AGENDA

ASSEMBLY BUDGET COMMITTEE NO. 3 RESOURCES AND TRANSPORTATION

ASSEMBLYMEMBER RICHARD BLOOM, CHAIR

WEDNESDAY, APRIL 26, 2017

9:30 A.M. - STATE CAPITOL ROOM 447

PART A

ITEMS FOR VOTE-ONLY

ITEMS TO BE HEARD

ITEMS FOR VOTE-ONLY

3360 CALIFORNIA ENERGY COMMISSION

VOTE-ONLY ISSUE 1: ENERGY END-USE SURVEY FUNDING AUGMENTATION

The Governor's budget requests $5.8 million in one-time contract funding from the Petroleum Violation Escrow Account for energy end-use surveys.

BACKGROUND

The Energy Commission is required to produce an energy demand forecast every two years that becomes the basis for procurement planning at the California Public Utilities Commission (CPUC) and is used to measure progress towards various greenhouse gas policies in California. California code also requires completion of a commercial, residential and industrial survey four years to inform the demand forecast. The requested funds would augment existing funding allocated for the commercial end-use survey and the residential appliance saturation survey, and provide funding for a full-scale analysis of industrial energy use. The commercial end-use survey is primarily funded with Electric Program Investment Charge (EPIC) funds, which cannot be used to survey natural gas end-uses or any end-use in publicly owned utility service areas.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 2: CLEAN ENERGY AND POLLUTION REDUCTION ACT OF 2015 (SB 350)

The Governor's budget requests 8.0 permanent positions and $9.1 million from the Cost of Implementation Account (COIA) (including three-year funding of $305,000 annually for two temporary positions, and $7.6 million COIA for resources approved in 2016-17, which included 29.5 permanent positions and $3.5 million in ongoing contract funds) to comply with and implement SB 350 (De León, Chapter 547, Statutes of 2015).

BACKGROUND

The request for COIA funds changes the funding provided in the 2016 Budget Act from the Air Pollution Control Fund civil penalty resources, to a more appropriate fund source. Three of the proposed positions will attempt to address the poor-quality contractor work performed on energy retrofits. The other five positions would 1) develop a new renewable portfolio standard (RPS) rulemaking for public owned utilities (POU) to establish rules for optional compliance measures; 2) support the increased volume and complexity of certification of facilities under the expanded RPS program with new eligibility rules; 3) support the increase in verification of utility electricity generation data under the expanded RPS program; 4) collaborate with CAISO and propose necessary program changes so that the RPS program is responsive to advancements in grid operation; and 5) conduct technical evaluation and coordinate with CAISO and CPUC on policy development so that the intended benefits of the RPS as stated in SB 350 are realized, including the "reliable operation of the grid."

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 3: COMPLIANCE WITH BUILDING ENERGY EFFICIENCY STANDARDS (SB 1414)

The Governor's Budget requests 1.0 permanent position and $386,000 (including $250,000 in contract funds for two years) from the Energy Resources Programs Account (ERPA), to comply with SB 1414 (Wolk, Chapter 678, Statutes of 2016).

BACKGROUND

SB 1414 requires the Energy Commission by January 1, 2019, and in consultation with the Contractors State License Board (CSLB), local building officials, and other stakeholders, to approve a plan to promote compliance of central air conditioners and heat pumps with the Building Energy Efficiency Standards. The Energy Commission must evaluate the best available technological and economic information so that the plan is feasible at a reasonable cost to government, industry, and homeowners. The Energy Commission must consider the impact of the plan on property owners; manufacturers, distributors and contractors; local governments; building officials; and the CSLB. The Energy Commission must allow for public comment on the proposed plan. The Energy Commission may adopt regulations to increase compliance with permitting and inspection requirements, and associated sales and installations, consistent with the plan.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 4: EXPANSION OF POWER SOURCE DISCLOSURE PROGRAM (AB 1110)

The Energy Commission requests 1.0 permanent position and $117,000 from ERPA to comply with and implement AB 1110 (Ting, Chapter 656, Statutes of 2016).

BACKGROUND

AB 1110 requires the Energy Commission to implement changes to the Energy Commission's Power Source Disclosure program; adopt a methodology for calculating the greenhouse gas (GHG) intensity for electricity purchases; establish new program guidelines by January 1, 2018; collect GHG intensity data from retail suppliers; ensure no double-counting of GHG emissions or environmental attributes associated with any reported electricity; and determine how retail suppliers disclose unbundled renewable energy credits as a portion of their annual retail sales.

Staff Recommendation: Approve as Budgeted

ISSUE 5: REALIGN THE ENERGY RESOURCES PROGRAMS ACCOUNT EXPENDITURES

The Governor's Budget requests a reduction and realignment of $15.4 million from the Energy Resources Programs Account (ERPA) to reduce the fiscal demands on ERPA while aligning program activities with other appropriate funding sources.

BACKGROUND

The ERPA funds state operations for many of CEC's core programs. It has a structural shortfall of about $20 million. The Governor's budget proposes the following actions to reduce pressure on the fund:

- Convert 3.0 positions and $200,000 in baseline contract funding from ERPA to the Appliance Efficiency Enforcement Subaccount for a reduction of $662,000;
- Reduce $4.9 million in ERPA baseline contract authority for power plant planning, siting, and compliance activities;
- Shift 35.0 positions from ERPA to the Alternative and Renewable Fuel and Vehicle Technology Fund for a reduction of $4.8 million; and
- Reduce baseline expenditure authority by $5 million to align with actual expenditures.

The figure below show's ERPA's fund condition for 2015-16 through 2021-22. Even after adoption of the Governor's proposed actions, a shortfall of $5 million reappears in 2019-20 and grows to nearly $21 million in 2021-22.

Energy Resources Program Account Fund Balance (In Millions)

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Revenue/ Transfers	$118.3	$116.6	$94.6	$86.5	$78.4	$70.5	$62.6
Expenditures	$77.3	$97.5	$83.7	$83.7	$83.4	$83.4	$83.4
Fund Balance	**$41.0**	**$19.1**	**$11.0**	**$2.8**	**($5.0)**	**($13.0)**	**($20.8)**

STAFF COMMENTS

The Administration proposes reasonable actions to address ERPA's shortfall in the budget year and these will help to ensure the fund remains solvent for the next couple of years. However, a longer-term solution is needed.

