Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski, Chair
Senator Mike McGuire
Senator Tony Mendoza
Senator Jim Nielsen

Thursday, March 9, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 112

Consultant: James Hacker

Vote Only Calendar

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VOTE-ONLY CALENDAR

3360 – California Energy Commission (CEC)

1. **Implementation of SB 1414 (Wolk), Chapter 678, Statutes of 2016.** The budget requests one permanent position and $386,000 (ERPA) to implement SB 1414, which requires the commission to develop a plan to promote compliance with building energy standards for central air and heating units.

2. **Implementation of AB 1110 (Ting), Chapter 656, Statutes of 2016.** The budget requests one permanent position and $117,000 (ERPA) to comply with AB 1110, which requires the Commission to make certain changes to its Power Source Disclosure program.

3. **Expansion of Energy End-Use Survey Program.** The budget requests a one-time increase of $5.8 million form the Petroleum Violation Escrow Account (PVEA) to expand the Commissions energy end-use surveys, which are a central input to the Commission's energy demand forecasts.

8660 – California Public Utilities Commission (PUC)

1. **Fiscal Office – Permanent Positions.** The budget requests permanent position authority for two currently-existing positions funded through the PUC's overtime blanket. These positions were originally created in 2012-13 to accommodate growing workload in the Accounts Payable and Cashiering unit. This workload is not forecast to decline in the near future. Because these positions are already created and funded through the PUCs existing authority there will be no net fiscal effect.

2. **California Advanced Services Fund – 2020 Workload.** The budget requests $661,000 from the California Advanced Services Fund (CASF) to fund five existing limited-term positions through December 31, 2020. The CASF promotes the deployment of broadband infrastructure in unserved and underserved areas of the state by providing grants and loans to help fund eligible broadband projects. It is funded by a surcharge rate on the revenues collected by telecommunications carriers from the end-users of intrastate services. PUC was given limited-term positions to administer the CASF as part of the 2009-10, 2011-12, and 2014-15 budgets. These positions are set to expire December 31, 2017. Within the CASF, the Public Housing Account supports projects to deploy local area networks and to increase adoption rates in publicly supported housing communities. This program was originally set to end on December 31, 2016. SB 745 (Hueso), Chapter 710, Statutes of 2016 extended this program through December 31, 2020, but did not extend the related positions.

3. **California Advanced Services Fund – Align Fund Authority.** The budget requests a reduction of $21.9 million in budgetary spending authority in the California Advanced Services Fund to align spending authority with the statutory cap on CASF program revenue. Public Utilities Code Section 281 limits the amount of revenue that the PUC may collect to fund CASF to $315 million. PUC estimates that they will have collected the statutory limit by November of 2016. Not reducing the budgetary authority for the CASF would result in a total appropriation for the fund in excess of the statutory limit of $315 million over the life of the fund.

4. **Implementation of SB 350 (de León), Chapter 547, Statutes of 2015.** The budget requests $300,000 per year for 13 years from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) to license software tools, train staff, and develop the complex models required to reach full compliance with SB 350 by the final compliance date of 2030. PUC was given three positions to implement SB 350 in the 2016-17 budget, but was not provided funding for software licensing or consultant contracts. PUC has indicated that these support costs are necessary to meet the compliance deadline of 2030.

5. **Safe Biomethane Production and Distribution.** The budget requests $795,000 (Public Utilities Commission Utilities Reimbursement Account) per year for two years to fund five two-year limited term positions to implement the requirements of SB 840 (Committee on budget and Fiscal Review), Chapter 341, Statutes of 2016; SB 1383 (Lara), Chapter 395, Statutes of 2016; and AB 2313 (Williams), Chapter 571, Statutes of 2016. These three bills require the PUC to start or reopen proceedings to reevaluate biomethane safety standards, increase per-project biomethane incentives, and implement a dairy biomethane pilot program. Implementation of these mandates requires the assignment of administrative law judges, legal staff, engineering staff, and regulatory analysts.

6. **Greenhouse Gas Emissions and Biomass.** The budget requests $588,000 (Public Utilities Commission Utilities Reimbursement Account) for three two-year limited term positions and one permanent position to implement the requirements of SB 859 (Committee on Budget and Fiscal Review), Chapter 368, Statutes of 2016. SB 859 mandates the implementation of a new energy purchasing program and the establishment of a new process to track and distribute contract costs, requiring that 125 megawatts of biomass energy be purchased by California's electric utilities. The PUC currently has no staff dedicated to the work created by SB 859.

7. **Expanded 2-1-1 Information and Referral Network.** The budget requests a $1.5 million in one-time authority from the California Teleconnect Fund Administrative Committee Fund to close gaps in existing 2-1-1 telephone service, and $120,000 for one two year limited term position to implement the requirements of SB 1212 (Hueso), Chapter 841, Statutes of 2016. SB 1212 requires the PUC to facilitate the expansion of the 2-1-1 information and referral service to 20 unserved counties. PUC has indicated that the requested resources will work towards statewide 2-1-1 service, along with a statewide resource database, to connect all callers to information and referral services, specifically to suicide prevention and evacuation assistance resources that provide lifesaving information when needed.

8. **CEQA Program Management.** The budget requests $195,000 (Public Utilities Commission Utilities Reimbursement Account) for one permanent supervisory position to deal with expanded workload in the Infrastructure Planning and CEQA section. The section's workload and staffing increased in prior budgetary cycles to accommodate additional state priorities, including High Speed Rail and the Renewables Portfolio Standard. Over time, the staff-to-supervisor ratio has deteriorated, resulting in challenges to the performance of the team.

8660 – Public Utilities Commission Office of Ratepayer Advocate

1. **Communications and Water Policy Branch Utility Audit Workload.** The Office of Ratepayer Advocates (ORA) requests one position and $132,000 (PUCORA) to perform work associated with state water conservation policies, the consolidation of utility rate districts, and new requirements for re-occurring telephone general rate case applications. The requested position would audit and review new water and telephone utilities' spending proposals, including conservation expenses and revenue subsidies, to help the PUC advance the state's goals for water conservation measures and affordable and reliable communication services, build an evidentiary record in PUC proceedings, and ensure utility ratepayers are receiving safe and reliable service at the lowest cost possible.

3360 California Energy Commission

The Energy Resources Conservation and Development Commission (commonly referred to as the California Energy Commission or CEC) is responsible for forecasting energy supply and demand; developing and implementing energy conservation measures; conducting energy-related research and development programs; and siting major power plants.

Governor's Budget: The Governor's budget includes $486 million for support of the CEC, a decrease of approximately $172 million, due primarily to declines in the Transportation Technology and Fuels and Renewable Energy programs, as well as a proposed permanent realignment of ERPA funding.

EXPENDITURES BY FUND (in millions)

Fund	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
General Fund	$ -	$ 15,000	$ -
State Energy Conservation Assistance Account	23,846	2,541	2,322
Motor Vehicle Account, State Transportation Fund	141	148	142
Air Pollution Control Fund	-	7,778	-
Public Interest Research, Development, and Demonstration Fund	1,323	1,739	733
Renewable Resource Trust Fund	26,122	49,353	100,138
Energy Resources Programs Account	72,035	89,592	75,439
Local Government Geothermal Resources Revolving Subaccount, Geothermal Resources Development Account	313	5,219	1,523
Petroleum Violation Escrow Account	1,870	183	5,825
Federal Trust Fund	4,448	24,478	13,497
Reimbursements	20	800	800
Energy Facility License and Compliance Fund	3,505	3,519	3,520
Natural Gas Subaccount, Public Interest Research, Development, and Demonstration Fund	22,235	47,945	29,041
Alternative and Renewable Fuel and Vehicle Technology Fund	85,892	173,691	106,584
Appliance Efficiency Enforcement Subaccount, Energy Resources Programs Account	-	284	942
Electric Program Investment Charge Fund	194,572	239,230	139,753
Cost of Implementation Account, Air Pollution Control Fund	-	-	9,060
Clean and Renewable Energy Business Financing Revolving Loan Fund	7,287	-3,094	-3,094
Total Expenditures (All Funds)	**$443,609**	**$658,406**	**$486,231**

Issues Proposed for Discussion

Issue 1: Implementation of SB 350 (de León), Chapter 547, Statutes of 2015

Governor's Proposal: The budget requests eight permanent positions and $9,060,000 (Cost of Implementation Account - COIA) to support the implementation of SB 350, which requires the Commission administer the state Renewable Energy Standard, implement and enforce building energy retrofit standards, and establish consumer protection guidelines for energy efficient appliances. The requested funding includes $305,000 annually for two two-year limited term positions and $7.6 million for 29.5 positions and associated contract funding approved as part of the 2016-17 budget.

Background: SB 350 (de León), Chapter 547, Statutes of 2015, requires the CEC to establish annual targets for statewide energy efficiency savings and demand reductions to achieve a cumulative doubling of energy efficiency savings in electricity and natural gas, final end uses of retail customers by January 1, 2030. The bill requires the CEC to prepare an assessment of the effects of these savings on electricity demand statewide, in local service areas, and on an hourly and seasonal basis by 2019. The CEC is charged with increasing the Renewables Portfolio Standard (RPS) to 50 percent by 2030 for publicly-owned utilities (POUs) and to produce guidelines or review integrated resource plans from the 16 largest POUs starting in 2019. The commission was required to conduct studies on barriers to renewable energy, energy efficiency, and zero -and near-zero emission transportation options for low-income and disadvantaged communities by January 1, 2017.

