

**STATE OF CALIFORNIA**  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 07/23)

<b>Fiscal Year</b> 2024-25	<b>Business Unit Number</b> 3360	<b>Department</b> California Energy Commission
<b>Hyperion Budget Request Name</b> 3360-016-BCP-2024-GB		<b>Relevant Program or Subprogram</b> Various

**Budget Request Title**

Energy Resources Programs Account (ERPA) Structural Deficit Relief Trailer Bill Language

**Budget Request Summary**

Trailer Bill Language: The Energy Resources Programs Account (ERPA) is the main fund supporting the California Energy Commission (CEC). Its revenues are linked to the sale of metered electricity. As building and appliance energy efficiency and the increase of behind-the-meter solar produce customer savings and flatten statewide electricity consumption, ERPA revenues have decreased, and the costs have been borne by fewer and fewer customers. To distribute the costs more equitably among ratepayers and provide a solution to ERPA's structural deficit, the CEC proposes to raise the statutory cap on the ERPA surcharge, tie the statutory cap to the Consumer Price Index, and extend the surcharge to behind-the-meter electricity consumption.

<b>Requires Legislation (submit required legislation with the BCP)</b> <input checked="" type="checkbox"/> Trailer Bill Language <input type="checkbox"/> Budget Bill Language <input type="checkbox"/> N/A	<b>Code Section(s) to be Added/Amended/Repealed</b> Various Revenue and Taxation Codes	
<b>Does this BCP contain information technology (IT) components?</b> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	<b>Department CIO</b> Click or tap here to enter text.	<b>Date</b> Click or tap to enter a date.

**For IT requests, specify the project number, the most recent project approval document (FSR, SPR, S1BA, S2AA, S3SD, S4PRA), the approval date, and the total project cost.**

**Project No.** Click or tap here to enter text. **Project Approval Document:** Click or tap here to enter text.

**Approval Date:** Click or tap to enter a date. **Total Project Cost:** Click or tap here to enter text.

**If proposal affects another department, does other department concur with proposal?**  Yes  No

*Attach comments of affected department, signed and dated by the department director or designee.*

<b>Prepared By</b> Damien Mimnaugh	<b>Date</b> 1/3/2024	<b>Reviewed By</b> Rob Cook	<b>Date</b> 1/3/2024
<b>Department Director</b> Drew Bohan	<b>Date</b> 1/3/2024	<b>Agency Secretary</b> Click or tap here to enter text.	<b>Date</b> Click or tap to enter a date.

**Department of Finance Use Only**

**Additional Review:**  Capital Outlay  ITCU  FSCU  OSAE  Dept. of Technology

<b>Principal Program Budget Analyst</b> Steve Wells	<b>Date submitted to the Legislature</b> 1/12/2024
--	---

## A. Problem Statement

ERPA was established<sup>1</sup> to provide funds to ongoing energy programs and projects, including the operations of the CEC. ERPA revenues are from a statutory surcharge on retail electricity sales, originally capped at \$0.0001 per kilowatt-hour (kWh). The statutory cap was last raised from \$0.0002 per kWh to \$0.0003 per kWh in 2002.<sup>2</sup> In November 2018, the CEC exercised its remaining authority to adjust the surcharge by a hundredth of a mill (\$0.00001) to the statutory maximum of \$0.0003 per kWh.

The surcharge generated approximately \$71.6 million in 2022-23 and currently costs the average household about \$2 annually (larger customers pay the same rate but pay more based on volume). At this current rate, the average residential ratepayer in California pays about 16 cents per month for ERPA.

By law<sup>3</sup>, the CEC can adjust the rate, not to exceed the cap, at a publicly noticed business meeting in November of any year.

Despite CEC management's actions to reduce ERPA spending, a structural deficit remains. The 2024-25 Budget includes total expenditures of \$95.7 million from ERPA in 2024-25, and ERPA's fund balance is projected to decrease steadily.

In addition, BTM rooftop solar, wind, and non-utility generation are exempt from the ERPA surcharge.<sup>4</sup> As BTM capacity grows, ERPA revenues decline correspondingly. The Senate Office of Research 2021 report, *Growth of Behind-the-Meter Electricity Generation: Impacts to State Budget Revenue*<sup>5</sup> indicates that BTM electricity is forecast to grow from about 7 percent to 17 percent of total electricity consumed. Meanwhile, retail electricity sales are only anticipated to increase by no more than two percent annually between 2022 and 2030.

### Resource History (Dollars in thousands)

Program Budget	PY – 4 (2018-19)	PY – 3 (2019-20)	PY-2 (2020-21)	PY – 1 (2021-22)	PY (2022-23)	CY (2023-24)
Authorized Expenditures (includes other departments)	82,643	75,768	68,079	77,802	86,210	95,024
Revenues	71,559	62,581	69,461	72,101	\$71,591	TBD

## B. Justification

The lasting solution to the ERPA structural deficit is to:

- 1) Statutorily adjust the surcharge cap to an amount equal to indexing the original surcharge cap to inflation since its inception.

