

March 19, 2021

California Public Utilities Commission
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Regarding Electric Costs and Rates En Banc White Paper

The Western States Petroleum Association¹ (WSPA) respectfully submits these comments pursuant to instructions provided on the Commission's Rates and Costs En Banc webpage.

WSPA's comments address the Commission Staff's white paper entitled *Utility Costs and Affordability of the Grid of the Future: An Evaluation of Electric Costs, Rates, and Equity Issues Pursuant to P.U. Code Section 913.1*, dated February 2021 (White Paper). A summary of the key issues of concern regarding the White Paper and its express intent to rely upon this document in meeting statutory reporting obligations to the Legislature and Governor are as follows:

- Senate Bill 695 (Kehoe, 2009) expressly calls for a comprehensive report, prepared by the Commission, and presented to the Legislature and Governor, on jurisdictional utility retail costs to **ratepayers**. This means all ratepayer classes, not solely the residential class. The White Paper makes no material assessment of costs and affordability for commercial and industrial customers, which is a major deficiency in the contemplated SB 695 Report.
- While the White Paper is an informative tool regarding costs and rate affordability for residential customers, the scope of the assessment fails to address affordability, costs, and the implications for all ratepayers if certain ratepayers elect to secure alternative electric services.

¹ WSPA member companies on whose behalf this pleading is filed are: Aera Energy LLC, Alaska Tanker Company, Berry Petroleum Corporation, California Resources Corporation, Chevron U.S.A., Inc., ConocoPhillips, ExxonMobil Corp., Marathon Petroleum Company, Par Pacific, PBF Energy LLC, Phillips 66 Company, Plains All American Inc., Santa Maria Energy LLC, Shell Oil Products US, Shell Pipeline Company LP, and Valero Energy.

- The implications of elections by commercial and industrial customers who make alternative energy supply choices can be profoundly negative for residential and customers without alternative choices.
- The most current and relevant data from the US Energy Information Administration (EIA) unequivocally reveals that California’s industrial rates are non-competitive and excessive today, and assuming the White Paper’s projection of dramatic residential class cost increases are paralleled in the commercial and industrial classes, presents an untenable future for the affordability of the future grid.
- Recent EIA data demonstrates the correlation between electric rate increases and corresponding declines in demand and revenue contributions from the commercial and industrial classes; these options are warning signs to the future grid and the residential customer class without such electric service options.
- Under existing rate regulation practices, utilities do not suffer a “loss of revenues” as a normal business does when an industrial or commercial customer is no longer using electric or natural gas services, but rather the utilities and the Commission treat such losses as a cost shift to remaining customers.
- Severin Borenstein was a Commission panelist for the Affordability En Banc on February 24, 2021 and is a sponsor of a recent study issued by UC Berkeley’s Energy Institute and Next 10. The study is another blaring alarm that the current and projected rates, at least for the residential class, cannot be sustained, and present risks to meeting California’s environmental goals. The Commission, the Legislature and the Governor must consider the concerns and rate alternatives illustrated in this report.
- Senate Bill 100 requires a balance of three competing policies - optimizing the reduction in greenhouse gas emissions, affordable costs and rates, and sustaining reliability of service. Undeniably this balance of objectives is at a tipping point calling for a reassessment of current planning and program costs.

1. WSPA Introduction and Statement of Interest

WSPA is a non-profit association that represents companies that account for the bulk of petroleum exploration, production, refining, transportation, and marketing in the five western states of Arizona, California, Nevada, Oregon, and Washington. In California, WSPA companies are major natural gas producers, users, and industrial ratepayers with material interests in the regulation of the natural gas system, the natural gas and electric markets, and the affordability and reasonableness of rates. Reliability and costs of the electric grid and natural gas fuel supply are critical interests to the operation of WSPA critical infrastructure facilities. WSPA companies collectively represent the single largest energy demands for California industrial customers, dwarfing the next largest organized group of individual customers’ power needs. WSPA companies produce critical transportation fuels, and unlike other manufacturing or industrial



operations, cannot “shut down” the continuous operation of their facilities. Thus, WSPA represents companies that, historically, have been both producers and suppliers of electric capacity and energy to the grid, and consumers of electric service from both the electric grid and customer generation resources. These customer generation resources are typically combined heat and power facilities that provide both thermal and electric power from a single fuel source.

