Decision 23-02-005 February 2, 2023

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Regarding Building Decarbonization.	Rulemaking 19-01-011

DECISION ADOPTING NEW FUNDING PURSUANT TO ASSEMBLY BILL 179 FOR THE TECHNOLOGY AND EQUIPMENT FOR CLEAN HEATING INITIATIVE

Summary

Per Assembly Bill 179,[1] this decision authorizes the transfer of $50 million to the Building Decarbonization Pilot Program Balancing Account (BDPPBA) to fund the continued implementation of the Technology and Equipment for Clean Heating (TECH) Initiative. This additional $50 million must be used statewide without geographic limitations. No modifications are made to the budgetary allocations adopted in Decision 20-03-027.

As the TECH Initiative contracting agent, Southern California Edison Company (SCE) is authorized to modify the existing contract with the TECH Initiative implementer and evaluator to ensure the $50 million incentives are available for the TECH Initiative Program. SCE is directed to work with the TECH implementer to identify and track within the BDPPBA the source of the funds used for program expenses (*i.e.*, which costs were paid using the original $120 million from Cap-and-Trade allowance proceeds versus the new $50 million from General Fund tax revenue). SCE shall create a sub-account under the

[1] https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB179

BDPPBA to differentiate the source and use of funds. This decision allocates at a minimum, 40 percent of the program costs to fund activities that serve equity customers. No additional program changes are adopted in this decision.

The TECH Initiative implementer shall track and include within their quarterly public reporting the program's impact on equity customers. This decision shall remain in effect even after the state budget authorizes funding for the TECH Initiative Program for the fiscal year 2023-2024.

This proceeding remains open.

1. Background

On September 13, 2018, Governor Jerry Brown signed into law Senate Bill (SB) 1477 (Stern, 2018).[2] SB 1477 promotes California's building-related greenhouse gas (GHG) emission reduction goals, and makes available $50 million annually for four years,[3] for a total of $200 million, dedicated towards two building electrification pilot programs: (1) the Technology and Equipment for Clean Heating (TECH) Initiative; and (2) the Building Initiative for Low-Emissions Development (BUILD) Program. The funds are derived from the revenue generated from the GHG emission allowances directly allocated to gas corporations and consigned to auction as part of the California Air Resources Board's (CARB) Cap-and-Trade program.[4]

[2] SB 1477 was codified as Public Utilities (Pub. Util.) Code Section 748.6, Section 910.4, and Sections 921-922.

[3] Fiscal Year (FY) 2019-2020 to FY 2022-23.

[4] Four gas corporations currently participate in California's Cap-and-Trade program: Southern California Gas Company (SoCalGas), Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southwest Gas Corporation (SWG).

On January 31, 2019, pursuant to SB 1477, the California Public Utilities Commission (Commission) initiated this rulemaking to support the decarbonization of buildings in California. The proceeding is:

> designed to be inclusive of any alternatives that could lead to the reduction of greenhouse gas emissions associated with energy use in buildings [related]… to the State's goals of reducing economy-wide GHG emissions 40% below 1990 levels by 2030 and achieving carbon neutrality by 2045 or sooner.[5]

1.1. Phase I

On May 17, 2019, the Assigned Commissioner issued a Scoping Memo and Ruling setting forth the issued to be considered in Phase I of this proceeding. The Phase I Scoping Memo and Ruling was amended on July 16, 2019 to include additional issues. Phase I was resolved in Decision (D.) 20-03-027 which established the TECH Initiative and the BUILD Program, with total budgets of $120 million and $80 million, respectively.[6] To comply with CARB rules for using Cap-and-Trade funds, D.20-03-027 provided that spending for the two programs, with limited exceptions, be proportionately directed to the gas corporation service territories where the funds are derived.[7] As a result, the funds are to be spent in the service areas of these four gas corporations in the following percentages:

TABLE 1: Jurisdictional Allocation of SB 1477 Authorized Funds

LINE NO.	UTILITY	PERCENT
1	SoCalGas	49.26
2	PG&E	42.34
3	SDG&E	6.77
4	SWG	1.63

[5] Order Instituting Rulemaking (OIR) 19-01-011 at 2.

[6] *See* D.20-03-027 at 7.

[7] *See* D.20-03-027 at 3, *citing* Title 17 of the California Code of Regulations §95893(d)(3) ("Allowance value, including any allocated allowance auction proceeds, obtained by a natural gas supplier must be used for the primary benefit of retail natural gas ratepayers of each natural gas supplier, consistent with the goals of Assembly Bill (AB) 32, and may not be used for the benefit of entities or persons other than such ratepayers.")

