

California Public Utilities Commission

Assembly Utilities & Energy Committee - Informational Hearing

Energy Affordability

February 22nd, 2023



California Public
Utilities Commission

Rate & Bill Impact – *Mitigation Methods*

Cost Reduction

- Direct impact on electric/gas investor-owned utility (IOU) revenue requirement (i.e., budget)
- Generally larger rate and bill impacts relative to cost allocation changes.

Cost Allocation

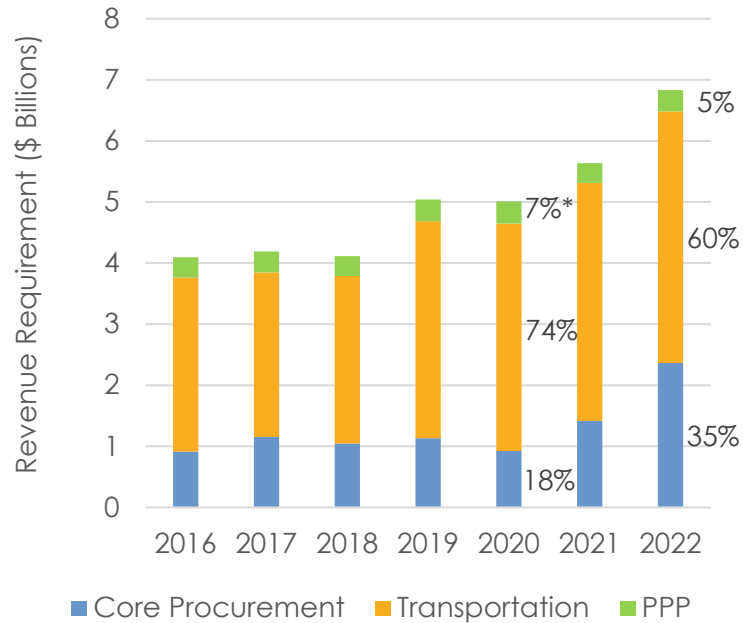
- Indirect impact on electric/gas IOU revenue requirement through more equitable allocation.
- Generally smaller rate and bill impacts relative to cost reductions.

Solutions for Gas Affordability

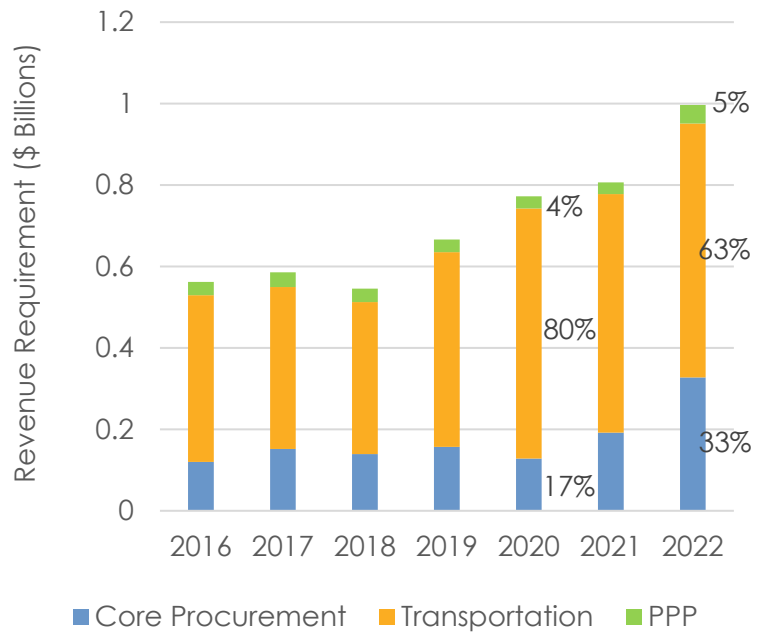
Leuwam Tesfai, Deputy Executive Director for Energy & Climate Policy

