

STATE OF CALIFORNIA

Public Utilities Commission
San Francisco

M e m o r a n d u m

Date: April 19, 2006

To: The Commission
(Meeting of April 27, 2006)

From: Delaney Hunter, Director
Office of Governmental Affairs (OGA) — Sacramento

Subject: **SB 1816 (Alarcon) - Energy: gas furnace replacement program**
As Amended April 18, 2006

LEGISLATIVE SUBCOMMITTEE RECOMMENDATION: Oppose.

SUMMARY OF BILL: This bill would establish a program starting July 1, 2007, and continuing until December 31, 2013, to replace 50,000 old gas furnaces annually in residential homes that are eligible for the California Alternate Rates for Energy (“CARE”) program.

SUMMARY OF SUPPORTING ARGUMENTS FOR RECOMMENDATION: SB 1816 would dramatically expand furnace replacements in California outside of furnace replacements currently administered under the Commission’s Low Income Energy Efficiency (“LIEE”) program. Moreover, if incorporated under the LIEE program, SB 1816 would expand program costs by over \$200 million.

Under SB 1816, the costs of the program would be recovered through the natural gas and electricity Public Goods Charge (“PGC”). California’s middle or low-middle income consumers, who fall just outside the qualifying income guidelines for the CARE program, would face the increased burden of a higher PGC on their energy bills.

The Winter Initiative which, went in to effect November 1, 2005, and continues through April 30, 2006, has greatly increased the number of gas furnace replacements in California. PG&E alone will replace over 1200 gas furnaces for the period covered by the Winter Initiative.

SUMMARY OF SUGGESTED AMENDMENTS (if any): None.

DIVISION ANALYSIS (Energy Division): California’s existing LIEE program already encompasses a gas furnace replacement program. By creating a separate program for

gas furnace replacement, SB 1618 duplicates this effort to the detriment of other features of the current LIEE program. For example:

- Additional installers would have to be trained and hired to implement the volume of furnaces that SB 1816 requires.
- In the short-term, there are a limited number of vendors who are trained and equipped to safely install gas furnaces. Meeting the 50,000 annual target under SB 1816 may be difficult and potentially un-safe.
- The additional labor and transaction costs connected with SB 1816 would elevate gas furnace replacements as a priority service for low income customers to the detriment of other LIEE program measures.

An emphasis on gas furnace replacement services for low income customers is not linked to any policy directive of the Commission.

SB 1816 focuses on electricity and gas customers that are eligible for the CARE program. However, furnace replacement is not a feature of the CARE program as this program offers a discounted rate for energy to qualified low income energy customers.

Furnace replacement is more appropriately addressed under Public Utilities Code Section 2790 as a potential weatherization service component.

SB 1816 offers no independent studies or other data supported information to validate the need for an accelerated gas furnace replacement program.

The potential need for gas furnace replacement among California's low income population is better addressed through changes to the existing LIEE program's energy efficiency and weatherization components. Additional legislation is unnecessary.

The Commission is currently in the process of setting goals for future programs through workshops, Needs Assessments, and Impact Evaluations. Such analyses are necessary to determine what programs should be implemented in the future based on their benefit/cost ratios. Instituting a furnace replacement program that would more than double the LIEE budget from \$104 million to an estimated \$254 million per year without consideration of the cost effectiveness would be inadvisable.

All other non-low income electricity ratepayers would face the burden of a \$150 million rate increase for the furnace replacements.

PROGRAM BACKGROUND:

SB 1816 would have a significant impact on the costs and operation of low income energy programs for California's utilities. In 2005, 260 of Pacific Gas and Electric's (PG&E's) LIEE participants received gas furnaces at a total cost of \$643,240. Two hundred twenty two (222) LIEE participants have received furnaces as of March 15, 2006, at an approximate cost of \$704,341. PG&E estimates that its share of the 50,000 SB 1816 furnaces could amount to as many as 25,000 gas furnace replacements.

PG&E projects that if 25,000 furnaces were replaced in 2006, the estimated cost would be over \$65.9 million during one calendar year. By the year 2013, the costs (for the six-year program) would come to about \$395 million for PG&E alone.

