***Senate Budget and Fiscal Review—Nancy Skinner, Chair***
**SUBCOMMITTEE NO. 2** **Agenda**

**Senator Josh Becker, Chair**
**Senator Brian Dahle**
**Senator Mike McGuire**

**Thursday, March 23, 2023**
**9:30 a.m. or Upon Adjournment of Session**
**1021 O Street - Room 2200**

Consultant: Eunice Roh

**Item** **Department** **Page**

**VOTE –ONLY**

## DISCUSSION ITEMS



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# VOTE-ONLY

## 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

### Issue 1: Building Decarbonizing Financing and Incentive Assistance Program (SB 1112, Becker)

**Governor's Proposal.** The Budget includes $422,000 from the Energy Resources Programs Account in 2023-24 and ongoing for two permanent positions to implement Chapter 834, Statutes of 2022 (SB 1112, Becker). SB 1112 requires CEC to coordinate with various state agencies to identify state and federal financing and incentive options that will enable electric utilities and Community Choice Aggregators (CCAs) to provide zero-emission, clean energy, and decarbonizing building upgrades; apply for federal financing or investment solutions (where applicable); provide technical assistance to electric utilities and CCAs applying for state and federal funding; and assess and deliver a report describing statutory changes necessary to improve access to Federal financing or investment solutions, to the Legislature by December 31, 2023. Two positions (1.0 staff scientist position (Energy Commission Specialist III) and 1.0 staff attorney position (Attorney III)) are needed to be the technical and legal CEC issue experts on these new tasks, will lead engagement with federal and partner state-agencies, provide technical support, and identify and recommend solutions to the Legislature as relates to statutory barriers. This request is generally consistent with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

### Issue 2: Electric Vehicle Charging Infrastructure Reliability Data Collection and Assessment (AB 2061, Ting)

**Governor's Proposal.** The Governor's Budget provides $351,000 annually from the Alternative and Renewable Fuel and Vehicle Technology Fund for two permanent positions to collect, manage, and analyze reliability data collected for electric vehicle chargers and charging stations, as required by Chapter 345, Statutes of 2022 (AB 2061, Ting). New responsibilities under this bill include: developing and refining reliability related recordkeeping and reporting requirements; drafting and proposing a regulation that adopts these requirements; holding workshops to seek public feedback and input; conducting analysis and creating reports to communicate findings; coordinating with funding recipients for data submission and reporting; and conducting technical research to ensure that data requirements are optimized relative to the state of technology and the industry. This request is generally consistent with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

### Issue 3: Funding to Expand and Improve Energy Reliability Models (SB 1020)

**Governor's Proposal.** The Budget includes $1 million on a one-time basis from the Cost of Implementation Account for contract support to improve and expand the current reliability models to encompass the whole state and address both system and local reliability. Additionally, these funds will be used to equip staff to maintain and continue this analysis into the future. These funds will allow CEC to prepare and release a Request for Proposal to enter a contract for contracting services and use the selected consultant to produce the first and second joint agency reliability progress report. CEC staff will continue to maintain the models once the contract has ended.

**Staff Recommendation.** Approve as budgeted.

### Issue 4: Measuring and Reducing the Carbon Intensity in Construction Materials (AB 2446, Holden)

**Governor's Proposal.** The Governor's Budget includes $238,000 from the Cost of Implementation Account in 2023-24 and ongoing for one permanent position to implement Chapter 352, Statutes of 2022 (AB 2446, Holden). AB 2446 requires the CEC to collaborate with other state agencies to develop a framework for measuring and reducing the carbon intensity in the construction of new buildings. The funds would support one Senior Mechanical Engineer to coordinate with CARB to develop the technical framework to achieve a 40 percent net reduction in the carbon intensity of construction and materials used in new construction by 2035, with the interim goal of 20- percent net reduction by 2030. Specifically, this position would help establish the state's first standardized life-cycle assessment methodology for buildings, so that carbon intensity of construction materials can be determined in a standardized way in alignment with the bill's intent.

**Staff Recommendation.** Approve as budgeted.

### Issue 5: Resources to Gather and Report Medium-Duty and Heavy-Duty (MDHD) Fleet Data (AB 2700, McCarty)

**Governor's Proposal.** The Budget includes $391,000 annually from the Cost of Implementation Account for one permanent position to gather and report medium-duty and heavy-duty fleet data into existing CEC work products, as required by Chapter 354, Statutes of 2022 (AB 2700, McCarty). AB 2700 creates a new requirement for the CEC to annually collect fleet data for on-road and offroad medium- and heavy-duty vehicles in fleets regulated by CARB, and then share that data with utilities. The information includes existing fleet data, the fleets' physical addresses, and information that would help utilities anticipate electrical load growth. Completing this requirement involves coordinating with CARB, investor-owned utilities (IOUs), and publicly-owned utilities (POUs). It also requires processing and quality checking the data, providing additional analysis, integration of the data within existing work products at the CEC and to meet IOU and POU needs, and ensuring proper transition and maintenance of the data. Meeting these needs will require one permanent position at the EGSS I level and additional forecasting work and data analysis. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

### Issue 6: Solar Equipment List Direct Appropriation

**Governor's Proposal.** The Budget provides $1,281,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) on a four-year limited-term basis to fund the CEC's Solar Equipment List Program and replace the current Interagency Agreement (IA) funding mechanism. The Solar Equipment Lists includes solar equipment that meets established national safety and performance standards. These lists provide information and data that support existing solar incentive programs, utility grid connection services, consumers, and state and local programs. Currently, the program is funded via an IA—meaning CEC gets reimbursed from CPUC from the PUCURA. In this request, the CEC is seeking a direct appropriation from PUCURA, instead of the reimbursement. This is more efficient because it eliminates the staff time dedicated to IA development, review, approval, and processing of invoices between CPUC and CEC on this long-standing effort.

**Staff Recommendation.** Approve as budgeted.

## 8660 PUBLIC UTILITIES COMMISSION

### Issue 7: CalSPEED Testing Continuation

**Governor's Proposal.** The Governor's Budget requests $2,988,000 in 2023-24, 2024-25, and 2025-26, and $1,902,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) for three positions and other related communication services, training, travel, IT, equipment, and contracts to continue testing mobile broadband through the CalSPEED Mobile project.

**Background.** The CalSPEED Mobile Project consists of collecting, analyzing, and mapping mobile broadband data through drive testing and crowdsourcing mobile apps. This helps measure mobile broadband throughput, latency, download speed, upload speed, and other indicia of service quality. CPUC proposes to conduct two drive tests annually through 2025-26 (hence the higher request in these years) and decrease to one drive tests afterwards.

Such data has a diverse range of purposes—for consumers to get a transparent source on mobile broadband quality, school districts to understand the problems their students have encountered in using mobile broadband WiFi hotspots from various providers, and public safety entities in informing emergency response during natural disasters. In addition, CPUC has used data from CalSPEED to evaluate T-Mobile's progress in complying with the 5G deployment obligations as part of the CPUC decision approving the company's acquisition of Sprint.

In 2020-21, CPUC received $2,813,000 on a three-year limited-term basis to do this work. As part of the CPUC decision on T-Mobile and Sprint merger, T-Mobile is expected to provide reimbursements to the state for these activities. However, to date, CPUC has not received reimbursements from T-Mobile. Currently, CPUC is working to collect up to $3 million in reimbursements and assumes T-Mobile will reimburse up to $1,000,000 annually through 2025-26. The CPUC will return with a future proposal for additional ongoing costs after evaluating the operation of CalSPEED program beyond 2025-26 following the end of monitoring period and reimbursements.

**Staff Recommendation.** Approve as budgeted.

### Issue 8: Corrections: Communications (SB 1008)

**Governor's Proposal.** The Governor's Budget requests $626,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) for three positions to develop, implement, enforce, and support new Service Quality (SQ) rules for Incarcerated Persons Calling Services (IPCS) providers, as required by Chapter 827, Statutes of 2022 (SB 1008, Becker). SB 1008 requires CPUC to establish SQ standards for IPCS—because regulation of SQ standards specifically for IPCS providers do not exist currently, this represents new workload for the department. The three positions will allow CPUC to develop SQ standards for IPCS, review and analyze SQ reports, and enforce compliance with the IPCS SQ rules, as needed. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

## Issue 9: Electric Transmission Rates Advocacy

**Governor's Proposal.** The Budget includes $1,500,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) on a three-year limited-term basis for consultant technical expertise to assess Transmission Owner (TO) capital projects that have a direct influence on electric transmission rates to inform CPUC advocacy for California ratepayers at the Federal Energy Regulatory Commission (FERC). In addition, the department requests position authority for five positions that support electric transmission advocacy. This request builds upon the 2018-19 Budget, wherein CPUC received initial funding of about $1.5 million from PUCURA to address electric transmission costs in FERC rate cases. Since then, CPUC reports their advocacy has helped yield approximately $2.5 billion in savings and refunds in the four largest cases. This proposal would provide position authority for the existing positions that support this work, as well as expand the scope of the technical consultant work to improve data transparency and stakeholder engagement of TO capital projects.

**Staff Recommendation.** Approve as budgeted.

## Issue 10: Electricity: Electricity Planning and Procurement

**Governor's Proposal.** The Budget includes $3,313,000 ($2,853,000 ongoing and $460,000 limited-term) from the Public Utilities Commission Utilities Reimbursement Account for eight positions, consulting services, software licenses, and training to implement the following legislation: Chapter 229, Statutes of 2022 (SB 1174, Hertzberg), Chapter 358, Statutes of 2022 (SB 887, Becker), Chapter 367, Statutes of 2022 (SB 1158, Becker), and Chapter 361, Statutes of 2022 (SB 1020, Laird). The legislation adds several new responsibilities to the department. Specifically:

- SB 1174 requires the CPUC to formally track the development and expected in-service dates of transmission and interconnection facilities needed to provide transmission deliverability for renewable energy and storage resources, and to annually assess the system-wide impact of delays to transmission and interconnection upgrades for clean energy resources. To implement the bill, the department requests $1,779,000 for two positions in the Energy Division, one position in the Legal Division, ongoing consulting services, software licenses, and GIS training services.
- SB 887 requires the CPUC to provide transmission-focused guidance to the CAISO regarding future renewables/zero carbon resources and to request the CAISO identify the highest priority transmission projects needed to increase transmission capacity into local capacity areas. To implement the bill, the department requests $654,000 for one position in the Energy Division, one-time consulting services, software, and GIS training services.
- SB 1158 requires the CPUC to review the total GHG emissions and the annual average GHG emissions intensity reported for each retail supplier of electricity and assess whether those emissions, combined with the retail supplier's procurement plans for subsequent years, demonstrate adequate progress towards achieving the retail supplier's GHG emissions reduction

targets. To implement the bill, the department requests $430,000 for one position in the Energy Division and one Administrative Law Judge position.

- SB 1020 requires the CPUC to establish new interim targets to reach SB 100 clean energy goals to purchase 100 percent zero carbon electricity by 2035. To implement the bill, the department requests $447,000 for one position in the Energy Division and one Administrative Law Judge position.

**Staff Recommendation.** Approve as budgeted.

## Issue 11: Electricity: Storage Facilities: Standards and Records (SB 1383)

**Governor's Proposal.** The Budget includes $2,217,000 in 2023-24 and 2024-25, $1,717,000 in 2025-26, and $1,194,000 ongoing from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) to implement and enforce standards for the maintenance and operation of electric storage facilities owned or contracted for by investor-owned electrical corporations, as required by Chapter 725, Statutes of 2022 (SB 1383, Hueso). This legislation extends the CPUC's current authority to inspect wholesale electric generators to include battery energy storage resources. As a result, this request includes engineering and analytical staff to provide continuous oversight of energy storage systems; legal staff to conduct audits and enforcement activities for energy storage projects; an administrative law judge to support ongoing rulemaking and procedural work; consulting service contract to provide battery storage technical expertise; specialized training for battery storage systems and operations; and specialized field equipment. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

## Issue 12: Federal Energy Regulatory Commission and Federal Courts of Appeal Litigation Contract

**Governor's Proposal.** The Budget includes $1,300,000 from the Public Utilities Commission Utilities Account (PUCURA) to extend a legal services contract with outside counsel who represents the CPUC in active litigation before Federal Electric Regulatory Commission (FERC) and Federal Courts Appeal. The ongoing litigation stems from the long-term contracts that the state entered to alleviate electricity shortages during the 2000-01 energy crisis. Although most of the cases have settled, there are two ongoing claims, which CPUC has contracted with outside counsel to represent California ratepayers since 2008. Due to the complexity of the case, continued use of outside counsel is necessary to represent the state's interests. It is unclear when the litigation will be resolved, due to the uncertainty of appeals and rehearings.

**Staff Recommendation.** Approve as budgeted.

## Issue 13: Low-income Utility Customer Assistance Programs: Concurrent Application Process (SB 1208)

**Governor's Proposal.** The Governor's Budget includes $1.315 million ($815,00 ongoing and $500,000 one-time over two years) from the Public Utilities Commission Utilities Reimbursement Account to develop a concurrent application process for income-qualified programs, as required by Chapter 840, Statutes of 2022 (SB 1208, Hueso). The CPUC will work with the IOUs to implement the concurrent application process for Energy Savings Assistance (ESA), California Alternate Rates for Energy (CARE), and Family Electric Rate Assistance Program (FERA) to include: developing and executing the procedural steps necessary to initiate implementation with an expanded set of utilities, developing solicitation and/or necessary interagency agreements, and approving funding through ESA, CARE, and FERA ratepayer funds. To manage this additional workload, the department requests four positions as well as information technology consulting services to support planning activities for the technological solution to implement the concurrent application process.

