Legislation & Budget Discussion

Agenda

1. Budget
2. Bills of interest

Notes

Yesterday, the Assembly and Senate passed three budget measures along party line votes:

AB 107 (Gabriel) – Budget Bill
SB 154 (B&FR Committee) – Prop. 98 Suspension
SB 167 (B&FR Committee) – Taxation/Revenues

The main budget bill, AB 107, largely pulled from the Governor's May revision on revenue assumptions and recognized a need to fill a projected shortfall of $45 billion this year and $30 billion in 2025-26. You can see the full analyses of these proposals attached to this email.

However, AB 107 was only passed today to meet the June 15th deadline and is not going to be the final budget deal. It is only a compromise between the Assembly and the Senate. The negotiations are still ongoing with the Governor. We likely won't see a deal till next week and possibly longer. There are some large pieces around the healthcare minimum wage increase, cuts to social services, and shifting state highway funds that are still being negotiated .

Procedurally, this means that the legislature will pass today's budget bill, then hold the bill at the Assembly desk until a deal is struck. This is because if they send AB 107 to the Governor he has 12 days to sign and it is possible they may need more time. They can technically hold it at the desk indefinitely while still fulfilling their constitutional mandate allowing the Legislature to receive its pay; the constitutional amendment never said the budget had to be signed, just passed. Once the deal is struck we will see a budget bill jr. (likely AB/SB 108) that makes changes to the main budget bill. AB 107 and the budget bill junior will then be sent to the Governor together to be signed into law. IF they strike a deal this weekend it would need to be drafted over the weekend and then sit for 72 hours likely being voted on next Thursday.

As for SB 167, business groups had been lobbying to amend the taxation trailer bill, but with no effect. The measure increases taxes or suspends tax credits by $6 billion a year on the following programs:

Business Credit Cap - Specifies that for each taxable year beginning on or before January 1, 2024, and before January 1, 2027, the total specified credits otherwise allowable under the Personal Income Tax Law and the Corporate Tax Law claimed may not exceed $5 million for each taxable year; Provides for an exemption for specified credits to the $5 million limit on total allowable tax credits described above.

- Includes intent language for the Legislature to enact legislation in the 2023-24 legislative session to allow taxpayers subject to a temporary credit limitation beginning with the 2024 tax year to utilize their credits after the limitation period ends by electing to receive a refund of the credits they would have otherwise used to reduce tax liability during the limitation time period.

Net Operating Loss Suspension - Specifies that a net operating loss deduction shall not be allowed in respect to both corporate and income taxes for any taxable year beginning on or after January 1, 2024, and before January 1, 2027.

- Extends the carryover period for up to three years, as specified, for any net operating loss for which a deduction is denied pursuant to the changes made by this bill.
- Specifies that the suspension of the net operating loss deduction included in this bill does not apply to a taxpayer with a net business income or a modified adjusted gross income of less than $1 million.

Bad Debt Deduction Elimination - Eliminates the sales and use tax deduction and refund for a lender or retailer's affiliate related to bad debt, commencing January 1, 2025.

It is unclear whether SB 167 will be immediately transmitted to the Governor or be held at the desk as the main budget bill will likely be.

Legislation

This week we learned **AB 3264** is going to be the vehicle addressing Energy Efficiency Public Public Purpose Program Cost-Effectiveness

Please note: The language in now print for AB 3264 doesn't have the red alert language on stripping EE funding... We have been told it is forthcoming and will be amended with additional language; the "EE section won't look too different from what we saw in the mockup RN to AB 3016".

For reference, here is the AB 3016 proposed language that had been previously circulated:

PROPOSED AMENDMENTS

RN 24 12776 05
04/10/24 08:47 AM
SUBSTANTIVE

AB 3016 — 2 —

Existing law requires the Public Utilities Commission (PUC) to allocate funds collected by electrical corporations from a rate component that is a nonbypassable element of the local distribution service for various programs, including programs for cost-effective energy efficiency and conservation activities.

This bill would make inoperative, on January 1, 2026, the requirement to allocate funds for cost-effective energy efficiency and conservation activities, unless a relevant policy committee of the Legislature conducts a review of programs funded by that allocation and subsequent legislation is enacted providing for the continuation of those programs, as specified.

This bill would require the PUC, in collaboration with the Energy Commission, on or before January 1, 2026, to establish annual targets for statewide energy savings that will achieve a 15% reduction in retail customer total energy bills by January 1, 2030, to the extent doing so will not adversely impact public health and safety.

Coalition Letter sent to Assemblymember Cottie Petrie-Norris

RE: Protecting energy efficiency funding in Public Purpose Programs

June 11, 2024

Assemblymember Cottie Petrie-Norris
Chair, Assembly Utilities & Energy Committee
1020 N Street, Room 408A
Sacramento, CA 95814

RE: Protecting energy efficiency funding in Public Purpose Programs

Chair Petrie-Norris:

We, the undersigned organizations, are writing in strong opposition to efforts that propose to eliminate all non-cost-effective energy efficiency program funding from Public Purpose Program (PPP) Funds. While we understand the Legislature's need to evaluate the effectiveness of programs, we see this additional auditing process as a misguided attempt to eliminate energy efficiency programs that have saved more than $100 billion in utility bills[1] since the 1970s, benefitting ratepayers, the environment, and California's economy.