The Cost of Implementation (COI) fee was established by SB 1018 (Committee on Budget), Chapter 39, Statutes of 2012, as a mechanism to collect and track fees paid by sources of greenhouse gas emissions. The purpose of the fund is to: achieve the maximum technologically feasible and cost-effective reductions in greenhouse gas emissions from sources or categories of sources of greenhouse gases by 2020; and, identify and make recommendations on direct emission reduction measures, alternative compliance mechanisms, market-based compliance mechanisms, and potential monetary and nonmonetary incentives for sources and categories of sources that the state board finds are necessary or desirable to facilitate the achievement of the maximum feasible and cost-effective reductions of greenhouse gas emissions. The COIA was established for the purpose of recovering costs incurred by carrying out the provisions of AB 32 (and subsequently SB 32). These costs include implementing existing regulatory measures identified in the applicable AB 32 Scoping Plan, as well as costs that support the development of new or proposed regulatory measures that are specifically identified in AB 32 or the Scoping Plan prepared under AB 32, and that are supported by legislation.

The 2016-17 budget provided 29.5 permanent positions, and ongoing contract funds of $3.5 million, for a total request of $7.6 million from the Air Pollution Control Fund, on a one-time basis. Budget bill language provided the necessary authority for the use of penalty monies for this purpose on a one-time basis.

Staff Comments: Concerns were raised during the development of the 2016-17 budget about the use of Cost of Implementation Account funds for SB 350 implementation. Specifically, at the time the 2016 Budget Act was passed, the Energy Commission's activities had not yet been specifically incorporated into the California Air Resource Board's AB 32 Scoping Plan. This raised questions as to the appropriateness of using COIA funds for activities not in the Scoping Plan. The final budget action, one-time funding from the Air Pollution Control Fund for permanent positions, reflected this. The

Energy Commission's SB 350 activities have now been incorporated into the draft AB 32 Scoping Plan update, thereby providing additional clarity that these activities are consistent with the allowable uses of COIA. Nevertheless, there are reasonable questions as to whether or not the activities outlined in this BCP are an appropriate use of COIA funds, regardless of their inclusion into the relevant Scoping Plan.

This request also provides eight new positions for related renewable energy and energy efficiency work, including positions to implement a data system to establish a market baseline for contractor work standards on energy efficiency retrofits and track compliance with required permits. This closely parallels the requirements of SB 1414 (Wolk) that the CEC work with relevant stakeholders to develop a plan to promote compliance the compliance of building air conditioning and heat pumps with statewide Building Energy Efficiency Standards. SB 1414 is the subject of a second BCP. The Legislature may want to ask the Commission to clarify how these two BCPs differ, and how the relevant workload will be distributed amongst the requested resources.

Issue 2: Expenditure Authority for Unspent PIER Natural Gas Funds

Governor's Proposal: The Energy Commission requests $5.9 million in one-time expenditure authority from the PIER Natural Gas Subaccount, to be spent in a manner consistent with the Supplementary Reliability and Climate Focused Natural Gas Budget Plan recently submitted to the PUC.

Background: The Public Interest Energy Research, Development, and Demonstration (PIER) Natural Gas Subaccount is used to fund research and development of natural gas based energy technologies that would not be adequately supported by competitive or regulated energy markets. It is funded by surcharges on natural gas end users. Unlike most special funds, PIER funds have a two-year encumbrance period, followed by a four-year liquidation period.

Over the last decade, a number of projects funded by the PIER fund have come in under budget, reverting funds to the PIER subaccount. Because the two year encumbrance period on these funds has expired, the Energy Commission is unable to apply these funds to a new research, development, or deployment agreement. As a result, the PUC requested that the Energy Commission identify any such unspent funds and propose a budget plan for the use of those funds. The CEC subsequently identified $5.9 million in unspent funds and submitted a Supplementary Reliability and Climate Focused Natural Gas Budget Plan for the use of the funds. PUC intends to review this plan at its April 27th meeting.

Staff Comments: This request is consistent with CEC and PUC research, development, and deployment priorities, and allows the commission to put unspent funds from project savings to work. Similar requests have been made and granted over the past several years. However, PUC has indicated that they will likely not approve the Supplementary Budget Plan guiding the use of the requested funds until late April. The Legislature may want to consider withholding action on this request until the PUC has ruled on the appropriateness of the proposed Budget Plan to ensure that the requested funds are directed to the highest priority projects.

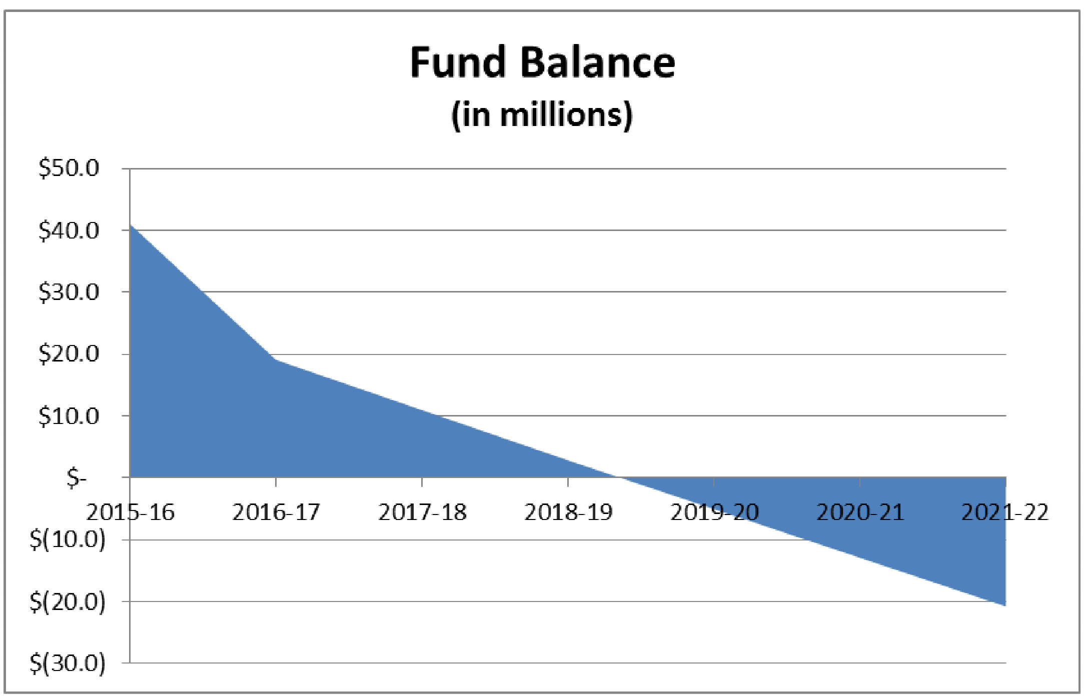
Issue 3: ERPA Expenditure Realignment

Governor's Proposal: The Energy Commission is requesting a reduction of $15.4 million from the Energy Resources Programs Account (ERPA), offset by increases to a number of other funds, to better balance ERPA expenditures and align funding with program activities. The offsetting increases are:

- The shift of three permanent positions and $200,000 in baseline contract funding to the Appliance Efficiency Enforcement Subaccount (AEES).
- A reduction of $4.9 million in baseline contract funding for power plant planning, siting, and compliance activities.
- A $5 million reduction in general baseline funding.
- A shift of 35.0 positions and $4.8 million in funding to the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF) to align expenditures with activities.

Background: The ERPA was established by statute in 1975 to provide for the support of the CEC generally. Revenue is derived from a one-tenth of a mil ($0.0001) surcharge per kilowatt hour. The ERPA surcharge rate is currently at $0.00029 per kilowatt-hour with a cap at $0.0003 per kilowatt-hour. Increasing the surcharge by $0.00001 to the cap will generate approximately $2.5 million in additional revenue per year.

As reported in the Governor's budget, ERPA has had a structural deficit of approximately $15-19 million per year in recent years, resulting in a dramatic reduction in the fund balance. The Administration has proposed several potential fixes which result in a smaller structural deficit of roughly $8 million per year. Despite these efforts and proposals, CEC estimates that the ERPA will have a negative fund balance by 2019-20, as demonstrated by the chart below.



*Revenues and expenditures estimated for 2017-18 and out-years.

Staff Comments: ERPA is the primary fund source for the CEC, funding activities as diverse as energy efficiency research, regulatory analysis, and power plant site licensing. Many of these programs have dedicated funding sources that are augmented by ERPA expenditures. Shifting expenditures from ERPA to these program-specific funds where appropriate can help preserve ERPA fund balances while better aligning program funding with program activities.

ERPA is also CEC's largest fund source, providing roughly $75 million in 2017-18. As noted above, ERPA currently has a significant structural deficit, and has been spending down its fund balance over the last several years. Taking action to better align expenditures with fund resources is crucial to ensure the long-term stability of the fund, and its ability to fund CEC activities. This proposal is an important step in bringing the fund back into balance, but it does not fully address the fund's structural imbalance. With the changes included in this proposal the fund is forecast to have a negative fund balance by 2019-20.