This issue was heard in Subcommittee #3 on April 5, 2017.

Staff Recommendation: Approve as Budgeted

ISSUE 6: AMENDMENT TO THE 2016 BUDGET ACT: REDUCTION OF FUNDING FOR TRANSPORTATION AND TECHNOLOGY FUEL RESEARCH

The Governor's budget proposes to reduce the Energy Commission's budget by $3 million General Fund.

BACKGROUND

The 2016 Budget Act included $15 million General Fund (budgeted in state operations) and language requiring a competitive grant process including a provision for the federal cost share for alternative fuel applied research and demonstration solicitations, and (2) $3 million General Fund (local assistance) for the federal cost share for alternative fuel applied research and demonstration solicitations (intended to provide matching funds for successful federal awards).

STAFF COMMENTS

According to the Department of Finance, the proposed reduction of $3 million will impact the number of awards and the breadth of research, but the Energy Commission can still meet the intent of the original proposal. The Energy Commission has already released a competitive solicitation for the federal cost share and issued contingent awards. This was done first to allocate $3.6 million in federal cost share funding since it had a shorter encumbrance deadline than the $15 million, and because DOE had two active solicitations out that California entities were competing in. The Energy Commission is able to fund the $3.6 million federal cost share awards with a portion of the remaining $15 million.

For the remaining $11.4 million, the CEC released a standard competitive solicitation on January 23, 2017 to support research and pre-commercial demonstration of fungible low carbon fuels synthesis by providing funding for cutting-edge, pre-commercial low-carbon fuel production processes that result in the development of bio-oil as an intermediate fuel with wide-scale adoption potential, and that support California's transportation sector and greenhouse gas emission reduction efforts.

The Committee may wish to learn more about the specific impacts of this proposed reduction and why the reduction is being proposed.

This issue was heard in Subcommittee #3 on April 5, 2017.

Staff Recommendation: Reject the Governor's Proposal

VOTE-ONLY ISSUE 7: TECHNICAL ADJUSTMENT TO PIER-NATURAL GAS SUBACCOUNT

The Spring Finance letter requests that the PIER Natural Gas Subaccount ongoing appropriation proposed in the 2017-18 Governor's budget be increased by $859,000.

BACKGROUND

The PIER Natural Gas Subaccount appropriation proposed in the Governor's budget was inadvertently reduced by an ongoing Pro Rata assessment. The technical correction will increase the appropriation to $29.9 million.

Staff Recommendation: Approve as Proposed

VOTE-ONLY ISSUE 8: TITLE 20 APPLIANCE EFFICIENCY STANDARDS COMPLIANCE ASSISTANCE AND ENFORCEMENT PROGRAM

The Spring Finance letter requests 3.0 permanent positions and $411,000 from the Appliance Efficiency Enforcement Subaccount to support the Title 20 Appliance Efficiency Standards Compliance Assistance and Enforcement Program.

BACKGROUND

SB 454 (Pavley, Chapter 591, Statutes of 2011) authorized the Energy Commission to establish an enforcement program for violations of the Energy Commission's appliance efficiency standards, with penalties up to $2,500 per violation. The Energy Commission adopted regulations for this program in May 2015 and they went into effect in July 2015. The requested positions will conduct manufacturer test laboratory audits, provide compliance assistance and education to the regulated industries on how to comply with the Energy Commission's regulations, and support the growing program infrastructure. These staff will also conduct investigations to uncover violations leading to penalties levied through the formal administrative enforcement/adjudication program or through mutual settlement or litigation. Currently, there is a significant level of noncompliance with energy efficiency standards that the Energy Commission does not have adequate resources to address. Enforcing these energy efficiency standards is necessary to meet the state greenhouse gas reduction goals.

Staff Recommendation: Approve as Proposed

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION (CPUC)

VOTE-ONLY ISSUE 9: Resources to Implement Various Legislative Proposals

The Governor's budget includes nine proposals to implement recently enacted legislation. Below is a summary and description of each proposal.

Legislation	Budget Request
California Lifeline--Portability Freeze Rule (AB 2570)	The CPUC requests $82,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA), for 1.0 position to process the anticipated increase in contacts from consumers due to changes made in the California LifeLine program by AB 2570 (Quirk, Chapter 577, Statutes of 2016). AB 2570 institutes a 60-day portability freeze on LifeLine consumers, such that, with certain exceptions, consumers will not be able to change to an alternative LifeLine provider within the first 60 days after initial approval.
Clean Energy Pollution Reduction Act of 2015- Computer Simulations and Modeling (SB 350)	The CPUC requests $300,000 per year from the PUCURA continuing until 2030 (13 years), the final compliance date for SB 350 (De León, Chapter 547, Statutes of 2015), the Clean Energy & Pollution Reduction Act. These funds will be used to purchase equipment, software, and training support to do modeling work necessary to evaluate integrated resource plans filed by electric companies.
Electric Utility and Wildfire Mitigation Plans (SB 1028)	The CPUC requests $966,000 for 3.0 new permanent full-time engineering positions for the Electric Safety and Reliability Branch in the PUC's Safety and Enforcement Division, and related consulting costs of $500,000 (per year for three years). SB 1028 (Hill, Chapter 598, Statutes of 2016) requires CPUC to take steps to minimize the risk of catastrophic wildfires posed by electrical lines and equipment. The new requirements expand the involvement of the CPUC in review and oversight of the utilities' wildfire mitigation measures.
Energy Storage (AB 33, AB 2868)	The CPUC requests a total of $644,000 from PUCURA for two years for 2.5 positions and consulting costs of $250,000 per year to evaluate and analyze the potential for all types of long duration bulk energy storage resources to help integrate renewable generation into the electrical grid and to accelerate the deployment of distributed energy storage systems.
Expanded 2-1-1 Information and Referral Network (SB 1212)	The CPUC requests to increase the California Teleconnect Fund (CTF) Administrative Committee Fund by $1,620,000 as follows: • $1.5 million for one-time costs to help close 2-1-1 service gaps in counties lacking access these services.

