

STATE OF CALIFORNIA  
**Budget Change Proposal - Cover Sheet**  
 DF-46 (REV 05/11)

Fiscal Year 2012-2013	BCP No. 2	Org. Code 0860	Department Board of Equalization	Priority No. 2
Program 75 Natural Gas Surcharge Program			Element All Elements	Component N/A

Proposal Title  
**Permanent Establishment – Natural Gas Public Purpose Programs Surcharge**

Proposal Summary

To meet the workload of the Natural Gas Surcharge Program per enabling legislation, Assembly Bill (AB) 100, this proposal requests \$227,000 (Special Funds) in fiscal year (FY) 2012-13 and ongoing for the permanent establishment of 2.0 limited-term positions that are scheduled to sunset on June 30, 2012. The Board of Equalization's (BOE) workload consists of identifying, registering, auditing, return processing and verifying Natural Gas Public Purpose Programs Surcharge (PPPS) payments which are collected by the BOE from natural gas utilities and consumers of natural gas drawn directly from pipelines while also providing education and outreach to utility companies and consumers who purchase natural gas from interstate pipelines. Revenues attributed to BOE's audit and outreach efforts are anticipated to be approximately \$14 million annually with a cost-to-benefit ratio of 61.7 to 1.

Requires Legislation <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	Code Section(s) to be Added/Amended/Repealed
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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
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For IT requests, specify the date a Special Project Report (SPR) or Feasibility Study Report (FSR) was approved by the California Technology Agency, 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.*

Budget Officer	Date	Chief, Financial Mgmt. Division	Date
Deputy Director, Administration	Date	Executive Director	Date

**Department of Finance Use Only**

Additional Review:  Capital Outlay     ITCU     FSCU     OSAE     CALSTARS     Technology Agency

BCP Type:       Policy       Workload Budget per Government Code 13308.05

PPBA	Date submitted to the Legislature
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**State Board of Equalization**

**Fiscal Year 2012-13**

**PERMANENT ESTABLISHMENT - NATURAL GAS PUBLIC PURPOSE PROGRAMS SURCHARGE**

**A. Proposal Summary**

To meet the workload of the Natural Gas Surcharge Program per enabling legislation, Assembly Bill (AB) 100, this proposal requests \$227,000 (Special Funds) in fiscal year (FY) 2012-13 and ongoing for the permanent establishment of 2.0 limited-term positions that are scheduled to sunset on June 30, 2012. The Board of Equalization's (BOE) workload consists of identifying, registering, auditing, return processing and verifying Natural Gas Public Purpose Programs Surcharge (PPPS) payments which are collected by the BOE from natural gas utilities and consumers of natural gas drawn directly from pipelines while also providing education and outreach to utility companies and consumers who purchase natural gas from interstate pipelines. Revenues attributed to BOE's audit and outreach efforts are anticipated to be approximately \$14 million annually with a cost-to-benefit ratio of 61.7 to 1.

**B. Background/History**

The Natural Gas Surcharge Law, Article 10 (commencing with section 890) of Chapter 4 of Part 1 of Division 1 of the Public Utilities Code, imposes a surcharge on all natural gas consumed in this state for the funding of public purpose programs. Public purpose programs fund low-income rate assistance, weatherization, energy efficiency, conservation, and public interest research programs. The BOE is responsible for the collection of surcharges collected by public utility gas companies, as defined in subdivision (b) of section 891, and from consumers who purchase natural gas from interstate pipelines, as defined in subdivision (c) of section 891. This request would continue, on a permanent basis, the funding needed for BOE to administer the program as required and intended by the legislation in support of the worthwhile low-income public purpose programs.

The BOE administers and collects the surcharge on natural gas that is regulated by the California Public Utilities Commission on natural gas utility service for approximately 10.7 million customers that receive natural gas from Pacific Gas and Electric (PG&E), Southern California Gas (SCG), San Diego Gas and Electric, Southwest Gas, and other smaller natural gas utilities.

