Senate Budget and Fiscal Review—Holly J. Mitchell, Chair
SUBCOMMITTEE NO. 2 **Agenda**

Senator Bob Wieckowski, Chair
Senator Brian W. Jones
Senator Mike McGuire
Senator William W. Monning
Senator Henry I. Stern

Thursday, April 25, 2019
9:30 a.m. or upon adjournment of session
State Capitol – Room 112

Consultant: James Hacker

Item **Department** **Page**

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VOTE-ONLY CALENDAR

3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

Issue 1: Greenhouse Gas Reduction Fund Reappropriation

Governor's Proposal. The Administration has proposed budget bill language to reappropriate the unencumbered balance of Greenhouse Gas Reduction Fund (GGRF) funding appropriated pursuant to AB 109 (Committee on Budget), Chapter 249, Statutes of 2017, to be available for encumbrance or expenditure until June 30, 2020 and available for liquidation until June 30, 2024. This will provide an additional year to award energy efficiency and renewable energy grant projects to California food processing facilities and support renewable energy projects in the agricultural sector.

AB 109 allocated $60 million from GGRF to the Energy Commission to implement the Food Production Investment Program (FPIP) and $6 million to implement the Renewable Energy for Agriculture Program (REAP). The purpose of the FPIP is to fund drop-in and emerging energy technologies at California food processing facilities, to reduce greenhouse gas emissions and energy use. The REAP funds the installation of renewable energy technologies to serve California agricultural operations. GGRF funding was made available for encumbrance or expenditure until June 30, 2019 and available for liquidation until June 30, 2023.

The Energy Commission has released two grant funding opportunities for the FPIP as of February 2019 and is expected to encumber approximately $47 million by June 2019. Reappropriating the unencumbered funds will provide additional time to award these funds for grant projects. With more time, the Energy Commission will release additional funding opportunities to give interested applicants another chance to receive an award. The Energy Commission expects an increase in the number of proposals for future opportunities as more applicants learn about the program and previously unsuccessful applicants re-apply with improved proposals. The Energy Commission expects all REAP funds to be encumbered by December 2019.

8660 PUBLIC UTILITIES COMMISSION (PUC)

Issue 2: Extend Energy Division Resources in Support of Energy Policy Statute

Governor's Proposal. The budget requests funding for six expiring limited-term positions for an additional three years and $1,145,000 (Fund 0462) including software costs to implement a number of recent statutes concerning multiple elements of California's forest safety and greenhouse gas reduction efforts. This proposal was first heard in Budget Subcommittee No. 2 on March 24, 2019.

Issue 3: Resources for Enforcement Activities

Governor's Proposal. The budget requests one permanent Administrative Law Judge (ALJ) II position and $203,000 Public Utilities Commission Utilities Reimbursement Account (Fund 0462) to support the Commission's enforcement activities.

Over the past three years, there has been an increasing amount of pre-formal investigatory work that is expected to lead to Orders Instituting Investigation being opened by the Commission, for example, the 2015 Aliso Canyon storage facility gas leak, the 2017 Wildfires and the 2018 Wildfires. Based on the results of the investigations, PUC staff choose the appropriate enforcement action to be taken - this could be either an order instituting investigation or the issuance of a citation. If an OIl is issued, or if a citation is appealed it becomes a formal proceeding at the Commission, and the Assigned Commissioner and ALJ will need to develop a record for the Commission to make its decisions. A permanent ALJ position is needed to preside and issue proposed decisions in these additional formal enforcement actions at the Commission. This increase in orders and citations has led to additional workload for ALJs beyond the Commissions current capacity.

Issue 4: California Clean Miles and Incentives Program (SB 1014)

Governor's Proposal. The budget requests one permanent position and $180,000 from the PUC Transportation Reimbursement Account (PUCTRA) to implement Chapter 369, Statutes of 2018 (SB 1014), the California Clean Miles Standard and Incentive Program, as well as two permanent positions and $379,000 from the PUC Utilities Reimbursement Account (PUCURA) to provide expanded ongoing support for the Commission's transportation electrification initiatives.

Issue 5: DGS Rent Increases

Governor's Proposal. The budget requests $967,000 annually for the increased rental cost of the PUC's offices at (1) 505 Van Ness Avenue, San Francisco; (2) 455 Golden Gate Avenue, Suite 7525, San Francisco; and (3) 320 West 4th Street, Los Angeles. All of these buildings are owned by the State of California and managed by the Department of General Services' (DGS) Facilities Management Division (FMD).

