

Decision 24-05-028 May 9, 2024

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 ADDRESSING ASSEMBLY BILL 205 REQUIREMENTS FOR
ELECTRIC UTILITIES**

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Attachment A – Estimated Bill Impacts for Customers of Large Utilities with Average Usage

Attachment B – Estimated Bill Impacts for Electrified Customers of Large Utilities

Attachment C – Settlement Agreement for Small Utilities

DECISION ADDRESSING ASSEMBLY BILL 205 REQUIREMENTS FOR ELECTRIC UTILITIES

Summary

This decision authorizes all investor-owned electric utilities to change the structure of residential customer bills in accordance with Assembly Bill 205, Stats. 2022, ch. 61.

Today, California's investor-owned electric utilities recover nearly all costs of providing electricity service through the volumetric (cost per unit) portion of each residential customer's bill. However, a large portion of these costs are fixed costs that do not directly vary based on the electricity usage of the customer from whom the revenue is being collected, such as the costs of installing final line transformers that make it possible for customers to access the grid. Most utilities nationwide and many publicly-owned utilities in California assess fixed charges on customer bills to recover these fixed costs, consistent with the general ratemaking principle that rates should be based on cost causation.

As directed by Assembly Bill 205, this decision authorizes all investor-owned utilities to change the structure of residential customer bills by shifting the recovery of a portion of fixed costs from volumetric rates to a separate, fixed amount on bills without changing the total costs that utilities may recover from customers. As a result, this decision reduces the volumetric price of electricity (in cents per kilowatt hour) for all residential customers of investor-owned utilities.

The new billing structure more evenly allocates fixed costs among customers and will encourage customers to adopt electric vehicles and replace gas appliances with electric appliances because it will be less expensive to charge electric vehicles and operate electric appliances.

This decision adopts a gradual, incremental approach to implementing Assembly Bill 205 requirements, including the requirement to offer income-graduated fixed charge amounts. The adopted billing structure will offer discounts based on the existing income-verification processes of the utilities' California Alternate Rates for Energy and Family Electric Rate Assistance programs. The Commission will consider improvements to the new billing structure based on the initial results of implementation and a working group proposal in the next phase of this proceeding.

Parties to this proceeding concurrently proposed how to implement the requirements of Assembly Bill 205. This decision adopts elements of several party proposals rather than adopting one party's proposal.

Southern California Edison Company and San Diego Gas & Electric Company shall begin to apply the adopted changes to residential customer bills during the fourth quarter of 2025. Pacific Gas and Electric Company, Bear Valley Electric Service, Inc., Liberty Utilities, and PacificCorp d/b/a Pacific Power shall begin to apply the adopted changes to residential customer bills during the first quarter of 2026.

The large electric utilities shall each implement the adopted billing structure changes through a Tier 3 advice letter as follows:

- a. **Tier 1:** Customers enrolled in the California Alternate Rates for Energy program shall automatically pay the lowest discounted fixed amount (approximately \$6 per month).
- b. **Tier 2:** Customers enrolled in the Family Electric Rate Assistance program or who live in affordable housing restricted to residents with incomes at or below 80 percent of Area Median Income shall automatically pay a discounted fixed amount (approximately \$12 per month).

- c. **Tier 3:** All other customers will pay a fixed amount of \$24.15 per month.

In accordance with Assembly Bill 205, the revenues from the fixed charges will be used to (a) ensure that a low-income customer with average electricity usage will realize bill savings in each baseline territory without changes to usage, and (b) reduce volumetric rates for all residential customers.

The new billing structure shall apply to all residential rates of the investor-owned electric utilities, except for master-metered rates that are not sub-metered, separately-metered electric vehicle rates for customers whose primary meter has an income-graduated fixed charge, or rate schedules that are scheduled to be eliminated by the second quarter of 2026. The revenues from fixed charges will be applied to reduce volumetric rates equally across all time-of-use periods.

This decision approves an aggregate total of up to \$35.6 million for the implementation costs of the three large utilities. Each of the large utilities shall propose a plan and budget for customer education and outreach through a Tier 3 advice letter.

This decision approves the settlement agreement regarding Assembly Bill 205 implementation between Bear Valley Electric Service, Inc., Liberty Utilities, PacificCorp d/b/a Pacific Power, and the Public Advocates Office at the California Public Utilities Commission, with exceptions to ensure compliance with statutory requirements. The small and multijurisdictional utilities shall each file a Tier 3 advice letter to provide additional information about base revenues, propose a customer education and outreach plan, and propose an implementation budget.

This decision also adjusts the methodology for calculating the large utilities' average effective discount for California Alternate Rates for Energy in accordance with Assembly Bill 205.

This decision addresses all Phase 1 Track A issues. This proceeding remains open to address the remaining Phase 1 Track B issues.

1. Background

On June 30, 2022, Assembly Bill (AB) 205, Stats. 2022, ch. 61 was signed into law. 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) Wang held a prehearing conference on September 16, 2022. The assigned Commissioner issued a Phase 1 Scoping Memo and Ruling (Scoping Memo) on November 2, 2022, that established Track A of this proceeding to determine how to implement the requirements of AB 205. The Scoping Memo directed parties to file concurrent opening testimony with proposals for implementing AB 205.

On November 29, 2022, the Commission's Energy Division held a public workshop to discuss how to interpret the AB 205 amendments to the Public Utilities Code (Pub. Util. Code).

On December 9, 2022, ALJ Wang issued a ruling to request statutory interpretation briefs. The following parties filed opening statutory interpretation briefs by January 23, 2023,¹ or reply briefs by February 13, 2023:² California Community Choice Association (CalCCA); Center for Accessible Technology (CforAT); Clean Coalition; Coalition of California Utility Employees (CUE); Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (together, the Large Utilities); Public Advocates Office at the California Public Utilities Commission (Cal Advocates); California Environmental Justice Alliance (CEJA) and Sierra Club; Solar Energy Industries Association (SEIA); and The Utility Reform Network and Natural Resources Defense Council (TURN/NRDC).

On January 17, 2023, and on March 23, 2023, ALJ Wang issued a ruling that provided guidance to parties to serve income-graduated fixed charge proposals as concurrent opening testimony.

On April 6, 2023, the Commission issued Decision (D.) 23-04-008 to authorize a scope of work and budget for a third-party contractor to develop a public spreadsheet tool (Public Tool) to allow parties to understand the volumetric rate impact associated with a chosen income-graduated fixed charge, and to design an income-graduated fixed charge that allows for equitable revenue collection while avoiding a revenue shortfall.

The following parties served income-graduated fixed charge proposals in concurrent opening testimony by April 7, 2023, or in concurrent reply testimony by June 2, 2023: Bear Valley Electric Service, Inc. (Bear Valley); Cal Advocates;

¹ The Clean Coalition received permission to late file an opening brief on January 24, 2023.

² All references in this decision to “opening statutory briefs” or “reply statutory briefs” shall refer to these respective briefs filed in January and February 2023.

CEJA; the Clean Coalition; Liberty Utilities; the Large Utilities; NRDC/TURN; PacificCorp d/b/a Pacific Power (PacifiCorp); Sierra Club; and SEIA.

The following additional parties served reply testimony to address parties' income-graduated fixed charge proposals by June 2, 2023: Advanced Energy United; CalCCA; CforAT; and Utility Consumers' Action Network.

On June 19, 2023, ALJ Wang issued a ruling that requested comments on the implementation pathway for income-graduated fixed charges. The following parties filed comments by July 31, 2023, or replies by August 21, 2023: Advanced Energy United; Alexis K. Wodtke; Bear Valley; Cal Advocates; California Energy Storage Alliance; CalCCA; California Solar & Storage Association; CEJA and Sierra Club; California Efficiency + Demand Management Council; Clean Coalition; CUE; Liberty Utilities; SEIA; Utility Consumers' Action Network; Western Manufactured Housing Communities Association; and 350 Bay Area.

On August 2, 2023, ALJ Wang issued a ruling to deny a motion to dismiss this rulemaking. On August 15, 2023, ALJ Wang issued a ruling to deny a motion for public participation hearings, because the motion was not timely. On August 22, 2023, and on August 24, 2023, ALJ Wang issued rulings to remove evidentiary hearings, provide guidance for opening briefs, and provide directions for filing an exhibits motion.

On September 26, 2023, ALJ Wang admitted Track A exhibits into evidence.

The following parties filed opening briefs by October 6, 2023, or reply briefs by November 3, 2023: Alexis K. Wodtke; CUE; CalCCA; Cal Advocates; CforAT; Clean Coalition; Liberty Utilities, PacifiCorp, and Bear Valley (together,

Small Utilities); NRDC/TURN; PearlX Infrastructure LLC (PearlX); Sierra Club and CEJA; SEIA; and Utility Consumers' Action Network.³

On December 18, 2023, ALJ Wang issued a ruling (Budget and Timing Ruling) to direct the Large Utilities to file additional information about budgets and implementation timing and request party comments on implementation timing. The following parties filed comments by January 24, 2024, or replies by February 12, 2024: Advanced Energy United, Cal Advocates, California Efficiency + Demand Management Council (CEDMC), CESA, Clean Coalition, CUE, the Large Utilities, SEIA, Sierra Club/CEJA, TURN/NRDC, UCAN, 350 Bay Area, and Alexis K. Wodtke.

On January 16, 2024, the Small Utilities and Cal Advocates filed a joint motion (Settlement Motion) for adoption of a Track A settlement agreement (Settlement Agreement). On February 14, 2024, CforAT, the Large Utilities, Sierra Club/CEJA, SEIA, and TURN/NRDC filed comments on the Settlement Motion. On March 1, 2024, the Small Utilities, CEJA, and the Large Utilities filed replies to comments on the Settlement Motion.

This matter was submitted on March 1, 2024, upon the filing of replies to comments on the Settlement Motion.

2. Issues Before the Commission

The Phase 1 Track A issues before the Commission are as follows:

- a. How should the Commission establish an income-graduated fixed charge for residential rates for all investor-owned electric utilities in accordance with AB 205 and Pub. Util. Code Section 739.9? (i) Should the Commission establish an income-graduated fixed charge for all residential rates or only certain residential rates? (ii) What

³ All references in this decision to “opening briefs” or “reply briefs” shall refer to these respective briefs filed in October and November 2023.

- costs should be recovered through the fixed charge and what methodology should be used to calculate these costs? (iii) What income thresholds should the Commission establish for the income-graduated fixed charge? (iv) How should the fixed charge vary by income threshold? (v) How should the fixed charge be designed so that a low-income customer in each baseline territory would realize a lower average monthly bill without making any changes to usage? (vi) How should the fixed charge vary between default residential rates and optional residential rates? (vii) How should income levels be verified, and how often should verification occur? (viii) How should customers be informed about the fixed charge and impacts on their bills? (ix) How should residential rate components of investor-owned utilities' electric rates, including volumetric rates and the California Alternate Rates for Energy (CARE) discount methodology, be adjusted to reflect fixed charges in accordance with AB 205?
- b. What implementation pathway should the Commission establish for implementing income-graduated fixed charges? (i) What metrics and evaluation requirements should the Commission establish for income-graduated fixed charges? (ii) When should income-graduated fixed charges be implemented?
 - c. How should the Commission implement the requirements of AB 205 to adjust the average effective discount for CARE so that it does not reflect any charges for which CARE customers are exempted, discounts to fixed charges or other rates paid by non-CARE customers, or bill savings resulting from participation in other programs?
 - d. Should the Commission adopt the Settlement Agreement?

This decision addresses all of the Phase 1 Track A issues in the Scoping Memo, including all issues necessary to comply with AB 205.

3. Interpretation of AB 205 Statutory Requirements

This section discusses how to interpret the new statutory requirements established by AB 205 in Sections 739.9, 831(a) and 739.1(c)(1) of the Pub. Util. Code.

AB 205 amended Section 739.9 of the Pub. Util. Code to read as follows:

(a) “Fixed charge” means 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.

(b) Increases to electrical rates and charges in rate design proceedings, including any reduction in the California Alternate Rates for Energy (CARE) discount, shall be reasonable and subject to a reasonable phase-in schedule relative to the rates and charges in effect before January 1, 2014.

(c) Consistent with the requirements of Section 739, the commission may modify the seasonal definitions and applicable percentage of average consumption for one or more climatic zones.

(d) The commission may adopt new, or expand existing, fixed charges for the purpose of collecting a reasonable portion of the fixed costs of providing electrical service to residential customers. The commission shall ensure that any approved charges do all of the following:

(1) Reasonably reflect an appropriate portion of the different costs of serving small and large customers.

(2) Not unreasonably impair incentives for conservation, energy efficiency, and beneficial electrification and greenhouse gas emissions reduction.

(3) Are set at levels that do not overburden low-income customers.

(e) (1) For the purposes of this section and Section 739.1, the commission may authorize fixed charges for any rate schedule applicable to a residential customer account. The fixed charge

shall be established on an income-graduated basis with no fewer than three income thresholds so that a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage. The commission shall, no later than July 1, 2024, authorize a fixed charge for default residential rates.

(2) For purposes of this subdivision, “income-graduated” means that low-income customers pay a smaller fixed charge than high-income customers.

(f) Notwithstanding the requirements of subdivision (d) of Section 739 and Section 739.7, the commission shall not apply the composite tier method to the treatment of any revenues resulting from any fixed charge adopted pursuant to this section.

AB 205 also amended Section 831(a) of the Pub. Util. Code to eliminate the previous requirement that certain Public Purpose Program costs be collected on the basis of usage and to read as follows:

(a) To ensure that the funding for the programs described in subdivision (b) and Section 382 are not commingled with other revenues, the [C]ommission shall require each electrical corporation to identify a separate rate component to collect the revenues used to fund these programs. The rate component shall be a nonbypassable element of the local distribution service.

In addition, AB 205 amended Section 739.1(c)(1) of the Pub. Util. Code to read as follows:

The average effective CARE discount shall not be less than 30 percent or more than 35 percent of the revenues that would have been produced for the same billed usage by non-CARE customers. The average effective discount determined by the commission shall not reflect any charges for which CARE customers are exempted, discounts to fixed charges or other rates paid by non-CARE customers, or bill savings resulting from participation in other programs, including the medical baseline allowance pursuant to subdivision (c) of Section 739.

The average effective CARE discount shall be calculated as a weighted average of the CARE discounts provided to individual customers.

3.1. Fixed Charges Subject to Income Graduation

The ALJ ruling issued on December 9, 2022 (Statutory Briefs Ruling) asked parties what types of residential charges and service fees should be considered “fixed charges” subject to the income graduation requirements of Section 739.9(e).

Section 739.9(a) provides that a “fixed charge” means “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.”

SEIA argued that AB 205 did not modify the definition of fixed charges in Section 739.9(a), and therefore, the Commission’s previous interpretation of this term should apply.⁴ We agree that the Commission’s interpretation of Section 739.9(a) in D.15-07-001 should continue to apply.

D.15-07-001 interpreted Section 739.9(a) as referring “exclusively to non-volumetric charges that apply based on demand or the mere existence of a customer account.”⁵ It is reasonable to interpret the reference in Section 739.9(a) to “any other charge not based on the volume of electricity consumed” as meaning any non-volumetric charge that applies based on demand or the mere existence of a customer account.

TURN/NRDC argued that the income-differentiation requirements of Section 739.9(e) should not apply to additional utility service fees, such as fees for interconnection, service extension, undergrounding, and smart meter

⁴ SEIA’s opening statutory brief.

⁵ D.15-07-001 at 221-222.

opt-out.⁶ We agree that the additional utility service fees listed by TURN/NRDC are examples of fees that are not fixed charges subject to Section 739.9(e). Such additional service fees do not apply based on demand or the mere existence of a customer account.

Some parties argued that the Commission should interpret Section 739.9 as applying to only a subset of demand charges that do not vary based on the volume of electricity consumed. For example, the Large Utilities argued that the provision should only apply to demand charges that are “predetermined” and do not vary from month to month. SEIA, Sierra Club, and CEJA similarly argued that demand charges based on individual customers’ maximum demand should be excluded from the definition of fixed charge because such charges are based on the volume of electricity consumed.

TURN/NRDC disagreed in reply briefs, arguing that the language of Section 739.9(a) explicitly states that any demand charge is a fixed charge and does not provide any exceptions.⁷ We agree that the statute clearly provides that any residential demand charge is a fixed charge subject to Section 739.9(e).

For purposes of Section 739.9(e), it is reasonable to interpret a “fixed charge” as meaning any fixed customer charge, basic service fee, demand differentiated basic service fee, demand charge, or other non-volumetric charge that applies based on demand or the mere existence of a customer account.

The Statutory Briefs Ruling also asked parties whether the Commission may authorize a bundle of fixed charges that collectively comply with the

⁶ TURN/NRDC’s opening statutory brief.

⁷ TURN/NRDC’s reply statutory brief.

requirements of Section 739.9(e), or whether each individual fixed charge must comply with Section 739.9(e).

TURN/NRDC and the Large Utilities argued that the Commission may authorize a bundle of fixed charges that collectively comply with Section 739.9(e). These parties argued that nothing in the statute prohibits this approach.⁸ SEIA, on the other hand, argued that the language of Section 739.9(e) requires each individual fixed charge to be established on an income-graduated basis.⁹

Section 739.9(e) does not explicitly address the potential for the Commission to authorize a bundle of fixed charges that collectively comply with the income-graduation requirements. Allowing a bundle of fixed charges to comply with the requirements of Section 739.9(e) will provide the Commission with more options for designing fixed charges without undue administrative complexity.

It is reasonable for a bundle of fixed charges to collectively comply with the requirements of Section 739.9(e).

3.2. Customer

The Statutory Briefs Ruling asked parties how to define “customers” in the context of Section 739.9(e)(2), which provides that “income-graduated” means that low-income customers pay a smaller fixed charge than high-income customers.

Sierra Club/CEJA, CforAT, Cal Advocates, and the Large Utilities asserted that a customer should be defined as a household for purposes of Section 739.9.

⁸ The Large Utilities’ and TURN/NRDC’s opening statutory briefs.

⁹ SEIA’s opening statutory brief.

Cal Advocates and the Large Utilities argued that the definition of customer should be consistent with the CARE program, which defines eligible customers based on household income.¹⁰

CforAT recommended that the Commission consider whether to define a household in terms of people served by a single meter, or whether to define a household based on the California LifeLine program definition in General Order 153, which provides for multiple households to live in one dwelling.¹¹ CforAT asserted that both options are consistent with AB 205, and that it may be more efficient to define a household in terms of people served by a single meter.¹²

The Large Utilities and TURN/NRDC argued that a customer should include all persons served by the same electric meter. The Large Utilities asserted that allocating an income-graduated fixed charge to more than one household under a single billed account is not feasible because electric bills are calculated based on total metered usage and not the unique usage patterns of separate households that are billed as a single metered account.¹³

The definition of a customer for purposes of Section 739.9 should support administrative efficiency and consistency with the implementation of the CARE program. It is reasonable to define “customer” for purposes of Section 739.9 as all persons residing in one dwelling and served by the same electric meter.

¹⁰ Sierra Club/CEJA’s, CforAT’s, Cal Advocates’, and the Large Utilities’ opening statutory briefs.

¹¹ General Order 153 defines a “residence” as “[t]hat portion of an individual house, building, flat, or apartment (a dwelling unit) occupied entirely by a single Household as that term is defined by these rules. A room or portion of a dwelling unit occupied exclusively by a Household not sharing equally as a member of the domestic establishment may be considered a separate residence for the application of California LifeLine.”

¹² CforAT’s opening statutory brief.

¹³ The Large Utilities’ and TURN/NRDC’s opening statutory briefs.

3.3. Number of Tiers

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

The Statutory Briefs Ruling asked parties how to interpret the requirement to establish “no fewer than three income thresholds” for a fixed charge.

Most parties interpreted the “no fewer than three income thresholds” requirement to mean that the Commission must establish a minimum of three income tiers for a fixed charge.¹⁴ TURN/NRDC argued that the legislative intent was to require a minimum of three tiers of fixed charge levels.¹⁵ Cal Advocates, CforAT, and SEIA each argued that the statute could be satisfied with three tiers if the first tier includes household incomes starting at a threshold of \$0.¹⁶

Sierra Club/CEJA was the only party to argue that the statute requires four income tiers. However, Sierra Club/CEJA acknowledged that, if the lowest threshold is construed as the lowest limit on income, three income thresholds could result in three tiers.¹⁷

It is reasonable for an income-graduated fixed charge to include a minimum of three income tiers.

¹⁴ The Large Utilities’, CforAT’s, Clean Coalition’s, CUE’s, SEIA’s, and Cal Advocates’ opening statutory briefs.

¹⁵ TURN/NRDC’s opening statutory brief.

¹⁶ Cal Advocates’ opening statutory brief.

¹⁷ Sierra Club/CEJA’s opening statutory brief.

3.4. Low-Income Ratepayer

Section 739.9(e)(1) provides that the Commission shall establish a fixed charge “so that a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage.” The Statutory Briefs Ruling asked parties how to interpret “a low-income ratepayer in each baseline territory.”

The Large Utilities argued that a low-income ratepayer should be defined in accordance with the CARE program definition of “low-income electric and gas customers” in Section 739.1 of the Pub. Util. Code. The Large Utilities argued that the Legislature intended for the definition of low-income ratepayer to be consistent across Sections 739.1 and 739.9 of the Pub. Util. Code. The Large Utilities also argued that aligning CARE eligibility with the definition of low-income ratepayer for fixed charges would reduce administrative costs of implementing fixed charges.¹⁸

CforAT and TURN/NRDC asserted that the Commission has the option to adopt either a definition based on the Federal Poverty Guidelines or Area Median Income. CforAT acknowledged that it may be less administratively complex for the utilities to continue to use Federal Poverty Guidelines but asserted that Area Median Income better reflects the differing purchasing power in different parts of the state.¹⁹

Sierra Club/CEJA argued that a low-income ratepayer should be defined as a ratepayer whose income is below 80 percent of Area Median Income or who qualifies for low-income programs such as CARE, CalFresh, or affordable

¹⁸ The Large Utilities’ opening statutory brief.

¹⁹ CforAT’s and TURN/NRDC’s opening statutory briefs.

housing. Sierra Club/CEJA also argued that its proposed definition is consistent with the definition in the Commission's Environmental and Social Justice Action Plan 2.0.²⁰

The Large Utilities replied that defining low-income ratepayers for the fixed charge differently from the CARE definition would cause significant customer confusion and additional administrative costs. The Large Utilities emphasized the administrative efficiencies of aligning the definition of low-income ratepayer with CARE customer eligibility.²¹

We agree that aligning the definition of low-income ratepayer for fixed charges with the CARE definition would allow utilities to leverage existing CARE income verification processes, reduce administrative costs, and avoid customer confusion. This approach would also simplify customer education about the fixed charge.

The Large Utilities proposed to define low-income ratepayers as customers enrolled in CARE for ease of administration.²² CforAT argued that the Legislature did not intend to limit the bill protections of Section 739.9(e)(1) to the subset of low-income ratepayers who are enrolled in the CARE program.²³ We agree that the definition of low-income ratepayer should not be limited to customers who are enrolled in a specific low-income assistance program.

It is reasonable to define a low-income ratepayer for purposes of designing an income-graduated fixed charge as a customer with a household income at or

²⁰ Sierra Club/CEJA's opening statutory brief.

²¹ The Large Utilities' reply statutory brief.

²² The Large Utilities' opening statutory brief.

²³ CforAT's statutory reply brief.

below 200 percent of the Federal Poverty Guidelines level applicable to that household under the CARE program.

Parties also disagreed about whether Section 739.9(e)(1) requires a fixed charge to lower average monthly bills for every low-income ratepayer, or only the average low-income ratepayer in each baseline territory.

CforAT argued that the intent of AB 205 was to ensure that each and every low-income ratepayer benefits from the fixed charge.²⁴ On the other hand, TURN/NRDC and the Large Utilities argued that the Legislature intended for fixed charges to lower the monthly bills of the average low-income ratepayer. The Large Utilities argued that the reference to “a low-income ratepayer in each baseline territory”²⁵ makes it clear that the Legislature intended for the fixed charge to lower monthly bills for the average low-income ratepayer because there would be no need to refer to baseline territories if the Legislature intended for the fixed charge to lower monthly bills for every single low-income ratepayer.²⁶ TURN/NRDC argued that the Legislature intended for the average low-income ratepayer to benefit, and that if a small number of low-income ratepayers who use an extremely low amount of electricity see a small bill increase, this would not violate the statutory requirement.²⁷

²⁴ CforAT’s opening statutory brief.

²⁵ The Commission historically used “baseline” amounts of electricity to determine how much electricity California households should receive at the lowest rate in a given climate zone. Baseline allowances of electricity are generally set around 60% of the average household usage in a given climate zone. Baseline amounts are higher in summer in areas with warmer weather and larger air conditioning loads and higher in winter in areas with all-electric home heating loads. A “baseline territory” is the geographic area within a given utility’s service territory that receives a baseline allowance of electricity.

²⁶ The Large Utilities’ reply statutory brief.

²⁷ TURN/NRDC’s opening statutory brief.

CforAT also argued that the only way to ensure that a fixed charge lowers the average monthly bill for each and every low-income ratepayer is to set the fixed charge at \$0 for low-income ratepayers.²⁸ However, AB 205 does not direct the Commission to exempt low-income ratepayers from paying a fixed charge. The statutory language referring to low-income ratepayers in each baseline territory indicates that the Legislature did not intend to require a fixed charge to lower the average monthly bill for each and every low-income ratepayer without making changes to usage.

It is reasonable to adopt a fixed charge that lowers the average monthly bill for a low-income ratepayer with average electricity usage in each baseline territory without making any changes to usage. In other words, a fixed charge must lower the monthly bill, averaged over the course of a calendar year, for a low-income ratepayer with average electricity usage levels in each baseline territory.

3.5. Fixed Costs

The Legislature's findings and declarations for AB 205 state that "only a portion of the electrical corporation's costs directly vary based on how much electricity a customer consumes, while many infrastructure and operational costs do not." Section 739.9(d) provides that the Commission "may adopt new, or expand existing, fixed charges for the purpose of collecting a reasonable portion of the fixed costs of providing electrical service to residential customers."

Parties generally agreed that AB 205 provides that a fixed cost should be defined as a cost that does not vary by how much electricity a customer consumes. However, parties disagreed about how to define fixed costs.

²⁸ CforAT's opening statutory brief and CforAT's opening brief.

SEIA proposed the narrowest definition of fixed costs. SEIA argued that only Marginal Customer Access Costs²⁹ are fixed costs because all other costs are caused or affected by a customer's use of energy or capacity from the electric system. For example, SEIA argued that energy efficiency and demand response program costs are not fixed costs because these costs were incurred to reduce demand by customers to avoid generation costs. SEIA also argued that its definition of fixed costs is consistent with prior Commission decisions that provided that a fixed charge should only recover "customer-specific" fixed costs.³⁰ The Clean Coalition and the California Solar and Storage Association similarly argued that only transformer, service drop, meter, and billing costs should be included in the definition of fixed costs.³¹

TURN/NRDC replied that SEIA's definition of fixed costs was "excessively narrow" and that prior Commission decisions regarding the definition of fixed costs are not relevant because those decisions predate AB 205, which removed a prior requirement to cap residential fixed charges at \$10 per month and added new goals for a fixed charge, including more equitable recovery of utilities' fixed costs.

TURN/NRDC also noted that AB 205 revised Section 381(a) of the Pub. Util. Code to eliminate the previous requirement that certain Public Purpose Program costs be collected on the basis of usage. TURN/NRDC argued that this provision of AB 205 showed a legislative intent to allow the Commission to

²⁹ Marginal Customer Access Costs are the marginal costs of the equipment required to provide a customer with access to the electric grid, plus revenue cycle services such as billing and customer care.

³⁰ SEIA's opening statutory brief and Exhibit SEIA-01.

³¹ Exhibit CLC-01 and the California Solar and Storage Association's opening comments on the Implementation Pathway Ruling defined in Section 4 below.

authorize utilities to recover Public Purpose Program costs through a fixed charge.³² Cal Advocates, Sierra Club, and the Large Utilities agreed that Public Purpose Program costs should be considered fixed costs.³³

AB 205 finds and declares that the Commission has found that “electrical corporation customers are facing two areas of increasing cost pressures: growing electric transmission and distribution infrastructure and operation costs, including wildfire mitigation costs, and equitable recovery of utility fixed costs. Section 14 of AB 205 notes that a majority of an electric utility’s revenue requirement is recovered from customers by a volumetric rate, but only a portion of an electric utility’s costs “directly vary based on how much electricity a customer consumes, while many infrastructure and operational costs do not.”

AB 205 also explicitly states the Legislature’s intent for the Commission to “establish reasonable fixed charges on default residential customer rates to help stabilize rates and equitably allocate and recover costs among residential customers in each electrical corporation’s service territory” and “more fairly distribute the burden of supporting the electric system and achieving California’s climate change goals.”³⁴

The definition of fixed costs must be broad enough to achieve the Legislature’s intent. Further, the declarations and findings of AB 205 refer to costs that “directly vary based on how much electricity a customer consumes.” The intent of the Legislature was to address the recovery of fixed costs that do not “directly” vary based on how much a given customer uses. In other words, a fixed cost has a revenue requirement that does not vary based on the electricity

³² TURN/NRDC’s opening brief.

³³ Cal Advocates’, Sierra Club’s, and the Large Utilities’ opening briefs.

³⁴ Section 14 of AB 205.

usage of the customer from whom the revenue is being collected. Cal Advocates supported this interpretation when it argued that non-bypassable charges should be recovered through a fixed charge because these costs “do not directly increase nor decrease” due to changes to a customer’s consumption levels, and therefore, a customer should not be able to avoid paying such costs if they decrease their consumption level.³⁵

For example, the CARE surcharge is collected from non-CARE residential and non-residential customers and is used to provide a 30 to 35 percent bill discount for qualifying low-income residential customers. While the magnitude of the CARE revenue requirement is driven by CARE customers’ usage, that revenue requirement is collected from non-CARE customers whose usage does not impact the amount of money that needs to be collected. Accordingly, the CARE surcharge is an example of a fixed cost.

In contrast, some costs vary directly with a specific customer’s usage. For example, marginal energy costs are directly proportional to the amount of electricity a specific customer uses and are not fixed costs.

It is reasonable to define fixed costs as costs that do not directly vary based on the electricity usage of the customer from whom the revenue is being collected.

