Date of Hearing: March 22, 2023

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Eduardo Garcia, Chair
AB 982 (Villapudua) – As Introduced February 15, 2023

SUBJECT: Public Utilities Public Purpose Programs Fund

SUMMARY: Eliminates from electric investor-owned utility (IOU) rates the costs of various programs, including utility bill discount programs for low-income customers, and instead establishes a Public Utilities Public Purpose Programs Fund (PUPPP Fund) in the State Treasury to fund the programs. Specifically, **this bill**:

1) Defines "public purpose programs" as the Family Electric Rate Assistance (FERA) program, the California Alternative Rates for Energy (CARE) program, programs funded through an IOU's public purpose program rate component as of December 31, 2023, or other programs determined by the California Public Utilities Commission (CPUC) in an open proceeding.

2) Establishes the PUPPP Fund in the State Treasury and authorizes the CPUC to allocate monies from PUPPP, upon appropriation by the Legislature, to public purpose programs, as defined.

3) Mandates monies allocated from the PUPPP Fund shall be used to fund electrical efficiency; renewable energy; research, development, and demonstration projects; Bioenergy Renewable Auction Mechanism (BioRAM) procurement costs; costs from the Arrearage Management Program established in June 2020; costs from the Percentage of Income Payment Plan pilot program established in October 2021; the portion of CARE and FERA costs and Self-Generation Incentive Program (SGIP) costs currently arising from electric IOU customers; electric rate assistance to eligible food banks; and home insulation assistance program costs.

4) Removes the requirement that the costs of the CARE program be allocated to electric utility customers on an equal cents per kilowatt-hour basis; retains this requirement for gas customers.

5) Permits the collection of funds previously from electric IOU ratepayers for SGIP to arise from the PUPPP fund, while maintaining the collection of SGIP funds in the rates of gas IOU customers. Clarifies that upon the sunset of SGIP in January 2026, any remaining funds will be disbursed to whichever source they originated from – IOU ratepayers or the PUPPP fund.

6) Mandates the CPUC require the electric IOUs to establish a two-way balancing account for monies allocated from the PUPPP.

7) Strikes the requirement that electric IOUs allow customers to voluntarily contribute through their electric bills to fund programs seeking the development of emerging renewable energy resources.

8) Mandates the CPUC to reimburse—through PUPPP—electric IOUs that participate in home insulation assistance and financing programs for all expenses related to implementing and administering the program that the CPUC finds reasonable.

9) States the Legislative intent that low-income bill support continues to be provided and that prudent investments in energy efficiency, renewable energy, research, development, and demonstration continue to be made.

10) Finds and declares, among other things, that electric rates are increasing and therefore providing rate relief by moving certain programs that benefit all taxpayers, not just utility customers, would be beneficial and equitable.

EXISTING LAW:

1) Establishes the CARE program, a program of assistance to low-income residential IOU customers with annual household incomes no greater than 200% of federal poverty guidelines. CARE discounts cannot be less than 30% nor greater than 35% of the revenues that would have been produced for the same billed usage by non-CARE customers, and requires the entire discount to be provided in the form of a reduction in the overall bill for the eligible CARE customer. (Public Utilities Code § 739.1)

2) Establishes the FERA program, a program of assistance to low-income residential customers of the state's three largest IOUs whose household income ranges between 200% and 250% of the federal poverty guidelines, slightly exceeding the CARE allowance. Requires the FERA program discount to be an 18% line-item discount applied to an eligible customer's bill calculated at the applicable rate for the billing period. (Public Utilities Code § 739.12)

3) Mandates each electric and gas IOU to develop and implement a rate assistance program at a fixed percentage to eligible food banks, as specified. (Public Utilities Code § 739.3)

4) Requires electric and gas IOUs to provide weatherization assistance, and specifies that weatherization means attic insulation, caulking, weather-stripping, a low flow showerhead, water heater blanket, and door and building envelope repairs to reduce air infiltration for low-income customers. This program is known as the Energy Savings Assistance Program (ESA). (Public Utilities Code § 2790 (a), (b))

5) Creates a charge on electricity and natural gas consumption to fund cost-effective energy efficiency and conservation activities. (Public Utilities Code §§ 381, 890, and 1615)

