SENATE COMMITTEE ON ENERGY, UTILITIES AND COMMUNICATIONS
Senator Josh Becker, Chair
2025 - 2026 Regular

Bill No:	AB 61	**Hearing Date:**	7/7/2025
Author:	Pacheco		
Version:	3/28/2025 Amended		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

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

DIGEST: This bill requires the Public Advocates Office (PAO) at the California Public Utilities Commission (CPUC) to establish, by January 1, 2027, a program to, upon request of the Legislature, analyze legislation that would establish a mandated requirement or program or otherwise affect electrical or gas ratepayers.

ANALYSIS:

Existing law:

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

2) Establishes the PAO of the CPUC is established as an independent office within the CPUC to represent and advocate on behalf of the interests of public utility customers and subscribers within the jurisdiction of the CPUC. (Public Utilities §309.5)

3) 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)

4) 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)

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, 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)

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

8) 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)

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

This bill:

1) Makes several findings and declarations concerning the Legislature's intent to address electric and natural gas utility service affordability.

2) Requires the PAO to establish, by January 1, 2027, a program to, upon request of the Legislature, analyze legislation that would establish a mandated requirement or program or otherwise affect electrical or gas ratepayers, including:

   a) Whether the legislation would increase utility rates.
   b) The potential benefits to all categories of ratepayers, including whether the legislation is necessary for the delivery of safe, reliable, electricity and natural gas utility service.
   c) Similar mandated programs or requirements applicable at the time of the analysis and costs associated with those requirements, and whether those requirements are consistent with the state's climate change policy and clean energy requirements.
   d) The impacts to jobs, the economy, and disadvantaged communities.
   e) Whether the legislation is the most cost-effective means to achieve the desired outcomes.
   f) Whether other funding sources could be more appropriately used.

3) Authorizes the request for the PAO analysis to be made by the chair of the appropriate policy or fiscal committee or their staff, the Speaker of the Assembly, or the President pro Tempore of the Senate.

4) Requires the PAO to develop and implement conflict-of-interest provisions that would prohibit a person from participating in an analysis for which the person knows or has reasons to know that the person has a material financial interest.

5) Repeals these provisions on January 1, 2032.

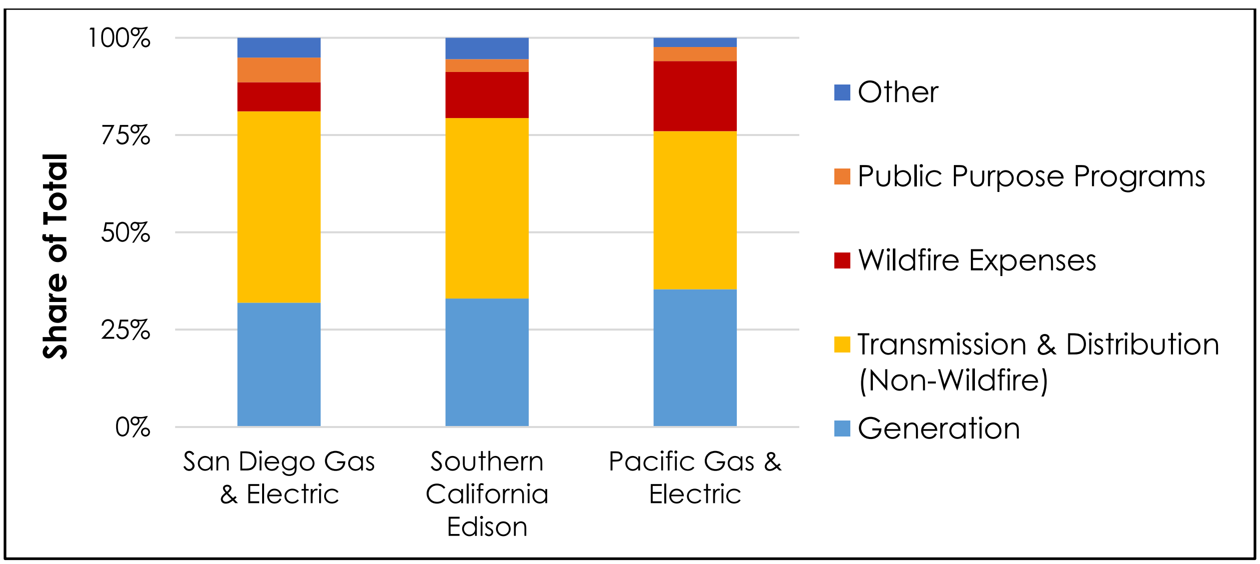
Background

Energy utility costs. Californians have historically 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 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 has also affected the cost of utility bills and the ability for Californians to manage their household budgets. Utility bill affordability has been a topic of three hearings by this committee within the past three years, and continues to be an area of concern and of great interest.