Rate Component Trends - *Natural Gas IOU Customers*

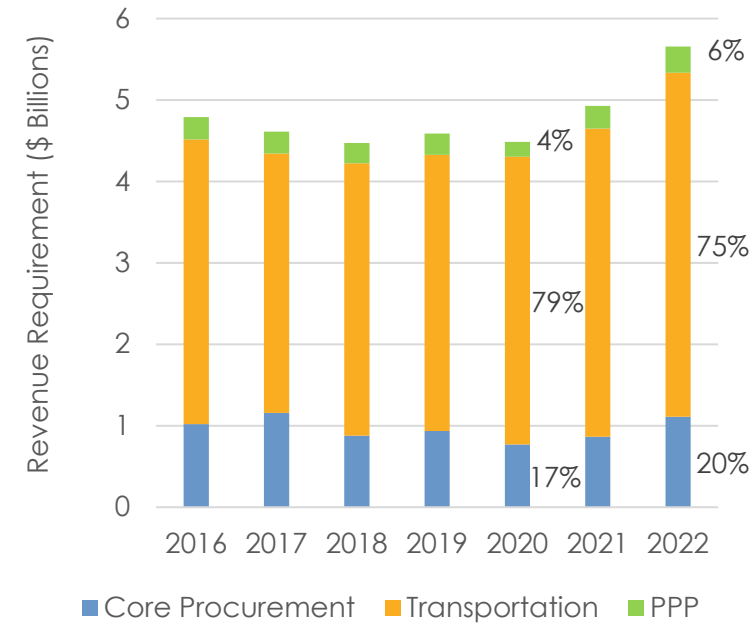
SoCalGas Gas Rate Components Revenue Requirements (2016-2022)



SDG&E Gas Rate Components Revenue Requirements (2016-2022)