The increases in rental cost are based on DGS Price Book rates approved by the Department of Finance. However, additional analysis revealed an error in calculation for two sites based on erroneous rate information. Correcting for this issue removes the need for rate increases at 455 Golden Gate and 320 West 4th Street. A reduced request of $595,000 for the increased rate applicable to 505 Van Ness is appropriate.

8660 PUC: PUBLIC ADVOCATES OFFICE (PAO)

Issue 6: Greenhouse Gas Reduction Programs and Transmission Infrastructure Projects

Governor's Proposal. The budget requests an increase of $566,000 Public Utilities Commission Public Advocates Office Account (PUCPAOA) and three positions to address increased workload in the areas of distribution infrastructure programs and transmission infrastructure projects.

The PUC has adopted a new annual Distribution Resource Plan (DRP) implementation process which began in mid-2018 and incorporates the Investor-Owned Utilities (IOUs) existing annual distribution system planning process. Additionally, in early 2018, the PUC and stakeholders identified new issues that resulted in the broadening of the scope of the DRP proceedings. The PAO intends to participate in the development of protocols and procedures to address these new issues as part of the overall DRP process.

In 2016-17, PAO participated in 30 transmission-related proceedings. The PAO has indicated that work will be ongoing on five to eight of these existing proceedings. In 2018-19, the three largest electric IOUs are expected to file approximately 14 new transmission applications with the PUC for new transmission and infrastructure developments or improvements.

Staff Recommendation: Approve Items 1 – 4 and 6 as budgeted. Reject Item 5 and approve $595,000 ongoing for increased DGS rental costs at 505 Van Ness.

ISSUES FOR DISCUSSION

3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT 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 $403 million for support of the CEC, a decrease of approximately $460 million, due primarily to declines in funding the Greenhouse Gas Reduction Fund and Electric Program Investment Charge fund.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2017-18	**2018-19**	**2019-20**	**2017-18***	**2018-19***	**2019-20***
2380	Regulatory and Planning	131.0	209.5	211.5	$27,531	$38,916	$39,097
2385	Energy Resources Conservation	141.4	234.3	235.3	39,110	91,818	51,967
2390	Development	177.2	229.5	235.5	359,709	737,481	312,692
9900100	Administration	170.1	-	-	28,234	-	-
9900200	Administration - Distributed	-	-	-	-28,234	-	-
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**619.7**	**673.3**	**682.3**	**$426,350**	**$868,215**	**$403,756**

FUNDING		**2017-18***	**2018-19***	**2019-20***
0001	General Fund	$18,000	$-	$-
0033	State Energy Conservation Assistance Account	2,379	38,925	401
0044	Motor Vehicle Account, State Transportation Fund	161	176	176
0381	Public Interest Research, Development, and Demonstration Fund	706	1,106	773
0382	Renewable Resource Trust Fund	25,042	2,765	2,768
0465	Energy Resources Programs Account	56,668	75,416	75,502
0497	Local Government Geothermal Resources Revolving Subaccount, Geothermal Resources Development Account	425	2,757	1,576
0853	Petroleum Violation Escrow Account	4,018	1,807	529
0890	Federal Trust Fund	2,564	13,464	13,457
0942	Special Deposit Fund	-	58	-
0995	Reimbursements	1	1,500	1,700
3062	Energy Facility License and Compliance Fund	2,420	4,728	4,732
3109	Natural Gas Subaccount, Public Interest Research, Development, and Demonstration Fund	24,921	44,763	24,000
3117	Alternative and Renewable Fuel and Vehicle Technology Fund	115,942	301,075	108,708
3205	Appliance Efficiency Enforcement Subaccount, Energy Resources Programs Account	1,402	1,553	1,554
3211	Electric Program Investment Charge Fund	168,674	212,275	148,000
3228	Greenhouse Gas Reduction Fund	192	146,342	-
3237	Cost of Implementation Account, Air Pollution Control Fund	2,882	19,505	19,880
9330	Clean and Renewable Energy Business Financing Revolving Loan Fund	-47	-	-
TOTALS, EXPENDITURES, ALL FUNDS		**$426,350**	**$868,215**	**$403,756**

