SENATE COMMITTEE ON APPROPRIATIONS
Senator Anna Caballero, Chair
2025 - 2026 Regular Session

AB 1117 (Schultz) - Electricity: rates: optional dynamic rate tariffs

Version: July 17, 2025
Urgency: No
Hearing Date: August 18, 2025
Policy Vote: E., U. & C. 10 - 3
Mandate: Yes
Consultant: Ashley Ames

Bill Summary: This bill would require the California Public Utilities Commission (CPUC), through a new or existing proceeding, to develop optional dynamic rate tariffs applicable to each large electrical corporation for their customers, specifically by July 1, 2028 for medium and large commercial and industrial customers, and by July 1, 2030 for residential and small commercial customers. Additionally, this bill authorizes medium and large commercial and industrial customers to receive generation service through the Direct Access (DA) program, thereby, opening the current statutory cap on this third party service.

Fiscal Impact:
- The CPUC estimates ongoing costs of about $466,000 annually (ratepayer funds) to develop optional dynamic rate tariffs applicable to each large investor-owned utility (IOU) for commercial and industrial customers on or before July 1, 2028, and July 1, 2030 for other customers, among other things.
- To the extent that this bill impacts electricity rates, it could result in costs or savings to the state as a an electric utility ratepayer. The State of California is an electricity customer, purchasing roughly one percent of the state's electricity. As such, the state incurs costs when rates increase, and realizes cost savings if rates go down (various funds).

Background:

Electricity rates. The CPUC must approve all rates – and only those that are just and reasonable – that each electric IOU charges its customers for service. The design of the rates received much attention last year with the CPUC's adoption of an income-based graduated fixed charge for residential customers. Prior to this decision (and until its full implementation), the majority of all costs to serve residential electricity customers are collected via a volumetric, per kilowatt-hour, of consumption. In general, in the late 20th century through the beginning of this century, those charges were collected via block tiered rate structures where a certain baseline of allowance of electricity for the billing cycle was collected at a particular rate and any usage beyond that tier was collected at a higher amount with potentially several increasing block tiers for the total amount consumed during the billing cycle. Block tiered rate structures were intended to encourage conservation and reduce consumption to help reduce overall costs on the electric system.

Time-of-use (TOU) rates. With the passage of AB 327 (Perea, Chapter 611, Statutes of 2013) block tier rate structures were both collapsed (and uncapped) and new TOU rates were authorized. In 2015, the CPUC issued a decision (*D.15-07-001*) providing specific

steps for the large electric IOUs to reform the residential rate structure with an envisioned end-state of default TOU rates for residential customers in 2019. TOU rates were intended to better reflect the costs of electricity during the day, with peak prices during the time of day with the highest demand and when additional resources are needed to serve load. TOU was seen as an improved design for more accurate price signals over the block tiered rate structures, particularly to better account for the changing conditions on the electric grid with the increasing amounts of intermittent renewable energy resources (such as solar and wind) and the need to continue to rely on natural gas plants for electricity during the peak load (and net peak load when solar and wind are not available). Ultimately, the CPUC authorized the large electric IOUs to implement default TOU rates, generally, with the highest rates during the 4pm-9pm hours of each day (including weekends), and with seasonal differences, with the highest rates in the summer months when demand is the highest (largely due to air conditioning needs) and supplies can be constrained (diminishing hydroelectric generation and late summer or storm effects on intermittent resources). Other times of the day would have lower rates with varying rates for the nighttime, morning, and midday. Given the significant change TOU rates meant for customers, the CPUC decision also required electric IOUs to provide extensive customer and public messaging, as well as, opportunities for customers to opt out and protections for the first year of default TOU rates that ensured residential customers would not experience an overall increase in their bill for the first year of implementation. The rollouts were also timed independently for each electric IOU, based on their systems. In the case of other customers, including commercial and industrial customers, in many instances they were already required to be served on TOU rates, in some cases since the 1980s.

The next frontier of rate design – dynamic rates. As the California Energy Commission (CEC) has noted, time-dependent rates are designed to reflect the time-dependent marginal cost of electricity more accurately, on a daily, hourly, or sub-hourly basis. The more closely retail prices are aligned with marginal costs in space and time, the better customers can manage flexible loads, enabling further development of carbon-free supply resources and improving system efficiency. Time-varying electricity rates are designed to mirror the variability in wholesale electricity prices, with the intended effect of discouraging electricity use during periods of high demand and encouraging use when supplies are plentiful. While TOU rates are a form of time-dependent rates, real-time (or dynamic) rates have been the focus of the next frontier of electricity rate design as they better reflect market conditions in near real-time. The concept is to allow the real-time supply and demand of wholesale electricity prices to be reflected at particular time intervals to customers and thereby allowing customers to adjust their consumption based on these prices. This is somewhat similar to the real-time pricing that had been prevalent for long-distance telephone service (though it is no longer a common feature) or as is experienced by surge pricing for ride-hailing services, such as Uber and Lyft, when prices rise with increased demand.

