Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 2 Agenda

Senator Bob Wieckowski
Senator Brian Dahle
Senator Mike McGuire
Senator Henry Stern

Tuesday, February 23, 2021
8:00 a.m.
State Capitol - Room 3191

Part B

Consultant: James Hacker

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION

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ISSUES PROPOSED FOR VOTE-ONLY

8660 California Public Utilities Commission (PUC)

Issue 1: AB 841 Oversight

The budget includes $338,000 for fiscal year 2021-22 and $336,000 for 2022-23 and ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) for two permanent positions to implement AB 841 (Ting), Chapter 372, Statutes of 2020. AB 841 requires the PUC to create a new ratepayer-funded tariff to deploy electric distribution infrastructure needed to support electric vehicle (EV) charging, and a new program to upgrade air conditioning, ventilation, and plumbing equipment at existing public schools. The request for resources is slightly lower than the $463,000 estimated to administer the program that the PUC provided during legislative consideration of the bill last year.

Staff Recommendation: Approve As Budgeted.

ISSUES PROPOSED FOR DISCUSSION

3360 California Energy Commission
3900 California Air Resources Board
0950 Governor's Office of Business and Economic Development

Issue 2: Governor's Zero-Emission Vehicle (ZEV) Proposals

Background. Since 2006, California has set several important goals to reduce greenhouse gas (GHG) emissions and address the threat posed by the global climate crisis and to the public health of Californians. These goals have predominantly been set via Executive Order, rather than legislation. These include:

- Reducing GHG emissions to 40 percent below 1990 levels by 2030.
- Reducing short-lived climate pollutant emissions, such as methane, to 40 to 50 percent below 2013 levels by 2030.
- Achieving a carbon-neutral economy by 2045.
- Setting specific goals to boost the supply of ZEVs and charging and fueling stations, including:
  - Putting at least 1.5 million ZEVs on the road by 2025.
  - Installing 200 hydrogen-fueling stations and 250,000 battery-electric vehicle chargers, including 10,000 direct-current
  - fast chargers, by 2025.
  - Putting 5 million ZEVs on the road by 2030.

Executive Order N-79-20 set additional and specific zero-emission vehicle targets, including:

- 100 percent of in-state sales of new passenger cars and trucks by 2035
- 100 percent of the state's fleet of medium- and heavy-duty vehicles in the state by 2045 where feasible and by 2035 for drayage trucks
- 100 percent of the state's fleet of off-road vehicles and equipment operations by 2035, where feasible.

The state has historically pursued these goals with a combination of regulations, grant programs for infrastructure (such as the CEC's Clean Transportation Program and CARB's Heavy Vehicle Infrastructure Program (HVIP)), by rebates for individual purchases of zero emission vehicles, such as the Clean Vehicle Rebate Program (CVRP), and CARB's Heavy Vehicle Incentive Program (HVIP). These programs have operated parallel efforts by regulated utilities and private interests to expand ZEV infrastructure, including ratepayer-funded efforts at Investor-Owned Utilities, settlement agreements (like Electrify America's investments funded by the Volkswagen emissions settlement), and private investment (like Tesla's charging network).

Last year, CARB launched the Clean Fuel Rewards Program, which transitioned an existing incentive that varied across the state into a stable consumer incentive up to $1,500 off the purchase or lease of ZEVs. This program is funded by the Low Carbon Fuel Standard, in partnership with electric utilities, and is not part of the annual budget act.

Governor's Budget. The Administration has proposed a significant investment in zero-emission vehicles in the 2021-22 budget. This includes:

- Securitization of approximately $1 billion of future revenues to fund the construction of electric vehicle charging
- and hydrogen fueling stations necessary to accelerate zero-emission vehicle adoption. This would be funded by extending certain transportation-related fees, securitizing the resulting revenue, and administering grant programs for charging or fueling infrastructure via the CEC's Clean Transportation program.
- $435 million in one-time Greenhouse Gas Reduction Fund (GGRF) resources for clean vehicle programs that focus on low-income Californians and reducing air pollution from heavy-duty vehicles in disadvantaged communities, including:
    - $150 million for Clean Cars 4 All and Transportation Equity Projects that include efforts to scrap and replace older, high-polluting cars, low-income car share programs, and vanpools for agricultural workers, among others.
    - $315 million for heavy duty vehicles to accelerate adoption of clean trucks and buses, which reduce air pollution in disadvantaged communities.
- Certain other minor funding proposals, including $50 million at DGS to install charging infrastructure at state facilities.

