Proceeding.:	R.22-07-005
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Witnesses:	See Table of Contents

Joint Testimony of Southern California Edison Company, Pacific Gas and Electric Company, and San Diego Gas & Electric Company (the Joint IOUs) Describing Income-Graduated Fixed Charge Proposals

Joint IOUs' Exhibit 1, addressing:

- Policy

- Rate Design

- Income Verification

- Implementation

- Marketing

- Cost Recovery

Before the
Public Utilities Commission of the State of California

April 7, 2023

Testimony Describing Joint IOUs' Income-Graduated Fixed Charge Proposals

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I.

POLICY

A. Introduction

Current residential rate structures based primarily on volumetric rates do not reflect cost of service, are not equitable, and do not send appropriate price signals to encourage broader adoption of greenhouse gas (GHG) reducing technologies. The artificially high volumetric rates in existing residential rate structures pose affordability challenges for many lower- and moderate-income customers, very high bills for larger users, and monthly bill volatility.

In contrast, the Joint IOUs' proposals to combine an Income Graduated Fixed Charge (IGFC) with lower volumetric rates on all residential rate schedules will improve equity. Our proposals will bring customers' rates closer to the cost to serve them, result in greater month-to-month bill stability, and provide low-income customers with bill reductions, on average, relative to the current rate structure. The lower volumetric rates will also encourage decarbonization by making transportation and building electrification more affordable. More cost-based electricity prices will compare more favorably to prices of gasoline and natural gas. As detailed in the remainder of this chapter, these reformed residential rate structures are urgently needed to support achievement of the state's decarbonization goals.

The Joint IOUs' proposals are designed to support the policy goals discussed, and since customer acceptance of rate reform is key, continued customer research and marketing, education, and outreach (ME&O) is needed to ensure customers have a positive experience. The Joint IOUs' proposed outreach and communication will make the reformed rate structures transparent and understandable to customers and explain the expected overall benefits.

An important part of the Joint IOUs' proposal is the recommendation that income verification for purposes of assigning customer households to the appropriate IGFC level be administered by a Third Party contractor supervised by the California Public Utilities

Commission (CPUC or Commission), as is done for the LifeLine program for telecommunication companies.[1] The Joint IOUs today perform a limited form of income verification in the narrow context of opt-in discount programs such as the California Alternate Rates for Energy (CARE) program (where customers agree in their application to provide requested income information, in order to qualify). However, the process of assigning all of California's residential electric customers to income categories is unprecedented, and requires capabilities and processes that are best administered by a state agency – and are far beyond prior utility experience and capabilities. Adding the resources and systems necessary for the energy utilities to perform such income validation would not be cost effective. Doing so also raises sensitive issues of consumer privacy, cybersecurity, and utility-customer relations. For these reasons, as described in Chapter 3 of this Exhibit, income verification should be overseen by a state agency, such as the CPUC, and likely conducted by a qualified third party that would apply the necessary protocols to ensure a fair and positive customer experience.

B. The Joint IOUs' Residential Rate Proposals Comply with Assembly Bill 205

In mid-2022, the California legislature, through Assembly Bill (AB) 205, removed the statutory language requiring default residential rates to be almost exclusively charged on a volumetric basis and provided a framework to make the residential electricity rate structure more equitable. That bill's amendments to Public Utilities Code § 739.9 now allow the CPUC to take the next step in needed residential electric rate reforms, by collecting through a set IGFC costs that do not vary volumetrically or are more equitability collected in a fixed charge. A fixed charge alone results in volumetric rates more in line with cost of service, which help to control high bills and bill volatility associated with event-driven higher usage, and greatly enhance the widespread electrification efforts needed to achieve our state's GHG reduction goals. AB 205 aims to offer all customers better price signals while also providing additional affordability

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[1] *See* R.22-07-005, Phase 1 Track A: Income-Graduated Fixed Charge Guidance Memo at p. 9.

protections for low-income customers through the IGFC. The Joint IOUs and other parties have already briefed the CPUC on statutory interpretation issues relating to AB 205. Because the CPUC has not yet ruled on those AB 205 legal issues, each party was directed to assume that its own brief's recommended interpretation of the statute is adopted. That directive was followed herein as well as in each of the Joint IOUs' individual rate calculations.

The Joint IOUs have developed a common, modernized rate design structure that balances several key objectives, including supporting increased affordability for lower- and moderate-income customers while also helping the state achieve its decarbonization goals in a more equitable and affordable manner relative to the status quo.

The Joint IOUs have worked together, in collaborative discussion with a wide range of other parties (including through Energy Division workshops) to carefully consider a range of potential IGFC approaches. While each IOU is separately providing individual Rate Design Exhibits based on its unique revenue requirements, customer distributions, and service options, all proposals are guided by the following key principles:

- Provide a better aligned cost-based residential rate structure that collects costs in a more equitable manner from all customers through an IGFC;
- Support a more progressive residential rate structure for customers that matches income ranges with the level of monthly fixed charge each customer pays, providing affordability and bill relief for vulnerable lower income customers through lower volumetric rates and the IGFC;
- Encourage electrification by reducing volumetric rates for all customers, providing a stronger economic basis in electric rates for customers to adopt cleaner electrification technologies;
- Provide increased bill stability for customers because a portion of a customer's bill will remain flat and predictable from month to month; and

- Maintain strong price signals during critical energy and grid hours through time-of-use (TOU) rate differentials that encourage customers to save by shifting use out of these high-cost hours.

Today, lower- and moderate-income customers, on average, pay a greater percentage of their income towards their electricity bill relative to higher income customers.[2] The Joint IOUs' proposals result in meaningful bill savings for these customers, with no change in usage. (See Figure I-2 below.) As customers adopt environmentally-beneficial electrification technologies in accordance with state policy, the Joint IOUs' proposals significantly reduce volumetric rates and make these new technologies more financially attractive.[3] Importantly, these rates would be technology-agnostic, making them more flexible and available for all customers. The Joint IOUs' proposals also consider how best to balance competing considerations to make income verification as accurate as possible, while also aiming for a cost-effective implementation of a major structural change for all residential customers.

As described in the previously submitted briefs, the Joint IOUs interpret AB 205's "no fewer than three income thresholds" language to mean there must be at least three Income Brackets. The Joint IOUs are proposing four household Income Brackets to achieve greater progressivity by offering further relief to the most economically vulnerable households with the highest energy burdens – those with incomes less than or equal to 100% of the Federal Poverty Level (FPL). This strikes an appropriate balance, implementing a progressive IGFC structure while minimizing the operational challenges inherent in having too many income brackets. Specifically, the Joint IOUs propose the following four household Income Brackets:

- Bracket 1 – CARE customers with incomes less than 100% of FPL;

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[2] Next 10 and Energy Institute at Haas, University of California, Paying for Electricity in California: How Residential Rate Design Impacts Equity and Electrification (hereinafter Next 10, Paying for Electricity in California) (Sept. 2022), *available at* **https://www.next10.org/sites/default/files/2022-09/Next10-paying-for-electricity-final-comp.pdf**.

[3] *See* Chapter 2 (Rate Design) for impact to volumetric rates.

- Bracket 2 – Remaining CARE and Family Electric Rate Assistance (FERA) enrolled customers;
- Bracket 3 – Non-CARE or FERA customers with incomes up to or equivalent to 650% of FPL; and
- Bracket 4 – Non-CARE customers with incomes above 650% of FPL.

While it is important to maintain affordability for the most vulnerable low-income customers, it is also imperative that the overall average fixed charge across all four income categories be sufficient to enable meaningful reductions in volumetric rates that incentivize customer electrification efforts. Because each of the Joint IOUs has its own, CPUC-adopted, marginal costs of service, the application of the proposed basic rate design structure described here results in differing calculations of each Joint IOU's specific fixed charges by household Income Bracket. The illustrative proposed IGFCs for each of the Joint IOUs are shown in Table I-1 below and the appendices to this Joint Testimony present the individual rate designs for each IOU's residential rate schedules.

Table I-1
Illustrative Proposed IGFCs

Income Bracket	**Criteria**	**PG&E IGFC ($/month)**	**SDG&E IGFC ($/month)**	**SCE IGFC ($/month)**
Average Fixed Charge		$53	$74	$49
1	CARE (<= 100% FPL)	$15	$24	$15
2	All Other CARE/FERA	$30	$34	$20
3	Non-CARE/FERA <= 650% FPL	$51	$73	$51
4	Non-CARE/FERA >650% FPL	$92	$128	$85

1. Benefits of the Joint IOUs' Proposals Compared to Current Residential Rates

The Joint IOUs' proposals provide several benefits compared to the current, primarily volumetric, rate structures for the IOUs' residential electric customers. These are described in the sections below.

a) Improving Equity by Bringing Rates Closer to Cost of Service.

While the energy environment in California continues to evolve rapidly, the residential rate structure for investor-owned, regulated utilities has become outdated and misaligned with the new energy landscape. Unlike many utilities nationwide, and publicly-owned utilities within California,[4] nearly all of the Joint IOUs' costs to serve their residential customers are collected through cent-per-kilowatt hour (kWh) volumetric rates, even though approximately two-thirds of these residential costs are either fixed or do not fluctuate as customer usage increases or decreases.[5] CPUC-approved residential rates also differ markedly from the rate schedules that the Commission has approved for the Joint IOUs' non-residential customers, which almost universally include a separate fixed charge component to recover fixed costs on a non-volumetric basis.

Existing residential rate design policies are under review in this proceeding, as they were based on priorities that do not sufficiently align with a focus on improving the affordability of electric service and more equitably recovering fixed costs, as the state seeks to expand beneficial electrification. Whereas in the past, state law encouraged the CPUC to land on the side of rate design resulting in higher volumetric rates, now the CPUC is required to balance, providing appropriate price signals, both energy use reduction and energy use increases where such

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[4] For example, the Sacramento Municipal Utility District (SMUD) charges a $23.50 monthly fixed charge on both Rate Schedule R (Fixed Rate) and Rate Schedule R-TOD (Residential Time-of-Day Service). See https://www.smud.org/en/Rate-Information/Residential-rates.

[5] Fixed revenue requirements as a portion of total residential revenue requirement, averaged across IOUs.

increases would support GHG emissions reductions. This statutory change endorses the end of the longstanding presumption that costs should be predominantly recovered through volumetric rates for most residential customers. Instead, the priority is that volumetric price signals should enable customers to make decisions that are better aligned with the State's climate goals.

As the Joint IOUs continue to build and maintain necessary critical infrastructure to help enable California's energy transition, collecting residential customers' fixed costs through volumetric rates unfairly shifts fixed costs from lower to higher-use customers and disincentivizes beneficial uses of electricity. Because nearly all the Joint IOUs' fixed costs are recovered through such volumetric prices, the price customers pay when they turn on their lights is substantially higher than the marginal cost of providing that electricity. A recent paper from the Energy Institute at Haas, UC Berkeley and Next 10 highlights that volumetric electricity rates in California are two to three times the marginal cost of providing electricity.[6] Indeed, this heavily volumetric residential rate design is a significant outlier when looking at residential rate design across the U.S. as shown in Figure I-1 below.

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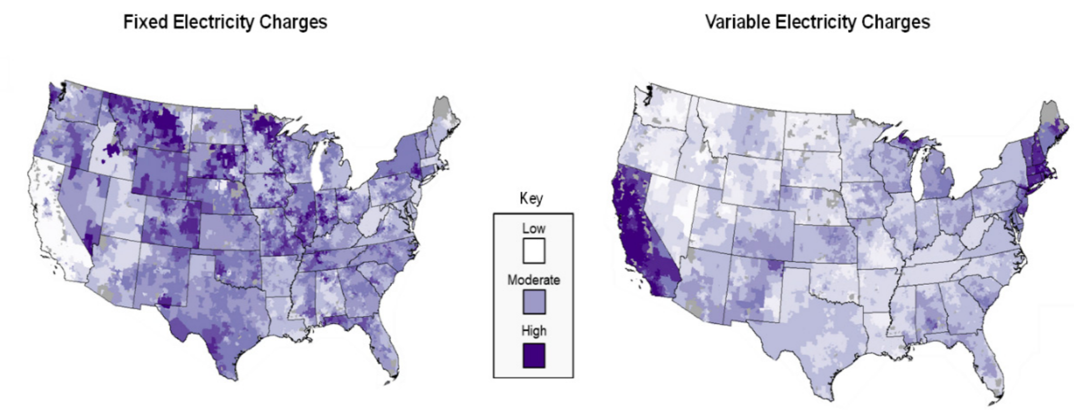
[6] Next 10 and Energy Institute at Haas, Designing Electricity Rates for an Equitable Energy Transition (Feb. 2021), *available at* https://haas.berkeley.edu/wp-content/uploads/WP314.pdf.