This proposal relies heavily on shifting positions and funding in the Alternative and Renewable Fuel and Vehicle Technology program from the ERPA to the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF). This is an appropriate alignment of funding and program activities. However, there is the potential that such a shifting could displace other uses of ARFVTF funds. CEC has indicated that this proposal will not change the appropriation from the ARFVTF. This suggests that increasing the use of ARFVTF funds for positions previously funded by ERPA will reduce the funds available for other projects.

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (PUC) is responsible for the regulation of privately-owned telecommunications, electric, natural gas, and water companies, in addition to overseeing railroad/rail transit and moving and transportation companies. The PUC's primary objective is to ensure safe facilities and services for the public at equitable and reasonable rates. The PUC also promotes energy conservation through its various regulatory decisions.

Budget Overview: The Governor's budget proposes $1.8 billion and 1,039 positions to support the PUC in the budget year, as shown in the figure below. This is a decrease of 81 positions and an increase of $260.5 million, mainly due to an increased appropriation for the increasing California LifeLine Program's wireless subscriber caseload.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2014-15	**2015-16**	**2016-17**	**2014-15***	**2015-16***	**2016-17***
6680	Regulation of Utilities	434.3	478.2	450.1	$677,798	$759,681	$737,748
6685	Universal Service Telephone Programs	28.7	36.1	35.1	517,694	723,618	1,003,903
6690	Regulation of Transportation	168.1	168.4	156.4	27,406	30,513	30,508
6695	Office of Ratepayer Advocates	145.0	168.0	167.0	26,559	30,745	32,901
9900100	Administration	222.4	269.3	230.3	44,055	45,829	51,888
9900200	Administration - Distributed	-	-	-	-44,053	-45,829	-51,888
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**998.5**	**1,119.9**	**1,038.9**	**$1,249,459**	**$1,544,557**	**$1,805,060**

FUNDING		**2014-15***	**2015-16***	**2016-17***
0042	State Highway Account, State Transportation Fund	$4,220	$4,479	$4,897
0046	Public Transportation Account, State Transportation Fund	6,303	6,150	6,539
0412	Transportation Rate Fund	2,965	2,134	2,437
0461	Public Utilities Commission Transportation Reimbursement Account	13,918	14,770	16,210
0462	Public Utilities Commission Utilities Reimbursement Account	96,961	95,878	111,723
0464	California High-Cost Fund-A Administrative Committee Fund	35,195	43,455	43,054
0470	California High-Cost Fund-B Administrative Committee Fund	16,065	22,536	22,281
0471	Universal Lifeline Telephone Service Trust Administrative Committee Fund	295,780	345,702	625,505
0483	Deaf and Disabled Telecommunications Program Administrative Committee Fund	42,092	64,652	67,915
0493	California Teleconnect Fund Administrative Committee Fund	102,083	148,766	147,514
0890	Federal Trust Fund	5,095	8,097	5,549
0995	Reimbursements	44,491	61,444	61,844
3015	Gas Consumption Surcharge Fund	531,530	600,242	562,057
3089	Public Utilities Commission Ratepayer Advocate Account	26,282	27,745	29,901
3141	California Advanced Services Fund	26,479	98,507	97,634
TOTALS, EXPENDITURES, ALL FUNDS		**$1,249,459**	**$1,544,557**	**$1,805,060**

Issues Proposed for Discussion

Issue 1: California LifeLine Program

Governor's Proposal: The budget requests an augmentation of roughly $151 million ($147 million for local assistance, $4 million for state operations) for the LifeLine program in 2017-18. The Administration has indicated that this is primarily due to increased participation and a projected increase in the LifeLine subsidy level. Specifically, the PUC estimates that LifeLine subscriptions will increase from roughly three million to 3.2 million, with the subsidy projected to increase from $13.75 to $14.30 in the second half of the year. The Administration plans to leave the LifeLine surcharge rate unchanged at 4.75 percent.

Background: The Moore Universal Telephone Service Act of 1984 set the goal of providing high quality telephone service at affordable rates to eligible low-income households. The act requires the California Public Utilities Commission PUC to annually designate a class of lifeline service necessary to meet minimum residential communications needs, develop eligibility criteria (currently 150 percent of the federal poverty level or participation in a variety of existing public assistance programs), and set rates for services, which are required to be not more than 50 percent of the rate for basic telephone service. Over the years, the definition of a "basic service," that originally included only traditional wireline (landline) service, has been considered in the broader context of new technologies and trends towards voice, video, and data services.

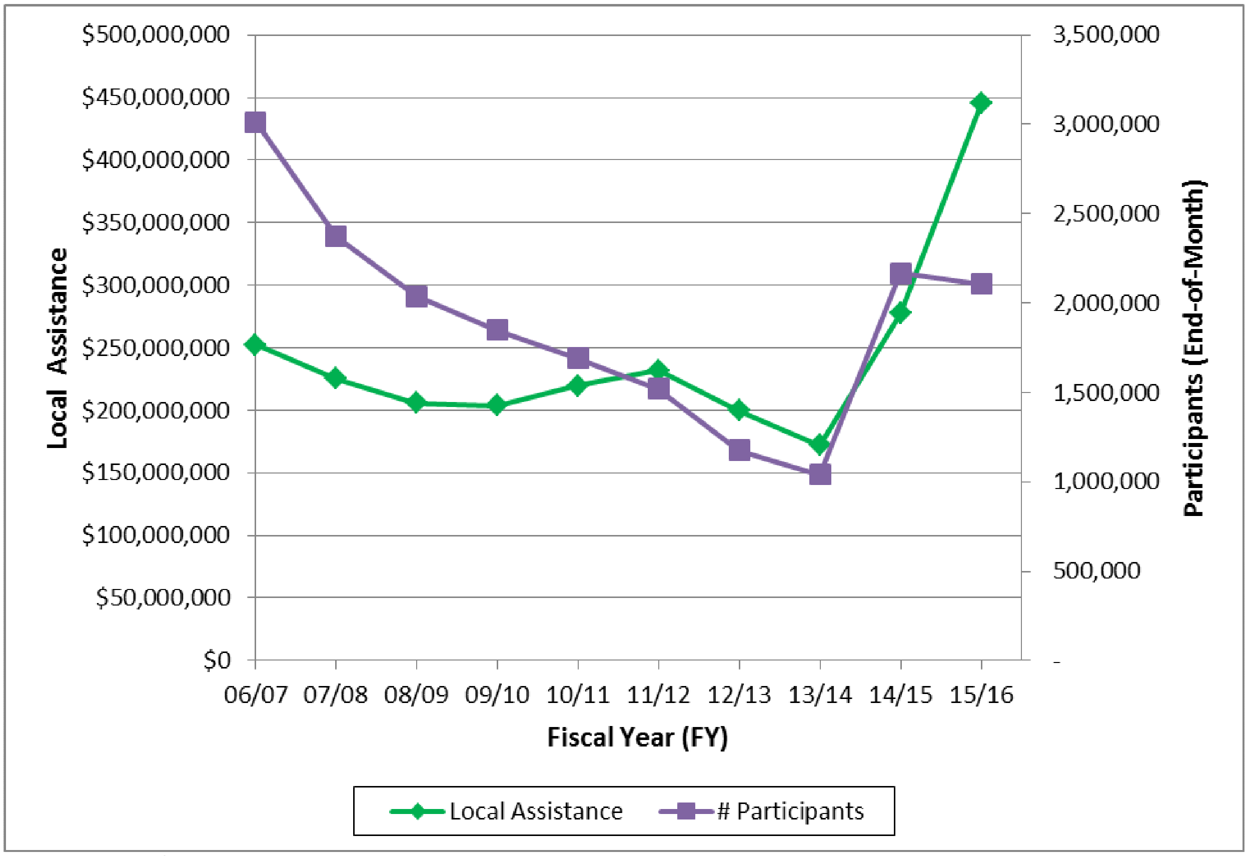
The federal government and the state of California operate separate LifeLine programs. Under federal and state LifeLine program rules, multiple participants are permitted at a single residence if the participants are separate households. A household includes adults and children who are living together at the same address as one economic unit. An economic unit consists of all adults (persons at least 18 years old, unless emancipated) contributing to and sharing the household's income and expenses. Only one LifeLine program discount is provided per household.

For each household enrolled in the program, PUC provides telephone companies (carriers) a maximum monthly state subsidy that is based on 55 percent of the most expensive basic landline service from the four largest telecommunications carriers. The subsidy is meant to offset the lower rate charged to the consumer. In 2017, the maximum state subsidy is currently about $14 a month. The federal Lifeline program provides an additional monthly discount of about $9. In addition, the state provides: (1) a per enrollee monthly payment to cover carriers' administrative costs; (2) a one-time connection subsidy for new enrollees or enrollees that switch plans; and (3) a subsidy to cover other telephone taxes and surcharges for LifeLine enrollees.

