

# KERTAX MAKING A DIFFERENCE: PG&E RESIDENTIAL ELECTRIC RATES: 1995-2017

## THE SITUATION

When the Electric Utility Restructuring Act became law in 1996, it was obvious in less than five years that the process was an unqualified failure. By March 2001, 1.5 million residents faced electrical blackouts. In April 2001, PG&E declared bankruptcy.

In response, the Legislature passed AB1x. After AB1x had become law, the California Public Utilities Commission adopted a five-tier increasing block rate structure for residential customers. Rates for Tiers 1 and 2 were capped at 2001 levels, with Tiers 3 through 5, representing usage above 130% of baseline, subject to cost increases. This action unfairly levied 100% of cost increases to only 17% of PG&E's residential load. The situation was made even worse due to the California Solar Initiative. The results were predictable. By March 2010, Tier 5, the new top tier rate, had exploded to \$.498/kWh, a confounding 269% increase in 10 years, while Tier 2 was still capped at \$.133/kWh. During the sweltering summer of 2009, with the Tier 5 rate, the punitive air conditioning tax, and consumption exploding, electric bills were exceeding mortgage payments.

Bakersfield residents were livid; many blamed the newly installed "Smart Meters." However, something other than the Smart Meter caused rates to explode. That "something" was the legislated capped rate structure on 83% of PG&E's residential electric customers.



## KERTAX'S RESPONSE

KernTax analyzed the problem and presented a solution: Remove the cap on Tier 1 and 2 rates, and return to a two-tier structure. PG&E's response, "The combination of legislative and regulatory constraints has led to an unsustainable and arguably punitive situation for Tier 5 customers. The Tier 5 rate is far more than the cost to produce and deliver these kilowatts, and far more than what is necessary to encourage conservation...such extreme upper tier rates are difficult to justify on the grounds of equity."

In June, KernTax applied to the CPUC for Intervenor Status to represent 367 Kern County PG&E residential electric customers in PG&E's General Rate Case A.150921, Phase II, the rate-making portion of the process. KernTax successfully argued for many changes in the PG&E rate structure, adopted in May 2011. "Accordingly, I remain sensitive to customers in Kern County and other such inland climate zones where usage spikes in the summer months mainly due to air conditioning needs result in adverse billing impacts. Also, I appreciate the valued input of KernTax in this proceeding as a non-traditional intervenor, and believe that this decision provides measured relief for the ratepayers that KernTax represents." – Timothy Alan Simon, CPUC Commissioner, May 31, 2015.

## THE RESULTS

AB 327 went into law effective January 1, 2014 and removed some restrictions that limited the CPUC's ability to modernize electric rates by replacing outdated rate structures that were put in place in 2001. By allowing for rates to be brought back in line with the actual costs of electric service, the measure restored fairness to California's electric customers. In March 2017, rates were returned to a modified 2-tier structure. Tiers 2 through 4 were collapsed into one tier. Tier 5 remained for extremely high electricity users. Ninety percent of electricity users in Kern County will never reach this tier.