AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 3
ON CLIMATE CRISIS, RESOURCES, ENERGY, AND TRANSPORTATION

ASSEMBLYMEMBER STEVE BENNETT, CHAIR

WEDNESDAY, MARCH 22, 2023
9:30 A.M. – STATE CAPITOL, ROOM 447

VOTE-ONLY CALENDAR

ITEMS TO BE HEARD

NON-PRESENTATION CALENDAR

Public Comment

The public may attend this hearing in person or participate by phone. This hearing can be viewed via live stream on the Assembly's website at https://assembly.ca.gov/todaysevents.

We encourage the public to provide written testimony before the hearing. Please send your written testimony to: BudgetSub3@asm.ca.gov. Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted.

*A moderated telephone line will be available to assist with public participation. The public may provide comment by calling the following toll-free number: **877-692-8957 / Access Code: 131 54 47.***

VOTE ONLY ITEMS

8570 DEPARTMENT OF FOOD AND AGRICULTURE

VOTE-ONLY ISSUE 1: AUGMENT PLANT PEST DIAGNOSTICS CENTER FACILITIES MAINTENANCE & OPERATIONAL COSTS

The Governor's budget requests $841,000 General Fund (GF) in 2023-24, and $858,000 in 2024-25 and ongoing to keep the Plant Pest Diagnostics Center laboratory facility operational to meet the state's diagnostic needs and maintain national and international standards.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 2: EMERGENCY MANAGEMENT PROGRAM RESOURCES

The Governor's budget requests $516,000 General Fund and $77,000 in distributed administration authority in 2023-24, $506,000 GF and $77,000 in distributed administration authority in 2024-25 and ongoing, and 2.5 permanent positions to build a dedicated Emergency Management Program within CDFA to meet current and continued threats to food and agriculture posed by diseases and natural disasters due to climate change.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 3: EMERGING THREATS INFORMATION MANAGEMENT SYSTEM

The Governor's budget requests $6,685,000 ($4,212,000 General Fund [GF] and $2,473,000 Department of Food and Agriculture Fund [AF]) and 3.0 positions in 2023- 24, $12,138,000 ($7,647,000 GF and $4,491,000) in 2024-25 and 2025-26, $6,672,000 ($4,204,000 GF and $2,468,000 AF) in 2026-27 and $5,073,000 ongoing ($3,196,000 GF and $1,877,000 AF) to implement a replacement of the existing legacy Emerging Threats (ET) Information Management System for CDFA's Animal Health and Food Safety Services division, the lead state organization for protecting animal health, public health, and California's economy from catastrophic animal diseases, food safety and other health or agricultural related issues. All costs are split between GF and AF based on the funding split of the programs that will utilize this system.

BACKGROUND

The 2019 Budget Act included $2.5 million one-time GF for consultant services for project planning, data cleanup, system documentation, and the development of a potential information technology solution. The Project Approval Lifecycle (PAL) Stage Gate 1 Business Analysis was completed, and the Stage Gate 2 Alternatives Analysis was submitted to CDT, reviewed, feedback provided, and an updated version is currently under review by CDT. An additional $2.9 million has been approved in the 2022 Budget Act to complete the PAL process and hire a contractor to implement the replacement systems. This proposal requests funding for the project's implementation services.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 4: INFORMATION TECHNOLOGY ENTERPRISE TRANSITION SUPPORT

The Governor's budget $536,000 General Fund (GF) in 2023-24, 2024-25, and 2025-26 to fund CDFA's transition to an Information Technology (IT) Enterprise Solution.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 5: OCAL AND CANNABIS APPELLATIONS BASELINE

The Governor's budget requests an increase of $482,000 in Cannabis Control Fund authority in 2023-24 and ongoing to provide additional authority needed for the OCal Cannabis Certification Program and Cannabis Appellations Program.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 6: SHIPPING POINT INSPECTION ENHANCED INSPECTION OVERSIGHT AND TRAINING

The Governor's budget requests 4.0 permanent positions in 2023-24 and ongoing to support mission critical enhancement of the Shipping Point Inspection Program. Additionally, CDFA requests 0.5 positions and $77,000 in distributed administration funding in 2023-24 and ongoing to perform a variety of support functions related to the new positions, including financial services, human resources, and budgeting

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 7: STAGE GATE 2 PLANNING - CDFA LICENSING AND PAYMENT PORTAL

The Governor's budget requests $1.5 million General Fund in 2023-24 to perform Statewide Information Management Manual (SIMM) 19B – Stage Gate 2 Alternative Analysis (S2AA) planning for the CDFA Licensing and Payment Portal Project.

CDFA's LPP Project will significantly enhance the public's ability to find information on CDFA's licenses, permits, certifications, and registrations (generically termed "Licenses") issued to

California individuals and businesses. Additionally, individuals and businesses will be able to apply and pay, by credit card and e-check, online for licenses managed and administered by CDFA through a single sign-on web accessible portal.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 8: WEIGHTS AND MEASURES OVERSIGHT AND SERVICES

The Governor's budget requests $811,000 Department of Food and Agriculture Fund (AF) authority in 2023-24, $714,000 in 2024-25 and ongoing, and 4.0 permanent full-time positions to allow the Department to continue its mandated instruction and oversight of county sealers who inspect commercial weighing and measuring devices in their jurisdiction.

Additionally, CDFA requests 0.5 position and $77,000 in distributed administration authority in 2023-24 and ongoing to perform a variety of support functions related to the new positions, including financial services, human resources, and budgeting.

Staff Recommendation: Approve as budgeted.

3360 CALIFORNIA ENERGY COMMISSION

VOTE-ONLY ISSUE 9: ELECTRIC VEHICLE CHARGING INFRASTRUCTURE RELIABILITY DATA COLLECTION AND ASSESSMENT (AB 2061, TING)

The Governor's budget requests $351,000 annually from the Alternative and Renewable Fuel and Vehicle Technology Fund (Fund 3117) and 2.0 permanent positions to implement the requirements of Chapter 345, Statutes of 2022 (AB 2061), to collect, manage, and analyze reliability data collected for electric vehicle chargers and charging stations.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 10: RESOURCES TO GATHER AND REPORT MEDIUM-DUTY AND HEAVY-DUTY (MDHD) FLEET DATA (AB 2700, MCCARTY)

The Governor's budget requests $391,000 from the Cost of Implementation Account annually and 1.0 permanent position as part of its new requirements under Chapter 354, Statutes of 2022 (AB 2700). These requirements include coordinating with the California Air Resources Board (CARB) and other agency partners, processing and quality checking the data, providing additional analysis and integration of the data within existing work products at the CEC, and ensuring proper transition and maintenance of the data. The request comprises $191,000 for a

1.0 permanent Electric Generation System Specialist (EGSS I) position and $200,000 annually for integrating the data with the Integrated Energy Policy Report forecast in a way that makes it useful for utilities to anticipate load.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 11: MEASURING AND REDUCING THE CARBON INTENSITY IN CONSTRUCTION MATERIALS (AB 2446, HOLDEN)

The Governor's budget requests $238,000 from the Cost of Implementation Account in 2023-24 and ongoing for 1.0 permanent Senior Mechanical Engineer position to implement the requirements of AB 2446 (Holden, 2022). AB 2446 requires the California Air Resources Board to consult with the CEC and other state agencies to develop a framework for measuring and reducing the carbon intensity in the construction of new residential and nonresidential buildings.

Staff Recommendation: Approve as budgeted.

3900 CALIFORNIA AIR RESOURCES BOARD

VOTE-ONLY ISSUE 12: CARB SCOPING PLAN COMMUNITY ENGAGEMENT (SB 1020)

The Governor's budget requests 1.0 Air Pollution Specialist and $711,000 ($210,000 ongoing), including $500,000 in one-time contract funds, from the Air Pollution Control Fund starting in 2023-24 for its Environmental Justice Program. These resources will be used to fulfill the requirements of Chapter 361, Statutes of 2022 (SB 1020, Laird) for CARB to enhance community engagement efforts in coordination with the AB 32 Environmental Justice Advisory Committee in areas designated as federal extreme nonattainment that have communities with minority populations, communities with low-income populations, or both.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 13: EMBODIED CARBON EMISSIONS: CONSTRUCTION MATERIALS (AB 2446) AND TRAILER BILL

The Governor's budget requests $5.7 million Cost of Implementation Account (COIA) and 15 permanent positions for 2023-24 and 2024-25, and $4.5 million COIA in 2025-26 and ongoing. The costs include $2.5 million per year for the first two years and $1.3 million annually thereafter for contracts to develop and implement a framework to reduce embodied carbon emissions from building materials pursuant to AB 2446 (Holden, 2022).

Additionally, CARB is proposing trailer bill language to delay deadlines in the bill. The trailer bill would delay the deadline to measure (and reduce) the carbon intensity of buildings/materials from July 1, 2025 to December 31, 2026 (18 months). It delays the deadline to adopt strategies to reduce emissions 40 percent as soon as possible but no later than December 31, 2035 from July 1, 2025 to December 31, 2028 (3.5 years). It delays the deadline to evaluate the feasibility and cost impact of the strategy from July 1, 2029 to December 1, 2029 (6 months).

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 14: ENHANCE CARB'S OZONE AIR MONITORING NETWORK TO MEET MANDATED REGULATORY REQUIREMENTS

The Governor's budget requests $1.9 million from the Air Pollution Control Fund (APCF) in 2023-24 and $1.1 million ongoing for 5.0 permanent positions to operate, audit, and maintain the monitoring stations and equipment therein, which includes $128,000 ongoing funding for operational costs and $787,000 in one-time funding for equipment and supplies. These resources are needed to expand CARB's ozone monitoring program for 2023-24 and beyond to comply with mandated U.S. EPA requirements defined in the Code of Federal Regulations. This request is to establish a Photochemical Assessment Monitoring Stations (PAMS) program in San Joaquin Valley and add two new monitoring stations (Eastern Kern County and Western Nevada County) in ozone non-attainment areas.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 15: FUND SHIFT FOR THE TRANSPORT REFRIGERATION UNIT PROGRAM

The Governor's budget requests to shift the funding of 1.75 existing Transport Refrigeration Unit (TRU) Program positions from the Motor Vehicle Account (MVA) to Certification and Compliance Fund (CCF). In addition to the fund shift for existing TRU Program positions, CARB requests a one-time shift of $1.6 million from MVA to CCF for TRU operational costs (compliance labels, envelopes, and postage) in 2023-24. Beginning in 2024-25 and annually thereafter, CARB requests $859,000 from CCF for ongoing TRU operational costs (compliance labels, envelopes, and postage).

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 16: HEAVY-DUTY VEHICLE INSPECTION AND MAINTENANCE PROGRAM PER SENATE BILL 210

The Governor's budget requests $14.1 million in 2023-24 to implement and enforce the Heavy-Duty Inspection and Maintenance (HD I/M) program as required by Chapter 298, Statutes of 2019 [Senate Bill (SB) 210]. The resource request includes 19.0 new, permanent, on-going positions starting in 2023-24 and 4.0 new, permanent, on-going positions starting in 2024-25, as well as contract funding of $10.3 million for 2023-24, $10.2 million for 2024-25, $10.5 million for 2025-26, and $10.7 million in ongoing funding for 2026-27 and beyond. These positions and ongoing contract funding are necessary to implement and operate CARB’s HD I/M regulation approved by the Board for adoption at the December 9, 2021 public hearing, and as directed by SB 210.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 17: IMPLEMENTING EVALUATIONS AND RECOMMENDATIONS FOR HYDROGEN TO SUPPORT DECARBONIZING THE CALIFORNIA ECONOMY (SB 1075)

The Governor's budget requests $3.1 million Cost of Implementation Account (COIA) and 4.0 permanent positions in 2023-24, including $2.3 million in one-time contract funding to develop and publish an evaluation and provide policy recommendations on the use of hydrogen, and specifically the use of green hydrogen, as required by Senate Bill (SB) 1075.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 18: IN-USE LOCOMOTIVE REGULATION IMPLEMENTATION AND ENFORCEMENT

The Governor's budget requests $1.65 million from the Air Pollution Control Fund (APCF) and 10.0 permanent positions in 2023-24, $1.69 million in 2024-25, and $1.64 million in 2025-26 and ongoing to implement and enforce the In-Use Locomotive Regulation. Additionally, CARB requests to shift funding for 6.6 existing positions from the Motor Vehicle Account to APCF in 2023-24. The Locomotive Regulation includes an annual administrative payment that will be collected from locomotive operators and deposited into the Certification and Compliance Fund (CCF) starting July 1, 2024 and is intended to be used for all of CARB’s Locomotive Regulation costs. Beginning in 2024-25 and ongoing, CARB requests to shift funding for 6.6 existing positions and 9.5 positions being requested in this proposal from APCF to the CCF. Beginning July 1, 2024, CCF would fully fund the program cost for Locomotive Regulation on an ongoing basis and only funding for 0.5 Air Resources Supervisor II would remain funded by APCF. A statewide locomotive surveillance system will be established with 10 cameras or other surveillance equipment throughout the state at a cost of $50,000.

