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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

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| Order Instituting Rulemaking Regarding Policies, Procedures and Rules for the Self-Generation Incentive Program and Related Issues. | Rulemaking 20-05-012 |

# ASSIGNED COMMISSIONER'S RULING PROVIDING PROPOSAL TO ALLOCATE $40 MILLION IN CAP-AND-TRADE ALLOWANCE PROCEEDS TO SELF-GENERATION INCENTIVE PROGRAM HEAT PUMP WATER HEATER SUB-PROGRAM AND REQUESTING COMMENT

## Summary

Decision (D.) 19-09-027 allocated $4 million for the Self-Generation Incentive Program (SGIP) electric heat pump water heater (HPWH) incentive budget for equity budget eligible customers.[1] Subsequently, D.20-01-021 allocated five percent -- or approximately $41 million -- of 2020-2024 SGIP ratepayer collections to the HPWH incentive budget for general market customers, bringing the total allocated SGIP HPWH budget to $44.7 million.[2] Although several parties had urged the California Public Utilities Commission (Commission) to approve a HPWH incentive program allocation of 10 percent of 2020-2024 SGIP collections, D.20-01-021 did not take this step. Instead, D.20-01-021 indicated that the Commission may later consider increasing SGIP HPWH funding.[3]

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[1] D.19-09-027, Ordering Paragraph (OP) 5.

[2] D.20-01-021 at 22 and OP 6.

[3] D.20-01-021 at 22, 60-61 and 63, citing comments of Sierra Club, Natural Resources Defense Council and A.O. Smith.

This ruling presents a proposal for party comment regarding use of 2023 Cap-and-Trade allowance proceeds to provide $40 million in additional SGIP incentive funding for load shifting HPWHs.

Parties shall provide opening comments responding to the questions contained in this ruling no later than January 12, 2022. Reply comments are due no later than January 19, 2022.

## 1. Background

Under the Cap-and-Trade Regulation adopted by the California Air Resources Board (CARB), natural gas utilities in California are required to consign to auction a certain portion of the greenhouse gas (GHG) allowances they receive, with the proceeds to be used exclusively for the benefit of retail ratepayers.[4] These proceeds are referred to as "allocated allowance auction proceeds" or, for simplicity, Cap-and-Trade allowance proceeds.

In D.15-10-032, reaffirmed in D.18-03-017, the Commission opted to return Cap-and-Trade allowance proceeds solely to residential customers of natural gas utilities. Cap-and-Trade allowance proceeds are distributed each April to residential customers as a credit disbursed in equal amounts to each customer account. The Commission named the distribution of Cap-and-Trade allowance proceeds the California Climate Credit (Climate Credit).

CARB regulations allow this Commission to direct Cap-and-Trade allowance proceeds to projects that reduce GHG emissions, primarily benefit

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[4] *See* 17 California Code of Regulations (CCR) § 95893. CARB holds quarterly auctions in February, May, August, and November. Each gas corporation must offer for sale at auction a minimum percentage of its allocated allowances within the designated calendar year. The required minimum percentage started at 25 percent in 2015 and increases five percent each year until hitting 100 percent in 2030. Within a given year, the gas corporation can decide at its discretion how to distribute those allowances among the four auctions.

natural gas customers, and meet all other requirements of the Cap-and-Trade Regulation.[5] The Commission has previously affirmed its authority to invest gas Cap-and-Trade allowance proceeds in Commission-sponsored programs designed to reduce GHG emissions.[6] In D.20-12-031, the Commission stated: "… the CPUC is bound only by CARB's Cap-and-Trade Regulation in determining the appropriate distribution of GHG allowance proceeds. There are no other express restrictions in the Public Utilities Code on the CPUC's authority to determine how to distribute GHG allowance proceeds."[7]

In D.20-12-31, the Commission exercised this authority to direct natural gas utilities to withhold $40 million (over two years) in Cap-and-Trade allowance proceeds that would otherwise be returned to natural gas ratepayers and instead to direct these funds to projects that reduce GHG emissions and benefit natural gas ratepayers. D.20-12-031 authorized use of Cap-and-Trade allowance proceeds for incentives for interconnecting biomethane facilities to the gas pipeline system. In D.20-03-027, the Commission authorized $200 million (over four years) in allowance proceeds for two building decarbonization pilot programs pursuant to direction in Senate Bill (SB) 1477 (Stern, 2018).

