California State Senate

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OVERSIGHT HEARING

The California Public Utilities Commission and the Public Advocates Office Annual Update to the Legislature:

Addressing Electricity Utility Bill Affordability While Advancing the State's Clean Energy Goals

1020 O Street, Room 1200
Wednesday, February 19, 2025
1:30 p.m.

BACKGROUND

Today's hearing is the annual update to the Legislature by the California Public Utilities Commission (CPUC) and Public Advocates Office (PAO). As in recent years, the annual update is combined with a focus on a specific topic, this year with a specific focus on electricity utility bill affordability while advancing the state's clean energy goals.

The focus on affordability has been of prime concern for this committee in recent years, including the central topic in recent years' annual oversight hearing of the CPUC. Last year, a couple of key bill proposals to address electricity utility bill affordability were stymied at the end of session due to opposition to the end-of-session amendments proposed by the administration. These included: (1) AB 3121 (Petrie-Norris, 2024) a bill to provide customers a one-time bill credit by returning uncommitted funds from three electric ratepayer funded programs (including two programs already scheduled to sunset) for solar on affordable housing, school energy efficiency investments, and those funding solar and battery storage; and (2) SB 1003 (Dodd, 2024) a bill to help address costs associated with electric utility wildfire mitigation, a growing driver of increasing electric utility bills. However, other bills to assess and report on various cost drivers were successfully passed and signed into law, including AB 3264 (Petrie-Norris, Chapter 762, Statutes of 2024) which requires various studies.

On October 30, 2024, Governor Newsom issued an executive order (N-5-24) directing the CPUC, California Energy Commission (CEC), and other agencies, to provide recommendations to address electricity utility bill affordability by January 1, 2025. The assumption had been these recommendations might be folded into the Governor's January Budget proposal. However, the Governor's proposed budget only spoke generally to the continued need to address electricity affordability and engage in discussions with stakeholders and the legislature on those efforts this year. Today's hearing will be the first opportunity this committee has to hear from the CPUC and CEC as to their response to the Governor's executive order and to help set the table for continued discussions and policy proposals to address electricity affordability this legislative session. To that end, this committee will receive the CPUC's annual update presentation and then a combined presentation by the CPUC and CEC regarding the recommendations to address the directives in the executive order, including those related to wildfire mitigation, designing the climate credit that returns funds to electric investor-owned utility (IOU) customers from the state's cap-and-trade greenhouse gas (GHG) emissions reduction program, and reviewing existing ratepayer-funded programs for their effectiveness. After committee members have the opportunity to ask their questions of the agencies, the next panel will be the PAO with their annual update and recommendations to address affordability. The final panel includes a number of stakeholders, including a utility, consumer and industry organizations, and wildfire academic expert, who will share their recommendations with thi committee (speaking for up to five minutes each). In some cases, these panelists may have both conflicting and shared recommendations. The goal of today's hearing is not to resolve the issues, but to provide committee members and the public the opportunity to better understand some of the tradeoffs associated with various policies to address electricity affordability in order to help inform policy decisions during the legislative session. These tradeoffs may be the most pronounced in relation to electric utility wildfire mitigation, especially as the recent catastrophic fires in Southern California underscore the magnitude of the wildfire challenge for the state and electric utilities.

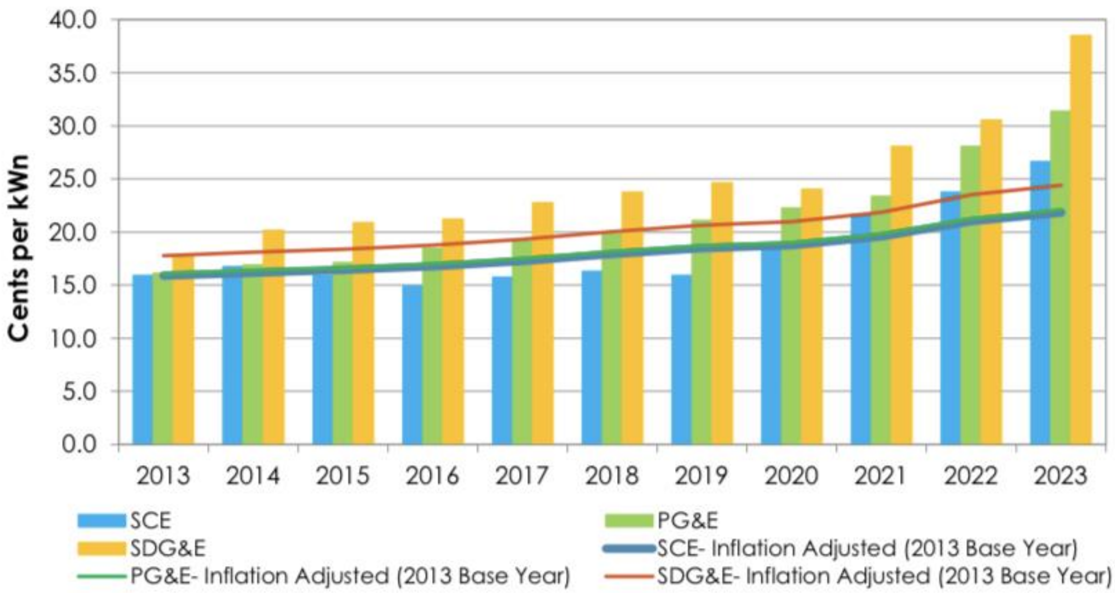
Electricity is an Essential Service and a Key Strategy to Achieve the State's Climate Goals

