SENATE COMMITTEE ON ENERGY, UTILITIES AND COMMUNICATIONS
Senator Josh Becker, Chair
2025 - 2026 Regular

Bill No:	AB 745	**Hearing Date:**	7/15/2025
Author:	Irwin		
Version:	5/30/2025 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Electricity: climate credits

DIGEST: This bill makes changes to the allocation distribution of the California Climate Credit by electrical corporations on residential customers' utility bills so that the credit is issued during specified summer months and based on volumetric electricity usage, instead of a flat amount.

ANALYSIS:

Existing law:

1) Establishes and vests the California Public Utilities Commission (CPUC) with regulatory jurisdiction over public utilities, including electrical corporations. (Article XII of the California Constitution)

2) Establishes the California Global Warming Solutions Act of 2006 which designates the California Air Resources Board (CARB) as the state agency charged with monitoring and regulating sources of emissions of greenhouse gases (GHGs). Authorizes the CARB to include the use of market-based compliance mechanisms in regulating GHG emissions. (Health and Safety Code §38500 *et seq.*)

3) Requires revenues received by an electrical corporation as a result of the direct allocation of GHG allowances to be credited directly to residential, small business, and emissions-intensive trade-exposed retail customers of the electrical corporation, known as the California Climate Credit. (Public Utilities Code §748.5(a)(b))

4) 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(c))

5) Requires that all charges demanded or received by any public utility for any product, commodity or service be just and reasonable. (Public Utilities Code §451)

6) Pursuant to implementing regulations adopted by CARB, provides 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))

This bill:

1) Requires the California Climate Credit is provided to residential customers of an electrical corporation to be provided on the bills of those customers for the months of July, August, and September of each year, or as otherwise directed by the CPUC to address extreme, unforeseen, and temporary circumstances.

2) Requires the credit to residential customers to be volumetric, rather than independent of consumption.

Background

Cap-and-Trade Program. The Cap-and-Trade Program requires power plants, fuel suppliers, and large industrial facilities that emit GHGs to buy carbon pollution allowances from auctions managed by the CARB, under the authorization granted by AB 32 (Nuñez/Pavley, Chapter 488, Statutes of 2006), the California Global Warming Solutions Act of 2006. Each year, CARB issues a limited number of GHG allowances in line with California's goal of reducing its overall emissions to 40% below 1990 levels by 2030. The Cap-and-Trade program sets an annual declining cap on GHG emissions, but allows covered entities the flexibility to trade and sell their allowances. Some of these allowances are sold at auction, and the auction proceeds are used to either further reduce GHG emissions or benefit utility customers.

California Climate Credit allocations. In the case of investor-owned utilities (IOUs), pursuant to the regulations, the proceeds of the consigned GHG allowances must be used exclusively for the benefit of retail ratepayers. The electric and natural gas IOUs return these funds to ratepayers via a credit on their utility bills, known as the California Climate Credit, as a way to help offset any costs borne by the program. The electrical corporations return a portion to small

business customers, emissions-intensive trade exposed customers (specified large industrial customers), and residential customers. In the case of residential customers, electrical corporations distribute a twice a year credit (often April and October) on electric utility bills, generally, in equal lump-sum amounts for that year to every residential customer of that electric IOU. State law, pursuant to SB 1018 (Committee on Budget, Chapter 39, Statutes of 2012), required 85% of the revenues from the sale of the allowances by electric IOUs to be used for the Climate Credit and permits the CPUC to allocate up to the remaining 15% for clean energy and energy efficiency programs. Additional state law and CPUC decisions dedicate the majority of the 15% of the funds for specified programs, including the Solar on Multifamily Affordable Housing (SOMAH) program established by AB 693 (Eggman, Chapter 582, Statutes of 2015).

Climate Credit distribution. The Climate Credit is provided as a line-item on the utility bill (often in April and October). Over the course of the last 10 years, the amount of the Climate Credit has varied among the state's six electric IOUs, ranging between $17 and $269 annually, per residential customer. The majority of the credits have hovered between $30-40 annually. However, each annual amount of the credit varies by each year and by utility, but is a flat amount equally provided to each residential customer regardless of their electricity consumption.

Comments

Affordability of electric utility bills. As electric IOU bills have begun to outpace inflation, there has been much concern and focus about strategies to help mitigate these increases. Of growing attention has been the structuring of the electric IOUs' climate credit. Earlier this year, at the affordability focused oversight hearing by this committee, members heard from several panelists who spoke to the opportunities to consider how the Climate Credit might be structured or deployed to help address high electricity utility bills, including from the CPUC, Public Advocates Office, Stanford Professor Michael Wara, Natural Resources Defense Council (NRDC), The Utility Reform Network and others. Additionally, there are a few bills proposing various approaches to structuring the Climate Credit, including SB 254 (Becker, 2025) which requires the CPUC structure the credit to provide greater amounts for low-income customers enrolled in specified assistance programs and timed during the high electricity usage months (likely summer months), and AB 942 (Calderon, 2025) which requires customer-generators who are on net-energy metering tariffs to be excluded from receiving the credits.

