San Diego County Taxpayers Association
Taxpayers watchdog since 1945
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SUMMARY SHEET

DRAFT – AB 327 Electricity: Natural Gas: Rates. – DRAFT

July 2013

SUMMARY OF RECOMMENDATIONS

Staff Recommendation: **SUPPORT**

Staff Rationale for Position:

There is an ever-increasing subsidization of low-use customers by high-use customers. This is due to increases in energy rates and a dated law passed in response to the energy crisis of 2000/2001. California's renewable portfolio requirements are becoming less achievable as the cost of meeting the portfolio requirements are borne by a decreasing base of high-use customers. AB 327 would give back full control of rate design to the Public Utilities Commission, where the expertise in the field is housed, while providing clear guidance to ensure low-income ratepayers' service is affordable.

TEWI Committee Recommendation (Yes-No-Abstain): **SUPPORT (9-0-0)**

TEWI Committee Rationale for Position: See Staff Rationale.

Executive Committee Recommendation (Yes-No-Abstain): **SUPPORT (10-0-0)**

Executive Committee Rationale for Position: See Staff Rationale.

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DRAFT – AB 327 Electricity: Natural Gas: Rates. – DRAFT

July 2013

Title: Electricity: natural gas: rates.

Jurisdiction: California

Type: Statute

Vote: Majority

Status: Passed Assembly. Waiting to be heard on Senate floor.

Issue: In 2001, the legislature froze the per-unit price of electricity for low amounts of use in an attempt to protect the poor, limiting the Public Utilities Commission's (PUC) ability to design rates. Customers that use large amounts of energy, subsidize customers that typically do not at ever-increasing rates as a result.

While the intent was to protect the lowest income customers, this only occurs to an extent. A clear result is that the increased revenues needed for utilities to comply with California's renewable portfolio requirements are borne by relatively high-use ratepayers. High-use ratepayers, facing high rates, are incentivized to avoid the quickly increasing rates by conserving as well as investing in efficiency and on-site generation. As a result, the cost of meeting the renewable portfolio requirements is increasingly borne by a smaller base of high-use customers. The ability to meet California's renewable portfolio requirements will be compromised if this base shrinks too much.

Description: AB 327 removes the existing limit regarding the PUC's authority to change the per-unit price of electricity for low-use ratepayers and requires utilities to establish new rates.

Fiscal Impact: Minor direct fiscal impact to pay for the establishing of new rates by PUC.

Proponents: There are over 100 supports listed on the most recent analysis from the Legislative Analyst's Office including:

- County of Tulare Board of Supervisors
- Ed Gallo, Council Member, City of La Mesa
- Ernest Ewin, Council Member La Mesa
- Gary Kendrick, Council Member, City of El Cajon
- Kern County Taxpayers Association
- Mark Muir, Council Member, City of Encinitas
- Pacific Gas and Electric
- Sam Abed, Mayor, City of Escondido
- San Diego Gas and Electric
- Southern California Edison

Opponents: The following four groups are of the all registered opposition listed on the most recent analysis from the Legislative Analyst's Office:

- AARP California
- Division of Ratepayer Advocates (DRA)
- The Greenlining Institute
- The Utility Reform Network

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DRAFT – AB 327 Electricity: Natural Gas: Rates. – DRAFT

May 2013

SDCTA Position: **SAVE FOR FINAL BOARD ACTION**

Rationale for Position: **SAVE FOR FINAL BOARD ACTION**

Title: Electricity: natural gas: rates.
Jurisdiction: California
Type: Statute
Vote: Majority
Status: Passed Assembly. Waiting to be heard on Senate floor.
Issue: In 2001, the legislature froze the per-unit price of electricity for low amounts of use in an attempt to protect the poor, limiting the Public Utilities Commission's (PUC) ability to design rates. As a result, customers that use large amounts of energy subsidize customers that do not at ever-increasing rates. While the intent was to protect the lowest income customers, this only occurs to an extent. A clear result is that the increased revenues needed for utilities to comply with California's renewable portfolio requirements are borne by relatively high-use ratepayers. High-use ratepayers, facing high rates, are incentivized to avoid the quickly increasing rates by conserving as well as investing in efficiency and on-site generation. As a result, the cost of meeting the renewable portfolio requirements is increasingly borne by a smaller base of high-use customers. The ability to meet California's renewable portfolio requirements will be compromised if this base shrinks too much.
Description: AB 327 removes the existing limit regarding the PUC's authority to change the per unit price of electricity for the lower tiers.
Fiscal Impact: Minor direct fiscal impact to pay for the establishing of new rates by PUC.

Background:

Energy Crisis of 2000/2001
After the California electricity market was deregulated and opened up to competition, the system was vulnerable to market manipulation due to a flawed market design.[1] Artificially created energy shortages caused spiking wholesale prices, rolling blackouts, an official statewide "state of emergency" and ultimately extreme financial troubles for Investor Owned Utilities (IOU) including the bankruptcy of Pacific Gas & Electric.

