Solving the Electricity Affordability Crisis in California

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Root Causes of the Affordability Crisis

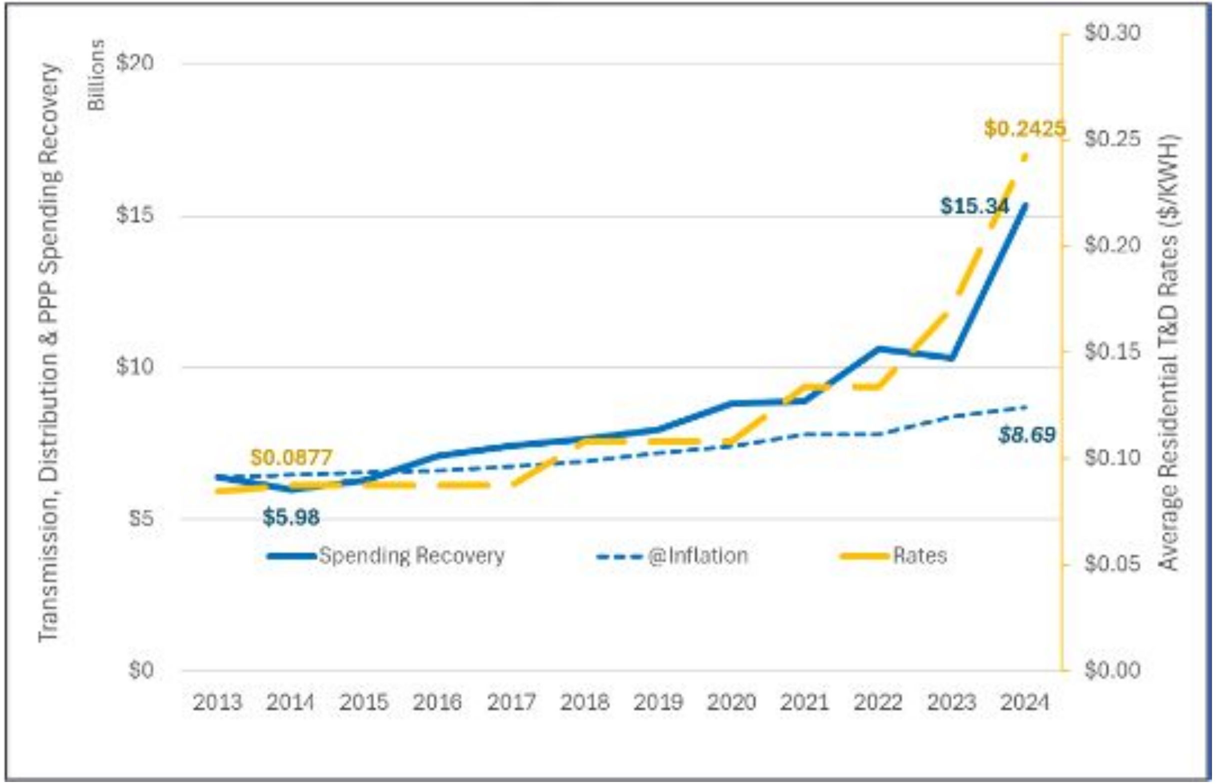
- Investor-Owned Utilities (IOU):
  - Overspending
  - Profiteering
  - Lobbying

IOU Overspending (Transmission and Distribution)

Pacific Gas & Electric

Spending (blue line) tracks closely with rate increases (yellow dotted line)

