



March 19, 2021

Via E-Mail ([CostsEnBanc@cpuc.ca.gov](mailto:CostsEnBanc@cpuc.ca.gov))

**RE: Center for Energy Efficiency and Renewable Technologies Informal  
Comments on Electric Costs and Rates En Banc**

Dear California Public Utilities Commission:

The Center for Energy Efficiency and Renewable Technologies (CEERT) submits these Informal Comments on the February 24, 2021 Energy Rates and Costs En Banc (En Banc) and the corresponding Commission Staff white paper, *Utility Costs and Affordability of the Grid of the Future: An Evaluation of Electric Costs, Rates, and Equity Issues* (Staff white paper).

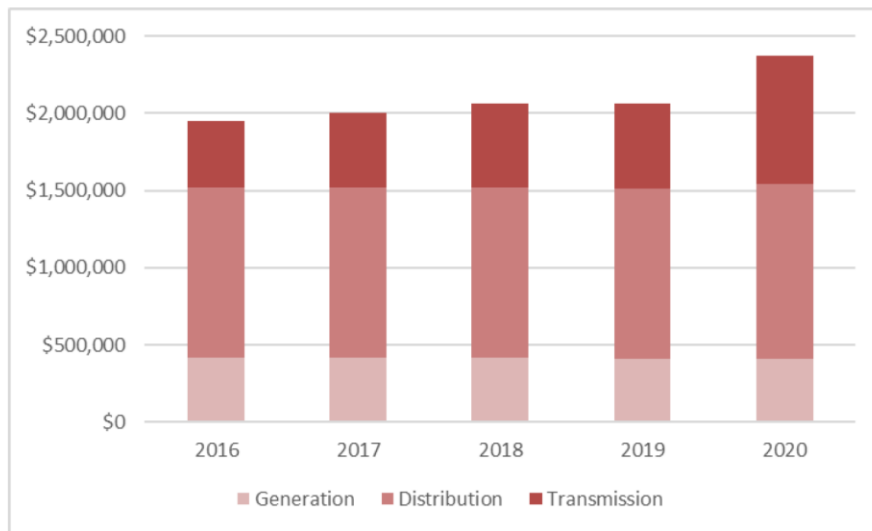
CEERT acknowledges the severity of energy rate and equity issues in California, involving both increases in revenue requirements and how these are collected in consumer rates – especially as they disproportionately affect the State’s low-income customers. Land use and criteria pollutant emissions associated with fossil fuel generation often disproportionately impact many of these same communities, the State must ensure that the goals of affordable *and* clean energy are realized. Without the State’s most vulnerable communities at the forefront, California’s clean energy transition will never be fully successful. Thus, CEERT wholeheartedly agrees that low-income rate payers must be protected from rate and bill impacts.

CEERT appreciates the Commission staff attempting to frame key rate issues, but believe the white paper misses some key points. CEERT’s main concern with the analysis outlined in the white paper, is that it is neither detailed nor holistic enough to successfully analyze and mitigate the causes of California’s rate increases. It is natural for the Staff to first analyze the piece of the puzzle that it directly regulates; however, there is a need to dig deeper into the nuances and, examine all the relevant aspects of consumer energy bills and rates. Too little attention is paid in this analysis to e.g., natural gas bills and rates or water issues, as the economy is transformed in reaction to rapidly changing technology and climate change CEERT urges the Commission to take a closer look at the real drivers of of rate and bill increases in the State, and recognize that it is not just a result of investment and related costs, but rather how the utilities allocate and collect these costs. As such, CEERT offers the following comments in response to the En Banc and Staff white paper.

## I. Transmission Costs

According to the Staff white paper, Southern California Edison (SCE) and San Diego Gas and Electric's (SDG&E's) increase in rates can be largely attributed to increases in capital additions and rising investments in the distribution system.<sup>1</sup> By comparison, Pacific Gas and Electric's (PG&E's) steep increase in rates over the past 2 years can largely be attributed to increases in capital additions and rising investments in the transmission system.<sup>2</sup> To illustrate, CEERT wishes to draw attention to Figure 15, showing PG&E's Return on Electric Rate Base Revenue Requirement.<sup>3</sup>

Figure 15: PG&E, Return on Electric Rate Base Revenue Requirement (\$000), Nominal Rates in Effect January 1



Transmission investments can be divided into three buckets based on use: 1) network expansions for energy flow to support load growth and reliability; 2) generator interconnection; and 3) capital maintenance on the existing system. Categories 1 and 2 are approved through the California Independent System Operator's (CAISO's) Transmission Planning Process (TPP). Costs are recovered in FERC jurisdictional rate base that are paid by all users of the CAISO grid in the Transmission Access Charge (TAC) that is a component of CPUC jurisdictional consumer rates as shown in Figure 15. Category 3 is termed "self-approved"<sup>4</sup> by the utility in this analysis but is also

<sup>1</sup> Utility Costs and Affordability of the Grid of the Future: An Evaluation of Electric Costs, Rates, and Equity Issues, at p. 7.

