ATTACHMENT 2

California's Electricity Situation

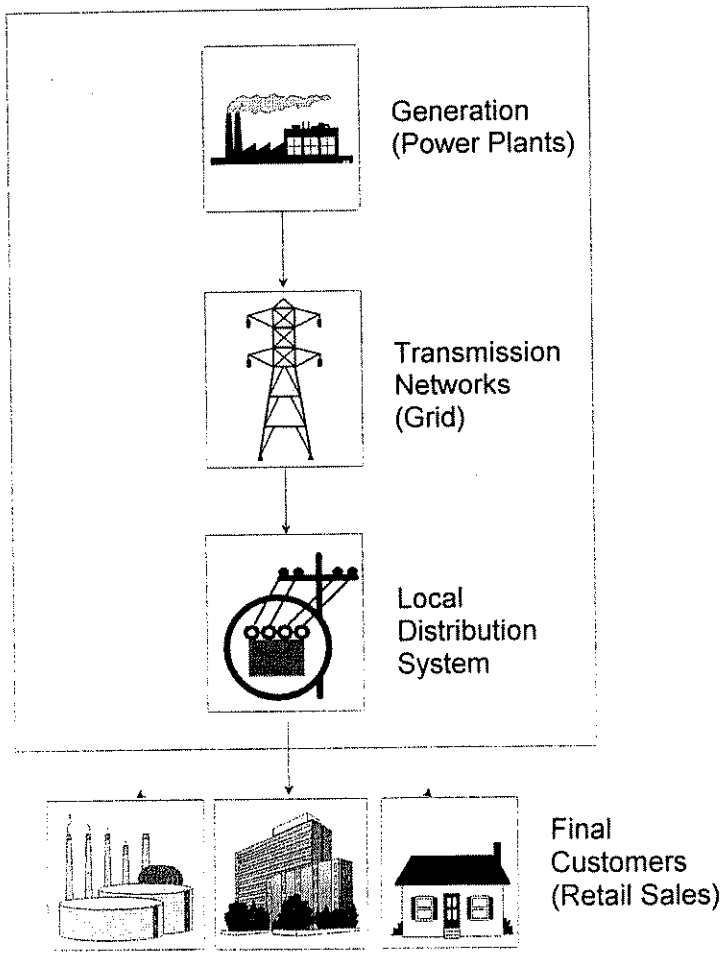
Briefing for the staff of the U.S. House of Representatives

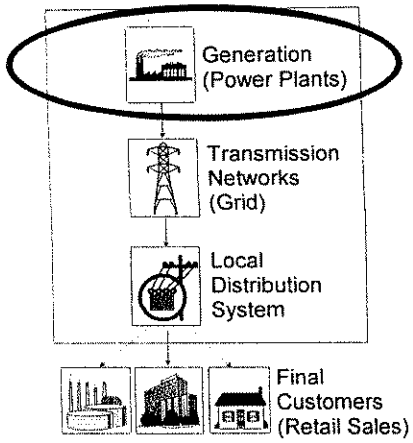
February 9, 2001

Energy Information Administration

(Updated May 9, 2001)

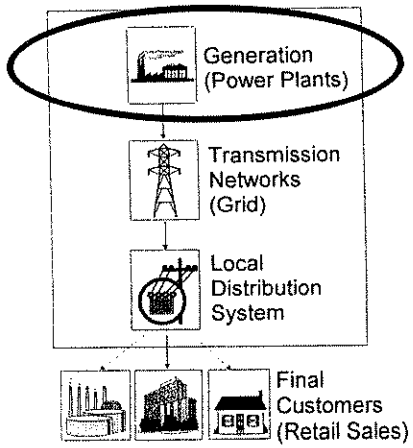
Vertically Integrated Utility





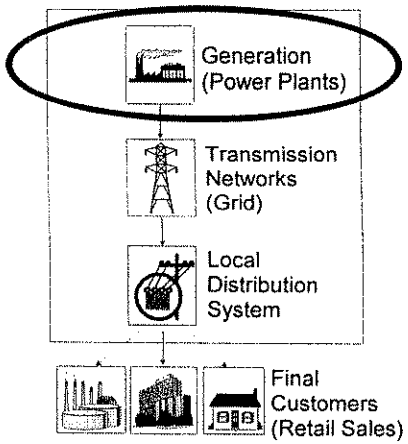
Generation

- 53,157 megawatts of total net summer capability
- More than half owned by nonutilities
- One quarter owned by publicly owned utilities
- California is interconnected with the other States of the Western Systems Coordinating Council and relies on about 7-11,000 megawatts of out-of-state capability
- California normally exports electricity in the winter and imports electricity in the summer