While AB 205 directs the Commission to establish fixed charges to collect a reasonable portion of fixed costs, it leaves up to the Commission how to determine what is a reasonable portion of fixed costs that should be recovered through a fixed charge, and which specific fixed costs to include in a fixed charge.

³⁵ Exhibit Cal Advocates-01-E.

In Sections 5 and 6 below, we will discuss which specific fixed costs to include in the adopted income-graduated fixed charges.

3.6. Composite Tier Methodology

Some residential electric rates have usage tiers that increase a customer's volumetric rate if they use more than a baseline amount of energy. These usage tiers were adopted to encourage energy efficiency and conservation.

AB 205 amended Section 739.9(f) to provide that the Commission "shall not apply the composite tier method to the treatment of any revenues resulting from any fixed charge adopted pursuant to this section."

TURN/NRDC asserted that this provision was intended to remove the previous legal requirement that fixed customer charge revenues must be included in the baseline usage tier for purposes of evaluating whether there are sufficient pricing differentials between usage tiers. This requirement, known as the "composite tier ratio," reflected the results of the following statutory requirements: (a) Section 739(d)(1) requires the Commission "establish an appropriate gradual differential" between the baseline rate and the rate applicable to the next tier of electricity usage, and (b) Section 739.7 directs the Commission to "retain an appropriate inverted rate structure." TURN/NRDC asserted that Section 739.9(f) reflects the request of their organizations and Cal Advocates for the Legislature to specify that the income-graduated fixed charges would not be subject to these requirements.³⁶

Cal Advocates supported the prohibition of the use of the composite tier methodology for fixed charge revenues to encourage electrification. Cal Advocates asserted that this prohibition allows revenue collected through a fixed

³⁶ TURN/NRDC's opening statutory brief.

charge to reduce volumetric rates in all usage tiers. In contrast, under the composite tier method, fixed charges could not reduce volumetric rates for usage above the baseline usage tier. Cal Advocates argued that this will help customers who install electrification technologies because it reduces their rates for usage above the baseline usage tier.³⁷

Cal Advocates asserted that prohibition of the composite tier method will not change the current volumetric tier differential of 25 percent that was established in D.15-07-001. Cal Advocates argued that the fixed charge revenues must be applied to each usage tier proportionally to ensure that the ratio between the usage tier 2 and the usage tier 1 volumetric rates are maintained at the required 25 percent level.³⁸

Sierra Club/CEJA and the Large Utilities agreed that the composite tier methodology should not be used for fixed charge revenues in accordance with the statute.³⁹

No party disputed TURN/NRDC's interpretation of the statute or Cal Advocates' arguments that the Commission should maintain the current volumetric tier differential established in D.15-07-001.

It is reasonable to prohibit the use of the composite tier methodology for any revenues resulting from a fixed charge. This decision does not modify the requirement of D.15-07-001 that changes to volumetric rates must maintain the usage tier differential specified in that decision. The income-graduated fixed charge revenues should be applied to each usage tier proportionally to ensure

³⁷ Cal Advocates' opening statutory brief.

³⁸ Cal Advocates' opening statutory brief.

³⁹ Sierra Club/CEJA's and the Large Utilities' opening statutory briefs.

that the ratio between the usage tier 2 and the usage tier 1 volumetric rates are maintained at the required level.

3.7. Average Effective CARE Discount

Section 739.1(c)(1) of the Pub. Util. Code provides:

The average effective CARE discount shall not be less than 30 percent or more than 35 percent of the revenues that would have been produced for the same billed usage by non-CARE customers. The average effective discount determined by the commission shall not reflect any charges for which CARE customers are exempted, discounts to fixed charges or other rates paid by non-CARE customers, or bill savings resulting from participation in other programs, including the medical baseline allowance pursuant to subdivision (c) of Section 739. The average effective CARE discount shall be calculated as a weighted average of the CARE discounts provided to individual customers.

For electric utilities with 100,000 or more customer accounts, prior law required the Commission to ensure that (a) the average effective CARE discount is not less than 30 percent or more than 35 percent of the revenues that would have been produced for the same billed usage by non-CARE customers and (b) the average effective discount would reflect any charges not paid by CARE customers. AB 205 amended the provision to require the Commission to modify the calculation of the average effective CARE discount to “not reflect” any charges for which CARE customers are exempted, discounts to fixed charges or other rates paid by non-CARE customers, or bill savings resulting from participation in other programs, including the medical baseline allowance.

TURN/NRDC asserted that, based on prior law, the utilities currently consider any portion of a retail rate or charge not paid by CARE customers to be part of the CARE discount and reduce the CARE discount line-item accordingly. TURN/NRDC argued that the amendments to Section 739.1(c)(1) prohibit this

practice and are intended to ensure that the average effective CARE discount is “additional” to any other charge exemptions and discounts that CARE customers receive.⁴⁰ The Large Utilities agreed.⁴¹

This decision interprets Section 739.1(c)(1) as requiring the Commission to ensure that the average effective CARE discount is additional to any other charge exemptions and discounts that CARE customers receive.

In opening briefs, TURN/NRDC made a revised proposal with the following process to comply with the amendments to Section 739.1(c)(1):⁴²

- First, calculate a total CARE discount budget set between 30 percent to 35 percent of the revenues that would have been produced for the same billed usage by non-CARE customers.
- Second, apply the total CARE discount budget in the form of a reduction in the overall bill for the eligible CARE customer.
- Next, apply all rate discounts, exemptions, and reductions, including income-graduated fixed charge discounts.
- Finally, allocate the CARE discount budget for collection on an equal cents per kilowatt hour (kWh) basis.

TURN/NRDC argued that its revised proposal complies with the new average effective CARE discount requirements of AB 205 and ensures that the amount of the overall CARE discount budget is unaffected by the portion of total costs collected through fixed charges or volumetric rates. TURN/NRDC noted that while the CARE discount budget is recovered from all non-exempt customers through an equal cents per kWh method, discounts provided to lower

⁴⁰ TURN/NRDC’s opening brief.

⁴¹ Large Utilities’ reply brief.

⁴² In its opening brief, TURN/NRDC acknowledged that it previously proposed a different method for compliance with Section 739.1(c)(1).

tiers of an income-graduated fixed charge will be assigned entirely to the residential class. TURN/NRDC argues that providing a CARE discount prior to removing exemptions and fixed charge discounts is necessary to prevent a reduction in the amount collected through the CARE surcharge.⁴³

The Large Utilities argued that TURN/NRDC's revised proposal was inconsistent with the law. The Large Utilities argued that, because AB 205 requires the average effective CARE discount to "not reflect" charges for which CARE customers are exempt,⁴⁴ the exempt charges should be removed from the revenues used to calculate the CARE discount budget before the CARE discount is applied.⁴⁵ The Large Utilities also argued that their proposal would avoid alterations to revenue allocations between rate classes.⁴⁶

AB 205 did not direct the Commission to shift the costs of the CARE program from one customer class to another. Nor did AB 205 direct the Commission to give CARE customers an additional 30 percent to 35 percent "discount" on charges and discounts that they are exempt from paying. Further, the Large Utilities' interpretation of Section 739.1(c)(1) would make the average effective CARE discount additional to any other charge exemptions and discounts that CARE customers receive as required by AB 205.

It is reasonable to adopt the following process for calculating and applying CARE discounts:

⁴³ TURN/NRDC's opening brief.

⁴⁴ CARE customers are exempt from paying the CARE charge, Wildfire Fund charge, the Self Generation Incentive Program charge, the Recovery Bond charge/credit, and the Wildfire Hardening Charge.

⁴⁵ Large Utilities' reply brief.

⁴⁶ Large Utilities' reply brief.

- a. First, calculate the total revenues for CARE customers that would have been produced for the same billed usage by non-CARE customers;
- b. Second, remove from the total revenues all of the charges that CARE customers are exempt from and all rate and charge discounts that CARE customers receive, excluding discounts on income-graduated fixed charges;
- c. Third, apply the applicable CARE discount rate (between 30 and 35 percent) to the volumetric and fixed components of the rate;
- d. Fourth, apply any remaining discount to CARE customers' fixed charge that is needed to achieve the required income-graduated fixed charge for CARE customers (note that this additional discount will not be funded by the CARE program, but will instead be funded by income-graduated fixed charge revenues collected from higher income tiers and is thus incremental to the CARE discount); and
- e. Finally, allocate the CARE discount budget for collection on an equal cents per kWh basis.

TURN/NRDC argued that utilities should implement these changes prior to implementation of income-graduated fixed charges.⁴⁷ In opening comments on the proposed decision, the Large Utilities proposed to implement the adopted process around the same time as the next annual electric true-up advice letter, which is how the CARE surcharge is typically updated on January 1st of each year. This approach is reasonable.

Each of the Large Utilities shall file a Tier 1 advice letter by December 15, 2024 to implement the adopted process for calculating and applying CARE discounts, effective January 1, 2025, provided that the fourth step will not take effect until income-graduated fixed charges are implemented.

⁴⁷ TURN/NRDC's opening brief.

4. Implementation Pathway

On June 19, 2023, ALJ Wang issued a ruling that requested comments on the implementation pathway for income-graduated fixed charges (Implementation Pathway Ruling). The ruling noted that the Commission must consider how to manage the transition to the new residential rate structure consistent with the principle that “[t]ransitions 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.”⁴⁸

The Implementation Pathway Ruling noted that the Commission previously implemented a five-year transition to default residential time-of-use rates through D.15-07-001, which established a schedule for additional rate reform activities, including utility applications, working groups, consultants, marketing education, and outreach (ME&O) plans, studies, progress reports, and workshops.

California has not conducted pilots of income-graduated fixed charges for residential rates.⁴⁹ A key constraint for designing income-graduated fixed charges is the feasibility of verifying the incomes of moderate- or high-income customers. Parties agreed that, without additional statutory authorization, the Franchise Tax Board cannot share income information or confirm self-reported income information without a taxpayer’s written consent.⁵⁰

The Implementation Pathway Ruling anticipated that this decision would establish a pathway for implementing income-graduated fixed charges over

⁴⁸ Electric Rate Design Principle 10, adopted in D.23-04-040.

⁴⁹ Exhibit Joint Stip 01.

⁵⁰ Exhibit Joint Stip 01. *See* also Section 4.2 below.

several years. The ruling noted that a gradual approach would allow the Commission to gain experience from the first version of fixed charges and conduct research and solicit stakeholder input before providing design guidance for the next version of fixed charges. The ruling anticipated that a decision would follow to provide guidelines and directions for utility applications for income-graduated fixed charges, as well as authorize processes and resources to develop ME&O plans for income-graduated fixed charges and income-verification proposals for improving income-graduated fixed charges.

In opening comments on the Implementation Pathway Ruling, UCAN strongly supported a gradual and incremental approach to implementing income-graduated fixed charges. UCAN argued that attempting to do too much in the first step would be a “recipe for ratepayer dissatisfaction or failure” and would undermine the goal for income-graduated fixed charges to be successful. SEIA, Advanced Energy United, and the California Solar and Storage Association also strongly supported a gradual and incremental approach to implementing income-graduated fixed charges.⁵¹

No party opposed a multi-step pathway approach to implementing income-graduated fixed charges. TURN/NRDC, Cal Advocates, and the Large Utilities, however, urged the Commission to avoid unnecessary delays by implementing income-graduated fixed charges through an advice letter process rather than through separate rate design window applications. In a ruling issued on August 22, 2023, ALJ Wang requested that parties address this issue in opening briefs. We will discuss these comments in Section 4.1 below.

⁵¹ UCAN’s, SEIA’s, Advanced Energy United’s, and the California Solar and Storage Association’s opening comments on the Implementation Pathway Ruling.

The Implementation Pathway Ruling instructed parties to comment on how the first version of income-graduated fixed charges could leverage proven processes from existing low- and moderate-income assistance programs to enable customers to self-attest and/or consent to verify their incomes to receive a lower fixed charge. We will discuss this issue in Section 4.2 below.

Finally, in Section 4.3, we will discuss the procedural steps for improving income-graduated fixed charges.

4.1. Procedure for Implementing Income-Graduated Fixed Charges

In opening briefs, several environmental, social justice, and consumer advocacy organizations emphasized the urgency and importance of implementing AB 205. CEJA argued that California residents are facing an “energy emergency” and that AB 205 demands that the Commission take action so that low-income customers will realize lower bills without making changes in usage. Sierra Club argued that AB 205 is necessary to accelerate electrification and address the current unfair distribution of electric system costs.⁵²

TURN/NRDC agreed with CEJA and Sierra Club about the urgency of implementing AB 205 and argued that the Commission should expeditiously implement income-graduated fixed charges through a Tier 3 advice letter process.⁵³

Cal Advocates similarly urged the Commission to implement income-graduated fixed charges through an advice letter process and reject proposals to delay implementation. Cal Advocates argued that requiring additional rate design window applications would delay implementation of income-graduated

⁵² CEJA and Sierra Club’s opening briefs.

⁵³ TURN/NRDC’s reply brief.

fixed charges by at least 18 months and duplicate the sufficient existing record of this proceeding.⁵⁴

On the other hand, SEIA argued that the Commission should direct the utilities to file rate design window applications, rather than advice letters, to implement income-graduated fixed charges. SEIA argued that the record in this proceeding is insufficient for the Commission to provide direction to utilities to implement rates through an advice letter process.⁵⁵ CEDMC and the Clean Coalition agreed with SEIA.⁵⁶ TURN/NRDC replied that the record of this proceeding is sufficient to implement income-graduated fixed charges through an advice letter process because it includes detailed proposals from an array of parties accompanied by bill impact modeling.⁵⁷

We agree that the record of this proceeding is sufficient for the Commission to provide direction to utilities to implement income-graduated fixed charges through an advice letter process. In addition to reviewing concurrent party proposals and bill impact modeling served in testimony and reply testimony in this proceeding, we also reviewed parties' statutory interpretation briefs, comments on the Implementation Pathway Ruling, opening briefs and reply briefs filed in the fourth quarter of 2023, and comments on the implementation budget and timing issues filed in the first quarter of 2024.

SEIA argued that the Commission does not have a sufficient record to determine how to allocate the revenue received from fixed charges to all

⁵⁴ Cal Advocates' reply brief.

⁵⁵ SEIA's opening brief.

⁵⁶ CEDMC's and Clean Coalition's reply briefs.

⁵⁷ TURN/NRDC's reply brief.

residential rate schedules.⁵⁸ As discussed in Section 5.4 below, the record of this proceeding is sufficient to determine how to allocate revenues received from income-graduated fixed charges to reduce volumetric rates (for default and optional rate schedules) equally during all hours of the day.

SEIA argued that the Commission cannot directly authorize rate changes in this rulemaking because the proceeding is not subject to the requirement for utilities to give customers notice of a rate change in accordance with Pub. Util. Code Section 454(a).⁵⁹ TURN/NRDC disagreed and provided a list of examples of Commission decisions in rulemaking proceedings not subject to Section 454(a) that made rate changes through advice letters.⁶⁰

We agree with TURN/NRDC that this rulemaking may set rate changes for implementation through advice letters. This rulemaking was designated a ratesetting proceeding in the Scoping Memo. In accordance with the Rules of Practice and Procedure (Rules) of this Commission, ratesetting proceedings have the option to directly set rates.⁶¹ We also affirm the finding in the ALJ ruling filed on August 2, 2023, that this rulemaking is not subject to the notice requirements of Section 454(a) and that the Commission provided sufficient public notice of this proceeding.⁶²

⁵⁸ SEIA's opening brief.

⁵⁹ SEIA's opening brief.

⁶⁰ TURN/NRDC's reply brief.

⁶¹ Rule 1.3(g) provides that "ratesetting" proceedings are proceedings in which the Commission sets or investigates rates for a specifically named utility (or utilities), or establishes a mechanism that in turn sets the rates for a specifically named utility (or utilities).

⁶² Party Alexis Wodtke has argued that this proceeding should be dismissed due to lack of notice required by Section 454(a). This is incorrect because Section 454(a) provides that the notice requirement is only triggered when a utility "files an application to change" rates. In a ruling issued on August 2, 2023, the assigned ALJ found that the Commission provided

Footnote continued on next page.

UCAN recommended rate design window applications to (a) require utilities to present an analysis of bill impacts on customers with all types of usage profiles, not just customers with average usage profiles, and (b) provide UCAN with an opportunity to weigh in on implementation issues.⁶³ With respect to UCAN's first issue, this decision determined that AB 205 requires the Commission to consider the impact of fixed charges on low-income ratepayers with average usage, rather than all types of usage, in each baseline territory. In addition, the Public Tool enabled parties to model bill impacts of income-graduated fixed charges on customers with usage profiles that reflect adoption of electrification technologies such as heat pumps and electric vehicles. With respect to UCAN's second issue, this proceeding has a sufficient record to address how to implement income-graduated fixed charges. In addition, the evaluation section of this decision provides stakeholders with the opportunity to weigh in on implementation issues through a working group.

CforAT argued that it would be legal error for the Commission to delegate to its staff the authority to approve income-graduated fixed charges by Tier 2 advice letter, as proposed by the Large Utilities, because General Order 96-B provides that Tier 2 advice letters are only appropriate where the disposition of the advice letter would be a "ministerial" act by Commission's staff. CforAT

sufficient public notice of this proceeding and that the utilities' fixed charge proposals were not applications to change rates subject to Section 454(a). We agree that the utilities' fixed charge proposals in this proceeding were proposals in a rulemaking to comply with a statutory requirement rather than utility applications to change rates. Accordingly, the notice requirements of Section 454(a) do not apply to the utilities' fixed charge proposals in this proceeding. Nor do the notice requirements of Section 454(a) apply to the advice letter filings required by this decision. Section 454(a) specifically provides "[t]his notice requirement does not apply to any rate change proposed by a corporation pursuant to an advice letter submitted to the commission in accordance with commission procedures for this means of submission."

⁶³ UCAN's opening brief.

acknowledged that the Commission could direct utilities to file a Tier 3 advice letter, which requires a Commission vote on a resolution. CforAT also expressed concerns that an advice letter process would be insufficient to ensure that low-income ratepayers will receive bill savings if the Commission adopts the Large Utilities' proposed fixed charges of up to \$34 per month for CARE and Family Electric Rate Assistance (FERA) customers.⁶⁴

As discussed in Section 5 below, this decision does not adopt the Large Utilities' fixed charge proposals. As discussed in Sections 5 and 6 below, this decision provides sufficient directions for the Large Utilities and the Small Utilities to ensure that income-graduated fixed charges will comply with statutory requirements for low-income ratepayers through a Tier 3 advice letter.

Based on the foregoing, it is reasonable to direct each of the Large Utilities and the Small Utilities to file a Tier 3 advice letter to implement income-graduated fixed charges.

4.2. Income-Verification Implementation Pathway

On January 17, 2023, ALJ Wang issued a ruling with a memo from the Commission's staff (Staff Guidance Memo) that provided guidance for parties' fixed charge proposals. The Staff Guidance Memo shared the Commission's staff initial findings about three potential options for income verification.

First, the Staff Guidance Memo noted that Section 19452 of the California Revenue and Taxation Code prohibits the Franchise Tax Board from providing this data without taxpayer authorization, and this restriction also applies to confirmation of any self-reported income data from the taxpayer. The Franchise Tax Board may only disclose the income of an individual taxpayer, not an entire

⁶⁴ CforAT's opening brief.

household, upon receipt of written consent. The Staff Guidance Memo also noted that many low-income households do not file tax returns.

Second, the Staff Guidance Memo shared findings about the potential to leverage participation data from existing income-verified assistance programs administered by other state agencies. The Commission's staff consulted with staff from the California Department of Social Services, which administers the CalFresh program. CalFresh provides food benefits to low-income households through a state-supervised and county-operated program and has the same gross income threshold requirement as the CARE program (200 percent of Federal Poverty Guidelines). The Staff Guidance Memo noted that confirming enrollment of a customer in another low-income assistance program like CalFresh may also require customer consent. For example, the Commission's California LifeLine program obtains consent from customers before checking the CalFresh database to determine whether the customer is enrolled in CalFresh.

The Staff Guidance Memo also noted that a third option would be to submit proof of income level to a utility or third-party administrator.

The Staff Guidance Memo noted that because automatic verification of customers' income by the Franchise Tax Board is not feasible without additional legislation, and because the Franchise Tax Board will not have income data for all customers, parties should propose which fixed charge tier level customers should be assigned by default in the absence of income data. The Staff Guidance Memo also recommended that party proposals include realistic estimates of the degree to which customers will be unintentionally assigned to an incorrect fixed charge level, along with the equity and revenue collection implications of misassignments.

The Staff Guidance Memo shared enrollment rates of a few California low-income assistance programs to help parties assess the potential income verification and self-attestation rates for income-graduated fixed charges:

- In 2019, the Large Utilities’ estimated rates of enrollment of eligible customers in the CARE and FERA programs were as follows: PG&E (95 percent CARE, 13 percent FERA), SCE (88 percent CARE, 10 percent FERA), SDG&E (93 percent CARE, 20 percent FERA).
- The California Department of Social Services estimated that 80.4 percent of eligible customers were enrolled in CalFresh in 2020, excluding Supplemental Security Income households. CalFresh requires customers to verify and reverify their incomes.
- California LifeLine Program Assessment & Evaluation Report (May 2022) estimated that 34 percent of eligible households were enrolled in California LifeLine.

The Staff Guidance Memo noted that CARE and FERA income verification is accomplished through self-attestation combined with post-enrollment verification of between 4 and 8 percent of participants per year. The Staff Guidance Memo noted that the following share of the 4 to 8 percent of CARE households selected for post-enrollment verification were unenrolled due to not responding to the income verification request in 2019: 78 percent in PG&E’s territory, 49 percent in SCE’s territory, 49 percent in SDG&E’s territory, and 56 percent in SoCalGas’s territory.

Parties’ initial proposals for income verification in opening testimony are summarized in Table 1 below.

Table 1: Opening Testimony Income Verification Proposals

Parties	Administrator	Process	Default Tier
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Large Utilities	Third-party administrator	Franchise Tax Board data (requires consent or legislation)	Highest tier, unless enrolled in CARE/FERA
TURN/NRDC, Cal Advocates	Third-party administrator or utilities	Credit agency data (requires consent)	Highest tier, unless enrolled in CARE/FERA
CEJA	Utilities	Self-attestation and spot checks based on property assessment value	Based on property assessment value or CARE/FERA enrollment
SEIA/Small Utilities	Utilities	Existing CARE and FERA process	Based on whether or not enrolled in CARE/ FERA

The Large Utilities initially proposed hiring a third-party administrator to obtain customer income data from the Franchise Tax Board. The Large Utilities strongly opposed having a direct role in obtaining or holding customer income data. The Large Utilities asserted that, based on the costs of the CARE and FERA income verification processes, it would cost at least \$97 million to initially verify the incomes of all of their approximately 10.8 million residential customers, not including initial implementation costs. The Large Utilities acknowledged that these costs are very high and expressed a desire for the Legislature to authorize taxpayer funding to pay for these costs. The Large Utilities also noted that statutory changes allowing information sharing between the Franchise Tax Board and the Commission could make the process more efficient.⁶⁵

SEIA and CEJA opposed the Large Utilities' income verification proposal, arguing that the implementation costs would be unreasonable. SEIA and CEJA also identified many Franchise Tax Board data gaps, including residential accounts with business names as the account holder, customer income from

⁶⁵ Exhibit Joint IOUs-01-E2.

other states, and customers who do not file or pay taxes.⁶⁶ We agree that the estimated costs of the Large Utilities' proposal and potential gaps in data necessary to assign customers to a fixed charge tier are impediments.

SEIA also noted that the Large Utilities' proposal would require the creation of a new income verification process that would delay the implementation of fixed charges until at least 2028 and would require additional legislation to allow the Franchise Tax Board to share customers' tax return data with the Commission.⁶⁷ The Small Utilities similarly argued that while an income verification process administered by a third-party could be appropriate in the long-term, it would be more efficient and less burdensome to implement a process that relies on the existing CARE self-attestation process in the short term.⁶⁸ We agree that creating a new income verification process administered by a third party would take significant time to implement.

TURN/NRDC and Cal Advocates proposed to use The Work Number, an Equifax service that uses credit agency data to support income verification for many low-income assistance programs. These parties proposed to assign by default all customers that are not enrolled in CARE or FERA into the highest income tier and provide these customers with the opportunity to qualify for a middle tier fixed charge if they consent to income verification through the Equifax service. TURN/NRDC noted that California agencies already use The Work Number for some low-income assistance programs, such as Medi-Cal, and

⁶⁶ Exhibit SEIA-02 and Exhibit CEJA-01.

⁶⁷ Exhibit SEIA-02.

⁶⁸ Exhibit CASMU-1.

have a master services agreement that sets a rate per individual verification of \$10.30-\$15.08.⁶⁹

Several parties opposed this proposal. CEJA, SEIA, and the Large Utilities argued that the cost to ratepayers of using The Work Number service would be too high.⁷⁰ The Large Utilities and UCAN also argued that The Work Number does not have sufficient data to place customers into tiers for fixed charges. The Large Utilities noted that The Work Number relies on payroll data from companies and does not have data from California residents who filed taxes but had no income from salary or wages, such as retirees. The Work Number also does not have records for a large portion of working Californians, including small business employees, farmworkers, and domestic employees.⁷¹ UCAN asserted that The Work Number would not account for investment income, which could result in higher income households being erroneously placed in a lower tier.⁷²

We do not adopt The Work Number as the main tool for verifying the incomes of customers with higher incomes at this time. The limits of The Work Number's records for some segments of customers and the potential costs of using The Work Number to verify the incomes of millions of California residents are impediments to the immediate implementation of income verification using The Work Number.

CEJA proposed that all customers self-attest to their income level by text message. Instead of assigning those customers who are not enrolled in CARE or

⁶⁹ Exhibit NRDC-TURN-01 and Exhibit Cal Advocates-02.

⁷⁰ Exhibit CEJA-01, Exhibit SEIA-02, and Exhibit Joint IOUs-03-E1.

⁷¹ Exhibit Joint IOUs-03-E1.

⁷² Exhibit UCAN-01.

FERA into the highest tier by default, CEJA proposed to assign customers into five income tiers based on publicly available property tax assessment values. CEJA proposed to assign renters in multi-family properties to a tier based on the median income of the census tract, unless the multi-family property is located in a disadvantaged community, in which case the customer will be placed in the lowest income tier.⁷³

Cal Advocates and the Large Utilities opposed the use of property tax assessment values to assign customers to income tiers. Cal Advocates argued that property tax assessments are a poor proxy for household incomes. Cal Advocates cited a recent academic evaluation of property taxes in Los Angeles County that found that property tax assessments lead to inequitable taxation that disproportionately burdens low-income residents; low-value homes face higher tax assessments relative to their actual sale price than high-value homes.⁷⁴ Cal Advocates also argued that CEJA did not provide cost estimates for assigning customers to income tiers based on property tax assessments and argued that this approach would likely cost more on a per-household basis than the Large Utilities' costs for CARE income verification.⁷⁵ The Large Utilities argued that CEJA's proposal to assign renters in multi-family properties outside of disadvantaged communities to a tier based on the median income of the census tract would be inequitable because it would result in low-income customers in census tracts with high median incomes being defaulted to an income bracket

⁷³ Exhibit CEJA-01.

⁷⁴ Exhibit Cal Advocates-04, citing Berry, *An Evaluation of Property Tax Regressivity in Los Angeles County, California* (2022), The University of Chicago, Center for Municipal Finance, available at www.propertytaxproject.uchicago.edu (as of February 29, 2024).

⁷⁵ Exhibit Cal Advocates-04.

that is too high.⁷⁶ We share these concerns about using property tax assessments to assign customers to income tiers.

SEIA proposed to rely only on the existing CARE and FERA income verification processes. The Small Utilities, which do not have FERA programs, proposed to rely on the existing CARE income verification processes. These parties argued that this approach would be the least expensive and most administratively simple to implement.⁷⁷ UCAN supported SEIA's proposal, arguing that it was the only income verification proposal that could be immediately implemented in a way that would not harm residential customers through assignments into the wrong income tier or impose unreasonable implementation costs on ratepayers.⁷⁸

CforAT asserted that parties' initial income verification proposals show the limitations of the status quo, which would require customers to provide consent for a credit agency or the Franchise Tax Board to share income data with the Commission. CforAT argued that the Commission should consider "reasonable interim solutions" for assessing household income that make it as simple as possible to recognize which customers belong in the lowest tier.⁷⁹

We agree with CforAT that the Commission should authorize a simple solution for income verification at this time. The parties' opening proposals indicated not only the legal restrictions that apply to income verification, but also the high costs and time required to develop and implement a new income verification process. Further, party proposals presented more questions than

⁷⁶ Exhibit Joint IOUs-03-E1.

⁷⁷ Exhibit SEIA-01 and Exhibit CASMU-1.

⁷⁸ Exhibit UCAN-01.

⁷⁹ Exhibit CforAT-01.

answers about how to design and implement an income verification process that can differentiate between moderate- and high-income customers. It is clear that this issue requires further analysis and stakeholder engagement to avoid the potential pitfalls of customer confusion, assigning customers to the wrong tier, and inefficient spending of ratepayer funds.

In opening briefs, Cal Advocates, the Clean Coalition, UCAN, the Large Utilities, SEIA, and the Small Utilities strongly supported relying upon existing CARE and FERA income verification processes for the first version of income-graduated fixed charges.⁸⁰ Cal Advocates argued that any new, untested, or more complex income verification approaches cannot be adopted until the Commission has had adequate time to vet their feasibility, cost, legality, and customer acceptance.⁸¹ We agree that the Commission needs additional time to consider these aspects of new income verification approaches.

It is reasonable for the income-graduated fixed charges authorized by this decision to rely on utilities' existing CARE and FERA income verification processes.⁸² This decision addresses how to apply the utilities' existing CARE and FERA income verification processes to income-graduated fixed charges in Sections 5 and 6 below.

⁸⁰ Opening briefs of Cal Advocates, the Clean Coalition, UCAN, the Large Utilities, and the Small Utilities.

⁸¹ Cal Advocates' opening brief.

⁸² In opening comments on the proposed decision, Alexis Wodtke makes arguments that obtaining income data will be too difficult, will infringe upon customers' privacy, will be too costly, and will not be cost effective. As this decision does not approve any new income verification processes, such arguments are not ripe.

4.3. Process for Improving Income-Graduated Fixed Charges and Alternative Solutions

Parties proposed stakeholder processes for improving income-graduated fixed charges and designing alternative rate mechanisms for supporting electrification of buildings and transportation.

