

SUBCOMMITTEE NO. 2

Agenda

Senator Bob Wieckowski, Chair
Senator Brian Dahle
Senator Mike McGuire
Senator Henry I. Stern



Tuesday, May 18, 2021
9:00 a.m.
State Capitol - Room 3191

Consultant: James Hacker

PART A

PROPOSED FOR DISCUSSION

<u>Item</u>	<u>Department</u>	
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ISSUES PROPOSED FOR DISCUSSION

8660 CALIFORNIA PUBLIC UTILITIES COMMISSION

Issue 1: CPUC Budget Overview

May Revision. The May Revision includes several new budget proposals for the CPUC. Specifically, it includes:

Reauthorization of Appropriation for California Public Utilities Commission (CPUC) Response to Utility Bankruptcies—The May Revision includes \$7,500,000 one-time funding to reauthorize resources to support CPUC’s ability to respond to utility bankruptcies. These funds were originally appropriated in 2019-20 for three years, but due to technical oversight were only available for expenditure for one year. This would authorize expenditures through fiscal year 2021-22.

Accounts Receivable Unit—The May Revision includes \$314,000 ongoing to strengthen CPUC’s Accounts Receivable Unit to address findings from a recent audit.

Wildfire Forecast and Threat Intelligence Integration Center—The May Revision includes \$191,000 ongoing and one position to implement the Wildfire Forecast and Threat Intelligence Integration Center, as authorized by Chapter 405, Statutes of 2019 (SB 209).

Transfer of Wildfire Safety Division to Office of Energy Infrastructure Safety—The May Revision includes a decrease of \$10,568,000 and 32 positions ongoing to reflect the transfer of the Wildfire Safety Division to the new Office of Energy Infrastructure Safety, authorized by Chapter 81, Statutes of 2019 (AB 111).

Universal Lifeline Telephone Service Program—The May Revision includes an increase of \$5,119,000 ongoing for State Operations and a decrease of \$2,867,000 ongoing in local aid to reflect new caseload projections and an extension of COVID-19 Pandemic service protections in the LifeLine program.

Public Purpose Program Loans—The May Revision includes budget bill language and statutory changes to provide for loans between the telecommunications Public Purpose Programs to prevent insolvencies arising from the continued decline of intrastate revenues.

Golden State Energy—The May Revision includes trailer bill language to prevent the Secretary of State from reserving the name Golden State Energy for any entity other than the one created in existing law.

Staff Recommendation: Hold Open.

Issue 2: Broadband Proposal

Governor’s Budget. The May Revision includes a \$7 billion investment over three years as part of a plan to expand broadband infrastructure, increase affordability, and enhance access to broadband for all Californians. This includes:

- \$4 billion from a combination of federal ARPA funds and state funds to build out a critical statewide “middle-mile” network. The statewide network will incentivize providers to expand service to unserved and underserved areas by substantially reducing their upfront infrastructure costs, creating new opportunities for municipal fiber networks, and promoting affordability for consumers.
- A new \$500 million Loan Loss Reserve Account to assist local governments, tribes and non-profits to secure private financing for new municipal fiber networks.
- \$500 million of one-time federal ARPA funds to entities serving rural areas that are costlier to serve to expand services to include broadband.
- \$2 billion in one-time federal ARPA funds and state funds within the California Advanced Services Fund to incentivize existing and new providers to fund infrastructure for “last mile” service to the state’s remaining unserved households.

The Administration proposes to allocate this funding over several years. Specifically, the proposal is structured as follows:

- \$2 billion in federal ARPA funds in 2021-22.
- Up to \$1.5 billion in General Fund resources and \$3.5 billion in federal ARPA funds in 2022-23.

Staff Comments. The Administration has indicated that an estimated \$4 billion is needed to provide middle mile fiber connectivity to Census Designated Places (CDPs) with locations that have less than 100 Mbps downstream service. This “anchor build” estimate uses a Caltrans statewide average cost estimate of at least \$455,000 per mile. Caltrans-controlled highways directly connect the CDPs.

The Administration has estimated that there are roughly 675,000 households in California unserved by broadband at 100 megabytes per second (mbps), with roughly 8,000 miles of state-owned highway between them.