Generation Requirements of AB 1890

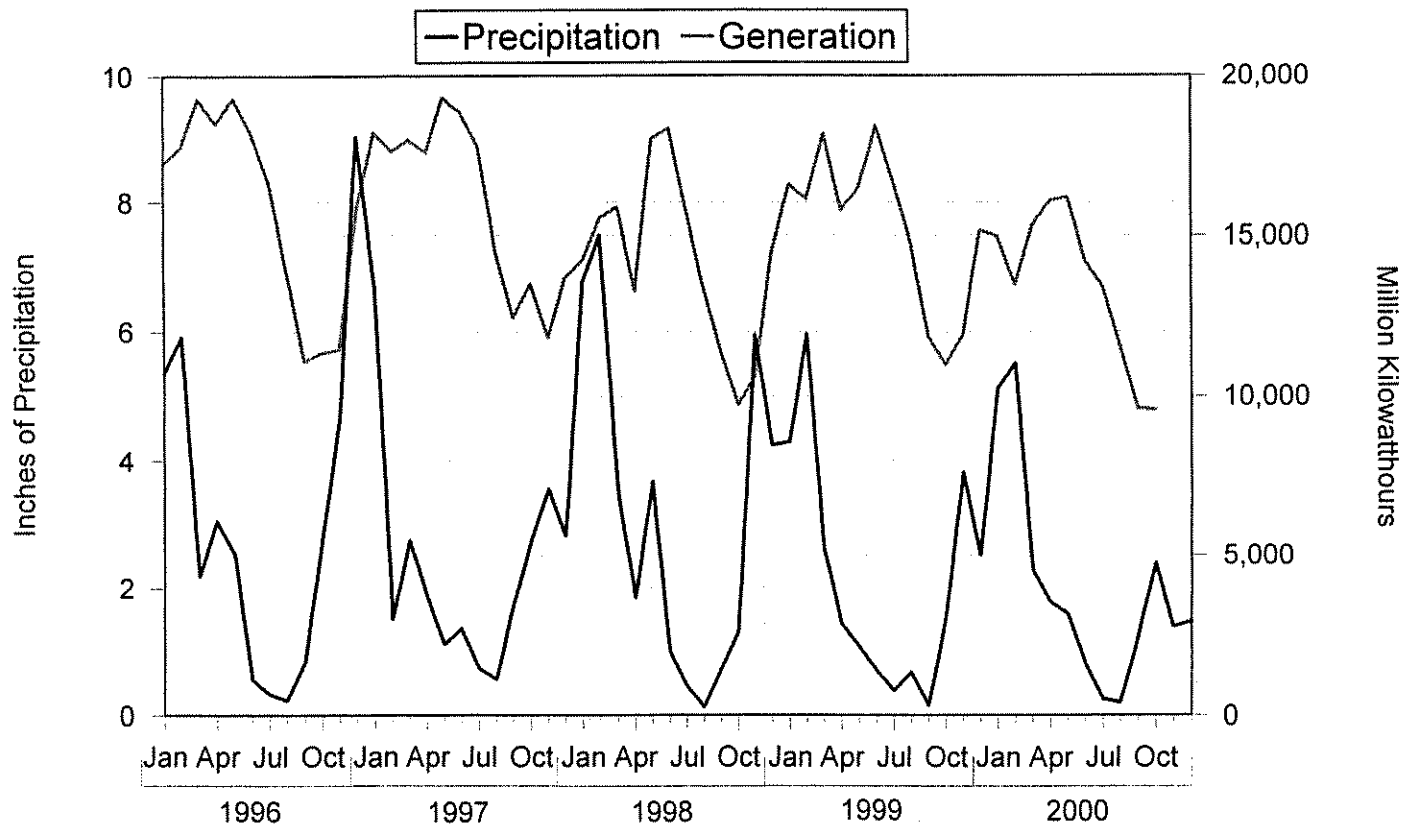
- California restructuring required investor-owned utilities to sell their generating assets – new owners not required to sell within the State
- Utilities were required to sell their output to the California PX and buy their electricity exclusively from the California PX
- No long-term contracts allowed