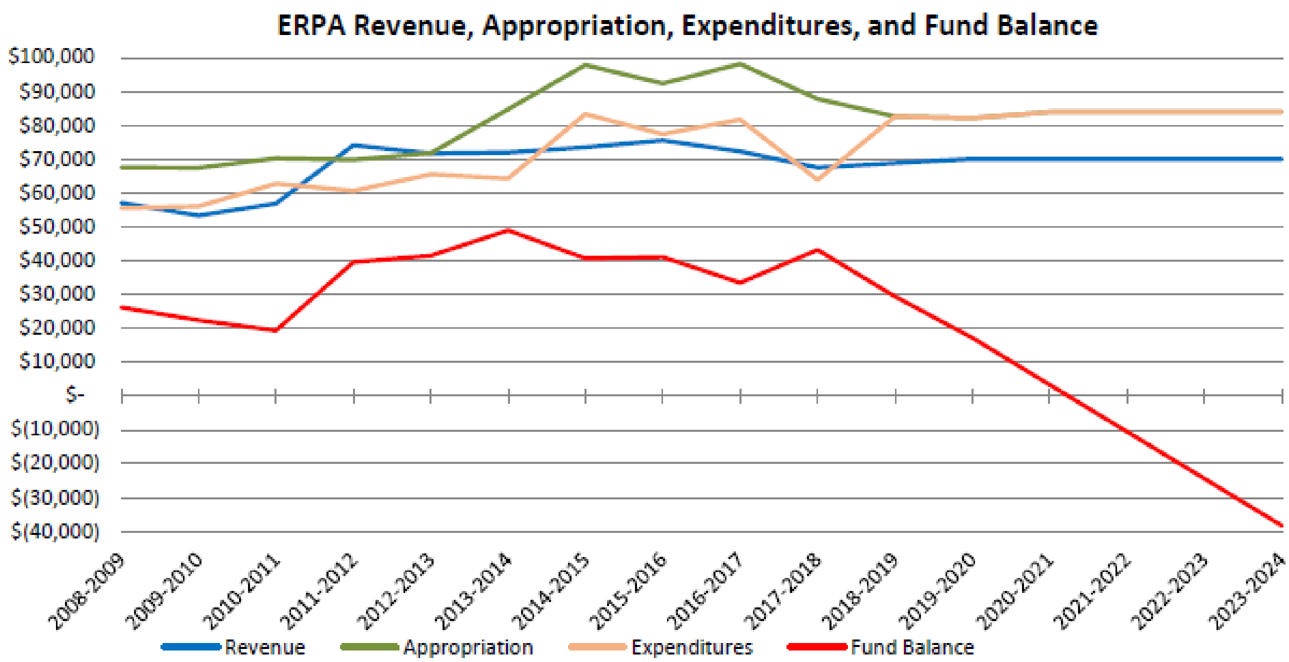
Issue 7: Energy Resources Program Account Deficit Reduction

Governor's Proposal. The budget requests a series of actions to reduce the Energy Resources Programs Account (ERPA) structural deficit. The result of these actions is an $8.468 million reduction to the ERPA structural deficit in 2019-20, a $9.442 million reduction in 2020-21, and a $10.468 million reduction in 2021-22.

Background. ERPA was established to provide funds for ongoing energy programs and energy projects, including the operations of the Energy Commission.

The ERPA fund is fed from a statutory surcharge on electricity consumption. The surcharge was increased to its statutory maximum - from $0.00029 to $0.0003 per kilowatt-hour (kWh) - by the Energy Commission effective January 1, 2019. The surcharge generated approximately $67.5 million in 2017-18 and costs the average household $2.01 annually.

ERPA is in a structural deficit that has overspent revenues by more than $17.4 million since 2014-15. Revenues are projected to be overspent by up to $12.1 million in 2019-20. At the current expenditure rate, the structural deficit will deplete reserves and result in an actual deficit by 2021-22. Faced with a similar structural deficit in 2010, the surcharge was increased to $0.00029 per kWh. Surcharge revenue peaked in 2015-16 at $75.5 million. Revenue has since declined to $67.5 million in 2017-18. Meanwhile, the annual appropriation of ERPA funds climbed from $70 million in 2011-12 to $98 million in 2016-17 and then dropped to $82.6 million in the current year. These issues are illustrated in the figure below.



Assumptions:
- ERPA surcharge remains unchanged at $0.0003 per kWh.
- Out-years exclude future employee compensation/benefit adjustments.