<sup>2</sup> *I.d.*

<sup>3</sup> *I.d.*, at p. 25.

<sup>4</sup> This term is misleading. Clearly, the CPUC oversees and regulates PG&E as to its maintenance budgets and practices, and both the expenditures themselves and how they are recovered in rates is adjudicated at FERC with robust intervention by all users of the grid.

recovered in the FERC jurisdictional TAC. As displayed in Table 11 below,<sup>5</sup> capital maintenance investment, or “self-approved” projects, have disproportionately exploded in PG&E’s territory.

**Table 11: CAISO-approved and Utility Self-approved Projects 2010-2019 (\$000)**

Utility	Self-approved Projects	CAISO-approved Projects	Total Capital Additions	Percentage Self-approved	Percentage CAISO-approved
<b>SDG&amp;E</b>	\$ 0.81 million	\$ 3.99 million	\$ 4.80 million	16.9%	83.1%
<b>SCE</b>	\$ 1.18 million	\$ 5.08 million	\$ 6.26 million	18.9%	81.1%
<b>PG&amp;E</b>	\$ 6.16 million	\$ 2.77 million	\$ 8.93 million	69.0%	31.0%
<b>Total</b>	<b>\$ 8.15 million</b>	<b>\$11.84 million</b>	<b>\$19.99 million</b>	<b>40.8%</b>	<b>59.2%</b>

Furthermore, PG&E’s investment allocation, where percentage of self-approved projects significantly outweighs that of CAISO-approved projects, shows a starkly opposite trend to that of SCE and SDG&E. PG&E’s self-approved projects comprise over 30% of total capital additions across all three investor-owned utilities (IOUs).

The Commission must evaluate the cause of this disparity. The Staff whitepaper states:

“While the utilities have made major financial commitments to wildfire mitigation and transportation electrification, these costs have not been fully reflected in rates so far. This paper finds that transportation electrification investments are not expected to contribute to significant rate growth in the near term, but that wildfire mitigation efforts will.”<sup>6</sup>

If wildfire mitigation efforts have not been fully reflected in the rate base, yet PG&E’s Return on Electric Rate Base Revenue Requirement for capital maintenance increased steeply from 2019 to 2020, as displayed in Figure 15 above, more significant increases are to come shortly.

Additionally, the white paper states that it

“...does not explore a comprehensive, detailed breakout of all essential cost categories and their incremental impacts on IOU rates, [but instead]... evaluates select areas of projected costs of specific programs and policy priorities, including transportation electrification and wildfire mitigation plan implementation.”<sup>7</sup>

<sup>5</sup> *I.d.*, at p. 39.

<sup>6</sup> Utility Costs and Affordability of the Grid of the Future: An Evaluation of Electric Costs, Rates, and Equity Issues, at p. 7.

<sup>7</sup> Utility Costs and Affordability of the Grid of the Future: An Evaluation of Electric Costs, Rates, and Equity Issues, at p. 3.

CEERT believes that a more comprehensive analysis of transmission costs is essential to strike the balance between effectively mitigating rate and bill impacts and successfully decarbonizing the electric grid while maintaining reliability and resilience. By failing to distinguish between wildfire mitigation transmission investments, other capital investments, and between the three transmission investment categories more generally, the analysis obscures the necessary information to pinpoint the origin of rate increases and point the way to mitigation strategies. In addition, the general justification for Category 1 and 2 expenditures in the TPP is to reduce generation costs, as displayed in Figure 15 by the bottom-most bar showing a flat to declining trend over the past 5 years. New transmission build either allows access to lower cost existing generation or allows interconnection of new lower cost generation. This transmission generated reduction in generation costs is completely ignored in the Staff analysis, and thereby undervalues the contribution which expanded transmission investments can make in customer cost and rates.

As an aside, CEERT attempted to begin its own analysis by accessing the new PG&E “STAR” spreadsheet<sup>8</sup> where all of these costs are recorded, only to find that most of the information was behind a confidentiality firewall in a 1,600-element spreadsheet that only contained the project name without any indication of purpose or status. In December of 2020, this STAR process replaced the twenty-year-old practice of routinely disclosing Category 1 and 2 expenditures along with construction status, estimated final cost and on line date with a brief explanation of recent milestones in the so called “AB 970 Reports.” These reports were mandated by act of the Legislature following the Energy Crisis of 2000-2001 at another time when there was a rush to build new generation. Transmission investment to accommodate that rush was the controlling issue for placing the needed new generation in service. Now is not the time to hide this information from public scrutiny.

