Senate Budget and Fiscal Review—Senator Mark Leno, Chair
SUBCOMMITTEE NO. 2 **Agenda**

Senator Jim Beall, Chair
Senator Jim Nielsen
Senator Hannah-Beth Jackson

Thursday, March 6, 2014
9:30 a.m. or Upon Adjournment of Session
Hearing Room 112

Consultant: Catherine Freeman

Special Presentations

1. Legislative Analyst's Office—Overview of the Governor's Budget

2. Agency Secretaries:

    - Matt Rodriquez, Secretary for Cal-EPA
    - John Laird, Secretary for Natural Resources
    - Karen Ross, California Agriculture Secretary

Items Proposed for Vote-Only

Items Proposed for Discussion

Resources—Environmental Protection—Energy—Transportation

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DEPARTMENTS PROPOSED FOR VOTE ONLY

0555 Secretary for California Environmental Protection Agency (Cal-EPA)

1. **Cal-EPA Refinery Information Officer and Emergency Coordinator.** Request to establish a permanent position at the Office of the Secretary for Cal-EPA to coordinate Cal-EPA boards, departments, and offices' emergency preparedness and response activities related to refineries. This position would serve as liaison for the State Emergency Plan for hazardous materials response and debris management. The position would coordinate hazardous materials emergency response with local certified Unified Program Agencies (CUPAs), and federal organizations for rapid response.

Staff Recommendation: Approve Item 1.

0540 Secretary for Natural Resources

The Secretary for Natural Resources heads the Natural Resources Agency. The Secretary is responsible for overseeing and coordinating the activities of the boards, departments, and conservancies under the jurisdiction of the Natural Resources Agency (CNRA). The mission of the Resources Agency is to restore, protect, and manage the State's natural, historical, and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration, and respect for all involved communities. The Secretary for Resources, a member of the Governor's cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 27 various departments, boards, commissions, and conservancies.

Governor's Budget. The Governor's January Budget includes $69 million to support the Secretary for Natural Resources. This is a $3 million decrease under current-year estimated expenditures primarily due to reduced bond fund expenditures and one-time expenditures in the current year.

Items Proposed for Vote-Only

1. **Statewide Oversight Position Extension and Environmental Enhancement and Mitigation Fund (EEM) Position Authority.** The Governor's budget requests to extend one CEA position that provides oversight and administration for bond measures, and make permanent two limited-term positions that were funded by bond funds and are now funded by the EEM Fund. These positions are intended to provide necessary oversight for current, future, and past bond expenditures.

2. **California Cultural Historical Endowment Funding.** The Governor's budget requests to appropriate $3.4 million (Proposition 40 bond funds) for projects dedicated to cultural and historical preservation. The program is being implemented pursuant to AB 482 (Atkins), Chapter 590, Statutes of 2013 and AB 716 (Firebaugh), Chapter 112, Statutes of 2002 (The California Cultural and Historical Endowment Act).

Staff Recommendation: Approve Items 1-2.

Items Proposed for Discussion

1. Fourth California Climate Change Assessment

Governor's Proposal. The Governors' budget requests $5 million (one-time, Environmental License Plate Fund [ELPF]) and one position at the CNRA, to carry out a fourth climate change assessment. The majority of funds are proposed to be used for contracts to conduct the scientific research needed for the assessment. The assessment, similar to the three previous, would continue to generate data and information needed to support continued climate policy development, planning, and implementation efforts at the state, regional, and local level. The intent is to ensure that efforts to foster resilient communities and businesses are informed by the best available science.

The Governor's proposal also includes trailer bill language that would add the following eligibility language to the ELPF funding allocations:

- "Scientific research on the risks to California's natural resources and communities caused by the impacts of climate change."

Environmental License Plate Fund (ELPF). The ELPF was established to provide funding to various environmental programs at the state and local level. The amount of funding available is dependent upon the number of certain specialty license plates sold and maintained in the state. Traditionally, the fund has been allocated to natural resource programs. The main priorities of the ELPF, as designated by Public Resources Code 21190 include:

1. The control and abatement of air pollution.
2. Acquisition, preservation, and restoration of ecological reserves.
3. Environmental education, including formal school programs and informal public education programs.
4. Protection of nongame species and threatened and endangered plants and animals.
5. Protection, enhancement, and restoration of fish and wildlife habitat.
6. Purchase of real property for state and local parks.
7. Reduction or minimization of soil erosion and sediment discharge into Lake Tahoe.