1.2. Phase II

On August 25, 2020, the Assigned Commissioner issued an Amended Scoping Memo and Ruling setting forth the issues to be considered in Phase II of this proceeding. Phase II was resolved in D.21-11-002, which: (1) adopted certain principles for the application of incentives; (2) established a new Wildfire and Natural Disaster Resiliency Rebuild program; (3) provided guidance on data sharing; (4) directed the study of bill impacts and required utilities to propose rate adjustments in some cases; and (5) directed utilities to collect data on fuels used to power various appliances, including propane.

1.3. Phase III

On November 16, 2021, the Assigned Commissioner issued an Amended Scoping Memo and Ruling setting forth the issues to be considered in Phase III of this proceeding. Phase III was resolved in D.22-09-026, which eliminated gas line extension allowances, refunds, and discounts with regard to all new applications for gas line extensions submitted on or after July 1, 2023, for all customers in all customer classes.

2. Assembly Bill (AB) 179

On September 6, 2022, AB 179 (Ting, 2022) allocated $50 million from revenues in California's FY 2022-23 General Fund Budget for use by the Commission to augment funding for the TECH Initiative.

On September 26, 2022, an Assigned Commissioner's ruling was issued seeking comments on implementing AB 179 (Ruling).

On October 17, 2022, comments in response to the Ruling were filed by the Natural Resources Defense Council (NRDC), Small Business Utility Advocates (SBUA), Vermont Energy Investment Corporation (VEIC), PG&E, Southern California Edison Company (SCE), and Bradford White Corporation (BWC). Comments in response to the Ruling were also filed jointly by the Sierra Club and California Environmental Justice Alliance (CEJA), and similarly, Peninsula Clean Energy Authority, Marin Clean Energy, East Bay Community Energy, and Central Coast Community Energy as Joint Community Choice Aggregators (collectively as JCCA).

On October 27, 2022, reply comments were filed by NRDC and VEIC.

3. Issues before the Commission

The issues currently before the Commission are: (1) how to use the additional $50 million from California's FY 2022-2023 General Fund revenues to supplement the TECH Initiative for the benefit all California residents, regardless of whether they reside within the territory of a gas corporation under the Commission's jurisdiction; and (2) whether any changes should be made to the implementation or design of the TECH Initiative.

4. Discussion

Based on our review of all comments and reply comments filed in response to the Ruling, we implement the provisions of AB 179 as follows.

4.1. Allocate $50 Million to TECH Initiative Balancing Account

No party opposed using the $50 million to augment operations of the current TECH Initiative. We authorize the Commission's Fiscal Office to transfer $50 million from the Commission's FY 2022-2023 budget to SCE, the TECH Initiative contracting agent. SCE shall apply the $50 million to the Building Decarbonization Pilot Program Balancing Account (BDPPBA) to manage the TECH Initiative. SCE must continue to disburse funds from this balancing account to pay the TECH Initiative implementer and other TECH Initiative expenses as authorized in D.20-03-027, with administrative changes discussed below.

In its opening comments, PG&E states that the TECH Initiative roll-out saw a significant increase in contractor participation, succeeding beyond initial program expectations, with a much higher volume of applications than anticipated.[8] PG&E further states that the previously allocated funds became fully subscribed by mid-2022 resulting in the TECH Initiative program pausing the acceptance of new applications.[9] Similarly, SCE and the Joint CCAs also state the depleted status of the initial funding of $120 million, resulting in a loss of momentum in the TECH Initiative program.[10]

With the allocation of the additional budget from AB 179, the program should be able to accept new applications and continue the implementation of SB 1477.

4.2. Maintain Current Budgetary Allocations

Parties made no comments on changing the budgetary allocation of funds between program costs, administrative costs for the implementer, administrative costs for the contracting agent, and program evaluation costs. AB 179 did not provide guidance on the allocation of program funds and implementation. The budgetary allocation of funds established by D.20-03-027 is reasonable and requires no other modifications. Therefore, the incremental $50 million will be allocated using the same percentages below.

TABLE 2: Budgetary Allocation of Additional $50 Million from AB 179

LINE NO.	FUNDING CATEGORY	PERCENT	DOLLARS (millions)
1	Program Costs (No less than)	86.5	$43.25

[8] PG&E Opening Comments at 2.

[9] *Ibid*.

[10] SCE Opening Comments at 2, Joint CCAs' Opening Comments at 3.

