Date of Hearing: March 26, 2025

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY
Cottie Petrie-Norris, Chair
AB 61 (Pacheco) – As Amended February 26, 2025

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

SUMMARY: Requires the Public Advocates Office (PAO) to prepare an analysis for a measure affecting electrical and gas ratepayers, upon request by the Legislature as specified.

Specifically, **this bill**:

1) 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.

2) Requires the PAO analysis to include: whether the proposed legislation would increase utility rates and evaluate the associated costs and benefits for all ratepayer categories, the potential benefits to all categories of all ratepayers, similar mandated programs or requirements applicable at the time of analysis, existing legislatively mandated programs, overall cost-effectiveness, and evaluate whether alternative funding sources could be more appropriate than utility ratepayers.

3) 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 financial interest.

4) Establishes the Energy Programs Benefit Fund in the State Treasury and continuously appropriates monies in the fund to the PAO to support the work of the office in providing analyses under the bill.

EXISTING LAW:

1) Establishes the independent PAO within the California Public Utilities Commission (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)

2) 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)

3) Requires the CPUC, in establishing residential electric and gas rates, to ensure that the rates are sufficient to enable the electric or gas corporation to recover a just and reasonable amount of revenue. (Public Utilities Code § 739(d)(2))

4) 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)

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 degree of change (percentage). (Public Utilities Code § 454)

5) 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)

6) Requires the CPUC, in consultation with the California Energy Commission, by December 31, 2026, to develop a framework for assessing, tracking, and analyzing total annual energy costs paid by residential households in California. Requires specified reporting and elements, including:

   a. total annual energy costs for residential household energy sources, not limited to, electricity, natural gas, propane, gasoline, and diesel;

   b. a requirement for scenarios that may lead to specified reductions in total annual energy costs paid by residential households in 2035 relative to 2024; and

   c. an assessment of the actions from the scenarios and their effects on public health, safety, energy system reliability, and achieving the state's clean energy and climate goals.

7) Authorizes the CPUC to use the framework for purposes of evaluating any request by an electrical corporation and gas corporation to track new spending eligible for recovery or to adjust a revenue requirement. (Public Utilities Code § 369.5)

8) Provides independent analysis of legislation proposing to mandate a benefit or healthcare related service through the California Health Benefits Review Program and a National Advisory Council. (Health and Safety Code § 127660-127665)

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

CUSTOMER COST IMPACTS: This measure requires the PAO to prepare an analysis for a measure affecting electrical and gas ratepayers, upon request by the Legislature as specified. By doing so, the legislation seeks to take a proactive approach to protect California residents from rising utility costs— a significant contributor to the state's high cost of living.

BACKGROUND:

Utility Bills are Soaring to Unprecedented Highs. California's electricity rates are among the highest in the nation. Currently, the state has the second highest residential electricity rates after

Hawaii, with average rates that are close to double the national average.[1] Similarly, California has the 10th-highest average residential natural gas prices of any of the states. For context, rates refer to the amount paid by customers for each unit (e.g., volume) of electricity consumed while bills specify the total amount due to be paid by a customer each month. While rates are high, the actual electric bill the average California residential and industrial customer pays are below the national average, largely attributable to California's mild climate and strong commitment to energy efficiency driving down energy usage.[2] Even so, according to the PAO, nearly 2.2 million customers of California's three largest utilities are behind on their bills, with an average of $821 owed, with low-income households carrying a disproportionate amount.[3]

Primary Drivers for High Utility Bills. The PAO has reported that the primary drivers for electric utility cost increases in recent years, as visualized in **Figure 1,**[4] are due to wildfire mitigation, distribution and transmission infrastructure investments, and rooftop solar incentives provided to some customers through net energy metering. A 2023 report by the State Auditor concurs with those findings— that wildfire costs, including insurance, as a key factor in increased utility expenses.[5]Decreasing electricity sales due to solar system adoption was noted to have led to investor-owned utilities (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). While many of these costs are related to core utility functions (e.g. distribution costs) or the result of utility decisions in performing its core function (e.g. wildfire costs), other costs are more ancillary in nature, if not in size (e.g. solar incentives).

