

Decision 23-04-008 April 6, 2023

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates.

Rulemaking 22-07-005

DECISION AUTHORIZING FUNDING FOR TRACK A OF PHASE 1 CONSULTANT SERVICES

Summary

This decision authorizes up to \$425,000 for third-party consultant services to the Commission’s Energy Division relating to income-graduated fixed charge proposals in Track A of Phase 1 of this proceeding. This proceeding remains open to address Phase 1 issues.

1. Background

On July 14, 2022, the Commission issued an Order Instituting Rulemaking to establish demand flexibility policies and modify electric rates to advance the following objectives: (a) enhance the reliability of California’s electric system; (b) make electric bills more affordable and equitable; (c) reduce the curtailment of renewable energy and greenhouse gas emissions associated with meeting the state’s future system load; (d) enable widespread electrification of buildings and transportation to meet the state’s climate goals; (e) reduce long-term system costs through more efficient pricing of electricity; and (f) enable participation in demand flexibility by both bundled and unbundled customers.

The assigned Administrative Law Judge (ALJ) held a prehearing conference on September 16, 2022. The assigned Commissioner issued a Scoping Memo and Ruling on November 2, 2022 (scoping memo) that established two tracks for the proceeding. The scoping memo established Track A of Phase 1 to establish an income-graduated fixed charge for residential rates for all electric investor-owned utilities (IOUs) in accordance with Assembly Bill (AB) 205, Stats. 2022, ch. 61.

On November 29, 2022, the Commission's Energy Division held a workshop to discuss the development of party proposals for an income-graduated fixed charge for residential rates. During the workshop, Energy Division staff notified parties of the staff plan to work with Energy+Environmental Economics (E3) to develop a spreadsheet tool to help parties design income-graduated fixed charges and assess the impact of rate designs that include these fixed charges.

On December 9, 2022, Pacific Gas and Electric Company (PG&E) filed a joint motion (Joint Motion) on behalf of PG&E, Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) (together, the Joint IOUs) for the Commission to approve a memorandum account for each IOU to record its proportionate share of the total incremental costs incurred to pay third-party consultant E3 for services rendered under the supervision of the Commission's Energy Division to develop a tool for modeling income-graduated fixed charge proposals in this proceeding, effective as of the date the motion was filed.

On December 27, 2022, the California Large Energy Consumers Association and the Energy Producers and Users Coalition, and on behalf of the California Farm Bureau Federation, California Manufacturers & Technology

Association, Energy Users Forum, and Federal Executive Agencies (collectively, the Joint Large Ratepayers) filed a response to oppose the Joint Motion.

On December 27, 2022, the Public Advocates Office of the California Public Utilities Commission (Cal Advocates) filed a response to the Joint Motion. Cal Advocates did not oppose the Joint Motion but requested modifications to the cost recovery process.

On January 6, 2023, the Joint IOUs and Sierra Club each filed a reply to the responses of the Joint Large Ratepayers and Cal Advocates.

On January 17, 2023, ALJ Wang issued a ruling that requested comments on an Energy Division staff proposal (Services Proposal) for PG&E to contract with E3 to provide consultant services to the Energy Division.

In the Services Proposal, Energy Division staff proposed a contract with E3 and scope of work to assist the Energy Division with modifying the spreadsheet tool and assessing parties' fixed charge proposals. Energy Division staff also supported the adoption of the cost recovery process proposed by the Joint IOUs.

The Energy Division held a workshop on February 1, 2023 to share a presentation from E3 on the draft spreadsheet tool and to seek party input on tool modifications.

Cal Advocates and the Joint IOUs commented on the Services Proposal on February 3, 2023. The Joint IOUs filed reply comments to Cal Advocates' opening comments on February 13, 2023.

2. Issues Before the Commission

The issues before the Commission are as follows:

- a. Whether the proposed scope of work and budget for consultant services are reasonable;
- b. Whether directing PG&E to contract with E3 for the consultant services is reasonable; and

- c. Whether the proposed contracting and cost recovery processes are reasonable, including establishing an effective date of December 9, 2022 for the new memorandum accounts.

3. Scope of Work and Budget

In the Joint Motion, the Joint IOUs requested authorization to recover third-party consultant costs approved by the Energy Division for assisting the Commission with developing a fixed charge design and bill impact analysis tool for Track A of Phase 1 of this proceeding. The Joint IOUs asserted that a common modeling tool with a consistent set of assumptions for assessing fixed charge proposals would be beneficial given the large number of parties to this proceeding and the expedited procedural schedule.

