BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates.	Rulemaking 22-07-005 (Issued July 14, 2022)

SIERRA CLUB AND CALIFORNIA ENVIRONMENTAL JUSTICE ALLIANCE COMMENTS ON IMPLEMENTATION PATHWAYS FOR INCOME-GRADUATED FIXED CHARGES

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I. Introduction

Sierra Club and the California Environmental Justice Alliance ("CEJA") submit this joint response to the questions posed in the June 19 Administrative Law Judge's ("ALJ") Ruling on the Implementation Pathway for Income-Graduated Fixed Charges. These are preliminary responses to the ALJ's questions based on testimony filed by Sierra Club and CEJA and additional research pertaining to specific questions. Sierra Club and CEJA reserve the right to solidify final positions in briefs and to respond to other parties' positions in reply comments and final briefs. For certain responses, Sierra Club and CEJA's recommendations diverge slightly or only one party provides an answer.[1] If no party name is provided at the outset of the answer, the answer represents a joint response from both parties.

II. Responses to ALJ Questions

1. **Section 739.9(d)(2) requires any approved fixed charges to "[n]ot unreasonably impair incentives for conservation, energy efficiency, and beneficial electrification and greenhouse gas emissions reduction."**

    a. **How should the Commission address this requirement for IGFCs in the context of state policy goals of encouraging strategic electrification and improved grid utilization?**

As Sierra Club's Opening Testimony noted, "[b]oth AB 205 and the Commission's Electric Rate Design Principles call for a balance between equity, electrification, energy

[1] Specifically, the arguments and recommendations made herein are jointly made between Sierra Club and CEJA, except for the following: (1) in response to Question 7, Sierra Club and CEJA take differing positions regarding fixed charges reasonably reflecting an appropriate portion of the different cots of

efficiency, and local generation that optimizes the use of existing grid infrastructure."[2] Establishing an income-graduated fixed charge ("IGFC") that appropriately balances each of these goals will ultimately be a policy determination made by the California Public Utilities Commission ("Commission"), and it will be important to acknowledge the tradeoffs that are made. While a higher fixed charge can support a larger reduction in volumetric rates (and thereby support electrification and potentially equity), setting the fixed charge too high could undermine equity, conservation, energy efficiency, and adoption of distributed resources like rooftop solar. Accordingly, and as suggested in Sierra Club's Opening Testimony, the Commission should strive to set an IGFC that strikes an appropriate balance: one that is high enough to reduce volumetric rates and build in progressivity to assist low income ratepayers but not so high as to unreasonably disincentivize conservation, energy efficiency, or adoption of distributed resources.[3] Notably, decreased incentives for conservation, energy efficiency, and demand flexibility could impair incentives for electrification as well, by limiting customers' ability to manage their bills. While there is no exact IGFC that can perfectly balance each of these goals, an IGFC that is high enough to reduce the volumetric rate in the range of 15 and 18%, as suggested by Sierra Club's Opening Testimony,[4] is likely to encourage electrification[5] while not unreasonably disincentivizing conservation, energy efficiency, and distributed resources, given that even after reducing volumetric rates by this amount, California customers would still pay higher volumetric rates than in many other areas of the country.[6] Indeed, the IGFC will not impact the utility's total revenue requirement, and the Commission should continue to seek ways to reduce costs.

In determining the appropriate IGFC to encourage beneficial electrification, the Commission should recognize that the near-zero movement in the last decade towards total residential electrification shows that the Commission must issue strong signals supporting the

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serving small and large customers; and (2) in response to Questions 10 and 13, Sierra Club and CEJA present differing income verification processes.

[2] *See* Ex. SC-01E at Wilson/18:18-20.

[3] *See id.* at Wilson/18:18-21:10 (discussing state goals and policy, including beneficial electrification, conservation and energy efficiency, and distributed resources, that the Commission must balance when establishing an IGFC).

[4] *Id.* at Wilson/19:6.

[5] *See id.* at Wilson/56:13-14 (estimating that reducing volumetric rates by 15-18% would increase electricity demand by around 2% in the short-run).

[6] *See* Ex. SC-01E at Wilson/20:20-21.

transition. An IGFC can be one tool to encourage electrification. However, the Commission should also recognize that electrifying an entire home can be invasive and time consuming for homeowners, and lower income homeowners face higher barriers to electrification. If a homeowner wants to fully electrify (i.e., no gas service at the service address), panel upgrades or other home renovations may be necessary.[7] The Commission must continue to focus on these barriers when considering the electrification incentive structure. At minimum, the Commission should implement discounts and bill protections for moderate- and low-income customers who face greater financial barriers to electrification.

Specifically, CEJA's Opening Testimony asked the Commission to implement a short-term IGFC discount system to incentivize electrification while rolling out IGFCs. CEJA proposed a 100% discount for customers who make under $500,000 and a 50% discount for customers who make above $500,000 per year.[8] Customers' experience with gas bills during the winter of 2022-23 was a resounding reminder that reliance on gas is not sustainable either for customers' wallets or the climate.[9] Encouraging electrification is of the utmost importance and should not be sidelined in this proceeding. If Californians use more electricity and less gas because of the IGFC, it will aid both State's electrification and greenhouse gas ("GHG") emissions reductions goals.[10] Sierra Club supports the idea of an electrification discount for gas-disconnected customers but has not yet modeled its impacts on revenue collection.

Discounts to the fixed charge will reduce the amount of revenue recovered in the fixed charge at the outset. However, the number of fully electric homes in California is still relatively low, estimated at 12% by the Energy Information Administration, and CEJA's proposal calls for

[7] Both the Inflation Reduction Act of 2022 and the California Building Decarbonization program provide thousands of dollars for electrification, but they may not lower electrification retrofit costs to the same cost as simply replacing old end of life gas equipment with new gas equipment in many cases. The IRA tax credit has a 30% cap with a much lower cap of $2,000 for space conditioning equipment, and it is not clear how the electrifying rebates will apply at this time. It is also unlikely if federal rebates and incentives will cover all the costs of electrifying. If homeowners want to upgrade to electric (heating/water heating/cooking) then they have to hire an electrician and, in some cases, would need to complete major construction work like a panel replacement, or potentially, an electric service supply upgrade. Additional signals from the Commission that electrifying homeowners will save on energy bills should be considered.

[8] Ex. CEJA-01 at Siegele/33:11-17.

[9] *Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rate*, R. 22-07-005, Opening Brief of Sierra Club and the Cal. Environmental Justice Alliance at 3 (Jan. 23, 2023).

[10] Cal. Air Resources Board, 2022 Scoping Plan for Achieving Carbon Neutrality: Executive Summary at 1, 8 (Dec. 2022), *available at* https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp-es.pdf).

a temporary discount that phases out over five years beginning in 2030.[11] This initial push would ensure that electrification remains appealing to ratepayers while the scheduled, rapid phase down of discounts ensures that IOUs can plan for recovering full fixed charge amounts within approximately 10 years of implementation. This discount could have an additional benefit for IGFC implementation, improving public perception by giving customers a pathway to managing the fixed charge in the short-term before they acclimate to lower volumetric rates.

b. How should the Commission incentivize beneficial electrification and greenhouse gas emissions reductions during off-peak periods while meeting general conservation and efficiency goals? For example, should IGFC reductions from volumetric rates be applied to reduce rates during off-peak periods while maintaining existing peak period rates at the current level to continue to incentivize conservation and energy efficiency during peak periods?

While neither Sierra Club nor CEJA submitted testimony addressing applying the IGFC reductions to the volumetric rate during only off-peak periods, this approach could help to incentivize conservation and energy efficiency during the most critical peak periods. In general, we support the use of highly differentiated time-of-use periods in order to reduce peak demand as long as equity considerations are addressed and bill protections for low-income customers are included. While the Commission is not required to decide this issue during the first implementation of an IGFC, once the IGFC is implemented, the Commission could explore instituting highly differentiated time-of-use periods through the volumetric rate savings from the IGFC in future proceedings. In doing so, the Commission should consider that electric rates must be affordable in order to incentivize and reward fuel switching from gas and protect low-income households. IGFCs should protect and reward customers who generate and conserve energy through rooftop solar, battery storage, distributed energy resources, and other load shifting and energy efficiency measures.[12]

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[11] Ex. CEJA-01 at Siegele/33:22-34:6. PG&E and SDG&E electrification increases at about a tenth of a percent each year. SCE's electrification decreases by about a tenth of a percent each year. Ex. CEJA-02 at Siegele/15:3-5.

[12] *Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rate*, R. 22-07-005, Opening Brief of Sierra Club and the Cal. Environmental Justice Alliance at 3 (Jan. 23, 2023).

2. AB 205 does not specify how much an IGFC should reduce bills for low-income customers to comply with Section 739.9(e)(1).

a. What policies or principles should the Commission consider when determining how much the first version of IGFCs should reduce bills for low-income customers?

The Commission's answer to how much the first version of IGFCs will reduce bills for low-income customers will be the product of which cost components are included in the IGFC and then the allocation of cost recovery by income tier in the adopted proposal. Taking this into account, the Commission should look first to AB 205's language and legislative intent. Section 739.9(e)(1) instructs that the fixed charge shall be income graduated with no fewer than three income thresholds, so that low-income ratepayers in each baseline territory realize lower average monthly bills without changes in usage. Subsection (e)(2) provides that "'income-graduated' means that low-income customers pay a smaller fixed charge than high-income customers."

The Legislature declared its purpose in passing AB 205 as solving an urgent affordability problem, one in which the "disparity between volumetric revenue recovery and fixed costs that do not vary with electricity consumption also contributes to potential inequities among customers."[13] This language identifies fixed costs as regressive charges impacting low-income customers. In combination with section 739.9's mandate for income graduated charges, the Legislature clearly intended the adoption of a progressive fixed cost distribution.

The Commission should also consider ratepayers' energy burden when answering "how much the first version of IGFCs should reduce bills for low-income customers." The Commission has, in prior proceedings, studied percentage of income payment plans, which effectively limit residential customer energy burden.[14] Although never formally adopted, the Commission has repeatedly discussed 5% energy burden as a high energy burden.[15] Income does not determine energy needs, and regressively designed IGFCs will burden poor Californians with

[13] *Id.* at 5; AB 205, 2022 Leg. Serv. § 61 (Cal. 2022) [hereinafter "AB 205"].
[14] "A PIPP program has the potential to reduce residential disconnections and energy burdens of low-income customers in California." D.21-10-012, *Decision Authorizing Percentage of Income Payment Plan Pilot Programs* at 77 (Oct. 7, 2021).
[15] D.15-07-001, *Decision on Residential Rate Reform for Pacific Gas and Electric Company, Southern Cal. Edison Company, and San Diego Gas & Electric Company and Transition to Time-Of-Use Rates* at 266; D.21-10-012 at 41-42. In D.21-10-012, the Commission adopted a 4% energy burden threshold for the purposes of examining the impact of PIPP on grid disconnections. D.21-10-012 at 42; *see also* Ex. CEJA-01 at Siegele/16:12-17:3.

bills that consume large percentages of their income.[16] Thus, the Commission should strive to ensure that low-income customers' bills are reduced and that their energy burdens fall short of the high 5% threshold. In doing so, it should attempt to ensure that all customers have access to enough electricity to meet their essential needs by setting definitive goals for bill reductions or savings, as it has done in other arenas, such as the Green Tariff DAC-GT Program.[17] Setting benchmarks has empowered customers to plan their usage and hold IOUs accountable to statutory mandates. For example, in the Disadvantaged Communities Green Tariff Program the Commission set a bill reduction requirement of 20%. The Commission should follow that example here, setting an ambitious average bill reduction threshold that will substantially reduce energy burden for low-income customers.

b. Should the first version of IGFCs differentiate between low-income and very low-income customers?

