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

Bill No:	AB 3264	**Hearing Date:**	8/30/2024
Author:	Petrie-Norris		
Version:	8/28/2024 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Energy: cost framework: residential rates: demand-side management programs report: electrical transmission grid study

DIGEST: This bill includes a suite of proposals to help address energy costs. These include: requiring the California Public Utilities Commission (CPUC) to develop a framework to address energy costs from electricity, natural gas, gasoline, and propane; and requiring the CPUC to submit a study to the Legislature on options to reduce costs on ratepayers of expanding the electrical transmission system.

ANALYSIS:

Existing law:

1) Establishes and vests the CPUC with regulatory jurisdiction over public utilities, including electrical corporations. (Article XII of the California Constitution)

2) Establishes the State Energy Resources Conservation and Development Commission (California Energy Commission (CEC)) and prescribes its authorities, duties, and responsibilities pertaining to energy matters. (Public Resources Code §25200 *et seq.*)

3) Establishes the California Independent System Operator (CAISO) as a nonprofit public benefit corporation and requires the CAISO to ensure efficient use and reliable operation of the electrical transmission grid consistent with achieving planning and operating reserve criteria no less stringent than those established by the Western Electricity Coordinating Council and the North American Electric Reliability Corporation. (Public Utilities Code §345.5)

4) Requires all charges demanded or received by a public utility for a product or commodity furnished, or to be furnished, or any service rendered, or to be rendered, to be just and reasonable. (Public Utilities Code §451)

5) Requires the CPUC to allocate certain funds collected from ratepayers for various purposes, including cost-effective energy efficiency and conservation activities. (Public Utilities Code § 381, among others)

6) Requires the CPUC to prepare a written report on the costs of programs and activities conducted by each electrical corporation and gas corporation with more than 1,000,000 and 500,000 retail customers in California, respectively. Requires the report to be completed on an annual basis before April 1st of each year, and shall identify all of the following:

   a) Each program mandated by statute and its annual cost to ratepayers;
   b) Each program mandated by the CPUC and its annual cost to ratepayers;
   c) Energy purchase contract costs and bond-related costs incurred pursuant to Division 27 (commencing with Section 80000) of the Water Code; and
   d) All other aggregated categories of costs currently recovered in retail rates as determined by the CPUC. (Public Utilities Code §913)

7) Requires the CPUC, by May 1st of each year, to prepare and submit a written report with recommendations for actions that can be undertaken during the succeeding 12 months to limit utility cost and rate increases, known as the *SB 695 Cost Report*. (Public Utilities Code §913.1)

8) Requires the CPUC, before July 1, 2022, and every three years thereafter, to submit a report to the Legislature on the energy efficiency and conservation programs it oversees. Requires the report to include information regarding authorized utility budgets and expenditures and projected and actual energy savings over the program cycle. (Public Utilities Code §913.5)

9) Establishes the Federal Energy Regulatory Commission (FERC) has exclusive jurisdiction over the transmission of electricity in interstate commerce, over the sale of electricity at wholesale in interstate commerce, and over all facilities for the transmission or sale of electricity in interstate commerce. (Federal Power Act §§§201, 205, 206 (16 USC 824, 824d, 824e))

This bill:

1) Makes several findings and declarations concerning the burden on residential households in California regarding energy costs.

2) Requires the CPUC, in consultation with the CEC, by December 31, 2026, to develop a framework for assessing, tracking, and analyzing total annual energy costs paid by residential households in California. Requires specified reporting and elements, including:

   a) total annual energy costs for residential household energy sources, not limited to, electricity, natural gas, propane, gasoline, and diesel;
   b) a requirement for scenarios that may lead to specified reductions in total annual energy costs paid by residential households in 2035 relative to 2024; and
   c) an assessment of the actions from the scenarios and their effects on public health, safety, energy system reliability, and achieving the state's clean energy and climate goals.

3) Authorizes the CPUC to use the framework for purposes of evaluating any request by an electrical corporation and gas corporation to track new spending eligible for recovery or to adjust a revenue requirement.

4) Requires the CPUC, by December 31, 2026, to submit a report to the Legislature containing the framework and the information from its various elements.

5) Requires large electrical corporations, as defined, and large gas corporations, as defined, by January 1, 2026, and each year thereafter, to publish on their internet websites and provide to the CPUC a visual representation of certain cost categories included in residential electric or gas rates for the succeeding calendar year.

6) Makes changes to a required report by the CPUC to the Legislature on energy efficiency and conservation (Public Utilities Code §913.5). Specifically, recasts the report to include all demand-side management programs the CPUC oversees or that are paid for by ratepayers of community choice aggregators (CCAs), electrical corporations, or gas corporations. Revises the information required to be included in the report, including evaluations for each program with specified criteria concerning bill savings, impacts, and others.

7) Requires the CPUC, in consultation with the CEC, the California Infrastructure and Economic Development Bank (I-Bank), and CAISO, by July 1, 2025, to submit to the Governor and the Legislature a study identifying proposals to reduce the cost to ratepayers of expanding the state's electrical transmission grid as necessary to achieve the state's goals, to meet the state's requirements,

and to reduce the emissions of greenhouse gases (GHG), as specified in law, regulation, or executive order.

