

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Advance
Demand Flexibility Through Electric Rates

Rulemaking 22-07-005
(Filed September 27, 2022)

**CLEAN COALITION COMMENTS ON ADMINISTRATIVE LAW JUDGE'S RULING
ON THE IMPLEMENTATION PATHWAY FOR INCOME-GRADUATED FIXED
CHARGES**

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I. INTRODUCTION

Pursuant to Rule 6.2 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”) the Clean Coalition respectfully submits these comments in response to the *Administrative Law Judge’s* (“ALJ’s”) *Ruling on the Implementation Pathway for Income-Graduated Fixed Charges*, issued at the Commission on June 19, 2023, and the *Email Ruling Granting Pacific Gas & Electric Company’s and Southern California Edison Company’s Joint Motion for Extension of Track A Deadlines*, issued on July 18, 2023.

II. DESCRIPTION OF PARTY

The Clean Coalition is a nonprofit organization whose mission is to accelerate the transition to renewable energy and a modern grid through technical, policy, and project development expertise. The Clean Coalition drives policy innovation to remove barriers to procurement and interconnection of distributed energy resources (“DER”) — such as local renewables, demand response, and energy storage — and we establish market mechanisms that realize the full potential of integrating these solutions for optimized economic, environmental, and resilience benefits. The Clean Coalition also collaborates with utilities, municipalities, property owners, and other stakeholders to create near-term deployment opportunities that prove the unparalleled benefits of local renewables and other DER.

III. COMMENTS

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

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

This statute should provide the Commission with a limiter when considering the different income-graduated fixed charge (“IGFC”) proposals. As the Clean Coalition showed in Rebuttal Testimony, the higher fixed charges incentivize higher usage patterns to maximize savings, which is the opposite of what the Commission intends to achieve. With lower-efficiency appliances resulting in greater savings, proposals for high IGFCs make it less likely that Californians will electrify and reduce the margin of savings from deploying electrification measures. While there is value in strategic conservation, or shifting energy usage patterns to off peak periods, as was determined in the Decision approving the Net Billing Tariff, that issue should not be construed as having to do with IGFCs. As the Clean Coalition demonstrated with the Flagstaff Research report, high IGFCs promote higher usage around the clock, particularly for larger sized homes. Among the negatively impacted groups from the Joint IOU’s proposal and the Cal Advocates’ proposal is the “energy usage profile [that] is common for apartments, duplexes, townhomes, and condominiums. Specifically, we see many apartment renters as falling into this impacted customer class.”¹ Moreover, under the Joint IOU’s proposal, there would be increases of over 50% in the bills of those making \$150,000 or more, making it even less likely for single-family occupants to own their home.

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

The Clean Coalition strongly believes that the best way to incentivize beneficial electrification is via a modest IGFC that still leaves the majority of rate components intact as is to be collected on a volumetric basis. Volumetric rates send direct price signals to ratepayers on the value of adopting electrification measures or conserving energy. The highest percentage of existing rates come from transmission and distribution costs, which must continue to be passed through to customers directly and in a transparent fashion. We do not at this time believe that it is appropriate to create a time-varying fixed charge or apply the charge differently to hourly rates

¹ Clean Coalition Rebuttal Testimony at p. 11.

due to the added complexity for the ratepayers. The concept appears to violate Electric Rate Design Principle 7 and 10.² Moreover, it is illogical to make a complicated change to rates when the end result is to transition ratepayers to real time rates that can maximize the value of demand flexibility. Instead of applying the savings from IGFCs to off-peak hours, the Clean Coalition believes that creating peakier TOU rates is a more effective way to send price signals to the ratepayers.

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

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

A fixed charge should not reduce the benefit that deploying a DER would create and should not reduce the incentive to electrify. The savings from an IGFC should be seen as a temporary respite for low-income ratepayers, rather than a silver bullet—or permanent—solution. The Commission must address the main cost drivers of rising electric rates: transmission spending, wildfire mitigation costs, and wildfire insurance/victim reimbursement. Over the last 15 years, PG&E has increased rates by an average of 5.7-6% annually, far outpacing the consumer price index or inflation.³ Without addressing the root causes of unaffordable utility rates in California, even the highest possible IGFC will not be enough as rates continue to skyrocket over the next decade. A modest fixed charge is the best method to expose the high costs of volumetric rate components and how system costs are being passed through to consumers, while providing temporary relief to the lowest-income Californians.