The first version of IGFCs should *not* differentiate between low-income and very low-income customers, and no IGFC should split CARE customers into two tiers. Importantly, there is no such distinction in the statutory language, and studies have consistently demonstrated concerns about affordability and energy burden across the low-income bracket. The Commission must accomplish the Legislature's clear mandate to protect *all* low-income customers and should focus on appropriate reductions for all low-income customers while allocating increased costs in appropriate segments of the vastly more stratified group of high-income customers. The most efficient way to ensure low-income customers receive their statutorily mandated savings is to set the lowest fixed charge at $0 and enroll all low-income customers in this tier.

For the purposes of an IGFC, a "low-income ratepayer" should be defined as a ratepayer whose income is below 80 percent of either the state-wide median income or the area median income ("AMI") (whichever is greater) or a ratepayer who qualifies for any applicable California

[16] *Order Instituting Rulemaking to Establish a Framework and Processes for Assessing the Affordability of Utility Service*, R.18-07-006, Comments of Sierra Club, the Cal. Environmental Justice Alliance, and the Natural Resources Defense Council on the Assigned Commissioner's Ruling Amending Ruling of May 20, 2022 and Further Updating Proceeding Schedule for Phase 3 of Proceeding at 5 (Aug. 1, 2022).
[17] *See, e.g*. CPUC, The Disadvantaged Communities Green Tariff DAC-GT Program, *available at* https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/demand-side-management/solar-in-disadvantaged-communities/the-disadvantaged-communities-green-tariff-dac-gt-program.

or local income-based benefits program such as CARE/Family Electric Rate Assistance Program("FERA"), CalFRESH, and those discussed in response to question 10, below.[18]

It is more important to create income brackets higher than $200,000 than to spend time and administrative costs splitting low-income customers into more granular levels. As such, CEJA and Sierra Club also urge the Commission to expand the tool in this proceeding to allow for consideration of income brackets higher than $200,000 that may be implemented in a second phase. Multiple tiers of low-income customer income brackets do not accomplish the AB 205 mandate that IGFCs be income graduated and protect low-income households, particularly if the first version fails to set out higher tiers of graduation appropriately capturing costs from high-income households.

c. What are the legal, policy, and/or operational justifications for your proposal?

i. The Commission must recognize protections for all low-income customers

Sierra Club and CEJA's proposal is focused on protecting low-income customers and designing a robust, easy to administer, and easy to understand system in line with the Commission's Environmental and Social Justice Action Plan.[19] The definition of "low-income customer" must be broader than the narrow definitions of the CARE and FERA programs. Importantly, although section 739.9 discusses the CARE program, it did not define "low-income customer" as synonymous with CARE customers, demonstrating that the definition of low-income in section 739.9 is distinct from the definition of CARE. Furthermore, as the Commission has previously recognized, affordability concerns are impacted by location and not limited to customers that are eligible for the CARE program.[20]

In particular, the Commission should define low-income consistent with its Environmental and Social Justice Plan 2.0, which is intended to guide Commission decisions and

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[18] *Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates*, R. 22-07-005, Opening Brief of Sierra Club and the Cal. Environmental Justice Alliance at 10 (Jan. 23, 2023).

[19] Advancing the Commission's ESJ Action plan was one of the critical mandates of this proceeding's OIR. R.22-07-005 OIR at 7, 9.

[20] *See, e.g.*, D.22-08-023 at 23 (recognizing that comparisons between county level data and CARE data do not always hold); *see generally* D.22-08-023 (setting forth an affordability metrics based on location as well as income).

policies.[21] There, the Commission identifies a "low-income household" as households with incomes at or below 80 percent of AMI.[22] Defining low-income with respect to median income is critical to achieving AB 205's mandate. The California Department of Housing and Community Development (HCD) adjusts AMI to show income thresholds by household size and set low-income thresholds by household size equating to approximately 80% of AMI or 80 percent of state non-metropolitan median family income.[23] The Commission previously relied on this HCD definition[24] in determining eligibility for the Self-Generation Incentive Program.[25]

Other Commission programs are also based on an 80 percent area or state median income threshold. For example, the Single-Family Affordable Solar Homes (SASH) program requires applicants to have a household income that is 80% or below the area median income.[26] When approving this threshold, the Commission recognized that a different low-income income threshold than CARE and FERA was "appropriate to ensure that program resources are used to benefit households most in need of assistance."[27] Beyond the Commission's reach, California energy programs also utilize the 80% median income threshold to determine eligibility. In particular, the Low-Income Weatherization Program requires that applicants meet the affordability requirements of at least 66% of households at or below 80% of the area median income.[28]

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[21] The Commission's Environmental and Social Justice Action Plan also recognizes low-income census tracts as "[c]ensus tracts where aggregated household incomes are less than 80 percent of area or state median income."

[22] *Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rate*, R. 22-07-005, Opening Brief of Sierra Club and the Cal. Environmental Justice Alliance at 10 (Jan. 23, 2023); Cal. Public Utilities Commission, Environmental & Social Justice Action Plan Version 2.0 at 2 (Apr. 7, 2022).

[23] Ex. CEJA-02 at Siegele/4:10-5:4; Dep't Housing and Community Dev., State Income Limits for 2022 (May 13, 2022), *available at* https://www.hcd.ca.gov/docs/grants-and-funding/inc2k22.pdf. More than half of the people in California—24 million—live in a county where the HCD's 3-person household's low-income threshold is $85,000 or more, and the statewide population-weighted average for the same household class is $84,859. Ex. CEJA-02 at Siegele/12:19-22.

[24] Cal. Code Regs. tit. 25 § 6928.

[25] Self-Generation Incentive Program Handbook at 35-36 (Nov. 11, 2022), *available at* https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/self-generation-incentive-program/2022-sgip-handbook-v5.pdf.

[26] GRID Alternatives, SASH Eligibility Requirements, *available at* https://gridalternatives.org/what-we-do/solar-programs/single-family-solar/sash/qualify.

[27] *See* D18-06-027 at 30.

[28] Cal. Multifamily Energy Efficiency, Low Income Weatherization Program Flyer (June 2016), *available at* https://camultifamilyenergyefficiencydotorg.files.wordpress.com/2016/06/liwp-flyer_v-1-81.pdf.

Utilizing the 80 percent state or median income threshold is also consistent with the definition in section 39713 of the Health and Safety Code, which defines "low-income households" as "those with household incomes at or below 80 percent of the statewide median income or with household incomes at or below the threshold designated as low income by the Department of Housing and Community Development's list of state income limits adopted pursuant to Section 50093." The Department of Housing and Community Development further notes that these metrics are reflected in "most low-income limits."[29]

Last, the 80 percent median income threshold is consistent with the definitions in Federal funding opportunities under the Inflation Reduction Act. For example, the Notice of Funding Opportunities for the $27 billion Greenhouse Gas Reduction Fund (GGRF) use a low-income definition of:

- For Metropolitan Areas: (1) 80% Area Median Income and (2) 200% of the Federal Poverty Level
- For Non-Metropolitan Areas: (1) 80% AMI; (2) 80% Statewide Non-Metropolitan Area AMI; and (3) 200% of the Federal Poverty Level[30]

This alignment with the GGRF further demonstrates the importance of the Commission defining low-income in this proceeding to ensure that all customers are protected from unaffordable electricity rates.

ii. The Commission must implement bill protections for low-income customers

As the Commission implements AB 205, it is important to provide bill protections and consider raising the CARE baseline to ensure that rates do not rise. Specifically, the Commission should focus on equity considerations so that the IGFCs are robust enough to protect low-income customers even as flexible demand rates change how much customers are charged for electricity. At minimum, the Commission should implement:

[29] Cal. Dep't of Housing and Community Dev., State Income Limits for 2022, *available at* https://www.hcd.ca.gov/docs/grants-and-funding/inc2k22.pdf.
[30] See U.S. Environmental Protection Agency, National Clean Investment Fund funding opportunity number EPA-R-HQ-NCIF-23, (Jul. 14, 2023), *available at* https://www.grants.gov/web/grants/view-opportunity.html?oppId=349234.

- A $0 fixed charge for all low-income customers[31]
- Annual true-ups to ensure that low-income ratepayers realize "a lower average monthly bill without making any changes in usage."[32]
- Automatic enrollment in the bottom income tier for customers who qualify for a public assistance program[33]
- Default customers into middle- or low-income tier[34]

Section 739.9(e)(1) mandates that "a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage." Given the requirement for bill protection for low-income customers, the Commission should not only ensure a fully protective fixed charge but also conduct annual checks to ensure that reductions occur.[35]

3. Should the Commission adopt a definition of moderate income customer for IGFC design purposes?

First and foremost, creating a moderate-income tier should not in any way interfere with setting an appropriate and progressive definition of low-income, and the protections low-income customers are entitled to under AB 205. CEJA and Sierra Club do not object to a moderate-income tier so long as the definition's lower bound is 80% of area or state median income, whichever is higher.

Unfortunately, several proposals before the Commission have set the threshold for low-income so low that millions of poor Californians would be forcibly placed in a "moderate" income tier despite qualifying for what the California Department of Housing and Urban Development has defined as "Low Income," "Very Low Income," "Extremely Low Income," or "Acutely Low Income."[36] The Legislature explicitly protected "low-income" customers. Section 739.9(e) does not include explicit protections for moderate-income customers, magnifying the importance of its mandate that "low-income ratepayer[s] in each baseline territory would realize

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[31] Ex. CEJA-02 at Siegele/5.
[32] Pub. Utils. Code § 739.9(e)(1).
[33] *See*, response to Question 10, *infra*.
[34] Ex. CEJA-01 at Siegele/2, 23; Ex. CEJA-02 at Siegele/7-8.
[35] Ex. CEJA-02 at Siegele/13.
[36] Cal. Code Regs., tit. 25, § 6932 (see for reference income figures for California's three most populous counties, Los Angeles, San Diego, and Orange where moderate income for a 3-person household ranges from $106,050 to $138,000, and median income range from $88,400 to $115,000); *see also,* Ex. PAC/100 at Meredith/10; Ex. Cal Advocates-01-E at Chau/Nichols/3, Table 3; Ex. Joint IOUs-01-E2 at 5.

a lower average monthly bill without making any changes in usage… [and] low-income customers pay a smaller fixed charge than high-income customers." The Commission must take care to define all "low-income" Californians as low income so they are not excluded from the protections the Legislature intended. It should additionally strongly consider Sierra Club's proposal for low fixed charges for middle income tiers, so that households on the cusp are insulated from potential bill spikes.

a. Please provide the source of your proposed definition.

