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California State Assembly

UTILITIES AND ENERGY

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Consultant
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Committee Secretary
Vanessa Gonzales

State Capitol, P.O. Box 942849
(916) 319-2083
FAX: (916) 319-2099

Wednesday, February 22nd
1:30 p.m. – State Capitol, Room 437

INFORMATIONAL HEARING

Energy Affordability: Managing the Cost of Powering our Future

Over the last few months, many Californians have experienced record high electric and gas bills, with some customers reporting a doubling or tripling of their bill even if their usage did not change.[1] Unfortunately, this rise in winter energy bills is not unique to these last few months. Just last year, this Committee held a hearing on managing future rate impacts, noting the same unexpected rise of customer bills that winter.[2] That hearing noted compounding pressures – some controllable, such as the rate increases approved by the California Public Utilities Commission (CPUC); some not, such as global natural gas costs – led to these high prices.

Numerous legislative efforts have also been passed attempting to address these concerns, most recently providing over $2 billion in relief for customer energy debt accrued during the pandemic.[3] Over the last few years the CPUC has held workshops on rates and affordability, posing solutions to try to address these forecasted increases.[4] Their most recent workshop

[1] Letter from Assemblywoman Pilar Schiavo to the California Public Utilities Commission, February 6, 2023. Also: Soumya Karlamangla, "What's Fueling California's High Natural Gas Prices;" New York Times; February 16, 2023. https://www.nytimes.com/2023/02/16/us/california-natural-gas-prices.html; Lily Jamali, "What's behind California's spiking natural gas prices?;" Marketplace; February 8, 2023; https://www.marketplace.org/2023/02/08/whats-behind-californias-spiking-natural-gas-prices/

[2] "Pocketbooks and the Power System: Managing Future Rate Impacts," Assembly Committee on Utilities and Energy Informational Hearing, March 30th, 2022. As well as: "Here's why your PG&E gas bill might be high this month," Caroline Morales, ABC 10, February 8, 2022; "Conserving Electricity Not Necessarily Helping Lower SDG&E Bills," Dana Griffing and Nicholas Kjeldgaard, NBC 7, February 17, 2022; "More elected leaders voicing frustration over SDG&E skyrocketing bills," Steve Price, CBS 8, February 16, 2022.

[3] AB 135, Committee on Budget, Chapter 85, Statutes of 2021 and AB 205, Committee on Budget, Chapter 61, Statutes of 2022.

[4] CPUC *En Banc* on Energy Rates and Costs, February 24, 2021, https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/en-banc-rates-and-costs; and CPUC *En Banc* on Affordability – Evaluating Innovative Proposals for Cost Containment and Customer Protections, February 28—March 1, 2022, https://www.cpuc.ca.gov/news-and-updates/all-news/cpuc-to-hold-hearing-on-affordability-of-essential-utility-services-2022

focused on the recent natural gas prices impacting customers this winter.[5] While these past efforts have aided in the awareness of and relief to mounting bills, the bill volatility that has characterized this winter has been especially shocking and unmanageable for many customers. Natural gas and electric costs fluctuate based on a variety of factors, including supply and demand, weather patterns, and geopolitical events, but when energy bills are volatile, it can be difficult for customers to plan and budget effectively for their expenses.

After years of global pandemic and months of mounting inflation, Californians are acutely aware of the choices they must make when unexpected expenses arise, especially those for hundreds of additional dollars a month. Unlike other goods, energy purchases can be more difficult to postpone or go without. Such delays can lead to discomfort, or more seriously, real health and safety consequences. For customers most acutely impacted by changes to their energy bills—such as low-income customers, customers in hot climate zones, medically vulnerable customers, or customers in public housing—these surprising higher costs can have dire consequences. Failure to pay energy bills and the resulting potential for disconnections can lead to critical medical equipment shutting off, the potential for heatstroke during a heatwave, or even the loss of custody of children to the state.