According to the CPUC's 2024 annual SB 695 Report, beginning in 2021, rate increases for all of the three major electric investor-owned utilities (IOUs) bundled customers began to outpace inflation for the first time, particularly affecting bundled residential customers. The report finds that electric rates are expected to continue increasing above inflation through 2027. Additionally, the report found that average annual electric rate increases are forecasted to be 10.8% for Pacific, Gas & Electric (PG&E), 6.8% for Southern California Edison (SCE), and 5.6% for San Diego Gas & Electric (SDG&E), compared to an assumed inflation rate of 2.6%. By 2027, residential average rates are forecast to be approximately 80% higher than they would have been if rates for PG&E and SDG&E had grown at the rate of inflation since 2013, and 50% higher for SCE. The report identifies the primary significant drivers of the increasing costs as wildfire mitigation investments and net energy metering. In 2021, significant wildfire-related operating expenses, including vegetation management efforts and wildfire liability insurance coverage, began to push up rates. Wildfire costs are now a significant portion of the utilities' total revenue. At year-end 2023, wildfire-related costs make up 18% of PG&E's total revenue requirement, 12% of SCE's total revenue requirement, and 9% of SDG&E's total revenue requirement. 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, in recent years, 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 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.

Comments

Need for this bill. SDG&E contends that in 2024, about 24% 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." They argue that the legislature cannot continue to piecemeal programs to meet the state's climate goals. This approach is costly and burdensome to ratepayers.

Suggests this bill is partly modeled after the California Health Benefits Review Program (CHBRP). This bill is modeled after the CHBRP which was established by AB 1996 (Thomson, Chapter 795, Statutes of 2002) and required the University of California to respond 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. This bill would require PAO to provide this analysis if requested by the Chair of the relevant policy or fiscal legislative committees or the Speaker or pro Tem.

Funding source. Unlike AB 1912, which required shareholders of large electric IOUs, and not ratepayers, to not exceed $2 million annually, to fund the required analysis, this bill does not identify a funding source nor require a state appropriation for the requested analyses.

Amendments needed. The author and committee may wish to clarify that the request may come from "committee staff," to replace the reference to the "Chair's staff."

Prior/Related Legislation

AB 1912 (Pacheco) of 2024, would have authorized a third-party review, upon request of the Legislature to the PAO, of pending legislation that could affect energy ratepayers, which would have been funded by a fee on all large electrical and gas corporations, thereby creating a tax. The bill was held in the Senate Appropriations Committee.

AB 2462 (Calderon, Chapter 569, Statutes of 2024) required additional information in the SB 695 annual report regarding costs of electricity and natural gas utility bills, including recommendations for reducing utility bills.

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: No Fiscal Com.: Yes Local: No

SUPPORT:

San Diego Gas and Electric Company (Sponsor)
Association of California Cities - Orange County
City of Los Alamitos

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: San Diego Gas & Electric states:

> The Legislature cannot continue to piecemeal programs to meet the state's 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 $379 per year for non-solar customers. The Public Advocates Office estimates the statewide cost shift for NEM was roughly $8.5 billion by the end of 2024. …While any individual legislative mandate may add a fraction of a penny to rates, the cumulative impact of these programs over time represents ~24% of an average SDG&E residential customer's bill. Programs embedded in electric and gas rates to support state policies and goals are important, but we must also look for ways to reduce the impacts to utility customers for some of these policies, particularly those that benefit all Californians. AB 61 would establish a program in the Public Advocate's Office at the California Public Utilities Commission to provide detailed analysis, as requested by the Legislature, of legislative proposals that would create new or revise existing mandates paid for by electric and gas utility ratepayers. This process will provide necessary data to assist legislators in determining if new mandates are cost effective and if they should be funded by utility customers or through other sources, like the State General Fund.

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