

VOTER

Volume 39 Number 1

January 2006

'Energy Study' set for Jan. 19

Materials and info on yellow paper enclosed

Please join the League and Alameda Power and Telecom Thursday, Jan. 19 from 7 to 9 p.m. for a focus discussion on the state of energy in California. Enclosed, on yellow paper, you'll find six pages of information for the Energy Study, along with focus questions for the meeting.

This free event, which is open to the public, will be at Christ Episcopal Church, 1700 Santa Clara Ave., in Alameda.

At the 2003 Convention, the League of Women Voters of California approved a study to update the LWV energy position in light of recent developments in the electric energy industry. The Energy Study Committee has produced a Study Guide (see yellow pages inside) for use by Leagues as they examine the major changes in California's electric system.

The League's position in brief is to support a state energy policy that promotes conservation, fosters the development and use of a variety of renewable energy sources, and considers the impacts of energy development and use on public health and safety and on the environment. State government should provide an efficient, coordinated energy administrative structure and regulatory process and establish state energy policies and minimum standards.

Local government should implement state energy policies and standards based on local conditions, with emphasis on conservation.

Bay Area League Day topic: Health of Bay

By Judy Cox
LWV Bay Area

The San Francisco Bay is the centerpiece of our region, and the Bay's future health is key to our region's future.

Join us Friday, Jan. 27 to hear about what has happened to the Bay over the past 40 years and how we can best protect, use and enjoy it in the future. The event is at the First Unitarian Church of Oakland, 685 14th Street, Oakland.

Cost is \$30, including morning refreshments and lunch, from 9:30 a.m. - 2:30 p.m., including excellent speakers. Registration begins at 8:30 a.m.

KEYNOTE: "Why the Bay Matters," Will Travis, Executive Director, Bay Conservation and Development Commission.

HISTORY OF BAY ISSUES:

- "Wildlife of the Bay," Arthur Feinstein, Audubon California.
- "Save SF Bay Movement," Sylvia McLaughlin, Save SF Bay Association.
- "San Francisco Bay Index," Grant Davis, the Bay Institute.

STEWARDS FOR THE

Strength in numbers

Join the National League's free online activist community and receive action alerts on important issues. Our online activists have sent more than 85,000 email messages to the 109th Congress. You too can make a difference by signing up today. Go to the LWVUS Web site at www.lwv.org and click "Take Action" to sign up for the National Grassroots Lobby Corps. Because our strength lies in our numbers, ask friends and family to join too.

HEALTH OF THE BAY: PANEL

- Steve Ritchie, California Coastal Conservancy.
- Bruce Wolfe, SF Water Quality Control Board.
- Laura Thompson, ABAG Bay Trail.

COMMITMENT TO THE FUTURE: PANEL

- Russell Hancock, Joint Venture: Silicon Valley Network.
- Jeff Blanchfield, Bay Conservation and Development Commission.
- David Lewis, Save San Francisco Bay Association.
- Nadine Hitchcock, the California Coastal Conservancy.

ACCESS TO THE BAY FOR YOUTH

- Robert Kidd, Jack London Aquatic Center.

Send check payable to LWVBA by Jan. 17 to LWVBA, attn: Bay Area League Day, 1611 Telegraph Ave., Suite 300, Oakland CA 94612.

(See website www.lwvba-ca.org for details, or call Judy Cox 510-595-7402 for more information.)

PARKING: City Center West Garage, Martin Luther King and 12th Street, \$12 all day before 9

What's Inside

| | |
|--|---|
| ■ Keeping an eye on Alameda Point | 2 |
| ■ Board Briefs | 2 |
| ■ Fight for Clean Money | 3 |
| ■ Be a watchdog | 4 |
| ■ Ohio League battles for equal voting | 5 |
| ■ Calendar of events | 6 |

Board Briefs for November

At its Nov. 17 meeting, the Board:

- discussed plans for a column in the Alameda Sun;
- reviewed plans for the January general meeting on Energy;
- agreed to hold a separate meeting January 31 at noon, with potluck, for the annual review of state and national League program (positions on issues);
- reviewed the report on voter service activities in the November election; and
- voted to participate along with other Alameda County Leagues in Sunshine Week, next March 12 to 18.

Alameda Point: We're watching

By Sheila Turner
LWVA Boardmember

Housing, transportation and financial feasibility at Alameda Point topped the agenda Nov. 16 at the second of two meetings on the status of the Alameda Point Project. The League and the Alameda Ministerial Association hosted the events, the first of which was Sept. 29.

Stephen Proud, Alameda Point Project Manager, said that the negotiations are still ongoing, but he is optimistic that finalizing the Plan is near. The same issues as were discussed at the prior meeting, i.e. traffic, clean-up, fiscal neutrality, etc., are still open to discussion.

Once agreement is reached, the tasks of drafting the conveyance agreement along with related documents, and presenting them to the Navy will be undertaken. Additional steps will be to finalize the conveyance agreement, engage the community at large and refine the preliminary development plans with the Developer. At this time, Phase I is expected to begin in 2007.

The financial feasibility can include sources of revenue such as sale of land; leasing existing buildings; sale of existing buildings; and/or added fees on new development (Mello-Roos) or fees paid by Point homeowners to support services. The fiscal neutrality built into the Plan means that no

drain will be on the Alameda General Funds for public works, transportation, or police and fire services.

