Date of Hearing: April 24, 2024

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Cottie Petrie-Norris, Chair
AB 2683 (Boerner) – As Amended March 21, 2024

SUBJECT: Public Advocate's Office: general rate cases: advocating for lower rates

SUMMARY: Requires the Public Advocate's Office (PAO) to advocate for lower rates in every general rate case (GRC) before the California Public Utilities Commission (CPUC).

EXISTING LAW: Establishes the independent PAO within the CPUC to represent and advocate on behalf of the interests of public utility customers and subscribers for the lowest possible rate and for service consistent with reliable and safe service levels. (Public Utilities Code § 309.5)

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

BACKGROUND:

General Rate Cases (GRCs) – The CPUC reviews and approves investor-owned utility (IOU) costs and revenues through a variety of public processes. The most notable are the GRC proceedings, which are used to address the costs of operating and maintaining the utility system and the allocation of those costs among customer classes. The CPUC evaluates detailed cost data from both past expenses and utility forecasts of likely future costs, and establishes how much money the utilities are allowed to collect for the first year – called a test year. The GRC decision then prescribes how to adjust the test year budget for inflation and other factors that may affect costs, such as additional capital projects, for the following 3 years, summing to a total of 4 years that each GRC cycle encompasses.

PAO – In 1996, the Legislature passed SB 960 (Leonard, Chapter 856, Statutes of 1996), which created the Public Advocate's Office (PAO) to advocate on behalf of public utility customers at the CPUC. The PAO's goal is to obtain the lowest possible rate for service consistent with reliable and safe service levels. For revenue allocation and rate design matters, the office primarily considers the interests of residential and small commercial customers. Though housed in the CPUC, the PAO independently conducts its own evaluations of utility applications, performs its own modelling, and develops its own recommendations and proposals. In 2023, the PAO advocated in 235 proceedings and filed 816 pleadings at the CPUC on behalf of ratepayers.[1]

A recent showcase of the PAO's efforts is with Pacific Gas & Electric's (PG&E) latest GRC proceeding. PG&E requested to increase its average annual spending to $16.6 billion by 2026. After review of PG&E's proposal, the PAO recommended cost reductions, mostly around alternative wildfire mitigation measures, that would cost PG&E ratepayers $3 billion less in annual spending than the PG&E proposal. The CPUC's final decision fell between these two proposals at $14.3 billion annually for 2023 through 2026.

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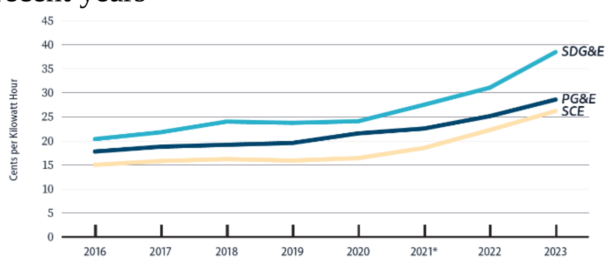
[1] PAO; *2023 Annual Report*.

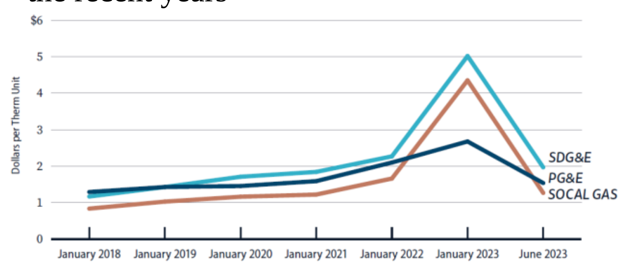
Rising utility bills – Since 2013, rates have increased across all three investor-owned utilities (IOUs) and exceeded the assumed rate of inflation.[2] Californians currently pay some of the highest utility rates in the country. In March 2023, California had the seventh highest average electricity rates and the tenth highest average residential natural gas prices of any of the states.[3] According to an analysis by the Public Advocate's Office (PAO), the primary drivers for these electric rate increases, which are visualized in Figure 1, arise from wildfire mitigation work, transmission and distribution investments, and rooftop solar incentives.[4] A recent report by the State Auditor had similar findings to PAO on the causes for increasing electricity rates.[3] Wildfire costs, including insurance, was noted as a key factor in increased utility expenses. Decreasing electricity sales due to solar system adoption was noted to have led to IOUs raising rates to recover fixed costs. Further, the audit found increases in IOU operating costs, which may be inclusive of these other categories, as contributing to increased rates; specifically distribution costs for PG&E, administrative costs for Southern California Edison (SCE), and higher property and non-income taxes for San Diego Gas and Electric (SDG&E). In an analysis by the CPUC, increases in natural gas rates in recent years, as seen in Figure 2, were primarily driven by increased commodity prices, which felt upward pressure from gas market conditions, colder winter weather, and gas pipeline infrastructure and storage issues.[5] Due to a mild 2023 winter, natural gas rates have come back down.[2] The State Auditor's report had similar findings to the CPUC on the causes for increasing natural gas rates.[3]

