

**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 REPLY 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 reply 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. The Clean Coalition strongly believes that a high fixed charge is not the proper way to reduce rates in the long-term, nor will it be an effective tactic to incentivize electrification for all Californians. As other parties mentioned in opening comments, creating a pathway to electrification requires (1) reducing rates by addressing the main cost drivers leading to rate increases that outpace inflation and (2) sending more effective price signals that incentivize efficiency and energy usage during off-peak periods.¹ Fixed costs are not the culprit of high rates: utility spending on transmission, wildfire mitigation, wildfire insurance, wildfire payouts, nuclear decommissioning, and legacy generation contracts are. Currently the cost of delivering energy to the end-users is greater than the cost of generating energy, a disparity that is likely to increase over time as energy generation costs decrease and utility costs increase. Therefore, while the Clean Coalition understands that rates are rising to the point of being unaffordable for many Californians, we join other parties in rejecting a high fixed charge as the best way to reduce rates over time and incentivize electrification. In fact, the Flagstaff Research Report

¹ See the Opening Comments of the California Energy Storage Alliance (“CESA”) on Implementation Pathways, at p. 5, Opening Comments of the Solar Energy Industries Association (“SEIA”) on Implementation Pathways, at p. 1-2, and Opening Comments of the California Solar and Storage Alliance (“CALSSA”) on Implementation Pathways, at p. 1.

presented in the Clean Coalition’s rebuttal testimony proves just the opposite; the high fixed charge proposals benefit larger homes that use more energy than efficient smaller homes and reduce the incentive to electrify significantly enough that it becomes virtually [financially] unfeasible.² Moreover, the modeling of three high Fixed Charge proposals³ showed that if implemented, middle class Californians (with incomes of \$84,000 and \$150,000) living in highly and moderately efficient homes will see bill increases. Many of these Californians are renters, live in/near a disadvantaged community, or are rent burdened; the standard to justify another rate increase for this population should be high, especially when there are other better options such as the Clean Coalition’s modest proposal and more significant rate reform in the transition to real time rates. The Clean Coalition’s proposal — \$0 for CARE customers, \$5 for FERA customers, and between \$12-\$18 for everyone else — ensures savings for low-income customers while ensuring that bills do not increase significantly for everyone else. Therefore, we strongly believe the Commission should reject any high Fixed Charge proposal that will hollow out the middle class, especially when factoring in high inflation.

The Commission’s main focus in this proceeding is shifting to a more dynamic rate structure that reflects the real-time conditions of the grid, to enable demand flexibility. Therefore, a residential fixed charge is only one small step in the gradual transition toward real time rates. Yet, passing a high fixed charge will undoubtedly have a very disruptive effect on residential ratepayers, many of whom struggled to understand the shift to time-of-use (“TOU”) rates.⁴ Most have not shifted to an electrification rate or remain on a default TOU rate. Based on the required additional marketing, engagement, and outreach as well as the administrative costs associated with implementing the more complicated proposals, it is worth analyzing whether a fixed charge is the best option. There is both a cost reduction component and the broader rate transition to consider. Based on information provided by PG&E in a Demand Flexibility Working Group meeting, it seems like fully transitioning all remaining customers away from default TOU rates would have a far greater impact than a high fixed charge. While AB 205 might require the Commission to “authorize” an income graduated fixed charge (“IGFC”), it does not

² See Appendix A of the Rebuttal Testimony of the Clean Coalition

³ Proposals by The Utility Reform Network (“TURN”) & National Resources Defense Council (“NRDC”), Cal Advocates (“PAO”), and the Joint Investor-Owned Utilities (“IOUs”) were modeled by Flagstaff Research.

⁴ Comments of SEIA on Implementation Pathways, at p. 6.

need to, and should not, be the only rate reform tool that is considered over the next few years. Moreover, the Commission should not feel a legislative obligation to adopt a high fixed charge.

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

A. High fixed charges make it more difficult to achieve the state’s climate and energy goals and could result in overbuilding the grid.

