



STATE POLICY WORKING GROUP MEETING 9/28/22

Agenda

1. CPUC to end natural gas subsidies
2. CARB plans to ban natural gas space/water heaters
3. Bill action update - *some changes since our call*
4. R.19-01-011 Refrigerant modifications
5. Other

Notes

1. CPUC to end natural gas subsidies

On September 15, 2022, the CPUC [announced](#) its [decision](#) to eliminate ratepayer funded subsidies for natural gas line extensions to go into effect July 1, 2023. This only impacts applications filed July 1, 2023 or later. Current natural gas ratepayer funded subsidies are intended to “offset the costs of extending natural gas pipelines to new residential or commercial buildings.” The decision is filed under docket [R.19-01-011](#) established in 2019 to address the decarbonization of California’s buildings.

The specific incentives that will be eliminated include the extension allowances, the 10-year refundable payment option, and the 50 percent discount payment option provided under the current gas line extension rules....”

The CPUC forecasts \$164M in savings for ratepayers annually largely due to avoided subsidies. The CPUC calculated the IOUs spent: “Over the last five years (2017 to 2021), California’s four gas IOUs (with partial data for SDG&E) spent approximately \$622 million (approximately \$124 million annually) on gas line subsidies.”

There will be exceptions to this ruling: “Only projects leading to a demonstrable reduction in GHG emissions, that are consistent with California’s climate goals, and that lack feasible alternatives to natural gas use, such as electrification, will be eligible.”

This decision is considered the third phase of the docket. [Phase I](#) established BUILD and TECH, [Phase II](#) established layering incentives and directed IOUs to study bill impacts of potential electrification (among other things).

2. CARB plans to ban natural gas space/water heaters

On September 22, CARB [announced](#) its approval of the [2022 State Implementation Plan Strategy](#) (Strategy) (more resources [here](#)). The Strategy “identifies the strategies and controls under State authority that are needed to reduce emissions to reduce

ground-level ozone....” CARB also states: “Nearly 90 percent of building NOx emissions are due to space and water heating and the remaining 10 percent are due to cooking, clothes drying, and other miscellaneous end uses.”

The schedule to effectively ban natural gas heating and hot water systems by setting an emission standard for space and water heaters, will begin in 2025 with an implementation target of 2030. The standard will be a statewide zero-emission standard, requiring 100% of sales of new space heaters and water heaters to comply with the emission standard starting in 2030 (applying to new construction or replacement). The measure will not mandate retrofits in existing buildings, however, some buildings will require retrofits to utilize new technology required under the measure.

The standard will be constructed in coordination with various state, federal, and regional authorities; communities; the energy and building code regulators; and air districts (among stakeholders) to ensure consistency across regulatory efforts and evaluate cost impacts. CARB notes this standard needs to be one policy among many to decarbonize and reduce natural gas consumption within the building sector.

“It is expected that this regulation would rely heavily on heat pump technologies currently being sold to electrify new and existing homes. In addition to the development process for the Proposed 2022 State SIP Strategy, the measure as proposed by staff or adopted by the Board will be subject to a full public process.”

3. Bill action update

Bills pending Governor action (most are “watch” bills for the Council, key bills are bolded):

After the Council’s State Policy call, Governor Newsom vetoed (by not signing) [SB 1432](#) (Hueso) re: resource adequacy requirements. In his [veto message](#), the Governor stated (among other reasons) that “ the CPUC has identified a number of threshold issues that must be addressed before these resources are included in the state’s electric reliability program.”

Language in SB 1432 linked Section 1.5 of [SB 1158](#) (Becker) with the success of both bills in a proper order. As SB 1432 is now vetoed, this now makes the amendments made in Section 1.5 of 1158 null and void. Section 1.5 addressed some resource adequacy provisions but does not impact the key provisions of the bill. The language in red and blue at the bottom of this section will no longer go into effect.

[SB 1136](#) (Portantino) re: CEQA expedited environmental review: climate change regulations - was also vetoed by Governor Newsome (by not signing). In his [veto statement](#), the Governor notes SB 1136 “restricts CARB from using standard California Environmental Quality Act streamlining tools for environmentally beneficial regulations.”

—~~[SB 1136](#), California Environmental Quality Act: expedited environmental review: climate change regulations:~~

- ~~— June amendments resolved Council's primary concerns focused on the proposed significant new barriers to voluntary energy efficiency programs and standards; the bill continued to include labor standards in expedited CEQA process, a secondary concern.~~
- ~~— Requires the specified public agencies, when adopting a rule or regulation requiring the reduction in emissions of greenhouse gases, criteria air pollutants, or toxic air contaminants, to perform an environmental analysis of the reasonably foreseeable methods of compliance.~~
- ~~— Requires environmentally mandated projects meet certain labor requirements to utilize the expedited review processes established for environmentally mandated projects.~~
- ~~— Specifies that these environmentally mandated project provisions do not apply to an action that is not subject to CEQA.~~
- ~~— [SB 1432](#), Electricity: resource adequacy requirements.