AB 1-X (2001): Response to the Energy Crisis
Assembly Bill (AB) 1-X was created in response to the energy crisis. As a ratepayer protection measure, the ability to raise the per-unit cost of electricity for low-use residential ratepayers was taken away from the PUC. In addition, AB1-X enabled the California Department of Water Resources to purchase energy on behalf of the IOUs.

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[1] Federal Energy Regulation Commission. "Price Manipulation in Western Markets". March 26, 2003. http://www.ferc.gov/industries/electric/indus-act/wec/enron/summary-findings.pdf.

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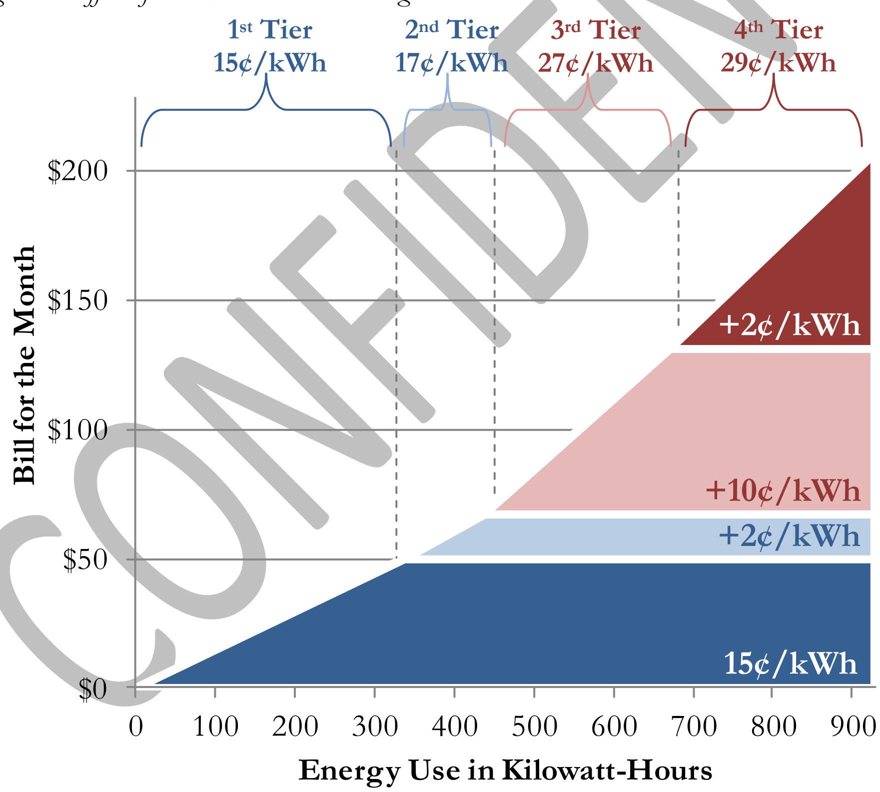
SB 695 (2009) and the California Alternate Rates for Energy (CARE) Program
Senate Bill (SB) 695 altered the restriction on the PUC's authority to raise rates for low-use ratepayers. SB 695 allowed the PUC to increase rates for low-use ratepayers to compensate for general inflation moving forward (specifically by one percentage point higher than the Consumer Price Index not to go below three percent and not to exceed five percent).

In addition, SB 695 initiated the creation of the low-income customer assistance program California Alternate Rates for Energy (CARE).[2] Under CARE, households with 200 percent or less of the federal poverty level are provided a percentage discount dependent on level of need as high as 35 percent on their bill. This discount is funded by an equal cost per unit of energy on other customers.

Tiered Structure
In order to create a stronger incentive to conserve, the per-unit (kilowatt-hour) fee for electricity charged of ratepayers is higher for larger amounts of energy use. For the first kilowatt-hour (kWh) of use, ratepayers are currently charged just under $0.15 per kilowatt-hour. At predefined levels of energy use in a given month, the rate increases for only the additional kilowatt-hours of use.

Bills are designed to increase at a faster rate as the ratepayer uses more and more electricity. For example, the rate structure sets the price of the 800th kWh at nearly double the price of the first. The following graph illustrates the tiered rate structure's effect on the bill of a high-use ratepayer.

Figure 1: Effect of Tiered Structure on a High-Use Customer's Bill



Note: Inland customer with electricity powered water heater illustrated here for a summer month.
Sources: SDCTA, SDG&E

[2] http://www.leginfo.ca.gov/pub/09-10/bill/sen/sb_0651-0700/sb_695_bill_20091011_chaptered.html

Baseline

A calculation was made to determine an amount of energy that everyone should have access to at affordable rates. The result is known as "baseline" and ranges from 50 to 70 percent of average consumption for each climate zone. Other variables that may impact baseline include whether home and/or water heating are powered by electricity or gas, and whether there are special medical needs for additional electricity. The quantity of electricity within each pricing tier varies primarily based on region.[3] The range of energy use in each tier is an allowance originally based on average consumption for each climate zone.

As demonstrated in the following table, the baseline is the basis of calculating the quantity of electricity allocated to each tier.