Debbie Potter, Redevelopment Manager, talked about the housing considerations. At least 25 percent of all residential units will be affordable. There will be three types of residential units in the Project. Homeowner units; store units and second units (inlaw unit) in a home available for rent. This is based on the restrictions pursuant to Measure A. However, if the Housing Authority purchases any of the residential property, that property will be exempt from

Measure A restrictions, and multi-unit apartment houses can be built.

Andrew Thomas, Supervising Planner, discussed the Historic Preservation, Transportation issues and Environment Impact Report. At this time, 52 historic structures will be retained including the O Club, Alameda City Hall West, as well as

the Bachelor Quarters (which may be converted to live/work space). Eighteen historic structures will be removed.

The transportation strategy will emphasize walking, bicycle, bus and ferry travel, as the Plan emphasizes the easy accessibility and convenience of these modes of travel.

The Environmental Impact Report will examine alternatives that will have the least impact on the community-at-large.

At this time, 52 historic structures will be retained including the O Club, Alameda City Hall West, as well as the Bachelor Quarters and 18 historic structures will be removed.

LWVUS never sells info

We thank all of you who are working hard to get member email addresses into the online database!

In response to comments we've heard, we wanted to reassure you that the LWVUS never sells or exchanges any email addresses.

Also, we are very prudent about the amount of email we send. Most members only receive the LeagueE-Voice, unless they have specifically signed up to receive LWVUS Action Alerts by email. Questions? Write membership@lwv.org.

The League of Women Voters of Alameda

Current and past issues of the *Voter* are posted on our website: www.alameda.ca.lwvnet.org

The *Voter* is published 10 times a year by the League of Women Voters of Alameda

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Clean Money supports healthy communities

Nancy Van Huffel
President, LWV Eden Area


We need to be wiser about protecting our democratic system and our right and responsibility to vote; to assure that each citizen has the uninhibited opportunity to cast their own vote as they see fit based on accurate information; and to assure that all important and contributory voices are heard. We need to remove the corrupting force of big money from our campaigns on issues and candidates.

Some voting rights activists say that getting private money out of public elections is the unfinished business of the voting rights movement. The Clean Money efforts going on in California are important in keeping our communities healthy, our democratic process strong, and our voters presented with accurate and complete information on voting day.

Clean Money is the voluntary financing of campaigns through public rather than private dollars. The states of Maine and

Arizona were the first to adopt a system of public financing of elections and they have demonstrated that the approach works.

Ideally, Clean Money would apply to all candidates and issues

 **Some voting rights activists say that getting private money out of public elections is the unfinished business of the voting rights movement.**

at all levels seeking a place on the ballot. However, our League effort is focused on the current bill (AB 583) introduced by Assemblywoman Loni Hancock (D-Berkeley), which would set up a "Clean Money" system of public election funding at the State level in California.

Hancock's bill would provide up to \$10 million for a qualify-

ing candidate for governor, \$150,000 for Assembly candidates, and \$300,000 for Senate candidates. Candidates who agree to accept public funding must gather a set number of voter signatures and \$5 contributions from a specific number of voters in their district. Candidates could choose to finance their campaigns the traditional way, but the "Clean Money" candidates would get enough money to remain competitive, and could advertise as "Clean Money" candidates.

Getting it to voters may take a ballot initiative with broad bipartisan support. The bill needs a two-thirds majority vote to pass and is expected to be taken up again when the Legislature reconvenes in January. Talk to your State Legislators, and urge their support. It will cost us...but not nearly as much as the dysfunctional, special interest-driven state government we have now.

Visit www.lwvea.org for more information.

Two events for the 'California Clean Money Campaign'

Bay Area leagues have been asked to send at least five members to these events; special scarves will be provided to identify them at the Town Hall. There will be car pooling for both events; call Joanne McKray at 522-6760 after Jan. 1 to make arrangements. Please come to one or both of these events and bring your friends. Let your legislators know that you're sick of politics as usual!

Town Hall Meeting Jan. 7

Assemblywoman Loni Hancock (D-Berkeley) will be hosting a Town Hall meeting Saturday, Jan. 7, 11 a.m. to 2 p.m. to discuss and drum up support for her bill

AB 583, The Clean Money and Fair Elections Act, just days before the bill will go up for a vote.

Special Guest: Arizona State Representative Leah Landrum Taylor, who will speak about a Clean Money election system already in place which has allowed legislators to respond to the needs of the electorate rather than to the pressures from large campaign contributors.

The meeting is free and open to the public. It will be held at Oakland City Hall There is free parking at the Clay and 14th Street garage behind City Hall.

Fund-raiser Jan. 6

The previous evening, Jan. 6 from 6 to 8 p.m., the East Bay

Leagues will sponsor a fund-raiser for the California Clean Money Campaign at a Piedmont League member's home, 104 Monte Ave., Piedmont.

Loni Hancock, Susan Lerner, Executive Director of the CA Clean Money Campaign, and Leah Landrum Taylor will be present and available for informal conversation on the promises of and prospects for clean money elections in California. 104 Monte Avenue, Piedmont

Admission is \$25. Checks for the Friday night fund-raiser may sent to Joanne McKray at 601 Ironwood Road, Alameda 94502, or presented at the door.

Consider being a watchdog for 'Bay Area Monitor'

By Sally Faulhaber
LWVA Secretary

The Bay Area Monitor project is looking for a few good volunteers to observe meetings of regional agencies.