Staff Recommendation. Hold Open.

3360 CALIFORNIA ENERGY COMMISSION**Issue 3: CEC Budget Overview**

Governor’s Budget. The May Revision includes several new budget proposals at the CEC. Specifically, it includes:

- **Energy Resources Program Account (ERPA)** - The May Revision proposes to raise the statutory cap on the ERPA surcharge, tie the statutory cap to the Consumer Price Index, and extend the surcharge to apply to behind-the-meter electricity consumption. ERPA is the main fund supporting the CEC. Its revenues are linked to the sale of metered electricity. As building and appliance energy efficiency produces customer savings and flattens statewide electricity consumption, ERPA revenues have decreased and the costs have been borne by fewer and fewer consumers. This increase is projected to generate \$4.5 million in additional revenues in 2021-22 and approximately \$9 million annually thereafter.
- **Investments to Reach the State’s Clean Energy Goals** - The May Revision includes significant funding at the California Energy Commission for a variety of clean energy research, development and deployment, as well as transmission planning and other activities to help the state reach its clean energy goals. This includes \$835 million for research, development, and deployment of long-duration battery storage, industrial decarbonization, and other emerging technologies. This funding is covered in more detail in Issue 4 of this agenda. .
- **Zero Emission Vehicle Package** - The May Revision includes new funding at the CEC as part of the Administration’s zero-emission vehicle package. This includes \$500 million for ZEV infrastructure, \$250 million for ZEV manufacturing grants, and a portion of the \$475 million for zero emission drayage trucks, transit buses, and school buses. This funding is covered in more detail in Issue 5 of this agenda.
- **Climate Resilience Package** - The May Revision includes new funding at the CEC as part of the proposed Climate Resilience Package. Specifically, the package includes \$100 million over two years for the CEC’s BUILD Program for building energy efficiency. This funding is covered in more detail in Part B of this agenda.

Staff Recommendation: Hold Open.

Issue 4: Investments to Meet the State’s Clean Energy Goals

Governor’s Budget. The May Revision includes \$912 million (\$905 million General Fund, \$5 million reimbursements, and \$2 million special funds) intended to accelerate California’s progress on meeting its clean energy goals. This includes:

- \$35 million General Fund to carry out critical resource and transmission planning to support the unprecedented levels of clean energy buildout needed to meet the state’s energy and climate goals.
- \$350 million General Fund to support pre-commercial long duration storage projects that are critical to the success of California’s efforts to decarbonize the electricity system.
- \$250 million General Fund for energy efficiency in the industrial sector.
- \$125 million General Fund in the Food Production Investment Program to reduce energy use at food production facilities.
- \$20 million General Fund to spur environmentally responsible development of offshore wind energy.
- \$110 million General Fund in green hydrogen production to accelerate the transition away from using fossil fuels to produce hydrogen and to displace the use of gas at power plants.

LAO Comments. The Governor is proposing a very large increase in spending for clean energy programs. To ensure the ultimate package the Legislature adopts is coordinated, strategic, and comprehensive, we recommend considering this package in tandem with other proposed packages—such as those related to cap-and-trade, climate resilience, and ZEVs—so that, in combination, all of the Legislature’s climate-related priorities are reflected at its desired levels. Given the magnitude of the spending and number of activities being proposed, the Legislature may want to defer decisions on this package until later in the summer. This would allow to the Legislature time to (1) learn more about the Governor’s proposals—especially for programs and initiatives that are being proposed for the first time; (2) craft implementing statutory language to ensure sufficient oversight and accountability (such as program eligibility and prioritization criteria and data to be collected); and (3) incorporate key legislative priorities. Some key factors to consider:

- Is the General Fund an appropriate source of funding for these activities? Funding for clean energy programs typically comes from ratepayers or other special funds. However, we think it would be reasonable to use one-time General Fund instead of ratepayer funding for many of the proposed activities. This is because electricity rates are already very high—which raises environmental, economic, and equity concerns. Using General Fund instead could prevent additional increases to electricity rates. In addition, many of the proposed programs provide

broad public benefits, which means there could be a reasonable role for state General Fund support.