In the Services Proposal, Energy Division staff noted that they had been working with E3 and the Energy Institute at Haas to develop a spreadsheet tool to allow parties to understand the volumetric rate impact associated with a chosen fixed charge, and to design an income-graduated fixed charge that allows for equitable revenue collection while avoiding a revenue shortfall. Energy Division staff explained that previously authorized funding through an existing contract with E3 to support the Commission's Integrated Resource Plan process allowed for the initial development of the spreadsheet tool and the facilitation of one workshop to explain the tools to parties.

In the Services Proposal, Energy Division staff proposed a budget of up to \$425,000 for a contract with E3 for the following general scope of work:

- (a) engage with parties to support use of the tool, including minor updates if needed;
- (b) assisting the Energy Division staff with evaluating party proposals that require tool customization and other *ad hoc* support; and
- (c) if needed, making major revisions to the spreadsheet tool based on party input.

Cal Advocates and the Joint IOUs commented on the Services Proposal. Cal Advocates did not comment on Energy Division's recommended budget or the general scope of work. However, Cal Advocates commented on how the tool should be modified to enable parties to easily develop and assess the impact of income-graduated fixed charges.¹ This decision is limited to considering whether to authorize the general scope of work for the third-party contract and will not consider which specific modifications to the tool are appropriate. We will defer to Energy Division staff to determine which tool modifications are needed based on informal party input.

The Joint IOUs supported the proposed budget and general scope of work, noting that the proposed costs are modest relative to the benefits of having the tool available to parties in this proceeding, including improved comparability across many different proposals through use of a common methodology and dataset, which in turn will better support the Commission's ability to reach its final decision by the statutory deadline.²

AB 205 requires the Commission to issue a decision to adopt an income-graduated fixed charge for default residential rates by July 1, 2024. We agree that a common spreadsheet tool is necessary to support the timely design of income-graduated fixed charge proposals and expedited assessment of these proposals by all parties and the Commission.

It is reasonable for the Commission to authorize up to \$425,000 for third-party consulting services provided to the Energy Division to support the

¹ Cal Advocates' opening comments on the Services Proposal.

² Joint IOUs' opening comments on the Services Proposal.

development and modification of a common spreadsheet tool for designing and assessing income-graduated fixed charge proposals.

4. Directing PG&E to Contract with E3

In the Services Proposal, Energy Division staff asserted that directing PG&E to contract with E3, rather than soliciting requests for proposals for the additional scope of work, is appropriate for the following reasons:

- Since E3 developed the spreadsheet tool for the design and assessment of income-graduated fixed charges under the supervision of the Energy Division through an existing contract, staff asserts that E3 would be in the best position to perform the additional work relating to modifying the spreadsheet tool and assisting the Energy Division with assessing parties' fixed charge proposals; and
- A request for proposals process could not be completed in time to contract with and onboard a consultant to assist the Energy Division with the proposed scope of work based on the schedule for Track A of Phase 1 of this proceeding.

In the Phase 1 scoping memo for this proceeding, the assigned Commissioner set an expedited Track A schedule to meet the statutory deadline imposed by AB 205 to issue a decision to establish an income-graduated fixed charge for default residential rates by July 1, 2024. The scoping memo provided that parties must serve opening proposals by March 17, 2023, reply testimony by April 28, 2023, and a joint case management statement by July 14, 2023. The scoping memo anticipated an evidentiary hearing in late August 2023.

No party opposed Energy Division's recommendation to direct a utility to contract with E3 rather than conduct a request for proposals for a consulting services provider.

The Joint IOUs agreed that contracting with E3 directly is reasonable because E3 has the technical capability to develop the fixed charge public tool

and has prior experience in rate design. The Joint IOUs also agreed that running a request for proposals process would be inconsistent with the schedule for the proceeding to meet the statutory deadline discussed in Section 3 above.³

We find that there is insufficient time for a utility to conduct a request for proposals and contract with a new consultant to develop and modify the spreadsheet tool for designing and assessing income-graduated fixed charges. Further, E3 has the necessary technical capabilities and experience to design and modify the tool.

However, the Joint IOUs objected to the Energy Division recommendation to direct PG&E specifically to fulfill the role of contract administrator. The Joint IOUs requested permission for the IOUs to determine which utility could most rapidly fulfill this role.⁴ We will grant this request.

It is reasonable to direct the IOUs to select one utility to fulfill the roles of contracting agent and contract administrator.

