

STATE OF CALIFORNIA
Budget Change Proposal - Cover Sheet
 DF-46 (REV 08/15)

Local Year 2016/17	Business Unit 3360	Department California Energy Commission	Priority No.
Budget Request Name 3360-006-BCP-DP-2016-GB		Program DEVELOPMENT	Subprogram RESEARCH AND DEVELOPMENT

Budget Request Description
 One-Time Expenditure Authority for Unspent Public Interest Energy Research (PIER) Natural Gas Funds

Budget Request Summary

This proposal requests approval for one-time expenditure authority of \$3.6 million in unspent funds from the Public Interest Energy Research (PIER) Natural Gas Fund as directed in California Public Utilities Commission (CPUC) Resolution G-3507. CPUC Resolution G-3507 approved the PIER Natural Gas Proposed Budget for Fiscal Year 2015/16 and also directed the California Energy Commission (Energy Commission) to submit a research plan to utilize the \$3.6 million in unspent PIER Natural Gas funds, resulting from completed projects that came in under budget. The CPUC resolution directed that the supplemental plan research efforts support pipeline safety as well as the Governor's Executive Orders B-29-15 and B-30-15.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed	
Does this BCP contain information technology (IT) components? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <i>If yes, departmental Chief Information Officer must sign.</i>	Department CIO	Date

For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the Department of Technology, or previously by the Department of Finance.

FSR SPR Project No. _____ Date: _____

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.

Prepared By	Date	Reviewed By <i>W. Ward</i>	Date <i>8/28/15</i>
Department Director <i>[Signature]</i>	Date <i>8-28-15</i>	Agency Secretary <i>[Signature]</i>	Date <i>8/30/15</i>

Department of Finance Use Only

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

BCP Type: Policy Workload Budget per Government Code 13308.05

PPBA	Original Signed By: Ellen Moratti	Date submitted to the Legislature <i>1/7/16</i>
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BCP Fiscal Detail Sheet

BCP Title: One-Time Expenditure Authority for Unspent Public Interest Energy Research Natural Gas Funds

DP Name: 3360-006-BCP-DP-2016-GB

Budget Request Summary

	FY16					
	CY	BY	BY+1	BY+2	BY+3	BY+4
Operating Expenses and Equipment						
5340 - Consulting and Professional Services - External	0	3,600	0	0	0	0
Total Operating Expenses and Equipment	\$0	\$3,600	\$0	\$0	\$0	\$0
Total Budget Request	\$0	\$3,600	\$0	\$0	\$0	\$0

Fund Summary

Fund Source - State Operations						
Natural Gas Subaccount, Public						
3109 - Interest Research, Development, and Demonstration Fund	0	3,600	0	0	0	0
Total State Operations Expenditures	\$0	\$3,600	\$0	\$0	\$0	\$0
Total All Funds	\$0	\$3,600	\$0	\$0	\$0	\$0

Program Summary

Program Funding						
2390019 - Research and Development	0	3,600	0	0	0	0
Total All Programs	\$0	\$3,600	\$0	\$0	\$0	\$0

Analysis of Problem

A. Budget Request Summary

This proposal requests approval for one-time expenditure authority of \$3.6 million in unspent funds from the Public Interest Energy Research (PIER) Natural Gas Fund as directed in California Public Utilities Commission (CPUC) Resolution G-3507. CPUC Resolution G-3507 approved the PIER Natural Gas Proposed Budget for Fiscal Year (FY) 2015/16 and directed the California Energy Commission (Energy Commission) to submit a research plan to utilize the \$3.6 million in unspent PIER Natural Gas funds that resulted from completed projects that came in under budget. The CPUC resolution directed that the supplemental plan support pipeline safety as well as the Governor's Executive Orders B-29-15 and B-30-15.

In approving the Energy Commission's FY 2015/16 Natural Gas budget proposal, the CPUC acknowledged several critical policy directives and priority areas (two of which happened after the submittal of the Energy Commission proposal). First, on April 1, 2015, the Governor issued Executive Order B-29-15, which sets new goals and strategies for responding to California's current historic drought. Second, on April 29, 2015, Governor Brown issued Executive Order B-30-15 expanding the state's carbon emission reduction and climate change adaptation goals. With an overall goal of reducing greenhouse gas (GHG) emissions to 40 percent below 1990 levels by 2030, the order specifically addresses the electricity, efficiency, and transportation sectors, among others. The CPUC highlighted the urgency of continuing pipeline health and safety research.

Excerpts from CPUC Resolution G-3507 state:

"We must emphasize the importance of natural gas pipeline safety and integrity. As the Commission and California's natural gas utilities continue to identify and pursue necessary gas safety improvements, it is critical for this program to support those goals and remain on the technological frontier for gas safety."

"Given the urgency of the recent climate change and drought directives and safety needs, we find it appropriate for the CEC to submit an additional plan for investing unspent funding in these areas."

"The Energy Commission shall prepare, and submit within 90 days of the effective date of this Resolution, a supplementary Climate, Drought, and Safety Natural Gas Budget Plan identifying specific areas where its unspent funds would be used to address Research & Development (R&D) areas supporting pipeline safety and the actions defined in the Governor's Executive Orders B-29-15 and B-30-15."

The supplemental plan was submitted to the CPUC in September 2015 and recommended a one-time adjustment to the PIER Natural Gas Proposed Budget. The Energy Commission seeks approval to spend these funds in FY 2016/17.