CforAT, Cal Advocates, TURN/NRDC, and the Large Utilities urged the Commission to quickly launch a working group to propose improvements to the income tier structure and income verification processes for income-graduated fixed charges. The Large Utilities recommended that the working group research and compare income verification approaches, assess new income data sources, review learnings from the income-graduated fixed charges, prepare to hire a third-party administrator for income verification, and prepare a working group proposal on the structure and income verification process for improving income-graduated fixed charges. TURN/NRDC proposed that the working group develop both income tiers and income verification processes. Cal Advocates proposed that the working group focus on technical details of income verification alternatives.⁸³

SEIA opposed establishing a working group at this time. SEIA argued that the Commission should first consider whether to use other rate design tools (as alternatives to higher fixed charges) for meeting the proceeding's goals before determining whether to establish a working group to develop fixed charge income verification and income tier proposals.⁸⁴

Sierra Club and CforAT acknowledged that fixed charges alone cannot address affordability but argued that income-graduated fixed charges, if

⁸³ CforAT's, Cal Advocates', TURN/NRDC's, and the Large Utilities' opening briefs.

⁸⁴ SEIA's opening brief.

designed well, could be an important tool for improving affordability. These parties urged the Commission to rapidly develop improvements to the design of income-graduated fixed charges.⁸⁵

There is no need to delay the formation of a working group to consider how to improve processes for income-graduated fixed charges. In Phase 2 of this proceeding, we will consider solutions for increasing demand flexibility in a way that reduces ratepayer costs and supports electrification while a working group develops a proposal to improve income-graduated fixed charges.

It is reasonable to establish a working group (Process Working Group) to develop a proposal to improve processes for income-graduated fixed charges (Process Working Group Proposal) with the following components:

- a. An overview of existing income verification processes and alternatives to income verification used for moderate- and higher-income customers in California and other states;
- b. An assessment of existing and potential data sources for how customers could be assigned to income tiers;
- c. Proposed income verification processes and alternatives;
- d. A definition of moderate-income customer;⁸⁶
- e. Administration structure, including a scope of work for the proposed administrator(s); and
- f. Estimated costs and an analysis of the costs compared to the benefits of each of the proposed income verification processes.

CforAT and the Large Utilities supported hiring a third-party consultant with expertise in implementing income verification processes. The Large Utilities recommended conducting a request for proposals and hiring the consultant in

⁸⁵ Sierra Club's opening brief and CforAT's reply brief.

⁸⁶ Although this decision refers to moderate-income customers, it does not define this term.

time to launch the working group in the third quarter of 2024.⁸⁷ Cal Advocates disagreed, arguing that a consultant is not necessary and would be unlikely to recommend different income verification solutions than the proposals in the record of this proceeding.⁸⁸ Sierra Club recommended that the Commission address the issue of income verification for fixed charges in Phase 2 of this proceeding.⁸⁹

We agree with CforAT and the Large Utilities that the Process Working Group Proposal would greatly benefit from the expertise of a third-party consultant with experience in implementing voluntary income verification processes. A consultant could provide additional information and lessons learned about verifying incomes of moderate- or higher-income customers from other states. We also agree with Sierra Club that the Commission should address these issues in Phase 2 of this proceeding.

It is reasonable to direct PG&E to issue a request for proposals and enter into a contract with a third-party contractor with expertise in implementing voluntary income verification processes (Facilitation Contractor) within 8 months of the issuance date of this decision. The Commission's Energy Division will provide guidance to PG&E on the selection of the Facilitation Contractor and approval of key deliverables of the Facilitation Contractor, including the scope of work and the Process Working Group Proposal.

The Facilitation Contractor will serve the final Process Working Group Proposal to the assigned ALJ within one year of entering into a contract with

⁸⁷ CforAT's and the Large Utilities' opening briefs.

⁸⁸ Cal Advocates' reply brief.

⁸⁹ Sierra Club's opening brief.

PG&E. The assigned ALJ will issue a ruling in Phase 2 of this proceeding to request comments on the Process Working Group Proposal.⁹⁰

It is reasonable for the scope of work for the Facilitation Contractor to include the following items:

- a. Organize and facilitate Process Working Group meetings to develop consensus on working group issues to the extent feasible;
- b. Research and draft an overview of existing income verification processes and alternatives to income verification used for moderate- and higher-income customers in California and other states;
- c. Research and draft an assessment of existing and potential data sources for assigning customers to income tiers;
- d. Research and draft estimated costs of the income verification process options; and
- e. Draft the Process Working Group Proposal, incorporate input from Process Working Group members, and serve the final proposal to the assigned ALJ within one year of entering into a contract with PG&E.

In Section 5, we will discuss the income-graduated fixed charges of the Large Utilities, including how the lessons learned from the implementation of income-graduated fixed charges will be incorporated into the process of improving income-graduated fixed charges. In Section 6, we will discuss the income-graduated fixed charges of the Small Utilities and next steps.

⁹⁰ This decision anticipates that the Commission will issue a decision on the Process Working Group Proposal. Intervenor compensation is available to eligible parties for contributions to a Commission decision.

5. Income-Graduated Fixed Charges of the Large Utilities

5.1. Income Tiers and Verification

As discussed above, the income-graduated fixed charges authorized by this decision will rely upon the existing CARE and FERA income verification processes. As a result, the first income tiers will need to reflect the limitations of the existing income verification processes.

In addition, the income tier structure must enable the Commission to ensure that the fixed charges comply with the Section 739.9(e)(1) requirement for a low-income ratepayer with average electricity usage in each baseline territory to realize a lower average monthly bill without making any changes in usage. As defined above, a low-income ratepayer is a customer with a household income of 200 percent or less of the Federal Poverty Guidelines level applicable to that household under the CARE program.

After the Implementation Pathway Ruling, the Large Utilities, TURN/NRDC, and Cal Advocates proposed first versions of income-graduated fixed charges that primarily rely on the existing CARE and FERA income verification processes and do not require verification of incomes of customers who do not participate in the CARE or FERA programs.⁹¹ Sierra Club and CEJA argued that its income verification proposals are similar to the CARE and FERA processes because they rely on self-attestation.⁹² SEIA maintained its original proposal. Table 2 summarizes parties' updated proposals.

Table 2: Income Tier and Verification Proposals

⁹¹ The Large Utilities' opening comments on the Implementation Pathway Ruling, Cal Advocates' opening brief, and TURN/NRDC's opening brief.

⁹² Sierra Club's and CEJA's opening briefs.

Party Proposal	Income Tiers	Income Verification
Large Utilities, Cal Advocates	1. Up to 100% of Federal Poverty Guidelines (enrolled in CARE) 2. Enrolled in CARE or FERA 3. Not enrolled in CARE or FERA	Modify CARE verification to collect income data on customers at or below 100% of Federal Poverty Guidelines
TURN/NRDC	1. CARE-eligible or residing in deed-restricted affordable housing 2. FERA-eligible 3. Above FERA eligibility	No modifications to CARE or FERA processes Use database to automatically include customers in deed-restricted affordable housing in lowest tier
SEIA	1. CARE eligible 2. FERA eligible 3. Above FERA eligibility	No modifications to CARE or FERA processes
Sierra Club	Five tiers The threshold for the top tier is 200% of Area Median Income	Self-attestation with proof of income
CEJA	Five tiers The threshold for the top tier is \$2 million	Self-verification and property tax assessment value

In opening briefs, CEJA and Sierra Club each proposed five income tiers but disagreed about the appropriate tier thresholds. CEJA proposed a top tier for customers with incomes above \$2 million, and Sierra Club proposed a top tier for customers with incomes above 200 percent of Area Median Income. Sierra Club and CEJA both proposed to rely on self-attestation (based on the CARE and FERA income verification process) paired with additional processes (proof of income and property tax assessment values respectively) to deter fraud.⁹³

⁹³ CEJA's and Sierra Club's opening briefs.

CforAT supported both proposals because they set separate tiers for moderate- and high-income customers. However, CforAT acknowledged that it had not conducted a detailed analysis of these proposals.⁹⁴

Cal Advocates opposed CEJA's and Sierra Club's proposals, arguing that these proposals did not rely on existing CARE and FERA income verification processes but instead proposed additional processes. Cal Advocates noted that CEJA's opening brief continued to propose the use of property tax assessment values to verify customers' incomes in addition to self-attestation, and Sierra Club's proposal in opening briefs would require each customer to provide income information. Cal Advocates argued that both proposals would require income verification for millions of California households that do not participate in CARE or FERA.⁹⁵ The Large Utilities also argued that CEJA's and Sierra Club's proposals were not based on the existing CARE and FERA processes and were too complex for the first income-graduated fixed charges.⁹⁶

We agree that CEJA's and Sierra Club's proposals would require implementation of new income verification processes. CEJA's proposal would require a new process for a large portion of customers to challenge assignments based on property tax assessments to the wrong income tier. Sierra Club's opening brief recommended requiring all customers that seek to be placed in one of four lower tiers to "provide proof of income" to deter fraud. Each of these proposals would require a new income verification process that would take significant time and resources to develop and implement.

⁹⁴ CforAT's reply brief.

⁹⁵ Cal Advocates' reply brief.

⁹⁶ The Large Utilities' reply brief.

No party supported expansion of the CARE and FERA income verification process, which relies on self-attestation and spot checks, to higher-income customers without additional safeguards. Further, no party provided an example of a California program that provides substantial assistance or discounts to moderate- or high-income customers based on self-attestation and spot checks. CEJA's proposal to use property tax assessments to identify higher-income customers indicates a lack of trust that higher-income customers will be transparent about their income levels. We do not have a sufficient record to support the expansion of the CARE and FERA income verification process to customers with incomes above FERA-eligibility levels.

In opening comments on the Implementation Pathway Ruling and in opening briefs, the Large Utilities proposed to create three tiers: (i) customers with incomes below 100 percent of Federal Poverty Guidelines, (ii) customers who are eligible for CARE (200 percent of Federal Poverty Guidelines) or FERA (250 percent of Federal Poverty Guidelines), and (iii) all other customers. The Large Utilities proposed to change their CARE applications to collect information about which customers have incomes below 100 percent of Federal Poverty Guidelines and to assign by default all other CARE customers to the middle tier.

The Large Utilities argued that it would be preferable to have a separate tier for CARE customers with incomes below 100 percent of Federal Poverty Guidelines (estimated to include around 11 to 13 percent of the Large Utilities' residential customers) rather than a separate tier for the smaller percentage of customers who are enrolled in FERA (around 1 percent of the Large Utilities'

residential customers). The Large Utilities reported in December 2023 that 24.5 to 27.5 percent of residential customers were enrolled in the CARE program.⁹⁷

Cal Advocates supported the Large Utilities' proposal, noting that it could also be applied to Small Utilities, which do not have FERA programs.⁹⁸ We will separately address whether this approach is appropriate for Small Utilities when we discuss the Settlement Agreement below.

CforAT strongly opposed the Large Utilities' proposal to assign by default all CARE customers to the middle tier unless they take action to be placed in the lowest tier. CforAT argued that this approach would result in the lowest-income households being the only customers with an administrative burden to be placed in the correct tier.⁹⁹ TURN/NRDC agreed, asserting that this approach would likely result in under-enrollment and higher than necessary bills for the lowest income customers. TURN/NRDC noted that the data provided by the Large Utilities indicated that PG&E only had income data for around 8 percent of its CARE customers as of July 2023.¹⁰⁰ We agree that it would be preferable to avoid an income tier structure that would require the lowest income customers to take additional actions to receive benefits.

Several parties supported SEIA's proposed tiers (CARE eligibility, FERA eligibility, and all other customers) due to its administrative simplicity for customers and low administrative costs, including 350 Bay Area, the Clean Coalition, TURN/NRDC, and UCAN. We agree that this approach provides the

⁹⁷ PGE's, SCE's, and SDG&E's Monthly Disconnections Reports filed in R.18-07-005 in December 2023.

⁹⁸ Cal Advocates' opening brief.

⁹⁹ CforAT opening brief.

¹⁰⁰ TURN/NRDC reply brief.

greatest administrative simplicity. Further, this tier structure aligns the lowest fixed charge tier to our adopted definition of a low-income ratepayer.

SEIA and TURN/NRDC each supported a separate tier for FERA customers and argued that the FERA tier could have a sufficient number of participants if the Large Utilities increased enrollment levels for the FERA program. SEIA also supported modifying the eligibility requirements for the FERA tier. TURN/NRDC agreed that it would be preferable to increase the eligible population for FERA but suggested that it would require the Commission to consider additional outreach and income verification by the utilities.¹⁰¹

We agree that the Large Utilities' low enrollment levels in the FERA program are concerning. However, the Commission recently authorized new enrollment goals and ME&O funding to increase FERA participation to 70 percent by 2026.¹⁰² Further, in the ME&O section below, this decision includes education about FERA in the approved list of topics for ME&O for the Large Utilities' first income-graduated fixed charges.

TURN/NRDC also proposed to assign by default all residential customers who live in deed-restricted affordable housing to a CARE/FERA-eligible income tier. TURN/NRDC recommended that the Commission direct the utilities to use the publicly available data in the California Housing Partnership's database¹⁰³ of

¹⁰¹ SEIA's opening brief and TURN/NRDC's reply brief.

¹⁰² D.21-06-015 at Conclusions of Law 49.

¹⁰³ The California Housing Partnership was created by the Legislature in 1988 as a nonprofit organization to create and preserve affordable and sustainable homes for Californians with low incomes by providing expert financial and policy solutions to nonprofit and public partners. The California Housing Partnership maintains a database of all affordable rental housing units in California that receive state or federal subsidies, available at <https://www.chpc.net>.

affordable rental homes that receive state and/or federal subsidies to make these tier assignments. TURN/NRDC argued that no additional income-verification should be required to assign residents of deed-restricted affordable housing to a CARE/FERA-eligible income tier. TURN/NRDC cited a report by the California Housing Partnership that found that there were 527,528 government-subsidized affordable rental homes in California as of January 2023.¹⁰⁴

Both state and federal subsidies for affordable housing set maximum incomes for eligibility to rent these affordable homes based on Area Median Income. Low-income affordable housing assistance is generally available to households with incomes at or below 80 percent of Area Median Income.¹⁰⁵ The Large Utilities opposed including these households in a low-income tier with CARE customers, arguing that deed-restricted affordable housing is defined by Area Median Income rather than Federal Poverty Guidelines and therefore the eligibility is not aligned with the CARE program, and many of these customers in locations with high Area Median Incomes would not qualify for CARE or FERA.¹⁰⁶

Most parties agreed that the first version of income-graduated fixed charges should have only three tiers that do not require a new income verification process for customers who do not qualify for CARE or FERA. As noted above, several parties agreed that the most straightforward approach is to create separate tiers based on CARE eligibility and FERA eligibility. The Large

¹⁰⁴ TURN/NRDC's opening and reply briefs.

¹⁰⁵ See the Department of Housing and Community Development's state and federal income limits for housing assistance programs, available at <https://www.hcd.ca.gov/grants-and-funding/income-limits>.

¹⁰⁶ The Large Utilities' reply brief.

Utilities conceded that the Commission could create a separate tier for FERA-eligible customers but expressed a strong preference for its proposal to create two low-income tiers, arguing that its preferred approach would create a middle tier with a much higher percentage of residential customers and additional savings for low-income customers in the lowest income tier.¹⁰⁷ Cal Advocates supported the Large Utilities' proposal.¹⁰⁸

On the other hand, CforAT and Sierra Club/CEJA argued that the Commission should not adopt the Large Utilities' proposal because it would create new administrative burdens for customers with the lowest incomes. Sierra Club/CEJA further argued that income-graduated fixed charges should protect customers who qualify for low-income housing assistance programs but who do not qualify for CARE or FERA.¹⁰⁹

We see an opportunity to use TURN/NRDC's proposal to address multiple concerns: increase the number of customers that participate in the middle tier, avoid additional income verification requirements for customers beyond the existing CARE and FERA processes, and provide a discounted fixed charge for customers who have modest incomes but do not qualify for CARE or FERA. Rather than assigning residents of deed-restricted affordable rental housing to an income tier based on CARE eligibility, we will direct the Large

¹⁰⁷ The Large Utilities' opening comments on the Implementation Pathway Ruling.

¹⁰⁸ Cal Advocates' opening brief.

¹⁰⁹ CforAT's opening brief and Sierra Club/CEJA's reply comments on the Implementation Pathway Ruling.

Utilities to assign these customers to the middle tier if such customers are not enrolled in CARE.¹¹⁰

In opening comments on the proposed decision, the Large Utilities argued that the California Housing Partnership's database of affordable housing does not contain data about which individual units within a multifamily property are affordable if a property contains both affordable and market rate units.

In reply comments on the proposed decision, TURN/NRDC replied that the Commission should direct the Large Utilities to develop a process to (a) notify customers at deed-restricted affordable housing addresses of the Tier 2 discount, and (b) allow customers that live at deed-restricted affordable housing properties to opt-in to the Tier 2 fixed charge using a self-attestation process. The TURN/NRDC approach is practical and would not require any customer to share income data with a utility. Utilities should include a proposal to implement this process in their Tier 3 advice letters to implement the fixed charges. It is reasonable to adopt the following tier structure for income-graduated fixed charges of the Large Utilities:

- a. Tier 1 will be assigned to customers with incomes of 0 to 200 percent of the Federal Poverty Guideline levels applicable to that household under the CARE program;
- b. Tier 2 will be assigned to customers (i) with incomes above 200 percent and below 250 percent of the Federal Poverty Guideline levels applicable to that household under the FERA program or (ii) who live in an affordable rental home that is restricted by the rules of federal or state

¹¹⁰ We also note that there is precedent for using California Housing Partnership's database of deed-restricted affordable rental homes for outreach purposes; Solar on Multifamily Affordable Housing, authorized by Pub. Util. Code 2870 and D.17-12-022, has used the California Housing Partnership's database of deed-restricted affordable rental homes for outreach to homes that may qualify for incentives.

subsidies to residents who have incomes at or below 80 percent of Area Median Income; and

- c. Tier 3 will be assigned to customers who do not qualify for the first or second tiers.

It is reasonable to adopt the following income tier assignment processes for income-graduated fixed charges of the Large Utilities:

- a. Utilities will assign all customers enrolled in CARE to Tier 1 without the need for the customer to take any action;
- b. Utilities will assign all customers enrolled in FERA to Tier 2 without the need for the customer to take any action;
- c. Utilities will assign all customers who (i) live in an affordable rental home that is restricted by the rules of federal or state subsidies to residents who have incomes at or below 80 percent of Area Median Income and (ii) are not enrolled in CARE to Tier 2, based on the statewide database of such homes maintained by the California Housing Partnership and self-attestation; and
- d. Utilities will assign all other customers to Tier 3.

This decision does not modify any of the income verification processes or rules of the Large Utilities' CARE or FERA programs.

In opening comments on the proposed decision, CalCCA urged the Commission to require the Large Utilities to report to CCAs the fixed charge tier assignments of customers in existing customer data reports on a weekly basis. CalCCA argued that existing reports do not include information about which customers will be assigned to Tier 2 based residence in an affordable rental home. The Large Utilities replied that the Commission should avoid being too prescriptive about how utilities should share this information. It is reasonable to direct the Large Utilities to propose how to share Tier 2 assignment information with CCAs in their Tier 3 advice letters to implement the fixed charges.

5.2. Fixed Costs and Fixed Charge Levels

The issues of which fixed charge levels to establish and which fixed costs to recover through income-graduated fixed charges are connected. Accordingly, this section will address both issues.

First, we will discuss how to establish the fixed charge levels at a high level based on policy considerations and the requirements of AB 205. Second, we will discuss which fixed costs may be recovered through fixed charges and whether recovery of those fixed costs would result in a reasonable average fixed charge level. Finally, we will establish a method for setting fixed charge amounts for each income tier in accordance with the requirements of AB 205.

Throughout this section, we will refer to the Public Tool that parties used to develop income-graduated fixed charge proposals for the Large Utilities.¹¹¹ The Public Tool incorporated a dataset from a study conducted by Next 10 and the Energy Institute at the University of California Haas Business School.¹¹² The dataset included aggregated residential customer monthly bill data from the Large Utilities.

Parties used the Public Tool for the following purposes:

- Calculate an average fixed charge level based on selected fixed cost categories based on the Large Utilities' revenue requirements and billing determinants;

¹¹¹ As noted in the background section of this decision, D.23-04-008 authorized the Commission's staff to approve cost recovery by the Large Utilities for consulting services provided to the Commission's staff for developing a Public Tool for use by the public to design income-graduated fixed charge proposals.

¹¹² See the Staff Guidance Memo. The Public Tool incorporated data from: Borenstein, Fowlie, and Sallee, *Paying for Electricity in California: How Residential Rate Design Impacts Equity and Electrification* (September 2022), Next 10 and the Energy Institute, available at: <https://www.next10.org/publications/electricity-rates-2>.

- Design income-based (or CARE-based) differentiation of the fixed charge;
- Apply the CARE discount based on requirements of AB 205;
- Incorporate a demand-based rate component, if desired;
- Specify the degree to which discounted fixed charges for CARE customers are funded through the CARE surcharge versus revenues generated by the fixed charge;
- Identify the volumetric rate reduction that would result in a revenue neutral rate design;
- Compare the resulting rate design to existing rates;
- Estimate the bill impacts of proposed fixed charge levels on households of different income levels, while accounting for the climate zone that a customer is located in, whether the customer is enrolled in CARE, and whether a customer is enrolled in Net Energy Metering or a Net Billing Tariff; and
- Estimate the impact of proposed fixed charges on the cost efficiency of vehicle and building electrification for various customer segments.

Parties included the outputs of the Public Tool in their fixed charge proposals.

5.2.1. Fixed Charge Levels

Parties proposed average fixed charge levels across all residential customers, as summarized in Table 3 below.¹¹³

Table 3: Proposed Average Charge for Income-Graduated Fixed Charges

Party	Proposed Average Fixed Charge
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¹¹³ Table 3 includes the parties' proposed average fixed charges for the initial version of the income-graduated fixed charges. *See* the opening briefs of the Cal Advocates, the Large Utilities, Sierra Club, and TURN/NRDC, Exhibit CLC-02, and Exhibit SEIA-02. Because SEIA and the Clean Coalition propose to recover the same set of fixed costs through the fixed charge, the average fixed charge proposed by Clean Coalition is the same as what was proposed by SEIA.

SEIA, Clean Coalition	\$8 (PG&E), \$8 (SCE), \$11 (SDG&E)
TURN, NRDC	\$23.50
Cal Advocates	\$23.25 (PG&E), \$24.52 (SCE), and \$25.62 (SDG&E)
Sierra Club	\$28.48 (PG&E), \$36.65 (SCE), \$36.44 (SDG&E)
Large Utilities	\$42 (PG&E), \$41 (SCE), \$60 (SDG&E)

The Clean Coalition argued that the Commission should establish an average fixed charge level similar to fixed charges of electric utilities in other states and based on the Large Utilities' current minimum bill of \$10.¹¹⁴ SEIA proposed similar fixed charge levels. Cal Advocates responded that SEIA's proposed fixed charge would not provide significant savings for low-income ratepayers and would therefore not meet the legislative intent of AB 205.¹¹⁵ We agree that establishing an average fixed charge of around \$10 would fail to address the Legislative intent of AB 205. In addition to requiring bill savings for low-income customers, AB 205 removed the \$10 cap on residential fixed charges, indicating an intent for the Commission to adopt higher fixed charges.

TURN/NRDC argued that the Commission should consider benchmarking the first income-graduated fixed charge amounts against the fixed charges of the Sacramento Municipal Utility District, which is located adjacent to PG&E's service territory and applies a \$23.50 fixed charge to the monthly bills of residential customers who do not qualify for a low-income discount.¹¹⁶ Cal Advocates agreed with TURN.¹¹⁷ We agree that it would be useful to consider an

¹¹⁴ Clean Coalition's opening brief.

¹¹⁵ Cal Advocates' reply comments on Implementation Pathway Ruling.

¹¹⁶ Exhibit TURN/NRDC-01 and TURN/NRDC opening brief.

¹¹⁷ Cal Advocates' opening brief.

existing residential fixed charge that has been successfully implemented by a publicly-owned utility in California when establishing fixed charges for the Large Utilities.

The Large Utilities replied that they have different marginal costs and revenue requirements than the Sacramento Municipal Utility District and establishing an average fixed charge level around \$23.50 would prevent recovery of a sufficient portion of fixed costs.¹¹⁸ The Large Utilities did not provide a sufficient justification to support its argument that a fixed charge of \$23.50 will not recover a sufficient portion of the Large Utilities' fixed costs. Further, this decision adopts a gradual approach to implementing income-graduated fixed charges that includes next steps for improving fixed charges or alternative solutions for recovering fixed costs.

Parties also argued about what fixed charge levels would comply with Section 739.9(d)(2), which requires the Commission to ensure that any approved fixed charges shall "[n]ot unreasonably impair incentives for conservation, energy efficiency, and beneficial electrification and greenhouse gas emissions reduction."

The Large Utilities argued that income-graduated fixed charges based on the Sacramento Municipal Utility District's default fixed charge would not sufficiently support electrification.¹¹⁹

This decision adopts a gradual approach for implementing income-graduated fixed charges. As discussed in Section 5.2.3, this decision adopts income-graduated fixed charges that will make a significant contribution

¹¹⁸ Large Utilities' reply brief.

¹¹⁹ Large Utilities' reply brief.

towards supporting electrification. In Phase 2 of this proceeding, we will continue to consider how to support electrification through improved income-graduated fixed charges and/or alternative solutions, such as increasing the time-of-use rate differentials.

SEIA argued that high fixed charges paired with volumetric rate reductions across all time-of-use periods will unreasonably impair incentives for conservation and energy efficiency.¹²⁰ However, SEIA did not argue that Sacramento Municipal Utility District's fixed charges would unreasonably impair incentives for conservation or energy efficiency. Instead, SEIA argued that Sacramento Municipal Utility District's fixed charge of \$23.50 is not an appropriate comparison for establishing an average fixed charge level for the Large Utilities because low-income customers of Sacramento Municipal Utility District are eligible for a \$10 monthly discount on the fixed charge.¹²¹ We agree that the Sacramento Municipal Utility District's current default fixed charge is a better comparison point for the Large Utilities' income-graduated fixed charges for Tier 3 customers.

It is reasonable to use the Sacramento Municipal Utility District's residential fixed charges as a benchmark for establishing the initial income-graduated fixed charge levels of the Large Utilities.

We note that the Sacramento Municipal Utility District recently raised its default residential fixed charge to \$24.15 per month and its low-income

¹²⁰ SEIA's opening brief.

¹²¹ SEIA's reply brief.

residential fixed charge to \$14.15 per month.¹²² This decision will use the updated fixed charge amounts for benchmarking purposes.

5.2.2. Fixed Costs

In this section, we will discuss which fixed costs may be recovered through income-graduated fixed charges and whether recovery of those fixed costs would result in a reasonable average fixed charge level.

Parties unanimously agreed that Marginal Customer Access Costs are fixed costs that should be recovered through an income-graduated fixed charge.¹²³ We agree that Marginal Customer Access Costs are fixed costs and that it is reasonable to recover these costs through income-graduated fixed charges.

Parties argued that income-graduated fixed charges should not recover transmission or reliability services costs in the near-term because recovery of these costs would require action by the Federal Energy Regulatory Commission.¹²⁴ Parties also asserted that the Competition Transition Charge must be recovered volumetrically in accordance with Pub. Util. Code Section 369.¹²⁵ We agree that income-graduated fixed charges should not recover these costs at this time.

TURN/NRDC, Cal Advocates, the Large Utilities, and Sierra Club supported recovery of all of the Public Purpose Program charges through

¹²² Sacramento Municipal Utility District's Residential Service Rate Schedule R, available at <https://www.smud.org/-/media/Documents/Rate-Information/Rates/1-R.ashx>; Sacramento Municipal Utility District's Energy Assistance Program Rate Schedule EAPR, available at https://www.smud.org/-/media/Documents/Rate-Information/Rates/01_EAPR.ashx.

¹²³ See the opening briefs of Cal Advocates, Clean Coalition, Large Utilities, SEIA, Sierra Club, and TURN/NRDC and Exhibit Joint IOUs-04.

¹²⁴ Exhibit Joint IOUs-04, Exhibit SC-01E, and Exhibit NRDC-TURN-01.

¹²⁵ Cal Advocates' and SEIA's opening statutory briefs and TURN/NRDC's reply brief.

income-graduated fixed charges.¹²⁶ Public Purpose Program charges pay for programs that benefit all California ratepayers, such as energy efficiency programs and low-income programs. The Public Purpose Program charges include the CARE charge, the Self-Generation Incentive Program charge, and the non-CARE exempt charge.¹²⁷ TURN/NRDC argued that AB 205 revised Section 381 of the Pub. Util. Code to eliminate the previous requirement that certain Public Purpose Program costs be collected on the basis of usage, indicating a legislative intent to recover these costs through a fixed charge.¹²⁸

SEIA disagreed, arguing that all costs other than Marginal Customer Access Costs are not fixed costs because they vary based on customer consumption. SEIA specifically used the example of Public Purpose Program costs, arguing that the costs of demand-modifying programs like energy efficiency are driven by customer consumption.¹²⁹

In the statutory interpretation section above, we defined fixed costs as costs that do not directly vary based on the electricity usage of the customer from whom the revenue is being collected. The costs of Public Purpose Programs such as the Self-Generation Incentive Program will not decrease if the customer from whom the costs are being recovered reduces their energy usage. Accordingly, Public Purpose Program costs are fixed costs.

¹²⁶ TURN/NRDC's, Cal Advocates's, the Large Utilities', and Sierra Club's opening briefs.

¹²⁷ CARE customers are exempt from paying for the costs of CARE and the Self-Generation Incentive Program. All other Public Purpose Program costs are included in the non-CARE exempt charge. No party asserted that there are any legal restrictions on the recovery of CARE-exempt charges through a fixed charge.

¹²⁸ TURN/NRDC opening brief October 6, 2023. SEIA's opening statutory brief agreed that AB 205 removed the requirement to recover certain Public Purpose Program charges on a volumetric basis.

¹²⁹ SEIA's opening statutory brief.

It is reasonable to recover the costs of all Public Purpose Program charges (including the CARE surcharge, the Self-Generation Incentive Program charge, and non-CARE exempt charges) through income-graduated fixed charges.