Electricity is an essential necessity for modern life, as it is used for lighting, heating, cooling, refrigeration, operating appliances, telecommunications, computing, and public transportation. For over two decades, California has adopted policies to advance clean energy, including requiring a growing portion of electricity generation from renewable energy and establishing a target to require 100 percent zero-carbon electricity by 2045. To date, the electricity sector has been the primary driver of statewide GHG emissions reductions since the state established its AB 32 (Nunez/Pavley, Chapter 488, Statutes of 2006) GHG emissions reduction goals. Achieving the state's climate goals of zero net carbon emissions by 2045 hinges on expanding the use of electricity as a cleaner alternative to fossil fuels, including displacing gasoline in vehicles and natural gas for space and water heating in buildings. However, residents and businesses may resist electrification if electricity utility bills are unaffordable. For Californians who struggle to make financial ends meet, unaffordable electricity utility bills could jeopardize quality of life by limiting access and use of an essential service. Based on the most recent utility disconnections report, as of December 2023, statewide residential arrearages (where customers are over 30 days past due) remain at elevated levels and projections indicate a potential increase in uncollectibles (where the utility writes off the debt) for 2023 and 2024 due to mounting arrearages compared to pre-pandemic levels.

Electricity Utility Bills Continue Trending Higher

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 electricity utility bills. As such, there are growing concerns about the affordability of utility bills on household budgets and commercial and industrial entities' balance sheets.

Figure 1.1: Trends in Electric Bundled System Average Rates (2013-2023)



Source: California Public Utilities Commission. Energy Division analysis. *Assembly Bill 67 Report (published April 2024), p. 11.*
Note: The chart displays total system average rates which reflect total authorized revenue requirement and total forecasted sales for both bundled and unbundled customers.

CPUC Role in Setting Utility Rates

Investor-owned utilities (IOUs). Privately-owned utilities, commonly referred to as IOUs are afforded an exclusive license to provide service in a specific geographic area (known as a utility service territory) in exchange, the IOUs' rates are regulated by the regulatory agency – the CPUC. IOUs, as private companies, earn a rate of return (authorized profit from rate base) on utility-owned and capitalized assets and equipment. The regulatory construct is intended to limit the ability of the monopoly entity to charge unfettered rates. In general, utilities operate on access to long-term financing with the interest rates determined by their credit ratings. In California, the CPUC reviews and approves rates for IOUs to ensure they are "just and reasonable." Most Californians, about 75 percent receive electricity services from electric IOUs; publicly owned utilities (POUs), whose rates are set by local governing boards, provide service to the remaining 25 percent.

Bundled and unbundled customers. Electric IOU customers may be both bundled (meaning they receive distribution and procurement service from the utility) and unbundled (meaning they only receive distribution and transmission services from the utility and receive procurement services from another provider). In the case of electric IOUs, customers may receive procurement service from a community choice aggregator (CCA) or electric service provider (ESP). CCAs and ESPs set their own rates for electricity, though most CCAs, which are overseen by local government entities, seem to index their rates to those of the electric IOU. When a local government launches a CCA, they develop an implementation plan and schedule to automatically enroll customers to the CCA (usually in phases), unless the customer proactively opts out.

Cost Recovery Proceedings and Processes

The General Rate Case (GRC). The CPUC reviews and approves IOU costs and revenues through various applications submitted by the IOUs – most notably the GRC. GRCs are forward-looking, as IOUs forecast and estimate their anticipated costs to operate their respective utility, and conducted on four-year cycles. The GRC proceedings at the CPUC can last 18 months to two years, or more, whereby all aspects of the IOUs' costs of operating and maintaining the utility system are reviewed. More recently, per statutory requirements adopted following the 2008 San Bruno pipeline explosion, IOUs must also ensure their forecasted expenses associated with investments on their systems are informed by safety and other risks to the system. The GRC has two main components: Phase I determines the total amount the IOU is authorized to collect, known as the "revenue requirement" (the size of the pie), and Phase II determines the share of the costs attributed to each customer class and the corresponding rate schedules (the slicing of the pie).