Natural gas from out-of-state production basins is delivered into California via the interstate natural gas pipeline system which is comprised of five major pipelines. The system transports natural gas to the utilities' backbone pipeline systems where it then is delivered to the local transmission and distribution pipeline systems, or to natural gas storage fields. Some large noncore customers take natural gas directly off the high-pressure backbone pipeline systems, while core customers and other noncore customers take natural gas off the utilities' distribution pipeline systems.

Some of the natural gas delivered to California customers may be delivered directly to them without being transported through the regulated utility systems. For example, the Kern River/Mojave pipeline system can deliver natural gas directly to some large customers thereby "bypassing" the utilities' systems. Much of California-produced natural gas is also delivered directly to consumers.

Although most of California's core customers purchase natural gas directly from the regulated utilities, core customers have the option to purchase natural gas from independent, unregulated natural gas marketers. Most of California's noncore customers, on the other hand, make natural gas supply arrangements directly with producers or purchase natural gas from marketers. Deregulation has also given consumers increasing opportunities for obtaining natural gas directly from interstate pipelines. This proposal would establish permanent positions to continue to address surcharge collection and program specific activities of

identification, education, registration of consumers of natural gas, auditing program registrants, and return processing.

Since January 1, 2001, the BOE has administered and collected the surcharge on natural gas that is regulated by the California Public Utilities Commission on natural gas utility service for customers that receive natural gas from the state's major suppliers of natural gas: PG&E, SCG, SDG&E, Southwest Gas, and several smaller natural gas utilities. The BOE has also administered and collected the surcharge from consumers who purchase natural gas from interstate pipelines. Prior to the approval of the 2.0 limited-term positions (FY 2009-10), the BOE received funding of \$416,000 annually (Governor's FY 2007-08 Budget) allocated to the BOE's Technology Services Division to cover the technology costs of the program, but no positions were established to perform the work in the program area. Registration, return processing, and collection workloads were absorbed by BOE program staff prior to the approval of BCP No.11 (FY 2009-10).

In BCP No. 11 (2009-10), 2.0 limited-term positions were established as part of a three-year pilot program to identify, register, audit and verify payments of the Natural Gas Public Purpose Programs Surcharge which is required to be paid to the BOE by natural gas utilities and consumers of natural gas drawn directly from interstate pipelines. BOE estimated in this BCP that the 2.0 additional positions could increase revenues by an estimated \$4.4 million for FY 2009-10, resulting in an estimated 17.1 to 1 benefit-to-cost ratio. Until the two positions were created, the tasks of identifying unregistered utilities and consumers, auditing surcharge program registrants and providing outreach to registered and unregistered utilities and consumers could not be performed.

During (FY) 2009-10, the BOE conducted audits of several natural gas utilities, including all of the large utility accounts; sent letters to pipeline owners requesting information on known consumers of natural gas withdrawn from their pipelines; and contacted both the Public Utilities Commission and the State Fire Marshal for information maintained by those agencies to identify unregistered consumers of natural gas. During (FY) 2010-11, the BOE started conducting audits of consumers that withdraw natural gas directly from interstate pipelines. Efforts to identify unregistered consumers subject to the natural gas surcharges are ongoing.

**Resource History**  
(Dollars in thousands)

Program Budget	2007-08	2008-09	2009-10	2010-11	2011-12
Authorized Expenditures	\$408	\$407	\$614	\$631	\$680
Actual Expenditures	392	398	598	617	N/A
Revenues	400,030	448,137	532,303	N/A	N/A
Authorized Positions	0.0	0.0	2.0	2.0	2.0*
Filled Positions	0.0	0.0	2.0	2.0	2.0*
Vacancies	0.0	0.0	0.0	0.0	0.0

\* The 2.0 permanent positions support the collection of approximately \$14 million in annual revenue.