TURN/NRDC supported recovery of the Power Charge Indifference Adjustment through income-graduated fixed charges. CalCCA strongly opposed it, arguing that the Power Charge Indifference Adjustment calculation is too complex to include in a fixed charge because it includes both fixed and volumetric costs.¹³⁰ Sierra Club argued that the Power Charge Indifference Adjustment should not be included in a fixed charge due to its volatility.¹³¹ We agree that the Power Charge Indifference Adjustment costs should not be recovered through income-graduated fixed charges due to its volatility and complexity.

TURN/NRDC and the Large Utilities proposed to include the New System Generation and Local Generation charges in income-graduated fixed charges. No party raised any legal restrictions that would prevent recovering these costs through fixed charges. The charges fund essential generation reliability resources that were previously procured by the Large Utilities to meet state procurement requirements and collected from all customers through the Cost Allocation Mechanism.¹³² This cost is fixed because the energy consumption of a given customer will not affect the revenue requirement for this cost category. We agree that income-graduated fixed charges may recover these costs.

TURN/NRDC, Cal Advocates, and Sierra Club proposed to recover the Wildfire Fund and/or the Wildfire Hardening non-bypassable charges through

¹³⁰ CalCCA's reply brief.

¹³¹ Sierra Club's opening brief.

¹³² Exhibit Joint IOUs-01-E2 and Exhibit NRDC-TURN-01.

fixed charges.¹³³ The Large Utilities and SEIA noted that the Commission determined in D.19-10-056 that the Wildfire Fund must be collected on the basis of usage to comply with Section 3289(a)(2) of the Pub. Util. Code.¹³⁴ The Large Utilities also asserted that contractual agreements prevent the recovery of the Wildfire Hardening charges through income-graduated fixed charges in the near-term.¹³⁵ We agree that income-graduated fixed charges should not recover these costs at this time.

Sierra Club proposed to recover the Recovery Bond charge through income-graduated fixed charges.¹³⁶ The Large Utilities asserted that contractual agreements prevent the recovery of the Recovery Bond costs through income-graduated fixed charges in the near-term.¹³⁷ While we may consider doing so in the future, we will not recover these costs through income-graduated fixed charges at this time.

Sierra Club also proposed to recover both the Public Utilities Commission Reimbursement Fee and the Energy Commission Fee through fixed charges.¹³⁸ Cal Advocates commented that the Public Utilities Commission Reimbursement Fee must be collected on the basis of usage in accordance with Section 432(c)(1) of the Pub. Util. Code.¹³⁹ TURN/NRDC agreed.¹⁴⁰ The Energy Commission

¹³³ TURN/NRDC's, Cal Advocates', and Sierra Club' opening briefs.

¹³⁴ The Large Utilities' and SEIA's opening statutory briefs. The Large Utilities' opening statutory brief cited D.19-10-056.

¹³⁵ The Large Utilities' opening comments on the Implementation Pathway Ruling.

¹³⁶ Sierra Club's opening brief.

¹³⁷ Large Utilities' opening comments on the Implementation Pathway Ruling.

¹³⁸ Sierra Club's opening brief.

¹³⁹ Cal Advocates' opening statutory brief.

¹⁴⁰ TURN/NRDC's reply statutory brief.

Reimbursement Fee must also be collected on the basis of usage in accordance with Section 40016(b) of the Revenue and Taxation Code. Accordingly, neither fee may be recovered through income-graduated fixed charges.

The Large Utilities proposed to recover Nuclear Decommissioning non-bypassable charges through fixed charges. The Large Utilities opined in their opening brief that there are no legal restrictions on the collection of this cost category through a fixed charge.¹⁴¹ No party disputed this opinion. This cost is a fixed cost because the energy consumption of a given customer will not affect the revenue requirement for decommissioning nuclear power plants. We agree that income-graduated fixed charges may recover these costs.

The Large Utilities proposed for SDG&E's income-graduated fixed charges to include an Electrification Incentive Adjustment.¹⁴² This proposed charge is not associated with an existing fixed cost category. The Large Utilities argued that SDG&E's fixed charges should include this adder to reduce its volumetric rates to incentivize electrification. However, the Large Utilities did not justify why this proposed cost should be considered a fixed cost that may be recovered through a fixed charge in compliance with AB 205.

TURN/NRDC, Sierra Club, Cal Advocates, and the Large Utilities each proposed for income-graduated fixed charges to include a portion of Non-Marginal Distribution Costs.¹⁴³ The Large Utilities argued that all Non-Marginal Distribution Costs are fixed. The Large Utilities generally described these costs as including many distribution costs that are not directly linked to marginal costs, including the costs of wildfire mitigation and vegetation management, reliability

¹⁴¹ Exhibit Joint IOUs-04 and the Large Utilities' opening brief.

¹⁴² Exhibit Joint IOUs-04 and the Large Utilities' opening brief.

¹⁴³ TURN/NRDC's, Sierra Club's, Cal Advocates', and the Large Utilities' opening briefs.

improvements, safety and risk management distribution costs, ongoing distribution operations and maintenance, many regulatory balancing accounts, and various programs and policy mandates.¹⁴⁴ However, the Large Utilities did not include a list of all components of Non-Marginal Distribution Costs and justification for considering each component as a fixed cost in testimony. Sierra Club argued that most of these costs vary based on a customer's usage, except for Non-Marginal Customer Access Costs. Sierra Club's testimony attached data request responses from the Large Utilities that failed to provide the specific cost categories included in Non-Marginal Distribution Costs.¹⁴⁵ The record is not sufficient to determine which portion of Non-Marginal Distribution Costs are fixed costs. We will not recover these costs through income-graduated fixed charges at this time. However, we may consider whether a portion of Non-Marginal Distribution Costs are fixed costs in Phase 2 of this proceeding or a successor rulemaking.

The tables below list the fixed cost categories that may be recovered through the Large Utilities' income-graduated fixed charges at this time, along with estimates from the Public Tool of the revenue requirement for each cost category as a dollar amount and as a percentage of the utility's delivery revenue requirement¹⁴⁶ for the residential customer class based on the most recent General Rate Case decision applicable to each utility.

Table 4(A): Estimated PG&E Fixed Cost Revenue Requirement

¹⁴⁴ Exhibit Joint IOUs-04.

¹⁴⁵ Exhibit SC-01E.

¹⁴⁶ The delivery revenue requirement includes all utility costs other than generation-related costs.

PG&E Cost Category	Revenue Requirement (\$Millions)	Percent of Delivery Revenue Requirement
Marginal Customer Access	454.8	8.3%
Public Purpose Programs - SGIP ¹⁴⁷	58.9	1.1%
Residential CARE Contribution ¹⁴⁸	267.2	4.9%
Public Purpose Programs - Not CARE Exempt	230.7	4.2%
Nuclear Decommissioning	37.9	0.7%
New System Generation Charge	97.0	1.8%
Average Customer Fixed Cost	1146.5	20.9%

Table 4(B): Estimated SCE Fixed Cost Revenue Requirement

SCE Cost Category	Revenue Requirement (\$Millions)	% of Delivery Revenue Requirement
Marginal Customer Access	427.6	8.5%
Public Purpose Programs - SGIP	23.6	0.5%
Residential CARE Contribution ¹⁴⁹	191.4	3.8%
Public Purpose Programs - Not CARE Exempt	313.3	6.2%
Nuclear Decommissioning	2.4	0.0%
New System Generation Charge	149.0	3.0%
Average Customer Fixed Cost	1107.2	22.0%

Table 4(C): Estimated SDG&E Fixed Cost Revenue Requirement

SDG&E Cost Category	Revenue Requirement (\$Millions)	% of Delivery Revenue Requirement
Marginal Customer Access	183.0	11.5%
Public Purpose Programs - SGIP	8.8	0.5%

¹⁴⁷ CARE customers are exempt from paying this cost.

¹⁴⁸ This revenue requirement value is estimated (not the actual 2023 revenue requirement). This revenue requirement reflects this decision's revision of the CARE average effective discount methodology. CARE customers are exempt from paying this cost.

¹⁴⁹ This revenue requirement value is estimated and reflects this decision's revision of the CARE average effective discount methodology.

Residential CARE Contribution ¹⁵⁰	77.4	4.8%
Public Purpose Programs - Not CARE Exempt	61.4	3.8%
Nuclear Decommissioning	0.5	0.0%
Local Generation Charge/New System Generation Charge	81.9	5.1%
Average Customer Fixed Cost	413.1	25.9%

The tables above show that the Public Tool estimates that the approved fixed cost categories that may be recovered through income-graduated fixed charges have a combined residential customer class revenue requirement of 22.0 percent of SCE's residential delivery revenue requirement, 20.9 percent of PG&E's residential delivery revenue requirement, and 25.9 percent of SDG&E's residential delivery revenue requirement. These fixed cost categories represent a significant portion of each of the Large Utilities' delivery revenue requirement for residential customers.

It is reasonable for income-graduated fixed charges of the Large Utilities to recover all or a portion of the revenue requirement as established in the most recent applicable Commission decision for each of the following fixed cost categories:

- a. Marginal Customer Access Costs;
- b. Public Purpose Program non-bypassable charges;
- c. New System Generation or Local Generation charges; and
- d. Nuclear Decommissioning non-bypassable charges.

In the next section, we will determine which portion of each of the approved fixed cost categories will be recovered by income-graduated fixed charges.

¹⁵⁰ This revenue requirement value is estimated and reflects this decision's revision of the CARE average effective discount methodology.

5.2.3. Fixed Charges for Each Tier

In this section, we will establish a method for setting fixed charge levels for each income tier in accordance with the requirements of AB 205.

As discussed in the statutory interpretation section of this decision, Section 739.9(e)(1) requires the Commission to ensure that a low-income ratepayer with average electricity usage in each baseline territory will realize lower average monthly bills (over the course of a year) following the introduction of the new fixed charges without making any changes in usage. This decision defined a low-income ratepayer as a customer with a household income at or below 200 percent of the Federal Poverty Guidelines level applicable to that household under the CARE program. For brevity, we will refer to a low-income ratepayer as a CARE-eligible customer in this section.

A baseline territory is the geographic area within a given utility's service territory that receives a baseline allowance of electricity based on the climate zone. Warmer climate zones have higher baseline allowances, and cooler climate zones have lower baseline allowances.

The impact of a fixed charge on a low-income customer's bill depends on the customer's usage level. TURN/NRDC explained that customers in hot, inland areas pay higher average monthly utility bills over the course of a year, and they are more likely to realize savings from a fixed charge than customers in cool, coastal areas.¹⁵¹ A fixed charge must result in a lower average monthly bill for a CARE-eligible customer with average electricity usage in each utility's baseline territory, including its coolest (coastal) baseline territory.

¹⁵¹ TURN/NRDC's opening brief.

The impact of a fixed charge on a low-income customer's bill also depends on the total amount of revenues recovered through the fixed charge. If the income-graduated fixed charge collects more revenues from all residential customers, those revenues can be applied to result in larger volumetric rate reductions and associated bill savings.

Most parties proposed initial income-graduated fixed charges of \$7 or less for CARE-eligible customers. CEJA, Sierra Club, CforAT, and the Clean Coalition each proposed a \$0 fixed charge for all CARE-eligible customers.¹⁵² Cal Advocates proposed fixed charges ranging from \$4 to \$7 for CARE-eligible customers. SEIA similarly proposed fixed charges ranging from \$3.37 to \$6.21 for CARE-eligible customers. TURN/NRDC proposed a \$5 fixed charge for all CARE-eligible customers.¹⁵³ On the other hand, the Large Utilities proposed much higher fixed charges for CARE-eligible customers with incomes above 100 percent of Federal Poverty Guidelines: \$26 (PG&E), \$15 (SCE), and \$34 (SDG&E).¹⁵⁴ Each party used the Public Tool to show compliance with AB 205 requirements to provide savings to CARE-eligible customers with average usage in every baseline territory.

This decision approved fewer fixed cost categories than proposed by the Large Utilities, resulting in lower potential revenue recovery by the fixed charges. Accordingly, the fixed charges for CARE-eligible customers must be lower than the amounts proposed by the Large Utilities to comply with AB 205.

Next, we will consider differentials to create between the income tiers of the fixed charges. On the one hand, adopting a \$0 fixed charge would maximize

¹⁵² CEJA's, Sierra Club's, CforAT's, and Clean Coalition's opening briefs.

¹⁵³ Cal Advocates', SEIA's, and TURN/NRDC's opening briefs.

¹⁵⁴ Large Utilities' opening comments on the Implementation Pathway Ruling.

savings for low-income customers. On the other hand, if we were to adopt a fixed charge of \$0 for the CARE-eligible income tier, we would have to adopt a higher fixed charge for the top income tier or provide lower volumetric rate reductions for all residential customers.

Several parties raised concerns that could be mitigated by adopting a relatively mild income graduation for the fixed charges. Cal Advocates, UCAN, and TURN/NRDC argued that the first version of income-graduated fixed charges should be designed to protect customers who are initially assigned to the wrong tier, such as customers who are eligible but not enrolled in CARE or FERA.¹⁵⁵ While CforAT, Sierra Club, and CEJA each supported a \$0 fixed charge for Tier 1 customers, they also opposed a high fixed charge for customers with incomes slightly above the CARE and FERA eligibility thresholds.¹⁵⁶

On balance, this decision adopts a relatively mild income graduation for income-graduated fixed charges to mitigate potential impacts on customers with modest incomes who do not qualify for a lower tier or are initially placed in the wrong tier. Customers in Tier 1 will receive a low fixed charge (rather than a \$0 fixed charge) to avoid charging a higher than necessary fixed charge for Tier 2 and Tier 3 customers or reducing volumetric rate reductions for all residential customers.

Next, we will consider whether the fixed charges will recover 100 percent of each of the fixed cost categories authorized in the section above. The Public Tool estimated that recovering 100 percent of each of the authorized fixed cost categories would result in an average fixed charge of \$25.41 for SDG&E, which

¹⁵⁵ Cal Advocates', UCAN's, and TURN/NRDC's opening briefs.

¹⁵⁶ CforAT's, Sierra Club's, and CEJA's opening briefs.

would require a Tier 3 fixed charge significantly higher than the Sacramento Municipal Utility District's default residential fixed charge of \$24.15 to comply with AB 205 requirements for low-income customers to realize bill savings.

Several parties, including the Large Utilities, proposed to recover a percentage of certain fixed cost categories rather than 100 percent of approved fixed cost categories. We will apply this approach to establish consistent fixed charge levels that comply with AB 205 and are aligned with the Sacramento Municipal Utility District's residential fixed charge levels.

Finally, we will consider the appropriate fixed charge level for each income tier. As discussed in Section 5.1 above, Tier 1 refers to the lowest income tier (for CARE-eligible customers), Tier 2 refers to the middle income tier (for FERA-eligible customers and customers who live in affordable housing restricted to residents with incomes at or below 80 percent of Area Median Income), and Tier 3 refers to the highest income tier.

As shown in Attachment A, the Public Tool estimated that a Tier 1 fixed charge of \$6.00 per month paired with a Tier 3 fixed charge of \$24.15 and a Tier 2 fixed charge of \$12.08 would comply with the AB 205 requirement to lower the average monthly bill for a low-income ratepayer with average electricity usage in each baseline territory of each of the Large Utilities without making any changes to usage. A Tier 1 fixed charge of \$6.00 per month is also aligned with the proposals of most parties, who recommended fixed charges between \$0.00 and \$7.00 for CARE-eligible customers.

A Tier 2 fixed charge of \$12.08 reflects a discount equal to 50 percent of the Tier 3 fixed charge and is similar to the Sacramento Municipal Utility District's low-income customer fixed charge (\$14.15). We note that the Tier 1 fixed charge is significantly lower than this figure. This fixed charge level is reasonable to

apply to customers who are eligible for FERA or who live in affordable housing restricted to residents with incomes at or below 80 percent of Area Median Income.

As shown in Attachment B, the Public Tool estimated that the adopted fixed charge levels for the Large Utilities will result in significant rate saving benefits for customers on default residential rates who adopt building and transportation electrification technologies.

It is reasonable for the Large Utilities to propose income-graduated fixed charge levels in their Tier 3 implementation advice letters based on the most recently adopted revenue requirements that meet all of the following requirements:

- a. The fixed charges shall recover 100 percent of Marginal Customer Access Costs;
- b. The fixed charges shall recover up to 100 percent of the following fixed cost categories: Public Purpose Program non-bypassable charges, New System Generation or Local Generation charges as applicable, and Nuclear Decommissioning non-bypassable charges;
- c. The fixed cost and fixed charge calculations shall use the latest revenue requirements and billing determinants approved by the Commission;
- d. The Tier 1 fixed charge shall be \$6.00, provided that the fixed charge shall be reduced if necessary to comply with the Section 739.9(e)(1) requirement for CARE-eligible customers to realize average monthly bill savings in all baseline territories without changes to usage based on an updated customer bill impact assessment;
- e. The Tier 2 fixed charge shall be \$12.08; and
- f. The Tier 3 fixed charge shall be \$24.15, provided that the Tier 3 fixed charge shall be reduced if 100 percent recovery of each of the authorized fixed cost categories through the

income-graduated fixed charge is not sufficient to produce a Tier 3 fixed charge of \$24.15 while also complying with the remaining requirements listed here and the AB 205 requirements for the CARE discount.¹⁵⁷

In comments on the proposed decision, several parties urged the Commission to consider any proposals to increase fixed charges in this proceeding to ensure that any modifications to fixed charges are consistent with the findings of the working groups authorized in this decision. Parties also emphasized the importance of considering changes to fixed charges with alternative rate mechanisms for achieving the goals of this rulemaking.

The Commission will continue to consider any changes to income-graduated fixed charges in Phase 2 of this proceeding or a successor demand flexibility rulemaking. We acknowledge that other rate mechanisms, such as higher time-of-use rate differentials, may help to reduce volumetric electric rates to support affordable electrification of buildings and transportation.

The section below on implementation timing for the Large Utilities will address the deadline for the Tier 3 advice letters.

5.3. Small and Large Customer Differentiation

Section 739.9(d)(1) of the Pub. Util. Code requires the income-graduated fixed charge to “[r]easonably reflect an appropriate portion of the different costs of serving small and large customers.” The Implementation Pathway Ruling asked parties whether income-graduated fixed charges should be differentiated based on the different costs of serving (a) customers with high non-coincident

¹⁵⁷ Based on analysis of the income-graduated fixed charge adopted in this decision using the Public Tool, it is estimated that the Tier 3 fixed charge for PG&E’s default time-of-use rate may be less than \$24.15 based on 100% recovery of the authorized fixed cost categories and the billing determinants included in the Tool. However, this may not be the case when the income-graduated fixed charge is implemented using more updated billing determinants and revenue requirement amounts.

peak demand levels,¹⁵⁸ (b) customers with large panel sizes,¹⁵⁹ or (c) single- or multi-family homes, based on the number of meters at a property or whether the property has shared or dedicated service line drops.

No party supported differentiating customers based on non-coincident peak demand. TURN/NRDC argued that this approach would work against electrification goals by penalizing off-peak EV charging and would be confusing for residential customers. PacifiCorp argued that peak demand charges would be difficult to explain to customers.¹⁶⁰

No party supported differentiating between customers with different panel sizes. The Large Utilities and PacifiCorp noted that they do not collect this information.¹⁶¹

Several parties expressed interest in differentiation between single- and multi-family housing (either directly or through a proxy indicator such as a shared service drop).¹⁶² TURN/NRDC and Sierra Club/CEJA supported differentiation between single- and multi-family housing or the use of a shared service drop versus a dedicated service line due to the differences in Marginal

¹⁵⁸ Non-coincident peak demand refers to the highest total power (typically in kilowatts) that a customer is drawing from the electric grid during a single interval in a given billing period (typically a 15-minute period over the course of a month), regardless of whether that period coincides with system peak hours.

¹⁵⁹ Panel size refers to the amperage that a customer's electric panel is rated to handle when drawing electricity from the grid. A larger amperage rating means that a customer is able to draw a larger current from the grid, and thus serve more load.

¹⁶⁰ TURN/NRDC's and PacifiCorp's opening comments on the Implementation Pathway Ruling.

¹⁶¹ The Large Utilities' and PacifiCorp's opening comments on the Implementation Pathway Ruling.

¹⁶² A service drop is the connection between a distribution line and a customer's residence.

Customer Access Costs.¹⁶³ The Large Utilities did not dispute the value of this approach but responded that PG&E and SDG&E do not have this data, and that it would require substantial additional time and costs to collect this data and add it to its billing system.¹⁶⁴ SEIA expressed interest in further discussion and study of the difference in costs for service drops and final line transformers.¹⁶⁵ Cal Advocates supported collecting information to differentiate between single- and multi-family customers for future versions of income-graduated fixed charges.¹⁶⁶ We agree with parties that this potential solution requires additional data gathering about costs and feasibility and would be more appropriate for a future version of income-graduated fixed charges.

It is reasonable to initially adopt income-graduated fixed charges for the Large Utilities that do not differentiate between the costs of serving small and large customers and direct the Large Utilities to prepare a study regarding how to differentiate between customers who live in single- or multi-family housing.

The Large Utilities shall (a) each prepare a study on the collection and use of data that identifies whether a given residential customer lives in single- or multi-family housing (either directly or through a proxy indicator such as a shared service drop; several options may be evaluated in the study), including the feasibility and cost of collecting such data, the timeline for data collection, the reliability of the data, the difference in cost of serving the different customer types, and any other information that will inform the design of income-

¹⁶³ TURN/NRDC's and Sierra Club/CEJA's opening comments on the Implementation Pathway Ruling.

¹⁶⁴ The Large Utilities' opening comments on the Implementation Pathway Ruling.

¹⁶⁵ SEIA's opening comments on the Implementation Pathway Ruling.

¹⁶⁶ Cal Advocates' opening comments on the Implementation Pathway Ruling.

graduated fixed charges that differentiate between single- and multi-family households; (b) jointly host a public workshop and present these findings at the workshop by the end of February 2025; and (c) each file a report that incorporates any feedback gathered from parties at the workshop in this proceeding within 90 days of the workshop.

5.4. Adjustments to Default Residential Rate Components

This section will discuss how to adjust default residential rate components to account for recovery of certain fixed costs through the income-graduated fixed charges. First, we will discuss whether to eliminate the minimum bill. Then we will discuss how to adjust volumetric rates.

5.4.1. Minimum Bill

D.15-07-001 authorized minimum bills in lieu of fixed charges for residential customers of the Large Utilities.¹⁶⁷ A minimum bill ensures that customers with no usage or extremely low usage pay for some of the costs incurred on their behalf.¹⁶⁸ D.15-07-001 authorized minimum bills consistent with the prior statutory limit for fixed charges (no higher than \$10 per month).¹⁶⁹

Parties generally agreed that a minimum bill will no longer be necessary to ensure that residential customers pay some amount of fixed costs when income-graduated fixed charges are implemented. The Large Utilities argued that the minimum bill structure would be redundant and would add unnecessary

¹⁶⁷ Conclusions of Law 19 of D.15-07-001.

¹⁶⁸ Findings of Fact 177 of D.15-07-001.

¹⁶⁹ Conclusions of Law 24 of D.15-07-001.

complexity to customer bills.¹⁷⁰ SEIA, TURN/NRDC, and Cal Advocates made similar comments in support of removing minimum bills.¹⁷¹

Only UCAN argued that a minimum bill will remain necessary to ensure that low-usage customers make some payment toward customer-related costs.¹⁷² Because this decision authorizes income-graduated fixed charges for all residential customers, including low-income customers, minimum bills are not necessary to ensure that every low-usage customer will make some payment toward customer-related costs.

It is reasonable for the Large Utilities to remove minimum bills from residential rates that include an income-graduated fixed charge.

5.4.2. Volumetric Rate Adjustments

In the statutory interpretation discussion of “fixed costs” above, we noted that Section 14 of AB 205 declared that a majority of an electric utility’s revenue requirement is recovered from customers by a volumetric rate, but only a portion of an electric utility’s costs directly vary based on how much electricity a customer consumes, while many infrastructure and operational costs do not. This language indicates a legislative intent for the Commission to design fixed charges to reduce volumetric rates.

Parties agreed that the revenue collected through income-graduated fixed charges should be applied to reduce volumetric rates for residential customers. However, parties disagreed about whether volumetric rates should be reduced equally on a cents per kWh basis across all hours or if greater reductions should

¹⁷⁰ The Large Utilities’ opening comments on the Implementation Pathway Ruling.

¹⁷¹ SEIA’s, TURN/NRDC’s, and Cal Advocates’ opening comments on the Implementation Pathway Ruling.

¹⁷² UCAN’s opening comments on the Implementation Pathway Ruling.

be applied to off-peak periods to encourage customers to shift energy usage to off-peak periods.

The Large Utilities and Cal Advocates argued that the volumetric rates should be reduced equally across all hours of the day because fixed costs do not vary based on time of usage.¹⁷³ The Large Utilities also argued that adjusting the price differentials between peak- and off-peak periods is not in the scope of Phase 1 of this proceeding.¹⁷⁴

SEIA, the Clean Coalition, and the California Solar and Storage Association (CalSSA) urged the Commission to apply all revenue from fixed charges to off-peak periods. These parties argued that reducing volumetric rates equally during all hours would fail to comply with the requirement of Section 739.9 (d)(2) that fixed charges shall not unreasonably impair conservation or energy efficiency. These parties argued that lower peak period rates would encourage more usage during peak periods, which would result in higher revenue requirements and rates over time.¹⁷⁵

The income-graduated fixed charges adopted by this decision do not unreasonably impair incentives for conservation or energy efficiency when applied to volumetric rates equally during all hours of the day. Attachment A shows the results of modeling the income-graduated fixed charge rate design adopted in this decision using the Public Tool. Attachment A shows that default time-of-use summer season peak period rates for bundled customers are

¹⁷³ The Large Utilities' opening brief and Cal Advocates' opening comments on the Implementation Pathway Ruling.

¹⁷⁴ The Large Utilities' opening brief.

¹⁷⁵ SEIA's and the Clean Coalition's opening briefs and CalSSA's opening comments on the Implementation Pathway Ruling.

expected to be \$0.437/kWh, \$0.522/kWh, and \$0.783/kWh for PG&E, SCE, and SDG&E, respectively, if fixed charge revenue is used to reduce volumetric rates equally on a cents per kWh basis across all time-of-use periods. This represents an expected reduction of \$0.047/kWh, \$0.046/kWh, and \$0.068/kWh for the three Large Utilities, respectively, compared to the existing rate structure, which translates to summer peak period rate reductions of between 8.0 and 9.8 percent.

TURN/NRDC cautioned the Commission against applying fixed charge revenues in a time-differentiated way without further analysis. TURN/NRDC commented that the Public Tool did not include the functionality to model bill impacts of allocating fixed charge revenues to volumetric rates in a time-differentiated way.¹⁷⁶ SEIA and the Clean Coalition similarly argued that the Commission does not have a sufficient record in this proceeding to apply fixed charges in a time-differentiated way and argued that rate design window applications would be required to develop such a record.¹⁷⁷

We agree with parties that encouraging customers to shift demand to off-peak periods is a priority issue in this proceeding and that the Commission should not apply fixed charge revenues in a time-differentiated way without further analysis. Rather than delay the adoption of income-graduated fixed charges, we will separately consider whether to adjust time-of-use volumetric rate differentials to encourage shifting usage to off-peak periods in Phase 2 of this proceeding.

Volumetric rates currently include distribution rates and the costs of specific line-items that are recovered on a volumetric basis, such as Public

¹⁷⁶ TURN/NRDC's opening brief.

¹⁷⁷ SEIA's and the Clean Coalition's opening briefs and CalSSA's opening comments on the Implementation Pathway Ruling.

Purpose Program charges. This decision concluded that revenues from income-graduated fixed charges should recover the costs of certain line-items listed in this decision. The remaining revenues from income-graduated fixed charges should be applied to reduce distribution rates.

It is reasonable to apply revenues collected through income-graduated fixed charges for default rates to reduce distribution rates on an equal cents per kWh basis during all hours of the day.

5.5. Optional Rates and Master-Metered Rates

AB 205 allows the Commission to adopt income-graduated fixed charges for optional rates.¹⁷⁸ Section 739.9(e)(1) provides that the Commission “may authorize fixed charges for any rate schedule applicable to a residential customer account.”

TURN/NRDC, Sierra Club, CEJA, CforAT, the Large Utilities, the Small Utilities, and Cal Advocates argued that the Commission should simultaneously authorize fixed charges for optional rates when authorizing income-graduated fixed charges for default rates to prevent higher income customers from selecting an optional rate to pay lower fixed charges or entirely avoid fixed charges.¹⁷⁹

We agree with these parties’ concerns about higher income customers avoiding the default fixed charges if we do not require fixed charges for optional rates. This could result in a substantial under-collection of fixed charge revenues compared to forecasted revenues. Further, this result would be inconsistent with the legislative intent of AB 205 to support equitable recovery of fixed costs.

¹⁷⁸ Optional rate refers to a rate that a customer would not be enrolled in unless they specifically select it.

¹⁷⁹ TURN/NRDC’s, Sierra Club’s, CEJA’s, CforAT’s, the Large Utilities’, the Small Utilities’, and Cal Advocates’ opening briefs. *See also* TURN/NRDC’s and Sierra Club/CEJA’s opening statutory briefs and CforAT’s and Cal Advocates’ reply statutory briefs.

SEIA opposed application of income-graduated fixed charges to electrification rates.¹⁸⁰ SEIA argued that electrification rates already have fixed charges, so there is no need to apply income-graduated fixed charges to these rates.¹⁸¹

The existing fixed charges for electrification rates do not comply with the AB 205 requirement for all fixed charges to be income-graduated.¹⁸² In addition, if we did not modify the amount of the fixed charges for electrification rates (currently around \$15 to \$16 per month),¹⁸³ higher income customers would still have an incentive to switch to electrification rates to avoid paying the default fixed charges. Accordingly, it is necessary to modify the existing fixed charges for electrification rates.

The Western Manufactured Housing Communities Association commented that master-metered customers should be exempted from verifying incomes of its sub-metered tenants.¹⁸⁴

Master-metered rates apply to multifamily dwellings where service is provided through a single meter. This type of rate is often used in residential

¹⁸⁰ Electrification rates are optional rates that benefit customers with certain end-use technologies such as electric vehicles, battery storage, electric space heating, and electric water heating. These rates currently feature a fixed charge to offset a portion of volumetric rates, as well as more differentiated time-of-use periods. PG&E's E-ELEC, SCE's TOU-D-PRIME, and SDG&E's TOU-ELEC are electrification rates.

¹⁸¹ SEIA's opening statutory brief.

¹⁸² Section 3.3 above determines that all fixed charges are subject to the income graduation requirements of Pub. Util. Code Section 739.9.