Staff Recommendation: Approve as budgeted.

VOTE-ONLY ISSUE 19: STAFF AUGMENTATION FOR PROJECT MANAGEMENT OFFICE

The Governor's budget requests $8.2 million from Air Pollution Control Fund (APCF) and 7.0 positions in 2023-24 , including $6.7 million in one-time contract funding, and $1.5 million APCF in 2024-25 and ongoing for a staffing augmentation of the Project Management Office to transition from a contract-heavy to a state employee-centric unit.

Staff Recommendation: Approve as budgeted.

ITEMS TO BE HEARD

VARIOUS

ISSUE 1: GENERAL FUND SOLUTIONS AND OVERSIGHT OF PREVIOUS APPROPRIATIONS AND AUTHORITY

The 2021 and 2022 budgets approved $8.6 billion for various energy initiatives as follows:

Figure 8

Recent and Planned Energy Augmentations

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

Activity	Department	2021-22	2022-23	2023-24	2024-25	2025-26	Totals
2021-22 Energy Package		**$175**	**—**	**—**	**—**	**—**	**$175**
BUILD expansion	CEC	$75	—	—	—	—	$75
Permitting initiatives	CEC/DFW	39	—	—	—	—	39
SB 100 planning and participation	CEC/CPUC	20	—	—	—	—	20
Various offshore wind activities	CEC	18	—	—	—	—	18
Emergency planning and support	CEC/CPUC	14	—	—	—	—	14[a]
Wildfire Operational Observer	OES	9	—	—	—	—	9
2022-23 Energy Package		**$2,250**	**$3,002**	**$2,626**	**$654**	**$918**	**$7,925**
Reliability							
Strategic Reliability Reserve	DWR	$1,500	$700	$20	$75	$75	$2,370
Residential Solar and Storage	CPUC	—	—	900	—	—	900
Distributed Electricity Backup Assets	CPUC	550	—	100	25	25	700
Demand Side Grid Support	CEC	200	—	95	—	—	295
Transmission financing	IBank	—	200	50	—	—	250
DOE grid resilience match	CEC	—	5	—	—	—	5
Support for reliability	DWR	—	3	—	—	—	3
Clean Energy							
Equitable Building Decarbonization	CEC	—	$112	$665	$53	$92	$922
	CPUC	—	50	95	—	—	145
	CARB	—	20	20	—	—	40
Long duration storage	CEC	—	140	240	—	—	380
Oroville pump storage	DWR	—	100	140	—	—	240
Carbon removal innovation	CEC	—	50	50	—	—	100
Industrial decarbonization	CEC	—	100	—	—	—	100
Hydrogen grants	CEC	—	100	—	—	—	100
Food production	CEC	—	25	50	—	—	75
Offshore wind infrastructure	CEC	—	45	—	—	—	45
Energy modeling	CEC	—	7	—	—	—	7
Distributed energy workload	CPUC	—	1	1	1	1	4[b]
Hydrogen Hub	GO-Biz	—	5	—	—	—	5
Energy data infrastructure	CEC	—	5	—	—	—	5
AB 525 implementation	Various	—	4	—	—	—	4[c]
Ratepayer Relief							
Arrearage Payment Program	CSD	—	$1,200	—	—	—	$1,200[d]
Capacity building grants	CPUC	—	30	—	—	—	30

Other Funding		**—**	**$100**	**$200**	**$500**	**$725**	**$1,525**
Clean Energy Reliability Investment Plan	Various	—	—	$100	$400	$500	$1,000
Climate Innovation Program	CEC	—	$100	100	100	225	525
Totals		**$2,425**	**$3,002**	**$2,626**	**$654**	**$918**	**$9,625**

[a] Includes $2 million Public Utilities Commission Utilities Reimbursement Account.
[b] Public Utilities Commission Utilities Reimbursement Account.
[c] Includes $1.5 million Energy Resources Program Account and $2.6 million General Fund.
[d] General Fund through the California Emergency Relief Fund.

BUILD = Building Initiative for Low-Emissions Development; CEC = California Energy Commission; DFW = Department of Fish and Wildlife; CPUC = California Public Utilities Commission; OES = Governor's Office of Emergency Services; DWR = Department of Water Resources; IBank = California Infrastructure and Economic Development Bank; CARB = California Air Resources Board; DOE = U.S. Department of Energy; GO-Biz = Governor's Office of Business and Economic Development; and CSD = Department of Community Services and Development.

Additionally, SB 846 (Dodd, 2022) set aside $1 billion to be appropriated later to advance clean energy subject to the Energy Commission developing a plan with stakeholder input to be appropriated later this year.

To address the General Fund deficit the Governor's Budget proposes the following cuts and delays:

Figure 9

Governor's Proposed Energy Budget Solutions

(In Millions)

		Proposed Changes				
Program	**Total Augmentations**	**2022-23**	**2023-24**	**2024-25 and Out-Years**	**Net Reductions**	**New Proposed Amounts**
Programs Proposed for Solutions						
Arrearage Payment Program	$1,200	-$400	—	—	-$400	$800
Residential Solar and Storage	900	—	-$270	—	-270	630
Equitable Building Decarbonization (CEC)	922	-50	-320	$283[a]	-87	835
Equitable Building Decarbonization (CARB)	40	—	-20	—	-20	20
Climate Innovation Program	525	-50	-100	150[a]	—	525
Long duration storage	380	—	-50	—	-50	330
Transmission financing	250	—	-25	—	-25	225
Carbon removal innovation	100	—	-25	—	-25	75
Industrial decarbonization	100	-10	—	—	-10	90
Food production	75	—	-10	—	-10	65
Subtotals	($4,492)	(-$510)	(-$820)	($433)	($897)	($3,595)
All Other Energy Funding	$5,133	—	—	—	—	$5,133
Totals	**$9,625**	**-$510**	**-$820**	**$433**	**-$897**	**$8,728**

[a] Reflects proposed delays from prior years to 2024-25 through 2026-27.

CEC = California Energy Commission and CARB = California Air Resources Board.

Additionally, the Legislature provided new authority to address projected shortfalls including:

- Extended the Diablo Canyon nuclear power plant for 5 more years and provided a $1.4 billion loan to Pacific Gas and Electric.

- Allowed renewable energy developers to seek siting approval from the Energy Commission.
- Allowed the Energy Commission to establish a planning reserve margin for publicly owned utilities in the California Independent System Operator (CAISO) balancing authority.
- Established the Strategic Reliability Reserve at the Department of Water Resources (DWR) with various exemptions from existing law and General Fund dollars.

IMPLEMENTATION UPDATE

MW	Cost (millions) to date	Type	Location	Expected Operating Years	Notes
120	$211	Natural Gas Generators	Roseville, Yuba City	2021-2023	Likely to be extended.
0	$254	Professional Services and Equipment		Contracts through 2027	Includes generators, gas turbines, selective catalytic reduction (SCR) emissions control equipment.
1,646	$150	Imported Energy		2022	850 MW were zero-emissions or low emissions imports as approved by CARB. 796 MW were unspecified.
82.4	$37	Diesel Generators	Clearlake, Cloverdale, Oroville, Goleta	2022	Temporary Contract.

2,859	$0	OTC Natural Gas Extension	Huntington Beach 226 MW, Ormond Beach 1,491 MW, Alamitos 1,142 MW	2024-2026	OTC Permit extension if adopted. Not yet under contract.
3,630	$92	Extending Retiring Facilities			Maintenance and Equipment.
171	$314	Temporary Generators	Channel Islands, Lodi, Modesto, Turlock	2023-2027	Natural Gas.
Total	**$1,058**				

Additionally the Energy Commission secured capacity agreements for 300 MW for 2022 under the Demand Side Grid Support (DSGS) program for approximately $14 million. They hope to double this to 600 MW for summer 2023. The dollar figures are variable based on actual run time.

PANEL

- Sarah Cornett, Fiscal & Policy Analyst, Legislative Analyst's Office (They/Them pronouns)
- Drew Bohan, Executive Director, California Energy Commission
- Deana Carrillo, Director of Renewable Energy Division, California Energy Commission
- David Erne, Deputy Director of Energy Assessments Division, California Energy Commission
- Ben Finkelor, Advisor to Vice Chair, California Energy Commission
- Rachel Peterson, Executive Director, California Public Utilities Commission
- Leuwam Tesfai, Deputy Executive Director - Energy Division, California Public Utilities Commission
- Delphine Hou, Deputy Director of Electricity Supply and Strategic Reserve Office, Department of Water Resources
- Eamon Nalband, Principal Program Budget Analyst, Department of Finance
- David Evans, Finance Budget Analyst, Department of Finance
- Sergio Aguilar, Assistant Program Budget Manager, Department of Finance
- Brian Fuller, Finance Budget Analyst, Department of Finance

LAO COMMENTS

Recent and Planned Funding Augmentations

$9.6 Billion Planned for Energy Programs Across Five Years. As shown in Figure 8, the previous two budgets and corresponding budget trailer legislation provided significant funding for a variety of energy programs and activities. The 2021-22 budget provided $175 million for a package of investments, including programs intended to promote building electrification, planning and permitting renewable energy projects, and activities intended to ensure electric reliability. The 2022-23 budget planned for an additional $7.9 billion through 2025-26 (including $2.3 billion scored in 2021-22) as part of another energy package. Both packages were funded almost entirely by the General Fund. Funded activities focus primarily on three categories—reliability, clean energy, and ratepayer relief, with most investments going to reliability-related programs. The 2022-23 budget also created the California Climate Innovation program, which offers grants for technology innovation projects that reduce emissions, and provided $525 million through 2025-26.

Includes $1 Billion for a Clean Energy Reliability Investment Plan. As shown in Figure 8, the $9.6 billion total also includes funding to support implementation of a Clean Energy Reliability Investment Plan (CERIP), pursuant to Chapter 239 of 2022 (SB 846, Dodd). This legislation requires CEC to develop and submit the CERIP to the Legislature by March 2023, and dedicates $1 billion from the General Fund from 2023-24 through 2025-26—subject to appropriation—to implement the plan's proposed activities and projects, including $100 million in 2023-24.

General Fund Commitments Represent Unusually Large State-Level Investment in Energy Programs. The state historically has operated programs that encourage renewable energy and conservation, but the magnitude of General Fund commitments for energy efforts displayed in Figure 8 is uncommonly large, and most of the activities represent new efforts for the state. Many energy programs, including programs that promote energy efficiency and rooftop solar, largely are run through utilities and typically are funded by ratepayers. For example, since 2009, the California Public Utilities Commission (CPUC) has collected $1.7 billion from ratepayers to fund incentives for households and businesses to undertake energy and storage activities through the Self-Generation Incentive Program.