The project publishes the bi-monthly "Bay Area Monitor" which has in-depth articles on regional issues, mostly environmental, but political and economic angles get some coverage as well. Part of the information comes from League members who observe and report the meetings.

This is a fantastic opportunity to learn. You do not need to be an expert on the agency you monitor to start. You can expect expertise to develop as your initial confusion evaporates after a few meetings.

Observers are needed for the East Bay Municipal Utility District, whose Board meets two Tuesday afternoons per month in downtown Oakland, The Regional Water Control Board, one Wednesday afternoon per month in downtown Oakland, The Bay Area Quality Management District, two Wednesday mornings per month in San Francisco (Van Ness and Ellis), the Port of Oakland, two

|| The League of Women Voters of the Bay Area has long had a position in favor of a directly elected, multipurpose regional government. Until that happens, it is important to keep track of what all the existing special agencies are doing.

Tuesday afternoons per month in Oakland, and the Water Transit Authority, one Thursday afternoon per month in San Francisco (waterfront). Alternates for some others would also be welcome: BART AC Transit, East Bay Regional Park District and the Metropolitan Transportation Commission, all of which meet in Oakland. The project pays for monitoring one meeting of the agency each month. It is customary for the monitor to donate her pay to her local League.

The regional government of the Bay Area consists of these regional agencies and about a dozen more, plus the boards of supervisors of the nine counties. It is complex and often invisible to the public. The League of Women Voters of the Bay Area has long had a position in favor of a directly elected, multipurpose regional government. Until that happens, it is important to keep track of what all the existing special agencies are doing.

For more information, contact Sally Faulhaber, ssyhf@alamedanet.net or contact Leslie Stewart, leslie@lwvba-ca.org.

County League Day to focus on Bay Area water supply

Get ready for County League Day Feb. 25, 9 a.m. to 2 p.m., to be held at the Community Learning Center, South San Francisco Public Library, 520 Tamarack Lane, South San Francisco.

The agenda for the day is as follows:

9-9:30 a.m.: Registration (coffee, tea, juice and breakfast pastries).

9:30-9:45 a.m.: Welcome and Introductions.

9:45-10:45 a.m.: Guest Speaker, Arthur Jensen, General Manager, Bay Area Water Supply and Conservation Agency will discuss the Hetch-Hetchy Water System and the status of the rebuild the challenges ahead, as well as construction timelines, budget vs. actual expenses and environmental impacts.

11 a.m.-Noon: County Program Planning (Agenda to be provided.)

Noon-2 p.m.: Optional brown bag luncheon discussion on the pros and cons of merging the Leagues of North and Central San Mateo County.

'Winning the Vote: The Triumph of the American Woman Suffrage Movement'

"Winning the Vote" by Robert P. J. Cooney Jr., captures the color and excitement of a central, inspiring, but largely unknown chapter in American history.

This hefty, beautifully designed book presents the woman suffrage movement clearly and chronologically, with emphasis on the personalities and political campaigns of the early 20th century. Nearly 1,000 photographs, posters, and leaflets – plus portraits of suffrage leaders both white and black and including several men – illustrate the movement's fascinating 72-year history. Large format photographs highlight key developments between 1848 and 1920, including more than 50 state electoral campaigns and the final controversial drive for the 19th amendment, ratified in 1920.

Published by American Graphic Press in collaboration with the National Women's History Project. November 2005. 496 pages. \$85 plus \$12.50 shipping. ISBN 0-9770095-0-5.

Order from www.nwhp.org or (707) 636-2888. National Women's History Project, 3343 Industrial Dr., Suite 4, Santa Rosa, CA 95403

Ohio League's equal voting case survives

By Dan Tokaji

Moritz School of Law,
Ohio State University,
Equal Vote blog

U.S. District Judge James Carr Dec. 2 denied a motion to dismiss a lawsuit filed by the League of Women Voters of Ohio and others, challenging the State of Ohio's administration of its voting system under the Fourteenth Amendment. The League's lawsuit arises from problems with registration, the handling of provisional and absentee ballots, disability access, and the allocation of voting machines in Ohio, which they claim are of long-standing duration.

The most important aspect of Judge Carr's ruling is his conclusion that the League and other plaintiffs have stated claims under the Equal Protection Clause, based on the alleged dis-

!! **The whole point is that voters across jurisdictions have been afforded unequal treatment, resulting in a "crazy-quilt" of different rules and processes.**

parate treatment of voters in different counties. He properly recognizes that the state "misconstrues the complaint" in asserting that voters should try to resolve their problems with local election officials. The whole point is that voters across jurisdictions have been afforded unequal treatment, resulting in a "crazy-quilt" of different rules and processes.

The court also allows plaintiffs' due process claim to proceed, on the theory that Secretary

of State Blackwell and Governor Taft may be liable for the "systemic failure to train." It specifically rejects the arguments that Taft and Blackwell aren't proper defendants, that plaintiffs lack standing, that their claims are precluded by the judgments in prior lawsuits, and that the case should be transferred to another court.

Judge Carr's order does dismiss plaintiff's claim challenging the state's registration list under the Help America Vote Act. The order reasons that this statewide list need not be implemented until January 1, 2006. In effect, Judge Carr finds that the HAVA claim isn't yet "ripe," although he doesn't actually use this term.

