R.22-07-005, Phase 1 Track A: Income-Graduated Fixed Charge Guidance Memo

I. Purpose of Memo

The goal of Phase 1, Track A of the Demand Flexibility Rulemaking[1] is to establish income-graduated fixed charges in residential electric rates and adjust the California Alternate Rates for Energy (CARE) discount, in compliance with AB 205 (2022).[2] The purpose of this guidance memo is to provide guidelines for what is expected in the proposals offered through testimony that will be considered in this track of the proceeding.

II. AB 205 Income-Graduated Fixed Charge and CARE Discount Requirements

Residential volumetric electricity rates in California have long been above the national average and are projected to continue growing at a rapid pace over the next decade across the three large investor-owned utilities (IOU).[3] This threatens to undermine the state's policy goals around electrification and decarbonization, in addition to exacerbating an already worrisome affordability crisis.

Recognizing a structural change was needed, the legislature recently passed AB 205 (2022), which requires default residential electric rates to include a fixed charge to be implemented on an income-graduated basis with progressively higher charges for customers with higher incomes. By shifting a portion of IOUs' cost recovery to fixed charges, volumetric rates will be lower, which will increase bill affordability and encourage residential customers to adopt electrification measures. The income-graduated element promotes a more equitable distribution of costs contained in the fixed charge, particularly for lower income, low-usage customers who may have been adversely affected by a uniform fixed charge. This legislation also allows fixed charges in non-default residential rates, so long as these charges are also income-graduated.

In response to the bill, the Commission scoped the authorization of income-graduated fixed charges in residential rates to the Demand Flexibility Rulemaking in Phase 1, Track A. Commission staff held a workshop in November 2022 on this topic to discuss what issues need to be resolved prior to the Commission authorizing income-graduated fixed charges in residential rates. The purpose of holding this workshop was to ensure that parties in the proceeding have sufficient information to develop their proposals for an income-graduated fixed charge and CARE adjustments, and that they are prepared to adequately address the relevant issues and comply with the requirements of AB 205 in their testimony.

---

[1] Order Institute Rulemaking 22-07-005 : Order Instituting Rulemaking to Advance Demand Flexibility through Electric Rates, Phase 1, Track A.
[2] AB 205 (2022) Legislative Text.
[3] See 2021 SB 695 Report: Utility Costs and Affordability of the Grid of the Future, which forecasts California IOU electricity rates out to 2030, assesses drivers of rate increases, and affordability implications of rate increases.

This workshop also gave parties an opportunity to ask clarifying questions they might have regarding the interpretation of AB 205 and the applicability and relevance of prior decisions on residential rate fixed charges. CPUC staff used this dialogue to identify any ambiguities or conflicts in statute and prior decisions that parties felt should be resolved in a final decision on income-graduated fixed charges. Subsequently, the Commission issued a ruling on December 9, 2022, inviting parties to file briefs on questions of interpretation related to statutory ambiguities that were discussed at the November workshop.

Commission staff also used this workshop to emphasize to parties that CPUC process requires that authorized rates be supported by substantial evidence in the proceeding record. As such, all proposals submitted by parties must include sufficient justification for their proposal elements, including legal and economic efficiency justifications in addition to policy arguments.

III. Procedural Background and History

AB 205 removes prior restrictions on IOUs' ability to include fixed charges in default residential rates and creates some important new requirements for residential fixed charges. This section recaps the relevant parts of the legislation.

The California Legislature passed AB 205 in the summer of 2022, and it was subsequently signed into law by Governor Newsom on June 30, 2022. The legislature found that: (a) many electric costs which are currently recovered on a volumetric basis do not actually depend on the amount of electricity consumed by individual electric customers, and (b) that this mismatch between cost causation and retail rates is leading to rate volatility and inequities among customers.[4] The legislature declared that the intent of AB 205 in modifying Section 739.9 of the Public Utilities Code (PU Code) is as follows:

> *[AB 205, 2022, SEC. 14] (b) In regards to Section 739.9 of the Public Utilities Code, as amended by this act, it is the intent of the Legislature to do both of the following:*
>
> *(1) Authorize the Public Utilities Commission to establish reasonable fixed charges on default residential customer rates to help stabilize rates and equitably allocate and recover costs among residential customers in each electrical corporation's service territory.*
>
> *(2) If the Public Utilities Commission establishes fixed charges on default residential customer rates, ensure that the fixed charges are established to more fairly distribute the burden of supporting the electric system and achieving California's climate change goals through the fixed charge.*

Prior to AB 205, section 739.9 of the PU Code capped fixed charges in default residential rates to $10 per customer per month for customers not enrolled in the CARE program and $5 per customer per month for CARE customers. AB 205 lifts those restrictions. [5]

[4] Sec 14 of AB 205, Findings and Declaration for PU Code Section 739.9.

