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

Bill No:	AB 1912	**Hearing Date:**	7/2/2024
Author:	Pacheco		
Version:	6/13/2024 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Electricity: legislation imposing mandated programs and requirements: third-party review

DIGEST: This bill would authorize a third-party review of pending legislation, upon request, that could affect electric utility rates. This bill would require collection of funds from the shareholders of electric investor-owned utilities (IOUs) to pay for the assessments, thereby creating a tax.

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, including electrical and gas corporations, and requires that those rates and charges be just and reasonable. (Public Utilities Code §451)

3) Requires the CPUC, in establishing residential electric and natural gas utility rates, to ensure that the rates are sufficient to enable the electric or natural gas corporation to recover a just and reasonable amount of revenue. (Public Utilities Code §739)

4) Requires the CPUC to prepare a written report on the costs of programs and activities conducted by the four major electric and gas companies regulated by the CPUC. (Public Utilities Code §913.1)

5) Requires electric, gas, water, and telephone corporations to notify affected customers of proposed revenue changes that will impact their utility bill, by displaying rate impacts of the proposed revenue change in dollars and percentage degree of change. (Public Utilities Code §454)

6) Requires the CPUC to require each electrical corporation to identify a separate rate component to collect the revenues used to fund certain programs. (Public Utilities Code §381)

7) Establishes a natural gas surcharge to fund cost-effective energy efficiency and other public purpose programs. (Public Utilities Code §890-900)

8) Establishes that it is the policy of the state that eligible renewable energy resources and zero-carbon resources supply 100 percent of all retail sales of electricity to California end-use customers and 100 percent of electricity procured to serve all state agencies by December 31, 2045. (Public Utilities Code §454.53)

This bill:

1) Requests the California Council on Science and Technology (CCST) establish by January 1, 2026, a program to, upon request of the Legislature, assess legislation that would establish a mandated requirement or program or otherwise affect electrical ratepayers.

2) Requests the CCST to develop and implement conflict-of-interest provisions that would prohibit a person from participating in an assessment for which the person knows or has reasons to know that the person has a financial interest.

3) Requests the CCST to annually inform the CPUC of the projected amount necessary to fund the work of the CCST pursuant to this bill, not to exceed $2,000,000 annually.

4) Requires the CPUC, on June 15 of each year, to assess large electrical corporations, as defined, their proportionate share of the amount reported by the CCST, as provided. Requires the large electrical corporations to pay their proportionate shares no later than August 1st of each year.

5) Requires the moneys collected to be deposited into the Electric Programs Benefit Fund, which would be established by this bill.

6) Continuously appropriates the moneys in the fund to the CCST to support the work of the CCST in providing assessments under this bill.

7) Repeals these provisions on January 1, 2030.

8) Includes a change in state statute that would result in a taxpayer paying a higher tax within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of $^2/_3$ of the membership of each house of the Legislature.