¹⁸³ D.21-11-015 adopted a \$15 fixed charge for PG&E's E-ELEC rate. D.18-11-027 adopted a \$12 fixed charge for SCE's TOU-D-PRIME rate, which has increased to approximately \$15. D.22-11-022 adopted a \$16 fixed charge for SDG&E's TOU-ELEC rate.

¹⁸⁴ The Western Manufactured Housing Communities Association's opening comments on the Implementation Pathway Ruling.

recreational vehicle parks and residential hotels. The account holder (i.e., the landlord) is the sole utility customer for the entire premise, and it is the account holder's responsibility to charge individual tenants for their share of the utility bill.

Master-metered rates can be classified into two categories: sub-metered and non-sub-metered. Sub-metering allows account holders to charge tenants for their actual usage. Tenants who are sub-metered for master-meter rates are eligible for CARE and FERA discounts since the account holder can apply this discount to the individual tenants' bills. Tenants who are not sub-metered for master-meter rates are generally not eligible for CARE or FERA discounts.¹⁸⁵

The adopted income tiers for income-graduated fixed charges will not require verification of customer incomes outside of the existing CARE and FERA program processes. Accordingly, it is reasonable to apply income-graduated fixed charges to master-metered rates with sub-metering.

However, income-graduated fixed charges will not apply to master-metered rates that are not sub-metered at this time. The Process Working Group Proposal should include recommendations on whether to apply income-graduated fixed charges to master-metered rates that are not sub-metered.

In its opening brief, UCAN argued that income-graduated fixed charges should not be applied to pilot rate schedules. Similarly, the Large Utilities asserted that fixed charges should not be applied to rates that are scheduled to be eliminated soon.¹⁸⁶

¹⁸⁵ One exception is SDG&E's Schedule DM rate, which allows qualifying non-profit group living facilities to take service with a CARE discount. However, other customers on this master-metered rate are not eligible to participate in CARE. See SDG&E's Schedule DM, available at https://tariff.sdge.com/tm2/pdf/tariffs/ELEC_ELEC-SCHEDS_DM.pdf.

¹⁸⁶ The Large Utilities' opening brief.

The Large Utilities also argued that its separately-metered electric vehicle rates, which reflect a lower fixed charge to account for shared facilities, should not have a full income-graduated fixed charge if the customer's primary meter (for non-electric vehicle household usage) is required to take service on a rate that has an income-graduated fixed charge.¹⁸⁷ We agree that a residential customer should not be required to pay two fixed charges for a single residence.

The Large Utilities recommended exempting rate schedules that are scheduled to be eliminated in the near-term from income-graduated fixed charges.¹⁸⁸ We agree that it would be inefficient to implement fixed charges for rate schedules that will be eliminated soon after the implementation of income-graduated fixed charges.

In opening comments on the Budget and Timing Ruling, the Large Utilities each provided a list of all of their residential rates and whether each rate is a separately-metered electric vehicle rate, a master metered rate that is not sub-metered, or scheduled to be eliminated in 2025. This information is summarized in the tables below.

Table 5(A): PGE's Rates

Utility	Schedule	Current fixed charge	Exemption from Income-Graduated Fixed Charges
PG&E	E-1	No	None
	E-TOU-C	No	None
	E-TOU-D	No	None
	EV-2A	No	None
	ESR	No	None
	E-ELEC	Yes	None
	EV-B	Yes (meter charge)	Separately metered electric vehicle rate
	EM	No	Non-sub-metered master meter rate

¹⁸⁷ The Large Utilities' opening brief.

¹⁸⁸ The Large Utilities' opening brief.

	EM-TOU	No	Non-sub-metered master meter rate
	ES	No	None
	ET	No	None
	E-TOU-B	No	Scheduled to be eliminated in 2025
	EV-A	No	Scheduled to be eliminated in 2025

Table 5(B): SCE's Rates

Utility	Schedule	Current fixed charge	Exemption from Income-Graduated Fixed Charges
SCE	Domestic Tiered	Yes	None
	TOU D 4-9	Yes	None
	TOU D 5-8	Yes	None
	TOU D PRIME	Yes	None
	DM	Yes	Non-sub-metered master meter rate
	DMS 1,2,3	Yes	None
	TOU D A	Yes	Discontinued in March 2024
	TOU D B	Yes	Discontinued in March 2024
	TOU D T	Yes	Discontinued in March 2024

Table 5(C): SDG&E's Rates

Utility	Schedule	Current fixed charge	Exemption from Income-Graduated Fixed Charges
SDG&E	DR	No	None
	DT-RV	No	None
	TOU-DR1	No	None
	TOU-DR2	No	None
	TOU-DR	No	None
	DR-SES	No	None
	EV-TOU	No	Separately metered electric vehicle rate
	EV-TOU-2	Yes	None
	EV-TOU-5	Yes	None
	TOU-ELEC	No	None
	DM	No	Non-sub-metered master meter rate
	DS	No	None

It is reasonable to authorize income-graduated fixed charges for both default and optional residential rates. It is reasonable to apply income-graduated fixed charges adopted for default rates to all optional rates, except for master-metered rates that are not sub-metered, separately-metered electric vehicle rates for customers whose primary meter has an income-graduated fixed charge, or rate schedules that are scheduled to be eliminated by the second quarter of 2026.

In Section 5.8 above, this decision concluded that it is reasonable to apply revenues collected through income-graduated fixed charges to reduce distribution rates equally on a cents per kWh basis during all hours of the day. In opening briefs, the Large Utilities strongly supported this approach but recommended that the Commission allow the Large Utilities to make adjustments for optional rates as needed to prevent a situation where a customer receives a negative volumetric rate during certain hours.

This decision adopts substantially lower income-graduated fixed charges and associated volumetric rate reductions than proposed by the Large Utilities. Accordingly, we do not expect that volumetric rates will be reduced below zero for most of the Large Utilities' optional rate schedules if we apply the revenues from fixed charges equally during all hours of the day. However, we acknowledge that this could occur for some optional rates with very low super off-peak volumetric rates. To address this potential scenario, we adopt a limited exception to the requirement for Large Utilities to reduce distribution rates equally on a cents per kWh basis following introduction of the income-graduated fixed charge.

It is reasonable to apply the revenues recovered by income-graduated fixed charges for optional rates as follows: any fixed charge revenues that are not

used to recover the costs of specific line items should be used to reduce distribution rates on an equal cents per kWh basis across all time periods, unless doing so would result in a negative distribution rate during any time period for a given rate schedule. In this scenario, distribution rates should instead be reduced on an equal percent basis across all time periods (i.e., reduced proportionally such that the prior time-of-use differentials are maintained).

5.6. Marketing, Education, and Outreach

In opening testimony, the Large Utilities shared the results of research conducted by contractors in 2022 and 2023. PG&E hired a consultant to conduct research in 2022 to explore customer reactions to messaging about a residential fixed charge. The researchers found that residential customer focus groups (a) reacted to the concept of income-graduated fixed charges with confusion and distrust, (b) expected their bills to go up, (c) wanted 3 to 6 months of notice before their bills increased, and (d) need information with real examples of before and after bills.¹⁸⁹

SDG&E hired a consultant to conduct research in 2023 to inform ME&O about income-graduated fixed charges. The researchers found that (a) participants assumed that a fixed charge would automatically result in higher bills, (b) some participants were concerned that making increased usage more affordable is in conflict with years of conservation messaging, (c) email was preferred for communication, followed by direct mail, and followed by the SDG&E app, (d) participants preferred to receive 3 to 6 months of notice before

¹⁸⁹ Exhibit Joint IOUs-01-E.

implementation of a fixed charge, and (e) a high income-based differential for fixed charges would be unfair.¹⁹⁰

SCE conducted a survey of nearly 700 residential customers about perceptions of an income-graduated fixed charge in 2023. The survey showed that 66 percent of customers felt that an income-graduated fixed charge was effectively a tax. Participants thought it would be unfair to make higher income customers pay higher fixed charges. Energy conscious customers felt that they would be penalized by fixed charges.¹⁹¹

The Large Utilities proposed the following ME&O topics and objectives:

- Help customers understand that the way they have been charged for electricity will be changing, why and when the new structure is being applied, what the funds will be used for, how their bill may be impacted, and helpful ways to manage energy costs;
- Inform existing residential customers of their household's income-based categorization and provide a way for customers to dispute their income bracket assignment if incorrect;
- Explain how the income-graduated fixed charge will be a separate line item shown on their bill rather than a change in rate design;
- Explain that the new fixed charge line item on their bill had previously been embedded in their volumetric energy use charge (and how all customers' volumetric charges will be going down once the fixed costs are relocated to a separate line item);
- Assure low-income CARE and FERA customers that their assistance program discounts will not be affected by the

¹⁹⁰ Exhibit Joint IOUs-01-E.

¹⁹¹ Exhibit Joint IOUs-01-E.

fixed charge and that they may see lower bills as a result of the fixed charge; and

- Explain that the pricing structure will encourage adoption of electrification technologies by allowing expanded use of lower-priced, cleaner, more plentiful electricity and reduced use of fossil fuels.¹⁹²

The Large Utilities also shared the following lessons learned from the transition to residential time-of-use rates and translation into proposed ME&O strategies for income-graduated fixed charges:

- **Communicate early and often with customers through multiple channels.** Direct communications for the time-of-use transition began at least 90 days in advance of the time-of-use rate change and was paired with outreach by community-based organizations, web-based targeted earned and paid media, and messaging through the Large Utilities' channels. The Large Utilities propose to begin fixed charge communications through a broader set of communications channels at least six months ahead of the rate change and to begin direct notices to customers at least 120 days before the rate change, with at least two direct notices for customers.
- **Explain how the rate change will affect bills.** Customers eligible for the time-of-use rate change were provided with rate impacts. The Large Utilities propose to provide customers with sample bill impacts based on their income tier assignment.
- **Educate about the equity and electrification benefits of the rate change.** Customers' acceptance of time-of-use rates increased when they understood the clean energy and grid benefits of reducing peak usage. The Large Utilities proposed to explain how the previous rate structure put an unfair burden on some customers and how the new

¹⁹² Exhibit Joint IOUs-01-E.

structure will be more fair. The Large Utilities also proposed to explain how the rate change will encourage electrification by reducing the price per unit of energy and how it will encourage the use of cleaner energy sources.¹⁹³

The Large Utilities proposed the following ME&O strategies:

- Conduct additional research prior to commencing ME&O activities, including refining messaging language, identifying clear and well-received terminology, and testing messaging for customers by income tier and whether they have solar systems;
- Use customer segmentation to create personalized, tailored communications and provide targeted messaging for sub-groups that are more likely to need specialized outreach;
- Use a multi-touch approach with a broad range of communications channels;
- Collaborate with community-based organizations and CCAs; and
- Strategically integrate messaging into other marketing efforts¹⁹⁴

The Large Utilities proposed to conduct ME&O in three phases with the following timing:

- At least six months prior to implementation, begin awareness building about what, when, and why fixed charges will be implemented and where to get more information;
- Up to 180 days prior to implementation, begin providing customers with information about individual bill impacts, how to challenge their assigned tier, and online resources;

¹⁹³ Exhibit Joint IOUs-01-E.

¹⁹⁴ Exhibit Joint IOUs-01-E.

- After implementation, provide ongoing energy management messaging, education, and promotion of electrification.¹⁹⁵

Cal Advocates and TURN/NRDC agreed that the ME&O for income-graduated fixed charges should include explanations about how the fixed charges will affect customers' bills and incentivize electrification. Cal Advocates agreed with the Large Utilities that the ME&O should include information on how to move to a lower income tier. TURN/NRDC additionally recommended that ME&O (a) make customers aware of the existence of different rate options and the availability of rate comparison tools to determine which tariff is optimal for their consumption and load patterns, and (b) boost CARE and FERA awareness and enrollment.¹⁹⁶ We agree with parties that the ME&O for income-graduated fixed charges should include this additional information recommended by TURN/NRDC.

It is reasonable for the ME&O for income-graduated fixed charges to address the following topics:

- a. When the new fixed charge will be applied;
- b. Why and how the new fixed charge will reduce volumetric rates;
- c. The amount of the fixed charge and how the fixed charge will affect customers' bills;
- d. How tiers will be assigned and how to move to a different income tier;
- e. Different rate options and rate comparison tools;
- f. Options to enroll in CARE or FERA and other ways to manage energy costs;

¹⁹⁵ Exhibit Joint IOUs-01-E.

¹⁹⁶ TURN/NRDC's opening brief.

- g. Assure CARE and FERA customers that their assistance program discounts will not be affected by the fixed charge and that they may see lower bills as a result of the fixed charge; and
- h. Why and how the fixed charge will encourage the adoption of electrification technologies and associated reduced use of fossil fuels and how customers can find rebates to electrify.

The Large Utilities proposed a major departure from the overall ME&O approach for the time-of-use transition. The time-of-use transition relied on both (a) statewide ME&O to provide high-level messaging through mass and targeted media and (b) utility communications to their customers about bill impacts and tools for mitigating bill impacts. The statewide ME&O plan for the time-of-use transition was created through a large working group process facilitated by a third-party consultant. The Large Utilities argued that statewide ME&O is unnecessary for income-graduated fixed charges and that creating a statewide ME&O plan and associated working group process would result in unnecessary delays and expenses.¹⁹⁷

The Large Utilities also argued that the Commission should not require a working group process for developing utility-specific ME&O plans. The Large Utilities argued that one public workshop, held within 30 days after the final decision, would be sufficient for sharing the details of the Large Utilities' ME&O plans with stakeholders. The Large Utilities proposed to file Tier 2 advice letters with individual ME&O plans for each utility's income-graduated fixed charges after the workshop.¹⁹⁸

¹⁹⁷ Exhibit Joint IOUs-01-E.

¹⁹⁸ Exhibit Joint IOUs-01-E.

Sierra Club and UCAN agreed that statewide ME&O should not be required for income-graduated fixed charges. Sierra Club argued that individual utility ME&O plans would be more efficient and contain costs. UCAN argued that the Commission should set general guidelines for the plans and provide room for utilities to customize their individual plans to better serve the different needs of their communities.¹⁹⁹

Other parties argued for statewide coordination and consistency. Cal Advocates and TURN/NRDC argued that the Commission should require a working group and a statewide ME&O plan with consistent messaging.²⁰⁰ CalCCA similarly recommended that the Large Utilities coordinate messaging to customers through a working group.²⁰¹

We agree that requiring a working group process to develop a statewide ME&O plan would be time consuming and would delay the implementation of income-graduated fixed charges. We also share parties' concerns that a statewide ME&O approach would unnecessarily increase implementation costs. However, we also share parties' concerns that inconsistent messaging could lead to customer confusion.

This decision adopts an efficient process for developing ME&O plans with consistent terminology, high-level messages, and metrics. In addition, we will separately address oversight of ME&O implementation in the evaluation and implementation working group section below.

It is reasonable to direct each of the Large Utilities to develop an ME&O plan for income-graduated fixed charges through the following process:

¹⁹⁹ Sierra Club's and UCAN's opening briefs.

²⁰⁰ Cal Advocates' and TURN/NRDC's opening briefs.

²⁰¹ CalCCA's opening brief.

- a. The Large Utilities shall meet and confer with each other and the Commission's staff to strive to develop consistent proposed terminology, high-level messages, and metrics.
- b. The Large Utilities shall invite parties to this proceeding to a workshop, consult with the Commission's staff to plan the workshop, and jointly host a public workshop to discuss each utility's ME&O plan and proposed terminology, high-level messages, and metrics.
- c. Each Large Utility shall propose an individual ME&O plan in a Tier 3 implementation advice letter with the following components: (a) proposed terminology and high-level messages, (b) sample bill impact templates, (c) consistent ME&O metrics, and (d) a proposed ME&O implementation budget, with a line-item breakdown and justifications for the proposed cost of each individual line-item.²⁰²

We will discuss the deadlines for these requirements in the implementation timeline section below.

5.7. Adjustments to Address Revenue Imbalances

The Large Utilities and Cal Advocates asserted that income-graduated fixed charges have the potential to under- or over-collect revenues compared to projected revenues. Cal Advocates asserted that placing a significant number of customers in the wrong tier could cause the under- or over-collection of revenues. The Large Utilities asserted that revenue imbalances could also be caused by changes to the actual number of customers who fall into each income-graduation tier compared to forecasts.²⁰³ We agree that income-graduated fixed charges may under- or over-collect revenues compared to projected revenues.

²⁰² The budget justifications should include an explanation of why each line-item is incremental to previously authorized ME&O funding, such as funding for CARE and FERA ME&O.

²⁰³ Exhibit Cal Advocates-01-E and the Large Utilities' opening brief.

Generally, the Large Utilities propose revenue requirement changes through General Rate Case Phase 1 proceedings and rate design changes through General Rate Case Phase 2 proceedings once every several years. In addition, the Large Utilities each file an annual year-end Consolidated Revenue Requirement and Rate Change advice letter as directed in Resolution E-5217 (Annual True-Up Advice Letter) to implement rate changes and address revenue imbalances in certain balancing accounts.

The Large Utilities proposed to true-up income-graduated fixed charge revenue imbalances using the Annual True-Up Advice Letter process. The Large Utilities proposed to use existing revenue balancing accounts to record the revenue over- and under-collections throughout the year and use the Annual True-Up Advice Letter to apply over-collections to reduce the next year's fixed charge revenue requirement and apply under-collections to increase the subsequent year's fixed charge revenue requirement.

TURN/NRDC supported the use of the Annual True-Up Advice Letter process and additionally proposed to adjust the income-graduated fixed charges each year through the Large Utilities' Energy Resource Recovery Account applications with the goal of limiting volumetric rate increases to no higher than the Consumer Price Index (CPI).²⁰⁴

SEIA opposed both proposals to make annual adjustments to fixed charges, arguing that fixed charges should remain relatively stable over time, similar to fixed monthly charges for other utility or subscription services. SEIA argued that the TURN/NRDC proposal was the most extreme and was likely to

²⁰⁴ TURN/NRDC's opening brief.

lead to “explosive” increases to the income-graduated fixed charges if rate increases are much higher than inflation rates.²⁰⁵

We are concerned that TURN/NRDC’s proposal to address revenue imbalances could result in substantial increases to income-graduated fixed charges without further consideration in this proceeding about the design and role of income-graduated fixed charges.

The Large Utilities’ proposal to record revenue imbalances in existing balancing accounts and use the Annual True-Up Advice Letter to address revenue imbalances is aligned with standard ratemaking practices and is designed to account for electric revenue forecasting errors. However, we have concerns about using a Tier 2 advice letter process to potentially increase the revenue requirement for income-graduated fixed charges. Instead, we will direct the Large Utilities to use the Annual True-Up Advice Letter process to propose how to modify distribution rates to address revenue imbalances. We will also require the Large Utilities to create new distribution balancing accounts (rather than use existing accounts) to record these imbalances to increase transparency.

It is reasonable for each of the Large Utilities to (a) establish a new distribution balancing account (Income Graduated Fixed Charge Balancing Account) to record over- or under-collections of revenues compared to projected revenues from income-graduated fixed charges, and (b) propose in each Annual True-Up Advice Letter how to modify distribution rates to account for over- or under-collections of revenues by the income-graduated fixed charges compared to projected revenues.

²⁰⁵ SEIA’s reply brief.

5.8. Evaluation and Implementation Working Group

CforAT, Cal Advocates, UCAN, and the Large Utilities each proposed informal processes for assessing income-graduated fixed charges and informing the development of improvements to income-graduated fixed charges. The Large Utilities proposed to regularly report metrics to a working group on a quarterly basis. The Large Utilities argued that extensive new evaluation plans are not needed for income-graduated fixed charges that rely on the existing CARE and FERA income-verification processes and that will not require additional income data collection or other complex rate or program elements. CforAT similarly argued that the Commission should not invest a lot of resources into evaluating income-graduated fixed charges that do not have separate tiers for moderate- and high-income customers. Cal Advocates and UCAN opposed an independent evaluator for income-graduated fixed charges and supported regular reporting of metrics by the Large Utilities.²⁰⁶

SEIA supported the use of a working group for evaluating income-graduated fixed charges but also advocated for hiring a third-party evaluation contractor. SEIA argued that the Large Utilities should not be responsible for evaluating the performance and merits of income-graduated fixed charges because the Large Utilities have shown a preference for larger fixed charges and will not be objective.

We agree that a working group (Implementation Working Group) should evaluate the Large Utilities' income-graduated fixed charges. This approach addresses parties' concerns about efficient use of resources as well as SEIA's concerns about preventing a conflict of interest by the Large Utilities. The

²⁰⁶ CforAT's, Cal Advocates's, UCAN's, and the Large Utilities' opening briefs.

Implementation Working Group could also be used to provide feedback to the Commission's staff about implementation concerns and potential solutions.

The Large Utilities shall (a) report metrics on income-graduated fixed charges and associated ME&O efforts within 30 days of each calendar quarter to the service list of this proceeding, and (b) present metrics and lessons learned from income-graduated fixed charges and associated ME&O efforts to the Implementation Working Group at least once per calendar quarter.

The Implementation Working Group will be convened and facilitated by the Commission's staff. The Implementation Working Group shall have the following scope of work relating to assessing and evaluating income-graduated fixed charges: (a) identify problems with implementation and ME&O efforts and suggest solutions at meetings, and (b) provide written recommendations to the Commission's staff about how lessons learned from the implementation of income-graduated fixed charges should influence the design of future income-graduated fixed charges or alternative rate mechanisms.²⁰⁷

The Commission's staff will prepare an evaluation report for income-graduated fixed charges based on one calendar year of metrics and input from the Implementation Working Group. The Commission's staff will facilitate the filing of the evaluation report in this proceeding to build the record for a decision on the next version of income-graduated fixed charges or alternative rate mechanisms.

²⁰⁷ We anticipate that the Commission will issue a decision that addresses the recommendations by the Implementation Working Group about how lessons learned should influence the design of future fixed charges or alternative rate mechanisms. Intervenor compensation is available to eligible parties for contributions to a Commission decision.

The Large Utilities proposed to report metrics for income-graduated fixed charges on the number of customers in each tier, the number of customers who change tiers, average customer bill impacts, and awareness and understanding of the new rate structure. In opening testimony, the Large Utilities also proposed to track press article mentions, reach and/or impressions of paid media, outbound targeted communications, bill messages, email responses, and call center feedback.²⁰⁸ Cal Advocates agreed with the Large Utilities' proposed metrics.²⁰⁹ We agree that the quarterly reports should include these metrics.

UCAN proposed to also require the Large Utilities to report on all ME&O activities and dollars spent, the number and type of calls and other customer inquiries concerning income-graduated fixed charges, the number of customers for whom income verification is requested, and the outcomes of income verification requests.²¹⁰ We agree that the Large Utilities' quarterly reports should include metrics on ME&O dollars spent, number of calls about income-graduated fixed charges, the number of customers who were subject to income verification through the CARE and FERA programs, and the number of customers who successfully verified their incomes through the CARE and FERA programs.

TURN/NRDC proposed that an evaluation also consider the cost efficiency of utility work on implementation, customer and market surveys to determine the effectiveness of ME&O, customer changes to usage in response to changes in volumetric rates, bill impacts for different customer sub-groups, changes in CARE/FERA enrollment, and changes in purchases of building and

²⁰⁸ The Large Utilities' opening brief and Exhibit Joint IOUs-01.

²⁰⁹ Cal Advocates' opening brief.

²¹⁰ UCAN's opening brief.

transportation electrification assets.²¹¹ Many of TURN/NRDC's proposed evaluation questions are more appropriate for the evaluation of a future version of an income-graduated fixed charge with greater impacts on volumetric rates and electrification decisions. However, we agree that the evaluation metrics for income-graduated fixed charges should include bill impacts for different customer sub-groups. We also agree that the Large Utilities should conduct surveys to determine the effectiveness of ME&O.

It is reasonable for the Large Utilities' quarterly reports on income-graduated fixed charges to include the following metrics:

- a. Number of customers in each tier;
- b. Number of customers who change tiers;
- c. Average customer bill impacts for each tier and each baseline territory;
- d. Number of press article mentions;
- e. Impressions and reach of paid media;
- f. Number and type of outbound targeted communications and bill messages;
- g. Number of related calls or emails received;
- h. ME&O dollars spent;
- i. Number of customers who were asked to verify their incomes through the CARE and FERA programs; and
- j. Number of customers who successfully verified their incomes through the CARE and FERA programs.

In the ME&O section above, we directed the Large Utilities to discuss their proposed ME&O metrics at the joint ME&O workshop before proposing ME&O metrics in their individual Tier 3 implementation advice letters. The Large

²¹¹ TURN/NRDC's opening brief.

Utilities' proposed ME&O metrics may include additional metrics not described above.

5.9. Timing of Implementation

In their opening brief, the Large Utilities provided the following estimated timeline for income-graduated fixed charges:

- Each of the Large Utilities could file an implementation advice letter within 90 days of a decision;
- SCE and SDG&E could begin ME&O activities in the third quarter of 2024;
- SCE and SDG&E could each complete all necessary billing system upgrades and pre-launch ME&O activities within 12 months of a decision and begin to apply the fixed charges to customer bills in the third quarter of 2025; and
- PG&E could complete a transition to a new billing system and begin to apply the new fixed charges to customer bills in the first quarter of 2028.

On December 18, 2023, ALJ Wang issued the Budget and Timing Ruling to direct the Large Utilities to file additional information about budgets and implementation timing and request party comments.

In opening comments on the Budget and Timing Ruling, PG&E proposed a revised timeline for implementing its income-graduated fixed charges:²¹²

- PG&E could program income-graduated fixed charges into its current primary billing system (Customer Care & Billing System) for 98.2 percent (4.8 million) residential customers, conduct ME&O beginning in 2024, and apply the fixed charges to these customers by the first quarter of 2026; and
- PG&E could propose an interim billing solution around the summer of 2024 for how and when to apply fixed charges to the 1.8 percent of residential customers (approximately

²¹² The Large Utilities' opening comments on the Budget and Timing Ruling.

90,000 customers) who are currently billed through its legacy billing system (Advanced Billing System).

PG&E notes that the remaining customers who are billed on the Advanced Billing System are primarily solar customers on complex Net Energy Metering Rates. PG&E explained that the main problem with implementing a fixed charge for these customers is that the Advanced Billing System has been in use for over 30 years and is unstable. PG&E intends to eventually move these customers to a new billing system. PG&E asserted that it would not be prudent to add additional functions to the old Advanced Billing System until it has been stabilized. PG&E asserted that it needs additional time to evaluate other options and offered to prepare a supplemental advice letter filing in mid-2024 to propose an interim solution for those customers, including updated cost estimates and timing.

Cal Advocates supported PG&E's revised timeline for implementing income-graduated fixed charges, including PG&E's proposal to continue to evaluate how to transition the customers who are billed on the old Advanced Billing System.²¹³ TURN/NRDC generally supported expediting the implementation of income-graduated fixed charges to support equity and electrification.²¹⁴

Several parties asserted that implementation of income-graduated fixed charges should be delayed. UCAN argued that SCE's and SDG&E's proposed timeline for ME&O is too compressed to support customer understanding. Advanced Energy United and California Energy Storage Alliance also argued

²¹³ Cal Advocates' reply comments on the Budget and Timing Ruling.

²¹⁴ TURN/NRDC's opening comments on the Budget and Timing Ruling.

that the Commission should delay implementation to provide more time for ME&O.²¹⁵

Although TURN/NRDC opposed delaying implementation, they agreed that ME&O efforts are critical and should be initiated as soon as possible to ensure that customers understand the upcoming changes to rates and potential impact on bills. TURN/NRDC argued that this effort is especially necessary in light of “organized efforts to intentionally mislead the public and spread misinformation” about the purpose of the fixed charge and its expected impacts. TURN/NRDC noted that online articles have labelled income-graduated fixed charges as a “utility tax” and have incorrectly implied that a fixed charge is an additional cost added to customer bills rather than a restructuring to reduce volumetric rates without increasing revenues from residential rates.²¹⁶

We agree with parties that ME&O is necessary to enable customer understanding of the adopted income-graduated fixed charges. However, it is not necessary to delay implementation of the Large Utilities’ income-graduated fixed charges. This decision authorized an expedited approach to developing ME&O plans, which will enable utilities to begin ME&O activities as soon as possible. Each of the Large Utilities proposed a schedule that included around 12 months between filing its ME&O plan and applying income-graduated fixed charges to customer bills. The proposed timeline is sufficient for promoting customer understanding.

In opening comments on the Budget and Timing Ruling, SEIA argued that implementation of SCE’s and SDG&E’s fixed charges should be delayed until

²¹⁵ Advanced Energy United’s, California Energy Storage Alliance’s, and UCAN’s opening comments on the Budget and Timing Ruling.

²¹⁶ TURN/NRDC’s reply comments on the Budget and Timing Ruling.

PG&E's fixed charges are implemented to prevent customers in Southern California from feeling that it is unfair to be subject to fixed charges earlier than other customers in the state. On the same day, PG&E proposed a revised timeline that reduced the gap between the implementation of the SCE and SDG&E fixed charges and the PG&E fixed charges for most of its customers to two calendar quarters.²¹⁷

Cal Advocates replied that the time-of-use transition showed that phasing in implementation of rate changes is not problematic.²¹⁸ 350 Bay Area similarly commented that a later rollout of ME&O by PG&E could enable PG&E to learn from the results of ME&O by the other Large Utilities.²¹⁹

We agree with Cal Advocates and 350 Bay Area that the transition to income-graduated fixed charges does not need to be simultaneous, but we also see benefits to generally aligning implementation timelines of the Large Utilities. We will direct SCE and SDG&E to begin the transition in the fourth quarter of 2025 and PG&E to begin the transition in the first quarter of 2026.

It is reasonable to adopt the following timeline for implementing the Large Utilities' income-graduated fixed charges:

- a. Within 60 days of the issuance date of this decision, the Large Utilities shall jointly host the ME&O workshop required by this decision;
- b. Within 90 days of the issuance date of this decision, each of the Large Utilities shall file a Tier 3 advice letter to implement income-graduated fixed charges;

²¹⁷ The Large Utilities' opening comments on the Budget and Timing Ruling.

²¹⁸ Cal Advocates' reply comments on the Budget and Timing Ruling.

²¹⁹ 350 Bay Area's opening comments on the Budget and Timing Ruling.

- c. Between October 1, 2025 and December 15, 2025, SCE and SDG&E shall begin to apply fixed charges to residential customers' bills; and
- d. Between January 1, 2026 and March 31, 2026, PG&E shall begin to apply fixed charges to residential customers' bills.