Energy efficiency lowers ratepayers' bills and eliminating this funding is counterproductive. Utility energy efficiency programs are funded through California ratepayers and regulated by the California Public Utility Commission (CPUC). PPP Funds make up around 5-8% of a resident's electric bill and go far beyond energy efficiency, funding a variety of programs in the public's interest. PPPs include, but are not limited to, EPIC (research & development grants administered by the CEC and IOUs), AB 841 transportation electrification and school HVAC upgrades, and CARE/FERA discounts. Only 1.5-2% of a resident's bill is attributable to energy efficiency programs, or put another way, an average residential customer in Southern California with an electric bill of $183 a month would only be investing $3 on energy efficiency programs.

Energy efficiency reduces pressure on the distribution grid and supports equitable decarbonization. The CPUC and California Energy Commission (CEC) are focused on increasing loads and the distribution grid. Energy efficiency is critical in maintaining the state's grid reliability and mitigating costly distribution upgrades. In addition to reducing these utility-level costs, energy efficiency is also often the only way consumers can reduce the amount of money ratepayers spend on their utility bills without decreasing health, comfort, or safety in their homes. Eliminating energy efficiency as a use for PPP funds strips funding collected from, and promised to, residential and industrial consumers – including those in disadvantaged areas. Reallocating those funds for other purposes without plans or programs to unlock the funding to ratepayers whom they were promised to is a step backwards in our effort to make utility bills more affordable and equitable for Californians.

Programs that serve low-income, environmental justice, small businesses, and other hard to reach customers and communities are vital, but often not cost-effective under traditional tests. The customers who are bearing the brunt of the affordability crisis are also the customers who benefit the most from energy efficiency programs, which help them reduce their usage and lower their bills. Especially for customers in environmental justice communities, wildfire-prone areas, and other pollution-impacted communities, energy efficiency programs also provide essential health and safety benefits, in addition to more affordable bills. These customers are the least likely to be able to invest in efficiency upgrades on their own, and rely on robust incentive programs with reliable funding. Strict adherence to stringent, traditional cost effectiveness tests means that these groups of customers would likely not be served at all, which would have a detrimental effect on affordability for the very customers who are most in need of assistance.

[1] California Energy Commission, Achieving Energy Efficiency.
https://www.energy.ca.gov/about/core-responsibility-fact-sheets/achieving-energy-efficiency

Energy efficiency is cost effective at the portfolio level and the misleading characterizations of non-cost effectiveness at the program level do not accurately capture the well evaluated and proven performance of energy efficiency. Program administrators of energy efficiency programs intentionally balance investments across an entire portfolio. The way this is currently achieved is by attributing all energy efficiency achieved up to code to the utilities' codes and standards program, but only "above code" savings to programs. This means that most of the actual energy savings of these boots-on-the ground programs are ignored for purposes of the CPUC's "cost effectiveness" test. The Public Advocates Office used an individual program analysis when stating individual programs are not cost-effective–which is not how the funding is appropriated or evaluated. The Public Advocates Office even includes measurement and verification of savings - ensuring ratepayer dollars are well-spent - as "non-cost-effective".

Certain energy efficiency programs are moving toward a pay-for-performance model. Energy efficiency has increasingly focused on pay-for-performance programming in recent years; under these programs, ratepayer funds are only spent on actual energy savings achieved and held back if the programs do not achieve the expected energy savings goals. Additionally program Administrators of energy efficiency are already reporting to the CPUC on metrics the legislature would need in order to evaluate program performance and value.

Energy efficiency is critical to reaching state goals of carbon reduction and electrification. In 2015, with the passage of the Clean Energy and Pollution Reduction Act of 2015 (SB 350), the Legislature doubled energy efficiency savings goals. In the same year, AB 802 (Williams, Chapter 590, Statutes of 2015) allowed ratepayer funded incentive programs to support bringing older buildings up to and eventually beyond energy efficiency code levels using existing conditions baseline. Electrification can significantly increase bills if not paired with energy efficiency measures. For example, electrifying a drafty and unsealed building will lead to using a lot more electricity than if the work paired energy efficiency with electrification; this would increase not only customer bills but also total system costs, since more electricity would need to be procured to power an inefficient space.

We welcome conversations to discuss the background and potential alternatives to improve the Public Purpose Program, energy efficiency programs, and energy affordability. Unfortunately, the proposal to gut Public Purpose Program funding for non-cost-effective energy efficiency programs would move California further away from our energy and climate goals while stealing ratepayer incentive funding for other uses.

These organizations oppose proposed amendments to eliminate all non-cost-effective energy efficiency program funding from Public Purpose Program Funds.

Signatories as of 6/14/2024 (logos not shown here)

CEDMC

Rising Sun

The Energy Coalition/ CGSEC

Association for Energy Affordability (AEA)

SunPower

PearlX

BayREN

3C-REN

CEERT

Next Meeting

Our next State Policy WG meeting is scheduled for Friday, July 12, 2024

Zoom link

Call-in: +13092053325,,82500501190#
Passcode: cedmc