	• $120,000 for two years for 1.0 position to manage the implementation of 2-1-1 services in 20 unserved counties, pursuant to SB 1212 (Hueso, Chapter 841, Statutes of 2016).
Expedited Distribution Grid Interconnection Dispute Resolution (AB 2861)	The CPUC requests $796,000 for 3.0 permanent full-time positions and four consultants for three years to establish and administer an expedited interconnection dispute resolution process as authorized by AB 2861 (Ting, Chapter 672, Statutes of 2016).
Safe Biomethane Production and Distribution (SB 840, SB 1383, AB 2313)	The CPUC requests $795,000 for two years from PUCURA for 5.0 positions to implement the mandates of SB 840 (Committee on Budget and Fiscal Review, Chapter 341, Statutes of 2016), SB 1383 (Lara, Chapter 395, Statutes of 2016), and AB 2313 (Williams, Chapter 571, Statutes of 2016) to promote the development of biomethane. These bills require CPUC to start or reopen proceedings to reevaluate biomethane safety standards, increase per-project biomethane incentives, and implement a dairy biomethane pilot program.
Transportation Network Companies-Personal Vehicles (AB 2763)	The CPUC requests $130,000 from the Public Utilities Commission Transportation Rate Account for 1.0 permanent position to verify transportation network company (TNC) compliance with the expanded range of vehicles pursuant to the AB 2763 (Gatto, Chapter 766, Statutes of 2016). AB 2763 significantly increases and compounds the complexity of regulatory oversight, as a single TNC driver's “personal vehicle” may now change as frequently as on an hourly basis.
Greenhouse Gas Emissions and Biomass (SB 859)	The CPUC requests $588,000 from the PUCURA for 4.0 positions to comply with SB 859 (Committee on Budget and Fiscal Review, Chapter 368, Statutes of 2016) which mandates the implementation of a new energy purchasing program and the establishment of a new process to track and distribute contract costs, requiring that 125 megawatts of biomass energy be purchased by California’s electric utilities.

Staff Recommendation: Approve as Budgeted except 1) California Lifeline Portability Freeze Rule (AB 2570) for two years only, instead of permanent, and for 2) AB 2861 approve as budgeted the entire request except the requested public utility regulatory analyst V for two years only, instead of permanent.

VOTE-ONLY ISSUE 10: FISCAL OFFICE—PERMANENT POSITIONS

The Governor's Budget requests permanent position authority for 2.0 existing full-time, blanket Accountant I positions within the CPUC Fiscal Office.

BACKGROUND

The request is only for position authority, and not funding, because the positions are currently funded with existing budget authority. The positions were originally created administratively to accommodate workload concerns in fiscal year 2012-13 in the Accounts Payable and Cashiering Units in the Fiscal Office. The growing number of tasks and increasing levels of work complexity have impacted the unit's permanent workload, and these positions are necessary to maintain the current service level of the accounts payable and cashiering operations of the PUC.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 11: CEQA PROGRAM MANAGEMENT

The Governor's Budget requests $195,000 annually from the PUCURA for 1.0 new permanent position to oversee a staff that has expanded and handled increasing workload since 2010-11.

BACKGROUND

This position will increase the efficiency and management oversight of workload related to the CPUC's obligations to conduct permitting and environmental review, as required under the California Environmental Quality Act (CEQA), of energy, water, gas, and telecommunications projects. The section's workload and staffing increased in prior budgetary cycles to accommodate additional state priorities, including High Speed Rail and the Renewables Portfolio Standard, and these new resources will improve the effectiveness and oversight of the existing CEQA program staff resources to focus on meeting the state's policy objectives.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 12: DEAF AND DISABLED TELECOMMUNICATION PROGRAM—PERMANENT POSITIONS

The Governor's Budget requests to convert 4.0 limited-term positions to permanent positions, amounting to $369,000 from the Deaf and Disabled Telecommunications Program Administrative Fund.

BACKGROUND

Public Utilities Code §2881 required CPUC to expand the Deaf and Disabled Telecommunications Program to include speech generating devices (SGDs) to eligible telephone subscribers, can continue. As required by code, the CPUC adopted rules to implement the program by January 1, 2014; however, additional work to refine the program and support the deployment of SGDs and other equipment to Californians who are deaf and disabled, is expected to continue beyond the expiration of the limited term positions in June 2017.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 13: CALIFORNIA HIGH-COST FUND A—INCREASE LOCAL ASSISTANCE

The Governor's Budget requests a California High-Cost Fund A (CHCF-A) budget increase of $6.1 million in local assistance funding, to $47.9 million.

BACKGROUND

The requested increase is due to additional funding requirements resulting from reductions in federal subsidies and greater projected support for telephone corporations, which includes: 1) projected cost increases from General Rate Cases to recognize inflation and labor cost adjustments and 2) increased broadband investment subject to recovery. The CHCF-A is funded by a surcharge on telephone and Voice over Internet Protocol (VoIP) customers' bills.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 14: CALIFORNIA ADVANCED SERVICES FUND

The Governor's Budget requests $661,000 per year through the California Advanced Services Fund (CASF) to extend 5.0 existing limited-term positions that are set to expire on December 31, 2017 through December 31, 2020.

BACKGROUND

The extension will allow the CASF mandate to provide funding to eligible broadband projects throughout the state to be fulfilled.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 15: ALIGN CALIFORNIA ADVANCED SERVICES FUND AUTHORITY WITH PUC CODE SECTION 281

The Governor's Budget requests a decrease in budgetary spending authority for CASF to $72.1 million for local assistance. Thus, for 2017-18, the expense budget for the CASF would be $75.8 million ($3.7 million for state operations and $72.1 million for local assistance).

BACKGROUND

The decrease is appropriate because Public Utilities Code section 281 mandates a limit that the CPUC may collect up to $315 million in revenue, which it projects it will have collected by November 2016, so using the same appropriation in 2016-17 and 2017-18 would result in a negative fund balance. The PUC projects that it will have a positive fund balance of $75.8 million for 2017-18.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 16: CALIFORNIA TELECONNECT FUND—RESOURCES FOR COMPLIANCE OVERSIGHT AND ADMINISTRATION

The Governor's Budget requests an increase in funding of $3.6 million from the California Teleconnect Fund (CTF) for 2.0 permanent positions (totaling $240,000) and related consulting costs of $3.4 million to implement recently adopted CTF program reforms and better enforce program eligibility requirements.