[5] Sec 10 of AB 205, Amendments to Section 739.9 of the PU Code.

Section 739.9 (f) as amended states that “the commission shall not apply the composite tier method to the treatment of any revenues resulting from any fixed charge.”[6] The composite tier methodology has been defined in a previous Commission decision as “the concept of including the fixed charge amount as part of the Tier 1 rate for purposes of calculating the tier differential.” [7]

Section 739.9 (e)(1) of the amended PU Code states, "For the purposes of this section and Section 739.1, the commission may authorize fixed charges for any rate schedule applicable to a residential customer account. The commission shall, no later than July 1, 2024, authorize a fixed charge for default residential rates." [8]

Section 739.9 (e)(1) continues: “[t]he fixed charge shall be established on an income-graduated basis with no fewer than three income thresholds so that a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage.” [9]

AB 205 also amended section 381 of the PU Code such that Non-Bypassable Charges (NBC) used to fund programs described in section 382 of the PU Code[10] no longer need to be collected on the basis of usage.[11]

Finally, AB 205 amended section 739.1 of the PU Code so as to change the definition of the effective CARE discount. Section 739.1 (c)(1) was amended to state that “[t]he average effective CARE discount shall not be less than 30 percent or more than 35 percent of the revenues that would have been produced for the same billed usage by non-CARE customers. The average effective discount determined by the commission shall not reflect any charges for which CARE customers are exempted, discounts to fixed charges or other rates paid by non-CARE customers, or bill savings resulting from participation in other programs, including the medical baseline allowance pursuant to subdivision (c) of Section 739.”[12]

Several questions of statutory interpretation were identified in a December 2022 ruling, and parties have an opportunity to file opening briefs in response to those questions in January 2023 and reply briefs in February 2023. However, the Commission will not have resolved those questions of interpretation when parties file opening testimony in March 2023. Instead, parties are directed to align the proposals included in testimony with their statutory interpretation briefs. Parties are also encouraged to include alternate proposals to demonstrate their preferences under the statutory interpretation of other parties. The Commission will address the questions of statutory interpretation in the same decision that considers parties’ proposals.

---

[6] Ibid.
[7] Composite tier methodology was defined in the Residential Rate Reform decision (D.15-07-001) (p. 97)
[8] Sec 10 of AB 205, Amendments to Section 739.9 of the PU Code.
[9] Ibid.
[10] Section 382 of the PU Code defines these programs as “programs provided to low-income electricity customers, including, but not limited to, targeted energy-efficiency services and the California Alternate Rates for Energy program”.
[11] Sec 8 of AB 205, Amendments to Section 381 of the PU Code.
[12] Sec 9 of AB 205, Amendments to Section 739.1 of the PU Code.

IV. Key Issues that Party Proposals Should Address

This section identifies the key topics and relevant guidance that parties should address in their proposals.

Determinants of Average Level of Fixed Charge

- *Which cost categories should be recovered through a fixed charge?*

  While prior Commission decisions have determined which cost categories were appropriate to include in residential fixed charges, those decisions do not have precedential value and do not limit what parties may propose in this proceeding.[13] However, staff emphasizes its expectation that any fixed charge proposed by parties be cost-based and that proposals identify the cost categories explicitly.

- *Should the Commission increase the residential fixed charge level over time?*

  A party may make a proposal to increase the residential fixed charge level over time. If so, its proposal must include the initial fixed charge level, as well as a timeframe and process for transitioning to a higher fixed charge level. Party proposals that increase the fixed charge level over time must justify why they are starting with a lower initial fixed charge level, as well as justify their selected timeline for increasing the fixed charge level. For this transition period, party proposals will need to explain what the volumetric rate and equity impacts will be, as is required for the final fixed charge level (discussed further below).