Figure 1. California IOU electric rates over the recent years[2]



Source: CPUC data used to generate its legislative report and utility advice letters.
Note: Further information on increases from January 2022 through January 2023 are shown in Table 2.
* SDG&E's rate listed here is as of March 2021 because of additional rate increases filed in February 2021.

Figure 2. California IOU natural gas rates over the recent years[2]



Source: Historical rate information provided by SoCal Gas's director of regulatory affairs, natural gas tariffs published on SDG&E's website, and customer rates published on PG&E's website.
* Rates shown are for bundled residential rates.

While the current high electric bills experienced by California customers raise concern, the projection of future rate impacts is even more troubling. Spurred by the climate goals the state has set, the rapid growth in consumer demand of electricity and the transition to clean energy resources necessitates updating and expanding our distribution and transmission systems. According to a May 2023 study by Kevala, Inc. released by the CPUC, "up to $50 billion…in investments are needed by 2035" for distribution grid upgrades.[6] In their 20-Year Outlook, the California Independent System Operator (CAISO) – which operates and plans the majority of high-voltage transmission in the state – estimated total costs arising from needed upgrades and

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[2] 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.
[3] State Auditor; "Electricity and Natural Gas Rates: The California Public Utilities Commission and Cal Advocates Can Better Ensure That Rate Increases are Necessary"; August 2023.
[4] PAO; "Q4 2023 Electric Rates Report"; https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/press-room/reports-and-analyses/240119-caladvocates-q4-2023-quarterly-rate-report.pdf; January 2024.
[5] CPUC; "2022 California Electric and Gas Utility Costs Report: AB 67 Annual Report to the Governor and Legislature"; April 2023.
[6] Kevala; "Electrication Impacts Study Part 1: Bottom-Up Load Forecasting and System-Level Electrification Impacts Cost Estimates"; May 2023.

new build of the high-voltage bulk transmission system would be roughly $30 billion dollars by 2045.[7] These costs will be borne by ratepayers. By 2030, bundled residential rates are forecasted by the CPUC to be much higher than they would have been if 2020 rates had grown at the rate of inflation.[8] These forecasts largely attribute this increase to capital expenditures (infrastructure build) and wildfire mitigation. However, these forecasts rely on fairly conservative assumptions about utility expenditures that could underestimate the actual rate increases expected in the future.

COMMENTS:

1) *Author's statement.* According to the author, "Cal Advocates need to do more to protect consumers. Californians are paying some of the highest rates in the country and show no signs of slowing down. Cal Advocates needs to be empowered to advocate for lower customer rates for Californians to ensure that it is doing the most it can to protect hardworking Californians."

2) *Easing the clean energy transition for ratepayers.* Electric costs may be likened to an inflated balloon: one can squeeze one side of it to make it smaller, but the result will be expansion in another area. California's electricity sector, the backbone of its economy and the enabling infrastructure for its response to climate change, is in a period of transition. As noted above, the costs of the transition are already projected to reach into the tens of billions of dollars in this decade. Add to those costs ongoing grid hardening and mitigation work underway, and the cost projections soar higher. As such, it will be necessary to develop policies that ease the transition for customers, particularly for the most vulnerable, to ensure we meet our goals as affordably as possible. Recent efforts both in the Legislature and at the CPUC, including the PAO, have sought more holistic reforms to electric affordability: reforms that either help spread out costs more efficiently, equitably, or over a longer horizon (redistribution); or reforms that lower costs altogether (reduction). Some proposals for redistribution include income-graduated fixed charges, dynamic rates, alternative financing, and reforms to the Net Energy Metering tariffs. Opportunities for reduction might involve alternative sources of funding outside of electric rates and systematic examination of the cost-effectiveness and impacts of existing programs and expenditures; these opportunities would largely require legislative action to implement.