CARB regulations establish three primary categories of permissible uses for gas utility Cap-and-Trade allowance proceed expenditure or distribution. The first is the nonvolumetric return of allowance proceeds to ratepayers. The second and third authorized uses are as follows:[8]

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[5] 17 C.C.R. §95893(d).

[6] D.18-03-017 at 24 and D.20-12-031 at 13-14.

[7] D.20-12-031 at 13-14, citing D.18-03-017 at 24.

[8] 17 CCR Section 95893(d)(3)(B).

1. Energy Efficiency: Funding programs or activities designed to reduce GHG emissions through reductions in energy use through:
   a. Energy efficient equipment rebates;
   b. Energy-efficient building retrofits; and
   c. Other projects that reduce energy demand.
2. Other GHG Emission Reduction Activities: Funding programs or activities other than energy efficiency that:
   a. Reduce GHG emission reductions per Section 95893(d)(5);
   b. Are not mandated by any federal, state, or local health and safety requirements; and
   c. Are not mandated by Senate Bill 1371 or existing GHG Emission Standards for Crude Oil and Natural Gas Facilities.[9]

D.15-10-032 outlines requirements for gas corporations to report their Cap-and-Trade allowance proceeds to the Commission. Each year, gas corporations must file an advice letter with the Commission.[10] In these advice letters, gas corporations must seek approval for their Climate Credit amount and any programmatic spending.

On October 15, 2021, Southern California Gas Company (SoCalGas) filed advice letter (AL) 5884-G and on October 29, 2021, Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E) filed AL 4518-G and AL 3024-G, respectively. These advice letters indicated that $673.5 million in SoCalGas, PG&E, and SDG&E (collectively "investor-owned utilities" or "IOUs") Cap-and-Trade allowance proceeds are available to return

9 CCR Sections 95665-95677.

10 D.15-10-032, OP 5.

to ratepayers or use for programmatic purposes in the year 2022.  This is a large increase from the $334.8 million in Cap-and-Trade allowance proceeds available for programmatic uses and the Climate Credit in 2021.[11]

Under CARB regulations, IOUs must consign to auction for ratepayer benefit an increasing percentage of allowances each year and use the auction proceeds to benefit its own ratepayers.  If the average annual allowance price is stable or increases, which may not be the case, then the amount of Cap-and-Trade allowance proceeds available for credits to customers in 2023, along with the Cap-and-Trade Program compliance costs passed through to ratepayers, would increase compared to 2022.

CARB regulations require that any spending of Cap-and-Trade allowance proceeds within a specific gas utility's service territory must be attributed to that gas utility for the purposes of reporting to CARB and that any unspent funds shall be returned to ratepayers on or before December 31 of the year 10 years after the vintage year of the allocated allowances.[12]   SGIP has similar requirements regarding the expenditure of ratepayer collections only within the relevant IOU's service territory and returning unused funds to ratepayers.

### 2.  Assigned Commissioner's Proposal

My proposal for a one-time use of $40 million in Cap-and-Trade allowance proceeds to provide additional funding for load shifting SGIP HPWH incentives is as follows:

[11]  Calculated from Line 8 ("Subtotal Allowance Proceeds") of Table C:  GHG Allowance Proceeds.  This amount includes rollover from the prior year and excludes minor administrative and outreach expenses.  This total excludes Southwest Gas funds.

[12]  CCR Section 95893(d)(8).