Impact on Volumetric Rates and Achieving Revenue Neutrality

- *What is the impact of a higher fixed charge on volumetric rates?*

  The goal of implementing higher fixed charges is to reduce volumetric rates by shifting recovery of non-volumetric costs from the usage-based rate component. Parties will need to demonstrate the impact of their proposed fixed charge on volumetric rates, including how their proposal will achieve revenue neutrality.

  For simplicity, it may be easiest if parties design their fixed charge proposals by first calculating an average fixed charge (and accompanying volumetric rate offset) for all residential customers, before incorporating any sort of income-graduated differentiation of the fixed charge. This approach will also align with the tool that is being developed to aid in the design and evaluation of fixed charge proposals, as discussed later.

  Changes to time-of-use (TOU) rate design elements (i.e., the number and timing of TOU periods and the differential between peak and off-peak rates) are not in scope for this track of the proceeding. While TOU pricing may change slightly as a result of certain cost categories no longer being recovered through volumetric rates, the purpose of this track of the proceeding is not to redesign TOU rates. Therefore, proposed structural changes to the TOU periods or

---

[13] See D.17-09-035, *Decision Identifying Fixed Cost Categories to be Included in a Fixed Charge*: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M196/K807/196807016.PDF and D.21-11-016, *Decision Adopting Marginal Costs, Revenue Allocation, and Rate Designs for Pacific Gas and Electric Company*: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M424/K378/424378035.PDF

changes to the peak to off-peak price ratios that are not a direct result of the shift in cost recovery from volumetric to fixed charges will not be considered.

Income-Based Graduation of Fixed Charge Levels

- *What are the income thresholds and what degree of differentiation in the fixed charge should there be based on income?*

AB 205 requires that any fixed charge applicable to residential customers be established on an income-graduated basis with no fewer than three income thresholds. There is an open question of statutory interpretation regarding whether a “customer” in this context is defined as the account holder or the entire household, which parties have an opportunity to weigh in on through legal briefs. For the purpose of party testimony, parties should specify whether their proposal applies to the account holder’s income or the household’s income. Furthermore, if the threshold applies to household income, proposals should establish how a household is defined.

Parties must recommend fixed charge thresholds based on customers’ income in their proposals. In addition, consistent with the requirements of section 739.1 of the PU Code,[14] any discount that customers receive on their fixed charge based on income level should be separate from discounts that customers receive as a result of being enrolled in low-income assistance programs such as CARE.

Given that party proposals must be revenue neutral and must propose some form of income-graduated differentiation with a minimum of three thresholds, party proposals should demonstrate that the fixed charge is able to collect sufficient revenue across income levels to avoid any revenue shortfall. This can be achieved through cross-subsidization across income categories.

Commission staff is developing a tool that parties can use to estimate sufficient revenue collection when developing their proposals. This tool can also be used to show the bill impact of a proposed income-graduated fixed charge across different customer segments, which will need to be included in party proposals so that the equity impacts of various proposals can be compared to one another. This tool is discussed in more detail later in this memo.

A party may choose to make a proposal that increases the number of income thresholds for the residential fixed charge over time. If so, the party should justify why the number of income thresholds should change over time, as well as why certain income thresholds should be included or excluded from the initial fixed charge design.

Party proposals should justify each of their proposed income thresholds with references to existing state policies relating to income-based eligibility for state services, subsidies, and other benefits. Party proposals should justify the recommended number of proposed income thresholds based on administrative burden, potential for reducing customer confusion, alignment with existing state policies and programs, and impact on the affordability of customer bills.

[14] Section 739.1 of PU Code

Lower Average Monthly Bills for Low-Income Ratepayers

- *How will the proposal guarantee that low-income ratepayers pay a lower average monthly bill without any change in usage, as required by AB 205?*

AB 205 revised Section 739.9 (e)(1) to state that "[t]he fixed charge shall be established on an income-graduated basis with no fewer than three income thresholds so that a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage." While there is ambiguity in the statutory language around how to define a low-income ratepayer and how the average monthly bill for that customer should be calculated, parties will need to demonstrate that their proposals satisfy this requirement, consistent with their interpretation of the statute.

For instance, if a party defines a low-income ratepayer as a CARE customer, their proposal will need to demonstrate that CARE customers in each baseline territory realize a lower average monthly bill without any changes in usage. Staff interprets the definition of "average monthly bill" to be based on the average bill amount that a customer pays each month over the course of a calendar year, and that this amount is based on the average usage profile for that customer segment. The public tool that the Commission is developing to aid parties in preparing their proposals will include the load profiles for customer segments in each of the IOUs' various baseline territories and can be used to help parties determine if their proposals are meeting this requirement. If a party's definition of low-income ratepayer is not aligned with the outputs from the public tool that the Commission is developing, that party will need to use their own analysis to demonstrate that this requirement is satisfied by their proposal.