Governor's Proposals

Proposes Roughly $900 Million in Reductions. Figure 9 displays the administration's proposed budget solutions within energy programs. As shown, the Governor would reduce $510 million from 2022-23 appropriations and $820 million from funding intended for 2023-24, for budget-year savings of $1.3 billion. These reductions, however, include a shift of $433 million in General Fund spending from 2022-23 and 2023-24 to future years, which would delay program expenditures but not result in a net reduction. Therefore, on net, the Governor's proposal would result in $897 million less spending across energy programs. For the most part, the administration would implement these reductions by making fewer grant awards and funding fewer projects. The majority of programs approved in the past two budgets are unaffected. All of the Governor's solutions propose to maintain at least 50 percent of the intended funding for individual programs. In total, the Governor proposes to maintain $8.7 billion, or 91 percent, of the intended energy funding of $9.6 billion.

Makes Reductions Across Eight Programs, Delays Funding Two Programs. The administration proposes reducing funding for eight programs, with most representing relatively modest reductions or scaling down of planned amounts. The proposal also includes delaying funding for two programs. The most significant of these proposals include:

- ***The California Arrearage Payment Program.*** The Governor proposes a $400 million reduction to this program, which received $1.2 billion from the California Emergency Relief Fund via General Fund resources in 2022-23. The administration states that updated data indicate that not all of this funding will be needed to address overdue energy bills for eligible households, so the proposed amount can be reverted back to the General Fund without programmatic impact.

- ***Residential Solar and Storage.*** This $900 million incentive payment program was designed with two components: (1) $630 million for residential customers in lower-income, tribal, and disadvantaged communities to install solar systems with or without energy storage systems; and, (2) $270 million for general customers who install energy storage systems. The Governor proposes to eliminate the second portion for a net reduction of $270 million and maintain the $630 million targeted for lower-income, tribal, and disadvantaged populations.

- ***Equitable Building Decarbonization.*** The Governor proposes three changes to this multifaceted program, which has the overarching goal of reducing GHGs from buildings. The first two affect the portion of this program administered by CEC, which supports low-energy building upgrades for low-to-moderate income families in under-resourced communities and incentives for low-carbon building technologies. The Governor proposes to: (1) delay $283 million from 2023-24 and instead provide it spread over the subsequent three years; and, (2) reduce the program by $87 million in 2023-24. These changes would result in fewer funded projects and delayed time lines for projects. Third, for the portion administered by CARB—which provides incentives for low global warming-potential refrigerants in homes—the Governor proposes to reduce funding by $20 million in 2023-24.

- ***Climate Innovation Program.*** The Governor proposes delaying $50 million from 2022-23 and $100 million from 2023-24 and instead providing these funds in 2026-27. This program is to provide financial incentives to California-headquartered companies developing and commercializing new technologies that help reduce GHGs or improve climate resiliency.

Largely Does Not Reduce Reliability Programs. The suite of energy reliability programs included in the 2022-23 budget package—the largest category of funded activities—are kept mostly intact in the Governor's proposal. These include significant programmatic investments, including $2.3 billion to the Department of Water Resources (DWR) for investments in strategic reliability assets, $700 million to CPUC for the Distributed Electricity Backup Assets Program, and $295 million to CEC for the Demand Side Grid Support Program.

Assessment

Reasonable Justification Exists for Governor's Proposed Approach to Energy Solutions. Overall, we find the Governor's proposed reductions to be reasonable and appropriate. For example, if the state believes most of the originally intended programs still have merit, making modest reductions across many of them while retaining some funding to continue supporting a smaller pool of projects makes sense as a strategy. Most programs are new and without an existing track record of success, which we believe makes them better candidates for reduction compared to more established activities. Additionally, most of the Governor's proposed reductions are from funding proposed for 2023-24, which means the targeted programs have not begun significant implementation and can thereby avoid unnecessary disruption.

Strong Equity-Based Rationale for Prioritizing Continued Funding for Solar and Building Decarbonization Programs. We see merit in the Governor's proposal to maintain Residential Solar and Storage funding for lower-income households while reducing funding incentives for higher-earning households. Because disadvantaged communities are most likely to bear the brunt of climate impacts and have historically been excluded from similar investments, we believe providing this type of targeted support should continue to be a high priority for the state. Moreover, higher-earning households likely will be eligible to apply for incentives for residential solar and energy storage projects from newly augmented federal programs. These include the expansion of the federal Tax Credit for Residential Clean Energy, which was extended through 2034 in the Inflation Reduction Act. The extension authorized a new 30 percent credit on new standalone residential battery storage.

Similarly, while we believe the Legislature should avoid adopting significant funding delays because of how they would impact potential future budget problems, we find merit in the Governor's proposal to delay—but not reduce—funding for the Equitable Building Decarbonization Program. Because the program is just beginning implementation, it could sustain delays without major programmatic impacts. This program targets upgrades to buildings, which are a substantial source of GHG emissions, and specifically focuses on supporting efficiency and energy improvements for low-income households that would not otherwise be able to undertake these upgrades. The Legislature could consider reductions and/or further delays in future years should the program struggle to meet its goals or if costs could be shifted to federal funds awarded to California for energy efficiency projects. However, we think this program's focus on equity makes it worthwhile to continue prioritizing for state investments.

Federal Funds Could Help Partially Offset Some Reductions. In addition to the solar program mentioned above, the administration has identified other federal funding that will flow to California for energy efficiency and clean energy activities. These include funds for a home-efficiency upgrade rebate program and an energy efficiency block grant. The administration has not yet provided details about what specific programs or efforts these funds may support.

Utility Arrearage Funding Not All Needed to Meet Existing Demand. Our analysis concurs with the administration's assessment that the state could revert $400 million and still support all eligible households that fell behind in their utility payments during the pandemic. Specifically, based on the applications submitted by utility providers in fall 2022, $647 million will fully pay down all remaining eligible arrears. The administration's proposal to leave $800 million available would cover those costs and associated administrative activities. Please see our online post, *The 2023-24 Budget: Department of Community Services and Development*, for our full assessment of this proposal.

Legislature Could Consider Additional or Alternative Reductions to Energy Programs. Making additional reductions beyond those proposed by the Governor to new energy programs that are early in implementation or planning phases could provide additional General Fund savings. This could include reducing more funding than the Governor for certain programs that the Legislature may view as lesser priorities compared to other activities. Additionally, the Legislature could reduce programs the Governor does not identify for any funding changes. Three specific programs we think the Legislature could consider for additional solutions include:

- ***Oroville Pump Storage Project***. The recent budget package included $240 million from the General Fund—$100 million in 2022-23 and $140 million in 2023-24—for a project to modify the Oroville Dam complex so it can use its existing pump-back operations to provide long-duration energy storage. The project is still in the initial planning phases, so the majority of the funding will not be needed for several years. Moreover, given the early stage of the project, its specific costs still are unknown, and therefore whether it ultimately will be cost-effective and worthwhile for the state to pursue also is still uncertain. The Legislature could revert the bulk of these funds (leaving a small amount for continued planning) and have the administration come back to request additional funds once cost estimates and more conclusive information on the cost effectiveness of the project are more certain.

- ***Climate Innovation Program***. The Governor proposes to delay $150 million from this program to 2026-27 but maintain the full $525 million. This new program has a very broad scope and how exactly the administration will use the funds still is unclear, making it difficult for the Legislature to weigh how to prioritize its importance or effectiveness compared to other programs. Moreover, the program has not yet begun implementation. These factors make it a good candidate for reduction.

- ***Energy Reliability Programs.*** As highlighted in Figure 8, the 2022-23 Energy Package planned for significant funding across five years for programs that primarily focus on ensuring electric reliability. These programs include the Strategic Reliability Reserve, Distributed Electricity Backup Assets, and Demand Side Grid Support. The funding is intended to support actions to expand energy supply and storage in California in coordination with CEC, CPUC, and the California Independent System Operator. While improving energy reliability is a clear state priority, the benefits from this investment thus far are not entirely clear. As of early February 2023, about $440 million had been committed for DWR's Strategic Reliability Reserve, which is much less than the $2.3 billion intended for these efforts in 2021-22 and 2022-23. Given the additional

$100 million for CERIP activities the Governor also proposes to provide in 2023-24, it is unclear whether all of the reliability funding the state has already provided is still urgently needed. In determining whether the reliability programs merit continued or additional funding, the Legislature could ask the administration: How duplicative is the funding? When exactly will it be needed, and is it all needed this year? What role should the state play in funding reliability resources as compared to local utilities? What are the potential impacts on electricity rates, which have been steadily increasing? Depending on the answers to these questions, the Legislature might determine that some of this funding could be reduced without major near-term impacts.

Recommendations

Modify Governor's Proposals to Reflect Legislative Priorities. We find the Governor's proposed reductions to be reasonable and believe they merit legislative consideration. We recommend the Legislature prioritize maintaining funding for programs that focus on equity, such as providing residential solar incentives and grants to decarbonize homes in lower-income communities. To the degree the Legislature wants to identify alternative or additional programs for reductions, we recommend it consider providing less funding for: (1) the Oroville pump storage project (which is still in the planning phases); (2) the Climate Innovation Program (which has an unclear focus and has not yet begun implementation); and, (3) potentially to three primary reliability programs—the Strategic Reliability Reserve, Distributed Electricity Backup Assets, and Demand Side Grid Support—based on what it learns about the outcomes from these programs thus far.

STAFF COMMENTS

This Subcommittee may want to ask the administration to provide:

- An overview of how much electricity the State (or CAISO balancing authority) expects to have this summer and how that compares to last year. How much of a shortage is the State (or CAISO) projecting?

- A summary of implementation efforts of the reliability funds and authorities provided last year including how much electricity was provided by these programs last summer and how much is anticipated for this summer and into future years.

- A status update on interconnection challenges and delays that were forecast last year. Have they improved? How much electric generation has come online since last summer or is expected to come online this year?

The Subcommittee may wish to ask:

- What is the State's plan to meet our renewable energy goals?

- What is the State's plan to utilize distributed energy resources including microgrids to address energy reliability, reduce costs, and increase clean energy?

- Has the State made progress reducing interconnection delays both of connecting renewable energy, but also homes, businesses, and electric vehicle chargers?

- What are each of your agencies doing to increase demand response?

- Given the delays in interconnection, both from planning and supply chain issues, what steps is the State taking to increase and incentivize distributed energy resources that can reduce the need for new generation, transmission, and distribution components that are currently in short supply?

- What is the State's plan to ensure electric reliability if the federal Nuclear Regulatory Commission rejects the extension of Diablo Canyon?

- What process has CPUC developed for stakeholders to access the Capacity Building Grants for activities at other agencies?

Self-Generation Incentive Program (SGIP):

Staff recommends spreading the appropriation of the Self-Generation Incentive Program (SGIP) that provides subsidies for customer sited energy storage (and solar if low income) over multiple fiscal years to reduce General Fund pressures in FY 23-24 and mimic the existing program design which allows $160 million per year but allows reservations for the entire approved multiyear budget. This Subcommittee could decide to delay funds in this way to offset the proposed reduction of market rate incentives (non low income) or retain the cuts as well. Staff also notes that there are federal tax incentives available that may be beneficiary for market rate consumers but not low income.

Arrearages:

Note: This item is also being heard in Sub 1 today, as CSD is their jurisdiction.

This item may also be heard in Subcommittee number 1 since the Department of Community Services and Development (CSD) implemented these funds. The budget appropriated $1.2 billion for past due electricity and natural gas bills for the period of between March 4, 2020 and December 31, 2021. Only $647 million was requested and roughly $550 million remains. The Governor's budget proposes to revert $400 million to address the General Fund deficit. The State also received $250 million for the federal Low-Income Home Energy Assistance Program to address energy bills for low income consumers. Given recent high electric and natural gas bills, this Subcommittee may wish to opine on the appropriateness of this reversion or if they would prefer to extend the period for which funds may be used. This would exacerbate the General Fund deficit and cuts would need to be made to other programs.

Staff Recommendation: Hold Open.