The program is funded by a surcharge assessed against intrastate charges on end-users of all telephone corporations and connected Voice over Internet Protocol (VOIP) service providers in California. These charges provide a revenue base for the program of roughly 11 billion in 2017-18. PUC periodically reviews the surcharge rate and may change it to balance program cost and cash flow against the financial burden the program imposes on ratepayers. The surcharge rate has increased steadily since 2012-13, and is currently 4.75 percent. This is a decline from the 2015 rate of 5.5 percent, but is significantly higher than the historic rate of 1.15 percent.

Program Participation Dramatically Increased Since Expansion to Wireless Service. In January, 2014, the PUC issued a decision authorizing voluntary participation in the program by wireless service providers offering discounted wireless service plans to low-income households, if they include wireless voice, text, and data services. Since this change, there has been substantial growth in the program and the number of subscribers doubled from fiscal year 2013-14 to 2014-15, with all of the growth in the number of wireless subscribers (offset by a reduction in the number of wireline subscribers). This increase in program participation has combined with several recent increases in the LifeLine subsidy (which is paid out in Local Assistance expenditures) to increase program costs. The chart below highlights this relationship.

Changes in LifeLine Program Participation and Cost since 2006-07



Source: California Public Utilities Commission

Wireless Plans Are Diverse, but Many Plans Are Free to Enrollees. A diverse set of wireless plans are available for LifeLine customers. Although all plans currently include at least 1,000 monthly voice minutes, plans offer different monthly rates, additional voice minutes, text messaging, and data. As of January 2017, there were 13 LifeLine wireless providers, offering 49 plans. Of these, 32 are offered at no cost to the consumer, including:

- 27 plans with unlimited voice minutes.
- 26 plans with unlimited text messages.
- One plan with unlimited data.

Ensuring Eligibility and Minimizing Fraud. Prior to 2007, participants self-certified their eligibility and carriers enrolled participants. The very high participation rate in 2006 triggered the PUC and the Federal Communications Commission to require a third-party administrator (TPA) to determine eligibility and manage the consumer participation in the program. Shortly after the introduction of a TPA, participation decreased sharply in 2007 and 2008. Today, participants establish eligibility either through evidence of participation in other federal public assistance programs (for example, CalFresh, Medicare, Section 8 housing, etc.) or by submitting evidence of income. Applications are required to determine both initial eligibility and annual renewals; however program eligibility does not require an annual verification of income eligibility. Applicants provide supporting documentation and information under penalty of perjury.

As a result of the automated anti-fraud mechanisms, applications are identified and rejected if they are determined to be duplicative. These potential participants never receive discounts. Between June 2015 and December 2016, PUC de-enrolled or denied 4,965 pending or active LifeLine accounts (0.23 percent of the 2.16 million total LifeLine participants) for fraudulent behavior. Very few of these participants have appealed.

In addition to the automated, upfront fraud checks performed by the TPA, periodic detailed queries are conducted to detect and eliminate fraudulent behavior. As an example, the TPA and PUC collaborate on an annual manual fraud analysis. Participants with duplicative information (some variant of shared social security numbers, date of birth, name, or address) are grouped into four-tiers. A detailed manual comparison of all information submitted by consumers, including qualifying program documentation, is used along with results of identity verification to detect fraud. This process takes about three to four months to complete. The program removes activity determined to be fraudulent immediately. In addition, potential duplicates that are identified are removed. Participants identified either as fraudulent or duplicative are provided with an opportunity to appeal.

The Legislative Analyst's Office has historically noted that enrollment estimates are subject to significant uncertainty. Specifically, the relatively recent addition of wireless service to the LifeLine program creates uncertainty about future enrollment and expenditures. For example, the Administration's 2017-18 enrollment projections were based on the following key assumptions: (1) about 4.2 million households are eligible for the program and (2) 77 percent of the eligible households will enroll in the program by the end of 2017-18. There is significant uncertainty about both of these assumptions. Specifically, it's unclear how many eligible households will ultimately enroll in the program by the end of the budget year, or how many will renew their subscriptions on an annual basis. These factors generate considerable uncertainty in LifeLine estimates, and have resulted in frequent updates to program estimates and costs.

Staff Comment: As the LAO noted last year, enrollment estimates are subject to considerable uncertainty. Generally, the Governor's May Revision provides updated expenditure estimates for caseload-driven programs, such as Medi-Cal and other health and human services programs. These updated estimates help the Legislature make budget allocations that are based on the most up-to-date information available.

The PUC indicates that it plans to provide updated enrollment and cost information for the LifeLine program with this year's May Revision. By relying on the best possible estimates for program expenditures, the Legislature can be more confident that it is providing an amount of funding that is adequate to cover program costs, while also preventing higher-than-necessary costs for non-LifeLine customers.

Issue 2: California LifeLine Program – Portability Freeze Rule Implementation

Governor's Proposal: The budget requests $82,000 (Public Utilities Commission Utilities Reimbursement Account) for one permanent position to process the anticipated increase in contacts from consumers due to changes made in the California LifeLine program by AB 2570 (Quirk), Chapter 577, Statutes of 2016, which requires the PUC to adopt a rule that LifeLine enrollees cannot switch telephone providers within 60 days after beginning the service, subject to certain exceptions.

Background: As discussed earlier in this agenda, the LifeLine program provides telephone service at a discounted cost to low-income households that meet certain criteria. The PUC delivers this service by providing a subsidy to telephone service providers, as well as several one-time connection and surcharge subsidies. The PUC currently pays these subsidies on a 120-day cycle: 60 days for carriers to submit claims and 60 days for PUC to review, correct errors and process claims. Of the 60 days allocated to the PUC, 30 days are allocated for State Controller Office to process claims reimbursements, prepare checks, and time for delivery by USPS.

AB 2570 requires the PUC to adopt a "portability freeze rule," which prevents enrollees from switching telephone providers within 60 days of beginning service, by January 15, 2017. PUC estimates that this rule change will generate a significant volume of calls to the Consumer Affairs Branch for the first three years of the rule change, before call volume declines to slightly above the historical average.

Legislative Analyst's Office (LAO) Comments:

> **Recommend Converting Funding From Permanent to Limited Term.** In our view, it is reasonable to expect an increase in consumer assistance workload associated with the new rule. However, the amount of additional workload, especially over the long run, is unclear at this time. Therefore, we recommend the Legislature approve the requested funding on a two-year limited-term basis. The Administration can submit a request for ongoing resources in future years when more information about ongoing workload is available.

Issue 3: California High Cost Fund A Workload

Governor's Proposal: The budget requests an increase of $6.1 million in local assistance funding for the California High Cost Fund A to provide ten small Local Exchange Carriers (LECs) with the financial support necessary to keep rural telephone service rates affordable and comparable to rates paid by customers who live in urban areas. This increase is due to greater projected support for telephone corporations related to Generate Rate Case increase due to inflation and labor costs, increased broadband investment, and increased funding requirements due to reductions in federal subsidies.

Background: The California High Cost Fund – A (CHCF-A) was established to subsidize small telephone companies that operate in high-cost, rural areas of the state. It is distinct from the California High Cost Fund – B, which provides support for large and mid-sized telephone companies providing services to high-cost service areas. It is funded by a surcharge that is applied to intrastate charges on telephone and Voice over Internet Protocol (VoIP) customers' bills. There are 13 LECs that currently operate in high-cost areas of the state. Of these, ten currently receive support from the CHCF-A.

CHCF-A funding levels are determined annually by the PUC. LECs that receive funding from the CHCF-A submit a report that includes the seven most recent months' earnings, as well as a forecast of what CHCF-A support the LEC will need for the coming year. The PUC verifies the forecast and determines the overall level of CHCF-A support the LECs will receive, which is paid out in monthly installments.

The requested increase in CHCF-A funding is based on several factors. First, PUC estimates that General Rate Cases for four LECs are likely to result in an increased need of roughly $6 million in CHCF-A funding. Second, reductions in federal support are estimated to result in a $100,000 increase in needed CHCF-A funding. Lastly, SB 379 (Fuller), Chapter 729, Statues of 2012 permits Small LECs—those receiving CHCF-A funding—to have broadband investments subsidized by ratepayers, the revenue of which can benefit unregulated services and entities. These investments were not reflected in 2016-17 CGCF-A requests, and are likely to create an uncertain need for additional CHCF-A funding in future years.

Staff Comment: While the request for additional funds is generally reasonable based on the factors detailed above, this proposal raises several issues.

- This proposal represents a 15 percent increase in the budget for CHCF-A, mostly driven by increases related to General Rate Cases for four of the ten LECs that receive CHCF-A support. The other six LECs will go through General Rate Cases in the coming years, raising the potential for further increases in the CHCF-A budget.
- A portion of this proposal is related to reductions in federal support programs. These programs face an uncertain future, raising the possibility that future increases would be necessary to offset further declines in federal support.
- PUC has indicated that the recovery of broadband investment costs will have an uncertain impact on future CHCF-A budget requests. This creates considerable uncertainty in planning future budgets.

Issue 4: Office of Governmental Affairs

Governor's Proposal: The budget requests $227,000 (Public Utilities Commission Utilities Reimbursement Account) and two permanent positions to respond to an increased volume of legislative proposals that impact the PUC, increase cross-agency secondments pursuant to PUC reform, work with the California Research Bureau to study the governance of telecommunications service in the state, and participate in federal administrative agency processes that can impact PUC and the state of California.

