

**DATE:** October 21, 2008  
**TO:** Mayor and City Council  
**FROM:** Director of Department of Development Services  
**SUBJECT:** Opposition to Proposition 7

## **RECOMMENDATION**

That Council adopts the attached resolution opposing State Proposition 7.

## **SUMMARY**

This report provides a brief overview of State Proposition 7 (the Solar and Clean Energy Act). The State Legislative Analyst's assessment is included as an attachment. The Council Sustainability Committee reviewed the proposition during its October 1 meeting and is recommending that Council formally oppose the measure. In summary, staff recommends that the Council oppose the proposition, which is on the November ballot. Staff believes that while the proposition has good intentions, it is poorly written, and:

1. establishes very aggressive targets (more than those established by AB 32) for utility companies to include renewable energy sources in their portfolios, which may lead to significant increases in consumers' utility bills; and
2. excludes alternative source power plants that would generate less than 30 megawatts from being counted in utility companies' renewable resource portfolios, which would likely undermine efforts of smaller green energy companies to promote renewable energy.

## **BACKGROUND**

Californians generally receive electricity service from one of three types of providers:

- Investor-owned utilities (IOUs), which provide 68 percent of retail electricity service (e.g., PG&E, Southern California Edison, San Diego Gas and Electric);
- Municipal electric utilities, which provide 24 percent of retail electricity service; and
- Electric service providers (ESPs), which generally serve large industrial and commercial businesses, including California State and University of California systems, provide 8 percent of retail electricity service.

Current law requires IOUs and ESPs to increase the amount of electricity they acquire (from their own sources or purchased from others) that is generated from renewable resources, such as solar and wind power. This requirement is known as the renewables portfolio standard (RPS). Each electricity provider subject to the RPS must increase its share of electricity generated from eligible renewable resources by at least 1 percent each year so that, by the end of 2010, 20% of its electricity comes from renewable sources.

Current law limits the amount of renewable electricity an IOU is required to acquire under the RPS, regardless of the annual RPS targets that apply to the IOU. An IOU that does not acquire sufficient amounts of renewable electricity may face monetary penalties. However, an IOU is required to acquire such higher-cost renewable electricity only to the extent that the above-market costs are less than the amount of funds that the IOU would have collected under the previously operating state subsidy program. In this way, current law caps the annual cost of complying with the RPS, both to IOUs and to their customers who ultimately pay these costs through rates charged to them.

Current law does not require publicly owned (municipal) utilities to meet the same RPS that other electricity providers are required to meet. Rather, current law directs each publicly owned utility to put in place and enforce its own renewables portfolio standard and allows each publicly owned utility to define the electricity sources that it counts as renewable. No state agency enforces publicly owned utility compliance or places penalties on a publicly owned utility that fails to meet the renewable energy goals it has set for itself.

The different types of electricity providers vary in their progress towards achieving the State's RPS goal of having 20 percent of electricity generated from renewable sources by 2010. As of 2006 (the last year for which data are available), the IOUs together had 13 percent of their electricity generated from renewable resources. The ESPs had 2 percent of their electricity generated from those same types of resources. The publicly owned utilities together had 7 percent as of 2006. However, in recent years, publicly owned utilities have increased their renewable electricity deliveries at a faster rate than have the IOUs, according to data compiled by the Energy Commission.

During its October 1 meeting, the Sustainability Committee expressed support for the intention of the measure to encourage more reliance on renewable energy resources, but agreed with staff that the measure was poorly drafted. Rocky Fernandez, who is an employee with AC Transit and who spoke during the public comments period, indicated that the exclusion of power plants of less than 30 megawatts from being able to be counted in utility companies' renewable resources portfolios would undermine utilization of such resources.

## **DISCUSSION**

Proposed as a solution to global warming, the proposed Solar and Clean Energy Act (Proposition 7) aims to accelerate California's shift from coal, natural gas, and other fossil fuels as sources of electricity. Proponents of Proposition 7 indicate current targets are too lax, and the State Legislature is too beholden to traditional energy interests to accelerate the transition to clean energy. Opponents say it will not achieve its stated goals, will actually disrupt the development of

renewable power, and that it may force small renewable energy companies out of California's market and cause higher energy bills.

