Date of Hearing: July 1, 2024

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Cottie Petrie-Norris, Chair
SB 1054 (Rubio) – As Amended May 20, 2024

SENATE VOTE: 34-0

SUBJECT: Natural gas: customer credit

SUMMARY: Requires the California Public Utilities Commission (CPUC) to require natural gas corporations to annually distribute greenhouse gas (GHG) allowance revenues, known as the Climate Credit, only to residential customers.

EXISTING LAW:

1) Requires the California Air Resources Board (CARB) to ensure that statewide GHG emissions are reduced to 40% below the 1990 level by 2030. (Health & Safety Code § 38566)

2) Establishes the California Global Warming Solutions Act of 2006 and designates CARB as the state agency charged with monitoring and regulating sources of emissions of GHGs. Authorizes CARB to include the use of market-based compliance mechanisms in regulating those emissions, this is known as the Cap-and-Trade program. (Health and Safety Code § 38500 *et seq.)*

3) Requires CPUC, in consultation with the California Energy Commission (CEC), to develop and supervise a program, known as the Building Initiative for Low-Emissions Development (BUILD) program, where gas corporations provide incentives for near-zero and zero-emissions building technologies to significantly reduce the emissions of GHGs from buildings, as specified. (Public Utilities Code §§ 921-921.1)

4) Requires the CPUC to develop and supervise the administration of the Technology and Equipment for Clean Heating (TECH) Initiative, a statewide market development initiative, to require gas corporations to advance the state's market for low-emission space and water heating equipment for new and existing residential buildings. (Public Utilities Code § 922)

5) Requires the CPUC, until June 30, 2023, to annually allocate $50,000,000 of the revenues received by gas corporations as a result of the direct allocation of GHGs emissions allowances provided to gas corporations to fund BUILD Program and TECH Initiative. (Public Utilities Code § 748.6)

6) Requires the CPUC to allocate up to 15% of revenues received by an electrical corporation as a result of the direct allocation of GHG allowances to electrical distribution utilities to be used for clean energy and energy efficiency projects and otherwise requires revenues to be credited directly to residential, small business, and emission-intensive trade-exposed customers. (Public Utilities Code § 748.5)

7) Provides, pursuant to implementing regulations adopted by CARB, for the direct allocation of GHG allowances to electrical corporations and gas corporations pursuant to a market-

based compliance mechanism. (California Code of Regulations Title 17 § 95893(a) and (d)(2) and (3))

8) Establishes the Multifamily Affordable Housing Solar Roofs Program (also known as the Solar on Multifamily Affordable Housing Program, SOMAH) to provide financial incentives for qualified solar installations at multifamily affordable housing properties funded from approximately 10% of electric IOUs' GHG allowances. (Public Utilities Code § 2870)

FISCAL EFFECT: According to the Senate Committee on Appropriations, this bill may result in unknown, ongoing costs to the CPUC and CEC.

BACKGROUND:

The California Climate Credit – California ratepayers receive regular bill credits as part of the proceeds arising from their utility's participation in the state's Cap-and-Trade program. The origin of these customer climate credits is AB 32 (Nunez, Chapter 488, Statutes of 2006), which established limits on GHG emissions in California and designated CARB as the agency responsible for designing a market-based mechanism to reduce emissions. Recently, SB 32 (Pavley, Chapter 249, Statutes of 2016) and AB 398 (E. Garcia, Chapter 135, Statutes of 2017) were passed to extend the state's Cap-and-Trade program through 2030 with a revised statewide emissions target of 40% below 1990 emissions levels by 2030.

In December 2011, CARB created the statewide Cap-and-Trade program establishing limits, or caps, on the number of pollution permits, or allowances, available in a given year. The CARB Cap-and-Trade program applies to facilities that emit more than 25,000 metric tons of carbon dioxide equivalents per year, as well as any facility with lower emissions that opt-in to the program. These facilities include large electric power plants, large industrial plants, and fuel distributors (*e.g.*, natural gas and petroleum).