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.[6]Due to a mild 2023 winter, natural gas rates have come back down.[7] The State Auditor's report had similar findings to the CPUC on the causes for increasing natural gas rates.[8]

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[1] Pg.12, Legislative Analyst office, *Assessing California's Climate Policies— Residential Electricity Rates in California;* January 2025
[2] Data from the U.S. Energy Information Administration EIA-861 schedules 4A-D, EIA-861S and EIA-861U; https://www.eia.gov/electricity/sales_revenue_price/pdf/table5_a.pdf and https://www.eia.gov/electricity/sales_revenue_price/pdf/table5_c.pdf
[3]November 2023 Disconnection Settlement Monthly Reports of PG&E, Southern California Edison, and SDG&E (R.18-07-005).
[4] Slide 6, PAO slidedeck "Q4 2023 Electric Rates Report;" January 19, 2024; https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/press-room/reports-and-analyses/240119-caladvocates-q4-2023-quarterly-rate-report.pdf
[5] Pg. 3, California State Auditor Report; "Electricity and Natural Gas Rates"; August 2023
[6] CPUC; "2022 California Electric and Gas Utility Costs Report: AB 67 Annual Report to the Governor and Legislature"; April 2023.
[7] 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.
[8] Pg.2; 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.

Figure 1. California IOU <u>electric</u> rates over the recent years[2]

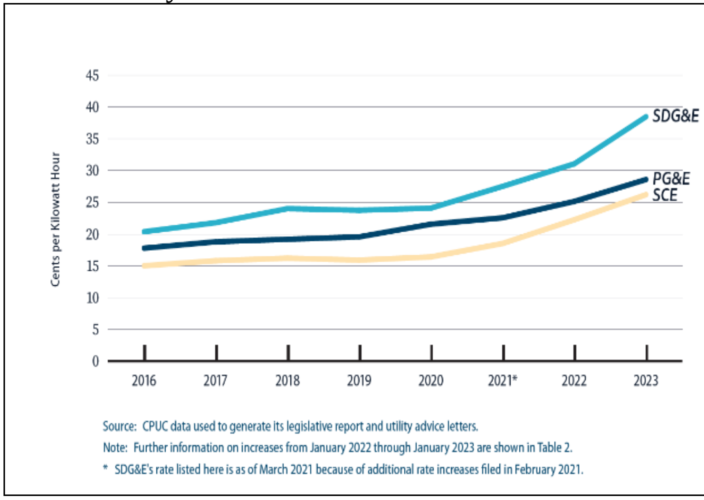
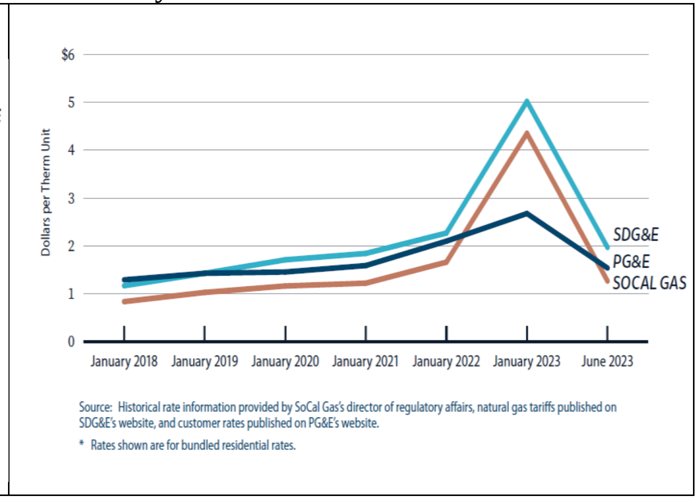
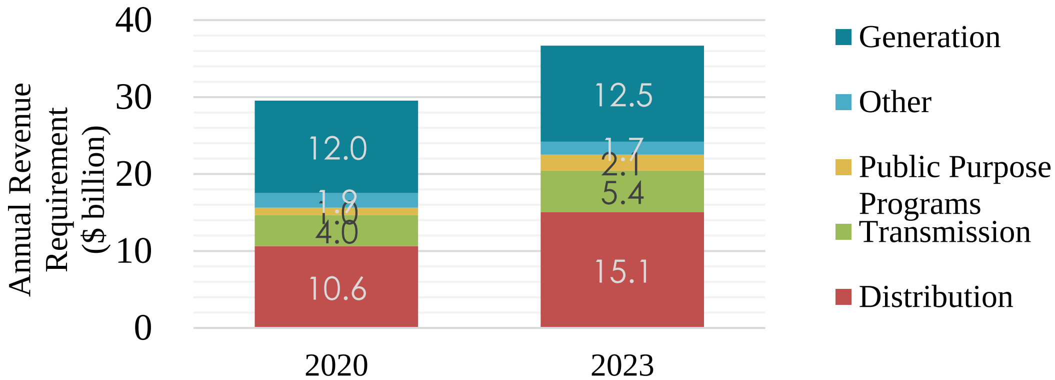