BACKGROUND

Decision 15-07-007 determined that community based organizations (CBOs) receiving CTF discounts need to establish eligibility every three years and must adopt more restrictive eligibility criteria. As a result, approximately 8,000 CBOs will need to reapply in the next two fiscal years. Recently adopted program changes also require carrier price disclosure and enhanced security of claims, which will require additional staffing.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 17: CYBERSECURITY DEFENSE

The Governor's Budget requests $665,000 for 4.0 permanent positions from the PUCURA to establish a cyber security utility regulatory group.

BACKGROUND

This group of highly technical cybersecurity analysts will 1) adopt, in coordination with the California Governor's Office of Emergency Services, requirements for better oversight of utilities and understand the landscape of cyber security threats currently facing utilities; 2) utilize information sharing to successfully protect the grid from potential cyber security events; 3) evaluate the existing and proposed cyber security frameworks, best practices, and what additional measures could be implemented by utilities to protect utility systems; 4) analyze costs involved with cyber security and what is the adequate amount to authorize; 5) examine new and emerging policy debates in the legislative and executive branches to provide the CPUC's commissioners insight into potential cyber security requirements and obligations.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 18: OFFICE OF THE RATEPAYER ADVOCATE—COMMUNICATIONS AND WATER POLICY BRANCH WORKLOAD

The Governor's Budget requests 1.0 position and $132,000 from the Public Utilities Commission Office of Ratepayer Advocates Account (PUCORA) to perform workload associated with the State's evolving water conservation policies, consolidation of utility rate districts, and new requirements for re-occurring telephone company general rate case applications.

BACKGROUND

The requested position would audit and review new and complex water and telephone utilities' spending proposals, including conservation expenses and revenue subsidies in order to (i) advance cost-effective water conservation measures and affordable, safe and reliable advanced communication services, (ii) build an evidentiary record in CPUC proceedings, and (iii) achieve the lowest utility rates consistent with safe and reliable service.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 19: OFFICE OF THE RATEPAYER ADVOCATE—SAFETY ANALYSES WORKLOAD

The Governor's Budget requests 3.0 positions and $390,000 from the PUCORA to analyze existing, expanded, and anticipated utility safety-related programs and expenditures.

BACKGROUND

The ORA requests these positions because of its increased involvement in safety matters. Since the 2010 natural gas pipeline explosion in San Bruno the CPUC has established new regulatory processes to identify safety risks associated with the investor owned energy utilities' (lOUs) operations, and the effectiveness of the IOUs' safety risk mitigation measures. The CPUC's new processes allow more vetting of the lOUs' risk assessment and provides ORA with the opportunity to scrutinize the lOUs' safety risk mitigation proposals. The three proposed positions will conduct analyses of complex policy and technical issues involving electric and gas utility systems and practices, and integrity management programs to help ORA determine if ratepayer funded utility operations and programs (proposed and existing) are cost-effective in ensuring safe and reliable gas service at a reasonable cost.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 20: OFFICE OF RATEPAYER ADVOCATES —SAFE DRINKING WATER

The Governor's budget requests 2.0 positions and $230,000 from the PUCORA to evaluate treatment of emerging water contaminants, cost effectiveness of new water technologies (designed to achieve water savings), and the impact on ratepayers of utility acquisitions associated with new State Water Resources Control Board regulations, SBX7-7 (Steinberg, Chapter 4, Statutes 2009), and the Governor's Executive Orders on the Drought.

Staff Recommendation: Approve as Budgeted

VOTE-ONLY ISSUE 21: EXTENSION OF APPROPRIATION FOR ENERGY CRISIS LITIGATION

The Spring Finance Letter requests budget bill language to reappropriate funds (approximately $1.8 million) in the CPUC Utilities Reimbursement Account for two years 2017-18 and 2018-19 to continue contracts for legal services.

BACKGROUND

The CPUC and other parties such as investor owned utilities, the Attorney General, the California Environmental Reporting System, and the Department of Water Resources are all actively pursuing refunds on excessively priced electricity sales in California during the 2000-01 energy crisis. The reappropriation of these funds would allow CPUC to continue existing legal contracts that have represented CPUC in these proceedings since 2008. $5 million in funding for this work was approved in 2009 and approximately $1.8 million remains. The outstanding CPUC claims exceed $1.3 billion.

Staff Recommendation: Approve as Proposed

VOTE-ONLY ISSUE 22: FEDERAL TRUST FUND FEDERAL TRANSIT ADMINISTRATION GRANT APPROPRIATION INCREASE

The Spring Finance Letter requests an increase to its Federal Trust Fund appropriation for budget year 2017-18 in the amount of $2.7 million and a budget out-year baseline appropriation in the amount of $3.2 million through June 30, 2022 for rail transit safety.

BACKGROUND

The 2012 federal law "Moving Ahead for Progress in the 21st Century (MAP-21) requires states with rail fixed guideway public transportation systems (defined as including, but not limited to, heavy rail, light rail, rapid rail, monorail, inclined plane, funicular, trolley, cable car, automated guideway, and streetcar systems not regulated by the Federal Railroad Administration) to establish safety oversight for these transit systems. The flaw also directs the Federal Transit Administration to distribute funding via formula to support state safety oversight activities. The state has been receiving funding for these activities since 2013 and is expected to continue to in the future.

Staff Recommendation: Approve as Proposed

VOTE-ONLY ISSUE 23: MULTI YEAR REAPPROPRIATION OF FUNDING FOR EFAST

The Spring Finance Letter requests a reappropriation and an extended encumbrance period to June 30, 2021, for $1.5 million from various 2016 Budget Act items. The PUC also requests provisional language for an extended encumbrance period to June 30, 2021 for $1.9 million in various 2017-18 budget year items for the eFiling Administration Support (eFAST) platform and three business configuration projects.

BACKGROUND

The 2016-17 eFAST BCP requested funds in 2016-17 and 2017-18 for contract services (software customization, project management, project oversight, independent verification and validation, and procurement support) but limitations in the contract procurement vehicle, along with other project risks, resulted in the funds not being encumbered. Therefore, the PUC must restructure its IT plans and related funding needs. The eFAST platform and its three current subordinate business configuration projects (Transportation Carrier Portal, Informal Submissions Portal, and Program

Claims Management System) would automate the electronic intake, routing, tracking, disposition, and status of documents (such as formal and informal submissions, filings, Advice Letters, applications, program claims, and reports) and the electronic submission of financial payments by regulated entities.