**Staff Recommendation.** Approve as budgeted.

## Issue 14: Net Energy Metering: Construction of Renewable Electrical Generation Facilities: Prevailing Wage (AB 2143)

**Governor's Proposal.** The Budget includes $1,347,000 ($1,069,000 ongoing and $379,000 limited-term) from the California Public Utilities Commission Reimbursement Account to implement Chapter 774, Statutes of 2022 (AB 2143, Carrillo). AB 2143 requires the CPUC by December 31, 2023, to (1) implement a new compliance system requiring the use of prevailing wages in all qualified renewable electrical generation projects and any associated battery storage taking service on Net Energy Metering tariffs, (2) develop an infraction system for any willful violations, and (3) prepare annual reports on the growth of DER in disadvantaged and low-income communities for residential customers. To implement AB 2143, CPUC requests two permanent positions, two-year limited-term funding for one position, as well as ongoing and one-time consultant services.

**Staff Recommendation.** Approve as budgeted.

## Issue 15: Public Advocate's Office: Wildfire Safety Geographic Information System Implementation

**Governor's Proposal.** The Governor's Budget requests one position and $171,000 from the Public Utilities Commission Public Advocates Office Account (PUCPAOA) to address ongoing workload stemming from the increased need to analyze geographic information systems (GIS) data when reviewing electric and gas utilities safety-related proposals and projects. Currently, the Public Advocates Office has two existing positions dedicated to GIS analysis. However, these positions primarily work on telecommunication and water issues. The requested position would mainly work on infrastructure issues related to fire risk reduction, an area with growing workload due to recent legislation that have set more regular and stringent review of utility infrastructure and wildfire mitigation.

**Staff Recommendation.** Approve as budgeted.

## Issue 16: Server Room and Telecommunications Closet Upgrade

**Governor's Proposal.** The Governor's Budget requests $365,000 ongoing from various special funds to provide sustained support for necessary maintenance of IT infrastructure in the CPUC San Francisco headquarters. Specifically, CPUC requests $150,000 for ongoing maintenance of the heating, ventilation, and air conditioning (HVAC) units and fire suppression system in the IT server room and communications room and $215,000 for ongoing maintenance of the HVAC system to cool telecommunication closets. Preventative maintenance of equipment allows CPUC to protect IT assets, extend the useful life of equipment, and ensures equipment is reliable.

**Staff Recommendation.** Approve as budgeted.

**Issue 17: Strengthen CPUC Administrative Functions**

**Governor's Proposal.** The Governor's Budget includes $592,000 ongoing from various special funds for two positions to strengthen the CPUC administrative oversight of its programs and improve support of and compliance within the Administrative Services Division and Legal Division. Specifically, CPUC requests one position to serve as Administrative Services Division (ASD) Director and another position to serve as Deputy General Counsel for the Legal Division. As CPUC grown in both size and complexity in recent years, the need for administrative and legal support has grown as well. According to CPUC, these positions will help address organizational gaps in its structure and its ability to complete administrative, contractual, and statutorily-mandated workload.

**Staff Recommendation.** Approve as budgeted.

**Issue 18: Support for Communications Regulatory Program**

**Governor's Proposal.** The Budget includes $210,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) and position authority for eight positions to fulfill statutory mandates and operational needs in functional areas under the CPUC's regulatory oversight of communications services in California. Specifically, the department requests two positions for its Communications Licensing and Compliance program; one position for the Service Quality, Emergency Preparedness, and Network Resiliency program; three positions for the California LifeLine program; and two positions for the California Advanced Services Fund (CASF) program. These four programs have experienced increased workload in recent years due to regulatory changes, new statutory mandates, increasing need for emergency response, and pandemic-related demand for broadband services (which falls under communications services). The five positions for the Communications Licensing and Compliance program and the CASF program were previously approved on a limited-term basis, to ensure the workload was ongoing in nature. According to CPUC, the department has found the workload is not only ongoing, but in some cases, increasing, and therefore requests these positions be continued on a permanent basis.

**Staff Recommendation.** Approve as budgeted.

**Issue 19: Transportation Electrification: Electrical Grid Distribution Grid Upgrades (AB 2700)**

**Governor's Proposal.** The Budget includes $300,000 from the Public Utilities Reimbursement Account on an ongoing basis for cloud services to host the data required by Chapter 354, Statutes of 2022 (AB 2700, McCarty). AB 2700 requires the CPUC and the electric utilities to receive and evaluate information regarding fleets of on-road and off-road vehicles in the medium- and heavy-duty sectors to help utilities plan distribution upgrades to accommodate more electric vehicle loads. CPUC will need to collect electric vehicle data, as well as other available data for this analysis—data storage needs are estimated to reach petabytes in the coming years. This funding will provide CPUC the cloud computing services necessary to store all of the required data. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

### Issue 20: Water Compliance and Enforcement

**Governor's Proposal.** The Governor's Budget requests $419,000 from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) on a three-year limited-term basis for two positions dedicated to compliance and enforcement in the CPUC Water Division. Currently, the Water Division has no dedicated staff solely responsible for compliance and enforcement actions. According to the CPUC, a dedicated compliance and enforcement team will help the Division act on water quality concerns for the large number of small water utilities subject to CPUC jurisdiction that have potential health and safety implications. The two positions in this request will staff the Water Division Enforcement Team. The department expects having these dedicated positions will increase the number of staff-initiated citations and administrative enforcement orders.

**Staff Recommendation.** Approve as budgeted.

### Issue 21: Water Corporation: Rates (SB 1469)

**Governor's Proposal.** The Budget includes $950,000 from the Public Utilities Commission Utilities Reimbursement Account on an ongoing basis for four positions to implement Chapter 890, Statutes of 2022 (SB 1469, Bradford). SB 1469 requires the CPUC to consider the implementation of a mechanism that separates the water corporation's revenues and its water sales, commonly referred to as a "decoupling mechanism". As a result, the CPUC estimates an increase in the number application materials (as well as additional complexity in proceedings that will require additional staff resources) from water utilities requesting to establish a decoupling mechanism. This request is generally aligned with the fiscal estimate of the bill at time of enactment.

**Staff Recommendation.** Approve as budgeted.

# DISCUSSION

## 0509 Governor's Office of Business and Economic Development
## 3360 Energy Resources Conservation and Development Commission
## 3860 Department of Water Resources
## 3900 State Air Resources Board
## 4700 Community Services and Development
## 8660 Public Utilities Commission

### Issue 22: Implementation and Reduction of the Energy Package

**Governor's Proposal.** The Governor's Budget requests a reduction of $510 million from 2022-23 appropriations and $820 million from funding intended for 2023-24, budget-year savings of $1.3 billion. These reductions, however, include a shift of $433 million in General Fund spending from 2022-23 and 2023-24 to future years, which would delay program expenditures but not result in a net reduction. Therefore, on net, the Governor's proposal would result in $897 million less spending across energy programs. For the most part, the administration would implement these reductions by making fewer grant awards and funding fewer projects. The majority of programs approved in the past two budgets are unaffected. All of the Governor's solutions propose to maintain at least 50 percent of the intended funding for individual programs. In total, the Governor proposes to maintain $8.7 billion, or 91 percent, of the intended energy funding of $9.6 billion.

Figure 9

**Governor's Proposed Energy Budget Solutions**

(In Millions)

| Program | Total Augmentations | Proposed Changes 2022-23 | 2023-24 | 2024-25 and Out-Years | Net Reductions | New Proposed Amounts |
|---|---|---|---|---|---|---|
| **Programs Proposed for Solutions** | | | | | | |
| Arrearage Payment Program | $1,200 | -$400 | — | — | -$400 | $800 |
| Residential Solar and Storage | 900 | — | -$270 | — | -270 | 630 |
| Equitable Building Decarbonization (CEC) | 922 | -50 | -320 | $283[a] | -87 | 835 |
| Equitable Building Decarbonization (CARB) | 40 | — | -20 | — | -20 | 20 |
| Climate Innovation Program | 525 | -50 | -100 | 150[a] | — | 525 |
| Long duration storage | 380 | — | -50 | — | -50 | 330 |
| Transmission financing | 250 | — | -25 | — | -25 | 225 |
| Carbon removal innovation | 100 | — | -25 | — | -25 | 75 |
| Industrial decarbonization | 100 | -10 | — | — | -10 | 90 |
| Food production | 75 | — | -10 | — | -10 | 65 |
| Subtotals | ($4,492) | (-$510) | (-$820) | ($433) | ($897) | ($3,595) |
| **All Other Energy Funding** | $5,133 | — | — | — | — | $5,133 |
| **Totals** | **$9,625** | **-$510** | **-$820** | **$433** | **-$897** | **$8,728** |

[a] Reflects proposed delays from prior years to 2024-25 through 2026-27.

CEC = California Energy Commission and CARB = California Air Resources Board.

***Makes Reductions Across Eight Programs, Delays Funding Two Programs.*** The administration proposes reducing funding for eight programs, with most representing relatively modest reductions or scaling down of planned amounts. The proposal also includes delaying funding for two programs. The most significant of these proposals include:

- ***The California Arrearage Payment Program.*** The Governor proposes a $400 million reduction to this program, which received $1.2 billion from the California Emergency Relief Fund via General Fund resources in 2022-23. The administration states that updated data indicate that not all of this funding will be needed to address overdue energy bills for eligible households, so the proposed amount can be reverted back to the General Fund without programmatic impact.

- ***Residential Solar and Storage.*** This $900 million incentive payment program was designed with two components: (1) $630 million for residential customers in lower-income, tribal, and disadvantaged communities to install solar systems with or without energy storage systems, and (2) $270 million for general customers who install energy storage systems. The Governor proposes to eliminate the second portion for a net reduction of $270 million and maintain the $630 million targeted for lower-income, tribal, and disadvantaged populations.

- ***Equitable Building Decarbonization.*** The Governor proposes three changes to this multifaceted program, which has the overarching goal of reducing GHGs from buildings. The first two affect the portion of this program administered by CEC, which supports low-energy building upgrades for low-to-moderate income families in under-resourced communities and incentives for low-carbon building technologies. The Governor proposes to (1) delay $283 million from 2023-24 and instead provide it spread over the subsequent three years, and (2) reduce the program by $87 million in 2023-24. These changes would result in fewer funded projects and delayed time lines for projects. Third, for the portion administered by CARB—which provides incentives for low global warming-potential refrigerants in homes—the Governor proposes to reduce funding by $20 million in 2023-24.

- ***Climate Innovation Program.*** The Governor proposes delaying $50 million from 2022-23 and $100 million from 2023-24 and instead providing these funds in 2026-27. This program is to provide financial incentives to California-headquartered companies developing and commercializing new technologies that help reduce GHGs or improve climate resiliency.

***Largely Does Not Reduce Reliability Programs.*** The suite of energy reliability programs included in the 2022-23 budget package—the largest category of funded activities—are kept mostly intact in the Governor's proposal. These include significant programmatic investments, including $2.3 billion to the Department of Water Resources (DWR) for investments in strategic reliability assets, $700 million to CPUC for the Distributed Electricity Backup Assets Program, and $295 million to CEC for the Demand Side Grid Support Program.

**Background.** According to the LAO:

***$9.6 Billion Planned for Energy Programs Across Five Years.*** As shown in Figure 8, the previous two budgets and corresponding budget trailer legislation provided significant funding for a variety of energy programs and activities. The 2021-22 budget provided $175 million for a package of investments, including programs intended to promote building electrification, planning and permitting renewable energy projects, and activities intended to ensure electric reliability. The 2022-23 budget planned for an additional $7.9 billion through 2025-26 (including $2.3 billion scored in 2021-22) as part of another energy package. Both packages were funded almost entirely by the General Fund. Funded activities focus primarily on three categories—reliability, clean energy, and ratepayer relief, with most investments going to reliability-related programs. The 2022-23 budget also created the California Climate Innovation program, which offers grants for technology innovation projects that reduce emissions, and provided $525 million through 2025-26.