The Legislature has taken a series of actions in recent years to address this structural imbalance. These include:

2017- 18 Actions:

- A reduction of $662,000 by moving 3 positions and $200,000 in contract authority from ERPA to the Appliance Efficiency Enforcement Subaccount (AEES)
- A reduction of $4.9 million in contract authority for power plant siting activities
- A reduction of $4.8 million by moving 35 positions from ERPA to the Alternative and Renewable Fuel and Vehicle Technology Fund (ARFVTF)
- A reduction of $5 million in the Energy Commission's baseline budget

2018- 19 Actions:

- A reduction of $5,469 million by moving 30 positions and contract funding from ERPA to the Cost of Implementation Account (COIA)
- A reduction of $1.990 million by moving Department of General Services (DGS) ERPA funding to an alternative fund source
- A reduction of $2.1 million by moving 14 positions from the Renewable Resource Trust Fund (RRTF) to COIA
- A reduction of $1.876 million by converting Energy Facility License and Compliance Fund (EFLCF) technical support contract funding to personal services funding and moving 13.0 positions from ERPA to EFLCF.
- An increase in the electricity consumption surcharge from $0.00029 per kWh to the statutory maximum of $0.0003 per kWh to generate approximately $1.25 million in additional revenue in 2018-19, and an additional $2.5 million annually in the out-years.

These actions netted ERPA deficit reductions of $15.445 million in 2017-18 and $10.585 million in 2018-19 (increasing to $11,835 million in 2019-20 due to the value of a full year of the surcharge increase). Increased expenses and decreased revenue countered these reductions. Specifically, due to back-to-back employee compensation and benefits adjustments of $3.2 million and $3.6 million in 2017-18 and 2018-19 respectively, and revenue drops of $3.2 million and $4.8 million in 2016-17 and 2017-18 respectively, the net deficit reduction is only $12.5 million.

Staff Comments. The commission's plan entails the following specific actions:

- Shift 11 existing support positions from ERPA to the ARFVTF for a reduction of $1.65 million.
- Shift 7 existing positions from ERPA to the AEES for a reduction of $1.05 million. These positions support enforcement and compliance activities.
- Shift 7 existing ERPA staff supporting the Renewables program to the RRTF for a reduction of $1.05 million.
- Proposition 39 Program - With the eventual sunset of this program, the Energy Commission will reduce position authority by 9 positions and contract authority by $0,738 million for a total reduction of $2.08 million in 2019-20, 6 positions and $0,974 million in 2020-21, and 7 positions and $0.3 million in contract authority for a total of $1,026 million in 2021-22. This reduction is consistent with existing law and workload related to Proposition 39.
- Eliminate 15 ERPA-funded positions supporting thermal power plant siting and transmission planning for a reduction of $2.25 million.
- New Solar Homes Partnership program (NSHP) - Shift 14 existing staff and $0.18 million in contract funding from the RRTF and ERPA to PUCURA for a reduction of $2.044 million.

These resources support the administration of the NSHP program. This need will go through 2021-22. Thereafter, 1 position will be needed for 2022-23 only.

- Solar Equipment Listing - Shift 7 existing staff responsible for administration of the Solar Equipment Listing from the RRTF to PUCURA/Reimbursements, shift $0,070 million in ERPA contract dollars, and increase position authority by 1 position and $0,170 million to address workload from recent PUC Rule 21 and other program mandates, for an RRTF and ERPA reduction of $1.111 million and a PUCURA cost of $1.281 million. Funding for the Solar Equipment Lists will be an interagency agreement between the Energy Commission and PUC, funded with PUCURA at the PUC and as reimbursements to CEC.

These actions will reduce ERPA expenditures by roughly $8.5 million in 2019-20. This is an important step, but is not sufficient to fully salvage the fund. If these actions are taken, the Administration's forecasts predict the fund will still exhaust its reserves by 2022-23. While the Commission has raised the surcharge to its statutory cap, there are additional options for addressing the structural deficit. These include further reductions in program expenditures, extending the surcharge to "behind-the-meter" electricity consumption, and raising the administrative funding cap for the EPIC program to allow EPIC funding to cover administrative activities currently funded by ERPA.

