SENATE COMMITTEE ON ENERGY, UTILITIES AND COMMUNICATIONS
Senator Steven Bradford, Chair
2023 - 2024 Regular

Bill No:	SB 1054	**Hearing Date:**	4/22/2024
Author:	Rubio		
Version:	3/20/2024 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Climate Pollution Reduction in Homes Initiative: natural gas: customer credit

DIGEST: This bill establishes the Climate Pollution Reduction in Homes Initiative to provide financial assistance to low-income households for the purchase of zero-carbon-emitting appliances. This bill authorizes up to 15 percent of the natural gas corporations' greenhouse gas (GHG) allowances are used to fund the program and requires the remaining 85 percent is returned to customers of the utilities.

ANALYSIS:

Existing law:

1) Requires the State Energy Resources Conservation and Development Commission (California Energy Commission (CEC)) to prescribe, by regulation, among other things, lighting, insulation, climate control system, and other building design and construction standards, energy and water conservation design standards, and appliance efficiency standards to reduce the wasteful, uneconomic, inefficient, or unnecessary consumption of energy and to manage energy loads to help maintain electrical grid reliability. (Public Resources Code §25402)

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

3) Establishes the California Global Warming Solutions Act of 2006 and designates the California Air Resources Board (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. (Health and Safety Code §38500 *et seq.)*

4) Requires the CEC to establish the Equitable Building Decarbonization Program, which includes establishing a statewide incentive program for low-carbon building technologies and the direct install program to fund certain projects, including installation of energy efficient electric appliances, energy efficiency measures, demand flexibility measures, wiring and panel upgrades, building infrastructure upgrades, efficient air conditioning systems, ceiling fans, and other measures to protect against extreme heat, where appropriate, and remediation and safety measures to facilitate the installation of new technologies. (Public Resources Code §25665 et seq.)

5) Establishes the Building Initiative for Low-Emissions Development (BUILD) Program to require gas corporations to provide incentives to eligible applicants for the deployment of near-zero-emission building technologies to significantly reduce the emissions of GHGs from those buildings below the minimum projected emissions reductions that would otherwise be expected to result from the implementation of the prescriptive standards described in Section 150.1 of Subchapter 8 of Part 6 of Title 24 of the California Code of Regulations. (Public Utilities Code §921.1)

6) 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 through upstream market development, consumer education, contractor and vendor training, and the provision of upstream and midstream incentives to install low-emission space and water heating equipment in existing and new buildings, with technologies identified pursuant to subdivision (b). (Public Utilities Code §922)

7) 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 the BUILD Program and the TECH Initiative. (Public Utilities Code §748.6)

8) Requires the CPUC to allocate up to 15 percent 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)

9) 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))

This bill:

1) Requires the CEC, in consultation with the Department of Community Services and Development (CSD), to develop and supervise the Climate Pollution Reduction in Homes Initiative, a new program, to require gas corporations to jointly award grants for local service providers, nonprofit organizations, and regional collections of local governments to provide financial assistance to low-income households for the purchase of zero-carbon-emitting appliances.

2) Requires the CEC, as part of developing and administering the initiative, to develop guidelines, and authorize local service providers, nonprofit organizations, and regional collections of local governments to use those grant moneys for outreach and technical assistance, rebates, loans, installation, educational information, and other support services to assist low-income households.

3) Authorizes the CPUC to require gas corporations to annually use up to 15 percent of the revenues received as a result of that allocation of allowances to fund the Climate Pollution Reduction in Homes Initiative, and requires the CPUC to direct the balance of those revenues, including any accrued interest, received by a gas corporation to be credited directly to the residential customers of the gas corporation.

4) Requires the CPUC to annually direct gas corporations to distribute the credit during the February utility billing cycle, so as to coincide with the highest usage gas utility bill during the year.

Background

GHG emissions from the building sector. According to the CARB, residential and commercial buildings are responsible for roughly 25 percent of California's GHG emissions when accounting for electricity demand, fossil fuels consumed onsite, and refrigerants. Of the 25 percent, roughly 10 percent of emissions are attributable to fossil fuel combustion, including natural gas, with residential buildings accounting for slightly more of those emissions than commercial buildings. However, CARB has noted that these emissions numbers can vary from year-to-year.

Reducing GHG emissions from the building sector. There are several strategies that can be employed to reduce GHG emissions from the building sector, these include: improved energy efficiency of buildings and appliances, reducing carbon emissions from fossil fuel sources, ensuring cleaner sources of energy to operate buildings and associated appliances, addressing methane leaks, and others. CARB has noted that refrigerants used for space-cooling and refrigeration systems also contribute directly to building-related GHG emissions and these are a growing source of GHGs from buildings which must also be reduced. The Climate Change Scoping Plan identifies actions to reduce GHG emissions from the building sector, including progressively improving building codes and standards, pursuing voluntary efforts to exceed code requirements, and completing existing building retrofits.