A high fixed charge reduces the potential savings from conservation, electrification, self-generation, and efficiency measures. In opening comments, the California Energy Storage Alliance (“CESA”) explains, “High fixed charges that cannot be avoided or reduced when a customer installs storage and makes choices surrounding how to best utilize storage undermines their ability and incentive to invest in energy storage. Moreover, good rate design encourages the healthy deployment of storage as well as the secondary and tertiary grid services derived from storage, which will improve grid utilization and strategic electrification.”⁵ Reduced incentives send a price signal to the market about the value of a resource, which means that a high fixed charge will send a signal about the value of distributed generation at a time when the state is struggling to meet procurement targets. The California Energy Efficiency + Demand Management Council concurs, noting, “It is therefore reasonable to assume that impairments to

⁵ Opening Comments of CESA on Implementation Pathways, at p. 4.

demand side resources would result in reduced delivery of benefits of those resources, and therefore an unnecessary stifling of improved grid utilization.”⁶

The chart below from Flagstaff Research’s analysis shows bill impacts from the three highest fixed charge proposals numerically and as colors, with the greatest savings delineated by green colors and the greatest bill increases shown in red colors. The greatest bill savings accrue to large-sized households that consume the greatest amount of energy or have the least efficient appliances, which is antithetical to the direction that California is attempting to move in— toward smaller and more efficient homes capable of using electricity when it is abundant on the grid. For low and medium usage households on most rates, there is a large increase in the monthly bill. Medium sized households making \$84,000 see very little change or a slight bill increase. Therefore, a high Fixed Charge will result in a bill increase for most median income Californians (by more than 50% in some cases) regardless of reduced volumetric rates and will upend key price signals about consumption patterns. Millions of Californians struggling to make ends meet, living in disadvantaged communities, or renting will be negatively impacted by the implementation of a high Fixed Charge.

		1,250 Home 3506			2,500 Home 6263			3,750 Home 10974		
		D	TOU-D-4-9	TOU-D-PRIME	D	TOU-D-4-9	TOU-D-PRIME	D	TOU-D-4-9	TOU-D-PRIME
Current Utility Bill	Existing Rate Baseline - Electric									
	Blended Variable Charge \$/kWh	\$ 0.310	\$ 0.315	\$ 0.338	\$ 0.329	\$ 0.336	\$ 0.339	\$ 0.358	\$ 0.371	\$ 0.344
	Annual Variable Charge	\$ 1,087	\$ 1,105	\$ 1,184	\$ 2,058	\$ 2,104	\$ 2,125	\$ 3,934	\$ 4,076	\$ 3,774
	Annual Fixed Charge	\$ -	\$ -	\$ 155	\$ -	\$ -	\$ 155	\$ -	\$ -	\$ 155
	Annual Electrical Bill	\$ 1,087	\$ 1,105	\$ 1,339	\$ 2,058	\$ 2,104	\$ 2,280	\$ 3,934	\$ 4,076	\$ 3,929
Proposed Variable Energy Component (Not Impacted by Income)	Proposed Rate Changes									
	Blended Variable Charge (\$/kWh)									
	CPUC PAO	\$ 0.258	\$ 0.260	\$ 0.303	\$ 0.274	\$ 0.277	\$ 0.305	\$ 0.298	\$ 0.307	\$ 0.309
	NRDC/TURN	\$ 0.240	\$ -	\$ 0.265	\$ 0.255	\$ -	\$ 0.267	\$ 0.278	\$ -	\$ 0.271
	IOU	\$ 0.216	\$ 0.218	\$ 0.255	\$ 0.228	\$ 0.232	\$ 0.257	\$ 0.249	\$ 0.257	\$ 0.262
Proposed Fixed Charge Component (\$84,000 Median Income Household)	Annual Variable Charge									
	CPUC PAO	\$ 905	\$ 912	\$ 1,062	\$ 1,713	\$ 1,737	\$ 1,907	\$ 3,275	\$ 3,370	\$ 3,392
	NRDC/TURN	\$ 842	\$ -	\$ 930	\$ 1,595	\$ -	\$ 1,670	\$ 3,054	\$ -	\$ 2,977
	IOU	\$ 758	\$ 765	\$ 895	\$ 1,431	\$ 1,456	\$ 1,609	\$ 2,730	\$ 2,825	\$ 2,870
	Annual Fixed Charge									
Proposed Fixed Charge Component (\$150,000 Income Household)	CPUC PAO	\$ 367	\$ 367	\$ 368	\$ 367	\$ 367	\$ 368	\$ 367	\$ 367	\$ 368
	NRDC/TURN	\$ 492	\$ -	\$ 612	\$ 492	\$ -	\$ 612	\$ 492	\$ -	\$ 612
	IOU	\$ 612	\$ 612	\$ 612	\$ 612	\$ 612	\$ 612	\$ 612	\$ 612	\$ 612
	Annual Bill									
	CPUC PAO	\$ 1,272	\$ 1,279	\$ 1,430	\$ 2,080	\$ 2,104	\$ 2,275	\$ 3,642	\$ 3,737	\$ 3,760
Annual Bill Impact	NRDC/TURN	\$ 1,334	\$ -	\$ 1,542	\$ 2,087	\$ -	\$ 2,282	\$ 3,546	\$ -	\$ 3,589
	IOU	\$ 1,370	\$ 1,377	\$ 1,507	\$ 2,043	\$ 2,068	\$ 2,221	\$ 3,342	\$ 3,437	\$ 3,482
	Annual Bill Change									
	CPUC PAO	17%	18%	7%	1%	0%	0%	-7%	-8%	-4%
	NRDC/TURN	23%	-	19%	1%	0%	0%	-10%	-9%	-9%
IOU	26%	25%	13%	-1%	-2%	-3%	-15%	-16%	-11%	
Proposed Fixed Charge Component (\$150,000 Income Household)	Annual Fixed Charge									
	CPUC PAO	\$ 422	\$ 422	\$ 423	\$ 422	\$ 422	\$ 423	\$ 422	\$ 422	\$ 423
	NRDC/TURN	\$ 744	\$ -	\$ 912	\$ 744	\$ -	\$ 912	\$ 744	\$ -	\$ 912
	IOU	\$ 1,022	\$ 1,023	\$ 1,023	\$ 1,022	\$ 1,023	\$ 1,023	\$ 1,022	\$ 1,023	\$ 1,023
	Annual Bill									
Annual Bill Impact	CPUC PAO	\$ 1,327	\$ 1,334	\$ 1,485	\$ 2,135	\$ 2,159	\$ 2,330	\$ 3,697	\$ 3,792	\$ 3,815
	NRDC/TURN	\$ 1,586	\$ -	\$ 1,842	\$ 2,339	\$ -	\$ 2,582	\$ 3,798	\$ -	\$ 3,889
	IOU	\$ 1,780	\$ 1,788	\$ 1,918	\$ 2,453	\$ 2,479	\$ 2,632	\$ 3,752	\$ 3,848	\$ 3,893
	Annual Bill Change									
	CPUC PAO	22%	21%	11%	4%	3%	2%	-6%	-7%	-3%
NRDC/TURN	46%	-	38%	14%	13%	13%	-3%	-1%	-1%	
IOU	64%	62%	43%	19%	18%	15%	-5%	-6%	-1%	

