Date of Hearing: July 16, 2025

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Cottie Petrie-Norris, Chair
SB 453 (Stern) – As Amended May 23, 2025

SENATE VOTE: 39-0

SUBJECT: Microgrid incentive program

SUMMARY: This bill requires the California Public Utilities Commission (CPUC) to review the status of a ratepayer-funded microgrid incentive program (MIP) and directs the CPUC to ensure that any available funds are allocated to areas affected by deenergization events, with priority for vulnerable communities. Specifically, **this bill**:

1) Requires the CPUC to require each electrical corporation to provide to the CPUC, on or before January 15, 2026, the status of any awarded or unallocated funds for the MIP.

2) Requires the CPUC, after reviewing the information on the status of MIP awards, and if it determines additional actions are needed, to consider the use of a third-party administrator and to ensure that unallocated funds are allocated to areas that have experienced two or more deenergization events, prioritizing vulnerable communities, including access and functional needs populations, and prioritizing customers that operate critical community infrastructure that supports resiliency during a deenergization event.

EXISTING LAW:

1) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical corporations. (Article XII of the California Constitution)

2) Requires that all charges demanded or received by any public utility for any product, commodity or service be just and reasonable, and provides that every unjust or unreasonable charge is unlawful. (Public Utilities Code §451)

3) Provides the CPUC with general, broad authority to regulate every public utility in the state. (Public Utilities Code §701)

4) Requires the CPUC, in consultation with the California Energy Commission (CEC) and the California Independent System Operator, to take specified actions by December 1, 2020, to facilitate the commercialization of microgrids for distribution customers of large electrical corporations, including by, without shifting costs between ratepayers, developing methods to reduce barriers for microgrid deployment. (Public Utilities Code §8371)

5) Prohibits microgrid projects that use diesel power generators from receiving Electric Program Investment Charge (EPIC) funding. (Public Resources Code §25711.8)

6) Requires an electrical corporation to construct, maintain, and operate its electrical lines and equipment in a manner that will minimize the risk of catastrophic wildfire posed by those electrical lines and equipment. (Public Utilities Code §8386 (a))

7) Requires electrical corporations, local electric publicly owned utilities, and electrical cooperatives to annually prepare wildfire mitigation plans (WMPs) that include protocols for deenergization and consideration of the impacts of deenergizing portions of the electrical distribution system on first responders, health and communication infrastructure, and customers eligible for medical baseline service. (Public Utilities Code §8386 (b))

8) Requires the WMPs of electrical corporations to identify circuits that have frequently been deenergized pursuant to a deenergization event to mitigate the risk of wildfire and the measures taken, or planned to be taken, by the electrical corporation to reduce the need for, and impact of, future deenergization of those circuits. (Public Utilities Code §8386 (c)(8))

9) Requires, for some public purpose programs (PPPs) funded by ratepayer charges, such as the Self-Generation Incentive Program (SGIP) as an example, that funds be returned to ratepayers if not used for their intended purpose by a specified date. (Public Utilities Code §379.6)

FISCAL EFFECT: According to the Senate Appropriations Committee, one-time costs, possibly in the hundreds of thousands of dollars (ratepayer funds), for the CPUC to implement the provisions of this bill.

CONSUMER IMPACTS: Potential return of ratepayer funds to electric customers.

BACKGROUND:

Microgrids – Generally, a microgrid is understood to be a self-contained, small (relative to the electrical grid), electricity system with the ability to manage critical customer resources, disconnect from the electric grid when the need arises, and provide the customer with different levels of critical support. A microgrid can be as simple as a diesel-fuel generator located near a building, such as a hospital, that is able to provide needed power during an electric power outage. Customers tend to seek reliability and resiliency services from microgrids. In particular, customers may value the desire for sufficient resources both at the utility scale, but also at the local level in order to better manage challenges, such as power outages due to wildfire and flooding. Although each microgrid can vary in component configuration, size, and applications, microgrids generally are made of a combination of distributed energy resources, storage, and demand response capabilities.

Microgrid Incentive Program – SB 1339 (Stern, Chapter 566, Statutes of 2018) required the CPUC and CEC to facilitate the commercialization of microgrids. Since September 2019, the CPUC has held an open and active proceeding to implement the bill (R. 19-09-009). In Decision 20-06-017, the CPUC ordered Pacific Gas & Electric (PG&E), San Diego Gas & Electric (SDG&E), and Southern California Edison (SCE) to jointly develop a statewide MIP to fund clean energy microgrids to support the critical needs of vulnerable communities impacted by grid outages and test new technologies or regulatory approaches to inform future action on microgrids.

SB 1339 did not specify an amount or duration of ratepayer collections to fund the MIP or any other funding source. Absent statutory direction, the CPUC, by decision, determined that funds to support the microgrid program of each IOU should be paid with ratepayer collections from all of that IOU's customers.[1] The CPUC approved a $200 million budget for the entire program, with $79.2 million for PG&E, $83.3 million for SCE, and $17.5 million for SDG&E. SDG&E has reported it has awarded all of its funding. PG&E has reported it has awarded about half of its funding ($43 million) to nine projects. SCE has reported that it just recently awarded $17.5 million for one project and that it has more applications under review.

In addition, the CEC reports that it has provided a total of $307 million for microgrid projects, including $208 million for nine microgrid projects over the past several years through the Long Duration Energy Storage (LDES) Program. The CEC also has provided $99.7 million to fund eight tribal microgrid projects over the past five years through the EPIC program, Energy Conservation Assistance Act (ECAA) Program, and LDES. These programs administered by CEC are also funded in part by IOU ratepayers.