Background: The Office of Governmental Affairs (OGA) represents the PUC before the Legislature and Executive Branch. It also oversees representation of the PUC before Congress and federal administrative agencies. In 2015-16, OGA tracked 210 state legislative proposals and coordinated PUC participation in, and engagement at 13 state informational, budgetary, and policy oversight hearings.

OGA originally had a staff of seven, but was reduced to as few as four positions during previous rounds of budget cuts. A variety of factors have increased OGA's workload in recent years, including: an increase in legislation that impacts PUC related to utility safety, reliability and PUC reform; and an increase in federal involvement in the electricity, natural gas, safety, and telecommunications policy areas.

Issue 5: Contract Services Oversight and Implementation of Audit Findings

Governor's Proposal: The budget requests $214,000 from several special funds to fund two permanent positions within the Contracts Services Section to support increased contracting activities and institutionalize oversight of various audit reform recommendations. The majority of the funding will come from the Public Utilities Commission Utilities Reimbursement Account.

Background: The Contracts Office is responsible for processing and managing all PUC contracts. This includes preparing contracts and amendments for execution, reviewing and maintaining all contract documentation files, tracking invoices and payments, maintaining a database of contract information, and preparing and generating contract activity reports. The Contracts Office currently has five permanent staff.

Audits conducted by the Department of General Services (DGS) and the California State Auditor concluded that contracting program policies and procedures are not adequate to ensure full compliance with state contracting requirements in a variety of areas. For example, the audits noted that:

- Contracts are not processed in a timely manner.
- Funds are not retained and paid only upon the satisfactory completion of an agreement.
- Documentation is not maintained to that a contract was entered into the state's centralized database for contract and purchase transaction.
- The PUC's delegated purchasing practices are not sufficient to provide reasonable assurances of compliance with the state's procurement statutes, policies, and procedures.

Additionally, the PUC's use of contracts has increased from 105 per year to 319 over the last five years. Contracting activity is expected to continue to increase by three to five percent over the next several years, with an expected increase in contract complexity due to regulatory and technological advances.

Issue 6: Enterprise Risk and Compliance Office

Governor's Proposal: The budget requests $696,000 (Public Utilities Commission Utilities Reimbursement Account) for five permanent positions, including one Career Executive Assignment B (CEA-B), to establish an Enterprise Risk and Compliance Office (ERCO). The office will assist management in the evaluation of enterprise risk, development of risk mitigation plans, compliance tracking of regulations and laws in regards to reporting and compliance with control agencies and the Legislature, as well as status of safety monitoring of external entities and timely reporting of results, audit follow-up, coordination on all externally performed audits, and addressing areas with control deficiencies.

Background: The PUC does not currently have an established risk and compliance program. In recent years the PUC has committed violations of ex parte communication rules, been the focus of six audits requested by the Joint Legislative Audit Committee and four audits by control agencies, and been the subject of a variety of reform-focused legislative proposals. Because an established risk and compliance program addresses risks before they become problems, some of these situations might have been prevented had such a program been in place. This suggests that the PUC needs to move from the response modality to one of prevention and detection. Currently, there is an on-going effort to list all reporting requirements and all audit recommendations and responses into one database. This resolves some of the compliance issues. In addition, the PUC needs to gather information regarding its responsibilities and requirements as an oversight regulator of the utilities it regulates. Currently, the oversight obligations of the PUC are retained in each division and not in one central repository.

Additionally, in Decision 14-12-025 (2015-16), the PUC established a requirement that each of the four largest utilities it regulates use a risk-based decision methodology. Each utility is required to file an application describing its risk assessment model and how it is using it to prioritize and mitigate risks. This is called the Risk Assessment Mitigation Phase (RAMP). Before it can continue with a rate case, the utility must describe to the PUC how it plans to assess, mitigate, and minimize risks. In addition, a safety model assessment proceeding requires a risk assessment process as a first step toward reviewing Investor Owned Utility risk approaches, driving them toward consistency and more transparency. Annual verification reports will follow approvals with two components: 1) risk spending accountability report and 2) risk mitigation accountability report. This inclusion of the risk process will provide better rationale for spending while targeting safety and reliability operations.

Issue 7: Public Records Act Response

Governor's Proposal: The budget requests $227,000 (Public Utilities Commission Utilities Reimbursement Account) per year for two two-year limited term positions to respond to an increased quantity of public records requests submitted to the PUC.

Background: The PUC public records team is responsible for responding to public records requests made pursuant to the broad disclosure policies established by the California Constitution and the California Public Records Act (PRA). These policies require public access to PUC records, in whatever format, concerning the conduct of the people's business, subject only to express provisions of law limiting disclosure and exemptions contained in the PRA. The team has a current staffing level of 3.3 PYs.

Since 2012, as a result of highly visible events of considerable public concern, including the 2010 San Bruno pipeline explosion and the 2012 failure of the San Onofre Nuclear Generating Station generators, the team has experienced a steep increase in the number of records requests, an increasing number of which are also highly complex and/or broad in scope. Specifically, over the last four years, an annual average increase of 31 percent in public records requests has constrained PUC resources to the extent that public records request processing delays have resulted in legal actions in state court alleging that the PUC failed to comply with the Public Records Act.

In 2016, the Legislature passed, and Governor Brown signed, a package of bills enacting reforms to "bolster governance, accountability, transparency and oversight" at the PUC, including bills to open and expand participation in PUC proceedings, improve safety, and reform ex parte rules. PUC has indicated that implementing these reforms may help reduce the heightened level of scrutiny under which the PUC currently operates, with a resulting decrease in the pace and complexity of records requests received.

Issue 8: Internal Audit Positions

Governor's Proposal: The budget requests $266,000 (Public Utilities Commission Utilities Reimbursement Account) for two permanent audit positions to augment existing staff in the PUC's Internal Audit unit.

Background: In December 2013, the State Controller recommended that the PUC establish an internal audit function. In response, the PUC created of the Internal Audit (IA) unit to help the PUC modernize and improve its management processes and performance. From December 2013 to June 2015, IA conducted its work with one permanent position and two staff in rotational positions. During this interval, IA developed an Audit Charter and initiated three audits, one of which was completed in January 2015. The 2015-16 budget increased IA's staff to six permanent positions. The office was fully staffed by January of 2016. An additional six audits were initiated (one a follow-up) in 2015-16, with an additional three audits completed during 2016-17.

The PUC has faced criticism regarding its conduct in providing regulatory oversight of utilities, particularly concerning its approach to public safety. External audits of the PUC have identified weaknesses, inefficiencies, and a lack of compliance in how the PUC conducts its core mission of assuring that California utility consumers have safe, reliable utility service at reasonable rates.

Additionally, an increasing number of audits involve the PUC's information technology (IT) function due to the increasingly substantial reliance of PUC programs and operations on IT, or are operated through various IT systems. The 2016-17 budget approved 24 positions for the PUC's IT Services Branch, but did not include positions to develop an IT audit capability.

Issue 9: Publish Contract and DGS Audit Information on PUC Public Website

Governor's Proposal: The budget requests $107,000 per year from a variety of special funds for one permanent position to publish contract information and audit results on the public PUC website as required by AB 1651 (Obernolte), Chapter 815, Statutes of 2016.

Background: AB 1651 requires the PUC to make available on its Internet Website, free of charge, information about each contract that it enters into, including specified information about the contract and contracting parties as follows: the names, addresses, and points of contact of the parties to the contract; the goods and services requested, as applicable; and the contract value. The bill requires this information to be published no less frequently than once a year and also requires the PUC to make available on its Internet Website audits conducted by the Department of General Services (DGS) of the PUC's contracting practices.

Audits are required of each state agency to which purchasing authority has been delegated at least once in each three-year period and are conducted by DGS to ensure compliance with statutory requirements related to specific contracting procedures (Public Contract Code §10333). AB 1651 requires the PUC to make available on its Internet Website audits conducted by DGS of the PUC's contracting practices. Currently, PUC contracts are available to the public. However, the process for obtaining access to the contracts can be cumbersome. This bill was premised on the belief that posting on the PUC website information about contracts to which PUC is a party will allow greater public scrutiny and encourage appropriate contracting practices at the PUC.

LAO Comments:

Recommend Rejecting Request for One Position. We recommend the Legislature reject the request because the workload justification provided by PUC does not support an additional position. The work appears minor and can be done by existing PUC staff.

Issue 10: Deaf and Disabled Telecommunications Program

Governor's Proposal: The budget requests the conversion of four existing limited-term positions to permanent positions using $369,000 (Deaf and Disabled Telecommunications Program Administrative Committee Fund) per year. These positions are currently set to expire in June 2017.

Background: The Deaf and Disabled Telecommunications Program (DDTP) is a PUC program providing Californians who hearing impairment or other disability with equipment and relay services through the California Telephone Access Program and the California Relay Service, respectively. Any subscriber who is certified as hearing impaired or disabled by an authorized certifying agent (such as a licensed doctor, optometrist, or audiologist, among others) may receive equipment through California Telephone Access Program. Public Utilities Code §2881d requires the addition of speech generating devices (SGDs) to the DDTP and adds speech language pathologists as certifying agents.