⁶ Opening Comments of California Energy Efficiency + Demand Management Council on Implementation Pathways, at p. 1.

In opening comments, the Clean Coalition and a number of parties, including SEIA, CESA, and the California Solar and Storage Association highlight the benefits from adopting an increasingly time-varied rate with reduced off-peak and increased on-peak rates.⁷ In the transition toward more dynamic prices and rates that more accurately reflect cost causation, implementing a high fixed charge is especially problematic. CALSSA explains, “Reversing course with a rate mechanism that reduces the conservation price signal and hurts energy efficient customers would be a major change in California energy policy. In addition to the direct impacts on customer economics, the Commission must consider the mental barrier of encouraging customers to make investments and make lifestyle changes if they perceive that a significant portion of their bill is fixed. Motivating customers is difficult, and their mindset is important.”⁸ Many ratepayers are just beginning to grasp TOU rates and recent polling by the IOUs underscores the confusion surrounding real time rates. Adding another steppingstone that confuses the existing price signals and incentives is going to lengthen the process of achieving real-time rates. The Clean Coalition strongly believes that a high fixed charge will likely be detrimental to the transition to a more dynamic rate and will have an adverse impact on the state’s electrification goals. We urge the Commission to consider what the appropriate weighing mechanism will be to decide which proposal should be adopted; a high fixed charge that upends incentives for conservation & electrification and confuses the ratepayers should not pass any litmus test based on the existing goals expressed by the Commission.

B. The Joint IOU’s IGFC proposal is expensive and inconsistent (each utility includes slightly different components in its IGFC).

In opening comments, the Joint IOUs present a new proposal to be used as a first step for implementation prior to a future version of an IGFC.⁹ While this proposal is an improvement on what was initially proposed, there are still a number of reasons why it should not be adopted. First, the Joint IOU’s new proposal is still too high to preserve incentives for conservation, energy efficiency, electrification, and DER deployment. Any proposal that results in greater savings for larger, inefficient homes, compared to smaller, more efficient homes, upends the status quo about the importance of conserving energy and consuming energy when it is beneficial to the grid.

⁷ Opening Comments of CESA on Implementation Pathways, at p. 5.

⁸ Opening Comments of CALSSA on Implementation Pathways, at p. 1.

