



LAFCo Study Proposal:
An Outline for a Comprehensive Statewide Analysis of Golden State Energy

September 15, 2023

Author: Shaina Nanavati, Reclaim Our Power Campaign for Utility Justice

Contents:

Background 1

Objective 2

San Francisco Context..... 2

The Vision for Golden State Energy 3

 I. Golden State Energy as a Provider of Last Resort to Facilitate Municipalization..... 3

 II. Performance-Based Ratemaking Set by Democratically Elected Board 3

 III. Maintain Public Control of Transmission System..... 4

 IV. Promotes a Statewide Distribution System Operator Model..... 5

 V. Publicly Accountable Financing 5

 VI. Mandate to Create Programs for a Just Transition of Workers and Environmental Justice
 Communities 6

Conclusion 6

Background

The current investor-owned utility profit model incentivizes the utilities to invest more resources into capital intensive projects rather than investing in local generation or distribution system repairs. Northern California’s grid is over 100 years old and needs maintenance and upgrades that PG&E has proven it does not have the ability to deliver, choosing instead to funnel ratepayer money into executive bonuses and shareholder profits.¹

The two infrastructure investments that provide the largest rate of return for PG&E are building new transmission infrastructure and undergrounding power lines (distribution and transmission). Cheaper methods for reducing wildfire risk and increasing reliability exist and are utilized by other utilities across the state.²

¹ Ivan Penn et al. “How PG&E Ignored Risks in Favor of Profits,” *New York Times*, March 18, 2019, <https://www.nytimes.com/interactive/2019/03/18/business/pge-california-wildfires.html>.

² Kavya Balaraman, "PG&E, SCE detail plans to spend more than \$23B through 2025 to prevent wildfires in their footprints," *Utility Dive*, March 28, 2023, <https://www.utilitydive.com/news/pge-sce-vegetation-management-resilience-california-wildfires/646163/>.

Golden State Energy, as created under SB 350, exists to serve as a receiver for PG&E's assets.³ As a not-for-profit public benefit corporation, Golden State Energy can allow for a transition to a utility model that will facilitate increased safety and resilience during climate disasters, lead to a higher reliance on clean renewable generation, and break the pattern of exponential rate increases for customers.

Authored as a backstop, Golden State Energy was created as a part of the negotiated deal to keep PG&E in operation after the corporation filed for bankruptcy over wildfire liabilities. Golden State Energy is currently legislated to step in as a response to a six-step Enhanced Oversight and Enforcement process developed at the California Public Utilities Commission, in the case that PG&E continuously fails to perform safety and governance requirements. The initial design of Golden State Energy is extremely skeletal and leaves important space for studies such as this one to understand and shape alternate solutions to the existing utility business model.

Objective

The objective of this outline is to describe elements for a comprehensive study to determine potential benefits of Golden State Energy for San Francisco and equity for the rest of the service territory of PG&E. The study lays out a vision for an alternate, not for profit utility that exists to serve the public benefit. Each section describes questions for further research that can continue to define an alternative to the investor-owned utility model that currently serves Northern California.

The goals of a utility are to provide safe, reliable, and affordable electricity. Due to climate change, resilient and clean are additional provisions that are now required from our energy system. This proposal suggests the addition of justice as a descriptor that should be considered, to repair the harms of historical disinvestment and environmental racism in the communities most affected by the legacy fossil fueled, centralized utility model. As technology moves the grid toward decentralization, the benefits of distributed energy resources and their climate mitigative and community wealth building co-benefits must be incorporated into the regulatory mandate of a utility that will serve California into the future.

San Francisco Context

As San Francisco makes progress toward purchasing its portion of the grid from PG&E to form a municipal utility, the vision for Golden State Energy can support the City in creating the will for local ownership and decision making over its distribution grid.

San Francisco has been embroiled in decades long legal proceedings with PG&E to regain local control over its grid in order to reduce energy burdens on customers, speed up interconnection of local renewable resources, and increase transparency and democracy into utility regulation, decision making, and governance.