2	Administrative Costs for implementer (No more than)	10.0	$5.00
3	Administrative Costs for a contracting agent (SCE) (No more than)	1.0	$0.50
4	Evaluation Costs paid to program evaluator (No more than)	2.5	$1.25
	TOTAL	100.0	$50.00

Several parties suggest changing the priorities for program costs (*e.g.*, funding allocated for incentive payments vis-à-vis other implementation costs), which we discuss below.

4.3. Statewide Program and Additional Tracking Requirements

TECH Initiative initial funds of $120 million must be spent, with limited exceptions, according to specific percentages in the service areas of the four largest gas corporations in order to comply with CARB rules for the use of Cap-and-Trade funds, as explained above. AB 179 removes the jurisdictional and geographic limitations on the additional $50 million. Specifically, AB 179 provides that the funds:

> … shall be used by the Commission to expand the program created pursuant to Section 922 of the Pub. Util. Code [the TECH Initiative] to benefit all California residents, regardless of whether they reside within the territory of a Commission jurisdictional gas corporation.[11]

We agree with SCE, VEIC, and NRDC's opening comments on the Ruling that AB 179 removes territorial restrictions on incentive disbursements and makes the TECH Initiative a statewide program. As a result, the TECH Initiative implementer shall allocate the incremental $50 million, authorized by this decision, statewide in a way that best meets the TECH Initiative goals. SCE must

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[11] *See* https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB179, at Section 196.

track the source and use of funds in the BDPPBA to ensure the requirements of both SB 1477 and AB 179 are met.[12] Specifically, to provide transparency and accountability, the balancing account must show whether TECH Initiative expenses are incurred within the service areas of the four gas corporations and are paid from the initial $120 million or are incurred without geographic limitation and are paid from the new $50 million.

4.4. 40 Percent Carve Out for Equity Customers

VEIC recommends a 40 percent carve-out for equity customers. VEIC states that "A 40 percent equity set-aside aligns with the goal committed to internally by the TECH implementer for the original TECH budget…"[13]

VEIC proposes that:

> … the TECH implementer collaborate with CPUC Energy Division to define 'equity community' in a broad but clear way, using some combination of the California EnviroScreen 4.0 definition of Disadvantaged Community, 'Hard to Reach community' as defined by CPUC Resolution G-3497, 'ESJ community' as defined by CPUC ESJ Action Plan, CARE / FERA rate participation, low-income qualification, affordable housing tenant status, or other elements that CPUC approves.[14]

No party opposed this recommendation. We see the internal set-aside by the TECH Initiative implementer as consistent with the flexibility we authorize the implementer, subject to Commission oversight through our Energy Division, and thus adopt it. We note that the TECH implementer has judiciously used

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[12] D.20-03-027, OP5, directed SCE to set up a balancing account to "to track costs associated with performing the functions required of the contracting agent."

[13] Opening Comments of VEIC at 5.

[14] *Id* at 5 – 6.

funds to support building electrification in the San Joaquin Valley pilots, where additional remediation monies beyond the threshold amounts set within that program were necessary to electrify applicant homes.[15] Such supplemental support using TECH Initiative's incentives is appropriate and necessary to overcome any regulatory or statutory limitations in other synergistic equity programs outside of this proceeding.

Further, when supporting other equity programs, the TECH Initiative implementer shall use the same definition of "equity customer" as the programs it is supporting. Where the TECH Initiative implementer retrofits homes of an "equity customer" independent of any other program, it should work with stakeholders and Energy Division to develop a specific definition of "equity customer." All of the aforementioned categories of customers should be considered in developing a definition of "equity customer."

We also note that this 40 percent carve out of program costs (which are noted in Table 2) is a floor, not a ceiling. The TECH Initiative may exceed that percentage, and the implementer may follow recommendations from CEJA/Sierra Club, PG&E, or other parties if they find that to be a strategic use of the funding. We recognize that the TECH Initiative is working in a dynamic market and shifting landscape of other programs incentivizing building decarbonization. As noted by VEIC in their reply comment, "Twelve months ago,

[15] PG&E Annual Progress Report for San Joaquin Valley Pilots, at 6: https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M500/K050/500050133.PDF
SCE's Annual Progress Report for San Joaquin Valley Pilots, at 15: https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M500/K048/500048296.PDF

we would not have predicted the upcoming availability of tax credits and rebates for heat pump technologies through the Inflation Reduction Act."[16]

4.5. No Other Program Changes

Several parties recommend that the Commission take a more prescriptive approach in implementing and supervising this addition of funds to the TECH Initiative. We decline to do so at this time. The Commission considered, but did not adopt, a prescriptive approach in the adoption of the TECH Initiative in D.20-03-027. Instead, within broad guidelines, the Commission authorized the TECH Initiative implementer to evaluate market structure and dynamics and propose reasonable intervention strategies:

