

Date of Hearing: September 11, 2023

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Eduardo Garcia, Chair

AB 1061 (Rendon) – As Amended August 14, 2023

SUBJECT: Electricity Supply Strategic Reliability Reserve Program

SUMMARY: Expressly requires facilities constructed by the Department of Water Resources (DWR) or under a contract with DWR for purposes of the Electric Supply Strategic Reliability Reserve Program (ESSRRP) to comply with California Air Resources Board (CARB) regulations regarding mandatory reporting of greenhouse gas (GHGs) emissions and compliance with the cap-and-trade program.

EXISTING LAW:

- 1) Establishes the ESSRRP which among its provisions, authorizes DWR to construct or contract for electricity to secure resources for summer reliability or to preserve the option to extend the life of specified facilities, including nonnuclear facilities, new energy storage outside the coastal zone, zero-emission generation facilities outside the coastal zone, and zero-emission generation capacity. (Water Code § 80700.5 *et seq.*)
- 2) Requires DWR to issue a written report to the Joint Legislative Budget Committee, quarterly in 2023 and annually thereafter, detailing the actions undertaken by DWR in the period since the previous report was submitted including, the resources procured and the associated GHG emissions, and criteria and toxic pollutants. (Water Code § 80730)
- 3) Requires the California Energy Commission (CEC) to implement and administer the Distributed Electricity Backup Assets Program to incentivize the construction of distributed energy assets that would serve as on-call emergency supply or load reduction for the electrical grid during extreme events. (Public Resources Code § 25791)
- 4) Establishes the California Global Warming Solutions Act of 2006, which provides the California Air Resources Board (CARB) as the state agency responsible for monitoring and regulating sources emitting GHGs. Requires CARB to adopt regulations to require the reporting and verification of statewide GHG emissions. Requires CARB to adopt GHG emissions limits and emissions reduction measures by regulation, including the use of market-based compliance mechanisms. (Health and Safety Code §§ 38530 and 38570)

FISCAL EFFECT: This bill is nonfiscal.

BACKGROUND:

DWR called on to support energy reliability during extreme events. In August 2020, a massive heat wave across the western United States led the California Independent System Operator (CAISO)—the operator for much of the state's electrical grid—to implement rotating outages across the state in order to stave off more devastating blackouts. In 2021, the Bootleg Fire in Oregon threatened interstate transmission lines, significantly reducing the power imported into California. Governor Newsom issued executive orders during both events to shore up electric reliability. The July 2021 Executive Order directed DWR to secure and deploy temporary and

emergency power generation to supplement existing grid resources. In May 2022, analysis by the state's primary energy agencies and CAISO, found that additional generating resources were needed to address extreme weather events, massive fires, supply chain constraints, and other factors which then led to legislative actions in 2022 that called on DWR to secure energy resources to address extreme events.

Electric Supply Strategic Reliability Reserve Program. In June 2022, Budget Trailer Bills, AB 205 (Committee on Budget, Chapter 61, Statutes of 2022), AB 178 (Ting, Chapter 45, Statutes of 2022), and AB 180 (Ting, Chapter 44, Statutes of 2022), were signed into law. These three pieces of legislation collectively established the ESSRRP and set forth new responsibilities and activities by DWR, funded by the newly established Electricity Supply Reliability Reserve Fund (ESSRF), separate from the State Water Project. DWR established temporary energy resources and created a new deputy director-level division with 25 staff – the Division of Statewide Water and Energy. The Division oversees the ESSRRP along with the State Power Augmentation Program which was developed in July 2021 in response to an executive order to quickly deploy 120 megawatts (MW) of new generation. Under the ESSRRP, DWR acts as a power provider of last resort to help maintain electricity reliability. As part of the program, DWR contracts directly with power facilities and also enters into agreements with the state's large electric investor-owned utilities (IOUs) to reimburse for the value of firm imported energy resources they contract to import to support summer reliability.

Current procurement and GHGs emissions of existing DWR contracts. In response to Governor Newsom's Emergency Proclamation issued July 2021, DWR secured contracts to procure, install, and license four temporary natural gas turbine generator units totaling 120 MW at existing power generation sites located in the Cities of Roseville (two units owned by Roseville) and Yuba City (two units owned by Calpine). These units were operational on September 22, 2021, and have received ESSRF payments. Current agreements allow the units to remain available for operation until the end of 2023; though as of August 2023, DWR reported they are in negotiations with both facilities to extend their operations beyond 2023. Per DWR's January 2023 ESSRF progress report, the Calpine units emitted 954 and 1,072 carbon dioxide (CO₂) tons during their use in 2022, and the Roseville units emitted 208 and 257 CO₂ tons during their use in 2022. In their August 2023 update, DWR noted the Calpine units emitted 357.4 and 328.5 CO₂ tons during their use from January-June 2023, and the Roseville units emitted 245.1 and 185.2 CO₂ tons during their use from January-June 2023.