Income Verification Processes

- *What processes should be used to verify and reverify customers' income?*

Verification of customer income levels will play an important role in ensuring that sufficient revenue is collected from higher-income customers to offset the discounted fixed charge that will be offered to lower-income customers. Commission staff has been discussing options for income verification through direct use of income tax data with the Franchise Tax Board (FTB). Staff presented lessons learned at the November workshop. Specifically, staff discussed the data privacy limitations associated with accessing customers' FTB tax information. Revenue and Taxation Code Section 19452 prohibits the FTB from providing this data without taxpayer authorization, and this restriction applies to confirmation of any self-reported income data from the taxpayer. FTB does have a process for taxpayers to authorize disclosure of their data through submission of a form. This authorization allows for disclosure of the income of the individual taxpayer, not the entire household. Without statutory authorization, the FTB would not be able to verify income information for taxpayers without their written consent. Separately, it is worth noting that many low-income households do not file tax returns, which limits the usefulness of FTB tax data for verifying the income levels of customers in lower income brackets.

Given the limitations associated with FTB data, Commission staff also explored options for demonstrating income levels through enrollment in a low-income program that performs income verification. Specifically, staff reached out to the California Department of Social

Services (CDSS), which administers the CalFresh program, to identify an opportunity to leverage data from an income-verified program. CalFresh, which is known federally as the Supplemental Nutrition Assistance Program (SNAP), provides food benefits to low-income households through a state-supervised and county-operated program, and has the same gross income threshold requirement as the CARE program (200% of Federal Poverty Level, or FPL).[15] Unlike CARE, the program requires income verification rather than relying on self-attestation of income eligibility. The program's county administrators verify applicants' income levels through the Income and Eligibility Verification System (IEVS).

The LifeLine program, which offers discounted phone service to qualifying households, provides an example for how income verification can be achieved by leveraging the CalFresh program. The CPUC contracts with a third-party administrator to process enrollments and conduct income verification. The CPUC has an interagency agreement with CDSS to allow a third-party administrator to verify that LifeLine applicants receive CalFresh benefits and are therefore verified to have a gross income less than 200% of FPL. The third-party administrator performs this check by submitting the applicant's information to a system called CalFresh Confirm Hub, which verifies whether the applicant receives CalFresh benefits. LifeLine customers consent to this use of their personal information and the disclosure of their CalFresh enrollment to the CPUC through their LifeLine application.

In addition to verifying customer income through FTB data (which would require customer authorization) and leveraging enrollment in a low-income program to verify low-income status (which would require coordination between state agencies, the alignment between proposed income thresholds and the income eligibility requirements for the low-income program, and would also likely require customer authorization), the third option for income verification that was discussed at the November workshop was requiring customers to submit proof of income level directly to the IOU or the third-party administrator. An example of this would be requiring customers to send a copy of a recent tax return.

Because automatic verification of all customers' incomes through FTB data is not feasible without legislation, and FTB will not have data for all customers, income verification proposals will need to specify what fixed charge level customers will be defaulted onto in the absence of income data, and how income verification will be carried out (customer authorization of income data disclosure, customer submission of proof of enrollment in a relevant program, customer submission of proof of income, etc.). Furthermore, party proposals will need to realistically estimate the degree to which customers will be unintentionally assigned an incorrect fixed charge level and what the revenue collection and equity implications of that incorrect assignment would be. Parties should cite data from other programs that require income verification to inform estimates of what portion of customers will be assigned an incorrect fixed charge level due to the absence of customer income data.

Parties may propose more than one income verification process. Parties that propose an income verification process should provide a justification for use of its proposed process(es), including whether these processes have been used successfully by other state programs, the

[15] https://www.cdss.ca.gov/inforesources/cdss-programs/calfresh/eligibility-and-issuance-requirements

administrative burden, the implementation costs, and the expected response of electric customers. Party proposals should also consider the amount of time necessary to establish and implement new income verification processes.