For full text of article, visit <http://moritzlaw.osu.edu/blogs/tokaji/2005/12/ohio-equal-voting-case-survives.html>

Regional action on Hetch-Hetchy water system

By Linda Craig

President LWVBay Area

An action letter was sent to the San Francisco Public Utilities Commission regarding Regional Water System Improvement Program Revisions for the Hetch-Hetchy system, co-signed by LWV of San Francisco and LWVBA, supporting funding for watershed improvement, such as habitat restoration and ecosystem protection, along with watershed land acquisition, establishing a level of service for freshwater flows for environmental stewardship, emphasizing water conservation and considering the use of recycled water. The letter will be posted on our website for your reference. A copy of the letter will also be transmitted to the Bay Area Water Supply and Conservation Agency, which represents the regional water purchasers. *(based on LWVC positions on Water, with their permission)*

'Sunshine Week' representative named

League member Jon Spangler has graciously agreed to serve as Alameda League's representative on the "Sunshine Week" committee of the Alameda County Council (ACC) of the seven Alameda County Leagues.

The National League requested applications for grants and the ACC applied, on behalf of all seven Leagues. Each League is to send a representative to the group working on the

event(s) which will take place in March. Our application was successful, and the ACC has been awarded a \$1,000 to do activities for the week.

The Board will formally confirm this appointment at its Jan. 12 meeting.

The Sunshine Week is to showcase efforts to promote transparency in government, or "cast sunshine" upon the darkness.



Jon Spangler

Keep in touch with your League

Have you moved? Have you changed your phone number or email address? Don't let the League lose contact with you.

Send new contact information to Jean Fong, membership

director. Write her at 734 Palmera Court, Alameda, CA 94501. Call her at (510) 522-7797. Or email her at jfong1@comcast.net


Calendar of events

All members and the public invited

- **Friday, Jan. 6, 6-8 p.m.** - Fund-raiser for the "California Clean Money Campaign." \$25. 104 Monte Ave., Piedmont. (See story page 2).
- **Saturday, Jan. 7, 11 a.m. to 2 p.m.** - Town Hall Meeting on Clean Money. Oakland City Hall, 14th and Clay, Oakland. (See story page 2).
- **Thursday, Jan. 12, 7:30 - 9 p.m.** - Board Meeting. Alameda Hospital, conference room A, 2070 Clinton Ave., Alameda.
- **Thursday, Jan. 19, 7 - 9 p.m.** - League and Alameda Power and Telecom will hold a focus discussion on the state of energy in California. (See page 1 story and enclosed study materials on yellow pages).
- **Friday, Jan. 27, 9:30 a.m. - 2:30 p.m.** - Bay Area League Day. Hear about what has happened to the Bay over the past 40 years and how we can best protect, use and enjoy it in the future. First Unitarian Church of Oakland, 685 14th Street, Oakland. (See story page 1).

Please consider making a donation of \$5 or more to our Education Fund, the lifeblood of our public outreach activities. No amount is too small. Last year we had no donations, so we are trying to increase awareness this year. Your donations are tax deductible.

Mail your check to:
League of Women Voters of Alameda,
P.O. Box 1645, Alameda, CA 94501.

 Include your name, address, phone, and email and the amount you've enclosed.

Thank you!

The League of Women Voters – a non-partisan political organization – encourages informed and active participation of citizens in government, works to increase understanding of major policy issues, and influence public policy through education. The League never supports or opposes any political party or candidate. We advocate only on issues that members have studied and come to a consensus on. In an era of proliferating and powerful special interests, the League's advocacy in the public interest is increasingly recognized as an essential voice of democracy.

With membership comes the opportunity to work with well-informed, grassroots activists on a broad range of public policy concerns. Learn valuable, transferable skills, including how to organize and run productive meetings, write more effectively, speak in public, organize and run effective campaigns, conduct research studies, and coordinate general civic leadership training. The League invites your comments, letters and articles. They may be sent, faxed or e-mailed to the LWVA.

Join or Renew

Cut out, fill in and mail this coupon with your check to: League of Women Voters of Alameda, P.O. Box 1645, Alameda, CA 94501.

Dues: \$53 for a single membership; \$20 for an additional membership at the same address. Students pay \$25, and full and partial scholarships are available. Questions? Contact Jean Fong at jsfong1@comcast.net.

Make checks payable to League of Women Voters of Alameda.

Joining at the local level makes you a member at all levels: Local, county, Bay Area, state and national.

Name:

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A World of Its Own: Electric Utility Regulation in California



Background: Public utilities bring essential commodities and services to the public – electricity, gas, water, telephones, transportation.

At their beginnings a century and more ago, they enjoyed (some more than others) a period of untrammled competition. The results included a disorderly, sometimes dangerous and always needless multiplication of pipe lines and overhead pole lines, and demonstrated to the satisfaction of most that public utilities were “natural monopolies.”

Legislatures granted them exclusive service territories. Recognizing that this protection from competition could be abused, they also set up regulatory bodies to control utility rates and ensure that they operate in the public interest. A particular benefit, not always generally appreciated, was the ability this gave the utilities to make orderly, long-term plans to serve the public.

