SENATE COMMITTEE ON APPROPRIATIONS
Senator Anna Caballero, Chair
2025 - 2026 Regular Session

AB 745 (Irwin) - Electricity: climate credits

Version: May 30, 2025
Urgency: No
Hearing Date: August 18, 2025

Policy Vote: E., U. & C. 16 - 0
Mandate: Yes
Consultant: Ashley Ames

Bill Summary: The bill would make changes to the allocation distribution of the California Climate Credit by electrical corporations on residential customers' utility bills so that the credit is issued during specified summer months and based on volumetric electricity usage, instead of a flat amount.

Fiscal Impact:

- The California Public Utilities Commission (CPUC) estimates ongoing costs of about $2 million annually (ratepayer funds) to alter the Climate Credit methodology.
- To the extent that this bill impacts electricity rates, it could result in costs or savings to the state as a an electric utility ratepayer. The State of California is an electricity customer, purchasing roughly one percent of the state's electricity. As such, the state incurs costs when rates increase, and realizes cost savings if rates go down (various funds).

Background:

Cap-and-Trade Program. The Cap-and-Trade Program requires power plants, fuel suppliers, and large industrial facilities that emit GHGs to buy carbon pollution allowances from auctions managed by the CARB, under the authorization granted by AB 32 (Nuñez/Pavley, Chapter 488, Statutes of 2006), the California Global Warming Solutions Act of 2006. Each year, CARB issues a limited number of GHG allowances in line with California's goal of reducing its overall emissions to 40% below 1990 levels by 2030. The Cap-and-Trade program sets an annual declining cap on GHG emissions, but allows covered entities the flexibility to trade and sell their allowances. Some of these allowances are sold at auction, and the auction proceeds are used to either further reduce GHG emissions or benefit utility customers.

California Climate Credit allocations. In the case of investor-owned utilities (IOUs), pursuant to the regulations, the proceeds of the consigned GHG allowances must be used exclusively for the benefit of retail ratepayers. The electric and natural gas IOUs return these funds to ratepayers via a credit on their utility bills, known as the California Climate Credit, as a way to help offset any costs borne by the program. The electrical corporations return a portion to small business customers, emissions-intensive trade exposed customers (specified large industrial customers), and residential customers. In the case of residential customers, electrical corporations distribute a twice a year credit (often April and October) on electric utility bills, generally, in equal lump-sum amounts for that year to every residential customer of that electric IOU. State law, pursuant to SB 1018 (Committee on Budget, Chapter 39, Statutes of 2012), required 85% of the revenues from the sale of the allowances by electric IOUs to be used for the Climate

Credit and permits the CPUC to allocate up to the remaining 15% for clean energy and energy efficiency programs. Additional state law and CPUC decisions dedicate the majority of the 15% of the funds for specified programs, including the Solar on Multifamily Affordable Housing (SOMAH) program established by AB 693 (Eggman, Chapter 582, Statutes of 2015).

Climate Credit distribution. The Climate Credit is provided as a line-item on the utility bill (often in April and October). Over the course of the last 10 years, the amount of the Climate Credit has varied among the state's six electric IOUs, ranging between $17 and $269 annually, per residential customer. The majority of the credits have hovered between $30-40 annually. However, each annual amount of the credit varies by each year and by utility, but is a flat amount equally provided to each residential customer regardless of their electricity consumption.

Proposed Law: This bill would:

1. Require the California Climate Credit is provided to residential customers of an electrical corporation to be provided on the bills of those customers for the months of July, August, and September of each year, or as otherwise directed by the CPUC to address extreme, unforeseen, and temporary circumstances.

2. Require the credit to residential customers to be volumetric, rather than independent of consumption.

Related Legislation:

AB 942 (Calderon) of 2025, among its provisions, would exempt customer-generators participating in the net-energy metering tariffs from receiving a Climate Credit.

SB 254 (Becker) of 2025, among its many provisions, would require the Climate Credit for electrical corporation customers to be structured so that low-income customers receive a greater amount as compared to other residential customers.

SB 429 (Bradford) of 2024, would have required natural gas IOUs to provide customers with an annual the California Climate Credit to coincide with the highest usage month, on or as close to the February utility billing cycle, as feasible. The bill was amended in the Assembly to remove these provisions and replace with unrelated provisions.

AB 693 (Eggman, Chapter 582, Statutes of 2016) directed the CPUC to establish a new program – the SOMAH Program – intended to make qualifying solar energy systems accessible to low-income and disadvantaged communities living in multi-family affordable housing and with a goal of installing 300 megawatts of energy by December 2030.

SB 1018 (Committee on Budget, Chapter 39, Statutes of 2012) required the CPUC to direct electric IOUs to credit residential, small business, and emissions intensive trade exposed industries the revenues from the GHG allowances. Authorized the CPUC to allocate up to 15% of the revenues to clean energy and energy efficiency projects.

Staff Comments: The CPUC in their response to the Governor's Executive Order N-5-24, also discussed a volumetric distribution approach. They noted that such an approach would not reduce total annual bills, but could potentially make electrification more appealing to ratepayers. Additionally, this approach could reduce month-to-month utility bill volatility. Other entities, including NRDC and the Union of Concerned Scientists also support a volumetric approach. However, they call for a year-round volumetric reduction with an influx of other funding sources. The CPUC also notes that changes from a non-volumetric (the current lump-sum approach) to volumetric approach would need to be reflected in the Cap-and-Trade regulation.

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