6) Establishes within the Renewables Portfolio Standard Program a requirement that electrical corporations, by December 31, 2023, collectively procure, through financial commitments of five to fifteen years, their proportionate share of 125 MW of cumulative rated generating capacity from bioenergy projects commencing operation prior to June 1, 2013, that each produces its generation using specified minimum percentages of certain types of forest feedstock, including from Tier 1 and Tier 2 high hazard zones. This program is known as BioRAM. (Public Utilities Code § 399.20.3)

7) Establishes the SGIP and allows the CPUC to direct IOUs to collect up to $166 million annually from ratepayers through December 31, 2024, to be used to provide SGIP incentives for distributed energy resources. 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)

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

BACKGROUND:

What's in a Utility Rate? – Costs that utilities can forecast with reasonable accuracy are examined and approved by the CPUC in general rate case (GRC) proceedings.[1] In these GRC proceedings, the CPUC determines the total amount the utility is authorized to collect (the "revenue requirement"). The utilities' authorized revenue requirements typically remain unchanged even if the utilities spend more or less than authorized by the CPUC.[2] Approximately 63% of the utilities' electric revenue requirements are set in GRCs at the CPUC and FERC;[3] the remaining 37% consists of pass-through of the costs of power procurement, DWR bond charges, nuclear decommissioning trusts, Public Purpose Programs (PPP), fees, and regulatory expenses approved by the CPUC.[4] Table 1 shows the breakdown of the major components of the electric IOUs' 2021 revenue requirement, of which PPP is a small, but not insignificant amount.

Table 1: 2021 Electric IOU Authorized Costs ($ billions)[5]

Source	SCE	PG&E	SDG&E
Generation/Energy Procurement	5.23	5.07	1.42

[1] In January 2020, the major utilities were directed by the CPUC to transition from a three-year GRC cycle to a four-year GRC cycle. D. 20-01-002
[2] The exception to this occurs in operations covered by balancing and/or memorandum accounts which can adjust the authorized revenue requirement based on actual spending, upon CPUC approval.
[3] FERC sets the revenue requirement for transmission assets.
[4] Pg. 15, CPUC, *2021 California Electric and Gas Utility Costs Report: AB 67 Annual Report to the Governor and Legislature*, published April 2022.
[5] Rounded values taken from Pg. 13, 2021 AB 67 Report.

Distribution	6.58	5.59	1.6
Transmission	1.25	2.03	0.73
Public Purpose Programs	0.76	0.62	0.47
Bonds and Fees	0.55	1.05	0.09
Total	14.39	14.38	4.33

PPP costs include energy efficiency, low-income ESA, CARE, and various other programs like the Schools Energy Efficiency Program, created pursuant to AB 841 (Ting, Chapter 372, Statutes of 2020). From 2020 to 2021, the PPP increased for PG&E and SCE, and decreased for SDG&E.[6] The primary driver of the increase in PPP costs was an increase in CARE collections. Table 2 shows the breakdown of how much these PPP programs contribute to an average residential bundled customer's bill (not enrolled in CARE).

Table 2: Electric IOU PPP Costs in Estimated Monthly Customer Bills[7]

Utility	Total PPP Portion of Estimated 2022 Monthly Bill	Total Estimated Customer 2022 Monthly Bill	PPP % of Total
PG&E	$9.75	$165	6%
SCE	$11.83	$149	8%
SDG&E	$8.35	$158	5%

Low-income Affordability Programs: CARE and FERA – The primary existing policy to help low-income customers pay their energy bills is the CARE program. Households enrolled in CARE receive a 30-35% discount on their electric bill[8] and a 20% discount on their natural gas bill. While CARE provides a reduction in electricity and natural gas bills, it does not guarantee an affordable bill. In fact, many recently approved electric rate increases increased the rates of both CARE and non-CARE customers.[9] Other IOU affordability programs include the FERA program, which offers an 18% discount on electric bills if household income slightly exceeds CARE allowances (up to 250% of federal poverty). FERA is an effort to help families who may

[6] 48% increase from 2020-2021 for PG&E, 90% increase for SCE, 10% decrease for SDG&E; Pg. 7, 2021 AB 67 Report
[7] Customers = non-CARE average residential bundled customers; Committee received numbers from a data request from the CPUC.
[8] For IOUs with more than 100,000 service connections; for those with fewer, the CARE discount is ~20%.
[9] An approximately 19% increase for PG&E, 17% increase for SCE, and 7% increase for SDG&E CARE customers.

