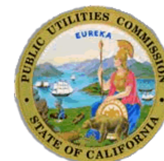

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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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

COMMENTS OF THE SOLAR ENERGY INDUSTRIES ASSOCIATION ON ADMINISTRATIVE LAW JUDGE'S RULING ON IMPLEMENTATION BUDGET AND TIMING ISSUES (TRACK A)

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Pursuant to *the Administrative Law Judge's Ruling on Implementation Budget and Timing Issues (Track A)* issued in the above captioned proceeding on December 18, 2023 (the "Ruling"), the Solar Energy Industries Association ("SEIA") submits the following comments.

I. INTRODUCTION

The questions in the Ruling focus on Pacific Gas and Electric Company's ("PG&E") proposed delayed implementation of any Commission-approved income-graduated fixed charge ("IGFC") until the first quarter 2028, as a result of its currently ongoing multi-year billing system modernization. The Ruling asks whether delayed implementation of PG&E's IGFC will impact customer understanding of the charge if the other two investor owned utilities ("IOUs") implement an IGFC at an earlier date. In addition, the Ruling asks whether the delay in the implementation of any or all of the IOU's IGFCs will impact the state's electrification goals. With respect to the former query, phased implementation of the IGFC by the IOUs could heighten customer backlash to the charge, particularly if the charge is large and has significant adverse impacts on large groups of customers. With respect to the later query, delayed implementation of an IGFC does not have to impact the state's electrification goals. The record evidence in this case shows, first, that the key to electrification is making lower-cost off-peak

power available to customers who invest in electrification measures, and second, that a reduction in the volumetric rate, such as those proposed in this proceeding, will not be sufficient to overcome the substantial upfront costs to electrification.

II. RESPONSE TO QUESTIONS

a. What are the potential impacts of delaying PG&E's implementation of the first income-graduated fixed charges on ME&O and customer understanding if the Commission authorizes the other utilities to implement the first income-graduated fixed charges as soon as possible (e.g., the fourth quarter of 2025)?

The record clearly demonstrates that public reaction to an income based fixed charge has not been favorable.[1] This record evidence is underscored by the public comment page for this proceeding, where the overwhelming sentiment toward an IGFC is negative.[2] And while the Commission determined not to hold public participation hearings ("PPH") in this proceeding, ratepayers have taken the opportunity afforded them in PPHs held in other dockets to voice their concern about and opposition to IGFCs.[3]

As noted in the Ruling, given its billing system upgrades, PG&E has requested that implementation of an IGFC in its service territory be delayed until the first quarter of 2028, while both SCE and SDG&E have indicated that they would be prepared to launch by the end of 2025 – a time differential in excess of two years. During this period of time SCE and SDG&E customers would be subject to what has already been demonstrated to be an unpopular charge, while PG&E's will not. The imposition of IGFCs is a significant change in residential rate structure. The Commission's Rate Design Principle No. 10 wisely provides that "transitions to

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[1] Exh. Joint IOUs-1, p.111 -114

[2] R. 22-07-005, Public Comments at https://apps.cpuc.ca.gov/apex/f?p=401:65::::::

[3] *See, e.g.*, A. 23-01-008, Public Participation Hearing Reporter's Transcript (November 6, 2023) found at https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M520/K851/520851082.PDF

new rate structures should … include customer education and outreach that enhances customer understanding and acceptance of new rates." Major changes to residential rates for all of the IOUs will be most successful if they are coordinated statewide. If IGFCs are implemented in southern but not northern California, that fact is unlikely to be lost on SCE and SDG&E customers. Customer acceptance of IGFCs will be rendered more difficult if customers of SCE and SDG&E believe that they are being unfairly subjected to such charge, while customers of PG&E are not. This disparate treatment will only exacerbate "the negative feelings of worry, helplessness, anger and/or confusion" which customers have expressed about the implementation of an IGFC.[4]

Finally, the Commission should not ignore the principle of gradualism, which is embodied in Rate Design Principle No. 10's admonition that "[t]ransitions to new rate structures should… minimize or appropriately consider the bill impacts associated with such transitions." The Commission has taken a step in that direction in this case with its indication that there will be a simplified "first version" of the IGFC. However, a number of parties continue to propose first version IGFCs that would have substantial bill impacts, particularly on middle-income, low-usage customers in coastal climate zones who have already responded to state policies by making significant personal investments in DERs such as energy efficiency and distributed renewables. SEIA recognizes that AB 205 requires the Commission to *authorize* an IGFC in this proceeding; however, the legislation provides no guidance on when the charge must be implemented and little guidance on the size of the IGFC. Thus, the Commission retains the discretion to move cautiously and deliberately in implementing this new rate structure for residential customers.

[4] Exh. Joint IOU-01, p. 114, lines 3-6.

b. What are the potential impacts on achieving state electrification goals if the Commission delays the implementation of the first income-graduated fixed charges for PG&E or all investor-owned utilities beyond year-end 2025?

An IGFC has not been demonstrated to be a necessary or useful tool for assisting the state in meeting its electrification goals. Thus, delaying the implementation of an IGFC for PG&E, or for any of the IOUs, will have minimal impact on advancing these goals.