The natural gas research catalyzes innovation to reduce energy use in natural gas using appliances, industrial processes, solar water heating, combined heat and power, renewable natural gas, and to make the natural gas operations safer by improving overall pipeline operations and ensuring the air quality is acceptable when the public uses natural gas in their homes. The FY 2016/17 research will include an emphasis on improving the diagnostics and timely repair of gas pipelines to maintain public safety and analysis on the impact and mitigation strategies that ground water depletion and subsidence is having on pipeline integrity.

The Energy Commission requests authority for a two-year encumbrance period and an additional four years to expend these funds.

Analysis of Problem

B. Background/History

At the request of the CPUC, in its FY 2015/16 proposal, the Energy Commission identified \$3.6 million in unspent accumulated PIER Natural Gas funds from completed projects that came in under budget. Over the last decade of managing these agreements, several of these awarded agreements completed their required work without using the full amount allocated to the agreement. These unspent funds accumulated in the fund over the years. These funds can no longer be applied to a new agreement because they have either exceeded their two-year encumbrance period or their six-year liquidation period. Additionally, because the Energy Commission pays agreements after the work is completed, some of these unspent funds are from accrued interest for approved agreements awaiting an invoice. The CPUC requested that the Energy Commission identify these funds so they can be reassigned to a productive purpose.

Resource History
(Dollars in thousands)

Program Budget	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16
Authorized Expenditures*	44,825	41,225	41,811	45,019	24,000
Actual Expenditures	26,272	23,399	20,775	25,580	
Revenues	24,000	24,000	24,000	24,000	
Authorized Positions	14.0	14.0	14.0	14.0	14.0
Filled Positions	14.0	14.0	14.0	14.0	
Vacancies	0	0	0	0	

*Authorized Expenditures include carryover (FY 2011/12 through FY 2014/15)

C. State Level Considerations

Authority to spend these funds will allow the Energy Commission to support the Governor's recent executive orders and accelerate the goals of these actions, as well as address enhanced research activity to natural gas system safety.

D. Justification

While the Energy Commission is already addressing the critical issues identified in the Governor's Executive Order in the CPUC approved Natural Gas Research, Development and Demonstration Program Proposed Program Plan and Funding Request for FY 2015/16, the Energy Commission will not be able to increase the amount of funding available to address these critical issues. In the supplemental plan submitted to the CPUC on September 23, 2015, the Energy Commission recommended how these funds can be productively used to address current research issues important to California's future.

E. Outcomes and Accountability

The requested one-time expenditure authority for the \$3.6 million in unspent funds will be used to award grants and contracts to address the natural gas research and development areas reviewed and approved by the CPUC.

The PIER Natural Gas Program is established with a series of oversight and coordination efforts that will ensure the outcomes are appropriate and the overall program has accountability. The direction for the use of the program funds will be published and publically available in a report submitted to the CPUC in September 2015 and will be shared publicly as the CPUC reviews the budget proposal for approval. The results from those efforts will be included in the PIER Natural Gas Annual report that is submitted to the CPUC each year by the end of October. As a result, there will be ongoing oversight and assessment regarding the effectiveness of these program activities.

Analysis of Problem

- *What controls will be in place to ensure the appropriate use of the requested resources or authority?*

The Energy Commission will follow public resources statute requirements in the development, award and management of agreements funded with these one-time funds. Funding for this PIER Natural Gas Supplemental Budget Plan will also be reviewed and approved through the CPUC's public process. The awarding of the funding for grants, contracts and other funding vehicles will follow a public and transparent process including Energy Commission Business Meetings, the Energy Commission Executive Office approval and other normal contract and grant award process oversight capabilities.

- *How will the requested resources be accounted for and monitored?*

The resources used in the PIER Natural Gas Program will be planned and executed through the Natural Gas Budget Plan that is developed through the public workshop process and approved by the CPUC through a public process. The execution and use of the PIER Natural Gas Program funds will be reported to the CPUC in annual program status reports.

- *Will there be progress and/or outcome reports completed? If so, how often and to whom will they be distributed?*

The resources used in the PIER Natural Gas Program will be planned and executed through the Supplemental Budget Plan that is developed through the public process and approved by the CPUC through a public process and made available to the public. The execution and use of the PIER Natural Gas Program funds will be reported to the CPUC in annual program status reports that will be made available to the public.

- *How will improvements or changes be measured?*

Part of the annual reporting process will be on the benefits and value of the investments made through the PIER Natural Gas Program annual reports and the technical reports from each awarded agreement.

F. Analysis of All Feasible Alternatives

1. Do nothing.

Pro

No appropriation needed for one-time expenditure authority.

Con

The Energy Commission will continue to execute the PIER Natural Gas program with available funds. However, the Energy Commission will not be able to effectively apply the unspent research funds to current issues important to California.

2. Approve one-time expenditure authority of unspent PIER Natural Gas funds

Pro

Approving one-time expenditure authority of unspent PIER Natural Gas funds will comply with direction of the CPUC to spend these funds on issues critical to California and addressed in the Governor's Executive Orders.

Con

Appropriation authority needed.

G. Implementation Plan

The Energy Commission submitted a proposed budget plan to the CPUC for the use of these unspent funds on September 23, 2015. Once approved by the CPUC, the Energy Commission will begin to develop competitive grants and contracts. The ability to fully complete the approved PIER Natural Gas

Analysis of Problem

Proposed Budget for FY 2015/16 will be contingent on Legislative approval of \$3.6 million that will be applied to the research efforts July 1, 2016, or upon approval of the budget.

H. Supplemental Information

None.

I. Recommendation

Approve the request for one-time expenditure authority of \$3.6 million in unspent funds from the PIER Natural Gas Fund as directed in CPUC Resolution G-3507.