California Proposition 7 would require California utilities to procure half of their power from renewable resources by 2025. In order to make that goal, levels of production of solar, wind, and other renewable energy resources will more than quadruple from their current output of 10.9%. It will also require California utilities to increase their purchase of electricity generated from renewable resources by 2% annually, rather than the current 1 percent per year, to meet Renewable Portfolio Standard (RPS) requirements of 40% in 2020 and 50% in 2025. The measure would also require publicly owned (municipal) utilities generally to comply with the same RPS as required of IOUs and ESPs, including the current RPS goal to increase to 20 percent by 2010 the proportion of each electricity provider's electricity that comes from renewable resources.

Current law (AB32) requires an RPS of 20% by 2010. There's broad agreement among policy-makers, including Governor Arnold Schwarzenegger, that in order to reach this goal, the state must get 33% of its power from renewable sources by 2020. A bill that would have set the 33% renewable standard stalled this year in the Legislature. However, given its powerful backing, advocates believe it will pass next year.

The measure also would define, by adding a new section in the Public Resources Code, what types of energy plants would be allowed to be counted in the utility companies' renewable resources portfolio, as follows:

*25137. "Solar and clean energy plant" means any electrical generating facility using wind, solar photovoltaic, solar thermal, biomass, biogas, geothermal, fuel cells using renewable fuels, digester gas, municipal solid waste conversion, landfill gas, ocean wave, ocean thermal, or tidal current technologies, with a generating capacity of 30 megawatts or more, or small hydroelectric generation of 30 megawatts or less, and any facilities appurtenant thereto. Exploratory, development, and production wells, resource transmission lines, and other related facilities used in connection with a renewable project or a renewable development project are not appurtenant facilities for the purposes of this division.*

While the measure's more aggressive targets are admirable, the main reason staff recommends against the measure is that it contains language that excludes renewable resource power plants/companies that generate less than 30 megawatts of power from being counted in the utility companies' renewable resource portfolios.

Proposition 7 is opposed by the Democratic and Republican Parties, as well as the League of California Cities, California Municipal Utilities Association, California Special Districts Association, the Sierra Club, Union of Concerned Scientists, the Natural Resources Defense Council and Environmental Defense, California Chamber of Commerce, and many more.

Proposition 7 is supported by Dr. Donald Aitken, a pioneer in the renewable energy field, and David Freeman, the energy policy advisory to Presidents John Kennedy and Lyndon Johnson. The coalition to support Proposition 7 includes the Community Environmental Council of Santa Barbara; Alicia Wang, Vice-Chair of the California Democratic Party; Christine Pelosi, former

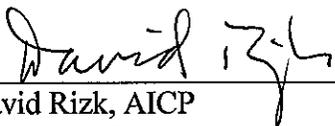
Executive Director of the Democratic Party; Senator Marta Escutia, former chair of the State Senate Energy Committee; the Monterey County Progressive Democrats of America; State Senator John L. Burton; James Gollin, former chair of the State Senate Energy Committee; and Dolores Huerta, co-founder of the United Farm Workers Union.

## **FISCAL IMPACTS**

As indicated on the last two pages of the attached Exhibit A, the legislative analyst concludes that the prospects for higher electricity rates are more likely in the short term, based on a comparison of current cost factors for key renewable resources with those for conventional resources (e.g., cost of facility construction and technology, as well as day-to-day operational costs, etc.). Since rates for such energy are expected to be higher than those associated with conventional energy sources, the costs to Hayward citizens and the municipality would also be expected to be higher in the short-term. However, due to uncertainty in savings and costs, the long-term effect of the measure on government costs is unknown.

