Date of Hearing: April 12, 2023

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Eduardo Garcia, Chair
AB 1664 (Friedman) – As Amended March 15, 2023

SUBJECT: Energy: self-generation incentive program: block grant

SUMMARY: Requires the California Public Utilities Commission (CPUC) to establish a block grant structure for administering a portion of the Self-Generation Incentive Program (SGIP) funded by the General Fund to allow investments for eligible residential customers, including those of Publicly Owned Utilities (POUs) and California Indian tribes.

Specifically, **this bill**:

Requires the CPUC in administering SGIP's block grant to prioritize one or more of the following categories:

1) Supporting electrical grid reliability through onsite load management and enabling demand flexibility.

2) Achieving clean resiliency to electrical system interruptions and reducing reliance on portable fossil fuel-based generators.

3) Facilitating building and transportation electrification.

4) Reducing environmental pollution in disadvantaged communities or providing clean energy resiliency benefits to vulnerable communities.

EXISTING LAW:

1) Establishes SGIP at the CPUC, and allows the CPUC to direct investor-owned utilities (IOUs) to collect monies annually from ratepayers through December 31, 2024, to be used to provide SGIP incentives for distributed energy resources (DERs). The CPUC must administer SGIP incentives until January 1, 2026, and provide repayment of all unallocated SGIP funds to reduce ratepayer costs. (Public Utilities Code § 379.6)(a)(1)

   Requires the CPUC, on or before July 1, 2015, to update the factor for avoided greenhouse gases (GHGs) for Distributed Energy Resources (DERs) based on the most recent data available to CARB for GHGs from electricity sales in the SGIP administrators' service areas as well as current estimates of GHGs over the useful life of the distributed energy resource (DER). Public Utilities Code § 379.6 (b) (2)

2) Creates statutory guidance for the CPUC to implement SGIP via general fund dollars including funding energy storage and solar systems in publicly owned utility territories. (Public Utilities Code § 379.10)

FISCAL EFFECT: Unknown. This bill is keyed fiscal and will be referred to the Committee on Appropriations for its review.

BACKGROUND:

SGIP – California's SGIP was created in 2001 under legislative authority[1] following the energy crisis to provide incentives for DERs to reduce peak energy demand. Since 2001, the Legislature has refined and extended SGIP several times as climate change has moved to the forefront of statewide public policy. SGIP provides rebates for qualifying DERs installed on the customer's side of the utility meter that the CPUC, in consultation with CARB, determines to achieve reductions in GHG emissions. Qualifying technologies include wind turbines, waste heat to power technologies, pressure reduction turbines, internal combustion engines, microturbines, gas turbines, fuel cells, and advanced energy storage systems. Currently, SGIP allocates 85% of the funds to energy storage technologies.[2]

The program has several goals:

- Environment – reduce GHGs, integrate renewables and reduce criteria air pollutants;
- Grid support– reduce or shift peak demand, reduce grid costs, provide ancillary services;
- Market transformation – support technologies that have the potential to thrive in future years without rebates; and
- Maximize ratepayer value and ensure equitable distribution of costs and benefits.

During 2014 and 2015, the CPUC acted to extend SGIP funding through 2019 and updated program eligibility criteria related to GHG emissions.[3] In 2016, the CPUC made program refinements and budget changes leading to significant program participation. Stand-alone storage was the predominant technology but new budget categories with differing incentive levels allowed newer technologies from multiple sectors access to SGIP.[4] Also in 2016, the Legislature gave the CPUC the authority to double collections for SGIP from $83 million annually to $166 million.[5] In 2018, the Legislature extended the sunset date until 2024 and made other programmatic changes.[6]

Also in 2018, the CPUC established an "Equity Budget" for SGIP to ensure that a portion of SGIP monies is reserved for projects that are located in disadvantaged and low-income communities.[7] The objective of the investments is to: 1) bring positive economic and workforce development opportunities to the state's most disadvantaged communities; 2) help reduce or avoid the need to operate conventional gas facilities in these communities, which are exposed to some of the poorest air quality in the state; and 3) ensure that low-income customers, and non-profit or public sector organizations in disadvantaged or low-income communities, have access to energy storage resources.[8] Because SGIP funding is collected from a charge on the IOU ratepayers, the program has historically been limited to only customers in those IOU territories.

