

Electric Investor-Owned Utility

Rate Trends

Assembly Utilities & Energy Committee - Informational Hearing

March 30, 2022



California Public
Utilities Commission

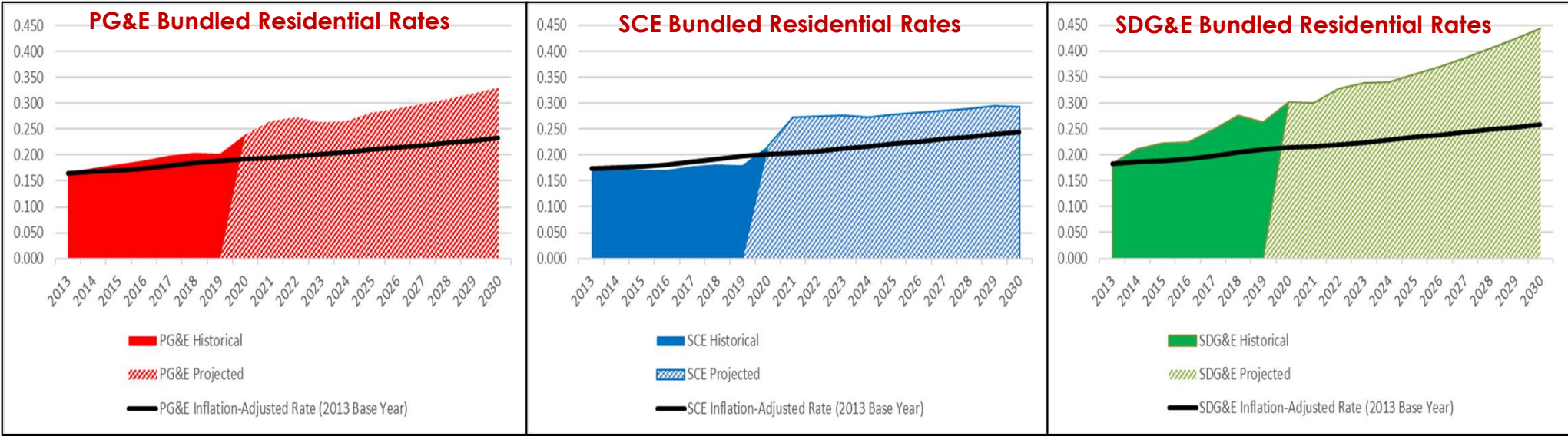
Agenda

- Forecasted Electric Investor-Owned Utility (IOU) Rate Trend
- Near-Term Cost Driver – Natural Gas
- Major Cost Drivers
- Rate & Bill Impact - Mitigation Methods
- Rate & Bill Impact - CPUC Mitigation Options
- CPUC Affordability Proceeding & Stakeholder Proposals

Forecasted Electric IOU Rate Trend

Significant Long-Term Electric IOU Rate Growth Expected*

- By 2030, bundled **residential electric rates** are forecasted to be approximately **40% (PG&E), 20% (SCE), and 70% (SDG&E) higher** than they would have been from 2013 rates if they had grown at the rate of inflation.
- This amounts to **monthly bill increases** over the course of 10 years of:**
 - \$45 for PG&E customers (from \$120 to \$165)
 - \$46 for SCE (from \$109 to \$147)
 - \$79 for SDG&E (from \$143 to \$222)



*Source: 2021 SB 695 Report to the Legislature: Utility Costs & Affordability of the Grid of the Future

**Based on 500 kWh/month average

Near-Term Cost Driver – Fossil Natural Gas

Increases in wholesale fossil natural gas increases power procurement costs

Henry Hub Natural Gas Price in Dollars Per Million Btu (2017-2021)



Graph Source: [Natural Gas Prices - Historical Chart | MacroTrends](#)

To illustrate fossil natural gas wholesale market prices, between 2020 and 2021 Henry Hub (i.e., a major pipeline pricing point) fossil natural gas prices increased by 79%, 219% and 75% for the months of August, September, and October 2021, respectively.

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Cost Driving Factors -

- Increased global demand (due to economic recovery and decarbonization policies).
- Polar vortex in the Pacific Northwest and deliverability concerns put upward demand and price pressures at all western delivery points.
- For SoCalGas and SDG&E: an outage on an El Paso interstate pipeline that serves Southern California.