- PG&E, SoCalGas, and SDG&E will withhold the following amounts from their Cap-and-Trade allowance proceeds distributed to ratepayers in 2023:[13]
  - SoCalGas: $20,032,000 (50.08 percent of $40 million)
  - PG&E: $17,216,000 (43.04 percent of $40 million)
  - SDG&E: $2,752,000 (6.88 percent of $40 million)
- This use of allowance proceeds will reduce the Climate Credit distributed to gas customers in 2023 by a small amount (an estimated three dollars per customer, on average), but it is expected that the average residential customer of each gas IOU will still receive a Climate Credit equal to or greater than the average amount of revenue that the gas IOU collected from the customer over the course of the year for Cap-and-Trade Program compliance costs;
- Cap-and-Trade allowance proceeds will be used to provide SGIP HPWH incentives to gas ratepayers residing in the service territory of the contributing IOU;
- Spending of Cap-and-Trade allowance proceeds with statewide or cross-territory benefits, if any, including administrative and evaluation spending, will be attributed to the gas corporation service territories in proportion to their original funding contribution; and
- To the extent that there are unspent Cap-and-Trade allowance proceeds allocated for a particular gas corporation's service territory and no remaining eligible projects within that service territory as of January 1, 2026, when SGIP sunsets pursuant to Public Utilities Code Section 379.6, unspent funds will be returned to the

[13] Southwest Gas customers do not participate in SGIP and thus Southwest Gas is excluded from this calculation of the apportionment of cost responsibility. This calculation removes Southwest Gas' 1.63 percent of total gas IOU allowance shares and redistributes it proportionally to PG&E, SoCalGas, and SDG&E.

ratepayers of the respective gas corporations as part of the 2027 Climate Credit.

To execute my proposal, the following guidance would apply:

- For the purpose of calculating 2023 Climate Credits, the IOUs' late 2022 advice letter filings would modify the table format established by D.15-10-032 (*i.e.*, Table C of Appendix A of that decision) to include below line 9c a new line numbered 9d and titled "SGIP HPWH Incentive Costs." This line would record each gas utility's share of the $40 million in funding I propose here;
- The IOUs would also in their late 2022 advice letter filings modify line 10 of Table C of Appendix A of D.15-10-032 to equal the following: Subtotal Allowance Proceeds, minus Outreach and Administrative Expenses, minus SB 1477 Compliance Costs, minus Renewable Natural Gas Incentive Costs, minus SGIP HPWH Incentive Costs. To reflect this change, the IOUs would modify the template for Table C by changing the description of Line 10 of Table C of Appendix A of D.15-10-032 to "Net GHG Proceeds Available for Customer Returns ($) (Line 8 + Line 9 + Line 9b + Line 9c + Line 9d);" and,
- Each IOU would, within 30 days of Commission adoption of a decision approving my proposal, file a Tier 1 advice letter with Energy Division formalizing a new sub-account in their existing SGIP balancing account to collect and track their respective share of the $40 million as those funds become available moving forward.

My proposal meets the criteria established in CARB regulations for use of the Cap-and-Trade allowance proceeds as follows:

- Load shifting HPWHs reduce demand for natural gas and reduce GHG emissions by providing alternative electric water heating technology options for natural gas customers;
- HPWHs are critical to reducing GHG emissions from gas use in buildings and achieving the state's goal of carbon neutrality by 2045. HPWHs avoid the use of natural gas

for water heating, and instead use electricity from a grid that is increasingly clean and will be carbon-free by 2045; and,

- As noted in D.19-09-027, "[t]he 2019 California Energy Commission Integrated Energy Policy Report stated that deploying HPWHs configured and operated to shift loads is "key" to meeting state building decarbonization goals."[14]

## 3. Questions for Party Comment

(a) Do you support the above proposal to use $40 million from gas Cap-and-Trade Program allocated allowance auction revenues for HPWH incentives? Why or why not?

(b) Do you support a different amount or different timing?

(c) Do you suggest any modifications to the above proposal?

(d) Should the Commission delegate to Commission Staff (Energy Division) the authority, as part of Staff's action on the IOUs' late 2022 advice letter filings, to assess the net impact on customers of the proposed $40 million withholding and direct IOUs to reduce the amount of 2023 Cap-and-Trade allowance auction revenues withheld for SGIP HPWH incentive purposes if necessary to ensure that an average residential customer's Climate Credit is at least equal to their annual Cap-and-Trade program costs?

**IT IS RULED** that:

Parties shall provide opening comment on the questions in this ruling in the order provided no later than January 12, 2022 and reply comments no later than January 19, 2022.

Dated December 23, 2021, at San Francisco, California.

/s/ CLIFFORD RECHTSCHAFFEN
Clifford Rechtschaffen
Assigned Commissioner

[14] D.19-09-027 at 69.