In short, WSPA is a critical interest stakeholder on policies related to framing a balance between the several California goals of optimizing the reduction of greenhouse gas emissions while maintaining affordable and reliable electric and natural gas services.

2. The SB 695 Report Must Address All Ratepayers, Not Only Affordability for Residential Ratepayers

Senator Kehoe’s 2009 legislation, SB 695, does not distinguish among ratepayer classes – residential, commercial, and industrial. Rather the legislation contemplated the assessment of programs and costs for *all* ratepayers, as well as directives for the assessment of what actions may be undertaken to reduce costs.

Senate Bill 695 resulted in the codification of two provisions of the Public Utilities Code – Sections 913 and 913.1. Each section calls for a report. The Section 913 report addresses the utility costs of programs and activities conducted by each jurisdictional electric or natural gas corporation’s costs to “**ratepayers**.” The Section 913.1 report calls for the Commission’s recommendations that can be undertaken in the succeeding 12 months to limit utility cost and rate increases consistent with the State’s energy and environmental goals. Section 913.1 contains no exclusion of commercial and industrial customers from the scope of its considerations.

Yet the White Paper is essentially exclusively focused upon the residential class with little or no assessment of current or future implications for the commercial and industrial classes, or foreseeable cost implications for interclass revenue contributions. The SB 695 report to be developed from the White Paper is not in scope with the legislative provisions related to affordability issues for all ratepayers, including commercial and industrial ratepayers. Moreover, the potential implications to residential customers do not foresee the cost shift issues presented by a continuing decline in demand from commercial and industrial customers for electric and gas services that are increasingly unaffordable and uncompetitive.

3. EIA Data Comparing California Commercial and Industrial Rates to Other States is Telling in terms of Affordability

As discussed herein, the commercial and industrial classes, based upon current EIA data from 2019, contribute 60% of the total California Electric Revenue (see attached pie chart from EIA entitled CA Electric Revenue 2019). Loss of demand from these classes through economic choice or service alternatives will leave remaining customers with ever increasing costs due to cost shifts under current ratemaking policies.



As for affordability of California industrial rates, the EIA data is sobering. California's competitiveness in rates and costs is a measure of affordability. The temperate climate that in the past has been characterized as making California's bills "affordable" even if rates are high has no relevance to an industrial operation. In terms of rates and costs, a refinery's operational demand does not change with the weather. The disparity in industrial rates from EIA data among California, Arizona, Nevada, Texas, and the US industrial Average Electric rate should be alarming to regulators and the Legislature. As California industrial rate in 2019 trended toward 14¢/kWh, the US average and reference states reported rates at or below 7¢/kWh (see attached EIA chart comparing 2013-2019 industrial rates entitled Electric Average Industrial Price Comparison). For the commercial class, a similar EIA chart reveals the same troubling disparity in California rates (see attached EIA chart comparing 2013-2019 commercial rates entitled Electric Average Commercial Price Comparison).

The conclusion to be drawn from this data is unescapable: California industrial and commercial class rates are not competitive, and their lack of affordability is growing, not decreasing, in disparity with other states. Assuming the rate increase trends for residential customers reported in the White Paper will correspond to rate increases for industrial and commercial customer classes through 2030, the forecast is at best distressing.

As noted in the White Paper at p. 8:

Looking forward, the paper's 10-year baseline forecast shows steady growth in customer rates (nominal \$/kWh) between 2020 and 2030 for the three IOUs:

- *PG&E: \$0.240 to \$0.329, or about an annual average increase of 3.7 percent [or 37% increase from 2020 to 2030]*
- *SCE: \$0.217 to \$0.293, or about an annual average increase of 3.5 percent [or 35% increase from 2020 to 2030]*
- *SDG&E: \$0.302 to \$0.443, or about an annual average increase of 4.7 percent [or 47% from 2020 to 2030]*