LAO Comments. In the last two budgets, the Legislature took a variety of actions to partially address the ERPA structural deficit. The CEC proposes several additional actions to partially address the remaining ERPA deficit, including a variety of fund shifts, ramping down Proposition 39 administrative expenditures, and eliminating excess positions. In total, these changes reduce the deficit by $8.5 million in 2019-20, $9.4 million in 2020-21, and $10.5 million in 2021. We do not have any concerns with the proposed changes and recommend the Legislature adopt the changes to partially address the deficit. However, even if the Legislature adopts the Administration's proposed changes, an estimated $6 million to $8 million annual deficit would remain, and the fund is projected to become insolvent in 2022-23. The Legislature might want to consider taking additional actions to partially or fully address the remaining deficit. Some options that the Legislature might want to explore—and that are identified in a recent CEC report—include: (1) raising additional revenue by extending the current electric surcharge to behind-the-meter electricity, (2) directing PUC to eliminate the 10 percent cap on reimbursements to CEC for administrative costs for the Electric Program Investment Charge Program, and (3) shifting funding for certain activities—such as water efficiency activities at the Department of Water Resources—to other fund sources. We recommend the Legislature direct the Administration to report on the feasibility and implications of these options in subcommittee hearings to help inform legislative options. If the Legislature does not adopt additional changes that fully address the ERPA deficit, we recommend it adopt Supplemental Report Language requiring the Administration to develop a plan to fully address the ERPA deficit next year, similar to language that was adopted the last two budgets.

Staff Recommendation: Hold Open.

8660 Public Utilities Commission (PUC)

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

Budget Overview: The Governor's budget proposes $1.55 billion and 1,150 positions to support the PUC in the budget year, as shown in the figure below. This is an increase of roughly 70 positions and a decrease of roughly $25 million from the enacted 2018-19 budget, mainly due to a decreased appropriation for the California LifeLine Program.

3-YEAR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2017-18	2018-19	2019-20	2017-18*	2018-19*	2019-20*
6680	Regulation of Utilities	419.4	415.9	461.9	$598,432	$767,573	$773,000
6685	Universal Service Telecommunications Programs	33.0	38.6	38.6	631,682	731,116	687,455
6690	Regulation of Transportation	148.6	148.3	148.3	31,814	39,589	43,871
6695	Public Advocate's Office	159.0	164.9	182.9	30,046	38,421	47,992
9900100	Administration	289.4	311.4	319.4	56,008	63,771	70,783
9900200	Administration - Distributed	-	-	-	-56,008	-63,771	-70,783
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**1,049.3**	**1,079.1**	**1,151.1**	**$1,291,974**	**$1,576,699**	**$1,552,318**
FUNDING					**2017-18***	**2018-19***	**2019-20***
0042	State Highway Account, State Transportation Fund				$5,188	$6,692	$7,548
0046	Public Transportation Account, State Transportation Fund				6,054	8,224	7,731
0412	Transportation Rate Fund				1,866	-	-
0461	Public Utilities Commission Transportation Reimbursement Account				15,400	20,830	23,713
0462	Public Utilities Commission Utilities Reimbursement Account				117,569	141,869	147,192
0464	California High-Cost Fund-A Administrative Committee Fund				40,155	49,256	49,291
0470	California High-Cost Fund-B Administrative Committee Fund				15,045	22,333	22,348
0471	Universal Lifeline Telephone Service Trust Administrative Committee Fund				372,090	386,060	362,177
0483	Deaf and Disabled Telecommunications Program Administrative Committee Fund				54,786	64,403	64,515
0493	California Teleconnect Fund Administrative Committee Fund				80,986	128,041	108,018
0890	Federal Trust Fund				7,047	9,646	10,786
0995	Reimbursements				20,907	60,844	60,844
3015	Gas Consumption Surcharge Fund				456,215	562,057	562,057
3089	Public Utilities Commission Public Advocate's Office Account				30,046	35,421	44,992
3141	California Advanced Services Fund				68,620	81,023	81,106
TOTALS, EXPENDITURES, ALL FUNDS					**$1,291,974**	**$1,576,699**	**$1,552,318**

Issue 8: PUC Response to Utility Bankruptcy

Governor's Proposal. The budget requests $28,000,000 from the Public Utilities Commission Utilities Reimbursement Account (Fund 0462) for a legal services contract. This proposal requests that the funds be available for encumbrance until June 20, 2022 and available for liquidation through June 30, 2024.

