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

Bill No:	SB 429	**Hearing Date:**	4/10/2023
Author:	Bradford		
Version:	3/20/2023 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Natural gas: customer credit

DIGEST: This bill requires investor-owned natural gas utilities to provide customers with an annual credit (known as the California Climate Credit) to coincide with the highest usage month, on or as close to the February utility billing cycle, as feasible.

ANALYSIS:

Existing law:

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

2) 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 greenhouse gases (GHGs). Authorizes CARB to include the use of market-based compliance mechanisms in regulating those emissions. (Health and Safety Code §38500 et seq.)

3) 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 Building Initiative for Low-Emissions Development (BUILD) Program and the Technology and Equipment for Clean Heating (TECH) Initiative. (Public Utilities Code §748.6)

4) 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)

5) 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 revenues, including any accrued interest, received by a gas corporation as a result of the allocation of GHG emissions allowances to be credited directly to the residential customers of the gas corporation.

2) 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.

3) Authorizes the CPUC to consider a gas corporation's billing system's ability to distribute the credit in February and authorizes the gas corporation to provide the credit as close to the February utility billing cycle as feasible.

Background

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, with the proceeds to be used exclusively for the benefit of retail ratepayers. 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. Since its inception, customers have received $162 to $208 total credits on their utility bills, depending on the utility.

Current uses of natural gas allowance revenues. Unlike the electric IOUs' GHG allowance revenues, the use of gas IOUs' allowance revenues are generally not controlled by statute, but allocated by CPUC decisions (D.15-10-032 and D.18-03-

017) established within the parameters of CARB's cap-and-trade regulation which specifies they should benefit retail ratepayers, among other requirements. In 2017, the Legislature adopted SB 1477 (Stern, Chapter 378, Statutes of 2017) 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. The BUILD and TECH efforts provide incentive funding for low- and zero-emission technology to reduce GHGs from the building sector. Additionally, the CPUC in a decision (D. 20-05-012) related to the Self Generation Incentive Program (SGIP) 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.

Winter 2022-23 wholesale natural gas prices skyrocket. Beginning in late November 2022 and continuing through January 2023, natural gas prices in the wholesale market skyrocketed. According the Energy Information Administration's (EIA's) *December 22, 2022 Natural Gas Weekly Update*, the daily spot market prices reached their highest levels in over two decades at major trading hubs that deliver natural gas into California. According to the CPUC's fact sheets regarding utility rates, January 2023 natural gas procurement rate is over 300 percent more than the procurement rate in January 2022. These costs are passed through directly to utility customers – as utilities are prohibited from marking up the price of the commodity. As such, these higher prices have affected customers' utility bills beginning in January's billing cycle and continued through the February billing cycle. While a number of factors contributed to the price increases, including the rise in global demand for natural gas due to the impacts of Russia's invasion of Ukraine, colder-than-normal temperatures, and limited pipeline and storage capacity, California and much of the West experienced disparate prices compared to the rest of the country. In response, there have been multiple calls for customer relief and investigations into the causes, including by the author of this bill, as well as constituent concerns and news stories about the impacts. While the CPUC and the Federal Energy Regulatory Commission (FERC) look into the causes, the CPUC also adopted an emergency measure proposed by Public Advocates Office, and supported by the author of this bill, to accelerate the Climate Credit for natural gas IOUs from April to earlier in the year. As a result, natural gas IOU customers received the credit at a time that coincided with a higher natural gas utility bill, as natural gas usage, generally, increases in the winter as the need for space heating increases with colder temperatures.

SB 429. SB 429 would place in statute a requirement that natural gas IOUs must issue the natural gas Climate Credit during the February utility billing cycle, or as close to February as the utility's billing system allows. In doing so, customers of natural gas IOUs will benefit from the Climate Credit more closely, if not during, the time when their natural gas utility bill is more likely to be the highest during the year. In this regard, the potential loss of service may be avoided for customers who may be struggling to pay their bills and best help customers on limited incomes who may not have budgeted for a higher utility bill. Although the credit may impact the price signal for conservation, based on this winter's experience, the colder-than-normal temperatures and limited ability to respond to a dramatic change in prices may have limited the ability of a proper price signal that resonated with customers' needs for service. By placing the requirement to issue credits to customers in statute, the Legislature will have the authority to direct how these revenues can be utilized, as any proposal to fund programs from these revenues would require the adoption of subsequent legislative statute(s).

Prior/Related Legislation

SB 1477 (Stern, Chapter 378, Statutes of 2017) 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 this bill.

SB 1018 (Committee on Budget, Chapter 39, Statutes of 2012) requires the CPUC to direct electric IOUs to credit residential, small business, and emissions intensive trade exposed industries the revenues from the GHG allowances. Authorizes 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:

Southern California Gas Company

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: According to the author:

> Natural gas is a basic commodity with many residential and commercial uses. It can generate electricity, heat buildings, fuel vehicles, heat water, bake foods, power industrial furnaces, and run air conditioners. Unfortunately, due to compounding factors such as lower than average temperatures and supply chain bottlenecks customers have been caught off guard by higher than normal natural gas bills.

Pacific Gas and Electric customers' average January bills went up 30 percent from last year, and Southern California Gas customers saw an enormous 240 percent increase to their bills.

Every spring and fall, millions of Californians receive credits on their electric and natural gas bills identified as the California Climate Credit. Usually, these credits are distributed twice a year, in April and October.

SB 429 moves the issuance date of the climate credit to the February utility cycle in order to help residential customers receive financial support at a time when it is most beneficial.

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