Staff Comments. Past investments in ZEVs have been significant, but frequently scattered and not closely coordinated (either with other state programs or with private efforts). These proposals represent an opportunity to consider the state's entire ZEV approach as a whole.

The Administration's proposal is commendable for scale and its ambition, as well as its commitment to advancing the adoption of zero emission vehicles in California. However, before the legislature acts on these proposals, a number of questions should be answered.

Are these the right goals? To achieve the state's climate goals, the Administration has asserted that the state's goal is that 100 percent of in-state sales of new passenger cars and trucks will be zero-emission by 2035, that 100 percent of medium- and heavy-duty vehicles in the State be zero-emission by 2045 for all operations (where feasible) except for drayage trucks, which will be zero-emission by 2035, and that 100 percent of off-road vehicles and equipment will be zero emission by 2035 where feasible. The Legislature should consider whether these are the right vehicle targets and the right time frame, or if there are faster, more efficient, or more equitable ways to reach the state's climate goals - for example by expanding transit service or access to ridesharing services.

Are these the right investments to reach these goals? To reach the stated goals, the Administration has chosen to focus heavily on funding charging infrastructure and medium and heavy-duty vehicles. Notably, the Governor's Budget proposes no additional funding for CVRP. The cap and trade expenditure plan has included funding for CVRP every year from 2014-15 to 2019-20. EO N-79-20 required the completion of a Zero Emission Vehicle Market Development Strategy, which the Administration has indicated it will use to continue to evaluate the role of the CVRP in meeting the state's zero-emission vehicle goals.

In the meantime, there is existing funding and other programs in place that provide rebates for light-duty ZEVs, including:

- The Clean Fuel Rewards Program, described above. This program is funded by the Low Carbon Fuel Standard in partnership with electric utilities.
- As of February 18, 2021, the CVRP has approximately $46 million in existing program funds that are projected to fund standard rebates for an additional three months.
- The federal electric vehicle tax rebate provides a credit of up to $7,500 back on federal taxes. The companies that have been successful in the EV market have capped out in federal funds and no longer provide this credit. It is not clear whether this will be extended under the new federal Administration.

Questions remain whether these remaining funds should be augmented by additional state resources to continue to support the purchases of light duty zero emission vehicles, or if an increase in infrastructure funding provides a larger benefit. The Legislature should also consider the extent to which existing vehicle incentives complement or coordinate with infrastructure investments, and ways to improve that coordination, even absent additional funding.

Additionally, it is worth noting the potential role of regulation in reaching the state's climate goals. For example, CARB is beginning the process of updating its Advanced Clean Cars regulation, which could help advance additional adoption of light-duty ZEVs. Similar efforts are underway in the medium- and heavy-duty vehicle segments. These regulations are likely to make a significant impact in reaching the state's ZEV and climate goals. It is worth considering these budget actions in the context of these regulatory structures, and how budget action can complement or supplement those regulations.

Are these the right funding mechanisms? The Administration has proposed two sources of funding for these investments: cap and trade revenue and the securitization of certain transportation fees. This securitization proposal has two parts to it:

- The Governor's budget proposes to extend the sunset on various vehicle-related fees—commonly known as AB 118 or AB 8 fees—from the end of 2023 through 2046. These fees support several different environmental programs, most of which are targeted at climate change and/or air quality.
- The Governor proposes to securitize a portion of the AB 8 revenue that goes to the California Energy Commission's (CEC's) Clean Transportation Program (CTP) to accelerate $500 million for ZEV fueling infrastructure, with additional authority to securitize up to $1 billion.