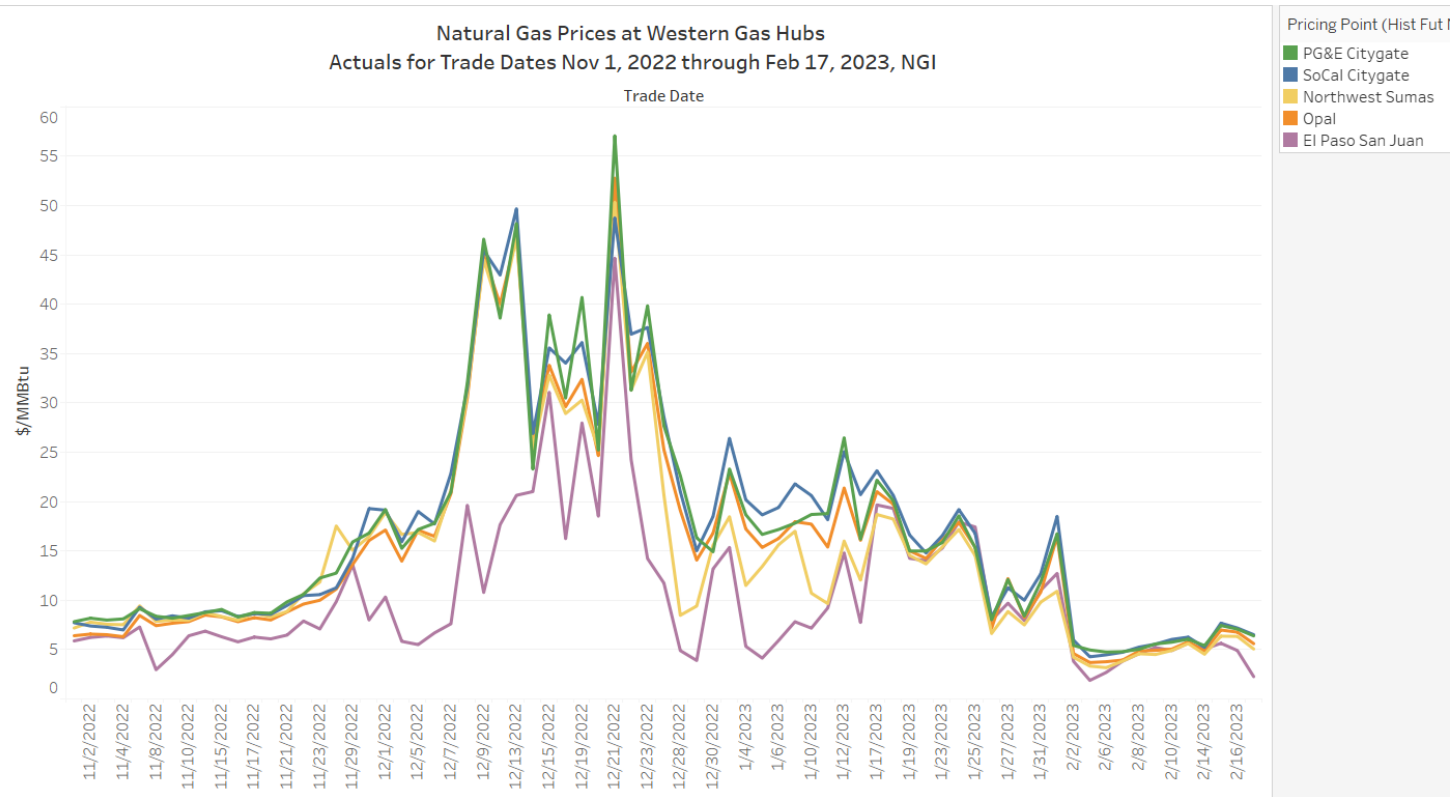


PG&E Gas Rate Components Revenue Requirements (2016-2022)



* Note: Percentages may total over 100 due to rounding

Near-Term Cost Drivers – *Fossil Natural Gas*



Graph Source: [NGI](#)

Cost Drivers

- Widespread, below normal temperatures in the West, beginning in November.
- High natural gas consumption.
