficiency programs, the report shall include an evaluation of all of the following:*

*(A) The net benefits secured for residential customers, taking into account both public and private costs, including improvements in that customer group's ability to avoid or reduce consumption of relatively costly peak electricity.*

*(B) Whether the programs provide a balance of benefits to all sectors that contribute to the funding.*

*(C) The extent to which competition in energy markets including, but not limited to, load participation in ancillary services markets, and improvements in technology affect the continuing need for such programs.*

*(D) The status and growth of the private, competitive energy services industry that provides energy efficiency services and other energy products to customers.*

*(E) The commercial availability of any new technologies that reduce electricity demands during high-priced periods.*

*(F) Customers' willingness and ability to reduce consumption or adopt energy efficiency measures without program support.*

*(G) The extent to which the programs have delivered cost-effective energy efficiency not adequately provided by markets and as a result have reduced energy demand and consumption.*

*(H) The relative cost-effectiveness of program expenditures compared to other current or potential expenditures to enhance system reliability.*

*(5) The report shall include specific recommendations aimed at assisting the Legislature in determining*

*whether to change or eliminate the collection of the system benefits charge on or after January 1, 2007.*

*(6) The panel may update and revise the report as needed.*

*(g) Promptly after receiving the panel's report, the Energy Commission shall convene a proceeding to address implementation of the panel's energy efficiency recommendations.*

*399.9. (a) No part of this article shall be construed to alter or affect the low-income funding provisions set forth in Section 382. Programs provided to low-income electricity customers, including but not limited to, targeted energy efficiency services and the California Alternative Rates for Energy Program shall continue to be funded as set forth in Section 382.*

*(b) Nothing in this article shall be construed to affect the jurisdiction of the commission over electric distribution service.*

*SEC. 4. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only 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.*

~~Utilities Code, to read:~~

~~381.5. Before January 1, 2002, the commission shall study the feasibility of administering the cost-effective energy efficiency and conservation activities described in paragraph (1) of subdivision (c) of Section 381 though a nonprofit public benefit corporation.~~

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