Both of these proposed funding mechanisms have potential issues. Cap and trade revenue is occasionally unstable, as demonstrated by the swings in program revenue during the covid-19 pandemic, and may not provide enough revenue on its own to reach the state's goals. The securitization proposal raises a number of additional questions, including:

- What are the equity issues with extending these fees and using them for ZEV infrastructure? Should the state use revenue
- from a fee that everyone in California has to pay as a condition of vehicle registration, even those who can't afford ZEVS, to support infrastructure that only benefits those who ZEVs? Would it be more equitable to use it for ZEV rebates, or some other purpose entirely?
- What kind of financing costs will the state pay to bond against this revenue? How will that impact the overall impact of the program?

- Can the state securitize this revenue without an action by the state's voters?
- Does this approach provide enough money to get to the state's goals?

The answer to these questions may inform the legislature's decision to follow the securitization approach, or to take an alternate route, such as expanded cap and trade spending or a General Fund augmentation.

LAO Comments. In their review of the CEC's securitization proposal, the LAO provided the following comments that are relevant to this discussion:

- ***Should Funding for AB 8 Programs Be Extended?*** The fees support key emission reduction activities, including many programs that are not specifically targeted at ZEVs. However, there have been significant policy changes since they were last extended. The Legislature will want to consider the Governor's proposal in the context of its overall climate and air quality strategies.
- ***What Is the Best Source of Funding for Mobile Source Programs?*** Assembly Bill 8 fees are a reasonable source of funding for these programs, but the Legislature could consider modifying the current fee structure in ways that shift the burden borne by different households and/or businesses. For example, this could include assessing fees in a way that more closely reflects the amount of pollution coming from different types of vehicles.
- ***Which Programs Should Be Funded?*** The proposal lacks detailed outcome information that is presented in a way that could be used to identify the mix of programs that achieves the Legislature's climate and air quality goals most effectively. More information might be available in the coming months. Absent such information, it will be difficult for the Legislature to weigh the wide variety of relevant policy and program design questions.
- ***Should Funding Continue to Focus on ZEV Infrastructure?*** If the Legislature supports long-term ZEV adoption goals, continuing to focus CTP funding on fueling infrastructure has merit. Fueling infrastructure is a key barrier to ZEV adoption and some research has shown that supporting infrastructure is a relatively effective approach for promoting ZEVs.
- ***Does Accelerating Funding for Infrastructure Make Sense?*** Several aspects of the proposal to securitize future CTP funding have merit, but long-term funding needs are still unclear. The Legislature will need to weigh a short-term increase in funding with a long-term reduction in project funding.

Staff Recommendation: Hold all ZEV proposals open.

3360 California Energy

The Energy Resources Conservation and Development Commission (Energy Commission) is responsible for ensuring a reliable supply of energy to meet state needs while protecting public health, safety, and the environment. Activities include the following: making public policy recommendations regarding energy; collecting targeted energy data and ensuring data is managed responsibly; developing and implementing research, development, demonstration, and deployment policies and programs that promote strategic energy investments; ensuring energy facilities approved by the Energy Commission are designed, constructed, operated, and decommissioned in a manner that protects the environment and public health and safety, and in compliance with all applicable laws, ordinances, regulations, and standards; adopting building efficiency standards, and adopting and enforcing appliance efficiency standards; promoting development and deployment of zero-emission and near zero-emission transportation technology; and supporting climate change goals through integrated resource planning, renewable energy development, and system integration.

Budget Overview. The 2021-22 Governor's budget includes $993.6 million to support 682 positions. This is an increase of roughly $225 million and 25 positions, mostly due to a proposed increase in funding for Zero Emission Vehicle infrastructure.

Code	Program	Positions	Dollars*
2380	Regulatory and Planning	196.5	$33,897
2385	Energy Resources Conservation	244.7	$345,440
2390	Development	241.1	$614,267
Totals, Positions and Expenditures (excluding Infrastructure)		**682.3**	**$993,604**
	Infrastructure Expenditures	**-**	**$-**
Totals, Positions and All Expenditures		**682.3**	**$993,604**

Issue 3: AB 841 Implementation

Governor's Budget. The budget includes $3.74 million and 23.6 positions to implement the requirements of AB 841 (Ting), Chapter 372, Statutes of 2020. The budget also includes trailer bill language establishing a fund for AB 841 resources and providing a continuous appropriation to CEC for those funds.