> Market development initiatives involve phases that require development and testing of strategies and approaches to arrive at impactful market intervention efforts. Therefore, we adopt an approach that gives the implementer the flexibility to approach the TECH Initiative with a menu of tactics. While we grant the implementer flexibility, we do not deviate from the statutory mandate that the implementer include an upstream and midstream approach to drive market development, as well as provide consumer education, contractor training, and vendor training. The statute does not envision the TECH Initiative delivering downstream or direct-to-customer incentives. The implementer has the responsibility to evaluate the market structure and dynamics

[16] *See* VEIC Reply Comments at 3.

by proposing intervention strategies to overcome barriers and further the market.[17,18,19]

The TECH Initiative is just over one year old, and the implementer continues to explore how best to encourage the market development envisioned in SB 1477. With this approach, for example, and with active oversight from the Commission through Energy Division, the TECH Initiative implementer has worked to adapt to various market conditions to achieve maximum impact in furtherance of program goals.

We recognize the desire of several parties for the TECH Initiative implementer to pursue new strategies to achieve building decarbonization. As summarized below, these strategies may be considered by the TECH Initiative implementer.

For *example*, PG&E recommends that the TECH Initiative be used to actively support natural gas decommissioning efforts, focusing on zonal electrification and a tariff on-bill pilot.[20]

JCCA had several program suggestions, including the layering of additional funds that would: (1) define and communicate an electrification

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[17] D.20-03-027 at 82-83.

[18] We define upstream "as program elements aimed at encouraging manufacturers to make the most efficient equipment available at competitive prices. This also includes manufacturer buydowns to targeted channels such as retailers that are not positioned to collect data from the purchaser or end-user. For market adoption of energy-efficient products in the upstream supply chain, the implementer must work with upstream supply chain actors like manufacturers, manufacturer representatives, and distributors to reduce the real and perceived business risks of building decarbonization market development." (D.20-03-027 at 83.)

[19] We define midstream as "program elements that provide incentives to wholesale distributors, retailers, e-commerce companies and/or contractors to stock and/or sell more efficient products…[and] interventions that will affect contractors, builders, plumbers, electricians, and retail sales outlets." (D.20-03-027 at 83-84.)

[20] *See* Opening Comments of PG&E at 4.

strategy for low-income customers; (2) increase participation from small, local contractors; (3) continue to cover the cost of panel upgrades, and (4) develop a streamlined approach for contractor enrollment.[21]

Sierra Club and CEJA recommend dedicating 100 percent of the funding augment to environmental and social justice (ESJ) communities (given that there are now incentives from the federal government for market rate customers through the Inflation Reduction Act), while pilot programs and Quick Start Grants[22] should be dedicated to mobile home parks and housing eligible for the Solar on Multifamily Affordable Housing program.[23]

BWC commented that the TECH budget should delineate between heat pump water heaters and HVAC systems to address the incentive imbalance given to the two types of appliances (with BWC saying far more TECH incentives went to HVAC systems).[24] BWC suggests that a carve-out be made for heat pump water heaters.

In its comments on the proposed decision, A.O. Smith states that there is an underrepresentation of HPWHs within the TECH Initiative program. A.O. Smith does not state a recommendation as such but expressed its intent to continue collaborating with the CPUC to address HPWH issues in this proceeding.

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[21] *See* JCCA Opening Comments at 2.

[22] Quick Start Grants are a limited part "of the TECH Initiative budget over the first two years of the program. These funds will be intended to fund localized, vanguard approaches to decarbonization. This program will consist of a grants program involving the procurement and administration of a portfolio of high-impact projects and strategy testing engagements with local, regional and other third-party implementers." (D.20-03-027 at 85.)

[23] *See* Opening Comments of Sierra Club and CEJA at 1-7.

[24] *See* Opening Comments of BWC at 3.

NRDC suggests that 50 percent of the funds should be dedicated to: (1) ESJ communities (*e.g.*, through rebate incentives, pilots, quick start grants, or other TECH activities that directly benefit ESJ Communities); (2) updating the implementation contract with the current TECH contractor; and (3) focusing on HVAC systems (given funds dedicated to heat pump water heaters through the Self-Generation Incentive Program (SGIP) program in D.22-04-036).[25] NRDC also states that funding may be used for targeted electrification.