Sierra Club's proposed middle, or moderate-income tier, starts above 80% of area median income and goes up to 125% of area median income.[37] Any moderate-income tier must be rooted to AMI by county/metropolitan statistical area ("MSA") and as detailed above, should start at minimum at 80% of AMI. As detailed in Sierra Club's testimony, AMI data is currently utilized and vetted by the Department of Housing and Urban Development ("HUD") for its various housing programs, is updated annually by county and MSA, and captures relative income by geography much more accurately than federal poverty level ("FPL").[38] Analysis in Sierra Club's Reply Testimony shows that median income varies widely by county, and similarly, the 80% of AMI value for three-person households varies from $56,133 to $134,267 across HUD geographies in California.[39]

[37] Ex. SC-01E at Wilson/32.
[38] *Id.* at Wilson/34-35; Ex. SC-02 at Wilson/25
[39] Ex. SC-02 at Wilson/25-26.

Table 1: Area Median Income by County, California

	Sierra Club Proposal Thresholds		
County	Moderate Income (80% AMI)	High Income (125% AMI)	Upper Income (200% AMI)
Butte	$56,133	$87,708	$140,333
Colusa	$56,133	$87,708	$140,333
Del Norte	$56,133	$87,708	$140,333
Fresno	$56,133	$87,708	$140,333
Glenn	$56,133	$87,708	$140,333
Humboldt	$56,133	$87,708	$140,333
Imperial	$56,133	$87,708	$140,333
Kern	$56,133	$87,708	$140,333
Kings	$56,133	$87,708	$140,333
Lake	$56,133	$87,708	$140,333
Madera	$56,133	$87,708	$140,333
Mariposa	$56,133	$87,708	$140,333
Merced	$56,133	$87,708	$140,333
Modoc	$56,133	$87,708	$140,333
Siskiyou	$56,133	$87,708	$140,333
Sutter	$56,133	$87,708	$140,333
Tehama	$56,133	$87,708	$140,333
Trinity	$56,133	$87,708	$140,333
Tulare	$56,133	$87,708	$140,333
Yuba	$56,133	$87,708	$140,333
Shasta	$57,200	$89,375	$143,000
Stanislaus	$57,467	$89,792	$143,667
Lassen	$57,867	$90,417	$144,667
Mendocino	$57,867	$90,417	$144,667
Mono	$57,867	$90,417	$144,667
Plumas	$58,800	$91,875	$147,000
Inyo	$59,600	$93,125	$149,000
San Joaquin	$59,733	$93,333	$149,333
Tuolumne	$60,000	$93,750	$150,000
Amador	$62,400	$97,500	$156,000
Riverside	$63,467	$99,167	$158,667
San Bernardino	$63,467	$99,167	$158,667
Calaveras	$64,800	$101,250	$162,000
Sierra	$64,800	$101,250	$162,000
Alpine	$65,467	$102,292	$163,667
Nevada	$70,800	$110,625	$177,000
Yolo	$71,467	$111,667	$178,667
El Dorado	$73,067	$114,167	$182,667
Placer	$73,067	$114,167	$182,667
Sacramento	$73,067	$114,167	$182,667
San Benito	$75,733	$118,333	$189,333
Solano	$78,267	$122,292	$195,667
San Luis Obispo	$78,800	$123,125	$197,000
Monterey	$81,867	$127,917	$204,667
Sonoma	$85,600	$133,750	$214,000
Los Angeles	$85,867	$134,167	$214,667
Ventura	$90,267	$141,042	$225,667
Napa	$90,933	$142,083	$227,333
San Diego	$93,733	$146,458	$234,333
Orange	$97,600	$152,500	$244,000
Santa Barbara	$100,667	$157,292	$251,667
Alameda	$102,933	$160,833	$257,333
Contra Costa	$102,933	$160,833	$257,333
Santa Cruz	$112,000	$175,000	$280,000
Santa Clara	$121,333	$189,583	$303,333
Marin	$134,267	$209,792	$335,667
San Francisco	$134,267	$209,792	$335,667
San Mateo	$134,267	$209,792	$335,667

Source: Ex. SC-02, Attach. 1: Area Median Income by County (with Comparison to Living Wage)

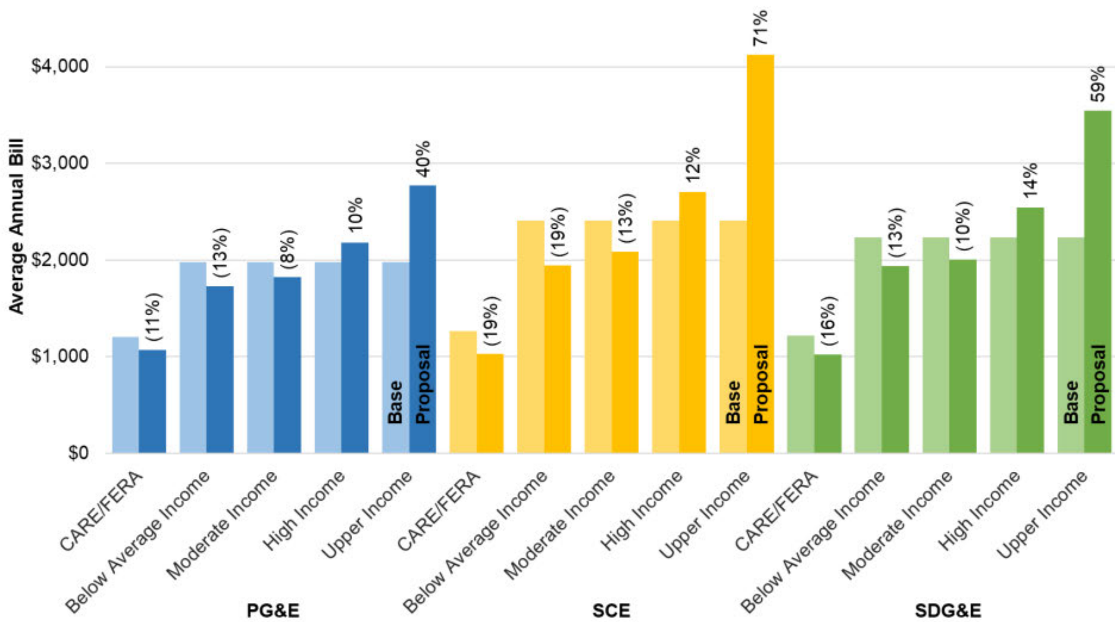
FPL, on the other hand, is static, geographically. 400% of FPL, which is proposed by the joint IOUs for its middle tier, is $99,440 for a household of three.[40] While starting a middle income tier at $99,440 may be reasonable in a county with lower cost of living, it would put many low-income households in high-cost counties in California into a moderate income tier, resulting in higher bills. As a result, regressive proposal such as the Joint IOUs and Cal Advocates', put low-income customers at risk of *higher* bills from an IGFC, in direct contravention of AB 205.[41] The Joint IOUs' proposal, would, for example, assign families earning just above a living wage in the most expensive counties in California a fixed charge of $51-73 per month, more than three times the proposed fixed charge in Sierra Club's proposal. Even if those families qualified for CARE or FERA, they would still pay a fixed charge of $20-$34 a month. The Joint IOUs' middle-income tier and use of FPL is not only inflexible in responding to California's diverse geography and economy, it is also severely inequitable.

b. Should the first version of IGFCs be designed to impact the average monthly bill of moderate-income customers (in each baseline territory) in a particular way?

Sierra Club's proposal for an IGFC not only results in lower bills with the same consumption for low-income tiers but also for the middle-income tier, as shown below.

[40] HHS Poverty Guidelines for 2023, Office of the Assistant Secretary for Planning and Evaluation, *available at* https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines; PG&E-01 at 26.
[41] Sierra Club's Reply Testimony demonstrates the considerable risks associated with the Joint IOUs'' proposal to use FPL. "In my view, the Joint IOUs top bracket unreasonably groups some customers making very close to average incomes in their counties with customers making well above average incomes. An IGFC that treats customers identically in a state with as much economic diversity as California runs counter to the intent of AB 205. To illustrate this point, I compared the bracket thresholds in Sierra Club's proposal to the living wage for a three-person family as calculated using an online tool available from MIT. (*See* Attachment 1). In all but the most affluent counties, such a household (not enrolled in CARE/FERA) would be in the moderate-income bracket in my proposal and assigned a fixed charge of $15-23, depending on IOU service territory. In the four most affluent counties in California, a three-person family with two living wage incomes would fall in the below-average-income bracket, assigned a $7-11 fixed charge. This makes sense, as even someone earning a living wage in those four counties could be struggling to make ends meet." Ex. SC-02E at Wilson/26:11-23.

Figure 1: Bill Impacts of Sierra Club's Proposed IGFC by Utility and Tier



Source: Ex. SC-01E at 51.

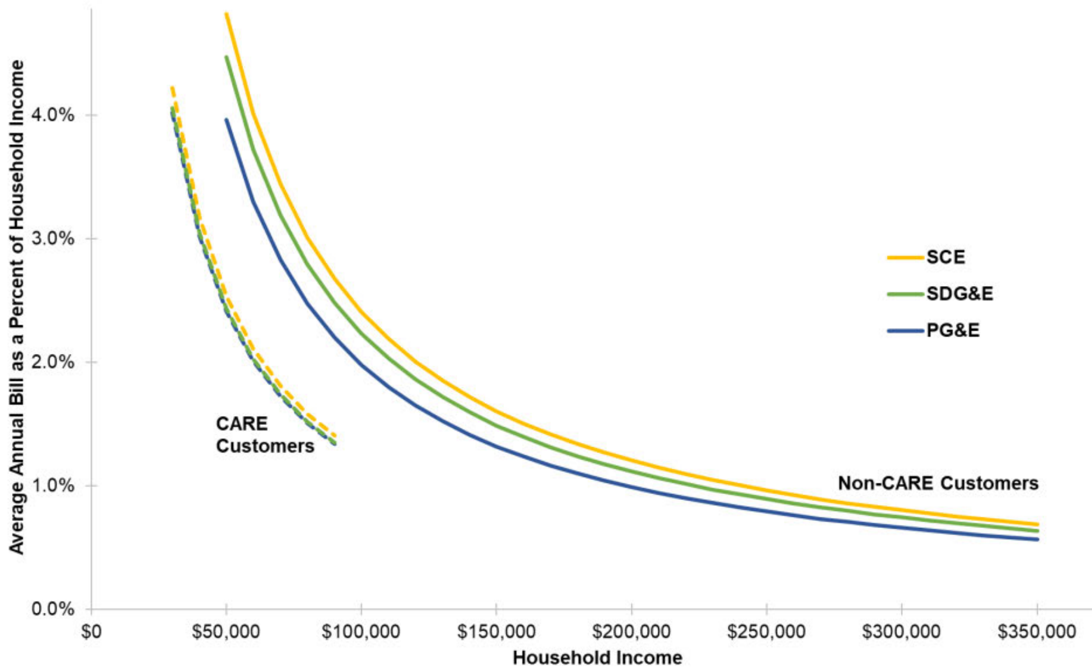
The advantage of progressively-designed fixed charge tiers such as those proposed by Sierra Club and CEJA, is that they result in bill savings for low-income *and* moderate-income households. The Commission should favor proposals that do so to ensure that there are no circumstances in which low-income households would pay more under an IGFC than they would have under current rates. Low-income households that fall into a moderate-income tier, either by error, by inaction, or because of yearly fluctuations in income, should not be harmed by the change to an IGFC. For this very reason, Sierra Club proposes a middle-income tier that would see bill savings (for the same consumption) *and* proposes defaulting customers into that middle-income tier for the first year of the IGFC.

