



Electricity and Natural Gas Rates

The California Public Utilities Commission and Cal Advocates Can Better Ensure That Rate Increases Are Necessary

Background

Our audit focused on electricity and natural gas rate increases of four large utilities—Pacific Gas & Electric (PG&E), San Diego Gas & Electric (SDG&E), Southern California Edison, and Southern California Gas Company—and the oversight conducted by the California Public Utilities Commission (CPUC) and the Public Advocates Office (Cal Advocates). The rates for all four utilities have been rising, and California's electricity rates are among the highest in the nation. State law empowers the CPUC and Cal Advocates to protect customers from potential energy rate abuses. Some of the elements contributing to electricity and natural gas rate increases are outside the control of the CPUC and Cal Advocates; however, both agencies can better protect customers by implementing certain improvements to their oversight.

Key Findings

- » Several factors have contributed to increases in electricity and natural gas rates for the four utilities we reviewed:
 - Utilities' operating costs, which they recover through rates, have been increasing. Each utility saw the largest increase in a different category: increased distribution costs for PG&E, increased administrative costs for SCE, and higher property and other non-income taxes for SDG&E.
 - Wildfire mitigation costs and other emergency-related costs, such as insurance, have also been key factors contributing to the increases in the electric utilities' operating and overall expenses.
 - Decreasing electricity sales due to increasing installation of solar power systems has required utilities to raise rates to recover certain fixed costs.
 - Market forces, such as higher demand due to unusually cold temperatures, Russia's invasion of Ukraine, and low national gas storage levels have contributed to the rising natural gas rates.
- » The CPUC and Cal Advocates need to strengthen their processes to better protect customers:
 - In nine of the last 10 years, San Diego Gas & Electric's (SDG&E) actual rate of return was higher than its authorized rate of return, raising questions about the accuracy of SDG&E's forecasted costs.
 - The CPUC and Cal Advocates could strengthen their processes for verifying whether the utility has completed the work for which it is seeking cost recovery. If they do not do so, they will increase the risk of allowing the utility to inappropriately recover costs from its customers that it did not, in fact, incur.
 - The CPUC does not clearly communicate the reasons for cost increases it authorizes at the start of each rate cycle or for rate increases that utilities seek mid-cycle.
- » Cal Advocates does not have a risk-based approach for reviewing balancing accounts, which utilities use to track variable costs that may be difficult to predict and could have a material impact on rates, to ensure that utilities' requests for rate changes are appropriate.

Key Recommendations

- » To promote transparency, the CPUC should institute a process that requires utilities to periodically publish actual rate-of-return calculations using methodology acceptable to the CPUC and Cal Advocates. It should also require utilities to identify the major cost categories in which projected costs exceeded actual costs.
- » The CPUC and Cal Advocates should strengthen their processes to verify whether a utility has completed the activities associated with the costs it claims it unexpectedly incurred and is seeking to recover through rate increases, for example, those costs associated with restoring power during a natural disaster.
- » The CPUC should also clearly and comprehensively communicate to customers the reasons for cost increases it authorizes at the start of each rate cycle and the reasons for rate increases that utilities seek mid-cycle. By not providing customers with such information, the CPUC neglects opportunities to improve the public's understanding of why rates are increasing.
- » To ensure that utilities can support the rate changes they request, Cal Advocates should verify whether "balancing account" balances and the resulting rate changes are accurate and comply with CPUC rules.