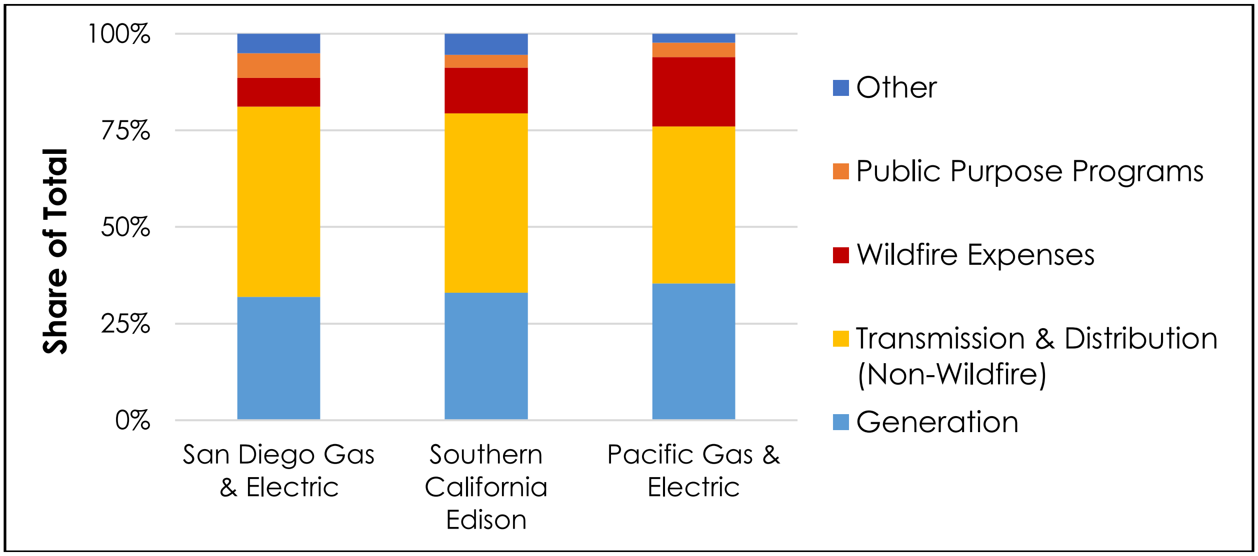
Background

Energy utility costs rising. Californians generally enjoyed lower energy bills when compared to the rest of the country, largely due to milder weather and investments in energy efficiency, even as electric rates have been higher than many other states. However, in more recent years, these trends have been changing as California's higher energy rates are also resulting in higher energy utility bills, both electricity and natural gas. As such, there are growing concerns about the affordability of utility bills on household budgets and commercial and industrial entities' balance sheets. Many Californians have also struggled to overcome economic challenges, including impacts from the COVID-19 pandemic. Low-income and fixed-income residents have fallen behind on paying their bills, including the utility debt accumulated over the time of the pandemic. The Legislature and Governor have helped alleviate these concerns by appropriating over $2 billion in funding to address energy utility bill arrearages and another $1 billion to address water utility bill arrearages. Nonetheless, the growing costs for goods and services due to inflation and supply shortages is also affecting the cost of utility bills and the ability for Californians to manage their household budgets. Utility bill affordability has been a topic of two hearings by this committee within the past two years, and continues to be an area of concern.

On electric side of the equation, a number of drivers are increasing costs. According to the CPUC's 2022 annual SB 695 Report, since 2013, bundled residential average rates have increased at an annual average rate of about seven percent for Pacific Gas & Electric (PG&E), five percent for Southern California Edison (SCE), and 10 percent for San Diego Gas & Electric (SDG&E). The primary drivers include wildfire mitigation investments, and transmission and distribution costs. Pushing electrification policies and practices will likely place further pressure on electric costs for distribution, transmission, and generation. On the natural gas side of the equation, Californians have seen a rise in natural gas utility costs, partly associated with safety improvements in response to the tragic and deadly explosion in San Bruno in 2008. Additionally, just last winter, Californians experienced significant price spikes compared to most parts of the country as the commodity price of natural gas increased significantly, most acutely in California and other West Coast states.

Utility bill affordability concerns are exacerbated by the interest to adopt policies to reduce the state's greenhouse gas (GHG) emissions by shifting away from fossil fuels towards alternatives, including electrification in the transportation and building sectors. Such a transition relies on changing customer behaviors, in addition to policies. However, Californians may be reluctant to switch fuels if utility costs are unaffordable, thereby potentially slowing progress towards the state's climate goals.

The following bar chart is provided by the Public Advocate's Office (PAO) in 2023 based on CPUC and electric IOU data regarding the categories of costs in electric rates. Important to note that within each category there are a myriad of policies, programs, projects, and decisions.



State Auditor's Report. In August 2023, the State Auditor released an audit report, *Electricity and Natural Gas Rates: The California Public Utilities Commission and Cal Advocates [PAO] Can Better Ensure That Rate Increases Are Necessary*. The audit focused on electricity and natural gas rate increases of four large utilities – PG&E, SDG&E, SCE, and Southern California Gas Company (SoCal Gas) – and the oversight conducted by the CPUC and the PAO. The report noted several factors have contributed to increases in electricity and natural gas rates for the four utilities. These include:

- Utilities' operating costs have been increasing, though the largest category of increases vary by utility: distribution costs for PG&E, administrative costs for SCE, and higher property and non-income taxes for SDG&E.
- Wildfire costs, including insurance, has also been a key factor in increased utility expenses.

- Decreasing electricity sales due to installation of solar power systems has required utilities to raise rates to recover fixed costs.
- Market forces have contributed to rising natural gas rates.

