

Date of Hearing: April 3, 2024

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

AB 2462 (Calderon) – As Introduced February 13, 2024

SUBJECT: Public Utilities Commission: written reports: energy

SUMMARY: Requires the California Public Utilities Commission (CPUC) to identify how current rate trends affect households across their energy uses and how electrification across more end-uses may reduce the total cost of energy for households over time in an existing annual written report to the Governor and the Legislature. Also requires the CPUC to annually provide recommendations for long-term (> 12 months) actions that can be undertaken to reduce utility costs, consistent with the state’s carbon reduction, energy, and environmental goals.

EXISTING LAW:

- 1) 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. The report shall be completed on an annual basis before April 1 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 commission 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 commission. (Public Utilities Code § 913)
- 2) Requires the CPUC, by May 1 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. (Public Utilities Code § 913.1)

FISCAL EFFECT: Unknown. This bill is keyed fiscal and will be referred to the Committee on Appropriations for its review.

BACKGROUND:

California climate goals – AB 1279 (Muratsuchi, Chapter 337, Statutes of 2022) codified into law the state’s goals to achieve net zero greenhouse gas (GHG) emissions and a reduction of statewide anthropogenic GHGs to at least 85% below 1990 levels by 2045. This parallels the state’s goals for 100% new zero-emission vehicle (ZEV) sales by 2035 and 100% clean energy by 2045, as established by Governor Newsom’s Executive Order N-79-20 and SB 100 (De León, Chapter 312, Statutes of 2018), respectively. Together, a slate of bills passed by the Legislature in recent years emphasize California’s desire to achieve ambitious climate targets across all sectors.

Reflecting on the past year – The cost structures and rate-setting process for California’s utilities are inherently complex and can be difficult to track over time. To help create more transparency in the rate-setting process, the Legislature passed AB 67 (Levine, Chapter 562, Statutes of 2005),

which established an annual reporting requirement at the CPUC to identify the costs to ratepayers in the prior year of all electric and gas utility programs and activities recovered in retail rates.

In the most recent report released in April 2023, the CPUC reported that for electric rates, overall distribution and transmission costs increased from 2021 to 2022.¹ Beyond capital additions, the significant increase in distribution costs was largely attributable to the approval of higher wildfire mitigation and vegetation management expenses, and significantly higher wildfire liability insurance coverage. The increase in transmission costs are attributable to approved grid hardening expenses; but also reflects efforts to meet the need for an unprecedented amount of new renewable resources and a vast expansion of transmission capacity to interconnect those resources.^{2,3}

In the same report, the CPUC highlighted an 18.6% increase in total natural gas utility costs from 2021 to 2022. The increase was primarily driven by increased commodity prices, which felt upward pressure from gas market conditions, colder winter weather, and gas pipeline infrastructure and storage issues. Costs of operating the natural gas transportation system and costs associated with gas public purpose programs (PPPs) also added slight increases to natural gas utility costs.

Setting goals for the new year – Since 2013, rates have increased across all three investor-owned utilities (IOUs) and exceeded the assumed rate of inflation.⁴ Compounded by other economic stressors, including inflation and rising housing and food costs, about 2.4 million customers of California’s three largest utilities are behind on their bills.⁵ The upward trend in energy rates is expected to continue in the near term through 2030, largely due to capital expenditures (infrastructure build) and wildfire mitigation.⁶ The projected growth in electricity costs over the coming decade suggests that many California households may struggle with energy affordability.

To complement AB 67, the Legislature passed SB 695 (Kehoe, Chapter 337, Statutes of 2009), directing the CPUC to annually put forth actions that could be taken within the succeeding 12 months to limit utility costs and rate increases. In their 2023 report, the CPUC mentioned 6 actions the agency can implement for cost management:

- (1) Implement an income-graduated fixed charge;
- (2) Encourage state efforts to use the General Fund to support decarbonization and clean energy policies;
- (3) Pursue federal funding opportunities;
- (4) Investigate high gas prices of Winter 2022-2023 and consider fixed charges in natural gas

¹ CPUC; “2022 California Electric and Gas Utility Costs Report: AB 67 Annual Report to the Governor and Legislature”; April 2023.

² D. 20-05-003, CPUC; *Decision Ordering Supplemental Mid-term Reliability Procurement (2026-2027) and Transmitting Electric Resource Portfolios to California Independent System Operator for 2023-2024 Transmission Planning Process*; February 2023.

³ Lucid Catalyst, Clean Air Task Force, Environmental Defense Fund; “California’s Clean Energy Transition: Understanding Today’s Challenges to Reach Tomorrow’s Goals”; January 2022.

⁴ CPUC; “Utility Costs and Affordability of the Grid of the Future: An Evaluation of Electric Costs, Rates, and Equity Issues Pursuant to P.U. Code Section 913.1”; May 2021.

⁵ R. 18-07-005, CPUC; *Disconnection Settlement Monthly Reports of PG&E, Southern California Edison, and SDG&E*; November 2023.