 - ~~— Originally the Council had concerns but moved to neutral following negotiations with bill sponsors on PUC completing the evaluation in coordination with CAISO instead of requiring action to be taken by CAISO~~
 - ~~— Revises and recasts the objectives of the RA program.~~
 - ~~— Requires the CPUC to analyze, compile, and publish on its internet website an annual report on the compliance status of LSEs.~~
 - ~~— Requires the CPUC to determine and authorize the most efficient and equitable means for ensuring that ESPs can determine the generation resources used to serve their customers.~~
 - ~~— Requires the CAISO to ensure that the cost of backstop procurement and associated greenhouse gas (GHG) attributes are equitably allocated.~~
 - ~~— Requires the CPUC, in coordination with the CAISO, in a new or existing proceeding, to develop a pilot program for aggregated customer-sited zero-emission DERs to assess the value of potential energy exports from those resources for purposes of fulfilling the requirements of the RA program.

 - ~~— Excludes from participation in the pilot program customers taking service under a customer-generator tariff unless the customer is only compensated in a specified manner.~~
 - ~~— Authorizes the CPUC to allocate funds from the self-generation incentive program (SGIP) to carry out the pilot program and would specify the resources eligible to participate in the pilot program.~~~~~~
- ~~— Incorporates additional changes to Section 380 of the Public Utilities Code proposed by SB 1158 to be operative only if this bill and SB 1158 are enacted and this bill is enacted last.~~
- [SB 1112](#), Energy: building decarbonization: notice and recordation of a decarbonization charge.
 - This bill establishes requirements for notifications that utilities must provide when adding a decarbonization charge as part of a program financing energy efficiency upgrades to an existing property.

- [AB 2143](#), Net energy metering: construction of renewable electrical generation facilities: prevailing wage.

SEC. 1.5. Section 380 of the Public Utilities Code is amended to read:

380. (a) The commission, in consultation with the Independent System Operator, shall establish resource adequacy requirements for all load-serving entities.

(b) In establishing resource adequacy requirements, the commission shall ensure the reliability of electrical service in California while advancing, to the extent possible, the state's goals for clean energy, reducing air pollution, and reducing emissions of greenhouse gases. The resource adequacy program shall achieve all of the following objectives:

(1) Facilitate development of new generating, nongenerating, and hybrid capacity and retention of existing generating, nongenerating, and hybrid capacity that is economic and needed.

(2) Establish ~~new~~ *new*, or maintain ~~existing~~ *existing*, demand response *and distributed energy* products and tariffs that facilitate the economic dispatch and use of demand response *and distributed energy products* that can either meet or reduce ~~an electrical corporation's~~ *a load-serving entity's* resource adequacy requirements, as determined by the commission.

(3) Equitably allocate the cost of generating capacity and demand response in a manner that prevents the shifting of costs between customer classes.

(4) Minimize enforcement requirements and costs.

(5) Maximize the ability of community choice aggregators *and electric service providers* to determine the ~~generation~~ resources used to serve their customers.

(6) Incorporate industry planning standards when setting compliance obligations.

(c) Each load-serving entity shall maintain physical generating capacity and electrical demand response adequate to meet its load requirements, including, but not limited to, peak demand and planning and operating reserves. The generating capacity or electrical demand response shall be deliverable to locations and at times as may be necessary to maintain electrical service system reliability, local area reliability, and flexibility.

(d) Each load-serving entity shall, at a minimum, meet the most recent minimum planning reserve and reliability criteria approved by the ~~Board~~ *board* of ~~Directors~~ *directors* of the Western Systems Coordinating Council or the Western Electricity Coordinating Council.

(e) *(1)* The commission shall implement and enforce the resource adequacy requirements established in accordance with this section in a nondiscriminatory manner. Each load-serving entity shall be subject to the same requirements for resource adequacy and the renewables portfolio standard program that are applicable to electrical corporations pursuant to this section, or otherwise required by law, or by order or decision of the commission. The commission shall exercise its enforcement powers to ensure compliance by all load-serving entities.

(2) The commission shall analyze, compile, and publish on its internet website an annual report on the compliance status of load-serving entities.

(f) *(1)* The commission shall require sufficient information, including, but not limited to, anticipated load, actual load, and measures undertaken by a load-serving entity to ensure resource adequacy, to be reported to enable the commission to determine compliance with the resource adequacy requirements established by the commission.

