

the emissions of greenhouse gases (GHG) from those buildings below the minimum projected emissions that would be achieved through building codes. Existing law authorizes the CEC to serve as the BUILD program's third-party administrator. (Public Utilities Code §921)

- 5) Establishes the Technology and Equipment for Clean Heating (TECH) program by requiring the CPUC to direct gas corporations to provide incentives for the installation of low-emission space and water heating equipment in new and existing buildings. Existing law authorizes the CEC to serve as the TECH program's third-party administrator. (Public Utilities Code §922)
- 6) Requires the CEC to publish by January 1, 2017, a study on low-income Californians' barriers to energy efficiency and weatherization investments and make recommendations on how to address these barriers. (Public Resources Code §25327)
- 7) Requires the CEC to assess and report by January 1, 2021, on California's potential to reduce GHG emissions in the state's residential and commercial building stock by at least 40 percent below 1990 levels by January 1, 2030. Existing law requires this report to include specified assessments, including an assessment of potential ratepayer impacts and challenges associated with reducing GHG emissions from certain housing sectors. (Public Resources Code §25403)

This bill:

- 1) Defines an energy supplier as an entity that conducts retail electric sales in California, including, but not limited to, an electrical corporation, local publicly owned electric utility (POU), electric service provider (ESP), and community choice aggregator (CCA). An electrical cooperative is also considered an energy supplier for the purposes of this bill.
- 2) Defines a "decarbonization upgrade" as a change to a subscriber property that does any of the following:
 - a) Reduces electric demand.
 - b) Stores energy.
 - c) Reduces the use of fossil fuels.
 - d) Converts water, wind, or sunlight to usable electricity.
- 3) Defines a decarbonization charge as a charge added by an energy supplier to a bill for electrical service to pay for a decarbonization upgrade to the subscriber's property.

- 4) Requires the CPUC, a POU governing board, or an electrical cooperative governing board to ensure that energy suppliers comply with the following regarding decarbonization upgrades financed by the energy supplier through decarbonization charges:
 - a) Sets a 10-day deadline for an energy supplier to provide a notice to the applicable county recorder for the property after a decarbonization upgrade has been installed at the property. The county recorder must include a specified record of the notice under the name of the property owner. This bill deems the record of the decarbonization charge as a sufficient notice to subsequent subscribers at that address of an obligation to pay the decarbonization charge.
 - b) Requires an energy supplier to provide specified notices within 10 days of recovering outstanding costs for a decarbonization upgrade or when ceasing to collect a decarbonization charge.
 - c) Specifies that an agreement for a decarbonization upgrade must include a requirement that the owner of the property must disclose the decarbonization charge in lease and rental agreements. This requirement applies only to decarbonization upgrade agreements executed after January 1, 2023.
- 5) Requires the CEC to identify funding opportunities available for building decarbonization and apply for available federal funds. The CEC must submit a report to the Legislature by July 1, 2023, identifying any statutory changes that would better enable California to obtain federal funding or other decarbonization financing solutions.

Background

Bill highlights low-income communities' barriers to energy efficiency upgrades.

Existing law established by SB 350 (De León, Chapter 547, Statutes of 2015) required the CEC to develop targets to double energy efficiency savings from electric and natural gas end uses and requires the CEC to conduct a study of low-income communities' barriers to energy efficiency investments. The SB 350 barriers report identified split incentives as a significant barrier to incentivizing energy efficiency and distributed energy resource (DER) upgrades in rental units. These split incentives occur in circumstances where the property owner doesn't experience ratepayer benefits associated with financing an upgrade, and the renter can't authorize upgrades or obtain the financial incentives from upgrade programs.

In a subsequent staff report, the *Clean Energy in Low-Income Multifamily Buildings Action Plan*, the CEC notes that residents in multifamily buildings also face split incentive barriers to installing DERs. These upgrades can require large upfront costs

for building-wide upgrades, and multifamily properties can have more complex ownership systems that pose challenges to linking investments to rates from customers' meters. According to the report, 33 percent of California households meet federal low-income criteria, and 47 percent of low-income Californians live in multifamily housing.