However, it should be noted that the potential for higher electricity rates to the City might be limited by the measure. This is because Proposition 7 caps the cost that privately owned electricity providers must pay for electricity from renewable resources. The cap will be set in relation to the market price of electricity, which will be determined by the Energy Commission. However, because the measure allows the Commission substantial discretion in determining the market price of electricity, it is uncertain how the Commission will set this cap. Therefore, the effect of the cap on the price of electricity paid by customers is unknown.

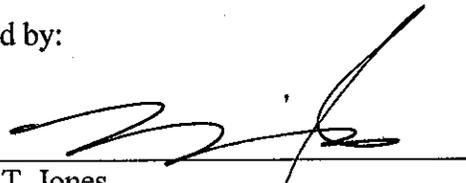
Recommended by:



\_\_\_\_\_  
David Rizk, AICP  
Director of Development Services Department

Approved by:

by



\_\_\_\_\_  
Gregory T. Jones  
City Manager

Attachments:

Exhibit A: Analysis of Proposition 7 by the State Legislative Analyst  
Draft Resolution

**RENEWABLE ENERGY GENERATION. INITIATIVE STATUTE.**

- Requires utilities, including government-owned utilities, to generate 20% of their power from renewable energy by 2010, a standard currently applicable only to private electrical corporations.
- Raises requirement for utilities to 40% by 2020 and 50% by 2025.
- Imposes penalties, subject to waiver, for noncompliance.
- Transfers some jurisdiction of regulatory matters from Public Utilities Commission to Energy Commission.
- Fast-tracks approval for new renewable energy plants.
- Requires utilities to sign longer contracts (20 year minimum) to procure renewable energy.
- Creates account to purchase rights-of-way and facilities for the transmission of renewable energy.

**Summary of Legislative Analyst's Estimate of Net State and Local Government Fiscal Impact:**

- Increased state administrative costs of up to \$3.4 million annually for the regulatory activities of the California Energy Resources Conservation and Development Commission and the California Public Utilities Commission, paid for by fee revenues.
- Unknown impact on state and local government costs and revenues due to the measure's uncertain impact on retail electricity rates. In the short term, the prospects for higher rates—and therefore higher costs, lower sales and income tax revenues, and higher local utility tax revenues—are more likely. In the long term, the impact on electricity rates, and therefore state and local government costs and revenues, is unknown.

**ANALYSIS BY THE LEGISLATIVE ANALYST**

**BACKGROUND**

**California Electricity Providers**

Californians generally receive electricity service from one of three types of providers:

- Investor-owned utilities (IOUs), which provide 68 percent of retail electricity service.
- Local, publicly owned utilities, which provide 24 percent of retail electricity service.
- Electric service providers (ESPs), which provide 8 percent of retail electricity service.

(See the nearby text box for definitions of commonly used terms throughout this analysis.)

**Investor-Owned Utilities.** The IOUs are owned by private investors and provide electricity service for profit. The state's three largest electricity IOUs are Pacific Gas and Electric, Southern California Edison, and San Diego Gas and Electric. Each IOU has a unique, defined geographic service area. State law requires each IOU to provide electricity service to customers within its service area. The rates that IOUs can charge their customers are determined by the California Public Utilities Commission (PUC). In addition, PUC regulates how IOUs provide electricity

Commonly Used Terms—Proposition 7
<b>Energy Commission (Energy Resources Conservation and Development Commission).</b> The state agency that forecasts energy supply and demand, implements energy conservation programs, conducts energy-related research, and permits certain power plants.
<b>ESP (Electric Service Provider).</b> A company that provides electricity service directly to customers who have chosen not to receive service from the utility that serves their geographic area.
<b>IOU (Investor-Owned Utility).</b> A privately owned electric utility that has a defined geographic service area and is required by state law to serve customers in that area. The Public Utilities Commission regulates the IOU's rates and terms of service.
<b>Market Price of Electricity.</b> A benchmark price of electricity that is determined by a state agency according to a definition and criteria specified in state law.
<b>Publicly Owned Utility.</b> A local government agency, governed by a board—either elected by the public or appointed by a local elected body—that provides electricity service in its local area.
<b>PUC (Public Utilities Commission).</b> The state agency that regulates various types of utilities, including IOUs and ESPs.
<b>RPS (Renewables Portfolio Standard).</b> Requirement that electricity providers increase their share of electricity from renewable resources (such as wind or solar power) according to a specified time line.