Parties will also need to provide details for a reverification process, which will ensure that customers continue to be charged the appropriate fixed charge if their income level changes. Parties should describe how often reverification will be performed, whether all customers will need to go through the process or just a portion, the process that will be used, and the manner in which customers will be notified of any changes. Party proposals should also estimate what percentage of customers will not successfully complete the reverification process and what will happen if a customer does not successfully reverify.

Party proposals will also need to specify how dispute resolution will be handled for the verification and reverification processes. Customers who disagree with their income determination will need a process by which they can correct any errors. Parties should describe that process, who will administer it, and what criteria will be used to resolve any disagreements.

Alternatively, if parties wish to propose an implementation process that relies on customer self-reporting of income, party proposals will need to include a default level for the fixed charge, an explanation of how customers who do not respond with income data will be treated, the extent to which customers will be incorrectly assigned to an income category, and what the equity and revenue collection impacts of such an implementation strategy would be. Parties should also specify whether post-enrollment verification and reverification processes (similar to what is currently used for the CARE program) would be used to limit incorrect assignment of fixed charge level.

To help parties develop appropriate assumptions for the effectiveness of various income verification and/or self-attestation schemes, the enrollment rates (based on estimated eligible populations) for several low-income programs are provided below:

- CARE[16]:
  - PG&E – 95%
  - SCE – 88%
  - SDG&E – 93%
  - SoCalGas – 95%
- FERA[17]:
  - PG&E – 13%
  - SCE – 10%
  - SDG&E – 20%
- CalFresh[18]: 80.4%

[16] See D.21-06-015

[17] Ibid.

[18] Based on 2020 estimate of Program Reach Index excluding Supplemental Security Income households. See CalFresh Data Dashboard: https://www.cdss.ca.gov/inforesources/data-portal/research-and-data/calfresh-data-dashboard

- LifeLine[19]: 34%

Post-enrollment verification levels for the CARE program were set by decision to be no more than 200% of their 2011 levels, which translate to 8% of all CARE customers annually for PG&E, 7% for SCE, less than 4% for SoCalGas, and 6% for SDG&E, though actual post-enrollment verification rates vary each year.[20] Of the households requested to verify income levels through the post-enrollment verification process in 2019, a large percentage were de-enrolled due to non-response: 78% for PG&E, 49% for SCE, 49% for SDG&E, and 56% for SoCalGas. Additional households were de-enrolled after completing the post-enrollment verification process, resulting in total 2019 de-enrollment rates (including customer de-enrolled due to non-response) of 82% for PG&E, 50% for SCE, 57% for SDG&E, and 61% for SoCalGas through the post-enrollment verification process.[21]

The recertification process for existing CARE customers in 2019 was requested for 14% of PG&E CARE customers, 25% of SCE CARE customers, 15% of SDG&E CARE customers, and 20% of SoCalGas CARE customers. Of the customers requested to recertify in 2019, the percentage who successfully recertified were 71% for PG&E, 48% for SCE, 66% for SDG&E, and 58% for SoCalGas.[22]

To demonstrate the impact of using a qualifying low-income program verification hub for eligibility, the LifeLine program had a renewal rate of 47.5% prior to the implementation of the CalFresh Confirm Hub process[23] compared to a preliminary renewal rate estimate of 78.1% after the implementation of the CalFresh Confirm Hub process along with other renewal process improvements.[24] The renewal rate increase cannot solely be attributed to CalFresh Confirm Hub eligibility verification. While the eligibility verification hub was the most significant contribution, many other overall renewal process improvements were also implemented to remove barriers.

- *What costs associated with implementation of an income-graduated fixed charge should be considered when evaluating proposals? How long will it take to implement a given proposal? What information can the IOUs provide to help understand the costs associated with different implementation plans?*

  Implementation of income-graduated fixed charges will potentially be a complex and costly process in order to effectively implement the requirements of AB 205. Administrative costs may be significant and will require explicit consideration when evaluating different proposals.

---

[19] "California LifeLine Program Assessment & Evaluation." Prepared by the Consensus and Collaboration Program and Institute for Social Research, California State University, Sacramento. May 2022. Available at: https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M478/K367/478367564.PDF

[20] See D.12-08-044 and D.17-12-009

[21] See Low Income Annual Report Tables, CARE Table 3: https://liob.cpuc.ca.gov/monthly-annual-reports/

[22] See Low Income Annual Report Tables, CARE Table 6: https://liob.cpuc.ca.gov/monthly-annual-reports/

[23] Based on the renewal activity report for the 6-month period prior to the start of the COVID-19 pandemic. See the California LifeLine Administrator Presentation to the Administrative Committee from March 5, 2020 (slide 4): https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/communications-division/documents/lifeline/ultsac/tpa-presentations/2020/tpalifelineoverview03052020.pdf

[24] This is a preliminary estimate of the renewal rate since the resumption of renewals in July 2022. This figure has not been formally reported and is subject to change once additional data becomes available.

