COUNTY OF SAN MATEO
Inter-Departmental Correspondence

County Manager's Office

DATE: February 24, 2003

BOARD MEETING DATE: February 25, 2003

TO: Honorable Board of Supervisors

FROM: John Maltbie, County Manager

SUBJECT: Resolution in opposition to the California Public Utilities Commission's propose rate-setting of "exit fees" related to solar power

Recommendation

Adopt a resolution in opposition to the California Public Utilities Commission's proposed rate-setting of "exit fees" related to solar power.

Background

The deregulation of electricity in California resulted in unprecedented increases in wholesale electricity rates in the early 2000s. As a result, utilities, including Pacific Gas & Electric, faced increasing power purchase costs and limited ability to pass on such increases to consumers. In response, the state assumed responsibility for acquiring electricity, financed the gap between the cost of power and the rate-payer generated revenues and secured long-term contracts with electricity suppliers to ensure more stable, future electricity supplies.

Prior to and during the "power crisis," the state has promoted the development and use of solar power and other "clean" power sources. Through incentives and promotional efforts, the state has encouraged solar power. In addition, many consumers (mostly large consumers such as large companies) developed private power generation abilities to serve their individual electricity needs during the power crisis. These activities, commonly referred to as "Customer Generation," provided individual consumers a more reliable power source during the rolling blackout experienced during the power crisis. Customer Generation also had the effect of reducing demand on the overall system, which, at the time, was overtaxed.

Now that the power crisis has abated, the California Public Utilities Commission (CPUC) is examining ways in which those costs as well as the costs utilities incurred during the rate spike can be recovered. The preferred method of cost recovery is through a surcharge on current power rates.

Discussion

Relying on current power consumption rates to distribute fairly cost recovery surcharges contains some difficulties. Addressed by the CPUC in this rate-setting decision is the issue of changes in power consumption patters from before during and after the power crisis. M Current power consumption patterns do not mimic power consumption patterns just prior to and during the power crisis.

As noted above, electricity consumers responded to the power crisis with customer generation efforts such as diesel generators and photovoltaic arrays. These consumer responses to the power crisis have had a long-lasting effect on how power is consumer in California. Most notably, customer generation has reduced demand on utility created power. During the power crisis customer generation had the positive effect of reducing overall demand on utility power (since individual consumers produced their own power). However, this reduced consumption of utility power effectively means those consumers that rely, in part, on customer generation, will avoid a portion of the cost recovery surcharges proposed by the CPUC. This would have the effect of shifting those costs to consumers who are not able to produce their own power—primarily small residential customers.

However, "taxing" consumers for power they generate themselves, especially when that power is generated through "clean" methods is perplexing.

The CPUC, as directed by the state Legislature, is confronted with two conflicting policies: 1) the need for a fair distribution of cost recovery among all utility power consumers (preventing the unfair shifting of costs to utility customers) and 2) the encouragement of "clean" customer generated power.

Administrative Law Judge Pulsifer, in a rate-setting recommendation to the CPUC, proposes an "exit fee" of 2-5 cents per kilowatt hour (kWh) on customer generated power such as diesel as well as solar and wind power generators. The exit fee is effectively a tax on utility power NOT consumed as a result of customer generation efforts. Energy conservation and "normal" reductions in utility power consumption would not be taxed.

Solar power advocates consider the proposed rate inappropriate for photovoltaic generation due to its environmental benefits. They also see such rates in conflict with solar power and self-generation incentive programs created by the CPUC. Ed Smeloff, assistant general manager for power policy at the San Francisco Public Utilities Commission was quoted in the San Francisco Chronicle, "They'll give you fund to help you produce solar power, but the they'll charge you when you do it."

In San Mateo County, the Crime Lab produces approximately 270,000 kWh/year in solar power. Relying on the suggested 2-5 cent kWh cost recovery surcharge, San Mateo County could be required to pay between $5,400 and $21,700 per year.

While recognizing the concern for equity in distributing the costs of the power crisis, County staff opposes efforts to charge clean power generators like those found on the Crime Lab for power they produce. Such a surcharge is contrary to current state public policy promoting solar power. The state continues to offer incentive programs for the development of residential and business solar power generation systems. The proposed surcharge would lengthen significantly the cost recover time for such systems and could negate the benefits of incentive programs. Power generation systems like solar power reduce the state's reliance on fossil fuels.

Solar power advocates suggest that an surcharge exemption for solar power would result in a 2-3 cent annual increase for other rate payers.

Vision Alignment

Opposition to "exit fees" for solar power generation protects the County's commitment to preserve and provide people access to our natural environment and furthers Goal #14 to preserve natural resources through environmental stewardship.

Fiscal Impact

Relying on the suggested 2-5 cent kWh cost recovery surcharge, San Mateo County could be required to pay between $5,400 and $21,700 per year if the cost recovery surcharge is adopted as recommended.