ANALYSIS BY THE LEGISLATIVE ANALYST

CONTINUED

service to their customers. These conditions on electricity rates and service are known as “terms of service.”

**Publicly Owned Utilities.** A publicly owned electric utility is a local government agency, governed by a board—either elected by the public or appointed by a local elected body—that provides electricity service in its local area. Publicly owned electric utilities are not regulated by PUC. Rather, they set their own terms of service. California’s major publicly owned electric utilities include the Los Angeles Department of Water and Power and the Sacramento Municipal Utility District.

**Electric Service Providers.** The ESPs provide electricity service to customers who have chosen not to receive service from the utility that serves their geographic area. Instead, these customers have entered into “direct access” contracts with ESPs. Under a direct access contract, an ESP delivers electricity to the customer through the local utility’s electricity transmission wires.

There are currently around 20 registered ESPs in the state. These ESPs generally serve large industrial and commercial customers. The ESPs also provide electricity to some state and local government agencies, such as several University of California campuses and some local school districts.

The state’s regulatory authority over ESPs is limited. Although the PUC does not set an ESP’s terms of service, including the rates it charges its customers, it does require ESPs to meet a limited set of requirements, including proof that they have enough electricity supply to meet demand.

### Electricity Infrastructure

**Major Components.** Four principal components comprise California’s system for generating and delivering electricity:

- Electricity generating facilities.
- The interstate electricity transmission grid.
- Electricity transmission lines that tie generation facilities to the grid.
- Electricity distribution lines that connect the electricity grid to electricity consumers.

Regulatory responsibility for permitting this infrastructure is held by one or more federal, state, and local agencies, depending on the particular project.

**Permitting Authority.** Permitting authority for an electricity generating facility is determined by the type and size of the facility to be operated.

For example, hydroelectric generating facilities, such as dams, are permitted by the Federal Energy Regulatory Commission (FERC). Thermal electricity generating facilities—primarily natural gas-fired power plants—capable of generating 50 megawatts or more of electricity are issued permits by the state’s Energy Resources Conservation and Development Commission (Energy Commission). Most other electricity generating facilities—including many types of renewable energy generating facilities, such as wind turbines and nonthermal solar power plants—are permitted by local government.

Permitting authority over electricity transmission lines depends upon the function of the line to be built, as well as the type of electricity provider that will own the line. Depending upon its function and ownership, a line may be permitted by FERC, the Energy Commission, PUC, or local government.

**Energy Commission’s Permit Processing Time Frames.** Existing law defines the time frames within which the Energy Commission must approve or deny an application to construct and operate an electricity generating facility or transmission line under its jurisdiction. Those time frames are 18 months for most applications, or 12 months for applications meeting certain conditions.

### Energy From Renewable Resources

**Renewables Portfolio Standard.** Current law requires IOUs and ESPs to increase the amount of electricity they acquire (from their own sources or purchased from others) that is generated from renewable resources, such as solar and wind power. This requirement is known as the renewables portfolio standard (RPS). Each electricity provider subject to the RPS must increase its share of electricity generated from eligible renewable resources by at least 1 percent each year so that, by the end of 2010, 20 percent of its electricity comes from renewable sources. (As discussed later, publicly owned utilities are subject to a different renewable energy requirement.)

**IOU Obligations Under the RPS Limited by a Cost Cap.** Current law limits the amount of renewable electricity an IOU is required to acquire under the RPS, regardless of the annual RPS targets that apply to the IOU. The limit is based on two cost-related factors:

- The “market price of electricity,” as that price is defined by PUC according to criteria specified in state law.