In recent years, the ELPF has been used to backfill state operations expenses at state conservancies where bond funds have been exhausted. In most cases, this consists of state operations of less than $500,000. However, certain conservancies receive a greater proportion (Tahoe and Sierra Nevada) due to statutory requirements and ties to specific license plates. The coastal agencies receive funding directly from the Whale Tail license plate in another fund.

The Governor's budget allocation is adjusted yearly to accommodate funding requests from various state agencies. For example, the Governor's budget proposes that the State Lands Commission, traditionally funded with General Fund or Tidelands Oil Revenue would receive a new allocation of $133,000 from ELPF in the budget year. The CNRA has increased its funding from $2.9 million in 2012-13 to $9.4 million in the proposed budget. The two-year allocation of ELPF is displayed in the following table.

Summary of ELPF Expenditures

(in thousands)

Function	2013-14 (Estimate)	2014-15 (Proposed)
Department of Fish and Wildlife	$15,173	$15,411
Conservancies	9,318	10,622
Secretary for Natural Resources	4,937	9,403
Natural Resource Agency Departments	4,167	4,188
Tahoe Regional Planning Agency	3,998	3,998
Department of Parks and Recreation	3,185	3,258
Cal-EPA boards and Departments	1,439	1,434
Department of Education	408	413
Total	**$42,625**	**$48,727**

*Some items combined for reference only.

Staff Comments

Should Environmental License Plate Funds (ELPF) be Used for Climate Strategy? The Governor's proposal to spend $5 million from the ELPF for the CNRA's Climate Adaptation Assessment should be reviewed. The ELPF was designed to fund state environmental education efforts that have, to date, been funded with a variety of recycling funds and other environmental fees. The ELPF traditionally has been stretched thin, due to its use as baseline funding for the State's conservancies and various other environmental programs. In addition, the policy change to add climate change to the allowable funding uses for ELPF has not been vetted by the Legislature's policy committees.

Is There a More Appropriate Funding Source? The Legislature could consider using a more appropriate fund source, such as Tidelands Oil revenues or cap and trade funding, for future climate assessments. This would allow the Legislature the option to consider other purposes for the ELPF that cannot be funded by Tidelands Oil, such as conservancy projects, environmental education, and other programs.

Do We Need Another Assessment? This assessment proposes to explore both changes to state and local infrastructure, as well as changes that might be recommended for private industry such as agriculture and forestry. Many of these industries are well aware of changing weather patterns and, though some adaptation may be necessary, the state would not likely be the correct agent to affect these changes. The CNRA has published a 200 page report entitled, "Safeguarding California: Reducing Climate Risk." The report provides policy guidance for state decision makers, and highlights climate risks to nine sectors in California, from agriculture to energy, and forestry to ocean ecosystems.

At the same time, other private, institutional, and nonprofit groups have provided substantial information about how and where to adapt to known climate change challenges, such as sea level rise, variable weather patterns, and overall rising temperatures. Instead of conducting further studies, the state should consider focusing its research on direct and immediate adaptation strategies that could begin to be implemented before emergencies arise. This type of discussion would be appropriate to take place with both budget and policy committees of both houses of the Legislature.

Questions for the Office of the Secretary. The Office of the Secretary should address the following questions in their opening statement.

<u>Use of the ELPF</u>

- To what extent is environmental education prioritized in the Governor's overall ELPF proposal?
- What is funded under the Department of Fish and Wildlife's proposal?
- The Delta Conservancy receives disproportionally small amounts of ELPF, even with both Administration and legislative priorities shifting to restoration of Delta functions. Why didn't the Administration propose to increase this funding amount with ELPF?

<u>Funding the Climate Change Assessment</u>

- What other funds have been used to conduct the climate change assessments in the past?
- Why did the department select the ELPF rather than cap and trade funding, bond funds, or other funds for this year's assessment?
- The staff analysis indicates that Tidelands Oil Revenues should be used for this type of expenditure. Would the Administration support this type of fund source if ELPF were not available?

<u>Adaptation vs. Assessment</u>

- Describe the "Safeguarding California" report and how this assessment will contribute beyond the current draft adaptation plan.
- What funding is proposed in the state budget specifically for climate adaptation?