The Regulators and the Regulated: Our state is served by three major investor-owned electric utilities: Pacific Gas & Electric (PG&E), Southern California Edison (SCE) and San Diego Gas & Electric (SDG&E). Other electric utilities are owned by municipalities or irrigation districts and not subject to state regulation. Three principal state agencies do the regulating:

The California Public Utilities Commission (CPUC), with both legislative and judicial powers. A principal duty of the five commissioners is to question and analyze detailed applications by the utilities for rate changes and set the final rates that are charged customers.

The California Energy Commission (CEC) (as it is generally known). Its five commissioners must forecast energy needs, license power plants, and promote conservation and alternative energy resources.

The California Independent System Operator (CA ISO), established in 1996 along with the legislation, AB 1890, which “deregulated” the private utilities. AB 1890 required the utilities to commit control of their transmission facilities to the ISO.

In addition, **the Federal Energy Regulatory Commission (FERC)** regulates natural gas and hydropower projects, and interstate transmission of natural gas, oil and electricity.

Electricity Generation: Through nearly all of the 1900s, most of California’s electricity was produced in plants owned by the three major investor-owned utilities (IOUs). As their fuel costs increased and as they invested in new facilities, they petitioned the CPUC for adjustments in their rates to recover these costs. For a variety of reasons, by the 1990s electric rates in California were among the highest in the nation. Demand was increasing, power plants were aging and new ones were not being built.

Hoping to bring prices down by encouraging the construction of new plants and by increasing the available fuel supply, the state legislature passed AB 1890, which ended the protected-monopoly status of the three IOUs. They were required to sell most of their largest generating plants. Competition was invited into the market.

The results are well remembered. “Merchant generators” – independent power producers, out-of-state utilities, and power brokers – established a *de facto* oligopoly. They kept prices high. In the 2000-2001 energy crisis they took plants off-line when demand was highest – like hot summer afternoons with massive air-conditioning usage – causing truly outrageous wholesale prices. Legislation now keeps them from doing this. And the CA ISO is developing ways to separate real from contrived price fluctuations, so the legislature or the CPUC can cap prices if manipulation again becomes evident.

In 2002 the legislature passed SB 1389, which requires the CEC to prepare an Integrated Energy Policy Report every two years. The staff is asked to look ahead five to 20 years and judge what California’s energy systems should look like, and what we need to do to get there. The LWVC Energy Committee has been working with the CEC staff for more than a year to present a public interest perspective on this.

Incentives – to produce and to conserve – remain the big issues in the area of generation. More than 9,400 MW of new capacity came on line in the last four years, but forecasters warn that without yet more investment in new plants, another power crunch is likely – and within two to six years. The weakened financial status of utilities and merchant generators remains a concern.

Electricity Transmission: Before deregulation, the major California transmission lines were owned and operated by the IOUs. They were responsible for reliability within their service territories, although their lines were (and still are) part of a coordinated 14-

western-state grid. Then AB1890 required the utilities to give control of their transmission facilities to the ISO. Owners of the lines still develop their own expansion plans, but the ISO judges the need and (if a proposed CPUC rule is adopted) the CPUC then defines the transmission routes that best serve the “public convenience and necessity.”

Current long- and short-term visions of the CEC, CPUC and CPA are set out in an action plan that supports development of a strategic, long-range plan for transmission. But even as this planning goes forward, a number of areas have transmission constraints, most notably the San Francisco Bay, Tehachapi, Devers and San Diego areas.

Some of the big questions in transmission include how to:

- Ensure system reliability when the public fights grid expansion.
- Ensure reliability when generators are far distant from end users.
- Develop a cost/benefit assessment process that includes merchant generators.
- Factor environmental justice into siting decisions.
- Remedy the present balkanized state of the transmission system.
- Find or establish statewide or regional land-use planning authorities.

Electricity Distribution: Distribution refers to the lower-voltage lines and equipment that deliver power from the high-voltage transmission lines to the consumers. Before AB 1890 all end-users – industrial, commercial and residential – were customers of the IOUs. With the passage of that bill, choice was offered: customers could negotiate **direct access** contracts with other suppliers. The hope – or dream – was that more generation would come into the market and prices would decline. What happened was the “perfect storm” of price increases.

The IOUs at that point had virtually no long-term wholesale contracts in place, and they became more and more dependent on the day-ahead market price for purchased power as set by the ISO through a bidding process. Power outages and financial hemorrhaging of the IOUs followed.

In a desperate attempt to save the situation, then-Governor Davis had the state enter into long-range contracts at the best prices available in an already stressed market. The resulting contracts called for payments to merchant generators of twice the actual cost of generation, for up to 10 years. These contracts account for most of the electricity being distributed to retail customers today (and made a significant contribution to the premature departure of Gov. Davis).

Predictably, as supplies tightened and prices rose, more industrial customers opted out of their utility relationships in favor of **direct access** contracts with merchant generators. This practice was ultimately barred, with about 14 percent of industrial customers left buying directly from non-utility suppliers. They have been required to pay a surcharge of 2.7 cents per kilowatt-hour, which supposedly covers their share of the excess costs incurred by the state’s long-term contracts; they continue to use the utility-owned transmission and distribution systems.