Figure I-1
Residential Rate Design Across the U.S.[7]



Fixed and mandated public policy costs should be collected in fixed charges. The Joint IOUs' proposals address the inequity currently embedded in a primarily volumetric residential rate structure, through the introduction of the IGFC. The proposed fixed charge levels in each household Income Bracket have been set to yield an overall average fixed charge across all household income levels that provides meaningful volumetric rate reductions while including an appropriate portion of fixed system costs in the charge. The resulting IGFC revenues bring volumetric rates closer to the actual cost of providing service to customers[8] – and provide relief from high summer bills for high-usage households living in hotter climates. As described below, lower volumetric rates also will be vital to enabling electric appliances/equipment/vehicles to better support the transition to a decarbonized economy.

b) **Addressing Affordability and Protecting Low-Income Customers.**

Introducing even a traditional non-income-graduated fixed charge coupled with lower volumetric rates would support California's GHG policy goals and recover costs more equitably

[7] Borenstein and Bushnell, National Bureau of Economic Research, Do Two Electricity Pricing Wrongs Make a Right? Cost Recovery, Externalities, and Efficiency (Rev. Sept. 2018), *available at* https://www.nber.org/papers/w24756.

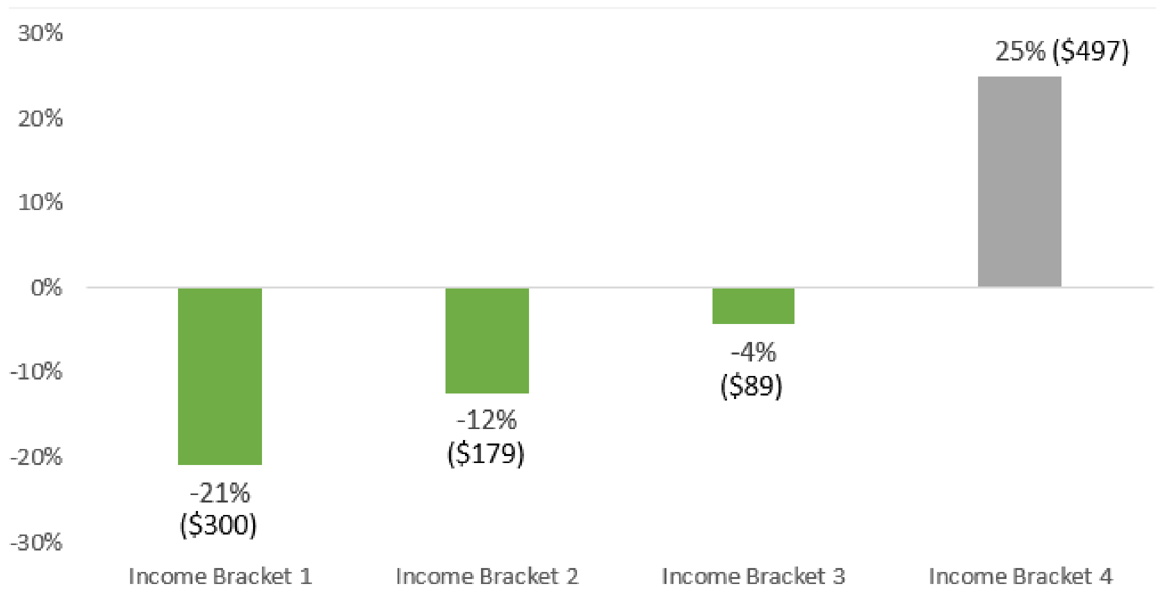
[8] *See* Chapter 2 Joint Rate Design Chapter.

than today's rate structure, including producing lower bills for high users and higher bills for low users, independent of their household income levels. However, the progressive nature of the IGFC, mandated by AB 205 – with higher-income customers paying higher monthly fixed charges than lower-income customers – also mitigates the adverse bill impacts that a traditional fixed charge might have on lower-usage low-income customers. In particular, creating four household Income Brackets, as opposed to three, allows the Joint IOUs to create an Income Bracket available to our most economically vulnerable customers (those who fall under 100% of the FPL), who will pay very modest monthly fixed charges while further benefitting from significantly lower volumetric charges.

While the Joint IOUs have proposed to substantially reduce volumetric electricity rates for all residential customers, the proposals also recognize many customers may not be able to electrify in the near term. A key priority of the Joint IOUs' proposals is to provide bill savings for customers in Income Brackets 1-3 today. The IGFC proposals provide annual bill savings for these customers, on average, without changing their energy consumption.

As shown in Figure I-2, on average, the Joint IOUs' customers in Income Brackets 1-3 (lowest to moderate household income) are estimated to save between 4% to 21% per year, or $89-$300 respectively, based the results of the E3 Public Tool (Public Tool) provided by the Energy Division as part of this proceeding.

Figure I-2
Average Annual Percent Difference by Income Bracket

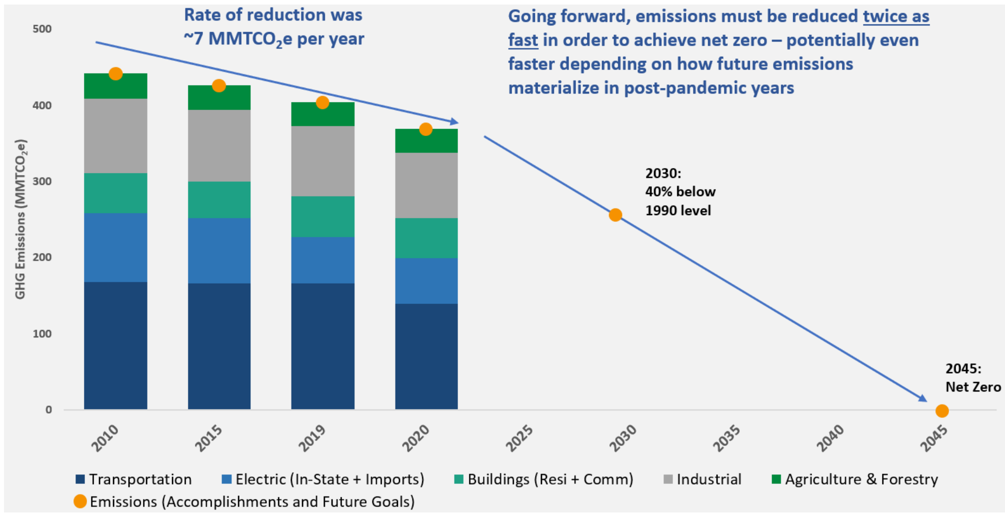


The Joint IOU proposals can achieve these savings for customers in Income Brackets 1-3 through the difference in the IGFC paid by Income Bracket 4 customers relative to Income Bracket 1-3 customers. All customers can benefit from the lower volumetric rates but Bracket 1-3 customers pay a lower IGFC, allowing them to see immediate savings, on average, versus the current status quo. In Income Bracket 4, customers with higher usage, such as that resulting from electrification adoption, will also have lower bills than they would under today's rate structure, on average.

c) **<u>Encouraging Beneficial Electrification.</u>**

While California has made great strides in reducing GHG emissions in recent years, the state must decarbonize twice as fast over the next two decades to meet its 2045 goals, as shown in Figure I-3.

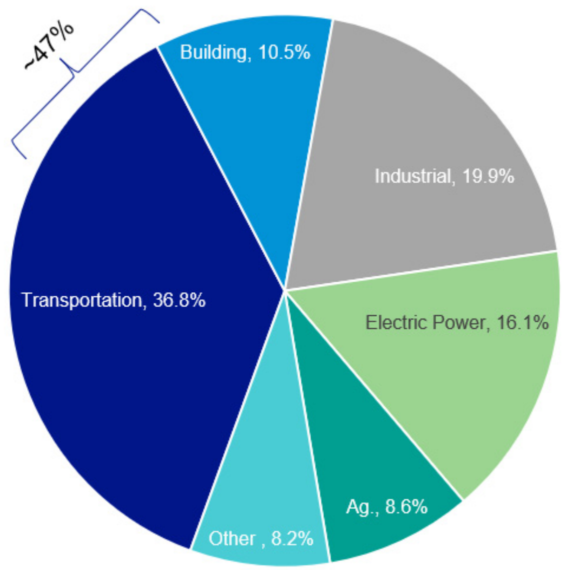
Figure I-3
***California's Decarbonization Accomplishments and Future Goals*[9]**



Widespread electrification of customer homes and vehicles will be critical in accelerating the pace of decarbonization. As shown in Figure I-4 below, based on 2020 emissions data, these two sectors —- transportation and buildings (residential and commercial) – represent nearly 50% of California's GHG inventory as reported. Customer adoption of beneficial electrification technologies is essential to effectively reduce the greenhouse gas emissions currently associated with these two sectors.

[9] *See* California Air Resources Board (CARB) 2000 – 2020 GHG Inventory (2022 edition, by economic sector), $MMTCO_2e$ = Million metric tons of carbon dioxide equivalent. Historical rate of reduction calculated from 2010 – 2020.

Figure I-4
Current California GHG Emissions Inventory Data[10]



Powered by increasingly clean electricity, electrification will help replace traditional fossil fuel technologies and their emissions with more climate-friendly, decarbonized alternatives. Electric technologies produce fewer emissions than alternatives powered by fossil-fuels such as petroleum and natural gas; this environmental advantage of electricity will continue to grow as greater amounts of carbon-neutral electric generation resources are added to the grid, in compliance with state law.

As California looks to encourage customers to efficiently use ***more*** electricity, volumetric rates that are significantly higher than the actual cost of providing that electricity create an economic disincentive for the adoption of electrification technologies.[11] A fully electrified

[10] *See* CARB, Greenhouse Gas Emission Inventory - 2022 Edition. Building represents both Commercial and Residential sectors. Other includes High Global Warming Potential Gases and Recycling & Waste, *available at* **https://ww2.arb.ca.gov/ghg-inventory-data**.

[11] Inclining-block tiered rates are especially problematic in this regard, charging artificially inflated rates for usage in the upper tiers – precisely the tiers that customers who substitute electric appliances for those powered by fossil fuels are likely to end up in.

home[12] is estimated to increase a customer's electricity usage by at least 70% per month relative to their prior usage.[13] While such increased usage reduces net greenhouse gas emissions, when coupled with some of the highest volumetric rates in the U.S., a customer's monthly electric bill under current default residential rate designs would dramatically increase. Without reform, the current volumetric rate design will jeopardize the state's ability to decarbonize rapidly and could put the achievement of our GHG reduction goals at risk.

In contrast, by significantly reducing volumetric electric rates – and thus the incremental electric costs to customers due to installing clean electric appliances – the Joint IOUs' proposals will spur electrification adoption by making such appliances and electric vehicles (EVs) more affordable versus the status quo rate structure. For example, when purchasing an EV, a critical consideration is the electric rate the consumer would pay to charge it. Lower per-kWh rates have been found to increase electric vehicle adoption.[14] Specifically, a 1 cent per kilowatt-hour decrease in electric rates has been found to lead to about a 2 percent increase in electric vehicles sales.[15] Similarly, lower electric rates have been correlated with higher electric heating adoption. In fact, by lowering the volumetric rate to the marginal cost of energy, home heating electrification was predicted to increase by one-third in California.[16]

The Joint IOUs' proposals make electrification more attractive than the status quo by helping incentivize adoption through lower volumetric rates, while also avoiding cross subsidies for those unable to adopt new technologies. As illustrated in Figure I-5, a Bracket 3 customer

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[12] A fully electrified home is assumed to have heat pump water heater, heat pump for space heating and cooling, fully electrified appliances, and one EV.

[13] The increase in electricity usage for a fully electrified home is calculated from the Public Tool comparing a fully electrified home with one EV to a mixed-used fuel home with one gasoline powered vehicle for a SCE Inland customer.