Figure 2. California IOU <u>natural gas</u> rates over the recent years[2]



Components of an Electric Bill. In **Figure 3**, as shared by the Public Advocates Office, a typical residential electric bill is comprised of three components:[9]

1. Procurement Costs – the costs to purchase electricity.
2. Transmission & Distribution (T&D) – the costs to move the electricity to homes and businesses; some of these costs are approved by the CPUC (distribution costs), while others by the Federal Energy Regulatory Commission (FERC) (transmission costs).
3. Public Purpose Surcharge & Other – costs for policies and programs paid by electric ratepayers, such as the California Alternate Rates for Energy Program (CARE) that provide a bill reduction for qualified low-income customers, and various energy efficiency and research programs, among others.



Specifically, **Figure 3** illustrates the combined revenue requirement (PG&E, SCE, SDG&E) in

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[9] While this basic categorization of costs reflects major areas of utility operations, it is also used to determine what portions of utility costs should be paid by different types of customers. For instance, some customers do not receive full or bundled service from the utility and may generate their own electricity on site or buy electricity from a non-utility source (e.g., an Electric Service Provider (ESP), or a CCA). Customers who receive electricity from a CCA or ESP do not typically pay generation costs but do pay transmission and distribution costs. However, these customers are also required to pay non-bypassable charges for generation procured on their behalf before they departed from bundled service. Additionally, some larger customers receive service at transmission voltage levels and are not charged for use of the utility distribution system.

2020 vs. 2023, in which costs increased by category: 43% for distribution, 35% for transmission, 110% for PPPs, and only 4% for generation costs.

Annual CPUC Report. AB 67 (Levine, Chapter 562, Statutes of 2005) requires the CPUC to prepare a written report on the costs of programs and activities being undertaken by the four IOUs: PG&E, SCE, SDG&E, and Southern California Gas Company (SoCalGas). This legislation was enacted in part to determine the outcome of numerous legislative and administrative mandates, and to provide more transparency into the drivers of electric and gas rates. The report is to be submitted to the Governor and the Legislature by April 1st of each year and is required to include the following:

i. Each program mandated by statute and its annual cost to ratepayers.
ii. Each program mandated by the CPUC and its annual cost to ratepayers.
iii. Energy purchase contract costs and bond-related costs (commonly known as Department of Water Resources (DWR) related costs).
iv. All other accumulated categories of costs currently recovered in retail rates as determined by the CPUC.

2023 Costs of Legislative Programs. The California Legislature has mandated a number of public policy programs that IOUs operate as illustrated in **Table 1**[10]. However, this reflects a partial list. Many of these programs aim to provide the state with clean energy, while some programs provide subsidies to various customer groups. Some bonds and regulatory fees may also be mandated by the State.

Table 1 shows the 2023 electric revenue requirement for some programs required by state law with varying purposes (*Dollars in Thousands ($000)*.[11]

Program	**Legislation**	**PG&E**	**SCE**	**SDG&E**	**Total**
Renewable Portfolio Standard	AB 32, SB 1078, SB 350, SB 100	1,940,325	2,437,778	570,318	4,948,421
Wildfire Fund Non-Bypassable Charge	AB 1054, AB 1X	378,336	402,302	75,465	856,103
Energy Efficiency	SB 350, AB 1330, AB 802, AB 32, AB 1890, AB 841	267,556	405,006	132,302	804,864
Energy Savings Assistance Program/California Alternate Rates for Energy (CARE) Program Administrative Expense	Public Utilities Code § 2790, §382, SB 580, SB 691, AB 327, AB 793, AB 2140, AB 2857	23,285	15,717	10,317	49,320

[10] Pg. 66-68, "2023 AB 67 Annual Report to the Governor and Legislature Report"; April 2024. https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2024/2023-ab-67-report.pdf
[11] Pg. 66-68, "2023 AB 67 Annual Report to the Governor and Legislature Report"; April 2024. https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2024/2023-ab-67-report.pdf

School Energy Efficiency Stimulus Program	AB 841	56,080	75,509	18,884	150,473
Self-Generation Incentive Program	SB 700, AB 970, AB 1144	59,895	56,626	20,069	136,590
Total		**2,725,477**	**3,392,938**	**827,355**	**6,945,771**

Each of these illustrative programs above, and others reported in the CPUC's annual AB 67 report, has a purpose(s) that prompted the Legislature and the Governor at the time to create them. This ranges from increasing renewable energy resources, increasing energy efficiency programs, supporting low-income households, incentivizing the use of distributed energy resources, and others. Each program has a purpose, and a cost to match.