5.10. Implementation Budget and Cost Recovery

Generally, the Commission reviews each of the Large Utilities' revenue requirement for a multi-year period through General Rate Case Phase 1 proceedings. When directing a Large Utility to incur substantial additional costs for activities that were not considered in a General Rate Case Phase 1 proceeding, the Commission considers how the utility should track and recover these additional costs.

In their opening brief, the Large Utilities proposed to each file a Tier 1 advice letter to create a new balancing account within 30 days of a decision to track actual implementation costs (e.g., ME&O, billing systems upgrades, operations) that are incremental to each utility's authorized revenue requirement. The Large Utilities proposed to recover these implementation costs from Public Purpose Program charges through the Annual True-Up Advice Letter.

Cal Advocates supported cost recovery through Public Purpose Program but recommended that the Large Utilities record implementation costs in a memorandum account to provide the Commission and parties an opportunity to conduct a review of the reasonableness of the costs.²²⁰ TURN/NRDC similarly proposed that the Commission review the reasonableness of implementation costs in an upcoming General Rate Case proceeding.²²¹

²²⁰ Cal Advocates' opening brief.

²²¹ TURN/NRDC's opening brief.

The Large Utilities replied that additional scrutiny of costs is not necessary because the Commission had the opportunity to review reasonableness of proposed implementation costs in this proceeding.²²² However, the Large Utilities provided only high-level information about implementation costs in this proceeding.²²³ We agree with TURN/NRDC and Cal Advocates that additional scrutiny of actual implementation costs will be required.

It is reasonable for each of the Large Utilities to create a new Income-Graduated Fixed Charge Memorandum Account to record the actual incremental implementation costs of implementing income-graduated fixed charges and propose to recover such costs through a future General Rate Case or rate design window application proceeding. Each of the Large Utilities shall file a Tier 1 advice letter within 30 days of the issuance date of this decision to create the new accounts.

On January 24, 2024, the Large Utilities filed opening comments on the Budget and Timing Ruling with updated implementation budget proposals for income-graduated fixed charges that are summarized in the table below. The Large Utilities also proposed ME&O budgets. However, as discussed in the ME&O section above, we will determine ME&O budgets through the Tier 3 advice letter process when we review each utility's ME&O plan.

Table 6: Large Utilities' Revised Budget Proposals²²⁴

²²² The Large Utilities' reply brief.

²²³ The Large Utilities provided updated budget estimates in their opening comments on the Budget and Timing Ruling. Generally, the Large Utilities provided estimated costs for large categories (such as income verification) without specific budget breakdowns by sub-tasks or estimated staff hours or contractor hours for each budget category.

²²⁴ The Large Utilities' opening comments on the Budget and Timing Ruling.

Activity	PG&E (\$ millions)	SCE (\$ millions)	SDG&E (\$ millions)
Income Verification	\$4.452	\$1.898	\$2.630
Billing System	\$9.245	\$2.900	\$4.250
Customer Rates Tools Updates	\$0.674	\$0.059	\$1.200
Customer Support (Contact Center)	\$11.895	\$16.191	\$5.930
Program and Product Management	\$2.445	\$0.550	\$1.560
Total	\$28.711	\$21.598	\$15.570

The Large Utilities each asserted that the implementation of income-graduated fixed charges would increase income verification costs and/or call center costs of the CARE and FERA programs due to (a) anticipated increases in CARE or FERA enrollment, or (b) costs related to the Large Utilities' proposal to create two different income-graduated fixed charge tiers for CARE customers.²²⁵ No party commented about whether to approve the Large Utilities' proposed implementation costs.²²⁶

The first category of costs (relating to increases in CARE or FERA enrollment) is not an implementation cost of income-graduated fixed charges. The Commission sets goals for increased enrollment and considers budgets for CARE and FERA implementation costs through CARE and FERA program application proceedings. As noted above, CARE enrollment levels are already

²²⁵ The Large Utilities' opening comments on the Budget and Timing Ruling.

²²⁶ Several parties filed reply comments on the Budget and Timing Ruling, but no party commented on whether to approve the Large Utilities' proposed implementation costs. SEIA's reply comments expressed skepticism about PG&E's proposed estimated additional costs of expediting implementation of the first income-graduated fixed charges but did not oppose the cost estimate.

very high (88-95% among Large Utilities in 2019), and the Commission recently authorized new enrollment goals and ME&O funding to increase FERA participation to 70 percent by 2026.²²⁷

The latter category of costs (related to the Large Utilities' proposal to create two income tiers for CARE customers) is not relevant because this decision approved only one income tier for CARE-eligible customers. Accordingly, this decision does not approve additional funding for income verification by the CARE and FERA programs or increased call center volume for the CARE and FERA programs.

The Large Utilities each proposed estimates for billing system upgrade costs. SCE's proposed billing system costs are relatively modest, presumably because SCE currently has a fixed charge on its residential rates. SDG&E proposed an initial cost of \$2.65 million for the initial billing system upgrades for implementing income-graduated fixed charges, and an additional \$125,000 to \$140,000 for implementing each individual rate schedule, for a total of \$4.25 million. PG&E's proposed billing system upgrade costs are substantially higher because they include \$3.5 million for the potential costs of implementing a temporary solution for customers on the old Advanced Billing System.²²⁸ Since PG&E needs additional time to propose a solution for customers on the old Advanced Billing System, we will not approve the estimated costs for that component of the billing system upgrades at this time.

It is reasonable for PG&E to propose a billing system solution and implementation costs for addressing the Advanced Billing System in its Tier 3

²²⁷ D.21-06-015 at Conclusions of Law 49.

²²⁸ The Large Utilities' opening comments on the Budget and Timing Ruling.

implementation advice letter or in a future application for billing system upgrade costs.

The Large Utilities each proposed updates to their customer rates tools. This is consistent with our decision to require the Large Utilities' ME&O efforts to include information about rate comparison tools. The cost of updates to rate comparison tools should be modest. SCE proposed only \$59,000 for this activity, likely because SCE's residential rates currently include a fixed charge. SDG&E did not provide a justification for why their proposed costs are twice as high as PG&E's proposed costs.²²⁹ For this reason, we reduced SDG&E's budget for this cost to match PG&E's budget.

Each of the Large Utilities proposed large budgets for incremental costs of customer support through call centers. PG&E's estimate assumed a 50 percent higher incremental call volume than what they experienced during the time-of-use transition, where PG&E received calls from 3.2 percent of residential customers about time-of-use rates.²³⁰ We do not expect that the transition to income-graduated fixed charges will result in a higher call volume than the time-of-use transition. The new income-graduated fixed charges are modest and will not require many customers to take action to change income tiers. PG&E also assumed that average calls about income-graduated fixed charges would take substantially longer than average calls about other billing-related topics (11.5 minutes versus 8 minutes). The adopted design of income-graduated fixed charges is simple compared with time-of-use rates and should not take more time to discuss than other billing-related topics. Accordingly, this decision

²²⁹ The Large Utilities' opening comments on the Budget and Timing Ruling.

²³⁰ The Large Utilities' opening comments on the Budget and Timing Ruling.

adjusted the budget for PG&E's call center costs to allow for up to 3.2 percent of residential customers to call about the income-graduated fixed charges during the initial roll out period and spend an average of 8 minutes on these calls.

SCE commented that 8 percent of residential customers affected by the time-of-use transition contacted a call center during the transition. SCE estimated that 8 percent of CARE customers with incomes under 100 percent of Federal Poverty Guidelines would call about providing income data, an additional group of CARE customers with significantly changed income levels would call about qualifying for the lowest income tier, and 7 percent of non-CARE customers would call with billing questions about income-graduated fixed charges.²³¹

We do not expect such a high percentage of SCE's customers to contact a call center during the transition to income-graduated fixed charges. The adopted design of income-graduated fixed charges is simple compared with SCE's time-of-use rate designs and do not require many customers to take any action. We expect PG&E customers' call volume for the time-of-use transition to be more reflective of how customers will respond to income-graduated fixed charges than SCE customers' experience, given that PG&E's two period time-of-use rates are much easier to understand than SCE's three period time-of-use rates. Further, SCE's proposal included the costs of customers calling to provide proof of incomes below 100 percent of Federal Poverty Guidelines to qualify for the first tier, which relates to a provision of the Large Utilities' proposal that this decision did not approve.

In accordance with our budget adjustments for PG&E, we adjusted the budget for SCE's call center costs to allow up to 3.2 percent of all residential

²³¹ The Large Utilities' opening comments on the Budget and Timing Ruling.

customers to call about the income-graduated fixed charges during the initial roll out period. Applying this assumption to SCE's residential customer class of 4.5 million customers produces an anticipated incremental call volume of 144,000 as opposed to SCE's estimate of 271,000. Call center costs were scaled down accordingly for all costs other than training and interactive voice recognition software upgrade costs (\$1.759 million and \$150,000, respectively) since those costs do not scale with call volume.

SDG&E assumed that the Customer Care Center would receive 8 percent incremental call volume in 2025 compared to the average for 2019 through 2022 (or 123,000 additional calls) relating to fixed charges and general inquiries. This would be approximately 9 percent of SDG&E's residential customers. We expect that the incremental call volume for income-graduated fixed charges should be similar to the incremental call volume for a transition to time-of-use rates. SDG&E commented that they do not have an accurate estimate for the number of calls they received during the time-of-use transition that were truly related to time-of-use.²³² Accordingly, we will apply the incremental call volume percentage that PG&E experienced during its time-of-use transition (3.2 percent) to adjust SDG&E's estimate.

For the reasons discussed above, we adjusted SDG&E's budget for additional call center volume to allow for 3.2 percent of all residential customers to call about income-graduated fixed charges (rather than 9 percent). This adjustment was applied to all call center costs other than the estimated \$1.125 million of non-labor costs, which we expect will not be reduced with lower call volumes.

²³² The Large Utilities' opening comments on the Budget and Timing Ruling.

Each of the Large Utilities also proposed budgets for program and product management. SCE proposed a budget of \$550,000 for this purpose.²³³ No party objected to this proposed budget line-item. We agree that a budget of \$550,000 for SCE's program and product management for implementing income-graduated fixed charges is reasonable.

PG&E and SDG&E proposed budgets of \$2.445 million and \$1.56 million respectively for program and product management. Neither party provided a justification for why their proposed costs are roughly three to four times higher than SCE's proposed costs for the same activities. This decision adjusted each of PG&E's and SDG&E's budgets for program and product management to match SCE's proposed budget.

It is reasonable to adopt the implementation budgets for the Large Utilities in Table 7 below.

Table 7: Large Utilities' Approved Implementation Budgets

Activity	PG&E (\$ millions)	SCE (\$ millions)	SDG&E (\$ millions)
Income Verification	\$0	\$0	\$0
Billing System	\$5.745	\$2.900	\$4.250
Customer Rates Tools Updates	\$0.674	\$0.059	\$0.674
Customer Support (Contact Center)	\$7.304	\$9.498	\$2.833
Program and Product Management	\$0.550	\$0.550	\$0.550
Total	\$14.273	\$13.007	\$8.307

²³³ The Large Utilities' opening comments on the Budget and Timing Ruling.

6. Whether to Approve the Small Utilities Settlement Agreement

The Small Utilities and Cal Advocates filed a Settlement Motion for adoption of the Settlement Agreement on January 16, 2024. On February 15, 2024, SEIA, CforAT, Sierra Club/CEJA, and TURN/NRDC filed responses to the Settlement Motion. SEIA, CforAT, and Sierra Club/CEJA each opposed different provisions of the Settlement Agreement. TURN/NRDC did not oppose the Settlement Agreement but raised concerns about certain provisions. On March 1, 2024, the Small Utilities, CEJA, and the Large Utilities filed replies to comments on the Settlement Motion.

Section 12.1(d) of the Commission's Rules provides that the Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest. Where a settlement is contested, it will be subject to more scrutiny than an uncontested settlement. While our policy is to favor the settlement of disputes, we will not approve unreasonable settlements.

Specifically, this decision considered whether the Settlement Agreement fully and fairly balances the relevant public interests and those of all affected stakeholders and addressed any contested issue in the proceeding. This decision also looked at whether the Settlement Agreement substantially aligns with Commission policies and practices or complies with the law. Finally, this decision considered the reasonableness of the Settlement Agreement in light of the proceeding record and whether the proponents of the Settlement Agreement adequately explained and justified each provision of the agreement.

The parties to the Settlement Agreement represent the interests of Small Utilities and their ratepayers. However, the parties to the Settlement Agreement

do not represent the interests of the parties who oppose the agreement (i.e., environmental and social justice organizations, people with disabilities, and the solar industry).

The Settlement Agreement addressed all of the contested issues relating to the first version of the Small Utilities' income-graduated fixed charges, except for one major issue. The Settlement Agreement proposed to primarily recover Small Utilities' base revenue costs through income-graduated fixed charges. However, the Settlement Agreement did not include an agreement about which specific cost categories within the Small Utilities' base revenue costs are "fixed costs" that may be recovered through a fixed charge in accordance with AB 205.²³⁴

SEIA, Sierra Club/CEJA, and TURN/NRDC filed responses to the Settlement Agreement that disputed the Settlement Agreement's proposal to recover base revenues without an assessment of whether all included cost categories are fixed costs.

For the reasons discussed in the statutory interpretation section above, only fixed costs may be recovered through an income-graduated fixed charge. As discussed in Section 6.2 below, the record of this proceeding did not include sufficient evidence about the Small Utilities' base revenue costs to determine which portion consists of fixed costs that may be recovered through a fixed charge in accordance with AB 205. Accordingly, the Settlement Agreement's proposal to recover base revenues through income-graduated fixed charges is not reasonable in light of the proceeding record.

The Settlement Motion provided that each clause of the Settlement Agreement is severable, and if any clause is deemed illegal, void, or

²³⁴ In Exhibit Cal Advocates-03, Cal Advocates contested recovery of Liberty's generation base revenues through a fixed charge.

unenforceable, such determination will not affect the validity of any other clause of the agreement. It is reasonable to sever the portion of the Settlement Agreement that is unsupported by the record of this proceeding and consider whether the balance of the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

The Settlement Motion provided that it should not have precedential value for future Commission decisions related to income-graduated fixed charges, and that there are no separate agreements between the settling parties that relate to issues in the Settlement Agreement that are not disclosed in the Settlement Agreement.

For the reasons below, this decision approves the Settlement Agreement, with the exception of the proposal to recover each of the Small Utilities' base revenues (and Bear Valley's General Rate Case Revenue Requirement Memorandum Account) and the associated fixed charge levels. As explained further below, this decision directs the Small Utilities to file a Tier 3 advice letter with more information about the cost categories included in base revenues and makes the determination of fixed charge levels subject to an analysis of the total revenue requirement for fixed cost categories approved in this decision. The approval of the Settlement Agreement should not have precedential value.

The Settlement Agreement did not address several uncontested issues relating to the Small Utilities' income-graduated fixed charges, such as the implementation budget and metrics. This decision considered how to address the uncontested issues based on the record of the proceeding.

6.1. Income Tiers and Income Verification

The Settlement Agreement proposed the following income tiers for the first version of income-graduated fixed charges for the Small Utilities:

- Tier 1: Incomes between 0 to 100 percent of Federal Poverty Guideline levels;
- Tier 2: Incomes above 100 percent and up to 200 percent of Federal Poverty Guideline levels; and
- Tier 3: Incomes above 200 percent of Federal Poverty Guideline levels.

The Settlement Agreement proposed to rely on the existing CARE income verification processes amended to obtain income information from customers with incomes between 0 percent to 100 percent of Federal Poverty Guideline levels.

The Settlement Motion argued that the proposed income tiers comply with the requirements of AB 205 because they include three tiers and enable the Small Utilities to apply a lower fixed charge to low-income customer bills in accordance with AB 205. We agree that the proposed income tiers comply with the requirements of AB 205.

The Settlement Motion argued that the proposal is reasonable in light of the Small Utilities' limited staff resources and small customer bases. The Settlement Motion argued that the Commission has authorized different requirements for Small Utilities than Large Utilities in the past to limit administrative burdens for Small Utilities.

The Settlement Motion argued that the proposal is also reasonable because it leverages existing CARE income-verification processes in accordance with the Implementation Pathway Ruling. The Settlement Motion argued that the CARE program is the only program that the Small Utilities currently use to identify customers as low-income for monthly billing purposes. The Settlement Agreement did not propose a middle tier based on FERA eligibility because they do not administer FERA programs.

The Settlement Agreement's proposal is consistent with the proposal advanced in the Small Utilities' opening brief. In its reply brief, CforAT opposed the Small Utilities' income tiers proposal because it would put additional administrative burdens on the lowest income customers and because the middle tier would not include customers between 200 and 250 percent of Federal Poverty Guidelines.²³⁵ Sierra Club/CEJA also opposed the tier structure, arguing that it fails to prevent placing low- and moderate-income customers in Tier 3 with high income customers.²³⁶

The Settlement Agreement's tier structure is aligned with the adopted definition of low-income customer, based on 200 percent of the Federal Poverty Guidelines level, but does not differentiate between customers with moderate and higher incomes. In Section 4, this decision adopted an implementation pathway approach for implementing AB 205. We determined that it is reasonable for the Large Utilities' income-graduated fixed charges to rely on utilities' existing income verification processes for CARE and FERA. In Section 4, this decision also established a Process Working Group for proposing a new income-verification process to enable the next version of income-graduated fixed charges to differentiate between customers with moderate and higher incomes.

This decision did not adopt the Large Utilities' proposal to separate CARE-eligible customers into two tiers in the same manner as proposed by the Settlement Agreement. However, we agree with the Settlement Motion that the Small Utilities have different circumstances because they do not administer a FERA program.

²³⁵ See also CforAT's response to the Settlement Motion.

²³⁶ Sierra Club/CEJA's response to the Settlement Agreement.

It is reasonable for the Small Utilities' income-graduated fixed charges to rely on their existing CARE income verification processes as amended to obtain income information from customers with incomes between 0 to 100 percent of Federal Poverty Guideline levels. The Process Working Group should develop a proposal for how to improve the income verification processes of the Small Utilities' income-graduated fixed charges, including how to verify the incomes of moderate-income customers.

TURN/NRDC did not oppose the tier structure but expressed concerns about how customers will be placed into either Tier 1 or Tier 2.²³⁷ We are similarly concerned that customers eligible for Tier 1 will not be aware of how to enroll in Tier 1 or will face barriers to enrolling in Tier 1.

The Settlement Agreement's income tier and income verification proposal is reasonable in light of the whole record, consistent with law, and in the public interest. Each of the Small Utilities should provide information in their Tier 3 implementation advice letter about when and how customers will be informed about the opportunity to be placed in Tier 1 and how to reduce barriers to enrolling in Tier 1.

It is reasonable to adopt the following tier structure for the income-graduated fixed charges of the Small Utilities:

- a. Tier 1 will be assigned to customers with incomes of 0 to 100 percent of the Federal Poverty Guideline levels applicable to that household under the CARE program;
- b. Tier 2 will be assigned to customers with incomes above 100 percent and at or below 200 percent of the Federal Poverty Guideline levels applicable to that household under the CARE program; and

²³⁷ TURN/NRDC's response to the Settlement Agreement.

- c. Tier 3 will be assigned to customers who do not qualify for the first or second tiers.

It is reasonable to adopt the following income tier assignment processes for the income-graduated fixed charges of the Small Utilities:

- a. Small Utilities will assign customers who attest to having eligible incomes through the CARE application process to Tier 1;
- b. Small Utilities will assign all other customers enrolled in CARE to Tier 2 without the need for the customer to take any action; and
- c. Utilities will assign all customers who are not enrolled in the CARE program to Tier 3.

6.2. Fixed Costs and Fixed Charge Levels

The Settlement Agreement proposed the initial income-graduated fixed charge levels in the table below.

Table 8: Settlement Agreement Total Fixed Charge Levels

Utility	Tier 1	Tier 2	Tier 3
Bear Valley	\$5.77	\$10.83	\$25.24
Liberty	\$5.00	\$10.00	\$32.76
PacifiCorp (single-family)	\$7.21	\$15.64	\$33.98
PacifiCorp (multi-family)	\$5.20	\$10.25	\$23.40

The Settlement Motion argued that the fixed charge levels above are consistent with the law because low-income ratepayers (Tier 1 and Tier 2) with average usage in each baseline territory would see a reduction in monthly bills without changes to usage. The Settlement Motion attached the Small Utilities' work papers to show compliance with the law for each of Tier 1 and Tier 2.

Sierra Club/CEJA and CforAT opposed the fixed charge levels, arguing that the fixed charges would not meet statutory requirements to provide bills savings to all low-income ratepayers (not just customers with average usage). However, in Section 3.4 of this decision, we concluded that AB 205 requires income-graduated fixed charges to lower the average monthly bill for a low-income ratepayer with average usage in each baseline territory without making any changes to usage.²³⁸

TURN/NRDC expressed concerns that the Tier 2 customer savings would be modest compared to Tier 1 customer savings but did not oppose the specific fixed charge levels or dispute that the fixed charge levels would comply with statutory requirements to result in bill savings for Tier 2 low-income customers with average electricity usage in each baseline territory.²³⁹ The Large Utilities replied that TURN/NRDC's response should not assume that each of the two low-income fixed charge tiers would be required to separately comply with the AB 205 requirement for the "average low-income customer" to realize bill savings in each baseline territory. In other words, the Large Utilities argued that the Commission should allow a combined analysis of bill savings for the two low-income fixed charge tiers. The Large Utilities are incorrect.

This decision interpreted AB 205 as requiring bill savings for "a low-income customer with average electricity usage." TURN/NRDC is correct that the Small Utilities must show compliance with the AB 205 bill savings requirement separately for Tier 1 and Tier 2. As noted above, the Settlement Motion demonstrates compliance with AB 205 separately for Tier 1 and Tier 2.

²³⁸ Sierra Club/CEJA's and CforAT's responses to the Settlement Motion.

²³⁹ TURN/NRDC's response to the Settlement Motion.

The Settlement Agreement proposed to recover two categories of costs through fixed charges: (a) a portion of base revenues, and (b) specific cost adjustment categories. The proposed fixed charges primarily recover base revenue costs rather than specific cost adjustment categories. For example, the proposed Tier 3 fixed charge of \$32.76 for Liberty recovers \$31.70 for base revenues and only \$1.06 for specific cost adjustment categories.

The Settlement Motion argued that the proposed fixed charge levels are reasonable because they recover a reasonable portion of fixed costs. However, the Settlement Agreement asserted that no specific methodology for calculating fixed costs was agreed upon in the Settlement Agreement. The Settlement Agreement did not include an agreement about the total amount of each Small Utilities' fixed costs or what percentage of the Small Utilities' fixed costs the proposed fixed charges would recover.

The Settlement Agreement proposed to recover the following adjustment schedules through the Small Utilities' income-graduated fixed charges:

- CARE program surcharge (all Small Utilities);
- Energy Savings Assistance Program surcharge (all Small Utilities);
- Catastrophic Event Memorandum Account recorded costs (all Small Utilities);
- Public Purpose Program surcharge (PacifiCorp and Bear Valley);
- Energy Efficiency Balancing Account (Liberty); and
- General Rate Case Revenue Requirement Memorandum Account (Bear Valley).

The Settlement Motion argued that all of the proposed adjustment schedules for recovery through the fixed charges are fixed costs for the Small

Utilities that are not directly tied to the amount of electricity used by a customer and are incurred regardless of how much electricity is used.

The statutory interpretation section of this decision determined that Section 739.9 of the Pub. Util. Code provides that only fixed costs may be recovered through a fixed charge. Further, this decision defined a fixed cost as a cost that does not directly vary based on the electricity usage of the customer from whom the revenue is being collected.

As discussed above in the section approving the Large Utilities' fixed costs for income-graduated fixed charges, public policy-related costs like CARE program surcharge are fixed costs because the revenue requirement for such costs does not directly vary based on the electricity usage of the customer from whom the revenue is being collected. Each of the following costs are public-policy related fixed costs: CARE program surcharge, Energy Savings Assistance Program surcharge, Catastrophic Event Memorandum Account recorded costs, Public Purpose Program surcharge, and Energy Efficiency Balancing Account. No party raised any legal restrictions on recovery of any of these costs through a fixed charge.

The Settlement Agreement also proposed to recover Bear Valley's General Rate Case Revenue Requirement Memorandum Account through income-graduated fixed charges. Bear Valley did not previously propose to recover the costs of this account through a fixed charge.²⁴⁰ The Settlement Motion argued that these costs are incurred regardless of customer usage and are fixed costs. No party argued that there are legal restrictions on recovering this cost through a fixed charge.

²⁴⁰ Exhibit BVES-1 and the Small Utilities' opening brief proposed to recover all distribution costs allocated to residential customers through a General Rate Case decision.

SEIA responded that the Settlement Motion did not explain why these costs are incurred regardless of customer usage.²⁴¹ This memorandum account was established in D.22-08-010 to track the difference between rates effective on December 31, 2022 and the rates that would be authorized in a subsequent decision. The Settlement Motion does not provide sufficient information to determine which portion of Bear Valley's General Rate Case Revenue Requirement Memorandum Account costs are fixed costs.

It is reasonable in light of the whole record, consistent with law, and in the public interest to approve the recovery of the following cost categories through the Small Utilities' income-graduated fixed charges: CARE program surcharge, Energy Savings Assistance Program surcharge, Catastrophic Event Memorandum Account recorded costs, Public Purpose Program surcharge, and Energy Efficiency Balancing Account (together, the Small Utilities' Line-Item Fixed Costs).

Neither the Settlement Motion nor the Settlement Agreement included an agreement or argument about which portion of each Small Utilities' base revenues are fixed costs. The record of this proceeding does not include sufficient evidence regarding which portion of each Small Utilities' base revenues are fixed costs. Neither Bear Valley nor PacifiCorp previously proposed to recover base revenues; instead, each utility proposed to recover all residential distribution costs through fixed charges.²⁴² In opening testimony and the Small Utilities' opening brief, Liberty proposed to recover both "distribution base revenues" and "generation base revenues" through fixed charges.²⁴³ Cal Advocates initially

²⁴¹ SEIA's response to the Settlement Motion.

²⁴² Exhibit BVES-1, Exhibit PAC-01, and the Small Utilities' opening brief.

²⁴³ Exhibit Liberty-01 and the Small Utilities' opening brief.

opposed inclusion of generation base revenues, arguing that these costs are related to usage and are not fixed costs. Cal Advocates also noted that Liberty did not provide any indication whether the generation costs were related to sunk costs or stranded assets.²⁴⁴

SEIA commented that the Small Utilities failed to provide information about what cost categories are included in base revenues in response to a data request and therefore the fixed charge levels are not justified.²⁴⁵ Sierra Club/CEJA also raised concerns about the Settlement Agreement's failure to identify which costs are included in base revenues and argued that the proposed fixed charge levels are not justified.²⁴⁶ In reply, the Small Utilities simply reiterated that the base revenue fixed charge component consists of "distribution costs that are fixed in nature" without further description of these costs.²⁴⁷

The Settlement Motion proposed fixed charge levels based on the revenue requirement for specific costs. The Small Utilities' base revenue costs comprise the majority of the proposed costs for recovery through the fixed charges. Whether the proposed fixed charges are reasonable depends on whether all of the proposed base revenue costs for recovery are fixed costs.

TURN/NRDC recommended that the Commission require the Small Utilities to identify the cost categories included in base revenues and explain why these cost categories are similar to the cost categories that the Commission authorized for fixed charge recovery (for the Small Utilities or the Large Utilities). TURN/NRDC recommended that the Commission reduce the Small

²⁴⁴ Exhibit Cal Advocates-03.

²⁴⁵ SEIA's response to the Settlement Motion.

²⁴⁶ Sierra Club/CEJA's response to the Settlement Motion.

²⁴⁷ The Small Utilities' reply to responses to the Settlement Motion.

Utilities' fixed charge levels if the Commission finds that the total revenue requirement (for the proposed fixed costs) is not high enough to support the proposed fixed charge levels.²⁴⁸

The record of this proceeding is not sufficient to determine which portion of Small Utilities' base revenues are fixed costs that may be recovered through a fixed charge. We agree that TURN/NRDC's proposed solution is a reasonable way to address this issue.

It is reasonable for the Commission to determine which portion of the Small Utilities' base revenues are fixed costs that may be recovered through income-graduated fixed charges through a Tier 3 advice letter process.

If the Commission determines in a resolution of the Tier 3 advice letter that the total revenue requirement for all of the Small Utilities' fixed cost categories is sufficient to support the fixed charge levels in the Settlement Agreement, then it would be reasonable for the resolution to approve the Settlement Agreement's fixed charge levels. If the Commission resolution determines that the total revenue requirement for all of the Small Utilities' fixed cost categories does not support the fixed charge levels in the Settlement Agreement, it would be reasonable for the Commission resolution to reduce the Small Utilities' fixed charge levels accordingly.

Each of the Small Utilities shall include the following information regarding proposed fixed costs and fixed charge levels in a Tier 3 advice letter for implementing income-graduated fixed charges:

- a. A list of all base revenue cost categories that the utility proposes to recover through its income-graduated fixed

²⁴⁸ TURN/NRDC's response to the Settlement Motion.

- charges and the revenue requirement associated with each cost category;
- b. An explanation of why each listed base revenue cost category is a fixed cost similar to a category approved for recovery through this decision;
 - c. The revenue requirement for each of the fixed cost categories approved in this decision, if applicable to the utility;
 - d. An explanation of how each base revenue cost category was converted from the current volumetric rate to a new per customer rate, if it is incremental to the current fixed charges;
 - e. If a review of the base revenue cost categories shows insufficient fixed costs to support the Settlement Agreement's fixed charge levels, then the utility shall propose lower fixed charges; and
 - f. A bill impact analysis demonstrating that both Tier 1 and Tier 2 customers with average electricity usage in each baseline territory without changes to usage will realize a bill savings compared to currently effective rates.

6.3. Small and Large Customer Differentiation

The Settlement Motion argued that the Settlement Agreement complies with the Section 739.9(d) requirement for fixed charges to appropriately reflect the different costs of serving small and large customers. However, the Settlement Agreement does not differentiate between small and large customers of Liberty or Bear Valley. The Settlement Agreement does propose lower fixed charges for multi-family housing customers of PacifiCorp than single-family housing customers. No party opposed this provision of the Settlement Agreement.

This decision determined that it is reasonable to initially adopt income-graduated fixed charges for the Large Utilities that do not differentiate between the costs of serving small and large customers. This decision directed the Large

Utilities to take specific actions to enable the Commission to study the feasibility of identifying small and large customers based on whether the customer is located in a single- or multi-family residence, among other potential solutions.

