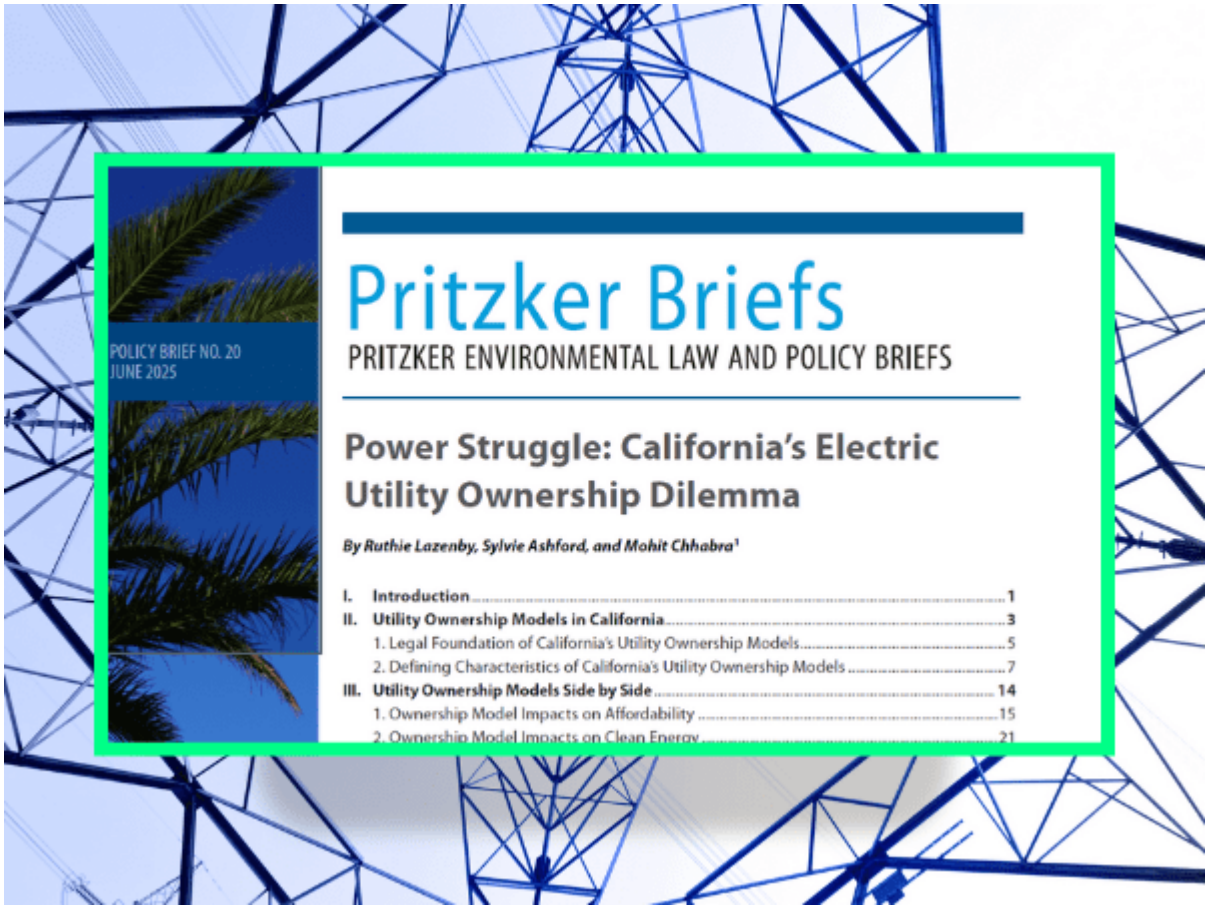

This post is co-authored by Sylvie Ashford and Mohit Chhabra.

California's investor-owned utilities (IOUs) are under intense scrutiny for causing deadly wildfires and charging some of the nation's highest electricity rates. Adding to these challenges, IOUs are required to make significant clean energy and grid investments to achieve the state's goal of a net zero carbon economy by 2045, while keeping electricity affordable and reliable. These big asks are oftentimes in conflict with one another.

As they have faltered to meet these goals, California IOUs have come under fire. One common argument is that the root of many of these problems is the IOU's profit motive. These IOUs exist to make profit first, not to provide cheap, clean, and reliable electricity. An obvious solution then, is to make private utilities public. But will a public buyout of IOUs really buy Californians cheaper, cleaner and more reliable electricity? Well, it's complicated.

Our new paper tries to shed light on this issue by breaking down the structural characteristics that distinguish IOUs from publicly-owned utilities (POUs). We apply these characteristics, and other necessary contextual details, to help explain differences in IOU

and POU performance on affordability, clean energy, and reliability. The paper is the latest in the Pritzker Brief series from the UCLA Emmett Institute.