- Interstate pipeline constraints, including significant maintenance on the El Paso pipeline system that moves gas from Texas to California.
- Low natural gas storage levels in the Pacific region.

Reminder

- Price of fossil natural gas is **not regulated** and is determined by the market.

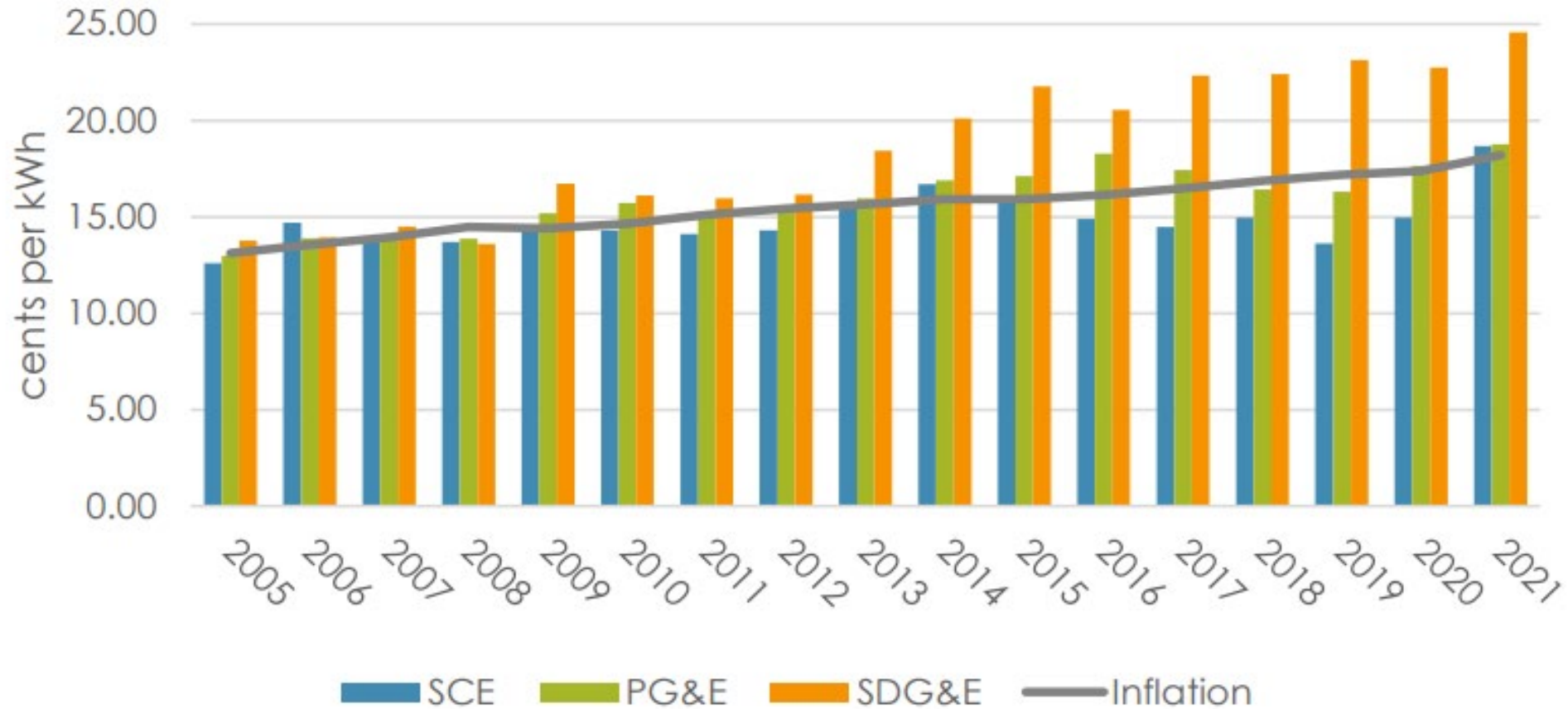
Recent Policy Actions & Proposed Mitigation Measures

