



PUBLIC COMMENT for Peninsula Clean Energy Board of Directors

From Bruce Karney, Mountain View, CA

Tue, Jan 19, 2021 at 8:13 AM BRUCE KARNEY <bkarney@comcast.net>

<https://docs.google.com/document/d/1DA5ffEmYnc0m7M3a6QeQ2AvnBI-NQGVUFmkGXUA7PMI/edit?usp=sharing>

This document can be edited by anyone and I hope that PCE Board members will sign it in their capacity as City and Town Council members and County Supervisors.

Requesting Your Support for a Bill Idea

This document describes a proposal that would let cities and counties implement a Utility User Tax (UUT) that taxes natural gas at a different rate – preferably a higher rate -- than electricity. They cannot currently do in Pacific Gas and Electric (PG&E) territory and possibly also in San Diego Gas and Electric (SDG&E) territory. State Senator Josh Becker's office is interested in the proposal but wants to see how much support there is from elected city and county officials. I am reaching out to you and other City Council members and County Supervisors to read this proposal and **indicate your support for the concept by going to the end of this document to "sign on" as a supporter.**

Proposed Legislation

We request that Senator Becker sponsor legislation in the 2021 Session that would require PG&E (and possibly SDG&E) to modify their billing software by March 1, 2022 to make it possible for it to support different UUT rates for electricity and natural gas within a customer class for any City or County that chooses to adopt such taxes. That deadline has been chosen so that UUT proposals that are put on the ballot in November 2022 or later can have rate-setting flexibility that is currently lacking.

In order not to penalize an affected utility financially, we request that the legislation allow the utility to put the costs of the software modifications into its rate base in 2022 if, and only if, the March 1, 2022 deadline is met. The amount included in the rate base would be the lesser of actual project costs or \$800,000.

Background on UUTs

One-third of California cities and three counties impose a UUT on electricity and natural gas. Voter approval is required to adopt a UUT or to change the tax rate of a UUT. Existing UUT rates on gas and electricity range from 1% to 11% with a median of 5%.

In cities where customers receive a combined gas and electric bill from PG&E the utility's billing software currently requires that the UUT tax rate be the same for natural gas and electricity within

each of the three customer classes of residential, agricultural, and industrial/commercial. This is true even when the electricity provider is a Community Choice Aggregator. PG&E's software currently allows cities to exempt low-income households from paying UUT. Some cities do this, most do not.

We do not know if the same is true for the billing software used by SDG&E, but if so then this proposal would apply to it too. There is no intention to apply the proposal to investor-owned utilities that provide only natural gas or only electricity. It would not apply to municipal utilities, even those like Palo Alto's which provide both electricity and natural gas, because the City itself can modify its billing software's ability to handle any combination of tax rates its voters approve.

Because California is committed to decarbonizing its economy, and because some cities and counties are moving to decarbonize faster than the state requires, it makes sense to give local jurisdictions the flexibility to tax natural gas and electricity at different rates if their elected officials and residents wish to do so.

City and County budgets have been badly strained by the pandemic, and many jurisdictions will need to raise new revenue. Given the widespread awareness of the damaging impacts of greenhouse gas emissions from fossil fuels like natural gas, measures that call for new or increased UUTs only on natural gas would be more likely to be approved than ones that tax both energy sources. Having this flexibility would benefit cities that do not currently have energy UUTs as well as those that want to increase their gas UUT but not the electricity UUT.

Environmental Impact

The proposed legislation simply gives cities and counties more flexibility in setting UUT rates, so in and of itself it has no environmental impact. However, recent research (*Natural Gas Price Elasticities and Optimal Cost Recovery Under Consumer Heterogeneity: Evidence from 300 Million Natural Gas Bills*, Maximilian Auffhammer and Edward Rubin, January 2018 <https://haas.berkeley.edu/wp-content/uploads/WP287.pdf>) has shown that a 5% increase in the price of natural gas leads to a 1% reduction the amount of gas used by residential rate payers. A typical PG&E residential customer pays \$115/month for 500 kWh of electricity, so would pay \$5.75/month more if a 5% UUT on electricity were in effect. Similarly, the typical residential customer with gas service pays about \$55/month for 32 therms of natural gas, so would pay \$2.75/month more if a 5% UUT on natural gas were in effect.

Example of Modifying a UUT to Achieve Local Policy Goals

In November 2012, voters in Arcata imposed a 45% UUT on residential electricity consumption that exceeded 600% of PG&E's baseline amount. The purpose was to drive marijuana grow houses out of Arcata. Grow houses could be identified by the huge amount of electricity they used for lighting. To implement the tax change, Arcata had to pay PG&E \$626,700, which was a substantial investment for a city of 17,000 residents. The tax increase had the desired effect and the number of grow houses fell dramatically within two years of implementation.



No other city benefited from Arcata's investment. Under the proposed legislation, a similar investment would give California's cities and counties the flexibility to raise new revenue for general purposes or to achieve local environmental goals.

References

Utility User Tax Facts (PDF) and UUTs by City as of July 2020 (Excel):
<http://www.californiacityfinance.com/index.php#UUT>

Supporters of this bill idea:

Lisa Schmidt, Council Member, Los Altos Hills