It must be noted that these figures represent "annual average" increases over a 10-year period for residential customers beginning in 2020 through 2030. Compound these figures on an industrial rate that in 2019 was approaching 14¢/kWh, or two times the level of other competitive states, and one can easily see the crisis of affordability. The disparity in industrial rates using the annual average figures referenced for the residential class in the White Paper presents alarmingly high rates, particularly in comparison to the EIA recorded rates in other states. Assuming a 2020 industrial rate of \$0.14/kWh, escalated by the percentages reflected in the White Paper for each California utility, the 2030 rate for California industrial customers would be:

- ✓ PG&E \$0.20133/kWh
- ✓ SCE \$0.19748/kWh
- ✓ SDG&E \$0.22161/kWh



What are the current and future implications for all California ratepayers? EIA has two charts tracking from 2013 through 2019 the correlation between California rates and sales (revenues). (See attached EIA charts entitled CA Industrial Rates Vs CA Industrial Sales and CA Commercial Rates Vs CA Commercial Sales.) Focusing on the period beginning in 2016/2017 through 2019, the charts show a rather dramatic association between rate increases and declines in demand and revenues from commercial and industrial customers. These are signals of the future that cannot be ignored. As rates exponentially increase, as the White Paper concludes for the residential class, there will be financial pressures on commercial and industrial customers with alternative supply choices to depart the grid and leave costs to those who do not have such choices.

Adverse and unsustainable financial support for the grid becomes a clear problem for California electric and natural gas service. Affordability for all ratepayers presents a barrier to balancing the objectives of optimizing emission reductions (not eliminating carbon, but optimizing its use), costs, and reliability.

4. UC Berkeley's Haas Energy Institute Report on Affordability Implications to California Climate Goals

While WSPA may not fully agree with all the recommended solutions reflected in this recent study, there is a need to appreciate the reflections of a coming or existing rate crisis for reliability, costs, and environmental objectives observed by the UC Berkeley Report – *Designing Electricity Rates for an Equitable Energy Transition* (<https://cms.politico.com/f/?id=00000177-cca6-dca5-a3f7-cfb797630000&source=email>). The report details the reasons why California's electricity rates are too high and that they will rise further, as reflected in the White Paper. The study observes that California electric bills will outpace inflation over the next decade, making energy more unaffordable. Since 2013 rates have risen 6% for Southern California Edison, 37% for Pacific Gas and Electric and 48% for San Diego Gas & Electric. This trend is due to several factors, among them: climate change-exacerbated weather, which spurs people to use air conditioning more often and ramps up electricity use; utilities having to spend more on wildfire mitigation measures; and long-term energy contracts locking utilities into prices higher than current electricity prices. In response, utilities raise usage rates on electricity bills, an increase that often falls disproportionately on low-income and minority communities.

WSPA notes that even this report is tailored to address residential class cost causation and rate recovery issues, but the cause and effect of multiple program costs and resulting utility rate responses must be recognized and addressed, ultimately for all ratepayers. As one example, programs that benefit certain customers at the expense of others — like net metering for rooftop solar owners and bill assistance for lower earners — those initiatives and other utility "public purpose" programs warrant cost allocation review to non-residential customers. Perhaps as part of the State budget as upfront costs, rather than as ongoing expenses in electric rates.



5. Are There Solutions? What Must Be Done?

All ratepayers are facing a tipping point in the availability of needed reliability resources and the affordable costs of utility services, while preserving the objective of balancing a means for optimizing emission reductions.

Historically, when one considers the economic model used for the utility system for over 100 years, there is a financial benefit to customers to become part of a monopoly generation, transmission, and distribution system. Unfortunately, we seem to be now shifting this fundamental foundation. It is apparent from the EIA data that for commercial and industrial customers, seeking alternatives for demand in California is the elected option. It has become more financially viable to depart the utility grid and minimize engagement with the utility system. This result presents an untenable future for all ratepayer classes.

Utilities, regulators, legislators, and ratepayers are not accomplishing the needed balance of objectives as demonstrated by uncontrollable costs given recent experiences, recorded data, and projected rates. There is now every reason to expect a continuation of those events in the intermediate term.