In comments on the proposed decision, Sierra Club and CEJA propose to carve out funds for appliances for low-income households to help purchase discounted appliances, such as electric heat pumps and heat pump water heaters. We agree that low-income and disadvantaged communities should have access to electrification technologies; however, we decline to adopt additional carve-outs because we have already authorized a minimum of 40 percent of TECH Initiative incentives for equity customers in this decision that includes low-income households.

Regarding specific carve-outs or incentives proposed by the parties, the Commission has authorized over $435 million in incentives across these programs for electric HPWHs, electric heat pump heating, ventilation, and air conditioning (HVAC) systems, and related devices that enable these technologies to achieve full functionality.[26] We note that, in the SGIP program, we direct $84.7 million exclusively towards heat pump water heaters that can work as load-shifting devices through SGIP.[27] The implementer should take this into account when making decisions on program expenses.

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[25] *See* D.22-04-036 at 2.

[26] *See* D.21-11-002 at

[27] D.22-04-036.

Pursuant to D.20-03-027, we decline to adopt an approach that could single out any product, such as electric heat pumps and heat pump water heaters, which could stymie innovation in this emerging market transformation program. We remind the parties that the TECH Initiative was designed to develop the market by working with upstream and midstream actors while serving low-income and disadvantaged communities.[28] Creating direct customer incentive carve-outs would be a downstream activity, which can be met via other incentive programs.

In this proceeding, we adopt a performance-based approach regarding GHG emission reduction baselines instead of a product-based approach.[29] Furthermore, we approve incentive layering and guiding principles and requirements to leverage the benefits of various building decarbonization programs.[30] We expect the TECH Initiative implementer to incorporate the incentive layering guiding principles into customer education communication material.

We do not direct specific program changes because we want the TECH Initiative implementer to continue to have the flexibility to consider and adopt these or other ideas as the implementer continues to evaluate both market structure and dynamics, making reasonable adjustments as the program progresses.

VEIC lists several additional program opportunities, including additional funding for speedier processing of incentives and further rounds of quick-start

[28] *See* D.20-03-027 at 90.

[29] *Ibid.*

[30] *See* D.21-11-002 OP 1.

grants.[31] VEIC also requests that the Commission "… initiate a process for more efficient use of meter data."[32]

SBUA suggests that TECH Initiative funds be directed to mid-stream incentives to overcome barriers faced by small businesses to adopt more efficient, clean technologies.[33] SBUA states that Public Utilities Code, section 922(c)(1) requires outreach strategies for hard-to-reach customers.[34] SBUA further states that in most instances, small businesses fall within this customer category.[35]

Pursuant to SB 1477, the authorized funds are exclusively meant for residential buildings. Therefore, we cannot expend them for non-residential customers.

VEIC requests that the Commission establish a process for more efficient use of meter data. This topic is outside the scope of our consideration of implementing AB 179, as identified in the September 26, 2022, assigned Commissioner's Ruling. Therefore, we decline to take up the issue in this decision.

VEIC states that the additional $50 million might go, in part, to "[a]dditional staff to decrease processing time, so that contractors are reimbursed in a more timely manner."[36] We encourage the implementer to consider adding staff or taking other steps in order to decrease processing time.

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[31] *See* Opening Comments of VEIC at 1-9.

[32] *See id.* at 2.

[33] SBUA Comments filed on October 17, 2022 at 2.

[34] *Ibid.*

[35] *Ibid.*

[36] *See* Opening Comments of VEIC at 6.

5. Conclusion

AB 179 should be implemented as discussed and ordered in this decision, consistent with AB 179. We maintain the budgetary allocation adopted in D.20-03-027, clarify that the TECH Initiative is a statewide program, and allocate a minimum of 40 percent of program costs for activities that serve equity customers. SCE is authorized to modify its existing contract with the TECH Initiative implementer. We require additional reporting requirements in the quarterly reports prepared by the TECH Implementer. The provisions adopted in this decision shall remain in effect even after the CPUC is granted budgetary approvals for Equitable Building Decarbonization TECH Initiative for Financial Year (FY) 2023-2024.

6. Comments on Proposed Decision

The proposed decision in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on January 12, 2023, by SCE, SBUA, CEJA and Sierra Club, NRDC, and A.O. Smith. Reply comments were filed on January 17, 2023, by SBUA.

We have reviewed all comment on the proposed decision and modified the decision as appropriate. The following section additionally addresses specific comments on the proposed decision.

SCE's comments on the proposed decision seek clarification regarding conditions under which it can make changes to the contract with the existing TECH Initiative Program Implementer to ensure that the $50 million budget can become effective immediately. Specifically, SCE states that it should be able to amend the contract, and if it is unable to amend the contract, it should be allowed to run a new solicitation utilizing its own process, select a winning bidder, and sign a new Technology and Equipment for Clean Heating Initiative contract, in its own capacity (rather than as an agent of the Commission) with such winning bidder.