Staff Recommendation: Approve as Proposed

VOTE-ONLY ISSUE 24: REAPPROPRIATION OF FUNDING FOR SERVICE QUALITY CONTRACT

The Spring Finance Letter proposes to reappropriate up to $500,000 to obtain consulting services to study telephone service quality.

BACKGROUND

The 2016 Budget Act provided $500,000 in reimbursable authority to contract for network engineering consultants to examine AT&T and Verizon's network facilities, and evaluate company policies and practices regarding network construction, maintenance, and repair. Due to a backlog in the CPUC contracts office, this contract has been delayed in being awarded.

Staff Recommendation: Approve as Proposed

ITEMS TO BE HEARD

3360 CALIFORNIA ENERGY COMMISSION

ISSUE 1: EXPANSION OF SOLAR EQUIPMENT LISTING (SB 1)

The Governor's budget requests $3.0 permanent positions and $196,000 from the Renewable Resource Trust Fund to maintain, update, and expand the official listings of solar energy system equipment receiving ratepayer-funded incentives.

BACKGROUND

In addition to establishing a framework for CPUC's California Solar Initiative, SB 1 (Murray, Chapter 132, Statutes of 2006) requires the Energy Commission to adopt guidelines for solar energy systems receiving ratepayer-funded incentives at a publicly noticed meeting. The bill prohibits ratepayer-funded incentives from being made for a solar energy system that does not meet the eligibility criteria. The bill requires the Energy Commission to make certain information available to the public, to provide assistance to builders and contractors, and to conduct random audits of solar energy systems to evaluate their operational performance. To do this, the Energy Commission has established a process under which manufacturers of photovoltaic modules, inverters, meters, and other solar equipment apply for listing their equipment on official lists that identify their equipment as incentive-eligible.

This proposal would shift maintenance of the lists from consultants to state staff, in addition to expanding services. Staff would be responsible for maintaining current lists, conducting technical reviews, and implementing process improvement and efficiencies, as well as, expanded requirements and certifications.

STAFF COMMENT

The Energy Commission's proposal to use state staff to conduct work that is currently being contracted out costs more than the cost of the current contract because the workload will be expanded. These staff would be funded from the Renewable Resource Trust Fund which has no new revenue coming in and the fund balance will ramp down over time. 16 other states use these lists for programs they operate, as well as investor owned utilities which will be relying on these lists as a requirement of the Net Energy Metering and interconnection service programs. The Subcommittee may wish to ask if the Commission has considered charging users of these lists a minor fee to cover the costs of developing these lists.

Staff Recommendation: Hold Open

8600 CALIFORNIA PUBLIC UTILITIES COMMISSION

The Governor's budget includes $1.8 billion all funds for the Public Utilities Commission (CPUC) in 2017-18, an increase of $119.8 million or 7.0 percent from the current year. The CPUC has 1,158.7 personnel and receives no General Fund support. Generally, the Governor's proposals for the CPUC fall into the following four areas 1) reform; 2) implementation of recent legislation; 3) workload increases; and 4) requests for the Office of Ratepayer Advocates (ORA).

The ORA, within the CPUC, is an independent consumer advocate representing the interest of investor owned utility customers. ORA is mandated to represent the interests of ratepayers in virtually all CPUC proceedings. ORA has a staff of 147 positions.

ISSUE 1: PROPOSALS TO IMPLEMENT CPUC REFORMS

The Governor's Budget requests the following resources to implement various reforms desired by the Legislature and the Governor. The requests are summarized below.

Summary of Governor's CPUC Reform Proposals
(Dollars in Thousands)

Proposal	Requested Funding 2017-18	Requested Positions 2017-18
Ex Parte Communications (SB 215)	$391	3
Hearing Reporters-Expedite Availability of Proceeding Records	$228	2
Internal Audit Positions	$266	2
Office of Governmental Affairs	$227	2
Public Contract and DGS Audit Information on PUC Internet Website (AB 1651)	$107	1
Public Records Act Response	$227	2
PUC Intervenor Compensation, Governance, Accountability, Transparency, Outreach (SB 512)	$322	3
Contract Services Oversight and Implementation Audit Findings	$214	2
Enterprise Risk and Compliance Office	$696	5
Total	**$2,678**	**22**

BACKGROUND

Last year, the Governor signed a package of legislation enacting various reforms to improve safety, governance, accountability, and transparency of the CPUC. The

Governor also directed the Commission to take additional actions to further improve transparency and accountability, including appointing an Ethics Ombudsman; establishing a web portal for the Public Advisor to receive public complaints and comments; creating a more streamlined process for releasing information to the public; improving coordination with other state agencies and departments; increasing the Commission's presence outside of San Francisco; and working with the California Research Bureau to study the governance of telecommunications service.

The Governor also directed the Administration to work with the Commission to develop a reorganization plan to transfer Commission duties and responsibilities over transportation-related entities to departments within the California Transportation Agency; codify the appointment of all senior executive staff who will serve at the pleasure of the Commission, including the Executive Director, General Counsel, Chief Internal Auditor, and Chief Administrative Law Judge; and codify the appointment of a Deputy Executive Director for Safety.

Finally, SB 840 (Committee on Budget and Fiscal Review, Chapter 341, Statutes of 2016) requires the CPUC to submit two reports to the relevant policy and fiscal committees of the Legislature by March 1, 2017. The first report pertains to the CPUC's business process inventory efforts. The second report concerns options to locate operations and staff outside of the CPUC's San Francisco headquarters and would explore options to allow the CPUC to collaborate with other state entities and provide staff more opportunities for training, career development, and exchange placements with other state entities.

LAO COMMENTS

The Legislative Analyst's Office (LAO) recommends rejecting the request for 1.0 permanent position and $107,000 (from various CPUC funds) to implement AB 1651 (Obernolte, Chapter 815, Statutes of 2016) which requires CPUC to annually publish a summary of each contract it enters into, as well as the results of any audits of its contracting practices conducted by the Department of General Services, on its website. The Commission estimates that there will be about 400 contract summaries and audits to post annually. The LAO recommends the Legislature reject the request because the workload justification provided by CPUC does not support an additional position. The work appears minor and can be done by existing CPUC staff.