(2) The commission shall calculate and publish annually on its internet website, in a new report or as part of another report, the percentage of each load-serving entity's local and system resource adequacy

requirements from the previous calendar year that was met with capacity from eligible renewable energy resources pursuant to the California Renewables Portfolio Standard Program (Article 16 (commencing with Section 399.11)), other zero-carbon resources, including large hydroelectric and nuclear resources, or energy storage resources. In determining the percentage of each load-serving entity's resource adequacy requirements, the commission shall include all directly owned or contracted resources and each load-serving entity's allocation of any centrally procured resources or allocation of resources pursuant to any other mechanism that involves an assignment or allocation of resources purchased or owned by a single buyer, and shall exclude any share of a load-serving entity's resources that were allocated to another load-serving entity.

(g) An electrical corporation's costs of meeting or reducing resource adequacy requirements, including, but not limited to, the costs associated with system reliability, local area reliability, and flexibility, that are determined to be reasonable by the commission, or are otherwise recoverable under a procurement plan approved by the commission pursuant to Section 454.5, shall be fully recoverable from those customers on whose behalf the costs are incurred, as determined by the commission, at the time the commitment to incur the cost is made, on a fully nonbypassable basis, as determined by the commission. The commission shall exclude any amounts authorized to be recovered pursuant to Section 366.2 when authorizing the amount of costs to be recovered from customers of a community choice aggregator or from customers that purchase electricity through a direct transaction pursuant to this subdivision.

(h) The commission shall determine and authorize the most efficient and equitable means for achieving all of the following:

(1) Meeting the objectives of this section.

(2) Ensuring that investment is made in new generating capacity.

(3) Ensuring that existing generating capacity that is economic is retained.

(4) Ensuring that the cost of generating capacity and demand response is allocated equitably.

(5) Ensuring that community choice aggregators *and electric service providers* can determine the generation resources used to serve their customers.

(6) Ensuring that investments are made in new and existing demand response resources that are cost effective and help to achieve electrical grid reliability and the state's goals for reducing emissions of greenhouse gases.

(7) Minimizing the need for backstop procurement by the Independent System Operator.

(i) In making the determination pursuant to subdivision (h), the commission may consider a centralized resource adequacy mechanism among other options.

(j) The commission shall ensure appropriate valuation of both supply and load modifying demand response resources. The commission, in an existing or new proceeding, shall establish a mechanism to value load modifying demand response resources, including, but not limited to, the ability of demand response resources to help meet distribution needs and transmission system needs and to help reduce a load-serving entity's resource adequacy obligation pursuant to this section. In determining this value, the commission shall consider how these resources further the state's electrical grid reliability and the state's goals for reducing emissions of greenhouse gases. The commission, Energy Commission, and Independent System Operator shall jointly ensure that changes in demand caused by load modifying demand response are expeditiously and comprehensively reflected in the Energy Commission's Integrated Energy Policy Report forecast, ~~as well as~~ *and* in planning proceedings and associated analyses, and shall encourage reflection of these changes in demand in the operation of the grid.

(k) The Independent System Operator shall ensure that the cost of backstop procurement and associated greenhouse gas attributes are equitably allocated.

~~(k)~~ (l) For purposes of this section, "load-serving entity" means an electrical corporation, electric service provider, or community choice aggregator. "Load-serving entity" does not include any of the following:

(1) A local publicly owned electric utility.

(2) The State Water Resources Development System commonly known as the State Water Project.

(3) Customer generation located on the customer's site or providing electric service through arrangements authorized by Section 218, if the customer generation, or the load it serves, meets one of the following criteria:

(A) It takes standby service from the electrical corporation on a commission-approved rate schedule that provides for adequate backup planning and operating reserves for the standby customer class.

(B) It is not physically interconnected

4. R.19-01-011 Refrigerant modifications

- On September 26, Commissioner Rechtschaffen put forward a [ruling](#):
 - Refrigerants used in appliances incentivized by BUILD and TECH programs cannot exceed 750 GWP, extended from Jan. 1, 2023 to Jan. 1, 2025. This is because:
 - Misalignment with CARB Current Deadline, and
 - Lack of clear pathway for lower GWP refrigerants in CA mechanical code
 - Open for comments by Oct. 17, 2022 on how to use additional funding from State Budget for FY 22-23 and if changes should be made to implementation or design.

5. Other

- Clark addressed the Council's recent replies in the prehearing conference and [post-prehearing conference](#) re: new OIR on flexible demand through rate design.
- Joe addressed the Council's recent [response](#) to the ALJ ruling inviting comments on CPUC Staff Proposal for gas energy efficiency incentives and codes and standards sub programs and budgets.

Next Meeting

Our next State Policy WG meeting is scheduled for Wednesday October 26 at **11:00 a.m.** Call-in coordinates are below.

[Zoom link](#)

Call-in: +13092053325,,82500501190#

Passcode: cedmc