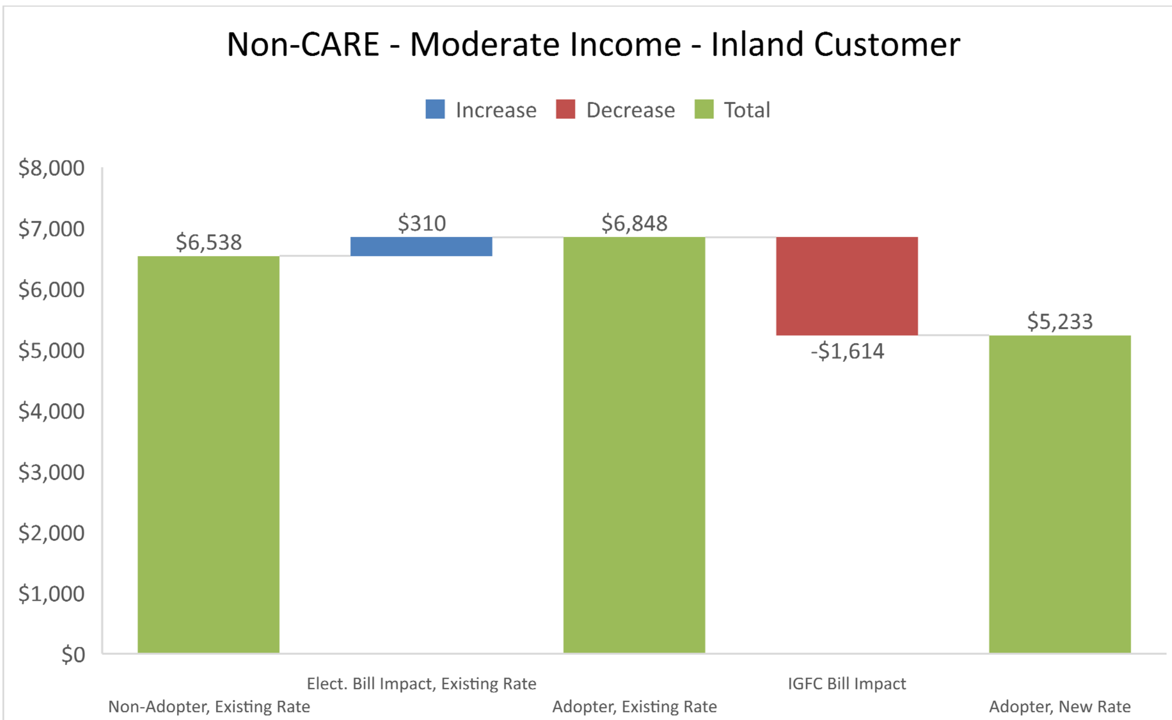
[14] A. Soltani-Sobh, K. Heaslip, A. Stevanovic, R. Boswarth , D. Radivojevic, Analysis of the Electric Vehicles Adoption over the United States, (2017), *available at* https://www.sciencedirect.com/science/article/pii/S235214651730162X.

[15] J. Bushnell, E. Muehlegger, D. Rapson, Do Electricity Prices Affect Electric Vehicle Adoption?, (May 2021), *available at* **https://escholarship.org/uc/item/5f80503b**.

[16] Next 10 Paying for Electricity in California, at p. 21.

can expect to have a $1,614 annual savings relative to adoption of the same electrification technologies under the current rate structure. For PG&E and SDG&E these savings would be $1,771 and $1,929, respectively.

Figure I-5
SCE Example: Non-CARE Inland Income Bracket 3 Customer Energy Burden Comparison



d) **<u>Promoting Bill Stability and Maintaining Strong TOU Price Signals.</u>**

With their reliance almost entirely on volumetric rates for recovering the costs of providing service to residential customers, the Joint IOUs' current residential rate structures have an inherent challenge of causing month-to-month bill volatility.[17] But the Joint IOUs' proposal,

[17] This is particularly true if those rate schedules include tiered rates. With an inclining-block tiered rate structure, an increase in a customer's summer usage from June to July due to hotter July temperatures

by collecting a significant portion of residential revenue in fixed charges that do not vary by month, will reduce this volatility. With lower volumetric rates, a customer's bill increases from one month to another due to a significant increase in usage (e.g., home cooling due to an extreme weather event) will be much smaller. Similarly, the customer's bill decreases from one month to another due to a decrease in usage will be smaller as well. Thus, the Joint IOUs' proposals will lead to more stable bills as a result of collecting a greater portion of fixed costs in fixed charges unaffected by usage swings.

The Joint IOUs' proposals are designed to implement IGFCs in some way on all of their residential rate schedules, including their TOU rates. While under the Joint IOU proposals, as detailed in each IOU's individual Rate Design Exhibits, average volumetric rates are dramatically reduced over their current levels, robust differentials will remain between TOU periods. This will continue to incentivize customers to shift load out of critical, higher-price hours of the day through demand response, technology adoption such as battery storage, or other energy efficiency efforts.

2. <u>The Joint IOUs' Proposals Will Apply to All Residential Rate Schedules</u>

If the IGFC is applied unevenly, where default rate schedules have an IGFC while existing electrification rates do not, it would likely lead to rate self-selection that would compromise the benefits achieved by the IGFC. Specifically, it would set up an arbitrage opportunity through which customers who would be adversely impacted on schedules with IGFCs could, instead, switch to one of the optional rates without an IGFC to avoid paying their share of fixed costs. This would undercut the IGFC's goals of equity and rate affordability, especially for the most economically disadvantaged customers.

It is still permissible under AB 205 for the Commission to adopt different sets of income-graduated fixed charges for different residential rates. For example, the Commission might

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can easily lead to disproportionately larger increases in the customer's bill due to usage moving from a lower-price tier to a higher-priced one.

approve somewhat higher IGFCs for the current electrification rates that already have some level of fixed charge, than it adopts for other more standard rates because doing so would better support the state's decarbonization efforts. Therefore, the Joint IOUs' proposals recommend that all of their residential rates, including TOU rates, must have at least the same IGFC as the default rates. The IGFCs will not adversely affect the price signals customers see, to inform them of the varying costs during different periods of the day – they merely reduce the total revenue collected from volumetric charges but can still be designed to maintain cent per kWh price differentials between peak and off-peak periods that appropriately reflect underlying marginal costs and continue to incentivize load shifting.

3. <u>The Joint IOUs' Proposals Are Consistent with Rate Design Principles.</u>

While the revisions to the CPUC's rate design principles (RDPs) had not been finalized at the time this testimony was written,[18] the draft of such revisions (with which the Joint IOUs largely agree) affirm that significant changes in residential rate design are necessary, including to reflect the addition of decarbonization through electrification as a major state policy goal for achieving GHG reductions. The Joint IOUs intend to provide a full assessment of all proposals, according to the final rate design principles, in Reply Testimony, but some changes to the RDPs appear to already be certain enough to warrant comment now.

In particular, the change in RDP 4 to "Rates should encourage economically efficient (i) use of energy, (ii) reduction of GHG emissions, and (iii) electrification"[19] reflects a major shift in rate design priorities. In prior rate designs, the reduction of electricity use through conservation and energy efficiency was prioritized regardless of whether that was environmentally responsible. The percentage of non-GHG emitting resources in the current statewide generation

18 On March 17, 2023, the assigned ALJ issued the Proposed Decision Adopting Electric Rate Design Principles and Demand Flexibility Design Principles (RDP Proposed Decision). The Proposed Decision included Attachment A, the Electric Rate Design Principles, Demand Flexibility Design Principles, and explanations for each.

19 RDP Proposed Decision, Attachment A, p. 2.Q.

mix is much higher now, over 52%[20] non-GHG emitting (i.e., carbon free) resources, compared to 2011 when the current rate design principles were adopted. The state's renewables policies ensure that this trend will only continue. The driving force of state policy now points to increased electric use through beneficial electric technologies (like EVs, heat pump space cooling and heating, heat pump water heaters, induction ranges, and battery storage). This shift has major ramifications for rate design by shifting its emphasis from the efficient use and conservation of electricity to the efficient increased use of electricity in order to facilitate the energy transition, while improving affordability of household energy consumption. The proposed revision to the language in RDP 2, ("Rates should be based on marginal cost")[21]) and RDP 8 ("Rates should be technology-neutral and avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals")[22] indicate that rates should provide volumetric price signals as close to marginal costs as possible, while balancing other rate design principles. Today's rates feature volumetric price signals that are significantly higher than the marginal costs in low-cost hours, as shown in the Rate Design chapter (Table II-4), which can discourage the voluntary adoption of electrification technologies. The shift towards more fixed cost recovery through fixed charges can bring residential rates to a point where technology-neutral rates that avoid or minimize cross-subsidization are achievable.

Additionally, just as advancements in technology and policy have led the reformed rate design principles expected in this proceeding, updated principles should include the ability to adapt to continuous changes as California's landscape evolves.

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20 California Energy Commission, Annual Power Content labels for 2021 *available at* **https://www.energy.ca.gov/programs-and-topics/programs/power-source-disclosure/power-content-label/annual-power-content-2**.

21 RDP Proposed Decision, Attachment A, p. 1.Q

22 RDP Proposed Decision, pp. 2-3.Q

C. The Joint IOUs' Proposals Should be Adopted as Soon as Possible.

California's current residential rate design must be updated as soon as possible. This is because the Joint IOUs' lowest income customers are experiencing affordability challenges today through volumetric electricity rates. Approximately two-thirds of costs serving residential customers that are collected in volumetric rates today do not fluctuate as customer usage increases or decreases, resulting in volumetric rates that are significantly higher than the marginal cost to serve customers. The result is a regressive structure where lower-income households contribute a much larger share of their income than higher income customers. As the Joint IOUs continue to build and maintain the necessary infrastructure to green the grid, collecting these fixed costs through volumetric rates will further exacerbate these affordability and equity issues.

Further, high volumetric rates increase the cost of electrifying customer homes and vehicles, a critical change that must occur for the state to meet its aggressive, but necessary, climate mandates. As stated above, the State must decarbonize faster than it has over the past decade, but the current outdated default rate structure is an impediment to achieving these goals. Due to these reasons, the Joint IOU proposals should be implemented as soon as practicable through the Joint IOUs' implementation plan described in Chapter 4.

D. Income Verification Should Be Performed By State Agencies and Not The IOUs

The Joint IOUs have long administered programs like CARE and FERA, which provide discounts to low-income customers. However, these are opt-in programs where eligible customers voluntarily give the IOUs information regarding income. This income is not verified but is subject to a potential audit.

The IGFC will be fundamentally different. The Joint IOUs are not aware of any other fixed charge that is income differentiated based on all levels of household income and that is mandatory for all. Consequently, millions of households will need to be categorized into fixed charge income brackets based on household income and verified to ensure accuracy and billing integrity. Successful implementation will require customer trust and assurance of confidentiality in the process.

As discussed more fully in Chapter 3 (Income Verification), a state agency, potentially with the assistance of a Third-Party administrator, would be best situated to take on the complex income verification and bracket assignment work that will be necessary to implement the IGFC. The Joint IOUs believe the Commission is the state agency likely in the best position to take on this role, overseeing a Third Party. The Commission has experience in a somewhat similar role in relation to the California LifeLine program, for which a "TPA" (Third-Party administrator) has performed income verification/eligibility certification under the Commission's supervision.[23] A state agency like the Commission is in a much better position to access the financial data necessary for Income Bracket placement, as well as to manage ongoing updates, customer appeals, and other implementation issues. The Commission is also well-placed to perform this role because it is giving the Joint IOUs direction in this proceeding and AB 205 specifically tasks the Commission with authorizing the residential income-graduated fixed charge.

In contrast, the Joint IOUs are not well-situated to perform income verification. Verifying the state's ~12 million electricity customers served by the Joint IOUs would require a significant and costly business expansion for each IOU to separately build out new capabilities. Building processes and adding resources to perform a wholly new set of functions as well handling any customer appeals relating to income level placement, would impose substantial administrative burden and cost on the Joint IOUs, ultimately paid by our customers.

Moreover, income verification also implicates cybersecurity, customer privacy and consumer protection issues. California law includes significant privacy protections,[24] including

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[23] *See* D.05-04-026, p. 26 (concluding that income certification/verification for Lifeline Program should be performed by a TPA "under the direction of a state agency, namely the Commission").

[24] *See, e.g.*, Civ. Code 1798.1 ("the right to privacy is a personal and fundamental right protected by Section 1 of Article I of the Constitution of California and by the United States Constitution and [] all individuals have a right of privacy in information pertaining to them)."

through the California Consumer Privacy Act of 2018 (CCPA).[25] The Commission also has endorsed privacy protections in its decisions.[26] Privacy and data protection concerns have increased among the public at large given large data breaches in recent years, among other events. Additionally, processes will need to be established to access various sources of income data among state agencies, to maximize reliable household income data for these purposes.