STAFF COMMENTS

Consistent with the LAO recommendation, staff recommends rejecting the request for 1.0 permanent position and $107,000 (from various CPUC funds) to implement AB 1651. Staff notes that the request for additional staff for the Office of Governmental Affairs may have merit, however recommends rejection of the proposal and that it be considered through the policy bill process. For the remaining seven "reform" requests, staff has no concerns. The CPUC has recently encountered significant challenges that could threaten the stability and legitimacy of the organization. These resources could help to better ensure the integrity of the CPUC.

Staff Recommendation: Approve as budgeted the proposals discussed above, except the resources to implement AB 1651 and the augmentation of staff for the Office of Governmental Affairs.

ISSUE 2: CALIFORNIA LIFELINE LOCAL ASSISTANCE AND STATE OPERATIONS

The Governor's budget proposes to increase the appropriation for the Universal LifeLine Telephone Service Trust Administrative Committee Fund by $147.4 million for local assistance and $4.1 million for state operations. It is anticipated that the state operations costs will increase and the LifeLine request will be updated at the May Revision, when more recent information is available.

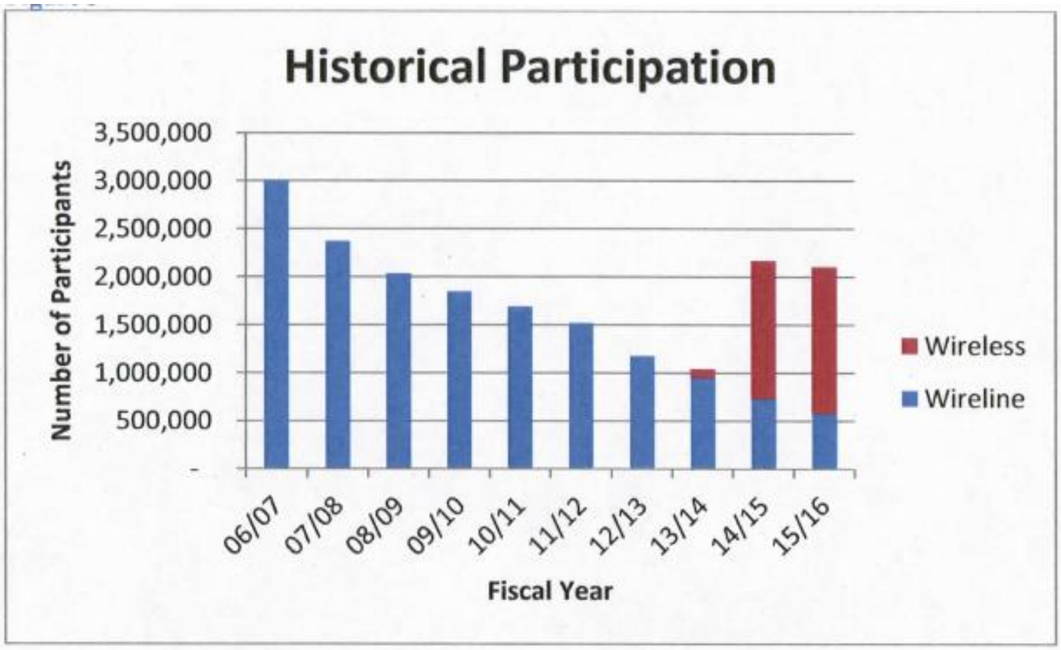
BACKGROUND

The Moore Universal Telephone Service Act, in 1984, set the goal of providing high quality telephone service at affordable rates to eligible low-income households. The Act requires the CPUC to annually designate a class of lifeline service necessary to meet minimum residential communications needs, develop eligibility criteria (currently 150 percent of the federal poverty level), and set rates for the lifeline services, which are required to be not more than 50 percent of the rate for basic telephone service. Over the years, the definition of a "basic service," has been considered in a broader context than traditional wireline (landline) to include new technologies and trends towards voice, video, and data services.

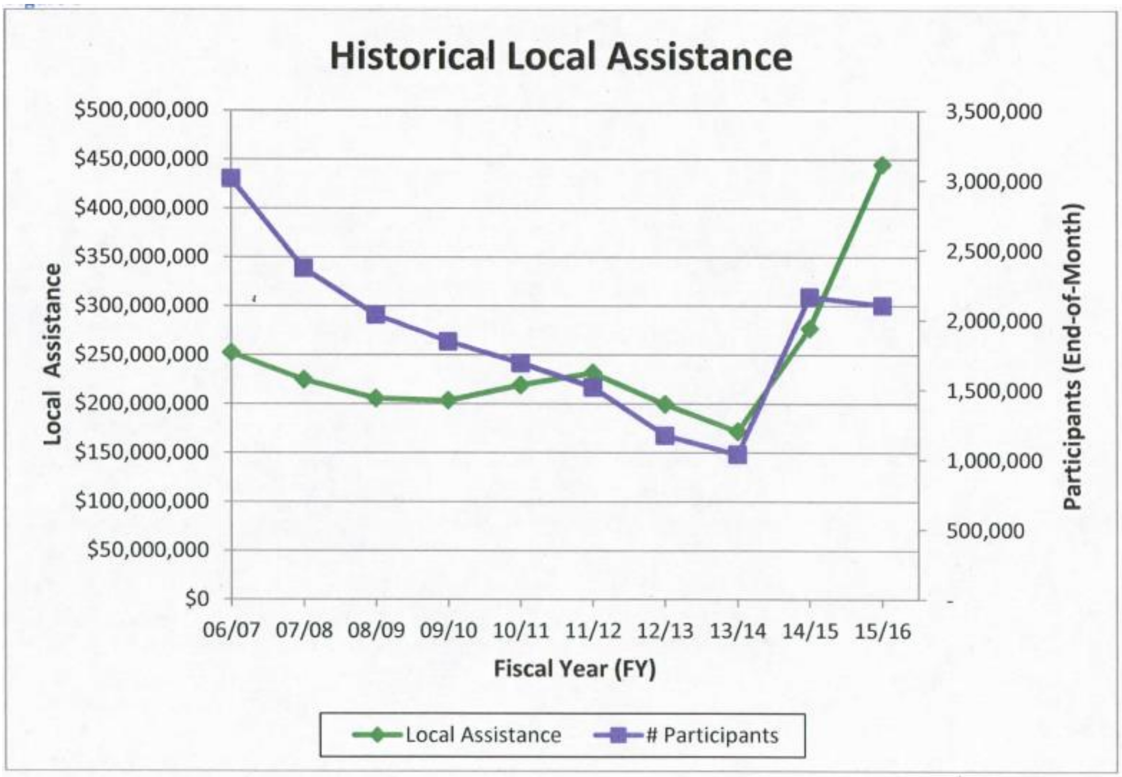
The revenues to fund the program are collected from a surcharge on telephone bills for non-LifeLine customers. The CPUC adjusts the level of the surcharge based on its projections of the amount of revenue needed to cover the costs of the program. The surcharge decreased from 5.5 percent to 4.75 percent, effective November 1, 2016.