ISSUE 2: ENERGY TRAILER BILL

This request also includes statutory language to:

1) **Enforce the Integrated Resource Plan (IRP):**
    a. Reinforces the clear expectation that load-serving entities (LSEs) – electric investor-owned utilities (IOUs), community choice aggregators (CCAs) and energy service providers (ESPs) are required to achieve their IRP requirements via existing individual procurement mechanisms.
    b. Clarifies that if an LSE fails to achieve their CPUC IRP requirements, they may be subject to financial penalties assessed by the CPUC.

2) **Allow a Central Procurement Entity:**
    a. Authorizes CPUC/CEC/CAISO to jointly approve DWR to procure diverse clean resources on behalf of all CPUC jurisdictional LSEs, financed through non-bypassable charges on customers.
        i. Allows publicly owned utilities (POUs) to opt in.
        ii. Allows DWR to issue bonds and provides an exemption from the Public Contract Code requirements.
        iii. Requires CPUC to find the costs just and reasonable and not increase costs on a net present value basis over IOU costs.
    b. Authorizes CPUC to direct IOUs to act a central procurement entity on behalf of all LSEs.

3) **Capacity Payments for the Strategic Reliability Reserve (SRR):**
    a. Authorizes CPUC to assess a capacity payment for LSEs or POUs who rely on the SRR.
        i. Payment based on average SRR cost (with adder for summer resources) times the amount of energy the LSE or POU used from the SRR as a portion of their total load.
        ii. Payments due within 30 days.
        iii. CPUC can change payment formula. CPUC can issue regulations with and Administrative Procedure Act Exemption.
        iv. Does not prohibit CPUC from assessing penalties for resource adequacy shortages of jurisdictional entities.
        v. Funds would be continuously appropriated to DWR for the SRR.

4) **Clean Up Provisions:**
    a. Restores a rebuttable presumption at the CPUC for the need of certain types of electric transmission projects approved by the California Independent System Operator, if specified conditions are met. This was chaptered out by SB 1020 (Laird, 2022).
    b. Extends the CPUC's authority to convene the Diablo Canyon Independent Peer Review Panel if plant operations continue through 2030.
    c. Clarifies that the Independent Safety Committee (ISC) for Diablo Canyon was established by the CPUC.

d. Removes conflicting language in the statutes governing the DSGS and DEBA programs at CEC.
e. Clarifies that CEC is required to approve DWR's investment plan for the SRR.
f. Other provisions.

The trailer bill language can be found here:
https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/846.

PANEL

- Sarah Cornett, Fiscal & Policy Analyst, Legislative Analyst's Office (They/Them pronouns)
- Drew Bohan, Executive Director, California Energy Commission
- Deana Carrillo, Director of Renewable Energy Division, California Energy Commission
- David Erne, Deputy Director of Energy Assessments Division, California Energy Commission
- Ben Finkelor, Advisor to Vice Chair, California Energy Commission
- Lisa DeCarlo, Senior Attorney, California Energy Commission
- Rachel Peterson, Executive Director, California Public Utilities Commission
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- Delphine Hou, Deputy Director of Electricity Supply and Strategic Reserve Office, Department of Water Resources
- Eamon Nalband, Principal Program Budget Analyst, Department of Finance
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- Sergio Aguilar, Assistant Program Budget Manager, Department of Finance
- Brian Fuller, Finance Budget Analyst, Department of Finance

LAO COMMENTS

Reliability Challenges and Recent Funding

State Facing Some Energy Reliability Challenges. Climate change is contributing to demands on the state's electric grid, with warmer temperatures leading to more calls for electricity during peak evening hours in the summer months. In August 2020, California experienced rolling power outages due to a heatwave and accompanying strain on the electric grid. The state avoided outages in 2021 and 2022, but energy resources were strained during summer heatwaves. A major heatwave in September 2022 caused the state to send an emergency text message alert to 27 million Californians to encourage energy conservation—the first time such a measure had been deployed. While the state has experienced significant growth in renewable energy sources in recent years, solar resources are not well-positioned to supply energy during peak evening hours after the sun has gone down. Greater development of energy storage technology will be needed to help address the misalignment challenge of growing demand during times that a key renewable energy source is not available.

Significant Growth in New Energy Resources, but Also Project Delays. In recent years, the number of clean energy projects across the state has increased exponentially, with the amount of renewable energy supply more than tripling since 2005. Between 2020 and 2022, 130 new clean energy projects came online to serve customers in the California Independent System Operator network, which provides electricity to 80 percent of California. However, some projects also have experienced delays due to issues with the supply chain, permitting, and connecting new resources to the electric grid. While the state is on track to continue to develop new clean energy resources over the next decade, such delays in bringing these projects online could pose challenges in meeting the state's clean energy, emissions, and reliability goals.

Recent Budgets and Policy Actions Provided Significant Funding for Clean Energy and Reliability. The 2022-23 budget package planned for $9.6 billion over five years for clean energy programs and reliability efforts. The administration indicates that California also has received federal funds to support various energy efficiency efforts through the Inflation Reduction Act and the Infrastructure Investment and Jobs Act, but has not yet provided specific details on the status of this funding or what types of projects it could support. The Governor's budget proposes some reductions to state energy activities, but would maintain the majority of the planned funding ($8.7 billion). Moreover, a large share of this funding—$3.3 billion across five years—is for three programs intended to increase statewide electricity reliability, which the Governor does not propose reducing. Together, the administration refers to these three programs as the "Strategic Reliability Reserve," and they include:

- ***Electricity Supply Strategic Reliability Reserve Program (ESSRRP, $2.3 Billion).*** This program funds the Department of Water Resources (DWR) to secure additional electricity resources to help ensure summer electric reliability. So far, these activities have included extending the life of gas-fired power plants that were scheduled to retire, and procuring temporary diesel power generators and new energy storage. The ESSRRP provided between 554 megawatts (MW) and 1,416 MW of energy during last September's extreme heat event. For context, the rotating outages in 2020 were caused by a shortfall of about 500 MW.

- ***Demand Side Grid Support ($295 Million).*** This new program, administered by the California Public Utilities Commission (CPUC), provides customer incentives to reduce net electricity load during extreme events. In the summer of 2022, utilities began enrolling participants in the program, which pays customers to reduce their energy usage during summer peak evening hours when the electric grid is strained.

- ***Distributed Electricity Backup Assets ($700 Million).*** This new program, administered by the California Energy Commission (CEC), provides incentives for certain distributed energy resources that can be used to support the state's electrical grid during extreme events. The CEC is still developing the program, which is intended to fund zero- or low-emissions technologies such as fuel cells and energy storage at both existing energy facilities and new facilities.

In addition to these budget actions, Chapter 239 of 2022 (SB 846, Dodd) authorized the extension of the Diablo Canyon Power Plant (DCPP)—which was scheduled to retire by 2025—

through 2030. Diablo Canyon is California's last remaining nuclear power plant, and the state has identified it as a valuable near-term source of zero-carbon energy during the transition to greater renewable resources. While the legislation authorized an extension, DCPP still has to receive required permits at the local, state, and federal levels in order to continue operations. SB 846 also authorized the following expenditures:

- ***Loan to Pacific Gas & Electric (PG&E) (up to $1.4 Billion).*** The Legislature specified intent to provide a General Fund loan of up to $1.4 billion to PG&E to support extended operations at Diablo Canyon. Of this total amount, the Legislature has authorized $600 million so far. The potential remaining $800 million is subject to a future appropriation. PG&E was awarded a $1.1 billion federal grant from the U.S. Department of Energy in November 2022 and is expected to use this award to pay back the state for loans it ultimately receives.

- ***Clean Energy Reliability Investment Plan (CERIP, $1 Billion).*** Senate Bill 846 also included legislative intent to provide a total of $1 billion General Fund from 2023-24 through 2025-26—$100 million in 2023-24, $400 million in 2024-25, and $500 million in 2025-26—to support the CERIP, which CEC recently developed. The legislation required the plan to support investments that address near- and mid-term reliability needs and the state's GHG and clean energy goals. In accordance with the legislation, the administration proposes to provide $100 million in 2023-24 for CERIP-identified activities. Specifically, the Governor proposes: (1) $32 million for DWR to develop a proposed new central procurement role described below; (2) $33 million for extreme event support (including additional funding for the Demand Side Grid Support and Distributed Electricity Backup Assets programs); (3) $20 million for various administrative, community engagement, and planning expenditures; and (4) $15 million to help new energy resources come online.

Procuring Reliable Clean Energy Resources

State Generally Determines What Levels of Energy Resources Are Needed, Then Requires Regulated Local Entities to Procure Them. With regard to CPUC-regulated electric utilities, the state generally has assumed responsibility for determining (1) how much energy will be needed to reliably meet statewide demand, and (2) what share of those resources must be from renewable sources to meet the state's GHG reduction and clean energy goals. After the state determines these needs, it then requires local energy providers—known as Load Serving Entities, or LSEs—to procure them. (As described below, this process works slightly differently for publicly owned utilities [POUs].) LSEs can procure energy through purchasing contracts or by developing the resources themselves (such as by building solar arrays). Please see the nearby box for more background about LSEs.

Load Serving Entities (LSEs) in California

LSEs are entities that provide electricity to customers. They include the following types of organizational structures:

- ***Investor Owned Utilities (IOUs):*** The territory of California's six privately owned IOUs covers about 75 percent of the state's electricity needs. The three largest IOUs in the state are Pacific Gas & Electric, Southern California Edison, and San Diego Gas & Electric. The California Public Utilities Commission (CPUC) regulates IOUs by setting their electricity rates for customers and requiring them to procure and maintain a certain amount of energy resources.

- ***Community Choice Aggregators (CCAs).*** The CCA program allows cities, counties, and other government entities within the service area of an IOU to purchase and/or generate electricity for their residents and businesses. The intention of this program is to increase options for customers. The IOU continues to deliver the electricity through its transmission and distribution system and provides meter reading, billing, and maintenance services for CCA customers. CCA energy resource needs are regulated by CPUC. There currently are 25 CCAs in California.

- ***Electric Service Providers (ESPs)***. ESPs are non-utility companies that provide electricity to large electric users within the service territory of an existing electric utility. They are regulated by CPUC and there are 20 ESPs in California.

- ***Publicly Owned Utilities (POUs)***: POUs are regulated by locally elected governing boards such as municipal utility districts, which govern POU energy resource needs and rates. The state has some authority over POU energy resources. POUs provide about 25 percent of the state's electric services. Examples of large POUs include Sacramento Municipal Utility District and Los Angeles Department of Water and Power. There are 47 POUs in California.

State Has Adopted Numerous Requirements for LSEs to Help Ensure Reliability and Procurement of Clean Energy Resources. CPUC is responsible for a number of programs and activities designed to (1) grow the share of renewable resources used to generate electricity and (2) ensure regulated LSEs are procuring enough energy to both serve demand and meet state GHG goals. These programs and initiatives include:

- ***Resource Adequacy (RA) Program***. The RA program was established in 2004 to promote electric reliability. CPUC establishes RA obligations for all LSEs within its jurisdiction, including Investor Owned Utilities (IOUs), Community Choice Aggregators (CCAs), and Electric Service Providers. LSEs are required to demonstrate compliance with RA requirements on both a monthly and annual basis and must pay penalties if they do not comply. The current RA program mandates a 16 percent planning reserve margin (that is, the amount of resources an LSE must have on reserve, as a percentage of peak total electricity load, in case of extreme events). The planning reserve margin will increase to 17 percent in 2024. This margin is also known as the planning standard or RA margin.

- ***Renewable Portfolio Standard (RPS)***. The RPS was established by Chapter 516 of 2002 (SB 1078, Sher) with the initial requirement that 20 percent of retail electricity must be provided by renewable energy resources by 2017. The RPS program is overseen jointly by CEC and CPUC and has been updated numerous times. Senate Bill 100 increased the RPS requirement to 60 percent of retail electricity coming from renewable sources by 2030. All LSEs, including POUs, are required to comply.