The purpose of this hearing is to explore solutions to alleviate short-term spikes in energy costs and manage longer-term energy bill impacts. The hearing will expand on the previous work of this Committee by discussing both natural gas and electric bills, and also examine substantial policy initiatives—dubbed "big sky" proposals—whose supporters cite affordability as a core driver for their adoption.

This hearing's scope will be broad, including perspectives from the large investor-owned utilities (IOUs)[6], the publicly owned utilities (POUs), and a Community Choice Aggregator (CCA), along with the CPUC, ratepayer advocates, labor, environmental organizations, and academics. While a comprehensive evaluation of total energy costs should include other fuels (gasoline, propane), for ease of discussion gasoline cost drivers will be a topic in a subsequent hearing.

Drivers of Recent Natural Gas Volatility. Nearly 90% of California's natural gas usage is imported from out of state.[7] This dependence on imports can make us vulnerable to events occurring elsewhere, and reliant on efficient pipeline operations to bring us needed supply. Moreover, this dependence on imports emphasizes the importance of California's regulators to closely monitor the natural gas market.

Since late November 2022 through the end of January 2023, natural gas prices have remained at higher than normal seasonal levels. As noted in a recent market analysis prepared by the California Independent System Operator (CAISO), natural gas prices tend to spike in California due to colder weather.[8] For instance, in February 2021 a cold snap across the

[5] CPUC *En Banc*, "Current Gas Market Conditions & Impacts of Gas Prices on Electricity Markets", February 7, 2023. https://www.cpuc.ca.gov/events-and-meetings/en-banc-2023-02-07
[6] Pacific Gas & Electric (PG&E), Southern California Edison (SCE), and Southern California Gas (SoCalGas)
[7] CEC, "Supply and Demand of Natural Gas in California," accessed on February 2, 2023; https://www.energy.ca.gov/data-reports/energy-almanac/californias-natural-gas-market/supply-and-demand-natural-gas-california
[8] Pg. 9, California ISO, "Gas Conditions and CAISO Markets," February 6, 2023.

United States pushed prices at the southern California gas hub[9] to a record $144 per Million British Thermal Units (MMBtu). (For context, the past few years have seen gas prices hovering between $5-$10/MMBtu at that hub.) However, those 2021 high prices were quickly alleviated once the cold weather subsided. This winter, gas prices rose quickly after the Thanksgiving 2022 holiday, reaching up to $50/MMBtu, but then remained at an elevated level throughout December and January. This was true not only at the two main California hubs but also in many of the gas hubs across the west.[10]

The United States Energy Information Administration, a principal source of energy statistics from the federal government, noted in their analyses in December 2022[11] and January 2023[12] that the high western gas prices were a result of a combination of factors, including:

- Widespread, below-normal temperatures
- High natural gas consumption
- Lower natural gas imports from Canada
- Pipeline constraints, including maintenance in West Texas
- Low natural gas storage levels in the Pacific region

While a Kinder Morgan pipeline explosion in Arizona had already limited imports into Southern California since August 2021,[13] many of the other pipelines supplying natural gas to California were closed for unplanned maintenance or operating at reduced capacity in November and December 2022.[14] Furthermore, less natural gas was being stored in California than it once had, partly because the storage facility at Aliso Canyon was mandated to hold fewer reserves since a disastrous leak there in 2015[15] and partly because the extreme heatwave of summer 2022 led to higher natural gas usage and PG&E's 2021 reclassification of working gas to base gas further limited supply.[16]

These combination of factors led to a skyrocketing increase to natural gas prices in the west. However, there are still unknowns as to whether the recent price spikes were solely caused by real—or perceived—scarcity. The potential exists for opportunists to make a tight market tighter. In January, CPUC President Alice Reynolds announced the need to further investigate the natural gas price spikes, and noted reaching out to the Federal Energy Regulatory