- **Ending Subsidies for Gas Distribution Infrastructure Pipeline Extensions**
 - Expected to provide gas IOU customer savings of approximately \$164M/ a year
- **Acceleration of Climate Credits**
 - \$655M in residential Natural Gas California Climate Credits accelerated from April to February/March
 - \$617M in residential Electric California Climate Credits accelerated from April to February/March
 - Large IOU combined electric/gas customers will see \$90-\$120 in credits for Spring 2023
 - Another round of residential Electric California Climate Credits will disburse in October worth \$617M
- **Acceleration of Refund Amortization Period due to a Higher Collection of Revenue by SoCalGas for Gas Transportation Services than Originally Forecasted/Estimated**
- **Fossil Natural Gas Market Investigation Request to the Federal Energy Regulatory Commission (FERC)**
- **Proposals at CPUC 2023 Fossil Natural En Banc**
 - Conduct a study to determine the root causes of high winter high fossil natural gas and electric prices
 - Optimize the use of existing fossil natural gas storage assets in California, including by providing electric generators access to such storage in Southern California
 - Better align the fossil natural gas and electric markets
 - Reevaluate existing gas IOU financial hedging programs
 - Enhance customer protections, including bill payment assistance

Solutions for Electric Affordability

Leuwam Tesfai, Deputy Executive Director for Energy & Climate Policy

System Average Electric IOU Customer Rate Trends

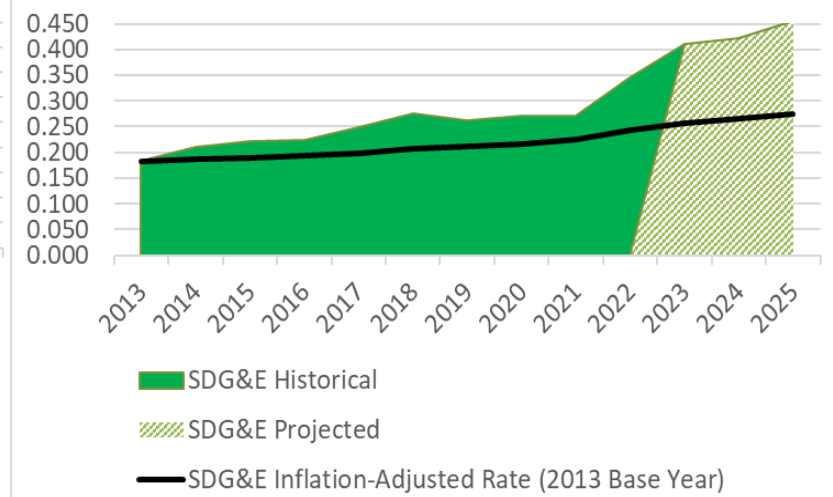
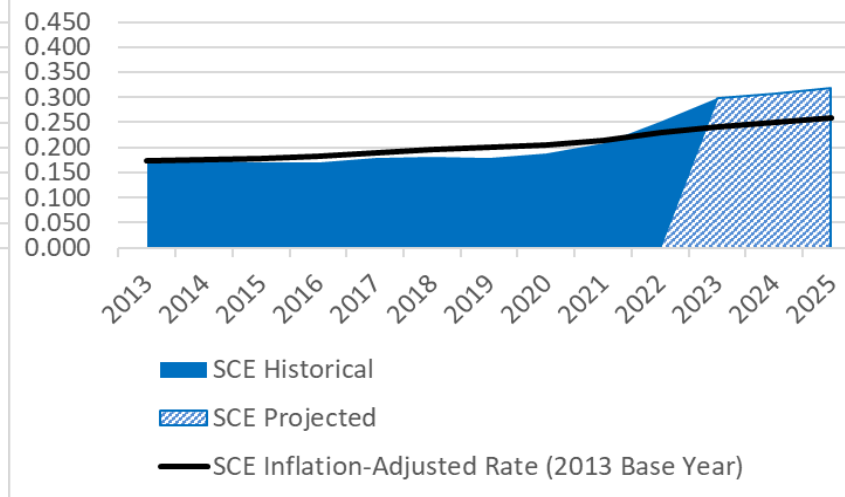
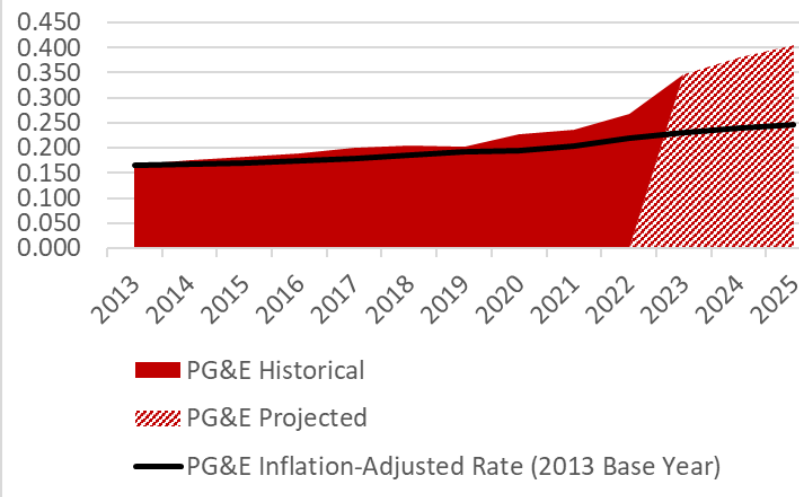


