Date of Hearing: May 17, 2023

ASSEMBLY COMMITTEE ON APPROPRIATIONS
Chris Holden, Chair
AB 1710 (Ta) – As Amended May 1, 2023

Policy Committee: Utilities and Energy Vote: 10 - 0

Urgency: No State Mandated Local Program: Yes Reimbursable: No

SUMMARY:

This bill prohibits an electrical corporation from proposing a rate increase above the rate of inflation, as a systemwide average, for any given general rate case cycle.

This general prohibition notwithstanding, the bill allows an electrical corporation to propose a rate increase above the rate of inflation subject to approval by the California Public Utilities Commission (CPUC), and the bill allows the CPUC to approve a rate increase above the rate of inflation if it determines those costs are directly related to safety enhancements and modernization, or to higher commodity or fuel costs.

FISCAL EFFECT:

Currently, the CPUC does not evaluate investor-owned utility (IOU) request for rate increases that exceed the rate of inflation to determine if, and to what extent, those increases are the result of safety enhancements and modernization, or higher commodity or fuel costs. Under this bill, the CPUC would conduct such evaluations. The CPUC estimates costs of approximately $514,000 for two attorneys to complete this work (Public Utilities Reimbursement Account.)

COMMENTS:

1) **Purpose**. The author intends this bill to provide "price relief" to customers of the state's IOUs. The author asserts:

> Section 747 of the Public Utilities Code declares it is the intent of the Legislature that the California Public Utilities Commission lower electricity and natural gas rates to the lowest amount possible. Despite this, Investor Owned Utilities (IOUs) have, since 2013, consistently increased energy prices above the inflation rate, forcing California residents to make difficult decisions about energy usage. IOUs function as state-sanctioned monopolies, resulting in California residents having no choice but to pay regressive and exceptionally high energy bills or suffer during extreme weather. AB 1710 would provide California residents the price relief they need and protect them against future rate hikes by restricting IOUs' authority to increase rates above inflation on average unless they obtain support from a majority of customers through a customer election.

2) **Background.** The California Constitution establishes the CPUC to, among other things, fix rates, establish rules, examine records, issue subpoenas, administer oaths, take testimony, punish for contempt and prescribe a uniform system of accounts for all public utilities subject to its jurisdiction. Such public utilities are commonly referred to as IOUs.

   Existing state law—section 451 of the Public Resources Code—makes the requirements of charges, such as rates, charged by an IOU:

   a) All charges demanded or received by any public utility, or by any two or more public utilities, for any product or commodity furnished or to be furnished or any service rendered or to be rendered shall be just and reasonable. Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful.
   b) Every public utility shall furnish and maintain such adequate, efficient, just, and reasonable service, instrumentalities, equipment, and facilities, including telephone facilities, as defined in Section 54.1 of the Civil Code, as are necessary to promote the safety, health, comfort, and convenience of its patrons, employees, and the public.
   c) All rules made by a public utility affecting or pertaining to its charges or service to the public shall be just and reasonable.

   It is the CPUC's job to authorize an IOU to collect only those rates for service that are just and reasonable.

   Nonetheless, as the author notes, rates of the state's IOUs, as approved by the CPUC, in recent years, have increased at pace beyond the rate of inflation. And increases in IOU rates are expected continue to outpace inflation in the coming years.

   Implicit to this bill is the conclusion that IOU rate increases that outpace the rate of inflation are inherently unjust and unreasonable. The bill, however, acknowledges, that there are some categories of costs that might increase out of proportion to inflation and, yet, may still be just and reasonable. For this reason, the bill wisely allows the CPUC to approve a rate increase above the rate of inflation if it determines the increase is to pay for costs directly related to safety enhancements and modernization, or to higher commodity or fuel costs. This makes sense, given that much of the recent increases in IOU rates were driven by efforts by the IOUs to keep their equipment from exploding or from sparking wildfires. And those safety-related efforts continue. Similarly, IOU rates have increased as the utilities have modernized their systems to accommodate increasingly sophisticated information technology features and a more dynamic distribution system.

   It seems likely to there are other types of legitimate or desirable IOU costs that may outpace inflation. If the CPUC is doing its job, those costs will appear in IOU rates only to the extent they are just and reasonable.

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