In light of these complexities and challenges for income verification, a state agency (potentially with Third Party support) leveraging and building upon existing capabilities and experience will be best positioned to effectively manage needed income verification for the IGFC. The Joint IOUs thus propose a framework modeled on the structure of the telecommunications LifeLine program's Third Party administration with CPUC supervision, so that income verification is performed through a state agency, without undermining rate affordability. Additionally, if authorized by legislation, it would be most appropriate for income verification activities to be funded by the state rather than electricity customers, consistent with funding provided for other societally beneficial activities administered by state agencies.

E. Robust Marketing, Education, and Outreach Will be Required

The IGFC rate structure will substantially shift how residential customers pay for electricity service in the future. A robust ME&O plan will be required to provide customers with early awareness of the change, help customers understand bill impacts, and highlight why reform is needed. The Joint IOUs will use various customer communication channels to form a holistic, integrated education and outreach campaign to support IGFC implementation. Channels envisioned include direct-to-customer messaging, broad customer outreach, IOU-owned and paid

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[25] The CCPA (Civ. Code §§ 1798.100–1798.199.100) provides for various rights, including the rights to: know about personally identifiable information (PII) a business collects and how it is used and shared; delete personal information (with some exceptions); opt-out of the sale or sharing of personal information; correct inaccurate personal information; and limit the use and disclosure of sensitive personal information.

[26] *See, e.g.*, D.11-07-056, at p. 130, Finding of Fact 1 (FOF) (endorsing Fair Information Practices (FIPs) including "data minimization" principle).

channels, and community outreach. The Joint IOUs' education materials will be informed by customer research. We expect it will focus on how the IGFC will make rates more equitable overall while supporting the State's goal of making beneficial electrification technologies more affordable, by lowering volumetric rates. The Joint IOUs recognize additional customer input will be needed to properly meet customer education needs. The Joint IOUs plan to conduct additional research in 2023 to continue to learn from customers the preferred and most effective messaging and approach to IGFC education. The Joint IOUs' detailed ME&O plan is discussed in more detail in Chapter 5 included in this testimony.

F. Conclusion

While California's energy environment has changed rapidly in recent decades, its residential rate design continues to collect the majority of fixed and variable utility costs through volumetric rates. As a result, electricity rates are substantially higher than the marginal cost of providing that electricity. The Joint IOUs' proposals modernize California's residential rate structure by providing a more affordable and equitable path forward. The chapters that follow explain how the Joint IOUs' proposals accomplish these goals and we respectfully encourage the Commission to accept these proposals to ensure the transition to income-graduated residential fixed charges is as smooth and successful as possible.

II.

RATE DESIGN

A. Introduction

1. Summary of Proposals

The Joint IOUs propose to add Income Graduated Fixed Charges (IGFCs) to all of their residential rate schedules, with limited exceptions.[27] Most of the Joint IOUs' residential schedules will receive the same, four-bracket fixed charges, with the low-income fixed charges set at the household Income Brackets shown in Table I-2. For policy reasons, the IOUs' proposed fixed charge Income Brackets do not encompass all of each utility's respective fixed costs. By carving out an amount of the total fixed costs from the current artificially high volumetric rates, the California Public Utilities Commission (Commission or CPUC) will make significant progress to support affordability and increased bill stability. It also supports decarbonization by removing the disincentive for residential customers to add beneficial electric end-uses needed to meet the state's greenhouse gas (GHG) reduction goals.

The Joint IOUs' IGFC proposals are intended to maintain customer choice and improve equity, while providing greater bill stability and promoting beneficial electrification. The Joint IOUs' Illustrative IGFC proposed fixed charges and rates are shown below on Tables I-2 and I-3.

In this proposal, the Joint IOUs are seeking approval of:

- Fixed cost categories, which result in class average monthly[28] fixed charges of:
  - o PG&E: $53/month

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[27] All residential whole-home rate schedules should have at least the same level of IGFC in order to avoid customer rate switching and IGFC avoidance through rate arbitrage. However, non-IGFC fixed charges for separately metered EV rates may be appropriate and are addressed in IOU specific Rate Design testimony exhibits.

[28] Operationally, these fixed charges would be charged to customers on a dollar-per-day basis. However, the IOUs are presenting these fixed charges on a per-month basis for reference.

- SDG&E: $74/month, including approval of its new proposed rate component, the Electrification Incentive Adjustment (EIA)
- SCE: $49/month;

- IGFCs on the following residential rate schedules:
  - PG&E rate schedules: E-1, E-TOU-C, E-TOU-D, EV2-A, E-ELEC
  - SDG&E rate schedules: DR, TOU-DR1, TOU-DR2, EV-TOU-2, DR-SES, EV-TOU-5, TOU-DR, and TOU-ELEC
  - SCE rate schedules: TOU-D 4-9, TOU-D 5-8, Schedule D
- Considerations for including higher IGFCs for certain residential rate schedules that currently have fixed charges:
  - PG&E's Schedule E-ELEC
  - SDG&E's Schedules EV-TOU-5 and TOU-ELEC;
  - SCE's Schedule TOU-D-PRIME
- Reduction of non-CARE average volumetric kWh rates as described in individual IOU exhibits:
  - PG&E: From $0.34/kWh to $0.22/kWh
  - SCE: From $0.36/kWh to $0.24/kWh
  - SDG&E: From $0.47/kWh to $0.27/kWh
- Elimination of the Minimum Bill.

Table II-2
Illustrative Proposed IGFCs

Income Bracket	Criteria	PG&E IGFC ($/month)	SDG&E IGFC ($/month)	SCE IGFC ($/month)
1	CARE (<= 100% FPL)	$15	$24	$15
2	All Other CARE/FERA	$30	$34	$20
3	Non-CARE/FERA <= 650% FPL	$51	$73	$51
4	Non-CARE/FERA > 650% FPL	$92	$128	$85

Table II-3
Illustrative Summary of Impacts to Default Rates[29]

Rate Component	PG&E E-TOU-C Status Quo	PG&E E-TOU-C Proposed	SDG&E TOU-DR1 Status Quo	SDG&E TOU-DR1 Proposed	SCE TOU-D 4-9 Status Quo	SCE TOU-D 4-9 Proposed
Average Fixed Charge ($/month)	N/A	$53	N/A	$74	N/A	$49
Summer Energy: ($/kWh)						
On Peak	$0.484	$0.344	$0.851	$0.598	$0.568	$0.443
Part Peak	N/A	N/A	$0.537	$0.284	$0.460	$0.335
Off Peak	$0.421	$0.280	$0.373	$0.120	$0.460	$0.228
Winter Energy: ($/kWh)						
On Peak	$0.387	$0.247	$0.654	$0.401	$0.500	$0.376
Part Peak	N/A	N/A	$0.570	$0.316	$0.378	$0.253
Off Peak	$0.370	$0.229	$0.545	$0.292	$0.378	$0.218
Baseline Credit ($/kWh)	($0.072)	($0.052)	($0.115)	($0.063)	($0.090)	($0.066)

B. Background

1. Recent Rate Design Policy Issues

The impetus for Track A (IGFC) of this proceeding stems from Assembly Bill (AB) 205, which was passed on June 29, 2022, and chaptered after being signed into law by Governor Newsom on June 30, 2022. The Commission has previously considered but declined to adopt fixed charges for residential customers, and instead, required the three electric IOUs to implement residential minimum bills. The Joint IOUs provide a brief history of how the Commission's thinking on residential fixed charges has evolved over time and emphasize the

[29] Status Quo rates are the model calculated counterfactual rates, not current actual rates.

importance of adopting IGFCs that apply equitably to all customers and meaningfully reduce volumetric rates in the instant proceeding. Substantive rate reform is critical for California to reach its GHG reduction and climate goals.

From 2013 until AB 205 was passed, the previous statute (Public Utilities Code Section 739.9) included a cap that limited residential fixed charges to approximately $10/month for non-CARE customers and $5/month for CARE customers.[30] AB 205 removed this cap and required the CPUC to approve a compliant IGFC structure for default residential rates by July 1, 2024.[31]

The Commission has previously considered default residential fixed charges in various proceedings but the Energy Division IGFC Guidance for this proposal states that parties are not bound by these prior Commission decisions.[32]

Nonetheless, as a foundation, the Joint IOUs provide a brief background of the history of residential fixed charge proposals in California and the Commission's current direction regarding historical determinations about residential fixed charges. The Joint IOUs proposed fixed charges approximately ten years ago in the Residential Rate Reform Rulemaking (R.) 12-06-013 (RROIR). While Decision (D.) 15-07-001 set a multi-year glidepath to consolidate and narrow the tier differentials in effect at that time, the Commission declined to adopt a default residential fixed charge, stating that it was not appropriate to adopt a fixed charge at the same time as residential customers were being defaulted to time-of-use (TOU) rates.[33] The Joint IOUs were directed to concurrently file rate design window (RDW) applications by January 1, 2018, which could include proposals for default residential fixed charges.[34] D.15-07-001 additionally stated that the Joint IOUs should, separately from the Residential Rate Reform OIR (R.12-06-013,

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[30] AB 327 (Reg. Sess. 2013-2014), Pub. Util. Code § 739.9(f), which also provided for an annual Consumer Price Index increase to these base capped fixed charge levels, starting in 2015.

[31] AB 205 (Reg. Sess. 2021-2022).

[32] Administrative Law Judge's Ruling Providing Guidance for Phase 1 Track A Proposals and Requesting Comments on a Consulting Services Proposal (Jan. 17, 2023), Attachment 1, R.22-07-005, Phase 1 Track A: Income-Graduated Fixed Charge Guidance Memo.

[33] D.15-07-001, at p. 328, Conclusion of Law (COL) 17.

[34] D.15-07-001, at p. 327, Ordering Paragraphs (OP) 9-11.

RROIR), "in their individual GRC Phase 2 proceedings, … work to identify customer-related fixed costs for purposes of calculating a fixed charge."[35]

Within PG&E's 2017 GRC Phase 2,[36] the Commission established a separate track (Fixed Charge Track) to adopt categories of fixed costs that could be included in a residential default fixed charge. The final decision in the Fixed Charge Track, D.17-09-035, adopted an extremely narrow definition of what costs could be included in the default residential fixed charges proposed in A.17-12-011.[37] That narrow definition[38] would have limited the Joint IOUs' non-CARE fixed charges to approximately $7.10/month for PG&E,[39] $8.84/month for SDG&E,[40] and $6.68/month for SCE.[41] Using such a definition today would do little to reduce volumetric rates and incentivize beneficial electrification because volumetric rates would be reduced by less than $0.02/kWh.

In 2021, the Commission adopted a final decision in PG&E's 2020 GRC Phase 2 (A.19-11-019) that reversed its stance on categories of costs that may be recovered in default residential fixed charges and wipes the slate clean when considering the appropriate manner for designing residential fixed charges.[42] In D.21-11-016, the CPUC also adopted PG&E's new optional "electrification" rate (E-ELEC), finding that: (1) "[t]he findings and conclusions in D.17-09-035 should be applied only in the context of A.16-06-013"[43], and (2) "any future proposals for a

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[35] *Id.*, at p. 6.

[36] A.16-06-013, Application of Pacific Gas and Electric Company to Revise its Electric Marginal Costs, Revenue Allocation and Rate Design.

[37] Administrative Law Judge's Ruling Consolidating Proceedings (Jan. 25, 2018), consolidated A.17-12-011, A.17-12-012, and A.17-12-013.

[38] D.17-09-035 would have limited costs recovered in a fixed charge to certain marginal customer access costs using the "minimum cost approach", which includes costs for only the "smallest" type customer. *See*, D.17-09-035, at p.33.

[39] *See*, PG&E Rate Design Window 2018 Supplemental Testimony, Fixed Charge Proposal in Phase III, A.17-12-012, at p. 1-4.

[40] *See*, SDG&E Prepared Supplemental Testimony of Jeff P. Stein, A.17-12-013, at p. JS-3.

[41] *See*, SCE Amended Supplemental Testimony on Impact of Federal Tax Legislation on Proposed Rates and Fixed Charges, A.17-12-011, at p. 2.

[42] D.21-11-016, at p. 113.