While it is reasonable to allow SCE to amend the existing contract to ensure funds are available soon after the final decision is adopted, we deny SCE's request to run the solicitation in its own capacity and not as a Commission agent, without Energy Division oversight. Pursuant to D.20-03-027, SCE is the designated contracting agent. However, Energy Division is entrusted with deciding to select the TECH Initiative implementer and evaluator.[37] SCE shall keep Energy Division informed on the status of its negotiations to modify the existing contract and, within 10 calendar days of failing to negotiate a new contract with the implementer or the evaluator, SCE should formally notify the Deputy Executive Director of the Energy Division, to allow the Energy Division time to plan solicitation and selection process for a new TECH Initiative Implementer or evaluator, as needed, per D.20-03-027.[38] We expect the stakeholders, including Energy Division, the TECH Implementer, and the agent, to work together and expedite the selection process should there be a need to re-run the solicitation per the guidance in D.20-03-027.

Therefore, we decline to adopt SCE's recommendation to run the solicitation on its own. SCE is authorized to modify the existing contract and continue to adhere to the guidance under D.20-03-027 for undertaking any new solicitation. SCE shall, within 15 days of modifying the contract with the

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[37] *See* D.20-03-027, OP 27-30.

[38] *See* D.20-07-032 OP 27 and 28.

implementer or the evaluator, file a Tier 1 advice letter seeking Energy Division approval of each of the modified contracts.

Regarding legislative uncertainty arising from the state's budget for FY 2023-2024, SCE and NRDC filed comments on the proposed decision seeking clarity on the impact on the future of the TECH Initiative. SCE states that if the TECH funding amount is changed, the authorization is delayed, or if it is canceled outright, the Commission should explain that state money for this purpose should be transferred in the proportions described and that the final decision will have no effect until and unless state funding is provided for TECH. NRDC asserts that the issues considered by the Commission in this decision should not be relitigated again before FY 2023-2024 funding is distributed and the decision should remain in effect to FY 2023- 2024 funding.

Regarding SCE's comments about budgetary approvals, we note that the California Energy Commission's budget for Equitable Building Decarbonization is separate from CPUC's budget for Equitable Building Decarbonization (TECH Initiative) (AB 179).[39] We agree with NRDC that matters addressed in this decision should not be relitigated for effective use of the TECH Initiative Program funds and continuity. FY 2022-2023 will end in June 2023 and if a new budget is approved close to the beginning of FY 2023-2024, it is efficient and reasonable to avoid a market gap in TECH incentives and continue program funding under the current rules. If the state funding is approved with specific program changes or guidance, the Commission will provide additional direction to implement rules per the revised legislative guidance. However, if the program rules remain the same, and the Governor's proposed budget for the TECH

[39] 2023-24 GOVERNOR'S BUDGET for the CPUC - https://ebudget.ca.gov/2023-24/pdf/GovernorsBudget/8000/8660.pdf

Initiative is approved, the TECH Initiative program should continue to allocate and distribute incentives per the rules adopted in this decision. Therefore, this decision shall remain in effect and continue to apply to FY 2023-2024 TECH Initiative program funding.

Regarding the oversight process, we find merit in Sierra Club's and CEJA's comments and SBUA's reply comments to set up an oversight process to ensure that TECH Implementer is meeting goals to reach maximum equity customers.[40] Though there are various reporting requirements set in prior decisions, this decision will additionally require ongoing public reporting of the status of how the TECH Initiative funds are being used to meet program goals of SB 1477 set in D.20-03-027 and D.21-11-002. Beginning with the second quarterly report in 2023, the TECH Implementer shall track and include in their quarterly public reporting the following information:

a. Strategies employed to target equity customers: reporting should demonstrate how these strategies support long-term market development across equity customers.
b. TECH Initiative incentives ($) given to equity customers as a percentage of the total program funds.
c. TECH Initiative funding provided to other equity programs (layering of funds).
d. The geographic areas and project type (for example, electrification, or installing heat pumps at a multifamily housing complex) where the TECH Initiative implementation was targeted and why.
e. Strategies and funding for workforce training targeted towards serving equity customers.

[40] SBUA Reply Comments at 1-2.

7. Assignment of Proceeding

Darcie L. Houck is the assigned Commissioner and Manisha Lakhanpal and Alberto Rosas are the assigned Administrative Law Judges in this proceeding.

