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THIRD READING

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Bill No: AB 737  
Author: Quirk-Silva (D)  
Amended: 7/8/25 in Senate  
Vote: 21

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SENATE ENERGY, U. & C. COMMITTEE: 15-1, 7/1/25

AYES: Becker, Ochoa Bogh, Allen, Archuleta, Ashby, Caballero, Dahle,  
Gonzalez, Grove, Hurtado, Limón, McNerney, Rubio, Strickland, Wahab

NOES: Stern

NO VOTE RECORDED: Arreguín

SENATE APPROPRIATIONS COMMITTEE: Senate Rule 28.8

ASSEMBLY FLOOR: 69-0, 5/8/25 (Consent) - See last page for vote

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**SUBJECT:** Energy: building decarbonization: notice and recordation of a  
decarbonization charge

**SOURCE:** Southern California Gas Company

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**DIGEST:** This bill clarifies that a gas corporation is an energy supplier for the purposes of notifications for recording a decarbonization charge that finances an upgrade made to a specific property. This bill also clarifies that a gas corporation may only assess decarbonization charges for upgrades that provide measurable reductions to natural gas consumption and associated greenhouse gas (GHG) emissions.

**ANALYSIS:**

Existing law:

- 1) Defines a gas corporation as a corporation or person owning, controlling, operating, or managing any gas plant for compensation within this state, except where gas is made or produced on and distributed by the maker or producer

through private property alone solely for his own use or the use of his tenants and not for sale to others. (Public Utilities Code §222)

- 2) States legislative intent that the act of an energy supplier recording a notice of decarbonization charge pursuant to this chapter does not constitute a debt collection. (Public Utilities Code §8375)
- 3) Defines an energy supplier as an entity that conducts retail electric sales in California, including, but not limited to, an electrical corporation, local electric publicly owned utility (POU), electric service provider, and community choice aggregator. An electrical cooperative is also considered an energy supplier for the purposes of this bill. (Public Utilities Code §8376)
- 4) Defines a “decarbonization upgrade” as a change to a subscriber property that does any of the following:
  - a) Reduces electric demand.
  - b) Stores energy.
  - c) Reduces the use of fossil fuels.
  - d) Converts water, wind, or sunlight to usable electricity. (Public Utilities Code §8376)
- 5) Defines a “decarbonization charge” as a charge added by an energy supplier to a bill for electrical service to pay for a decarbonization upgrade to the subscriber’s property. (Public Utilities Code §8376)
- 6) Requires the California Public Utilities Commission (CPUC), a POU governing board, or an electrical cooperative governing board to ensure that energy suppliers comply with the following regarding decarbonization upgrades financed by the energy supplier through decarbonization charges:
  - a) Sets a 30-day deadline for an energy supplier to provide a notice to the applicable county recorder for the property after a decarbonization upgrade has been installed at the property. The county recorder must include a specified record of the notice under the name of the property owner. This bill deems the record of the decarbonization charge as a sufficient notice to subsequent subscribers at that address of an obligation to pay the decarbonization charge.

- b) Requires an energy supplier to provide specified notices within 30 days of recovering outstanding costs for a decarbonization upgrade or when ceasing to collect a decarbonization charge.
- 7) Specifies that an agreement for a decarbonization upgrade must include a requirement that the owner of the property must disclose the decarbonization charge in lease and rental agreements. This requirement applies only to decarbonization upgrade agreements executed after January 1, 2023. (Public Utilities Code §8377)

This bill:

- 1) Adds gas corporations to the list of entities included in the definition of an “energy supplier” for the purposes of notification requirements for recording decarbonization charges.
- 2) Clarifies that decarbonization charges assessed by gas corporations are limited to charges for decarbonization upgrades that produce a measurable reduction in natural gas consumption and associated GHG emissions.

## Background

*A Brief History of CPUC’s Clean Energy Financing Proceeding.* In 2019, the CPUC opened a proceeding (R. 19-01-011) to implement SB 1477 (Stern, Chapter 378, Statutes of 2018), which required the CPUC to establish and allocate funding for the Building Initiative for Low-Emissions Development (BUILD) and Technology and Equipment for Clean Heating (TECH) programs to deploy low and zero-emission building decarbonization technologies. In addition to establishing rules for the BUILD and TECH programs, the CPUC also used this proceeding to explore additional policies for building decarbonization. During the CPUC’s building decarbonization proceeding, the CPUC noted that barriers to financing energy efficiency upgrades remained. To address these concerns, the CPUC opened a new proceeding (R. 20-08-022), known as the Clean Energy Financing proceeding. The initial scoping memo for this proceeding notes how the CPUC’s existing building decarbonization decisions raised issues about affordable financing options:

In the course of the proceeding, financing options have been discussed as a potential mechanism to encourage more building decarbonization. On the scale that will be necessary to meet the SB 350 and SB 100 goals, as

well as the many other state environmental goals, mechanisms beyond incentives will almost certainly be necessary and there is a strong nexus between our building decarbonization work and the financing mechanisms we intend to explore in this proceeding.