The San Francisco Public Utilities Commission currently operates CleanPowerSF, a community choice energy program, that serves City and County residents and businesses with cleaner energy. It also runs Hetch Hetchy Power, the publicly owned power system that serves the city with hydropower. Already an expert in providing public power and clean energy programs, San Francisco is uniquely positioned to shape the understanding of what is needed to facilitate cities and counties across the state to be able to equitably step into community empowerment through energy justice.

³ S.B. 350 (Cal. 2019-2020), https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200SB350.

The Vision for Golden State Energy

I. Golden State Energy as a Provider of Last Resort to Facilitate Municipalization

The barriers for cities to municipalize are political rather than legal or technical.⁴ As a Provider of Last Resort (POLR), Golden State Energy can facilitate the transition for local cities to municipalize by guaranteeing provision of electric service to communities across the utility's territory that cannot or do not choose to form local load serving entities. A POLR is the utility or other entity that is required to serve all customers. The POLR for the area must be able to provide uninterrupted service if there is an unplanned customer migration in the event that a provider fails. In 2020, a proceeding was opened at the CPUC to develop rules and regulations for a Provider of Last Resort should a load serving entity fail. The outcome of that proceeding can inform investigation into the status of current law in California for the POLR framework.⁵

Rural counties can also step into local control of their distribution grids by forming rural electric cooperatives (RECs).⁶ Created out of the Rural Electrification Act as part of the New Deal in 1934, RECs serve a majority of rural and suburban populations across the country. Further research is needed to determine the barriers to forming RECs in California, including a comparison of current legal challenges to municipalization that many cities are facing.

As the Provider of Last Resort, Golden State Energy would be responsible for continuation of reliable electric service as electric demand increases. A move to local ownership of distribution networks would reduce the amount of load that the utility would be required to meet, reducing costs for the remaining customers of Golden State Energy.

Questions for Further Research:

- How do publicly owned utilities (POUs) and rural electric cooperatives (RECs) compare to investor-owned utilities in terms of cost of electric service and customer rates?
- Do POUs and RECs have to comply with the same regulations for reliable electric service provision in line with California's clean energy goals?
- Are new rural electric distribution cooperatives legally allowed to be formed in California?

II. Performance-Based Ratemaking Set by Democratically Elected Board

Wildfire mitigation and grid modernization are becoming the primary activities for utilities to manage the distribution and transmission systems they operate. The existing cost-based regulatory model, created for a grid that relies heavily on centralized generation plants (coal, natural gas, nuclear), does not appropriately incentivize investments into safety and resilience. Performance-based regulation allows utilities to approach necessary upgrades to the grid in a flexible and innovative manner.⁷ Performance incentives can include metrics to address the largest needs for achieving equity across ratepayers, implementing emissions reductions, and investing in grid maintenance in High-Fire Threat Districts.

Golden State Energy, because it is not an investor-owned utility, should have its rates set by a democratically elected board rather than by the California Public Utilities Commission. Municipal utilities

⁴ Forming a Public Power Utility, American Public Power Association, https://www.publicpower.org/system/files/documents/municipalization-forming_a_public_power_utility.pdf

⁵ California Public Utilities Commission, R.21-03-011 (March 2021), <https://www.cpuc.ca.gov/consumer-support/consumer-programs-and-services/electrical-energy-and-energy-efficiency/community-choice-aggregation-and-direct-access-/provider-of-last-resort>.

⁶ Rural Electrification Act of 1936, 7 U.S.C. § 901.