<sup>1</sup> Chapter 991, Statutes of 1974

<sup>2</sup> Chapter 1033, Statutes of 2002

<sup>3</sup> Revenue and Taxation Code section 40016 (b)

<sup>4</sup> Revenue and Taxation Code section 40016 states, in part, "A surcharge is imposed on the consumption in the state of electrical energy purchased from an electric utility"

<sup>5</sup> [https://sor.senate.ca.gov/sites/sor.senate.ca.gov/files/policy%20matters%202002.21%20meter%20electricity%20generation\\_final.pdf](https://sor.senate.ca.gov/sites/sor.senate.ca.gov/files/policy%20matters%202002.21%20meter%20electricity%20generation_final.pdf)

- 2) Beginning January 1, 2025, and annually thereafter, adjust the surcharge cap in an amount equal to the change in the United State Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the prior year.
- 3) Update Revenue and Taxation Code to identify how electric utilities will calculate the number of kWh of electricity generated by a solar energy system:
  - a. Multiply the solar energy system's size in kWh by 8,760 hours per year.
  - b. Multiply the product calculated in (1) by a 17.68 percent capacity factor.
  - c. Subtract the net electricity exports to the grid in kWh from the product calculated in (2).

The result is that the ERPA surcharge rate would be the same for all customers.

This approach will result in setting the ERPA surcharge cap at an inflation-adjusted \$0.00066<sup>6</sup> per kWh. This cap will allow the CEC to incrementally adjust the surcharge as needed to maintain solvency in ERPA. Tying the surcharge cap to the Consumer Price Index will help future-proof revenues and avoid the need for future Legislative authorizations.

The CEC does not anticipate increasing the surcharge from the current rate of \$0.0003 per kWh in 2024-25.

The Senate Office of Research 2021 report, *Growth of Behind-the-Meter Electricity Generation: Impacts to State Budget Revenue*, notes that tying a capped surcharge to an inflationary measure will avoid inflationary erosion and maintain the ability to fund the same level of operations and activities over time. The current structural deficit could have possibly been averted by indexing the statutory cap to the Consumer Price Index.

Extending the surcharge to BTM electricity at the same rate as retail electricity sales would provide approximately \$9.8 million in new revenue annually. About \$4.5 million of this revenue will come from the approximately 1.66 million residential BTM customers who, on average, would see a monthly bill increase of about 23 cents per month.<sup>7</sup> About \$2 million will come from non-residential locations with solar generation. About \$3.3 million will come from approximately 1,500 non-utility generation facilities. The surcharge would apply to solar, wind, and non-utility generation. BTM solar is growing at double-digit rates and is a primary cause of ERPA revenue erosion. This approach keeps the overall surcharge rate at a lower level for all ratepayers than would otherwise be possible.

### **C. Departmentwide and Statewide Considerations**

The structural deficit results from the CEC's growing role in implementing climate change policies that reduce electricity consumption, thereby reducing ERPA revenue. The CEC's building and appliance standards have led to decreased energy consumption and reduced ratepayer bills, saving California consumers well over \$100 billion over the last 40 years. However, these electricity reductions and consumer savings also reduce ERPA revenues. The CEC's building and appliance standards continue to save Californians more money than they invest in the CEC through the ERPA surcharge.

### **D. Outcomes and Accountability**

This proposal will reduce the fiscal pressure on ERPA. Approval of this proposal will allow the surcharge to be adjusted as needed to align ERPA appropriated expenditures with expected

---

<sup>6</sup> U.S. Bureau of Labor Statistics online CPI inflation calculator, <https://data.bls.gov/cgi-bin/cpicalc.pl>

<sup>7</sup> Homes with solar are generally larger than average and consume more electricity than smaller homes, so it may be that they pay more than a more modest home. The per residential ratepayer averages for solar are higher simply because they have higher-than-average loads.

ERPA revenues. Additionally, approval of this proposal will ensure the CEC's core positions and activities that are supported by ERPA will not be interrupted due to an insufficient fund balance.

#### **E. Implementation Plan**

Revenue and Taxation Codes will be updated so that on and after January 1, 2025, the ERPA surcharge rate cap will be increased to an inflation-adjusted \$0.00066.

Beginning January 1, 2026, and annually thereafter, the surcharge rate cap will be adjusted in an amount equal to the change in the United State Bureau of Labor Statistics Consumer Price Index for All Urban Consumers for the prior year.

The application of the surcharge to BTM electricity will be effective on and after January 1, 2025.

The CEC will work with the California Department of Tax and Fee Administration as necessary to ensure these changes are implemented.

The CEC does not anticipate increasing the surcharge from the current rate of \$0.0003 per kWh in 2024-25. All customers will pay the same ERPA surcharge rate.

#### **F. Supplemental Information (If Applicable)**

Click or tap here to enter text.



<b>Parameters</b>	<b>Selected Values</b>
Year	FY24
Department	3360
House	GB Dept Working
BR Name	3360-016-BCP-2024-GB
Run Time	09/01/2023 02:18:59 PM
Last Data Refresh	09/01/2023, 02:15 PM