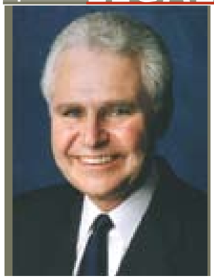

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Prop 7: California's illusory promotion of renewable power

This November, as part of California's eclectic version of participatory democracy, its residents will vote on whether to amend the Solar and Clean Energy Act of 2008. Proposition No. 7 (Prop 7) promises to place the state on "the path to energy independence." It would require all California electric utilities, including municipals, to procure 50% of their supply from "clean energy sources like solar and wind" by 2025. The promotion of Prop 7 includes the statutory commitment that achieving this 50% renewable power target will "result in no more than a 3% increase in electric rates."

The goals of Prop 7 are laudable; but its fundamental premises are political fantasy. It "legislatively" removes the formidable technological, economic, and political barriers impeding the installation of more renewable power. If approved, Prop 7 will not increase renewable power by one megawatt; it will, however, increase costs, create yet additional levels of wasteful administrative red tape and bureaucratic paralysis, and further delay our nation's necessary transition to renewable power.

Politicians don't build plants

The initiative process is designed to allow citizens to force recalcitrant legislators and regulators to act. However, the responsible California authorities, despite their other shortfalls, have been anything but "potted plants" in championing the renewable imperative. They are implementing perhaps the most ambitious renewable portfolio standard (RPS) target in the nation—currently 20% by 2010—and are poised to mandate a 33% by 2020 target.

The setting of RPS targets by itself, however, does not guarantee additional renewable generation. The California Public Utilities Commission recently reported that its approval of more than 60 projects promising almost 4,500 renewable megawatts notwithstanding, only 400 additional megawatts have come online, and that this increase does not even match "overall load growth."

California will best advance renewable power by first demonstrating its ability to achieve existing RPS targets with viable projects.

Demand is not the problem

The analytical fault at the core of Prop 7 is its erroneous theory that creating more demand necessarily translates into more renewable generation. The current shortcomings of the California RPS experience are not attributable to insufficient demand, but rather to the increasingly painful absence of adequate supply. The electorate's increase, through Prop 7, in the demand for renewable power will not add any incremental supply. Instead, it will further escalate the price that California consumers pay for renewable power. Legislatively imposed "rate increase caps," such as Prop 7's promise of "no more than a 3%" increase, have universally failed to reduce consumer costs. The laws of economics inevitably trump the desires of legislators.

As do most political solutions, Prop 7 offers an easy answer to a complex problem: California's RPS program is stagnating because "the special energy interests block change." If the "special interests" Prop 7 is seeking to overcome are consumer advocates who question the higher costs of renewable projects, environmental groups that contest wind projects on aesthetic grounds, or wilderness preservation groups that challenge the routes of transmission projects, mindlessly increasing the RPS requirement to 50% is no solution.

Prop 7 does acknowledge and address the competing interests inherent in energy infrastructure development. It would empower the Energy Commission with the magical power to "fast-track" the approvals necessary for "the development of solar and clean energy plants and related transmission facilities while guaranteeing all environmental protections."

Diversionary penalties

Prop 7 would impose a one cent/kWh penalty on any retail seller who is unable to achieve the 50% RPS mandate. To ensure that these "bad guys" are truly accountable for their actions, Prop 7 prohibits any recovery of these penalties "either directly or indirectly in rates." The specter of penalties for an inability to achieve RPS targets will not provide any incremental RPS megawatts, but it will increase costs to the developer, the purchasing utility, and, ultimately, the consumer. The pretense that electric consumers can be immunized from any increase in risks or costs imposed on the utility is a placebo whose ineffectiveness has been demonstrated often.

To ensure that no penalty is unjustly imposed, Prop 7 allows a retail seller to avoid a penalty by demonstrating that its RPS deficiency is attributable to the RPS project being delayed due to administrative and legal appeals or the absence of transmission lines. The good cause excuses Prop 7 offers underscore the futility of assessing "blame" on one industry segment for difficult challenges that can only be resolved by all industry constituencies working cooperatively.

The prop could pass

The good news is that all responsible participants in the California energy industry are united in opposing Prop 7. The bad news is that precious resources that are better used to address real problems must be diverted to explain that Prop 7's "solutions" are fantasies. The additional bad news is that, in this presidential election year—when, despite gas prices exceeding $4 a gallon, the substantive "energy debate" has focused on such extraneous matters as "gas tax holidays" and "offshore drilling"—Prop 7 could actually win.

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