CEERT strongly agrees that rate and bill increases in California must be addressed and mitigated as the State continues to decarbonize its economy to ensure a just and equitable transition. However, failure to conduct a thorough and robust analysis of transmission costs risks creating market uncertainties and stifling necessary innovation. Thus, the Commission should break the transmission investment categories out from the general “transmission” return on rate base revenue requirement group to more granularly analyze where exactly transmission costs are originating, especially in PG&E’s service territory, as well as where these investments will reduce generation costs.

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<sup>8</sup> Can be found at the following link and by selecting “STAR” from case dropdown menu: [https://urldefense.com/v3/\\_https://pgera.azurewebsites.net/Regulation/search\\_!!AKBAnel1!G!afefZlozIEtUyAE5rHZf2AlrcYNhvrwoNbV-JdVLaY6Kb1rAWTYtap\\_VzQqA\\$](https://urldefense.com/v3/_https://pgera.azurewebsites.net/Regulation/search_!!AKBAnel1!G!afefZlozIEtUyAE5rHZf2AlrcYNhvrwoNbV-JdVLaY6Kb1rAWTYtap_VzQqA$)

## II. Transmission Ownership and Financing

Given that California's clean energy transition will require a certain amount of infrastructure investment, CEERT strongly recommends the Commission extend its analysis to evaluate solutions for how to fund those transmission expenses before they reach ratepayers. The FERC regulated TAC grants a generous Rate of Return to the utility that is then grossed up for taxes. The result is the equivalent of an interest rate on financing those investments of approximately 18%.

The Commission should evaluate the opportunities for publicly financed or State-owned transmission, as mentioned by Betony Jones during the February 24<sup>th</sup> en banc hearing. Financing the same transmission expenditure with, say, a tax free, State backed revenue bond would yield an interest rate equivalent to roughly 5%. This is the equivalent of a consumer refinancing his credit card debt through a home equity loan to lower his monthly payments. This is a viable avenue<sup>9</sup> through which to fund new transmission projects, such as those needed for offshore wind or long-duration energy storage. Additionally, CEERT strongly recommends the Commission also analyze cooperative development of major transmission projects with the State's municipal utilities such as Los Angeles Department of Water and Power (LADWP) or the Sacramento Municipal Utility District (SMUD) who are engaged in similar parallel efforts for the same reasons and to the same purpose as the IOUs regulated by the Commission.

## III. Gas Prices

The white paper is strangely silent on the issue of commodity and burner tip prices, capital investments for reliability and resilience, and rate recovery issues associated with the natural gas system. The results of this process appear on the same monthly customer bill in the PG&E and SDG&E service territories but appear on a separate bill from Southern California Gas Company (SoCalGas) in the SCE service territory. Very similar rates and bills issues exist with the natural gas system and all of the relevant utilities are regulated by the Commission.

Although the commodity price of natural gas near producing regions such as Henry Hub in Louisiana have been remarkably stable and generally declining on average for the past decade, "burner tip" prices – where the gas is consumed in California – have not been stable over the same time frame. Starting with the San Bruno explosion in 2010, to the Eastern polar vortex event in 2011, to the Aliso Canyon disaster in 2015, to the discovery of systemic corrosion in SoCalGas' transmission lines in the California desert with a "minor" explosion in 2017, to last month's repeat polar vortex event leading to the

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<sup>9</sup> This is not to say that ALL transmission expenses could or should be financed through this mechanism.

collapse of the Texas electric grid, a series of “once in a lifetime” events have roiled through the gas system both nationally and locally. Each time, this wave has crashed on California shores with significant consequences for both natural gas and electricity rates in California.

The cumulative impact of these events is several billion dollars in rate increase to California consumers in addition to direct economic and environmental damages resulting from the local “events.” Once again, the burden of both the direct damages and the financial consequences have fallen disproportionately on low-income consumers and disadvantaged communities. The same issues of “needed” significant capital expenditures to shore up an aging existing critical infrastructure coupled with the same rate recovery and consumer equity issues exists in natural gas as exist in electricity, and as discussed in the white paper. The consumer concerned with “utility bills” should be forgiven for not really understanding this phenomenon or making this distinction.