Furthermore, the time required to adjust billing systems, establish income verification processes, and educate customers about the forthcoming changes may be considerable. These assumptions should be spelled out in party proposals.

While non-IOU parties will be able to identify the relevant cost categories associated with a given implementation plan, they will likely need to consult with and/or propound discovery on the IOUs to understand the magnitude of the costs. IOUs should include in their proposals estimates for different implementation cost categories, including:

- IT billing modifications
- Staffing needs for various income verification/self-attestation designs
- Third-party administrator costs
- Marketing, education, and outreach
- Any other relevant implementation costs

While IOUs may not know the specific details of all parties' implementation proposals while testimony is being prepared, broad categories of implementation plans and the relevant costs should be known. In opening testimony, IOUs should provide at least high-level estimates and insight into the relative cost and complexity of a range of implementation proposals. For example, if an IOU proposes three tiers of income for verification, the IOU should provide high level estimates of the costs of implementing four and five tiers of income verification in addition to a more detailed estimate of the implementation costs of its proposed three tiers. Similarly, if an IOU proposes to handle all income verification in-house, the IOU should provide at least a high-level estimate of the costs of contracting with a third-party administrator to perform income verification in addition to more detailed estimates of the costs of handling all income verification in-house.

IOUs will also need to use their proposals to give an estimate for how long different implementation proposals will take to put in place. IOUs should provide estimated timelines for different implementation options that the IOUs anticipate that other parties will propose.

As an example of third-party administrator costs, the Commission has contracted for administration of the LifeLine program (including enrollment of applicants, verification of income levels, operation of information technology systems, operation of a call center, database management, communication with service providers and stakeholders, etc.) at a cost of approximately $46,000,000 for a period of three years (October 2022 through October 2025).[25]

CARE Discount Methodology and Income Graduated Fixed Charge

- *How should the CARE discount be applied in rates that feature an income-graduated fixed charge?*

In addition to authorizing income-graduated fixed charges, AB 205 adjusts the definition of the effective CARE discount such that "[t]he average effective discount determined by the commission shall not reflect any charges for which CARE customers are exempted, discounts to

[25] Purchase document details available at: https://suppliers.fiscal.ca.gov/psc/psfpd1_1/SUPPLIER/ERP/c/ZZ_PO.ZZ_SCPRS2_CMP.GBL?Page=ZZ_SCPRS_PDDTL_PG&Action=U

fixed charges or other rates paid by non-CARE customers, or bill savings resulting from participation in other programs, including the medical baseline allowance.” [26]

CARE-exempt charges include the CARE surcharge, the Wildfire Fund charge, the Self-Generation Incentive Program charge, and the Wildfire Hardening Fixed Recovery charge. Party proposals will need to ensure that these exemptions are not included in the effective CARE discount, and that they are correctly accounted for if these costs are recovered through the fixed charge.

Introduction of Income-Graduated Fixed Charges in Non-Default Rates

- *Should all non-default residential rates feature a fixed charge that is at least as high as what is included in default residential rates? How will that fixed charge impact volumetric rates?*

Adding an income-graduated fixed charge to default rates will give high-income households a financial incentive to switch to a non-default rate if that rate does not feature a similar income-graduated fixed charge. In order to avoid revenue shortfall due to such potential arbitrage behavior resulting from asymmetric fixed charge quantities, Energy Division staff recommends that income-graduated fixed charges should be incorporated into all non-default rates as well.

While AB 205 only has an explicit requirement for authorization of income-graduated fixed charges in default rates, it also allows for such a rate component to be included in other rates as well. The statute states that any fixed charge authorized for residential rates “be established on an income-graduated basis with no fewer than three income thresholds so that a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage.” [27] Staff interprets this statutory language to mean that fixed charges that are featured in existing rates must be modified to be income-graduated, and that any new or modified fixed charges introduced to non-default rates must be income-graduated as well.