ANALYSIS BY THE LEGISLATIVE ANALYST

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- The amount of money that would have been collected from electricity ratepayers under a previously operating state program to subsidize the cost of renewable electricity.

An IOU is required to acquire renewable electricity even at a cost that exceeds the PUC-defined market price of electricity. An IOU that does not acquire sufficient amounts of renewable electricity may face monetary penalties. However, an IOU is required to acquire such higher-cost renewable electricity only to the extent that the above-market costs are less than the amount of funds that the IOU would have collected under the previously operating state subsidy program. In this way, current law caps the annual cost of complying with the RPS, both to IOUs and to their customers who ultimately pay these costs through rates charged to them.

**Enforcing the RPS.** Current law requires PUC to enforce IOU and ESP compliance with the RPS. Only the IOUs are required to submit plans that describe how they will meet RPS targets at the least possible cost. In addition, IOUs and ESPs generally must offer contracts to purchase renewable resources of no less than ten years.

The PUC may fine an IOU or an ESP that fails to meet its year-to-year RPS target. The PUC has set the amount of the penalties at 5 cents per kilowatt hour by which the IOU or ESP falls short of its RPS target. The PUC has capped the total amount of penalties an IOU or ESP can be charged in a year at \$25 million. Current law does not direct the use of these penalty monies, which generally are deposited in the state General Fund.

**Publicly Owned Utilities Set Their Own Renewable Energy Standards.** Current law does not require publicly owned utilities to meet the same RPS that other electricity providers are required to meet. Rather, current law directs each publicly owned utility to put in place and enforce its own renewables portfolio standard and allows each publicly owned utility to define the electricity sources that it counts as renewable. No state agency enforces publicly owned utility compliance or places penalties on a publicly owned utility that fails to meet the renewable energy goals it has set for itself.

**Progress Towards Meeting the State's RPS Goal.** The different types of electricity providers vary in their progress towards achieving the state's RPS goal of having 20 percent of electricity generated from renewable sources by 2010. As of 2006 (the last year for which data are available), the IOUs together had 13 percent of their electricity generated from

renewable resources. The ESPs had 2 percent of their electricity generated from those same types of resources. Using their own, various definitions of "renewable resources," the publicly owned utilities together had nearly 12 percent of their electricity generated from renewable resources. If the current definition of renewable resources in state law that applies to IOUs and ESPs (which does not include large hydroelectric dams, for example) is applied to the publicly owned utilities, their renewable resources count falls to just over 7 percent as of 2006. However, in recent years, publicly owned utilities have increased their renewable electricity deliveries at a faster rate than have the IOUs, according to data compiled by the Energy Commission.

## PROPOSAL

### Overview of Measure

This measure makes a number of changes regarding RPS and the permitting of electricity generating facilities and transmission lines. Primarily, the measure:

- Establishes additional, higher RPS targets for electricity providers.
- Makes RPS requirements enforceable on publicly owned utilities.
- Changes the process for defining "market price of electricity."
- Changes the cost cap provisions that limit electricity provider obligations under the RPS.
- Expands scope of RPS enforcement.
- Revises RPS-related contracting period and obligations.
- Sets a lower penalty rate in statute and removes the cap on the total penalty amount for failure to meet RPS requirements.
- Directs the use of RPS penalty revenues.
- Expands Energy Commission's permitting authority.

Each of these components is described below.

### Individual Components of Measure

**Establishes Additional, Higher RPS Targets.** The measure adds two new, higher RPS targets—40 percent by 2020 and 50 percent by 2025. Each electricity provider would need to meet the targets by increasing the share of electricity that it acquires that is generated from renewable energy by at least 2 percent a year, rather than the current 1 percent per year. The measure eliminates the requirement

under current law that an electricity provider compensate for failure to meet an RPS target in any given year by procuring additional renewable energy in subsequent years.