- ***Integrated Resource Planning (IRP) Process.*** The IRP process was established in 2015 through Chapter 547 (SB 350, de León) to plan for how LSEs could meet mid- and long-term energy procurement and GHG goals while maintaining reliability. As part of this process, CPUC conducts modeling that sets out a path for the state to meet its energy needs while reaching its emissions reduction goals. Regulated LSEs are then required to use CPUC's model to develop their own individual IRPs. CPUC ultimately approves each LSE's IRP and the process is updated every two years. The IRP process is CPUC's primary planning tool to ensure that the state is meeting its emissions reductions goals from the electricity sector. CPUC initiated a related process, the IRP Procurement Track, in 2019. The IRP Procurement Track orders LSEs to undertake additional resource procurement beyond the normal IRP planning time line, recognizing that some newer clean energy resources have longer lead times (such as offshore wind and long duration storage).

Recognizing that the state's growing electricity needs and emissions reduction goals will necessitate new resources, CPUC has used these processes to mandate unprecedented expansions in energy procurement in recent years. For example, between 2020 and 2022, CPUC's IRP procurement orders resulted in more than 11,000 MW of new energy resources, most of which are coming from solar, wind, and battery storage projects. CPUC also has expanded its allowed time lines for LSEs to secure new energy resources in recognition of the timing difficulties in bringing these resources online. For instance, in February 2023, CPUC extended its deadline for a new procurement order that totals 4,000 MW of additional energy capacity from 2026 to 2028.

Public Utilities Also Subject to Some State Requirements for Energy Resource Procurement. Because POUs are outside of CPUC's jurisdiction, some—although not all—of their reliability requirements differ from those of other LSEs, and their compliance with state requirements largely is overseen by CEC. Like other LSEs, POUs are subject to the RPS requirements for renewable energy procurement. Additionally, the state's largest POUs (which account for 94 percent of POU electric load and customers) are required to submit an IRP every five years to CEC. In addition, Chapter 251 of 2022 (AB 209, Committee on Budget) required CEC to develop updated planning reserve requirements for POUs that account for the increased frequency of extreme weather events and reliability challenges the state has experienced in recent years. CEC is required to develop these requirements by December 2023.

IOUs Sometimes Play Centralized Procurement Role. LSEs generally are required to procure new energy resources themselves, but IOUs are legally authorized—and, in some cases, required—to procure resources on behalf of other LSEs. For example, a 2019 CPUC decision ordered LSEs to procure additional RA-qualifying resources and allowed IOUs to act as a procurement backstop. In response to this order, between 2020 and 2022, 15 LSEs elected to have an IOU procure energy resources on their behalf. CPUC also has compelled IOUs to procure resources on behalf of other LSEs, because the relatively small size of some LSEs—in particular, many CCAs—can make procuring larger resources somewhat difficult. Over the past few years, IOUs have experienced challenges in centrally procuring resources due to associated costs, as they have simultaneously been facing growth in other types of costs such as those related to wildfire mitigation.

State Has Some Limited History of Undertaking Procurement Activities. While the state mostly tasks LSEs with procurement responsibilities, it has occasionally stepped in to undertake these activities in the past. For example, during the energy crisis of the early 2000s, California experienced electricity supply shortages and utilities struggled to attain capital for energy projects. In response, DWR financed energy purchases on behalf of IOUs and entered into long-term contracts for electricity valued at over $40 billion. The last of these contracts terminated in 2015. In addition, as mentioned above, the 2022-23 budget package committed $2.3 billion over five years for DWR to secure additional electricity resources intended to ensure summer electric reliability. So far, ESSRRP activities have mostly extended the life of natural gas plants that supply electricity—these plants are only turned on when the electric grid is experiencing major strain. The administration indicates that the ESSRRP also provided financing support to IOUs for their procurement of electricity imports last summer.

Clean Energy Goals and Growing Electricity Demand Will Necessitate Procuring New Types of Resources. While California has brought a significant amount of clean resources online in recent years, including wind and solar projects, new resources still will be needed to meet the state's clean energy goals and satisfy electricity demand. The state's electricity planning agencies anticipate that demand will grow significantly over the next decade due not only to climate change and higher temperatures, but also to a shift towards zero-emission vehicles and more electric-powered appliances and heating. This likely will necessitate adding larger "long-lead time" resources (such as offshore wind, long duration storage, and geothermal electric generation) to the state's portfolio. However, such resources typically are more expensive and take longer to develop. Moreover, fewer of these projects currently exist in California, so local entities do not have a proven history to rely upon when seeking to develop or procure them. Because of the expense and general risk associated with newer, large technologies, smaller LSEs face particular challenges in procuring these types of resources.

Governor's Proposals

Governor Proposes Two Major New Energy Policy Changes. The Governor has put forward two major proposals related to procuring sufficient clean energy resources to meet reliability and GHG reduction goals. These proposals are contained in budget trailer legislation. The proposals include: (1) establishing a new centralized energy procurement role for the state, for which costs could be recovered from ratepayers; and, (2) requiring "capacity payments" from LSEs that experience energy resource deficiencies during months when the state utilizes the ESSRRP. Figure 3 describes each proposal in detail.

Figure 3

Summary of Governor's Major New Energy Policy Proposals

New Centralized Procurement Role for the State

✓ ***New Central Energy Procurement Authority.*** The proposal provides the California Public Utilities Commission (CPUC) with the option to identify either an Investor Owned Utility (IOU), the Department of Water Resources (DWR), or both to procure energy resources through a centralized procurement process on behalf of Load Serving Entities (LSEs) that provide electricity services to customers. The proposal primarily focuses on establishing requirements for DWR, as DWR does not yet have the authority to centrally procure electricity resources in the way that IOUs currently do. Any resources that DWR procures through this process would be available for IOUs, Publicly Owned Utilities (POUs), and other types of LSEs to use. DWR would utilize its new Strategic Reliability Reserve office and staff to manage the procurement.

✓ ***Requirements for Types of Resources Procured.*** The proposal requires DWR to conduct a competitive procurement process and prioritize investments that do not compete with LSEs' traditional procurement. According to the administration, the DWR procurement is intended to be for long lead-time resources such as offshore wind, geothermal, and long duration storage. The proposed statutory changes, however, do not explicitly limit this procurement option to those types of resources.

✓ ***Authority for New Electricity Rate Charges to Cover Central Procurement Costs.*** The proposal gives CPUC the authority to impose a non-bypassable charge to ratepayers to cover DWR's procurement costs, should CPUC find that the charge would not unreasonably increase costs to customers. A new Clean Energy Procurement Fund would receive the customer charges and support the procurement activities.

✓ ***Authority for DWR to Issue Bonds.*** The proposal gives DWR the authority to issue bonds, if necessary, to fund up-front costs for its central procurement activities. These bonds would be repaid with the ratepayer charges noted above.

New Charges for LSEs That Do Not Procure Sufficient Energy Resources

✓ ***Require Payments if LSEs Do Not Meet Energy Capacity Targets.*** To discourage LSEs (including POUs, which are outside the CPUC's jurisdiction) from over-relying on the Electricity Supply Strategic Reliability Reserve Program (ESSRRP), the proposal would require utilities that do not procure sufficient energy capacity to make payments to help support the ESSRRP.

✓ ***Payments Calculated Based on Energy Resource Deficiency.*** The state would assess a payment if an LSE does not meet its reliability obligations in a month when the state had to access the ESSRRP. Specifically, the payment would be based on a calculation that factors in the cost of the energy resource provided by the ESSRRP and the LSE's deficiency in meeting its monthly Resource Adequacy or planning reserve requirements. The payments would be calculated by CPUC and the California Energy Commission.

✓ ***Payments Would Be in Addition to Existing Integrated Resource Planning Enforcement Penalties.*** The proposed new payments would be in addition to existing enforcement protocols. Specifically, an LSE that fails to meet its planning reserve margin or Resource Adequacy requirements for the given month when the state used the ESSRRP would be subject to both this new charge and existing penalty payments.

Some Initial Funding to Come From the General Fund. As described in the figure, the Governor proposes to fund the ongoing support and operational costs for DWR's new procurement role from new charges to ratepayers. These charges also would be used to pay off any bonds that DWR might issue for large capital costs. In addition, the Governor proposes using General Fund in 2023-24 to help "stand up" the new procurement function at DWR. Specifically, the CERIP that CEC recently submitted to the Legislature includes $32 million—of the intended $100 million budget-year amount—to help establish this new central procurement office and process.

Other Technical Statutory Changes to Existing Energy Policies and Programs. The proposed trailer legislation also includes various statutory changes for the three Strategic

Reliability Reserve programs and DCPP which the administration considers to be technical "clean up."

Key Questions for Legislative Consideration

The Governor's proposed changes to the way energy is procured and paid for in California represent a significant new role for the state. As we highlight below, the proposals raise a number of crosscutting questions that the Legislature will want to consider as it weighs whether or not to adopt any of these changes. As such, we recommend the Legislature take sufficient time to engage with the administration and stakeholders such that it feels confident it has answers to these questions. The Legislature has a number of options for undertaking such deliberations, including oversight hearings and both formal and informal information requests to the administration. Below, we summarize the key questions that we find merit legislative consideration.

How Would Ratepayers Be Affected? How electric ratepayers would be affected by the Governor's proposals is unclear. In order to understand the potential impacts, we recommend the Legislature consider the following issues when evaluating the proposal:

- ***New Charges and Capacity Payments.*** Under the proposal, LSEs that do not procure sufficient energy resources would be required to make a capacity payment to support the ESSRRP. In addition, LSEs could be required to apply a non-bypassable charge to ratepayers to cover DWR's central procurement costs. The effects these charges would have on rates are unclear. Given that California's electricity rates already are among the highest in the nation and rising faster than inflation, the Legislature will want to carefully consider the potential impacts on rates and whether the potential benefits merit those costs.

- ***Market Effects of Central Procurement.*** Under the proposal, DWR would be able to procure energy resources on behalf of the state and LSEs if requested by CPUC. The current market for energy resources is strained, with a large number of LSEs competing for a relatively small pool of projects that often will take years to develop. How the entrance of DWR—a large, well-resourced entity with the backing of the state—would influence the market for new energy resources is unclear. The market for large, long-lead time resources, which the administration says would be the priority for DWR's procurement, is somewhat nascent and developing, as these types of resources are newer technologies and very expensive to build. This makes it even more difficult to predict the potential effects of the central procurement proposal. Because DWR likely would have more resources to expend than other purchasers, it is also unclear how energy resource developers may alter prices. Ultimately, how energy resources are priced will affect the rates customers are charged.

Are Current Processes and Resources Insufficient? The administration states that the procurement option and capacity payments to the ESSRRP are necessary to avoid energy shortfalls occurring among LSEs. However, these processes largely have been adequate thus far, and the state has taken numerous other actions in pursuit of the same goals. Yet the extent to which existing reliability requirements and procurement processes will be sufficient to meet *future* needs is uncertain. The following are existing processes and resources that are designed to support current and future electric reliability:

- ***Existing IRP and Planning Processes.*** As described above, LSEs are required to demonstrate sufficient energy capacity to the state through the IRP process, RA requirements, and—in the case of POUs not subject to those requirements—separate planning reserve margin targets administered by CEC. While the electric grid has been strained in recent summers, whether LSEs are actually at risk of a serious shortfall that could lead to reliability issues is unclear. The administration reports that no shortfalls have been identified by any LSE for IRP energy resource procurement recently. CPUC has recognized the need for more energy capacity and has issued numerous orders in recent years both for LSEs to procure more resources and to extend the time they have to do so, recognizing the delays in permitting and building new energy projects described above. In addition, as noted, efforts currently are underway at CEC to develop new planning reserve margin targets for POUs, which could support additional reliability.

- ***Existing Collective Action.*** LSEs have successfully banded together to procure resources in the past. For example, CCAs and POUs have formed joint powers authorities to procure power on a collective basis. Taking this approach to procure larger, long-lead time resources may prove more challenging, as these resources can be very expensive and the market is limited. However, certain existing locally based collective approaches may be sufficient to meet reliability needs in the future.

