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REPORT: Californians pay two-to-three times more for electricity than it costs to provide, impeding state's climate targets

Next 10-UC Berkeley study offers solutions to make the cost of electricity more affordable for Californians; finds an income-based fixed charge could provide considerable savings for low- and middle-income earners as state transitions to powering cars and homes with clean electricity

SAN FRANCISCO — California's current strategy of recovering a myriad of fixed costs in electricity usage rates must change as the state uses more renewable electricity to power buildings and vehicles on the path to carbon neutrality. That's the finding of a report, released today, from the Energy Institute at the UC Berkeley Haas School of Business and non-profit think tank Next 10.

"There's no question that we need to power buildings and transportation with California's abundant clean electricity. The climate and health benefits will be enormous," said F. Noel Perry, founder of Next 10, who commissioned the report. "The question is, how can we change the inequitable and unsustainable way we currently pay for electricity?"

Data from [*Designing Electricity Rates for An Equitable Energy Transition*](#) reveal that the state's three largest investor-owned utilities (IOUs) charge residential electricity customers much higher prices than are paid in most of the country—prices that are two to three times higher than the actual cost to produce and distribute the electricity provided. These high prices result from uncommonly large fixed costs that are bundled into kilowatt-hour prices and passed on to customers. These costs cover much of the generation, transmission and distribution fixed costs, as well as energy efficiency programs, subsidies for houses with rooftop solar and low-income customers, and increasing wildfire mitigation costs.

"What Californians pay is much higher than the true marginal cost of using electricity," said Professor Meredith Fowlie, faculty director at the Energy Institute at Haas, who authored the study with Professors Severin Borenstein and James Sallee. "This puts an unnecessary cost burden on low- and middle-income households as we transition to using clean electricity."

Compounding concerns over these high costs is the inequity of their distribution: as wealthier households transition to rooftop solar, the fixed costs are distributed through a smaller volume of kilowatt-hours delivered, raising the costs even more for remaining, lower-income customers.

“Lower- and middle-income households are bearing a far greater cost burden for the state's power system than seems fair,” said Severin Borenstein. “We’re proposing solutions that would recover system costs through sales or income taxes, or an income-based fixed charge, which would pay for long-term capital costs while ensuring all those who use the system—and specifically, wealthier households—contribute equitably.”

The report comes as an increasing number of Californians are struggling to pay their utility bills. About eight million residents currently owe money to investor-owned utilities, according to a [recent presentation](#) by the California Public Utility Commission. This is especially concerning as rates are projected to rise again due to wildfire-related costs. Earlier this month, IOUs unveiled a plan to spend \$15 billion over the next two years to prevent wildfire ignitions. The researchers found that while wildfire prevention programs are likely to be a major driver of price increases in the near future, there is a significant lack of transparent data on the total costs and how they are being passed on.

Key findings from the report include:

- **California IOUs’ prices for electricity are out of line with the rest of the country.**
 - In the least expensive territory, Southern California Edison (SCE), residential prices per kilowatt-hour are about 45 percent higher than the national average. Prices for Pacific Gas & Electric (PG&E) are about 80 percent higher, and prices in the San Diego Gas & Electric (SDG&E) territory are roughly double the national average.
- **These prices are two-to-three times the cost of providing the electricity, due largely to the burden of recovering fixed costs that don’t reflect the cost of providing additional power for electrification.**
 - From 66 to 77 percent of the costs that IOUs recover from ratepayers are associated with fixed costs of operation that do not change when a customer increases consumption.
- **Lower- and middle-income households bear a greater burden.** These households are increasingly responsible for covering high fixed costs as total consumption from the grid declines. Due largely to increasing rooftop solar ownership in wealthier households,

higher-income customers now purchase only modestly more electricity than lower-income households (despite higher electricity demands), leaving lower-income earners to pay an increased share of the fixed costs.

- **A more equitable model would recover costs from sales or income taxes, or an income-based fixed charge.** The report suggests potential changes to how utility fixed costs, as well as and environmental and low-income program costs, are recovered, including:
 - Tax revenue: Raising revenue from sales or income taxes would be much more progressive than the current system, ensuring that higher-income households pay a higher share of the costs.
 - Income-based fixed charge: A potentially more politically feasible option could be rate reform—moving utilities to an income-based fixed charge that would allow recovery of long-term capital costs, while ensuring all those who use the system contribute to it and also keeping costs affordable for all families. In this model, wealthier households would pay a higher monthly fee in line with their income. The report examines a variety of implementation options for this model.

“We believe policymakers could consider pursuing an income-based fixed charge based on three criteria,” added Sallee. “Set prices as close to cost as possible; recover the full system cost; and distribute the burden of cost recovery fairly.”

Borenstein [will present the report's findings](#) to the Public Utilities Commission tomorrow at its en banc on electricity rates and costs

“Ultimately, a more fair and efficient solution exists for electricity pricing in California. We hope state policymakers and regulators will investigate these options with urgency to avoid increasing inequality in our transition to a clean economy,” concluded Perry.

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About Next 10:

Next 10 is an independent, nonpartisan, nonprofit organization that educates, engages and empowers Californians to improve the state’s future. With a focus on the intersection of the economy, the environment, and quality of life, Next 10 employs research from leading experts on complex state issues and creates a portfolio of nonpartisan educational materials to foster a deeper understanding of the critical issues affecting our state.

About the Energy Institute:

The Energy Institute at UC Berkeley’s Haas School of Business helps create a more economically and environmentally sustainable energy future through research, teaching and policy engagement.