

Assemblymember Lloyd Levine
Notes to the Little Hoover Commission
Regarding the
Governor's Energy Reorganization Plan
May 25, 2005

Good afternoon Chairman Alpert and members of the commission. Thank you for allowing me to testify on the GRP. We should have booked a larger room. There is a large elephant that no one has seemed to notice. In fact, there are two. One's name is the PUC and the other is the ISO. I applaud the Governor's attempt to restructure the energy agencies, but he forgot the big ones.

Three entities set energy policy. The PUC sets resource adequacy, long-term procurement, cost recovery, rate allocation, and consumer protection policies. The Energy Commission makes facility siting decisions and creates energy-efficiency standards. And the Independent System Operator formulates policies on wholesale energy market rules. In each case, these entities play a major role in energy policy formulation that affects every ratepayer in California.

The PUC is in the constitution and some claim may need a constitutional amendment to address. And the ISO is not a State entity, but we created it in statute. If we're serious about increasing efficiencies and decreasing redundancy, it seems negligent to virtually ignore them.

In the past year or two the State has made great strides in coordinating energy policy. The Executive branch and the Legislature have made statutory improvements that have greatly improved cooperation and coordination among the energy agencies.

- The PUC, CEC, ISO, and others meet monthly to discuss energy goals, issues, and objectives.
- This team developed the Energy Action Plan, that these energy agencies drafted, adopted, and have successfully worked together to implement over the past two years.
- They now have a formal team that meets quarterly to continuously update the Energy Policy Report.

- The PUC has started implementing the AB 57 procurement process that requires the utilities to submit their plans to ensure adequate resources are secured to serve customers.
- The PUC has imposed resource adequacy requirements to ensure that supply meets demand during the hot summer months.

➤ Cooperation is at an all-time high. They may not be statutorily mandated to get along, but as PUC Director Larson testified, it's working.

➤ Stability is at an all-time high since 1996.

I, along with my colleagues of the Utilities and Commerce committee, spoke extensively with Wall Street executives from Moodys, Fleet and Credit Bank, and others to find out what they needed to promote investment in California's energy infrastructure.

Their answer was simple: Stability, stability, stability.

They mentioned the merits of having:

- Secure, reliable, and predictable utilities.
- A secure, reliable, and predictable customer base.
- And a secure, reliable, and predictable regulatory structure.

The goal of reorganizing California energy agencies, to achieve efficiency and accountability, is commendable. However, it reduces stability...which makes Wall Street nervous.

The CEC reported that 11 power plants have been approved by its Siting Division and are ready for construction and would provide over 8,000 megawatts of power. They will not get built until the developers can secure financing, which needs stability.

Before I go on to this plan, I would like to start with the criteria that I would identify for a good reorganization plan. A reorganization plan of California energy agencies should meet the following goals:

- 1) Increase efficiency and effectiveness of State government.
- 2) Reduce or eliminate redundancy and streamline operations.
- 3) Ensure that public interests are adequately represented.

The Governor has stated two additional goals:

- 1) Centralize energy policy development.
- 2) Create a single point of accountability for energy policy in California.

The Governor's plan submitted last week, unfortunately, does not meet any of these goals, including the goals the Governor himself established.

This Reorganization Plan does not increase efficiency and effectiveness of State government.

- It does not save taxpayers any money.
- It does not decrease costs.
- It does not increase efficiencies.
- And it does not streamline operations.

In fact, this plan keeps the same boxes, moves them around, and places one singular person as the head of the agency **and** the "**independent**" commission.

Although it has been discussed today, I am still unclear on the dual role of the Secretary/Chair of the Commission. If the vote were 4 to 1 with the Chair in the minority, would the Secretary

have the power to direct his or her staff to perform according to the Secretary's directives? Are there appropriate checks and balances to ensure there is a separation of roles?

This plan will move the proverbial "box" of transmission and natural gas infrastructure siting, from the PUC to the Energy Commission. Although there have been specific transmission siting cases in the past that have been held up due to unique circumstances, there are two bills going through the Legislature right now that address this gap.

This Plan does not reduce or eliminate redundancy and streamline operations. This plan retains the most obvious duplicative programs that would still concurrently exist in both the PUC and the new Department. Both the PUC and the Energy Commission perform renewable energy programs, energy-efficiency programs, and demand-response programs. While these are obvious programs to consolidate, this plan leaves these programs in place at both commissions.

This plan does not ensure that public interests are adequately represented. Policy decisions made by the existing departments, the CEC, EOB, and CPA, are subject to the Bagley-Keene Open Meeting Act, which grants the public transparency in policy formulation. The many appeals decisions, grant and loan decisions, and financing decisions made by the Secretary in this plan, will be made behind a closed door and not subject to open meetings.

This Plan shuts out the public in two more ways.

First, the plan creates a barrier to public participation by transferring the PUC transmission and natural gas siting proceedings to the Energy Commission. The Energy Commission proceedings don't use the same public participation rules as the PUC proceedings.

The PUC rules help to encourage public participation by providing intervener fees. The fees are intended to compensate parties for their attorney and expert-witness costs when their participation significantly contributes to the proceedings.

This allows grass-roots local, neighborhood groups to be fully represented in a proceeding. Without these fees, participation would be cost-prohibitive. The Energy Commission does not have the same mechanisms to encourage public participation, which creates a financial disincentive, which is a real barrier for these groups.

Second, the Office of Ratepayer Advocates is housed in the PUC and advocates for residential and small business ratepayers in all PUC proceedings. There is no equivalent at the Energy Commission, and there is nothing to indicate that the PUC's Office of Ratepayer Advocates could or would represent ratepayers at the new Department.

If infrastructure investment decisions were moved to the Energy Commission, residential and small-business customers, may not be effectively represented in the new proposed forum.

The Governor's objectives of centralizing policy development, avoiding duplication of effort, and increasing accountability are laudable. However, this plan would not achieve these goals.

- During the energy crisis, there were **three state entities** that set energy policy.
- Currently, there are **three state entities** that set energy policy.
- After this reorganization, there will **be three state entities** that will set energy policy.

I would welcome a reorganization plan that meets the objectives of good government that better serves taxpayers and protects ratepayers.

But this plan doesn't lower rates, improve service, or increase efficiencies. It doesn't even consolidate policy making...and it may inhibit energy infrastructure investment.

I and my staff stand ready to work with the Governor to craft an energy reorganization plan that would serve the public well. We may be able to rearrange the proverbial deck chairs, but there still isn't a place for those elephants to sit down.

Thank you.