

COMMENTS:

- 1) **Purpose.** The author intends this bill, at a minimum, to increase the “transparency and accountability of the utility rate-setting process,” ideally with the effect of reducing utility rate increases. According to the author:

Californians pay the highest electricity rates in the nation, at more than double the national average. Since 2014, residential electricity rates have climbed as much as 101 percent, which is more than 2.5 times the rate of inflation, leaving more than 2.3 million households behind on their energy bills. As the cost of living continues to rise, the Fighting for Affordable Informed Rates (FAIR) Act would require investor-owned utilities to submit an affordability budget, ensuring that rate increase decisions better reflect the realities facing families, workers, and small businesses across California.

- 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—specifies the requirements of charges, such as rates, imposed 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. The main way the CPUC reviews rates proposed by an IOU is through the GRC, which is a proceeding to address the costs of operating and maintaining the utility system and the allocation of those costs among customer classes. A GRC involves thousands of pages of documents, invites adversarial multi-party input and concerns billions of dollars of revenue. Each of the state’s largest electrical IOUs—Pacific Gas and Electric (PG&E), Southern California Edison (SCE) and San Diego Gas and Electric (SDG&E)—must file a GRC application with the CPUC once every four years.

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

While this bill establishes the rate of inflation as a reference point against which to assess IOU rate increase requests, it nonetheless acknowledges that there are some categories of costs that might increase out of proportion to inflation and yet still be just and reasonable. 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.

This bill is sponsored by The Utility Reform Network, an organization that advocates on behalf of residential utility customers, which writes:

Addressing the affordability crisis starts with applying more scrutiny to escalating IOU spending. Using inflation (as defined by the Social Security Cost of Living Adjustment) as the benchmark for applying more scrutiny is appropriate given the various economic pressures faced by residential households.

The bill is opposed by the IOUs and the Chamber of Commerce, which describes the bill as prioritizing “optics over reliability and safety” and describes addressing the real drivers of rate increases” as a “more effective approach.”

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