---

[1] AB 970 (Ducheny, Chapter 329, Statutes of 2000)
[2] CPUC; "Self-Generation Incentive Program (SGIP)," https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/demand-side-management/self-generation-incentive-program
[3] SB 861 (Committee on Budget and Fiscal Review, Chapter 35, Statutes of 2014)
[4] D.20-05-012 at 2
[5] AB 1637 (Low, Chapter 658, Statutes of 2016)
[6] SB 700 (Wiener, Chapter 839, Statutes of 2018)
[7] D.17-10-004 at 5
[8] D.17-10-004, Finding of Fact, 1, 2 and 3

SGIP Oversubscribed – As shown in Table 1, by 2020 most of the Equity Budget SGIP programs were oversubscribed, with millions of projects waitlisted, demonstrating its high demand.

TABLE 1 – CPUC SGIP Equity Budget Programs

Program	**Budget**	**% Adoption as of 2020**
SGIP - Equity Residential Category	2019-2025 - $31 million	>100% - $20 million in projects waitlisted {as of July 2020; See findings in D. 20-10-017}
SGIP - Equity Non-Residential Category	2019-2025 - $52.8 million	>100% - $306.5 million in projects waitlisted {as of July 2020; See findings of in D. 20-10-017}
SGIP - Equity Resiliency Category	2019-2025 - $612 million	>100% - $39 million in projects waitlisted
SGIP - San Joaquin Pilots Category	$10 million, one-time	< 20% - $1.7 million utilized

In 2019, the Legislature allocated 10% of SGIP funds for the installation of energy storage and other DERs at facilities that provide critical infrastructure to communities in High Fire Threat Districts to support community resiliency.[9] From 2020 and beyond, the SGIP program has focused on equity and customer resiliency as wildfire threats have compelled utilities to exercise their authority to carry out public safety power shutoffs (PSPS).[10]

In 2022, the Legislature expanded SGIP by authorizing $900 million through general fund monies for FY 2023/2024 to support residential solar and storage systems, with seventy percent ($630 million) being allocated to low-income residents.[11] The funding also specifies that thirty percent ($270 million) of the funding must be directed towards incentives for residential customers who install new behind-the-meter energy storage systems. This new state funding, would allow eligible customers in POUs to also participate in the program.[12] While the funding for the SGIP would be made available on July 1, 2023, the CPUC started scoping the expansion into their ongoing SGIP proceeding to prepare for the potential funding in October 2022.[13]

In his January budget for FY 2023-2024, Governor Newsom proposes to eliminate the market-rate portion of the proposed funding, maintaining $630 million of the set-aside for low-income households.[14] The future of SGIP's state funding is pending current budget discussions.

COMMENTS:

1) *Author's Statement.* According to the author, "Old programmatic approaches that successfully encouraged early adopters to embrace on-site clean energy technologies have also led to significant program barriers for low-income Californians to access past

[9] AB 1144 (Friedman, Chapter 394, Statutes of 2019)
[10] R.20-05-012 at 2
[11] Committee on Budget, AB 209, Chapter 251, Statutes of 2021
[12] 2022 SGIP Handbook, Section 4.1.1., at 34.
[13] Ruling of Commissioner Rechtschaffen, R. 20-05-012, October 26, 2022.
[14] Pg. 46, DOF; *2023-2024 Governor's Budget Summary*," January 2023.

program funding. We cannot solve this inequity problem by using the same approach used to create it. New program structure, guidelines, criteria, based on today's needs and circumstances of working class households, are necessary to ensure that any appropriated new funds can achieve equitable access to decarbonization and clean resiliency tools."

2) *Policy Guidance*. There are multiple unknowns with the proposed SGIP funding from the general fund including the actual amount of funds that will be appropriated for the program, and lack of administrative structure for non-IOU service customers. This bill provides guidance on the appropriation of these monies by requiring the CPUC to create a block grant structure for administering a portion of the new SGIP funding to allow investments for eligible residential customers, including those of POUs and California Indian tribes.

