



● **Board of Directors**
Communications and Legislation Committee

8/16/2022 Board Meeting

7-15

Subject

Express opposition, unless amended, to SB 1020 (Laird, D-Santa Cruz, Caballero, D-Salinas, Durazo, D-Los Angeles, and Atkins, D-San Diego): Clean Energy, Jobs, and Affordability Act of 2022; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

As amended on May 23, 2022, SB 1020 sets interim targets to ensure that retail electric providers reach their 100 percent clean energy goal by 2045; accelerates the date by which state agencies must achieve 100 percent clean energy procurement from 2045 to 2030, including the State Water Project (SWP); and establishes a Climate and Equity Trust Fund to address rising retail electricity rates (**Attachment 1.**) While Metropolitan supports efforts to ensure California achieves 100 percent clean energy by 2045, the bill fails to consider the costs to the Department of Water Resources (DWR) and, ultimately, water ratepayers from setting an accelerated 2030 target to achieve zero emissions for the SWP. The procurement requirements imposed on the SWP and the lack of funding to offset the cost impact of an accelerated target date will impact the State Water Contractors (SWC) and, ultimately, water affordability. Staff estimates Metropolitan's share would amount to an additional \$130 million annually, including both procurement of new resources and transmission access improvements.

Details

Background

SB 1020 is the latest in a series of bills and Executive Orders designed to strengthen California's climate policy. The California Global Warming Solutions Act of 2006 (AB 32, Núñez) required California to reduce its greenhouse gas (GHG) emissions to 1990 levels by 2020. SB 32 (2016, Pavley) extended AB 32 by requiring the state to reduce GHG emissions to 40 percent below 1990 levels by 2030. In 2018, Governor Brown signed SB 100 (DeLeón) and Executive Order B-55-18, establishing the policy of the state that eligible renewable energy resources and zero-carbon resources supply 100 percent clean energy to all California end-use customers and state agencies by December 31, 2045.

The SWP has become a major source of grid reliability providing significant economic benefits for the State of California. As California takes steps to accelerate the move towards a clean energy future, the SWP will play an increasingly important role. According to DWR, the SWP's current power portfolio consists of 70 percent carbon-free resources, increasing to 75 percent by 2030 and 100 percent by 2045. Approximately 50 percent of the SWP's power is provided by its own emission-free hydroelectric generation. The remainder is made up of contracted renewable resources (approximately 20 percent), short-term purchases from the California Independent System Operator (CAISO) markets (25 percent), and a long-term contract with a natural gas facility in Lodi, California (5 percent).

In 2019, the Legislature directed the California Natural Resources Agency in coordination with DWR and the California Energy Commission to assess opportunities for the SWP to further support grid reliability and the state's clean energy goals by helping integrate renewable resources and reduce greenhouse gas emissions while sustaining reliable SWP water deliveries. The report, referred to as the SB 49 report, is not yet released.

Additionally, in 2021 DWR released an energy road map that identified how SWP assets could be leveraged to achieve a more sustainable energy future. Metropolitan supports DWR's efforts to achieve carbon neutrality for the SWP; that support is consistent with Metropolitan's greenhouse gas reduction goals and initiatives as part of the Board-adopted Climate Action Plan.

Summary of SB 1020 as Amended May 23, 2022

SB 1020 sets interim targets for all retail sales to end-use customers (i.e., 90 percent by 2035 and 95 percent by 2040) to reach SB 100's statewide goal of 100 percent clean energy by 2045. The bill also accelerates the 100 percent clean energy goal for electricity procured to serve state agencies and the SWP from December 31, 2045, to December 31, 2030.

SB 1020 requires DWR to procure newly developed eligible renewable energy resources and zero-carbon resources for the SWP to meet the 2030 target. The new procurements must meet certain requirements including, but not limited to, that the resources be located within California and be interconnected in front of a customer meter, be capable of dispatch by CAISO, and be constructed utilizing multi-craft project labor agreements. SB 1020 directs DWR to invite all electrical corporations, community choice aggregators, electric service providers, and publicly owned utilities to voluntarily subscribe to its procurement commitments. All resources procured by DWR shall first meet DWR's own electricity needs, except for procured resources subject to a voluntary subscription. Additional resources procured by DWR shall then meet the accelerated zero-carbon resource targets of other state agencies.

Finally, SB 1020 requires the Public Utilities Commission (PUC) and California Energy Commission (CEC) to jointly establish a California Affordable Decarbonization Authority (Authority) to administer a Climate and Equity Trust Fund (Trust Fund) to benefit electricity end-use customers and promote affordable electricity rates. The Authority shall be governed by an independent board of directors, whereas funding for the Trust Fund may include, but not limited to, monies from the federal government, the Greenhouse Gas Reduction Fund, and noncompliance penalties assessed by the CEC, PUC, or Air Resources Board. Disbursements from the Trust Fund shall include direct credits on electric utility ratepayer bills; direct rebates or incentives to market participants, technology vendors, technology installers, and end-use customers; and reimbursement of eligible costs incurred by retail electric providers in the form of matching funds.

Potential Impacts on Metropolitan

The accelerated procurement requirements imposed on the SWP by SB 1020 will increase procurement costs significantly without the potential for offsets and could interfere with current efforts by DWR to incorporate renewables into the SWP energy portfolio. DWR estimates that the bill will result in \$2.6 billion in additional costs to the SWP for new resource procurement, and a total of \$3.2 billion including needed transmission access improvements (\$600 million). As the largest SWP contractor, Metropolitan would bear the brunt of these cost increases, which staff estimates would be \$130 million annually, including both procurement of new resources and transmission access improvements. To put that in perspective, from 2010 to 2020, Metropolitan's total annual power charges ranged from \$94 million to \$219 million. It would take an estimated seven-plus percent rate increase to cover these increased costs, unless cuts in this amount can be made from other areas of Metropolitan's budget.