The CPUC has established multiple phases for the Clean Energy Financing Proceeding to establish different policies and financing options for clean energy and decarbonization strategies. Below is a description of these phases:

- Phase 1: Address the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA)'s existing California Hub for Energy Efficiency Financing programs.
- Phase 2: Examine financing structures that the CPUC could expand or modify to increase the scale of clean energy investments.
- Phase 3: Consider clean energy financing proposals from utilities and other parties and evaluate the most cost-effective financing mechanisms.

The CPUC completed Phase 1 in 2021 by extending and supplementing funding for CAEATFA programs. In July 2025, the CPUC extended the statutory deadline for the completion of the Clean Energy Financing proceeding to provide additional time to complete Phases 2 and 3 of the proceeding.

*SB 1112 and Decarbonization Charges.* In November 2021, the CPUC issued a new ruling in the Clean Energy Financing proceeding. This ruling identified multiple forms of new energy efficiency financing options the CPUC will consider, including tariffed on-bill (TOB) financing and TOB repayment. TOB financing allows renters and property owners to fund energy efficiency improvements without out-of-pocket expenses or relying on incurring personal debt. A utility serves as the conduit for providing up-front funding for upgrades and generally collects repayment through a fixed charge associated with the property address. Repayment is generally collected through the customer's utility bill. TOB repayment can be an attractive option for lower income consumers to finance upgrades because the process can enable consumers with limited credit history to obtain upgrades without qualifying for a loan or providing significant up-front cash. On-bill financing repayment obligations generally stay with an address.

In 2021, no consistent process existed to record on-bill charges associated with an address and ensure that renters and homebuyers are notified about on-bill financing obligations before renting or buying a property. Additionally, under California's Debt Collection Licensing Act (Financial Code §100000 et. seq.) it was possible to interpret utilities' notifications to a consumer regarding decarbonization charges associated with a property as "debt collection." In 2022, the Legislature passed SB 1112 (Becker, Chapter 834, Statutes of 2022) to address these issues. SB 1112 created a notification framework for recording and notifying consumers about decarbonization charges. The bill also clarified that the Legislature does not intend for utilities' notifications about decarbonization charges to constitute a debt collection. SB 1112 did not require the establishment of decarbonization charges; however, it removed barriers to the CPUC's ability to create these repayment options through the Clean Energy Financing proceeding.

*Southern California Gas's TOB Pilot Project.* In August 2023, the CPUC issued a decision (D. 23-08-026) as part of the Clean Energy Financing proceeding. This decision expanded existing non-residential on-bill financing programs and directed the large investor-owned utilities (IOUs), including gas corporations, to collectively file a joint TOB proposal for energy efficiency measures. This decision also noted that expansions of existing on-bill financing programs were contingent on the IOUs obtaining approval from the Department of Financial Protection and Innovation (DFPI) to operate a TOB program without being classified as a debt collector. In May 2024, the joint utilities filed proposals for their TOB pilot programs. As part of the utility proposals, Southern California Gas (SoCalGas) filed a proposal to replace existing storage tank water heaters with high-efficiency tankless water heaters in single family owner-occupied residences within certain geographic areas.

*SB 1112 created a framework for TOB notifications – but only for electric utilities.* While energy efficiency upgrades can include measures that reduce GHG emissions through the deployment of more efficient natural gas appliances, most of the framework for decarbonization charges focuses on energy efficiency of electrical end uses and building decarbonization through fuel switching from natural gas to electric appliances. SoCalGas's proposal to the CPUC acknowledged that SB 1112 applied only to electric energy suppliers. As a result, SoCalGas indicated that legislation was needed to clarify SoCalGas's status as an energy supplier under SB 1112.

*Current status of SoCalGas's TOB proposal.* Since the utilities filed their proposals, the CPUC has published an assessment of the TOB programs conducted

by Dunskey Energy and Climate Advisors with Market Logics. This assessment proposed further refining the utilities' proposed TOB programs to limit unnecessary ratepayer costs and expand renters' access to these programs. The assessment recommended approving SoCalGas's proposed TOB pilot with certain modifications, including expanding the pilot to renters and including electrification equipment in projects that can be financed by SoCalGas TOB charges. In April 2025, an Administrative Law Judge issued a ruling seeking additional comments on the proposed TOB programs in light of the Dunskey assessment's recommendations.

