
**SENATE COMMITTEE ON ENERGY, UTILITIES AND
COMMUNICATIONS**

Senator Ben Hueso, Chair

2021 - 2022 Regular

Bill No:	AB 1279	Hearing Date:	6/27/2022
Author:	Muratsuchi		
Version:	6/13/2022 Amended		
Urgency:	No	Fiscal:	Yes
Consultant:	Nidia Bautista		

SUBJECT: Public utilities: rates: cost recovery

DIGEST: This bill requires electrical and gas corporations to include, on their application for cost recovery, the cumulative cost recovery, and requires the corporations to take actions if the cumulative cost recovery in the total cost exceeds the projected rate of inflation.

ANALYSIS:

Existing law:

- 1) Establishes and vests the California Public Utilities Commission (CPUC) with regulatory jurisdiction over electrical and gas corporations. (Article XII of the California Constitution)
- 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 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)
- 4) 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))

This bill:

- 1) Requires the electrical or gas corporation, as a part of their application for recovery of previously incurred costs or costs proposed to be incurred in the future, to include information in the application, including:
 - a) A comprehensive list of all applications or advice letters for cost recovery filed by the electrical or gas corporation in the past 24 months that have been authorized by the CPUC but not yet implemented through a rate change or that are pending before the CPUC.
 - b) An analysis showing the impact on current rates of the prior applications specified in paragraph (a) if those applications were all approved by the CPUC. The analysis shall include, at a minimum, a calculation of the average rate increase for each customer class and a calculation of the impact on residential customers, including those who qualify for reduced low-income rate.
- 2) Requires electrical or gas corporations, for a general rate case application, to take actions if the cumulative cost recovery request in the application added to certain amounts requested for cost recovery results in an increase in the total costs for programs under the jurisdiction of the CPUC authorized to be recovered from ratepayers that exceeds the projected rate of inflation.
 - For the period covered by the application, calculated in a manner determined by the CPUC, requires the electrical or gas corporation to provide a written justification for the increase of that size and provide an alternative proposal that would increase cost recovery no more than the projected rate of inflation.
- 3) Requires the CPUC to implement these requirements, by December 31, 2023, through an order in a new proceeding or an existing proceeding, R. 18-07-006.

Background

General Rate Case (GRC). All large utilities (as well as, many smaller utilities) regulated by the CPUC are required to undergo a GRC whereby the utility requests funding for distribution, generation and operation costs associated with their service. The GRCs are major regulatory proceedings and provide the CPUC an opportunity to perform an exhaustive examination of a utility's operations and costs with input from all stakeholders, representing consumers, business and other interests, including the Public Advocates Office at the CPUC whose accountants and analysts closely exam the requests of the utilities. Usually performed every three years (now four years) and conducted over roughly 18 months, the GRC

allows the CPUC to conduct a broad and detailed review of a utility's revenues, expenses, and investments in plant and equipment to establish an approved revenue requirement. The GRC has two phases; the first phase determines the total amount the investor-owned utility (IOU) is authorized to collect from ratepayers (referred to as the size of the pie); and the second phase determines the share of costs allocated to each customer class and the rate schedules (the slicing of the pie). Through the GRC, a utility forecasts how they will structure their operations and make investments for the next three (now four) years. Within the adopted GRC decision, a utility may be allocated funds by broad categories, although specific projects are not detailed out or monitored.

Applications and advice letters. An application is a document submitted by a utility to the CPUC requesting approval for program terms, often with corresponding rate cost recovery authorization. Applications, generally, require a formal proceeding and a vote of the commissioners at a public meeting. An advice letter is a document prepared by a utility to request action by the CPUC, including: approval, authorization, or other relief. Most commonly, advice letters are requests for a tariff change, such as an informal request for approval to furnish service under rates, charges, terms or conditions other than those contained in the utility's approved rates and terms and conditions. Advice letters are procedurally less formal than other proceedings at the CPUC that require more judicial-type elements of an evidentiary hearing. Advice letters are classified into three tiers, ranging from Tier 1 to Tier 3. Tier 1 advice letters generally become effective upon filing of the letter. However, Tier 3 advice letters require commissioners to hear the item and take a vote at a publicly noticed meeting. CPUC general rule 8.1.2 requires utilities with gross intrastate revenues of \$10 million or more to maintain all tariffs and proposed tariff changes, including submitted advice letters, on their respective utility Web site.

Energy Resource Recovery Account (ERRA). ERRA proceedings are used to determine fuel and purchased power costs which can be recovered by utilities in rates. The utilities do not earn a rate of return on these costs, and only recover actual costs. IOUs file ERRA forecast applications annually to address forecasted sales of fuel and power. The costs are forecast for the year ahead. If the actual costs are lower than forecast, then the utility gives money back, and vice versa.