[43] D.21-11-016, at p. 165, COL 32.

default residential fixed charge or optional residential fixed charge (as in this case) should be able to proceed without the need to comply with cost category and EPMC [Equal Percent of Marginal Cost] determinations made in a since-closed proceeding that failed to make a determination concerning a residential fixed charge on the merits."[44] Additionally, it is worth noting that the Commission determined the adopted settlement on PG&E's new E-ELEC ("Electric Home") rate, which included a residential fixed charge, was "intended to further state policy goals related to decarbonization and therefore has a particular policy purpose that may justify any dissonance with previous Commission decisions regarding the application of EPMC to residential fixed charges."[45]

With these findings in mind, there is no reason to limit fixed charges to a certain level or hold to prior precedent. While parties may look to previous Commission decisions for reference and historical context, party proposals that cite to D.17-09-035 as a reason to limit fixed charges to a certain level should be dismissed, as the Commission has stated that D.17-09-035 does not hold precedential value outside of A.16-06-013.[46] Basing IGFC proposals on D.17-09-035 would make little sense in this context anyway, as the average IGFC must be large enough to result in a sufficiently lower volumetric energy rate, and D.17-09-035 would limit volumetric rate reduction to approximately $0.02/kWh.

It is important that an IGFC floor apply to all customers. Application of the IGFC to all residential rates, including optional "electrification rates" currently offered by each large IOU, will ensure fair treatment for all customer types and provide equal incentive for all customers to electrify. If the IGFC were instead applied selectively, where some residential rate schedules would have a fixed charge while others did not, this would provide an opportunity for customers who would be adversely impacted on schedules with IGFCs to instead take service on one of the optional rates without an IGFC, to avoid paying the IGFC.

[44] *Id.*, at p. 114.

[45] D.21-11-016, at p. 114.

[46] *Id.*

It is still permissible under AB 205 for the Commission to adopt different sets of IGFC's for different residential rates. For example, the Commission might approve somewhat higher IGFCs for PG&E's Schedule E-ELEC, SCE's TOU-D-PRIME, or SDG&E's EV-TOU-5 and TOU-ELEC rates than it adopts for other more standard rates, because doing so would better support the state's decarbonization efforts. Therefore, the Joint IOUs' proposals recommend that all residential rates, including optional rates, must have at least the same minimum IGFC Income Brackets as the default rates.

The Commission should adopt appropriate fixed charges for all residential customers, and not delay implementing an IGFC for certain rate schedules, because doing so would result in a loophole that could allow higher income customers to receive a lower fixed charge if they mass migrate to rates with delayed (or no) IGFCs. Although simultaneous implementation across rates might take more up-front time, it avoids the pitfalls of mass voluntary migration to the lowest possible fixed charge.

2. <u>Next 10 Research on Potential Fixed Charges</u>

Academic research by Next 10 Research and the Energy Institute at the UC Berkeley Haas School of Business (Next 10/Berkeley Haas) played a key role in inspiring the conceptual development of AB 205. Specifically, two Next 10/Berkeley Haas reports released in 2021 and 2022, detail concerns about the inequity of the current residential rate structure. These reports suggest several methods of reform that would: (1) improve customer equity by making rates more progressive, and (2) more closely align volumetric rates with marginal costs, which would serve to incent widespread adoption of beneficial electrification technologies needed to achieve decarbonization that meets state climate and GHG reduction goals. The Joint IOUs describe these two reports in detail below.

On February 23, 2021, Next 10/Berkeley Haas released a report titled "Designing Electricity Rates for An Equitable Energy Transition" (2021 Report).[47] This report used historical data from the Joint IOUs to show that the price of electricity in the Joint IOUs' service territories is two to three times higher than the actual cost to produce and distribute the electricity provided, and this results in electricity rates that disproportionately harm lower income electricity customers.[48]

The 2021 Report opines that recovery of fixed costs within the volumetric charge is "quite regressive" and suggested options for reducing the volumetric rate, including non-income differentiated fixed charges or shifting cost recovery of programs and policies to the state budget. It acknowledges that even a non-income differentiated fixed charge would bring significant efficiency benefits.[49] However, given potential concerns with both approaches, the 2021 Report recommends a progressive fixed charge structure for residential customers.[50] The 2021 Report determined that "[a]n economically efficient volumetric price will recover some amount of revenue, but it will be substantially less than the total revenue requirement for the California IOUs."[51] It also considered what electricity rates might look like if their structure were as progressive as California's income tax and sales taxes, and recommended structures in which low-income customers would not be made worse off by rate reform. It further recommended that the state, not the utilities, be the income verifying entity, as the state already has income tax information. The 2021 Report also acknowledged that the utilities do not have the infrastructure

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[47] Next 10 and Energy Institute at Haas, Designing Electricity Rates for An Equitable Energy Transition (hereinafter Next 10, 2021 Report), (Feb. 23, 2021), *available at* **https://www.next10.org/sites/default/files/2021-02/Next10-electricity-rates-v2.pdf.**

[48] Next 10, 2021 Report, at p. 4.

[49] Next 10, 2021 Report, at p. 3. While the report also expresses concern that a non-income differentiated fixed charge would also be regressive, even in a pre-AB 205 context any fixed charge implemented by the IOUs would at least include income differentiation through the existing CARE and FERA programs.

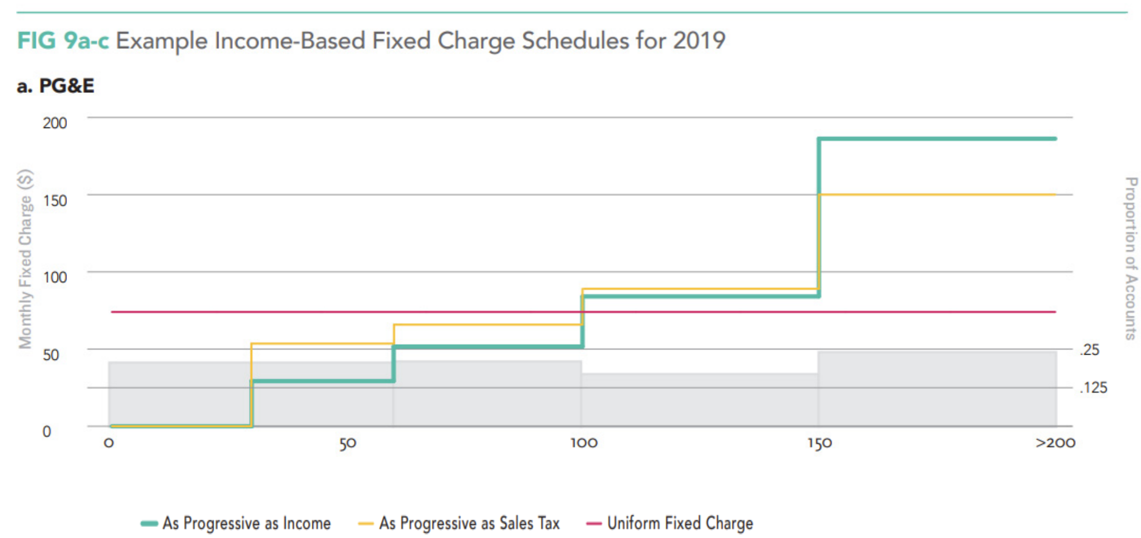
[50] Next 10, 2021 Report, at pp. 30-34.

[51] Next 10, 2021 Report, at p. 35.

in place to verify incomes of all residential customers and that any utility-run income-verification system without direct cooperation from other state agencies would be problematic.[52]

The 2021 Report discussed a theoretical structure, stating that the dollar amount of a uniform fixed charge necessary to fully eliminate the cost recovery gap (if all account holders were charged the same monthly fee, based on 2019 rates), would be $74.02 for PG&E, $58.80 for SCE, and $70.07 for SDG&E.[53] Rates have increased since 2019, so the Report's monthly figures would have been higher had they been based on 2023 effective rates. Figure II-6 below shows theoretical 2019 fixed charges for PG&E if the structure were as progressive as income tax or sales tax.[54] Under the 2021 Report's illustrative structure, households making greater than $150,000 annually would be required to pay fixed charges of $150 per month or higher.

Figure II-6
2021 Next 10 Report Theoretical Fixed Charges - PG&E



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[52] Next 10, 2021 Report., at p. 38.

[53] *Id*., at p. 40.

[54] As stated in the Next 10/Berkeley paper, although sales tax applies equally to purchases made by customers of any income level, wealthier customers typically pay more sales tax because they make more purchases.

On September 22, 2022, Next 10/Berkeley Haas released a follow-on report titled "Paying for Electricity in California: How Residential Rate Design Impacts Equity and Electrification" (2022 Report).[55] This second report, which built on the 2021 Report, and continued to use historical IOU data determined that the costs of programs and policies that go beyond the cost of producing and distributing electricity are now the main driver of retail electricity price increases. These added costs, which drive up the price per unit of volumetric energy, threaten the state's climate goals by disincentivizing electrification of buildings and vehicles. In other words, separating out fixed costs from the currently combined, artificially high volumetric rate, and instead recovering them in a separate fixed charge line item removes a disincentive to electrification by reducing customers' volumetric electric rate component. The 2022 Report also explored in detail how these higher costs disproportionately affect lower-income households, as higher energy bills in a lower-income household are a higher percent of total income. Next 10/Berkeley Haas calculated what they refer to as "residual cost burden," or the difference between the amount the customer pays on their bill and the incremental cost to the utility of providing that household with power.[56] The 2022 Report concluded that recovering this residual cost burden in volumetric rates raises the annual operating cost of electrification technologies, referred to as the "electrification cost premium." The current structure of recovering non-incremental costs in higher retail electricity rates significantly increases operating costs of EVs and electric heating.[57]

Both the 2021 and 2022 Reports were instrumental in conceptualizing how an IGFC might be envisioned for California. The influence of Next 10/Berkeley Haas' work is apparent in the text of AB 205, which requires no fewer than three income thresholds, so that a low-

[55] Next 10, Paying for Electricity in California.

[56] *Id.*, at p. 4.

[57] *Id.*, at pp. 19-21.

income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes to their usage.[58]

While these two Next 10/Berkeley Reports helped conceptually spur adoption of an IGFC approach in AB 205, there are many practical operational issues that require consideration when actually designing and implementing an IGFC that complies with the conceptual guidance in AB 205. The Joint IOUs' proposal maintains compatibility with current operational and data capabilities, and achieves an equitable, reasonably progressive structure that improves affordability for low-income customers and incentivizes electrification.

3. The Joint IOUs' Proposals Align with Modernized Rate Design Principles

The Commission is in the process of modernizing the Rate Design Principles (RDPs) in Track B of this proceeding.[59] A Proposed Decision was issued on March 17, 2023, with a final decision targeted for the CPUC's April 27, 2023, business meeting. Therefore, the current procedural schedule for submittal of Track A IGFC Opening Testimony on April 7 cannot precisely reflect the Final Decision on modernized RDPs. Nonetheless, the Proposed Decision for modernized RDPs provides general directional guidance that can help inform parties' initial IGFC proposals. First, the Proposed Decision indicates that parties should not prioritize energy efficiency and conservation over beneficial electrification, consistent with AB 205.[60] The Joint IOUs' proposals seek to reflect, as much as possible, key elements of the recent Proposed Decision recommending modernized RDPs, while aligning with AB 205's requirements.

Although prior Commission decisions had expressed concern that fixed charges would likely not encourage additional conservation,[61] the average kWh rate levels resulting from the Joint IOUs' proposed IGFCs (approximately 22-27 cents/kWh) are similar to the volumetric rate levels at the time of Mass TOU Default, when the Commission concluded that the impact of a

58 Pub. Util. Code § 739.9(e)(1).

59 Rulemaking 22-07-005 Assigned Commissioner's Scoping Memo and Ruling, p. 4.

60 PD, p. 14.

61 D.15-07-001, at p. 214.

fixed charge on conservation is likely to be small.[62] Under the recent Proposed Decision, the term conservation is no longer used; rather the proposed revised RDP 4 states that "[r]ates should encourage economically efficient (i) use of energy, (ii) reduction of greenhouse gas emissions, and (iii) electrification." In addition, RDP 5 states "rates should encourage customer behaviors that improve electric system reliability in an economically efficient manner" (which seem to effectively include conservation). Thus, the CPUC will have to balance the clear goals of beneficial electrification from AB 205 with the other elements of the RDPs, while it decides how to make future rates compliant with AB 205 so as not to inhibit beneficial electrification.[63]

The recent Proposed Decision also emphasizes that "[r]ates should avoid cross subsidies that do not transparently and appropriately support explicit state policy goals. Similarly, the recent Proposed Decision's RDP 9 would provide that "[r]ate design should not be technology-specific and should avoid creating unintended cost-shifts." The Joint IOUs' proposed IGFCs will also provide customers with bill stability through reduced month-to-month bill volatility, to help customers manage their bills, as well as to encourage economically efficient decision making

Additionally, the Joint IOUs' proposed IGFCs take into account the Proposed Decision's RDP 7, on customer understandability. The four household Income Bracket approach balances customer understandability with a meaningful fixed charge to encourage beneficial electrification. If the CPUC's final decision on RDPs were to differ significantly from the Proposed Decision, the Joint IOUs reserve the right to consider whether revised Joint IOU IGFC proposal might be warranted, and work with the Commission and other parties on how best to accomplish that, if needed.