The language and origin of AB 205 also work in favor of bill savings for the middle-income tier. AB 205 presents two stated goals, lower bills for Californians impacted by higher electric rates, and lower volumetric rates to better reward and incent electrification.[42] Both of these goals are furthered if moderate-income customers see lower overall bills from an IGFC. Moderate-income customers pay a higher percentage of their income on electric bills than high-

[42] *See Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rate*, R. 22-07-005, Opening Brief of Sierra Club and the Cal. Environmental Justice Alliance at 1-3 (Jan. 23, 2023).

income customers (see below), and are thus more impacted by high bills and in more acute need of bill relief. And from an electrification standpoint, it is sensible to concentrate the gains from lower volumetric rates in low and moderate-income tiers. High-income customers have access to capital and the ability to electrify without the promise of immediate bill savings. Low- and moderate-income customers on other hand require greater financial incentives to electrify and should not be harmed in the clean energy transition.

Figure 2: Regressivity of Electric Bills



Source: Ex. SC-01E at 30.

c. What are the legal, policy, and/or operational justifications for your proposal?

Please refer to answer 3(b) above.

4. **Do you recommend a cap on how much the first version of IGFCs may increase the average monthly bills of higher income customers (in each baseline territory)? If so, what would be a reasonable amount? What are the legal and/or policy justifications for your proposal?**

No. There is no statutory requirement to limit higher-income customers' bills and higher-income customers have lower energy burdens than moderate and low-income customers under every IGFC proposal, even the most progressively structured IGFC proposals.[43]

The E3 tool used by most parties to this proceeding to develop IGFC proposals has included data on Californians earning up to–but not above–$200,000. As CEJA discussed in testimony, California residents earning over $200,000 are a substantial portion of the state, both by percentage of population and by percentage of income tax liability.[44] This segment of households' ability to pay a fixed charge is substantially greater than the $0 through $200,000 segment's ability. Additionally, without data from the E3 tool it would be unreasonable to prematurely proscribe utilities from recovering appropriate IGFCs from high-income customers.[45]

In answering this question, the Commission should consider the principles of equitable energy burden and section 451's grounding mandate that utility rates are just and reasonable. These requirements, coupled with the fact that no party proposed inequitably burdensome IGFCs for high-income ratepayers, mean that it is not necessary for the Commission to adopt a cap on high-income customer IGFCs during implementation.

Some parties have posited that too high of an IGFC for high income earners could lead to those customers opting to disconnect from the electric system altogether, known as grid defection. Cases of grid defection have thus far been rare, although the costs of doing so are decreasing as batteries become more affordable. Nevertheless, rather than setting an arbitrary upper limit on an IGFC for high income earners (which is neither required by AB205 nor aligned with reducing the energy burden of low income customers), the Commission should ground the IGFC in a relatively narrow set of utility expenses that are, in fact, fixed, as required by

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[43] *See, e.g.* Ex. SC-02E at Wilson/6 (Figure 2).
[44] Ex. CEJA-01 at Siegele/14-15.
[45] Customers making $1 million per year would pay $50,000 annually at an energy burden of 5%. Sierra Club and CEJA do not advocate for setting high-income customers fixed charge at or near a 5% energy burden cap, but urge the Commission to more closely study California's most able to pay before placing an absolute ceiling on fixed charges. *Id.* at Siegele/16-18.

AB205.[46] Limiting the types of expenses that are included in the fixed charge (discussed immediately below) will inherently reign in the IGFC and prevent IOUs from ballooning fixed charges by increasing non-marginal distribution spending.

5. **What types of fixed costs should be eligible to be included in any given IGFC (Eligible Fixed Costs)? Please explain why specific types of costs should (or should not) be categorized as Eligible Fixed Costs based on legal or policy justifications.**

Section 739.9(a) defines a "fixed charge" as "any fixed customer charge, basic service fee, demand differentiated basic service fee, demand charge, or other charge not based on the volume of electricity consumed." In defining "fixed charge" in this manner, the Legislature differentiated between costs that vary with consumption, which may include both variable and certain other fixed utility costs, and costs that are not based on the volume of electricity consumed. For instance, a "demand charge" is classified as a charge "not based on the volume of electricity consumed," but demand-related costs clearly "vary *with* electricity consumption."[47] Accordingly, under AB 205, reasonable cost components for an IGFC would include only those costs that do not vary with electricity consumption.

Eligible costs that "do not vary with electricity consumption" may include the following:

- **Certain generation costs**: Four non-bypassable charge cost components are related to historical embedded generation costs and no longer vary based on the volume of energy consumed. These include: Power Charge Indifference Adjustment ("PCIA"), Nuclear Decommissioning, Competition Transition Charge ("CTC"), and PG&E's Energy Cost Recovery Amount. These historical generation-related cost components included stranded costs that became disconnected from the economics of generation supply during the various phases of California's energy market restructuring. In testimony, Sierra Club recommended that all of these non-bypassable charges, with the exception of the PCIA, be included in the IGFC. PCIA costs are linked to market capacity costs and are therefore viewed as highly volatile and unpredictable. Because it is preferable to include that volatility in the volumetric rate, Sierra Club does not recommend including this cost in the IGFC, although it is technically eligible. Most other generation costs, including the marginal energy cost, the marginal generation capacity cost, non-marginal

[46] AB 205 at § 10 (amending Pub. Util. Code § 739.9(a)).
[47] "The current default residential customer rate structure in electrical corporation territories leads to a situation in which rates must rise to recover sufficient revenue to support certain fixed utility costs..." AB 205, section 14(a)(3). These fixed utility costs are described in section 14(a)(4) as "fixed costs that do not vary with electricity consumption."

generation, and the New System Generation/Local Generation Charge reflect costs that vary based on the volume of electricity consumed and thus should be excluded from the IGFC.

- **Certain distribution costs**: Customer-related distribution cost components (both marginal and non-marginal) and distribution-related non-bypassable charges should be eligible for recovery in the IGFC because they do not vary with electricity consumption.[48] First, customer-specific costs include billing, customer inquiry, and establishing meters, service drops, and final line transformers, as the Commission determined in D.17-09-035. These marginal customer access costs as well as non-marginal customer access costs, should be included in the IGFC. Second, there are seven distribution-related non-bypassable charges that do not vary with electricity consumption: Wildfire Fund Non-Bypassable Charge, Securitized Wildfire Capital Costs, Recovery Bond Charge/Recovery Bond Credit, Wildfire Hardening Charge, Public Purpose Program Charge, California Energy Commission Fee, and Public Utilities Commission Reimbursement Fee Charge. Each of these should be included in the IGFC.[49] Demand-related distribution costs, including marginal and non-marginal distribution costs, should be excluded from the IGFC because they vary with electricity consumption.

Notably, no transmission costs should be recovered in the IGFC because transmission costs are FERC-jurisdictional and many of the costs vary with electricity use.

6. **Are there certain Eligible Fixed Costs that should be excluded from recovery through the first version of IGFCs? Would it be reasonable to simply recover a portion of Eligible Fixed Costs through the first version of IGFCs without specifying which costs are recovered?**

As noted above, the Commission should not include the Power Cost Indifference Adjustment ("PCIA") in the IGFC because the PCIA is volatile and unpredictable and thus better suited to the volumetric charge.

The Commission should not authorize recovery of a portion of Eligible Fixed Costs without specifying which costs are recovered for a variety of reasons. First, the Commission

[48] For a more detailed discussion of these costs *see* Ex. SC-01E at Wilson/5-18.
[49] Some parties, such as the Joint IOUs and SEIA, suggested that the Wildfire Fund Charge and Wildfire Hardening Charge are ineligible for the IGFC due to statutory and contractual restrictions. As noted in Sierra Club's Reply Testimony, the Commission could collect the amount of these charges through an IGFC by collecting a greater proportion of distribution costs. *See* Ex. SC-02E at Wilson/18:10-19.

should strive to ensure transparency and accessibility. Without specifying which fixed costs are included in the IGFC, tracking utility cost recovery will become even more difficult. Relatedly, recently adopted Electric Rate Design Principle 7 states that "[c]ustomers should be able to understand their rates and rate incentives . . ." A fixed charge without specified cost components would not be understandable to customers. Second, failing to specify which costs are included in the IGFC could lead to confusion in setting an appropriate volumetric rate, as it may not be clear which portion of a specific fixed charge has not been fully recovered through the IGFC and therefore must be included in the volumetric rate. This approach would likely lead to utility abuse and potentially over collection from customers. Finally, in order to ensure that the IGFC complies with AB205 and only includes those costs that do not vary with electricity consumption, the Commission must be precise in identifying which costs are both authorized for recovery through the IGFC and included in the IGFC.

7. Section 739.9(d)(1) requires any approved fixed charges to "[r]easonably reflect an appropriate portion of the different costs of serving small and large customers." How should the Commission address this requirement? Please cite previous Commission decisions and operational issues with identifying small customers.

Differentiating costs between small and large customers can be achieved by assessing the service drop provided to the customer. The vast majority of residential customers are on either shared service drops (usually multi-family residences) or dedicated single-phase service (usually single-family residences).[50] A small number may receive the more costly three-phase service (for exceptionally high demand) or a dedicated transformer and service drop (potentially due to isolated location). Sierra Club's proposal recommends that the Commission direct utilities to include a determination of marginal customer acquisition costs ("MCACs") for all customers, those with shared service drops and those with dedicated single-phase service, in their GRC Phase 2 applications.

Sierra Club then recommends, in order to comply with the language of Section 739(d)(1), that the Commission add a surcharge and discount for the IGFC equal to the difference between the relevant cost for the average customer and a shared or dedicated line service customer. The Commission can and should also direct the utilities to investigate differentiated costs from three-

[50] Ex. SC-01E at Wilson/42-3.

phase service and dedicated transformer and service drops. Investigating such costs will ensure that the IGFC is appropriately cost-based and will also better address the equity issues associated with multi-family housing households being assessed the same charges as households in single-family homes who contribute more to grid distribution costs.[51]

a. Should the Commission include in the IGFCs a demand-differentiated charge similar to what has been authorized by the Hawaii Public Utilities Commission for future Hawaii TOU rates where certain customer-specific costs are collected on the basis of noncoincident peak demand?