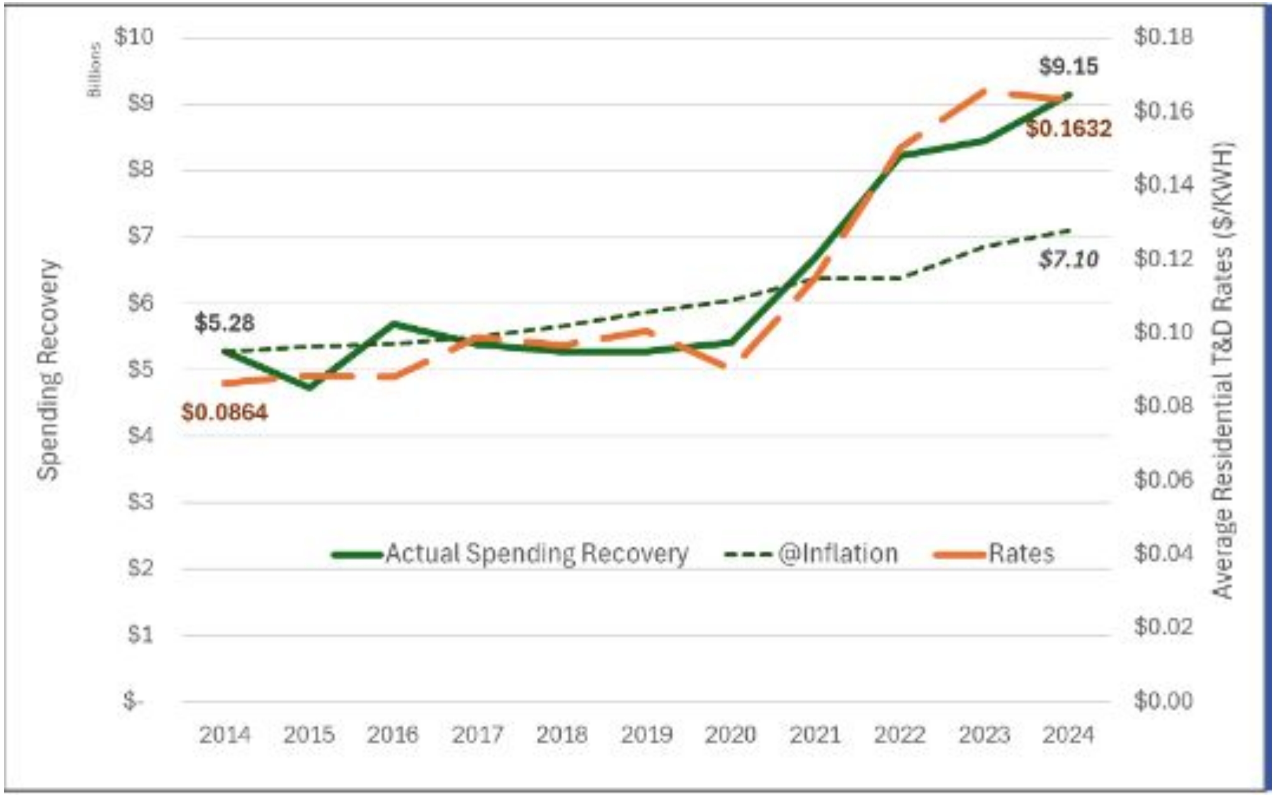
Following five slides: California Solar and Storage Association and M.Cubed



IOU Overspending (Transmission and Distribution)

Southern California Edison

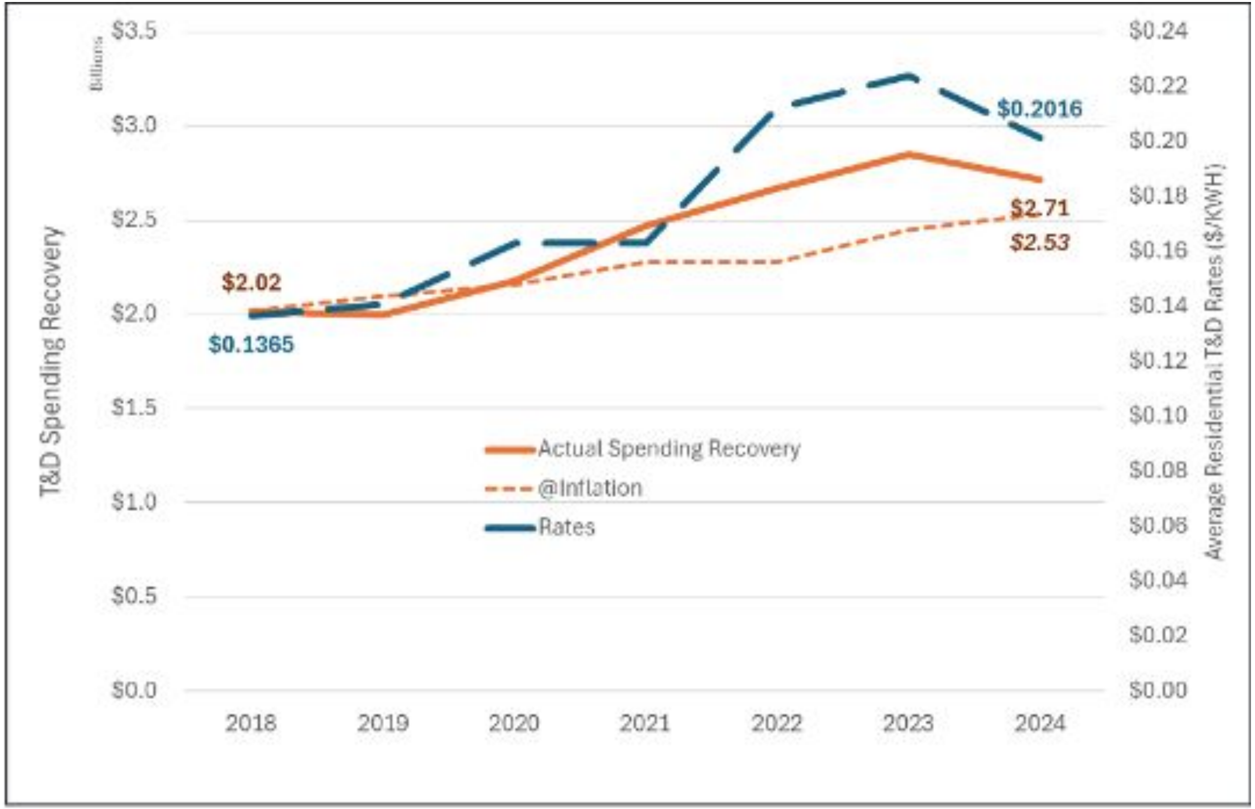
Spending (green line) tracks closely with rate increases (orange dotted line)



