SENATE COMMITTEE ON ENERGY, UTILITIES AND COMMUNICATIONS
Senator Steven Bradford, Chair
2023 - 2024 Regular

Bill No:	AB 2847	**Hearing Date:**	7/2/2024
Author:	Addis		
Version:	3/21/2024 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Electrical and gas corporations: capital expenditures: request for authorization or recovery

DIGEST: This bill requires electrical and gas corporations in their request for capital expenditures to provide their best estimation, alongside supporting documents, of the impact of the proposed expenditures on the utility's authorized revenue for each year of the life of the capital asset, as well as the asset's net present value (NPV).

ANALYSIS:

Existing law:

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

2) Authorizes the CPUC to fix the rates and charges for every public utility and requires that those rates and charges be just and reasonable. (Public Utilities Code §451)

3) Prohibits, with certain exceptions, a public utility from changing any rate, except upon a showing before the CPUC and a finding by the CPUC that the new rate is justified. Requires, with certain exceptions, whenever an electrical corporation or gas corporation files an application to change any rate for the services or commodities furnished by it, that the corporation furnish its customers notice of its application to the CPUC for approval of the new rate. (Public Utilities Code §454)

4) Authorizes the CPUC to require a public utility to correct any rates, practices, equipment or behavior that is unjust, unreasonable, unsafe, improper, inadequate, or insufficient. (Public Utilities Code §761)

This bill:

1) Requires an electrical corporation's or gas corporation's application requesting authorization for or recovery of capital expenditures to include its best estimate of the application's impact on its annual revenue requirement for each year that the capital expenditures described in the application are expected to remain in the application's rate base, if the application is approved or conditionally approved, and to include the net present value of those impacts.

2) Requires the CPUC to require the electrical corporation or gas corporation to provide supporting workpapers and calculations for the estimates.

Background

Regulated utility business model. The regulated utility business model encourages investment in physical infrastructure, as these capital assets earn a profit for utility shareholders. This model helps encourage utility investment in expensive projects that otherwise may be deemed too risky by financial investors. In the context of growing demand for electricity, as is expected in California as more housing and transportation electrify, this model can encourage utilities to expand and upgrade the infrastructure needed to meet that demand. However, as noted by the author, this model can also motivate utilities to propose higher cost projects in order to maximize their return.

Clean energy goals spur need for utility infrastructure investment. Achievement of the state's clean energy goals will require utilities to make considerable investments in energy infrastructure, such as electricity transmission lines and upgrades to the electricity distribution system that enable distributed energy resources like solar panels and on-site batteries. It is important the utilities are confident they can recover the costs of these investments from ratepayers. At the same time, it is important the CPUC – and ratepayers – have a clear understanding of the rate implications of the utilities' proposed expenditures. More recently, wildfire mitigation has necessitated capital investments to underground facilities, replace or sectionalize distribution lines, and other measures.

Depreciation. Depreciation is an accounting practice that allows utility customers to pay for investments over the asset's lifetime. Depreciation is the financial recovery over time of a capital investment.

Net present value (NPV). The NPV calculation of cash-in, cash-out over time for a given investment. It is often used to determine whether an investment will be profitable in the future. It calculates the value of an investment over a given time

period, recognizing that project efficiencies, loans, payouts from insurance, taxes, and other factors will evolve over the lifetime (usually 30+ years) of the asset, and may show an investment that looks wasteful or inefficient in the short-term actually proving profitable in the long-term. Caution must be exercised in reviewing NPVs, however, as the calculation is dependent on estimates for future year cash flows. In other words, the calculation is only as good as its inputs.

Comments

Impacts to ratepayers of capital projects. Utility capital projects are paid off over many years, often over decades. Throughout that time, the costs are passed along to ratepayers. The durability of these capital costs, the author notes, makes the request for capital expenses deserving of enhanced scrutiny, as decisions made today could impact ratepayers for years. This bill seeks enhanced scrutiny for electrical or gas corporation capital projects by requiring the utilities provide estimations of a requested asset's impact to the revenue requirement for every year that asset will remain in the rate base, alongside a calculation of the net present value of the asset's impact to the revenue requirement.