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[62] *Id*.

[63] Track B of this proceeding is considering changes to the RDPs.

C. Basis for the Average IGFC Level

The sections below describe in detail the multi-step process the Joint IOUs utilized in designing proposed IGFCs. In sum, the first step is to determine the overall proportion of residential revenue requirements that should be collected through the fixed charge instead of volumetric rates. Second, once the average fixed charge Income Bracket has been determined, it must be established how the volumetric rate design is impacted. Then, after volumetric rate levels are calculated, the third and last step is to determine what discount or surcharge levels are appropriate to result in a graduated, progressive fixed charge level for each successive income "bracket." The same generic methodology was used by each of the Joint IOUs to develop each IOU's average fixed charge and average volumetric rate.

1. Methodology for Determining Average Fixed Charge Level

The top priority and guiding principle of the fixed charge is to bring volumetric rates closer to cost basis. As seen in Table II-4 below, today's default utility rates[64] are far higher than marginal costs as measured by both :(1) recent PG&E GRC Phase II marginal costs, and (2) the CPUC's 2022 version of the avoided cost calculator (ACC). This disconnect has the consequence of discouraging additional beneficial use of electricity, both for electrification but also for home health and safety.

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64 AB 205 mandated the CPUC "shall" authorize IGFCs at least for the IOUs' "default residential rate" and "may" adopt IGFCs for other rate schedules. For PG&E, the default residential rate is E-TOU-C, for SCE the default rate is TOU-D 4-9, and SDG&E's default residential rate is TOU-DR-1.

Table II-4
PG&E Default Rates Compared to Marginal Cost Metrics

TOU Period	2022 ACC (CZ5, 2023 Forecast)*	GRC Ph II 2020 Approved Marginal Costs **	E-TOU-C Rates (1/2023 Rates, CIA Removed)
Summer Peak ($/kWh)	$0.50	$0.29	$0.43
Summer Off Peak ($/kWh)	$0.07	$0.06	$0.36
Winter Peak ($/kWh)	$0.07	$0.08	$0.33
Winter Off Peak ($/kWh)	$0.05	$0.04	$0.31
Average ($/kWh)	$0.11	$0.08	$0.34
Required Non-CARE Fixed Charge to Bring Rate to Marginal Cost ($/month)	$109	$124	N/A

*[65]
**[66]

The Next 10/Berkeley research suggested that a fixed charge be implemented at a level such that volumetric rates are approximately aligned with marginal costs.[67] As shown in Table II-4, achieving this would require average fixed charges over $100 for non-CARE customers, varying by what definition of marginal costs is used and what marginal cost categories are defined as "fixed costs." While the Joint IOUs have opted to propose fixed charges somewhat lower than these benchmarks, the values required to reduce volumetric rates to marginal cost form at least one "bookend" to illustrate the highest level of the average fixed charge possible (which would result in the greatest reduction in the volumetric charge and thus best support electrification goals) and encouraging economically efficient use of energy.

Another way to evaluate what could be considered the upper end of the range of possible average fixed charges would be to determine which portion of utility revenue requirements do *not* vary with usage and what fixed charge level would be required to collect those costs, leaving

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[65] Includes all 2022 Avoided Cost Calculator Categories – Energy, Cap and Trade, GHG Adder/Rebalancing, Generation Capacity, Distribution Capacity, Transmission Capacity, Ancillary Services, and Methane Leakage.

[66] Includes all PG&E Marginal Costs used in cost-of-service study (MEC, MGCC, MDCC (Primary, New Business, Secondary)). Excludes transmission marginal cost. MDCC values presented on $/kWh basis for comparison purposes only.

[67] Next 10 2022 Report: at p. 28.

only costs that *do* vary with usage still collected in the volumetric rate. Table II-5 below shows, for non-CARE customers, what fixed charge level would collect the entirety of the fixed cost revenue requirement categories identified in the Public Tool,[68] by utility.

[68] The final version of the Public Tool was made available for public use on March 23, 2023.

Table II-5
Illustrative Fixed Cost Revenue Requirement Categories in the Public Tool ($/month charge) – Residential Non-CARE Customers

#	Revenue Requirement Category	PG&E	SDG&E	SCE
1	Marginal Distribution Customer Access Costs	$7.59	$11.26	$7.88*
2	Non-Marginal Distribution Costs**	$37.93	$30.18	$34.04
3	Public Purpose Programs (Excl. CARE Surcharge)	$4.83	$4.32	$6.21
4	Other NBCs***	$4.27	$7.61	$4.27
5	Non-Marginal Generation Costs (excluding PCIA)****	$38.45	$33.40	$37.15
6	PCIA	$3.06	$11.07	$0.49
7	Transmission & Reliability Services	$24.16	$26.24	$11.02
8	Public Purpose Programs - Residential CARE Contribution	$5.61	$4.88	$3.14
	Total Fixed Costs	**$125.90**	**$128.96**	**$104.21**

*[69] ***[71]
[70] **[72]

Of these, the Joint IOUs include certain categories in their respective proposed IGFCs. In the textual discussion further below, we provide additional detail on why a given category of fixed costs would be appropriate to collect through the IGFC, or not. Also, Table II-6 below provides a summary of the proposed components in the cumulative fixed charges and cumulative volumetric rate reduction that results from each component.

69 The value of $7.88/mo. represents a settled marginal cost value used for revenue allocation purposes in SCE's 2021 GRC Phase 2 Proceeding. SCE's filed marginal customer costs based on the RECC methodology is $10.94/month.

70 Includes Distribution Primary New Business for PG&E.

71 Varies by IOU but includes all NBCs other than PPP and PCIA listed on Revenue Allocation Tabs.

72 For PG&E, based on bundled customer-months billing determinant. For SCE and SDG&E, based on the Public Tool calculated total generation revenue on "Rate Design Detail" tab, Cell F380, divided by total residential customer count, then ratioed to calculate non-marginal generation costs.

Table II-6
Revenue Requirement Categories Underlying the Joint IOUs' Proposed Fixed Charges and Resulting Reductions in the Volumetric Rate Component[73]

#	Revenue Requirement Category	PG&E		SDG&E		SCE	
		Cumulative Fixed Charge	Cumulative Volumetric Rate Reduction	Cumulative Fixed Charge	Cumulative Volumetric Rate Reduction	Cumulative Fixed Charge	Cumulative Volumetric Rate Reduction
		($/month)	($/kWh)	($/month)	($/kWh)	($/month)	($/kWh)
1	Marginal Distribution Customer Access Costs	$7.59	$0.02	$11.26	$0.03	$7.88	$0.02
2	Non-Marginal Distribution Costs	$45.52	$0.10	$41.43	$0.11	$41.92	$0.09
3	Public Purpose Programs (Excl. CARE Surcharge)	$50.36	$0.11	$45.75	$0.13	$48.13	$0.10
4	PPP CARE Surcharge and Other Nonbypassable Charges	$58.21	$0.12	$55.70	$0.15	$51.27	$0.11
5	Electrification Incentive Adjustment	n/a	n/a	$74.00	$0.20	n/a	n/a

Marginal Customer Access Costs (MCAC): MCACs represent the incremental costs of connecting an additional (i.e., marginal) customer to the grid that are not driven by volumetric energy usage or demand. The two cost components of MCACs are: 1) the marginal customer equipment costs (MCEC) consisting of final line transformer, service line drop, and meter costs, and 2) the ongoing and variable Revenue Cycle Service (RCS) costs associated with keeping customers connected to the grid, such as customer billing, meter reading, and credit and collections. This category should be collected through a fixed charge.

Marginal Distribution Demand Costs: Marginal distribution demand costs measure the cost of serving an additional unit of customer kilowatt (kW) demand on the electric distribution system. Distribution demand costs reflect the costs to deliver electricity from the substation to the customer's premise based on the customer's maximum kW demand and consist of substation and circuit facilities costs and applicable operations and maintenance (O&M) costs. Each utility

[73] Table values calculated by dividing associated revenue requirements by customer-months and kWh billing determinants used in the Public Tool. Totals differ from class average fixed charge due to effects of the CARE discount.

defines these marginal costs slightly differently, and we therefore defer additional discussion to each IOUs' separate rate design exhibit.

Non-Marginal Distribution Costs: The Joint IOUs propose to collect all non-marginal distribution costs through the fixed charge, as these do not vary with the volume of electricity consumed. There are many costs recovered through distribution rates that are not directly linked to marginal costs. The Joint IOUs recover the costs of wildfire mitigation and vegetation management, reliability improvements, safety and risk management distribution costs, ongoing distribution operations and maintenance, many regulatory balancing accounts, and various programs and policy mandates through its distribution rates. These costs are not driven by a customer's usage, and therefore should be collected through the IGFC.

Transmission and Reliability Services: Transmission costs and retail rate design fall under the jurisdiction of the Federal Energy Regulatory Commission (FERC), and therefore do not fall within the scope of a CPUC proceeding setting the Joint IOUs' retail IGFC rate component. Conceptually, many of the costs to operate and maintain the transmission system do not vary with usage, and in theory could be considered appropriate for inclusion as a fixed charge. However, due to the jurisdictional boundary in this CPUC proceeding, the Joint IOUs are not proposing that the IGFC be authorized to collect any transmission costs.

Public Purpose Programs (PPP): The PPP charge funds essential programs such as energy efficiency and CARE discounts that have no relationship to the volume of electricity consumed by customers and are explicitly authorized by AB 205 to be collected through a fixed charge. These critical public policy programs should be funded through the intentionally progressive mechanism of the income-based fixed charge because continuing to include them in a flat volumetric rate can have regressive effects contrary to equity goals. In the Public Tool, this category is split into three subcategories (Non-CARE Exempt, Self-Generation Incentive Program (SGIP), and Residential CARE contribution). All three subcategories are appropriately recovered through the IGFC.

Other Non-bypassable Charges: All non-bypassable charges (NBCs) would theoretically be better collected through an IGFC than volumetric rates, given that the underlying revenue requirements do not vary with customer usage. However, as discussed in the Joint IOUs' Briefs on AB 205 statutory interpretation, the Wildfire Fund Charge, Competition Transition Charge, and prospective charges for continued operation of Diablo Canyon likely cannot be collected through the IGFC due to statutory restrictions. Further, there are other charges that lack such statutory restrictions, but nonetheless have contractual restrictions, including the Wildfire Hardening Charge and the Recovery Bond Charge/Credit. Remaining non-bypassable charges that *should* be collected through a fixed charge are the current Nuclear Decommissioning Charge (ND) and New System Generation Charge (NSGC)/Local Generation Charge (LGC). The ND funds the decommissioning of nuclear power plants that have already been built; changes in customer usage will have no impact on the level of these costs. Likewise, NSGC/LGC funds essential generation reliability resources procured per state policy requirements.

Marginal Energy Costs (MEC): MECs are those costs necessary to procure a marginal amount of energy; MECs reflect a combination of wholesale market prices and costs of meeting renewable portfolio standard requirements. Since MECs are tied directly to wholesale electricity market prices, these costs are appropriately recovered through volumetric rates.

Marginal Generation Capacity Costs (MGCC): MGCCs reflect changes in generation capacity costs that are associated with usage coincident with peak demand. These generation capacity costs do not include the cost of energy itself, as such costs are instead captured by the MEC calculation. Instead, MGCCs look at the cost of the physical capability to generate electricity, which usually consists of costs to construct a new power plant and its associated operation and maintenance costs. While MGCCs do not strictly vary according to volumetric usage, they are more appropriately recovered through time-varying rate designs. How this aspect of rate design should be altered is being appropriately addressed in other phases of this proceeding.