Background. On January 29, 2019, PG&E announced that it was filing for Chapter 11 Bankruptcy in response to the financial challenges associated with the catastrophic wildfires that occurred in Northern California in 2017 and 2018. In connection with this filing PG&E obtained $5.5 million of Debtor In Possession (DIP) financing for two years, with a one-year extension option. The terms of the financing imply PG&E plans to spend up to three years in bankruptcy court. While it is under the protection of the bankruptcy court, PG&E's assets form a "bankruptcy estate" over which the court has jurisdiction. As the state utility regulator, the PUC is an important party with standing and a significant role to play in the PG&E bankruptcy proceeding.

Bankruptcy cases are specialized proceedings in a unique court, which is a subdivision of the United States District Courts. In Chapter 11, the Debtor remains in possession of its assets and continues to run its business; however, it does so under the supervision of the court. Significant actions by the Debtor that are not in the normal course of business must be approved by the court. Bankruptcy does not displace PUC regulation of PG&E but it does require the PUC to work in the context of the bankruptcy proceeding for some of its regulatory programs. The PUC has standing to appear as a creditor and, since it is the regulator of PG&E, its participation is essential for proper consideration of questions on how PG&E should administer its estate. The PUC must appear, take positions and work with parties in bankruptcy court to protect the interests of California and ratepayers. In the past, PG&E has also attempted to use the bankruptcy court to sidestep the PUC's authority and jurisdiction. The PUC must also participate in the current bankruptcy proceeding to make sure its jurisdiction, and the jurisdiction of the state, is not displaced.

The prior PG&E bankruptcy, exit financing and bond securitization lasted over three years. It is noteworthy that 18 years later that original bankruptcy docket remains open.

Staff Comments. When PG&E filed for bankruptcy in January, 2019, the PUC was in the process of renewing its legal services contract with bankruptcy counsel. Counsel were at that time engaged on an "as needed" basis under a legal service contract which was set to expire in June 30, 2019. The PUC required assistance on the PG&E bankruptcy and worked with counsel to develop a case plan. As is usual in complex restructurings, the PUC also sought to obtain a financial advisor who could work with counsel to understand the financial condition of PG&E, evaluate the various exit plans as they are proposed, and help the PUC with its communications with the financial community. The PUC also expects this Financial Advisor to provide advice on the two remaining utilities who are not in bankruptcy, since the financial condition of all California utilities is an issue the PUC must face. The PUC is entering into a new legal services contract with its counsel that will include the PG&E bankruptcy and have a sufficient budget that will allow counsel and the financial advisor to effectively represent the PUC. The contract is for a three-year period, mirroring the DIP financing. The budget for this legal services contract is, after an initial 6-mont ramp-up period, approximately $500,000 per month for legal counsel, billed at hourly rates, and $450,000 a month for the financial advisor.

Staff Recommendation. Hold open.

Issue 9: Electricity Market Fragmentation

Governor's Proposal. The budget requests three permanent positions and $495,000 from the PUC Utilities Reimbursement Account (Fund 0462), to address emerging regulatory needs for an evolving electricity market experiencing market fragmentation.

Background. Electricity market fragmentation has occurred due to the rapid rise in customer choice and the associated shift in the number of load-serving entities that are providing retail electric procurement service to Californians. Over most of the past 15 years, there have been three main investor-owned utilities (IOUs) serving all residential electric load. In addition to the three IOUs, about a dozen energy service providers (aka ESPs or direct access, DA) provided electric service to a small quantity of non-residential customers. The ESP/DA load (a subset of all non-residential electric customers) was capped in terms of the amount of gigawatt hours that could be served. More recently, as a result of various legislative changes, the electricity market has evolved so there are nearly 40 load serving entities serving commercial and residential loads in California, including approximately 20 brand new service providers formed through local government structures, known as Community Choice Aggregators (or CCAs).

In June 2018, the PUC released a staff white paper entitled, "California Customer Choice: An Evaluation of Regulatory Framework Options for an Evolving Electricity Market." The California Customer Choice Project was launched to investigate changes in California's electricity market with respect to customer choice, including the regulatory framework, state programs, and market structures in effect today. It found that until recently, California's retail electric sector was largely stable, with the majority of load served by investor-owned utilities, a small percentage (around 13 percent) served by Direct Access and a small percentage served by Community Choice Aggregators. Over the past few years, there has been increasing fragmentation of retail supply, as new Community Choice Aggregators emerge rapidly and transition both residential and non-residential load from the utilities to the new CCA. The combined effect of changes in the proliferation of CCA and Direct Access providers challenges the foundational policies of RPS, Resource Adequacy and Long-term planning that were formulated based on the presumption of stability around the amount of load served by bundled electric service. Further challenging planning, the electricity supply options available to customers now include significant quantities of onsite behind-the-meter installations of rooftop solar, storage, energy efficiency, demand response, and microgrids.