Figure 8

**Recent and Planned Energy Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Activity | Department | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Totals |
|---|---|---|---|---|---|---|---|
| **2021-22 Energy Package** | | **$175** | **—** | **—** | **—** | **—** | **$175** |
| BUILD expansion | CEC | $75 | — | — | — | — | $75 |
| Permitting initiatives | CEC/DFW | 39 | — | — | — | — | 39 |
| SB 100 planning and participation | CEC/CPUC | 20 | — | — | — | — | 20 |
| Various offshore wind activities | CEC | 18 | — | — | — | — | 18 |
| Emergency planning and support | CEC/CPUC | 14 | — | — | — | — | 14[a] |
| Wildfire Operational Observer | OES | 9 | — | — | — | — | 9 |
| **2022-23 Energy Package** | | **$2,250** | **$3,002** | **$2,626** | **$654** | **$918** | **$7,925** |
| **Reliability** | | | | | | | |
| Strategic Reliability Reserve | DWR | $1,500 | $700 | $20 | $75 | $75 | $2,370 |
| Residential Solar and Storage | CPUC | — | — | 900 | — | — | 900 |
| Distributed Electricity Backup Assets | CPUC | 550 | — | 100 | 25 | 25 | 700 |
| Demand Side Grid Support | CEC | 200 | — | 95 | — | — | 295 |
| Transmission financing | IBank | — | 200 | 50 | — | — | 250 |
| DOE grid resilience match | CEC | — | 5 | — | — | — | 5 |
| Support for reliability | DWR | — | 3 | — | — | — | 3 |
| **Clean Energy** | | | | | | | |
| Equitable Building Decarbonization | CEC | — | $112 | $665 | $53 | $92 | $922 |
| | CPUC | — | 50 | 95 | — | — | 145 |
| | CARB | — | 20 | 20 | — | — | 40 |
| Long duration storage | CEC | — | 140 | 240 | — | — | 380 |
| Oroville pump storage | DWR | — | 100 | 140 | — | — | 240 |
| Carbon removal innovation | CEC | — | 50 | 50 | — | — | 100 |
| Industrial decarbonization | CEC | — | 100 | — | — | — | 100 |
| Hydrogen grants | CEC | — | 100 | — | — | — | 100 |
| Food production | CEC | — | 25 | 50 | — | — | 75 |
| Offshore wind infrastructure | CEC | — | 45 | — | — | — | 45 |
| Energy modeling | CEC | — | 7 | — | — | — | 7 |
| Distributed energy workload | CPUC | — | 1 | 1 | 1 | 1 | 4[b] |
| Hydrogen Hub | GO-Biz | — | 5 | — | — | — | 5 |
| Energy data infrastructure | CEC | — | 5 | — | — | — | 5 |
| AB 525 implementation | Various | — | 4 | — | — | — | 4[c] |
| **Ratepayer Relief** | | | | | | | |
| Arrearage Payment Program | CSD | — | $1,200 | — | — | — | $1,200[d] |
| Capacity building grants | CPUC | — | 30 | — | — | — | 30 |
| **Other Funding** | | **—** | **$100** | **$200** | **$500** | **$725** | **$1,525** |
| Clean Energy Reliability Investment Plan | Various | — | — | $100 | $400 | $500 | $1,000 |
| Climate Innovation Program | CEC | — | $100 | 100 | 100 | 225 | 525 |
| **Totals** | | **$2,425** | **$3,002** | **$2,626** | **$654** | **$918** | **$9,625** |

[a] Includes $2 million Public Utilities Commission Utilities Reimbursement Account.
[b] Public Utilities Commission Utilities Reimbursement Account.
[c] Includes $1.5 million Energy Resources Program Account and $2.6 million General Fund.
[d] General Fund through the California Emergency Relief Fund.

BUILD = Building Initiative for Low-Emissions Development; CEC = California Energy Commission; DFW = Department of Fish and Wildlife; CPUC = California Public Utilities Commission; OES = Governor's Office of Emergency Services; DWR = Department of Water Resources; IBank = California Infrastructure and Economic Development Bank; CARB = California Air Resources Board; DOE = U.S. Department of Energy; GO-Biz = Governor's Office of Business and Economic Development; and CSD = Department of Community Services and Development.

***Includes $1 Billion for a Clean Energy Reliability Investment Plan***. As shown in Figure 8, the $9.6 billion total also includes funding to support implementation of a Clean Energy Reliability Investment Plan (CERIP), pursuant to Chapter 239 of 2022 (SB 846, Dodd). This legislation requires CEC to develop and submit the CERIP to the Legislature by March 2023, and dedicates $1 billion from the General Fund from 2023-24 through 2025-26—subject to appropriation—to implement the plan's proposed activities and projects, including $100 million in 2023-24.

***General Fund Commitments Represent Unusually Large State-Level Investment in Energy Programs.*** The state historically has operated programs that encourage renewable energy and conservation, but the magnitude of General Fund commitments for energy efforts displayed in Figure 8 is uncommonly large, and most of the activities represent new efforts for the state. Many energy programs, including programs that promote energy efficiency and rooftop solar, largely are run through utilities and typically are funded by ratepayers. For example, since 2009, the California Public Utilities Commission (CPUC) has collected $1.7 billion from ratepayers to fund incentives for households and businesses to undertake energy and storage activities through the Self-Generation Incentive Program.

**LAO Recommendations.** We find the Governor's proposed reductions to be reasonable and believe they merit legislative consideration. We recommend the Legislature prioritize maintaining funding for programs that focus on equity, such as providing residential solar incentives and grants to decarbonize homes in lower-income communities. To the degree the Legislature wants to identify alternative or additional programs for reductions, we recommend it consider providing less funding for: (1) the Oroville pump storage project (which is still in the planning phases); (2) the Climate Innovation Program (which has an unclear focus and has not yet begun implementation); and (3) potentially to three primary reliability programs—the Strategic Reliability Reserve, Distributed Electricity Backup Assets, and Demand Side Grid Support—based on what it learns about the outcomes from these programs thus far.

**Staff Comments.** The Governor proposes almost $900 million in reductions within the Energy Package. Of the reductions, almost half comes from funding for the California Arrearage Payment Program (CAPP). According to the Administration, this reduction is proposed because CAPP received far fewer applications for eligible energy utility debt than what was expected in the prior year. To be eligible for these funds, the energy utility debt had to be accrued during the specified pandemic period of March 4, 2020 through December 31, 2021. However, energy affordability remains a prevalent issue, especially in light of the recent spike in natural gas prices that have led to significant increases in residential gas and electricity bills. To address the high natural gas prices, CPUC has ordered utilities to provide the Climate Credit to residential customers as soon as possible, prior to the scheduled month of April.

In addition to the reductions of CAPP, the Governor proposes reductions in nine more programs. According to the Administration, these programs were selected for reductions because (1) these programs are still in the development phase, (2) had available funds following program expenditures, (3) there is potential federal support to supplement reductions, and (4) there may be funding opportunities through the Clean Energy Reliability Investment Plan. Below are the estimated programmatic impacts of the proposed reductions:

| Program | Description | Reduction | Impact |
|---|---|---|---|
| Residential Solar and Storage (CPUC) | This program was designed with two components: (1) $630 for residential customers in lower-income, tribal, and disadvantaged communities to install solar systems with or without energy storage systems, and (2) $270 million for general customers who install energy storage systems. | $270 million | The Governor proposes to eliminate the second portion for a net reduction of $270 million and maintain the $630 million targeted for lower-income, tribal, and disadvantaged populations. |
| Carbon Removal Program (CEC) | The CEC planned to fund demonstrations and test of prototypes, provide cost share in response to federal funding opportunities and fund the establishment of a research test center. | $25 million | Cuts in each area of the program: demonstrations and test of prototypes, provide cost share in response to federal funding opportunities and fund the establishment of a research test center. |
| Long Duration Energy Storage Program (CEC) | The CEC planned to use the funds to demonstrate commercial readiness of megawatt scale storage to provide grid services and improve local resiliency. | $50 million | Deployment of two fewer competitively awarded projects. |
| Food Production Investment Program (CEC) | The CEC planned to use the funds to provide grants to food processing facilities to decarbonize their processes and provide benefits to the electric grid. | $10 million | Six or seven fewer demonstration projects. |
| Industrial Decarbonization Program | The CEC planned to use the funds to target opportunities for industries to decarbonize and support the grid. | $10 million | Two to three fewer demonstration projects. |
| Equitable Building Decarbonization programs (CARB & CEC) | These programs are intended to support low-energy building upgrades for low-to-moderate income families, incentives for low-carbon building technologies, and incentives for low global warming-potential refrigerants in homes. | $107 million | Fewer projects completed and delayed timelines for completion of projects. |
| Climate Innovation Program (CEC) | The Climate Innovation Program had a very broad scope. The CEC planned to conduct a stakeholder process to identify technology topics for the program that would have the greatest potential impact. | $0 (Delay of $150 million to outyears) | Because of the program reduction in the initial years, the CEC will instead initially focus on opportunities to use the funding to leverage significant federal funding to California, specifically around the topic of next-generation battery manufacturing where significant federal investment is expected. |
| Transmission Financing (IBank) | This is a financing program dedicated to supporting the development of strategic transmission projects that will assist the state in meeting its reliability, affordability and climate goals | $25 million | This will reduce the state's support in the initial short-term financing of the Salton Sea transmission line project. In addition, it will reduce the amount available to finance other clean energy transmission projects in the future. |

As the Legislature balances its priorities and assesses these proposed cuts, it will be important to consider what level of federal funding will be available for similar purposes. Although there are significant amounts of federal funding through IIJA and IRA for clean energy programs, it is currently unclear to the extent federal funds will be able to complement the state programs and how they will be distributed. If such information is not available by the time the budget must be enacted, the Legislature may want to consider how to provide oversight over these not yet identified federal funds that flow through the state through control section language, to ensure there is sufficient legislative input and direction, as well as to prepare agencies and recipients to be competitive and realistic about how much money will be allocated to recipients in California.

In addition, the Legislature will want to consider alternative reductions to the energy package, contrary to the ones the Governor has proposed. The LAO highlights the Oroville Pump Storage Project, Climate Innovation Program, and energy reliability programs as areas with potential for reductions. In assessing the Governor's proposed reductions to the energy package, the Legislature will want to assess the ongoing implementation and initial outcomes of all of the programs included, to ensure funding is concentrated for the most effective and efficient programs that best meet their intended goals.

**Staff Recommendation.** Hold Open.

## 0509 Governor's Office of Business and Economic Development
## 0521 Secretary for Transportation Agency
## 3360 Energy Resources Conservation and Development Commission
## 3900 State Air Resources board

**Issue 23: Implementation and Reduction of the Zero Emission Vehicle Package**

**Governor's Proposal.** The Budget includes a reduction of General Fund spending on ZEV programs by a total of $2.5 billion, including $1.5 billion in 2023-24. However, the Governor proposes using $1.4 billion from discretionary GGRF revenues across three years to backfill some of these reductions. As shown in Figure 7, this amount includes $611 million in 2023-24. The Governor also proposes pledging $414 million in annual discretionary GGRF revenues in 2024-25 and 2025-26 to partially backfill proposed reductions in those years. Largely because of this proposed use of GGRF, the majority of ZEV programs would be unaffected by the Governor's proposed reductions, including Clean Cars 4 All (CC4A, which provides rebates to lower-income individuals for purchasing ZEVs), and a program shared by CARB and CEC to support ZEV and lower-emission drayage trucks and infrastructure. For most of the programs that would receive reductions, the Governor would maintain at least 50 percent of funding. The one exception is the proposed elimination of a new program shared by CARB and CEC aimed at reducing mobile source emissions from port equipment. Overall, the Governor proposes maintaining $8.9 billion, or 89 percent, of intended funding for ZEV programs across the five years.

Figure 6

## Governor's Proposed Zero-Emission Vehicle (ZEV) Budget Solutions

(In Millions)

| Program | Total Augmentations | General Fund Reductions 2023-24 | General Fund Reductions 2024-25 and 2025-26 | GGRF Backfill (2023-24 Through 2025-26) | Net Reductions | New Proposed Amounts |
|---|---|---|---|---|---|---|
| **Programs Proposed for Solutions** | | | | | | |
| School Buses and Infrastructure (CARB) | $1,525 | -$135 | — | — | -$135 | $1,390 |
| School Buses and Infrastructure (CEC) | 425 | -15 | — | — | -15 | 410 |
| ZEV Fueling Infrastructure Grants | 870 | -210 | -$130 | $130 | -210 | 660 |
| Clean Cars 4 All and Other Equity Projects | 656 | -125 | — | 125 | — | 656 |
| Transit Buses and Infrastructure (CARB) | 520 | -176 | -180 | 293 | -63 | 457 |
| Transit Buses and Infrastructure (CEC) | 230 | -66 | -80 | 130 | -16 | 214 |
| Drayage Trucks and Infrastructure (CARB) | 445 | -80 | -48 | 128 | — | 445 |
| Drayage Trucks and Infrastructure (CEC) | 500 | -85 | -49 | 134 | — | 500 |
| Sustainable community plans and strategies | 339 | -140 | -44 | 25 | -159 | 180 |
| Equitable At-Home Charging | 300 | -160 | -120 | 280 | — | 300 |
| Clean Trucks, Buses, and Off-Road Equipment | 299 | -98 | -56 | 154 | — | 299 |
| Ports (CARB) | 250 | -60 | -190 | — | -250 | — |
| Ports (CEC) | 150 | -40 | -110 | — | -150 | — |
| Charter boats compliance | 100 | -40 | — | 40 | — | 100 |
| Emerging Opportunities (CARB) | 100 | -35 | -12 | — | -47 | 53 |
| Emerging Opportunities (CEC) | 100 | -35 | -11 | — | -46 | 54 |
| Subtotals | ($6,809) | (-$1,500) | (-$1,030) | ($1,439) | (-$1,091) | ($5,718) |
| **All Other ZEV Package Funding** | $3,135 | — | — | — | — | $3,135 |
| **Totals** | **$9,944** | **-$1,500** | **-$1,030** | **$1,439** | **-$1,091** | **$8,853** |

GGRF = Greenhouse Gas Reduction Fund; CARB = California Air Resources Board; and CEC = California Energy Commission.

Figure 7

## Governor's Proposed Use of GGRF for ZEV Program Backfills

(In Millions)

| Program | Department | Backfill General Fund With Fund Shift to GGRF 2023-24 | 2024-25 | 2025-26 | GGRF Three-Year Totals |
|---|---|---|---|---|---|
| Transit Buses and Infrastructure | CARB | $38 | $56 | $199 | $293 |
| | CEC | 25 | 40 | 65 | 130 |
| Equitable At-Home Charging | CEC | 160 | 80 | 40 | 280 |
| Clean Trucks, Buses, and Off-Road Equipment | CEC | 98 | 31 | 25 | 154 |
| Drayage Trucks and Infrastructure | CARB | 80 | 48 | — | 128 |
| | CEC | 85 | 49 | — | 134 |
| ZEV Fueling Infrastructure Grants | CEC | — | 90 | 40 | 130 |
| Clean Cars 4 All and Other Equity Projects | CARB | 125 | — | — | 125 |
| Charter boats compliance | CARB | — | 20 | 20 | 40 |
| Sustainable community plans and strategies | CARB/CalSTA | — | — | 25 | 25 |
| **Totals** | | **$611** | **$414** | **$414** | **$1,439** |

GGRF = Greenhouse Gas Reduction Fund; ZEV = zero-emission vehicles; CARB = California Air Resources Board; CEC = California Energy Commission; and CalSTA = California State Transportation Agency.