Staff Recommendation: Hold Open

8660 California Public Utilities Commission

The California Public Utilities Commission (CPUC) is responsible for the regulation of privately owned "public utilities," such as gas, electric, telephone, and railroad corporations, as well as certain video providers and passenger and household goods carriers. The CPUC's primary objective is to ensure adequate facilities and services for the public at equitable and reasonable rates. The CPUC also promotes energy conservation through its various regulatory decisions.

Governor's Budget. The Governor's budget proposes $1.3 billion and 1,063 positions to support the CPUC in the budget year. This is an increase of ten positions and $50 million (four percent) from the current year mainly due to the implementation of new statutory requirements for broadband access.

Items Proposed for Vote-Only

1. **Extension of Liquidation Period for Outside Legal Counsel for the Energy Crisis Litigation.** The budget requests a one-year extension of the liquidation period for continued assistance by outside legal counsel and economic consultants, as well as expert witnesses in litigation by the CPUC before the Federal Energy Regulatory Commission, which seeks refunds of several billion dollars for overcharges during the 2000-01 energy crisis for California consumers.

2. **Augment Fiscal Office Accounts Receivable.** The budget requests $120,000 and two positions from various special funds to provide services related to the timely input of user fees and the assurance of sufficient cash flow within the CPUC Utilities Reimbursement Account (PURA).

3. **Variable Air Volume Controller Repair Renovations.** The budget requests a one-time budget augmentation of $2.8 million (PURA) to complete the repair/replacement of the heating, ventilation and air conditioning (HVAC) control system at the CPUC headquarters in San Francisco.

4. **Community Choice Aggregation (Implementation of Legislation).** The budget proposes $363,000 and three positions (PURA) to implement SB 790 (Leno), Chapter 599, Statutes of 2011, which requires the CPUC to develop a number of new provisions to facilitate the formation and operation of Community Choice Aggregation programs.

Staff Recommendation: Approve Items 1-4.

Items Proposed for Discussion

1. Public Utilities Commission Financial Audits—Information Item

Background. On January 10, 2013, the Department of Finance (DOF) Office of State Audits and Evaluations (OSAE) released its performance audit of the CPUC budget process. The audit identified significant weaknesses with CPUC's budget operations that negatively affect the commission's ability to prepare and present reliable and accurate budget information. The CPUC provided the OSAE with two corrective action plans, including one on January 15, 2014, that outline the CPUC's progress toward addressing the shortcomings identified in the original report.

Legislative Audit Request. The chairs of the Senate Budget Subcommittee #2, Assembly Budget Subcommittee #3 and both the Assembly and Senate energy and utilities committees wrote a letter to the Joint Legislative Audit Committee recommending further audits of the CPUC's external auditing functions. Specifically, the question of balancing accounts and monitoring of the Investor Owned Utility funds was questioned. This audit will be released the week of March 6.

Zero-Based Budget (ZBB). The Legislature, as part of the 2013 Budget Act, required the CPUC to conduct a ZBB exercise for its programs, by January 10, 2015. CPUC has been working with the Department of Finance to ensure that this exercise is conducted in a meaningful way that will advance the internal budgeting functions at the CPUC.

Special Presentations:

- **Office of State Audits and Evaluations:** Update on performance audit of CPUC budget process.

- **Bureau of State Audits:** Results of Audit 2013-109—CPUC Balancing Accounts

Staff Recommendation: Information Item

2. CPUC Energy Efficiency Financing Pilot Program—California Alternative Energy and Advanced Transportation Financing Authority (CAETFA) Hub

Background. On September 19, 2013, the CPUC approved a decision ordering the Investor Owned Utilities (IOUs) to direct ratepayer funds outside the budget process for use in specific energy efficiency financing pilot programs. Prior to that, the CPUC had directed San Diego Gas and Electric Company (SDG&E), on behalf of the other IOUs, to hire an expert financing contractor to assist the IOUs in designing at least four new financing programs to address market needs for energy efficiency. The SDG&E proposal is designed to provide a pilot program to increase the flow of capital to energy efficiency projects in the state while reducing risk to investors.

Previous Legislative Actions Regarding Activities Outside the State Budget. After lengthy discussions in budget committees, the Legislature, as part of the 2013 budget, restricted the CPUC's ability to start nonprofit entities without prior legislative approval. The subcommittees discussed the CPUC's activities that blur the line between budget and policy, both of which are the purview of the Legislature. The CPUC, in its quasi-legislative capacity, has attempted to usurp the Legislative branch's prerogative to determine what future projects and policies make sense. The Legislature's actions were designed to curtail the direction of ratepayer funds to state-directed programs without prior legislative approval.