Staff Comments. The Commission has indicated that the staff requested via this proposal will include a new PPS, 1 PURA IV and an AGPA who will work together in a new Electricity Market Design section. This section will include existing staff in the Market Structure and Design section, which will be split into two components. Eight staff will be focused on market design, including market fragmentation, with the remaining seven positions devoted to transmission issues.

The new staff will reassess current policies, develop staff recommendations for policy modifications, develop new policies to accommodate all the changes in the electricity market that could threaten reliability, affordability, and decarbonization efforts. Specifically the new staffing will address the items identified in the December 2018 final Choice Action Plan and Gap Analysis for the California Customer Choice Project. The project identified several categories of issues, including Consumer Protection, Duty to Serve, as well as Reliability and Resource Procurement.

Staff Recommendation. Approve as budgeted.

Issue 10: Administrative Services Staff Complement - IT Positions

Governor's Proposal. The budget requests five positions and $706,000 various special funds to provide Information Technology (IT) support for 91 permanent and 33.5 limited-term positions proposed by PUC and the Public Advocates Office (PAG) in the 2019-20 Governor's Budget and recently enacted bills.

Background. PUC's mandates related to a large array of energy and environmental issues has expanded in recent years. In 2013-14, PUC had 1,045 authorized positions, growing to more than 1,249 permanent positions and over 50 limited-term funded positions in the 2017-18 and 2018-19 budget cycles. These bills include:

SB 100 (de Leon)	SB 1440/AB3187 (Hueso/ Grayson)	SB 1477/AB 3232 (Hill/Friedman)
SB 1000/AB 2127 (Lara/Ting)	SB 1013 (Lara)	SB 901 (Dodd)
SB 1131 (Hertzberg)	SB 1339 (Stern)	SB 1376 (Hill)

Staff Comments. Each PUC bill analysis included a fiscal estimate of positions and resources needed to implement each bill, as well as a statement that while each bill individually may not necessitate an increase in administrative positions (except SB 901), enactment of the bills in aggregate require additional IT positions. The Information Technology Services Division (ITSD) Service Desk requires five positions to provide adequate support levels for increased staffing at the PUC's Sacramento and Los Angeles regional offices. Additionally, three positions conduct Project Approval Lifecycle (PAL) activities; business analysis; data, infrastructure, and security architecture; legislative impact analysis and management; strategic planning; and portfolio management activities related to legislatively-mandated requirement.

This request seems reasonable given the additional workload required by the cited bills, and the fact that earlier requests related to those bills did not include the required IT overhead resources. However, this request should be considered in the context of the larger request for PUC administrative resources this subcommittee heard on March 24th.

Staff Recommendation. Hold Open.

Issue 11: Balancing Accounts and Audit Positions

Governor's Proposal. The budget requests seven permanent positions for the Utility Audit, Finance, and Compliance Branch (UAFCB) and $830,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA, Fund 0462) to address the PUC's statutory requirements for the conduct of audits.

Background. A 2013 audit (2013-109) concluded that the PUC lacks adequate processes to provide sufficient oversight of utility balancing accounts to protect ratepayers from unfair rate increases. A balancing account is a tracking mechanism used to allow a utility to recoup from ratepayers when actual costs exceed PUC-authorized initial estimates in the utility rating plan. Report 2013-109 noted the PUC relies on the Office of Ratepayer Advocates [ORA, now known as Public Advocates Office to review balancing accounts. However, the Public Advocates Office reviews balancing accounts that are included in certain formal proceedings before the PUC only, resulting in a review of only 23 percent of the large energy utilities' balancing accounts active during the time of the audit. The State Auditor noted this procedure left $37.6 billion in balancing accounts that were not reviewed during the same period.