***Proposes Trigger Restoration Approach for GGRF.*** The Governor proposes a trigger restoration approach for GGRF revenues that the state might receive above current estimates during the 2023-24 fiscal year. Specifically, proposed budget control section language would require the administration to allocate additional GGRF revenues to backfill additional proposed reductions to ZEV programs. The language identifies specific activities for which these revenues could be used—fueling infrastructure grants, transit and school buses, ports, community-based efforts, emerging opportunities, and charter boat compliance—but would allow the Director of DOF the discretion to determine which of these ZEV programs to augment and at what levels.

***Administration Plans to Seek Federal Funds to Offset Other Reductions.*** The administration indicates plans to use potential federal funding from IIJA and the Inflation Reduction Act to help further offset the proposed decrease in state funds. For example, the administration has identified federal funding for activities that reduce GHG emissions at ports ($3 billion total available), support charging infrastructure ($2.5 billion total available), and support ZEV buses and bus infrastructure ($5.6 billion total available)—three areas proposed for General Fund reductions.

***Proposes $35 Million New Spending for Charging Stations at State-Owned Locations.*** Outside of the ZEV package—and therefore not displayed in any of the figures—the Department of General Services (DGS) Office of Sustainability is requesting $35 million from the General Fund over three years to install ZEV infrastructure at state-owned and leased facilities.

**Background.** According to the LAO:

***2021-22 and 2022-23 Budget Acts Included $9.9 Billion in Planned Investments for ZEV Programs.*** The previous two budgets committed significant funding for programs intended to promote purchase and use of ZEVs. As shown in Figure 5, this funding is spread across five years, including $6.5 billion already provided and $2.1 billion intended for 2023-24. The majority of this funding is from the General Fund ($6.3 billion), but also includes $1.6 billion from Proposition 98 General Fund (for school buses), $1.3 billion from GGRF, $307 million from federal funds, and $366 million from other special funds. Most of the funding is for continuing or expanding existing programs, such as rebates for purchasing vehicles and incentive payments for developing charging infrastructure. As shown in the figure, ZEV funding is primarily split between the California Air Resources Board (CARB) and the California Energy Commission (CEC). CARB oversees vehicle incentive programs, while CEC oversees ZEV charging infrastructure programs. The majority of planned ZEV augmentations ($5.5 billion) support heavy-duty vehicle programs.

Figure 5

**Recent and Planned Zero-Emission Vehicle (ZEV) Augmentations**

Highlighted Rows Indicate Programs Governor Proposes for Budget Solutions
General Fund, Unless Otherwise Noted (In Millions)

| Program | Department | 2021-22 | 2022-23 | 2023-24 | 2024-25 | 2025-26 | Totals |
|---|---|---|---|---|---|---|---|
| **Light-Duty Programs** | | **$1,210** | **$396** | **$495** | **$170** | **$80** | **$2,351** |
| ZEV Fueling Infrastructure Grants | CEC | $515 | $15 | $210 | $90 | $40 | $870 |
| Clean Vehicle Rebate Project | CARB | 525[a] | — | — | — | — | 525 |
| Clean Cars 4 All and Other Equity Projects | CARB | 150[b] | 381[a] | 125 | — | — | 656 |
| Equitable At-Home Charging | CEC | 20 | — | 160 | 80 | 40 | 300 |
| **Heavy-Duty Programs** | | **$1,627** | **$2,635** | **$1,205** | **$488** | **$225** | **$6,180** |
| School Buses and Infrastructure | CARB | $130 | $1,260[c] | $135 | — | — | $1,525 |
| | CEC | 20 | 390[c] | 15 | — | — | 425 |
| Clean Trucks, Buses, and Off-Road Equipment | CARB | 500[a] | 600[a] | — | — | — | 1,100 |
| | CEC | 299 | — | 315 | $31 | $25 | 670 |
| Transit Buses and Infrastructure | CARB | 70 | 70 | 200 | 110 | 70 | 520 |
| | CEC | 30 | 30 | 90 | 50 | 30 | 230 |
| Drayage Trucks and Infrastructure | CARB | 157 | 75 | 165 | 48 | — | 445 |
| | CEC | 181 | 85 | 185 | 49 | — | 500 |
| Ports | CARB | — | — | 60 | 120 | 70 | 250 |
| | CEC | — | — | 40 | 80 | 30 | 150 |
| ZEV Manufacturing Grants | CEC | 125 | 125 | — | — | — | 250 |
| Near-Zero Heavy-Duty Trucks | CARB | 45 | — | — | — | — | 45 |
| Drayage Trucks and Infrastructure Pilot Project | CARB | 40 | — | — | — | — | 40 |
| | CEC | 25 | — | — | — | — | 25 |
| ZEV Consumer Awareness | GO-BIZ | 5 | — | — | — | — | 5 |
| **Other** | | **$514** | **$137** | **$407** | **$200** | **$155** | **$1,413** |
| Transportation package ZEV | CalSTA | $407[b] | $77[d] | $77[d] | $77[d] | $76 | $714 |
| Sustainable community plans and strategies | CARB/CalSTA | — | — | 200 | 80 | 59 | 339 |
| Emerging Opportunities | CARB | 53 | — | 35 | 12 | — | 100 |
| | CEC | 54 | — | 35 | 11 | — | 100 |
| Charter boats compliance | CARB | — | 60[a] | 40 | — | — | 100 |
| Hydrogen Infrastructure | CEC | — | — | 20 | 20 | 20 | 60 |
| **Totals** | | **$3,351** | **$3,168** | **$2,107** | **$858** | **$460** | **$9,944** |

[a] Includes Greenhouse Gas Reduction Fund.
[b] Includes $200 million Public Transportation Account and $80 million federal funds.
[c] Proposition 98 General Fund.
[d] Federal funds.

CEC = California Energy Commission; CARB = California Air Resources Board; Go-BIZ = Governor's Office of Business and Economic Development; and CalSTA = California State Transportation Agency.

***Package Represents Unusually Large State-Level Investment in ZEV Programs.*** The large investments reflect the state's policy goals of reducing GHGs from transportation. Transportation is the single largest source of GHGs—responsible for 40 percent of emissions—making the sector a critical area for seeking reductions. In the fall of 2022, CARB adopted regulations to require all new cars sold in California to be ZEV or hybrid-electric by 2035. While the state has historically administered a variety of programs intended to promote ZEVs, the funding displayed in Figure 5 is significant compared to previous amounts, as is the use of General Fund. For example, in 2019-20, the state invested a total of $435 million for ZEV programs, from GGRF. Certain vehicle fees commonly known as "AB 8" fees have provided another consistent source of funding for ZEV and mobile source emission reduction programs. These fees provide about $170 million annually for programs that support ZEVs and lower-emission vehicles. (As we discuss in a separate publication, a portion of these fees are scheduled to sunset in 2023, and the Governor is proposing that the Legislature renew them to continue to support existing programs.)

**LAO Assessment.**

***Consider Highest-Priority Goals When Making Funding Decisions.*** The large number of ZEV-related programs reflects diversity in approaches to achieve various state goals, such as reducing air pollution, lowering GHG emissions, and providing subsidies and infrastructure benefiting low-income and disadvantaged communities. Prioritizing among these complementary goals and assessing how effective each program is at attaining them can help guide the Legislature's decisions about where to make funding reductions. For example, if the Legislature's highest-priority goal is to reduce air pollution from mobile sources, then it may want to prioritize maintaining funding for programs that incentivize medium- and heavy-duty ZEVs, as these are more effective at achieving that objective than programs that focus on passenger vehicles or charging infrastructure. Alternatively, if the most important goal is reducing GHGs, then maintaining funding for programs that promote passenger ZEVs make sense. (Please see our 2022 report, *The 2022-23 Budget: Zero-Emission Vehicle Programs*, for more information on the effectiveness of ZEV programs by goal.)

***Governor's Proposed Solutions Appear Generally Reasonable.*** We find merit in the Governor's approach of focusing budget solutions on newer programs and in areas with potential federal funding availability. For example, eliminating funding for the ports program is less likely to cause disruption as compared to some existing programs, given that this program has not begun implementation. Furthermore, federal funds for similar activities at ports are available to help offset a loss in state funds. We also see value in the Governor's approach of retaining funding for programs that reduce emissions and air pollution in low-income/disadvantaged communities, including the drayage truck programs and CC4A. These communities are more likely to be located in heavy transit corridors with higher levels of air pollution, so they represent a worthwhile area of state focus and intervention. This is consistent with the Legislature's historical prioritization of programs that provide ZEV funding for low-income and disadvantaged communities. Finally, a rationale exists for making reductions in ZEV charging infrastructure support, as the market for charging is maturing and the same level of state intervention may no longer be needed to spur development. Additionally, new federal funding is becoming available for charging infrastructure.

***Consider Refining Some Programs to Focus on Highest-Priority Needs.*** As it considers making funding reductions, the Legislature may want to also consider narrowing the scope of certain ZEV programs. This could help to ensure that remaining funding is specifically targeted towards achieving the Legislature's highest-priority goals. For example, this might include more narrowly focusing benefits on lower-income Californians who are not eligible for federal subsidies and efforts where state investments could be most effective at spurring growth in ZEV infrastructure. Two possible approaches include:

- ***Focusing CC4A Rebates on Consumers Who Do Not Qualify for Federal Incentives.*** The Governor proposes to maintain the full funding amount for the CC4A program ($656 million), which provides rebates for low-income car buyers who purchase ZEVs. Some individuals who purchase ZEVs are also eligible for federal tax credits up to $7,500. For example, a car buyer at or below 300 percent of the federal poverty level and living in a disadvantaged community could receive up to $12,000 from CC4A, up to $7,500 from the state's Clean Vehicle Rebate Program, and up to $7,500 of federal incentives. As the program is currently structured, some consumers can qualify for both CC4A and other state ZEV rebate programs in addition to the federal tax incentive. In contrast, some Californians are only eligible for CC4A because their incomes are too low to participate in the federal program. (The federal program provides incentives as a tax credit and very low-income households are not required to file taxes so therefore are not able to take advantage of this benefit.) Particularly if it were to make reductions to the CC4A program, the Legislature could consider further limiting the program's income-eligibility threshold to focus exclusively on consumers who do not qualify for federal incentives. This would allow the Legislature to focus funding on those who do not have other options for subsidizing their ZEV purchases and facilitate more equitable outcomes.

- ***Focusing Light-Duty ZEV Charging Funding on Chargers That Would Otherwise Not Be Developed.*** The state has invested heavily in chargers and these investments have helped support a private market for public charging stations. More chargers likely will be deployed with or without additional state investments due to increased availability of federal funding and the growth of companies that install chargers in public locations. This is particularly true for passenger light-duty vehicles in locations with higher concentrations of ZEVs, which tend to be higher-income areas. The Legislature may want to consider whether the state should focus less on funding light-duty chargers and instead prioritize infrastructure investments in areas that do not have as much private investment. This could include helping to subsidize installment of chargers in multiunit dwellings and in lower-income neighborhoods. This also could include prioritizing funding for medium- and heavy-duty vehicles and hydrogen vehicles rather than light-duty electric chargers. While these types of chargers and fueling stations may also qualify for federal funds, they are more emergent technologies and may need additional support before reaching the same availability as passenger electric vehicle chargers.

***Legislature Will Need to Weigh Whether ZEV Programs Represent Its Highest Priority for GGRF Discretionary Funds…*** The Governor proposes to use the majority of discretionary GGRF funds for ZEV programs. Together with $250 million proposed for backfilling a reduction to the AB 617 air quality improvement program (discussed in the "Community Resilience" section of this report), this represents nearly all of the administration's projected 2023-24 discretionary GGRF expenditures. Typically, the Legislature and Governor negotiate annually to allocate discretionary GGRF revenue for a variety of programs and priorities. As such, directing these revenues towards only two program areas is unusual. The Governor's proposal presents the Legislature with the key decision of whether sustaining ZEV programs is its highest priority for the 2023-24 discretionary GGRF revenue. However, should the Legislature reject the Governor's GGRF approach, this could mean deeper reductions to ZEV or other programs compared to what the administration proposes if it wants to realize the same amount of General Fund savings.

***…And Whether It Wants to Commit Out-Year GGRF Revenues Now.*** As shown in Figure 7, in addition to the $611 million of discretionary GGRF revenues in 2023-24, the Governor proposes using $414 million annually in future GGRF discretionary funds to backfill ZEV programs in 2024-25 and 2025-26. This is somewhat unusual—in general, after allocating funding for statutorily required expenditures, uses for remaining GGRF funds typically are determined by the Governor and Legislature on an annual basis as part of the deliberations on the budget for the fiscal year in which they would be spent. Committing future GGRF revenues now would reduce the discretionary funds available in future years that could support other programs and preclude the Legislature's ability to weigh whether it might have different spending priorities in 2024-25 and 2025-26.

***GGRF Trigger Proposal Also Raises Concerns.*** We have concerns about the Governor's proposal to allow DOF to allocate potential midyear increases in GGRF revenues. Historically, the Legislature has opted to delay action on any additional discretionary GGRF revenues that materialize midyear and allocate them as part of the subsequent year's budget package. This standard approach allows the Legislature the discretion to consider its highest priorities for that spending as part of a more comprehensive discussion. When midyear adjustments have been necessary due to GGRF revenues coming in lower than expected, the administration has cut programs proportionally (rather than making discretionary decisions to prioritize some over others). Allowing the administration to select which ZEV programs it would fund with any potential new monies and at what levels—without any statutory direction from the Legislature—shifts too much decision-making authority away from the Legislature to the administration.