The Governor's budget estimates a total program cost in 2017-18 of $634.8 million ($604.8 million local assistance and $30.0 million state operations).

Program Participation Dramatically Increased Since Expansion to Wireless Service. In January, 2014, the CPUC authorized voluntary participation in the program by wireless service providers to offer discounted wireless service plans to low-income households that include wireless voice, text, and data services. Since this change, there has been substantial growth in the program, with all of the growth in the number of wireless subscribers and a reduction in the number of wireline subscribers. The figure below shows the year–over-year growth in the number of subscribers since 2006-07. Program costs also have increased substantially over the same time period and the surcharge to fund the program was recently increased to 5.5 percent.



The figure below shows how local assistance costs have changed over time. The steep increase in costs beyond the number of subscribers is in part due to the reinstatement of a $39 connection subsidy (no more than twice per year) at the end of 2015.



Increased 2017-18 Local Assistance Costs. The request for increased funding for the budget year is mostly due to the extension of the $39 reimbursement service connection/activation charges and increase in the state subsidy. The subsidy is $13.75 for the 2017 calendar year, an increase from $13.20 in 2016. It is estimated the subsidy will increase to $14.30 in 2018.

Increased State Operations Costs in 2017-18. The CPUC anticipates an increase in the operating costs at the time of the May Revision for the following reasons:

- Solicitation for new third party administrator (TPA). The current TPA contact expires in May 2017 and a new contract is expected to be awarded in January 2018, with a full transition completed by June 2018.
- Extension and renegotiation of the existing third party administration contract while new contract is being solicited.
- Printing and mailing costs no longer being provided by the TPA and by the Office of State Printing instead.
- Implementation of Federal Communications Communication (FCC) changes whose cost cannot be anticipated at this time, but will be updated in May. The changes include, but are not limited to, implementing new eligibility criteria, adopting benefit port freezes, and revising de-enrollment rules.

STAFF COMMENTS

The Lifeline Program estimate will be updated at the May Revision. There is no need to take action at this time.

Staff Recommendation: Hold Open

ISSUE 3: SAFETY ASSURANCE OF ELECTRIC AND COMMUNICATIONS INFRASTRUCTURE

The Governor's budget requests $716,000 for 6.0 permanent engineering positions for the Electric Safety and Reliability Branch (ESRB) program funded from the PUCURA.

BACKGROUND

Electric and telecommunications infrastructure has a significant impact on safety and is at risk of large fires which are that are likely to cause electric and telecommunication service interruptions. In addition, there are over 4.5 million utility poles in California, with as many as a quarter at risk of failure due to aging or overloading.

The ESRB program has 27 staff in two sections: the Electric and Communication Facility Safety Section (facilities section) and the Electric Generation Safety and Reliability Section. This proposal would add six engineers to the facilities section. The facilities section currently has 15 engineers that oversee the safety of:

- Over 200,000 miles of overhead electric transmission and distribution lines.
- 77,000 miles of underground transmission and distribution lines.
- 2,200 substations.
- 4.5 million utility poles.

These staff conduct audits, investigate safety incidents and customer complaints, and participate in formal CPUC proceedings. In addition to the electric facilities, the section assesses the safety of the facilities of communication infrastructure providers (including wireline telecommunications companies, wireless carriers, cable television companies, and other broadband providers) that use the electric poles or underground electrical facilities. Also, facilities section staff enforce CPUC safety rules.

The facilities section's workload has increased significantly in recent years. The facilities audit/inspection program originally included only overhead and underground distribution facilities. In 2012, however, the program was expanded to include certain higher-voltage transmission facilities and substations. This expansion of this program roughly doubled the number of electric audit/inspections that are needed; however, the section only received three additional staff. In addition, the number of facilities that share utility poles with electric utilities has increased significantly due to increased broadband demand and attachment of wireless antennas, with a commensurate increase in the number of audits needed. The number of safety-related incident reports also has increased since 2010. In addition, in recent years, formal CPUC rulemaking proceedings dealing with facilities-related safety issues have increased in number and complexity.

ESRB staff has been leading the development of rules and regulations pertaining to fire risk mitigation, electrification of high-speed rail infrastructure, the use of utility poles by

Commercial Mobile Radio Service providers, and changes to the overhead facilities safety rule. ESRB staff often collaborates at length with other parties in order to develop proposed rules and regulations, such as holding multi-day workshops and meetings with California High Speed Rail Authority and Caltrain regarding electrification of high speed rail. In addition, the new electric citation program became effective in January 2015 and the Safety and Enforcement Division has issued three electric citations to date.

STAFF COMMENTS

Workload has increased for the facilities section since 2010, and while staff has increased somewhat since that time, it has not increased commensurate with the increase in workload. The Subcommittee may wish to ask what the consequences would be of not providing for additional staff and where the additional staff will be located.

Staff Recommendation: Approve as Budgeted

ISSUE 4: CREATE PERMANENT POSITION FOR DEPUTY EXECUTIVE DIRECTOR FOR SAFETY AND CODIFICATION OF DEPUTY EXECUTIVE DIRECTOR FOR SAFETY AND CHIEF INTERNAL AUDITOR

The Spring Finance Letter requests 1.0 position and $191,000 from various funds for the Deputy Executive Director for Safety and trailer bill language that would codify this position and the Chief Internal Auditor.