5. Contracting Process and Cost Recovery

The Joint Motion proposed that the Energy Division review and approve E3's monthly bills, and for each utility to record its proportionate share of the costs in their respective memorandum account. The Joint IOUs proposed to create new memorandum accounts for SCE and SDG&E and to create a new subaccount for the Dynamic and Real-Time Pricing Memorandum Account for PG&E to track and recover E3 consultant services costs effective as of the date of the Joint Motion, December 9, 2022. The Joint IOUs also proposed to share the costs associated with this work as proportionately. The Joint IOUs asserted that

³ Joint IOUs' opening comments on the Services Proposal.

⁴ Joint IOUs' opening comments on the Services Proposal.

proportional co-funding of Energy Division projects is an established approach used in other Commission proceedings.⁵

In response to the Joint Motion, the Joint Large Ratepayers opposed the creation of new memorandum accounts because the utilities failed to demonstrate that the E3 consulting costs are “incremental” to costs authorized in other proceedings, such as General Rate Case (GRC) proceedings. Cal Advocates did not oppose the creation of memorandum accounts but similarly argued that the utilities should only be permitted to record costs that are incremental to costs authorized in other proceedings.⁶

The Joint IOUs replied that the E3 costs are incremental since (i) the E3 work will assist Energy Division staff rather than the utilities, and (ii) the statutory requirement to establish an income-graduated fixed charge was not anticipated when the most recent GRC Phase 1 applications were considered.⁷

In the Services Proposal, Energy Division staff supported the Joint IOUs’ request to create new memorandum accounts for SCE and SDG&E and to create a new subaccount for the Dynamic and Real-Time Pricing Memorandum Account for PG&E to track and recover E3 consultant services costs. In the Services Proposal, Energy Division staff also supported the Joint IOUs’ proposal to share the costs associated with this work proportionately as follows: 40 percent PG&E, 40 percent SCE, and 20 percent SDG&E.

In the Services Proposal, Energy Division staff proposed the following roles and responsibilities for the contract with E3:

- PG&E will establish and manage the contract with E3;

⁵ Joint IOUs’ reply to responses to the Joint Motion.

⁶ Cal Advocates’ response to the Joint Motion.

⁷ Joint IOUs’ reply to responses to the Joint Motion.

- Energy Division staff will work with E3 to determine project deliverables and deadlines, approve the scope of work for the contract, and ensure that E3 is meeting the project milestones; and
- Energy Division staff will be responsible for approving major revisions to the tool if needed.

The Joint IOUs were the only parties that commented on this element of the Services Proposal. The Joint IOUs supported these recommendations, with the caveats that (i) the Commission should clarify that the Energy Division will have full responsibility and supervision over E3 for this project, and (ii) contracting administration costs should be recoverable through the memorandum accounts. We agree with the first requirement. The utility acting as the contract administrator may also track and recover reasonable administrative costs of acting as the contracting agent and contract administrator through the memorandum accounts. Since the utility acting as the contracting agent and contract administrator will not be responsible for conducting a request for proposals or supervising the project, these administrative costs should be minimal.

We find that the third-party consulting costs described in the Services Proposal are incremental to costs authorized in other Commission decisions. Further, it is customary for the Commission to authorize proportional utility cost sharing for work to be performed at the direction of the Energy Division.

Therefore, it is reasonable to authorize SCE and SDG&E to each create a new memorandum account and authorize PG&E to create a new subaccount for the Dynamic and Real-Time Pricing Memorandum Account to track and recover E3 consultant services costs approved by the Energy Division, effective as of December 9, 2022. The utilities shall share the costs of this work proportionally as

follows: 40 percent PG&E, 40 percent SCE, and 20 percent SDG&E. The utility selected by the IOUs to serve as contract administrator shall establish and manage the contract with E3 and may track and recover the associated contract administration costs.

Energy Division staff shall have full responsibility and supervision over E3 for this project. Energy Division's supervision over E3 includes reviewing and approving each bill from E3 before the IOUs may track these costs. Energy Division staff will work with E3 to determine project deliverables and deadlines, approve the scope of work for the contract, ensure that E3 is meeting the project milestones, and approve major revisions to the tool if needed.

6. Summary of Public Comment

Rule 1.18 of the Commission's Rules of Practice and Procedure (Rules) allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

There are no public comments relevant to the issues in this decision on the Docket Card of this proceeding.