Moreover, the gas and electric systems are coupled due to what CEERT and many other parties consider to be over-reliance on natural gas for electricity production that conflicts with long term policy goals of decarbonizing the grid as well as the broader economy. This coupling of high spot gas prices fueling the most inefficient gas plants serving the electric grid, causing a spike in spot electricity prices that flow through the entire electric system, whether served by more efficient gas or non-fossil generation, is all buried in a rate recovery account called Energy Resource Recovery Account (ERRA), a large fraction of the “generation” bar on Figure 15 for each utility. As long as this account balance does not exceed a very high threshold in any one year, the funds are automatically deducted pro rata from the ERRA account and added to consumer bills each month. There is no Commission vote, no public announcement, just a dollar or two or twelve on everyone’s monthly bill.

To CEERT’s limited knowledge, the “ERRA trigger” that raises a flag to cause an investigation as to the cause and appropriate mitigation of these price spikes has occurred only once in the past 10 years. In the summer of 2018, SCE’s ERRA account was forecast to be out of balance by ~\$800M and climbing, and SCE filed an “Emergency Petition” in August of 2018.<sup>10</sup> In January of 2019, the cause and impact of this event was publicly discussed in a California Energy Commission (CEC) hearing,<sup>11</sup> and in July of 2019, the Commission issued the updated withdrawal protocol, temporarily patching the problem.<sup>12</sup> The cause of this event was the interaction of safety

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<sup>10</sup> AL 3856-E [https://library.sce.com/content/dam/sce-doclib/public/regulatory/filings/rejected/electric/ELECTRIC\\_3856-E.pdf](https://library.sce.com/content/dam/sce-doclib/public/regulatory/filings/rejected/electric/ELECTRIC_3856-E.pdf)

<sup>11</sup> CEC 2018 Integrated Energy Policy Report workshop, held on January 11, 2019.

<sup>12</sup> Aliso Canyon Withdrawal Protocol July 23, 2019.

[https://www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/News\\_Room/NewsUpdates/2019/UpdatedWithdrawalProtocol\\_2019-07-23%20-%20v2.pdf](https://www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/News_Room/NewsUpdates/2019/UpdatedWithdrawalProtocol_2019-07-23%20-%20v2.pdf)

related restrictions on operations at Aliso Canyon following the 2015 disaster, and throughput restrictions on SoCalGas' transmission system due to repairs to the corrosion plagued pipelines. These combined to cause a significant pinch in gas supply (and resulting price spikes) to generate electricity in Southern California during summer high load season. The ripple effects of this event are still present today but are now included in the ERRA forecast and do not trigger any continued Commission action to deal with the issue.

Clearly, this lack of transparency and inability of the public to monitor gas price volatility results from Commission practices designed in a different era to solve a different problem of rate volatility and utility financial stability, and needs to be reexamined in any analysis of California's electricity rate woes.

#### **IV. NEM and the Effects of Distributed Energy Resources**

CEERT acknowledges the valid cost-shift concerns associated with increased penetrations of distributed energy resources (DERs). CEERT encourages the Commission to include a robust analysis of the benefits from distribution investment deferral and potential wholesale sales of valuable grid benefits as a result of the installation of rooftop solar in the next iteration of this rate analysis.

The issue of cost-shifting from NEM is currently being addressed in the Commission's NEM 3.0 proceeding (R.20-08-020). On March 15<sup>th</sup>, parties to the proceeding submitted proposals for the continued evolution of the NEM program. Behind-the-meter DERs, including rooftop solar, are essential to meeting California's clean energy goals while taking land use considerations into account. Therefore, it is imperative the Commission update this rate analysis to account for and align with the updated NEM 3.0 program structure when it is finalized to more accurately assess potential rate impacts, and link changes in the NEM tariff to enabling behind the meter solar and storage resources to provide and be paid for wholesale reliability services.

#### **V. Benefits of Incremental Sales from Electrification**

CEERT wishes to highlight the importance of the Staff white paper's finding that "rapid adoption of vehicle and building electrification technologies would likely have the benefit of reducing residential electric rates by 2030."<sup>13</sup> The white paper notes that the degree of this downward pressure on rates from increased electricity sales is unknown, but could be sufficient to offset expenditures and lead to addition decrease in rates.<sup>14</sup> As Staff modeling reveals, "the proportional increase in electricity sales is larger than the

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<sup>13</sup> Utility Costs and Affordability of the Grid of the Future: An Evaluation of Electric Costs, Rates, and Equity Issues, at p. 86.

<sup>14</sup> *I.d.*

increase in costs...[and] system average rates would fall by 0.6-0.9c/kWh.”<sup>15</sup> As such, CEERT strongly supports the Staff’s implementation of its proposed future analysis on rate impacts from electrification, including the proposed tracking mechanism to gauge the pressure on rates.