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[9] SoCal Citygate
[10] Pg. 9, California ISO, "Gas Conditions and CAISO Markets," February 6, 2023.
[11] US EIA, "Natural Gas Weekly Update," December 21, 2022, https://www.eia.gov/naturalgas/weekly/archivenew_ngwu/2022/12_22/.
[12] US EIA, "Daily natural gas spot prices in western United States exceed $50.00/MMBtu in December," January 24, 2023, https://www.eia.gov/todayinenergy/detail.php?id=55279.
[13] Leticia Gonzales, "El Paso Natural Gas Pipeline Segment Shut Monday After Deadly Blast," *Natural Gas Intelligence,* August 16, 2021, https://www.naturalgasintel.com/el-paso-natural-gas-pipeline-segment-shut-monday-after-deadly-blast/
[14] US EIA, "Natural Gas Weekly Update," December 7, 2022, https://www.eia.gov/naturalgas/weekly/archivenew_ngwu/2022/12_08/#:~:text=Reduced%20takeaway%20capacity,data%20from%20PointLogic.
[15] Kavya Balaraman, "California increases gas storage capacity at Aliso Canyon amid concerns over winter reliability," *Utility Dive*, November 5, 2021, https://www.utilitydive.com/news/california-increases-gas-storage-capacity-at-aliso-canyon-amid-concerns-ove/609535/
[16] Pg. 8, California ISO, "Gas Conditions and CAISO Markets," February 6, 2023. http://www.caiso.com/Documents/Gas-Conditions-and-CAISO-Markets-Report-for-Dec2022-Jan2023.pdf

Commission (FERC) to "take a serious look" at the western gas and electric markets.[17] Governor Newsom sent a letter on February 6, 2023, to FERC asking them to investigate "whether market manipulation, anticompetitive behavior, or other anomalous activities are driving these ongoing elevated prices in the western gas markets."[18]

The good news, at least in the short term, is that natural gas prices are going down. On January 31st, 2023, SoCalGas announced a 68% decrease in natural gas procurement rates from January.[19] As SoCalGas noted, "…if a customer received a $300 bill for January usage, that same usage would result in a bill of about $135 for February." Most customers are just now seeing whether these changes to western natural gas prices will manifest in bill reductions. And while a welcome relief, the decline in natural gas prices provides little confidence that customers will be insulated from future bill volatility.

Potential Solutions for Natural Gas Affordability. Natural gas prices are set by regional and national markets. Utilities purchase natural gas on behalf of their customers, and pass on the cost of those purchases directly onto ratepayer bills. For IOUs, which earn a profit on many aspects of their business, no profit is earned on the natural gas purchases. This pass-through aspect of natural gas billing makes individual customers especially vulnerable to swings in the regional natural gas market.

Given this, the CPUC and the California Energy Commission (CEC) closely track natural gas prices, especially in preparation for the winter.[20] When the CPUC and IOUs saw natural gas prices spike in December, early customer outreach was initiated to warn customers about the potential for high bills, and to provide information to enroll eligible customers in bill discount programs.[21] However, it is often difficult for a customer to interpret the severity of such warnings; that is, if they see the warnings at all. On February 2nd, 2023, after two months of high natural gas bills, the CPUC voted to offer an accelerated bill credit, ranging from $40-$120 depending on the utility.[22] Similarly, the Long Beach Utilities Commission, which runs a municipal natural gas service, approved $45 bill credits for gas customers on February 9, 2023.[23]

While these efforts help ease some of the burden of unexpectedly high natural gas bills, for some customers the relief is small relative to their bill's increase, and provides little assurance that a similar spike will not burden them in the future. This leads the Committee to

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[17] CPUC President Alice Reynolds remarks during Voting Meeting, January 12, 2023; https://www.cpuc.ca.gov/-/media/cpuc-website/commissioners/alice-reynolds/documents/president-remarks-on-high-gas-prices-2023.pdf

[18] Governor Gavin Newsom letter to Chairman Willie Phillips, FERC, February 6, 2023. https://www.gov.ca.gov/wp-content/uploads/2023/02/Governor-Newsom-FERC-Letter-02.06.23.pdf

[19] SoCalGas Newsroom, "Market Prices for Natural Gas Drop, Driving a 68% decrease in SoCalGas February Procurement Rates from January," January 31, 2023.