**Workload History**

Workload Measure	2007-08	2008-09	2009-10	2010-11	2011-12
Audits	0	0	2	5	5
Outreach/Correspondence	0	0	10	14	18
Registrations	0	0	2	3	5
Return Processing	40	40	48	60	80

**C. State Level Considerations**

BOE collects taxes and fees that provide approximately 35.6 percent of the annual revenue for state government and essential funding for counties, cities, and special districts. The BOE administers the state's sales and use, fuel, alcohol, tobacco, and other taxes and collects fees that fund specific state programs, which, in fiscal year 2009-10, produced \$50.7 billion for education, public safety, transportation, housing, health services, social services, and natural resource management. This proposal addresses the Legislature's intent to collect revenues related to the sales of natural gas in order to fund low-income public and energy efficiency/conservation programs. Specifically, this proposal maximizes voluntary compliance in BOE's programs and improves the efficiency of BOE's tax and fee programs.

**D. Justification**

The first year (FY) 2009-10 of this three-year pilot program resulted in a revenue increase of over \$84 million. After factoring out the revenue increase due to rate increases, an additional \$14 million in revenue was attributed to BOE audit and outreach efforts for a 61.7 to 1 benefit-to-cost ratio. There was no significant difference in gross therms reported for (FY) 2008-09 and (FY) 2009-10. The over three percent increase in taxable therms resulted from a decrease in exempt therms claimed on the returns filed during (FY) 2009-10, which can be attributed to the effectiveness of BOE's audit presence and outreach efforts. Additionally, there was almost a 99% increase in taxable therms reported for the natural gas consumer segment (non-utility company). The success of BOE's efforts continues as taxable therms reported for the first half of (FY) 2010-11 have increased by 3.66 percent during the first half of (FY) 2010-11. If this proposal is not approved, BOE would not be able to continue identifying unregistered utilities and consumers, performing audits, and providing outreach to registered and unregistered sellers and consumers of natural gas.

<b>Taxable Therms</b>	<b>2008-2009</b>	<b>2009-2010</b>	<b>% Change</b>
-Utilities	10,022,679,565	10,318,358,123	3%
-Consumers	13,453,378	26,771,591	99.0%
<i>Total Taxable Therms</i>	10,036,132,943	10,345,129,714	3.1%
<b>Exempt Therms</b>	<b>2008-2009</b>	<b>2009-2010</b>	<b>% Change</b>
-Utilities	8,978,064,242	8,756,729,773	-2%
-Consumers	47,167,974	41,822,181	-11%
<i>Total Exempt Therms</i>	9,025,232,216	8,798,551,954	-3%
<b>Total Therms</b>	<b>19,061,365,159</b>	<b>19,143,681,668</b>	<b>0.4%</b>

**E. Outcomes and Accountability**

The following table shows the expected outcomes:

**Projected Outcomes**

<b>Workload Measure</b>	<b>2011-12</b>	<b>2012-13</b>	<b>2013-14</b>
Audits	5	5	5
Outreach/Correspondence	18	20	20
Registrations	3	5	5
Return Processing	60	80	100

**F. Analysis of All Feasible Alternatives**

**Alternative 1 - Approve budget augmentation for 2.0 staff positions and related resources, on a permanent basis, resulting in an additional \$14 million in annual revenue.**

This proposal requests \$227,000 (Special Funds) in fiscal year (FY) 2012-13 and ongoing to establish permanent funding for 2.0 limited-term positions scheduled to expire on June 30, 2012. This alternative allows the BOE to continue effective administration of the program by performing audit verification of surcharge payments and educational outreach to increase voluntary compliance, and effectively address new and ongoing workloads in the Natural Gas Surcharge Program. This alternative is recommended in order to provide the BOE with adequate staffing to continue performing program workloads and protect the state's tax revenue base.

**Pros:**

- Provides the required positions and resources for BOE to effectively administer the Natural Gas Surcharge Program with a cost-to-benefit ratio of 61.7 to 1.
- Provides permanent funding to provide protection of the surcharge revenue base while ensuring compliance with the tax laws, and protects the public who remit these taxes from over-collection.
- Provides the required positions and resources to effectively perform critical identification and registration of consumers of natural gas.
- Increases revenues which support a variety of activities and public purpose programs (such as low-income assistance, weatherization, and energy efficiency, conservation and public interest research programs).
- Provides adequate level of staff to address immediate workload needs.

**Cons:**

- Requires a permanent budget augmentation.