- ***Existing IOU Central Procurement.*** IOUs have been directed to procure on behalf of other LSEs in the past, and CPUC has authorized them to recover their costs of doing so. Additionally, last summer, the state provided financing support for IOUs to procure through the ESSRRP. Some IOUs have reported challenges procuring energy resources on behalf of others due to the high capital costs of procuring larger resources and a more diverse landscape with the rise of CCAs. However, if the Legislature was concerned about the potential risks of DWR acting as a central procurement authority, expanding centralized procurement undertaken by IOUs could be an alternative option worth exploring. If the state were to provide financing support to IOUs, similar to how it did in the summer of 2022, cost issues could prove less of a barrier.

- ***DCPP.*** As described above, the Legislature has authorized the extension of DCPP through 2030, though the plant will have to overcome a number of regulatory hurdles before it can continue operations past its originally scheduled sunset date of 2025. Accordingly, the administration is not accounting for the availability of DCPP-provided energy past 2025 in its reliability planning and modeling for the next decade. Given the remaining uncertainty around whether the extension will proceed, we find that this approach is reasonable. However, if DCPP continues operations as intended, the plant would provide a significant contribution to helping the state meet its reliability goals—2,280 MW, which is more than double the reliability benefits provided by the ESSRRP in 2023 and nearly five times the MW shortfall that resulted in the rotating outages of 2020. The availability of DCPP from 2025 through 2030 could significantly improve the state's reliability outlook and reduce the urgency of the need that the administration has identified for these new policy proposals.

What Are the Risks to the State? The administration has expressed concerns that LSEs might be hesitant to procure large, long-lead time resources because of their high cost and risk as newer technologies. The Governor's proposal to have the state pursue procuring these resources instead essentially shifts this risk from the privately owned utilities (and their investors) to ratepayers and taxpayers. While this could help facilitate the development of these important resources, additional information is needed about the types of risks involved and their magnitude for the Legislature to determine if they are worth the potential benefits. Additionally, the Legislature could explore whether it might be able to adopt statutory "guardrails" or protections to help minimize potential risks to the state from pursuing unproven technologies. For example, this could include capping the amount of funding DWR could invest in newer and more uncertain types of technologies. The Legislature also could require DWR to prioritize certain types of resources that it believes to be safer types of investments, such as long duration storage projects. While the Governor's proposal would require DWR to utilize project evaluation criteria, whether these would be sufficient to adequately assess and limit the potential risks to the state is unclear.

What Is the Status and Effectiveness of Recent Investments? The state invested heavily in reliability efforts in the 2022-23 budget package and state departments still have not spent most of the associated funds. While the ESSRRP appears to have provided important reliability support during the September 2022 heat wave—primarily through utilizing natural gas plants—how it might provide support in future years still is unclear. More broadly, the Strategic Reliability Reserve programs have significant funds remaining in their balance. For example, as of February 2023, the ESSRRP had committed $654 million for specific expenditures, but $1.4 billion of funding the Legislature appropriated for 2021-22 and 2022-23 remained unspent. If the ESSRRP continues to be relatively slow to spend down its existing funds, asking ratepayers to provide the program with even more funds through the proposed capacity payments seems potentially unnecessary. Specifically, whether capacity payments in support of the ESSRRP—which LSEs would pass down to ratepayers—are needed seems questionable, given the availability of significant General Fund resources from the previous budget. Moreover, existing penalty requirements already are in place to help discourage LSEs from under-preparing, so it is also not clear that these payments are needed to incentivize compliance with planning mandates.

Is a Central Procurement Function Necessary Now? Should the proposals be adopted as budget trailer legislation, the new authorities they grant to the state would take effect upon enactment of the statute, even though the administration estimates it would not utilize the procurement option in the 2023-24 fiscal year. A rationale could exist for the state to take on central procurement authority to support the procurement of larger, long-lead time resources—particularly given that these are difficult for individual LSEs to procure on their own or even banded together. However, whether this new authority is needed urgently this year is unclear. The Legislature may want to consider deferring a decision on these proposals beyond the coming budget discussion time line or even beyond the 2023 session. Delaying action could sacrifice some time that could be spent beginning to develop these resources, but given the many questions that remain about this proposal, taking more time to weigh the trade-offs could be valuable.

Should the Governor's Proposals Be Considered as Part of the Budget Process? The Governor's proposals represent significant policy changes for the state and they do not have a particularly strong nexus with the budget. The Legislature will want to consider the most appropriate venue for discussing and deliberating these proposed changes. For example, the Legislature could consider these proposals through the policy process, rather than as part of the budget process. Ultimately, ensuring it has the time and opportunities for developing a greater understanding, sufficient input from stakeholders, and thoughtful deliberation will be vital to ensuring it can make an informed decision on these important proposals. Given the policy implications of the Governor's proposals and the fixed constitutional time frame associated with adopting the annual budget—as well as the complicated fiscal decisions the budget process will involve this year, in the context of the General Fund shortfall—the budget process may not be the best venue for deliberating these proposals.

STAFF COMMENTS

Staff believes that some of these provisions are significant policy proposals that would be better as a policy bill where stakeholders and the Legislature can further vet and refine the proposal. If this Subcommittee would prefer to keep this a trailer bill, staff raises the following concerns:

Central Procurement Entity:

The trailer bill does not define diverse clean resources and provides a public contract code exemption. This could lead to preferred projects being selected despite costs or local community concerns. This could be addressed by adding definitions, narrowing the Public Contract Code exemption to specific provisions that are necessary, and limiting the procurement orders from naming overly specific projects or attributes and instead limiting procurements to those that are reliable in certain hours.

Additionally, this proposal could be amended to specify appropriate cost thresholds or clarify when customers will incur costs.

This Subcommittee may wish to ask:

- Why the existing CPUC or CAISO backstop procurement authority are not enough to ensure reliability?

- What will the costs be to the state and ratepayers? How will you keep these as low as possible?

- What risks are there to the State, especially for issuing bonds or selecting unproven technologies or project developers?

Capacity Payments for Strategic Relatability Reserve (ESSRRP):

This Subcommittee may wish to ask:

- For cost estimates of possible charges even though the State does not have final costs for the ESSRRP.
- How many LSEs would have been deemed deficient last summer?
- Why does CPUC need an Administrative Procedure Act waiver for regulations to establish these payments?

Integrated Resource Plan (IRP) Enforcement:

- How do you envision enforcing the Integrated Resource Plan?

Staff Recommendation: Hold Open.

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

ISSUE 3: CALIFORNIA LIFELINE – STATE OPERATIONS AND LOCAL ASSISTANCE ESTIMATE

The Governor's budget requests $357,313,000 for fiscal year 2023-24 from the Universal LifeLine Telephone Service Trust Administrative Committee Fund (0471) to provide low-income California households with basic, high-quality wireless and wireline services at affordable rates in accordance with the Public Utilities (Pub. Util.) Code section 871 et seq.

Specifically, the California LifeLine Program requests:

- $324,053,000 for local assistance budget to reimburse claims from participating service providers that offer discounted phone service to program participants.

- $33,260,000 for state operations budget to administer the Program.

The above request would represent an overall budget decrease of $6.249 million and 1.7 percent from the amounts appropriated in the 2022 Budget Act for California LifeLine.

PANEL

- Sarah Cornett, Fiscal & Policy Analyst, Legislative Analyst's Office (They/Them pronouns)
- Rachel Peterson, Executive Director, California Public Utilities Commission
- Rob Osborn, Director of the Communications Division, California Public Utilities Commission
- Eamon Nalband, Principal Program Budget Analyst, Department of Finance
- David Evans, Finance Budget Analyst, Department of Finance

BACKGROUND

The California LifeLine program provides affordable wireline and wireless phone service to approximately 1.33 million low-income customers. California LifeLine reimburses telephone service providers for the administrative costs and discounts offered to participants on their monthly service charge, connection and conversion charges, and taxes and surcharges associated with the monthly service charge. The service provider applies a discount to the participant's bill and submits monthly claims to the CPUC for reimbursements from the discounts granted to participants. Participating service providers receive an administrative support subsidy and may recover implementation costs on a limited basis.

CPUC uses a third party administrator to run Lifeline

In 2005, the CPUC transferred the enrollment functions from the telephone corporations to a Third-Party Administrator (TPA). Under the CPUC's oversight and supervision, the TPA handles the application, enrollment, and renewal processes, and determines if an applicant is eligible to enroll in California LifeLine. Through the TPA, California administers over 4.6 million annual eligibility determinations for both the federal and state subsidies.

The 2023-24 budget includes $324,053,000 for local assistance budget to reimburse claims from participating service providers that offer discounted phone service to program participants and $33,263,000 to administer the Program. This represents a small 1.7 percent decline from the amount budgeted in 2022-23

How Californians Get Lifeline

Applicants may qualify for California LifeLine in two ways: (1) through enrollment in an eligible public-assistance program (program-based eligibility); or, (2) meeting an income threshold (income-based eligibility). Under program-based eligibility, households may qualify for the California LifeLine discounts if they provide supporting documentation that at least one household member is enrolled in one or more eligible public-assistance programs such as Medicaid/Medi-Cal, Supplemental Security Income, CalFresh, etc.

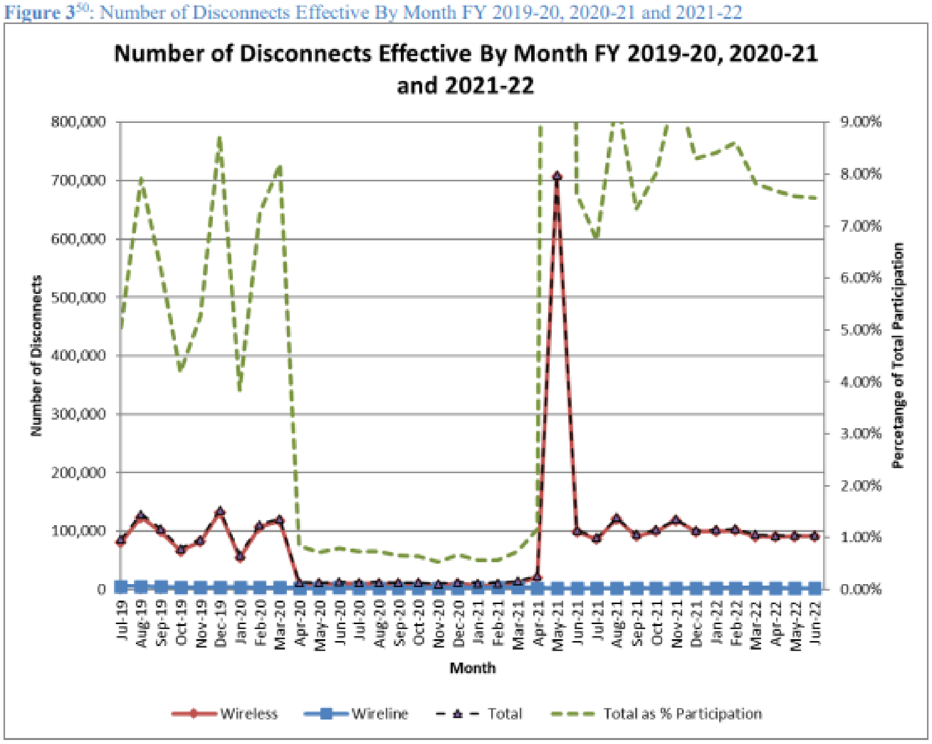
Under income-based eligibility, a household may qualify for California LifeLine if the household's total annual gross income is at or less than approximately 150 percent of the Federal Poverty Level. The Commission annually adjusts income thresholds, effective June 1 of the year, to reflect inflation based on the Federal Consumer Price Index. California LifeLine participants must also annually renew their participation in the program to confirm continued qualification and intent to receive ongoing discounted phone services.

There are four ways existing participants can renew: (1) mail; (2) the CPUC Web Enrollment System (WES), which is located on the public website; (3) over the phone, including through the use of the Interactive Voice Response (IVR) system; and, (4) using a service provider's approved website platform.

