System Average Rate

The system average rate is calculated by dividing the annual revenue requirement of the investor-owned utilities by their annual retail sales. This metric provides a normalized basis for assessing trends in utility costs over time. Because the value represents the average cost per kilowatt hour, it departs from the actual rates and trends in those rates experienced by different customer classes. The manner in which cost recovery is allocated across classes is, in the case of the investor owned utilities, determined via a ratemaking process at the California Public Utilities Commission, which involve rate design issues that are considerably more complex than simply dividing the annual revenue requirement over total retail sales.

In drawing conclusions from the system average rate, it is important to recognize that while rates are expected to increase over time, driven by many of the policies intended to, among other things, reduce greenhouse gas emissions pursuant to AB32, higher rates do not necessarily translate into increased expenditures on energy services. For example, to the degree customers are able to substitute away from grid based power by increasing their reliance on energy efficiency measures or behind the meter distributed generation, they may be able to partially or entirely offset the bill impacts that would otherwise occur as a result of higher rates while maintaining the same level of energy services.

Figure 1: System average rate (investor-owned utilities only)

Sources/Notes:
Nominal SAR values from AB67 report to the legislature, see http://www.cpuc.ca.gov/NR/rdonlyres/3828C51D-FE77-4439-ADB0-8790D5E9EC92/0/2010AB67CostReport_FINAL_32911.pdf
SAR in constant 2010 dollars calculated using CPI data provided by the California Department of Finance, see http://www.dof.ca.gov/HTML/FS_DATA/LatestEconData/documents/BBCYCIPI.xls
2011 data is an estimate only, and subject to change.

Note: This summary currently encompasses only investor-owned data, but the intent is to add data on publicly owned utilities in the future.