



# SAN DIEGO COUNTY OFFICE OF EDUCATION

6401 LINDA VISTA ROAD, SAN DIEGO, CALIFORNIA 92111-7399 (858) 292-3500

Superintendent of Schools  
Randolph E. Ward, Ed.D.

California Energy Commission

**DOCKETED**  
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California Energy Commission  
1516 Ninth Street  
Sacramento, CA 95814

## **Docket #13-CCEJA-1** **Comments on Proposition 39**

To Whom It May Concern:

The San Diego County Office of Education (SDCOE) appreciates this opportunity to submit comments on the California Energy Commission (CEC) draft Prop. 39 regulations, and thanks you in advance for your consideration.

During the public hearings, there has been considerable discussion of the need for all LEAs (not just those with annual awards of \$50,000 or less) to have the option to submit a "five year complete award energy expenditure plan." (page 21, Option 3.) This option would allow LEAs, including SDCOE, to estimate yearly Prop. 39 awards for the full five-year period, and to develop a complete five-year energy expenditure plan. There is no good reason to exclude LEAs serving more students from utilizing this single plan option. CEC staff appeared receptive to this suggestion at several of the public hearing meetings. By allowing LEAs to do a five year plan and execute projects that have a multi-year time horizon, LEAs can also more effectively leverage third-party funding sources to multiply the benefits of the Prop. 39 resources.

We are also concerned that the Energy Commission SIR calculator undervalues non-energy benefits and maintenance savings from energy efficiency projects. Our concern stems from the lack of clarity regarding whether the automatic 3% add for health benefits, and automatic 2% add for maintenance and operations savings are **annual** numbers for the lifecycle of the Energy Conservation Measure (ECM) being installed in the LEAs facilities, or whether they are **one-time only** additions to the SIR. If they are one-time only, a 3% figure for the health benefits of improved indoor air quality (including improved student and teacher health, reduced absenteeism, etc.), and for the learning environment benefits of better lighting and acoustics, it is far too low and does not reflect the on-going value of energy efficiency projects. Similarly, a one-time 2% add for maintenance and operations savings is much too low. In our county, we've found that avoiding equipment breakdowns and other operational costs can lead to significant on-going savings, sometimes equaling or exceeding energy savings, depending on the equipment being refitted or replaced. We recommend that the 2% add for maintenance and operations and the 3% add for health benefits are clearly described as annual numbers/benefits for the lifecycle of the equipment being installed.

With regard to energy cost escalation, the assumption of an escalation rate of 2.1% is unrealistically low given the expected increases in energy costs to SDCOE and other school districts and county offices. (A recent article from PublicCEO Magazine on this topic is attached below). Many utilities (both IOU and municipal) across California have requested or announced rate increases far above 2.1%, sometimes even reaching double-digit increases. These rate increases will inevitably impact SDCOE and the school districts in our county, and an assumption of a 2.1% cost escalator may have the unintended consequence of dramatically limiting the size and scope of energy projects funded by Prop 39. We recommend increasing this escalation rate to above 5%.

Finally, the focus of Prop. 39 is job creation and energy efficiency. We recommend that the CEC be careful not to adopt regulations and practices that limit job creation potential by implying or requiring preferences among union and non-union jobs (for example, terms such as "journey-level" or "apprentice" seem to infer union positions). Please note that all LEAs must meet existing statutory requirements related to "prevailing wages."

Thank you for your consideration of these issues.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin H. Gordon". The signature is fluid and cursive, with a large initial "K" and "G".

Kevin Gordon  
Legislative Advocate

## PublicCEO Magazine

California electric rates are among the highest in the country and it is likely that the lion's share of future rate increases will be borne by commercial and industrial customers, such as public agencies. Why? Because California has embarked upon a significant number of policies that necessarily impact the state's electricity supply and delivery system. As a result, electric rates continue to rise and ratepayers, including public agencies, are searching for ways to respond to the spiraling costs of this necessary service. Understanding the process, policies and factors behind rate increases provides the first step in planning long-term energy strategies and cost-effective advocacy.

If public agencies do not understand and participate in the process and proceedings, they may be in jeopardy of carrying a disproportionate share of the financial burden because their interests are not represented. As one of my California Public Utilities Commission (CPUC) expert witnesses told me in a recent general rate case (GRC), "Agencies must have a seat at the table... or they risk being placed on the menu by the parties who do."

### **The Ratemaking Process**

The CPUC has jurisdiction over private and investor-owned electric utilities. The big-three regulated utilities in California are Pacific Gas & Electric, Southern California Edison and San Diego Gas & Electric. Most public agencies are located within the service area of one of these utilities.

Every three years, these utilities are required to file GRC applications that are divided into two phases. Phase 1 applications address issues related to revenue requirements for utilities. In short, the question presented in the proceeding is, "How much money is needed from ratepayers to maintain a reasonable level of service through the next three-year rate cycle?"