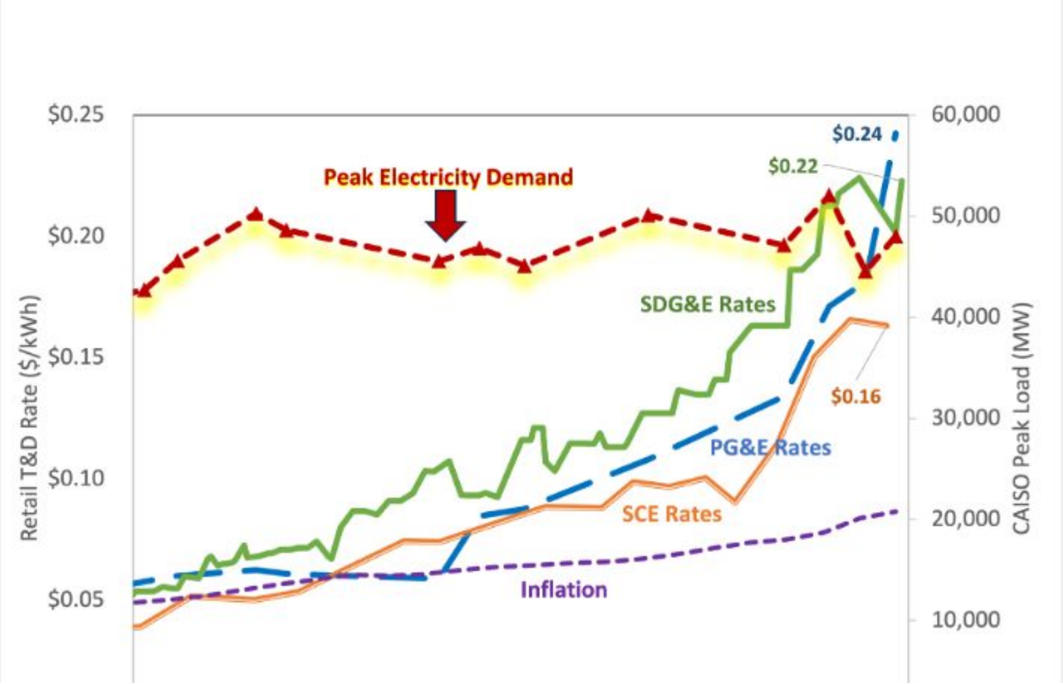
IOU Overspending (Transmission and Distribution)

San Diego Gas & Electric

Similar pattern: rates (dotted blue line) and spending (orange line) diverged when the utility over-collected for a two-year period, but then came back into alignment.