**Makes RPS Requirements Enforceable on Publicly Owned Utilities.** The measure requires publicly owned utilities generally to comply with the same RPS as required of IOUs and ESPs, including the current RPS goal to increase to 20 percent by 2010 the proportion of each electricity provider's electricity that comes from renewable resources. The measure also gives the Energy Commission authority to enforce RPS requirements on publicly owned utilities. The measure, however, specifies that the Energy Commission does not have the authority to approve or disapprove a publicly owned utility's renewable resources energy contract, including its terms or conditions.

**Changes Process for Defining "Market Price of Electricity."** The measure makes two major changes in how the market price of electricity is defined for purposes of implementing the RPS. First, the measure shifts from PUC to the Energy Commission responsibility for determining the market price of electricity. Second, the measure adds three new criteria to current-law requirements that the Energy Commission would need to consider when defining the market price of electricity. These criteria include consideration of the value and benefits of renewable resources.

**Changes the Cost Cap Provisions That Limit Electricity Provider Obligations Under the RPS.** As under current law, the measure provides a cost cap to limit the amount of potentially higher-cost renewable electricity that an IOU must acquire regardless of the annual RPS targets. The measure extends the cost cap limit to ESPs as well. The measure requires that an electricity provider acquire renewable electricity towards meeting annual RPS targets, or face monetary penalties, only as long as the cost of such electricity is no more than 10 percent above the Energy Commission-defined market price for electricity. The potentially higher cost of electricity generated from renewable resources would be recovered by IOUs and ESPs through rates charged to their customers, but subject to this 10 percent cost cap. Publicly owned utilities also could recover these potentially higher costs through rates charged to their customers. However, the costs of publicly owned utilities would not be subject to a cost cap similar to that which applies to IOUs and ESPs.

**Expands Scope of RPS Enforcement.** The measure expands PUC's current RPS-related enforcement mechanisms over IOUs to encompass ESPs. The enforcement mechanisms include review and adoption of renewable resources procurement plans, related rate-setting authority, and penalty authority. The measure grants to the Energy Commission similar RPS-related enforcement authority over publicly owned utilities.

**Revises RPS-Related Contracting Period and Obligations.** The measure requires all electricity providers—including publicly owned utilities—to offer renewable energy procurement contracts of no less than 20 years, with certain exceptions. The measure further requires an electricity provider to accept all offers for renewable energy that are at or below the market price of electricity as defined by the Energy Commission.

**Sets Lower Penalty Rate in Statute and Removes Cap on Total Penalty Amount.** The measure includes a formula to determine monetary penalties for an electricity provider that fails to sign contracts for sufficient amounts of renewable energy. The penalty formula is 1 cent per kilowatt hour by which the provider falls short of the applicable RPS target. The measure's formula therefore reflects a penalty rate that is lower than the 5 cents per kilowatt hour penalty rate currently established by the PUC. However, the measure also specifies that neither PUC nor the Energy Commission shall cap the *total* amount of penalties that may be placed on an electricity provider in any given year.

In addition, the measure states that no electricity provider shall recover the cost of any penalties through rates paid by its customers. However, it is unclear how this prohibition will apply to publicly owned utilities. This is because publicly owned utilities typically have no other source of revenues which could be used to pay a penalty other than rates paid by their customers.

Finally, the measure also specifies the conditions under which PUC or the Energy Commission, as applicable, may waive the statutorily prescribed penalty, such as when the electricity provider demonstrates a "good faith effort" to meet the RPS.

**Directs Use of Penalty Monies.** The measure directs that any RPS-related penalties (along with other specified revenues) be used to facilitate, through property or right-of-way acquisition and construction of transmission facilities, development of transmission infrastructure necessary to achieve RPS. The measure specifies that the Energy Commission will hold title to any properties acquired with such funds.

**Expands Energy Commission's Permitting Authority.** The measure expands the Energy Commission's existing permitting authority in two major ways, not limited to the RPS. Specifically, the measure:

- Grants the Energy Commission the authority to permit new nonthermal renewable energy power plants capable of producing 30 megawatts of electricity or more. The new permitting authority would include related infrastructure, such as electricity transmission lines that unite the plant with the transmission network grid. Currently, this permitting authority rests with local governments.
- Gives the Energy Commission the authority to permit IOUs to construct new transmission lines within the electricity transmission grid, currently a responsibility solely of the PUC at the state level. It is unclear, however, whether the measure has removed PUC's authority in giving it to the Energy Commission.