3) *SGIP Administrative Structure.* SGIP is funded by California ratepayers and administered by PG&E, SCE, SoCalGas, and the Center for Sustainable Energy on behalf of SDG&E who all represent California's major IOUs. Currently, POU customers participate in SGIP to the extent that they receive gas or electric service from the four participating IOUs.[15] The CPUC has recognized challenges with POU customers applying for SGIP. Similarly, the CPUC has found that despite their focus on tribal communities, their participation continues to be limited. In October 2022, the CPUC initiated a ruling to seek comments to improve the SGIP equity outcomes including improving outcomes for low-income customers. The Commission will then consider changes to be made no later than July 1, 2023. For clarity, the new general fund portion of SGIP is not exclusive to POU customers. It's statewide funding that applies to all IOUs, POUs and CCAs. This bill seeks to create a block grant structure as part of the proposed general fund monies that will be exclusively for POUs and California Indian tribes. However, it does not define what a block structure means for the purposes of the CPUC authorizing SGIP grants for POUs and tribal communities. Typically, a block grant structure provides set amounts of funds to entities. Block grants are usually thought to provide receiving entities more discretion in allocating funds and as the bill proposes, may give POUs and California tribes more discretion as compared to IOUs that are subject to CPUC's guidelines, eligibility and oversight.

4) *Related Legislation.*

   SB 851 (Stern, 2023) requires CPUC to establish a block grant structure and associated guidelines within the SGIP for California Indian tribes, community-based service providers, local publicly owned electric utilities, and community choice aggregators to apply for grants on behalf of eligible low-income residential households. Status: *pending hearing* in the Senate Committee on Energy, Utilities and Commerce.

5) *Previous Legislation.*

   AB 2667 (Friedman,) would have established a program at the California Energy Commission (CEC) to provide incentives for commercially available distributed energy resources, specifically behind-the-meter energy storage systems or self-generation

[15] Ruling of Commissioner Rechtschaffen, R. 20-05-012, October 26, 2022.

systems paired with energy storage systems. Would have established the Integrated Distributed Energy Resources Fund as a special fund in the State Treasury, the moneys in which would be available to CEC, upon appropriation by the Legislature, for purposes of the bill. The bill would have required CEC to administer the fund in consultation with the California Public Utilities Commission and CARB to provide incentives for eligible resources to support statewide customer adoption of clean distributed energy resources. The bill would have required CEC to establish a system to equitably award incentives. *Failed passage on the Senate Floor in 2021.*

AB 1144 (Friedman) requires the CPUC to allocate at least 10% ($16.6 million) of the 2020 funds from SGIP for the installation of energy storage and other DERs at facilities that provide critical infrastructure to communities in High Fire Threat Districts to support community resiliency. Status: Chapter 394, Statutes of 2019.

SB 700 (Wiener) extends the sunset date for SGIP by five years, requires the CPUC to adopt requirements for storage systems to ensure that they reduce GHG emissions, and prohibits generation technologies using non-renewable fuels from obtaining SGIP incentives as of January 1, 2020. Status: Chapter 839, Statutes of 2018.

AB 1637 (Low) Doubled the annual funding authorization for the SGIP and extended and revised the net energy metering program for fuel cells for five years. Status: Chapter 658, Statutes of 2016.

SB 861 (Committee on Budget and Fiscal Review) extended SGIP annual collections of $83 million per year through December 31, 2019. Status: Chapter 35, Statutes of 2014.

AB 1478 (Committee on Budget, Chapter 664, Statutes of 2014) modifies eligibility requirements for incentives under SGIP to clarify eligibility for technologies that shift electricity load off peak and make technical changes that clarify performance measures under the program.

AB 970 (Ducheny, Chapter 329, Statutes of 2000) established the SGIP program in response to the energy crisis.

REGISTERED SUPPORT / OPPOSITION:

Support

California Municipal Utilities Association

Opposition

None on file.

Analysis Prepared by: Lina V. Malova / U. & E. / (916) 319-2083

.