Table 1: Basis for Rates by Tiers

Amount Applicable to	Tier	Summer Rate	Winter Rate
Baseline	Tier 1	$0.14764	$0.14764
101% to 130% Baseline	Tier 2	$0.17077	$0.17077
130% to 200% Baseline	Tier 3	$0.27388	$0.25607
Above 200% Baseline	Tier 4	$0.29388	$0.27607

Sources: SDCTA, SDG&E

SDCTA Past Positions

None known.

Proposal:

AB 327 directs the Public Utilities Commission (PUC) to establish new rates and removes the limitation regarding the ability to raise rates one and two previously imposed by the state as a response to the Energy Crisis of 2000/2001.[4]

In addition, AB 327:

- Requires the PUC to ensure residential rates are "fair, equitable, and reflect the costs to serve those customers."
- Requires the PUC to report to the legislature by January 31, 2014 regarding tiered rates within the Order Instituting Rulemaking process.
- Requires the PUC to "ensure CARE program participants receive affordable electric and gas service that does not impose an unfair economic burden on those participants."
- Establishes the following rate design principles to be followed by the PUC:
  - (1) Low-income and medical baseline customers should have access to enough electricity to ensure that basic needs, such as health and comfort, are met at an affordable cost.
  - (2) Rates should be based on marginal costs.
  - (3) Rates should be based on cost-causation principles.
  - (4) Rates should encourage conservation and energy efficiency.
  - (5) Rates should encourage the reduction of both coincident and noncoincident peak demand.
  - (6) Rates should be stable and understandable and provide customer choice.
  - (7) Rates should generally avoid cross-subsidies, unless a cross-subsidy appropriately supports explicit state policy goals.
  - (8) Incentives should be explicit and transparent.
  - (9) Rates should encourage economically efficient decisionmaking.

[3] http://www.cpuc.ca.gov/PUC/energy/Electric+Rates/Baseline/baselineintro.htm

[4] Assembly Committee on Appropriations. Analysis of AB 327. May 15, 2013.

(10) Transitions to new rate structures should be accompanied by customer education and outreach that enhances customer understanding and acceptance of the new rates, and should minimize and appropriately consider the bill impacts on customers associated with the transition.

Policy Implications:

Ratepayers
By lifting the requirement to only raise tiers one and two by the rate of inflation, it is expected that the PUC will raise the rate of those tiers. If this is the case, the PUC would also lower, or raise to a lesser degree, the rate of the higher tiers as rates are set to recover the amount it takes to manage the grid. This will create less punitive higher tiers and less of an incentive to conserve than would otherwise exist.

Those currently paying for energy primarily in the lower tiers would see an increase in their bill while those paying for energy primarily in the higher tiers would see a decrease in their bill.

To the degree that level of energy usage correlates with income, lower income ratepayers will disproportionately be negatively affected. The strength of this correlation is questionable as other factors directly correspond to a ratepayer's ability to avoid paying the higher rates. The ability to conserve is highly dependent on region and income. For example, ratepayers in moderate coastal climates may choose not to run their air conditioner to conserve, while an East County ratepayer may not reasonably have that option. Another example is that a ratepayer with disposable income would be able to invest in energy efficient appliances or weatherization in order to avoid paying the higher tier rates.

The increased revenues needed for utilities to comply with California's renewable portfolio requirements are borne by relatively high-use ratepayers. High-use ratepayers, facing high rates, are incentivized to avoid the quickly increasing rates by conserving as well as investing in efficiency and on-site generation. As a result, the cost of meeting the renewable portfolio requirements is increasingly borne by a smaller base of high-use customers. The ability to meet California's renewable portfolio requirements will be compromised if this base shrinks too much.

Protecting Low-Income Ratepayers
AB 327 does not change rates in of itself, but rather allows the PUC to once again have authority over the bottom two tiers. The bill appears to recognize the need to protect low-income ratepayers in several ways. One is by clarifying that the intent is to ensure "CARE program participants receive affordable electric and gas service that does not impose an unfair economic burden on those participants." Another is by including, as the first principal that must be considered by the PUC when changing rates is "low-income and medical baseline customers should have access to enough electricity to ensure that basic needs, such as health and comfort, are met at an affordable cost."

Fiscal Impact: Minor direct fiscal impact to pay for the establishing of new rates by PUC.

Proponents: There are over 100 supports listed on the most recent analysis from the Legislative Analyst's Office including:

- County of Tulare Board of Supervisors
- Ed Gallo, Council Member, City of La Mesa
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- Kern County Taxpayers Association
- Mark Muir, Council Member, City of Encinitas
- Pacific Gas and Electric

- Sam Abed, Mayor, City of Escondido
- San Diego Gas and Electric
- Southern California Edison

Proponent Arguments:

- The two lower tiers were frozen in response to the energy crisis that has long been history.
- The PUC is the appropriate government agency to design rates and should be provided the flexibility to do so effectively.

Opponents: The following four groups are of the all registered opposition listed on the most recent analysis from the Legislative Analyst's Office:

- AARP California
- Division of Ratepayer Advocates (DRA)
- The Greenlining Institute
- The Utility Reform Network

Opponent Arguments:

- Allowing the PUC to raise rates for the two lower tiers will disproportionately impact low-income ratepayers in a negative way.