The measure specifies that the Energy Commission is to issue a permit for a qualifying renewable energy plant or related facility within six months of the filing of an application. However, the commission is not required to issue the permit within the six-month time frame if there is evidence that the facility would cause significant harm to the environment or the electrical system or in some way does not comply with legal or other specified standards.

**Declares Limited Impact on Ratepayer Electricity Bills.** In its findings and declarations, the measure states that, in the "short term," California's investment in solar and clean energy (which would include the implementation of the measure) will result in no more than a 3-percent increase in electricity rates for consumers. However, the measure includes no specific provisions to implement or enforce this declaration.

## FISCAL EFFECTS

### State and Local Administrative Impacts

**Increased Energy Commission Costs.** The measure will increase the annual administrative costs of the Energy Commission by approximately \$2.4 million due to new responsibilities and expansion of existing duties. Under current law, the additional costs would be funded by fees paid by electricity customers.

The measure gives the Energy Commission new responsibilities which currently are carried out by PUC—namely, defining the market price of electricity and permitting IOU-related transmission lines. However, significant offsetting reductions in PUC's costs may not result under this measure. This is because the measure does not amend the State Constitution to delete from PUC's portfolio of responsibilities those which are given to the Energy Commission. To the extent PUC continues to carry out its existing duties, there likely will not be offsetting savings to PUC.

**Increased PUC Costs.** In addition, the measure's other requirements will increase annual administrative costs of the PUC by up to \$1 million. These additional costs will result from greater workload related to the increased RPS targets. Under current law, these additional costs would be funded by fees paid by electricity customers.

**Uncertain Effect on Local Government Administrative Costs.** The measure shifts from local government to the Energy Commission responsibility for permitting certain renewable energy facilities. As a consequence, the measure will result in administrative cost savings of an unknown amount to local governments. However, local governments may face new costs associated with representing their interests at Energy Commission proceedings to permit renewable energy facilities. It is uncertain whether, on balance, savings to local governments will outweigh costs resulting from this measure. In any event, the overall net impact on local government administrative costs statewide is likely to be minor.

### State and Local Government Costs and Revenues

The primary fiscal effect of this measure on state and local governments would result from any effect it would have on electricity rates. As discussed below, changes in electricity rates would affect both government costs and revenues.

### Unknown Effect on State and Local Government Costs

**Overview.** Changes in electricity rates would affect government costs since state and local governments are large consumers of electricity. It is unknown, however, how the measure will affect electricity rates, both in the short term and in the longer term. This is because it is difficult to predict the relative prices of renewable resources and those of conventional electricity sources, such as natural gas. The measure could result in higher or lower electricity rates from what they would otherwise be.

**Short Term.** We conclude that the prospects for higher electricity rates are more likely in the short term, based on a comparison of current cost factors for key renewable resources with those for conventional resources. These cost factors include the cost of facility construction and technology, as well as day-to-day operational costs, which include the cost of inputs into the electricity generation process such as fuel. Over the short term at least, these cost factors are more likely to keep the cost of electricity generated from renewable resources, and hence the rates paid by electricity customers for that electricity, above the cost of electricity generated from conventional resources. However, the potential for higher electricity rates to the customer, including state and local governments, might be limited by the measure. This is because the measure caps the cost that privately owned electricity providers must pay for electricity from renewable resources. The cap will be set in relation to the market price of electricity, which will be determined by the Energy Commission. However, because the measure allows the commission substantial discretion in determining the market price of electricity, it is uncertain how the commission will set this cap. In turn, the effect of the cap on the price of electricity paid by customers is unknown.