Commission staff expects parties to address this issue in their proposals. Party proposals will need to recommend whether to (a) use the same income-graduated fixed charge design for all non-default rates as default rates, (b) use a different income-graduated fixed charge design for certain non-default rates, or (c) not use a fixed charge for certain non-default rates. For option (b), party proposals must (i) identify which non-default rates should feature a fixed charge design that deviates from the income-graduated fixed charge design for default rates, (ii) justify the rationale for the deviation, (iii) recommend how that fixed charge will impact volumetric rates, and (iv) explain how these non-default rates will be designed to avoid revenue shortfall. For option (c), party proposals must justify exempting specified non-default rates from fixed charges and explain how these rates will be designed to avoid revenue shortfall.

Parties may also wish to weigh in on other non-default rate design elements and/or policies that can mitigate the potential for customer opt out from default tariffs to these optional tariffs (if the optional tariffs feature a lower or no fixed charges), including but not limited to: (1) revised/lower enrollment caps, and (2) elimination or closure of certain optional tariffs.

[26] Sec 9 of AB 205, Amendments to Section 739.1 of the PU Code.
[27] Sec 10 of AB 205, Amendments to Section 739.9 of the PU Code.

Post-Implementation Assessment of Income-Graduated Fixed Charges

- *How should over or under collection of revenue through the fixed charge be handled?*

  In the event the fixed charge does not collect the intended amount of revenue, the IOU may need to adjust the structure of its income-graduated fixed charge. This may occur if the number of customers enrolled in each of the fixed charge levels deviates from expectation. Depending on the size of the deviation and the progressivity of the income graduation of the fixed charge, an enrollment deviation could lead to a substantial over or under collection and it may be necessary to adjust the income thresholds, the average fixed charge level, or the income-graduation prior to the next GRC cycle in order to ensure recovery of authorized revenue. For instance, parties may want to consider a process similar to the Energy Resource Recovery Account (ERRA) Trigger mechanism, which allows utilities to file an expedited application for rate adjustment in the event that their fuel and purchased power costs exceed a certain threshold.

  Party proposals should describe how such large over or under collection situations should be addressed, and the frequency with which such adjustments should be made.

- *How should the CPUC assess the effectiveness of the design and implementation of income-graduated fixed charges after they have been incorporated into residential rates?*

  An income-graduated fixed charge is a novel approach to addressing fixed cost recovery in an equitable way. While income-graduated fixed charges should theoretically facilitate lower volumetric rates without unduly burdening low-income, low-usage households, its success depends on the ability to recover sufficient fixed charge revenue from higher-income households such that there is no revenue shortfall. Separately, AB 205's equity goals will only be achieved if lower income households receive appropriately discounted fixed charges without having to navigate unnecessary administrative barriers. Achieving both of these goals may require some adjustments to the fixed charge design and income verification processes after real world data has been collected.

  For both of these reasons, a process must be designed to assess how well the adopted fixed charge scheme is working after it has been implemented. Parties should recommend in their proposals how the success of the authorized fixed charges should be assessed (including metrics and reporting requirements), when and how often these assessments will occur, how parties can provide feedback during the post-implementation period, whether a formal independent evaluation is needed (and if so, how an evaluation contractor should be selected and managed), and what procedural path should be used for making any necessary adjustments.

V. Public Tool and Consulting Services for Development and Assessment of Fixed Charge Proposals

Commission staff is working with E3 and the Energy Institute at Haas to develop a spreadsheet tool that can be used to design and assess the impact of rate designs that feature an income-graduated fixed charge through the following process:

1) Calculate an average fixed charge level based on IOU-provided cost data and user-selected categories for recovery through the fixed charge.
2) Use IOU revenue requirement data to calculate the volumetric rate impact associated with a given average fixed charge, assuming revenue neutral cost recovery.
3) Allow the user to develop an income-based graduation of the average fixed charge.
4) Use the dataset from a recent study conducted by Next 10 and the Energy Institute at Haas[28] to study the distributional bill impacts of an income-graduated fixed charge on households of different income levels, with additional detail by IOU climate zone, CARE status, and NEM status.
5) Assess the impact of the proposed income-graduated fixed charge on the cost-effectiveness of vehicle and building electrification for various customer segments.