The DDTP was created by AB 136 (Beall), Chapter 404, Statutes of 2011. The PUC completed rulemaking on the program in December of 2013, and began distributing SGDs in February 2014. Program applications have increased from 28 in 2013-14 to an estimated 220 in 2016-17. The program was initially authorized for 4.5 limited-term positions set to expire in 2017. There is no sunset date on the program.

Issue 11: Hearing Reporters

Governor's Proposal: The budget requests $228,000 (Public Utilities Commission Utilities Reimbursement Account) per year for two permanent Hearing Reporter positions.

Background: State law requires that a complete record of all proceedings and testimony before the PUC or any commissioner on any formal hearing must be recorded by a Hearing Reporter appointed by the PUC (P.U. Code §1706). In addition, the PUC is statutorily required to undertake and resolve proceedings ((P.U. Code §311, §1701.2(e), §1701.5(a)) in a timely manner. The PUC annually handles about 600 formal proceedings, and issues about 600 decisions. As a result, the number of hearings that may be undertaken at any given time is currently limited by the availability of Hearing Reporters. If a Hearing Reporter is not available, hearings must be scheduled at a later date when a reporter is available (notice requirements normally prevent scheduling hearings earlier than the requested date).

Staff Comment: The PUC currently has six Hearing Reporters. The Hearing Reporters have extensive specialized training, require ongoing certification, and have expertise in PUC terminologies and practices. The PUC has indicated that the timely advancement and completion of proceedings is impeded by resource shortages in this mission critical support area, and delays can negatively affect the state's economy, utilities and consumers, and impact public safety. Specifically, the PUC has indicated that 37 percent of all hearing days are postponed due to lack of an available hearing reporter. This has resulted in a significant delay in the completion of various PUC proceedings.

Issue 12: Safety Assurance of Electric and Communication Infrastructure

Governor's Proposal: The budget requests $716,000 (Public Utilities Commission Utilities Reimbursement Account) per year for six permanent engineering positions in the PUC's Electric Safety and Reliability Branch.

Background: The Electric Safety and Reliability Branch (ESRB) program has a total of 27 staff with two sections: the Electric and Communication Facility Safety Section (Facilities Section) and the Electric Generation Safety and Reliability Section. The Facilities Section performs facility inspections and records audits, investigates safety incidents, investigates customer complaints and concerns, participates in several formal PUC proceedings, and performs other duties as required. In addition to electric facilities, the section assesses the safety of the facilities of communication infrastructure providers (including wireline telecommunications companies, wireless carriers, cable television companies, and other broadband providers) that use the electric poles or underground electrical facilities. When violations are found, the Facilities Section enforces PUC safety rules through issuance of audit reports, notices of violation, or citations; or submittal of a request that the PUC open a formal investigation proceeding to ensure violations are corrected.

Existing law charges the PUC regulatory oversight of both above and below ground electricity lines and communications infrastructure that attaches to or otherwise utilize electricity infrastructure (such as cable conduits or telephone poles). Existing law also grants the PUC the authority to inspect said infrastructure for safety and reliability. This give the PUC regulatory oversight of roughly 200,000 miles of overhead electric transmission and distribution lines, 77,000 miles of underground transmission and distribution line, 2,200 electric substations, and 4.5 million utility poles.

Investor-owned electric utilities are required to report to the PUC each incident that involves their facilities and results in a fatality, an injury that requires overnight hospitalization, or $50,000 or more in damages; or attracts significant media or public attention (such as fires and outages). Staff investigates each incident to determine whether the utility complied with applicable PUC rules and decisions. Current reporting trend lines project that 160 incidents are likely to be reported in 2016-17. The number of safety-related incident reports varies from year to year, from 102 incidents fiscal year 2010 to a high of 195 incidents in fiscal year 2013, and with 125 incidents reported in fiscal year 2015. The increase is largely due to the growing number of fires caused by drought conditions, as well as the increased media coverage of utility incidents.

Issue 13: Cybersecurity Defense

Governor's Proposal: The budget requests $665,000 (Public Utilities Commission Utilities Reimbursement Account) for four new permanent positions to establish a Cyber Security Utility Regulatory Group at the PUC.

Background: SB 17 (Padilla), Chapter 327, Statutes of 2009 required the PUC to work with stakeholders to determine requirements for utility Smart Grid deployment plans. The deployment plan requirements included cyber security and cyber security strategy. Subsequently, SB 1476 (Padilla), Chapter 497, Statutes of 2010 provided rules to protect the privacy and security of customer data generated by advanced meters.

On August 22, 2016, the PUC entered into a Memorandum of Understanding (MOU) with Cal OES to coordinate agency efforts in assuring the safety and reliability of energy utility systems from ever-increasing cyber security threats, requiring the PUC to focus not just on physical security and system resiliency/safety of the utility system, but also on cybersecurity threats, because, as reliance on digital technology in the energy companies continues to increase, the cyber security of network assets is more critical than ever.

Since the passage of SB 17, the four large utilities have requested over $100 million from the PUC for cyber security programs and have been authorized to spend about $70 million. These funds are to be used to protect the ever-digitized utility infrastructure such as the automated substations and automated smart inverters that allow for the energy from distributed energy resources to enter the grid.

Staff Comment: SB 17 (Padilla) explicitly made it a policy of the state "to modernize the state's electrical transmission and distribution system" and declared that part of this effort includes the "increased use of cost-effective digital information and control technology to improve reliability, security, and efficiency of the electric grid" (P.U. Code Sec. 8360(a)) and further defined this modern grid to include "dynamic optimization of grid operations and resources, including appropriate consideration for asset management and utilization of related grid operations and resources, with full cost-effective cyber-security**"** (P.U. Code Sec. 8360(b)).

To date, over 60,000 cyber vulnerabilities have been identified by the U.S. National Institute of Standards and Technology (NIST). The PUC is reviewing an increasing number of rate case requests for ratepayer-funded cybersecurity investments as utilities continue to upgrade the security of their infrastructure. The PUC has indicated that their existing regulatory and IT units lack to technical knowledge necessary to establish standards for utility cybersecurity and to review these requests for reasonableness and feasibility.

Issue 14: Electric Utility Wildfire Mitigation Plans

Governor's Proposal: The budget requests $966,000 (Public Utilities Commission Utilities Reimbursement Account) for three permanent positions for the Electric Safety and Reliability Branch to review and evaluate utilities annual wildfire mitigation plans. The total includes $500,000 per year for three years for related consulting contracts.

Background: SB 1028 (Hill), Chapter 598, Statutes of 2016 requires each electrical corporation, local publicly-owned electric utility, and electrical cooperative to construct, maintain, and operate its electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment. It further requires each electrical corporation to annually prepare a wildfire mitigation plan and to submit its plan to the commission for review. It requires the commission to review and comment on the submitted plans, as well as to conduct audits and inspections to determine compliance with the submitted plans.

Wildfires caused by electric utility facilities and the potentially catastrophic impacts on public safely and the economy are well recognized, as is the need to mitigate such occurrences. While the PUC investigation of the 2015 Butte Fire has not been completed, CAL FIRE has attributed its ignition to vegetation coming into contact with utility facilities. In addition, electric facilities cause a number of small fires each year.

Issue 15: Energy Storage (AB 33, AB 2868)

Governor's Proposal: The budget requests $644,000 (Public Utilities Commission Utilities Reimbursement Account) for 2.5 two-year limited-term positions (including one Administrative Law Judge) to implement the requirements of AB 33 (Quirk), Chapter 680, Statutes of 2016 and AB 2868 (Gatto), Chapter 681, Statutes of 2016.

Background: AB 33 required the PUC to evaluate and analyze the potential for all types of long duration bulk energy storage resources to help integrate renewable generation into the electrical grid. Specifically, it required the PUC, as part of a new or existing proceeding, to evaluate and analyze the potential for all types of long duration bulk energy storage resources to help integrate renewable generation into the electrical grid. As part of the evaluation, it required the PUC to assess the potential costs and benefits of all types of long duration bulk energy storage resources, including impacts to the transmission and distribution systems of location-specific long duration bulk energy storage resources.

AB 2868 required the PUC, in consultation with the State Air Resources Board and the State Energy Commission, to direct the state's three largest electrical corporations to file applications for programs and investments to accelerate widespread deployment of distributed energy storage systems, as defined. It authorized the PUC to approve, or modify and approve, programs and investments in distributed energy storage systems and required the PUC to prioritize those programs and investments that provide distributed energy storage systems to public sector and low-income customers.

Issue 16: Expedited Distribution Grid Interconnection Dispute Resolution

Governor's Proposal: The budget requests $796,000 (Public Utilities Commission Utilities Reimbursement Account) for three permanent positions and four three-year limited-term consultant positions to establish and administer an expedited interconnection dispute resolution process as required by AB 2861 (Ting), Chapter 672, Statutes of 2016.

Background: To interconnect to the electric distribution system, a generating facility must seek approval from the distribution system owner (usually a utility) for the facility's interconnection configuration and planned operations according to defined tariffs. If the facility is found to violate technical requirements set out in PUC-approved utility tariffs, the utility may reject the application, propose modifications to the facility, or request that the generating facility in question pay for infrastructure upgrades that bring the facility or surrounding system infrastructure into compliance with relevant requirements prior to interconnecting.