A few observations to consider in finding solutions:

- Utilities cannot withstand a future without securing a more reasonable rate structure for all ratepayers.
- The Governor and the Legislature must appreciate the present and coming crisis for California electric and natural gas services.
- Utility program costs that are not reasonably allocated to customers who receive limited benefits from the program must be reconsidered – transportation electrification, residential wildfire costs associated with the distribution system, and more granular cost allocation for grid hardening.
- There must be some form of cap on rates and program costs that sustain what is essential and postpone or transition from social engineering costs so endemic to regulatory ratemaking, including a real review of mandatory programs.
- For California commercial and industrial customers, rates must become closer to the US average rather than increasingly departing from competitive rates.
- Ultimately, to preserve the commercial and industrial classes, the Legislature will need to consider some form of industry-generation-to-industry-loads services if there is a continuing failure to establish policies that offer retention contracts for commercial/industrial generation resources that can serve corresponding commercial/industrial demands utilizing utility transmission and distribution wires.

- Expand the service opportunities under PUC Section 218(b) to eliminate restrictions for existing, efficient combined heat and power facilities to meet direct industrial customer demands.

Conclusion

WSPA appreciates the opportunity to provide written comments on this matter and to become part of the discussion in finding balanced solutions for all customer classes.

Respectfully,

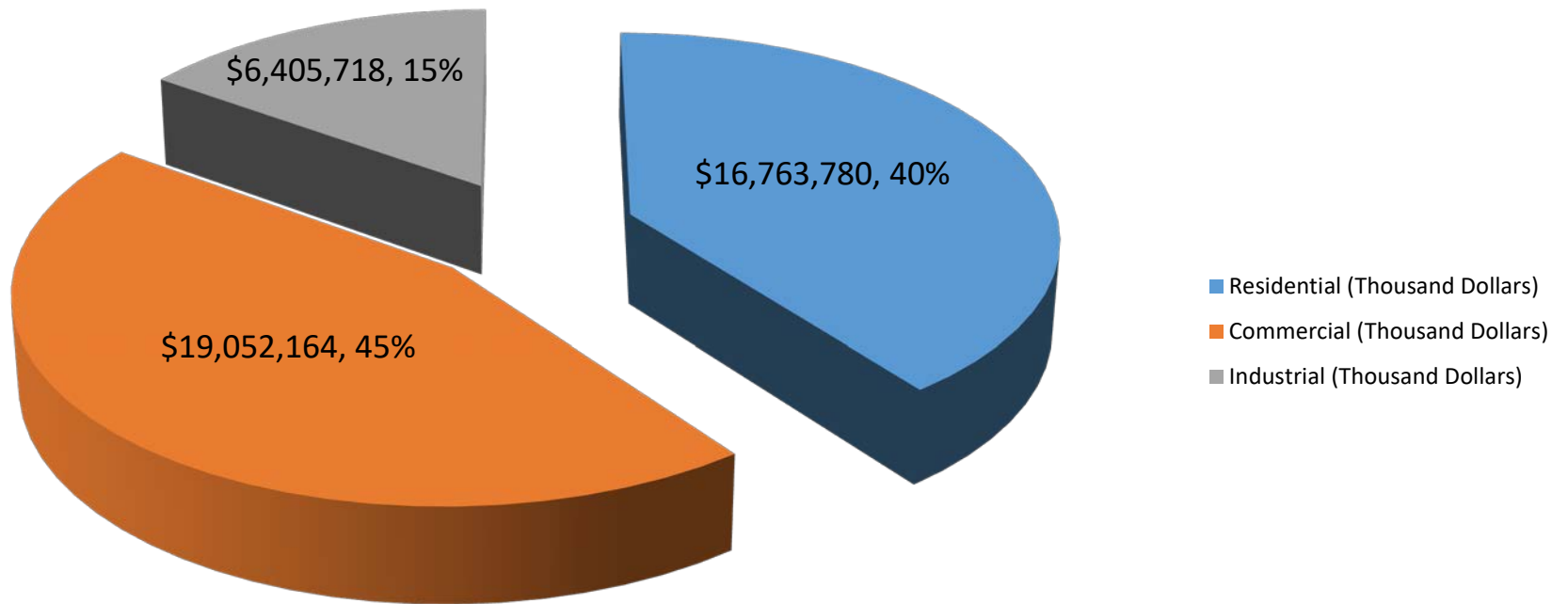


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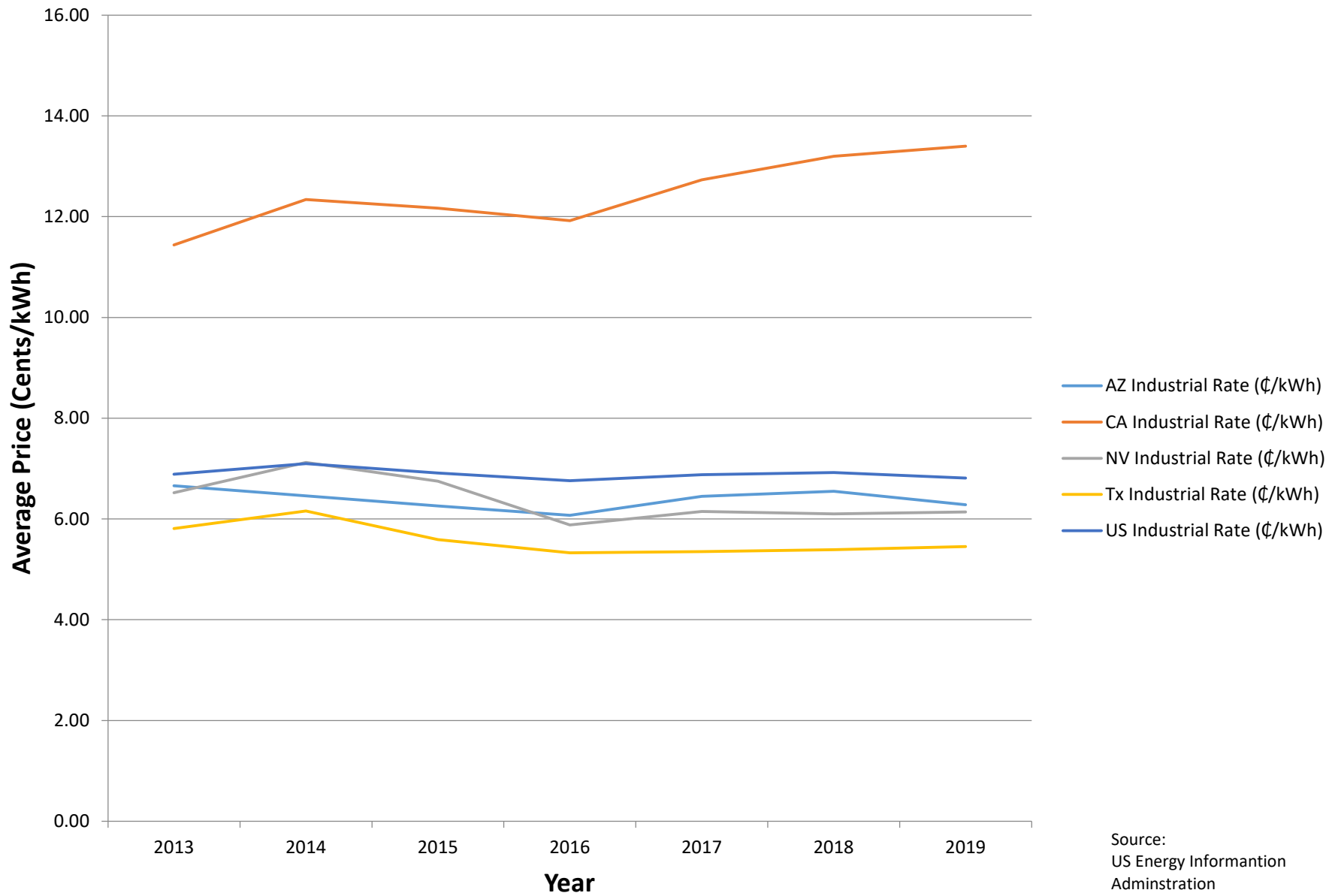
Catherine Reheis-Boyd
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CA Electric Revenue 2019