According to SouthWest Gas (SWG), it has replaced 30 gas furnaces during the 2005 LIEE program year at a cost of about \$71,370. SWG anticipates replacing approximately 50 gas furnaces in low income homes during 2006. SWG anticipates that under SB 1816 a potential 220 gas furnaces could be replaced at an approximate increased program cost of about \$360,000 annually.

In 2005 San Diego Gas and Electric (SDG&E) replaced a total of 314 gas furnaces at a cost of approximately \$414,000 under the LIEE program. During the same period, SoCal Gas replaced 2,025 gas furnaces at a cost of approximately \$3,182,000. The Sempra companies, SDG&E and SoCal Gas, estimate that under SB 1816, over 20,000 gas furnace replacements would be assigned to SoCal Gas at a potential cost of approximately \$38 million to \$72 million per year. For SDG&E, the potential gas furnace replacement activity, under SB 1816, would be over 4,000 units at a cost of approximately \$7 million to \$12 million per year.

California IOUs have criteria in-place to assess whether gas furnaces are eligible for replacement. Currently, outside of the Winter Initiative Program, a furnace is repaired or replaced in the LIEE program if it fails the Natural Gas Appliance Testing ("NGAT") test and is the primary furnace in an owner-occupied home. For example, in 2005, PG&E repaired 949 furnaces and replaced 260 furnaces. Under the Winter Initiative Program, a central forced air furnace with an efficiency of 65 percent Annual Fuel Utilization Efficiency ("AFUE" is a U.S. Department of Energy measure of a furnace's heating efficiency) or less is replaced in all qualifying homes (whether homeowner or renter occupied). The Winter Initiative went in to effect November 1, 2005, and continues through April 30, 2006. PG&E has replaced over 642 furnaces under the Winter Initiative since November 1, 2005, to date, and has assessed over 600 for pending furnace installations. Procedures for gas furnace replacement at other California IOUs are substantively identical to the procedures described for PG&E. Changes to the current LIEE gas furnace replacement procedures or the Winter Initiative Program may achieve similar results to what is intended for SB 1816.

The chart below indicates that, when we take into account the level of costs for the current authorized LIEE utility programs and the potential costs of the furnace replacement program envisioned by SB 1816, the combined cost an estimated \$254 million annually.

Utility	2006 Authorized LIEE Budget	SB 1816 Furnace Replacement Adder	Total Potential Revised LIEE plus SB 1816 Budget
SWG	\$941,980	\$360,000	\$1,301,980
PG&E	\$56,530,000	\$66,000,000	\$122,530,000
SoCal Gas	\$33,324,875	\$72,000,000	\$105,324,875

SDG&E	\$13,368,093	\$12,000,000	\$25,368,093
Total	\$104,164,948	\$150,360,000	\$254,524,948

SB 1816 would potentially create an over \$200 million statewide program with the existing LIEE programs plus the additional cost for gas furnace replacements. The potential need for gas furnace replacement among California's low income population is better addressed through changes to the existing LIEE program's energy efficiency and weatherization components. Additional legislation is unnecessary.

LEGISLATIVE HISTORY: None.

FISCAL IMPACT: In addition to the cost impacts detailed above, initial estimates put the fiscal impact of this bill on Commission staffing at \$184,005. It is estimated that to do this work the Commission would need two additional staff positions (i.e. two analysts).

STATUS: This bill passed the Senate EU&C Committee on April 4th and will next be heard in the Senate Appropriations Commission (no date).

SUPPORT/OPPOSITION:

Support

ACCES

Bay Area Poverty Resource Council, Inc.

California Air, Inc.

Center for Community Futures

Community Action Agency of San Mateo County, Inc.

Community Action Partnership of San Bernardino County

Community Resource Project, Inc.

Louisville Tin & Stove Company

Maravilla Foundation (sponsor)

TELACU Weatherization Inter-City Energy Systems, Inc.

Veterans In Community Service, Inc.

Western Center on Law & Poverty

Wren Heating and Air

Oppose

Pacific Gas and Electric Company

Sempra Energy

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BILL LANGUAGE:

BILL NUMBER: SB 1816 AMENDED
BILL TEXT

AMENDED IN SENATE APRIL 18, 2006

INTRODUCED BY Senator Alarcon

FEBRUARY 24, 2006

An act to amend ~~Sections 381 and~~ Section 890 of, to amend the heading of Chapter 6 (commencing with Section 2781) of Part 2 of Division 1 of, and to add and repeal Section 2789.5 of, the Public Utilities Code, relating to energy, and making an appropriation therefor.