Interconnection application disputes can frequently arise between a project developer and a monopoly utility. These disputes often focus on complex technical interpretations of the interconnection rules, the applicability of existing precedent to emerging technologies, perceptions of inconsistent assignment of upgrade costs by utilities, and divergent interpretations of utility engineering judgment.

AB 2861 requires the PUC to establish a streamlined dispute resolution process that operates within timelines that are more closely aligned with existing interconnection timelines; provides more technical expertise to the PUC and gives the PUC leverage in reviewing and resolving interconnection disputes; and issues binding resolutions on a dispute after bilateral negotiations between developers and utilities have resulted in an impasse. It specifies that the PUC is to "appoint a qualified electrical systems engineer with substantial interconnection expertise to advise the director of the energy division and provide adequate staff to assist in resolving interconnection disputes." (AB 2861, Section 1). It also requires the PUC to "provide the members of the technical panel who are not from electrical corporations with an appropriate per diem compensation consistent with Section 19822.5 of the Government Code."

Issue 17: PUC Intervenor Compensation

Governor's Proposal: The budget requests $322,000 from the Public Utilities Commission utilities Reimbursement Account for three permanent positions to implement SB 512 (Hill), Chapter 808, Statutes of 2016, which expands the obligation of a public utility to pay intervenor fees to an eligible local government entity and makes a variety of transparency-focused changes to PUC procedures.

Background: The PUC regulates investor-owned utilities and is responsible for ensuring California utility customers have safe, reliable utility service at reasonable rates. It does so mostly by conducting public proceedings to consider utility rate requests, adjudicating customer complaints, and rendering decisions that impact rates for utility services, safety, and reliability. Regulated utilities are able to fully participate in PUC proceedings, and typically recover the costs of such participation through the rates they charge their customers for utility service. This means that investor-owned utilities typically possess the resources and personnel necessary to fully participate in and contest these proceedings.

Public participation in PUC proceedings is more limited, largely due to the time and cost of participating. To encourage public participation, state law established the Intervenor Compensation Program in 1984 to provide compensation for reasonable participation costs to public utility customers (intervenors) who make substantial contributions to PUC proceedings. To be eligible for compensation, state law requires an intervenor to show significant financial hardship as a result of participating in the process. Because of this, large commercial customers and local governments (who can pass the costs of participating in PUC proceedings onto customers or taxpayers) have historically been ineligible for intervenor compensation.

SB 512 permits intervenor compensation to be paid to certain local government entities that intervene or participate in commission proceedings to the extent that their involvement was for the purpose of protecting health and safety. The PUC has indicated that this requirement will substantially increase the number of intervenors who are eligible to request compensation, potentially doubling the current number of intervenors seeking compensation. The PUC estimates that they will receive 102 requests for intervenor compensation in 2016-17. The PUC has historically had trouble issuing rulings on intervenor compensation claims within the statutorily-required timeframe. For example, the PUC met the statutory timeframe for ruling on intervenor compensation claims in less than 10 percent of cases from 2003-2013. However, the PUC notes that they have met the required timelines in 54 percent of cases so far submitted in the current fiscal year.

SB 512 also required the PUC to make a number of other changes to internal procedures and policies to improve transparency and to address deficiencies identified in external audits. It also requires the PUC to perform studies and conduct additional public outreach to make the PUC more accessible to the public.

Issue 18: Ex Parte Communications (SB 215)

Governor's Proposal: The budget requests $391,000 annually from a variety of special funds for three permanent positions to implement new rules around ex parte communications as required by SB 215 (Leno), Chapter 807, Statutes of 2016.

Background: The PUC regulates investor-owned utilities through quasi-judicial proceedings to consider utility service and rate requests, adjudicate customer complaints, respond to legislative directives, and render decisions that impact rates for utility services. Specifically, the PUC has three types of hearings: ratesetting, adjudicatory, and quasi-legislative. State law requires the PUC to determine which category a particular proceeding falls into, and to assign one or more commissioners and Administrative Law Judges to oversee the case. It also requires the PUC to adopt procedures on the disqualification of Administrative Law Judges due to bias or prejudice, similar to those of other state agencies and superior courts.

State law defines "ex parte communications" as any written or oral or written communication between a decision-maker and a party with an interest in the matter before the PUC concerning substantive, but not procedural, issues that does not occur in a public setting. Under current law ex parte communications are not allowed in ratesetting or adjudicatory proceedings, with limited exceptions and with required reporting by the involved party, but are permitted without exception or reporting in quasi-legislative proceedings.

SB 215 significantly modifies the laws governing ex parte communications in PUC proceedings to, among other things, expand the definition of ex parte communications and the applicability of restrictions and disclosure requirements; impose disclosure, monitoring, and enforcement requirements on decision-makers; and provide for the ability to petition to modify or rescind a PUC decision where disclosure occurs after a PUC vote. SB 215 also changes the manner of measuring the time limits in which proceedings are to be resolved, and requires the PUC to allow public written comments into the record of proceedings and provide an opportunity for parties to respond to them. The PUC plans to conduct a new proceeding to update and implement the new ex parte rules and reporting requirements established by SB 215.

Issue 19: California Teleconnect Fund (CTF)

Governor's Proposal: The budget requests an increase of $3.6 million from the California Teleconnect Fund Administrative Committee Fund to implement recently-adopted program reforms and to better enforce program eligibility requirements. This includes $240,000 per year for two new permanent positions and $3.4 million per year for two years for consulting costs.

Background: The PUC is responsible for implementing universal service policies consistent with Public Utilities Code Section 709. This requires a focus on providing educational entities access to advanced telecommunications services and assisting in bridging the digital divide by expanding access to state of the art technologies for rural, inner city, low-income, and disabled Californians. The California Teleconnect Fund was created in 1996 to promote advanced communications services via discounted rates to qualified anchor institutions: schools, libraries, government-owned health care providers, and community-based organizations. The program is codified in Public Utilities Code sections 270 and 280.

The PUC opened Rulemaking (R) 13-01-010 in January of 2013 to undertake a comprehensive examination of the California Teleconnect Fund program. The purpose of the Rulemaking was to reconsider the program's goals, design, implementation, and administration. The PUC recently issued Decisions (D).15-07-007 and (D).16-04-01, which determined that CBOs receiving CTF discounts need to establish eligibility every three years and must adopt more restrictive eligibility criteria. As a result, approximately 8,000 CBOs will need to reapply in the next two fiscal years. The PUC also recently adopted program changes also require carrier price disclosure and enhanced scrutiny of claims.

Issue 20: Transportation Network Companies: Personal Vehicles

Governor's Proposal: The budget requests $130,000 from the Public Utilities Commission Transportation Rate Account for one permanent position to implement the requirements of AB 2763 (Gatto), Chapter 766, Statutes of 2016.

Background: A transportation network company (TNC) is defined by the PUC as "an organization whether a corporation, partnership, sole proprietor, or other form, operating in California that provides prearranged transportation services for compensation using an online-enabled application (app) or platform to connect passengers with drivers using their personal vehicles." Currently the two largest TNCs in California are Lyft, Inc. and Rasier-CA, LLC (doing business as Uber). While not specifically defined, "personal vehicle" was largely assumed to mean a vehicle owned by, or registered in the name of, an authorized TNC driver. AB 2763 codified the definition of "personal vehicle" as "a vehicle that is used by a participating driver to provide prearranged transportation services for compensation" that meets a variety of specified criteria. Specifically, the personal vehicle:

(1) Has a passenger capacity of eight persons or less, including the driver.
(2) Is owned, leased, rented for a term that does not exceed 30 days, or otherwise authorized for use by the participating driver.
(3) Meets all inspection and other safety requirements imposed by the commission.
(4) Is not a taxicab or limousine."

The PUC adopted its first set of regulations for TNCs in 2013, which it has since updated several times. AB 2763 codifies a new, more expansive definition of "personal vehicles," for which the PUC will be responsible for verifying TNC compliance with existing regulations. As such, AB 2763 will significantly increase and compound the complexity of regulatory oversight, as a single TNC driver's "personal vehicle" may now change as frequently as on an hourly basis. While TNCs maintain primary responsibility for ensuring compliance of TNC drivers and their vehicles with all applicable rules and regulations, the PUC will need to verify such compliance in light of specific consumer protection and safety-related concerns.

8660 PUC – OFFICE OF RATEPAYER ADVOCATE

The PUC Office of Ratepayer Advocate (ORA) is a statutorily-defined and independent entity within the PUC charged with representing and advocating on behalf of public utility customers and subscribers in all significant proceedings within the PUC's jurisdiction, as well as in relevant proceedings before the California Energy Commission, Air Resources Board, California Independent System Operator, and the state legislature. The ORA develops and implements an independent program budget, which is administered by the Department of Finance separately from the larger PUC. ORA is funded entirely by the Public Utilities Commission Office of Ratepayer Advocates Account (PUCORA).

Budget Overview: The Governor's budget proposes $34 million and 183 positions to support the ORA in the budget year. This is an increase of 16 positions and an increase of $2.2 million, mainly due to an increase in positions related to recently enacted legislation.