***Potential for Higher GGRF Revenues Highlights Importance of Identifying Legislative Spending Priorities.*** We believe a strong possibility exists that additional GGRF revenues will be available to spend in 2023-24, as the administration historically underestimates cap-and-trade auction revenues. This makes it particularly important for the Legislature to consider its priorities for these discretionary funds—and to maintain decision-making over how to spend potential midyear increases. Extra GGRF revenues could be especially helpful this year, given the potential for a worsening budget picture. The Legislature could consider using such funds to support other climate-related activities that might otherwise need to be reduced.

***Federal Funds May Help Offset Some Reductions, but No Guarantee.*** The Governor has identified federal funding opportunities for ports ($3 billion total), school and transit buses ($5.6 billion total), and ZEV charging ($2.5 billion total). The administration believes this funding could offset reductions in state funding for various ZEV programs. However, applicants for the funding would most likely be individual entities (such as transit agencies interested in purchasing electric buses, charging developers, or ports pursuing lower-emission technologies) rather than state departments. Such applicants would be competing for funding against entities from around the country. As such, while this funding could help offset reductions to similar state programs, California entities would not necessarily be the beneficiaries of the same amounts or allocations of federal funding.

***Funding to Prepare State Properties for ZEV Transition Could Make Sense to Add to ZEV Package.*** DGS is subject to the Advanced Clean Fleets regulation planned for adoption this year by CARB, which will require government vehicle fleets to be zero-emission by 2035. As noted above, the Governor proposes $35 million in new General Fund spending outside of the ZEV package to install charging stations at state-owned and leased facilities to help meet this requirement. Given the General Fund condition and the fact that overseeing the state fleet is a core state responsibility, the Legislature may want to consider whether it should prioritize funding for this activity within the ZEV package over paying for privately owned vehicles and charging stations. Making room for this activity within the existing ZEV package would necessitate making deeper reductions to the programs displayed in Figure 5 if the Legislature wants to avoid an additional $35 million net General Fund cost. However, we think such action could be justified to enable the state to comply with ZEV fleet requirements and given budget constraints.

**LAO Recommendations.**

***Adopt Package of Solutions From ZEV Programs Reflecting Legislative Priorities.*** We recommend the Legislature begin with the Governor's proposals, which we find reasonable, but also consider additional or alternative reductions across ZEV programs based on its goals and highest priorities. As it considers additional reductions, we recommend the Legislature consider whether it wants to further refine certain ZEV programs—such as support for ZEV charging infrastructure and CC4A—to have a narrower scope and focus on the highest-priority populations, locations, and emerging technologies. We also recommend the Legislature consider whether ZEV programs represent its highest-priority for GGRF discretionary spending and whether it wants to commit future-year GGRF revenues for ZEV programs now. The Legislature may also want to determine whether it wants to accommodate funding the costs for installing chargers at state-owned and leased facilities within the existing ZEV package rather than as a new additional General Fund expenditure—though this could come at the expense of other intended ZEV expenditures.

***Reject or Modify Governor's GGRF Trigger Approach, Maintain Legislative Flexibility.*** We also recommend the Legislature either (1) follow its historical approach of waiting to allocate any unforeseen increases in 2023-24 GGRF revenues as part of the 2024-25 budget process; (2) appropriate such revenues by passing a midyear spending bill in early 2024; or (3) adopt language that directs the administration specifically how it should allocate additional GGRF revenues, such as to which programs—ZEV or otherwise—and at which levels. Any of these approaches would better preserve the Legislature's authority over making spending choices as compared to the Governor's proposal.

**Staff Comments.** As the LAO notes, the Governor's proposal to allow DOF to allocate potential midyear increases in GGRF revenues limits Legislative oversight and discretion over the GGRF. To ensure a greater level of flexibility in times of budget uncertainty, staff recommends to reject this component of the proposal, so that if GGRF revenues are higher than expected in the upcoming year, the Legislature retains the opportunity to review what the highest priorities are for GGRF in the following budget year and appropriate accordingly.

With regards to the proposed reductions, the Legislature will want to consider how much federal funding is available for similar purposes. In both the IIJA and IRA, there are several programs with significant amounts of monies available for medium- and heavy-duty ZEVs and charging infrastructure across several sectors. DOF has identified the following programs:

| ZEV Federal Funding | | |
|---|---|---|
| **Program/Purpose** | **Amount (in millions)** | **Code Sections** |
| Class 6 and 7 Trucks Electrification (IRA) | $1,000 | 60101 |
| Ports (IRA) | $3,000 | 60102 |
| Advanced Technology Vehicle Manufacturing (ATVM) Loan Program Emerging Opportunities (IRA) | $3,000 | 50142 |
| Domestic Manufacturing Conversion Grant Program ZEV Manufacturing Grants (IRA) | $2,000 | 50143 |
| Electric drive vehicle battery recycling and second-life applications program (IIJA) | $200 | Div. J, 40208 |
| Charging and Fueling Infrastructure Grants (community charging) (IIJA) | $1,250 | 11101, 11401 |
| Charging and Fueling Infrastructure Grants (corridor charging) (IIJA) | $1,250 | 11101, 11401 |
| Bus and Bus Facilities: Low or No Emissions (Appropriations) (IIJA) | $5,250 | Div. J, 30018 |
| Bus and Bus Facilities: Low or No Emissions (Contract Authority) (IIJA) | $375 | 30017, 30018 |
| Electric or Low-emitting Ferry Program (IIJA) | $250 | Div. J, 71102 |
| Clean School Bus Program (IIJA) | $5,000 | Div. J, 71101 |
| **Total** | **$22,575** | |

In addition, the National Electric Vehicle Infrastructure (NEVI) Formula Program will provide formula-based funding to strategically deploy electric vehicle charging stations. California is estimated to receive over $383 million over five years. There are also a number of federal non-refundable tax credits for consumer purchases of ZEVs. For some programs, it is clear how much the state will receive. However, for many programs, especially competitive grant programs, the federal government has not yet established guidelines or awarded many of the funds. As the Legislature assesses its priorities in the budget, it will want to consider the potential gaps in the federal funding and focus protecting those program areas when taking action on this budget item.

**Staff Recommendation.** Hold Open.

# 3360 Energy Resources Conservation and Development Commission
# 8660 Public Utilities Commission
# 3860 Department of Water Resources

## Issue 24: Supporting Energy Reliability and the Clean Energy Transition

**Governor's Proposal.** The Governor has put forward two major proposals related to procuring sufficient clean energy resources to meet reliability and GHG reduction goals. These proposals are contained in budget trailer legislation. The proposals include: (1) establishing a new centralized energy procurement role for the state, for which costs could be recovered from ratepayers, and (2) requiring "capacity payments" from LSEs that experience energy resource deficiencies during months when the state utilizes the ESSRRP. The figure below describes each proposal in detail.

Figure 3

### Summary of Governor's Major New Energy Policy Proposals

**New Centralized Procurement Role for the State**

✓ ***New Central Energy Procurement Authority.*** The proposal provides the California Public Utilities Commission (CPUC) with the option to identify either an Investor Owned Utility (IOU), the Department of Water Resources (DWR), or both to procure energy resources through a centralized procurement process on behalf of Load Serving Entities (LSEs) that provide electricity services to customers. The proposal primarily focuses on establishing requirements for DWR, as DWR does not yet have the authority to centrally procure electricity resources in the way that IOUs currently do. Any resources that DWR procures through this process would be available for IOUs, Publicly Owned Utilities (POUs), and other types of LSEs to use. DWR would utilize its new Strategic Reliability Reserve office and staff to manage the procurement.

✓ ***Requirements for Types of Resources Procured.*** The proposal requires DWR to conduct a competitive procurement process and prioritize investments that do not compete with LSEs' traditional procurement. According to the administration, the DWR procurement is intended to be for long lead-time resources such as offshore wind, geothermal, and long duration storage. The proposed statutory changes, however, do not explicitly limit this procurement option to those types of resources.

✓ ***Authority for New Electricity Rate Charges to Cover Central Procurement Costs.*** The proposal gives CPUC the authority to impose a non-bypassable charge to ratepayers to cover DWR's procurement costs, should CPUC find that the charge would not unreasonably increase costs to customers. A new Clean Energy Procurement Fund would receive the customer charges and support the procurement activities.

✓ ***Authority for DWR to Issue Bonds.*** The proposal gives DWR the authority to issue bonds, if necessary, to fund up-front costs for its central procurement activities. These bonds would be repaid with the ratepayer charges noted above.

**New Charges for LSEs That Do Not Procure Sufficient Energy Resources**

✓ ***Require Payments if LSEs Do Not Meet Energy Capacity Targets.*** To discourage LSEs (including POUs, which are outside the CPUC's jurisdiction) from over-relying on the Electricity Supply Strategic Reliability Reserve Program (ESSRRP), the proposal would require utilities that do not procure sufficient energy capacity to make payments to help support the ESSRRP.

✓ ***Payments Calculated Based on Energy Resource Deficiency.*** The state would assess a payment if an LSE does not meet its reliability obligations in a month when the state had to access the ESSRRP. Specifically, the payment would be based on a calculation that factors in the cost of the energy resource provided by the ESSRRP and the LSE's deficiency in meeting its monthly Resource Adequacy or planning reserve requirements. The payments would be calculated by CPUC and the California Energy Commission.

✓ ***Payments Would Be in Addition to Existing Integrated Resource Planning Enforcement Penalties.*** The proposed new payments would be in addition to existing enforcement protocols. Specifically, an LSE that fails to meet its planning reserve margin or Resource Adequacy requirements for the given month when the state used the ESSRRP would be subject to both this new charge and existing penalty payments.

***Some Initial Funding to Come From the General Fund.*** As described in the figure, the Governor proposes to fund the ongoing support and operational costs for DWR's new procurement role from new charges to ratepayers. These charges also would be used to pay off any bonds that DWR might issue for large capital costs. In addition, the Governor proposes using General Fund in 2023-24 to help "stand up" the new procurement function at DWR. Specifically, the CERIP that CEC recently submitted to the Legislature includes $32 million—of the intended $100 million budget-year amount—to help establish this new central procurement office and process.

***Other Technical Statutory Changes to Existing Energy Policies and Programs.*** The proposed trailer legislation also includes various statutory changes for the three Strategic Reliability Reserve programs and DCPP which the administration considers to be technical "clean up."

**Background.** According to the LAO:

***State Facing Some Energy Reliability Challenges.*** Climate change is contributing to demands on the state's electric grid, with warmer temperatures leading to more calls for electricity during peak evening hours in the summer months. In August 2020, California experienced rolling power outages due to a heatwave and accompanying strain on the electric grid. The state avoided outages in 2021 and 2022, but energy resources were strained during summer heatwaves. A major heatwave in September 2022 caused the state to send an emergency text message alert to 27 million Californians to encourage energy conservation—the first time such a measure had been deployed. While the state has experienced significant growth in renewable energy sources in recent years, some of those variable energy resources are estimated to require additional planning and diversity to maintain reliability. Greater development of energy storage technology, development of complementary renewable resources, energy efficiency and demand response programs, and more accurate planning and modeling will be needed to help address the misalignment challenge of growing demand during times that a key renewable energy source is not available.

***Significant Growth in New Energy Resources, but Also Project Delays.*** In recent years, the number of clean energy projects across the state has increased exponentially, with the amount of renewable energy supply more than tripling since 2005. Between 2020 and 2022, 130 new clean energy projects came online to serve customers in the California Independent System Operator network, which provides electricity to 80 percent of California. However, some projects also have experienced delays due to issues with the supply chain, permitting, and connecting new resources to the electric grid. While the state is on track to continue to develop new clean energy resources over the next decade, such delays in bringing these projects online could pose challenges in meeting the state's clean energy, emissions, and reliability goals.

***Recent Budgets and Policy Actions Provided Significant Funding for Clean Energy and Reliability.*** The 2022-23 budget package planned for $9.6 billion over five years for clean energy programs and reliability efforts. The administration indicates that California also has received federal funds to support various energy efficiency efforts through the Inflation Reduction Act and the Infrastructure Investment and Jobs Act, but has not yet provided specific details on the status of this funding or what types of projects it could support. The Governor's budget proposes some reductions to state energy activities, but would maintain the majority of the planned funding ($8.7 billion). Moreover, a large share of this funding—$3.3 billion across five years—is for three programs intended to increase statewide electricity reliability, which the Governor does not propose reducing. Together, the administration refers to these three programs as the "Strategic Reliability Reserve," and they include:

- ***Electricity Supply Strategic Reliability Reserve Program (ESSRRP, $2.3 Billion).*** This program funds the Department of Water Resources (DWR) to secure additional electricity resources to help ensure summer electric reliability. So far, these activities have included extending the life of gas-fired power plants that were scheduled to retire, and procuring temporary diesel and natural gas power generators as well as extending retiring facilities. DWR says it has avoided procuring zero-emission resources, such as battery storage, as existing code requires the agency to not compete with generation planned for POUs and IOUs. The ESSRRP provided between 554 megawatts (MW) and 1,416 MW of energy during last September's extreme heat event. For context, the rotating outages in 2020 were caused by a shortfall of about 500 MW.

- ***Demand Side Grid Support ($295 Million).*** This new program, administered by the California Public Utilities Commission (CPUC), provides customer incentives to reduce net electricity load during extreme events. In the summer of 2022, utilities began enrolling participants in the program, which pays customers to reduce their energy usage during summer peak evening hours when the electric grid is strained. This program, administered as the Emergency Load Reduction Program, has increased the compensation provided per kilowatt hour of energy reduction (now $2 per kWh, compared to $1 per kWh in 2021) to encourage enrollment.

