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 BRIEF ON INCOME GRADUATED FIXED CHARGES

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I. INTRODUCTION

Pursuant to Rule 13.12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission") the Clean Coalition respectfully submits this reply brief in response to the *Administrative Law Judge's* ("ALJ") *Ruling Addressing the Track A Procedural Schedule, Opening Briefs Guidance, and Exhibits*, issued at the Commission on August 22, 2023. The Clean Coalition advocates that the Commission should base the Decision adopting a Fixed Charge on four mechanisms: the benefit to low-income customers, the effect on other ratepayers, the level of difficulty associated with implementation, and whether the change will increase the pace of electrification. As explained in our Opening Brief, these weighing mechanisms effectively incorporate Electric Rate Design Principles 1, 2, 3, 4, 5, 6, 7, 8, and 10.[1]

- The Clean Coalition's Fixed Charge proposal avoids causing a massive subsidy from small homes to large homes, while meeting the statutory requirements of AB 205. The Clean Coalition proposal should be adopted by the Commission.
- We urge the Commission to adopt the fixed cost components included in our testimony and reject any components that vary with time, are related to generation in any way, or incorporate public purpose program charges.
- The structure proposed by the Clean Coalition and SEIA — three tiers based on CARE, FERA, and all other customers — should be adopted. The Ruling requesting a first version Fixed Charge was based on the Clean Coalition' and SEIA's proposals.
- Proponents of high Fixed Charges have been unable to justify the negative impact on incentives for energy efficiency and conservation.

[1] Clean Coalition Opening Brief, at p. 1.

- The record does not reflect that a high Fixed Charge is necessary to enable, or is beneficial for, electrification.
- The Joint Investor-Owned Utility ("IOU") proposal contains different cost categories (and percentages) for each of the three IOUs. Due to the differences and lack of justification, the Commission should reject this proposal outright.[2]

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

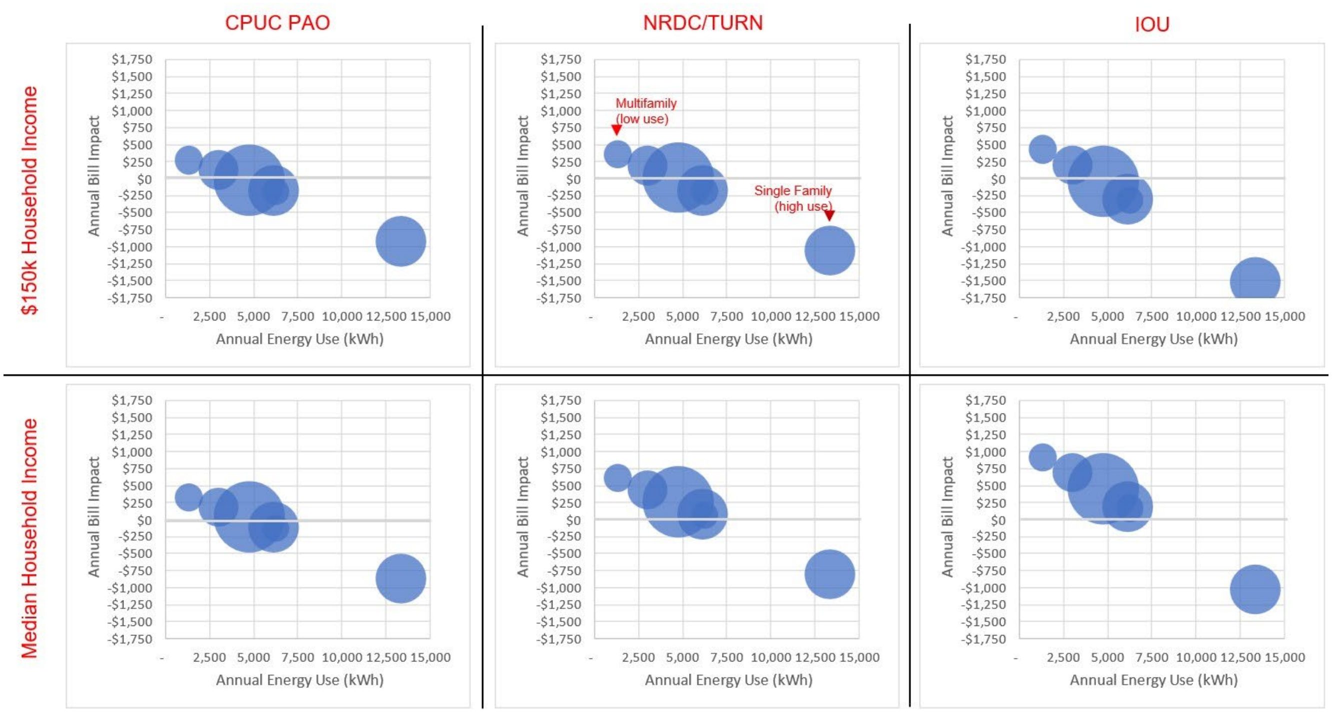
A. Proponents of high Fixed Charges have been unable to justify the negative impact on incentives for energy efficiency and conservation.