What's old is new again. AB 1083 (Burke, Chapter 818, Statutes of 2019), authorized CCST, upon request by the chairperson of a fiscal committee or certain policy committees of either the Assembly or Senate, the Speaker of the Assembly, or the President pro Tempore of the Senate, to complete an analysis of the impacts of legislation related to any of the following: procurement of electricity, electricity and gas products, energy storage, electrical or gas infrastructure by an electrical corporation, and community choice aggregation. The analysis must be completed within 60 days. However, use of this program was contingent upon CCST having funds to do the work required to complete this analysis — which it never received. This program sunset on January 1, 2023.

Examples nearer at hand. The California Health Benefits Review Program (CHBRP) was established in 2002 to provide independent analysis of the medical, financial, and public health impacts of proposed health insurance benefit mandates. A team of analytic staff (5 people) at UC Berkeley works with a task force (7 members, 21 contributors) of faculty from several UC campuses, as well as actuarial consultants, to complete each analysis in a 60-day period to better inform the Legislature. A National Advisory Council (12 members), designed to provide balanced representation among groups with an interest in health insurance benefit mandates, reviews draft studies to ensure their quality. This requires additional time and advance planning on the part of all Members wishing to author legislation that will be subject to review by CHBRP, consistent with the rules and practices of the relevant legislative committees. Each report summarizes scientific evidence but does not make recommendations, deferring policy decision-making to the Legislature. The work is funded through an annual assessment of health plans and insurers in California. Over the last decade, CHBRP analyzed between 8-20 bills per year. The number of bills sent to CHBRP varies from year to year.

Legislative Role in Rate Payer Advocacy. In 1985, the CPUC created the Public Staff Division to serve as an internal ratepayer advocate for public utility customers in regulatory proceedings.[12] The PAO 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 2024, the PAO advocated in 235 proceedings and filed 816 pleadings at the CPUC on behalf

[12] Nick Zanjani, Pg. 27: CPUC Report, "A Brief History of the California Public Utilities Commission: Examining the Past to Help Shape the Future." August 15,2014

of ratepayers.[13] Beyond engaging in formal and informal CPUC proceedings, PAO also actively participates in proceedings at the California Energy Commission (CEC), the California Independent System Operator (CAISO), and the California Air Resources Board (CARB) to ensure ratepayer interests are represented. Over the years, the Legislature has sought to modify the role of the ratepayer advocate to increase its independence from the CPUC. Some Key changes include:

- *Structural Reforms*: SB 608 (Leonard, Chapter 856, Statutes of 1996) restructured the Division and renamed it the Office of Ratepayer Advocates (ORA) to "obtain the lowest possible rate for service consistent with reliable and safe service levels". The statute also directed the CPUC to assign personnel and resources to the division sufficient to "ensure that customer and subscriber interests are effectively represented in all significant proceedings and forums."[14] These reforms sought to strengthen ORA's independence in policy advocacy and budgetary decision-making while preserving its administrative affiliation with the CPUC to support operational efficiency.[15]

- *Funding Support*. SB 608 (Leonard, Chapter 440, Statues of 2005), provided funding to strengthen ORA autonomy over its budget and staffing resources.

- *Public Advocates Office*. SB 854 (Committee on Budget, Chapter 51, Statutes of 2018) renamed ORA to the Public Advocates Office (PAO).

COMMENTS:

1) *Author's Statement*. According to the author, "Californians are struggling with soaring costs of goods and services, and low-income customers are disproportionately burdened. The monthly strain created by utility bills is more pronounced than ever before. According to the January 2025 Legislative Analyst's Office (LAO) report on residential electricity rates, California's residential electricity rates are now the second highest in the nation, nearly double the national average. Rates have surged in California by about 47 percent from 2019 to 2023, far outpacing the overall 18 percent increase in consumer prices. AB 61 requires the Public Advocate's Office (PAO) at the Public Utilities Commission to conduct a review of every legislative proposal that mandates or requires services or programs that result in increased costs for electrical or natural gas corporation customers. The PAO would prepare a written analysis with relevant data on the efficacy, cost impact and overall effect of each proposed mandate before a vote in legislative policy committees."

