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CALIFORNIA LEGISLATURE

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January 24, 2021

Ms. Keely Martin Bosler, Director
Department of Finance
Room 1145, State Capitol
Sacramento, California 95814

Dear Ms. Bosler:

In a letter dated, January 18, 2021, you notified the Joint Legislative Budget Committee (JLBC), pursuant to Provisions 3 and 6 of Item 9840-001-0001 of the *2021-22 Budget Act*, of an unanticipated funding request from the Department of Water Resources (DWR) for costs associated with the installation of four 30 megawatt generators that are intended to help reduce the strain on the state's energy infrastructure. The letter requested a waiver from the 30-day legislative review period.

Specifically, DWR is requesting an additional \$10,000,000 to cover increased costs for installing Selective Catalyst Reducers required for emission reductions, as well as, upgrades to the interconnection with Pacific Gas and Electric's electricity network, and to address costs associated with North America Electric Reliability Corporation (NERC) requirements. This request will cover a portion of the unanticipated cost increase. The Administration is also requesting appropriation of \$30.3 million for the current fiscal year as part of the early budget actions to cover the remainder of these costs. The proposed 2022-23 budget includes an additional \$30.3 million over two years for continued operations of these generators.

I have two concerns about the state's acquisition of these generators. First, in August, the Department of Finance authorized the expenditure of \$171.5 million from the Disaster-Response Emergency Operations Account (DREOA) to acquire and install the four natural gas generators to help avoid electricity system blackouts. The use of DREOA limits reasonable oversight and the Legislature never had the opportunity to thoroughly review the expenditure of these funds. Five months later, the estimated cost has grown to approximately \$212 million, with an additional \$30 million in funding needed for future operational costs.

Second, it is unprecedented for the state to purchase large natural gas generators to address statewide energy demand. California should have a long-term plan that addresses energy demand without relying on the state acquiring new generators. I believe purchasing generators for emergency energy needs is an inefficient use of state dollars and should not be repeated.

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Concerns have also been raised about the discretionary nature of the activities that would be funded through this request and whether or not the activities fully meet the requirements of Item 9840-001-0001. It has been suggested that the unanticipated costs should be addressed as part of the mid-year budget adjustments. While I acknowledge the concerns about using 9840 to transfer funds for activities that have not been authorized by the Legislature and the \$10 million could be considered as part of a current year appropriation, the Administration finds itself in a position where it must take steps to reduce emissions and ensure the generators comply with air quality permits. The Legislature will have the opportunity to review the project when we consider the Administration's request for a current year augmentation. Therefore, I waive the remainder of the legislative review period which will allow the Administration to begin installing the emission reduction systems and prepare the use of the generators as a contingency to support electric reliability for the most extreme electricity demand events.

Going forward, I encourage the Administration to take a closer look at the nature of the activities being augmented and whether or not future requests for spending authority are more appropriately funded through traditional budget augmentations and processes.

Finally, as the Administration looks to improve electric supply reliability, it should not rely on the acquisition of additional generators to reduce pressure on the electric grid. If any such proposal is contemplated, it should be submitted to the Legislature for review as part of the traditional budget process.

Sincerely,

A handwritten signature in cursive script that reads "Nancy Skinner". The signature is written in black ink and is positioned to the right of the word "Sincerely,".

Nancy Skinner
Chair

cc: Members of the Joint Legislative Budget Committee