In their August 2023 ESSRF update, DWR reported a total of 187,586 metric tons of CO₂ equivalent (MT CO₂e) from imported firm energy for July-September 2022. In the case of these resources, the scheduling coordinators (who schedule into the CAISO market and are largely the large electric IOUs) are responsible for the GHG allowance costs for the cap-and-trade program. Although, according to DWR, some individual sellers were responsible for paying the GHG allowance costs themselves. In addition to these energy resources, DWR is also in varying stages of contract discussions and execution for other resources, largely natural gas based, including the once-through-cooling plants at AES Alamos, AES Huntington Beach, and Ormond.

COMMENTS:

- 1) *Author's Statement.* According to the author, "California has made significant strides to meet power demand and prevent outages during extreme weather events, such as heatwaves. Among other actions, the Department of Water Resources (DWR) has been charged with

procuring and maintaining resources to ensure power supply reliability during these times. Currently, statute does not explicitly state that these actions must be subject to carbon accounting standards. AB 1061 requires that any resources procured or maintained by DWR, as part of what is known as the Electricity Supply Strategic Reliability Reserve Program, be subject to cap-and-trade and have their greenhouse gas emissions reported to the Air Resources Board. This will balance the need to procure these backup power sources with holding them to the same emissions standards as other resources."

- 2) *Purpose.* This bill explicitly states that the contracts and facilities DWR contracts or procures for the ESSRRP must comply with CARB's Mandatory Reporting Requirements for GHGs and the cap-and-trade program's emissions reductions. Under the current regulatory requirements, energy generation facilities that emit 10,000 MT CO₂e emissions are required to report their GHG emissions, and facilities that emit 25,000 metric tons of CO₂ are subject to the cap-and-trade regulations to reduce emissions. As such, these requirements would seem to apply to all energy generation units, regardless of whether they are procured by another entity or DWR.

- 3) *Related Legislation.*

SB 123 (Committee on Budget) extended the date, from September 2022 to October 2023, by when electric IOUs may be reimbursed for above-market costs for imported energy and capacity products delivered or capable of being delivered to the state through the ESSRRP. Status: Chapter 52, Statutes of 2023.

SB 124 (Committee on Budget) extended the date, from September 2022 to October 2023, by when electric IOUs may be reimbursed for above-market costs for imported energy and capacity products delivered or capable of being delivered to the state, clarified that DWR must present an investment plan to the CEC, rather than the contracts, and makes additional clarifying changes. Status: Chapter 53, Statutes of 2023.

- 4) *Prior Legislation.*

AB 209 (Committee on Budget) made further changes to the ESSRRP, including: narrowing what resources could be procured; authorizing procurement of nonnuclear generating resources whose operating life may be extended; prohibiting DWR procurement of energy storage and energy generation facilities located in specified coastal areas; and limiting the use of any resources using fossil fuels to only extreme events. Status: Chapter 251, Statutes of 2022.

AB 178 (Ting) appropriated \$700 million to DWR for ESSRRP. Status: Chapter 45, Statutes of 2022.

AB 180 (Ting) appropriated \$1.5 billion to DWR for ESSRRP. Status: Chapter 44, Statutes of 2022.

AB 205 (Committee on Budget) included various provisions related to energy, including the establishment of the ESSRRP which continuously appropriates moneys into the accounts to the CEC for the implementation of the Distributed Electricity Backup Assets Program and the Demand Side Grid Support Program. Status: Chapter 61, Statutes of 2022.

AB 32 (Nuñez) required, under the Global Warming Solutions Act of 2006, CARB to approve a statewide GHG emissions limit equivalent to the statewide GHG emissions level in 1990 to be achieved by 2020 and to ensure that statewide GHG emissions are reduced to at least 40% below the 1990 level by 2030. The bill also required CARB to consider a market mechanism for achieving the GHG reductions and requires mandatory reporting of GHGs by entities that emit GHGs. Status: Chapter 488, Statutes of 2006.

REGISTERED SUPPORT / OPPOSITION:**Support**

Environmental Defense Fund
Natural Resources Defense Council

Opposition

None on file.

Analysis Prepared by: Laura Shybut / U. & E. / (916) 319-2083