Budget Proposal. The budget requests reimbursement and expenditure authority of $4.4 million, over two years, to enable it to serve as the administrator of IOU ratepayer funds. The proposal would allow CAETFA to act as the California Hub for Energy Efficiency Financing (CHEEF). Overall funding for the pilot program would use $65.9 million from IOU ratepayer funds (derived directly from the IOUs, not from the CPUC). Of the $65.9 million, approximately 65 percent of the funds would go directly to residential customers and 35 ($23 million) percent would be spent by IOUs and CAETFA for administrative costs, outreach, and evaluation.

The funding for two years would include:

- $5 million for CHEEF startup costs (CAETFA administrative and contracting costs).
- $10 million for marketing, education and outreach ($8 million at IOUs, $2 million at CAETFA).
- $28.9 million for residential credit enhancements including: $25 million for single family loan loss reserves; $2.9 million for multi-family debt service reserve fund; and, $1 million for energy financing line item charges (to Pacific Gas and Electric Company).
- $14 million for non-residential credit enhancements (small business sector).
- $8 million to the IOUs for information technology.

Staff Comments. The proposal before the subcommittee does not request approval of the policy set forth by the CPUC but rather is the last step before implementing the CPUC's quasi-legislative policy decision. Given the Legislature's reaction to the CPUC's establishment of programs and activities outside the legislative process last year, it would behoove the CPUC to use the legislative process, rather than bypass it, in its efforts to start new programs. Staff are equally concerned that, once again, the majority of the funding for a project under review, would not be administered through the budget, but rather would be directed outside the budget process with objectives not clearly defined in statute.
In addition, CAETFA—the administrator of the state funds in this proposal, is reviewed under Budget Subcommittee #4 because it is within the Treasurer's Office. There is no companion budget proposal under the CPUC's budget.

Staff Recommendation. Staff recommends the Budget Subcommittee #2 request that Budget Subcommittee #4 reject the budget proposal. Additionally, staff recommends the subcommittee direct the CPUC to seek legislation to specifically authorize this pilot program in statute.

3. Extended Staffing Support for Deaf and Disabled Telecommunications.

Background. The Deaf and Disabled Telecommunications Program (DDTP) is a program of the CPUC providing Californians who are deaf and disabled with equipment and relay services throughout the California Telephone Access Program and the California Relay Service, respectively. AB 136 (Beall), Chapter 404, Statutes of 2011) requires speech generating devices (SGD), accessories, and mounting systems, and specialized telecommunication equipment, including infrared telephones, speaker phones, and telephone interface devices, be funded through the program.

Budget Proposal. The budget proposes five, one-year limited-term positions and $455,000 (Deaf and Disabled Telecommunications Fund) to expand the DDTP Program to include speech generating devices. The commission anticipates initiating a pilot program once rules are put in place to explore and evaluate options for cost control purposes and to gain hands-on experience in public and private health insurance programs.

Staff Comments. The addition of SGDs to the DDTP was required by legislation in 2011. The devices have been classified by the US Department of Health and Human Services as durable medical equipment. Staff are concerned about the pace of the rollout of the program and accessibility of the devices to individuals who need them for communication.

The CPUC should update the subcommittee on its program rollout and its efforts to reach those in need of SGDs.

Staff Recommendation. Approve

4. High-Speed Rail Initiative—Electrical Infrastructure Planning and Permitting

Background. The California High-Speed Rail (HSR) Authority is responsible for the preparation of environmental documents required by law on the development of HRS in the state. The documents prepared at this point do not assess the electrical infrastructure needed, nor do they include a full funding plan. The CPUC has stated that it will be responsible for preparing additional environmental documents to consider the impact of the rail line on electrical infrastructure, such as new substations or transmission lines.

Budget Proposal. The budget proposes $1.85 million and three positions ($355,000 Public Transportation Account, State Transportation Fund and Reimbursements and $1,500 in reimbursements, mainly from utilities) to perform the required electrical system planning and permitting analyses to support the deployment of the HSR Initiative.