Background. AB 841 mandates that the CPUC require electrical corporations with 250,000 or more customer accounts in the state, and gas corporations with 400,000 or more customer accounts in the state, to establish the School Energy Efficiency Stimulus Program within each of its energy efficiency portfolios. The School Energy Efficiency Stimulus Program establishes and authorizes the CEC to act as program administrator for two new grant programs: the School Reopening Ventilation and Energy Efficiency Verification and Repair Program (SRVEVR) and the School Noncompliant Plumbing Fixture and Appliance Program (SNPFA).

The SRVEVR program provides grants to local educational agencies to reopen schools with functional ventilation systems that are tested, adjusted, and, if necessary or cost effective, repaired, upgraded or replaced to increase efficiency and performance. The SNPFA program provides grants to local educational agencies to replace non compliant plumbing fixtures and appliances that fail to meet water efficiency standards, waste potable water and waste energy used to convey water, with water-conserving plumbing fixtures and appliances. The SRVEVR and SNPFA programs are funded by monies reassigned from large electrical and gas corporations' energy efficiency rolling portfolio budgets. These funds are transferred to the CEC within 60 days after the completion of the prior energy efficiency program year. The CEC may use up to five percent, not to exceed $5 million per year, to administer the programs.

Program funding is estimated to be between $250 million and $350 million per year, leading to an anticipated overall program budget between $750 million and over $1 billion dollars. Funds are to be allocated 75 percent for the SRVEVR program and 25 percent for the SNPFA program.

Provisions of AB 841 also impact the CEC's funding programs for electric vehicle infrastructure. Specifically, it requires that a crew used to install electric vehicle charging infrastructure, approved or funded by the CEC, the CPUC, or the CARB, include electricians certified by the EVITP. AB 841 further requires the CEC to conduct joint workshops and make specific determinations if the EVITP curriculum and testing should be supplemented to include updated or additional topics necessary to ensure safe installation of charging infrastructure.

Staff Comments. The CEC has indicated that this proposal has two components:

- School Energy Efficiency Stimulus Program: $3.65 million per year to support 23.0 permanent positions and $200,000 in technical support funding. This is intended to provide overall program administration and oversight, as well as support student assistants and outreach efforts. Student assistants will support a new call center for the grant programs. The new grant programs will require extensive outreach efforts to reach target populations and significant tracking and program oversight that may require tools such as Geographic Information Systems.

- Electric Vehicle Charging Infrastructure: 0.6 permanent position and $90,000 annually from the Alternative and Renewable Fuel and Vehicle Technology Fund to support safety analysis and joint public workshops to determine if the Electric Vehicle Infrastructure Training Program (EVITP) curriculum and testing should be supplemented.

The Administration has indicated that the CEC will administratively establish positions in the current year to meet critical and immediate needs. A notification to the Joint Legislative Budget Committee will be forthcoming to obtain current year expenditure authority via Section 28.00 of the Budget Act of 2020.

AB 841 created a major new state investment in energy efficiency that may save energy and the related consumer expense, create jobs in a time of economic crisis, and provide direct support to schools and school children in underserved communities. Providing resources to implement this bill is reasonable and consistent with legislative priorities. However, given the scope of the program and its potential impacts, the committee should consider the extent to which this proposal matches its expectations, if it is supported by the potential workload, or if there are more efficient options for implementation.

Additionally, while a continuous appropriation would increase CEC's flexibility in administering these funds, it would limit legislative oversight.

Staff Recommendation: Hold Open.

Issue 4: Continuation of the School Bus Replacement Program (SB 110)

Governor's Budget. The budget includes two-year funding of $0.75 million annually for five temporary positions from the Alternative and Renewable Fuel and Vehicle Technology Fund to continue school bus replacement activities under the Clean Energy Job Creation Program.

Background. The California Clean Energy Jobs Act, an initiative approved by the voters as Proposition 39 at the November 6, 2012 statewide general election, made changes to corporate income taxes and, except as specified, provided for the transfer of $550 million annually from the General Fund to the Clean Energy Job Creation Fund for five fiscal years beginning with the 2013–14 fiscal year.