Electric and natural gas corporations, also known as investor-owned utilities (IOUs), are required to consign to auction a certain portion of the GHG allowances they receive. Covered entities purchase the utility allowances to cover their own GHG emissions. The proceeds generated from such sales must be primarily used for the benefit of retail ratepayers. For electric IOU customers, these funds are returned via a credit on their utility bills, known as the Climate Credit. State law requires 85% to be used for the Climate Credit and permits the CPUC to allocate the remaining 15% for clean energy and energy efficiency projects.[1]

From 2013 to 2020, the electric IOUs returned $6.3 billion directly to customers.[2] Proceeds are returned to customers via three mechanisms – the industrial assistance credit, the small business climate credit, and the residential California Climate Credit. The residential California Climate Credit is provided on residential customers' bills twice annually in the spring and fall. In 2020, in response to the COVID-19 pandemic, the Governor's shelter-in-place orders, and resulting changes in residential electric consumption, the CPUC altered the timing of the 2020 residential climate credit. Most credits were distributed earlier in the year and some IOUs split their credits to provide assistance over multiple months, without altering the total amount of credit received.[3]

[1] PU Code § 748.5
[2] As reported to this committee by the CPUC in March 2021.
[3] See CPUC webpage on the California Climate Credit; https://www.cpuc.ca.gov/climatecredit/ as appeared on March 26, 2021.

Unlike the electric IOUs' which are directed by statute to return no less than 85% of GHG allowance proceeds to customers, the use of gas IOUs' allowance proceeds are generally not controlled by statute. Instead, natural gas IOUs' allowance proceeds are allocated by CPUC decisions (D.15-10-032 and D.18-03-017), within the parameters of CARB's Cap-and-Trade regulation, which specifies they should benefit retail ratepayers.

It is the expectation that as CARB continues to lower the "cap" in the Cap-and-Trade program to help California reach its emissions-reduction goals, the total amount of available allowances – and thus proceeds from IOU sales of their allowances – will decline. Thus the California Climate Credit and associated programs funded through the GHG allowance proceeds are expected to likewise decrease in funding size over time.

Existing CPUC Programs Funded by GHG Allowance Proceeds – For electricity, per statute, up to 15% of the electric IOU auction proceeds may be used for clean energy or energy efficiency projects. The largest of these programs is SOMAH, authorized by AB 693 (Eggman, Chapter 582, Statutes of 2015). The SOMAH program uses $100 million or 10% of the IOUs' auction proceeds, whichever is less, to provide financial incentives for the installation of solar energy photovoltaic (PV) systems on multifamily affordable housing properties throughout California. In addition to SOMAH, the CPUC developed three programs to increase the adoption of renewable generation in disadvantaged communities.[4] The CPUC funded these programs with allowance proceeds, if funds were available under the 15% limit; otherwise, if such funds were exhausted, the programs would access ratepayer funding.

For natural gas, the CPUC has ordered that natural gas GHG allowance proceeds be included in the annual Climate Credit and be returned solely to residential customers.[5] In general, the natural gas Climate Credit is issued on gas utility bills in April and has ranged from $18 to $56 credit on customers' natural gas utility bills, depending on the year and utility. The use of gas allocations are not controlled by statute. In 2018, the Legislature adopted SB 1477 (Stern, Chapter 378, Statutes of 2018) which requires an allocation of $50 million annually from July 1, 2019 through June 30, 2023 from natural gas IOUs' GHG allowance revenues to fund the BUILD program and TECH initiative which provide incentive funding for low- and zero-emission technology to reduce GHGs from the building sector.

COMMENTS:

1) *Author's Statement.* According to the author, "SB 1054 will provide relief to households for one of the fastest-rising, most burdening costs they are currently experiencing, which is utility bills. These costs affect low-income households the most, as they pay more of their monthly income on utility bills in comparison to higher-income households. As the cost of living continues to rise in California, it is important that we find and implement effective approaches that would help alleviate financial burdens for our constituents, especially the most vulnerable."