Power Charge Indifference Amount (PCIA): The PCIA is a charge to ensure that both IOU customers and those who have left IOU service to purchase electricity from other providers pay for the above market costs for electric generation resources that were procured by the IOU on their behalf. "Above market" refers to the difference between what the utility pays for electric generation and current market prices for similar resources. While traditionally denominated as a $/kWh charge, the underlying costs recovered through the PCIA do not vary with volumetric usage. Much of PCIA reflects early investments in high cost GHG free resources to grow the clean energy industry, not to meet least cost procurement needs. As such, it could be argued that these costs would be better recovered through a progressive cost recovery mechanism, such as the IGFC. Nonetheless, the Joint IOUs are not proposing to recover PCIA costs through the IGFC at this time.

Non-Marginal Generation Costs: This value is residually calculated by subtracting MEC, MGCC, and PCIA from the total generation revenue requirement, and reflects the degree to which present procurement costs exceed the marginal costs estimated in the most recent GRC. The Joint IOUs do not propose to collect these costs through the IGFC.

Electrification Incentive Adjustment: To reach a volumetric rate that is more accurately cost-based and more effectively incentivizes electrification and the transition to carbon-neutral energy, SDG&E is proposing a new rate component, the Electrification Incentive Adjustment (EIA) rate. Because PG&E's and SCE's proposed fixed charges result in an average volumetric rate that is $0.25/kWh or lower, PG&E and SCE are not proposing an EIA rate component that would act as a policy adder to the fixed charge. The purpose of this rate component for SDG&E is to collect more revenue in a fixed charge and in real time return that same revenue through a credit to the volumetric rates. The concept is similar to the Conservation Incentive Adjustment/Total Rate Adjustment Component (CIA/TRAC), which functionally collects more revenues from higher usage customers and returns that revenue in real time as a discount to Tier 1 (baseline) rates based on a specified differential. The EIA charge would collect more funding through a $/month fixed charge and reduce $/kWh rates than would otherwise be possible under the Joint IOUs' determination of costs that should be collected from the IGFC at this time. This charge is a transparent way of increasing the fixed charge to a level that will allow for enough volumetric rate reduction to incentivize beneficial electrification. The EIA is discussed in more detail in SDG&E's rate design testimony (Exhibit SDGE-01). SDG&E is also requesting a two-way balancing account to track this new rate component, which is also discussed in Exhibit SDGE-01.

D. Income Graduated Fixed Charge Discount Levels

1. Summary

The Joint IOUs' proposed IGFC structure will include four household Income Brackets (or levels) at the household[74] level, with the lowest two brackets consisting of CARE and FERA customers. The upper Income Brackets would apply to all non-CARE/FERA customers, with the highest bracket representing approximately 20-25% of the residential population, based on each utility's respective population as represented in the Public Tool. As discussed in more detail in the Joint Income Verification Chapter, the Joint IOUs' proposed Income Brackets are designed to leverage existing household income data from the CARE and FERA programs and utilize Federal Poverty Levels (FPL) for Income Bracket 3 (moderate-income) and Income Bracket 4 (higher-income), consistent with how CARE and FERA program eligibility is currently determined. The Joint IOUs are not proposing to verify customer incomes, and instead use a CPUC-administered process for reasons described in the Joint Income Verification and Policy Chapters. With this framework, the Joint IOUs are not required to collect household income, anew, on their entire respective customer bases, but rather focus on an evolutionary income verification process in the non-CARE/FERA segments. The Public Tool does not

[74] "Household" means customers, consistent with the definition of "low-income electric and gas customers" used in Section 739.1 with respect to the CARE program, which defines such customers as those with "annual household incomes that are no greater than 200 percent of the federal poverty guideline levels." A "household" should be defined as the persons residing in the home. Joint Utilities Opening Brief on Statutory Interpretation Questions, at p. 20; Joint Utilities Reply Brief on Statutory Interpretation Questions, at p. 11.

provide income data stratified by FPL, but the ALJ Ruling Providing Additional Guidance for Track A Proposals and Staff Guidance Memo on Using the E3 Fixed Charge Tool to Prepare Opening Testimony[75] provides guidance on how to use the Public Tool to model FPL thresholds. The Public Tool provides CARE/FERA information and non-CARE/FERA customer data in increments that correspond to FPL, which allows for grouping of customer populations into brackets that correspond to FPL when assuming a household size of three as required by the Staff Guidance Memo. The Joint IOUs' proposals for Income Brackets thresholds are based on the data in the Public Tool, and therefore, may need to be adjusted once customer incomes are verified, if the percent of customers falling in one bracket produces disproportionate impacts on the population in a given Income Bracket. The Joint IOUs propose the following household Income Brackets:

- Bracket 1 – Extra Discounted Fixed Charge (applicable to a subset of the lowest income CARE customers) with household income of up to 100% of Federal Poverty Level.
- Bracket 2 – Discounted Fixed Charge (remaining CARE and FERA customers that do not fall in Bracket 1).
- Bracket 3 – Fixed Charge for Non-CARE/FERA customers with household income up to or equal to 650% of Federal Poverty Level.
- Bracket 4 – Fixed Charge for Non-CARE/FERA customers with household income of greater than 650% of Federal Poverty Level.

a) **Lower Average Monthly Bills for Low-Income Customers**

AB 205 requires that the fixed charge discount be set "so that a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes

[75] ALJ's Ruling Providing Additional Guidance for Track A Proposals, Staff Guidance Memo on Using the Public Tool to Prepare Opening Testimony (Mar. 23, 2023), at p. 5.

in usage."[76] As discussed in the Joint IOUs' Statutory Interpretation Brief, we interpret this to mean that the average low-income customer in all baseline territories must realize at least some bill savings as a result of the IGFC implementation relative to current rate design. In practice, this means that the required discount level is informed by the amount of bill savings realized by low-income customers in the lowest baseline usage territory. Each IOU's specific Rate Design Testimony exhibit discusses this requirement in more detail.

E. Impact of the IGFC on Rates and Other Rate Design Issues

1. Impact of the IGFC on Volumetric Rates

The Joint IOUs propose to reduce volumetric rates consistent with current rate treatment. For PG&E and SDG&E, as presented in Table II-7, below, this means the revenue from the IGFC would be applied as an equal cents per kWh reduction in the underlying volumetric rate, as none of the costs proposed to be collected through the fixed charge are currently time-differentiated on these rates. For SCE, this means applying the volumetric reduction based on the System Average Percent Change (SAPC) methodology consistent with the method used to perform revenue requirement adjustments for all rate classes. However, certain rates require additional consideration, as displayed in Table II-7 and outlined in section II.E.6, below.

Table II-7
IOUs' Volumetric Rate Adjustment Methodology by Rate Schedule

Volumetric Methodology	PG&E	SDG&E	SCE
Standard Rate Schedules: Equal Cents per kWh or SAPC	E-1 E-TOU-C E-TOU-D E-ELEC	DR TOU-DR1 TOU-DR2 DR-SES TOU-DR TOU-ELEC	Domestic TOU-D (4-9) TOU-D (5-8)
Other Rate Schedules: IOU Specific	EV2	EV-TOU EV-TOU-2 EV-TOU-5	TOU-D-PRIME

[76] AB 205 and Cal. Pub. Util. Code § 739.9(e)(1).

Each of the Joint IOUs' respective inclining block tier non-TOU rates, as well as their respective default TOU rates, currently include two tiers, with all Tier 2 rates (or "above-baseline" rates) set 25% higher than Tier 1 ("baseline") rates, per the CPUC's residential rate reform tier flattening glidepath decision.[77] For PG&E and SCE, this is implemented in the underlying tariffs as the CIA component, while for SDG&E it is implemented as the TRAC component. The Joint IOUs do not propose to change the 1.25:1 tier ratio in existing tiered rates. However, the overall reduction in volumetric rates that results from addition of the IGFC will result in an overall decrease in the $/kWh difference between Tier 1 and Tier 2 rates.

2. Adjusting the IGFC Over Time for Revenue Requirement Changes

The Joint IOUs propose that, between their respective GRC Phase II proceedings, each of their IGFC rate components, as adopted in the Demand Flexibility OIR, should be updated to follow changes in the underlying revenue requirements. This means that if an IOU's distribution revenue requirement were to go up or down by 5%, its IGFCs would each change by that same amount. This contrasts with how fixed charges have previously been implemented for the Joint IOUs, where a given fixed charge did not vary when the underlying revenue requirements changed, rather, the difference was made up with other rate components. SCE has already transitioned its TOU-D-PRIME to use the same treatment proposed here. Under the new context here, where the fixed charge rate component must be used as a mechanism to ensure volumetric rates do not inhibit state decarbonization policy, fixed charges must be allowed to change over time. Further, the fixed charge proposals parties are making in this proceeding are distinct from other existing fixed charges for non-residential rates in that they collect more than just a portion of distribution costs; pursuant to AB 205, the Joint IOUs propose that the entirety of several non-bypassable charges be collected through the fixed charge, all of which have varying revenue requirements over time.

[77] D.15-07-001, at p. 330, COL 37.

3. IGFC Review and Assessment Over Time

The knowledge of historical performance will not be available to the Joint IOUs when initially setting rates with an IGFC. Over time the IGFC may require adjustments to its structure and method of service as real-world data associated with revenue recovery, customer participation, and equity of rates is obtained. The Joint IOUs propose the following review and assessment process to determine the ongoing success of the IGFC structure.

The Joint IOUs propose to conduct the review and assessment process in each of their respective GRC Phase II proceedings. In this manner, the review and assessment will be performed in an already scheduled CPUC proceeding where interested parties are convened to examine the utilities' marginal cost and rate designs broadly. Including the IGFC structure within these proceedings is an efficient use of resources and will align any changes to the IGFC with changes to the underlying marginal costs and related rate elements, such as time-of-use differential and volumetric rate designs. The GRC Phase II calendar provides an adequate time interval (i.e., four-year cycles) for any changes to take hold before the next assessment, and also allows for mid-cycle Rate Design Window Applications in the event a more immediate adjustment is necessary.

The review and assessment of time-of-use pricing periods is conducted in a similar manner. In each GRC Phase II proceeding, the Joint IOUs submit a prescribed[78] study to assess if the existing time-of-use pricing periods are still applicable given changes to the underlying costs drivers being evaluated in the GRC Phase II. Parties to the proceeding can then offer supporting or opposing positions through the various vehicles available to them in the regulatory process. An independent evaluation of the arguments presented by parties is then conducted by the CPUC's Energy Division.

The primary metrics to be considered in the assessment relate to revenue recovery and operational requirements. With respect to revenue recovery, the assessment will determine the

[78] D.17-01-006.

effectiveness of the IGFC structure in recovering the design level of revenue in each of the attrition years. Here parties will examine inputs to rate setting and customer activities to help determine the causes of any deviations, and the methods used to adjust rates in the attrition years. For this purpose, parties will review forecasts of customer distributions across Income Brackets; counts of customers who successfully appeal an Income Bracket placement, and allocation of overall low-income rate benefits.

4. <u>CARE Discount Structure Changes</u>

AB 205 changed the methodology for determining CARE discounts. Current law requires the "average effective CARE discount…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…[79]" In addition, current law maintains that the overall average effective CARE discount should be no less than 30% and no greater than 35%. Previously, the CARE discount had been applied on a line-item basis to non-exempt billed charges, with an overall bill-to-bill difference relative to a non-CARE bill that reflected an average effective CARE discount of 32.5% for SCE, 35% for PG&E, and 35% for SDG&E. For each of the Joint IOUs, the average effective bill-to-bill CARE discount falls within the statutory guidelines.

Consistent with the current language in Public Utilities Code Section 739.1, the Joint IOUs propose a CARE discount structure in which the required 30% to 35% discount limit is applied to non-exempted volumetric charges. Under this construct, the overall CARE customer benefit would include CARE discounted volumetric rates, the low-income fixed charge discount relative to the average fixed charge amount, and exemptions from specific charges to include the CARE surcharge, SGIP, and the DWR Wildfire Fund. Since the IGFC discount required by AB 205 exceeds the 35% limit, we propose that only a portion of the IGFC discount be considered part of the CARE program, such that the overall CARE surcharge amount remains unchanged,

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[79] Pub. Util. Code § Section 739.1(c)(1).

with the remainder of the IGFC discount funded within the IGFC. This approach ensures that implementation of the IGFC maintains existing interclass revenue allocations. For an average CARE customer, the sum of benefits would provide an average 45-50% bill-to-bill difference relative to a non-CARE bill, as shown in Tables II-8-10 below.