[20] CPUC President Alice Reynolds remarks during Voting Meeting, January 12, 2023; https://www.cpuc.ca.gov/-/media/cpuc-website/commissioners/alice-reynolds/documents/president-remarks-on-high-gas-prices-2023.pdf

[21] SoCalGas legislative staff briefing materials, shared with the Committee, February 9th, 2023.

[22] The California Climate Credit is paid for from utility compliance with the cap-and-trade program, and usually appears on April bills. Ben Christopher, "Relief for California's gas price pains," *CalMatters*, February 2, 2023, https://calmatters.org/newsletters/whatmatters/2023/02/california-natural-gas-prices-relief/

[23] Long Beach Water blog, "Utilities Commission approves $7 million in assistance for gas customers," February 9, 2023, https://lbwater.org/utilities-commission-approves-7-million-in-assistance-for-gas-customers/?mc_cid=bbffcaaf15&mc_eid=92addbdaa9

consider: what more can be done to protect consumers from natural gas volatility and work to ensure that future natural gas bills are affordable? Some proposals to be discussed during this hearing include:

- The Public Advocates Office has suggested automatic customer enrollment in payment plans, spreading the cost of a price spikes over a period of three to six months, in order to make each individual bill more affordable.[24]

- Utilities and industry representatives have recommended increasing the storage capacity in the state to enable utilities to buy more natural gas when prices are cheap, and then stabilize the market with additional supply when prices rise. However, many of the rules surrounding natural gas storage were updated following a critical leak at the SoCalGas Aliso Canyon storage site.[25] The CPUC would need to work closely with the California Geologic Energy Management Division, the agency responsible for the storage regulations, to balance public health, safety, and affordability.

- Environmental organizations and ratepayer groups have asked for a comprehensive strategy on the future of natural gas use, with customer affordability a central focus of any strategy. Recent efforts to decarbonize the natural gas system with biomethane procurement orders,[26] and the potential for hydrogen introduction into the pipeline,[27] could increase natural gas costs in the state. These cost pressures of decarbonizing the natural gas system are occurring concurrently with local efforts to ban natural gas connections to new developments, and even in some retrofits.[28] Such restrictions could have the unintended consequence of shifting the cost of maintaining the natural gas system to a smaller pool of customers, leading to inequities and unaffordable natural gas bills for those who remain. A statewide strategy would contemplate selective pruning of the natural gas system or take a critical eye toward future infrastructure development.[29] The CPUC has begun examining these issues in their Long-Term Gas System Planning proceeding,[30] but a comprehensive strategy has yet to materialize.

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[24] The Public Advocates Office, "Early 2023 Natural Gas Bill Rate Increases," February 2, 2023, https://www.publicadvocates.cpuc.ca.gov/-/media/cal-advocates-website/files/reports/230202-caladvocates-early-2023-natural-gas-bill-increases-memo-final.pdf

[25] PG&E, "En Banc on Current Gas Market Conditions and Impacts of Gas Prices on Electricity;" February 7, 2023, https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/meeting-documents/20230207-en-banc/20230207-en-banc---pge-presentation.pdf?sc_lang=en&hash=69FAF2D890D4A5C6F75785ECD7E575F1

[26] CPUC Decision 22-02-025, *Decision Implementing Senate Bill 1440 Biomethane Procurement Program*, R. 13-02-008, issued February 25, 2022.

[27] CPUC Decision 22-12-057, *Decision Directing Biomethane Reporting and Directing Pilot Projects to Further Evaluate and Establish Pipeline Injection Standards for Clean Renewable Hydrogen*, R. 13-02-008, issued December 19, 2022.