State actively pursuing optional dynamic rates. California has been actively (but cautiously) studying and piloting dynamic rates, with particular concerns about potential impacts to electric grid reliability, overall costs on the system, impacts to customers (especially vulnerable customers), fairness in rate recovery among customers, and other concerns. The rapid growth of electric end uses – including electric vehicle charging, DERs, and building decarbonization – presents new challenges and

opportunities for coordinating demand flexibility to meet system needs on a regular basis.

CPUC Proceeding on demand flexibility (R.22-07-005) Order Instituting Rulemaking to Advance Demand Flexibility through Electric Rates. In July 2022, the CPUC opened a rulemaking to establish demand flexibility policies and modify electric rates to advance the following objectives: (a) enhance the reliability of California's electric system; (b) make electric bills more affordable and equitable; (c) reduce the curtailment of renewable energy and greenhouse gas (GHG) emissions associated with meeting the state's future system load; (d) enable widespread electrification of buildings and transportation to meet the state's climate goals; (e) reduce long-term system costs through more efficient pricing of electricity; and (f) enable participation in demand flexibility by both bundled and unbundled customers. As an early basis of the proceeding, in June 2022, the CPUC's Energy Division released a whitepaper, *Advanced Strategies for Demand Flexibility Management and Customer DER Compensation*, a proposal for California Flexible Unified Signal for Energy (CalFUSE) that includes integrating real-time price signals in customer rates with better DER management. The whitepaper proposed strategies for advancing demand flexibility through a universally accessible, dynamic, and economic signal.

Proposed Law: This bill would:

1. Make several findings and declarations concerning dynamic rates and state the intent of the Legislature to establish optional dynamic rate tariffs for electricity customers.

2. Require the CPUC, through a new or existing proceeding, to develop optional dynamic rate tariffs applicable to each large electrical corporation for the large electrical corporation's customers.

3. Require at least one optional dynamic rate tariff for each segment of medium and large commercial and industrial customers on or before July 1, 2028, and at least one optional dynamic rate tariff for each segment of residential and small commercial customers on or before July 1, 2030.

4. Require each optional dynamic rate tariff to include, at minimum, specified components, including time-varying transmission and distribution rates that reflect dynamic grid constraints, a time-varying generation rate that reflects wholesale market conditions, and non-bypassable charges, as specified.

5. Require the CPUC to ensure, among other things, any overcollection of transmission-, distribution-, and generation-related revenue requirements from participating bundled customers is returned to the participating bundled customers and any undercollection of those revenue requirements is borne by those same customers.

6. Require that any overcollection of transmission- or distribution-related revenue requirements from unbundled customers be returned to the same unbundled customers, and any undercollection of those revenue requirements be borne by those same customers.

7. Require that any customer of an electrical corporation with an installed smart meter who chooses to take service under an optional dynamic rate tariff be provided access to their own interval usage data directly from the smart meter as that data is generated.

8. Require the CPUC to determine whether each large electrical corporation would be required to allow medium and large commercial and industrial customers taking service under an optional dynamic rate tariff to also participate in supply-side resource demand response programs, as provided.

9. Require the CPUC to consider rules or conditions on participation by vulnerable residential customers to ensure adequate protection for those customers, specifically those receiving income-based and medical necessity rate assistance.

10. Require the CPUC to incorporate the load shift and load reduction effects of dynamic rate adoption in proceedings on revenue requirement cost recovery, as provided.

11. Require the CPUC to ensure load-serving entities provide adequate electricity bill comparison information to residential and small business customers interested in taking service under an optional dynamic rate tariff.

Related Legislation:

SB 541 (Becker) of 2025, would require the CEC, as part of each integrated energy policy report, to identify incremental load shifting targets to meet the statewide load-shifting goal, including biennial adjustments to the goal.

SB 846 (Dodd, Chapter 239, Statutes of 2022) among its many provisions, required the CEC to adopt a load shifting goal to reduce net peak electrical demand.

SB 237 (Hertzberg, Chapter 600, Statutes of 2018) directed the CPUC to make changes to the existing DA service program, which authorizes direct energy transactions between electricity suppliers and retail end-use customers, including: (1) increasing the annual maximum allowable limit of the DA service program by 4,000 GWh for non-residential customers; and (2) require the CPUC to provide recommendations to the Legislature, with specified findings, on the adoption and implementation of a second direct service transactions reopening schedule.

AB 327 (Perea, Chapter 611, Statutes of 2013) among its many provisions, restructures the rate design for residential electric IOU customers. Status.

SB 695 (Kehoe, Chapter 337, Statutes of 2009) among the provisions, allowed the expansion of DA service to individual retail non-residential end-use customers up to the total annual kilowatt-hours supplied by electric service providers for any year after April 1, 1998 approximately doubling enrollment in the DA program.

AB 1X (Keely, Chapter 4, Statutes of 2001) suspended DA until the Department of Water Resources no longer provides power.

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