Recent Developments: The legislature and the CPUC are considering a new market structure with just two basic customer groups: **Core customers**, residential and small commercial; and **non-core customers**, large commercial and industrial. Non-core customers could negotiate **direct access** contracts with non-utility suppliers, but would lose the guarantee of back-up power from the utilities. And their contracts would have to protect the economic interests of core customers, unable to negotiate with outside suppliers. The CPUC proposals include additional options for both customer classes, including real-time (dynamic) pricing and green (renewable) power options. Governor Schwarzenegger, independent power producers, SCE and the Silicon Valley Manufacturing Group actively support this core/non-core or “hybrid market” approach.

A major worry: Non-core customers are expected to make up 25 to 40 percent of total capacity contracts, which could make it difficult to protect the economic interests of core customers.

Over the past year there have also been legislative efforts to re-regulate – to put the IOUs back into the boxes that were shattered by the 1996 deregulation. This would be difficult if not impossible. The utilities had to sell much of their generating capacity, which is now owned by out-of-state merchant generators, and the wholesale prices charged by these plants are not subject to CPUC control and get only cursory review by the Federal Energy Regulatory Commission.

Right now both planning and regulation of the electric industry in California are in a state of flux. Decisions that will restore some stability are vital to stimulating the investments that will build new power plants and re-power existing ones, and vital as well to stimulating investments in energy efficiency and the strengthened power grid that is essential to a reliable state electric system. ■

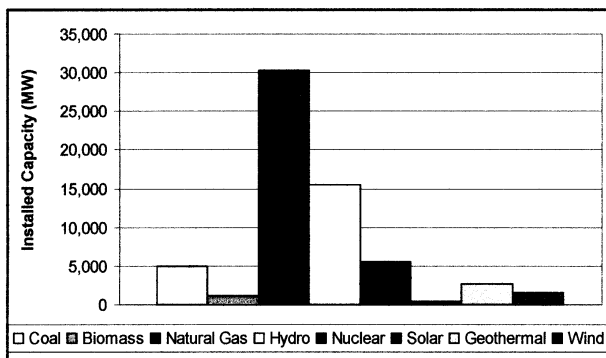
Designing an Energy Portfolio

The League and Energy

THE ELECTRICITY NEEDS of California are currently met by a mix of about 56,000 MW of in-state capacity and more than 6,200 MW of capacity in nearby states. The latter is largely coal-fired; in-state capacity is diverse, but more than half is natural-gas-fired. And most of the natural gas capacity is owned by independent “**merchant generators**,” not regulated by the California Public Utilities Commission. The deregulation legislation of 1996 required utilities to sell much of their generation, so they now own only 42 percent of the total capacity.



Figure 1
Capacity by Fuel/Technology Type



As a result of the financial problems faced by the investor-owned utilities in 2000 and 2001, the California Department of Water Resources (DWR), negotiated long-term contracts with the merchant generators. During the crisis many of these merchant generators had sold into the **wholesale spot market** at exorbitant prices. The prices negotiated by DWR are not exorbitant but they are high, and most contracts run until 2010. Utility customers are paying these costs. Most of the natural gas-fired generation that has come on line in the last several years is being sold into the spot market. The price of power from these plants largely reflects the current market rate. Since these plants are fueled by natural gas, they are affected by natural gas market conditions. Natural gas prices, notably volatile during 2003, have become more stable since, but are notably higher, averaging more than \$6 Mmcf.

The Energy Commission attributes the stabilization of spot market prices since 2001 to three factors.

- Energy-efficiency measures by consumers.
- Addition of the 9,400 MW of new capacity, along with an economic downturn.
- Dramatic reductions in the amounts of energy purchased on the spot market.

The future is not bright, however. With the economic recovery now under way, demand is growing faster

than supply. Although construction permits have been issued for six large merchant plants with almost 4,000 MW of capacity, none are expected on line before 2006. In addition, drought throughout the West has reduced the amount of hydropower that can be imported from the Northwest. Recognizing the need to plan for peak power demands, the CPUC has set a 15 percent reserve capacity requirement. Assuming a 1.5 percent annual increase in peak demand, (it is currently 3.5 percent in Southern California) capacity requirements in 2030 will amount to 92,000 MW. (Currently 62,000 MW)

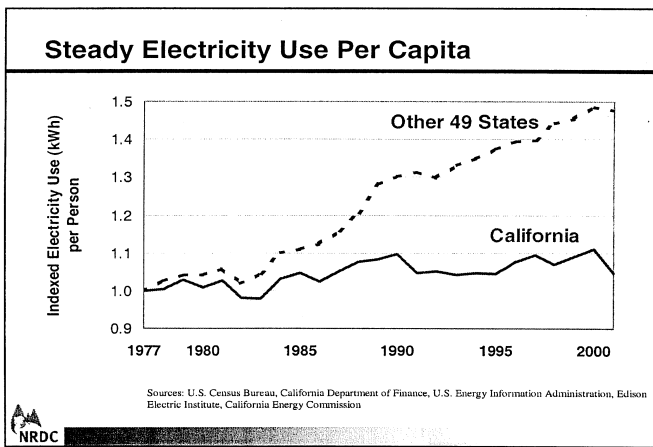
More than 40 percent of the **natural gas-fired generation** in the state was built in the ‘50s and ‘60s. These plants are as much as 50 percent less efficient than the new plants, and over the coming decade many of them will be retired or rebuilt; approximately 3,000 MW of capacity was retired just in the past three years. But some of these plants are strategically located near the demand load, and because of increasing congestion of the transmission system, they receive a pricing bonus associated with “**reliability-must-run**” (RMR) contracts. In-state gas production presently meets only 15 percent of California’s needs. Out-of-state supplies are adequate throughout this year, but, with growing reliance on natural gas to generate electricity, concerns about the integration of the electricity and natural gas markets continue to mount. Merchant generators, unlike regulated utilities, are not obligated to serve electricity customers; if it is more profitable, they may sell their natural gas into the gas markets, rather than use it to generate electricity. In any case, short-term supply shocks will lead to increases in spot market electric prices. Demand-side management and increased use of renewable resources are the near-term options to dependency on natural gas.