LEGISLATIVE COUNSEL'S DIGEST

SB 1816, as amended, Alarcon Energy: gas furnace replacement program.

Under existing law, the Public Utilities Commission has regulatory authority over public utilities, including gas corporations and electrical corporations. Existing law establishes a Low-Income Oversight Board to advise the commission on low-income electric and gas customer issues and to serve as a liaison for the commission to low-income ratepayers and representatives. Existing law requires the commission to establish a program of assistance to low-income electric and gas customers, referred to as the California Alternate Rates for Energy (CARE) program. Existing law establishes a surcharge on all natural gas consumed in the state to fund certain low-income assistance programs, cost-effective energy efficiency and conservation activities, and public interest research and development (natural gas public goods charge). Existing law requires a public utility gas corporation, as defined, to collect the natural gas public goods charge from natural gas consumers, as specified. The money from the natural gas public goods charge is deposited in the Gas Consumption Surcharge Fund and is continuously appropriated to specified entities, including to the commission, or to an entity designated by the commission, to fund low-income assistance programs, cost-effective energy efficiency and conservation activities, and public interest research and development not adequately provided by the competitive and regulated markets. ~~Under the act, the commission requires electrical corporations to identify a separate rate component to fund programs that enhance system reliability and provide in state benefits (electricity public goods charge). The electricity public goods charge is a nonbypassable element of local distribution and collected on the basis of usage. The funds are collected to support cost effective energy efficiency and conservation activities, public interest research and development not adequately provided by competitive and regulated markets, and renewable energy resources.~~

This bill would require that the commission, in consultation with the Low-Income Oversight Board and gas corporations and electrical

corporations that participate in the CARE program, to establish a program to go into effect on July 1, 2007, and to continue until December 31, 2013, to annually replace 50,000 old gas furnaces, as defined, in residential dwelling units, as defined, occupied by customers eligible for the CARE program. These provisions would be repealed as of January 1, 2014. The bill would provide that the costs of the program are to be recovered through the natural gas ~~and electricity~~ public goods ~~charges~~

~~charge~~ . By increasing the natural gas ~~and electricity~~ public goods ~~charges~~ ~~charge~~ to fund the furnace replacement program, the bill would result in a change in state taxes for the purpose of increasing state revenues within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of 2/3 of the membership of each house of the Legislature. Because the bill would increase the amount of money deposited in the Gas Consumption Surcharge Fund, a continuously appropriated fund, and make this money available for a new purpose, it would make an appropriation.

~~— This bill would delete certain outdated funding level requirements relative to the electricity public goods charge and instead require that funding be consistent with the existing Reliable Electric Service Investment Act.~~

Under existing law, a violation of the Public Utilities Act or an order or direction of the commission is a crime.

Certain provisions of this bill would be part of the act and an order or other action of the commission would be required to implement certain of the bill's provisions. Because a violation of the bill's provisions or of an order or decision of the commission would be a crime, this bill would impose a state-mandated local program by creating new crimes.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: 2/3. Appropriation: yes. Fiscal committee: yes.
State-mandated local program: yes.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. The Legislature finds and declares all of the following:

(a) The efficiency of new gas furnaces that heat residential dwelling units have improved by an average of 25 percent since 1975, due in part to the implementation of appliance efficiency standards beginning in 1978.

(b) The improvements in the efficiency of gas furnaces have been accompanied by safety improvements that reduce emissions of carbon monoxide and other harmful air pollutants that endanger public health.

(c) California has a large number of residential dwelling units that are more than 30 years old and have gas furnaces that predate the improvements in efficiency and safety.

(d) It is in the public interest to replace old and inefficient gas furnaces lacking safety features with new furnaces that are more energy efficient and safer.

(e) Recent technological advances in heating and cooling system designs may make it appropriate that electrical corporations participate in a program for the replacement of old and inefficient gas furnaces.