Reminders:

- Price of fossil natural gas is **not regulated** and is determined by the market.
- The CPUC reviews and approves electric IOU costs and revenues through a variety of public decision-making processes.
 - Notable processes –
 - Energy Resource and Recovery Account (ERRA) - this proceeding is used to determine fuel and purchased power costs which can be recovered in rates.
 - General Rate Case (GRC)

Major Cost Drivers

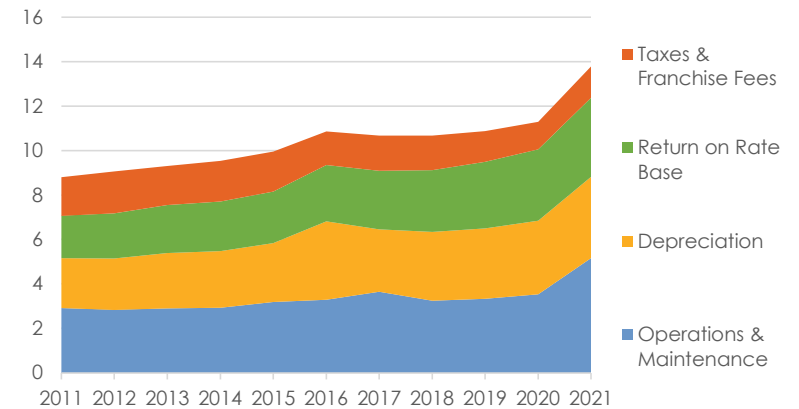
• Wildfire Mitigation Investments

- Collected in electric distribution component of rates
- Since 2011, increased 57% from \$8.79 billion to \$13.78 billion
 - Capital additions (rate-base), Depreciation, vegetation mgmt + liability insurance (O&M)
- SCE: \$385 million increase in rates on January 1, 2022
- PG&E: \$445 million increase in insurance expenses (Jul 2017- Dec 2019)

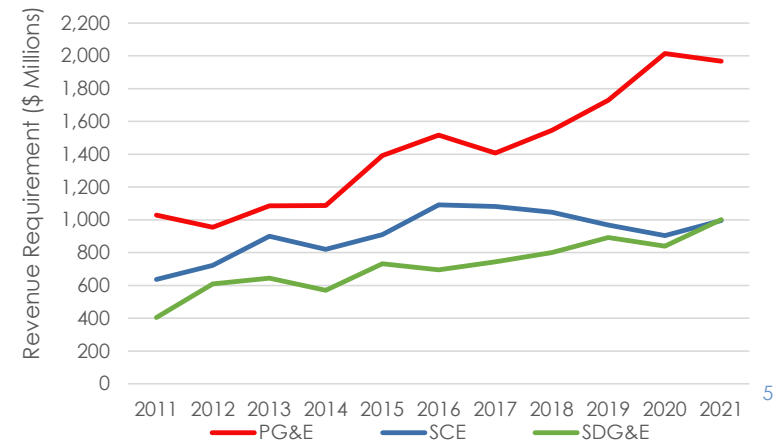
• Electric Transmission Investments

- Trending up since 2011, increasing at average **annual growth** rate of:
 - PG&E: 9.11 percent
 - SCE: 5.65 percent
 - SDG&E: 4.83 percent
- CPUC advocacy at Federal Energy Regulatory Commission results in ratepayer **savings**:
 - PG&E: \$1 billion (Rate Cases 2018-2020)
 - SCE: \$241.2 million
 - SDG&E: \$87 million

Trends in Distribution (2011-2021) – Combined IOUs



Trends in Transmission Investments (2011-2021) – By IOU



Major Cost Drivers – Cont'd

- **Growth of Behind-the-Meter Distributed Energy Resources**
 - Declining electricity sales from the deployment and use of these resources
 - Public Advocates Office estimated the **annual cost shift** from existing standard NEM tariff customers to other customers at **\$3.37 billion** in 2021.
 - For comparison, this is close to 80% of the 2021 transmission revenue requirement (\$4.3B).
 - Public Advocates Office projected that **without NEM reform**, the annual cost shift would rise to **\$6.9 billion** in 2030.

- **Transportation Electrification Infrastructure**
 - Slight effect on rates, but this is expected to have a much smaller impact than other factors

- **Extreme Weather Event Reliability Investments**
 - Additional generation, storage and electric system capacity plus more aggressive demand-side management programs cost more but ensure electric service reliability during, for example, extreme heat waves.

- **Potential Offset – Increases Sales from Electrification**
 - Increased sales from electrification will help offset rate increases, but timing and magnitude is uncertain.