Deenergization events – In recent years, California has experienced a number of catastrophic wildfires, including several ignited by electrical utility infrastructure. Electrical equipment, including downed power lines, arcing, and conductor contact with trees and grass, can act as an ignition source. Risks for wildfires also increased with extended drought and bark beetle infestation that has increased tree mortalities and, as a result, increased the fuel, and risk for wildfires. As a result, electrical corporations have increasingly utilized proactive power shutoffs, deenergization of electric distribution (and sometimes transmission) lines, as a tool to prevent igniting wildfires, particularly during high wind event days with dry ground conditions. Although the use of proactive power shutoffs were met with opposition and concerns about its use by affected communities, ultimately the CPUC acknowledged electrical corporations' authority to deenergize lines in order to protect public safety, noting this authority in Public Utilities Code §451 and §399.2. The CPUC adopted protocols for deenergizing electric lines with a focus on who should receive notice and when, who should be responsible for notification, and how different customer groups should be identified. The protocols require electrical corporations to develop work groups that include representatives of the access and functional needs population. As the protocols have evolved over the years, there has been expanded requirements to develop needs assessments and plans to coordinate with identified access and functional needs population, identify critical infrastructure, and coordinate with public safety partners.

CPUC Authority to Order Collection of Ratepayer Funds – The CPUC administers many PPPs with funds the IOUs collect from ratepayers in their monthly bills. In some cases, such as SGIP, a statute directs the amount and duration of ratepayer collections to fund a specific program, with a sunset provision, so that additional legislative authorization is required to extend collections beyond the original period. In other cases, such as with the MIP, a statute directs the CPUC to establish a program but does not specify an amount or duration of ratepayer collections to fund it. In a 2014 decision, a California appellate court held that the CPUC had authority to order IOU ratepayer collections to fund an energy research program, even after the Legislature failed to renew the statutory authorization to collect ratepayer funds for substantially the same program.[2]

---

[1] Decision 21-01-018 (January 14, 2021) at pp 63 to 64.

[2] *Southern California Edison Co. v. Natural Resources Defense Council* (Cal. App. 2nd Cir. 2014) (holding that, given the CPUC's constitutional authority, combined with Section 701 of the Public Utilities Code, CPUC actions are within its broad authority as long as "cognate and germane to utility regulation" and not contrary to "a specific statutory directive that prohibits PUC's action." https://caselaw.findlaw.com/court/ca-court-of-appeal/1670239.html.

The court upheld the CPUC's decision to order collection of ratepayer funds for an energy related program because no statute specifically prohibited it from doing so.

COMMENTS:

1) *Author's statement*. According to the author: "Extreme weather events and the threat of wildfires, and urban fires continue to result in the state's investor-owned utilities initiating Public Safety Power Shutoffs (PSPS) across large portions of their service area. While PSPS commonly last a day, they can also last for many days at a time, or be triggered on and off over a series of days until conditions improve to restore power. However, PSPS events that last just a few days or longer adversely impact services provided by critical facilities and by local governments. They also disproportionately impact vulnerable communities and access and functional needs persons who rely on electricity for medical devices and refrigerated medication to sustain their health. For vulnerable communities and access and functional needs customers PSPS events can actually increase risks to public health. The good news is we currently have rate-payer incentives through the Micogrid Incentive Program to provide funding to microgrid projects that enhance energy resiliency to mitigate the effects of PSPS events. The problem is implementing the program in some regions of the state have not been as aggressive as many would have hoped. If we can improve implementation then available incentives can get out the door faster for needed microgrid projects."

2) *Changing Course Not Required.* This bill requires the CPUC to review the status of unallocated funds in January 2026 and then determine if additional actions are needed to advance the program. IOUs raise concerns that changing the rules for the MIP at this stage could lead to delays as applicants need to design projects under new rules and IOUs need to adjust processes. Significantly, this bill does not *require* the CPUC to change course. Accelerated IOU progress in getting MIP funds out the door could weigh against the CPUC determining that "additional actions" such as more program changes are needed.

3) *Return Unused Funds to Ratepayers*. This bill primarily addresses the author's frustration with SCE being slow to get funds out the door to support microgrid projects in SCE's service territory. SCE reports that, while slower than the other IOUs, it has been making progress. SCE further reports that multiple potential applicants who sought information about the program ultimately did not apply, likely because of ineligibility. This bill's direction to focus unused funds on areas with deenergization events and vulnerable communities could help get funds out the door. On the other hand, collecting more funds than needed for a program adds to the affordability problem. Some statutes authorizing collections for other PPPs, such as SGIP, require funds be returned to ratepayers if not awarded for their intended purpose by a specified date. This can help lower customers' monthly bills, even if only as a one-time bill credit. *Thus, consistent with the Legislature's focus on affordability, the committee recommends amending the bill to require that funds not awarded to a microgrid project by January 1, 2027, be returned to ratepayers.*

4) *Avoid Additional Collections from Ratepayers*. In light of the CPUC's broad authority to order collection of ratepayer funds to support energy-related programs (discussed above), and the Legislature's focus on affordability of utility service, it would seem prudent to

have legislative limits on ratepayer collections for the MIP. *Thus, the committee recommends amending this bill to specify that it applies only to funds already collected when the bill take effect and that it does not authorize any new collection of ratepayer funds for the MIP.*

5) *Prior Legislation*.

   SB 1339 (Stern) required the CPUC and CEC to facilitate the commercialization of microgrids. Status: Chapter 566, Statutes of 2018

REGISTERED SUPPORT / OPPOSITION:

Support

350 Sacramento
California Association of Recreation & Park Districts
City of Thousand Oaks
Coalition of Small and Disabled Veteran Businesses
County of Los Angeles Board of Supervisors

Opposition

None on file.

Other

Pacific Gas and Electric Company and its Affiliated Entities

Analysis Prepared by: Jackie Kinney / U. & E. / (916) 319-2083