[28] Morgan Evans, "Another California County Bans Natural Gas Hookups 'Beyond State Code,'" *Natural Gas Intelligence*, December 7, 2022. https://www.naturalgasintel.com/another-california-county-bans-natural-gas-hookups-beyond-state-code/

[29] Ted Lamm and Ethan Elkind,"Building Toward Decarbonization," *Berkeley Law Policy Report*, January 2021.

[30] R. 20-01-007

Drivers of Electric Volatility and High Bills. Nearly 45% of the natural gas burned in California is used for electricity generation.[31] As a result, if natural gas markets sneeze, the California electricity market can get a cold. A recent market analysis prepared by the CAISO examining the impact of high western natural gas prices on the electricity market, noted that December 2022 saw a fivefold increase in electricity prices as compared to the previous year, with an additional cost of over $3 billion in the wholesale market.[32] Customers who have been experiencing unexpected increases to their natural gas bills, have begun to see increases to their electric bills as well.

The CPUC reviews and approves electric IOU costs and revenues through a variety of the public processes. The most notable include the Energy Resource and Recovery Account (ERRA) and the General Rate Case (GRC) proceedings. ERRA proceedings are used to reconcile estimated versus actual fuel and purchased power costs. The electric IOUs do not earn a profit on these costs, and only recover actual costs. The costs are forecasted for the year ahead. If the actual costs are lower or higher than forecasted, then the electric IOU credits or charges customers, respectively, for the difference. And unlike in natural gas billing, where the cost is an immediate pass-through to customers in the month the spike occurred, the ERRA allows spikes in the electricity market to be smoothed out over the subsequent year.

GRC proceedings are used to address the costs of operating and maintaining the electric system and the allocation of those costs among customer classes. For California's electric IOUs, the GRCs are parsed into two phases. Phase I of a GRC determines the total amount the electric IOU is authorized to collect, while Phase II determines the share of the cost each customer class is responsible and the rate schedules for each class.

On January 31, 2023, SCE filed an ERRA trigger application requesting up to a $595.6 million rate increase, representing about a 4.4% increase across customer bills.[33] This ERRA application was based on the recent spikes in the natural gas market driving up power prices. SCE's application requests the ability to reduce the rate increase if prices "self-correct."

The ability for the IOUs to smooth electric price volatility before reaching customer bills is a powerful affordability measure to mitigate short-term price spikes. However, California's IOU electric rates are among the highest in the country,[34] suggesting long-term trends away from affordability. Across all three IOUs, rates have increased since 2013.[35] The growth in rates can be largely attributed to increases from infrastructure projects.[36] The utilities have

[31] CEC, "Supply and Demand of Natural Gas in California," accessed on February 2, 2023; https://www.energy.ca.gov/data-reports/energy-almanac/californias-natural-gas-market/supply-and-demand-natural-gas-california

[32] California ISO, "Gas Conditions and CAISO Markets," February 6, 2023. http://www.caiso.com/Documents/Gas-Conditions-and-CAISO-Markets-Report-for-Dec2022-Jan2023.pdf

[33] A. 23-01-020

[34] Borenstein, S., Fowlie, M., and Sallee, J., "Designing Electricity Rates for an Equitable Energy Transition," *Energy Institute at Haas* working paper WP 314, February 2021.

[35] Bundled systemaverage rate; by 37% for PG&E, 6% for SCE, and 48% for SDG&E. Pg. 7; "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," CPUC, February 2021.

[36] transmission by PG&E and distribution by SCE and SDG&E; *Ibid.*

also made major financial commitments to wildfire mitigation and transportation electrification, but these costs are only beginning to be reflected in rates.