3) *Are they doing their job?* The State Auditor found that the PAO advocated for lower rates than that requested in every electric and gas IOU GRC that they analyzed.[3] However, supporters of this bill note that the PAO has, in the case of small rural telephone companies regulated by the CPUC, consistently proposed rates higher than that requested by those utilities since 2015; in the most recent GRC, the PAO recommended $27.50, counter to Sierra Telephone Company's, Siskiyou Telephone Company's, and Volcano Telephony Company's proposed rate of $25.00.[9] Thirteen small rural telephone

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[7] Approximating $11 billion for upgrades; $8 billion for offshore wind integration; and $11 billion for out-of-state wind integration. CAISO, *20-Year Transmission Outlook*; January 2022.
[8] Approximately 12% higher for PG&E, 10% for SCE, and 20% for SDG&E. 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.
[9] Per data request from the PAO on April 19th, 2024. The CPUC approved residential rates of $26.50, $26.00*, and $27.50 for Sierra, Siskiyou, and Volcano, respectively. *PAO reached a settlement with Siskiyou which agreed to offer a low-income broadband plan.

companies in California are eligible to draw revenue from the California High Cost Fund-A (CHCF-A) Program,[10] a fund supported by an all-end-user surcharge collected by telecommunications companies statewide and aimed towards providing affordable, reliable, and high-quality communications services in rural areas of the state.[11] Increased funding from the CHCF-A program to the telephone companies reduces the cost to those ratepayers. The PAO informed this committee that their advocacy to lower the share of CHCF-A funding is consistent with the required statutory standard for the CHCF-A program, which is to help reach a rate that is reasonably comparable to those paid by customers of urban telephone companies but still sufficient to deliver safe, reliable, and high-quality service.[12] A Federal Communications Commission survey reported that the average monthly rate for urban residents in 2023 was $36.73.[13]

4) *Can they be doing more?* This bill proposes to amend statute from requiring the PAO to "obtain the lowest possible rate" to "advocate for lower rates." In conversations with the committee, the author has clarified hopes for the PAO to advocate for the reduction of customers' utility bills. To inform their advocacy, the PAO examines utility operations and estimated utility costs, reviews utility accounts, develops forecasts and analyses of future customer rates, analyzes utility risk assessments, and conducts complex energy and geographic information system modelling to arrive at their proposed rate. Thus, asking for the PAO to defend a rate proposal prescribed with a cap by the Legislature but not supported by their math and modelling may be disingenuous and may diminish the strength of their justification. Adjusting their output might first require adjusting the inputs and assumptions, such as state programs and mandates, that are fed into their analyses. As mentioned above, meeting California's climate goals will be a lofty and costly task, and many opportunities for reduction would likely require legislative action to implement. Additionally, as noted by California Water Association writing in Opposed Unless Amended, lower rates do not equate to better utility service. A balance must be struck between reliable, safe service and affordability. The existing statutory direction to PAO – to obtain the lowest possible rate – recognizes this necessary balance.

   This bill would also require the PAO to advocate in every GRC before the CPUC. The PAO does not currently advocate in every GRC – though they were a party in every GRC the State Auditor reviewed – presumably due to staff and budget constraints. However, they also participate in other proceedings at the CPUC, such as Broadband Infrastructure Deployment proceedings, Energy Resource Recovery Account proceedings, and proceedings on processes to accelerate transmission project development. To provide the PAO leverage in deciding how to best direct their resources and when is appropriate to advocate for lower rates than those proposed by a utility company, *the committee recommends striking the requirement for the PAO to advocate as prescribed in every GRC.*

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[10] Only 10 of these 13 small independent telephone companies participate in and receive subsidies from the CHCF-A program.
[11] CPUC; "California High Cost Fund-A"; https://www.cpuc.ca.gov/industries-and-topics/internet-and-phone/california-high-cost-fund-a.
[12] Public Utilities Code § 275.6(c)
[13] DA 22-1338, FCC; "Wireline Competition Bureau and Office of Economics and Analytics Announce Results of 2023 Urban Rate Survey for Fixed Explanatory Notes, and Required Minimum Usage Allowance for Eligible Telecommunications Carriers"; December 2022.

5) *Related legislation.*

AB 3247 (Irwin) would require the director of the PAO to be appointed for 4-year terms, with appointment authority alternating between the Speaker of the Assembly, who will make the first four-year appointment, and the President pro Tempore of the Senate, and states the director shall serve at the pleasure of the appointing authority. Status: *Assembly Floor – Consent.*

REGISTERED SUPPORT / OPPOSITION:

Support

Calcom Association
Varcomm

Oppose Unless Amended

California Water Association

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