



March 21, 2023

To: Assemblymember Eduardo Garcia
Chair, Assembly Utilities & Energy Committee
1020 N Street, Room 408A
Sacramento, CA 95814

Re. AB 538 (Holden) – Support

On behalf of Environmental Defense Fund (EDF), I write to you today to **support Assembly Bill 538** (Holden). This bill will start the process of further integrating California's electricity system with the rest of the western region. A broader regional transmission organization (RTO) will allow for more clean electricity generation and transmission resources to be developed and shared across the west.

All Californians deserve access to an affordable, clean, and reliable energy system. A western regional energy market would enhance grid reliability, reduce our reliance on the state's dirtiest power plants, create new jobs, save electricity customers money, and improve the cost-effectiveness of clean energy deployment.

Without leveraging the geographic diversity of the west, California ratepayers will likely see system costs increase to unaffordable levels while sacrificing reliability.

California is a state that is rich in potential renewable energy generation. As we electrify our buildings and transportation sector, California will need to build and expand its electric grid to approximately 3 times the size of its current capacity. Due to the design of the state's procurement laws combined with the high in-state potential for renewable generation, almost all of that capacity expansion will come from within the California border. That level of growth, however, will not be possible without a western regional energy market to help absorb mismatches between renewable generation supply and the state's electric demand. Simply put – California has the potential to fully decarbonize its electric grid, but it needs a market to make it work.

California often over-generates electricity and then sells some of that excess power at a loss to its neighboring western states. Because the current market rules are short-term in design, California is not able to plan its electric grid to leverage the full value of its renewable energy generation potential. To fix this, California will need the longer-term market fixes as envisioned in AB 538. Access to a robust western regional energy market will make California's in-state built power generation more economic and easier to displace dirtier forms of power generation. The expanded market structure envisioned under AB 538 will give California a

long-term solution to predictably dispatch and import renewable power and create more in-state jobs.

California is one of six states in the west that has passed a 100% clean energy goal in statute. Unfortunately, the western region is also grappling with the impacts of extreme weather events. Our climate is changing, and our investment strategy to harden and improve the grid needs to change in response. The changing climate highlights the need for a diverse, reliable, resilient power system. As demonstrated during the heat dome last summer, California is not alone in suffering in the impacts of climate change. However, if California does not link the state's electric market with the rest of the west, the state will find itself alone in solving these issues. Unfortunately, these extreme weather events will only become more common. California will need every option available to ensure electric grid reliability. A western-wide market is a critical tool in the toolkit. Linking California with the rest of the west could help maintain system reliability and ensure that ratepayers are making the most cost-effective investments.

Western states are actively moving from conversation to real action on grid expansion because of the increased demand for clean energy across the region. Colorado and Nevada have already passed state mandates for their utilities to join an expanded western grid or RTO by 2030. A western market is coming – California now needs to decide if it wants to be a part of the conversation or if it wants to be an electric-grid island. If California fails to act, the rest of the west will work to develop an RTO without us. States, utilities, and major energy buyers are already positioning to act in California's absence. Doing nothing is no longer an option. Like what happened in Texas during their recent extreme weather events, an isolated California will lead to higher costs and make it harder to ensure grid reliability.

AB 538 serves as a call to action and makes the necessary statutory changes so that the California Independent System Operator (CAISO) could serve as the grid operator for an expanded geographic footprint. The process should ensure that in this expanded market that both greenhouse gas and in-state local air emissions from the power sector are reduced and eliminated by 2045. One of the state's primary goals should be to eliminate these harmful emissions, and California should consider every option available to make that happen.

Transitioning California into an RTO will not be an overnight endeavor. There will be a years-long stakeholder process to ensure a smooth hand-off. In order to set that stakeholder process up for as much success as possible, AB 538 needs to give clear direction that the expanded western energy market must be affordable, clean and maintain system reliability. The stakeholder process will be the appropriate forum to ensure that the market design and corresponding governance will uplift the most vulnerable parts of the state impacted by dirty power generation, ensure environmental integrity and that the market remains in the ratepayer interest. This will be an arduous process, but luckily one California has done before. CAISO has successfully implemented the Western Energy Imbalance Market (EIM), which has resulted in billions of dollars in energy savings and reduced emissions across the west. CAISO is currently implementing the Extended Day Ahead Market (EDAM) that will extend those economic and emissions savings further for Californians. Both the EIM and EDAM markets demonstrate strong value and savings that can be accrued for all parties via strong regional collaboration; however, EIM and EDAM are by themselves insufficient to fully decarbonize California. In EDF's estimation, no new power generation will be built under these two markets – the recovery windows are simply too unpredictable and short for a power plant to recover its costs on a near-term or day ahead basis. The EIM and EDAM markets will deliver large value

to customers for dispatching existing generation, but they will be insufficient to build the new capacity we require.

Expanding the market will require new forms of trust and assurances. EDF suggests that in addition to the robust stakeholder process used for EIM and EDAM, that the legislature also create a market monitoring committee to help advise and guide CAISO during the market expansion development. This committee could include key stakeholders from industry, labor, environment, and equity groups. EDF further recognizes that this type of engagement will be resource intensive to many groups. The legislature should extend financial, technical and outreach resources to those who need new resources so that their voices can be heard. Compensation either through grants or on a rolling basis such as intervenor compensation could alleviate a tremendous burden on often neglected voices and help ensure all perspectives are considered.

California has the potential to reap substantial economic benefits and accrue environmental savings from expanding its electric grid into a western wide market. With the suggestions considered in this letter incorporated, EDF is pleased to **SUPPORT AB 538 and encourages your “aye” vote.**

Sincerely

A handwritten signature in black ink, appearing to read "Michael Colvin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Michael Colvin
Director, California Energy Program
Environmental Defense Fund
mcolvin@edf.org | (415) 293-6122