PU Code Section 314.5 requires the PUC to inspect and audit the books and records for regulatory and tax purposes at least once every three years in the case of every electrical, gas, heat, telegraph, telephone, and water corporation serving over 1,000 customers, and at least once every five years in the case of these same utility corporations serving 1,000 or fewer customers. The State Auditor noted that, although the PUC generally complies with the audit requirement through procedures it performs during the review of a utility's general rate case (GRC)—proceedings within the PUC in which utilities justify their proposed rates by presenting cost information—not all utilities file a GRC every three or five years to coincide with the audit requirement.

In December 2018, the State Auditor issued a report (2018-118) of the PUC Water Division regarding the granting of rate increases and noted again that for water utilities, the PUC failed to meet statutory requirements to audit the large Class A and small water utilities. The State Auditor indicated that for the Class A utilities, serving private water utility customers through approximately 1.5 million service connections, the PUC failed to audit and was relying on Cal Advocates and its reviews during the course of GRCs to comply with the law. As with the 2013 audit, the current audit also included the finding that the PUC failed to complete most of the audits of the small utilities in the five-year time frames established by law.

Staff Comments. The PUC's Audit Branch received budget authority for seven limited term positions for 2015-16, which were made permanent in 2018-19. Although PUC has made gains in the last two years in increasing its production of audits, it is reasonable to believe that the PUC requires additional resources to meet the workload presented by the statutory requirements for the PUC to conduct regulatory audits of the utilities and balancing accounts.

Based on the recommendations in Report 2013-109, PU Code Section 792.5 was amended to require the PUC to develop a risk-based approach for reviewing all balancing accounts on a periodic basis. This request include trailer bill language to further amend section 792.5 to allow reviews or audits of balancing accounts.

Staff Recommendation. Hold Open.

Issue 12: Decentralization - Sacramento and Los Angeles Office Space

Governor's Proposal. The budget requests $2.4 million in various special funds (Distributed Administration) for additional office space and relocation costs. Of this amount $1.6 million is ongoing and $860,000 will be one-time costs for office relocation costs.

Background. The PUC has been headquartered in San Francisco since 1878, when it was the Office of the Commissioner of Transportation. In recent years, the Commission has established a growing presence outside of San Francisco. The PUC recently adopted a two-part decentralization plan to increase PUC presence across the state.

Phase One of the PUC Decentralization Plan will include leasing additional space in Sacramento and Los Angeles. Phase Two includes acquiring new space in San Diego and expanding the Administrative Law Judge (ALJ) Division space in both Sacramento and Los Angeles to promote public participation in Commission events such as hearings, proceedings, and public participation meetings.

Staff Comments. The PUC has indicated that Phase One of the PUC Decentralization Plan will concentrate on filling new positions and current vacancies in Sacramento and Los Angeles by the close of 2019-20, as space allows. As of December 21, 2018, the PUC had 197 vacant positions. PUC is limited in its ability to fill vacant positions due to office space limitations. If the PUC fills all current vacant positions, the PUC will not have adequate space to house these positions or new pending positions. The PUC estimates a need to accommodate 200 positions will require additional space, and office relocation and equipment costs. Program areas of the PUC will continue to relocate positions throughout the state based on where the job duties are performed to best respond to public needs.

PUC has signed a lease for office space at 400 R Street in Sacramento. The approximate annual cost will be $1.3 million. This lease will be effective March 1, 2019 with the first month rent due June 1, 2019. In addition, PUC is currently working with DGS to locate additional space to house approximately 15-20 staff in Los Angeles. The estimated annual cost will be $240,000.

LAO Comments. The PUC requests $2.4 million (various funds) in 2019-20, and $1.6 million ongoing, for costs related to securing additional office space for staff in Sacramento and Los Angeles. This proposal reflects Phase One of the PUC's plan to expand operations outside of San Francisco. Most of the positions located in Sacramento will be related to administration and information technology and most of the positions in Los Angeles will work in the Energy Division. Under Phase Two of the PUC's decentralization plan, which will begin in 2020-21, the PUC plans to locate more program staff outside of San Francisco, including administrative law judges and legal division staff. The PUC has provided a general description of its plan, but not a detailed description of how it determined that this is the preferred approach or how it will determine which positions will be located in Sacramento or Los Angeles under Phase Two. We recommend the Legislature direct the PUC to report at budget hearings on the long-term decentralization plan, the alternative options it considered, how and why it selected this specific approach, and how it plans to determine which staff will be located in Sacramento and Los Angeles in Phase Two.

Staff Recommendation. Hold Open.