San Francisco Chronicle

California electricity prices to rise for those who use the least

By David R. Baker

June 27, 2015 Updated: June 28, 2015 10:34pm

Californians' electricity rates are about to undergo their most sweeping changes since the state's energy crisis 15 years ago, cutting costs for people who use large amounts of power while raising bills for more efficient homeowners.

The question is, how many people will pay more?

The California Public Utilities Commission is scheduled to vote Friday on two competing proposals to radically revamp the way electricity rates work at the state's big, investor-owned utilities: Pacific Gas and Electric Co., Southern California Edison and San Diego Gas & Electric Co.

Both proposals would narrow the gap between prices paid by people who use large amounts of electricity and those who use less.

But one proposal, backed by the utilities, would go further than the other, raising utility bills at least $10 per month for an estimated 80 percent of residential customers next year as a result. It would also eventually allow the utilities to impose a fixed monthly charge on all customers, an idea the companies like but consumer advocates hate.

The second proposal, from Commissioner Mike Florio, would boost monthly bills at least $10 for 35 percent of residential customers, according to the commission's Office of Ratepayer Advocates. Florio's proposal explicitly rejects fixed monthly charges.

"Mine would give less of a break to the very large users and less of an increase to everybody else," Florio said. "The numbers we've looked at were just a little too hard to swallow, giving the energy hogs that big a break."

California utilities charge different prices for electricity based on four tiers of usage as a way to encourage conservation. The more energy you use, the higher the price. For PG&E customers, the top tier costs twice as much as the bottom.

Eliminating a tier

Florio's proposal would cut the number of tiers to three, with a 33 percent difference between each. The competing proposal, issued by two administrative law judges, would create just two tiers, with electricity costing 20 percent more in the upper tier than in the bottom.

The changes would be phased in by 2019.

The issue has been the subject of a fierce lobbying fight ever since 2013, when California legislators authorized the commission to reform electricity rates from top to bottom. Utilities, consumer groups, business associations and solar companies all entered the fray, each trying to tweak the details to their advantage.

While arguing over how to fix it, most agreed the current system wouldn't last. According to the commission's staff, the most efficient California households now pay less for electricity than the utilities spend supplying it to them. They have, for years, been subsidized by homeowners in the higher tiers.

"It's pretty unsustainable, the way it is right now," said Jerry Sanders, a former mayor of San Diego who co-chairs the Fix My Energy Bill Coalition, a rate-reform group. "It's a question of fairness."

Resolving lingering issues

Consumer groups, in general, have lined up behind Florio, although some express reservations about elements of his plan. PG&E, meanwhile, prefers the competing proposal, with just two usage tiers. The company did not provide specifics on how much bills would change for customers under either plan.

"The initial proposal ... took an important step toward simplifying California's complex and outdated system of electric rates," said company spokesman Greg Snapper. "However, the alternate decision does not do enough to make today's highest bills more affordable for hardworking families."

Neither plan is designed to increase the revenues or the profits of the utility companies. Instead, each proposal would shift how much of that revenue comes from big energy users versus their more efficient neighbors.

Both proposals would resolve issues that have lingered since California's electricity crisis of 2000-01.

In the emergency's aftermath, state law kept electricity prices frozen in place for the two bottom tiers. All rate increases — to pay for new infrastructure, safety improvement, and the increased use of renewable power — fell upon customers in the upper tiers. The price gap grew so wide that at one point, PG&E's top tier cost almost five times as much as its bottom.

Tiers are based strictly on energy usage, not the size of a house or a family — though owners of large home are more likely to end up in the upper tiers than residents of small apartments. And the tiers are set at different levels for each of California's distinct climates, with the first tier representing a "baseline" of the amount of electricity that residents of each location are expected to consume each day. Tier 1 for Bakersfield residents, for example, allows for twice as much energy consumption as Tier 1 in San Francisco.

How proposals work

Faced with soaring bills, people in the higher tiers complained to Sacramento. In 2009 legislators finally unfroze rates for the bottom tiers, and in 2013 they called for a thorough overhaul of the entire system.

Both proposals facing a vote Friday by the five-person commission would accomplish that. Both would do more than just change the number of tiers.

Under both proposals, electricity prices for most customers would vary depending on the time of day, starting in 2019 — another way to encourage conservation. Power would probably cost most in late afternoon, when demand on the state's electrical grid hits its daily peak, and cost least late at night. Homeowners would have the option of sticking with flat prices that don't change during the day, but they would need to opt out of time-of-use pricing.

Both proposals would adopt a $10 minimum monthly bill for residential customers, or $5 for low-income customers. The proposal backed by the utilities would let the firms convert that minimum bill to a fixed monthly charge on all customers, possibly starting in 2019. Florio's proposal explicitly rejects fixed charges.

No element of rate reform provoked a bigger fight than fixed charges. Utilities consider them a way to make sure everyone pays the cost of maintaining the electrical grid, at a time when an increasing number of homeowners are installing solar panels to generate their own electricity.

But consumer advocates see them as inherently unfair, because they hit low- and middle-income families harder than they do the rich. Minimum bills, in contrast, would affect relatively few people in any income bracket, because most households already spend more than $10 per month on electricity.

"We're fine with a minimum bill because it makes sure everybody contributes to the cost of the grid without penalizing low-income customers the way a fixed monthly charge would," said Mark Toney, director of The Utility Reform Network.

Time-of-use rates also caused controversy. Toney's group, for example, warns they could hurt people who don't have much flexibility in when they use power — for example, retirees in California's hot Central Valley who in the summer need air conditioning all afternoon.

'Very blunt instrument'

But Joe Como, head of the commission's Office of Ratepayer Advocates, said he thinks time-of-use pricing will be a powerful conservation tool, giving Californians an incentive to run their appliances when electricity is cheapest. Those who can't easily shift their energy use from one time of day to another will still have the choice of opting out, Como said.

"We want people to conserve when costs are high," he said. "Tiered pricing, to me, is a very blunt instrument to send a price signal."

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