- How much emphasis should be placed on incremental energy efficiency gains versus innovative technologies needed for deep decarbonization? Some of the proposed programs—such as industrial decarbonization—would make funding available for both energy efficiency, as well as support for newer technologies needed to meet long-term decarbonization goals (green hydrogen or carbon capture, for example). In general, we think promoting early stage technologies and demonstrations in areas where new technologies will be needed for large emissions reductions is a reasonable area of emphasis for state funding. However, focusing on energy efficiency might be able to provide more cost-effective near-term reductions. The Legislature will need to weigh these long-term and short-term tradeoffs when determining how much emphasis these programs should place on each of these strategies.
- What process will be used to evaluate the outcomes of these programs? Much of the proposed funding would go to new programs at the CEC, many of which are piloting or testing different technologies. The Legislature might want to direct the administration to report at budget hearings on how the proposed programs will be evaluated to ensure good information is available to inform future policy and budget decisions.
- Should Legislature use the General Fund surplus to offset other electricity ratepayer costs? For example, the Legislature could consider using one-time General Fund to partially offset ratepayer funding being used for existing utility programs that have broad public benefits—such as wildfire mitigation activities or EV infrastructure. This could help reduce electricity rates which, as discussed above, could have environmental, economic, and equity benefits.
- Why operate a separate carve-out program for the food processing industry? The administration proposes a general industrial decarbonization program, as well as funding for the Food Production Investment Program. The Legislature might want to consider combining funding into one program that provides funds for industrial decarbonization projects with the most merit, regardless of the specific industry.
- Are long-term planning and permitting activities truly one-time? A focus on long-term SB 100 planning and permitting makes sense in concept, but many of the departments already have resources for these activities. Additional workload information is needed to ensure the request is justified. If the additional workload is justified, the Legislature might want to consider long-term funding options since some of the work identified in the request appears to be ongoing, such as environmental permitting for renewable energy projects.

Staff Recommendation: Hold Open.

VARIOUS DEPARTMENTS**Issue 5: Zero Emission Vehicle Proposals**

Governor’s Budget. The May Revision includes an additional \$826 million above the January Budget for Zero Emission Vehicles (ZEVs) and ZEV infrastructure. This brings total proposed investments in ZEVs and ZEV infrastructure to \$1.8 billion in 2021-22, and \$3.2 billion over three years. Major investments include:

- ZEV Infrastructure - The May Revision maintains the extension of existing fees which are necessary for providing a sustainable funding source for priority programs that were proposed in January, but replaces the securitization of future revenues with \$500 million one-time General Fund to support the CEC’s Clean Transportation Program.
- Heavy-Duty Zero Emission Vehicles and Supporting Infrastructure—\$1.4 billion one-time General Fund and special funds over the next three years to deploy over 1,000 zero emission drayage trucks, 1,000 zero emission transit buses, and 1,000 zero emission school buses in underserved rural school districts. These investments will prioritize projects that directly benefit priority populations and improve air quality in low-income and disadvantaged communities. This funding builds on \$315 million included in the Governor’s Budget for Clean Truck, Bus, and Off-Road Equipment.
- Light-Duty Zero Emission Vehicle Adoption—\$650 million one-time General Fund over the next three years to invest in consumer adoption of ZEVs through the Clean Vehicle Rebate Program and statewide expansion of Clean Cars 4 All, with a focus on low-income and disadvantaged communities. This funding is in addition to \$150 million provided in the Governor’s Budget Cap and Trade Expenditure Plan.
- Zero Emission Vehicle and Infrastructure Manufacturing—\$250 million General Fund one-time over two years for manufacturing and supply chain grants to expand California’s nation leading ZEV manufacturing footprint, administered by the Clean Transportation Program. This investment may be coupled with High Road Training Partnerships to increase access to high-quality jobs for workers, and increase the level of highly-skilled employees for employers.
- ZEV Market Development Strategy Implementation—\$5 million one-time General Fund to accelerate implementation of the ZEV Market Development Strategy’s focus on increasing awareness and access to ZEVs in the hardest to reach communities and expanding tools that help convert this awareness into decisions to drive or ride in ZEVs.