Renewable resources include geothermal, biomass, small hydro, wind and solar. During 2002, the legislature passed SB 1078 which requires the investor-owned utilities to increase investment in renewable energy one percent annually until each utility provides 20 percent of its energy from renewables. Southern California Edison is already meeting this requirement for 2004. PG&E currently is at about 14 percent and San Diego Gas and Electric less than 4 percent. In mid-2004 4,400 MW of renewable capacity was on line. Almost 14,000 MW more will be required by 2030. Because of ecological concerns it is unlikely that more small hydro will be developed. Geothermal and wind resources are considered abundant, but are located at considerable distances from load centers. Wind and solar are intermittent, estimated to be available about 25 percent of the time (often but not always near times of peak demand).

Governor Schwarzenegger has enthusiastically called for more investment in **solar rooftops**. Certainly photovoltaic panels can benefit local homeowners in many parts of the state. However, an average residential roof can only

accommodate 2 kW of panels (less than half of the power needed at peak power periods). About 125,000 new homes are built in California each year, and solar rooftop systems on 15 percent of these would provide 35 to 40 MW of new capacity. Solar panels can be considered a contribution to peaking power capacity, rather than baseload, as it will be available during daylight, when air-conditioners are generally in use.

Both the Energy Commission and the CPUC have made **energy efficiency** their top priority: The goal is to reduce energy use, and decrease peak power demands. For nearly a decade, utility customers have paid on their monthly bills a “public goods charge,” and one of the benefits of those monies has been investments in energy efficiency retrofits. The result has been dramatic: Energy use in California is about *half* of per capita use for the nation as a whole.



This past year, the three major utilities have been allowed to include energy efficiency investments in their **capacity procurement planning**. It should be noted, however, that investments in energy efficiency – beneficial in terms of diminishing resources and air pollution – often do not reduce *peak* power demands.

Reductions in peak demands come about largely because of customer response to a definite signal. One such signal may be a radio or television announcement that electricity demands are getting close to capacity, and asking customers to cut back on power use. Some customers, usually larger ones, also negotiate “**interruptible**” **contracts** with their utilities: In return for favorable prices most of the time, they agree to have their service cut back when reserve margins shrink to a particular point. The present interruptible load is just short of 1,500 MW.

Dynamic pricing is a technique that could allow the state to not invest in 2,000 MW of new capacity over the next 25 years. The League has already had opportunities to speak on behalf of this vision. During the past several years, California has paid to install 22,000 real-time pricing meters at commercial and industrial sites. These meters show customers at 15-minute intervals

the actual cost of power so they may plan their use. The costs currently range from 5 cents per kWh at 2 a.m. to 33 cents per kWh at 4 p.m. on a hot summer day. It is likely

that dynamic pricing will become a reality for residential customers before the end of the decade. Each special meter is estimated to cost a little more than \$100.

A growing trend is the use of **distributed generation** (DG). This refers to small, localized generation systems, close to the load that they serve. DG enthusiasts point to the avoidance of dependence on the transmission system and the economic opportunities that may be available for facilities to generate their own power apart from the utility grid – especially if they can sell any excess power back to the utility. DG is proving to make good economic sense for facilities that can use solar, wind or biogas. It is not succeeding for those sites that would use natural gas-fired turbines for power generation, because of local air emission requirements.

A major consideration still to be clearly addressed involves issues of **direct access** and “**departing load.**” The deregulation legislation of 1996 allowed utility customers to leave their utility and to contract directly with merchant generators for power. A significant number of industrial and large commercial customers did just that at a time when wholesale energy prices looked attractive. But in 2000-2001, when wholesale power prices skyrocketed, these same customers sought to return to service with the utilities to obtain power at the regulated retail rates. The direct access policy presents a dilemma for utilities, as they likely will have to serve as the default provider if a merchant generator fails.

Late in 2001 the CPUC ruled against any further direct access contracts. About 14 percent of total customer load remained with the merchant generators, and when it became clear that these customers were not sharing in the high-cost, state-negotiated DWR contracts, the CPUC instituted a 2.7¢ per kWh charge on direct access power.

The California electricity system should be flexible enough to take advantage of new technologies and energy sources, and yet be stringent enough to provide economical, reliable service. Integration of the electricity system requires some control over the mix of sources: with the ability to plan for adequate capacity, to promote the use of renewable sources of electricity, and to provide incentives for efficiency and conservation.

FOCUSING OUR THOUGHTS

The League and Energy



Over the past two years the LWVC Energy Update Study Committee has posted a series of four short papers designed to acquaint you with the ways in which the electricity system in California functions, with its weaknesses and strengths, and with the ways in which it is governed.

Now we are approaching the time for discussion and consensus. This fifth paper presents you with a series of thought-provoking questions intended to help you put together values and priorities that have emerged from your study. **THESE ARE NOT THE CONSENSUS QUESTIONS.** They are intended as aids as you organize your thoughts. A brief background statement precedes each question.