BACKGROUND

During the past few years, there have been several failures of utility infrastructure that caused death and harm to individuals. The proposed Deputy Executive Director for Safety will focus on the operation, competencies, and performance of the PUC's safety and enforcement activities, process improvements on utility infrastructure safety and oversight, and proactively set and execute effective safety policies, including inspection, enforcement and audit of utility operations, as well as acting as a direct contact for PUC staff's safety.

The requested trailer bill language would codify the Deputy Executive Director for Safety and the Chief Internal Auditor position into the PUC's executive management. These changes would implement the Governor's signing message for a set of chaptered 2016 PUC reform bills. However, AB 2903, Gatto which did not successfully move through the legislative process last year proposed codifying similar positions. SB 19 (Hill) includes language similar to AB 2903, but does not codify either of these position.

LAO COMMENTS

The LAO recommends rejection without prejudice of the proposed trailer bill language, as well as the request for additional funding and position authority for the Deputy Executive Director. The LAO finds that if the Legislature would like to codify these two positions, the issue would be most appropriately considered through the policy committee process. The CPUC can continue to use its existing budget authority to fund the relatively minor costs of the Deputy Executive Director position if it is a priority.

STAFF COMMENTS

Consideration of CPUC reform largely has been considered in the policy process. Therefore, it seems reasonable to leave consideration of codification of executive management level positions to the policy process.

Staff Recommendation: Approve the requested position and related funding and reject the proposed trailer bill language.

ISSUE 5: OFFICE OF RATEPAYER ADVOCATES (ORA) CLIMATE CHANGE INITIATIVES

The Governor's budget requests 8.0 positions and $890,000 from the Public Utilities Commission Office of Ratepayer Advocates Account (PUCORA), to perform climate change work associated with CPUC, California Air Resources Board (CARB), and California Independent System Operator (CAISO).

BACKGROUND

AB 327 (Perea, Chapter 611, Statutes of 2013), SB 626 (Kehoe, Chapter 355, Statutes of 2009), and SB 350 (De León, Chapter 547, Statutes of 2015) are resulting in expanded workload at ORA. The requested positions would work on the following:

<u>AB 327 – Distributed Resource Plans (DRP) / Integrated Distributed Energy Resources (IDER) Workload.</u> Three positions are being requested for this workload for the following reasons. ORA staff actively participate in both the DRP and the IDER proceedings as well as an industry-led working group that runs in parallel with the Commission's proceedings. Existing staff have been working overtime to fulfill these duties. Staff also need to evaluate the DER interconnection process, which is the focus of another Commission proceeding. One position would work on the distribution/transmission interface. All three positions will need to identify and study potential impacts and find ways to make this new paradigm work to ensure they are efficient and cost-effective.

<u>SB 626 (and SB 350 Transportation Electrification) Workload.</u> Two positions are being requested to work on transportation electrification (TE). Per SB 626, the three largest utilities (PG&E, SCE and SDG&E) filed proposals, which were approved in 2016, for electric vehicle (EV) pilot programs. These pilot programs focus on constructing infrastructure to facilitate increased purchase of light duty electric vehicles. The utilities currently are implementing the pilot programs and during this period ORA staff participate in each utility's EV advisory board. The requested positions will also work on three future TE applications.

<u>SB 350 Workload.</u> Three positions are being requested to work on SB 350-related work. One position would work on activities related to implementation of the newly established target of 50 percent renewables by 2030. The second position would work on GHG-related activities. ORA focuses its GHG reduction work primarily in: 1) annual utility Energy Resource and Recovery Account forecast and compliance proceedings, 2) the natural gas Cap and Trade proceeding, 3) the IRP proceeding, 4) CARB proceedings related to Cap and Trade, and 5) CAISO GHG initiatives. This position would participate in the activities described in #3, #4, and #5 above. The third position is being requested to work on transmission planning-related activities.

STAFF COMMENTS

It is unclear how many additional staff ORA truly needs for two reasons. First, is due to the persistent vacancy rate. As of January 2017, there were 18 vacancies (vacancy rate of 12 percent) and ORA had a vacancy rate of 15 percent in 2016 and a 13 percent vacancy rate in 2015. It is possible that some of this workload could be completed if those vacancies were filled. To accomplish this, some existing, but vacant, positions may need to be reclassified. Second, ORA did not fully justify the workload for all eight positions. Some of the workload has not been justified at all, some workload was poorly justified, and for other workload it is unclear if and when it will actually occur. As a result, it is unknown if all of the eight requested positions are necessary at this time. As a result, staff recommends rejection of the proposal and that ORA comes back with a more fully fleshed out request based on the estimated number of hours to complete specific tasks.

Staff Recommendation: Reject the Proposal

ISSUE 6: ORA—ESTABLISH COMMUNICATIONS OFFICE

The Governor's budget requests 2.0 permanent, full-time positions and $299,000 from the PUCORA to establish a communications office.

BACKGROUND

The ORA has responsibility for communicating and coordinating with internal and external entities on its participation in stakeholder meetings, workshops and other events. Currently, ORA has one management position that oversees its Governmental Affairs unit and one dedicated analyst position. According to ORA, its existing resources are inadequate to effectively communicate with the media, public, and others; establish a public presence; and make ORA's fact-based analyses, recommendations and assistance across industry areas accessible beyond its written pleadings to all interested parties, such as the media, public, CPUC stakeholders and others. In addition, CPUC states this request responds to the renewed interest in ORA's activities from the media, public and other stakeholders as a result of Governor Brown's February 2016 appointment of a new, permanent ORA Director.

STAFF COMMENTS

According to ORA, currently existing staff provide information and assistance to the public, media and other interested stakeholders because ORA does not have a formal communications office. It is unclear if such an office is necessary and ORA has not made a clear case that its workload has grown and that the current level of staffing is inadequate to fulfill its mission. While participation in various events can be beneficial it may not be critical in all cases to fulfill ORA's mission. In addition, if more of ORA's vacancies were filled, these positions may not be necessary.

Staff Recommendation: Reject the Proposal