have incomes that are just above the income eligibility for CARE, but who likely still experience hardships paying their utility bills. However, unlike CARE customers, FERA customers are not eligible for the ESA program to provide subsidized weatherization and other energy efficiency upgrades to help reduce the customer's energy load. Additionally, unlike CARE, FERA enrollment participation rates are low across all three large IOUs. The costs of the CARE and FERA subsidies are borne by all other customers, both residential and non-residential.

Report on Inequities in California's Electricity Rates – In February 2021, researchers at the University of California, Berkeley's Energy Institute at Haas and NEXT 10 published a report examining the causes behind California's high electricity prices, and offered pricing reforms that could potentially improve efficiency and equity. The report found California's high electric rates are roughly two to three times the costs it takes to produce electricity.[10] This misalignment between price and costs may confuse many customers, as the costs imbedded in an electric bill grow more removed from the cost of delivering the electricity, and any effort by an individual to reduce consumption might have little effect on their billing. The researchers pointed to inequities in cost recovery between a household that did or did not adopt behind-the-meter solar panels, and also raised wildfire mitigation expenses as a likely major cost driver of price increases in the near future.

The report demonstrated that lower- and average-income households increasingly bear a greater burden of the high fixed costs of delivering electricity. The authors suggest that to address these inequities, the state—directly through tax revenue—could support some of the measures currently embedded in utility rates. The authors suggest that using revenue raised from sales or income taxes would be much more progressive than the current scheme of electricity pricing, ensuring that higher-income households pay a higher share of the costs.[11]

COMMENTS:

1) *Author's Statement.* According to the author, "All Californians are struggling with the skyrocketing costs of goods and services, and low-income customers are especially feeling the pinch. On top of that, utility bills are saturated with various add-on costs through the Public Purpose Program (PPP) surcharge which are unrelated to the cost of supplying electricity. Though low-income customers benefit from PPP programs, they also pay a portion of their electric utility bill to support the PPP, thus diluting the benefits from the low-income programs. One of the best ways to help the working poor would be to remove these add-on costs, which would make sure that utility rates more closely reflect the cost to provide electric service. Since the PPP funds advance California's climate change policies, which benefit all Californians, it is more appropriate for the General Fund to fund the PPP, not just electric utility customers. AB 982 would sunset

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[10] Pg 4, Borenstein, S., Fowlie, M., and Sallee, J., "Designing Electricity Rates for an Equitable Energy Transition," *Energy Institute at Haas* working paper WP 314, February 2021.
[11] Pg. 5, *Ibid.*

the PPP surcharge on electric utility customers and continue the programs with funding from the state's General Fund. This would more equitably distribute the cost of the PPP by spreading the cost of achieving California's climate goals across all who benefit, and at the same time this would reduce the cost of electric utility bills for low-income customers."

2) *Ratepayers versus Taxpayers.* This bill proposes to use the state's general fund to pay for existing ratepayer-funded programs supporting low-income affordability, energy efficiency, distributed generation adoption, and others. As raised in the 2021 Haas paper mentioned previously, migrating existing programs out of rates and into the tax base would—because of California's progressive tax policies—lead to higher-income households paying a higher share of these programs' costs. The current approach to funding these programs via rates raises equity concerns because low-income consumers spend a larger share of income on energy consumption. Moreover, as ratepayer funding for some of these programs is assessed on a usage basis (per kilowatt-hour), higher income households that have cut the majority of their grid energy usage due to adoption of rooftop solar or on-site batteries pay far less of these costs.

   This strategy of using tax resources to fund some portion of energy costs is not wholly novel, although the scale of the migration of costs from ratepayers to taxpayers proposed in this bill might be. Most recently, in both 2021 and 2022, the Legislature appropriated billions in federal COVID relief funds to cover outstanding energy utility debt accrued during the pandemic.[12] It seems possible the Legislature, in its discretion through the budget process, could appropriate money from the general fund to pay for the programs highlighted in this bill, and direct the CPUC to require the IOUs to reduce customer bills accordingly. Permanent programmatic changes as proposed in this bill would not be necessary. However, there is certainly merit in evaluating historic ratepayer-funded programs, as this bill does, and interrogating whether it is reasonable and equitable for their costs to be borne by ratepayers versus taxpayers.