SB 110 (Committee on Budget and Fiscal Review), Chapter 55, Statutes of 2017 established the Clean Energy Job Creation Program with the purpose of funding projects in public schools and community colleges that create jobs in California improving energy efficiency and expanding clean energy generation SB 110 also allocated up to $75 million to the CEC to develop a program to replace the oldest school buses in California.

Partial year funding was authorized in 2017-18 (Chapter 181, Statutes of 2017 (SB 113)) to begin necessary solicitation research and development activities for the School Bus Replacement Program. Authority for three-year funding to develop and implement the School Bus Replacement Program was authorized in the Budget Act of 2018. These temporary resources will expire June 30, 2021; however, funding for school bus replacement activities are authorized through June 30, 2023. Delivery of buses, collection of data, and management of grant agreements will take place through March 31, 2023.

Staff Comments. The CEC received applications for electric school buses from over 200 school districts. These applications included requests for replacement of 1,549 diesel school buses. The CEC was able to provide funding for 235 electric school buses, with an additional $60,000 in infrastructure funding per bus. Approximately 90 percent of the awardees will serve routes that travel through disadvantaged communities. Additionally, because not all eligible applicants have the bus route profiles suited for an electric school bus, the CEC offered $6.1 million in supplemental Clean Transportation Program funding for compressed natural gas (CNG) bus replacements, with up to $165,000 per bus and $500,000 for fueling infrastructure.

The CEC estimates that seven positions are necessary to continue the management and oversight of the program. This request includes five temporary positions for two years to perform the work necessary through to the end of the program. Two additional positions have been redirected to the program from the CEC's Clean Transportation Program to support this. Given that the program is not slated to end until 2023, extending these resources is reasonable. However, questions remain about the redirected positions, and whether the related workload is necessary, or if additional resources are necessary.

Staff Recommendation: Hold Open.

Issue 5: Electric Program Investment Charge (EPIC) Follow-On Funding

Governor's Budget. The budget includes trailer bill language allowing the CEC to issue follow-on funding for the Electric Program Investment Charge (EPIC) program outside of the typical competitive funding process.

Background. The EPIC Program was created by the Public Utilities Commission in 2012 to support the development of new, emerging, and pre-commercialized clean energy technologies in California. These projects must be designed to produce electricity ratepayer benefits in the form of increased reliability, improved safety, and/or reduced electricity costs. EPIC consists of three program areas: Applied Research and Development (Applied R&D), Technology Demonstration and Deployment (TD&D), and Market Facilitation. Ratepayers from the state's three largest investor-owned utilities – Pacific Gas and Electric (PG&E), Southern California Edison (SCE), and San Diego Gas and Electric (SDG&E) – fund the program. The Energy Commission manages 80 percent of the program, with PG&E, SCE, and SDG&E administering the remainder. EPIC provides roughly $130 million in research funding per year.

EPIC typically provides funding to projects via a competitive process. The 2020 Budget Act included provisional language to provide short-term authority to the CEC to provide "follow-on" funding to EPIC projects. This allowed the CEC to non-competitively extend funding to projects that have already received a competitive allocation if doing so would allow the projects to keep operating until the next competitive round of funding becomes available. As this was Budget Bill language, the CEC's authority to offer follow-on funding was limited to the 2020-21 budget year.

Staff Comments. At the time the provisional language was passed there were a handful of EPIC projects, most notably the CalSEED small project funding mechanism, that were in danger of running out of EPIC funding before the next competitive allocation. Because many of these projects are located within small businesses there was a concern that this would result in the companies folding and the state losing promising early-stage technologies.

The CEC has indicated that researchers are still impacted by various shelter-in-place requirements that reduce access to laboratory facilities. Some of the projects require demonstrations and measurement and verification at occupied homes or businesses. The ability to access these sites has been impacted by shelter-in-place requirements. For many of these businesses, access to capital will be especially challenging until economic recovery is complete.