~~SEC. 2. Section 381 of the Public Utilities~~

~~Code is amended to read:~~

~~381. (a) To ensure that the funding for the programs described in subdivision (b) and Section 382 are not commingled with other revenues, the commission shall require each electrical corporation to identify a separate rate component to collect the revenues used to fund these programs. The rate component shall be a nonbypassable element of the local distribution service and collected on the basis of usage.~~

~~(b) The commission shall allocate funds collected pursuant to subdivision (a), and any interest earned on collected funds, to programs that enhance system reliability and provide in state benefits as follows:~~

~~(1) Cost effective energy efficiency and conservation activities.~~

~~(2) Public interest research and development not adequately provided by competitive and regulated markets.~~

~~(3) In state operation and development of existing and new and emerging renewable resource technologies defined as electricity produced from other than a conventional power source within the meaning of Section 2805, provided that a power source utilizing more than 25 percent fossil fuel may not be included.~~

~~(4) A furnace replacement program to improve energy efficiency and public safety pursuant to Section 2789.5.~~

~~(c) The Public Utilities Commission shall order the respective electrical corporations to collect and spend these funds, as follows:~~

~~(1) Cost effective energy efficiency and conservation activities shall be funded consistent with Article 15 (commencing with Section 399).~~

~~(2) Research, development, and demonstration programs to advance science or technology that are not adequately provided by competitive and regulated markets shall be funded pursuant to Section 399.8.~~

~~(3) In state operation and development of existing and new and emerging renewable resource technologies shall be funded consistent with Article 15 (commencing with Section 399).~~

~~(4) Up to fifty million dollars (\$50,000,000) of the amount collected pursuant to subdivision (d) may be used to resolve outstanding issues related to implementation of subdivision (a) of Section 374. Moneys remaining after fully funding the provisions of this paragraph shall be reallocated for purposes of paragraph (3).~~

~~(5) Up to ninety million dollars (\$90,000,000) of the amount collected pursuant to subdivision (d) may be used to resolve outstanding issues related to contractual arrangements in the Southern California Edison service territory stemming from the Biennial Resource Planning Update auction. Moneys remaining after fully funding the provisions of this paragraph shall be reallocated for purposes of paragraph (3).~~

~~(6) The appropriate level of funding of the furnace replacement program to improve energy efficiency and public safety pursuant to~~

~~Section 2789.5 shall be determined and established by the commission in a public proceeding.~~

~~—(d) Notwithstanding any other provisions of this chapter, the commission may allow entities subject to its jurisdiction to extend the period for competition transition charge collection up to three months beyond its otherwise applicable termination of December 31, 2001, so as to ensure that the aggregate portion of the research, environmental, and low income funds allocated to renewable resources shall equal five hundred forty million dollars (\$540,000,000) and that the costs specified in paragraphs (3), (4), and (5) of subdivision (c) are collected.~~

~~—(e) Each electrical corporation shall allow customers to make voluntary contributions through their utility bill payments as either a fixed amount or a variable amount to support programs established pursuant to paragraph (3) of subdivision (b). Funds collected by electrical corporations for these purposes shall be forwarded in a timely manner to the appropriate fund as specified by the commission.~~

~~—(f) For purposes of this article, "emerging renewable technology" means a new renewable technology, including, but not limited to, fuel cells using renewable fuels and photovoltaic technology, that is determined by the State Energy Resources Conservation and Development Commission to be emerging from research and development and that has significant commercial potential.~~

~~—(g) The commission's authority to collect funds pursuant to this section, for purposes of paragraph (3) of subdivision (b), shall become inoperative on March 31, 2002.~~

~~SEC. 3.~~ SEC. 2. Section 890 of the Public Utilities Code is amended to read:

890. (a) On and after January 1, 2001, there shall be imposed a surcharge on all natural gas consumed in this state. The commission shall establish a surcharge to fund low-income assistance programs required by Sections 739.1, 739.2, and 2790, furnace replacement programs to improve energy efficiency and public safety pursuant to Section 2789.5, and cost-effective energy efficiency and conservation activities and public interest research and development authorized by Section 740 and not adequately provided by the competitive and regulated markets. Upon implementation of this article, funding for those programs shall be removed from the rates of gas utilities.