No, non-coincident peak demand charges poorly reflect distribution costs and provide perverse incentives to customers, pushing them to flatten load when it may not be beneficial to do so. Most demand-related distribution costs are driven by the *coincident*, or *combined*, peak demand of large groups of customers.[52] Coincident peaks of these large groups of customers can strain substations and transmission lines, driving investments in distribution and transmission infrastructure, increasing costs. *Non-coincident* peak demand, on the other hand, is unmoored to system costs. It may, in fact, be *beneficial* for customers to increase non-coincident peak demand. For example, if a customer's non-coincident peak demand is in the middle of the day, when solar is most abundant and coincident peak demand is low, rates should encourage an even higher non-coincident peak for that customer, to concentrate consumption when electricity is cheapest on the grid and has the lowest emissions intensity.[53] A non-coincident peak demand charge would do the exact opposite, signaling to those customers that they should flatten their load, even though their peak consumption patterns are beneficial to the grid. In addition, if the

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[51] *Id.*

[52] Direct Testimony of Melissa Whited, Synapse, Application of San Diego Gas & Electric Company (U902M) to Update Rate Design to Include a Residential Untiered Time-of-Use Rate with a Fixed Charge (January 14, 2022), *available at* https://www.synapse-energy.com/sites/default/files/SC_Direct-test-MWhited-21-118.pdf.

[53] D.17-08-030 at 46 (Aug. 25, 2017), *available at* https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M194/K599/194599448.PDF. The Commission articulated explicitly the risks of non-coincident demand charges in 2017: "Noncoincident demand charges incentivize customers to flatten their load, but given high penetration of solar resources, solar following loads are becoming more desirable to avoid curtailing renewable resources and may be less costly to serve than customers with flat loads. Noncoincident demand charges can discourage beneficial energy use, such as electric vehicle fleet charging (overnight or during hours with high solar generation), or Reverse Demand Response to encourage customers to use renewable energy that might otherwise be curtailed due to overgeneration conditions."

Commission considers any type of demand-differentiated charge, it should also include consideration of equity as demand-differentiated charges can have unintended impacts on low-income households that cannot readily shift their demand.

b. Several parties proposed to apply a different fixed charge to multi-family customers, either by identifying multi-family customers or using a shared service drop as a proxy for these customers. For utilities that do not already identify multi-family customers, what would be the additional cost of identifying multi-family customers? In the alternative, is a shared service drop a reasonable proxy for identifying multi-family customers?

Please refer to the answer to question 7, above. Sierra Club believes that shared service drops are reasonable proxies for identifying multi-family customers given that there is currently a lack of "confidence in the accuracy and completeness" of the IOUs data on whether a residential account is a single- or multi-family unit.[54] While we are not able to provide exact estimates on how much it would cost to use a shared service drop proxy, Sierra Club has proposed a low-cost method in which "the Commission allow the utilities to assume that all residential customers have dedicated service unless they are able to associate the account with information that is considered highly likely to indicate that the account is served by a shared service drop."[55]

Alternatively, CEJA recommends using tax assessment data to determine multi-unit dwellings versus single family. Tax assessment data is exact and does not depend on a service-drop proxy and is also low-cost.

[54] Ex. NRDC-TURN-01E at Chhabra/Ashford/17.
[55] Ex. SC-01E at Wilson/31-32.

c. **Should the Commission include some other approach to differentiating the fixed charge based on customer size? This could include some other parameter or a combination of parameters to measure customer size. An example of this would be the approach used by Burbank Water and Power, which adds a residential "service size charge" to a fixed residential "customer service charge", with the "service size charge" differentiated based on customer size as follows: small defined as a service location with two or more meters per service drop (typically multifamily residential); medium defined as a service location with one meter per service drop and does not meet the definition of large (typically single-family residential); and large defined as a service location with a panel size greater than 200A**[56]

Please refer to the answer to question 7(b), above.

d. **If the IGFC is differentiated based on customer size or an individual customer's demand, are there customer specific Eligible Fixed Costs or other factors that should be used to determine the magnitude of the size-based differentiation?**

Please refer to the answer to question 7(b), above.

8. **How should the Commission apply the Electric Rate Design Principles to the design of the first version of IGFCs?**

The Electric Rate Design Principles ("RDP"), as applied to the first version of IGFCs, are discussed below.

RDP #1 "All residential customers (including low-income customers and those who receive a medical baseline or discount) should have access to enough electricity to ensure that their essential needs are met at an affordable cost."

The Commission should consider RDP #1 when selecting IGFC tiers and cost distribution across tiers. Electricity energy burden falls most heavily on low-income ratepayers in California who are more price responsive than other customers. Low-income ratepayers are more likely to forego power when they need it, and also live in more crowded homes on average.[57] Forgoing

[56] *See* Burbank Water and Power Residential Service electric rate: https://www.burbankwaterandpower.com/electric/rates-and-charges.
[57] San Diego Association of Realtors, Housing Supply Overview (June 2023), *available at* http://sdar.stats.10kresearch.com/docs/hso/x/report?src=page, (The median sales price for residential

power use can endanger health and safety, especially during extreme weather events which are increasingly common.[58] RDP #1 is backed up by Public Utilities Code Section 382(b), which provides that "the commission shall ensure that low-income ratepayers are not jeopardized or overburdened by monthly energy expenditures." In setting IGFCs, the Commission should invoke RDP #1 in striving for a progressive fixed charge structure that significantly lowers volumetric rates for low-income customers.

RDP #2 "Rates should be based on marginal cost."

CEJA urged in Scoping Memo comments that not all rates be based on marginal cost because doing so would be inequitable and impair achievement of important statewide goals. "For example, it might be preferable for an early adopter in a low-income community to have a negative Contribution to Margin given the role that the early adopter may play in future adoptions."[59] The Commission should allow for case-by-case consideration as issues arise in implementation of the IGFC.

RDP #4 "Rates should encourage economically efficient (i) use of energy, (ii) reduction of GHG emissions, and (iii) electrification."

Reduction in electricity bills is an important factor in a customer's decision to electrify. If IOU's continue to increase revenue requirements,[60] low-income customers' bills will continue to increase rise slowly even as IGFCs reduce volumetric rates. To prevent this, the Commission should set income tiers based on California income-tax structure to shift most of the fixed-cost

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properties between 3000 – 4000 square feet are 2.5 times more expensive than residential properties smaller than 1,500 square feet).

[58] *See, e.g.* D.20-06-003 Phase I Decision Adopting Rules and Policy Changes to Reduce Residential Customer Disconnections for the Larger California-Jurisdictional Energy Utilities at 139 (June 16, 2020); R. 21-02-014, Opening Brief of the Cal. Environmental Justice Alliance, Leadership Counsel for Justice and Accountability and the Greenlining Institute at 22 (Apr. 23, 2021).

[59] R.22-07-005, Opening Comments of Cal. Environmental Justice Alliance on Assigned Commissioner's Phase 1 Scoping Memo and Ruling at 8 (Dec. 2, 2022).

[60] A.22-05-016, Test Year 2024 General Rate Case Application Of San Diego Gas & Electric Company (U 902 M) at 4, *available at* https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M476/K452/476452353.PDF ("SDG&E requests that the California Public Utilities Commission (Commission or CPUC) authorize a combined $3.022 billion revenue requirement ($674 million gas and $2.348 billion electric) to be effective January 1, 2024. If approved, this revenue requirement would be an increase of $475 million over the expected 2023 revenue requirement, or an 18.7% increase.").

portion of the bill onto the wealthiest Californians.[61] Under these conditions, the Commission should include meaningful electrification incentives, for example in the form of fixed charge discounts for moderate- and low-income customers who fully electrify,[62] so that electrification is not impaired and low-income customers are protected by progressive fixed charge tiers.[63]

RDP #5 "Rates should encourage customer behaviors that improve electric system reliability in an economically efficient manner."

Large fixed charges on most customers flatten the bills of customers for all hours including the hours of greatest grid stress unless the volumetric portion of the bill also changes. Volumetric electricity rates are being addressed in Track B of this proceeding. The Commission should target AB 205's mandate for lower average bills for low-income ratepayers, through the income graduated fixed charge and reserve most questions of ratepayer usage patterns for Track B. The most pressing usage issues at play in Track A are (1) ensuring low-income customer bills decrease,[64] (2) that all customers have access to enough electricity to meet their essential needs,[65] and (3) IGFC components are sufficient to accomplish Track A objectives and without interfering with volumetric rate discussions addressed in Track B.

RDP #6 "Rates should encourage customer behaviors that optimize the use of existing grid infrastructure to reduce long-term electric system costs."

Optimizing the use of existing grid infrastructure to reduce long-term electric system costs can be achieved by shifting the electric demand from peak hours to non-peak hours. A fully volumetric rate (instead of a rate that includes a fixed charge) may create a larger incentive to shift electricity usage out of hours of the day responsible for the highest GHG emissions. However, entirely volumetric rates are inapposite to AB 205. As discussed above with respect to RDP #5, the Commission should ensure implementation of the IGFC results in lower average monthly bills for low-income customers and does not impede electrification or Track B considerations.

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[61] Ex. CEJA-01 at Siegele/12-16.
[62] Meaning the customer no longer receives gas utility service to their residence.
[63] Ex. CEJA-01 at Siegele/33.
[64] Cal. Pub. Util. Code § 739.9(e).
[65] "[E]lectricity is a basic necessity, and that all residents of the state should be able to afford essential electricity…supplies, the commission shall ensure that low-income ratepayers are not jeopardized or overburdened by monthly energy expenditures." Cal. Pub. Util. Code § 382(b).

While shifting demand to non-peak hours is an effective way to reduce long term costs and, critically, reduce reliance on GHG emitting resources, it can also have unintended impacts on customers who cannot easily shift their energy usage. For customers who are not home during the day, altering usage habits during peak hours midday or in the late afternoon is challenging. This challenge is greater for low-income households and renters who cannot easily switch to automated or energy efficient appliances. CEJA and Sierra Club recommend that the Commission look to the experience of low-income customers with Time of Use rate plans. Especially, we urge the Commission to focus on equity considerations around unpredictable and punishing price spikes.

RDP #7 "Customers should be able to understand their rates and rate incentives and should have options to manage their bills."

The variety of proposals presented by parties to this proceeding have already stirred up a great deal of interest and confusion across the state. The Commission should allay this confusion by implementing an IGFC rooted in settled state policy, the state income tax.[66]

Beyond the California public policy design of the IGFC, RDP #7 highlights the need for a separate, equity focused workshop on IGFCs. The Commission "must begin by considering the barriers that many low-income households and disadvantaged communities face when seeking to engage with a changing electricity system. In addition to income, these barriers may include:

- more likely to rent than own, which means less autonomy in choosing energy efficiency and electrification of home;
- less reliable home WiFi access, which means less ability to participate in dynamic pricing that relies on "smart" appliances and in-the-moment responses;
- less flexibility in hours of use, since people working multiple jobs must use home appliances when they can be home, and cannot shift load to when they are at work;
- more crowded homes, which means greater need for energy at different times of day, and more people are impacted by e.g. load shifting;
- more likely to be linguistically isolated, which makes acting on technical information in English more challenging; and

[66] Specifically, Sierra Club recommended that the progressivity of IGFC income tiers aim to follow the state income tax, and CEJA recommended that customers be placed into specific IGFC income tiers based on income tax liability.