Imposing high fixed charges on all residential rate schedules is far from the best means to incent electrification nor is it necessary. The proponents of high IGFCs argue that the lower volumetric rates that result when IGFCs are implemented will encourage electrification. Yet the *existing* electrification rates already feature off-peak rates that are as low or lower than the default rates proposed by the proponents of high IGFCs.[5] In addition, the existing electrification rates have high on-peak rates, and thus will not stimulate the peak period usage that threatens reliability and drives long-run infrastructure costs. In contrast, high IGFCs will result in across the board reductions in the volumetric rates in all TOU periods – the lower off-peak rates are already available, and the lower on-peak rates will only encourage additional on-peak usage that is difficult, expensive, and dirty to serve. What is immediately important for electrification is to move electrification customers onto the existing electrification rates that will allow them to save money operating their EVs and heat pumps. Thus, the design of the default rates and the size of the IGFC really do not matter for promoting electrification – what does matter is the design of electrification rates and the marketing campaign to ensure that all electrification customers use those rates.[6] Stated another way, California already has in place the rate design necessary for customers who have electrified or are considering electrifying that

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[5] *See* Exh. SEIA-01, p. 32, line 21 to p.34, line 13; *see also* Exh. SEIA-02, pp. 14-21.

[6] Exh.SEIA-01, p. 33 lines 7-10.

once the investment in the necessary infrastructure (e.g., heat pump, water heater) is made, they will be able to operate such cost effectively.

Concomitantly, as was addressed in SEIA's Reply Brief, the evidence on the record regarding the use of fixed charges as a means to spur Californians to electrify is limited to the impact of those charge on the *operating* costs of electrification – i.e., the incremental *electric costs* to customers when they invest in clean electric appliances or vehicles.[7] The Commission should not confuse this reduction in *operating* costs with the reductions in *upfront costs* which are necessary to make electrification technologies accessible to low-income Californians. The bill savings that will be achieved from any of the proposals before the Commission in this proceeding – savings which are primarily limited to low income customers – make only a small contribution to the large outlay of money that is necessary to fully (or even partially) electrify.[8]

The reality is that customers respond to their total bill.[9] Most do not take the time and effort to parse through the costs of the various component parts. Thus, if, for example, the Joint IOUs' IGFC proposal is adopted, what California's significant low-income population[10] will discern from their electric bills is that they are saving $10-$20 per month (a savings which will evaporate if utility rates continue to increase).[11] To fully electrify, however, they will need more

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7 *Reply Brief of the Solar Energy Industries Association on Income Graduated Fixed Charge*, R.22-07-005 (November 3, 2023), p. 5.

8 *Id.,* p. 6.

9 Exh. NRDC-TURN-02, pp. 44-45.

10 Approximately twenty-five percent of the Joint IOUs' 10.8 million customers are in the CARE/FERA program, a number which does even account for the qualified customers who have failed to enroll and those that fall immediately outside the eligibility criteria. Exh. Joint IOUs -01. pp. 69-70.

11 *See San Diego Gas & Electric Company, Southern California Edison Company, and Pacific Gas and Electric Company Joint Notice of Ex Parte Communication*, R. 22-07-005 (December 21, 2023), Attachment 1, p. 7 showing that that the monthly average bill savings for very low to low income customers under the Joint IOUs proposal is $17.50 to $8.40, respectively.

assistance than saving a few dollars monthly. Upfront incentives are necessary to overcome the economic barrier of the substantial upfront costs that can run into tens of thousands of dollars.[12] This need is documented by the Center for American Progress and Rewiring America:

> Although these [electric] appliance upgrades make sense from a health perspective and will lower operating expenses for households—as discussed later in this report—the upfront capital cost of these efficient electric appliances is a deterrent for consumers at the point of purchase. This is especially true given that the time for appliance replacement often comes during an emergency—the result of a suddenly unworkable appliance. *The slow payback rate of lower energy bills can make it difficult to justify a higher upfront cost for many households, especially* for those without extra cash on hand. Since homeowners are not expected to be experts in or investors in what is best from a climate perspective, the choice to go all electric needs to be made the easiest and most affordable alternative for families looking to replace an old fossil fuel appliance.[13]

The pace of electrification for low-income customers will be driven by the availability of programs to provide upfront incentives to defray the installation costs of electrification technologies. Delay of the implementation of the first income-graduated fixed charges for PG&E or all IOUs beyond year-end 2025 will have no appreciable impact on the ability of low-income customers to electrify.

With respect to Californians who have the financial means to invest in electrification measures, a fixed charge with an across the board reduction in the volumetric rates in all TOU periods, which some parties to this proceeding are advocating, is not an effective incentive to encourage these investments.[14] As addressed above, the more effective means is to encourage

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[12] *See* Exh. SEIA-01, p. 15.

[13] *To Decarbonize Households, America Needs Incentives for Electric Appliances,* Center for American Progress and Rewiring America (June 2021) (emphasis added) https://content.rewiringamerica.org/reports/appliance-rebates-plan.pdf

[14] SEIA recognizes that the E3 model used in this proceeding limits the allocation of the revenue received from fixed charges to volumetric rates to either (1) an equal cents per kWh decrease, or (2) an equal percentage reduction across all TOU periods, and thus has advocated for the volumetric rates associated with IGFCs be adopted in separate rate design window applications.

customers to use the existing electrification rates that have significant differentials between on- and off-peak rates as currently exists in the IOUs' electrification rates.[15] Providing customers with significantly reduced rates for a period of time during which they can charge their electric vehicles and run their heat pumps can provide the savings necessary to spur these customers to electrify. Thus, even with respect to the customers who can afford to electrify, a delay in the implementation of IFGCs will have minimal impact on the rate of electrification in California.

III. CONCLUSION

For the above stated reasons, the implementation IGFCs should occur in the same timeframe for all three IOUs. A delay in implementation will not negatively impact California's ability to meet its electrification goals.

Respectfully submitted the 24th day of January 2024 at San Francisco, California.

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[15] *See* Exh. SEIA-01, pp. 15-18.