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

Bill No:	SB 572	**Hearing Date:**	4/18/2023
Author:	Stern		
Version:	2/15/2023 Introduced		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Energy: ratepayer protections

DIGEST: This bill requires the California Public Utilities Commission (CPUC) and California Energy Commission (CEC) to consider imposing additional, unidentified, requirements to protect ratepayers.

ANALYSIS:

Existing law:

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

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) Requires the State Energy Resources Conservation and Development Commission (also known as the California Energy Commission (CEC)) to undertake various actions in furtherance of meeting the state's clean energy and pollution reduction objectives, including actions related to energy infrastructure. (Public Resources Code §25307)

4) Establishes the U.S. Federal Energy Regulatory Commission (FERC) with the responsibility to review applications for construction and operation of interstate natural gas pipelines. (Natural Gas Act §7)

5) Establishes the Public Advocates Office 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. The goal of the office shall be to obtain the lowest possible rate for service consistent with reliable and safe service levels. (Public Utilities Code §309.5)

This bill requires the CPUC and CEC, in coordination with each other and in consultation with the FERC and the Public Advocate's Office of the CPUC, in undertaking their respective gas and electrical system planning, and in order to ensure that gas corporations, electrical corporations, local publicly owned electric utilities, and local publicly owned gas utilities, as applicable, maintain safe and reliable energy at just and reasonable rates consistent with, and in furtherance of, the state's climate and energy goals, to each consider imposing additional requirements to protect ratepayers from price spikes, stranded assets, duplication of services, and the risk of windfall profiteering and market manipulation in wholesale and retail markets.

Background

Winter 2022-23 wholesale natural gas prices skyrocket. Beginning in late November 2022 and continuing through January 2023, natural gas prices in the wholesale market skyrocketed. According to the Energy Information Administration's (EIA's) *December 22, 2022 Natural Gas Weekly Update*, the daily spot market prices reached their highest levels in over two decades at major trading hubs that deliver natural gas into California. According to the CPUC's fact sheets regarding utility rates, January 2023 natural gas procurement rate is over 300 percent more than the procurement rate in January 2022. These costs are passed through directly to utility customers – as utilities are prohibited from marking up the price of the commodity. As such, these higher prices have affected customers' utility bills this winter.

A number of factors seem to have contributed to the price increases, including the rise in global demand for natural gas due to the impacts of Russia's invasion of Ukraine, colder-than-normal temperatures, flow orders, and limited pipeline and storage capacity. However, California and much of the West experienced disparate prices compared to the rest of the country. In response, there have been multiple calls for customer relief and investigations into the causes, including the Chair of this committee, as well as, concerns about utility bills expressed by constituents and in several news stories.

On February 7th, the CPUC held an en banc hearing to gather facts on the extent of and reasons for high gas prices this winter. On March 16th, the CPUC initiated an investigation (I. 23-03-008) *Order Instituting Investigation (OII) on the Commission's Own Motion into Natural Gas Prices During Winter 2022-2023 and Resulting Impacts to Energy Markets* to look into the causes of the price increases and potential for recurrence, as well as the impact on electric prices and customer electric and gas utility bills. Governor Newsom wrote to the FERC asking it to investigate whether market manipulation, anticompetitive behavior or other anomalies have contributed or are contributing to the high prices seen throughout the West this winter.

Comments

This bill would requires the CEC to take unidentified actions, in coordination with the FERC, Public Advocates Office, CPUC, to impose additional requirements to protect ratepayers from price spikes, stranded assets, and other potential harms. However, as noted above, the investigations into the causes of the prices spikes are underway and their findings have not been shared. As such, it seems premature to require state agencies and local public utilities to take actions that have yet to be identified and solutions. In this regard, those actions could result in additional storage, including at Aliso Canyon, or other strategies that may not be the intended outcome. Therefore, *the author and committee may wish to amend this bill to delete the current language in this bill and instead require the CPUC to provide a report to the Legislature by February 1, 2024 regarding any outcomes and recommendations from the CPUC investigation, including any identified by FERC.*

Prior/Related Legislation

SB 429 (Bradford, 2023) requires investor-owned natural gas utilities to provide customers with an annual credit (known as the California Climate Credit) to coincide with the highest usage month, on or as close to the February utility billing cycle, as feasible. The bill is pending in the Committee on Appropriations.

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

SUPPORT:

Consumer Watchdog
School Energy Coalition
Sierra Club

OPPOSITION:

California Municipal Utilities Association

ARGUMENTS IN SUPPORT: According to the author:

> The costs of the recent natural gas price spikes were borne not by Sempra's top executives, who made over $100 million in 2021 alone, but by a lot of hard working individuals just trying to get by. While our top state energy

> agencies will investigate the causes of the most recent spike in natural gas prices, we need these same agencies analyzing market data, wholesale markets, and the relationships within those systems to assess, analyze, and determine whether new planning and regulations are needed to ensure California is able to meet its state energy goals, while also protecting the rate-payers from sudden price shocks that may be made worse or extended simply because of poor planning due to a lack of understanding. As a state the currently imports 90 percent of its natural gas supply, our state energy agencies simply have to have more comprehension and expertise on how these markets work in relationship to meeting our broader zero carbon energy goals in a way that our rate-payer are not annually subject to energy price spikes or unnecessary costs.

ARGUMENTS IN OPPOSITION: In opposition to the bill, the California Municipal Utility Association (CMUA) states:

> While the FERC investigation and CPUC OII may identify causes that warrant legislative consideration, it is premature to direct the California Energy Commission (CEC) to consult with FERC, the CPUC, and the CPUC Public Advocates Office to consider imposing additional requirements on POUs. Imposing new requirements could very well have the opposite effect of your intention, which is to protect ratepayers. We are concerned that the authority given to the CEC relies on many undefined terms, including stranded assets, duplication of services, and the risk of windfall profiteering. Some of these references do not align with the not-for-profit utility model and their ambiguity would give wide implementation discretion and may not be in the best interest of ratepayers.

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