Bill reflects ongoing discussions at the CPUC about decarbonization financing. In 2019, the CPUC opened a proceeding (R. 19-01-011) to implement SB 1477 (Stern, Chapter 378, Statutes of 2018), which required the CPUC to establish and allocate funding for the BUILD and TECH programs to deploy low and zero-emission building decarbonization technologies. In addition to establishing rules for the BUILD and TECH programs, the CPUC also used this proceeding to explore additional policies for building decarbonization. During the CPUC's building decarbonization proceeding, the CPUC noted that barriers to financing energy efficiency upgrades remained. To address these concerns, the CPUC opened a new proceeding (R. 20-08-022). The initial scoping memo for this proceeding notes how the CPUC's existing building decarbonization proceeding highlighted the need to address concerns about affordable financing options:

In the course of the proceeding, financing options have been discussed as a potential mechanism to encourage more building decarbonization. On the scale that will be necessary to meet the SB 350 and SB 100 goals, as well as the many other state environmental goals, mechanisms beyond incentives will almost certainly be necessary and there is a strong nexus between our building decarbonization work and the financing mechanisms we intend to explore in this proceeding.

In November 2021, the CPUC issued a new ruling identifying multiple forms of energy efficiency financing options the CPUC will consider, including tariffed on-bill financing and on-bill repayment. The CPUC directed utilities to provide proposals and feedback regarding these potential financing options as part of the ruling, and utilities are still developing these responses.

Decarbonization charges are a form of on-bill financing for efficiency upgrades. This bill defines a decarbonization charge as a charge assessed by an energy supplier on a bill for electrical service to pay for a decarbonization upgrade to the subscriber's property. Under this bill, tariffed on-bill (TOB) repayment would meet the definition of a decarbonization charge. TOB financing allows renters and property owners to fund energy efficiency improvements without out-of-pocket expenses or relying on incurring personal debt. A utility serves as the conduit for providing up-front funding for upgrades and generally collects repayment through a fixed charge associated with the property address. Repayment is generally collected through the customer's utility

bill. TOB repayment can be an attractive option for lower income consumers to finance upgrades because the process can enable consumers with limited credit history to obtain upgrades without qualifying for a loan or providing significant up-front cash. However, on-bill financing repayment obligations generally stay with an address, and no process currently exists to ensure that renters and homebuyers are aware of these obligations before buying or renting a property.

Bill does not require decarbonization charges; it establishes a framework for notifying consumers these charges. This bill requires the CPUC and utility governing boards to ensure that energy suppliers record decarbonization charges with local governments. This bill also requires the CPUC and these governing boards to ensure that decarbonization charge agreements to stipulate that rental and lease agreements must also include a notice about an existing decarbonization charge. While this bill specifies requirements for decarbonization charge notices, this bill does not require decarbonization charges or establish further enforcement requirements regarding decarbonization charges. The CPUC is in the process of considering decarbonization charges as a form of energy efficiency upgrade financing. To the extent that this bill reduces ambiguity about the notification process for consumers that would pay decarbonization upgrades associated with a property, this bill could facilitate the implementation of these charges as a financing option.

Prior/Related Legislation

SB 31 (Cortese, 2020) would have required the CEC to fund the development and deployment of building decarbonization technology through the Electric Program Investment Charge (EPIC) program. The bill was held in the Senate Appropriations Committee.

SB 1477 (Stern, Chapter 378, Statutes of 2018) required the CPUC to establish and allocate funding for the BUILD and TECH programs to deploy low and zero-emission building decarbonization technologies.

AB 3232 (Friedman, Chapter, Statutes of 2018) required the CEC to develop a plan to ensure that all new residential and nonresidential buildings are zero-emission buildings. The bill also required the CEC to develop a strategy to reduce GHG emissions from existing buildings 40 percent below 1990 levels by 2030.

SB 350 (De León, Chapter 547, Statutes of 2015) increased California's Renewable Portfolio Standard procurement goals and required the CEC to develop targets to double energy efficiency savings from electric and natural gas end uses. The bill also required the CEC to study low-income communities' barriers to energy efficiency investments.

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

SUPPORT:

350 Bay Area Action
350 Sacramento
A. O. Smith Corporation
Acterra
Building Decarbonization Coalition
Carbon Free Mountain View
Carbon Free Palo Alto
Carbon Free Silicon Valley
Foundation for Climate Restoration
Menlo Spark
San Fernando Valley Chapter of Climate Reality Project
Silicon Valley Clean Energy
Silicon Valley Youth Climate Action
Sonoma Clean Power
Sustainable Silicon Valley

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: According to the author:

SB 1112 establishes transparency for renters and home buyers by requiring that a utility or community choice aggregator (CCA) who engages in TOB financing must notify their county recorder of a decarbonization upgrade made in a home and the charges the occupant of the home will incur as a result of the upgrade. Similarly, it requires that property owners notify potential tenants of decarbonization charges associated with upgrades to the building that they will be responsible for.

By ensuring reasonable notification to subsequent customers, SB 1112 removes this potential barrier to TOB programs and should enable utilities to offer climate-beneficial and cost-saving TOB upgrades to their customers with confidence that they can recoup these investments over time.

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