**Alternative 2 - Approve budget augmentation for 2.0 staff positions and related resources on a three-year limited-term basis for the Natural Gas Surcharge Program.**

This alternative requests \$227,000 (Special Funds) in (FY) 2012-13, (FY) 2013-14, and (FY) 2014-15 to continue on a temporary three-year basis for 2.0 positions and related resources beginning July 1, 2012. These resources will allow BOE to continue effective administration of the program by performing audit verification of surcharge payments, educational outreach, increase voluntary compliance, and increase efficiency and effectiveness with processing new and ongoing workloads in the Natural Gas Surcharge Program.

**Pros:**

- Provides temporary positions and resources for BOE to effectively administer the Natural Gas Surcharge Program for an additional three years.
- Provides temporary protection of annual surcharge revenue base while ensuring compliance with the tax laws, and protects the public who remit these taxes from over collection.
- Temporarily provides the required positions and resources for BOE to effectively perform critical identification and registration of consumers of natural gas.
- Temporarily supports revenue collection which will fund a variety of public purpose programs (such as low-income assistance, weatherization, and energy efficiency, conservation and public interest research programs).

**Cons:**

- Continuing the funding on a limited-term basis will necessitate the need for another BCP.
- Creates employee recruitment and retention issues inherent with limited-term positions.
- Does not address long-term program revenue collection activities.

**Alternative 3 - Approve budget augmentation for 1.5 staff positions and related resources, on a permanent basis.**

This proposal requests \$199,000 (Special Funds) in fiscal year (FY) 2012-13 and ongoing to establish permanent funding for 1.5 limited-term positions, a 1.0 Business Taxes Specialist I auditor and a 0.5 Tax Technician III, scheduled to expire on June 30, 2012. This alternative allows the BOE to continue audit verification of surcharge payments; but reduces the ability of BOE to identify unregistered utilities and consumers, provide educational outreach, and effectively address new and ongoing workloads in the Natural Gas Surcharge Program. This alternative would require BOE to absorb registration and return processing workloads.

**Pros:**

- Reduces program costs.

**Cons:**

- Requires funding for 1.5 positions.
- Reduces BOE's ability to identify and collect from unregistered utilities and consumers.
- Reduces BOE's ability to provide educational outreach.
- BOE will not be able to effectively address new and ongoing workloads.

**Alternative 4 – Allow the program to sunset.**

**Pros:**

- Eliminates program costs.

**Cons:**

- Results in the loss of \$14 million in revenue from administration and collection activities.
- BOE will not be able to provide protection of the surcharge revenue base while ensuring compliance with the tax laws, and protects the public who remit these taxes from over-collection.
- Does not provide the required positions and resources to effectively perform critical identification and registration of consumers of natural gas.
- Does not provide the required positions to increase revenues which support a variety of activities and public purpose programs (such as low-income assistance, weatherization, and energy efficiency, conservation and public interest research programs).
- Does not provide adequate level of staff to address immediate workload needs.
- Possibility that the number of claimed exempt therms will increase resulting in a loss of revenue.

**G. Implementation Plan**

<b>FY 2012-13 and Ongoing</b>
<ul style="list-style-type: none"><li>• Permanently establish 2.0 positions effective July 1, 2012.</li><li>• Continue the identified program functions for compliance and audit staff.</li><li>• Monitor progress.</li><li>• Track revenue results.</li></ul>

H. **Supplemental Information** (Check box(es) below and provide additional descriptions.)

- None     Facility/Capital Costs     Equipment     Contracts     Other \_\_\_\_\_

I. **Recommendation**

**Alternative 1 is recommended** in order to provide the necessary staff and resources on a permanent basis for the BOE to efficiently and effectively administer the Natural Gas Surcharge Program in support of vitally important low-income and energy conservation related public purpose assistance programs.

**Exhibit I: Workload Detail**

**Summary of Positions requested**

		<b>FY 2012-13 Positions</b>	<b>Ongoing Positions</b>
Tax Technician III	1/	1.0	1.0
Business Taxes Specialist I	2/	1.0	1.0
<b>Total Positions</b>		<b>2.0</b>	<b>2.0</b>

1/ Position based on 1,800 hours per FY.