7. Comments on Proposed Decision

The proposed decision of ALJ Stephanie Wang in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3. Comments were filed on March 21, 2023 by the Joint IOUs and UCAN, and reply comments were filed on March 27, 2023 by the Joint IOUs.

This decision incorporates a clarification requested by the Joint IOUs regarding Energy Division's responsibilities for reviewing bills from E3 before the bills are sent to IOUs for tracking and recording costs in Section 5. This clarification is aligned with Conclusion of Law 3 and Ordering Paragraph 1, which provide that IOUs will track and recover E3 costs that were approved by the Energy Division.

This decision does not grant the Joint IOUs' untimely request to modify the process for recovering costs. IOUs may seek recovery of the costs recorded in their respective memorandum accounts through the customary procedural mechanisms, such as their respective General Rate Case or Energy Resource Recovery Account Forecast applications. This decision does not grant UCAN's untimely request to modify the IOUs' proportional shares of the consulting costs.

8. Assignment of Proceeding

President Alice Reynolds is the assigned Commissioner and Stephanie Wang is the assigned ALJ in this proceeding.

Findings of Fact

1. AB 205 requires the Commission to issue a decision to adopt an income-graduated fixed charge for default residential rates by July 1, 2024.
2. A common spreadsheet tool is necessary to support the timely design of income-graduated fixed charge proposals and expedited assessment of these proposals by all parties and the Commission.
3. There is insufficient time for a utility to conduct a request for proposals and contract with a new consultant to develop and modify the common spreadsheet tool for designing and assessing income-graduated fixed charges.

4. E3 has the necessary technical capabilities and experience to design and modify the common spreadsheet tool for designing and assessing income-graduated fixed charges.

5. The third-party consulting costs described in the Services Proposal are incremental to costs authorized in other Commission decisions.

Conclusions of Law

1. It is reasonable to authorize the Energy Division to approve cost recovery by the IOUs for up to \$425,000 for third-party consulting services provided to the Energy Division to support the development and modification of a common spreadsheet tool for designing and assessing income-graduated fixed charge proposals.

2. It is reasonable to direct the IOUs to select one utility to contract with E3 to provide consulting services to the Energy Division to support the development and modification of a common spreadsheet tool for the design and assessment of income-graduated fixed charge proposals.

3. It is reasonable to authorize SCE and SDG&E to each create a new memorandum account and authorize PG&E to create a new subaccount for the Dynamic and Real-Time Pricing Memorandum Account to track and recover E3 consultant services costs approved by the Energy Division.

4. It is reasonable for the authorization to create memorandum accounts to be effective December 9, 2022.

5. The utilities should share the E3 consultant services costs proportionally as follows: 40 percent PG&E, 40 percent SCE, and 20 percent SDG&E.

6. The utility selected by the IOUs to serve as contracting agent and contract administrator should establish and manage the consultant contract with E3 and may track and recover reasonable contract administration costs.

7. Since the utility acting as the contracting agent and contract administrator will not be responsible for conducting a request for proposals or supervising the project, the contract administration costs should be minimal.

8. Energy Division staff should have full responsibility and supervision over E3 for the consulting services project.

9. Energy Division staff should work with E3 to determine project deliverables and deadlines, approve the scope of work for the contract, ensure that E3 is meeting the project milestones, and approve major revisions to the tool if needed.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company and San Diego Gas & Electric Company shall each create a new memorandum account, and Pacific Gas and Electric Company shall create a new subaccount for the Dynamic and Real-Time Pricing Memorandum Account, to track and recover up to \$425,000 total across all three utilities of consultant costs approved by the Commission's Energy Division pursuant to this decision and reasonable contract administration costs associated with this decision. This authorization is effective December 9, 2022.

2. Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) shall share the total \$425,000 in consultant costs and contract administration costs authorized in this decision proportionally as follows: 40 percent PG&E, 40 percent SCE, and 20 percent SDG&E.

3. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall select one of them to establish and manage a contract with Energy+Environmental Economics (E3). The selected

utility shall establish a contract with E3 to provide consulting services to the Commission's Energy Division to support the development and modification of a common spreadsheet tool for the design and assessment of income-graduated fixed charge proposals. The selected utility shall file a Tier 1 advice letter within 30 days of the issuance of this decision to notify the Commission that the contract has been established.

4. Rulemaking 22-07-005 remains open.

This order is effective today.

Dated April 6, 2023, at San Francisco, California.

ALICE REYNOLDS

President

GENEVIEVE SHIROMA

DARCIE L. HOUCK

JOHN REYNOLDS

KAREN DOUGLAS

Commissioners