While SB 1020 would provide direct credits to electric utility ratepayers to help maintain affordability as the state transitions to 100-percent clean energy, there is no similar cost offset mechanism for water ratepayers or to help DWR lower the cost of accelerating the target date of achieving 100 percent clean energy for the SWP. These costs will be borne by the SWC and ultimately passed on to retail water agencies. This could threaten water affordability, especially for low-income households, at a time when rates are expected to increase to pay for upgrades to aging infrastructure and new local supplies in response to climate change.

Suggested Amendments

In coordination with the SWC, Metropolitan is seeking amendments to minimize the cost impacts to the SWP and maintain water affordability.

Metropolitan and the SWC seek amendments to ensure the Trust Fund can fund procurement of renewable energy resources and initiatives to achieve zero-carbon emissions for the SWP and to maintain water affordability. In addition, Metropolitan and the SWC have suggested the following amendments to reduce cost impacts:

- 1) Delay the procurement target to 2035 and set interim milestones.
- 2) Delete certain procurement requirements that increase costs.
- 3) Clarify that DWR would not be financially responsible for any renewable procurement subscriptions on behalf of other entities or state agencies.

Metropolitan will also seek a provision that would exempt DWR and the SWP from meeting any compliance deadlines if they are unable to do so due to unforeseeable or uncontrollable circumstances, such as grid reliability and supply chain constraints.

Metropolitan shared concerns regarding cost impacts with the author's office and provided a set of amendments for their consideration. Amendments under consideration include the deletion of certain procurement requirements, extension of the target date for the SWP compliance to 2035, and ensuring the Trust Fund can be used to offset costs to the SWP. Discussions with the author's office are still underway. DWR estimates that the extension of the target date for SWP compliance to 2035 would incur \$1.2 billion in additional procurement costs plus transmission access, as compared to the \$3.2 billion total of the currently proposed 2030 target date.

As of the publication of this letter, the bill was on suspense in Assembly Appropriations. Current supporters include some electric utilities, community choice aggregators, environmental non-governmental organizations, and The Utility Reform Network, a utility ratepayer advocacy organization. Those opposed include environmental justice groups, who are concerned the bill would enable biogas projects on dairy farms, along with the Western Electrical Contractors Association, who are opposed to the inclusion of project labor agreement language.

Recommendation

Staff recommends the Board authorize the General Manager to oppose SB 1020 unless it is amended to minimize the cost impact to the SWP and maintain water affordability.

Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 52579, dated November 9, 2021, the Board adopted the Legislative Priorities and Principles for 2022, Section V. Climate Change and the Environment, C. Renewable Energy, Subsection 4. Support administrative/legislative actions and funding for the SWP and the CRA to incorporate renewable energy resources, such as pumped hydroelectric energy, that contribute to the state's climate goals without impacting the projects' primary purpose, provided consideration is given to transmission limitations, cost and portfolio availability, and unrelated impacts are not shifted to SWP or CRA facilities.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Public Resources Code Section 21065; Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it can be seen with certainty that there is no possibility that this activity may have a significant effect on the environment (Section 15061(b)(3) of the State CEQA Guidelines).

CEQA determination for Option #2:

None required

CEQA determination for Option #3:

None required

Board Options

Option #1

Express opposition, unless amended, to SB 1020 (Laird, D-Santa Cruz, Caballero, D-Salinas, Durazo, D-Los Angeles, and Atkins, D-San Diego): Clean Energy, Jobs, and Affordability Act of 2022.

Fiscal Impact: Potentially significant if the bill is passed without suggested amendments. Cost impacts to the SWP would be passed on to Metropolitan.

Business Analysis: If the bill passes with suggested amendments, the energy costs to the SWP would be offset and Metropolitan would not incur additional energy costs beyond those expected due to SB 100's energy goals.

Option #2

Express support, if amended, for SB 1020 (Laird, D-Santa Cruz, Caballero, D-Salinas, Durazo, D-Los Angeles, and Atkins, D-San Diego): Clean Energy, Jobs, and Affordability Act of 2022

Fiscal Impact: Potentially significant if the bill is passed without suggested amendments. Cost impacts to the SWP would be passed on to Metropolitan.

Business Analysis: If the bill passes with suggested amendments, the energy costs to the SWP would be offset and Metropolitan would not incur additional energy costs beyond those expected due to SB 100's energy goals.

Option #3

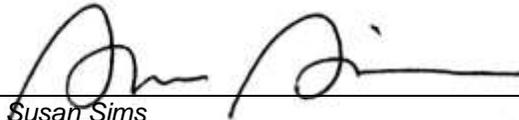
Take no position on SB 1020

Fiscal Impact: If passed, the bill could result in significant costs to the SWP that would be passed on to Metropolitan.

Business Analysis: Costs for Metropolitan's SWP supplies could be significantly adversely impacted.

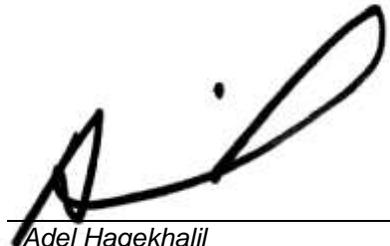
Staff Recommendation

Option #1



Susan Sims
External Affairs Group Manager

8/12/2022
Date



Adel Hagekhalil
General Manager

8/12/2022
Date

Attachment 1 – SB 1020 (Laird, D-Santa Cruz, Caballero, D-Salinas, Durazo, D-Los Angeles, and Atkins, D-San Diego): Clean Energy, Jobs, and Affordability Act of 2022, as amended May 23, 2022

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