Currently, SoCalGas's participation in the TOB programs is in the form of a pilot focused on energy efficiency that may reduce consumption of natural gas and associated GHG emissions. However, CPUC's inclusion of gas corporations in TOB programs opens the possibility that in the future, gas utilities could use TOB as a mechanism to finance building upgrades that include additional natural gas end uses. This bill limits the use of gas corporations' ability to use TOB to finance upgrades that could increase natural gas use. Under this bill, only those natural gas corporation programs that finance upgrades that provide measurable reductions in natural gas consumption and associated GHG emissions are eligible for TOB. This restriction allows gas corporations to proceed with its proposed high-efficiency water heater replacement proposal; however, it would prevent gas corporations from using TOB to install new natural gas end uses or install appliances that fail to limit natural gas consumption.

*Bill addresses gas utilities' ability to participate in certain Clean Energy Financing programs without qualifying as a debt collector.* This bill would add gas corporations to the definition of an energy supplier for the purposes of SB 1112's notification framework. However, this bill does not necessarily conform all the provisions of law established by SB 1112 to fully reflect gas corporations' eligibility to participate in TOB programs. As the CPUC has already directed SoCalGas to file proposals for TOB programs, the CPUC has indicated that gas corporations are eligible for participation in these programs even without statutory changes. Nevertheless, additional clarity is likely needed in statute to ensure that SoCalGas can obtain approval from DFPI for its on-bill financing programs.

### **Related/Prior Legislation**

SB 1112 (Becker, Chapter 834, Statutes of 2022) established a notification framework for recording decarbonization charges associated with decarbonization upgrades made to a property. The bill also included a legislative declaration that

energy suppliers' notification of a decarbonization charge does not constitute a debt collection.

SB 31 (Cortese) of 2020, would have required the California Energy Commission (CEC) to fund the development and deployment of building decarbonization technology through the Electric Program Investment Charge program. The bill was held in the Senate Appropriations Committee.

SB 1477 (Stern, Chapter 378, Statutes of 2018) required the CPUC to establish and allocate funding for the BUILD and TECH programs to deploy low and zero-emission building decarbonization technologies.

AB 3232 (Friedman, Chapter, Statutes of 2018) required the CEC to develop a plan to ensure that all new residential and nonresidential buildings are zero-emission buildings. The bill also required the CEC to develop a strategy to reduce GHG emissions from existing buildings 40% below 1990 levels by 2030.

SB 350 (De León, Chapter 547, Statutes of 2015) and SB 100 (De León, Chapter 312, Statutes of 2018) established and increased California's Renewable Portfolio Standard procurement goals and required the CEC to develop targets to double energy efficiency savings from electric and natural gas end uses. SB 350 also required the CEC to study low-income communities' barriers to energy efficiency investments.

**FISCAL EFFECT:** Appropriation: No Fiscal Com.: Yes Local: Yes

**SUPPORT:** (Verified 8/18/25)

Southern California Gas Company (Source)

**OPPOSITION:** (Verified 8/18/25)

Earthjustice  
Natural Resources Defense Council  
Sierra Club California

**ARGUMENTS IN SUPPORT:** According to the author:

AB 737 is about making clean energy accessible to all Californians. The fight for a sustainable future is not just about reducing emissions but ensuring affordability and equity. By leveling the playing field for gas and electric

utilities, this bill removes the barriers that prevent families and businesses from lowering their energy costs while building a cleaner, more resilient California for generations to come.

**ARGUMENTS IN OPPOSITION:** In opposition, Earthjustice states:

The California Energy Commission’s (CEC) Building Decarbonization Assessment found that “aggressive electrification,” which assumes 100 percent electrification in new construction, 90 percent replacement on burnout and 70 percent early retirement, is necessary to reduce the direct emissions from buildings in line with California’s 2045 carbon-neutrality goal. The CEC also warned that investments in gas appliances could be unrecouped and drive up the overall cost of decarbonization. By enabling a new financing strategy to deploy long-lived polluting appliances, AB 737 acts at cross purposes with these findings and the urgency of transitioning off fossil fuels.

**ASSEMBLY FLOOR:** 69-0, 5/8/25

**AYES:** Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Bonta, Bryan, Calderon, Caloza, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Fong, Gabriel, Garcia, Gipson, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Jackson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Muratsuchi, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Ward, Wicks, Wilson, Zbur, Rivas

**NO VOTE RECORDED:** Arambula, Boerner, Carrillo, Flora, Gallagher, Jeff Gonzalez, Irwin, Celeste Rodriguez, Sanchez, Wallis

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