While these rates are high, the actual electric bill the average residential and industrial customer pays are below the national average,[37] largely attributable to California's mild climate and strong commitment to energy efficiency driving down energy usage. Regardless, research by the University of California, Berkeley's Energy Institute at Haas and NEXT 10 concluded California's high rates are roughly two to three times the costs it takes to produce the electricity.[38] This misalignment between price and costs may confuse many customers, as the costs imbedded in an electric bill grow more removed from the cost of delivering the electricity, and any effort by an individual to reduce consumption might bear little change to their billing.

Potential Solutions for Electric Affordability. The primary existing policy to help low-income customers pay their energy bills is the California Alternate Rates for Energy (CARE) program.[39] Households enrolled in CARE receive a 30-35% discount on their electric bill and a 20% discount on their natural gas bill. While CARE provides a reduction in electricity and natural gas bills, it does not guarantee an affordable bill. In fact, recent CPUC-approved rate increases result in approximately the same level of increase for CARE customers as those not enrolled in CARE.[40]

Other IOU affordability programs include the Family Electric Rate Assistance program, which offers an 18% discount on electric bills if household income slightly exceeds CARE allowances; the Energy Savings Assistance program, which provides no-cost weatherization services to customers who meet the CARE income limits; the Low-Income Home Energy Assistance Program, which provides weatherization services and cash to help low-income customers pay their bills;[41] Emergency Assistance Programs, where some gas and electric IOUs offer cash assistance and special payment plans to consumers facing financial hardship; the Medical Baseline program where qualifying customers are billed a certain amount of their energy usage at their IOU's lowest rate; and various customer energy management programs, such as energy efficiency and demand response. Many POUs and CCAs offer similar programs.

The CPUC is also currently piloting a novel affordability program, the Percentage of Income Payment Plan (PIPP), which allows a participant to pay a predetermined affordable percentage of their monthly income toward their utility electricity or natural gas bill.[42] PIPP participants will receive a monthly bill cap for current charges set at four percent of their household's monthly income.

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[37] 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

[38] Pg 4, citation 8 - Borenstein 2021.

[39] https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/care-fera-program

[40] An approximately 19% increase for PG&E, 17% increase for SCE, and 7% increase for SDG&E.

[41] LIHEAP can offer a one-time payment to help customers pay heating or cooling bills or in an emergency, such as a utility disconnection. LIHEAP can also provide in-home weatherization services for improved energy efficiency, and health and safety.

[42] D.21-10-012

While these programs assist many Californians in making energy more available, they often fail to ensure affordability for target populations. Moreover, they reach only a subset of ratepayers—those most vulnerable. Recent efforts both in the Legislature and at the CPUC have sought more holistic reforms to electric affordability. These include:

- Establishment of an income-graduated fixed charge for IOU residential electric rates, as authorized in AB 205 (Committee on Budget, Chapter 61, Statutes of 2022).[43] Such rate reform seeks to cover the fixed costs of operating the electric system in a less regressive and more efficient manner. The CPUC is in the early stages of implementing such rate design;[44] however, they have until July 1, 2024 per statute.

- Dynamic rate pilots to help shift customer usage, improving electrical grid efficiency while providing customer bill savings. Dynamic pricing shifts customer electricity usage to times when prices are low—for instance during high renewable generation—while reducing usage when prices are high and the grid is stressed. Two pilots were authorized in 2021, one in Northern California for agricultural pumping customers and one in SCE territory open to multiple end-uses.[45]

- Reforms to the Net Energy Metering (NEM) program and other distributed energy resource (DER) inequities. There is the potential for a growing divide in the cost of service between customers participating in DER and those who are less likely to do so. Moderate- to higher-income customers are more likely to invest in DERs such as solar photovoltaic systems, electric vehicles, and storage technologies, and the sophisticated rates that support them. This enables these customers to shift load and take advantage of the billing benefits that result. This results in a cost shift toward the non-participating customers, often lower-income and otherwise vulnerable customers.[46] The IOU NEM program has been a focus of such cost-shift discussions, and in December 2022 the CPUC adopted a decision to revise NEM to make the program more equitable toward non-NEM ratepayers.[47]