Pandemic Impacts Program

During the Pandemic, the CPUC suspended disconnections from the Lifeline program and saw disruptions to applications for the program, for example, the chart below shows the pause in disconnections and the spike afterwards that resulted from this policy.

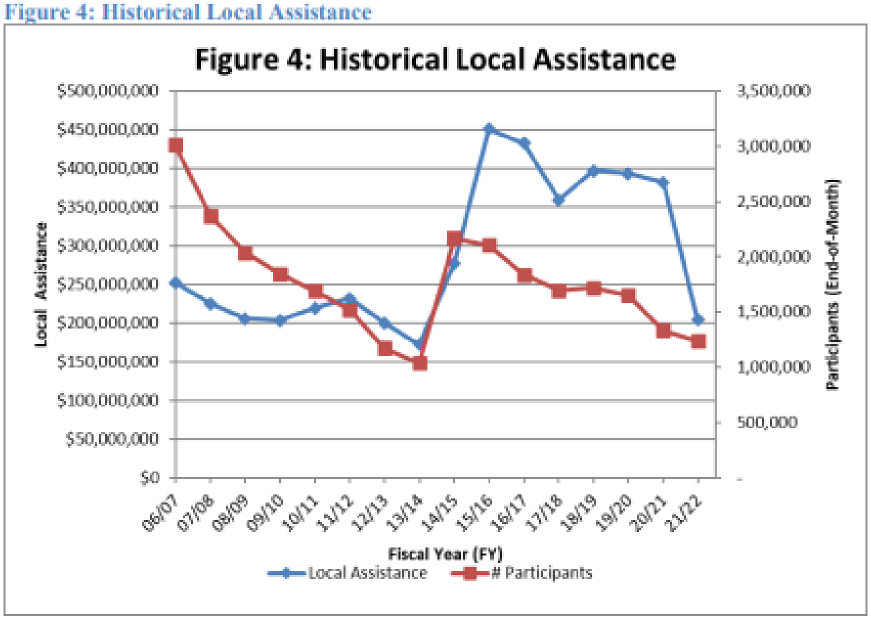
Figure 3[50]: Number of Disconnects Effective By Month FY 2019-20, 2020-21 and 2021-22



Program enrollment has declined over the last 15 years

The chart below shows the overall decline in households that receive Lifeline, with an overall declining trend over time. Of note is the spike in new households beginning in March 2014, when the Lifeline program was redirected from landline based services towards wireless mobile connections.

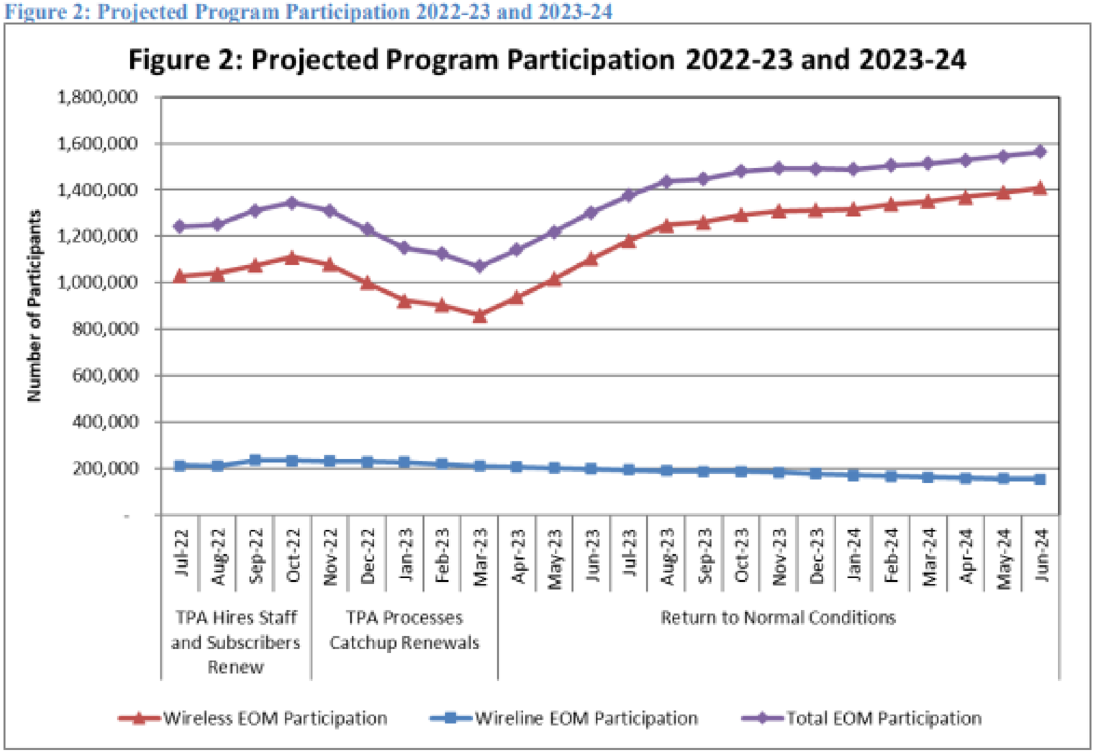
Figure 4: Historical Local Assistance



CPUC sees program stabilizing and growing in the budget year.

The budget change proposal from the CPUC assumes a rebounding Lifeline program that has overcome the disruption of the pandemic on the program and also reversed a ten year overall decline in the program participation. The following chart illustrated the projected participants for this program.

Figure 2: Projected Program Participation 2022-23 and 2023-24



STAFF COMMENTS

The CPUC puts forward a Lifeline budget proposal every January, which is typically adjusted in the May Revision with a second proposal. This item is not a policy proposal, it is more of a reflection of projected program utilization. Therefore, if the members of the Subcommittee do not wish to change the status quo of the Lifeline program, ultimately accepting the CPUC's Lifeline BCP would be appropriate.

In past years, this Subcommittee has discussed, with concern, the decline in the program participation observed over the last decade. This budget item shows a projected reversal in that long standing trend. However, the Subcommittee may wish to have the CPUC articulate why the Commission anticipates that the pre-pandemic decline in participation will cease in the future and if further policy action could even increase participation further.

Staff does not recommend acting on this item at this time because the Administration typically issues an update to the Lifeline caseload in May that will generate new budget figures with fresher data. If the Subcommittee has no concerns with the Lifeline program, both this and the May proposals would likely be included on a vote only calendar for adoption during May Revision hearings.

Staff Recommendation: Hold Open.

3355 OFFICE OF ENERGY INFRASTRUCTURE SAFETY
8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

ISSUE 4: OFFICE OF ENERGY INFRASTRUCTURE SAFETY - CONTINUED IMPLEMENTATION; PERMANENT STAFFING TO SUPPORT WILDFIRE, ENFORCEMENT, AND REFORM STATUTES; AND OFFICE OF ENERGY INFRASTRUCTURE SAFETY OPERATIONAL EFFICIENCIES TRAILER BILL

The Governor's budget requests:

- **California Public Utilities Commission:** $6,342,000 in ongoing budget authority for twenty-nine (29.0) positions from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) to ensure continued legal, ratemaking, and administrative support of the various wildfire prevention, cost recovery, and enforcement mandates; and CPUC reform measures mandated in Chapter 626, Statutes of 2018 (Senate Bill 901); Chapter 79, Statutes of 2019 (Assembly Bill 1054); and Chapter 81, Statutes of 2019 (Assembly Bill 111).

- **Office of Energy Infrastructure Safety:** 58 positions and $12,269,000 in 2023-24 and ongoing ($11,435,000 Public Utilities Commission Utilities Reimbursement Account (PUCURA) and $834,000 Safe Energy Infrastructure and Excavation Fund (SEIEF)). This proposal will allow the department to meet its public safety mission by reducing the risk and reliance on the use of contractors; reduce annual contracting costs; and address Energy Safety's, the Wildfire Safety Advisory Board's (WSAB), and the Underground Safety Board's ongoing and unmet needs associated with the continued implementation of Chapter 626, Statutes of 2018 (SB 901); Chapter 70, Statutes of 2019 (AB 1054); Chapter 81, Statutes of 2019 (AB 111); Chapter 115, Statues of 2021 (AB 148); Chapter 809, Statutes of 2016 (SB 661); and associated legislation, which require increased regulatory oversight of electrical corporations' compliance with wildfire safety and outreach to promote excavation safety.

- **Office of Energy Infrastructure Safety: Operational Efficiencies Trailer Bill:** Provides various flexibilities in existing law including:

    - Elimination of the requirement that Energy Safety offer a hearing following a Notice of Violation.
    - Elimination of the requirement that Energy Safety develop regulations to administer the hearing process. Instead, includes the ability for Energy Safety to develop guidelines through its existing process to clarify the Notice of Violation process including any subsequent rebuttal process.
    - Elimination of judicial review of decisions of Energy Safety following a hearing.
    - Elimination of the notification requirement to initiate the Substantial Vegetation Management (SVM) Audit.
    - Makes conducing the SVM Audit discretionary.
    - Clarifies timing issues between providing initial results of an audit to an electrical corporation and the electrical corporation's subsequent responsibilities.

- Elimination of the one-year period for Energy Safety to produce its final report.
- Clarification of an unclear review standard.
- Permits Energy Safety to conduct a Safety Culture Assessment at least once every two years rather than annually.

The trailer bill can be found here: https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/775.

PANEL

- Caroline Thomas Jacobs, Director, Office of Energy Infrastructure Safety
- Rachel Peterson, Executive Director, California Public Utilities Commission
- Amy Yip-Kikugawa, Assistant General Counsel, California Public Utilities Commission
- David Evans, Finance Budget Analyst, Department of Finance
- Eamon Nalband, Principal Program Budget Analyst, Department of Finance
- Jamie Gonsalves, Finance Budget Analyst, Department of Finance
- Stephen Benson, Principal Program Budget Analyst, Department of Finance
- Sarah Cornett, Fiscal & Policy Analyst, Legislative Analyst's Office (They/Them pronouns)

STAFF COMMENTS

CPUC's positions are all existing. OEIS has 37 existing positions and is requesting 21 new positions.

Staff supports the intent behind the OEIS trailer bill to give more time to complete audits and reviews, but suggests the language be tightened to more closely specify that intent in the language instead of switching "shall" to "may." Staff has concerns about eliminating the hearing process.

This Subcommittee may wish to ask each entity for an update on the status of the energy safety and wildfire prevention efforts and reforms.

Staff Recommendation: Hold Open.

NON-PRESENTATION ITEMS

3355 OFFICE OF ENERGY INFRASTRUCTURE SAFETY

ISSUE 1: ELECTRICITY: EXPEDITED UTILITY DISTRIBUTION INFRASTRUCTURE UNDERGROUNDING PROGRAM (SB 884)

The Governor's budget requests 18 permanent positions and $4,021,000 Public Utilities Commission Utilities Reimbursement Account (PUCURA) in 2023-24 and ongoing. These resources assume the submission of an undergrounding plan from the largest eligible electrical corporation, this proposal also includes budget bill language authorizing the Department of Finance to approve up to five (5) additional permanent positions and augment Energy Safety's budget by up to $1 million ongoing depending on whether the other two eligible large electrical corporations submit undergrounding plans. These resources will enable the department to implement the new statutory requirements to review, evaluate, and oversee compliance for 10-year undergrounding plans submitted by electrical corporations per Chapter 819, Statutes of 2022 (Senate Bill 884).