2/ Position based on 1,400 hours per FY.

**Tax Technician III (TT III)**

The permanent establishment of the 1.0 TT III position is requested to continue handling new and ongoing workloads related to consumers of natural gas and public utility gas companies that are currently registered or may not be registered with the BOE to collect or pay the surcharge. Prior to the establishment of this TT III position on July 1, 2009, tasks and associated workload of identifying and contacting potential consumers of natural gas for registration with the BOE was not being performed and could not be absorbed by staff working other programs. This workload, as directed by the BTS I program lead, includes review of public utility gas company records and other source documents to identify and contact potential consumers of natural gas for registration with the BOE. This workload includes extensive telephone and written contact with private, public and government agencies to obtain information about entities that may be subject to the surcharge. In addition to this outreach in identifying and registering natural gas suppliers and consumers, TT III duties include, maintaining current registration information, tax return review and processing to detect errors, initiating refunds, adjusting incorrect payments, clearing delinquencies, issuing billings, working on accounts receivable collection cases, providing program information to registrants and interested parties, and supplying program specific statistical data as required.

**Tax Tech III Workload Detail**

<b>Workload Detail</b>					
<b>Classification</b>	<b>Activity</b>	<b>Time Measure</b>		<b>Ongoing Activities</b>	
		<b>H = Hours M = Minutes</b>	<b>Time Per Occurrence</b>	<b>Occurrences Per Year</b>	<b>Total Hours</b>
<b>Tax Technician III</b>					
	Industry and Consumer Outreach	H	50	6	300
	Identify and Register Consumers	H	30	15	450
	Audit Direct Support	H	10	5	50
	Telephone Inquiry and Advisory Support	H	3	25	75
	Correspondence	H	20	16	320
	Account Maintenance & Registration	H	2	20	40
	Return Processing & Verification	H	2	60	120
	Billings & Refunds	H	5	15	75
	Appeals Processing	H	5	10	50
	Statistical Reports & Special Projects	H	80	4	320
	<b>Total Hours per year</b>				<b>1,800</b>
	<b>Position based on 1,800 hours</b>				<b>1.0</b>

**Business Taxes Specialist I (BTS I)**

The BTS I position is responsible for the overall effectiveness of the surcharge program. The BTS I will continue auditing surcharge program registrants and verify that the public utility gas companies and consumers of natural gas are reporting correctly. Prior to the establishment of this BTS I position on July 1, 2009, there had been no audit presence and very limited educational outreach. As a result, the potential was high that problems with voluntary compliance, misreporting and even over-collection may have existed. The BTS I position is vital to the effective administration of this program in verifying and auditing the accounts required to be registered to pay the surcharge.

While the low-income public purpose program costs and surcharge rates have increased dramatically, prior to July 1, 2009, the reported revenue has gone unverified and unaudited - as there was no staff or resources to address the workload. It is critically important that audit and outreach resources be provided to audit and verify surcharge payments, especially in view of rising energy costs. A senior level staff auditor (BTS I) is needed in the program to continue performing verification of surcharge payments made by the large public utility gas companies that utilize complex tracking and reporting systems of the consumers of natural gas that draw natural gas directly from interstate pipelines under the control of the natural gas public utility companies. The BTS I functions as a program lead with a high level of expertise that provides technical guidance and training to staff in addition to performing outreach and field audits. This position also evaluates, researches, controls, and corresponds with taxpayers on petitions for redetermination and claims for refund, which may generate additional field work (see Exhibit I on page 7 for workload detail).