3) *Need to be CARE-ful.* As shown in Table 2, the PPP portion of electric rates proposed to migrate to taxpayers in this bill currently makes up about 5-8% of a residential IOU customer bills. This is a small, but not insignificant percentage. Of that 5-8%, roughly half arises from the CARE subsidy. The two threshold questions to consider when evaluating this ratepayer versus taxpayer dynamic are: 1) is the program in question a *statewide* priority that benefits households throughout all utility territories?; and 2) would the program in question's funding be jeopardized if the state general fund dips? For all the PPP highlighted in this bill—CARE, FERA, energy efficiency, SGIP, pandemic arrearage management—a compelling argument could be made that they reach the first

[12] AB 135 (Committee on Budget, Chapter 85, Statutes of 2021) and AB 205 (Committee on Budget, Chapter 61, Statutes of 2022)

threshold. However, the second threshold question may be more difficult for the low-income affordability protections of the PPP.

For those programs, the volatility inherent in the general fund is likely too precarious. Energy affordability to those on CARE and FERA is not just a difficulty, but a life or death service. Even if this measure were to recognize this volatility by including a backstop protection—such as if sufficient funds are not appropriated, then the CPUC can authorize a collection in electric rates—such a scenario would result in the state relying on future rate hikes in the midst of a likely economic downturn to ensure energy affordability. Given the uncertainty of the general fund, the Committee may wish to tread carefully and not make drastic changes to rate assistance programs especially in the midst of rising California electricity rates. *As a result, the author and committee may wish to consider striking the sections of this bill that migrate the low-income assistance programs out of rates.*

4) *Other programs to be considered.* As highlighted previously in this Committee, and demonstrated in both the 2021 Haas paper[13] and a 2021 CPUC report,[14] many other ratepayer-funded programs, beyond the PPP highlighted in this bill, add significantly to rates and have been increasing over the last few years. These include wildfire mitigation, grid hardening, transmission costs, transportation electrification, and decarbonization efforts, among others. The desire to consider these broader cost drivers, however, is not without its challenges, as untangling ownership, liability, and profit considerations surrounding state funding of traditionally utility-owned assets may take time.

5) *Prior Legislation.*

   AB 2765 (Santiago, 2022), largely the same bill as this measure, eliminated funding for certain public purpose programs from the rates paid by customers of the state's IOUs, except for funding for specific programs to subsidize costs borne by low-income ratepayers. Status: Died – Assembly Committee on Appropriations.

   AB 205 (Committee on Budget) among its many provisions, provided an additional $1.2 billion to cover outstanding energy utility arrears accrued during the COVID-19 pandemic, and made other programmatic changes. Additionally mandated the CPUC to establish an income-graduated fixed charge for default residential rates by July 1, 2024, with no fewer than three income thresholds, so that low-income ratepayers would realize lower average monthly bills. Status: Chapter 61, Statutes of 2022.

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[13] Borenstein, S., Fowlie, M., and Sallee, J., "Designing Electricity Rates for an Equitable Energy Transition," *Energy Institute at Haas* working paper WP 314, February 2021.
[14] "Utility Costs and Affordability of the Grid of the Future: An Evaluation of Electric Costs, Rates, and Equity Issues Pursuant to P.U. Code Section 913.1," CPUC, February 2021.

AB 135 (Committee on Budget) among its many provisions, established the California Arrearage Payment Program and appropriated almost $1 billion to cover outstanding energy utility arrears accrued during the COVID-19 pandemic. Status: Chapter 85, Statutes of 2021.

REGISTERED SUPPORT / OPPOSITION:

Support

CalChamber
California Large Energy Consumers Association
California State Association of Electrical Workers
Coalition of California Utility Employees
Edison International and Affiliates, Including Southern California Edison
Pacific Gas and Electric Company and Its Affiliated Entities
Sempra Energy and its Affiliates: San Diego Gas & Electric Company and Southern California Gas Company – *sponsor*

Oppose Unless Amended

The Utility Reform Network (TURN)

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