Other cost recovery processes at the CPUC. In addition to GRCs, IOUs submit other applications (or advice letters) for cost recovery. In the case of electric IOUs, Energy Resource Recovery Account proceedings are used to reconcile estimated versus actual fuel and purchased power costs. The CPUC annually reviews these costs, and to the extent they are deemed reasonable, approves passing through those costs to customers without any mark-up or profit to the utility. The costs are forecasted for the year ahead. If the actual costs are lower or higher than forecasted, then the electric IOU credits or charges customers for the difference. Beyond these proceedings, IOUs also submit applications (or advice letters) for other program allocations or cost recovery. Some of these applications can be for substantial amounts of cost recovery, such as electric vehicle charging infrastructure investments or wildfire-related expenses, which when approved by the CPUC get rolled into customer rates.

Transmission-related costs. Lastly, in addition to CPUC cost recovery processes, IOUs also undergo similar reviews at the Federal Energy Regulatory Commission for costs associated with operating transmission systems (generally high voltage electric lines many that traverse the state and to other states). The CPUC represents California ratepayers' interests in these proceedings. These costs have also been contributing to increasing costs on electricity utility bills.

What's Embedded in Electric Rates?

A number of drivers are increasing costs within electricity utility bills. According to the CPUC's 2023 annual SB 695 report (published April 2024), since 2013, bundled residential average rates have increased at an annual average rate of about seven percent for PG&E, five percent for SCE, and 10 percent for SDG&E. The primary drivers include wildfire mitigation investments, and transmission and distribution costs. The following chart and table are from the 2023 AB 67 annual report (published April 2024) which note the rate components of general cost categories for each of the state's three large electric IOUs. Important to note that within each category there are a myriad of policies, programs, projects, and CPUC decisions.

Figure 1.2: 2023 System Average Electric Rate Components

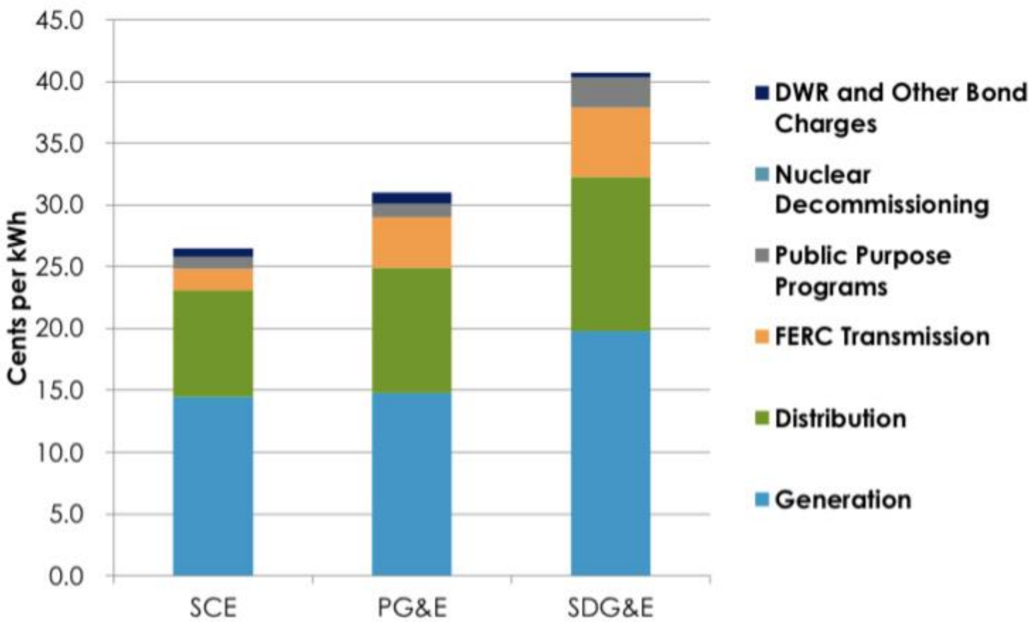


Table 1.9: 2023 System Average Electric Rate Component Values (¢/kWh)

Rate Component	SCE	PG&E	SDG&E
Generation	14.5	14.8	19.8
Distribution	8.6	10.1	12.5
FERC Transmission	1.7	4.1	5.6
Public Purpose Program	1.0	1.1	2.4
Nuclear Decommissioning	0.0	0.1	0.0
DWR and Other Bond Charges	0.7	0.9	0.4
Total	**26.6**	**31.1**	**40.7**