Findings of Fact

1. The Commission initiated this proceeding to consider policy frameworks supporting decarbonization of buildings.
2. SB 1477 authorized the Commission to establish the BUILD Program and the TECH Initiative.
3. D.20-03-027 established the BUILD Program and the TECH Initiative pursuant to SB 1477, with $120 million allocated to the TECH Initiative.
4. The TECH Initiative is a market transformation program providing incentives to advance the adoption of low-emission space and water heating technologies in residential buildings.
5. The TECH Initiative is currently funded solely by $120 million in revenue generated from the GHG allowances directly allocated to California's four largest gas corporations and consigned to auction as part of the Cap-and-Trade program administered by CARB and, pursuant to CARB rules, the funds must be proportionately directed to the gas corporation service areas from which the funds are derived.
6. D.20-03-027 established the TECH Initiative budgetary allocation of funds (allocated between program costs, administrative costs for the implementer, administrative costs for the contracting agent, and costs for program evaluation).
7. The initial incentive budget set for the TECH Initiative approved in

8. D.20-03-027 was fully subscribed by mid-2022, resulting in the TECH Initiative pausing the acceptance of new applications, and a loss of momentum in the market development efforts.

9. On September 6, 2022, AB 179 was signed into law, authorizing $50 million in California General Fund revenue to be appropriated to the TECH Initiative, and specifying that these funds may be spent on a statewide basis without geographic restrictions.

10. On September 26, 2022, the assigned Commissioner sought party comments on the $50 million allocated pursuant to AB 179 and how the Commission should use the additional $50 million.

11. Of the parties who commented on the TECH Initiative budget expansion, (a) none opposed the current TECH Initiative implementer receiving the funds; (b) some recommended staying the course with modest changes required by AB 179; and (c) others recommended prescriptive changes and/or new budget allocations directed to specific priorities.

12. SCE is the contracting agent for the TECH Initiative and manages the BDPPBA, from which TECH Initiative program, administrative, and evaluation costs are paid.

13. Within broad guidelines, D.20-03-027 gives the TECH Initiative implementer flexibility to approach the TECH Initiative with a menu of reasonable intervention strategies.

14. The Commission has adopted a performance-based approach regarding GHG emission reduction baselines instead of a product-based approach.

15. Incentive layering can be used by program implementers and contractors to leverage the benefits of various building decarbonization programs.

16. SCE, as the TECH Initiative contracting agent, will need to modify the existing contract with the TECH Initiative Program Implementer to ensure that the $50 million budget can become effective immediately.

17. Energy Division is entrusted with selecting the TECH Initiative implementer and evaluator resulting from a solicitation process.

18. If authorized, the FY 22-23 funding for the TECH Initiative can continue to support building decarbonization efforts across California under the provisions adopted in this decision.

19. Reporting on the strategies deployed to ensure that the TECH Implementer is meeting goals to reach maximum equity customers will help the Commission guide suitable program changes.

Conclusions of Law

1. It is reasonable to transfer $50 million from the Commission's budget to SCE's BDPPBA.

2. It is reasonable to apply the current allocation of the $120 million in TECH Initiative funds (allocated between program costs, administrative costs for the implementer, administrative costs for the contracting agent, and costs for program evaluation) to the additional $50 million for the TECH Initiative.

3. It is reasonable for the TECH Initiative implementer to use the $50 million in additional funds statewide in a way that best meets the TECH Initiative's goals.

4. Additional accounting within the BDPPBA should be required to track the source and use of funds to provide transparency and accountability to ensure that requirements of SB 1477 (proportionate use of Cap-and-Trade allowance proceeds) and AB 179 (allowing statewide use of funds) are met.

5. It is reasonable to have at least 40 percent of the new program costs set aside for activities that serve equity customers subject to Commission oversight through Energy Division.

6. The 40 percent set-aside for equity customers should be a floor, not a ceiling.

7. The Commission's Fiscal Office should transfer the $50 million authorized in AB 179 from the Commission's budget to the BDPPBA held by SCE, and SCE should disburse these funds for the TECH Initiative consistent with the directions in D.20-03-027 as augmented by this order.

8. The additional $50 million should be used by the TECH Initiative implementer to expand programmatic funding in these proportions consistent with D.20-03-027:

(a) no less than 86.5 percent for program costs;

(b) no more than 10 percent administrative costs for the implementer;

(c) no more than 1 percent administrative costs for the contracting agent (*i.e.*, SCE); and

(d) no more than 2.5 percent for evaluation to the evaluation contractor, with the remaining amount for program costs and incentive payments.

9. The TECH Initiative implementer should use the additional $50 million statewide in a manner unrestricted by Cap-and-Trade program rules and should do so in a way that best meets the TECH Initiative goals.