2) *Purpose of the Bill*. This bill is based on two contentions: first, that utility rates are high and growing ever higher; second, that state policy can influence utility rates. Hence, this bill proposes a process to produce greater information on prospective legislation that will impact electric and natural gas bills. There is broad consensus that rate increases will continue as California utilities continue to adapt to the changing society they serve, including the effects of climate change, as well as policies intended to respond to climate change. For electricity in particular, it is uncertain how fast electrification, which

[13] Public Advocates Office; "2024 Annual Report"; Pg.4
[14] SB 608 (Leonard, Chapter 856, Statutes of 1996)
[15] Division of Ratepayer Advocates; Pg. 2; "2012 Annual Report." Submitted to the Legislature January 10, 2013

broadens the base of ratepayers and their use of electricity, will mitigate the accelerating costs of serving customers. In the face of this challenge, creating new programs to meet climate and energy goals that are funded through rates is becoming increasingly burdensome to ratepayers. Over the last few years, many mandated programs have added significant additional costs to rates, as noted above. In this regard, it is increasingly important for the Legislature to know and understand proactively the cost impact of proposals that come before its respective committees. However, with tight legislative timelines, it remains difficult for committees to do more detailed estimates of cost impact of these legislative proposals on ratepayers. As such, creating a third-party review process that can provide cost estimates of policies that would impact rates for legislators has merit.

3) *Navigating Complications.* The intent of this bill is that the PAO will provide expert analysis and data that will assist lawmakers in determining whether mandating a particular program or requirement is or is not in the ratepayer's interest. While the bill aims to protect ratepayers from excessive costs, it may introduce potential conflicts for the PAO.

   As earlier discussed, the PAO operates as an "independent" consumer advocacy division within the CPUC. In this role, PAO advocates for utility customers, particularly to oppose excessive rate increases. Their advocacy extends beyond the CPUC to the CEC, CAISO, CARB, and the Legislature as well. It may prove a complication, or at least impact the appearance of impartiality, for an advocacy office to provide analysis on how proposed legislation may increase electricity or natural gas utility rates.

4) *Funding Source*. As currently drafted, Section 2 (d), of this bill establishes the Energy Programs Benefit Fund within the State Treasury with continuous appropriation to the PAO to execute its expanded responsibilities. However, the legislation does not specify a dedicated funding source, implying reliance on the state's General Fund. Such reliance that neither specifies the amount of funding needed nor establishes guardrails to ensure appropriate allocation of funding may be concerning. *As such, the author and committee recommend deleting Public Utilities Code § 3261(d) of this bill.*

5) *Prior Legislation*

   AB 1912 (Pacheco, 2024) an early version would have requested the California Council on Science and Technology (CCST) establish by January 1, 2026, a program to, upon request of the Legislature, assess legislation that would establish a mandated requirement or program or otherwise affect electrical ratepayers. It was later amended to apply to PAO. Status: Held under submission in the Senate Committee on Appropriations.

   SB 429 (Bradford, 2023) a previous version of this bill required 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. Status: amended outside this committee's jurisdiction; *pending hearing* in the Assembly Committee on Appropriations.

   AB 2765 (Santiago, 2022) would have eliminated from electric IOU rates the costs of various programs, including utility bill discount programs for low-income customers, and instead establishes a Public Utilities Public Purpose Programs Fund in the State Treasury to fund the programs. Status: Held under submission in the Assembly Committee on Appropriations.

AB 205 (Committee on Budget) among its many provisions, provided an additional $1.2 billion to cover outstanding energy utility arrears accrued during the COVID-19 pandemic, and made other programmatic changes. Status: Chapter 61, Statutes of 2022.

AB 135 (Committee on Budget) provided over $2 billion in relief for customer energy debt accrued during the pandemic. Status: Chapter 85, Statutes of 2021.

AB 1083 (Burke) requested the California Council on Science and Technology, if the Council determines it has sufficient funds, to undertake and complete an analysis of the effects of legislation proposing to mandate procurement of electricity products, upon request. Status: Chapter 818, Statutes of 2019.

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.

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

SB 608 (Leonard), provided funding to strengthen ORA autonomy over its budget and staffing resources. Chapter 440, Statues of 2005.

AB 1996 (Thomson) requested the University of California to prepare a written analysis with relevant data on the medical, economic, and public health impacts of such proposed legislation, which then became the California Health Benefits Review Program (CHBRP). Status: Chapter 795, Statutes of 2002.

SB 608 (Leonard) restructured the Division and renamed it the Office of Ratepayer Advocates (ORA) to "obtain the lowest possible rate for service consistent with reliable and safe service levels". The statute also directed the CPUC to assign personnel and resources to the division sufficient to "ensure that customer and subscriber interests are effectively represented in all significant proceedings and forums. Status: Chapter 856, Statutes of 1996.

REGISTERED SUPPORT / OPPOSITION:

Support

San Diego Gas and Electric Company

Opposition

None on file.

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