California Council on Science and Technology (CCST). CCST is operated as a 501(c)(3) nonprofit governed by a Board of Directors composed of representatives from academic institutions, the corporate and business community, and the philanthropic community. CCST convenes experts from California's academic and research institutions to provide impartial advice and analysis in response to requests from the Governor, Legislature and other state entities on policy issues affecting the State of California relating to science and technology. Its core funding is provided by higher-educational institutions, research centers, and national laboratories.

Comments

Need for this bill. SDG&E contends that in 2024, about 23 percent of SDG&E’s system average rates can be attributed to legislatively mandated costs – five percent of that is associated with the public purpose programs. They argue that part of the increase on utility bills is that they include the cost of well-intentioned policies that have been passed and implemented over the past decade. SDG&E believes that programs embedded in utility bills “to support customers are more important than ever, but that when the Legislature considers proposing new programs and requirements, it should also look for ways to reduce the rate impacts of some of these existing policies, consider what programs already exist before proposing new programs, and consider how new programs may leverage existing programs rather than duplicating them.”

Modeled after the California Health Benefits Review Program (CHBRP). This bill is modeled after the CHBRP which was established in 2002 and responds to requests from the Legislature to provide independent analysis of the medical, financial, and public health impacts of proposed health insurance benefit mandates and repeals. AB 1996 (Thomson), Chapter 795 Statutes of 2002).

Funding Source. This bill would be funded by the shareholders of large electric IOUs and not ratepayers. As such, it is a tax; as any new charge on individuals or businesses that does not fall under one of specified exemptions in the California Constitution (Section 3 of Article XIII A - Tax Limitation) is legally considered a new tax. The money collected from the IOUs, not to exceed $2 million annually, will be deposited into the Electric Programs Benefit Fund established in the State Treasury to support the work of this legislation.

Amendments. The author and committee may wish to amend the bill to:

- *Authorize the Public Advocate's Office to conduct the assessment given their expertise on rate-making, in lieu of CCST.*
- *Expand the assessments to include impacts to natural gas utility bills.*
- *Delete provisions that require a tax of shareholders of the utilities to instead require the activities upon appropriation by the legislature.*

Prior/Related Legislation

AB 2462 (Calderon, 2024) requires additional information in the SB 695 annual report regarding costs of electricity and natural gas utility bills, including recommendations for reducing utility bills. The bill is pending in the Senate Committee on Appropriations.

SB 1083 (Burke, Chapter 818, Statutes of 2019) requested the CCST, if they determine they have sufficient funds, to undertake and complete an analysis of the effects of legislation proposing to mandate procurement of electricity products, upon request.

SB 695 (Kehoe, Chapter 337, Statutes of 2009) required the CPUC to annually report on recommendations for actions that can be undertaken during the succeeding 12 months to limit utility cost and rate increases, consistent with the state's energy and environmental goals.

AB 67 (Levine, Chapter 562, Statutes of 2005) required the CPUC to annually report on the costs of programs and activities conducted by an electrical corporation or gas corporation that have more than 1,000,000 and 500,000 retail customers, respectively, in California, including activities conducted to comply with their duty to serve.

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

SUPPORT:

San Diego Gas and Electric Company, Sponsor
San Gabriel Valley Council of Governments

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: San Diego Gas & Electric (SDG&E) states:

> The energy space is technical, complicated, and underscored with an urgency that addressing climate change is one of the biggest, if not the biggest existential problem of this modern age. At the same time, the expense of meeting climate change goals contributes to high electric bills. The legislative calendar simply does not offer enough time for legislators in their respective committees to dive deep into multiple perspectives of energy policy and its associated cost within a short, and sometimes rushed time frame. Without the luxury of time, we end up saturating utility bills with the cost of well-intentioned policies.
>
> The legislature cannot continue to piecemeal programs to meet climate goals. This approach is costly and burdensome to ratepayers, for example, the current cost shift for the Net Energy Metering (NEM) program in San Diego is at $450/year for non-solar customers. Statewide, as the Public Advocates Office notes, the estimated cost shift for NEM was roughly $6.8 billion. This is only one example of the many policies that have been stacking up over the past decade and burdening ratepayers with high energy bills. While any individual bill may add a fraction of a penny in rates, over time those programs have resulted in 23% of SDG&E rate impacts.

-- END --