Recently Approved PG&E Rate Increases

Pacific Gas & Electric's (PG&E's) GRC (A.21-06-021) was approved by the CPUC in November 2023. The approval of the GRC provides for a sizeable rate increase which is roughly $34.50 more each month for average households, beginning the first year of what is intended as a four-year budget cycle, which runs through from 2023-2026. The approval includes PG&E's request to bury about 1,200 miles of power lines in high fire threat areas. Specifically, the CPUC approved a 2023 base revenue requirement of $13.759 billion for the utility, which is an increase of $1.545 billion or 12.6 percent over PG&E's currently authorized 2022 revenue requirement of $12.214 billion. However, the CPUC directed PG&E to remove the costs recorded in certain memorandum accounts which have not yet been reviewed for reasonableness. The CPUC also adopted increases in the following years' revenue requirements, specifically: $671 million or 4.9 percent over 2023 for 2024, $301 million or 2.1 percent over 2024 for 2025, and $121 million or 0.8 percent over 2025 for 2026. Separate from the GRC, PG&E has received approval for additional costs to be recovered from customers, including those associated with extending the operation of Diablo Canyon Nuclear Power Plant and winter storm costs. The culmination of the GRC and other cost recovery approvals has been noted in the press as a year of record rate hikes though with an understanding that future years may stabilize ("*PG&E says rate hikes will stabilize next year after a record breaking year*," SacBee: December 31, 2024).

CPUC Proceeding on Income-Graduated Fixed Charges

Among the many provisions in AB 205 (Committee on Budget, Chapter 61, Statutes of 2022) was the removal of the existing fixed charge caps on default electricity rates, as established under AB 327 (Perea, Chapter 611, Statutes of 2013) which limited default fixed charges to no more than $10 for most residential customers, and $5 for customers on the California Alternate Rates for Energy (CARE) low-income rate assistance program. The CPUC never adopted the $10 fixed charge on default residential rates, opting for a minimum bill option instead. Although, the CPUC has adopted optional electrification rates for electric vehicles and rooftop solar that require a fixed charge of between $12-$15 per month, with a lower volumetric rate. With the passage of AB 205 in 2022, the CPUC initiated a proceeding to adopt the default income graduated fixed charge, with the statutory requirements for "no fewer than three income thresholds so that low-income customers in each baseline territory would realize a lower average residential monthly bill without making changes in usage."

The proceeding had been very active and received much attention, including in the Legislature. In May of last year, the CPUC adopted the new residential electric utility rate design. Specifically, the fixed charge will allow recovery of some of the fixed costs of the utility. The new charge will be rolled out by each of the large electric IOUs at $24.15/month for most customers, with low-income customers and those living in deed-restricted affordable housing eligible for discounted fixed charge of $6 or $12 per month (depending on their income level). The decision requires Southern California Edison and San Diego Gas & Electric to apply the fixed charges between October 1, 2025 and December 15, 2025, and requires PG&E to apply fixed charges to residential customers' bills between January 1, 2026 and March 31, 2026. The decision specified electric utility cost categories which would be defined as fixed costs, specifically: marginal customer access costs, public purpose program non-bypassable charges, new system generation charges, local generation charges, and nuclear decommissioning non-bypassable charges.

Securing Federal Funds and Responding to Uncertainties from the New Presidential Administration

In April 2023, the CPUC adopted Resolution E-5254 to adopt procedures to require review and approval of electric and natural gas IOUs' cost recovery requests for federal funds from the Inflation Reduction Act (IRA), Infrastructure Investment and Jobs Act (IIJA), and the Creating Helpful Incentives to Produce Semiconductors and Science Act (CHIPS). The resolution provides direction on how IOUs should track project costs and taxes associated with grants awarded under the federal programs and how they should seek to recover matching funds and other costs associated with participation in the program funding opportunities. The resolution also establishes a tracking mechanism for IOUs to regularly report to the Energy Division on planning, seeking, and implementation of the IIJA, IRA, and CHIPS awards. The IOUs' ability to secure some of the billions of dollars available in federal funding from the adopted federal legislative acts could help reduce the amount that might otherwise be collected from ratepayers. As such, the CPUC's requirement to track, and also the state's ability to support the IOUs (and other utilities) successful efforts to secure awards is critical. The state or utilities have been awarded funding from the federal government, including for the Community Solar for All, a up to $15 billion loan guarantee for PG&E from the U.S. Department of Energy, and others. However, the new federal administration under President Trump has created much uncertainty about many of the federal efforts across government, including previous and anticipated awards within the energy sector.