- Seeking alternative sources of funding outside of electric rates. In both AB 135 (Committee on Budget, Chapter 85, Statutes of 2021) and AB 205 (Committee on Budget, Chapter 61, Statutes of 2022), billions of dollars of General Fund money were used to offset electric and gas customer debt accrued during the COVID-19 pandemic. Recent legislative efforts seek to move certain expenses out of electric rates and onto the General Fund.[48] Additionally, with the large federal spending

[43] PUC §739.9
[44] R. 22-07-005, "Assigned Commissioner's Phase 1 Scoping Memo and Ruling," filed November 2, 2022. https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M498/K072/498072273.PDF
[45] D. 21-12-015, "Phase 2 Decision Directing PG&E, SCE, and SDG&E to take Actions to Prepare for Potential Extreme Weather in the Summers of 2022 and 2023," R. 20-11-003, issued December 6, 2021. https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M428/K821/428821475.PDF
[46] Pg. 9, *Ibid*.
[47] D. 22-12-056, "Decision Revising Net Energy Metering Tariff and Subtariffs," R.20-08-020, issued December 19, 2022. https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M500/K043/500043682.PDF
[48] AB 982, Villapudua, 2023 and AB 2765, Santiago, 2022.

packages over 2021-2022, efforts are underway to maximize savings for California ratepayers by subsidizing with federal dollars.

"Big Sky" Proposals to Address Affordability. The need to improve the safety and reliability of the energy system while meeting California's climate goals will require novel solutions and planning, especially if those solutions equally address natural gas and electric affordability. Advocates for recent substantial policy proposals have cited affordability as a core reason for the policy's adoption. Some recent examples include, but are not limited to:

- Expanding the CAISO footprint to a western-wide organization— in passing SB 350 (De León, Chapter 547, Statutes of 2015), the Legislature expressed its intent that CAISO expand into a regional body that would manage high-voltage electricity transmission for entities throughout the Western Interconnect, a process colloquially known as regionalization. SB 350 directed CAISO to modify its governance structure to accommodate regionalization. The bill, however, conditioned implementation of the proposed governance changes upon several actions. Among those actions was the completion of studies (SB 350 Studies) on the effects of regionalization on ratepayers, the environment, disadvantaged communities, and safety and reliability.[49] CAISO completed the SB 350 Studies in 2016, finding that by 2030 regionalization could benefit California ratepayers with $1 billion to $1.5 billion annually.[50]

  A recent concurrent resolution called upon the CAISO to report on recent studies and reassess the potential benefits to California of such an expansion.[51] The CAISO issued a draft report in January 2023, with the final report due at the end of February.[52] The draft report notes "the preponderance of literature suggests that regional cooperation will help California and other states to realize cost savings and common energy policy goals."[53] However the specific question regarding the impact of regionalization on transmission costs is currently unaddressed in the draft, citing a forthcoming federal report that should be directly responsive to the transmission cost question.[54] Recent legislation seeks to authorize the transformation of CAISO into a regional organization.[55]

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[49] Public Utilities Code § 359.5(e)(1) – "*The Independent System Operator conducts one or more studies of the impacts of a regional market enabled by the proposed governance modifications, including overall benefits to ratepayers, including the creation or retention of jobs and other benefits to the California economy, environmental impacts in California and elsewhere, impacts in disadvantaged communities, emissions of greenhouse gases and other air pollutants, and reliability and integration of renewable energy resources. The modeling, including all assumptions underlying the modeling, shall be made available for public review.*"

[50] Pg. I-viii; CAISO, "Senate Bill 350 Study: The Impacts of a Regional ISO-Operated Power Market on California, Executive Summary," July 8, 2016, https://www.caiso.com/informed/Pages/RegionalSolutions.aspx

[51] ACR 188 (Holden, Chapter 138, Statutes of 2022)

[52] CAISO "Impacts of Expanded Regional Cooperation on California and the Western Grid: DRAFT Report for Stakeholder Review," January 13, 2023. http://www.caiso.com/Documents/ACR188DraftSummaryReport-Jan13-2023.pdf

[53] Pg. 1, *Ibid*.