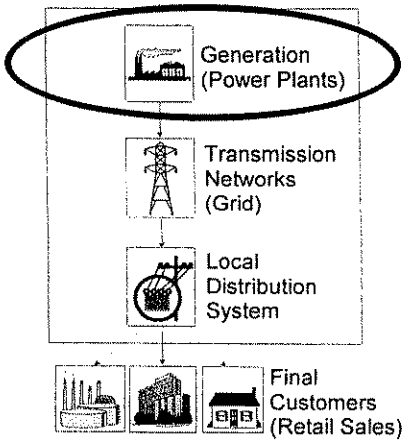


Issues affecting generation

- Capability decreased 2 percent from 1990-1999, while retail sales increased by 11 percent
- 10,000 megawatts of total capability out of operation due to forced and/or planned outages
- Unusually low water level, losing about 3,000 megawatts of capacity from the Northwest

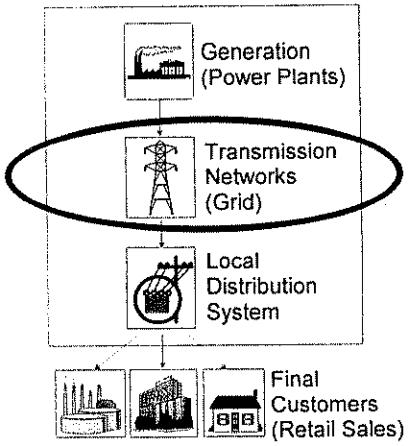
Pacific Region Precipitation and Hydroelectric Generation, 1996 - 2000





Issues affecting generation

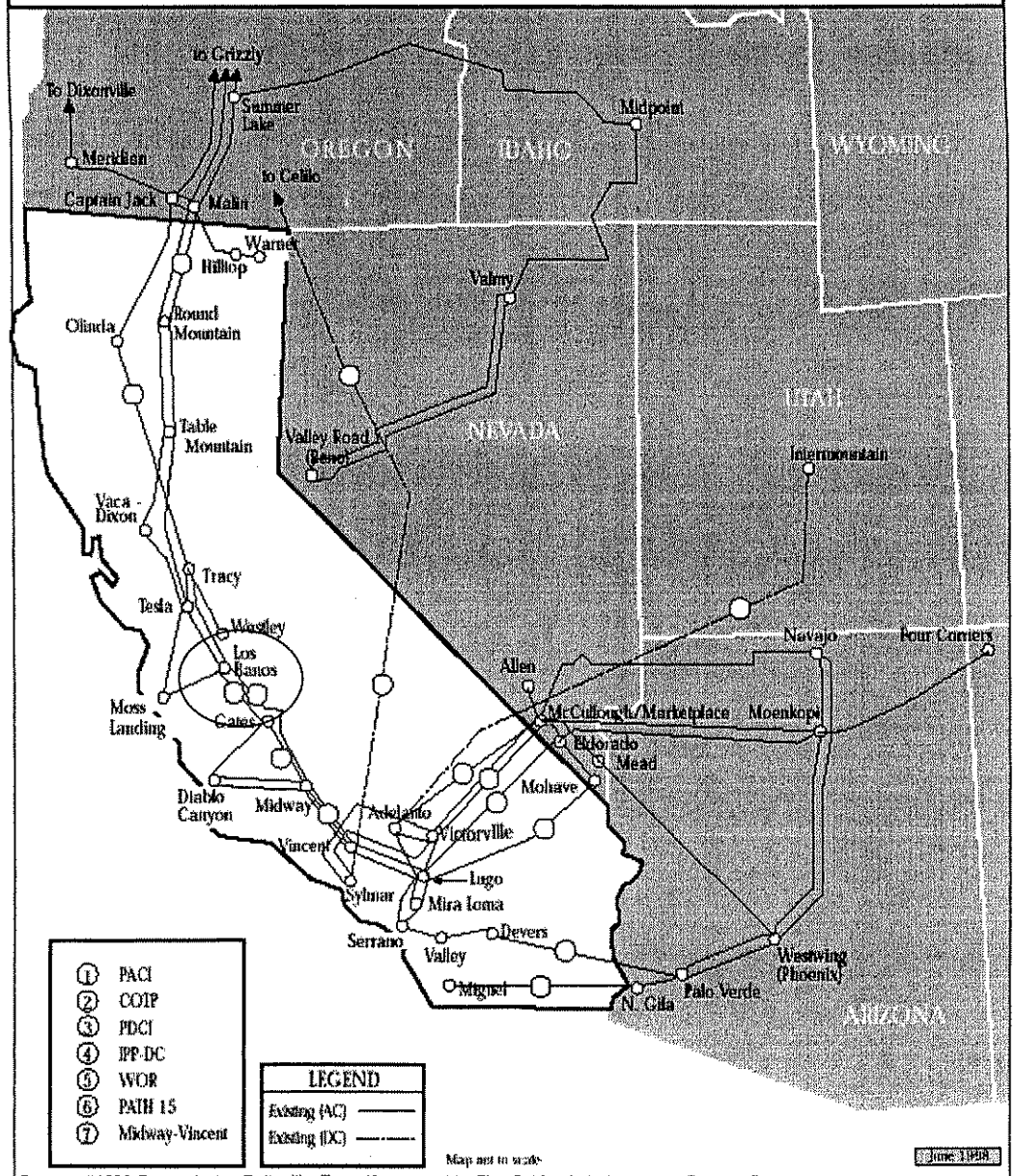
- Excess electric generation in summer caused some to use all available emission allowances for year
- High cost of emissions and emissions constraints
- Cap placed on wholesale electricity prices
- Natural gas price increases and El Paso natural gas pipeline explosion
- Uncertainty for independent electric generators to receive payment