- ***Distributed Electricity Backup Assets ($700 Million).*** This new program, administered by the California Energy Commission (CEC), provides incentives for certain distributed energy resources that can be used to support the state's electrical grid during extreme events. The CEC is still developing the program, which is intended to fund zero- or low-emissions technologies such as fuel cells and energy storage at both existing energy facilities and new facilities.

In addition to these budget actions, Chapter 239 of 2022 (SB 846, Dodd) authorized the extension of the Diablo Canyon Power Plant (DCPP)—which was scheduled to retire by 2025—through 2030. Diablo Canyon is California's last remaining nuclear power plant, and the state has identified it as a valuable near-term source of zero-carbon energy during the transition to greater renewable resources. While the legislation authorized an extension, DCPP still has to receive required permits at the local, state, and federal levels in order to continue operations. SB 846 also authorized the following expenditures:

- ***Loan to Pacific Gas & Electric (PG&E) (up to $1.4 Billion).*** The Legislature specified intent to provide a General Fund loan of up to $1.4 billion to PG&E to support extended operations at Diablo Canyon. Of this total amount, the Legislature has authorized $600 million so far. The potential remaining $800 million is subject to a future appropriation. PG&E was awarded a $1.1 billion federal grant from the U.S. Department of Energy in November 2022 and is expected to use this award to pay back the state for loans it ultimately receives.

- ***Clean Energy Reliability Investment Plan (CERIP, $1 Billion).*** Senate Bill 846 also included legislative intent to provide a total of $1 billion General Fund from 2023-24 through 2025-26—$100 million in 2023-24, $400 million in 2024-25, and $500 million in 2025-26—to support the CERIP, which CEC recently developed. The legislation required the plan to support investments that address near- and mid-term reliability needs and the state's GHG and clean energy goals. In accordance with the legislation, the administration proposes to provide $100 million in 2023-24 for CERIP-identified activities. Specifically, the Governor proposes: (1) $32 million for DWR to develop a proposed new central procurement role described below; (2) $33 million for extreme event support (including additional funding for the Demand Side Grid Support and Distributed Electricity Backup Assets programs); (3) $20 million for various administrative, community engagement, and planning expenditures; and (4) $15 million to help new energy resources come online.

**Staff Comments.** This proposal includes several significant policy changes that would establish a new centralized procurement role for the state. According to the Administration, the intended goals of these policy changes are to support long-term energy reliability by ensuring long lead time, diverse, and large (LLTDL) energy resources, such as offshore wind, geothermal, and long duration storage, gets procured. However, several uncertainties remain about the proposal:

- **What will central procurement be used for?** Though this procurement process is intended to be used for LLTDL energy resources, the trailer bill language does not define what is included in this term. The Administration intends to be more specific in the CPUC regulatory processes and provide a range of attributes for the projects in the solicitation. However, this statutory ambiguity has raised concerns for some stakeholders, particularly since LSEs are already competing in a very tight market for energy resources. Additional competition from a state procurement entity could potentially further increase prices and prevent LSEs from meeting its requirements.
- **What will be the impact on costs to ratepayers?** The proposal includes some cost containment measures, to ensure DWR does not enter into contracts that incur unreasonably high costs to ratepayers. Specifically, CPUC will be able to review the procurement and allow cost recovery only if the costs are found to be "just and reasonable". In addition, the Administration reports DWR would convene an advisory group to review contracts to consult during the procurement process to assess the reasonableness of costs. However, as the LAO notes, it is still unclear how the market as a whole will be affected by a state entity entering the procurement market. It is possible that prices could increase due to another large, well-resourced entity entering the market.

In addition, it is still unclear whether this central procurement process is (1) really necessary given the other avenues the state has to procure energy resources and (2) urgently needed, given the Administration estimates it would not utilize this central procurement option in 2023-24. In recent years, the Budget has included several significant budget and policy items for energy reliability. Before the Legislature takes on another significant new policy and budget proposal to address energy reliability, it might be prudent to first assess the existing programs and funding, evaluate the measurable outcomes that are available, and identify the gaps and problems with the state approach, to ensure that any new policies will be addressing those issues.

This proposal also includes a new mechanism to require energy resource deficient LSEs to make a capacity payment to support the Electricity Supply Strategic Reliability Reserve Program (ESSRRP) for any capacity purchased on behalf of these LSEs by DWR. This would be in addition to any penalties assessed by CPUC for not meeting capacity requirements. Capacity payments would also be assessed on POUs if they did not procure sufficient energy resource capacity to reliably meet their forecasted load. Although this policy makes sense in concept, it raises some concerns. Specifically, several stakeholders have reported that the near-term energy resource capacity market is extremely tight, and several entities are competing for a limited number of projects. Some analyses have shown there is simply not enough (or barely enough) supply to meet the increasing capacity requirements. As a result, some LSEs are already having to pay penalties (from CPUC and CAISO) for not meeting their requirements, despite their best efforts to procure and willingness to pay exorbitant prices. Under this proposal, these same LSEs will be required to pay an additional capacity payment, which ultimately will result in even higher costs for their ratepayers. Given that these LSEs are already required to pay a penalty, it is unclear whether an additional payment will achieve its intended goal—to incentivize LSEs to meet their energy resource capacity requirements—and make energy costs even higher for certain ratepayers.

Furthermore, the legislature may want to consider the extent to which past programs versus proposed programs align with California's long-term and interim clean energy transition targets, such as those created in SB 100 (DeLeón, 2018) and updated by SB 1020 (Laird, 2022). The Electricity Supply Strategic Reliability Reserve Program has since predominantly procured low-emission resources at a higher cost compared to direct market procurement. Other proposals in this year's budget may provide additional opportunity for less variable clean energy resources.

**Staff Recommendation.** Hold Open.

# 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION
# 3900 STATE AIR RESOURCES BOARD

## Issue 25: Reauthorization of the Clean Transportation Program Fees and Program Amendments

**Governor's Proposal.** The Governor's Budget requests to extend until June 30, 2035 the following vehicle registration, smog abatement, vessel registration, and identification plate fees at the existing rates:

| AB 8 Fees | Code Section | Average Annual Number & Type of Fee Payers | Department | Average Annual Revenue (Dollars in Millions) | Fund | Program |
|---|---|---|---|---|---|---|
| $2 Vehicle Registration Fee | Vehicle Code section 9250.1 | 33.6 million vehicles | CEC | $67 | ARFVTF (3117) | Clean Transportation Program (CTP) |
| $4 Smog Abatement Fee | Health and Safety Code section 44060.5 | 10.0 million vehicles | CEC | $42 | ARFVTF (3117) | Clean Transportation Program |
| $5 Vessel Registration Fee / $10 Vessel Registration Fee | Vehicle Code section 9853.6 | 24,000 original vessel registrations | CEC | $0.21 | ARFVTF (3117) | Clean Transportation Program |
| $2.50 Identification Plate Fee * | Vehicle Code sections 9261 and 9261.1 | ~135,000 specialized vehicles | CEC | $0.08 | ARFVTF (3117) | Clean Transportation Program |
| $1 Vehicle Registration Fee | Vehicle Code section 9250.1 | 33.6 million vehicles | CARB/BAR | $33 | Enhanced Fleet Modernization Account (3122) | Enhanced Fleet Modernization Program/Consumer Assistance Program |
| $4 Smog Abatement Fee | Health and Safety Code section 44060.5 | 10.0 million vehicles | CARB | $42 | Air Quality Improvement Fund (3119) | Air Quality Improvement Program |
| $5 Vessel Registration Fee / $10 Vessel Registration Fee | Vehicle Code section 9853.6 | 24,000 original vessel registrations | CARB | $0.18 | Air Quality Improvement Fund (3119) | Air Quality Improvement Program |
| $2.50 Identification Plate Fee * | Vehicle Code sections 9261 and 9261.1 | ~135,000 specialized vehicles | CARB | $0.08 | Air Quality Improvement Fund (3119) | Air Quality Improvement Program |
| Total Annual Revenue | | | | $185 | | |

* Identification Plate Fee - Since 1986, Identification Plates shall be renewed between Jan 1 and Feb 4 every five calendar years. FY 15/16 and FY 20/21 were renewal years. Average Non-renewal yea

The Governor also proposes to slightly modify which types of projects and entities would be eligible to receive funding grants from the CTP. First, the proposal would limit eligibility for CTP funding to zero-emission technologies. (CTP historically has funded both low-emission and zero-emission technologies, although has begun to prioritize the latter in recent years.) Second, the proposal would modify CTP's existing statute to allow for U.S. Department of Energy national laboratories to receive awards under the program. Third, the proposal would expand the definition of tribes that may receive funding through the program to all California tribes, rather than only federally recognized tribes.

**Background.** According to the LAO:

***Vehicles Are a Major Source of Greenhouse Gas (GHG) Emissions and Air Pollution.*** The state has undertaken a variety of steps to try to limit the magnitude of climate change and reduce GHG emissions. Transportation is the largest single source of GHG emissions—responsible for about 40 percent of total GHG emissions overall, with 25 percent of the total coming from passenger vehicles. This makes vehicles a key area of focus for achieving GHG reductions. Additionally, vehicles—particularly heavy-duty trucks—are major sources of air pollution. Numerous counties in the state are out of attainment with federal air quality standards, and several counties in the Central Valley and Southern California are classified as extreme non-attainment communities. Air pollution from mobile sources is responsible for about 80 percent of nitrogen oxide emissions and 90 percent of diesel particulate matter emissions, both of which are harmful to human health. Communities with larger percentages of low-income households and people of color are disproportionately exposed to air pollution.

***AB 8 Fees Include Various Vehicle-Related Taxes.*** Chapter 750 of 2008 (AB 118, Núñez) established several different vehicle-related fees that primarily support climate and air quality programs. Chapter 401 of 2013 (AB 8, Perea) extended these fees until January 1, 2024. Throughout this brief, we refer to the vehicle charges imposed by AB 8 as "fees," which is generally consistent with how they are characterized in statute. However, under the State Constitution, these charges qualify as taxes. These fees include an annual smog abatement fee for vehicles six years old or less ($8), an annual vehicle registration fee ($3), an annual vehicle identification fee ($5), and a vessel registration fee ($20 every other year). These vehicle fees are only charged for light-duty passenger vehicles and, in the case of the vessel fee, boats. (These numbers reflect the share of these fees that go to AB 8 programs; the state also charges some additional vehicle fees that are not reflected here.)

***Fee Revenue Supports Five Vehicle Emissions-Related Programs.*** The revenue from these fees supports five environmental and clean transportation programs, most of which are targeted at mitigating climate change and improving air quality. The amounts shown reflect approximate AB 8 annual revenues, based on statutory formula allocations.

- ***Clean Transportation Program (CTP, $110 Million).*** The CTP program, administered by the California Energy Commission, provides grants to accelerate development and deployment of clean vehicles, including ZEV fueling infrastructure, alternative vehicle technologies, and alternative fuels. According to the administration, about 50 percent of funded projects are located in low-income or disadvantaged communities experiencing disproportionate levels of pollution.

- ***Carl Moyer Program ($50 Million).*** This joint state and local program provides financial support for early vehicle retirement and cleaner-than-required equipment. The program largely focuses on reducing criteria and toxic air emissions from heavy-duty diesel engines. It is administered by the California Air Resources Board (CARB) and local air districts.

- ***Waste Tire Program ($35 Million).*** This program, administered by the California Department of Resources Recycling and Recovery, supports permitting and enforcement activities to ensure tires are stored and transported safely. It also funds tire recycling and market development activities.

- ***Enhanced Fleet Modernization Program (EFMP, $33 Million).*** The EFMP provides subsidies to retire older, high-polluting vehicles and replace them with newer vehicles, with higher subsidies for low-income households. The Bureau of Automotive Repair (BAR) implements the scrap-only portion of the program statewide, which receives about 90 percent of the funds, through its Consumer Assistance Program. Under the program, low-income consumers are eligible for a $1,500 incentive to retire higher-polluting older vehicles at a BAR-contracted dismantler. CARB administers the scrap-and-replace portion of EFMP, which provides a retirement incentive and additional compensation towards the purchase of a cleaner hybrid or zero-emission replacement vehicle. Participants must make 400 percent or less of the federal poverty level (FPL) to qualify for the scrap-and-replace option.

- ***Air Quality Improvement Program (AQIP, $29 Million).*** AQIP is a mobile source incentive program that focuses on reducing criteria pollutants and diesel particulate emissions. In recent years, CARB has allocated these revenues to the Truck Loan Assistance Program, which helps small-business fleet owners secure financing for cleaner truck upgrades in order to meet regulatory requirements. To be eligible, program participants must earn less than 225 percent of the FPL annually.

***Portion of Fees Scheduled to Expire at End of 2023.*** In 2022, the Legislature enacted Chapter 355 (AB 2836, E. Garcia), which extended the portion of the AB 8 fees that support the Carl Moyer Program and the Waste Tire program until 2034. The portion of the fees that supports the three remaining programs—AQIP, EFMP, and CTP—however, has not been extended, and is scheduled to sunset on January 1, 2024. The figure below displays the annual fees that are scheduled to sunset and how they currently are allocated across programs. As shown, the fees represent a total cost of up to $16 annually per vehicle for a typical vehicle owner and $20 per vessel every other year for boat owners.