It is reasonable in light of the whole record, consistent with law, and in the public interest to approve the Settlement Agreement provision for PacifiCorp to reflect the different costs of serving small and large customers by imposing a lower fixed charge on customers in multi-family housing compared with customers in single-family housing.

It is reasonable in light of the whole record, consistent with law, and in the public interest to approve the Settlement Agreement provision for the income-graduated fixed charges of Liberty and Bear Valley to not reflect the different costs of serving small and large customers.

However, Liberty and Bear Valley must take similar steps as the Large Utilities to enable compliance with the statute in the next version of its income-graduated fixed charges. The Commission directs Liberty and Bear Valley to each (a) consult with PacificCorp to understand how PacifiCorp differentiates between single- and multi-family housing and whether it would be feasible for Liberty and Bear Valley to collect and use similar data for the purpose of differentiating fixed charges; (b) present their findings at the workshop hosted by the large utilities regarding differentiating between single- and multi-family households; and (c) file a report in this proceeding within 90 days of the workshop. These findings will be used by the Commission to help inform the design of the next version of the income-graduated fixed charge for the Small Utilities.

6.4. Rate Adjustments

6.4.1. Volumetric Rate Adjustments

In Section 5 above, this decision determined that the Large Utilities shall apply revenues collected through income-graduated fixed charges to reduce distribution rates equally during all time-of-use hours.

The Small Utilities' default residential volumetric rates are tiered based on monthly aggregate usage and are differentiated by season but not by the time of day.²⁴⁹ The Settlement Agreement did not address whether Small Utilities should apply revenues collected through income-graduated fixed charges to reduce distribution rates in a time-differentiated or season-differentiated way. No party argued that Small Utilities specifically should apply revenues collected through their income-graduated fixed charges to reduce volumetric rates in a time-differentiated or season-differentiated way.

For the reasons above, it is reasonable for the Small Utilities to apply revenues collected through income-graduated fixed charges to reduce distribution rates equally during all hours of the day and during all seasons of the year.

6.4.2. CARE Adjustments

The Small Utilities argued that the provisions of AB 205 that modified Section 739.1(c)(1) of the Pub. Util. Code to change how Large Utilities calculate the average effective CARE discount do not apply to the Small Utilities. As discussed in Section 3.7 above, Section 739.1(c)(1) only applies to utilities with 100,000 or more customer accounts. The Small Utilities asserted in opening testimony that they each have fewer than 100,000 customer accounts in

²⁴⁹ The Settlement Motion noted that the Commission did not require the Small Utilities to transition their customers to time-of-use rates in D.17-01-006.

California.²⁵⁰ We agree that Section 739.1(c)(1) does not apply to the Small Utilities.

The Settlement Agreement provided, “The fixed charge rates for low-income tiers already reflect a discount for low-income customers. No further discount will be applied to the fixed charge through the CARE program, however, the CARE discount will continue to apply to the volumetric rate.”

In response to the Settlement Agreement, TURN/NRDC urged the Commission to ensure that shifting a portion of fixed costs from volumetric rates to fixed charges will not reduce the CARE program revenue requirement that is funded by the Public Purpose Program charge, which is paid for by both residential and non-residential customers. However, TURN/NRDC did not argue that there is a legal requirement to adopt their preferred approach.

It is reasonable in light of the record, consistent with the law, and in the public interest to approve the Settlement Agreement’s provisions regarding the application of the CARE discount.

6.5. Optional Rates and Master-Metered Rates

The Settlement Agreement did not address whether the Small Utilities’ income-graduated fixed charges should apply to all residential rates, and if so, whether the fixed charges should vary between default residential rates and optional residential rates.

This decision authorized the Large Utilities’ income-graduated fixed charges for all default and optional residential rates, with the following exceptions: master-metered rates that are not sub-metered, separately-metered electric vehicle rates for customers whose primary meter has an income-

²⁵⁰ Exhibit BVES-1, Exhibit PAC-01, and Exhibit Liberty-01.

graduated fixed charge, and rate schedules that are scheduled to be eliminated by the second quarter of 2026.

In their opening brief, the Small Utilities argued that fixed charges should apply “equally” to default and optional residential rates. The Small Utilities argued that applying the same fixed charges to all residential rates would prevent rate shopping and will allow for a more equitable allocation of costs to customers. The Small Utilities have fewer optional rate schedules and did not propose to vary the terms of income-graduated fixed charges between default and optional residential rates. No party argued that the exceptions for applying fixed charges to optional residential rates or master-metered rates should be different for Small Utilities than Large Utilities.²⁵¹

It is reasonable to authorize income-graduated fixed charges for all of the Small Utilities’ default and optional residential rate schedules, with the following exceptions: master-metered rates that are not sub-metered, separately-metered electric vehicle rates for customers whose primary meter has an income-graduated fixed charge, and rate schedules that are scheduled to be eliminated by the second quarter of 2026.

6.6. Marketing, Education, and Outreach

The Settlement Agreement did not include a proposal for ME&O for the Small Utilities’ income-graduated fixed charges.

In their opening brief, the Small Utilities originally supported a statewide ME&O approach. The Small Utilities proposed using ME&O to inform customers about how volumetric rates will decline, how income-graduated fixed charges will function, and how the income-graduated fixed charges will impact overall

²⁵¹ The Small Utilities’ opening brief.

electric bills. The Small Utilities proposed to use statewide ME&O to provide awareness and notice of the rate changes, and the subsequent utility-specific ME&O plans would provide details about how the fixed charges will impact customer bills.

In its reply brief, the Small Utilities made a revised proposal without a statewide ME&O plan. The Small Utilities asserted that they met and conferred with the Large Utilities about lessons learned from the Large Utilities' previous ME&O activities and expectations for income-graduated fixed charges. The Small Utilities reported that they agreed to hold another meet and confer with the Large Utilities in the first quarter of 2024, open to all parties, to learn more about the research findings and refined ME&O proposals of the Large Utilities.

The Small Utilities argued that this approach to collaboration with the Large Utilities is an efficient and cost-effective alternative to a statewide ME&O plan for informing the Small Utilities' ME&O efforts and communications.

The Small Utilities' proposal is consistent with the directions this decision provided for the Large Utilities to jointly host a public workshop to discuss each utility's ME&O plan and propose individual ME&O plans in Tier 3 implementation advice letters.

It is reasonable for the Small Utilities to collaborate with the Large Utilities to learn more about the Large Utilities' research findings, best practices, and detailed ME&O plans for income-graduated fixed charges.

Each of the Small Utilities shall (a) participate in Large Utilities' joint ME&O workshop to discuss the Large Utilities' ME&O plans, research findings, and messaging, and (b) include in its Tier 3 advice letter for implementing income-graduated fixed charges a utility-specific ME&O plan, a line-item budget for ME&O activity costs, and a justification for each proposed line-item cost.

6.7. Revenue Shortfalls and Overcollection

The Settlement Motion explained that each of the Small Utilities will project the number of customers that will be enrolled in each income tier, and if the projections are incorrect, the income-graduated fixed charges will either collect more or less than the Small Utilities estimated.

The Commission approves the Small Utilities' revenue requirements every few years through a General Rate Case decision. Liberty and Bear Valley each record the difference between authorized base revenue requirement and the recorded revenues collected from customers in their respective Base Revenue Requirement Balancing Account. D.12-11-030 authorized Liberty to file a Tier 2 advice letter to request recovery of costs recorded in its Base Revenue Requirement Balancing Account when the recorded total over- or under-collection exceeds 5 percent of the authorized base revenue requirement. Similarly, D.14-11-002 authorized Bear Valley to file a Tier 1 advice letter to request recovery of costs recorded in its Base Revenue Requirement Balancing Account. The Settlement Motion noted that PacifiCorp does not have a similar balancing account.

The Settlement Agreement proposed to address the over- or under-collections of revenues by the Small Utilities' income-graduated fixed charges as follows:

- Bear Valley and Liberty would each use its existing Base Revenue Requirement Balancing Account to record revenue imbalances. Each utility would adjust the portion of the Small Utilities' Line-Item Fixed Costs recovered through fixed charges to address the over- or under-collection.
- PacifiCorp would file an advice letter once per year with a calculation of the differences between projected and actual

revenues from fixed charges. PacifiCorp would add a new adjustment schedule to residential customers' bills to provide a surcharge or credit based on the annual calculation.

In other words, the Settlement Agreement proposed two different mechanisms for addressing the differences between projected revenues and actual revenues from income-graduated fixed charges: (a) Bear Valley and Liberty would record the imbalances in balancing accounts and file an advice letter (Tier 1 advice letter for Bear Valley, Tier 2 advice letter for Liberty) to either increase or decrease their income-graduated fixed charges to address the imbalance, and (b) PacifiCorp would calculate revenue imbalances once per year and would file an advice letter to add a surcharge or credit on residential customers' bills to remedy the over- or under-collection of revenues.

No party opposed this provision of the Settlement Motion.

The Settlement Motion argued that these proposed mechanisms are supported by the record because they are consistent with the Small Utilities' previous proposals in this proceeding.²⁵² We agree that these proposals are consistent with the Small Utilities' previous proposals in this proceeding.

The Settlement Agreement's proposed mechanisms for recording revenue imbalances from income-graduated fixed charges and proposing adjustments are generally consistent with the record and the Commission's standard ratemaking practices.

The Settlement Agreement did not specify which type of advice letter will be required for proposing adjustments. A Tier 2 advice letter requires approval

²⁵² Bear Valley's opening comments on the Implementation Pathway Ruling, Exhibit BVES-1, Liberty's opening comments on the Implementation Pathway Ruling, Exhibit Liberty-01, PacifiCorp's opening comments on the Implementation Pathway Ruling, and Exhibit PAC-01.

by the Commission's staff prior to the rate change taking effect, whereas a Tier 1 advice letter takes effect immediately. We will require each of the Small Utilities to file a Tier 2 advice letter to request any adjustments to address such revenue imbalances to ensure sufficient oversight of such adjustments.

However, we are concerned that the proposal for Bear Valley and Liberty to adjust its income-graduated fixed charges to recover over- or under-collections could result in volatility in income-graduated fixed charge levels and customer confusion. We will make a minor adjustment to the implementation of the Settlement Agreement. This decision approves the standalone adjustment schedule approach (proposed for PacifiCorp) for all three Small Utilities. This does not substantially change the outcome or impacts on any party. The only difference will be how the adjustment will be presented on customer bills. Each of the Small Utilities may propose in its Tier 2 advice letter (for addressing a revenue imbalance) to add an adjustment schedule on residential customer bills that represents a surcharge or credit to remedy the over- or under-collection of revenues.

It is reasonable to approve the following provisions for Small Utilities to calculate and recover an over- or under-collection of revenues by income-graduated fixed charges:

- a. Bear Valley and Liberty shall each record any over- or under-collection of revenues by income-graduated fixed charges as a separate line-item in its existing Base Revenue Requirement Balancing Account;
- b. Bear Valley and Liberty may each file a Tier 2 advice letter to address any over- or under-collection of revenues recorded in its Base Revenue Requirement Balancing Account associated with income-graduated fixed charges. Each utility shall include in the advice letter the proposed amount of surcharge or credit to residential customer bills

that would be implemented through a standalone adjustment schedule; and

- c. PacifiCorp may file a Tier 2 advice letter once per year to propose to address any over- or under-collection of revenues from income-graduated fixed charges. PacifiCorp shall include in the Tier 2 advice letter its calculation of the over- or under-collection of revenues, and the proposed amount of surcharge or credit to residential customer bills that would be implemented through a standalone adjustment schedule.

6.8. Metrics and Evaluation

The Settlement Agreement does not include metrics, reporting requirements, or evaluation requirements for the Small Utilities' income-graduated fixed charges.

Initially, the Small Utilities did not propose metrics, reporting, or evaluation requirements in the testimony or their comments on the Implementation Pathway Ruling. In their opening brief, the Small Utilities argued that any reporting requirements should focus on customer bill impacts of income-graduated fixed charges and whether the fixed charges provide sufficient revenue to meet utility costs. Small Utilities proposed to only require Small Utilities to provide one report every two years with the following metrics: revenue collection data, actual utility cost data, and comparison data for low-income customer bills to demonstrate how customer bills were impacted by income-graduated fixed charges. The Small Utilities argued that the Commission should avoid placing additional administrative burdens on Small Utilities and associated rate impacts on each utility's small customer base in California. No party commented on this proposal in reply briefs.

For the Large Utilities, this decision (a) required quarterly reporting of metrics to the service list of this proceeding and (b) established a process for the

Commission's staff to draft an evaluation report for income-graduated fixed charges based on one calendar year of metrics and input from the Implementation Working Group. The evaluation report will be used to inform the design of the next version of income-graduated fixed charges.

While it is not necessary to require Small Utilities to serve quarterly reports, we will increase the frequency of reports to once per calendar year to enable the Commission's staff to include an assessment of the Small Utilities' income-graduated fixed charges in the evaluation report.

This decision directed the Large Utilities to report the following metrics: number of customers in each tier, number of customers who change tiers, average customer bill impacts for each tier and each baseline territory, number of press article mentions, impressions and reach of paid media, number and type of outbound targeted communications and bill messages, and number of related calls or emails received.

We do not expect the Small Utilities to conduct substantial ME&O. Therefore, it is not necessary for Small Utilities to report on ME&O metrics. However, the Small Utilities should report on the number of customers in each tier, the number of customers who changed tiers, and average customer bill impacts for each tier and each baseline territory. The Commission's staff will include this information in its evaluation report for income-graduated fixed charges.

It is reasonable for each of the Small Utilities to serve a report on the service list of this proceeding within 60 days after each anniversary of the launch of its income-graduated fixed charges with the following metrics: number of customers in each tier, the number of customers who changed tiers, and average customer bill impacts for each tier and each baseline territory.

6.9. Implementation Costs

The Settlement Agreement did not propose a budget for the Small Utilities' implementation costs. However, the Settlement Agreement included a proposal for each utility to establish a memorandum account to track all implementation and administrative costs (such as billing system upgrade costs) and recover these costs through a future request. The Settlement Motion asserted that use of a memorandum account to track costs is consistent with standard practices. No party commented on this issue in response to the Settlement Motion.

We agree that tracking administrative costs in a memorandum account is consistent with standard practices. We will also clarify that each of the Small Utilities must propose an implementation budget in its Tier 3 implementation advice letter.

It is reasonable in light of the whole record, consistent with law, and in the public interest to approve the Settlement Agreement's provision for each of the Small Utilities to track implementation and administrative costs of the income-graduated fixed charges in a new memorandum account.

Each of the Small Utilities shall (a) establish a memorandum account to track all implementation costs and incremental administration costs of income-graduated fixed charges, and (b) include a proposed implementation and administrative costs budget, with a breakdown by line-item and a justification for each line-item, in its Tier 3 advice letter for implementing income-graduated fixed charges.

6.10. Timing of Implementation

The Settlement Agreement does not address the timing of implementation of the Small Utilities' income-graduated fixed charges and associated ME&O efforts.

The Small Utilities did not provide estimated timing of implementation of its income-graduated fixed charges. In its opening brief, the Small Utilities argued that they could not provide estimated timelines without knowing the design of the income-graduated fixed charges. However, the Small Utilities asserted that they could implement fixed charges more quickly if the Commission adopted a simple design based on their recommendations. No other party specifically commented on the timing of applying the Small Utilities' income-graduated fixed charges.

This decision adopted the Settlement Agreement's simplified design for the income-graduated fixed charges, including reliance on the Small Utilities' existing CARE income verification processes. Further, this decision authorized a Tier 3 advice letter process for approving the Small Utilities' income-graduated fixed charges and associated ME&O efforts. Further, the Small Utilities must leverage the Large Utilities' existing ME&O research and best practices rather than conducting additional research. Accordingly, we expect that the Small Utilities will be able to quickly file a Tier 3 advice letter and implement the income-graduated fixed charges along a similar timeline as the Large Utilities.

It is reasonable to direct each of the Small Utilities to file a Tier 3 advice letter within 120 days of this decision to implement income-graduated fixed charges. The Tier 3 advice letter shall include an implementation schedule that facilitates beginning to apply income-graduated fixed charges to Small Utilities' customers by the first quarter of 2026.

7. Summary of Public Comment

Rule 1.18 of the Commission's 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.

Over 900 public comments about income-graduated fixed charges were posted on the Docket Card of this proceeding. These comments generally opposed the Large Utilities' income-graduated fixed charge proposals, additional income verification requirements, high fixed charges, or varying fixed charges based on income levels.

8. Procedural Matters

This decision affirms all rulings made by the assigned ALJ or the assigned Commissioner in this proceeding.

9. Comments on Proposed Decision and Modifications to the Settlement Agreement

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 April 16, 2024, by Advanced Energy United, California Energy Storage Alliance, California Solar & Storage Association; CUE, 350 Bay Area, Cal Advocates, TURN/NRDC, PearlX, Sierra Club/CEJA, the Small Utilities, the Greenlining Institute, the Large Utilities, Alexis K. Wodtke, CforAT, Vote Solar, CalCCA, UCAN, and SEIA, and reply comments were filed on April 22, 2024, by SEIA, CforAT, CUE, TURN/NRDC, Sierra Club/CEJA, the Large Utilities, the Small Utilities, PearlX, Cal Advocates, and Alexis K. Wodtke.

Pursuant to Rule 12.4(c), the Commission may provide parties to a settlement agreement with a reasonable amount of time to elect to accept alternative terms proposed by the Commission or request other relief. The modifications to the proposed settlement set forth in the proposed decision

constitute alternative terms. The parties to the Settlement Agreement had the opportunity to file comments on the proposed decision to accept the modifications to the proposed settlement or request other relief. The Small Utilities and Cal Advocates each filed opening comments on the proposed decision that generally supported adoption of the proposed decision and did not oppose the modifications to the proposed settlement.

10. Assignment of Proceeding

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

Findings of Fact

1. California has not conducted pilots of income-graduated fixed charges for residential rates.
2. The Franchise Tax Board cannot share income data or confirm self-reported income data without a taxpayer's written consent.
3. California agencies have used The Work Number as a tool for verifying incomes for low-income assistance programs but have not used it to determine whether customers have higher incomes based on salaries, wages, or investments.
4. In 2019, the Large Utilities' estimated rates of enrollment of eligible customers in the CARE and FERA programs were as follows: PG&E (95 percent CARE, 13 percent FERA), SCE (88 percent CARE, 10 percent FERA), SDG&E (93 percent CARE, 20 percent FERA).
5. The Large Utilities together serve approximately 10.8 million residential customers.

6. The Commission needs additional time to consider the feasibility, cost, and administrative burdens of new processes for verifying the incomes of moderate- or high-income customers.

7. Around 1 percent of the Large Utilities' residential customers are enrolled in FERA programs.

8. There were over 527,000 government-subsidized affordable rental homes in California as of January 2023.

9. The Sacramento Municipal Utility District currently assesses a default residential fixed charge of \$24.15 per month and a low-income residential fixed charge of \$14.15 per month.

10. The following electric utility cost categories are fixed costs: Marginal Customer Access Costs, Public Purpose Program non-bypassable charges, New System Generation charges, Local Generation charges, and Nuclear Decommissioning non-bypassable charges.

11. The Public Tool estimated that a Tier 1 fixed charge of \$6.00 per month paired with a Tier 3 fixed charge of \$24.15 and a Tier 2 fixed charge of \$12.08 would comply with the AB 205 requirement to lower the average monthly bill for a low-income ratepayer with average electricity usage in each baseline territory of each of the Large Utilities without making any changes to usage.

12. The Commission needs additional information about how electric utilities can identify large and small customers for purposes of complying with Section 739.9(d)(1) of the Pub. Util. Code.

13. The Large Utilities' income-graduated fixed charges adopted by this decision do not unreasonably impair incentives for conservation or energy efficiency when applied to volumetric rates equally during all hours of the day.

14. SCE and SDG&E can begin to implement income-graduated fixed charges for its customers by the third quarter of 2025.

15. Around 98.2 percent of PG&E's residential customers are served by its current primary billing system.

16. Around 1.8 percent of PG&E's residential customers are currently billed through an unstable legacy billing system.

17. PG&E can begin to implement income-graduated fixed charges for its customers on its primary billing system by the first quarter of 2026.

18. PG&E needs additional time to evaluate options for applying income-graduated fixed charges to the residential customers on its unstable legacy billing system.

19. ME&O is necessary to enable customer understanding of the Large Utilities' income-graduated fixed charges.

20. The adopted timeline for implementing the Large Utilities' income-graduated fixed charges is sufficient to promote customer understanding.

21. The parties to the Settlement Agreement did not represent the interests of all affected stakeholders.

22. The Settlement Agreement did not address the contested issue of which specific cost categories within the Small Utilities' base revenue costs are fixed costs that may be recovered through a fixed charge in accordance with AB 205.

23. The Small Utilities do not administer FERA programs.

24. The CARE program is the only program that the Small Utilities currently use to identify customers as low-income for monthly billing purposes.

25. The record of this proceeding is not sufficient to determine which portion of Bear Valley's General Rate Case Revenue Requirement Memorandum Account costs are fixed costs that may be recovered through a fixed charge.

26. The record of this proceeding is not sufficient to determine which portion of Small Utilities' base revenues are fixed costs that may be recovered through a fixed charge.

27. The Small Utilities each have fewer than 100,000 customer accounts in California.

Conclusions of Law

1. For purposes of Section 739.9(e) of the Pub. Util. Code, it is reasonable to interpret a "fixed charge" as meaning any fixed customer charge, basic service fee, demand differentiated basic service fee, or non-volumetric charge that applies based on demand or the mere existence of a customer account.

2. It is reasonable for a bundle of fixed charges to collectively comply with the requirements of Section 739.9(e) of the Pub. Util. Code.

3. It is reasonable to define "customer" for purposes of Section 739.9 of the Pub. Util. Code as all persons residing in one dwelling and served by the same electric meter.

4. It is reasonable for an income-graduated fixed charge to include a minimum of three income tiers.

5. It is reasonable to define a low-income ratepayer for purposes of designing an income-graduated fixed charge as a customer with a household income at or below 200 percent of the Federal Poverty Guidelines level applicable to that household under the CARE program.

6. It is reasonable to adopt a fixed charge that lowers the average monthly bill for a low-income ratepayer with average electricity usage in each baseline territory without making any changes to usage.

7. It is reasonable to define fixed costs as costs that do not directly vary based on the electricity usage of the customer from whom the revenue is being collected.

8. Only fixed costs may be recovered through an income-graduated fixed charge.

9. It is reasonable to prohibit the use of the composite tier methodology for any revenues resulting from a fixed charge.

10. The income-graduated fixed charge revenues should be applied to each usage tier proportionally to ensure that the ratio between the usage tier 2 and the usage tier 1 volumetric rates are maintained at the required level.

11. It is reasonable to adopt the following process for the Large Utilities to calculate and apply CARE discounts, provided that the fourth step will not take effect until income-graduated fixed charges are implemented:

- (a) First, calculate the total revenues for CARE customers that would have been produced for the same billed usage by non-CARE customers;
- (b) Second, remove from the total revenues all of the charges that CARE customers are exempt from and all rate and charge discounts that CARE customers receive, excluding discounts on income-graduated fixed charges;
- (c) Third, apply the applicable CARE discount rate (between 30 and 35 percent) to the volumetric and fixed components of the rate;
- (d) Fourth, apply any remaining discount to CARE customers' fixed charge that is needed to achieve the required income-graduated fixed charge for CARE customers (note that this additional discount will not be funded by the CARE program, but will instead be funded by income-graduated fixed charge revenues collected from higher income tiers and is thus incremental to the CARE discount); and

- (e) Finally, allocate the CARE discount budget for collection on an equal cents per kWh basis.

12. It is reasonable to direct each of the Large Utilities and the Small Utilities to file a Tier 3 advice letter to implement income-graduated fixed charges.

13. It is reasonable for the income-graduated fixed charges authorized by this decision to rely on utilities' existing CARE and FERA income verification processes.

14. It is reasonable to establish a Process Working Group to develop a Process Working Group Proposal with the following components:

- (a) An overview of existing income verification processes and alternatives to income verification used for moderate- and higher-income customers in California and other states;
- (b) An assessment of existing and potential data sources for assigning customers to income tiers for income-graduated fixed charges;
- (c) Proposed income verification processes and alternatives;
- (d) A definition of moderate-income customer;
- (e) Administration structure, including a scope of work for the proposed administrator(s); and
- (f) Estimated costs and an analysis of the costs compared to the benefits of each of the proposed income verification processes.

15. It is reasonable to direct PG&E to issue a request for proposals and enter into a contract with a Facilitation Contractor with expertise in implementing voluntary income verification processes within 8 months of the issuance date of this decision.

16. It is reasonable for the Commission's Energy Division to provide guidance to PG&E on the selection of the Facilitation Contractor and approval of key

deliverables of the Facilitation Contractor, including the scope of work and the Process Working Group Proposal.

17. It is reasonable for the scope of work for the Facilitation Contractor to include the following items:

- (a) Organize and facilitate Process Working Group meetings to develop consensus on working group issues to the extent feasible;
- (b) Research and draft an overview of existing income verification processes and alternatives to income verification used for moderate- and higher-income customers in California and other states;
- (c) Research and draft an assessment of existing and potential data sources for assigning customers to income tiers;
- (d) Research and draft estimated costs of the proposed income verification processes; and
- (e) Draft the Process Working Group Proposal, incorporate input from Process Working Group members, and serve the final proposal to the assigned ALJ within one year of entering into a contract with PG&E.

18. It is reasonable to adopt the following tier structure for the income-graduated fixed charges of the Large Utilities:

- (a) Tier 1 will be assigned to customers with incomes of 0 to 200 percent of the Federal Poverty Guideline levels applicable to that household under the CARE program;
- (b) Tier 2 will be assigned to customers (i) with incomes above 200 percent and below 250 percent of the Federal Poverty Guideline levels applicable to that household under the FERA program or (ii) who live in an affordable rental home that is restricted by the rules of federal or state subsidies to residents who have incomes at or below 80 percent of Area Median Income; and

- (c) Tier 3 will be assigned to customers who do not qualify for the first or second tiers.

19. It is reasonable to adopt the following income tier assignment processes for the income-graduated fixed charges of the Large Utilities:

- (a) Utilities will assign all customers enrolled in CARE to Tier 1 without the need for the customer to take any action;
- (b) Utilities will assign all customers enrolled in FERA to Tier 2 without the need for the customer to take any action;
- (c) Utilities will assign all customers who (i) live in an affordable rental home that is restricted by the rules of federal or state subsidies to residents who have incomes at or below 80 percent of Area Median Income and (ii) are not enrolled in CARE to Tier 2, based on the statewide database of such homes maintained by the California Housing Partnership and self-attestation; and
- (d) Utilities will assign all other customers to Tier 3.

20. It is reasonable to direct the Large Utilities to propose in their Tier 3 advice letters for implementing the fixed charges (a) how to assign eligible customers who live in deed-restricted affordable rental homes to Tier 2, and (b) how to share Tier 2 assignment information with CCAs in their Tier 3 advice letters to implement the fixed charges.

21. It is reasonable to use the Sacramento Municipal Utility District's residential fixed charges as a benchmark for establishing the first income-graduated fixed charge levels for the Large Utilities.

22. It is reasonable for the income-graduated fixed charges of the Large Utilities to recover all or a portion of the revenue requirement as established in the most recent applicable Commission decision for each of the following fixed cost categories:

- (a) Marginal Customer Access Costs;

- (b) Public Purpose Program non-bypassable charges;
- (c) New System Generation or Local Generation charges; and
- (d) Nuclear Decommissioning non-bypassable charges.

23. It is reasonable for the Large Utilities to propose income-graduated fixed charge levels in their Tier 3 implementation advice letters based on the most recently adopted revenue requirements that meet all of the following requirements:

- (a) The fixed charges shall recover 100 percent of Marginal Customer Access Costs;
- (b) The fixed charges shall recover up to 100 percent of the following fixed cost categories: Public Purpose Program non-bypassable charges, New System Generation or Local Generation charges as applicable, and Nuclear Decommissioning non-bypassable charges;
- (c) The fixed cost and fixed charge calculations shall use the latest revenue requirements and billing determinants approved by the Commission;
- (d) The Tier 1 fixed charge shall be \$6.00, provided that the fixed charge shall be reduced if necessary to comply with the Section 739.9(e)(1) requirement for CARE-eligible customers with average electricity usage to realize average monthly bill savings in all baseline territories without changes to usage based on an updated customer bill impact assessment;
- (e) The Tier 2 fixed charge shall be \$12.08; and
- (f) The Tier 3 fixed charge shall be \$24.15, provided that the Tier 3 fixed charge shall be reduced if 100 percent recovery of each of the authorized fixed cost categories through the income-graduated fixed charge is not sufficient to produce a Tier 3 fixed charge of \$24.15 while also complying with the remaining requirements listed here and the AB 205 requirements for the CARE discount.

24. It is reasonable to initially adopt income-graduated fixed charges for the Large Utilities that do not differentiate between the costs of serving small and large customers and direct the Large Utilities to prepare a study regarding how to differentiate between customers who live in single- or multi-family housing.

25. It is reasonable for the Large Utilities to remove minimum bills from residential customer bills when the income-graduated fixed charges are implemented.

26. It is reasonable to apply revenues collected through the income-graduated fixed charges for the Large Utilities' default rates to reduce distribution rates on an equal cents per kWh basis during all hours of the day.

27. The Large Utilities' existing fixed charges for electrification rates do not comply with the AB 205 requirement for all fixed charges to be income-graduated.

28. It is reasonable to authorize income-graduated fixed charges for both default and optional residential rates of the Large Utilities.

29. It is reasonable to apply the income-graduated fixed charges adopted for default rates to all optional rates of the Large Utilities, except for master-metered rates that are not sub-metered, separately-metered electric vehicle rates for customers whose primary meter has an income-graduated fixed charge, or rate schedules that are scheduled to be eliminated by the second quarter of 2026.

30. Volumetric rate adjustments for the first income-graduated fixed charges should not cause any rate schedule to include negative rates.

31. It is reasonable to apply the revenues recovered by the Large Utilities' income-graduated fixed charges for optional rates to volumetric rates as follows: any fixed charge revenue that is not used to recover the costs of specific line items should be used to reduce distribution rates on an equal cents per kWh

basis across all time periods, unless doing so would result in a negative distribution rate during any time period for a given rate schedule. In this scenario, distribution rates should instead be reduced on an equal percent basis across all time periods.