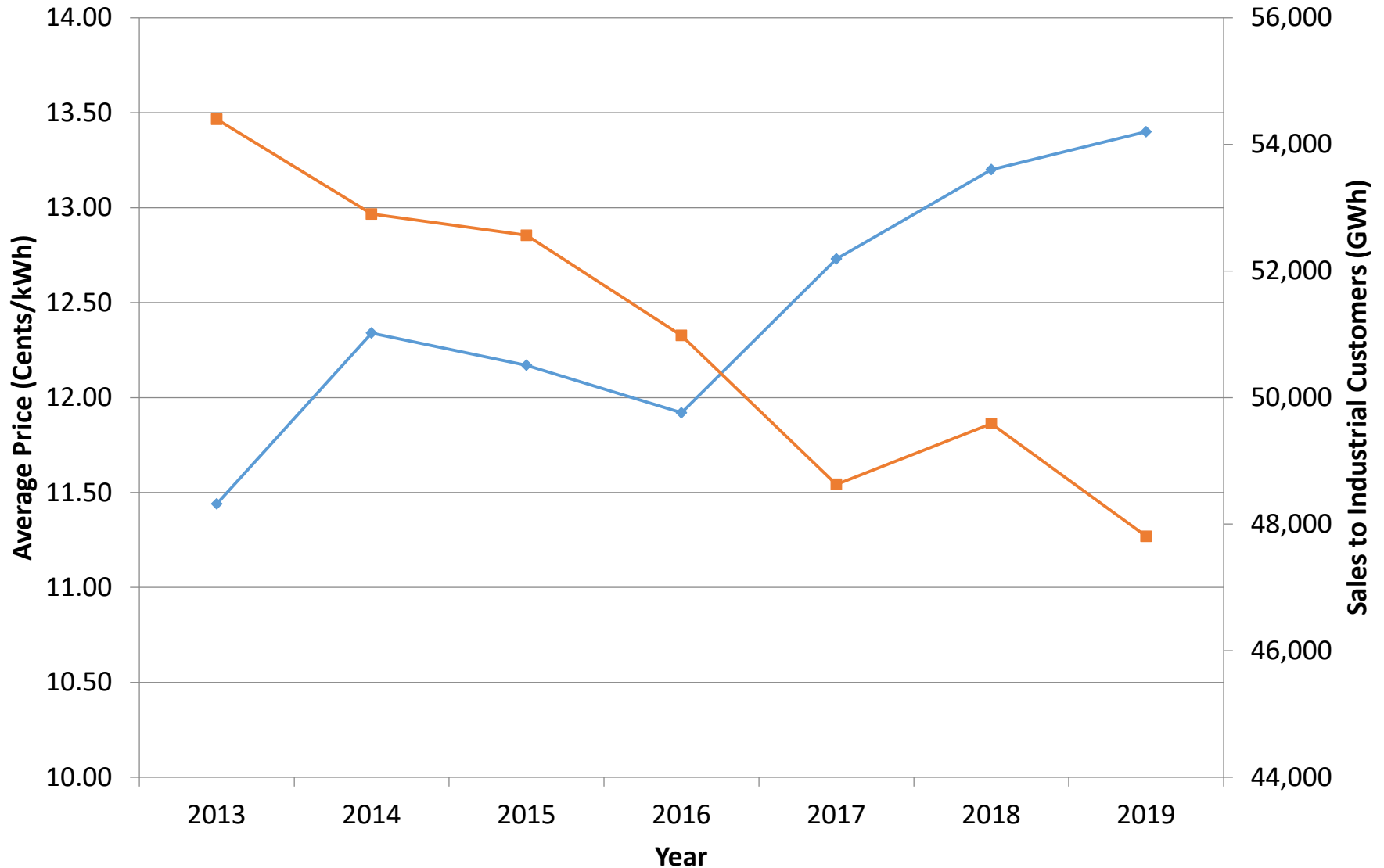


Source:
US Energy Information
Administration

Electric Average Industrial