The proponents of this bill note that typically, a request for authorization of a utility project in a general rate case only includes the list price of the asset and the impact on the revenue requirement during the rate case period. It does not typically include significant rate impacts in later years. Instead, uncovering the long-term impact requires one or more rounds of discovery, taking up resources that could be more effectively used elsewhere. However, TURN cites instances where this type of long-term information has been provided have demonstrated the importance of these data points.

Example of NPV use in utility application. Specifically, they note that in a 2014 San Diego Gas & Electric (SDG&E) application for a vehicle-grid integration pilot, SDG&E provided the annual revenue requirement associated with the project through 2037 as part of the prepared direct testimony of their representative in the proceeding. The numbers show that not only do the annual costs of the program jumps from $1 million in the first year to $10 million in the fourth year, but that ratepayers will pay $200 million over the life of the project despite its initial $55 million price tag. TURN expresses concerns that this level of information is generally the exception. This bill attempts to require this level of analysis for future capital projects.

Amendments needed. While the added information required by this bill would help provide greater understanding of the impacts of capital projects on utility rates over a longer period of time, it needs to be balanced with the realities that these calculations are dependent on the inputs, as such they are helpful estimations. In

this regard, it may be useful for the CPUC to determine where such calculations would be helpful to assess the costs on rates. *Therefore, the author and committee may wish to amend this bill to afford the CPUC the discretion to make such determinations.*

Prior/Related Legislation

AB 2666 (Boerner, 2024) requires the CPUC to review the actual past costs an electrical or gas corporation records following each general rate case test year, and adjust the authorized revenue requirement in the subsequent general rate case, as appropriate. The bill is pending in this committee.

AB 2054 (Bauer-Kahan, 2024) among its provisions, authorizes the CPUC to allocate between ratepayers and shareholders any costs recorded in a balancing account above an authorized forecast. The bill is pending in committee.

AB 2847 (Addis, 2024) requires electric and gas IOUs to provide in their request for capital expenditures their best estimation, alongside supporting documents, of the impact of the proposed expenditures on the utility's authorized revenue for each year of the life of the capital asset, as well as the asset's net present value. The bill is pending in committee.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

SUPPORT:

The Utility Reform Network, Sponsor
FAIR California
Peninsula Clean Energy

OPPOSITION:

San Diego Gas and Electric Company
Southern California Gas Company
Southwest California Legislative Council
Tri-County Chamber Alliance

ARGUMENTS IN SUPPORT: The Utility Reform Network (TURN), the sponsor of the bill, states:

> At a time with sky-high rates, every dollar matters when assessing whether a new program or project should be added to customer bills. This simple

transparency measure provides the Commission and the public essential information about not just the up-front costs, but the added burden on customer bills for the life of the asset.

ARGUMENTS IN OPPOSITION: San Diego Gas & Electric states:

Utility capital expenditures are approved through the GRC. Because there is no limit on the "capital expenditures" anticipated by AB 2847, does this legislation intend to upend the current GRC process? The GRC process includes multiple methods to review the costs, benefits, business needs, and cost-benefit analysis of capital investments. To the extent that AB 2847 applies to a subset of undergrounding capital investments proposed pursuant to PUC Section 8388.5, the Commission has already developed a framework by which utilities should address the benefits and costs of undergrounding capital expenditures. AB 2847 could bifurcate and unravel the California Public Utilities Commission's (CPUC) existing utility ratemaking process with no additional value add. The CPUC has extensive ongoing processes and analyses of electric rate affordability. AB 2847's data is not needed. The process of how utilities enter costs into rates is very complex. AB 2847 would just add more work to this process, without adding any value.

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