State has many energy assistance programs. There are several energy assistance programs to help low-income residents and households. These include:

- *Energy Savings Assistance (ESA) Program.* The ESA Program is one of the state's oldest energy assistance programs, with origins in a 1983 decision by the CPUC, and one of the key assistance programs administered by the state's four largest investor-owned energy utilities. The ESA Program offers no-cost energy efficiency measures and non-energy benefits for income-qualified households. Services provided include attic insulation, energy-efficient refrigerators, energy-efficient furnaces, weather-stripping, caulking, low-flow showerheads, water heater blankets, and door and building envelope repairs that reduce air infiltration. In providing these energy efficiency and weatherization measures, the ESA Program is able to help low-income families reduce energy consumption and optimize a more efficient use of energy, while improving quality of life and comfort. Both participating and non-participating ratepayers fund the ESA Program via a surcharge on electric and gas utility bills.

- *Low-Income Home Energy Assistance Program (LIHEAP).* LIHEAP is a federally funded program administered through the California CSD and its network of local government and nonprofit providers. LIHEAP provides one-time emergency utility bill assistance for eligible customers of any electric or gas utility in the state. The LIHEAP also provides some weatherization assistance, although more limited than the ESA Program.

- *Weatherization Assistance Program (WAP).* The United States Department of Energy's WAP is administered by CSD and its network of providers in California. WAP helps reduce energy usage and costs by providing services intended to improve energy efficiency in the homes of eligible low-income households.

- *Other Energy Assistance Programs.* In addition to the programs noted above, there are additional assistance programs to help low-income customers. Most notably, in previous years, the state has also provided funding for energy assistance programs, through the greenhouse gas reduction fund (GGRF), for a Low-Income Weatherization Program (LIWP) also administered by CSD and which largely provide solar installations on eligible homes. The CPUC also administers a number of programs that provide financial assistance, in many cases for solar other distributed energy resources including energy storage batteries, with some funding targeted at low-income or disadvantaged communities. These programs include: the Self Generation Incentive Program (SGIP) and Solar on Multifamily Affordable Housing.

- *Equitable Building Decarbonization Program.* The Equitable Building Decarbonization Program was established in budget trailer bill, AB 209 (Committee on Budget, Chapter 251, Statutes of 2022) with the goals to reduce GHGs related to the building sector. The program has two components: a direct install program and a statewide incentive program for low-carbon building technologies. The direct install program provides minimal or no-cost retrofits to low- and moderate-income households, with preference given for buildings located in under-resourced communities, or owned or managed by a California Native American tribe or a member of a California Native American tribe. The statute defines low- and moderate-income residents as those persons and families whose income does not exceed 120 percent of area median income, adjusted for family size, in accordance with the U.S. Department of Housing and Urban Development. The retrofits include installation of energy efficient appliances, energy efficiency measures, demand flexibility measures, wiring and panel upgrades, building infrastructure upgrades, efficient air conditioning systems, ceiling fans, and other measures to protect against extreme heat, where appropriate, and remediation and safety measures to facility the installation of new technologies. The Governor's January budget proposes reducing overall funding for this CEC program by $283 million, retaining $639 million, or 69 percent, of the original allocation. The reduction would result in fewer direct install incentives

- *SB 1477 (Stern, Chapter 378, Statutes of 2018) BUILD and TECH programs.* SB 1477 made available $50 million annually for four years, for a total of $200 million, derived from the revenue generated from the GHG emission allowances directly allocated to gas corporations and consigned to auction as part of the CARB's Cap-and-Trade program. The CPUC decision appropriates 40 percent of the $200 million budget for the BUILD Program and 60 percent for the TECH Initiative. The BUILD Program is administered by the CEC with CPUC oversight. Per the CPUC direction, the CEC should aim to design the BUILD Program with the goal to deploy near-zero emission building technologies in the largest number of new residential housing units possible. To achieve that aim, at least 30 percent of the total $200 million in total funding authorized by SB 1477 (i.e., $60 million) is appropriated for new low-income residential housing under BUILD Program.

California Climate Credit. Electric and natural gas investor-owned utilities (IOUs) are required to consign to auction a certain portion of the GHG allowances they receive as part of their compliance with the regulations adopted pursuant to the CARB cap-and-trade program. Utility allowance proceeds are to be used exclusively for the benefit of retail ratepayers per the requirements of the regulation. These proceeds are referred to as GHG allowance proceeds. For electric IOUs, these funds are returned to ratepayers via a credit on their utility bills, known as the California Climate Credit. State law requires 85 percent to be used for the Climate Credit for electric IOUs and permits the CPUC to allocate the remaining 15 percent for clean energy and energy efficiency projects. The CPUC ordered that natural gas GHG allowance proceeds be included in the annual Climate Credit and be returned to residential retail customers. 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.