⁷ Gennelle Wilson et al., "States Move Swiftly on Performance-Based Regulation to Achieve Policy Priorities," Rocky Mountain Institute (March 31, 2022), <https://rmi.org/states-move-swiftly-on-performance-based-regulation-to-achieve-policy-priorities/>.

and rural electric cooperatives have rates set by boards of local governments or elected by member-owners, that are on average lower than rates of regulated investor-owned utilities.⁸

A comprehensive study will include research into board structures for public not-for-profit utilities, including guidelines to increase transparency and term limits. Performance-based regulation metrics are being formulated across the country and should be incorporated into the study to determine alternatives to cost based ratemaking in order to ensure Golden State Energy has just, reasonable, and affordable rates.

Questions for Further Research:

- What metrics can be used to measure Golden State Energy's performance toward providing safer, more reliable, and cleaner electricity?
- What are the transparency laws that would apply to Golden State Energy to increase financial accountability and reporting?
- What are board and governance structures for a non-profit public benefit corporation that would help achieve equitable, just, and transparent outcomes?
- Which communities are represented in decision making and advisory capacity and what powers do they have?

III. Maintain Public Control of Transmission System

Golden State Energy will serve as a trust that holds the transmission system, the distribution systems, and the generation assets that are owned by PG&E. While local operations of distribution grids can allow for more flexible incorporation of local renewable generation and localized grid planning, the transmission system remains operated by the California Independent Systems Operator (CAISO), a statewide balancing authority responsible for meeting the state's electric reliability needs and interacting with markets that cross state lines.⁹

Transmission access charges are one of the largest components of customers rates that are non-bypassable. To reduce the incentive for utilities to build transmission projects, which bring in a 7-10% rate of return for the utility, maintaining a not-for-profit transmission grid is necessary to keep costs of providing service from ballooning. Removing profit incentives for transmission projects directly incentivizes local buildout of distributed energy resources. Customers of local load serving entities could be able to opt out of paying for transmission that they do not use, but the costs of maintaining existing transmission infrastructure across Golden State Energy's territory would be distributed in a way that explicitly promotes reduction in new transmission investments, rather encouraging distribution grid level investments and resilience. Research is needed into potential mechanisms for distributing transmission costs across service territories to accurately reflect use while avoiding shifting costs to customers who live in areas not served by a local distribution utility.

Questions for Further Research:

- How does the cost per mile of transmission level upgrades compare to the cost for distribution level upgrades?
- What are the differing impacts on rural, urban, and suburban electric service (i.e. price, safety, and resilience) if local distribution grids were to be the focus of upgrades and investments over the transmission grid?
- Who currently receives benefits from the existing transmission infrastructure and how are those impacts distributed across regions and demographics?

⁸ "How our rates compare," Sacramento Municipal Utility District, <https://www.smud.org/en/Rate-Information/Compare-rates>.

⁹ "Understanding the ISO," California ISO, <https://www.caiso.com/about/Pages/OurBusiness/Default.aspx>.

- How do we socialize the costs of a non-profit transmission system, and based on what criteria (i.e. region, income, through taxes or rates)?
- What are federal laws that would impact Golden State Energy's ability to acquire and govern the transmission system for public benefit?

IV. Promotes a Statewide Distribution System Operator Model

Currently, both publicly owned and investor-owned utilities operate distribution grids in a way that does not facilitate the growth of distributed generation. A creation of a distribution system operator (DSO) at the state level creates incentives that allow distributed energy resources to be able to compete with utility scale renewables.¹⁰ A statewide operator of the distribution systems, both within and outside of Golden State Energy's service territory, would facilitate the growth of local microgrids which can bid into markets to serve as reliability resources in times of power outages and natural disasters. The scale of the transition necessary to avoid the worst impacts of climate change requires production and consumption of electricity be scaled to a local level to decrease the impact of long-term power outages and create a grid that can respond to immediate needs of a localized nature. A DSO model that facilitates Golden State Energy's transition toward managed decentralization can be developed as part of a comprehensive study.

Questions for Further Research:

- How does a distribution system operator (DSO) relate to local distribution networks?
- How does a DSO enable and incentivize distribution level investments?
- What policies can ensure that load serving entities are prioritizing equitable decarbonization, local resilience, and affordability?
- How can community choice aggregators (CCAs) relate to distribution grid operators/owners in a way that facilitates local investments?
- How can a DSO be democratically governed?