(b) (1) Except as specified in Section 898, a public utility gas corporation, as defined in subdivision (b) of Section 891, shall collect the surcharge imposed pursuant to subdivision (a) from any person consuming natural gas in this state who receives gas service from the public utility gas corporation.

(2) A public utility gas corporation is relieved from liability to collect the surcharge insofar as the base upon which the surcharge is imposed is represented by accounts which have been found to be worthless and charged off in accordance with generally accepted accounting principles. If the public utility gas corporation has previously paid the amount of the surcharge it may, under regulations prescribed by the State Board of Equalization, take as a deduction on its return the amount found to be worthless and charged off. If any accounts are thereafter collected in whole or in part, the surcharge so collected shall be paid with the first return filed after that collection. The commission may by regulation promulgate other rules with respect to uncollected or worthless accounts as it determines to be necessary to the fair and efficient administration

of this part.

(c) Except as specified in Section 898, all persons consuming natural gas in this state that has been transported by an interstate pipeline, as defined in subdivision (c) of Section 891, shall be liable for the surcharge imposed pursuant to subdivision (a).

(d) The commission shall annually determine the amount of money required for the following year to administer this chapter and fund the natural gas related programs described in subdivision (a) for the service territory of each public utility gas corporation.

(e) The commission shall annually establish a surcharge rate for each class of customer for the service territory of each public utility gas corporation. A customer of an interstate gas pipeline, as defined in Section 891, shall pay the same surcharge rate as the customer would pay if the customer received service from the public utility gas corporation in whose service territory the customer is located. The commission shall determine the total volume of retail natural gas transported within the service territory of a utility gas provider, that is not subject to exemption pursuant to Section 896, for the purpose of establishing the surcharge rate.

(f) The commission shall allocate the surcharge for gas used by all customers, including those customers who were not subject to the surcharge prior to January 1, 2001.

(g) The commission shall notify the State Board of Equalization of the surcharge rate for each class of customer served by an interstate pipeline in the service territory of a public utility gas corporation.

(h) The State Board of Equalization shall notify each person who consumes natural gas delivered by an interstate pipeline of the surcharge rate for each class of customer within the service territory of a public utility gas corporation.

(i) The surcharge imposed pursuant to subdivision (a) shall be in addition to any other charges for natural gas sold or transported for consumption in this state. Effective on July 1, 2001, the surcharge imposed pursuant to this article shall be identified as a separate line item on the bill of a customer of a public utility gas corporation.

(j) Notwithstanding subdivision (a), public utility gas corporations shall continue to collect in rates those costs of programs described in subdivision (a) of Section 890 that are uncollected prior to the operative date of this article.

~~SEC. 4.~~ SEC. 3. The heading of Chapter 6 (commencing with Section 2781) of Part 2 of Division 1 of the Public Utilities Code is amended to read:

CHAPTER 6. RESIDENTIAL ENERGY EFFICIENCY ASSISTANCE AND FINANCING

~~SEC. 5.~~ SEC. 4. Section 2789.5 is added to the Public Utilities Code, to read:

2789.5. (a) For purposes of this section, the following terms have the following meanings:

(1) "Old gas furnace" means a forced air furnace, wall heater, or floor heater that is more than 30 years old and has a standing pilot light.

(2) "Residential dwelling unit" means a detached home, mobilehome, manufactured home, or a unit in a multifamily structure occupied either by the owner or by a tenant.

(b) The commission, in consultation with the Low Income Oversight

Board and those gas corporations and electrical corporations that participate in the California Alternate Rates for Energy (CARE) program, shall establish a program to go into effect on July 1, 2007, to annually replace 50,000 old gas furnaces in residential dwelling units occupied by customers eligible for the CARE program. The furnace replacement program shall be in addition to all other programs of assistance for low-income customers established by the commission and administered by an electrical corporation, gas corporation or third-party administrator pursuant to Sections 381, 381.1, 382, 382.1, 739.1, and 2790. The program shall continue until December 31, 2013.

(c) The costs of the program adopted and implemented pursuant to this section shall be recovered pursuant to Sections 381 and 890.

(d) This section shall remain in effect only until January 1, 2014, and as of that date is repealed, unless a later enacted statute, that is enacted before January 1, 2014, deletes or extends that date.

~~SEC. 6.~~ SEC. 5. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.