- very price-responsive, which raises the risk they will forego power when they need it.[67]

To ensure that low-income customers are not unduly harmed by the transition to IGFCs and the ensuing income verification process, customer choice and bill protections are critical. This means both that customers must be able to understand the changes with which they are presented and that sufficient protections are in place that low-income customers are not put at risk by the changes to their bill. These bill protections will be critical to help low-income customers manage their bills and achieve AB 205's mandate that "a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage."[68]

RDP #8 "Rates should avoid cross-subsidies that do not transparently and appropriately support explicit state policy goals."

CEJA and Sierra Club's proposed fixed charges transparently shift costs as required by AB 205. The Commission should be wary of proposals that would incur hefty administrative costs or pass substantial administrative requirements onto state agencies.

RDP #9 "Rate design should not be technology-specific and should avoid creating unintended cost-shifts."

As discussed above with respect to RDP #7, the Commission should hold at least one equity focused workshop on IGFC implementation that considers barriers, apart from income, faced by low-income households asked to engage with new electricity billing schemes.

RDP #10 "Transitions to new rate structures should (i) include customer education and outreach that enhances customer understanding and acceptance of new rates, and (ii) minimize or appropriately consider the bill impacts associated with such transitions."

As discussed above with respect to RDP #7, the Commission must take special care in this transition to consider and protect California's low-income ratepayers.

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[67] R.22-07-005, Opening Comments of Cal. Environmental Justice Alliance on Assigned Commissioner's Phase 1 Scoping Memo and Ruling at 6 (Dec. 2, 2022).
[68] Cal. Pub. Util. Code § 739.9.

9. Should the Commission eliminate a minimum bill for residential customers when implementing the first version of IGFCs?

Sierra Club and CEJA support a $0 fixed charge for the lowest income tier. This is the most straightforward approach to meeting section 739.9(e)(1)'s mandate, as structuring bills in this way would secure lower average monthly bills for low-income customers, ensure CARE-exempt charges are removed prior to calculating the CARE discount, and give low-income customers greater ability to manage their bills. A minimum bill should be eliminated if the Commission construes it as a fixed charge that would make impossible a $0 fixed charge for low-income customers.

Beyond this concern, Sierra Club and CEJA take no further position on minimum bills but reserve the right to address in further briefing.

10. What proven income verification processes and best practices from existing low- and moderate-income assistance programs in California or other jurisdictions should be leveraged for the first version of IGFCs?

This proceeding has not identified any data set that can definitively determine income for every IOU customer in California.[69] There are several existing income qualified programs in California that do provide important lessons for the income-verification or certification that IGFCs should rely on. First, self-attestation is a widely accepted, low cost, reliable method of obtaining customer income information.[70] Second, spot checking a small portion of self-reported customer incomes is a tested method for large-scale income-based programs.[71] Third, income based public assistance programs are built to serve a discreet segment of California's population while an effective IGFC must secure income verification for every ratepayer. The Commission should examine why self-attestation, combined with spot checking, works, and how this method may be applied to IGFCs. This study is especially important to Sierra Club and CEJA's proposals which would ensure bill savings for a large majority of California households.

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[69] Ex. CEJA-01 at Siegele/23:5-6.
[70] *See* Ex. CEJA-02 at Siegele/5-6, 7.
[71] Opinion Dynamics, 2019 Cal. Low-Income Needs Assessment Final Report, Vol. 1 at 4, n. 7 (Dec. 13, 2019), *available at* https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/energy-efficiency/iqap/2019linavol1.pdf [hereinafter "2019 LINA"].

a. Should the Commission borrow elements of income verification processes from low- or moderate-income programs administered by other California state agencies or other jurisdictions for the first version of IGFCs? If so, please describe the state program, income eligibility requirements, and income verification process.

The Commission should rely on self-attestation and spot checking for all income tiers in the first version of IGFCs.[72] Self-attestation removes barriers to income verification and, with spot checking, has been employed in other California income verification programs, including the CARE and FERA programs and California Water Service Customer Assistance Program (CAP).[73] Critically, under both CEJA and Sierra Club's proposals, a majority of customers will be incented to self-attest because of the savings they will see. Under the CEJA proposals, nearly 80% of customers will see bill savings.[74] The Sierra Club proposal would mean lower average bills for nearly all customers, except those in Sierra Club's proposed two high income tiers.[75] Because each proposal is progressive, the Commission may leverage self-attestation for all customers, focusing a majority of income verification resources on protecting low-income customers via outreach and categorical eligibility, and on cost effective spot checking to ensure high-income customers are placed into the proper tier.[76]

Further, if the Commission decides to leverage existing enrollment data from programs which use self-attestation as considered below, they should endorse self-attestation for all income tiers. An important assumption in accepting income self-attestation is that ratepayers can be trusted to accurately report their income data. CEJA supports this assumption. While no method of income verification is 100% accurate,[77] CARE and FERA's self-attestation and spot-checking system effectively vets the approximately 1-in-4 households in the State who qualify for those programs.[78]

[72] *Id.* at 4-5.
[73] D. 11-05-020, Decision Adopting Guidelines for Sharing of Low-Income Customer Information at 40
[74] Ex. CEJA-02 at Siegele/5:24-26.
[75] Ex. SC-01E at Wilson/51, Figure 4.
[76] Ex. CEJA-02 at Siegele/5:24-6:6.
[77] *See*, response to Question 10, *supra*.
[78] Ex. CEJA-02 at Siegele/6:15-17; 2019 LINA at 4.

b. **Should the Commission establish categorical eligibility for income verification based on low- and moderate income programs administered by other California agencies or federal agencies? (For example, the income eligibility of around 96 percent of California LifeLine participants is verified through proof of participation in a low-income assistance program administered by another California agency.)**

Yes, the Commission should take advantage of enrollment in other programs to verify income customers in implementation of IGFCs.[79] As recognized by the Commission, categorical eligibility already enables efficient enrollment for some customers who qualify for multiple income-based programs. Approximately 90% participants in the water utility affordability Customer Assistance Program are identified through data from CARE.[80] Leveraging existing program data to determine categorical eligibility for the low-income IGFC tier will reduce the number of customers falsely placed in higher tiers. This step will be critical, but not sufficient to minimize harm from tier misplacement. In Opening Testimony, CEJA's expert explained:

> CARE or FERA program participation is a good income proxy. The Commission should assume that customers that are in either CARE or FERA are low-income customers and that these customers should be placed in the lowest income tier for the income-graduated fixed charge. However, the Commission should not be satisfied that the CARE and FERA programs include all low-income customers. Through other income-proxy data, the Commission should attempt to find the rest of the low-income customers that for one reason or another have not signed up for the CARE or FERA.[81]

c. **If the Commission establishes categorical eligibility, what list of programs should the Commission approve for categorical eligibility for (a) a low-income customer tier, or (b) a moderate-income customer tier? Please either provide a list of programs or refer to the categorical eligibility rules of low- or moderate-income programs.**

The Commission should establish categorical eligibility for CARE, FERA and all public assistance programs with which CARE/FERA is compatible. In addition, any income-based

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[79] Ex. CEJA-01 at Siegele/2, 23.
[80] Low Income Oversight Board, SB 1208 Report: Low Income Oversight Board Report to the Legislature at 10, June 28, 2023.
[81] Ex. CEJA-01 at Siegele/23:18-24.

program which serves households making under 80% of AMI should be included in categorical eligibility. This includes:

- Medicaid/Medi-Cal
- Women, Infants and Children Program (WIC)
- Healthy Families A & B
- National School Lunch's Free Lunch Program (NSL)
- Food Stamps/SNAP
- Low Income Home Energy Assistance Program (LIHEAP)
- Head Start Income Eligible (Tribal Only)
- Supplemental Security Income (SSI)
- Bureau of Indian Affairs General Assistance
- Temporary Assistance for Needy Families (TANF) or Tribal TANF

The Commission should also permit categorical eligibility for the California Water Service's CAP and Low-Income Household Water Assistance Program ("LIHWAP"). CAP is aligned with CARE in its household income guidelines.[82] LIHWAP, which provides one-time water utility debt relief for low-income customers, is not aligned with CARE, but rather indexed to 60% State Median Income.[83] For 2023, LIHWAP's income cap for a three-person household is $52,341.96 compared with FERA's $62,150 limit.[84] Although LIHWAP is a one-time relief program, it nonetheless includes a household income check either through verification of enrollment in another public assistance program or by direct verification.[85]

d. Should the Commission authorize the use of data sharing agreements with other California agencies to verify participation in low- or moderate-income programs?

Reliance on self-attestation to establish participation in low- or moderate-income programs should be the Commission's first step in income verification for the IGFC. However, since data sharing has proven to be an effective and economical method of increasing enrollment

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[82] Cal. Water Serv., Customer Assistance Program (CAP), *available at* https://www.calwater.com/customercare/customer-assistance-program-cap/.
[83] Cal. Water Serv., Low Income Household Water Assistance Program, *available at* https://www.calwater.com/lihwap/.
[84] *Id.*; Cal. Pub. Util. Comm'n, CARE/FERA Program, https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/electric-costs/care-fera-program
[85] Community Action Partnership of Kern, Low-Income Household Water Assistance Program (LIHWAP), *available at* https://energy.capk.org/water-utility-assistance/.

in income-based programs the Commission should explore its applicability to IGFC income verification. In particular, the use of credit rating information has been widely used by government agencies when assessing income for governmental programs. For instance, at least 45 states use Equifax's The Work Number service to assist in verification of income to determine eligibility for government benefits because it is useful and efficient.[86] A report published in 2016 by the Government Office of Accountability (GOA) surveyed every state's Supplemental Nutrition Assistance Program (SNAP) agency and determined that they all verified household income by conducting multiple data matches using various sources, including credit reporting information.[87] The data source that the most states reported "very" or "extremely" useful in GOA's survey was the service The Work Number.[88] Additionally, in 5 of the 6 states chosen to elaborate on survey responses,[89] local officials said The Work Number "can improve program integrity or program efficiency by providing real-time access to accurate and up-to-date information."[90] This is because electronic data verification services, like credit agency reports, allow for less documentation burden on the applicant and a less confusing, time consuming, and challenging process for the applicant.[91]

That said, there are challenges and costs with data sharing to verify income. For instance, one acknowledged impediment of data sharing is the need for customer authorization where customers have not yet authorized such sharing.[92] Even where agencies and utilities have previously obtained consent to share customer income data, they should issue notices to customers to ensure transparency. Another is the need for data protection measures, as well as the complexity of data sharing agreements which require methodical customer protection and data sharing practices. As with past data sharing programs, the Commission should oversee

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[86] Report to the Chairman, Committee on Agriculture, House of Representative, Government Office of Accountability, Supplemental Nutrition Assistance Program: More Information on Promising Practices Could Enhance States' Use of Data Matching for Eligibility (Oct. 2016) at 15; 26, *available at* https://www.gao.gov/assets/gao-17-111.pdf

[87] *Id*.