⁹ Opening Comments of the Joint IOUs on Implementation Pathways, at p. 9.

Moreover, the components that are included in the Joint IOU’s IGFC proposal is different for each IOU, which should be reason enough for the Commission to reject the proposal as “joint”.¹⁰ For example, PG&E proposes to include 60% of the Marginal Distribution costs in a fixed charge, whereas SCE proposes 75% and SDG&E proposes 100%. It is unclear why each utility includes a different amount. Furthermore, PG&E and SDG&E propose to include the New System Generation Cost, while SCE does not. Likewise, PG&E and SDG&E propose to include the Nuclear Decommissioning Charge, but SCE does not. Even the IOUs are not in agreement about what constitutes a “truly” fixed cost and should be included in the IGFC; the Clean Coalition believes that it is appropriate for the Commission to evaluate each of the IOUs fixed charge proposals separately rather than as one joint proposal. The proposal from the IOUs also raises the question of how Net Energy Metering (“NEM”) customers will be educated and billed, should a proposal that includes current nonbypassable charges be adopted. Each of the proposals from the IOUs contains some but not all the nonbypassable charges. Would customers continue to pay some charges as nonbypassable charges and others via a fixed charge? How would this be explained to them in a clear and transparent manner? The proposal from the Joint IOUs raises more questions than it answers, and the Commission should not find it persuasive.

C. Advanced Energy United

The Clean Coalition concurs with Advanced Energy United on the need for a modest fixed charge that covers only the ‘truly’ fixed costs of providing electrical service to ratepayers, which ensures that all other rate components continue to be passed directly through to consumers via volumetric rates (as intended by the legislature). Advanced Energy United, “believe[s] this should result in an IGFC of no more than \$15/month for any customer, based on other parties’ results from the E3 model.”¹¹ Their statement aligns with the Clean Coalition’s proposed IGFC, which can be viewed below.

Utility	CARE (<200% FPL)	FERA (200% to 250% FPL)	All Others (> 250% FPL)
PG&E	\$0	\$5	\$12.77
SCE	\$0	\$5	\$13.94
SDG&E	\$0	\$5	\$18.51

The Clean Coalition’s streamlined fixed charge proposal

¹⁰ See Attachment A of the Comments of the Joint IOUs on Implementation Pathways.

¹¹ Comments of Advanced Energy United on Implementation Pathways, at p. 3.

Our proposal ensures that low-income customers will realize bill savings each month—in addition to existing bill subsidies—without imposing such a high fixed charge on all other customers that the longstanding imperative to conserve, improve efficiency, and reduce reliance on the grid during peak periods will be upended. Advanced Energy United explains, “Conservation, energy efficiency, beneficial electrification, and greenhouse gas reductions are key tactics and objectives to meeting our goal of achieving 100% clean energy and transportation.... implicitly included as part of a low-carbon grid, are distributed energy resources, notably including renewable energy systems and behind-the-meter (BTM) energy storage.”¹² High fixed charges reduce the value of on-site consumption and demand flexibility, rewarding ratepayers with higher consumption patterns, less efficient appliances, and no interest in benefitting the broader grid. High fixed charges also reduce the incentive to self-generate by increasing the payback period, which will be an issue with existing NEM customers, making the up-front investment required to electrify seem like a greater burden. As presented in the Clean Coalition’s rebuttal testimony, under a high fixed charge scenario — with the assumption of a 10-year simple payback — the full cost of home electrification would need to be less than \$2,170 (post incentives). The actual price tag for the modeled electric appliances based on existing prices is likely in excess of \$20,000— including installation costs. Thus, the proposals for high fixed charges could make it difficult, if not possible, for the state to achieve full electrification for residential customers.

Advanced Energy United also makes the key claim that many costs in the higher fixed charge proposals are not necessarily truly fixed costs:

On the other side of the ledger, United would suggest many categories of current revenue requirements that are not “costs” of “serving customers” or “providing electrical service”. Legacy debts (unrelated to the cost of service today) and policy-based revenue requirements should not be part of Eligible Fixed Costs....these charges are generally the result of political questions and issues of statewide concern, suggesting that if modification to how they are collected was intended by the Legislature, they would have said so, and if they did not it may indicate they are instead issues the Legislature will (or should) address directly.¹³

¹² Ibid, at p. 4.

¹³ Ibid, at p. 14.

We agree that costs imposed by the legislature due to policy considerations should not be included in a fixed charge. This category of costs includes existing nonbypassable charges. These costs are not driving rate increases and any changes to cost collection should be mandated by the state, rather than imposed at a regulatory level.

