



August 22, 2023

Hon. Rob Bonta
Attorney General
1300 I Street, 17th Floor
Sacramento, California 95814

Attention: Ms. Anabel Renteria
Initiative Coordinator

Dear Attorney General Bonta:

Pursuant to Election Code Section 9005, we have reviewed the proposed statutory initiative related to renewable energy (A.G. File No. 23-0008, Amendment #1).

Background

Californians Buy Electricity From a Load Serving Entity (LSE). LSEs are entities that provide electricity to customers. LSEs generate or purchase electricity from a variety of sources and distribute it to households and businesses using an interconnected network of transmission lines and power connections (referred to as the electricity grid). LSEs include Investor-Owned Utilities (IOUs), Publicly Owned Utilities (POUs), Community Choice Aggregators (CCAs), and Electric Service Providers (ESPs). Most of the electricity needs across the state—about 75 percent—are served by infrastructure owned by IOUs. The largest IOUs in the state are Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric.

LSEs Are Regulated by the State or Local Governing Boards. The California Public Utilities Commission (CPUC) regulates most LSEs that sell electricity to customers, including IOUs, CCAs, and ESPs. For these LSEs, CPUC determines how much energy is needed to meet statewide demand, then directs them to procure enough resources to support that demand. CPUC also sets electricity rates for the LSEs under its jurisdiction and enforces state safety rules and regulations. This includes issuing fines if their infrastructure is involved in the ignition of a fire. POUs are regulated by locally elected governing boards rather than CPUC. These boards oversee their respective POUs' safety practices, electricity supply, and rates charged.

State Law Authorizes Some Independent Electricity Generation. Existing state laws and regulations allow entities other than LSEs to independently generate their own electricity in certain cases.

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- ***Solar Self-Generation.*** Existing law allows individuals and businesses to install solar panels, which enable them to generate their own electricity and use it on site. In most cases, these properties still are connected to the larger electricity grid and can get additional energy from their local LSEs if needed. Solar customers also can export excess generated energy back to the electricity grid. Typically, local jurisdictions such as cities or counties inspect the construction and issue permits to operate when solar panels are installed. These local governments cover the costs of conducting this oversight through permit fees levied on owners.
- ***Microgrids.*** A microgrid—a local electricity grid that might serve several buildings on a single site with defined boundaries—is allowed with some limitations. For example, the University of California in Davis currently operates a microgrid that serves electricity demand for multiple buildings on its campus. Microgrids generate electricity—frequently through multiple solar panels and battery storage, though other resources could be employed—that can be used as the site’s primary energy source and/or for backup power. As with solar panels on individual properties, typically a microgrid also is connected to the larger electricity grid. Owners may receive compensation for the export of energy back to the electric grid but typically do not sell electricity commercially to multiple residential customers. Under existing law, microgrids that sell energy to three or more adjacent properties are considered LSEs and must register with CPUC as such. (CPUC does not regulate microgrids that operate as standalone systems unconnected to the larger grid or microgrids that sell energy to two or fewer adjacent properties.)

Proposal

Allows Farms to Develop Solar Energy and Sell Electricity to Neighboring Properties. The measure authorizes agricultural landowners to develop solar photovoltaic arrays on land parcels totaling 100 acres or less and to sell the generated electricity to other properties within a two-mile radius. Under the measure, these new solar farms would not be considered LSEs and consequently their operations, rates, and safety practices would not be regulated by CPUC or local governing boards.

Sets Certain Requirements for New Solar Farms. In order for a solar farm to be eligible to sell the electricity it generates to neighboring properties, it must meet certain requirements prescribed by the measure. For example, the owner must finance, build, and maintain the solar arrays, battery storage, and a new microgrid distribution system connecting the farm to participating properties. The measure prohibits the solar farm from using the existing statewide electricity transmission and distribution system without explicit written agreement. The measure requires the new solar farms to adhere to all relevant county codes related to electric power systems, including construction inspections.

Requires Existing Grid Connections to be Maintained. The measure requires neighboring properties that choose to purchase electricity from the new solar farms to also maintain customer accounts with their existing LSEs. It also requires those LSEs to provide these customers with the same terms for the purchase of electricity and sale of excess electricity as they provide to the nearest existing rooftop solar system within their service area.

Fiscal Effects***Unknown Potential Increase in State and Local Government Costs Related to Safety Issues.***

Since, unlike LSEs, the energy infrastructure and operations of the new solar farms would not be subject to ongoing state or local oversight and regulation, there is a risk that safety issues such as fires could arise at the solar farms or their power connections. In recent years, the state has experienced a number of severe wildfires ignited by infrastructure owned by regulated LSEs. In addition to additional costs for IOU ratepayers, these fires have resulted in significant response and recovery costs for the state, impacted local governments, and owners of damaged properties. A large fire or other related safety incidents resulting from new solar farms could impact both state and local governments due to shared responsibilities for fire response and recovery. The potential for and magnitude of these costs is uncertain, and would depend on the scale of the incident and local emergency response capacity.

Other Potential Fiscal Effects for Local Governments. The measure could increase local governments' costs to the degree that the nearby city or county needs to do additional inspections of the new solar farms when they are constructed. These costs likely would be covered by permitting fees paid by the project owner, as authorized under existing law. Additionally, to the degree energy needs for a particular area become covered by the new solar farm rather than relying on energy provided by the existing LSE, this could have some effect on the energy procurement needs and rates charged for remaining LSE customers, which could include local governments. The magnitude of these potential net fiscal effects on local governments are unknown and would depend on a number of factors including the number of land owners that choose to develop solar farms and the number of customers that elect to purchase their electricity from a solar farm. These potential fiscal effects likely would be concentrated on local governments located near where solar farms are developed—probably focused on regions of the state that have significant agricultural land (as compared to more urban areas).

Summary of Fiscal Effects. We estimate the measure would have the following major fiscal effects:

- Potential costs to state and local governments of an uncertain magnitude should safety issues such as fires arise at solar farms.
- Potential uncertain fiscal effects for local governments depending primarily on the degree to which additional inspections are needed.

Sincerely,

for Gabriel Petek
Legislative Analyst

for Joe Stephenshaw
Director of Finance