Forecasted Rate Trends - *Bundled Electric IOU Residential Customers*

- Between the third quarter of 2022 and year-end 2025, bundled residential customer average electric rates are expected to rise as follows:

- **PG&E** – 11.8% annually
- **SCE** – 6.8% annually
- **SDG&E** – 10.4% annually

	Current	Year-End			
	Q3-2022	2022	2023	2024	2025
PG&E Nominal Rate	\$ 0.293	\$ 0.293	\$ 0.347	\$ 0.380	\$ 0.405
SCE Nominal Rate	\$ 0.261	\$ 0.291	\$ 0.298	\$ 0.307	\$ 0.319
SDG&E Nominal Rate	\$ 0.340	\$ 0.340	\$ 0.410	\$ 0.421	\$ 0.455



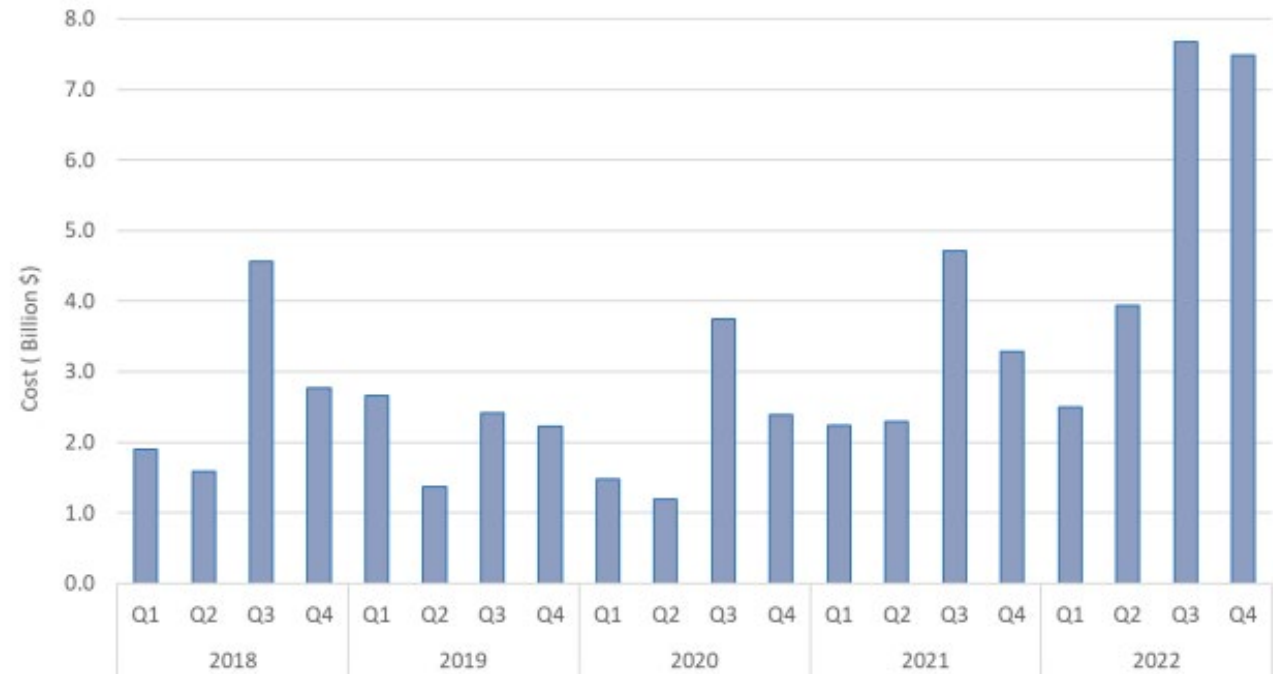
Recent Policy Actions

- **Modifications to Existing Net-Energy Metering (NEM) Tariff**
 - CPUC approved a Decision in December 2022 modifying the NEM tariff by improving the pricing structure for new rooftop solar customers of the electric IOUs for electricity exported based on its value to the grid.
- **Reduction of Electric/Gas IOU Return-on-Equity (ROE) in 2023 Cost of Capital proceeding**
 - CPUC approved a Decision in December 2022 considering the risk profile of each of the electric/gas IOUs and lowered their ROE to align with national utility trends.
- **Authorization to Establish an Income-Based Fixed Charge**
 - CPUC is developing an income-graduated fixed charge for default residential electric rates by July 1, 2024, pursuant to AB 205 (Committee on Budget, 2022).
- **California Arrearage Payment Program (CAPP)**
 - Administered by the Department of Community Services and Development (CSD) with an appropriation of more than \$2 billion over 2021 and 2022 to help pay eligible residential customers' past due energy utility bills during the COVID-19 pandemic.
- **PG&E Wildfire Self-Insurance**
 - CPUC approved a Decision in January 2023 to avoid skyrocketing insurance premiums.

Recent Trends - CAISO Wholesale Electricity Market Prices

- California Independent System Operator (CAISO) market electricity prices significantly impact the Generation component of electric rates.
- CAISO electricity prices increased as a result of higher natural gas prices.
 - December 2022 saw a fivefold increase since last year, at an average price of more than **\$250/MWh**.
- CAISO prices in Q4 2022 showed a twofold and threefold increase relative to the fourth quarters of 2021 and 2020, respectively.

Figure 15: Quarterly wholesale costs in CAISO electric market



Source: [Gas-Conditions-and-CAISO-Markets-Report-for-Dec2022-Jan2023.pdf](#)

Big Sky Proposals for Energy Affordability

Rachel Peterson, Executive Director

Enacted & Proposed Solutions

- **Strategic Reliability Reserve**

- *3 program components* - Electric Supply Strategic Reliability Reserve, Demand Side Grid Support and Distributed Backup Electricity Assets – designed to provide utility-scale and distributed electric generation and storage resources, as well as customer demand-side resources for use during extreme weather events to sustain reliable electric service.
 - Administered by the Department of Water Resources (DWR) and California Energy Commission (CEC).

- **Integrated Resource Planning (IRP) Process & Central Procurement Mechanism**

- This comprehensive, technology-neutral and analytically driven energy resource procurement planning process, is focused on reducing greenhouse gas emissions, at least cost, while maintaining electric service reliability.
- Administration has proposed the establishment of a Central Procurement Mechanism to cost-effectively acquire needed, long-lead time, large and diverse clean energy resources.

- **Sustained Non-Ratepayer Funding to Support the "Clean Energy Transition"**

- In 2022, the Legislature committed ~\$18 billion over multiple-years towards clean energy development, customer bill relief, electric service reliability and transportation electrification.



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