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**Grid regionalization: a boon or a boondoggle for California?
New report illuminates key issues as Legislature considers state's energy future**

*Nonpartisan think tank Next 10 launches first in series of reports
on issues facing California's grid*

SAN FRANCISCO — As the California legislature debates the state's energy future, a new study takes a fresh look at the pros and cons of creating a Western regional grid, and illuminates the complexities that have helped stall bills addressing the issue over the past three years. Grid regionalization could change how and where renewables are built, bought and sold, with ramifications for energy markets in California and across the West.

“Regionalization raises a lot of issues, and we hope policymakers and other Californians who have questions about it can find answers in our new report,” said F. Noel Perry, businessman and founder of Next 10. “A carefully crafted regional transmission organization could be a game-changer for clean energy in the West. But as always, the devil is in the details.”

The new report, [*A Regional Power Market for the West: Risks and Benefits*](#), lays out arguments for and against expanding the western electricity market through the formation of a regional independent system operator (ISO). ISOs act as air traffic controllers for electricity, independently coordinating the planning and distribution of energy in a given area. Regional ISOs are common in most of the U.S., but in the West, the region is divided into a patchwork of individual operators, including the California Independent System Operator (CAISO). Pending legislation would set the rules for how California utilities could join a regional market.

Supporters of regionalization — including Gov. Brown, CAISO, and many clean energy industry associations and environmental groups — say setting up a vast regional market would accelerate the scale-up of clean energy while reducing operating costs, enabling California to meet its climate goals even as energy bills come down. Detractors, including labor and consumer groups, say that a Western RTO could reduce the state's control over clean energy and climate policies and shift construction jobs to other states.

After evaluating arguments on either side of the expanded Western RTO issue, the report offers takeaways on key topics of concern, including:

- **Jobs** — A Western RTO could result in some renewable energy construction jobs moving from California to other states, but it would likely create a much larger number of California jobs overall. That's because increasing renewable generation

across the region would lower electricity prices for all Californians, lowering costs for businesses and broadly encouraging job growth.

- **Governance** — While opponents worry that a regional transmission organization would force state policymakers to give up control, the state’s existing independent system operator, CAISO, is already independent of state control. All RTOs, including CAISO, are subject to FERC regulations and federal law. RTOs have limited ability to affect state policy decisions, and their actions are subject to FERC oversight. FERC, meanwhile, is subject to oversight by the courts.
- **Policy** — Because most court challenges to state policies happen under interstate commerce rules, a change to a Western RTO would not substantially change the threats to California’s pioneering climate and clean energy policies. As for FERC, their primary mandate is to provide “just and reasonable” rates through fair competition. As long as California clean energy policies don’t interfere with competition – and they generally haven’t so far – joining a Western RTO would not subject the state to additional risk from FERC.
- **Integrating renewables** — There are many ways to integrate renewables into the grid, including distributed energy resources, whose costs are falling rapidly. But bulk solutions — such as transmission lines and regional markets — remain the lowest cost option.
- **Coal** — Despite concerns about the Trump administration’s support for propping up the coal industry, coal generation is in decline nationwide due in large part to being subject to competition with more affordable natural gas power, renewables, and energy efficiency. A Western RTO with truly competitive market rules would likely increase pressure on aging Western coal plants. However, policymakers must be sure to avoid market rules that allow old coal plants to survive, such as capacity payments.

“It’s a complicated conversation, and advocates on both sides want to simplify it to make their points,” said Bentham Paulos, independent energy analyst and founding principal of PaulosAnalysis, who produced the report for Next 10. “But this can introduce a lot of misunderstandings of what regional markets are and are not.”

“The debate about a Western regional market has been going on for decades,” said Paulos. “But it seems more timely now. CAISO’s energy imbalance market (EIM) has helped increase trust and cooperation among states and utilities. And the advent of cheap wind and solar power in all Western states has helped create a shared vision of the future: coal’s time is limited, and a low-carbon future doesn’t look very expensive any more. A bigger regional market is a good way to integrate renewables for all Western states. But it will require collaboration, as well as ongoing work.”

A Grid Primer

Next 10 is releasing its regionalization report along with [Transforming the Grid: An Introduction to California’s Electric System in the 21st Century](#), which explains how the state’s power system and grid work, lays out environmental and social issues, and provides visions of the future as the grid evolves in concert with economic and environmental trends. The two reports kick off a series of five briefs examining California’s electric grid at a pivotal time in its history.

“As California strives to slash its greenhouse gas emissions by switching to clean, renewable energy, the state’s power system faces an era of rapid change,” Next 10’s Perry said. “We hope *Transforming the Grid* and the other papers in this series will help Californians — especially policymakers — to understand fully the issues involved, so they can make informed decisions that position our state for clean energy success.”

About Next 10

Next 10 (next10.org) is an independent, nonpartisan organization that educates, engages and empowers Californians to improve the state’s future. With a focus on the intersection of the economy, the environment, and quality of life, Next 10 employs research from leading experts on complex state issues and creates a portfolio of nonpartisan educational materials to foster a deeper understanding of the critical issues affecting our state.

About PaulosAnalysis

PaulosAnalysis (PaulosAnalysis.com) provides energy policy, communications, and consulting services to clean energy businesses, nonprofits, foundations, research and consulting firms, trade associations, and media. Recent clients include the Clean Energy States Alliance, the Illinois Power Agency, and the Electricity Markets & Policy Group at Lawrence Berkeley National Lab.