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 approving 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.

Cost drivers for electricity utility bills. A number of drivers are increasing costs of electricity utility bills. According to the CPUC's 2022 annual SB 695 Cost 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. Advancing electrification policies and practices will likely place further pressure on electric costs for distribution, transmission, and generation.

Cost drivers for natural gas utility bills. Californians have seen a rise in natural gas utility costs, partly associated with safety improvements in response to the tragic explosion in San Bruno in 2008. Additionally, just last winter, Californians experienced disparate price spikes compared to most part of the country as the commodity price of natural gas increased significantly, most acutely in California and other West Coast states.

Electrification, gasoline, diesel. Utility bill affordability concerns are exacerbated by the interest to adopt policies to reduce the state's 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 changing policies. However, Californians may be reluctant to switch fuels if electric utility costs are unaffordable, thereby potentially slowing progress towards the state's climate goals. Additionally, these costs would need to compete with the costs (and likely convenience and inertia) of using fuels, such as gasoline and diesel in transportation.

SB 695 Cost Report. To aid cost management, the CPUC annually puts forth a report of actions that could be taken within the succeeding 12 months to limit utility costs and rate increases, as directed by the Legislature through the enactment of SB 695 (Kehoe, Chapter 337, Statutes of 2009). The report includes information about electricity and natural gas utility bills, cost drivers, forecast of rates, information broken out by large electrical corporations, and actions taken to address affordability, among others. More recently, the report has included affordability outlook as measured by a CPUC adopted "affordability ratio" developed in the CPUC Affordability proceeding (R. 18-07-006), which uses the most recently available data and presents affordability results for essential level of electricity service for forecasts years.

Comments

Need for this bill. The author expresses concerns that electric utility bills, in particular, are becoming unaffordable. According to the California Public Advocates Office (PAO), PG&E's electric rates have more than doubled over the last decade. These high rates are coinciding with increased electricity usage throughout the state, as high heat events are driving more air conditioning and climate goals are prompting greater home electrification (e.g., electric vehicle charging). The result of these increasing rates alongside increasing usage is an unaffordable electric bill. The author contends that this bill will provide opportunities to better evaluate existing ratepayer demand-side programs and assess other opportunities to reduce costs on utility bills, including options for the necessary buildout of the transmission system. In this regard, this approach builds off of and expands from existing efforts to better track electricity and natural gas utility costs, including the SB 695 Cost Report, and the affordability metric required by SB 1020 (Laird, Chapter 361, Statutes of 2022).

Timing. The evaluations and assessments required by this bill include a transmission study and assessment of ratepayer funded demand-side programs by July 1, 2025, while the broader energy costs framework will be first completed by

December 31, 2026. In this regard, some of the findings can be provided sooner to allow for adjustments to costs on utility bills more quickly, while the broader framework to look at energy costs is intended to affect rates with a longer-term horizon. Though depending on the findings, additional legislation may be needed to implement any recommendations or learnings.

Gasoline, propane, and diesel? The author contends that an important consideration to the affordability of energy is a household's full energy portfolio, which includes fuel for vehicles (especially gasoline and diesel) or propane for space heating (where natural gas utility service may not be available). The addition of these metrics is an expansion into energy sources not provided by a regulated utility under the jurisdiction of the CPUC. These sources are sold by unregulated entities (relative to pricing) in the free market. However, the author contends that merely tracking customer electric or gas bills can miss major contributors to consumers' monthly energy expenditures. Therefore, tracking prices of these other energy sources can provide a fuller picture of the impacts to California households. While some caution is warranted, in terms of expecting cost reductions from these unregulated sources, the inclusion within the metric could be useful to policymakers. Should this bill move forward, members may wish to revisit this approach and whether it is providing a level of helpful information that can benefit policy action or whether it is creating additional work without the intended benefit.

Prior/Related Legislation

AB 2462 (Calderon, 2024) requires additional information in the SB 695 Cost Report regarding costs of electricity utility bills, including requiring the CPUC to identify how current rate trends affect households across their energy uses. The bill is heading to the Governor.

SB 1020 (Laird, Chapter 361, Statutes of 2022) among its provisions, required the CPUC to develop electric and natural gas utility service affordability metrics.

AB 2696 (E. Garcia, 2022) would have required the CEC to conduct a study that reviews lower cost ownership and alternative financing for new transmission facilities, among other provisions. The bill was held in the Senate Committee on Appropriations.

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: No Fiscal Com.: Yes Local: No

SUPPORT:

California Public Interest Research Group
Public Advocates Office
The Utility Reform Network

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: The California Public Interest Research Group states:

> California utility rates are some of the highest in the nation. PG&E customers, for example, pay rates two to three times higher than the national average. High electric rates are not only a problem for us as consumers, but also create a hurdle in the race to meet the state's climate goals, which can only be met if we ditch fossil fuels and use renewably generated electricity to power our cars and homes. High electric rates make that transition financially unattractive. …This legislation will help to provide long-term rate relief to Californians and help the state meet our electrification and clean energy goals.

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