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

3360 CALIFORNIA ENERGY COMMISSION

ISSUE 2: BUILDING DECARBONIZING FINANCING AND INCENTIVE ASSISTANCE PROGRAM (SB 1112, BECKER)

The Governor's budget requests $422,000 Energy Resources Programs Account ongoing for 1.0 permanent staff scientist position (Energy Commission Specialist III) and 1.0 permanent staff attorney position (Attorney III) to implement the requirements of SB 1112 (Becker). SB 1112 requires the CEC to coordinate with the Governor’s Office of Business and Economic Development (GO-BIZ), California Public Utilities Commission (CPUC), and the State Treasurer‘s Office (STO) to identify state and federal financing and incentive options that will enable electric utilities and Community Choice Aggregators (CCAs) to provide zero-emission, clean energy, and decarbonizing building upgrades. In coordination with the listed agencies, CEC is also to apply for federal financing or investment solutions (where applicable), provide technical assistance to electric utilities and CCAs applying for state and federal funding, and assess and deliver a report describing statutory changes necessary to improve access to Federal financing or investment solutions, to the Legislature by December 31, 2023. These tasks are new for the CEC and would require 2.0 permanent staff to fulfill the requirements of this bill.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 3: FUNDING TO EXPAND AND IMPROVE ENERGY RELIABILITY MODELS (SB 1020, LAIRD)

The Governor's budget $1 million of onetime funds from the Cost of Implementation Account for contract support to rapidly improve and expand the current reliability models to encompass the whole state and address both system and local reliability.

This bill requires the CEC, CPUC, and CARB to develop an annual joint agency reliability progress report that reviews system and local reliability, with a particular focus on summer reliability. The first report is required by December 1, 2023, and annually thereafter. The report is to identify challenges and gaps, if any, to achieve system and local reliability and identify the cause of any delays in achieving compliance with capacity procurements required by CPUC. The report scope is consistent with the requirements in Chapter 61, Statutes of 2022 (AB 205) for the development of a report to the Legislature by January 31, 2023, that reviews how reliability was managed in 2022 and provides a projection of the magnitude of reliability issues in 2023 to 2026, inclusive. However, the scope of the analysis required by SB 1020 is more expansive as it looks to reliability under the SB 100 targets, and is not restricted to 2023 to 2026, inclusive.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 4: IMPLEMENTING HOURLY ELECTRICITY RETAIL RESOURCE ACCOUNTING (SB 1158, BECKER)

The Governor's budget requests $214,000 Energy Resources Programs Account and 1.0 permanent position to lead SB 1158 rulemaking activities and develop regulations for adoption by July 1, 2024, and to support ongoing analysis and implementation of hourly retail resource accounting and cross-program data harmonization efforts.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 5: SOLAR EQUIPMENT LIST DIRECT APPROPRIATION

The Governor's budget requests four-year limited-term direct appropriation of $1,281,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA, Fund 0462) to fund the CEC's Solar Equipment List Program and replace the current Interagency Agreement (IA) funding mechanism.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

ISSUE 6: CALSPEED TESTING CONTINUATION

The Governor's budget requests $2,988,000 through fiscal year 2025-26 and $1,902,000 in ongoing budget authority from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) for three (3.0) positions, and other related program contracts, computers, devices, licenses, training subscriptions, and hardware to continue the CalSPEED program. This includes:

- $2,388,000 for program-related contracts, devices, licenses, subscriptions, and hardware for two drive tests up to 2025-26.

- $1,302,000 for the equipment, service plans, contracts for only one drive test after 2025-26.

The CPUC will return with a future proposal for additional ongoing costs after evaluating the operation of CalSPEED program beyond 2025-26 following the end of monitoring period and reimbursements of $1 million for the T-Mobile and Sprint merger.

The CalSPEED Mobile project uses a widely accepted, open-source testing engine called iPERF to measure mobile broadband throughput, latency, download speed, upload speed, and other indicia of service quality from the point of view of the consumer experience. CalSPEED's test code and results are both completely transparent and available to the public. This differs from commercial speed test applications with proprietary test methods whose measurement details are not published publicly.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 7: CORRECTIONS: COMMUNICATIONS (SB 1008)

The Governor's budget requests $626,000 in ongoing budget authority for three (3.0) positions to develop, implement, enforce, and support new Service Quality (SQ) rules for Incarcerated Persons Calling Services (IPCS) providers, as mandated by Chapter 827, Statutes of 2022 (Senate Bill 1008). SB 1008 requires the CPUC to develop service quality rules applicable to IPCS providers.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 8: ELECTRIC TRANSMISSION RATES ADVOCACY

The Governor's budget requests $1,500,000 in budget authority per year for three years from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) and position authority for five (5.0) positions to continue CPUC advocacy for California ratepayers at the Federal Energy Regulatory Commission (FERC).

These positions seek to reduce transmission costs. Since 2008, California transmission utilities have increased their capital additions (and increased their rate base on which they earn a rate of return) by over 385 percent, from $4.6 billion in 2008 to $22.4 billion in 2022. Consequently, the High Voltage Transmission Access Charge which all California ratepayers must pay for operating the high-voltage transmission grids has increased from $3.83 per megawatt hour (MWh) in 2009 to $16.39 per MWh today—an increase of over 325 percent. At the same time, California load (demand) has declined since 2009 by 8.7 percent from 216.7 million MWh to 197.9 MWh.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 9: ELECTRICITY: ELECTRICITY PLANNING AND PROCUREMENT

The Governor's budget requests $3,313,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA, Fund 0462): $1,825,000 for eight (8.0) positions; $400,000 per year for four years; and $1,000,000 ongoing for consulting services, $28,000 for software licenses and $60,000 in one-time funding for training. This funding is to implement multiple requirements from four new bills: Senate Bill (SB) 1174, SB 887, SB 1158, and SB 1020.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 10: ELECTRICITY: EXPEDITED UTILITY DISTRIBUTION INFRASTRUCTURE UNDERGROUNDING PROGRAM (SB 884)

The Governor's budget requests $1,435,000 in ongoing budget authority for six (6.0) positions; $182,000 in limited-term funding; and $900,000 one-time funding allocated over two years for consulting services from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) to implement Chapter 819, Statutes of 2022 (Senate Bill 884), which requires the CPUC to develop, administer, and enforce new standards for an expedited electric utility distribution infrastructure undergrounding program, including providing maintenance and operating oversight.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 11: ELECTRICITY: STORAGE FACILITIES: STANDARDS AND RECORDS (SB 1383)

The Governor's budget requests $1,109,000 in ongoing budget authority for five (5.0) positions; $523,000 in limited-term funding; $500,000 per year for two years for technical engineering consultants; and $85,000 ongoing for specialized field equipment and training from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) to implement Chapter 725, Statutes of 2022 (Senate Bill 1383) to establish standards and regulations for battery maintenance and a safety storage oversight program, to audit and enforce the implementation and development of energy storage technology safety standards, and to provide maintenance and operating oversight.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 12: FEDERAL ENERGY REGULATORY COMMISSION AND FEDERAL COURTS OF APPEAL LITIGATION CONTRACT

The Governor's budget requests one-time budget authority of $1,300,000 ($650,000 in fiscal year 2023-24 and $650,000 in 2024-25) from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) to extend a legal services contract with outside counsel who represents the CPUC in active litigation before Federal Electric Regulatory Commission (FERC) and Federal Courts of Appeal.

For 20 years, the CPUC has been coordinating with other parties representing Californians' interests in this effort to obtain refunds to Californians related to the 2000-01 Energy Crisis, and to date, these parties have obtained settlements of the so-called "Long-Term Contract Claims" in excess of $7.7 billion (not including the $1.6 billion secured from a natural gas corporation). This request is being made to continue federal court and FERC litigation against the last two Long-Term Contract Claims, which could produce upwards of an additional $3.5 billion in recovery of overcharges (inclusive of interest).

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 13: LOW-INCOME UTILITY CUSTOMER ASSISTANCE PROGRAMS: CONCURRENT APPLICATION PROCESS (SB 1208)

The Governor's budget requests $815,000 ongoing budget authority for four (4.0) positions and $500,000 one-time funding over two years for information technology (IT) consulting services from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) to fulfill the mandates of Chapter 840, Statutes of 2022 (Senate Bill 1208) by developing a concurrent application process for income-qualified programs.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 14: NET ENERGY METERING: CONSTRUCTION OF RENEWABLE ELECTRICAL GENERATION FACILITIES: PREVAILING WAGE (AB 2143)

The Governor's budget requests $1,347,000: $319,000 in ongoing budget authority for two positions; $179,000 in limited-term funding; $750,000 ongoing for a consultant for outreach to mandatory reporters to collect the required reporting information for the CPUC; and $200,000 one-time over two years for a consultant to support the development of a statewide residential distributed energy resources legislative report from the California Public Utilities Commission Reimbursement Account (Fund 0462) to implement Chapter 774, Statutes of 2022 (Assembly Bill 2143).

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 15: PUBLIC ADVOCATES OFFICE – SAFETY GEOGRAPHIC INFORMATION SYSTEMS ANALYSIS

The Governor's budget requests one permanent, full-time Public Utilities Regulatory Analyst (PURA) III position and $171,000 to the Public Utilities Commission Public Advocates Office Account (PUCPAOA) to address ongoing workload stemming from the increased need to analyze geographic information systems (GIS) data when reviewing electric and gas utilities safety-related proposals and projects.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 16: PUBLIC UTILITIES COMMISSION: CUSTOMER RENEWABLE ENERGY SUBSCRIPTION PROGRAMS AND THE COMMUNITY RENEWABLE ENERGY PROGRAM (AB 2316)

The Governor's budget requests $1,103,000 ongoing budget authority for five positions; $500,000 one-time over two years; and $10,000 for four years from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) to implement Chapter 350, Statutes of 2022 (Assembly Bill 2316), including reviewing existing customer renewable energy subscription programs, evaluating whether those programs achieve the specified goals of the legislation, and modifying the programs as necessary. AB 2316 also requires the CPUC to consider whether it is beneficial to ratepayers to establish the Community Renewable Energy (CRE) program, a new community-level renewable generation program.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 17: SERVER ROOM AND TELECOMMUNICATIONS CLOSETS ONGOING MAINTENANCE COSTS AT SAN FRANCISCO HEADQUARTERS

The Governor's budget requests $365,000 ongoing budget authority from various special funds (Distributed Administration) to provide sustained support for necessary maintenance of Information Technology (IT) infrastructure in its San Francisco headquarters.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 18: STRENGTHEN CPUC ADMINISTRATIVE FUNCTIONS

The Governor's budget requests $592,000 in ongoing budget authority for two (2.0) positions from various special funds (Distributed Administration) to strengthen its administrative oversight of its programs, and improve support of and compliance within the Administrative Services Division and Legal Division.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 19: SUPPORT FOR COMMUNICATIONS REGULATORY PROGRAMS

The Governor's budget requests $210,000 in ongoing budget authority from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) and position authority for eight (8.0) positions to fulfill statutory mandates and operational needs in functional areas under the CPUC's regulatory oversight of communications services in California.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 20: TRANSPORTATION ELECTRIFICATION: ELECTRICAL DISTRIBUTION GRID UPGRADES (AB 2700)

The Governor's budget requests $300,000 in ongoing budget authority for cloud services from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) to store data related to Chapter 354, Statutes of 2022 (Assembly Bill 2700).

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 21: WATER COMPLIANCE AND ENFORCEMENT

The Governor's budget requests $419,000 per year for three years from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) for CPUC Water Division compliance and enforcement actions.

A 2020 Consultant Report found there were no resources monitoring utility compliance with regulations, rules, and Standard Practices, and that the Division lacked a meaningful, proactive compliance monitoring program.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

ISSUE 22: WATER CORPORATIONS: RATES (SB 1469)

The Governor's budget requests $950,000 ongoing authority for four (4.0) positions from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) to implement Chapter 890, Statutes of 2022 (Senate Bill 1469) to, upon application by a water corporation with more than 10,000 service connections, consider and authorize the implementation of a mechanism that separates the water corporation's revenues and its water sales.

Staff Recommendation: Absent member questions or input from the public at this hearing, staff recommends this item be approved as budgeted when the Subcommittee takes action.

This agenda and other publications are available on the Assembly Budget Committee's website at: https://abgt.assembly.ca.gov/sub3hearingagendas. You may contact the Committee at (916) 319-2099. This agenda was prepared by Shy Forbes.