10. Future accounting within the BDPPBA should identify the source and use of funds to demonstrate compliance with SB 1477 (proportionate use of Cap-and-Trade allowance proceeds) and AB 179 (unrestricted statewide use of funds).

20. It is reasonable for SCE as the TECH Initiative agent to modify the existing contract with the implementer and the evaluator.

21. New solicitation and selection process of the TECH Initiative implementer or evaluator, if required, should follow rules set in D.20-03-027.

22. It is reasonable for the provisions of this decision to apply in the FY 2023-2024, if the TECH Initiative Program receives legislative budgetary approvals.

23. It is reasonable to require the TECH Initiative implementer to include in its quarterly public reporting the status of meeting equity goals.

24. This proceeding should remain open.

25. This order should be effective upon issuance.

O R D E R

IT IS ORDERED that:

1. The Commission's Fiscal Office shall, as soon as reasonably feasible, transfer $50 million from the Commission's budget to the Building Decarbonization Pilot Program Balancing Account for the Technology and Equipment for Clean Heating Initiative operations held by Southern California Edison Company.

2. Southern California Edison Company, in its capacity as the Technology and Equipment for Clean Heating Initiative (TECH Initiative) program agent pursuant to Decision 20-03-027, is authorized to modify the existing contract with the TECH Initiative implementer to disburse the $50 million in funds transferred to it pursuant to this decision for ongoing Technology and Equipment for Clean Heating Initiative operations in the following proportions consistent with D.20-03-027:

   (a) no less than 86.5 percent for program costs;

   (b) no more than 10.0 percent for administrative costs of the implementer;

(c) no more than 1.0 percent administrative costs for the contracting agent; and

(d) no more than 2.5 percent for evaluation costs paid to the program evaluator.

3. Southern California Edison Company, in its capacity as the Technology and Equipment for Clean Heating Initiative (TECH Initiative) program agent pursuant to Decision 20-03-027, is authorized to modify the existing contract with the TECH Initiative implementer to ensure that the disbursement of the $50 million:

(a) is used statewide to best achieve the Technology and Equipment for Clean Heating Initiative goals; and

(b) allocates no less than 40 percent of new program costs for activities that serve equity customers, and

(c) ensures the existing Technology and Equipment for Clean Heating Initiative program implementer identifies and tracks the source and use of gas Cap-and-Trade allowance proceeds versus other funds (i.e., which costs were paid using the original $120 million from cap-and-trade allowance proceeds versus the new $50 million from General Fund tax revenue).

4. Future accounting within the Building Decarbonization Pilot Program Balancing Account shall identify the source and use of funds to differentiate the source and use of Cap-and-Trade allowance proceeds from other funds. This shall include creating a sub-account under the Building Decarbonization Pilot Program Balancing Account to differentiate the source and use of funds.

5. Southern California Edison Company, solely in its capacity as a Technology and Equipment for Clean Heating Initiative (TECH Initiative) agent, pursuant to Decision 20-03- 027, is authorized to modify the existing contract with the existing TECH Initiative program evaluator, if necessary, to ensure compliance with this decision.

6. Southern California Edison Company shall, within 15 days of modifying the contracts with the Technology and Equipment for Clean Heating Initiative (TECH Initiative) implementer and the evaluator, file a Tier 1 advice letter seeking Energy Division approval for each of the modified contracts.

7. The provisions adopted in this decision shall remain in effect and continue to apply in the Fiscal Year (FY) 2023-2024 if the General Fund Budget for the Equitable Building Decarbonization Technology and Equipment for Clean Heating Initiative is approved by the California legislature.

8. Beginning with the second quarterly report in 2023, the Technology and Equipment for Clean Heating (TECH) Initiative Implementer, shall include within their quarterly public reporting:

(a) Strategies employed to target equity customers: reporting should demonstrate how these strategies support long-term market development across equity customers.
(b) TECH Initiative incentives ($) given to equity customers as a percentage of the total program funds.
(c) TECH Initiative funding provided to other equity programs (layering of funds).
(d) The geographic areas and project type (for example, electrification, or installing heat pumps at a multifamily housing complex) where the TECH Initiative implementation was targeted and why.
(e) Strategies and funding for workforce training targeted towards serving equity customers.

9. This proceeding remains open.

This order is effective today.

Dated February 2, 2023 at San Francisco, California.

ALICE REYNOLDS
President
GENEVIEVE SHIROMA
DARCIE L. HOUCK
JOHN REYNOLDS
KAREN DOUGLAS
Commissioners