Price Comparison



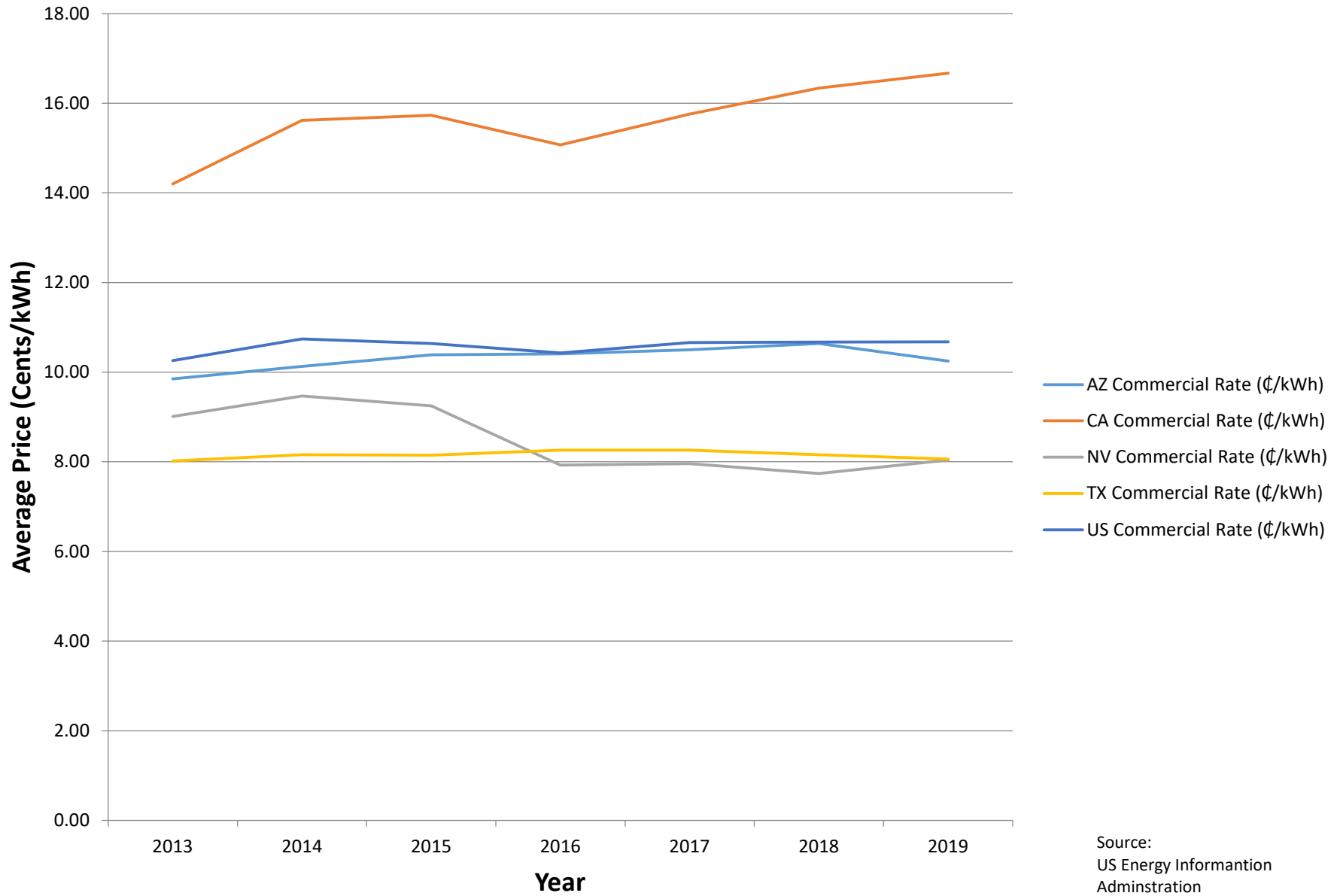
CA Industrial Rates Vs CA Industrial Sales