1. *Background:* It was thought that a competitive day-ahead and spot market for power generation would lead to the creation of more energy producers. In fact, the availability of long-term contracts has proved to be a greater inducement to investment. The California Public Utilities Commission (CPUC) has called for an open competitive generation procurement process to be conducted by the investor-owned utilities (IOUs) leading to long-term contracts.

Question: Do you believe that this will foster a competitive market structure? Can you perceive potential problems that might develop?

2. *Background:* Direct access to the wholesale energy market (non-utility generation) has been opened to communities and other aggregated consumer groups.

Question: If your community voted to enroll in the Community Choice Aggregation plan, what would you expect of the service, as compared with the service you currently receive from the investor-owned utility (IOU) in your area? E.g., rates, reliability, green energy sources, conservation programs, other.

3. *Background:* Since deregulation, and the subsequent failure of the market-based system that followed, decision makers have been struggling with the challenge of designing a new system that combines a healthy electricity industry with the reliability, fairness, and transparency of operation that the public deserves. Introduction of the competitive market into what was previously a regulated monopoly system has resulted in what is called a "hybrid" system with unregulated merchant generators providing much of the state's power.

Question: Is there some way that reliability, fairness, and transparency of operation can be achieved under a hybrid system? Are there facets of the electricity industry that must be regulated to ensure these ends? In a hybrid system, how can comprehensive integrated long range planning be effectively implemented?

4. *Background:* In the Energy Action Plan, the California Public Utilities Commission and the California Energy Commission have designated renewable energy sources as second, after efficiency and conservation, on California's list of preferred electricity sources. Utilities contract for power from renewables from many independent generators, generally paying rates that are subsidized by the public goods charge on the utility bill. Due to the distributed location of these sources, additional transmission lines are needed to deliver this power to demand centers, and there is some debate as to who should bear the cost of this new transmission. Some of this new renewable generation will be owned by the utilities, but most will probably be built and owned by independent producers.

Question: Given that much renewable generation will be procured from a mix of relatively small, non-utility generators, distributed around the state, how should the costs of additional transmission lines be allocated?

5. *Background:* Municipal utilities provide about 25 percent of the electricity sold in California; much of the power they buy comes from outside the state. "Munis" are not regulated by the CPUC.

Question: Should municipal utilities be expected to adhere to the same requirements for renewable energy and energy efficiency, reserve capacity and controls on greenhouse gas emissions as the investor-owned utilities? If not, what requirements should be enacted?

6. *Background:* The role of the public in determining the direction of California's electricity system is taking on increased importance. Consumer response as to choice of servers, demand-side management, and efficiency measures of many kinds is being factored into utilities' resource plans. Photovoltaic installations are encouraged by net-metering, performance-based rates and subsidies. (Subsidies are rebates that are based on the manufacturer's rated system capacity, the kilowatts, not the actual amount of energy produced, the kilowatt-hours. Performance-based rates take into account the amount of energy produced, and the time of day that it is produced, as well as corollary values, such as mitigating environmental impacts and stabilizing the voltage of the distribution system.)

Question: How important is it to you to have choices in your use of electricity? What programs or techniques would most likely be of interest to you? How would you prefer to pay the initial costs of installation of a new technology? Would you prefer subsidies to rates based on performance?

7. *Background:* An integrated electricity system requires that all aspects of generation, transmission, and distribution be incorporated into a comprehensive, long-term plan. With the hybrid (regulated/non-regulated) system, statewide integrated planning seems to be evolving, though not all of the energy service providers are interested in participating.

Question: What measures should be undertaken to achieve integration: executive order, regulatory review, permitting and licensing requirements, etc.? Do you feel that municipal utilities and independent energy service providers should not be required to participate in a statewide integrated planning process?

8. *Background:* Efficiency is now accepted as an energy resource (producing "negawatts")—in fact, energy-not-needed is the least-cost source of new supply. To facilitate planning and to assure adequate supplies, natural gas and other traditional fuel sources can be bought with long-term contracts.

Question: How can long-term contracts for resources be used to assure achievement of a certain level of energy efficiency over the long term, so that "negawatts" can be built into a long-term resource-adequacy program?

9. *Background:* Regulation and rate making for the electricity industry is the responsibility of the CPUC. It is an enormously complex process, in which adjudication plays a major role. As a result, expert, and expensive, legal counsel is required for the public to participate, and it takes months to arrive at decisions.

Question: Would regulation and rate making be just as well accomplished through public workshops and discussion?

10. *Background:* Governor Schwarzenegger has proposed that state agencies with roles and responsibilities for energy planning and permitting, operational coordination, and rates and rulemaking be consolidated into a single state Department of Energy. The roles of the current agencies are diverse and depend upon a range of competencies and experience. In the case of the Energy Commission, planning and analysis is the major responsibility. For the CPUC, their rulemakings and rate-setting are largely adjudicatory proceedings. The California Independent System Operator (CAISO) is largely a technical operational entity, with a further role in protecting Californians against future market manipulation. Over the past three years, the existing agencies have instituted a collaborative process that has become manifest in the Energy Action Plan and is leading to a more rational process for transmission siting.

Question: Is establishing a California Department of Energy the preferred option, or are there other alternatives for fostering effective state governance?