



July 27, 2016

Attention: Legislation, Conservation and Outreach Committee

Water Authority Sponsorship of Legislation in the 2016 State Legislative Session. (Action)

Staff Recommendation

- Sponsor legislation during the 2016 legislative session to clarify statutory authority under the County Water Authority Act relative to energy matters.

Alternatives

1. Modify the recommended legislative proposal.
2. Do not sponsor the recommended legislative proposal.

Fiscal Impact

There is no direct fiscal impact associated with sponsorship of legislation.

Discussion

Background

In 2000, SB 552 by Senator David Kelley (Chapter 1044, Statutes of 2000) authorized the Water Authority to own and operate facilities for supplying itself and its member agencies with gas and electricity. SB 552 also authorized the Water Authority to, by contract, purchase gas and electricity from the federal government, the State of California, and any other public agency or private entity, and sell the gas and electricity to any public agency or private entity engaged in retail sales of electricity and gas.

At the time SB 552 was considered by the Legislature, the Water Authority was in the process of developing the Lake Hodges hydropower pumped storage project. The objective of SB 552 was to provide statutory clarity for the Water Authority to market hydropower energy generated at the Lake Hodges hydropower pumped storage project.

Today, the Water Authority has several energy producing assets, including the 40 MW Lake Hodges Pumped Storage Project, the 4.5 MW Rancho Peñasquitos Hydroelectric Project, and nearly 3 MW of installed solar. In a related action on the July 28 Engineering and Operations Committee agenda, the board will consider entering into an agreement with the Western Area Power Administration (WAPA) to acquire 1.6 MW of federal preferential power (Hoover allocation) from the Boulder Canyon Project for a 50-year term, beginning in October 2017. The most effective way to maximize the financial benefit to water ratepayers would be to directly utilize this power at Water Authority facilities, or water supply projects that serve the Water Authority (e.g. the Claude “Bud” Lewis Carlsbad Desalination Plant); this and other energy produced by the Water Authority could also be utilized to serve its member agencies.

The Water Authority has been working for approximately a year to secure an agreement with San Diego Gas & Electric to provide a wholesale open access distribution tariff to convey the Water Authority’s low-cost power to its meters, those that serve the desalination plant or to its

member agencies' facilities. While the Water Authority believes the County Water Authority Act provides the authority necessary for SDG&E to provide such a wholesale tariff, SDG&E has taken a firm position that the existing County Water Authority Act does not permit it to do so. While the Water Authority has secured agreement with the California Independent System Operator (CAISO) to market the Water Authority's Hoover power on the CAISO grid, doing so will not provide the substantial savings – estimated at \$14 million over the life of the agreement - that directly utilizing the power to offset higher power costs for Water Authority projects or supply projects such as Carlsbad would provide.

Clarifying the Water Authority's statutory authority this year would allow the Water Authority to maximize the economic value and benefit of this energy acquisition for ratepayers by utilizing the Hoover power directly, when that low-cost federal power becomes available in October 2017.

In addition to the pending Hoover power delivery, the Water Authority's power purchase agreement (PPA) with SDG&E for 4.5 MW of pumped hydropower production at Rancho Peñasquitos expires in January 2017. Clarifying the Water Authority's statutory authority this year would allow the Water Authority to directly utilize the power from this expiring PPA to maximize the economic value and benefit of this energy production for ratepayers.

And finally, amending the Water Authority Act could also be helpful in the event the Board of Directors and the Water Authority's partner, the City of San Diego, make the decision to proceed with the development of the San Vicente Energy Storage Facility.

Removing any uncertainty over the Water Authority's statutory authority, as SDG&E asserts exists, would also help ensure an appropriate planning horizon for SDG&E to reduce energy purchases on behalf of the Water Authority and its member agencies. Doing so would also help to provide a sufficient period of time to avoid any potential SDG&E ratepayer impacts and to address departing load issues.

The following clarifications of the existing statutory authority are intended to rectify what SDG&E has interpreted as limitations in the current Act:

- While the County Water Authority Act provides substantial legal authority for the Water Authority to provide, sell, and deliver hydroelectric power pursuant to contract, the enabling act is not fully comprehensive in its identification of specific entities that could potentially purchase produced hydropower energy from the Water Authority, including Native American tribes and wholesale and retail purchasers.
- The County Water Authority Act is silent with respect to transmission and distribution of power, and clarifying statutory authority would help to ensure that electric corporations do not operate their transmission and distribution facilities in a manner that impedes the ability of the Water Authority from achieving its objective, which is to transmit power to the Water Authority and member agencies' facilities, and water supply projects, through a wholesale open access transmission and distribution tariff, similar to arrangements utilized by the Bay Area Rapid Transit District in the Pacific Gas & Electric service

territory, and the Los Angeles Department of Water and Power in the Southern California Edison service territory.

Staff Recommendation

Staff recommends the Board sponsor legislation to clarify the statutory authority embodied within the County Water Authority Act with respect to the Water Authority's ability to generate and acquire energy to supply itself, its member agencies, and water supply projects such as the Carlsbad desalination plant.

The Water Authority's legislative policy guidelines state that the Water Authority shall support legislation that:

- Provides opportunities for reduced energy rates under tariff schedules for the Water Authority and its member agencies.
- Provides greater flexibility in the utilization of Water Authority and its member agencies' facilities for generation and acquisition of electrical and natural gas power.
- Provides the Water Authority and its member agencies with greater flexibility in the permitting, construction, and operation of its existing and potential in-line hydroelectric, solar, wind, battery, and closed-loop pumped-storage projects.
- Provides protection to water agencies in San Diego County from energy rate increases and provides rate relief for member agencies.

(2016 Legislative Policy Guidelines, Energy, Page 25, Items 1 through 4).

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