This funding is summarized below.

Zero Emission Vehicle Package
(\$ in Millions)

Investment Category	Department	Program	Governor's Budget	May Revision 2021-22	Total 2021-22
Low Carbon Transportation & ZEV Strategy		Clean Trucks, Buses & Off-Road Equipment	\$315	\$87	\$402
	Air Resources Board	Clean Cars 4 All & Transportation Equity Projects (\$400 million total)	\$150	\$0	\$150
		Clean Vehicle Rebate Project (\$400 million total)	\$0	\$134	\$134
		Drayage Trucks & Infrastructure (\$470 million total)	\$0	\$160	\$160
	Air Resources Board & California Energy Commission	Drayage Pilot Project	\$0	\$65	\$65
		Transit Buses & Infrastructure (\$290 million total)	\$0	\$100	\$100
		School Buses & Infrastructure (\$450 million total)	\$0	\$150	\$150
	California Energy Commission	Clean Transportation Program/ ZEV Infrastructure	\$500	(\$500)	\$500
		ZEV Manufacturing Grants (\$250 million total)	\$0	\$125	\$125
	GO-Biz	ZEV Market Development Strategy	\$0	\$5	\$5
Total			\$965	\$826	\$1,791

LAO Comments. The Governor is proposing an unprecedented increase in spending for ZEV programs. Promoting ZEVs is generally consistent with various state climate and air quality goals established by the Legislature, as transportation is a major source of greenhouse gases and air pollutants. However, before approving all of some of this package, the Legislature will want to ensure the package is consistent with its broader climate and air quality strategy, as well as ensure there is an adequate process in place to evaluate programmatic outcomes. Some key factors to consider:

- *Are proposed spending categories and program designs consistent with legislative priorities?* For example, when considered alongside the proposed cap-and-trade expenditure package, a larger amount of money goes to heavy-duty vehicle programs (\$1.1 billion) than light-duty programs (\$600 million). Also, proposed CVRP funding would go entirely to the low- and moderate-income portion of the program. The Legislature will want to ensure these spending allocations and programs designs align with its priorities.

- ***How will these programs be evaluated?*** As noted in prior reports from our office and others, there is limited reliable information on the relative cost-effectiveness of different transportation emission reduction programs. The Legislature might want to consider requiring the administration to develop a plan—in consultation with outside researchers—to collect necessary data and evaluate the outcomes of these programs before the funding is awarded. This could help ensure the Legislature has better information to inform future funding and policy decisions.
- ***Should funding for heavy-duty vehicles and infrastructures be split between CARB and CEC?*** Under this proposal, both the CEC and ARB would operate programs targeting drayage trucks, transit buses, and school buses. This creates potential for poor coordination and/or excess administrative costs. The Legislature might want to consider allocating the funding to one of these agencies and designating it the lead agency responsible for program administration.
- ***What are the benefits of grants for ZEV manufacturing?*** The need for additional state support for this specific manufacturing industry is unclear. The state has other programs that already provide tax exemptions for ZEV manufacturing, such as a sales and use tax exemption program administered by the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA). In addition, although operating ZEVs in California can reduce air emissions, it is unclear whether there are any environmental benefits by promoting more ZEV manufacturing in California.
- ***What are trade-offs associated with multi-year funding?*** Multi-year funding could provide some additional market certainty for new or developing technologies. However, providing funding on a year-by-year basis could help ensure legislative oversight of program outcomes and ensure sufficient General Fund resources are available to cover out-year costs. The Legislature will want to weigh this tradeoff when considering whether to adopt a multi-year funding plan, and how to structure such a plan.
- ***Do AB 8 fees need to be extended as part of this year's budget?*** Since the May Revision does not continue the administration's proposal to securitize future AB 8 fee revenue and the fees do not sunset until 2024, the extension of these fees is not necessary to enact this year's budget. The Legislature might want to defer action on this proposal to ensure it has sufficient time to weigh the merits in the context of its overall transportation emission reduction strategy.

Staff Recommendation: Hold Open.