Issues Proposed for Discussion

Issue 1: Climate Change Initiatives (SB 350, SB 626, AB 327)

Governor's Proposal: The Office of Ratepayer Advocates is requesting eight permanent positions and $890,000 (PUCORA) to perform work associated the ORA climate change efforts driven by a variety of recent legislation.

Background: AB 327 (Perea), Chapter 611, Statutes of 2013 calls for the building and interconnection of 12,000 megawatts of localized electricity generation (also known as distributed energy resources, or DERs). It requires investor-owned utilities to file plans with the PUC to indicate how they plan to meet these requirements. The three largest investor-owned utilities in the state have filed plans to date.

SB 626 (Kehoe), Chapter 355, Statutes of 2009 requires implementation of infrastructure upgrades necessary for the widespread use of hybrid and plug-in electric vehicles. The required infrastructure improvements are often funded in part by utility ratepayers.

SB 350 (de León), Chapter 547, Statutes of 2015 expands the scope of the PUC's involvement in the state's Renewable Portfolio Standard (RPS) by requiring renewable electricity procurement be increased from 33 percent by 2020 to 50 percent by 2030. It also requires the PUC to identify a diverse and balanced portfolio of energy resources to ensure safety and reliability of the electricity supply while integrating an increased quantity of renewable resources, among other responsibilities.

Staff Comments: ORA has indicated that the requested positions are necessary to ensure that ratepayers are effectively represented and protected in PUC proceedings resulting from the three bills above. ORA has indicated that extra resources are necessary for two reasons: 1) the proceedings related to climate change legislation are functionally different than other proceedings, and require skills and experience that ORA does not currently possess, and 2) the above legislation has resulted in an increase in proceedings in which ORA must participate.

Issue 2: Safe Drinking Water Initiatives

Governor's Proposal: The ORA requests two positions and $230,000 (PUCORA) to evaluate the treatment of emerging water contaminants, the cost effectiveness of new water treatment technologies, and the ratepayer impact of water utility acquisitions.

Background: State policy provides that every Californian has a right to safe, clean, affordable, and accessible drinking water. Public Utilities Code Section 455.2 requires each water utility subject to the PUC's oversight to file a General Rate Case application every three years. ORA responds to General Rate Case applications from Class A water utilities (those serving more than 10,000 service connections) to ensure water utility ratepayers receive reliable service at a fair price. These rate cases may include requests for ratepayer dollars to fund infrastructure improvements to detect and filter out water contaminants. ORA has indicated that new guidance on Maximum Contaminant Levels (MCL) is expected to be adopted in the summer of 2017. This may lead to the identification of new contaminants and requests for ratepayer dollars to address the contaminants.

SB 88 (Committee on Budget and Fiscal Review), Chapter 27, Statutes of 2015 required water systems that consistently fail to provide safe drinking water to be consolidated with, or receive extensive services from, another public water system. This has led to an increase in the number of ratepayer-funded water system acquisitions by large water utilities. These acquisitions are typically carried out by Class A water utilities, and may have a significant impact on those utilities' ratepayers.

Issue 3: Safety Analyses Workload

Governor's Proposal: The ORA requests three positions and $390,000 (PUCORA) to analyze safety-related programs and expenditures at public utilities. These analyses will be used in safety-related proceedings at PUC, CEC, CAISO, and other utility-related entities.

Background: ORA formed the Energy Safety and Infrastructure section in 2015 as a response to the 2010 San Bruno gas pipeline explosion. PUC has increased its safety focus in recent years, resulting in a push for more ratepayer-funded safety investments at regulated utilities. Specifically, the PUC has created new proceedings to improve safety at regulated utilities, including the Safety model Assessment Proceeding (S-MAP) and the Risk Assessment in Energy Ratemaking Proceedings (RAMP), which are meant to guide and prioritize investments in utility safety infrastructure that are paid for wholly or partially by ratepayers.

Additionally, a variety of new proceedings have been opened by PUC regarding natural gas pipeline and infrastructure safety in response to the 2015 Aliso Canyon gas leak and vandalism of utility infrastructure in 2014. These include a proceeding aimed to minimize the impact of a long-term shutdown of the Aliso Canyon storage facility pursuant to SB 380 (Pavley), Chapter 14, Statutes of 2016, Pacific Gas & Electric's 2019 Gas Transmission and Storage proceedings, and proceedings to ensure the physical security of utility infrastructure pursuant to SB 699 (Hill), Chapter 550, Statutes of 2014.

Issue 4: Establish Communications Office

Governor's Proposal: The ORA requests two positions (including one CEA-B) and $299,000 (PUCORA) to establish a communications office to provide media outreach and ratepayer information services.

Background: ORA currently has no dedicated resources to provide information and assistance to the public, media and other interested stakeholders. Existing staff cover this function upon request, redirecting time away from their core responsibilities as engineers, economists, and other technical positions. ORA has indicated that they are receiving a greater volume of media, public, and stakeholder inquiries regarding their work, and that responding to these inquiries is negatively impacting their ability to perform their core technical work.

Staff Comments: ORA currently has no communications or outreach personal on staff, meaning that technical staff are often used to respond to media inquiries. While this has resulted in employees redirecting time from core duties, it is not clear what negative result this redirection has had on ORA's ability to perform its primary role in ensuring utility ratepayers receive safe and reliable service at a reasonable price. As such, it is unclear how the addition of two outreach-focused positions will help ORA perform this role.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analyses. OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, groundwater sustainability and drought response, and resource protection. OPR maintains and updates the General Plan Guidelines, the California Environmental Quality Act (CEQA) Guidelines, and operates the CEQA Clearinghouse. OPR also houses and supports the Strategic Growth Council (SGC).

Budget Overview: The Governor's budget proposes $335.5 million and 38.9 positions to support OPR in the budget year, as shown in the figure below. This is a decrease of 1.5 positions and $52 million, mainly due to a decline in Greenhouse Gas Reduction Fund resources and an expiration of certain limited-term funding sources.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
0360	State Planning & Policy Development	19.1	12.5	11.0	$8,837	$13,935	$3,856
0365	California Volunteers	16.8	21.9	21.9	28,507	31,749	31,754
0370	Strategic Growth Council	9.0	6.0	6.0	1,833	341,879	299,878
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**44.9**	**40.4**	**38.9**	**$39,177**	**$387,563**	**$335,488**

FUNDING		2015-16*	2016-17*	2017-18*
0001	General Fund	$8,716	$13,499	$3,343
0890	Federal Trust Fund	27,328	27,988	27,916
0995	Reimbursements	1,003	4,037	4,037
3228	Greenhouse Gas Reduction Fund	1,833	341,737	299,736
9740	Central Service Cost Recovery Fund	297	302	456
TOTALS, EXPENDITURES, ALL FUNDS		**$39,177**	**$387,563**	**$335,488**

Issues Proposed for Oversight Discussion

Issue 1: Integrated Climate Adaptation and Resilience Program (Oversight)

The Office of Planning and Research's Integrated Climate Adaptation and Resiliency Program (ICARP) was created by SB 246 (Wieckowski), Chapter 606, Statutes of 2016. The ICARP was designed to coordinate climate adaptation efforts across the state, with a particular emphasis on enabling local entities to take the lead on adaptation efforts. This includes providing assistance to state agencies in coordinating, planning, and preparing regular updates to the state's Climate Adaptation Strategy document, as well as providing assistance to state, local, and private entities in creating regular updates to the adaptation planning guide.

OPR was given responsibility for establishing two related programs to better perform these roles:

- The ICARP Technical Advisory Committee: SB 246 established an advisory council, consisting of representatives of state agencies, local governments, and relevant non-profit and private entities. The TAC will support the office's goals of facilitating coordination on adaptation efforts between state and local governments, and will focus on identifying opportunities to support local adaptation actions
- The ICARP Adaptation Clearinghouse: SB 246 directed OPR to create an Adaptation Clearinghouse for climate adaptation information for use by state, regional, and local actors. The OPR envisions the Clearinghouse as an online resource designed to serve as a centralized source of information that provides the resources necessary to guide decision makers at the state, regional, and local levels when planning for and implementing climate adaptation projects to promote resiliency to climate change in California. Resources currently hosted on the Adaptation Clearinghouse include:
    - Case Studies showing examples of how communities are addressing climate change throughout California and the United States.
    - Local actions being taken in California through policy and program initiatives.
    - Science and projection related guidance to support state-wide consistency and use of authoritative sources of information on science and projections.
    - Policy and guidance to support climate change adaptation.
    - Tools and resources to support climate change adaptation activities.

Current status

The 2016-17 budget included $300,000 General Fund for two positions to administer the Integrated Climate Adaptation and Resiliency Program (ICARP) and develop a clearinghouse website for climate adaptation information. This included $100,000 in one-time contract funding for technical design and support for the Adaptation Clearinghouse. OPR has yet to encumber these funds, but has indicated that they plan to use a sole-source contract for the requisite technical support work.

OPR indicates that they have identified and solicited 17 members of the proposed TAC, with members of several state agencies, local governments, and collaborative non-governmental organizations accepting invitations to join the committee. OPR plans to hold the first TAC meeting on March 27th.