



January 18, 2022

Honorable Nancy Skinner, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee

Honorable Phil Ting, Chair
Assembly Budget Committee

Honorable Anthony Portantino, Chair
Senate Appropriations Committee

Honorable Chris R. Holden, Chair
Assembly Appropriations Committee

Notification of Receipt and Approval of an Unanticipated Cost Funding Request from the Department of Water Resources

Pursuant to Provisions 3 and 6 of Items 9840, we are transmitting to you within 15 days of receipt, the attached unanticipated cost funding request from the Department of Water Resources, which we received on January 12, 2022.

On July 30, 2021, the Governor proclaimed a state of emergency that, among other things, identified a gap between the California Independent System Operator's Capacity Procurement System and the existing level of energy resources available for the effort. In addition to identifying the need for immediate actions to reduce the strain on energy infrastructure, the proclamation directs the California Energy Commission and Department of Water Resources to enter into contracts to procure materials, goods, and services for projects that can support the energy grid and be online by October 31, 2021.

On August 10th, the Department of Finance sent a letter to the Joint Legislative Budget Committee that authorized \$171.5 million from the Disaster-Response Emergency Operations Account (DREOA) to the Department of Water Resources to secure additional resources to support bringing energy generation units online before October 31, 2021. The Department of Water Resources used this funding to purchase four 30 watt generators at two different powerplants.

In order for these generators to meet federal, state, and local air emission requirements to be online by next summer, updated estimates reflect a need for an additional \$40.3 million in the current year beyond what was authorized from DREOA. The increased costs are primarily due to refined estimates, particularly for the Selective Catalyst Reducers necessary to reduce emissions and comply with air quality permits. Additional increased costs are associated with Pacific Gas and Electric network upgrades and North America Electric Reliability Corporation (NERC) requirements. Without these additional resources, the generators will not be in legal compliance and unavailable to provide additional energy capacity necessary to support the state's energy needs and protect California from potential rolling blackouts next summer.

Given limited availability of funding from Item 9840, this transfer of \$10 million will be followed by a subsequent early action funding request to the Legislature of an additional \$30.3 million.

We have completed our review of the proposal and concur with the request. Funding for this unanticipated cost request will be provided from Item 9840-001-0001, Augmentations for Contingencies or Emergencies, in the amount of \$10,000,000. Due to the urgent need for the activities that will be funded from this request, we are requesting an expedited review from the Legislature.

Please call Krystal Acierto, Principal Program Budget Analyst, at (916) 324-0043 if you have any questions.

KEELY MARTIN BOSLER
Director
By:

A handwritten signature in black ink, appearing to read "Erika Li".

ERIKA LI
Chief Deputy Director

Attachment

cc: On Following Page

cc: Honorable Jim Nielsen, Vice Chair, Senate Budget and Fiscal Review Committee
Honorable Vince Fong, Vice Chair, Assembly Budget Committee
Honorable Bob Wieckowski, Chair, Senate Budget and Fiscal Review
Subcommittee No. 2
Honorable Richard Bloom, Chair, Assembly Budget Subcommittee No. 3
Gabriel Petek, Legislative Analyst (3)
Joe Stephenshaw, Staff Director, Senate Budget and Fiscal Review Committee
Mark McKenzie, Staff Director, Senate Appropriations Committee
Kirk Feely, Fiscal Director, Senate Republican Fiscal Office
Christopher W. Woods, Senate President pro Tempore's Office (2)
Christian Griffith, Chief Consultant, Assembly Budget Committee
Jay Dickenson, Chief Consultant, Assembly Appropriations Committee
Joseph Shinstock, Fiscal Director, Assembly Republican Caucus, Office of Policy
and Budget
Paul Dress, Caucus Co-Chief of Staff, Assembly Republican Leader's Office
Luigi Luciano, Legislative Director, Assembly Republican Leader's Office
Jason Sisney, Assembly Speaker's Office (2)
Karla Nemeth, Director, Department of Water Resources
Joel Ledesma, Deputy Director for Statewide Water and Energy, Department of
Water Resources
Kathie Kishaba, Deputy Director of Business Operations, Department of Water
Resources
Bryan Cash, Assistant Secretary for Administration and Finance
Amanda Martin, Deputy Assistant Secretary for Administration and Finance

STATE OF CALIFORNIA
UNANTICIPATED COST FUNDING REQUEST
DF-580 (REV 04/11)

Department of Finance
915 – L Street
Sacramento, CA 95814

I. APPROPRIATION/FUND TO BE ADJUSTED

DEPARTMENT: Department of Water Resources

ITEM NUMBER: 3860-001-0001

FUND: General Fund

AMOUNT OF FUNDING REQUESTED:
\$10,000,000FISCAL YEAR:
2021-22

II. JUSTIFICATION FOR REQUEST (Please provide the following information: reason for expense and basis of determination that the expense is needed.) DOF may not approve requests for: (a) capital outlay funding, (b) prior year expenses, (c) expenses related to legislation enacted without an appropriation, (d) startup costs of programs not yet authorized by the Legislature, (e) costs that could have been included in May Revision, and (f) costs that the Administration has the discretion to incur or not incur. (Use attachments if additional space is needed.)

The Department of Water Resources requires additional funding to support the engineering, procurement of construction material, and construction for the installation of emissions controls and equipment for four portable generators at two sites to comply with federal, state, and local air emission requirements. These generators with a capacity of 120 MW are necessary to support California grid reliability summer 2022. Without this emission control equipment, the generators do not meet federal, state, and local air emission requirements, and will not be available to address the state's energy needs.

III. EMERGENCY NOTIFICATION

Is this an emergency request for funding unanticipated costs? (An emergency request is for expenses incurred in response to conditions of disaster or extreme peril that threaten the immediate health or safety of persons or property in this state.)

 NO YES (If yes, please provide reason for expense and basis for determining this an emergency. Use attachments if additional space is needed.)**IV. PROVIDE A DETAILED EXPLANATION OF ALL LEGALLY PERMISSIBLE STEPS THAT HAVE BEEN TAKEN TO AVOID ADDITIONAL COSTS, (e.g., reduce spending, etc.) (Add attachments if additional space is needed.)**

The unanticipated increased costs are primarily due to refined estimates, particularly for the selective catalyst reducers necessary to reduce emissions and comply with the required air quality permits and costs associated with PG&E network upgrade and North America Electric Reliability Corporation (NERC) requirements. Without these additional resources, the generators would not be in legal compliance and will not be available to provide additional energy capacity necessary to support the state's energy needs and protect California from potential rolling blackouts next summer.

V. WAS THIS NEED FOR FUNDING PREVIOUSLY DENIED IN A LEGISLATIVE BUDGET COMMITTEE ACTION? (Use attachments if additional space is needed.) NO YES (when and why?)**VI. MONTH AND YEAR WHEN SPENDING AUTHORITY TO OBLIGATE FUNDS (not make cash payment) WILL BE NEEDED.**

Month: January _____ Year: 2022 _____

VII. REQUESTING DEPARTMENTApproved By: 

Title: Chief Deputy Director

Date: 1/13/2022

VIII. AGENCY SECRETARY (IF APPROPRIATE)Approved By: *Amanda Martin*

Date: 1/13/2022

IX. DEPARTMENT OF FINANCE

Date Received: _____

Date of Notice to Legislature: 1/18/2022 _____