Figure 1

**Allocation of Sunsetting AB 8 Fees by Program**

(In Dollars)

| Fee | AQIP | CTP | EFMP | Totals |
|---|---|---|---|---|
| Vessel Registration Fee[a] | $10.00 | $10.00 | — | $20.00 |
| Smog Abatement Fee[b] | 4.00 | 4.00 | — | 8.00 |
| Vehicle Identification Fee | 2.50 | 2.50 | — | 5.00 |
| Vehicle Registration Fee | — | 2.00 | $1.00 | 3.00 |
| **Totals** | **$16.50** | **$18.50** | **$1.00** | **$36.00** |

[a] These fees are applied for boat registrations and are charged every other year rather than annually.
[b] Applies to vehicles six years old or less.

AB 8 = Chapter 401 of 2013 (AB 8, Perea); AQIP = Air Quality Improvement Program; CTP = Clean Transportation Program; and EFMP = Enhanced Fleet Modernization Program.

**LAO Assessment.**

***Proposal Would Require Californians to Continue Paying Existing Taxes.*** In concept, it is reasonable for the state to have drivers bear some of the costs of efforts to reduce the impacts of mobile emissions, given they represent a key source of the resulting pollution and GHG emissions. Moreover, continuing to charge the AB 8 fees would not represent a new cost to or increase in taxes for vehicle owners, but rather maintain existing, relatively modest levels ($8 in annual registration fees and $8 in annual smog abatement fees for cars six years old or less). However, vehicle owners essentially already pay an additional fee to help mitigate pollution and reduce GHG emissions resulting from the cap-and-trade program, which adds about 22 cents to the cost of each gallon of gas. (This takes into consideration the costs that fossil fuel companies—covered under the cap-and-trade program—add to each gallon of gas, reflecting their program compliance costs that they choose to pass on to customers.) Moreover, although AB 8 fees are modest, they represent a direct cost to vehicle owners—including to lower-income households, which are more likely to be negatively affected by higher registration prices. California vehicle owners already pay high registration fees compared to other states and have experienced significant increases in the past decade. For example, average total annual fees paid per vehicle have increased from $143 for automobiles in 2013 to $245 in 2020, not including air quality fees such as the smog fee. Given these trends, together with inflationary pressures and the exceptionally high cost of living in California, it will be important for the Legislature to carefully consider how important AB 8 revenues are to meeting the state's goals and whether they are worth the costs they place on households.

***Significant New Policy Goals Since AB 8 Fees Were Enacted and Reauthorized…*** The state has adopted new, more ambitious GHG reduction goals since the AB 8 fees were reauthorized in 2013. For instance, Chapter 249 of 2016 (SB 32, Pavley) updated the state's GHG reduction limit from 1990 levels by 2020 to 40 percent below 1990 levels by 2030. Chapter 337 of 2022 (AB 1279, Muratsuchi) requires the state to achieve net-zero GHG emissions by 2045. In addition to these goals, the administration has introduced new regulations to promote ZEV adoption. The Advanced Clean Cars II rule, adopted by CARB in 2022, requires 100 percent of new cars and light-duty trucks sold in California to be ZEVs or hybrid-electric by 2035. The proposed Advanced Clean Fleets rule, which CARB anticipates adopting this spring, would require all new trucks and buses sold to be ZEVs by either 2036 or 2040 (CARB has not yet decided which year). The state also has undertaken numerous efforts to improve air quality, especially in communities that are out of attainment with federal air quality standards. Taken together, the challenge of meeting ambitious goals, carrying out regulatory requirements, and addressing continuing air quality problems may provide some rationale for a continued need for AB 8 fee revenues.

***…But Also Significant New Other Sources of Funding to Support Those Goals.*** While the state's goals have evolved notably since the Legislature enacted AB 118 and AB 8, so too have the sources and amounts of funding to improve air quality and vehicle emissions. For example, cap-and-trade auction revenues that flow into the Greenhouse Gas Reduction Fund (GGRF) have increased from $257 million in 2012-13 to more than $3 billion annually in recent years. Much of this funding has been allocated to mobile source emissions reduction programs, including "AB 617" community air pollution reduction efforts as well as various clean transportation programs. The state also committed roughly $10 billion over five years for ZEV programs, primarily from the General Fund, in the 2021-22 and 2022-23 budgets. Although the Governor's 2023-24 budget proposes making some reductions to this funding, it would maintain the significant majority. In addition to these state investments, recent federal spending bills provided considerable funding to support ZEVs and other clean transportation efforts. Federal programs include tax incentives for households to purchase ZEVs, grants for charging infrastructure, funding for electric buses and truck electrification, and funding to promote cleaner vehicle technologies.

***Extending AB 8 Fee Revenues Could Provide Reliable Funding Source and Help Offset Potential Budget Reductions.*** Though the state's commitments of General Fund and GGRF revenues are significant, these sources are not consistently reliable into the future. Should the Legislature believe deeper investments in clean transportation efforts are necessary through 2035, reauthorizing the AB 8 fee revenues could provide a consistent funding source without raising new taxes or fees. Moreover, extending these fees could help the Legislature continue to pursue its goals at the same time it needs to address the state's current budget problem. For example, the Legislature could opt to reduce General Fund expenditures from the ZEV package for similar activities currently being supported by AB 8 fee revenues. While this would result in a net reduction to ZEV program spending, it could allow the Legislature to achieve General Fund savings while feeling confident that some level of its desired activities will still be conducted.

***Potential Reauthorization Presents Opportunity to Consider Highest-Priority Use of Funds.*** When initially authorized, these fees were intended to support then-emerging lower-emission/ZEV technologies and help transition car owners to less-polluting vehicles. The landscape of ZEV adoption and other clean transportation incentive programs has changed significantly since that time, however, with greater consumer demand, more available incentives for purchasing ZEVs, and expanded availability of infrastructure to support them. For example, about 20 percent of all new cars sold in California in 2022 were ZEVs (compared to about 10 percent in 2020), and there are currently about 80,000 ZEV chargers in California. Research suggests roughly half of the households that receive an incentive to purchase a ZEV would have purchased one anyway, revealing the extent to which the ZEV market has matured and thus may not need as many government incentives to further develop compared to when these fees were last authorized. Therefore, should the Legislature determine that AB 8 fee revenues still are essential for meeting the state's clean air and GHG reduction goals, it may also want to reconsider the highest-priority uses for the funds to ensure they are being used effectively to achieve desired outcomes. For example, the Legislature could consider:

- ***Revising the Focus of Existing Programs.*** As discussed earlier, the Governor is proposing some minor eligibility changes for CTP. The Legislature could consider additional revisions to the current AB 8-funded programs that would allow them to better support the state's GHG and air quality goals. For example, new state regulations will promote greater adoption of medium- and heavy-duty ZEVs. Given that this is already the direction in which the state is heading, rather than using AQIP AB 8 funds to support purchases of trucks with traditional combustion engines (as is allowed under current program rules), the Legislature could consider requiring AQIP to focus exclusively on upgrades to ZEVs. In addition, the Legislature could consider adopting statutory changes to further modify the focus of CTP. For instance, the administration has reported that about 50 percent of funded projects have been located in low-income or disadvantaged communities. The Legislature could require the program to further prioritize these communities, such as by adding a focus on multiunit dwellings, given that existing chargers are more heavily located in affluent areas. The Legislature could also consider requiring CTP investments to support newer, more emergent technologies such as hydrogen charging and medium- and heavy-duty chargers, which are less prevalent than passenger vehicle chargers but will be needed as more hydrogen-powered and large ZEVs enter the market.

- ***Funding Different Clean Vehicle Programs and Activities.*** The Legislature also could fund a different mix of programs and activities to ensure AB 8 funds are used to strategically complement other ZEV activities. For example, AB 8 fee revenues could be used to support more ZEV heavy-duty truck and bus vouchers, which are one of the most cost-effective mobile source programs for reducing GHG emissions.

- ***Using the Funds for Other Purposes.*** The Legislature also could extend these fees but use them for other budgetary purposes, such as to (1) help the balance of the Motor Vehicles Account (MVA); (2) support other clean air or climate activities; or even (3) direct them for other, non-vehicle-related funding priorities, given the state budget problem. (As we describe in a separate publication, the MVA, which receives revenue from vehicle registration and other driver-related fees to primarily support the California Highway Patrol and Department of Motor Vehicles, is currently experiencing shortfalls.) This third option would be a departure from the original intent and longstanding usage of these funds, but is an available alternative given these are taxes and not fees.

***Legislature Could Consider Restructuring Fees.*** The Legislature also could consider restructuring the way these fees are charged. For example, one option would be to adopt a more progressive structure that takes vehicle value into consideration. Some other transportation fees—such as the Transportation Improvement Fee, which funds road improvements—vary charges based on the value of the vehicle. Should the Legislature take this approach, it could help reduce some of the negative impacts on low-income households and create a more equitable structure. However, depending on how it was structured, such an approach likely would increase the cost burden for some other vehicle owners and might generate a different amount of overall revenue. In addition, AB 8 fee revenues are collected from passenger light-duty vehicles, but about half of the fee revenues are used to support programs that target heavy-duty vehicles. Another option the Legislature could consider is to also charge these fees to heavy-duty vehicle owners, given that such vehicles cause air pollution and GHG emissions at an even greater level than passenger vehicles and currently are an area of focus for expenditures of this funding.

**LAO Recommendations.**

***Consider Whether AB 8 Fee Revenues Still Are Essential to Meeting State Goals.*** We recommend that the Legislature weigh whether AB 8 revenues still are vital to helping the state pursue its clean air and GHG emission reduction goals, given the continued—albeit modest—tax burden they represent for California vehicle owners. Significant changes in policies and funding for ZEVs and clean transportation have occurred since the fees were last reauthorized in 2013. While the state's desire to pursue more aggressive goals could argue for a continued need for the revenues, significant other funding sources have become available to help support those efforts. As part of its deliberations, we recommend the Legislature consider whether the state needs a consistent and ongoing fund source along with the significant, but limited-term, General Fund, GGRF, and federal funds for these purposes. We also recommend the Legislature assess the merits of directing AB 8 fee revenues to help it solve the state's current budget problem, such as by using them for some ZEV programs and making corresponding General Fund reductions.

***If Fees Are Reauthorized, Consider Highest Priorities for Funding.*** Much has changed since these fees were last reauthorized in 2013—a more robust ZEV market, greater funding for ZEVs, and an increased need to support lower-income communities in making the vehicle transitions the state is now requiring. Should it choose to reauthorize AB 8 fees, we recommend the Legislature consider its highest-priority goals for the associated funding. The Legislature could consider revising existing programs, supporting a different mix of clean vehicle efforts, or using the funds for other budgetary priorities.

***Consider Restructuring Fees.*** Unlike some other vehicle registration fees, AB 8 fees are set at equal levels regardless of the cost of the vehicle. If the Legislature decides to reauthorize the fees, it also could consider restructuring them, such as to require more expensive vehicles to pay a higher rate than lower-cost vehicles. This could create a more progressive structure and ease cost burdens for some lower-income vehicle owners, though it would represent a notable shift in policy approach and could change the amount of annual revenues generated. The Legislature could consider also charging fees for heavy-duty vehicles, as larger diesel vehicles exacerbate air pollution and GHG emissions at greater rates than light-duty passenger vehicles. Moreover, this category of vehicle owners currently receives significant benefits from AB 8 program expenditures.

**Staff Comments.** The Legislature has historically approved these fees through the policy process. In the current session, Senator Gonzalez has introduced SB 84, which would extend the existing fees that fund CTP, AQIP, and EFMP at their current levels through 2035. The bill will also make programmatic changes to the CTP—more specifically, (1) it will require 50 percent of CTP funds to be spent on programs and projects that directly benefit or serve residents of disadvantaged and low-income communities and (2) it will prioritize projects that advance the deployment of medium- and heavy-duty vehicles and that fill deployment gaps for light-duty vehicle infrastructure. This bill mirrors AB 241, which has been introduced by Assemblymember Reyes. As the Legislature reviews this proposal, it may want to consider whether the budget process would provide sufficient discussion and revision to inform the level and structure of the fees and its intended programs. To the extent that the Legislature decides to discuss the fee extension as part of the budget process, this provides a natural opportunity to review the intended goals of the fees and priorities in clean transportation. As the LAO highlights, the Legislature can restructure and reprioritize the funding, whether through adjusting the criteria that CEC and CARB uses to select projects or through adjusting the fee structure so that medium- and heavy-duty vehicles, who are often the focus of these funding programs, pay a greater fee.

**Staff Recommendation.** Hold Open.

## 3360 ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

### Issue 26: Implementing Hourly Electricity Retail Resource Accounting (SB 1158, Becker)

**Governor's Proposal.** The Governor's Budget requests $214,000 from the Energy Resources Programs Account (ERPA) for one permanent position to develop regulations implementing hourly retail resource accounting (hourly accounting) under the Power Source Disclosure (PSD) Program and to collect, process, and produce hourly data in support of Integrated Resource Planning and other activities, as required by Chapter 367, Statutes of 2022 (SB 1158, Becker).

**Background.** The PSD Program is a consumer information program that requires California retail electricity suppliers to report and disclose the electricity sources and GHG emissions intensities associated with electricity portfolios that serve retail customers during the previous calendar year. To complete this requirement, retail suppliers report their gross electricity procurements, resales of electricity, and net electricity sources used to serve annual retail load in the previous year. The CEC uses this information, in part, to generate California's total system electric generation, which represents a full inventory of in-state generation and imports. Retail suppliers are required to disclose on a power content label the fuel mixes and GHG emissions intensities associated with their electricity portfolios, along with the fuel mix of California's total system electric generation and utility average GHG emissions intensity. SB 1158 creates a new requirement for the California Energy Commission (CEC) to develop regulations implementing hourly retail resource accounting (hourly accounting) under the Power Source Disclosure (PSD) Program, and to collect, process, and produce hourly data in support of Integrated Resource Planning and other activities. The regulations are to be adopted by July 1, 2024.