Volumetric distribution approach. This bill presents a different approach which requires the Climate Credit to be issued based on electricity consumption (on a volumetric per kilowatt-hour amount) during July, August, and September months.

These are likely the months when electricity usage is generally the highest, largely driven by air conditioning use. However, this bill authorizes the CPUC to adjust the distribution timing if emergency or extreme conditions warrant a change. This bill's proposal reflects an approach discussed in a UC Santa Barbara Environmental Markets Lab paper, "*Using California's Cap-and-Trade Revenue to Lower Electricity Prices*." The authors assumed $1.2 billion budget for the Climate Credit for the state's three largest electric IOUs (based on the 2023 budgets) and found that a reallocated climate credit used towards electricity usage applied to all residential households in these utility service territories in the July-September summer months could reduce household bills by 13-19% (depending on the customer's actual usage). Under this approach, as customers use more electricity they receive more benefits (irrespective of what is driving their consumption, such as air conditioning needs, electric vehicles, electric appliances, swimming pools or spas). These reductions could be significant for the benefiting customers.

Potential impacts. The CPUC in their response to the Governor's Executive Order N-5-24, also discussed a volumetric distribution approach. They noted that such an approach would not reduce total annual bills, but could potentially make electrification more appealing to ratepayers. Additionally, this approach could reduce month-to-month utility bill volatility. Other entities, including NRDC and the Union of Concerned Scientists also support a volumetric approach. However, they call for a year-round volumetric reduction with an influx of other funding sources. The CPUC also notes that changes from a non-volumetric (the current lump-sum approach) to volumetric approach would need to be reflected in the Cap-and-Trade regulation.

Considerations for Climate Credit design approaches. As discussions continue regarding the opportunities to structure the Climate Credit to help address affordability, members may want to consider helpful criteria/principles, such as:

- Feasibility to implement – How quickly and easily can electric IOU billing systems implement the distribution allocation structure?
- Visibility of the Climate Credit – How visible is the Climate Credit to customers?
- Effectiveness at helping to reduce utility bills – Is the Climate Credit structured to achieve demonstrable ongoing reductions (particularly as electricity consumption and GHG allowance revenues fluctuate)?
- Ability to address equity – How well does the structure address equity considerations (for example: geographic distinctions in consumption and demands for electricity, as well as, income eligibility and customers struggling to maintain service)?

- Support for state climate/clean energy policies – Does the Climate Credit structure support the state's GHG emissions and related goals?

Prior/Related Legislation

AB 942 (Calderon) of 2025, among its provisions, exempts customer-generators participating in the net-energy metering tariffs from receiving a Climate Credit. The bill is pending in this committee.

SB 254 (Becker) of 2025, among its many provisions, requires the Climate Credit for electrical corporation customers to be structured so that low-income customers receive a greater amount as compared to other residential customers. The bill is pending in the Assembly Utilities and Energy Committee.

SB 429 (Bradford) of 2024, would have required natural gas IOUs to provide customers with an annual the California Climate Credit to coincide with the highest usage month, on or as close to the February utility billing cycle, as feasible. The bill was amended in the Assembly to remove these provisions and replace with unrelated provisions.

AB 693 (Eggman, Chapter 582, Statutes of 2016) directed the CPUC to establish a new program – the SOMAH Program – intended to make qualifying solar energy systems accessible to low-income and disadvantaged communities living in multi-family affordable housing and with a goal of installing 300 megawatts of energy by December 2030.

SB 1018 (Committee on Budget, Chapter 39, Statutes of 2012) 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% of the revenues to clean energy and energy efficiency projects.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

SUPPORT:

Natural Resources Defense Council
Union of Concerned Scientists

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: According to the author:

> Electricity affordability is one of the central challenges facing California. AB 745 will restructure the California Climate Credit, a rebate on residential utility bills which is funded through the state's cap-and-trade program, to 1) directly reduce utility rates and 2) be distributed during the summer months, when utility bills are highest for many Californians. According to a recent analysis by environmental economists at UC Santa Barbara, making these two changes could reduce electricity rates for millions of Californians by 13-19% during the months when those savings are most needed, maximizing the affordability benefit of the Climate Credit for Californians.

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