IOU-reported NEM Impact on Non-Participant Ratepayer Rates + Bills*

Utility	Rate Impact	Non-CARE Annual Bill	CARE Annual Bill
PG&E	11%	\$176	\$112
SCE	9%	\$138	\$94
SDG&E	20%	\$317	\$206

*Source: IOU responses to staff data request for 2022 SB 695 Report

Ratepayer Funding for Transportation Electrification

Spent	~ \$300 million
Available	~ \$1.5 billion
Total Authorized	~\$1.8 billion

Rate & Bill Impact – Mitigation Methods

Cost Reduction

- Direct impact on electric IOU revenue requirement savings
- Generally larger rate and bill impacts relative to cost allocation changes.

Cost Allocation

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

Rate & Bill Impact – CPUC Mitigation Options

- **Financing & Securitization**

- Spreads out cost recovery but has higher transaction costs than traditional financing.
- AB 1054 authority: CPUC *authorized* **\$1.73 Billion** in securitization of wildfire mitigation capital spending (\$872 million for SCE/\$860 million for PG&E) and another **\$1.7 Billion** is *pending* authorization (for PG&E wildfire capital)
- CPUC **authorized \$7.5 Billion** as part of PG&E's court-approved Bankruptcy Reorganization Plan
- Under current statute, CPUC may allow securitization of -
 - Another **\$1.37 Billion** in wildfire capital investment
 - 2020 verified COVID-19 under-collections/arrearages
 - Securitization of COVID-19 under-collections for **SCE was denied** given higher costs over the long term to securitize what could instead be collected in a few years, and intergenerational equity concerns.



Rate & Bill Impact – CPUC Mitigation Options

- **Enhanced Review of Wildfire Investment**

- **Better tracking** of wildfire investment through coordination with of Office of Energy Infrastructure Safety (OEIS) on Wildfire Mitigation Plans, GRC, and Safety Model Assessment Proceeding/Risk Assessment Mitigation Proceedings (SMAP/RAMP)
- **Continued evaluation** of utility "risk-spend efficiency" in GRCs and RAMPs to rank proposed risk mitigations from high to low-cost efficiency
- Consideration of utility **wildfire self-insurance proposals** to avoid skyrocketing insurance premiums
- Consideration of **spending caps** and one-way balancing accounts
- **Reexamination of Return-on-Equity (ROE)** in Cost of Capital proceedings and adjust if appropriate.



Rate & Bill Impact – CPUC Mitigation Options

- **Modifications to Existing Net-Energy Metering (NEM) Tariff**
 - Reducing cost-shift from participants to non-participants will reduce electric rate impacts.
- **Integrated Resource Planning (IRP) Process**
 - This thoughtful, comprehensive and analytically driven energy resource procurement planning process helps to cost-effectively achieve clean energy goals.
 - The process is focused on outcomes - greenhouse gas emission reductions, at least cost, while maintain electric service reliability – using a technology neutral approach.
- **Bill Payment Relief Options**
 - Residential and small business **payment plans** (12 to 24 months)
 - **Arrearage Management Program (AMP)**: payment plan program with partial arrearage forgiveness.
 - **Percentage of Income Payment Program pilot (PIPP)**: 4-year payment plan pilot across major IOUs limiting arrearage payments based on established participant income caps

CPUC Affordability Proceeding & Stakeholder Proposals

- Opened in 2018 and thus far developed affordability metrics and forecasting tools
- 2021 En Banc sharpened attention on these issues
 - Results memorialized in the 2021 SB 695 Leg Report
- 2022 En Banc (Feb 28-Mar 1) brought “options” into clearer focus

Stakeholder Proposals Presented

Within Existing CPUC Authority

1. Percent of income payment plans with remainder of bills publicly subsidized.
2. Use risk-spend efficiency metrics in General Rate Case filings, and affordability metrics in all CPUC proceedings where ratepayer spending is considered
3. Require IOUs to submit Consumer Price Index PI-based alternative proposals in General Rate Cases to reduce anchor bias
4. Reduce electric IOUs' authorized Return-on-Equity.

Beyond Existing CPUC Authority (in part or whole)

1. Move wildfire mitigation investments to the states General Fund
2. Move Public Purpose Programs costs to the states General Fund
3. Implement an income-based fixed charge where the amount charged progressively increases for higher income households.
4. Pay for transportation electrification costs through a gasoline charge.
5. Determine if electrification warrants financing, securitization and/or accelerated depreciation of assets.
6. Adopt wildfire mitigation surcharges for customers in Tier 3 fire threat areas.
7. Reduce the damage cost of wildfires by applying risk-spend efficiency principles more broadly to land use and forestry management practices and develop a statewide planning framework

Thank you!



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