TO: Harvard Electric Policy Group Colleagues

FROM: Ralph Cavanagh, NRDC [415-777-0220; fx 495-5996]

Ralph

RE: Some Reactions to California's Restructuring Proposals

DATE: May 8, 1994

I very much regret my inability to join you all on May 12-13; I have a long-standing commitment to address some of our Canadian colleagues on the very subjects that you will be taking up in Cambridge. I'm sure you will be focusing in part on the new California PUC proposals to restructure our electric utilities, and I wanted to offer a few initial reactions as my contribution to the discussion. I won't summarize the proposal here; Dan Fessler will do so very capably on Thursday morning.

The order aims to achieve at least three important objectives: (1) supplanting cost-of-service ratemaking with a much more performance-based alternative; (2) accelerating achievement of open competitive access for electricity suppliers to the wholesale transmission grid; and (3) phasing in a statewide system of retail wheeling from 1996-2002. The first two objectives are capable of broad support and rapid deployment. The third is not, and the best hope of avoiding a quagmire lies in keeping them separate. I appreciate repeated statements by President Fessler and his colleagues that they are open to other approaches, and that the release of the proposal is not the announcement of a decision but the beginning of a deliberative process.

It is fair to say that the announcement of the order on April 20 caught everyone by surprise. I know of literally no one outside the Commission who anticipated an effort to introduce retail wheeling statewide on this schedule. Since the proposal was released without any advance briefings, initial media reports were dominated by the Commission's own press summaries and policy arguments; those with a different point of view were effectively muzzled unless they were prepared to comment without reading the document (most, including me, were not). The stock market was rather less restrained; between April 20 and May 6, SCE and PG&E shareholders lost more than $3 billion.[1]

The Commission's retail-wheeling agenda has been controversial, as members of the Harvard Group would expect. Two key members of our legislature wrote the Commission on May 3, noting that the proposal would require "repeal or amendment" of at least eleven California statutes dealing with rate regulation, resource diversity, renewable energy procurement, wholesale and retail electricity service, energy efficiency services, and

[1]Over that period, Edison share prices dropped from 16 5/8 to 15 3/8; for PG&E, shares started at 29 5/8 and ended at 23 7/8. Each company has about 500 million shares in the market.

environmental protection. The authors, Byron Sher and Gwen Moore, are Chairs of the Assembly Natural Resources Committee and the Assembly Utilities and Commerce Committee, respectively. Noting that "the potential magnitude of the impact of your proposal . . . necessitates broad public input", Chairpersons Sher and Moore termed the proposed 30-day comment and four-month initial decision periods "grossly inadequate."

From an environmental perspective, some elements of the order are deeply troubling in their implications for energy efficiency, resource diversity and renewable energy development. These emphatically are not inevitable outgrowths of increased competition. I believe that many if not most of these problems were unintended by the Commission (for example, I know that David Moskovitz has written the Commission to explain its misunderstanding of his and Southern California Edison's "green pricing" initiative). I take heart from strong reaffirmations in the order of California's environmental and energy efficiency objectives.

It is important to emphasize that this state's utilities continue to operate under statutory, administrative and gubernatorial direction to meet at least three-fourths of their needs for new electricity supply from energy efficiency improvements, and to minimize the life-cycle cost of Californians' energy services by investing aggressively in cost-effective energy efficiency and renewable energy resources. Those objectives were not repealed on April 20.

My own efforts, and those of many others, will be aimed at persuading the Commission to concentrate on its agendas for performance-based ratemaking and wholesale-transmission access. Part of our challenge is to demonstrate that this will get the Commission most of the way toward what it characterizes as its "single-minded" objective: "to lower the cost of electric service to California's residential and business consumers without sacrificing the utility's financial integrity." Of course, the Commission's own precedents, and California law, do not allow it to be quite that "single minded". Environment, equity, life-cycle costs and resource diversity all matter too -- as a modernday Justice Brandeis would no doubt remind us -- and in the end I am confident that we will find a better way to reconcile them.

In California and elsewhere in the United States, reforms this fundamental need at least partial consensus, shared ownership, and a widespread willingness to work together on solving difficult technical problems. The California PUC would be the first to acknowledge that its report is not a substitute for any of this. I hope your May meeting can help set the process in motion.