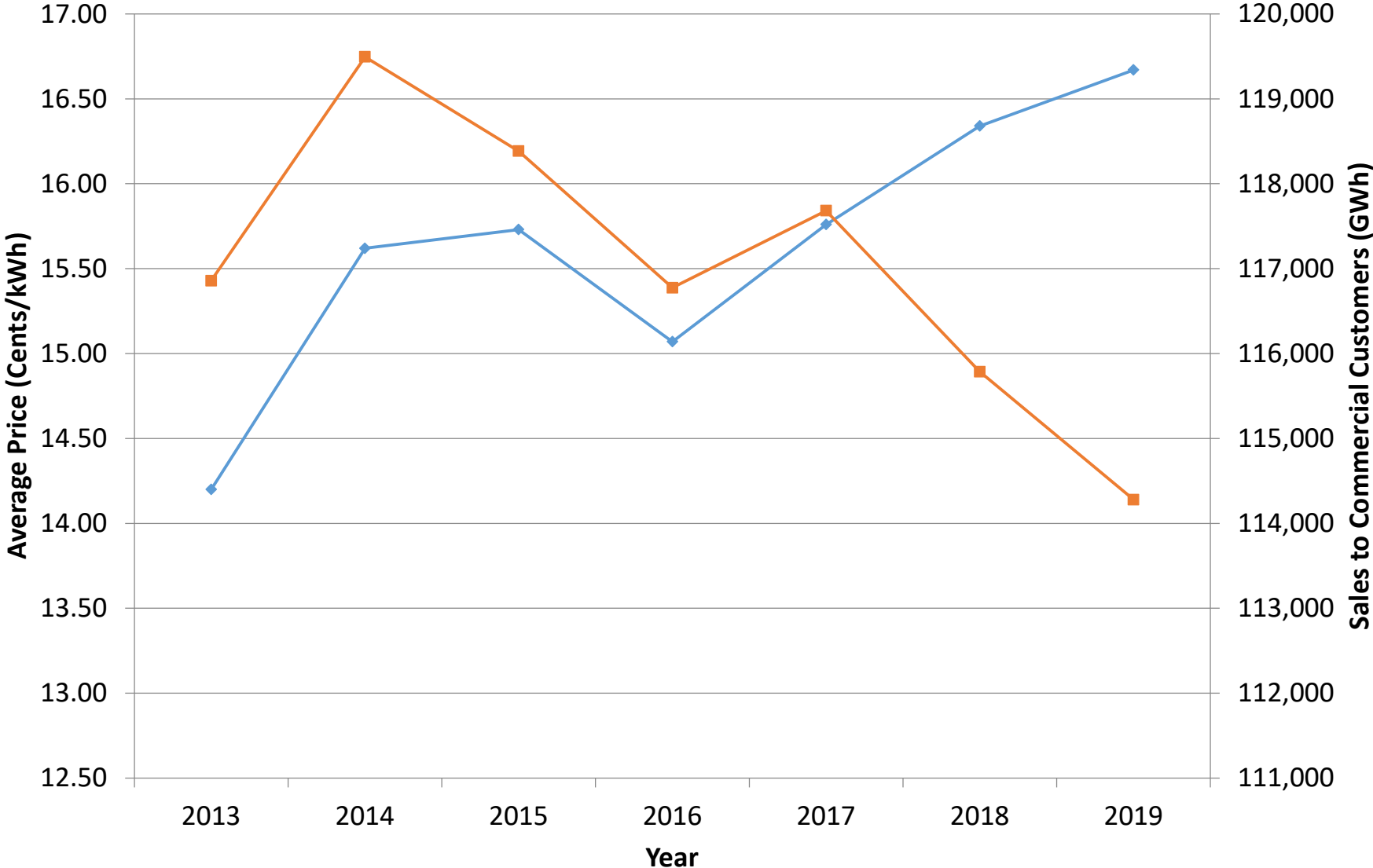
Source:
US Energy Information
Administration

—◆— CA Industrial Rate (¢/kWh) —■— CA Industrial Sales (GWh)

Electric Average Commercial Price Comparison



CA Commercial Rates Vs CA Commercial Sales



Source:
US Energy Information
Administration

—◆— CA Commercial Rate (¢/kWh) —■— CA Commercial Sales (GWh)