V. Publicly Accountable Financing

As a not-for-profit utility, Golden State Energy will gain access to lower interest rates and better financing terms through state, federal, and private lending. Public financing of infrastructure investments ensures a shift in the profit-driven incentives that motivate the current investor-owned utility's decision making.

The California Infrastructure and Economic Development Bank (IBank) is currently legislated to offer special bond or loan rates to Golden State Energy as serving the public interest.¹¹ Through municipal bonds, they can fund distribution system level infrastructure buildout across the state.¹²

Much research is needed into the benefits of alternative financing models, from public banking to private green banks, including financing terms available to non-profit utilities across the country through public and private means. The potential for municipal or state bonds to fund Golden State Energy is a key component of the recommended study.

Questions for Further Research:

- By what mechanisms can the California IBank guarantee absorption of future wildfire liabilities?

¹⁰ Herman Trabish, "Rethinking California distribution system operations and grid services markets for a high-DER future," Utility Dive (June 7, 2022), <https://www.utilitydive.com/news/california-distribution-system-operations-distributed-energy-resources-DER-grid-services-markets/624376/>.

¹¹ S.B. 350 (Cal. 2019-2020), https://leginfo.ca.gov/faces/billNavClient.xhtml?bill_id=201920200SB350.

¹² "Exempt Facility Bonds," California Infrastructure and Economic Development Bank, <https://www.ibank.ca.gov/bonds/exempt-facility-bonds/>

- How can the IBank or another publicly accountable institution buy out the Wildfire Victims Fund share of PG&E's stock to ensure reparations for prior wildfire survivors?
- What conditions can incentivize investments by Golden State Energy into distributed energy resources, grid modernization, and upgrades and maintenance of the grid?

VI. *Mandate to Create Programs for a Just Transition of Workers and Environmental Justice Communities*

In the face of increasing climate disasters, communities need to be allowed to make their own decisions about how their residents and businesses keep the lights on, costs low, and ensure equitable access to distributed generation and energy efficiency services. Rural and urban areas, particularly disadvantaged and underresourced communities, have different energy resilience needs and should be able to implement and fund solutions that work for themselves.

In line with California's renewable energy goals, Golden State Energy would be tasked with winding down PG&E's legacy fossil fuel infrastructure, from generating units to residential and commercial gas services. Golden State Energy would be responsible for facilitating a just transition to full electrification of residential, commercial, and industrial load, as well as accounting for transportation electrification. A path to phasing out residential and commercial fossil fuel usage needs to be laid out by the operators of the utility, as the move toward electrification continues, to repair the harms of the fossil fuel generation system and ensure equitable access to clean renewable energy resources.

A thorough survey of recommendations made by environmental justice and community choice advocates can inform recommendations for Golden State Energy as a vehicle to develop local renewable energy resources, programs and incentives for equitable building decarbonization and load reduction, and strong workforce requirements, as well as for a phase out of fossil fuel infrastructure in historically marginalized communities.

Questions for Further Research:

- How can PG&E's union workers be safeguarded in a transition of ownership of the utility?
- What are the workforce and training needs to meet the expected increase in upgrades and maintenance investments for Golden State Energy, and how can these jobs target low income communities of color?
- What are policies that can lead to a managed decommissioning of natural gas infrastructure?

Conclusion

Through a series of structural changes to the utility model, a vision for a replacement to PG&E can make possible a livable future for Californians who are currently bearing the brunt of compounding climate disasters that are driving increasingly frequent power outages. Golden State Energy is a vehicle for community driven planning, resilience, and economic empowerment. Through an investment into further research for the potential of a not-for-profit utility to serve Northern California, a deeper analysis can inform next steps for cities and counties like San Francisco, who are organizing across the state to step into the next decade of climate uncertainty, economic hardships, and a need for local solutions.