Several research programs at the Air Resources Board and the Water Boards already have this kind of authority, as do numerous federal programs. However, the 2020 Budget Act expressly limited this authority to one year and to "bridge" funding. While follow-on funding may be a reasonable response to some of the business interruptions resulting from the COVID pandemic, it would represent a departure from the traditional program structure, and one that would result in significantly more discretion for the CEC in making funding decisions.

LAO Comments.

EPIC Follow-on Funding. Providing this type of authority could make sense, but the Legislature might want to consider adding a requirement that CEC notifies the Legislature before providing follow-on funding. This could be similar to the JLBC notification process CEC uses when awarding sole source contracts.

Staff Comments: Hold Open.

8660 California Public Utilities Commission (PUC)

The California Public Utilities Commission (PUC) regulates critical and essential services such as privately-owned telecommunications, electric—including utility wildfire safety—natural gas, and water companies, in addition to overseeing railroad/rail transit and transportation companies. The PUC is the only agency in the state charged with protecting private utility consumers. As such, the PUC regulates services and utilities, protects consumers, safeguards the environment, and assures Californians' access to safe and reliable utility infrastructure and services.

Budget Summary. The 2021-22 budget provides roughly $1.7 billion to support 1,299.7 positions. This is an increase of roughly $19 million and four positions relative to the 2020-21 budget.

Code	Program	Positions	Dollars*
6680	Regulation of Utilities	582.6	$813,127
6685	Universal Service Telecommunications Programs	48.7	$724,748
6690	Regulation of Transportation	149.1	$91,714
6695	Public Advocate's Office	182.9	$50,979
9900100	Administration	336.4	$78,470
9900200	Administration - Distributed	-	$-78,470
Totals, Positions and Expenditures (excluding Infrastructure)		**1,299.7**	**$1,680,568**
	Infrastructure Expenditures	**-**	**$-**
Totals, Positions and All Expenditures		**1,299.7**	**$1,680,568**

Issue 6: Funding for Program Claims Management System (PCMS)

Governor's Budget. The budget includes $1,628,000 from several special funds for fiscal year 2021-22 for project funding and $290,000 from several special funds for 2022-23 and onwards for ongoing maintenance and support for the Programs Claims Management System (PCMS), an IT project that has been on hold since 2017.

Background. Chapter 372, Statutes of 2005 (AB 1182) requires businesses be allowed to interact with the CPUC in an efficient manner such as by supplying information to the Commission via the Internet and helping to decrease the costs of regulation by reducing the need to reproduce such information on paper. The Electronic Filing and Administration Support (eFAST) program was authorized in 2007 and funded in 2016-17 to provide a technology platform that would meet these requirements and replace existing systems and processes that are cumbersome, antiquated, and paper-driven. The CPUC experienced multiple issues during the implementation of the eFAST pilot project related to the use of the system.

Due to these issues, the eFAST pilot project was completed with a reduced scope of features. The California Advanced Services Fund (CASF) pilot project, a sub-component of PCMS, was initially developed as a prototype to assess the viability of using the Oracle-based platform. After the pilot project was completed, the CPUC performed an assessment and determined that the existing solution was not viable for completing the remaining components for the eFAST platform. The CPUC collaborated with the California Department of Technology (CDT) to perform additional market research and complete a new alternatives analysis which recommended using the cloud-based Salesforce platform to implement the remaining components of the eFAST platform, including the Programs Claims Management System, which is designed to automate the Public Purpose Programs, and includes telecommunications universal access programs.

Staff Comments. The proposed restart of the Program Claims Management System follows a cloud-based approach that successfully restarted the Transportation Carrier Portal project. As such, it is a proven technology that may allow the CPUC to better protect public safety, promote reliable utility service at a reasonable rate, and increase transparency to the public, while improving business processes and transparency within the CPUC.

CPUC has indicated that the PCMS project is expected to be completed and implemented by the end of next fiscal year, June 30, 2022. CDT has reviewed and approved the PCMS project documents, and will be engaged in an oversight capacity since PCMS is a reportable project. While the project certainly has merit, there is some risk with program implementation, given the project history and staggered restart of various components. Out year costs may also be somewhat uncertain.

Staff Recommendation: Hold Open.