The potential of incremental sales from electrification to ultimately decrease rates must be met with economically viable, clean energy resources to generate the energy to serve this load growth. Furthermore, effective programs must be in place to mitigate vital equity and accessibility concerns. The State must continue to invest correctly in generation resources that will provide reliable, cost-effective, and clean energy to facilitate electrification in a way that will be both economic and in line with the State’s clean energy goals.

As such, CEERT remains concerned with the Commission’s recent activity in the Emergency Reliability proceeding (R. 20-11-003),<sup>16</sup> directing the IOUs to invest more ratepayer money in additional, expensive natural gas generation that will neither add significant net capacity value to the grid, nor allow for beneficial rate declines. As the cost of renewable generation steadily and continuously declines, the Commission must follow the market signals and encourage procurement of resources that will not only have the greatest return on investment as California progresses along its clean energy transition, but also ultimately place downward pressure on rates and decrease costs to ratepayers.

Investment in clean energy to power load growth from electrification of other sectors is in the best interest of California’s ratepayers, including lowering costs and mitigating negative public health impacts from fossil fuel generation. The last big near-term chance to create this opportunity is through the upcoming procurement in the Integrated Resource Planning proceeding (R. 20-05-003),<sup>17</sup> which has the potential to result in tens of billions of dollars of investment into clean resource development and thus, into the well-being of California ratepayers.

Harkening back to the previous discussion about gas prices in Section III, the corollary to increasing electricity sales through electrification is declining sales of natural gas and petroleum fuels. After all, that is the object of the exercise. Tremendous benefits will flow to society and, for a change, disproportionately to low-income consumers and disadvantaged communities as polluting older gasoline cars and diesel burning heavy duty trucks and indoor air pollution from natural gas consumption concentrated in these communities decline rapidly. However, specifically to the Commission’s charge to

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<sup>15</sup> *I.d.*, at p. 85.

<sup>16</sup> Proposed Decision of Administrative Law Judge Stevens Directing PG&E, SCE, and SDG&E to Take Actions to Prepare for Potential Extreme Weather in the Summers of 2021 and 2022, mailed March 5<sup>th</sup>, 2021 in R.20-11-003, at p. 42.

<sup>17</sup> Administrative Law Judge’s Ruling Seeking Feedback on Mid-Term Reliability Analysis and Proposed Procurement Requirements, mailed in R. 20-05-003 on February 22, 2021.



regulate utilities, the consequences of declining gas sales with “sticky” peak demand on the gas system dominated by fixed costs required to reliably meet that peak demand will put significant pressure on rates and rate recovery if not total gas bills. This issue simply must become more of a priority in open proceedings at the Commission such as the Gas Reliability proceeding (R.20-01-007) and the Aliso Canyon Alternatives Investigation (I.17-02-002).

CEERT believes that there needs to be an integrated look at all of these pieces, plus the impact of declining gasoline and diesel sales on the “unregulated” petroleum refining industry. This effort may be beyond the scope of the Commission and this investigation on\of Commission jurisdictional rates, and may be more appropriate for the CEC to tackle. In any event, CEERT believes it is simply not possible to arrive at a comprehensive set of recommendations for Commission action without considering these broader issues.

## **VI. Conclusion**

The Commission structured the February 24<sup>th</sup> En Banc hearing around three central questions:

- 1) *Can We Afford the Future?*
- 2) *What Strategies for Cost Control or Reduction Do We Need to Explore?*
- 3) *Do We Need a Paradigm Shift in How California Funds Climate Change Initiatives?*

CEERT believes that these questions are fundamental to California’s equitable clean energy transition. However, the question must be *how* we afford the future, not if we *can*. California’s clean energy transition is not optional. A decarbonized economy will not only address climate change and its consequences, but also the harmful impacts fossil fuel generation has on California’s communities, especially the State’s most vulnerable.

Furthermore, CEERT believes that Question 3 is the most critical in addressing impacts to ratepayers. The State should be looking at avenues to control cost to the greatest extent possible, for example by cost effective targeted energy efficiency measures, while still ensuring that clean energy innovation and correct market signals are successfully facilitated. However, CEERT believes the issue lies not so much in the cost of the transition, but rather how that cost is collected in rates. Investing now in California will allow current and future Californians to reap the resulting benefits of increased quality of life, health, and peace of mind. Thus, the State must utilize its renowned spirit of innovation and create solutions that will equitably and successfully mitigate the impacts of that investment to California ratepayers.

Respectfully submitted,

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