[54] Pg. 83 of CAISO "Impacts of Expanded Regional Cooperation on California and the Western Grid: DRAFT Report for Stakeholder Review," January 13, 2023.
http://www.caiso.com/Documents/ACR188DraftSummaryReport-Jan13-2023.pdf

[55] Past: AB 726 (Holden, 2017) and AB 813 (Holden, 2018); Current: AB 538 (Holden, 2023).

- Creating a Strategic Reliability Reserve—in AB 205 (Committee on Budget, Chapter 61, Statutes of 2022) the Newsom administration proposed, and the Legislature adopted, an Electric Supply Strategic Reliability Reserve (SRR). The Department of Water Resources (DWR) is tasked with procuring additional electric generation resources for the SRR to be used during extreme weather conditions. The administration has framed the SRR as an affordability measure, presumably because these resources are being purchased with taxpayer dollars rather than through ratepayer bills. However, it is unclear how the resources being purchased for the SRR will impact the market—even though the resources are meant to operate outside the market—and influence statewide procurement costs.

- Advancing a Central Procurement Entity (CPE)—the administration recently proposed a DWR-led CPE function that would purchase energy resources "upon request by the CPUC and only if the CPUC finds that it is necessary to procure diverse clean energy resources beyond those procured by load-serving entities."[56] Such proposals are not unique to the Legislature, with past efforts putting forward similar CPE functions.[57] The concept of a CPE is to help fill in resource purchasing gaps as may be identified by the CPUC. The electricity landscape is in the midst of significant transformation with the growth of new energy entities, increasing procurement of intermittent renewables, retirement of natural gas plants, and growth of distributed energy resources. Coordination of procurement resources is a more difficult and complex task than it was when most utilities were vertically integrated and more power on the system was baseload.

  As California's energy landscape continues to shift, the need for a CPE may be warranted, especially with more expensive, longer-lead time resources such as offshore wind or geothermal. New development of these resources may be cost prohibitive for many of the energy entities currently operating in California, but if purchased collectively through a CPE could result in lower costs to all participating ratepayers. The trailer bill acknowledges this possibility by prohibiting DWR from pursuing procurement except if it does not "unreasonably increase costs to customers…compared with procurement…by an electrical corporation."[58] The CPE would also exercise state bonding authority, rather than ratepayer-backed financing, to keep costs low.[59] However uncertainties which impact the overall cost savings potential of the CPE-function include: how the resource selection of the CPE will integrate with the ongoing procurement process of the energy entities; how the market will respond to the CPE; or whether the CPE will impact any provider of last resort responsibilities.

[56] Proposed addition of Water Code §80802 (b)(1); Pg. 27, RN 23 09894, Energy Trailer Bill Language, February 8, 2023; updated on the Department of Finance website on February 10, 2023. https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/846

[57] AB 56 (E. Garcia, 2019) and AB 1161 (E. Garcia, 2021)

[58] Proposed addition of Water Code §80802 (b)(4); Pg. 27, RN 23 09894, Energy Trailer Bill Language, February 8, 2023; updated on the Department of Finance website on February 10, 2023. https://esd.dof.ca.gov/trailer-bill/public/trailerBill/pdf/846

[59] Potential reductions via lower financing costs, no rate of return, and tax exemptions or tax benefits.

California's energy sector is in a period of transition. It will be necessary to develop policies and plans that ease the transition for customers, particularly for the most vulnerable. This hearing will provide an opportunity to examine solutions to alleviate short-term spikes in energy costs and manage longer-term energy bill impacts, focusing on both natural gas and electric bills.

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