

Schwarzenegger's California Overhaul

A CONVERSATION WITH HIS LEADING ENERGY ADVISOR

By Martin Rosenberg

■ ■ ■ **GOV. ARNOLD SCHWARZENEGGER** is out to wrestle his state's huge energy challenges into manageable shape through an overhaul of state agencies. In the spring, the governor announced plans to put a cabinet-level energy secretary atop a new Department of Energy.

The department, which would combine the state's Energy Commission with other agencies, would be responsible for siting power lines and natural gas assets, licensing power plants larger than 50 megawatts and coordinating the state's ambitious efforts to become a national leader in developing renewable energy.

Joe Desmond, 41, has been out selling the governor's energy vision ever since he was appointed in May 2004 as deputy secretary of energy at the Resources Agency and a year later as chairman of the Energy Commission.

The political stakes of keeping California's lights on are enormous. Blackouts several years ago meant "lights out" for the political career of Gray Davis, who was ousted from the governor's office by Schwarzenegger.

Desmond recently talked with *EnergyBiz* about the status of the "Terminator's" plans to put an end to uncertainty about the most populous state's energy future.

energybiz: What's the advantage of consolidating control over transmission and generation in one agency?

DESMOND: It's accountability. It is primarily designed to streamline the process by which transmission is improved.

energybiz: What are the added energy costs that Californians incur as a result on inadequate transmission?

DESMOND: That is estimated right now to cost us about \$1 billion per year.

energybiz: Is there enough generation in the state?

DESMOND: The governor was pretty clear when he came on board in directing the Public Utilities Commission to accelerate by two years the date by which California would comply with resource adequacy requirements of 15 to 17 percent planning reserves.

energybiz: How serious the shortage is in generation?

DESMOND: California has to add each year, net of retirements, 1,000 new megawatts of capacity. You

can get that capacity in state or import it by building out transmission projects.

energybiz: Has California overcome the energy problems it had several years ago?

DESMOND: California has turned the corner, and you're seeing broad cooperation between the various energy agencies toward implementation of a common vision of framework.

energybiz: Would you say that the ability for anybody to "game" the California system has been greatly reduced?

DESMOND: Yes, there have been many steps taken to prevent the gaming of the system. To effect change requires a tremendous attention to detail sustained over a long period of time. That really requires a vision of how the market pieces come together and operate efficiently so that you attract the necessary investment, promote efficient utilization of resources, and allocate resources efficiently between customers and recover costs equitably.

energybiz: How close are we to getting the whole regulatory architecture firmed up in the state?

DESMOND: There is movement toward consensus on a number of principles around resource adequacy, procurement, transmission, and the manner in which California seeks to satisfy growing demand. That consensus then has to be translated to a series of rule-makings, market design features – for instance at the independent system operator (ISO) – that allow it to operate effectively. Now is the period of time in which all those pieces have to come together and work cohesively.

energybiz: What does governor hope to achieve with his wind and solar policies?

DESMOND: The governor is a strong proponent of a renewable portfolio standard. He has asked that we accelerate that from 2017 to 2010 achievement of our goal of getting 20 percent of our energy from renewable resources. The "million solar roofs" initiative is designed to create a self-sustaining solar industry here in the state of California, spur investments and jobs and to provide approximately 3,000 megawatts of solar peaking capacity. Other states and other parts of the country will benefit from California's investment in moving this market forward. ☺



Joe Desmond