**BTS I Workload Detail**

Workload Detail					
Classification	Activity	Time Measure		Ongoing Activities	
		H = Hours M = Minutes	Time Per Occurrence	Occurrences Per Year	Total Hours
<b>Business Taxes Specialist I</b>					
	Industry and Consumer Outreach	H	35	6	210
	Field Audit	H	100	5	500
	Obtain and Analyze Third-Party Information Pertaining to Consumers	H	15	15	225
	Investigate and Identify Unregistered Consumers	H	15	15	225
	Audit Review, Appeals, Billings, Refunds, Reports and Special Projects	H	20	12	240
	<b>Total Hours per year</b>				<b>1,400</b>
	<b>Position based on 1,400 hours</b>				<b>1.0</b>

DF-46 (REV 05/11)

**Fiscal Summary**  
(Dollars in thousands)

BCP No.	Proposal Title			Program			
2	Permanent Establishment Natural Gas Public Purpose Programs Surcharge			75 Natural Gas Surcharge Program			
Personal Services		Positions			Dollars		
		CY	BY	BY + 1	CY	BY	BY + 1
Total Salaries and Wages <sup>1</sup>		0.0	2.0	2.0		\$110	\$110
Salary Savings		-0.0	--0.1	--0.1		-\$6	-\$6
<b>Net Total Salaries and Wages</b>		0.0	1.9	1.9		\$104	\$104
Total Staff Benefits <sup>2</sup>						\$40	\$40
Salary Savings						-\$2	-\$2
<b>Net Total Staff Benefits</b>						\$38	\$38
<b>Distributed Administration</b>						\$17	\$17
<b>Total Personal Services</b>		0.0	1.9	1.9		\$159	\$159
<b>Operating Expenses and Equipment</b>							
General Expense						\$5	\$5
Distributed Administration						\$4	\$4
Printing							
Communications						\$3	\$3
Postage							
Travel-In State						\$26	\$26
Travel-Out of State							
Training						\$2	\$2
Facilities Operations						\$23	\$23
Utilities							
Consulting & Professional Services: Interdepartmental <sup>3</sup>							
Consulting & Professional Services: External <sup>3</sup>							
Data Center Services						\$5	\$5
Information Technology Equipment <sup>3</sup>							
Other/Special Items of Expense: <sup>4</sup>							
<b>Total Operating Expenses and Equipment</b>						\$68	\$68
<b>Total State Operations Expenditures</b>						\$227	\$227
<b>Fund Source</b>	<b>Item Number</b>						
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>				
General Fund	0860	001	0001				
Gas Consumption Surcharge Fund <sup>5</sup>	0860	001	3015		\$227	\$227	
Federal Funds							
Other Funds (Specify)							
Reimbursements	0860	001	0995				
<b>Total Local Assistance Expenditures</b>						\$227	\$227
<b>Fund Source</b>	<b>Item Number</b>						
	<b>Org</b>	<b>Ref</b>	<b>Fund</b>				
General Fund							
Special Funds <sup>5</sup>							
Federal Funds							
Other Funds (Specify)							
Reimbursements							
<b>Grand Total, State Operations and Local Assistance</b>						\$227	\$227

<sup>1</sup> Itemize positions by classification on the Personal Services Detail worksheet.

<sup>2</sup> Provide benefit detail on the Personal Services Detail worksheet.

<sup>3</sup> Provide list on the Supplemental Information worksheet.

<sup>4</sup> Other/Special Items of Expense must be listed individually. Refer to the Uniform Codes Manual for a list of standard titles.

<sup>5</sup> Attach a Fund Condition Statement that reflects special fund or bond fund expenditures (or revenue) as proposed.



Supplemental Information

(Dollars in thousands)

BCP No. 2	Proposal Title Permanent Establishment Natural Gas Public Purpose Programs Surcharge
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Equipment	CY	BY	BY +1
Standard Complement		\$68	\$68
<b>Total</b>		\$68	\$68

Consulting & Professional Services	CY	BY	BY +1
<b>Total</b>			

Facility/Capital Costs	CY	BY	BY +1
<b>Total</b>			

One-Time/Limited-Term Costs Yes  No

Description	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
<b>Total</b>	0.0		0.0		0.0	

Full-Year Cost Adjustment Yes  No

Provide the incremental change in dollars and positions by fiscal year.

Item Number	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
<b>Total</b>	0.0		0.0		0.0	

Future Savings Yes  No

Specify fiscal year and estimated savings, including any decrease in positions.

Item Number	BY		BY +1		BY +2	
	Positions	Dollars	Positions	Dollars	Positions	Dollars
<b>Total</b>	0.0		0.0		0.0	