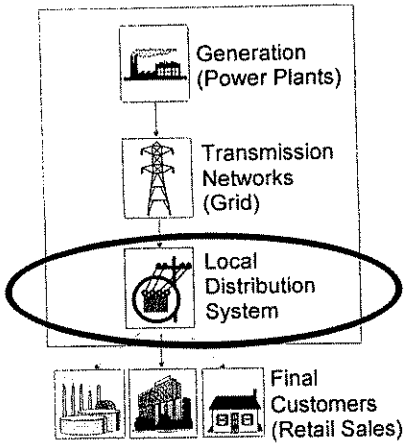
Transmission

- Federal Energy Regulatory Commission oversees Independent System Operator (CAL-ISO) which administers the grid, accounting for 75 percent of California grid
- The three utilities had to give up the operation of their transmission lines to the ISO, while still owning them in accordance with FERC Order 888
- Transmission constraints limit the amount of electricity that can be moved between Northern and Southern California (see map)

FIGURE B-2-1
MAJOR TRANSMISSION FACILITIES
IN CALIFORNIA AND WESTERN U.S.
(230KV and above)

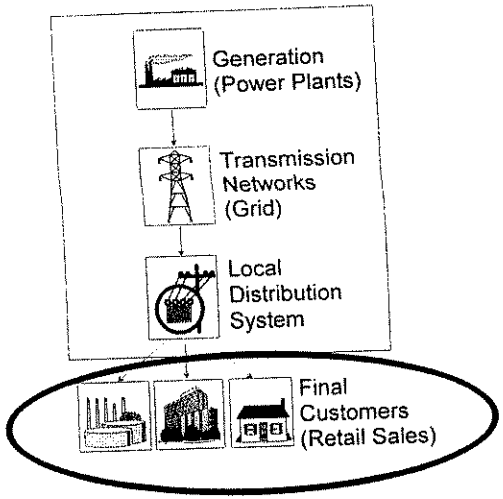


Source: "1998 Transmission Reliability Report" prepared by The California Independent System Operator.



Distribution

- Distribution facilities continue to be operated by the three traditional utilities and regulated by California PUC



Retail Sales

- AB 1890 reduced retail rates by 10 percent and then froze them until March 2002
- 24 California ESP's accounted for about 10 percent of electricity sales in the State in 1999, but electricity still delivered by utility
- Where rates were capped, the effect of the higher power acquisition prices was not seen by the consumer – instead the provider absorbed the higher costs (i.e., PG&E, SCE)
- Where rates were not capped, the consumer paid the higher costs (i.e., San Diego)

Conclusions

- Generating capacity tight
- Long–term contracts not allowed
- Wholesale prices capped
- Transmission line constraints
- Natural gas prices much higher than normal
- California utilities' rates frozen
- California purchased all of their electricity at prices higher than they were allowed to pass on to consumers
- Generators and fuel suppliers were reluctant to sell to bankrupt utilities

Energy Information Administration

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