One of the main concerns that the Clean Coalition and other parties have had about high Fixed Charges is the fact that under a high Fixed Charge scenario it becomes financially beneficial to use more energy, upending existing incentives to deploy efficient appliances and conserve energy in an intelligent manner. If implemented, the winners under a high Fixed Charge will be wealthier Californians with larger square footage homes, whereas renters with small apartments and efficient appliances will see the greatest bill increase. The higher the proposed Fixed Charge, the more apparent this trend becomes, which is but one reason that the Commission should adopt a low Fixed Charge, such as the one proposed by the Clean Coalition. The Joint IOUs attempts to justify their proposed Fixed Charge by explaining, "Charges at these

[2] Joint IOU Opening Brief, at p. 5.

levels would… [maintain] volumetric rates at a level that continues to incentivize conservation," but make no further attempt to justify the assertion or explain **why** the proposal will not unreasonably impact conservation.[3] Likewise, the Sierra Club explains that its proposal will reduce rates by 15-18% and make it clear that such a reduction in the volumetric rate will not endanger incentives for energy efficiency and conservation, but does not provide any further evidence.

[4]



PG&E Results Visually Expanded for All Dwelling Types

In comparison, the modeling conducted in the Flagstaff Research report and included in the CLC-01 clearly shows that when graphed, any high Fixed Charge with a very well-defined negative slope will upend incentives for conservation and efficiency. Beyond conservation and energy efficiency, the record reflects that a high Fixed Charge will not result in Californians using electricity in a more intelligent fashion because the focus shifts to how much energy is being consumed rather than **when** the energy is being consumed. The key price signals for

[3] The Joint IOU Opening Brief, at p. 9.
[4] Sierra Club Opening Brief, at p. 34.

electrification and minimizing grid costs — lower demand during peak periods means less money will be spent on new infrastructure — are dampened in a way that will severely inhibit the transition toward a modern and decarbonized grid. Finally, a system that financially rewards those consuming as much energy as possible while penalizing efficient users who are conscientious of grid conditions jeopardizes the transition of electricity rates to real time rates. The success of real time rates and demand flexibility are inherently tied to the ability (and financial interest) of Californians in shifting demand based on the conditions of the grid and the impact on prices. Successfully implementing real time rates requires a massive shift in consumer behavior; adding an extra step (e.g., a high Fixed Charge) is a step in the wrong direction that will increase the amount of time before the transition can be completed. With the unprecedented buildout that needs to occur to decarbonize and electrify the state, there is no time for policies that do not directly take the state in the direction it needs to be going in. The fact that high Fixed Charges result in less intelligent consumers of energy due to impaired incentives for conservation, energy efficiency, and contemplation of grid conditions means that party proposals with high Fixed Charges should be eliminated from the Commission's consideration.

B. The record does not reflect that a high Fixed Charge is necessary to enable, or is beneficial for, electrification.

NRDC/TURN justifies a Fixed Charge as necessary to, "reduce volumetric rates to promote building and transportation electrification,"[5] while Cal Advocates claims that Fixed Charges, "incent electrification."[6] Similarly, the Joint IOUs suggest that Fixed Charges will, "[make] electrification more affordable."[7] However, the record suggests that this is not the case for a number of reasons. The first is that lowering the volumetric rate reduces the savings from deploying electrification measures, lengthening the payback period, and making any up-front capital requirements far more difficult for lower-income Californians. While detrimental to all DER deployments, in particular, a high Fixed Charge is likely to result in fewer deployments of storage, which is already the costliest component of DER deployments. Secondarily, a Fixed Charge is increasing an already high cost of living in the state, to the detriment of low and

[5] NRDC/TURN Opening Brief, at p. 2.
[6] Cal Advocates Opening Brief, at p. 2.
[7] Joint IOU Opening Brief, at p. 6.

middle-class Californians. For example, a family of four making $150,000 has been labelled wealthy in this proceeding, although that is representative of a two teacher-household and doesn't account for the high cost of living or expenses associated with rearing two children. With the cost of deploying electrification measures resulting in higher housing costs, cost-prohibitive housing will be far more of an impediment than the tangible benefits from (reduced) savings under a high Fixed Charge scenario.

The Commission should not find arguments about the need for a high Fixed Charge to enable electrification to be persuasive. In addition to being fundamentally incorrect, these parties have created a false dichotomy for the Commission, suggesting that the two options related to electrification are to approve their proposal or to do nothing. However, in reality, those proposing a high Fixed Charge must prove that there is a substantial improvement over the status quo, with respect to electrification, and demonstrate that there is not a more effective policy alternative. For example, from the Clean Coalition's submission of rebuttal testimony until now, we have maintained that a volumetric (time-of-use, or "TOU") rate with a higher on-peak off-peak price differential is by far the more effective strategy to enable electrification.[8] The largest energy consumers in electrification are space and water heating, meaning that the summer on-peak is not correspondent with peak electrification usage; two-thirds of overall consumption is in the low cost winter off-peak period and only 3% of usage occurs during the high cost summer on-peak. Thus, encouraging off-peak consumption by lowering the price further will directly incentivize the deployment of electrification measures, making an increased TOU price differential a far more effective method of enabling electrification than a high Fixed Charge.

IV. CONCLUSION

A Fixed Charge is not a silver bullet solution and cannot reduce rates in the long term so long as the underlying cost drivers are not reigned in, and the IOUs continue to receive approval for close to double digit rate increases on an annual basis. The Clean Coalition respectfully submits this reply brief and urges the Commission to adopt our streamlined, modest Fixed Charge proposal.

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[8] CLC-01, at p. 13.

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