Staff Comments. There is significant uncertainty about the sources of funding needed for the overall completion of the majority of the HSR project. At this time, Proposition 1A bonds cannot be used for the project and it is uncertain when this legal hurdle will be cleared. In addition, it is unclear how much, if any, other non-state funds (such as local funds, and funds from operations and development, or private capital) have been secured.

The Governor's CPUC proposal relies mainly on funding directly from ratepayers. At this time, HSR is not a ratepayer, nor will it be for a significant amount of time. Therefore, the current funding source for the HSR electrical documentation is ratepayers who may or may not be reimbursed for their contribution to this statewide project.

The subcommittee should consider whether other funds are more appropriate for HSR electrical planning, including funding from the HSR project or federal funds. Additionally, this proposal is one of several HSR proposals before the budget committee this year, among which is a proposal to use cap and trade funding for portions of the development of HSR. These proposals will be heard in subsequent hearings.

Staff Recommendation. Hold Open

5. Implement Greenhouse Gas Revenue Return to Energy-Intensive, Trade Exposed Industries

Background. As part of its implementation of the state's Cap and Trade program for greenhouse gas reduction, the Air Resources Board (ARB) issues greenhouse gas (GHG) allowances, which are permits to emit GHGs into the atmosphere. In order to protect electric ratepayers from price increases, the ARB allocates free allowances to the state's electric utilities and requires them to sell those allowances, returning the revenue to ratepayers. Senate Bill 1018 (Committee on Budget and Fiscal Review), Chapter 39, Statutes of 2011, required this revenue to be provided directly to residential customers, small businesses, and companies in emission intensive, trade-exposed (EITE) industries. The allocation to EITE companies is intended to ensure that industrial production currently occurring in California does not move outside the state as a result of Cap and Trade, thus causing emissions to "leak" out of the state.

The CPUC has been developing a program to address the mitigation leakage risk, including specific formulas to determine how much allowance revenue each EITE company should receive, and to base the allocation primarily on product output. The CPUC has stated that this calculation is problematic because it has a challenging time calculating the price of output, and that it is not aware of all companies at risk of "leakage."

Budget Proposal. The budget requests an increase of $1 million (reimbursable authority) in 2014-15 and $500,000 per year from 2015-16 through 2021-2022 to enable the CPUC to implement the return of GHG revenue to EITE industries. The funding is proposed to allow CPUC to ensure that sensitive and confidential business information is not compromised, and to complete the study of EITE industry leakage. In the proposal, the CPUC asserts that because the state has not yet conducted a comprehensive study of industries put at risk due to cap and trade, the CPUC would like to engage researchers at the University of California to conduct a "far-ranging study" of other industries that might need financial assistance.

Implementing Legislation. SB 1018 states:

> *748.5. (a) Except as provided in subdivision (c), the commission shall require revenues, including any accrued interest, received by an electrical corporation as a result of the direct allocation of greenhouse gas allowances to electric utilities pursuant to subdivision (b) of Section 95890 of Title 17 of the California Code of Regulations to be credited directly to the residential, small business, and emissions-intensive trade-exposed retail customers of the electrical corporation.*
>
> *(b) Not later than January 1, 2013, the commission shall require the adoption and implementation of a customer outreach plan for each electrical corporation, including, but not limited to, such measures as notices in bills and through media outlets, for purposes of obtaining the maximum feasible public awareness of the crediting of greenhouse gas allowance revenues. Costs associated with the implementation of this plan are subject to recovery in rates pursuant to Section 454.*

Staff Comments. At the time of the passage of SB 1018, it was not contemplated that the return of cap and trade funds to residential, commercial and industrial entities would require over $1 million to implement the program. In addition, the idea that the CPUC must contract to conduct a far-ranging study on the impacts of cap and trade on industry was not discussed. This activity is beyond the scope of the CPUC and more in the purview of the ARB, as part of its broader discussion of "leakage" within the Cap and Trade program.

Because this proposal has raised questions of the intent of legislation, staff recommends this item be held open until the Legislature can provide guidance on the need for such a program.

Staff Recommendation: Hold Open

6. Implementation of 2013 Legislative Proposals

Background. During the 2013 legislative session, the following bills were passed that impact the CPUC Budget:

1. **AB 1299 (Bradford),** Chapter 507, Statutes of 2013, requires the CPUC to establish the Broadband Public Housing Account in the California Advanced Services Fund, which will provide grants and loans to publicly-supported communities for projects deploying high quality advanced broadband and for programs designed to increase broadband adoption rates by residents in these communities.