The datasets developed from recent research by the Energy Institute at Haas, as well as data requested from the IOUs, will be used to develop a spreadsheet tool that accomplishes these tasks. Initial development of the tool is underway and is being funded by the Commission through a portion of an existing Energy Division contract with E3 that supports the Integrated Resource Planning (IRP) process.[29] Given that electric bill affordability is an essential goal of both the IRP process and AB 205, this task is within the scope of the E3 IRP contract. This funding source will provide up to $125,000, which will allow for the initial development of the tool and a workshop where parties will be introduced to the tool and learn how to use it.

Parties will be able to use the tool to understand the volumetric rate impact associated with a chosen fixed charge. Parties can then also use the tool to design an income-graduated design for that fixed charge such that it allows for equitable revenue collection while avoiding any revenue shortfall.

The goal is to make this tool available to parties so it may aid in the development and evaluation of party proposals. By providing common datasets that parties can use to develop their proposals, this ensures that comparison of different proposals are objective and uniform. This also obviates the need to submit multiple, lengthy data requests to the IOUs over the course of the proceeding.

Once the initial tool development is complete, E3 will host a workshop in January to present the tool to parties, answer questions about tool functionality, and give parties an opportunity to provide feedback (recognizing that there is limited ability to add more features to the tool given the current procedural schedule).

Staff also proposes the following scope of work that will require additional funding:

[28] Borenstein, Severin, Meredith Fowlie, and James Sallee. *Paying for Electricity in California: How Residential Rate Design Impacts Equity and Electrification*. Next 10 and the Energy Institute, September 22, 2022. Available at: https://www.next10.org/publications/electricity-rates-2

[29] This funding was authorized by D.18-02-018.

Task	Scope	Amount ($000s)
Support Parties in Using Tool	Engage with parties, respond to questions, minor tool updates if needed	$125
Energy Division Support	Ad-hoc support for Energy Division staff, assistance evaluating party proposals that require tool customization	$150
Major Model Updates (Contingency)	If needed: major revisions to spreadsheet tool based on party feedba	$150
		$425

The main tasks of this additional scope of work are estimated to cost approximately $275,000 (incremental to the cost of initial tool development), with an additional $150,000 needed if major revisions to the tool are needed. Staff proposes a budget cap of $425,000 for this additional scope of work.

On December 9, 2022, the IOUs filed a joint motion to authorize each IOU to establish either a new memorandum account (for SCE and SDG&E) or a new subaccount to an existing memorandum account (for PG&E) to track its proportional share of the total incremental costs incurred to pay E3 for services rendered under the supervision of Energy Division staff associated with this scope of work, effective as of the date of the motion. Subsequently, responses to the motion were filed by Public Advocates Office (Cal Advocates) and the Joint Ratepayer Parties (California Large Energy Consumers Association (CLECA), the Energy Producers and Users Coalition (EPUC), the California Farm Bureau Federation (Farm Bureau), California Manufacturers & Technology Association (CMTA), Energy Users Forum (EUF), and Federal Executive Agencies (FEA)). The IOUs filed a reply to these responses on January 6, 2023.

Staff supports the IOUs’ joint motion to create new memorandum accounts for SCE and SDG&E and to create a new subaccount for the Dynamic and Real-Time Pricing Memorandum Account (DRTPMA) for PG&E to track the costs associated with the additional scope of work detailed above. Staff supports the IOUs’ proposal to share the costs associated with this work using a split of 40% PG&E, 40% SCE, and 20% SDG&E.

Given that E3 is currently developing the spreadsheet tool for the design and evaluation of income-graduated fixed charges, staff believes that E3 would be in the best position to perform this additional work. Staff recommends PG&E establish a contract with E3 directly rather than hold a request for proposal (RFP) process. An RFP process would be lengthy and would likely not be feasible given the procedural timeline for this track of the proceeding. Staff also agrees with the IOUs’ position that the costs associated with this work are reasonably considered incremental to rate design activities for General Rate Cases (GRC), that obtaining non-ratepayer funds via State General Funds is not practical given the current procedural schedule, and that it would be impractical for each IOU to track separate and distinct costs in their respective memorandum accounts.

Staff proposes that the Energy Division staff establish project objectives, timeline, and overall budget, while PG&E manages the contract with E3. In this proposal, Energy Division staff would work with E3 to determine project deliverables and deadlines, approve the scope of work, and ensure that E3 is meeting the project milestones. Energy Division staff would also be responsible for approving major revisions to the tool if needed.