A utility may request increased revenue to cover the cost of delivering energy safely, maintaining system reliability and providing adequate customer service. Utilities may also request revenue for capital investment to replace aging infrastructure or to recover the cost of depreciation associated with system investments. During Phase 1 proceedings, an administrative law judge is tasked with determining whether the needs and costs are just and reasonable, such that they should be included in customer rates. The judge prepares a proposed decision for the full Commission's review and consideration.

Phase 2 applications must be filed within 90 days of the filing of Phase 1 applications. Phase 2 proceedings address electric marginal costs, revenue allocation and rate design, and here the question presented is "How should the revenue requirement approved in the Phase 1 proceeding be divided amongst the different classes of ratepayers?" Put another way, "How should the pie be sliced?"

During Phase 2 proceedings, the administrative law judge attempts to balance fair and equitable distribution of costs, stable and predictable rate structures and stable revenue collection. At the same time, the balance includes consideration to providing affordable universal services and incentives to conserve energy. As with the Phase 1 proceeding, the judge for the Phase 2 proceeding prepares a proposed decision for the full Commission's review and consideration.

### **Electric Rate Increases**

Although GRC applications tend to seek single-digit revenue and rate increases, it is not uncommon for some classes of ratepayers to routinely see significant, double-digit bill impacts. The driving forces behind these rate increases are the result of many factors, including the following policies adopted by the State of California that are now being implemented:

- **Once-Through Cooling Requirements.** In March 2010, the State Water Resources Control Board issued its Policy on the Use of Coastal and Estuarine Waters for Power Plant Cooling. The policy requires certain power plants to be retrofitted to closed-cycle wet-cooling facilities, with the open cycle facilities phased out by 2024. The 19 effected plants in California represent about 30 percent of total in-state power generation installed capacity. The estimated cost of retrofitting or decommissioning the facilities ranges from \$4 to \$11 billion.

- **Renewable Portfolio Standard.** California's Renewable Portfolio Standard was established in 2002 and is one of the most ambitious renewable energy standards in the country. The RPS program requires investor-owned utilities, electric service providers and community choice aggregators to increase procurement from eligible renewable energy resources to 33 percent of total procurement by 2020. The program has had a profound effect on renewable energy project development and it continues to deliver numerous economic benefits. However, there are costs associated with implementing the renewable energy procurement program and constructing new transmission projects to access renewable energy to load centers. It has been estimated that potential annual program costs total \$4.5 to \$5 billion.

- **San Onofre Closure.** In 2010 and 2011, Southern California Edison installed replacement steam generators at its San Onofre Nuclear Generating Station (SONGS). The generators, installed at a cost of \$690 million, were expected to extend the useful life of the 40 year-old SONGS by 20 years. However, the generators proved to be defective and the generating station was shut down in January 2012. Since then, it is estimated that SCE spent more than \$117 million on replacement power. In June 2013, SCE advised the CPUC that the SONGS would be decommissioned and that, while some costs related to the defective generators may be recovered through insurance claims and litigation, a significant amount of those costs may have to be recovered from SCE ratepayers. The CPUC will hold hearings

in October to decide how to apportion the costs between ratepayers and SCE shareholders, but it is anticipated that ratepayers will be required to pick up a significant portion of the costs. (SCE recently estimated that it will cost \$2.0 Billion+ to decommission both reactors)

- **California Cap and Trade.** The California Legislature enacted AB 32 in 2006, calling for the reduction of greenhouse gas emissions to 1990 levels by 2020. To achieve these goals the California Air Resources Board worked closely with the CPUC and the California Energy Commission to develop California's cap-and-trade program. Starting in January 2013 and going through 2020, carbon emissions caps will be reduced 2-3 percent per year. As the caps go down, emissions-intensive and trade-exposed emitters such as electric utilities operating power plants will have to decide how to comply with the cap and trade requirements. Their choices are to operate more efficiently, burn less fossil fuel or obtain enough allowances from other companies to maintain compliance. Each of these options will come at significant costs that will be passed on to ratepayers.

### **Public Agencies Should Respond to Rising Rates**

Public agencies can protect themselves by monitoring developments at the CPUC. One cost-effective way to monitor CPUC proceedings is through the Commission's subscription monitoring system. This is a free service that provides email updates on issues subscribers select. The subscription system provides the ability to monitor specific proceedings or issues, or to monitor all activity related to the electric industry.

If agencies become aware of issues of interest, they may protect themselves by forming advocacy coalitions to participate in Commission proceedings. Coalitions provide benefits to members because they coordinate the message of a large group, while defraying the cost of delivering the common message. Notably, the Commission openly welcomes the participation of parties, including coalitions, in its proceedings and it goes to great lengths to accommodate participation. This is likely because the Commission understands the

significant interests that are at stake. Indeed, if agencies do not participate in proceedings on their behalf, they may end up shouldering a disparate portion of the financial burden in the Commission's final decision.