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

The Clean Coalition's proposal delineates only between CARE customers (as the lowest tier) and FERA customers (the second lowest tier) in terms of low-income and very-low-income customers. This method of tiering is transparent to ratepayers and the infrastructure already exists in the billing system to handle such a change. Furthermore, the structure of the Clean Coalition's proposal would require any ratepayer interested in receiving a lower fixed charge to verify their income via a CARE/FERA application. Any further differentiation is creating unnecessary bureaucracy that the state will have to pay for, begging the question, is the cost

² D. 23-04-040

³ <https://sandbar.com/news/pg-e-rate-increase-2023/>

implication of implementing such a delineation worth the small difference in monthly savings between low-income and very low-income customers? Moreover, given that the IGFCs will only include fixed components, we do believe it is prudent to move toward a future where there are numerous iterations of fixed charges. If a justification cannot be made for including a particular component in a fixed charge now, it is unclear at this point why that justification would change in the future.

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

There are three main justifications for the Clean Coalition's position. First, rates should be transparent and understandable.⁴ The minimum costs required to interconnect a customer to the grid should be covered in a fixed charge so that all other costs are passed through direct via volumetric rates. Second, rates should be based on actual incurred costs (or average based on customer class); there should not be cost shifts, if possible.⁵ AB 205 creates the justification to shift costs to a certain extent, based on the policy premise that rates are unaffordable for low-income ratepayers. However, it seems unreasonable to have cost shifts raising the bills of other customers by more than 20% in some cases. Finally, the Clean Coalition's proposal is the most practical because the billing system is already set for CARE and FERA customers, meaning that our proposal would be implemented long before 2026.

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

No at this time, given the Clean Coalition's proposal.

a. Please provide the source of your proposed definition.

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

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

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

The point of a fixed charge is that it is intended to remain fixed. There should not be new components that are couched into a fixed charge in the future. The bulk of rates are intended to be volumetric for the sake of transparency and should remain that way to incentivize

⁴ D. 23-04-040, Electric Rate Design Principle #7 and #10

⁵ Ibid, Electric Rate Design Principle #2, #3, and #8.

electrification. The fixed charge should only be high enough to cover the cost of billing, the meter, secondary service, and serve. This is not an issue that should be revisited on an annual basis, or with each GRC, as rates continue to skyrocket.

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

Only Costs related to the NEM minimum bill should be included. It does not make sense to add other things, like the PPP Charges or any primary distribution costs.

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

Any transmission costs should be excluded from the IGFC. Similarly, the vast majority of distribution costs should be transparently passed through as well. Randomly adding select distribution costs to an IGFC obfuscates the visibility of rates and reduces the incentive to conserve/electrify.

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

Since this fixed charge is intended to apply only to residential customers and existing PUC regulation requires all residential units to be individually metered, there should be no need to assess different fixed charges based on demand.

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

This suggestion is understandable but appears to be contrary to everything that has been discussed about demand flexibility, where it has been made clear that demand charges are a step in the wrong direction. Moreover, non-coincident demand charges in particular, remove the incentive to conserve energy during peak periods because the total energy usage is metered rather than the total energy usage during peak periods (when energy is the scarcest and has the highest carbon content). Therefore, for a state that is seeking to electrify, it does not make sense to send mixed signals by adding any sort of new non-coincident demand charge. Even if the IGFC is the next step in the transition toward demand flexibility and electrification, it is

important to send a unified signal and always move towards the next step, rather than moving in the wrong direction.

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

The Clean Coalition does not agree with this proposal. This should only be considered once the prohibition on master metering residential sites is lifted.

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

No

IV. CONCLUSION

The Clean Coalition respectfully submits these comments and urges the Commission to move forward with our proposal.

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