[88] *Id*. at 15.

[89] *Id*. The six states were California, Florida, Massachusetts, Texas, Virginia, and Washington. These states made up 31% of the national SNAP caseload in 2014. Additionally, California, Virginia, and Washington were chosen for on-site interviews, of two to three offices each, where local managers and staff were interviewed. *Id*. at 3.

[90] *Id*.

[91] *Id*. at p. 41-43.

[92] Pub. Util. Code §§ 394.4(a), 583, 731(d).

agencies and utilities implementation of data sharing programs to ensure costs are kept in check.[93]

A critical difference between data sharing in most regulatory processes and the implementation of IGFCs is the need for customer data from all income levels rather than data sharing only among low-income, income qualified programs.[94] The data obtained from shared credit rating information may also struggle to capture this broader swath of income levels. For example, The Work Number's accuracy is limited because it typically only reports employment income.[95] For customers who derive a significant portion of income from non-employment sources such income from investments or rental properties, the shared data may not capture that customers' total income.[96] The greater the number of households whose data is subject to a data sharing program, the greater the pressure and scrutiny data sharing agreements will endure. A greater number of households will also lead to higher costs in purchasing data from private sources. This scrutiny will pose an additional hurdle beyond legal and regulatory compliance, data safety research, and data sharing agreement negotiations.

e. To the extent that you propose a new income verification process for the first version of IGFCs that has not been implemented by a California state agency, has your proposed approach been implemented or tested by another state or local jurisdiction? If so, please provide information about where your proposed approach has been implemented or tested, including any available evaluation reports. If not, please explain why existing income verification processes are not sufficient for the first version of IGFCs.

The core of CEJA and Sierra Club's proposed income verification methods, self-attestation and spot checking, is a familiar one in California and to the Commission. To supplement this core proposal, CEJA and Sierra Club recommend two alternative options. CEJA

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[93] D. 11-05-020 at 21.

[94] *See e.g.* SB 1208 Report (June 28, 2023), *available at* https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2023/low-income-oversight-board-liob-sb-1208-final-reportjune-2023.pdf.

[95] Equifax, The Work Number frequently asked questions, *available at* https://theworknumber.com/solutions/products/social-service-verification.

[96] "Since our data is comprised of data provided by the employers themselves, what we can provide is highly reliable, **but *if income is earned or received from other, non-reported sources, actual personal income could be higher than reported in our data*** but very unlikely to be lower. Individuals are therefore very unlikely to be assigned a tier that is higher than actually eligible [*sic*]." Ex. Cal Advocates-02C at Chau/Appendix A.6 (emphasis added).

recommends a novel approach, leveraging existing public data on assessed home value as an accurate, low-cost backstop to the data obtained via self-attestation.[97]

After self-attestation, the IOUs will need a way to verify income for all customers that did not submit a self-attestation and conduct checks for a small portion of those who self-attested. In CEJA's proposal this is called "secondary verification."[98] California counties' database of assessed property values are an accurate and reliable way of conducting income verification. As stated in CEJA's Opening Testimony:

> First, all residential properties' assessed values are publicly available. The IOUs do not have to receive customers' authorizations to access the data. Second, the data is updated frequently. I checked with the two counties in California with the largest populations, Los Angeles County and San Diego County. Both counties' assessor's offices update the assessment database weekly. Thus, the income proxy is reliably current. Third, the values of the properties more accurately represent long-term income instead of short-term income because residential properties require years of household income to make years of mortgage payments or rent payment. Fourth, because mortgage or rent payments frequently reflect household income, assessed value correlates with household income of IOU customers instead of just the person listed on the bill. Fifth, because of Proposition 13, the assessed value reflects the value of home that a customer can or could afford even though the current market value may reflect a value far above an affordable level for the household.[99]

CEJA has illustrated in testimony how assessed value can be indexed to income brackets with the example of San Diego County.[100]

Alternatively, Sierra Club recommends that the Commission utilize credit rating information as a spot check on self-attestation, for the reasons set forth above. Namely, credit score information has been widely used for income verification, is generally accurate, and can allow for a relatively seamless process for customers. In order to use credit agency information, however, customer consent may be required under the Fair Credit Reporting Act ("FCRA").[101]

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[97] Ex. CEJA-01 at Siegele/26:17-18.
[98] *Id*.
[99] Ex. CEJA-01 at Siegele/26:19-27:2.
[100] Ex. CEJA-01 at Siegele/29-30, Table 11.
[101] *See* 15 U.S.C. § 1681b (listing permissible purposes of consumer credit reports, including when authorized by the customer or when used to determine eligibility for a government benefit). Equifax states that "The Work Number is FCRA compliant and under the FCRA can be used to determine the eligibility for a government benefit (Section 604(a)(3)(D)). It can also be used where there has been instructions by the consumer in writing to use this data, such as is often granted in an application for a benefit. (Section 604(a)(2)." Ex. Cal Advocates-04 at Chau/Appendix A.2

Specifically, the FCRA permits use of a credit report by a third party when that party "intends to use the information in connection with a determination of the consumer's eligibility for a license or other benefit granted by a governmental instrumentality required by law to consider an applicant's financial responsibility or status."[102] The IGFC may be construed as a government benefit, particularly if the utility customer is placed in a lower income tier that reduces that customer's IGFC. Additionally, customers may be considered "applicants" if they intend to continue electric utility service and such service requires (by AB 205) disclosure of financial information. If this section of the FCRA cannot be used to authorize use of a customer's credit report, the FCRA separately permits use of a credit report when the customer provides written authorization.[103]

11. Should the Commission adopt a different design for the first version of IGFCs for certain non-default rates, such as electrification rates (e.g., PG&E's E-ELEC rate, SCE's TOUD-PRIME rate, and SDG&E's TOU-ELEC rate)? If the first version of IGFCs are the same for all rates, will this approach impact the ability of electrification rates to incentivize electrification compared with default rates?

As explained in Sierra Club's Opening Testimony, certain electrification rates have a non-zero fixed charge, and it would be unreasonable to modify these rates to worsen their electrification attributes. Revisiting the rate design for these electrification rates should be deemed beyond the scope of this proceeding. Instead, the Commission should address the rate design of the utilities' electrification rates in the utilities' next GRC Phase 2 proceedings. Once an IGFC has been approved and established, the IGFC may largely address the motivations for establishing electrification rates. While there may be a continuing need for both electrification and non-electrification rates in the near term, the Commission may find that implementation of the IGFC satisfies the motivations for separate electrification rates.

[102] 15 U.S.C. §1681B(a)(3)(d)
[103] *Id.* at § 1681B(a)(2).

12. Should the Commission authorize utilities to conduct a request for proposals to hire a third-party administrator (selected by Energy Division staff) for income verification for the first version of IGFCs for all of the IOUs, including or excluding the small and multi-jurisdictional utilities (SMJUs)? If so, when should the third-party administrator be hired? Should the Commission direct the selected third party administrator to conduct any tests, participate in working groups, or do other work prior to the implementation of the first version of IGFCs?

Yes, the Commission should authorize utilities to conduct a request for proposals ("RFP") to hire a third-party administrator for income verification. However, what is sought through an RFP will depend on what type of income verification process is approved by the Commission and thus it may be premature to delineate the contents of the RFP. Nonetheless, income verification may benefit from economies of scale and therefore it should be explored whether all the utilities, including the SMJUs, should jointly contract with an income verification administrator.

Regarding timing, the RFP should request information from potential respondents on the time needed to design and implement an income verification process. This information, combined with when a Commission order is issued authorizing utilities to implement an IGFC, will dictate when the third party administrator should be hired.

To the extent that working groups or testing is deemed necessary, the focus should be on equity, implementing self-attestation of income status, and addressing issues related to customer trust in disclosing incomes to a third-party administrator and/or the utilities. Because any third-party administrator will have significant influence in IGFC implementation the Commission should include a mandate to consider barriers faced by low-income households and disadvantaged communities[104] at each stage of the income verification development process.[105] As income verification for the IGFC is implemented, the Commission should regularly evaluate its success and make adjustments as needed. Limited testing or working groups could also be useful to this end, but would not require establishment until the income verification process has had an opportunity to begin and there is data to analyze for future improvement.

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[104] *See* response to Question 8, RDP#7, *supra*.

[105] CEJA's proposal does not require a third-party administrator but could be implemented by one. To the extent that the Commission deems that the added expense and administrative burden of a third-party administrator is necessary, this added mandate would increase this measure's value.

13. How should the income-verification processes for the first version of IGFCs be designed to reduce administrative costs and implementation problems?

Under *no circumstances* should the Commission default all customers into the highest tier. Doing so is unnecessarily punitive and could subject ratepayers to a burdensome multi-step process to reach a more appropriate tier.[106] Beyond this critical step CEJA and Sierra Club each urged the following with respect to income verification:

[106] Ex. CEJA-02 at Siegele/7-8.

Table 2: CEJA and Sierra Club Income Verification Process Proposals

	CEJA	Sierra Club
1	Place all customers enrolled in income based public assistance programs into the bottom income tier.[107]	Default all customers enrolled in income based public assistance programs into the bottom income tier.
2	Customer self-attestation via text message to place each customer in the appropriate income tier.[108]	Default all remaining customers into the moderate-income tier.[109]
3	Employ assessed property value at each service address as an income proxy to place customers who do not self-attest.[110]	Employ The Work Number to place customers into the appropriate tier.[111]
4	For multi-family housing, place customers who do not self-attest into a tier based on the median income of the census tract the dwelling is located in.[112]	
5	Spot-check customers with income data based on assessed property value.[113]	Spot check customers with income data based on credit agency data.
6	Customer appeal process using self-attestation.[114]	Customer appeal process using self-attestation.[115]

[107] Ex. CEJA-01 at Siegele/23; *see also*, response to Q10, *supra*.

[108] Ex. CEJA-01 at Siegele/25.

[109] Ex. SC-02E at Wilson/40.

[110] "Residential properties' assessed values provide many benefits…."

- All residential properties' assessed values are publicly available and do not require customers' authorizations.
- The data is updated frequently.
- The values of the properties more accurately represent long-term income instead of short-term income because residential properties require years of household income to make years of mortgage payments or rent payment.
- Because mortgage or rent payments frequently reflect household income, assessed value correlates with household income of IOU customers instead of just the person listed on the bill.
- The assessed value reflects the value of home that a customer can or could afford even though the current market value may reflect a value far above an affordable level for the household.
- The assessed value provides an excellent secondary check on a self-attested income.

Ex. CEJA-01 at Siegele/26-27; Ex. CEJA-02 at Siegele/5-6.

[111] Ex. SC-02E at Wilson/35.

[112] Ex. CEJA-01 at Siegele/3.