**Staff Comments.** ERPA is funded by 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 CEC effective January 1, 2019. The surcharge generated approximately $73 million in 2021-22 and costs the average household $2 annually. However, ERPA is in a structural deficit—appropriations have outstripped revenues for most of the last decade. To address this fund imbalance, the CEC has reduced ERPA spending by about $40 million over four budget cycles. In part due to these actions, ERPA will maintain an adequate fund balance through 2023-24. However, the fund is projected to have a negative fund balance beginning in 2025-26:

Energy Resources Program Account (ERPA) Fund Condition
(dollars in thousands)
2023-24 Governor's Budget

| | Past Year 21-22 | Current Year 22-23 | BY 23-24 | BY+1 24-25 | BY+2 25-26 |
|---|---|---|---|---|---|
| **BEGINNING RESERVES** | $48,171 | $41,234 | $28,544 | $15,747 | $2,977 |
| **REVENUES & TRANSFERS** | | | | | |
| *Revenues* | | | | | |
| Revenue | $70,638 | $73,520 | $73,520 | $73,520 | $73,520 |
| **Total Resources** | **$118,809** | **$114,754** | **$102,064** | **$89,267** | **$76,497** |
| **EXPENDITURES** | | | | | |
| *Baseline Support Expenditures* | | | | | |
| Energy Resources Conservation and Development Commission - Base Budget | $71,630 | $72,287 | $74,257 | $74,257 | $74,257 |
| Other - Department Users and Pro Rata | $5,945 | $9,623 | $7,760 | $7,760 | $7,760 |
| SB 84 Loan Repayment | $0 | $4,300 | $4,300 | $4,273 | $4,273 |
| **Total, Support Expenditures** | **$77,575** | **$86,210** | **$86,317** | **$86,290** | **$86,290** |
| **Expenditure Total** | **$77,575** | **$86,210** | **$86,317** | **$86,290** | **$86,290** |
| **FUND BALANCE** | **$41,234** | **$28,544** | **$15,747** | **$2,977** | **-$9,793** |

Any increase in ERPA expenditures may accelerate the need for an increase in the statewide surcharge on electricity consumption that provide revenue for this fund. To ensure SB 1158 is implemented fully and funded from a sustainable source, the Legislature may want to consider alternatives to address some of the cost pressures to ERPA.

**Staff Recommendation.** Hold Open.

# 8660 PUBLIC UTILITIES COMMISSION

## Issue 27: Implementation and Delay of the Broadband Infrastructure Funding

**Governor's Proposal.** The Governor's Budget proposes to defer a total of $1.1 billion General Fund allocated to two broadband programs. Specifically, the Administration proposes to (1) defer $550 million for the last-mile infrastructure grants in 2023-24 to future years ($200 million in 2024-25, $200 million in 2025-26, and $150 million in 2026-27) and (2) defer $175 million from 2022-23 and $400 million from 2023-24 for the Loan Loss Reserve Fund at the CPUC to future years ($300 million in 2024-25 and $275 million in 2025-26).

**Updated Broadband Infrastructure Spending Plan, Delays Proposed in Governor's Budget**
(In Millions)

| | | Funding Source | | |
|---|---|---|---|---|
| **Program or Project** | **Fiscal Year** | **Total Funds** | **General Fund** | **Federal Funds** |
| **Middle-Mile Network** | 2021-22[a] | $3,250 | $887 | $2,363[b] |
| | 2022-23 | — | — | — |
| | 2023-24[c] | 300 | 300 | — |
| | 2024-25[c] | 250 | 250 | — |
| | 2025-26 | — | — | — |
| | 2026-27 | — | — | — |
| Subtotals | | ($3,800) | ($1,437) | ($2,363) |
| **Last-Mile Projects[d]** | 2021-22[e] | $1,072 | $522 | $550[f] |
| | 2022-23 | 125 | 125 | — |
| | 2023-24 | 253 | 253 | — |
| | 2024-25 | 200 | 200 | — |
| | 2025-26 | 200 | 200 | — |
| | 2026-27 | 150 | 150 | — |
| Subtotals | | ($2,000) | ($1,450) | ($550) |
| **Broadband Loan Loss Reserve Fund[g]** | 2021-22 | — | — | — |
| | 2022-23 | — | — | — |
| | 2023-24 | $175 | $175 | — |
| | 2024-25 | 300 | 300 | — |
| | 2025-26 | 275 | 275 | — |
| | 2026-27 | — | — | — |
| Subtotals | | ($750) | ($750) | (—) |
| **All Programs and Projects** | 2021-22 | $4,322 | $1,409 | $2,913 |
| | 2022-23 | 125 | 125 | — |
| | 2023-24 | 728 | 728 | — |
| | 2024-25 | 750 | 750 | — |
| | 2025-26 | 475 | 475 | — |
| | 2026-27 | 150 | 150 | — |
| **Total** | | **$6,550** | **$3,637** | **$2,913** |

[a] Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $887 million for the middle-mile network from American Rescue Plan (ARP) fiscal relief funds to General Fund in 2021-22.
[b] The remaining $2.363 billion in federal funds for the middle-mile network in 2021-22 is state ARP fiscal relief funds.
[c] The additional $550 million General Fund for the middle-mile network ($300 million in 2023-24 and $250 million in 2024-25) is consistent with the legislative goal to provide these amounts (subsequent to the submission of a statutory report) in Chapter 48 of 2022 (SB 189, Committee on Budget and Fiscal Review).
[d] All last-mile project amount and timing changes from the initial spending plan for 2023-24 through 2026-27 are proposed changes in the Governor's 2023-24 budget.
[e] Pursuant to Control Section 11.96 of the *2022-23 Budget Act*, the Department of Finance shifted $522 million for last-mile projects from ARP fiscal relief funds to General Fund in 2021-22.
[f] The remaining $550 million in federal funds for last-mile projects in 2021-22 is the state's allocation from the ARP's Coronavirus Capital Projects Fund.
[g] All Broadband Loan Loss Reserve Fund amount and timing changes from the initial spending plan for 2021-22 through 2025-26 are proposed changes in the Governor's 2023-24 budget.

**Background.**

***The Administration and Legislature Reached a Three-Year, Multibillion Dollar Broadband Infrastructure Agreement in 2021***. In July 2021, the administration and the Legislature agreed to spend $6 billion from the General Fund and American Rescue Plan Act (ARPA) funds over three fiscal years (starting in 2021-22) on broadband infrastructure. More specifically, the funds were for the following:

- **Statewide Open-Access Middle-Mile Network.** Middle-mile broadband infrastructure often consists of fiber-optic cables laid over tens or hundreds of miles that, once connected to by an internet service provider (ISP), can help deliver local high-speed internet service. The state is building and leasing a middle-mile network across the state available to ISPs, public entities, and other organizations. This program is being implemented by the California Department of Technology.

- **Last-Mile Projects.** Last-mile broadband infrastructure often consists of antennae, cables, poles, wires, and other components that help connect middle-mile infrastructure to communities and individual households. The state will be providing grants to ISPs, public entities, and other organizations to fund last-mile projects. This program is being implemented by the California Public Utilities Commission. The agreement includes $2 billion ($550 million ARP fiscal relief funds and $1.45 billion General Fund) for last-mile projects.

- **Broadband Loan Loss Reserve Fund.** The Broadband Loan Loss Reserve Fund will be a program within the California Public Utilities Commission's (CPUC's) California Advanced Services Fund (CASF) that will provide local government entities and nonprofit organizations with grants to help them, for example, pay the costs of debt issuance and establish and fund reserves for broadband infrastructure projects. The 2021 spending plan appropriated $750 million General Fund for the Broadband Loan Loss Reserve Fund.

***Status of the Major Broadband Programs and Projects at CPUC.*** CPUC is implementing two components of the state broadband programs—the Last-Mile Projects and the Broadband Loan Loss Reserve Fund.

- ***Last-Mile Projects.*** The CPUC expects to open its first grant application round in June, receive all grant applications by August, review the applications from August to December, and award grants in January 2024. A second round also is expected to open in January 2024 with second round grant awards in December 2024. The CPUC estimates the total amount of grants available in the first round will be $1 billion (including all $550 million in ARPA fiscal relief funds). While CPUC expects the total amount of grants available in the second round will be $1 billion, the Governor's budget proposes to delay some of the last-mile project spending planned for 2023-24 to as late as 2025-26 and 2026-27. While the CPUC has not issued broadband infrastructure grants, the CPUC has focused on awarding Local Agency Technical Assistance (LATA) funding. SB 156 provided the CPUC with $50 million to fund local and tribal governments' broadband planning activities. Below is the status of LATA applications as of January 26, 2023:

| Applications Received | Applications Awarded | Total Funding Requested | Total Funding Awarded |
|---|---|---|---|
| 116 | 81 | $52,458,536 | $36,354,525 |
| Total LATA Funding | | $50,000,000 | $50,000,000 |
| Balance | | -$2,458,536 | $13,645,475 |

*Source: CPUC Local Agency Technical Assistance – Grant Applications Received as of Jan. 26, 2023*

Information from the CPUC shows that the CPUC has received more LATA funding than the total $50 million allocated to the LATA program. The demand for LATA funding may also be a factor in CPUC decisions to limit grants to certain local government entities. The CPUC has declined to approve grants from several large metropolitan planning organizations (MPOs), including the Southern California Associations of Governments and the Santa Barbara County Association of Governments. The CPUC declined these grants due to a strict interpretation of "local agencies" that excludes MPOs. The CPUC also declined these applications to prevent counties with MPOs from potentially receiving planning grants at the county level and the overlapping MPO level.

- ***Broadband Loan Loss Reserve Fund.*** The CPUC rulemaking procedure for the Broadband Loan Loss Reserve Fund currently is active, with a proposed decision by the end of June 2023. The CPUC expects to open its first Broadband Loan Loss Reserve Fund application round in 2023-24. The CPUC does not know the total amount of funding that will be available in the first round, but the Governor's proposed 2023-24 budget delays $175 million General Fund for the Broadband Loan Loss Reserve Fund planned for expenditure in prior years to 2023-24.

***Recent Major Funding Infusion for Federal Broadband Programs.*** Federal Infrastructure Investment and Jobs Act (IIJA) included $65 billion nationwide for broadband programs. Of the $65 billion appropriated for broadband programs, $42.45 billion is allocated for the Broadband Equity, Access, and Deployment (BEAD) program, which provides primarily last-mile broadband infrastructure project grants to states, territories, and other jurisdictions. Excluding 2 percent of program funding for administrative costs ($849 million), allocations for each state (excluding territories and other jurisdictions) will be calculated as follows:

- Initial Allocation of $100 Million to Each State ($5.3 Billion of Total Program Funds). Each state will receive an initial allocation of $100 million, of which $5 million will be provided at the program outset to support state planning efforts.

- Additional Allocation to States Based on Unserved Locations in High-Cost Areas ($4.245 Billion of Total Program Funds). Each state will receive an allocation based on the number of unserved locations in high-cost areas of their state as a percentage of all such locations nationwide.

- Allocation of Remaining Funds to States Based on Unserved Locations ($32.056 Billion of Total Program Funds). Each state will receive an allocation from remaining program funds based on the number of unserved locations in their state as a percentage of all such locations nationwide.

***IIJA Funding for California.*** NTIA awarded $5 million in initial planning funds from the state's initial allocation of $100 million to support state planning efforts, including a five-year action plan required by NTIA. NTIA expects to announce how much each state will be allocated from the BEAD program by the end of June. We have limited information about how the state will administer its BEAD program funding at this time, but we expect the administration will provide more information to the Legislature over the coming months before the allocation announcement from the federal government.

**Staff Comments.** There are three potential issues for legislative consideration regarding the implementation and proposed deferral of broadband infrastructure funding: ARPA liquidation, BEAD funding appropriation, and CPUC's broadband mapping.

**ARPA Fund Liquidation.** Under federal requirements, ARPA monies must be encumbered by December 31, 2024, and spent by expended by December 31, 2026. As mentioned above, $550 million for the last mile grants, administered by the CPUC, are ARPA funds. The commission reports these funds will be spent on smaller, less complex projects that are likely to be completed faster, to ensure the federal funds will be expended by the deadline. However, given that this program is still in early stages of implementation and have not yet awarded the grants, there is somewhat of a concern that local agencies will not be able to expend the federal funds by the end of 2026.

**BEAD Program.** According to the Administration, it intends to use the Section 28 letter process, which provides a notification to the Legislature, to allow CPUC to have the federal fund authority to expend these funds. To ensure Legislative oversight of these federal funds, the Administration should provide more information to the Legislature, and more specifically, a budget proposal that outlines how these funds will be used, when these federal funds become available to the state.

**Broadband Mapping.** Mapping broadband access is necessary to identify and target funds to unserved and underserved communities. Currently, the CPUC is the only state agency empowered to collect data from broadband providers to support these maps. However, the CPUC's efforts to produce maps to help target broadband funds have been fraught with delayed access to data, data omissions, errors, and concerns about the extent to which the maps address digital equity needs. In particular, CPUC's initial maps identified many commercial, high-income, and already-served areas as priority areas for the broadband infrastructure grants, while missing significant swaths of unserved and underserved communities. CPUC has acknowledged that these maps are incomplete, and are currently in the process of revising these maps. More specifically, CPUC is working to add socioeconomic data to identify disadvantaged communities. However, CPUC is still in the process of selecting specific criteria or data that will be used.

**Staff Recommendation.** Hold Open.