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Scope should include overhaul of energy industry paradigm

Additional submitted attachment is included below.

Citizens' Oversight Projects (COPs)

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May 11, 2015

To: California Energy Commission

Subject: Scope should include overhaul of energy industry paradigm

The Integrated Energy Policy Report Scoping order includes important aspects for refinement of the current energy deliver paradigm which has been in place for many decades.

Unfortunately, this scope, we believe, falls far short of what is needed given the stark state of affairs the CPUC and the revelations of recent events surrounding the San Bruno Gas Explosion Investigation, the San Onofre Nuclear Generating Station Closure Investigation, and other trends in the energy industry in California.

We believe that the energy utilities are now in need of substantial reform, far beyond trivial planning issues broached in the scope of this project. The State Assembly Committee is considering changes to the transparency of the regulator, ex parte rules, or judicial review. But California has energy rates that are sky high, negatively affecting all residents and businesses. Even CPUC President Picker suggested that the big-three energy utilities -- PG&E, SCE, and SDG&E are all too big to regulate. The \$1.5 billion dollar penalty in the San Bruno case was shrugged off as nothing by PG&E and their stock price increased. After eight deaths, the fine was equivalent to a measly \$7,500 fine if imposed on an individual making \$100K per year. No person guilty of such imprudence would be let off the hook with such a small penalty. Larger penalties risk a threatened bankruptcy of the utility. They are "too big to fail." The result is that after all the proceedings and review of gas line safety, it will be a stroke of luck if things go any better in the future.

Meanwhile, the energy economy is changing for other reasons. As we move toward renewables and rooftop solar in a very sunny state, the architecture of our energy infrastructure is rapidly changing from a top-down system (where energy is produced by a dozens of really big power plants and sold to consumers) to a bottom-up system (where millions of consumers generate their own power and sell any surplus to other users on a common and smart grid). We also see the introduction of storage technology so that electricity can be stored not only in large systems such as the Helms Pumped Storage project, but also by new battery systems now being announced by companies such as Tesla. These are very substantial changes.

We also must be cognizant of the fact that the for-profit investor-owned utilities (IOUs) pursue the goal of maximizing profits for their investors, even if the actions are not in concert with the actual needs of the communities. The highest returns are realized for their investors when these companies build new infrastructure such as large power plants, transmission lines, and capital upgrades to the same, resulting in many projects of questionable value. Investors are granted a full return on the principal and even a relatively sky-high return on investment (profits) for projects that are retired early (due to no fault of their own) and even if they executed the project imprudently (as demonstrated at San Onofre). We see no history of full reasonableness reviews by the CPUC as these are scuttled into settlement agreements that

negate any a full review of what was done.

The reality is that no regulatory agency can be as ruthless as the free market. If you fail to perform in the free market, your company fails and you lose all your money. In the utility business, if you fail to perform, you walk away with bonuses.

Thus with this recent history of the energy industry in California and the associated changes in technology and a “flipping” of the energy architecture form top-down to bottom-up, it is time for substantial change.

We are not talking of the sort of “deregulation” which was tried in 1995 in AB1890, resulting in the energy crisis of the early 2000s. That proposal was based on the concept that energy prices would drop (by at least 20% as described in the bill) as soon as power was sold in a relatively free market. It was quickly discovered that profiteers adept at exploiting markets were much more sophisticated than even the best minds tasked with setting it up to operate without a hitch. But we also could see that the municipal utilities, such as the Los Angeles Department of Water and Power (LADWP), Sacramento Municipal Utility District (SMUD), and Anaheim Public Utilities (APU), were relatively untouched by the crisis. Other deregulation efforts, such as that in Pennsylvania, were not met with disaster like the one in California. **Thus it is not impossible to change this system that is drastically out of step with reality.**

With this in mind, we suggest that we seriously entertain the restructuring of our energy system as follows:

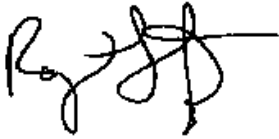
- Transfer ownership of the local grid and transmission line assets to regional public districts, similar to what we see at the publicly own utilities (POUs) such as LADWP, SMUD and APU. IOUs would be compensated for these assets by the POUs from rates and not taxation, perhaps using general obligation bonds (which are far cheaper than the returns normally provided to the IOUs).
- Generation resources must be split into a number of distinct companies, each limited to a maximum generating capacity no more than 10% of the total capacity of such of large power sources. The goal is not turning the sale of power over to the free market, as was the goal of AB1890, but keeping these entities small so they can be subject to the free market if they make mistakes and engage in malfeasance, and thus they are not “too big to fail.” If executives allow a gas explosion such as was the case at San Bruno, the state should force their business to fold and investors lose their investments. This is what is meant by a free market, not the setting of energy prices.
- Use of CalISO to coordinate the use of those generating facilities, transmission lines, and the needs of the energy market.
- A divestiture of the energy spot market to a public marketplace that is not controlled by the IOUs but contained in an independent operator.
- Rate-setting that is performed by a system similar to what is now is use by the POUs.
- Largely, oversight of this segment of our economy removed from the purview of the CPUC.
- Power plants, such as the Diablo Canyon Nuclear Power Plant, which are obviously and significantly out of step with energy costs should be shut down in a timely manner. We suggest that one of the units should be immediately taken off line unless the other unit is being serviced, and the entire plant scheduled for decommissioning as soon as possible. The cost of running this plant is far more than the value of the power it produces, even when you ignore the fact that we have to store the waste for a million years. If you add that fact in, there is simply no reasonable

manager would allow this plant to continue to operate. By moving to a free-market paradigm in the valuation of power from these plants, there is no way the operator would continue to operate it.

Thus, rather than polishing a system that is now obsolete, the California Energy Commission should be addressing these larger questions. The failures of the CPUC and the industry they regulate are systemic to the point that this polishing will not do the job.

Citizens' Oversight has been a ratepayer advocate in recent years that the CPUC and would appreciate the opportunity to work on these larger issues with respect to reform of the energy economy of California.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ray Lutz', with a long horizontal stroke extending to the right.

Raymond Lutz
National Coordinator, Citizens' Oversight Projects