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[4] Established in D. 18-06-027 in R. 14-07-002. More information on the programs may be found at the CPUC's website "Solar in Disadvantaged Communities;" https://www.cpuc.ca.gov/SolarInDACs/ as appeared on March 26, 2021.

[5] D. 15-10-032 and D.18-03-017

2) *To Program or Not to Program.* Currently, there is no requirement in statute regarding how much, if any, of the GHG allowance revenues are distributed to natural gas IOU customers, as there is for electric IOU customers. This bill would codify a requirement to issue the Climate Credit solely as bill credits to residential natural gas IOU customers, thereby clearly directing how these proceeds can be utilized.

   Any proposal to fund programs from these proceeds would thus require the adoption of subsequent statute. Stakeholders who earlier supported this measure when it was establishing a statewide initiative to finance, through Cap-and-Trade proceeds, the purchase of cleaner appliances for low-income households, now hold a Support if Amended position. They cite the current requirement under the bill that auction proceeds return directly as bill credits as “against the goal” of providing specific relief and benefits to low-income Californians.

   This bill currently chooses bill credits, shared across all residential accounts, as the preferred method of providing customer relief. During the winter of 2022-23, the commodity price of natural gas rose significantly and resulted in nearly all customers experiencing natural gas utility bill shocks. At the time, the CPUC directed the natural gas IOUs to provide the Climate Credit earlier in the year in order to mitigate the increased utility bills. In choosing to direct the GHG allowance revenues to residential customers via bill credits under this measure, the Legislature is helping all residential customers offset the costs of their utility bill.

3) *Previous Legislation.*

   SB 429 (Bradford, 2023) would have codified requiring natural gas IOUs to provide customers with an annual credit (known as the California Climate Credit) from the GHG allowance revenue and to time the distribution of the credit to coincide with the highest usage month, on or as close to the February utility billing cycle, as feasible. Status: the bill was amended to a new subject by the author.

   AB 1087 (Chiu, 2021) would have established the Environmental Justice Community Resilience Hubs Program, a competitive grant program funded by a portion of the proceeds of annual sales of electric utilities greenhouse gas (GHG) emissions allowances. Status: Died – Assembly Committee on Appropriations.

   SB 1477 (Stern) required the CPUC, from July 1, 2019 through June 30, 2023, to allocate $50 million annually from gas corporations' GHG emissions allowance revenues for the BUILD Program and the TECH Initiative established by the bill to require gas corporations to provide incentives for near-zero and zero-emissions building technologies to significantly reduce the emissions of GHGs from those buildings. Status: Chapter 378, Statutes of 2018.

   AB 693 (Eggman) created the Multifamily Affordable Housing Solar Roofs Program, to provide financial incentives for qualified solar installations at multifamily affordable housing properties funded from electric IOU’s GHG allowance revenues. Status: Chapter 582, Statutes of 2015.

SB 1018 (Committee on Budget) required the CPUC to direct electric IOUs to credit residential, small business, and emissions intensive trade exposed industries the revenues from the GHG allowances. Authorized the CPUC to allocate up to 15 percent of the revenues to clean energy and energy efficiency projects. Status: Chapter 39, Statutes of 2012.

REGISTERED SUPPORT / OPPOSITION:

Support

Breathe California
California Apartment Association
Central Coast Energy Services
Climate Reality Project San Fernando Valley Chapter
Climate Reality Project, Los Angeles Chapter
Community Action to Fight Asthma
Community Resource Project, INC.
Natural Resources Defense Council
San Francisco Peninsula Energy Services
South Bay Cities Council of Governments
US Green Building Council
USGBC - CA
USGBC-la Duplicate

Support If Amended

Advanced Energy United
Building Decarbonization Coalition
California Environmental Voters
Earthjustice
NRDC
Sierra Club California

Opposition

None on file.

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