D. The Power Charge Indifference Adjustment (“PCIA”) should not be included in a fixed charge and the Commission should reject the NRDC/TURN proposal for including it.

The Clean Coalition agrees with CalCCA that the PCIA should not be included in an IGFC, as is proposed by NRDC/TURN.¹⁴ First, we do not believe that any generation-related costs should be included in a fixed charge. Generation costs are inherently not fixed and should be passed through directly to the ratepayers, in a transparent manner. On the existing electricity bill for an unbundled customer, the PCIA is included as a line item each month, making it easy to determine the vintage and exact amount being paid. A fixed charge removes the transparency by only showing a single line item, rather than all the component sub-charges that make up the fixed charge. The Clean Coalition inherently is against reduced transparency and creating unnecessary confusion as customers struggle to understand why things have changed as they pay their bill at the end of the month. Second, including the PCIA in a fixed charge is adding unnecessary complication to the billing system and will undoubtedly increase the timeline before implementation is possible. The PCIA is different for each of the three IOUs and there is a different vintage for each ratepayer based on the specific month and year when a ratepayer transferred from bundled service to unbundled service. Therefore, including the PCIA in the fixed charge would result in a scenario where almost every unbundled customer would have a fixed charge of a different amount on their bill. For this reason, the high fixed charge proposal from NRDC/TURN is unreasonably difficult to implement and the Clean Coalition contends that it will not properly incentivize electrification.¹⁵

E. Cal Advocates’ statement about high fixed charge not impairing incentives for conservation is completely incorrect.

Cal Advocates states that their proposal will encourage electrification and greenhouse gas (“GHG”) reduction by reducing volumetric rates and continues by suggesting that fuel switching

¹⁴ CalCCA Opening Comments on Implementation Pathways, at p. 3.

¹⁵ TURN/NRDC Opening Comments on Implementation Pathways, at p. 5.

to using electricity is essential.¹⁶ The Clean Coalition disagrees that high IGFCs will encourage electrification or GHG reduction, as shown in our rebuttal testimony and above in this document. We also disagree with the implicit assertion made by Cal Advocates that fuel switching is not possible with existing rates. The tables below show the cost of refueling a 2023 Tesla Model 3 versus a 2023 Toyota Camry.

2023 Tesla Model 3 Rear Wheel Drive Charging Costs					
PG&E & 3Cchoice Residential Blended Utility Rate as of 1 July 2023 (cost per kWh)	Tesla Model 3 Battery Size (kWh)	Cost to Fully Charge Tesla Model 3 Battery	Tesla Model 3 Estimated Electric Range (Miles)	Tesla Model 3 Cost per Mile	
\$0.33	50.40	\$16.63	272	\$0.06	
2023 Toyota Camry Fueling Costs					
Average California Gas Price (per gallon)	Toyota Camry Tank Size (Gallons)	Toyota Camry Cost to Fill Tank	Toyota Camry Fuel Economy -City & Hwy Combined (mpg)	Toyota Camry Miles Driven on Full Tank	Toyota Camry Cost per Mile
\$4.87	15.80	\$76.99	32	505.60	\$0.15

Even with some of the highest electricity prices in the nation, the cost of refueling a Tesla is much less than a gasoline-powered vehicle.¹⁷ In addition, the cost of solar is now one third less expensive than natural gas.¹⁸ The Commission should not be persuaded by arguments suggesting that electrification and GHG emissions reductions are reasons to implement a high fixed charge. There is value in electrifying under current rates; it is very important to study whether the same is true under proposed IGFCs. Cal Advocates’ comments refer to general data about the total effect of their proposal on rates, rather than the actual changes for ratepayers/socioeconomic classes. Based on Flagstaff Research’s analysis, the Cal Advocates proposal would lead to bill increases for the middle class and renters, with the exception of large homes with high consumption patterns.¹⁹ We do not believe that any proposal that hollows out the middle class should be approved by the Commission.

IV. CONCLUSION

¹⁶ Cal Advocates Opening Comments on Implementation Pathways, at p. 6.

¹⁷ California also has some of the highest prices for gasoline in the nation.

¹⁸ <https://www.bloomberg.com/news/articles/2022-10-03/solar-is-now-33-cheaper-than-gas-power-in-us-guggenheim-says>

¹⁹ See Appendix A of the Clean Coalition’s Rebuttal Testimony.

The Clean Coalition respectfully submits these reply comments and urges the Commission to adopt our streamlined, modest fixed charge proposal.

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