2. **SB 740 (Padilla),** Chapter 522, Statutes of 2013, supplements the existing $200 million authorized for CASF broadband infrastructure grants with an additional $90 million.

3. **AB 327 (Perea),** Chapter 611, Statutes of 2013, proposed changes to CPUC rate design, grid distribution, net energy metering, and renewable portfolio standard programs.

Governor's Proposals. The budget requests $38.9 million (up to $25 million in grants and loans), and 1.5 positions to implement AB 1299 and SB 740 related to the California Advanced Services Fund. The budget also proposes 11 positions and $1.5 million (PURA), including $130,000 in consultant costs, to implement AB 327.

Staff Comments. These proposals implement recent statute and mirror legislative analysis of the bills.

Staff Recommendation: Approve legislative proposals.

3360 Energy Resources Conservation Development Commission (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 (no General Fund) for support of the CEC, a decrease of approximately $21 million, due primarily to the phasing down of the Public Interest Energy Research (PIER) Program and the Renewable Resources Trust Fund (RRTF).

Items Proposed for Vote-Only

1. **Acceptance Test Technician Certification Provider (ATTCP) Program.** The budget requests $267,000 (Energy Resources Programs Account [ERPA]), one permanent position, and one two-year limited-term position for the development, implementation of, and oversight of the program. This program would establish industry training and certification requirements to improve compliance for equipment and control installation on non-residential buildings.

2. **In-House Training Capabilities.** The budget requests one position to expand the in-house training unit. The proposal is self-funded with savings resulting from cancellation of external training contracts funded by ERPA.

3. **Ongoing Development of Utility Smart Grid Implementation Plans, Metrics, and Standards.** The budget requests $150,000, and conversion of one limited-term position to permanent, to provide ongoing technical analysis and standards coordination required by SB 17 (Padilla) Chapter 327, Statutes of 2009. This statute established goals for modernization of the electricity grid and development of a "smart grid."

4. **Geothermal Grant and Loan (GRDA) Program Liquidation Extension.** The budget requests to permanently extend the GRDA program funding liquidation period from two to four years to allow more time for projects to successfully complete project tasks and generate project products that are useful and help advance geothermal energy research and development.

5. **Public Goods Charge (PGC) Ramp-Down Plan.** The budget requests the second year of a multi-year proposal in response to the sunset of the authority to collect the PGC on January 1, 2012. Following budget actions previously taken by the Legislature, this program is undergoing a multi-year phased staff reduction. The proposal identifies the reduction of 31 positions and $4 million for the Public Interest Energy Research Program (PIER). This issue was heard and approved in this subcommittee in 2013.

Staff Recommendation: Approve Items 1-5.

Items Proposed for Discussion

1. Proposition 39—Implementation and Operation of the California Clean Energy Jobs Act

Governor's Proposal. The Governor's budget proposes $3 million and 12 permanent positions to implement and provide technical assistance for the California Clean Energy Jobs Act (CCEJA), SB 73 (Committee on Budget and Fiscal Review), Chapter 29, Statutes of 2013. The legislation provides legislative guidance for implementation of Proposition 39, the Income Tax Increase for the Multistate Business initiative, passed in 2012.

The budget proposal continues the request from current year and provides for $1.3 million in external consulting funding and $1.7 million for the baseline positions and state activities. The positions are intended to provide outreach to Local Education Agencies (LEAs) including annually evaluating and approving an estimated 1,700-2,100 energy expenditure plans that will be submitted to the CEC, as required by the enabling legislation. In addition to providing outreach to the LEAs, the CEC plans to: develop and maintain a publicly available and searchable database to track and report program metrics (energy savings, energy costs savings, greenhouse gas reductions and employment effects of project); review and evaluate energy savings project expenditure plan modifications; provide and manage low and zero-interest revolving loans to LEAs and community colleges; and, provide annual reports to the Citizens Oversight Board.

Questions for the Commission. In addition to a brief overview update on the status of the Proposition 39 funding at the CEC and its interactions with the LEAs, the commission should discuss the following:

- How long does the CEC anticipate this program running, given that the initial funding will be fully appropriated within five years?

- What hurdles or legislative changes are necessary to keep the program on track and have these been introduced?

Staff Recommendation: Approve proposal.