Beyond profit, private and public utilities have distinct DNA

As private entities accountable to shareholders, IOUs invest in and manage large grids at a price. They are granted franchises to operate as monopolies and in exchange, regulated to align corporate and public interests. As public entities accountable to local constituencies, POUs can be more responsive to local needs, but are typically smaller and relatively more resource constrained.

These foundational differences, however, don't tell the whole story. IOUs and POUs differ across five key characteristics. The two utility ownership models have distinct internal governance structures, different regulatory obligations, different means of raising money and setting electricity prices, the geography and scale of their service territories varies, and they operate on different political terrain. These five characteristics, along with important contextual details, help explain differences in performance between private and public utilities in California.

POUs typically have cheaper electricity prices, but this doesn't mean that public ownership itself always results in cheaper electricity. IOUs in California spend a lot more money to manage wildfire risk, as they tend to have much larger and more rural service territories. Additionally, past legislative mandates and regulatory decisions required IOUs to minimize monthly fixed charges (or flat fees) on household bills. This has meant that, until a recent legislative change, IOUs had to charge higher rates for using electricity than utilities that collect fixed charges, which includes many POUs.

On the face of it, some IOUs, like PG&E, serve a much larger fraction of their load via carbon free electricity than their public counterparts. But here too, better performance doesn't stem from the ownership type itself. PG&E owns a nuclear power plant. And after PG&E signed renewables contracts to meet its minimum legal renewable obligations, a large amount of load defected to Community Choice Aggregators. This quirk of fate has meant that PG&E's clean energy contracts are now almost as large as the load it serves.

California IOUs also have far more rooftop solar than their public counterparts. This is mostly explained by IOUs' higher rates, which incent customers to install solar to save money. This in turn further drives up electricity usage rates for customers without rooftop

solar.

Reliability and safety metrics indicate that POUs perform better in this respect. Again, however, the fact that IOUs operate across much larger areas with greater wildfire risk makes a simple comparison challenging. In recent years, for example, IOUs have chosen to temporarily depower electric lines that crisscross arid forests to avoid wildfire risk on windy days.

In a game of tradeoffs, expensive buyouts aren’t the only option

Context matters. Utility performance depends as much on the geographic characteristics of service territory, regulatory frameworks (as well as regulators themselves), and local and state politics as on ownership. Dense urban areas with strong climate commitments may benefit from local POUs, while rural territories might require capital access and economies of scale that IOUs currently provide.

Neither ownership model guarantees success or failure. Each requires competent governance, adequate resources, sustained political will, and informed public engagement. While POUs generally achieve lower rates through their not-for-profit structure, much lower financing costs, and smaller service territories, IOUs are motivated to build and have greater access to capital for clean energy infrastructure investments.

Some of the main challenges facing California transcend ownership. Whether public or private, utilities must maintain sprawling grids across high-risk territories, fund an equitable clean energy transition, and balance massive infrastructure investments with affordability. Wildfire mitigation costs, aging infrastructure, and climate adaptation needs persist regardless of who owns the assets.

Political accountability is essential for both models. An effective regulator is the core of the IOU model. While it is easier to pass legislation affecting IOUs, IOUs exert substantial influence at the legislature and in regulatory proceedings. POUs offer greater local accountability but still face susceptibility to capture by well-resourced interests, with fewer resources to counterbalance these interests. Like any democratic institution, unlocking the value of a POU requires a motivated, engaged, and informed public. A fragmented landscape of small POUs would impose significant costs on statewide coordination, while a consolidated POU would sacrifice local responsiveness.

Transition costs of public buyouts are significant. They can consume decades and enormous resources in legal battles. Modern buyout efforts could expect IOUs to mount vigorous resistance through litigation and political campaigns. Such efforts would need to be well-resourced, motivated, and organized. Resources spent navigating these challenges could otherwise address immediate grid challenges.

Hybrid and incremental approaches are promising. Targeted interventions, like selective public ownership of generation or transmission infrastructure, strengthened regulatory oversight, rightsized utility profits, and performance-based incentives, could deliver improved outcomes without wholesale transformation. Some of the approaches could also shift power away from IOUs more gradually by building publicly-owned infrastructure and participation pathways.

Policymakers should keep their eyes on the prize: cheap, clean, and reliable electricity.

Neither ownership model offers a panacea for California's electricity woes. Public and private ownership models carry many trade-offs beyond the absence or presence of a profit motive, due to their individual legal, political, and economic structures. Ultimately, the measure of success is not whether utilities are publicly- or privately-owned, but whether Californians receive safe, reliable, affordable, and clean electricity. We hope this paper will enhance public conversations about electric utility reform and ownership to those ends. California should chart a course that maximizes public benefit and prioritizes the outcomes that matter most to its residents and its climate future.

You can read the full paper here.

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