**Long Term.** In the long run, there are factors that may be affected by the measure that have the potential either to increase or to decrease electricity rates from what they otherwise would be. For example, to the extent that the measure advances development of renewable energy resources in a manner that lowers their costs, electricity customers might experience longer-term savings. On the other hand, the same cost factors that could lead to short-term electricity rates that are higher might also lead to higher long-run electricity rates. To the extent that the measure requires electricity providers to acquire more costly electricity than they otherwise would, they will experience longer-term cost increases. It is unknown whether, on balance, factors that could increase electricity rates over

the long term will outweigh those that could decrease electricity rates over the long term. Therefore, the long-term effect of the measure on government costs is unknown.

### Unknown Effect on State and Local Government Revenues

**Overview.** State and local *revenues* also would be affected by the measure's impact on electricity rates. This is for two reasons. First, some local governments charge a tax on the cost of electricity use within their boundaries. To the extent that the measure results in an increase or a decrease in electricity rates compared to what they would be otherwise, there would be a corresponding increase or decrease in these local tax revenues. Second, tax revenues received by governments are affected by business profits, personal income, and taxable sales—all of which in turn are affected by what individuals and businesses pay for electricity. Higher electricity costs will lower government revenues, while lower electricity costs will raise these revenues.

**Short Term.** On balance, as explained above, we believe that the prospects for electricity rates that are higher than they would otherwise be are more likely in the short term. However, as also is the case with state and local government costs, the measure's potential to lower state and local government revenues due to higher electricity rates might be limited by the measure's cost cap provision. Thus, for the short term, to the extent that the measure results in higher electricity rates from what they would otherwise be, local utility user tax revenues would increase and state and local sales and income tax revenues would decrease. The overall short-term net effect of the measure on state and local revenues is unknown.

**Long Term.** As for the long run, as explained above, the measure has the potential to either increase or decrease electricity rates. Because the measure's effect on long-term electricity rates is unknown, the measure's effect on long-term government revenues is also unknown.

# DRAFT

HAYWARD CITY COUNCIL

RESOLUTION NO. 08-

Introduced by Council Member \_\_\_\_\_

*me*  
10/14/08

## RESOLUTION IN OPPOSITION TO PROPOSITION 7 ON THE NOVEMBER 4, 2008, BALLOT

WHEREAS, the proposed Solar and Clean Energy Act (Proposition 7) aims to accelerate California's shift from coal, natural gas and other fossil fuels as sources of electricity as a solution to global warming; and

WHEREAS, Proposition 7 would require California electricity providers to procure half of their power from renewable resources, such as wind and solar power (the "Renewables Portfolio Standard"), by 2025, among other requirements; and

WHEREAS, current law requires investor-owner utilities and electric service providers to increase their RPS by at least one percent each year, while capping the cost of the acquisition if its renewable resources, which, in turn, caps the cost of these renewable resources that the providers may pass on to consumers through utility rates; and

WHEREAS, to reach the targets set forth in Proposition 7, California utilities would have to quadruple their levels of production of solar, wind and other renewable energy resources from their current output; and

WHEREAS, staff believes the proposition, while well-intentioned, establishes very aggressive targets for utility companies to include renewable energy sources in their portfolios, which may lead to significant increases in consumers' utility bills, and excludes alternative source power plants that would generate less than 30 megawatts from being counted in utility companies' portfolios, which would likely undermine efforts of smaller green energy companies to promote renewable energy; and

WHEREAS, the Council Sustainability Committee reviewed Proposition 7 at its meeting on October 1, 2008, and recommends that the City Council formally oppose the measure.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Hayward hereby opposes this initiative and encourages the voters to vote no on Proposition 7 on the November 4, 2008.

IN COUNCIL, HAYWARD, CALIFORNIA \_\_\_\_\_, 2008

ADOPTED BY THE FOLLOWING VOTE:

AYES: COUNCIL MEMBERS:  
MAYOR:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

ATTEST: \_\_\_\_\_  
City Clerk of the City of Hayward

APPROVED AS TO FORM:

\_\_\_\_\_  
City Attorney of the City of Hayward