Current uses of natural gas allowance revenues. Unlike the electric IOUs' which are directed by statute to return no less than 85 percent of GHG allowance proceeds to customers, the use of gas IOUs' allowance proceeds were 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. In 2017, the Legislature adopted SB 1477 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. Additionally, in decision (D. 20-05-012) related to the SGIP, the CPUC allocated one-time funding of $40 million from the 2023 natural gas IOUs' GHG allowance revenues to augment funds for a load-shifting heat pump and water heating incentive program. In a separate decision from

December 2020 (D. 20-12-03), the CPUC reserved $5 million of quarterly auction proceeds from 2022 through 2023 (for a total of $40 million) to fund monetary incentives for biomethane projects to interconnect to the natural gas IOU pipeline system.

Comments

Need for this bill. The author and supporters note the need to help low-income residents replace appliances to energy efficient zero-emission appliances. They contend that low-income residents face significant barriers to accessing clean energy resources, including energy efficient appliances. They believe an additional program is needed to help these residents. Additionally, the author has proposed to use a portion of the natural gas GHG allowance revenue to fund the program and return the remaining – 85 percent – to natural gas utility customers.

Legislature codifies natural gas utility rebates to customers. Currently, there is no requirement in statute regarding how much, if any, of the revenues are distributed to natural gas IOU customers, as there is for electric IOU customers. By placing in statute a requirement to issue the Climate Credit to natural gas IOU customers, the Legislature will have the authority to direct how these proceeds can be utilized, as any proposal to fund programs from these proceeds would require the adoption of subsequent legislative statute(s). More importantly, the Legislature can be assured that 85 percent of the revenues would be directed to customers, helping them offset the costs of their utility bill.

Need for amendments. The author and committee may wish to add a sunset to the program of four years and require annual reporting by the CEC to the Legislature as to the progress of implementing the program. Additionally, the author and committee may wish to strike the language in this bill directing the timing of the distribution of the Climate Credit, thereby allowing the CPUC to adjust the timing, as necessary.

Prior/Related 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 greenhouse gas 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. The bill was amended in the Assembly by the author with unrelated provisions.

SB 306 (Caballero, Chapter 387, Statutes of 2023) required annually reporting to the Legislature by the CEC regarding the direct install program as part of the Equitable Building Decarbonization Program.

AB 209 (Committee on Budget, Chapter 251, Statutes of 2022), among its many provisions, established the Equitable Building Decarbonization Program, including a direct install program to fund the installation of measures to reduce GHGs from buildings.

AB 179 (Ting, Chapter 249, Statutes of 2022), Budget Act of 2022, appropriated $1.12 billion for the Equitable Building Decarbonization Program.

SB 560 (Rubio, 2021) would have established the Climate Pollution Reduction in Homes Initiative and requires the CSD to administer the initiative to provide grants for projects, including, but not limited to, those that provide financial assistance to low-income households for the purchase of zero-carbon-emitting appliances. The bill was held in the Assembly Committee on Appropriations.

SB 756 (Hueso, 2021) would define “low-income customers” for the purposes of eligibility for the ESA Program to mean low-income persons or families with household income at or below 250 percent of federal poverty level, instead of the current 200 percent of federal poverty.

SB 1035 (Rubio, 2020) would have established the Climate Pollution Reduction in Low-Income Homes Initiative. The bill would have required the CEC to administer the initiative to provide grants to eligible entities to provide financial assistance to low-income households for the purchase of low-carbon-emitting appliances. The bill died in the Senate Committee on Energy, Utilities and Communications.

SB 1477 (Stern, Chapter 378, Statutes of 2018) 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.

AB 693 (Eggman, Chapter 582, Statutes of 2015) 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.

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 percent of the revenues to clean energy and energy efficiency projects.

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

SUPPORT:

California Apartment Association
Central Coast Energy Services
San Francisco Peninsula Energy Services
The Climate Reality Project, California
The Climate Reality Project, San Fernando Valley Chapter
The Climate Reality Project, Los Angeles Chapter
Community Resource Project
U.S. Green Building Council
U.S. Green Building Council-CA

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: In support of this bill, Central Coast Energy Services states:

> California's climate crisis, clean air standards, and 2045 carbon neutrality goal require the state to plan for a zero-emission economy. To achieve this goal, California must stop using fossil fuels to heat buildings and drastically reduce emissions from the building sector. Low-income Californians face significant barriers to accessing clean energy resources, often making them the last to benefit from clean technologies, like energy efficient electric appliances. Environmental justice and disadvantaged communities across the state have disproportionately shouldered the burdens of poor air quality and high energy costs, however, California has the opportunity to prioritize these communities in the transition to a zero-emission building future. Utilizing cap-and-trade dollars to fund a zero-emission appliance incentive program at the California Energy Commission will not only cut building sector emissions off at the source, but will also improve indoor air quality, health, comfort, and energy affordability for working-class families.

-- END --