⁶ CPUC; “2023 Senate Bill 695 Report: Report to the Governor and Legislature on Actions to Limit Utility Cost and Rate Increases Pursuant to Public Utilities Code Section 913.1”; May 2023.

rate design;

(5) Monitor and plan long-term gas cost and infrastructure; and

(6) Use affordability impact analyses in applications requesting revenue increases.⁶

COMMENTS:

- 1) *Author's statement.* According to the author, "Utility bills have increased beyond the rate of inflation over the past few years. This can be attributed to several factors, such as utility companies increasing their wildfire mitigation efforts and ongoing infrastructure maintenance expenditures. With increased costs and subsequent increased rates expected to continue, we must take a broad approach in identifying measures that can reduce the costs of providing energy. Thus, Assembly Bill 2462 requires the California Public Utilities Commission to publish holistic and long-term recommendations, as part of existing annual reports, which aim to decrease the costs of energy, and provide much needed rate relief for California ratepayers."
- 2) *Striving for a negative sum game.* A major trend for consumers in the energy transition is the electrification of energy demand. Electrification is expected to progress most rapidly in the transportation sector with the growing adoption of electric vehicles (EVs).⁷ In the last year, Californians bought nearly 470,000 EVs, a record number up 29% from 2022.⁸ Electrification of residential buildings, which could involve retrofitting with heat pumps, induction cooktops, and upgraded breaker boxes, will also be a major pathway to meeting decarbonization goals.

The rapid growth in consumer demand of electricity necessitates updating and expanding our distribution and transmission systems, the costs of which are borne by ratepayers. What this means for individual consumers – especially those that electrify their vehicle and house – is higher and higher electricity bills. While many studies on the impacts of electrification and our clean energy transition conclude that energy costs will go down – helped by advances in renewable energy technology or greater distribution across a larger pool of customers^{9,10} – it is also important to quantify and qualify the affordability of this energy transition for households today, in order to enhance equitable adoption of electrification. Meeting the state's climate goals will require urgent and fundamental changes to how all California residents use energy.

An important consideration to the affordability of electrification is a household's full energy portfolio, which seeks to capture the totality of energy costs a consumer bears, inclusive of electricity, natural gas, and fuel for transportation. Merely tracking customer electric or gas bills can miss major contributors to consumers' monthly energy expenditures. For example, switching to an EV means saving at the gasoline pump, savings that would not be revealed by tracking electricity usage, and billing, alone. A 2018 study by the University of Michigan's Transportation Research Institute found that the average cost to fuel an electric car was \$485 a year, compared to \$1,117 for a gas-

⁷ US Bureau of Labor Statistics; "Charging into the future: The transition to electric vehicles"; February 2023.

⁸ Veloz; "Q4 2023 data shows a 29% year-over-year increase in EV sales in California, with over 1.2 million EVs sold nationally"; February 2024.

⁹ Rocky Mountain Institute; "X-change: Electricity"; July 2023.

¹⁰ Synapse Energy Economics, Inc.; "Electric Vehicles are Driving Electric Rates Down"; June 2020.

powered vehicle.¹¹ Switching to a heat pump means reducing natural gas usage. Although the net bill differential of this switch can vary based on location and the fluctuating cost of natural gas,¹² heat pumps tend to be far more efficient than traditional heating systems,¹³ thereby offering utility cost savings even in times when natural gas may be cheaper than electricity.

The CPUC has developed a “total energy bill” calculator to calculate these various customer expenses and to estimate the future impacts of electrification on total household energy costs.¹⁴ They have published their conclusions in prior SB 695 reports.^{4,6} In conversations with the committee, the author has indicated the desire for this “total energy bill” evaluation to become a routine component of the annual SB 695 report. As such, *the committee should consider clarifying the new reporting requirements of this measure to explicitly direct the CPUC to include evaluations of consumers’ full energy portfolio into the SB 695 reports.* Utilizing this methodology to track costs to ratepayers as GHG policies move natural gas and gasoline costs into electricity bills could provide the Legislature with a clear understanding of the impacts proposals for new or augmented programs will have on affordability.

- 3) *A sprint and a marathon.* The upward trend in rates is likely to persist over the next decade. As the CPUC’s forecasts of energy costs have gradually extended towards looking over the next five to ten years, the CPUC has also made efforts to pose and solicit from other stakeholders near-term and long-term solutions to try to address the forecasted increases in utility costs.^{4,6,15} Since the CPUC has already indicated an interest to identify long-term actions with potential to reduce utility costs to ratepayers, requiring this practice in reports submitted to the Legislature could provide a clearer understanding of how the Legislature can support those actions and provide relief to ratepayers.
- 4) *Prior legislation.*

AB 1297 (Muratsuchi) declared the policy of the state to achieve net zero GHG emissions by 2045 and to ensure that, by 2045, statewide anthropogenic GHGs are reduced to at least 85% below 1990 levels. Status: Chapter 337, Statutes of 2022.

SB 350 (de León) required 50% of electricity to be generated from eligible renewable energy resources by 2030, and set GHG reduction targets to be achieved by 2030 through a variety of measures, including supporting electrification of the transportation system and established requirements of CPUC in adopting EV charging proposals from the IOUs. Status: Chapter 547, Statutes of 2015.

SB 695 (Kehoe) 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. Status: Chapter 337, Statutes of 2009.

¹¹ University of Michigan; http://www.umich.edu/~umtriswt/PDF/SWT-2018-1_Abstract_English.pdf; January 2018.

¹² Wood Mackenzie; “US gas enters an era of increased price volatility”; February 2024.

¹³ MIT Technology Review; “Everything you need to know about the wild world of heat pumps”; February 2023.

¹⁴ CPUC; “Key Takeaways from the CPUC Rates and Costs En Banc Hearing and Update on Affordability Metrics”; June 2021.

¹⁵ CPUC; <https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/affordability/phase-3>; March 2022.

AB 67 (Levine) 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. Status: Chapter 562, Statutes of 2005.

REGISTERED SUPPORT / OPPOSITION:

Support

CalChamber
Edison International and Affiliates, Including Southern California Edison
Pacific Gas and Electric Company and Its Affiliated Entities
Silicon Valley Leadership Group

Opposition

None on file.

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