[113] *Id.* at Siegele/26-27; Ex. CEJA-02 at Siegele/7.

[114] Ex. CEJA-01 at Siegele/30.

[115] Ex. SC-02E at Wilson/39.

a. **If the Commission establishes a tier for moderate income customers, how should the Commission verify incomes for these customers? Should income verification (and reverification) for moderate-income customers be similar to the process for CARE/FERA customers, California LifeLine, or another state program?**

Please refer to answers to question 13, above.

b. **Several parties argued that defaulting all non-CARE/FERA customers to the highest tier would result in placing a large portion of customers in the wrong tier. Other parties argued that defaulting customers to a lower tier would also result in placing a large portion of customers in the wrong tier and would not motivate higher income customers to consent to income verification. What solutions could mitigate the harms associated with defaulting all non-CARE/FERA customers the highest tier? For example, should nonC-ARE/FERA customers be defaulted to the highest income tier at least several months before a fixed charge is applied to their bill so that they have an opportunity to appeal their assignment? Should IGFC customer education start at least six months prior to implementation of the first version of IGFCs?**

As referenced in Table 1, above, Sierra Club proposes that the IGFC process start with self-attestation. Where the third-party administrator is unable to confidently assign an IGFC bracket to customers, Sierra Club urges that they be defaulted into the middle-income bracket that is close to the average fixed charge for the utility.[116] This will help ensure that non-CARE low and moderate-income customers do not see higher bills if they do not self-attest. Sierra Club then recommends that after a year or 18 months the default bracket rises by one bracket, and after another year or 18 months rises again to the highest bracket.[117] It is imperative that customers are notified frequently during these intervening periods before the default bracket goes up. It is more equitable to default customers into a middle bracket and provide notice before the default goes up than to require appeals from a default higher bracket. Given that self-attestation can be a reliable source of data, Sierra Club additionally recommends that the third-party administrator accept self-attestation if within 20 percent of income determined through a credit check process.[118]

[116] *Id.* at Wilson/40.
[117] *Id.*
[118] *Id.* at Wilson/39.

14. **How should the costs of income verification be recovered for the first version of IGFCs? To the extent that income verification overlaps with CARE and FERA eligibility, how should the Commission identify which income verification costs are additional to CARE/FERA and should be considered IGFC costs?**

The costs of income verification should be recovered through the utilities' GRC, Phase 1 proceedings and included in the volumetric rate. Importantly, the Commission should exercise its oversight authority to ensure that the costs of income verification are kept as low as possible and duplication of effort should be avoided. Because our organizations recommend that CARE and FERA customers represent a distinct income tier for any IGFC and the IGFC assigned to CARE and FERA customers be $0.00, there should be no additional income verification costs for assigning an IGFC to CARE and FERA customers.

15. **Should the Commission establish one or more working groups and/or authorize funding for contractors for the following purposes?**

    a. **Should a working group develop reporting requirements and an evaluation plan for the first version of IGFCs for consideration in this proceeding? Or should reporting requirements and evaluation plans be developed in each utility's rate design window application proceeding?**

Yes, Sierra Club and CEJA recommend that reporting requirements and an evaluation plan be developed during implementation of the IGFC. Sierra Club has recommended that the Commission create a second phase during which the Commission may apply findings from phase 1 reporting, consider adding super-high-income tiers as contemplated by CEJA's expert testimony, and address other revenue collection and equity issues revealed by initial implementation.

CEJA is concerned, however, that placing too great a focus on working groups will limit the accessibility of IGFC implementation planning. Rather, the CPUC should move this proceeding forward through a staff proposal. As outlined in these comments, there are many critical components that must be carefully considered before IGFCs can be implemented. Several of those components, including ME&O, income verification for low-income households, and over-collections have dire implications for low-income customers should rulemaking be inaccessible for some parties. With this in mind, the Commission should ensure full process for all equity considerations outlined in response to Questions 2c and 8 above or include at least a separate workshop, Staff proposal based on that workshop, and comment period focused only on equity and meeting the needs of low-income and disadvantaged communities."[119]

b. Should the Commission establish a working group and authorize funding for a third-party contractor to develop an ME&O proposal for consideration in this proceeding? If so, what should be the scope of work for the working group and contractor? When should the proposal be due?

The Commission should be careful in limiting consultant and administration costs up front in choosing a third-party administrator. Low income bill relief and lower volumetric rates should not be cannibalized by administration of the IGFC itself.

c. Should the Commission establish a working group and authorize funding for a third-party contractor to develop income verification proposals for future versions of IGFCs? If so, what should be the scope of work for the working group and/or contractor (e.g. identify and propose to test new methods for verifying incomes of higher-income customers and streamlined approaches for verifying low incomes)? When should the proposal be due?

Please refer to answer 15(b) above.

d. Should the Commission establish a working group to discuss IGFC implementation issues and recommend improvements?

Please refer to answer 15(b) above.

e. How much funding should be allocated for third-party contractors, and how should the costs be recovered?

Please refer to answer 15(b) above. Costs should be recovered through each utility's General Rate Case, Phase 2.

16. When should the utilities file the rate design window applications for the first version of IGFCs (i.e. how many months after the upcoming Track A decision)?

Sierra Club and CEJA do not take a position on this question.

[119] R.22-07-005, Post-Prehearing Conference Statement of Cal. Environmental Justice Alliance and Sierra Club at 4.

17. When and how should the Commission consider data and reports from the first version of IGFCs and recommendations for improving the implementation of the first version of IGFCs?

Please refer to answer 15(a) above. In the proposed second phase of this proceeding, the Commission should, in particular, evaluate bill changes by income tier from adoption of the IGFC and adjust the progressivity of tiers if low- and moderate-income customers are not benefitting from the lower volumetric rates resulting from the fixed charge. As detailed in response to Question 7, Sierra Club also recommends that the Commission use data on service drop costs to create surcharges and discounts for dedicated service, shared service, three-phase, and dedicated transformer and service drop accounts.

a. What process(es) should the Commission establish to enable rapid resolutions of implementation problems?

As discussed in response to question 18, the Commission should hold an annual true-up proceeding that would address over- and under-collection of the IGFC. This proceeding could also address resolution of implementation problems, which will likely require several months of data to identify. As noted, the Commission should, at least annually, evaluate the success of the IGFC and whether changes are necessary to achieve the statute's objectives.

b. When should the Commission evaluate the outcomes of the first version of IGFCs?

Please see response to question 17(a). The Commission should evaluate the outcomes of the first version of the IGFC at least annually.

18. How should the Commission address under- or overcollections for the first version of IGFCs?

Our organizations recommend that the Commission address under- or over-collection for the first version of IGFCs via regular true-ups. Initially, this rebalancing should occur in yearly true-up proceedings, as it is possible that initial implementation of an IGFC will result in significant over- or under-collections. Because of this risk, it would be reasonable for the Commission to regularly evaluate implementation of the IGFC and its impact on customers' bills. Once the IGFC has become more established, we expect that revenue collection through the

IGFC will become more predictable and stable. When this occurs, it may be reasonable to transition to rectifying over- and under-collections through the utilities' GRCs. During either a yearly rebalancing or rebalancing during a GRC, under-collections should be added to the volumetric rate, while overcollections should be subtracted from the fixed charge, as CEJA's Opening Testimony recommended.

a. Should under-/over-collections be addressed through existing processes, such as through balancing accounts? Or should the Commission authorize a new expedited process?

As noted above, the Commission should authorize a process for a yearly re-balancing of the IGFC, at least in its first years of implementation. While Sierra Club and CEJA do not recommend a specific process at this stage, we recommend that the process occur annually and that it allow for sufficient Commission oversight to ensure that low-income customers are protected.

To the extent that there is overpayment, the Commission has broad authority to determine how to distribute the overpayment. As the Code describes: "[t]he Commission may supervise and regulate every public utility in the State and may do all things, whether specifically designated in this part or in addition thereto, which are necessary and convenient in the exercise of such power and jurisdiction." Section 739.9 does not prescribe the treatment of potential overpayments, but it does require that charges are set at "levels that do not overburden low-income customers." Given this emphasis on protecting low-income customers, any overpayment will be best used to assist low-income customers in realizing lower average bills. This can be accomplished by using any overpayment to provide direct bill credits to low-income customers and ensure that their overall bills are reduced.

Some may argue that an overpayment would trigger the requirements for returning bill refunds to all customers, but a close look at the statute demonstrates that this is not necessarily true. A rate refund under section 453.5 of the Public Utilities Code has three specific characteristics:

1. The funds to be refunded were previously collected in rates from ratepayers;
2. The funds were previously ordered to be refunded to customers by a regulatory agency;

3. The refunds are to be made, to the extent practicable, to the customers who paid the excessive rates.

Here, however, a potential overpayment does not necessarily meet the last two requirements of section 453.5 because the Commission has not yet ordered a potential overpayment to be returned to ratepayers. Given section 739.9's intent to ensure that low-income customers do not pay higher bills, the Commission can and should designate that any potential overpayment be directed to ensure that low-income customers are not overburdened and see real bill decreases as a result of the program.

b. If a new process is authorized to address under-/overcollections, what should be the trigger for initiating this process?

Because implementation of an IGFC may not be entirely smooth, our organizations recommend that a process to address under- and over-collections occur yearly in the IGFC's first years, meaning that no triggering event is necessary for the Commission to address under- or over-collection.

c. What rate adjustment(s) should be used to address revenue imbalances? Examples: adjustments to total revenue collected through fixed charges, income thresholds, income-based differentiation of IGFCs, volumetric rates.

As noted above, our organizations recommend that under-collection result in an increase to the volumetric rate whereas over-collection would result in a decrease to the fixed charge.

19. The SMJUs argued that the more complex aspects of parties' IGFC proposals should not apply to SMJUs, who have far fewer California customers than the large IOUs.

a. Should the Commission adopt directions for the first version of IGFCs for all IOUs, with specific modifications for SMJUs? If so, what specific modifications would you recommend for SMJUs?

The Commission should adopt directions for the first version of IGFCs for *all* IOUs, including the SMJUs. PacifiCorp, Liberty Utilities, and Bear Valley all include demand-related distribution costs in their fixed charge proposals[120] and each of their proposals has a non-zero

[120] Ex. SC-02E at Wilson/14.

lowest fixed charge.[121] No SMJU presents a progressive fixed charge proposal and each SMJU proposes that CARE customers be split into two brackets. The SMJUs proposals should be rejected for these reasons. Additionally, it would be inequitable for low-income customers in PG&E territory to see bill savings from a $0 fixed charge and lower volumetric rates while low-income customers in PacifiCorp territory do not. AB 205 does not provide for such geographic inequity.

b. Should the Commission adopt directions for the first version of the SMJUs' IGFCs based on one of the SMJUs' proposals? If so, which of the SMJUs' proposals do you support?

Please refer to answer 20(a).

Dated: July 31, 2023

Respectfully submitted,

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[121] Ex. BVES-1 at Matlock/7; Ex. Liberty-01 at Fisher/4; Ex. PAC/100 at Meredith/10.