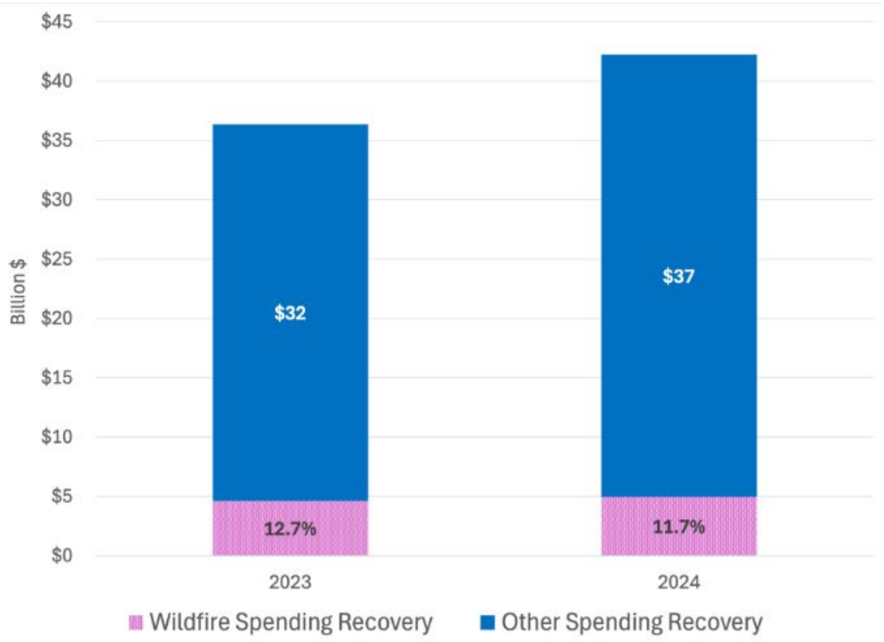


It’s not climate/clean energy policies…



- peak load causes grid investment
- CAISO peak load has been steady for the past twenty years as grid spending has increased dramatically
- yet Transmission & Distribution spending has risen 300%

It’s not wildfire mitigation…



- Wildfire spending is not the bulk of IOU spending.
- No Increase in wildfire spending (2023/2024)
- Transmission & Distribution spending increased by $5 billion (2023/2024)
- Expensive (undergrounding) wildfire response?

IOU Profiteering

- Why overspend?

- When utilities build infrastructure (e.g. transmission or distribution upgrades, wildfire mitigation), they finance these multibillion-dollar projects with **debt** and **shareholder equity**.

    - **Debt**: pass the *interest rate* charged by their lenders through *to customers*.

    - **Shareholder Equity**: charge customers a *rate of return* that is set by California regulators (8-10%)

<u>The “2-for-1” Deal</u>

- The Regulatory Standard to set Rate of Return: Market-Based Cost of Capital

Regulated Return to Shareholders (profit investors receive on their stock)	**=**	**Rate Shareholders would obtain in a competitive market**

- But in California: utility stocks are worth **more than twice** what utilities have invested

- *Each dollar utilities invest increases their stock market value by $2*
- <u>The 2-for-1 deal encourages (“fiduciary duty”) utilities to spend as much as possible</u>

<u>Disconnections for non-payment vs. utility profits.</u>

- Despite flat demand and an affordability crisis, *IOU profits continue to soar*.
  - PG&E: 2024 record profits of $2.47 billion
  - SCE: 2024 record profits of $1.69 billion
  - Sempra Energy: 2024 posted $2.82 billion in net income
  - 2024: *6 rate hikes.*

- Between 2022 and October 2024:
  - PG&E, SCE, and SDG&E: $8.3 billion sent to shareholders.
  - Less than 1% could cover the estimated cost to prevent all ~500,000 of their shutoffs from that period.

Lobbying, political campaigns, and promotional advertising

- Ratepayers *pay for certain IOU expenses* for:
  - Lobbying, political campaign contributions, and promotional advertising
  - Litigation regarding existing or proposed regulations

  - *Recent Examples*: PG&E TV ad for undergrounding; SoCalGas opposing decarbonization policies.

- Cyclical problem: exacerbates the affordability crisis.

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Takeaways

- Clear increases in utility spending and profits.
- Address affordability crisis:
    - Focus on root causes.
        - Utility spending and the conflict of interest between the utilities’ drive for profit and consumers’ need to control that spending.
    - Mitigate the impacts of the affordability crisis.
    - Innovation/community resources to avoid or decrease future spending.

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