2. Implementation of the Electric Program Investment Charge (EPIC)

Background. In December 2011, funding for the state's Public Goods Charge (PGC) on electricity ratepayers expired. The PGC funded energy efficiency research and development and renewable energy programs. Efforts to continue the surcharge, which requires a 2/3 vote of the Legislature, failed. The charge, considered a tax for voting purposes, supported about a quarter of the total energy efficiency programs funded by the state and energy utilities.

In September 2011, the Governor sent a letter to the CPUC requesting that they take action under its quasi-legislative authority to ensure that programs, like those funded under the PGC, would be continued, but with the modifications legislators discussed during the PGC renewal deliberations. In December 2011, the CPUC initiated a rulemaking (essentially started a pathway to a new policy) to continue the programs similar to PGC, with a sole focus on the investor-owned utilities (IOUs). The commission planned a two-phased deliberation. The first phase addressed the appropriate funding levels for renewables and research and development. The second phase, currently under way, creates a detailed program.

Previous Budget Actions. In the 2012 Budget, the Legislature approved $1 million from the EPIC and 4.5 positions specifically to complete an investment plan for the future appropriations from this charge, established for the CPUC (and also described above). The 2013 budget approved $160 million and 55 positions from IOUs ratepayer funds for the implementation of EPIC. Trailer bill language restricted the use of funds to activities within the IOU areas and provided the authority for $25 million to be approved through the CPUC EPIC proceeding for the New Solar Homes Partnership Program.

Budget Proposal. The budget requests baseline authority for 26 positions to administer $172.5 million (direct ratepayer funds) in program funds for implementation of the CPUC-created EPIC program. The total request of $17 million is comprised of $3.8 million for state operations and $13.2 million for local assistance.

Lawsuit Pending. On May 21, 2013, one of the IOUs, Southern California Edison (SCE), sued the CPUC asserting that the CPUC's adoption of the EPIC is illegal for the following reasons: (1) CPUC's jurisdiction to regulate utilities does not extend to the establishment of a charge to fund another state agency (CEC); (2) EPIC raises revenue that is being used for broad purposes such as research and development, and is thus a tax; and, (3) EPIC involves an unlawful delegation of discretionary authority from CPUC to CEC. It is anticipated that the court will make its findings public in the next month.

Staff Comments. As discussed in previous years, the policy of this proposal has not been vetted in a legislative hearing, but rather through the ratemaking processes of the CPUC. While the Legislature has approved funding for this proposal in the current year, it would be prudent to withhold action in the budget until the court has rendered its decision.

Staff Recommendation: Hold Open pending court review.

3. CEC Information Technology Proposals

Governor's Proposal. The Governor's budget includes three separate funding proposals for information technology (IT) related projects. These include:

1. **Renewables Portfolio Standard Database Modernization Project.** The budget requests $2.2 million (Petroleum Violations Escrow Account [PVEA]) to hire a contractor to implement a new Renewable Portfolio Standards database. The new database will allow for continued database growth and functionality, and increased efficiency of business processes, without risk to data security and stability. Under this one-time IT project, a contractor will design, build, and implement the proposed new database system, as well as support and train the CEC's IT Services Branch staff on maintenance and operations for six months after implementation.

2. **Application Development and Maintenance Support.** Request for three permanent programmer analyst positions and $403,000 (Energy Resources Program Account) to support the increasing workload for software applications and databases. Currently, the IT branch has about 40 applications and databases that require support on a regular basis. There are an additional 20 databases that require support but are only addressed on an emergency basis due to lack of programmer capacity. Another ten applications and databases, including critical systems such as e-filing for power plant siting cases, will come online in the next 12 months.

3. **Building an Energy Data Infrastructure to Meet the 21st Century.** The Governor's budget proposes six tow-year limited-term positions and $790,000 (Energy Resources Program Account) to develop disaggregated energy demand forecasts purportedly needed to implement the Governor's renewable distributed generation goals and support statewide energy decisions at the CEC, CPUC and the California Independent System Operator

Staff Comments. The Commission's proposals all have merit but raise a question about coordination and planning efforts. In recent testimony before the Senate Rules Committee, Commissioner Carla Peterman testified that she had directed the commission staff to upgrade its public databases to be more user-friendly. The proposals before this subcommittee seek to accomplish this goal, while increasing the capability of internal CEC staff to oversee this critical function.