32. It is reasonable for the Large Utilities' ME&O for income-graduated fixed charges to address the following topics:

- (a) When the new fixed charge will be applied;
- (b) Why and how the new fixed charge will reduce volumetric rates;
- (c) The amount of the fixed charge and how the fixed charge will affect customers' bills;
- (d) How tiers will be assigned and how to move to a different income tier;
- (e) Different rate options and rate comparison tools;
- (f) Options to enroll in CARE or FERA and other ways to manage energy costs;
- (g) Assure CARE and FERA customers that their assistance program discounts will not be affected by the fixed charge and that they may see lower bills as a result of the fixed charge; and
- (h) Why and how the fixed charge will encourage the adoption of electrification technologies and associated reduced use of fossil fuels and how customers can find rebates to electrify.

33. It is reasonable to direct each of the Large Utilities to develop an ME&O plan for income-graduated fixed charges through the following process:

- (a) The Large Utilities shall meet and confer with each other and the Commission's staff to strive to develop consistent proposed terminology, high-level messages, and metrics.
- (b) The Large Utilities shall invite parties to this proceeding to a workshop, consult with the Commission's staff to plan the workshop, and jointly host a public workshop to discuss each

utility's ME&O plan and proposed terminology, high-level messages, and metrics.

- (c) Each Large Utility shall propose an individual ME&O plan in a Tier 3 implementation advice letter with the following components: (a) proposed terminology and high-level messages, (b) sample bill impact templates, (c) consistent ME&O metrics, and (d) a proposed ME&O implementation budget, with a line-item breakdown and justifications for the proposed cost of each individual line-item.

34. It is reasonable for each of the Large Utilities to (a) establish a new distribution balancing account to record over- or under-collections of revenues compared to projected revenues from income-graduated fixed charges, and (b) propose in each Annual True-Up Advice Letter how to modify volumetric rates to account for over- or under-collections of revenues by the income-graduated fixed charges compared to projected revenues.

35. The Implementation Working Group should evaluate the Large Utilities' income-graduated fixed charges.

36. The Large Utilities should (a) report metrics on income-graduated fixed charges and associated ME&O efforts within 30 days of each calendar quarter to the service list of this proceeding, and (b) present metrics and lessons learned from income-graduated fixed charges and associated ME&O efforts to the Implementation Working Group at least once per calendar quarter.

37. The Implementation Working Group should have the following scope of work relating to assessing and evaluating income-graduated fixed charges:

- (a) Identify problems with implementation and ME&O efforts and suggest solutions at meetings; and
- (b) Provide written recommendations to the Commission's staff about how lessons learned from the implementation of income-graduated fixed charges should influence the design

of future income-graduated fixed charges or alternative rate mechanisms.

38. It is reasonable for the Large Utilities' quarterly reports on income-graduated fixed charges to include the following metrics:

- (a) Number of customers in each tier;
- (b) Number of customers who change tiers;
- (c) Average customer bill impacts for each tier and each baseline territory;
- (d) Number of press article mentions;
- (e) Impressions and reach of paid media;
- (f) Number and type of outbound targeted communications and bill messages;
- (g) Number of related calls or emails received;
- (h) ME&O dollars spent;
- (i) Number of customers who were asked to verify their incomes through the CARE and FERA programs; and
- (j) Number of customers who successfully verified their incomes through the CARE and FERA programs.

39. The Large Utilities' individual ME&O plans should include one or more surveys to assess the effectiveness of ME&O.

40. It is reasonable to adopt the following timeline for implementing the Large Utilities' income-graduated fixed charges:

- (a) Within 60 days of the issuance date of this decision, the Large Utilities shall jointly host the ME&O workshop required by this decision;
- (b) Within 90 days of the issuance date of this decision, each of the Large Utilities shall file a Tier 3 advice letter to implement income-graduated fixed charges;

(c) Between October 1, 2025 and December 15, 2025, SCE and SDG&E shall begin to apply fixed charges to residential customers' bills; and

(d) Between January 1, 2026 and March 31, 2026, PG&E shall begin to apply fixed charges to residential customers' bills.

41. It is reasonable for each of the Large Utilities to create a new Income-Graduated Fixed Charge Memorandum Account to record the actual incremental implementation costs of implementing income-graduated fixed charges and propose to recover such costs through a future General Rate Case or rate design window application proceeding.

42. It is reasonable for PG&E to propose a billing system solution and implementation costs for addressing the Advanced Billing System in its Tier 3 implementation advice letter or in a future application for billing system upgrade costs.

43. It is reasonable to adopt the implementation budgets for the Large Utilities in Table 7 of this decision.

44. The Settlement Agreement's proposal to recover base revenues through income-graduated fixed charges is not reasonable in light of the proceeding record.

45. It is reasonable to sever the portion of the Settlement Agreement that is not reasonable in light of the proceeding record and consider whether the balance of the Settlement Agreement is reasonable in light of the whole record, consistent with law, and in the public interest.

46. The Settlement Agreement, with the exception of the proposal to recover each of the Small Utilities' base revenues (and Bear Valley's General Rate Case Revenue Requirement Memorandum Account) and the associated fixed charge levels, should be approved and adopted.

47. The approval of the Settlement Agreement should not have precedential value.

48. It is reasonable for the Small Utilities' income-graduated fixed charges to rely on their existing CARE income verification processes as amended to obtain income information from customers with incomes between 0 to 100 percent of Federal Poverty Guideline levels.

49. The Process Working Group should develop a proposal for how to improve income verification processes of the Small Utilities' income-graduated fixed charges, including how to verify the incomes of moderate-income customers.

50. The Settlement Agreement's income tier and income verification proposal is reasonable in light of the whole record, consistent with law, and in the public interest.

51. Each of the Small Utilities should provide information in their Tier 3 implementation advice letter about when and how customers will be informed about the opportunity to be placed in Tier 1 and how to reduce barriers to enrolling in Tier 1.

52. It is reasonable to adopt the following tier structure for the income-graduated fixed charges of the Small Utilities:

- (a) Tier 1 will be assigned to customers with incomes of 0 to 100 percent of the Federal Poverty Guideline levels applicable to that household under the CARE program;
- (b) Tier 2 will be assigned to customers with incomes above 100 percent and at or below 200 percent of the Federal Poverty Guideline levels applicable to that household under the CARE program; and
- (c) Tier 3 will be assigned to customers who do not qualify for the first or second tiers.

53. It is reasonable to adopt the following income tier assignment processes for the income-graduated fixed charges of the Small Utilities:

- (a) Small Utilities will assign customers who attest to having eligible incomes through the CARE application process to Tier 1;
- (b) Small Utilities will assign all other customers enrolled in CARE to Tier 2 without the need for the customer to take any action; and
- (c) Utilities will assign all customers who are not enrolled in the CARE program to Tier 3.

54. It is reasonable to approve the recovery of the Small Utilities' Line-Item Fixed Costs through the Small Utilities' income-graduated fixed charges.

55. It is reasonable for the Commission to determine which portion of the Small Utilities' base revenues are fixed costs that may be recovered through income-graduated fixed charges through a Tier 3 advice letter process.

56. If the Commission determines in a resolution of the Tier 3 advice letter that the total revenue requirement for all of the Small Utilities' fixed cost categories is sufficient to support the fixed charge levels in the Settlement Agreement, then it would be reasonable for the resolution to approve the Settlement Agreement's fixed charge levels.

57. If the Commission resolution determines that the total revenue requirement for all of the Small Utilities' fixed cost categories does not support the fixed charge levels in the Settlement Agreement, it would be reasonable for the Commission resolution to reduce the Small Utilities' fixed charge levels accordingly.

58. Each of the Small Utilities should include the following information regarding proposed fixed costs and fixed charge levels in a Tier 3 advice letter for implementing income-graduated fixed charges:

- (a) A list of all base revenue cost categories that the utility proposes to recover through its income-graduated fixed charges and the revenue requirement associated with each cost category;
- (b) An explanation of why each listed base revenue cost category is a fixed cost similar to a category approved for recovery through this decision;
- (c) The revenue requirement for each of the fixed cost categories approved in this decision, if applicable to the utility;
- (d) An explanation of how each base revenue cost category was converted from the current volumetric rate to a new per customer rate, if it is incremental to the current fixed charges;
- (e) If a review of the base revenue cost categories shows insufficient fixed costs to support the Settlement Agreement's fixed charge levels, then the utility shall propose lower fixed charges; and
- (f) A bill impact analysis demonstrating that both Tier 1 and Tier 2 customers with average electricity usage in each baseline territory will realize a bill savings compared to currently effective rates.

59. It is reasonable for PacifiCorp to reflect the different costs of serving small and large customers by imposing a lower fixed charge on customers in multi-family housing compared with customers in single-family housing.

60. It is reasonable for the income-graduated fixed charges of Liberty and Bear Valley to not reflect the different costs of serving small and large customers.

61. It is reasonable to direct Liberty and Bear Valley to consult with PacifiCorp about how to differentiate between customers who live in single- or multi-family housing and file a report in this proceeding about its findings.

62. It is reasonable for the Small Utilities to apply revenues collected through income-graduated fixed charges to reduce distribution rates equally during all hours of the day and during all seasons of the year.

63. Section 739.1(c)(1) of the Pub. Util. Code does not apply to the Small Utilities.

64. It is reasonable to approve the Settlement Agreement's provisions regarding application of the CARE discount.

65. It is reasonable to authorize income-graduated fixed charges for all of the Small Utilities' default and optional residential rate schedules, with the following exceptions: master-metered rates that are not sub-metered, separately-metered electric vehicle rates for customers whose primary meter has an income-graduated fixed charge, and rate schedules that are scheduled to be eliminated by the second quarter of 2026.

66. It is reasonable for the Small Utilities to collaborate with the Large Utilities to learn more about the Large Utilities' research findings, best practices, and detailed ME&O plans for income-graduated fixed charges.

67. Each of the Small Utilities should (a) participate in Large Utilities' joint ME&O workshop to discuss the Large Utilities' ME&O plans, research findings, and messaging, and (b) include in its Tier 3 advice letter (for implementing the income-graduated fixed charges) a utility-specific ME&O plan, a line-item budget for ME&O activity costs, and a justification for each proposed line-item cost.

68. It is reasonable to approve the following provisions for Small Utilities to calculate and recover an over- or under-collection of revenues by income-graduated fixed charges:

- (a) Bear Valley and Liberty shall each record any over- or under-collection of revenues by income-graduated fixed charges as a separate line-item in its existing Base Revenue Requirement Balancing Account;

- (b) Bear Valley and Liberty may each file a Tier 2 advice letter to address any over- or under-collection of revenues recorded in its Base Revenue Requirement Balancing Account associated with income-graduated fixed charges. Each utility shall include in the advice letter the proposed amount of surcharge or credit to residential customer bills that would be implemented through a standalone adjustment schedule; and
- (c) PacifiCorp may file a Tier 2 advice letter once per year to propose to address any over- or under-collection of revenues from its income-graduated fixed charges. PacifiCorp shall include in the Tier 2 advice letter (i) its calculation of the over- or under-collection of revenues, and (ii) the proposed amount of surcharge or credit to residential customer bills that would be implemented through a standalone adjustment schedule.

69. It is reasonable for each of the Small Utilities to serve a report on the service list of this proceeding within 60 days after each anniversary of the launch of its income-graduated fixed charges with the following metrics: number of customers in each tier, the number of customers who changed tiers, and average customer bill impacts for each tier and each baseline territory.

70. Each of the Small Utilities should (a) establish a memorandum account to track all implementation costs and incremental administration costs of income-graduated fixed charges, and (b) include a proposed implementation and administrative costs budget, with a breakdown by line-item and a justification for each line-item, in its Tier 3 advice letter for implementing income-graduated fixed charges.

71. It is reasonable to direct each of the Small Utilities to file a Tier 3 advice letter within 120 days of the issuance date of this decision to implement income-graduated fixed charges.

72. Each of the Small Utilities' Tier 3 implementation advice letters should include an implementation schedule that facilitates beginning to apply income-graduated fixed charges to Small Utilities' customers by the first quarter of 2026.

73. It is reasonable to affirm all rulings made by the assigned ALJ or the assigned Commissioner in this proceeding.

74. This proceeding should remain open.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, Bear Valley Electric Service, Inc., Liberty Utilities, and PacificCorp d/b/a Pacific Power shall each file a Tier 1 advice letter within 30 days of the issuance date of this decision to create (a) a new Income-Graduated Fixed Charge Memorandum Account and (b) a new Income-Graduated Fixed Charge Balancing Account.

2. Pacific Gas and Electric Company shall issue a request for proposals and enter into a contract with a contractor with expertise in implementing income verification processes to provide the services described in this decision within 8 months of the issuance date of this decision.

3. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall (a) meet and confer with each other and the Commission's staff to strive to develop consistent proposed terminology, high-level messages, and metrics, (b) within 60 days of the issuance date of this decision, invite parties to this proceeding to a workshop, consult with the Commission's staff to plan the workshop, and jointly host a public workshop to discuss each utility's marketing, education, and outreach plan and proposed terminology, high-level messages, and metrics, and (c) within 90 days of the

issuance date of this decision, each file a Tier 3 advice letter to implement income-graduated fixed charges, remove minimum bills from residential customer bills (if applicable), and propose a marketing, education, and outreach plan.

4. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall each file a Tier 1 advice letter by December 15, 2024 to implement the adopted process for calculating and applying California Alternate Rates for Energy discounts, effective January 1, 2025.

5. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall (a) each prepare a study on the collection and use of data that identifies whether a given residential customer lives in single- or multi-family housing (either directly or through a proxy indicator such as a shared service drop; several options may be evaluated in the study), including the feasibility and cost of collecting such data, the timeline for data collection, the reliability of the data, the difference in cost of serving the different customer types, and any other information that will inform the design of income-graduated fixed charges that differentiate between single- and multi-family households; (b) jointly host a public workshop and present these findings at the workshop by the end of February 2025; and (c) each file a report that incorporates any feedback gathered from parties at the workshop in this proceeding within 90 days of the workshop.

6. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall (a) record over- or under-collections of revenues compared to projected revenues from income-graduated fixed charges in its respective Income-Graduated Fixed Charge Balancing

Account, and (b) propose in each annual true-up advice letter how to modify distribution rates to account for over- or under-collections of revenues by the income-graduated fixed charges compared to projected revenues.

7. Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall each (a) report metrics on income-graduated fixed charges and associated marketing, education, and outreach efforts within 30 days of each calendar quarter to the service list of this proceeding, and (b) present metrics and lessons learned from income-graduated fixed charges and associated marketing, education, and outreach efforts to the implementation working group for income-graduated fixed charges at least once per calendar quarter.

8. The settlement agreement attached to this decision as Attachment C is approved and adopted, with the exception of (a) the proposal to recover each of the small and multijurisdictional utilities' base revenues and Bear Valley Electric Service, Inc.'s General Rate Case Revenue Requirement Memorandum Account and (b) the proposed fixed charge levels.

9. Bear Valley Electric Service, Inc., Liberty Utilities, and PacificCorp d/b/a Pacific Power shall each file a Tier 1 advice letter within 30 days of the issuance date of this decision to create a new income-graduated fixed charges memorandum account to track all implementation costs and incremental administration costs of income-graduated fixed charges.

10. Bear Valley Electric Service, Inc., Liberty Utilities, and PacificCorp d/b/a Pacific Power shall each (a) participate in the large utilities' marketing, education, and outreach workshop to discuss the large utilities' plans, research findings, and messaging, and (b) within 120 days of the issuance date of this decision, file a Tier 3 advice letter to implement income-graduated fixed charges,

propose a marketing, education, and outreach plan, propose a line-item budget for implementation costs, and provide a justification for each proposed line-item cost. Each of the small and multijurisdictional utilities shall include the following information in the Tier 3 advice letter: (i) a list of all base revenue cost categories that the utility proposes to recover through its income-graduated fixed charges and the revenue requirement associated with each cost category; (ii) an explanation of why each listed base revenue cost category is a fixed cost similar to a category approved for recovery through this decision; (iii) the revenue requirement for each of the fixed cost categories approved in this decision, if applicable to the utility; (iv) an explanation of how each base revenue cost category was converted from the current volumetric rate to a new per customer rate, if it is incremental to the current fixed charges; (v) proposed fixed charge levels; and (vi) a bill impact analysis demonstrating that both Tier 1 and Tier 2 customers with average electricity usage in each baseline territory will realize a bill savings compared to currently effective rates.

11. Bear Valley Electric Service, Inc. and Liberty Utilities shall each record any over- or under-collection of revenues by income-graduated fixed charges as a separate line-item in its existing Base Revenue Requirement Balancing Account.

12. Bear Valley Electric Service, Inc. and Liberty Utilities shall each (a) consult with PacificCorp d/b/a Pacific Power to understand how PacificCorp differentiates between single- and multi-family housing and whether it would be feasible for the utility to collect and use similar data for the purpose of differentiating fixed charges; (b) present their findings at the workshop hosted by the large utilities regarding differentiating between single- and multi-family households; and (c) file a report in this proceeding within 90 days of the workshop.

13. Bear Valley Electric Service, Inc., Liberty Utilities, and PacificCorp d/b/a Pacific Power shall each serve a report on the service list of this proceeding within 60 days after each anniversary of the launch of its income-graduated fixed charges the following metrics: number of customers in each tier, the number of customers who changed tiers, and average customer bill impacts for each tier and each baseline territory.

14. All rulings made by the assigned Administrative Law Judge or the assigned Commissioner in this proceeding are affirmed.

15. Rulemaking 22-07-005 remains open.

This order is effective today.

Dated May 9, 2024, at Sacramento, California

ALICE REYNOLDS

President

DARCIE L. HOUCK

JOHN REYNOLDS

KAREN DOUGLAS

Commissioners

Commissioner Matthew Baker recused himself from this agenda item and was not part of the quorum in its consideration.

Attachment A

Estimated Bill Impacts for Customers of Large Utilities with Average Usage

This attachment presents the income-graduated fixed charge design adopted for the Large Utilities in this decision, as modeled in the Public Tool, along with the estimated weighted average bill impacts by CARE/FERA-status and climate zone for each of the Large Utilities. Weighted average bill impacts (in Tables A-4 through A-6) were computed by averaging the bill impacts produced by the Public Tool for individual income groups within each customer segment defined by CARE/FERA-status and climate zone, using the customer count for each income group as a weighting factor.¹

Note that the modeled rates with an income-graduated fixed charge are compared to modeled rates based on the existing rate structure (i.e., purely volumetric recovery of revenue requirement)² with both sets of modeled rates reflecting the AB 205-mandated change to the CARE average effective discount. This was done to isolate the impact of the income-graduated fixed charge (from changes to the CARE average effective discount) and demonstrate that the AB 205 bill savings requirement for low-income customers can be met with this rate design.

¹ As an example of how a weighted average is calculated, consider a simple example with two income groups: the first income group's bill impact based on average usage is \$4 while the second income group's bill impact based on average usage is \$1. If the first income group consists of twice as many customers as the second income group, the weighted average bill impact would be \$3 whereas the simple average of the two groups' bill impacts is \$2.50. The \$4 bill impact for the first income group is given twice as much weight because that group consists of twice as many customers.

² Although SCE's current default residential rates feature a very small fixed charge (about \$1/month), this rate component was excluded from the Public Tool's analysis as a simplifying assumption. Given how small the fixed charge is, it would not materially impact the analysis.

Because this is a revenue neutral rate design, the utilities collect the exact same amount of money from residential customers with both sets of rates. That means that in order to provide low-income customers with bill savings and all customers with an electrification incentive, some non-CARE/FERA customers are expected to see some minor bill increases.

Table A-1: Estimated Impact of Adopted Fixed Charges on PG&E's Rates

PG&E		Existing Rate Structure	Estimated Rate After Fixed Charge	Estimated Rate Reduction
Non-CARE/FERA Energy Charges (\$/kWh)	Summer - Peak	\$ 0.484	\$ 0.437	\$ 0.047
	Summer - Part-Peak	\$ -	\$ -	\$ -
	Summer - Off-Peak	\$ 0.421	\$ 0.373	\$ 0.047
	Winter - Peak	\$ 0.387	\$ 0.340	\$ 0.047
	Winter - Part-Peak	\$ -	\$ -	\$ -
	Winter - Off-Peak	\$ 0.370	\$ 0.322	\$ 0.047

Table A-2: Estimated Impact of Adopted Fixed Charges on SCE's Rates

SCE		Existing Rate Structure	Estimated Rate After Fixed Charge	Estimated Rate Reduction
Non-CARE/FERA Energy Charges (\$/kWh)	Summer - Peak	\$ 0.568	\$ 0.522	\$ 0.046
	Summer - Part-Peak	\$ 0.460	\$ 0.414	\$ 0.046
	Summer - Off-Peak	\$ 0.353	\$ 0.307	\$ 0.046
	Winter - Peak	\$ 0.500	\$ 0.454	\$ 0.046
	Winter - Part-Peak	\$ 0.378	\$ 0.332	\$ 0.046
	Winter - Off-Peak	\$ 0.342	\$ 0.297	\$ 0.046

Table A-3: Estimated Impact of Adopted Fixed Charges on SDG&E's Rates

SDG&E		Existing Rate Structure	Estimated Rate After Fixed Charge	Estimated Rate Reduction
Non-	Summer - Peak	\$ 0.851	\$ 0.783	\$ 0.068

CARE/FERA Energy Charges (\$/kWh)	Summer - Part-Peak	\$ 0.537	\$ 0.470	\$ 0.068
	Summer - Off-Peak	\$ 0.373	\$ 0.305	\$ 0.068
	Winter - Peak	\$ 0.654	\$ 0.586	\$ 0.068
	Winter - Part-Peak	\$ 0.570	\$ 0.502	\$ 0.068
	Winter - Off-Peak	\$ 0.545	\$ 0.477	\$ 0.068

Table A-4: Estimated Impact of Adopted Fixed Charges on Average Monthly Bills of PG&E Customers With Average Usage

Climate Zone	CARE	FERA*	Non-CARE/FERA**
P	\$ (8.53)	\$(18.09)	\$ (4.21)
Q	\$ (6.24)	\$(13.61)	\$ (2.24)
R	\$ (6.76)	\$(14.28)	\$ (3.45)
S	\$ (5.74)	\$(12.63)	\$ (1.47)
T	\$ (0.60)	\$ (2.90)	\$ 9.11
V	\$ (2.62)	\$ (6.75)	\$ 1.64
W	\$ (6.34)	\$(13.48)	\$ (1.47)
X	\$ (2.61)	\$ (6.70)	\$ 3.40
Y	\$ (7.06)	\$(15.43)	\$ 2.49
Z	\$ (4.09)	\$ (9.96)	\$ 11.50

* FERA customers were modeled in the Public Tool as all non-CARE customers in the two lowest income quantiles.

** Non-CARE/FERA customers were modeled in the Public Tool as all non-CARE customers except those in the two lowest income quantiles.

Table A-5: Estimated Impact of Adopted Fixed Charges on Average Monthly Bills of SCE Customers With Average Usage With Average Usage

Climate Zone	CARE	FERA*	Non-CARE/FERA**
5	N/A***	N/A***	\$ 0.82
6	\$ (1.62)	\$ (2.40)	\$ 6.41
8	\$ (2.66)	\$ (4.02)	\$ 5.13
9	\$ (4.39)	\$ (6.80)	\$ 0.43
10	\$ (7.08)	\$(10.86)	\$ (0.28)
13	\$ (8.19)	\$(12.25)	\$ (2.96)
14	\$ (8.36)	\$(12.73)	\$ (2.12)
15	\$ (9.77)	\$(14.94)	\$ (6.72)

16	\$ (5.88)	\$ (9.25)	\$ 4.15
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* FERA customers were modeled in the Public Tool as all non-CARE customers in the two lowest income quantiles.

** Non-CARE/FERA customers were modeled in the Public Tool as all non-CARE customers except those in the two lowest income quantiles.

*** N/A indicates an insufficient number of customers in a given segment to report bill impacts.

Table A-6: Estimated Impact of Adopted Fixed Charges on Average Monthly Bills of SDG&E Customers With Average Usage

Climate Zone	CARE	FERA*	Non-CARE/FERA**
Inland	\$ (6.63)	\$(10.31)	\$ 0.74
Coastal	\$ (3.78)	\$ (5.94)	\$ 2.39
Desert	\$(17.97)	\$(27.50)	\$ 0.33
Mountain	\$(19.79)	\$(30.89)	\$ (6.79)

* FERA customers were modeled in the Public Tool as all non-CARE customers in the two lowest income quantiles.

** Non-CARE/FERA customers were modeled in the Public Tool as all non-CARE customers except those in the two lowest income quantiles.

End of Attachment A

Attachment B
Estimated Change in Electrification Bill Impacts for
Customers of Large Utilities

This attachment presents the expected impact that income-graduated fixed charges will have on the cost-effectiveness of home and vehicle electrification. Specifically, this attachment presents how the bill impacts associated with home and vehicle electrification (under the existing default time-of-use (TOU) rate structure) will change with the implementation of income-graduated fixed charges. These results illustrate how the implementation of income-graduated fixed charges will lower the barrier to electrification for all customers on default rates across the state.

These results were produced using the Public Tool's electrification analysis functionality, which estimates the change in monthly electricity, natural gas, and gasoline costs for typical residential customers¹ who electrify their end uses in each of the Large Utilities' service territories based on their rate schedule, whether they are enrolled in a bill discount program,² and whether they live in an inland or coastal climate zone.³ This analysis was done for a typical non-CARE/FERA customer on a default time-of-use rate who does not receive a

¹ Whereas the rest of the Public Tool used average customer usage levels, the electrification analysis was based on typical customer load profiles based on National Renewable Energy Laboratory modeled loads.

² The Public Tool also allows for analysis based on a customers' specific income bracket, which was included to allow parties to model proposals that differentiate fixed charges based on income level in addition to enrollment in a discount program.

³ For the purposes of the electrification analysis, inland climate zone results are based on bills for typical customers in PG&E X, SCE 9, and SDG&E Inland climate zones. Coastal climate zone results are based on bills for typical customers in PG&E T, SCE 6, and SDG&E Coastal climate zones.

medical baseline allowance, with separate results for an inland and coastal climate zone for each utility. The counterfactual bills under the existing rate structure that were calculated for this analysis include the AB 205-mandated change to the CARE effective discount (in order to isolate the impact of the adopted fixed charge).

The results presented in these tables show the change in bill impacts for customers who fully electrify their home appliances (electrification of space and water heating, kitchen range, oven, and clothes dryer), and separately for customers who electrify their vehicles and use a managed charging schedule.⁴ These two sets of results can be combined to show the change in energy bill impact for customers who electrify their homes and vehicles.

In this analysis, the bill impact associated with a given electrification scenario is first calculated under the existing default TOU rate structure (energy bill post-electrification minus energy bill pre-electrification, with both bills calculated based on the existing TOU rate; this is illustrated as step A in the example below). The bill impact associated with the same electrification scenario is then calculated under the new rate structure that features a fixed charge (energy bill post-electrification minus energy bill pre-electrification, this time under the new rate that includes a fixed charge; this is illustrated as step B in the example below). The difference between these two sets of bill impacts (B minus A) shows how the barrier to electrification has been lowered as a result of the fixed charge since all representative customers will experience lower electrification bill impacts compared to what they would experience under the

⁴ Managed charging assumes customer shift their charging to off-peak periods as much as possible without modifications to planned trips.

current rate structure (which is presented in Tables B-1 through B-6 for typical residential customers in each climate zone type for each of the Large Utilities).

To illustrate this process, consider a typical residential customer in a PG&E inland climate zone who is planning on replacing their gasoline-powered vehicle with an electric vehicle and using a managed charging schedule. The Public Tool estimates that, under the existing default TOU rate structure, this customer's overall energy bill (electricity, natural gas, and gasoline) would increase by \$10.86 per month. Under the new default TOU rate structure that features an income-graduated fixed charge, this customer's energy bill would instead decrease by \$6.66 per month when they switch to an electric vehicle. The total change in bill impact is a reduction of \$17.52 per month.

Bill Impact Under Existing TOU Rate (A)	Bill Impact with Fixed Charge (B)	Change in Bill Impact (B) - (A)
\$ 10.86	\$ (6.66)	\$ (17.52)

Table B-1: Change in Impact of Electrification on Monthly Energy Bill (Electricity, Natural Gas, and Gasoline) Due to Adopted Fixed Charge for PG&E Customers in an Inland Climate Zone

	Change in Bill Impact
Full Home Electrification	\$ (12.05)
Vehicle Electrification	\$ (17.52)
Home + Vehicle Electrification	\$ (29.56)

Table B-2: Change in Impact of Electrification on Monthly Energy Bill (Electricity, Natural Gas, and Gasoline) Due to Adopted Fixed Charge for PG&E Customers in a Coastal Climate Zone

	Change in Bill Impact
Full Home Electrification	\$ (14.19)
Vehicle Electrification	\$ (17.43)

Home + Vehicle Electrification	\$ (31.62)
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Table B-3: Change in Impact of Electrification on Monthly Energy Bill (Electricity, Natural Gas, and Gasoline) Due to Adopted Fixed Charge for SCE Customers in an Inland Climate Zone

	Change in Bill Impact
Full Home Electrification	\$ (11.24)
Vehicle Electrification	\$ (16.93)
Home + Vehicle Electrification	\$ (28.17)

Table B-4: Change in Impact of Electrification on Monthly Energy Bill (Electricity, Natural Gas, and Gasoline) Due to Adopted Fixed Charge for SCE Customers in a Coastal Climate Zone

	Change in Bill Impact
Full Home Electrification	\$ (12.17)
Vehicle Electrification	\$ (16.87)
Home + Vehicle Electrification	\$ (29.04)

Table B-5: Change in Impact of Electrification on Monthly Energy Bill (Electricity, Natural Gas, and Gasoline) Due to Adopted Fixed Charge for SDG&E Customers in an Inland Climate Zone

	Change in Bill Impact
Full Home Electrification	\$ (14.74)
Vehicle Electrification	\$ (25.11)
Home + Vehicle Electrification	\$ (39.85)

Table B-6: Change in Impact of Electrification on Monthly Energy Bill (Electricity, Natural Gas, and Gasoline) Due to Adopted Fixed Charge for SDG&E Customers in a Coastal Climate Zone

	Change in Bill Impact
Full Home Electrification	\$ (18.57)
Vehicle Electrification	\$ (25.11)
Home + Vehicle Electrification	\$ (43.68)

End of Attachment B

Attachment C