Concerns about utility service affordability. In recent years, there is growing concerns that the pace of utility service rates and bills, especially for electricity and gas service, is outpacing inflation. According to data shared publicly by the CPUC, their staff analysis has noted that:

By 2030, bundled residential rates are forecasted to be approximately 40 percent (Pacific Gas & Electric (PG&E)), 20 percent (Southern California

Edison (SCE)), and 70 percent (San Diego Gas & Electric (SDG&E)) higher than they would have been if 2013 rates for each IOU had grown at the rate of inflation.

They note that cost drivers for 2022 are generally: fuel (including gas) prices, transmission, and distribution costs (including wildfire mitigation).

CPUC Rulemaking 18-07-006. The CPUC is in the midst of an active proceeding regarding affordability of utility service, which seeks to assess the impacts on affordability of individual CPUC proceedings and utility rate requests. Among its efforts, the affordability rulemaking intends to develop a framework to define criteria and develop methodologies to comprehensively assess the impacts on affordability. As one of the products of the rulemaking, the CPUC has ordered the three large electric IOUs – SDG&E, SCE and PG&E – to submit quarterly electric revenue, rate and bill data in a developed tool – known as a Tracker. The three IOUs have also been directed to develop the Tracker in conjunction with CPUC Energy Division staff.

Proposed decision. A recently released (June 10, 2022) proposed decision by the assigned Administrative Law Judge (not, yet, adopted) includes, among the recommendations, adopting policies that would require utilities to report cumulative rate impacts of outstanding proposed bill increases on a quarterly basis. The proposed decision proposes that revenue approved but not yet implemented and revenue pending CPUC consideration are served by the electric and gas IOUs on a quarterly basis to the list serve of the proceeding, along with their cost Trackers. The proposed decision notes a concern with “importing assumptions made in one proceeding into different individual proceedings,” as would be the case if the IOUs were to list this information in every application.

Comments

AB 1279. This bill is an effort to require electric and gas utilities and the CPUC, to consider the cumulative impacts of each new request from the utilities. As mentioned above, there is growing concerns about the affordability of electric and gas service. However, this bill is very prescriptive about who this should be approached. While The Utility Reform Network (TURN) has previously made a motion to require inflation—constrained alternative spending plan, most recently in the PG&E GRC, those motions have been denied largely on procedural grounds, with recommendations that the issues are better addressed in the Affordability Rulemaking. This bill’s proposal to require specified data on each application is in part addressed by the recent proposed decision in that rulemaking. Additionally, the prescriptive requirements of this bill would benefit from vetting and

consideration within the Affordability Rulemaking. As noted, these are issues that are still being worked through and addressed through the rulemaking. Opponents of this bill raise concerns that efforts to limit utility spending, including the proposal in this bill to require the IOUs to propose alternative actions when costs rise above inflation, could undermine utility safety. They note that many of the utility cost drivers are related to wildfire mitigation and safety improvements on the gas system. While concerns about increasing electric and gas utility service are very valid, it would be preferable to work through the complications of the proposed reporting and mechanisms included in this bill within the existing proceeding. *As such, the author and committee may wish to amend this bill to require the CPUC to consider these specific proposals within the Affordability Rulemaking, R. 18-07-006.*

Prior/Related Legislation

SB 959 (Beall, Chapter 409, Statutes of 2018) required each large water corporation to maintain, for a specified period of time, on its Internet Web site an archive of all advice letters filed with the CPUC on or after January 1, 2019.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: Yes

SUPPORT:

The Utility Reform Network, Sponsor

OPPOSITION:

Bear Valley Electric Service
Coalition of California Utility Employees
Liberty Utilities
Pacific Gas & Electric Company
Pacific Power
San Diego Gas & Electric
Southern California Edison
Southern California Gas Company

ARGUMENTS IN SUPPORT: According to the author:

Currently, electric and gas utilities request major rate increases in general rate cases every three or four years. However, utilities also submit numerous additional and separate applications for rate increases, which are authorized outside of the general rate case and can increase rates far higher than expected.

AB 1279 requires utilities to disclose the cumulative impact of all rate increase requests they have before the CPUC, and require them to provide justification for cumulative rate increases above inflation.

This bill provides additional relevant information to inform the decisions of Commission members when setting rates and increases transparency for ratepayers.

ARGUMENTS IN OPPOSITION: In opposition to the bill, the Coalition of California Utility Employees (CCUE) contends:

AB 1279 would hinder the IOUs' efforts to prevent wildfires, is unnecessary and should be flatly rejected. AB 1279's proposal to require an alternative spending plan capped at the rate of inflation would preclude an IOU from including necessary wildfire prevention work in its general rate case and cost recovery applications. As a result, the IOU would have to choose between not doing critical wildfire prevention work or doing the work but not recovering the costs. This is a lose-lose scenario and promises to prolong the threat of catastrophic wildfires, as well as prevent IOUs from limiting the geographic scope and duration of public safety power shutoffs.

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