Questions for the Commission. The commission should address these questions in their opening statement:

- The CEC has over 50 databases dedicated to different activities. Is there room to consolidate some of these functions to achieve efficiency?

- Has the CEC worked with the California Technology Agency to review its overall IT functions and to attempt to streamline the IT branch?

- Are the changes requested the result of internal requests (including from the commissioners) or from statutory requirements?

- The shift from using consultants to using state employees to maintain databases may make sense in some cases. However, with 50 database applications, is it practical to have internal IT staff responsible for such a breadth of databases?

- What limitations (such as travel bans or funding for continued education) may hinder the ability of internal staff to keep up with outside consulting firms? What is the internal training budget per person and how often will they be allowed to take continuing education classes to keep up with their counterparts outside of state government?

Staff Recommendation: Hold Open

4. Vulnerability of the Fueling Infrastructure for the Transportation Sector to Climate Change

Governor's Proposal. The Governor's budget requests $2 million (Petroleum Violation Escrow Account) and one two-year limited-term position to support an evaluation of the vulnerability of the fuel infrastructure for the transportation sector to climate change impacts. This work is intended to contribute to the Fourth Climate Change Assessment (see page 4 of this agenda) which is planned to be released in 2017. The project is proposed to identify specific vulnerabilities of California's fuel infrastructure to both extreme weather events (flooding, fire, storms), and other climate impacts (sea level rise, coastal erosion, rising temperatures).

Questions for the Commission. The commission should address these questions in their opening statement:

- The state has conducted multiple studies regarding the effects of climate change all sectors of the economy. What added value will this $2 million report give us?

- The state has already determined several vulnerabilities in the energy sector related to climate change. Does the CEC have a proposal to begin to adapt to these pressures?

Staff Comments: The Administration's continued research into impacts of climate change is commendable. Since before 2006, and after each major climate event, the state has assessed the risk to its state-owned and privately-owned infrastructure. In few cases, however, has the state taken definitive action to dedicate financial resources to adaptation without a court mandate (for example the use of bond funding to reduce flood risk was in-part determined by a court case finding the state liable for certain levees). These changes will necessarily be controversial, however, if the state continues to determine that there are substantial risks to state and private infrastructure, changes will be needed in land use siting, planning and other activities.

Staff Recommendation: Hold Open

5. Transportation Energy Supply Forecast Analysis

Background. Existing statute requires the CEC to conduct assessments and forecasts of energy industry supply, production, transport, delivery, and distribution. This assessment includes demand and pricing analysis for several sectors, including transportation fuels. Specifically, the CEC is required to:

- Assess trends in transportation fuels, technologies and infrastructure supply and demand.
- Forecast statewide and regional energy demand.
- Evaluate sufficient transportation fuel supplies, technologies and infrastructure.
- Assess risk and disruptions in price shocks.
- Provide alternative fuel assessments.
- Provide recommendations to improve transportation energy use.

Assembly Bill 118 (Núñez), Chapter 750, Statutes of 2007 created the CEC's Alternative and Renewable Fuel and Vehicle Technology Program. Specifically, this program provides funding, in part, to:

- Develop and improve alternative and renewable low-carbon fuels.
- Optimize alternative and renewable fuels for existing and developing engine technologies.
- Decrease, on a full fuel cycle basis, the overall impact and carbon footprint of alternative and renewable fuels and increase sustainability.
- Expand fuel infrastructure, fueling stations, and equipment.
- Improve light-, medium-, and heavy-duty vehicle technologies.
- Expand infrastructure connected with existing fleets, public transit, and transportation corridors.

Governor's Proposal. The budget requests to redirect $750,000 (ERPA, mainly from electric and natural gas ratepayers) baseline contract funds to establish two new permanent positions to initiate a transportation supply and economic impact analysis framework, gather energy supply data, and initiate economic impact analysis.

Staff Comments: The CEC, as part of its administration of AB 118, has, in large part, conducted much of the initial research on the transportation sector as is evidenced in its AB 118 Investment Plan. However, further research may be necessary.

The funding source identified for this proposal is derived mainly from electric and natural gas ratepayers throughout the state. Funding is not proposed from existing transportation fuel fees and taxes. In addition, it is unclear to what extent this proposal utilizes existing research gathered through the implementation of AB 118 and other state transportation programs.

Staff Recommendation: Require the CEC to return in April with alternative funding from the transportation sector. Hold Open.