Table II-8
SDG&E Illustrative CARE Bill Comparison

Monthly Bill Charge	Average Non-CARE/ FERA	Average CARE/ FERA	Effective Discount (%)
Fixed Charge	$91	$30	(67)%
Volumetric Charges[80]	$109	$71	(35)%
Total Bill	$200	$100	(50)%

Table II-9
SCE Illustrative CARE Bill Comparison

Monthly Bill Charge	Average Non-CARE/ FERA	Average CARE/ FERA	Effective Discount (%)
Fixed Charge	$60	$18	(70)%
Volumetric Charges[81]	$106	$74	(30)%
Total Bill	$166	$92	(45)%

Table II-10
PG&E Illustrative CARE Bill Comparison

Monthly Bill Charge	Average Non-CARE/ FERA	Average CARE/ FERA	Effective Discount (%)
Fixed Charge	$65	$23	(65%)
Volumetric Charges[82]	$104	$65	(37%)
Total Bill	$168	$118	(48%)

80 Assumes 400 kWh of usage.

81 Assumes 504 kWh of usage.

82 Assumes 476 kWh of usage.

5. **FERA Interaction with IGFC**

The Family Electric Rate Assistance Program (FERA), as currently implemented, has a statutory 18% line-item discount on non-CARE rates (meaning FERA rates are 82% of non-CARE rates).[83] To be eligible for FERA, a customer household must be three or more individuals with a combined income from 200% FPL up to 250% FPL. While the statutory language for the CARE program was revised in AB 205 to make it explicitly compatible with the IGFC also required by AB 205, no such changes were made to the statutory language for FERA. Therefore, there is some ambiguity how the FERA program should interact with the IGFC. The Joint IOUs propose that FERA participants be considered part of the second income category along with CARE customers with incomes greater than 100% of FPL. Since the fixed charge in this category is less than 82% of the mid-income bracket fixed charge, let alone 82% of the high-income bracket fixed charge, the Joint IOUs propose that this fixed charge discount supersede the 18% discount these customers are entitled to under FERA. FERA participants will continue to receive an 18% discount on non-CARE volumetric rates. The default version of the Public Tool calculates FERA bills using non-CARE fixed charges, rather than the second income bracket fixed charge as proposed by the Joint IOUs. As a result, the bill impacts from the default version of the Public Tool do not reflect the utility proposal. The Joint IOUs also present alternative results using a modified version of the Public Tool that does set all FERA fixed charges at the intended level. Because the Public Tool is not designed to adjust all other rates in response to the reduction in fixed charges paid by FERA customers, this technically understates the rate levels of non-CARE customers. However, the small volume of FERA customers means this has a de minimis impact – for example, only 0.06% less residential revenue is collected for SCE.

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[83] PU Code Section 739.12.

6. Implementation of the IGFC on Non-Default Residential Rates

Parties have already submitted legal briefs on statutory interpretation of AB 205. With the exception of the Solar Energy Industries Association (SEIA), all parties' statutory interpretation briefs appeared to agree that, as both a practical and policy matter, the IGFC must be implemented on all rates. Besides the exceptions outlined below and in individual utility testimony, the IGFC on default rates should be mirrored on all optional rates. To do otherwise would enable higher income customers to easily evade the higher IGFC levels they are intended to pay by switching to a rate without an IGFC (or with a lower IGFC). The impact of the IGFC should be as consistent across rate schedules as possible while allowing some adjustments for pro-electrification policy purposes.

There are three general exceptions to this policy:

First, the Joint IOUs may each have rates scheduled to be eliminated (for example, PG&E's EV-A and E-TOU-B rates will be eliminated in 2025). In the interest of simplicity, these rates should retain their existing rate design if they do happen to have any overlap with general IGFC implementation. These specific exceptions are described in more detail in the individual IOU Rate Design chapters.

Second, the Joint IOUs' separately metered EV rates should not have an additional full IGFC, so long as, at the customer's *primary* meter (for non-EV household electric usage), takes service on a rate that *does* have a full IGFC.[84] The Joint IOUs' separately metered EV rates should mirror the overall rate levels of the non-submetering versions of the EV rates, which would include the effects of the fixed charge. However, the separately metered EV rates may still feature fixed charges to recover incremental billing and metering costs, while excluding other costs in the customer charge.

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[84] SCE TOU-D-PRIME separately metered option will continue to reflect a credit for the final line transformer and final line drop costs that are shared with the primary meter.

Third, existing optional residential rates with fixed charges (e.g., PG&E's E-ELEC (Electric Home) rate, which already has a $15 fixed charge, SDG&E's Schedules EV-TOU-5 and TOU-ELEC, which have $16 fixed charges, or SCE's TOU-D-PRIME rate) may need to have higher overall fixed charges than the default rate's IGFCs. If the Joint IOUs' proposals are accepted, there is no need for these rates to have higher fixed charges than the default IGFC. However, if the CPUC were instead to opt for a set of IGFCs lower than the Joint IOUs' proposals, these optional rates should always at least collect current levels of distribution fixed charges. For example, if the default rate IGFC collected $10 of NBCs and $7 of distribution costs from non-CARE customers, the E-ELEC fixed charge should be $8 higher to account for the current $15 distribution fixed charge. This will ensure the relative benefit of these optional rates as being more pro-electrification than standard rates is retained until default rate design evolves to more closely match the designs of these optional rates.

7. <u>Size Differentiation</u>

The Joint IOUs do not propose that the fixed charge be explicitly differentiated by customer size, to avoid undue complexity of the initial IGFC rates. The Joint IOUs understand that Public Utilities Code section 739.9(d)(1) requires that any approved fixed charge "reasonably reflect an appropriate portion of the different costs of serving small and large customers." This language was added in 2013 through AB 327 and was not modified by AB 205.

Working with Energy Division, the ALJ's December 9, 2022 Ruling (requiring legal briefs on legislative intent) hypothesized a potential bundled fixed charge that might be comprised of two elements: first, a set monthly basic service fee that is income graduated, with a possible second "demand charge" element that meets the requirements of the fixed charge definition in 739.9(a) which requires any fixed charge not to vary based on month-to month changes in a customers' kWh usage, a requirement that might be satisfied if the demand charge were preset using another factor such as maximum amperage.

While in theory, the idea of a hybrid IGFC (e.g., with a residential demand charge or other element to reflect size of kW demand), could have merit, there are several difficulties with doing something like that now. The IGFC is already complex given the addition of income graduation, and layering on any size differentiation would make the hybrid fixed charge concept overly complex and more difficult for customers to understand. Thus, the Joint IOUs do not support such a hybrid structure at this time.

Our proposed IGFCs nonetheless reflect the same underlying statutory intent. The portion of distribution costs that most clearly vary with the demand of individual customers (MDCC- Primary and Secondary for PG&E, Distribution Design Demand MC for SCE, MDDC for SDG&E) will continue to be collected through volumetric rates, as will all transmission and generations costs. Further, home size is presumably correlated with household income. As such, the income differentiation inherent in the IGFC can (and should) be deemed to be a reasonable proxy for the differing costs of serving large and small customers. This proxy approach avoids adding further complexity, while still accomplishing the overall intent of the statute.

However, if the CPUC instead wishes to explore a different approach that adds an express size differentiation component to rates (other than $/kWh charges and the IGFC as a proxy for size), then it should do so in the broader context of demand charge reassessment in Track B of the DFOIR proceeding. That said, regardless of the venue for such a decision, the Joint IOUs do not support the use of either housing type (e.g., single family vs. multifamily) or home electric panel amperage as a basis for such a charge. Either approach presents significant data challenges in that billing quality data is not readily available for either of these two characteristics. Developing billing quality data and reprogramming the billing systems to update such data fields would require additional costs and likely be error-prone. Given that implementation of the basic IGFC will be complex, the CPUC should not compound these difficulties by requiring establishment of other novel billing determinants at this time.

As an alternative, the Joint IOUs suggest that the CPUC could explore the concept of a threshold-based demand charge. This concept would involve a demand charge that would only apply to demand beyond a specific level. Such a demand threshold level could be set either based on population statistics of demand levels to ensure relatively few customers are exposed to such a charge, or based on end-use specific load data to ensure the threshold does not expose most customers adopting building/transportation electrification technologies to a demand charge. If the threshold were set at 12 kW (e.g., a 5 kW house load plus a 7 kW level 2 EV charger), a customer with a demand of 15 kW would only be assessed a demand charge on 3 kW. This alternative approach could mitigate some of the traditional concerns with implementing a demand charge on residential rates.

8. Elimination of Minimum Bills

The Joint IOUs propose to eliminate minimum bills. In R.12-06-013, the CPUC authorized the application of minimum bills to residential customers and approved an amount of $10 for non-CARE customers and $5 for CARE customers.[85] Because of the all-volumetric design of residential rates, the minimum bill or minimum charge was instituted as a billing mechanism applied to customers whose monthly usage fell below a minimum amount deemed necessary to support the recovery of costs for power delivery and customer billing. In this proceeding the Joint IOUs' proposal to set fixed charges at a level to reasonably recover a portion of delivery related costs, customer related costs, and certain public policy costs, at a minimum, negates the need to assess a minimum charge or minimum bill on residential customers.

B. Calibration Mechanism for Structure Revisit

As discussed in the Cost Recovery Chapter, the Joint IOUs are proposing a calibration mechanism in the event that actual revenue collection from the IGFC varies significantly from forecasted collections. This is discussed in more detail in the Joint IOU Cost Recovery Chapter.

[85] D.15-07-001, at pp. 283-284, 291.

C. Public Tool Results

The Joint IOUs have included the "Printable Results" tab from the Public Tool as Appendix B, as required by the Staff Guidance Memo on March 23, 2023.[86] Individual IOU results are discussed in each IOU's Rate Design Testimony.

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[86] Administrative Law Judge's Ruling Providing Additional Guidance for Track A Proposals, March 23, 2023.

III.

INCOME VERIFICATION

A. Introduction

This Chapter covers the Joint IOUs' assessment of and proposals for how to accomplish verifying customers' household incomes, as required to implement the IGFC's that AB 205 directed the CPUC to adopt in this proceeding.

Verifying customers' household incomes will present new challenges for both IOUs and customers. The Joint IOUs explored multiple options with the goal of minimizing anticipated customer pain points, while also maximizing accuracy of the initial income bracket assignment. Many options proved to have challenges of being administratively burdensome, costly, and having unclear levels of accuracy. The Joint IOUs' proposal aims to reduce these barriers through the use of real, accurate data with a single statewide Third Party implementor. Specifically, the Joint IOUs propose that the income verification process (including the initial Income Bracket placement, customer appeal process, and periodic updates to income bracket assignment) is conducted by a Third Party under the supervision of the CPUC, using a data model that has access to Franchise Tax Board (FTB), Department of Social Services (DSS), and census block data to place customer households in the correct Income Bracket. However, regardless of the adopted approach, all parties should anticipate that due to the newness of the process there will undoubtedly be unforeseen challenges, and possibly high levels of customer resistance despite planned outreach and education, during the initial years of implementation.

1. Income Assignment and Verification - Objectives and Evaluation Criteria

The primary objective of an income assignment and verification process is to assign customers to the correct Income Bracket based on household income. Secondarily, a further process should be provided to allow any customer to appeal their assignment, as well as a longer-term process for periodically monitoring the ongoing accuracy of the household's assigned

Income Bracket. The Joint IOUs recommend that initial income bracket assignments, customer appeals and periodic updates be conducted by a Third Party under contract and supervision of the CPUC. Among other benefits, the Third Party will ensure statewide consistency so that all electric IOUs (small and large) can benefit from economies of scale. Specifically, the Joint IOUs recommend the CPUC overseeing a Third Party, similar to how the CPUC administers income verification for the telecommunication utilities' LifeLine program utilizing the best available data, including data from the FTB and DSS, to most accurately assign customer to household Income Brackets.

Selecting an appropriate process for IGFC income assignment and verification involves competing considerations which must be carefully balanced. These considerations include: (1) customer impact and acceptance, (2) accuracy, (3) cost to implement, (4) complexity, (5) implementation timing, and (6) an accessible and understandable appeals process if a customer seeks a reassessment of their household income bracket assignment. To develop a proposal that meets these objectives and balances these considerations, the Joint IOUs identified multiple evaluation criteria, through input from stakeholder workshops as well as subsequent research and collaborative discussions. The Joint IOUs' IGFC income verification evaluation criteria are listed below:

- **Customer Impact and Acceptance**
    - Minimize customers' privacy concerns about this new collection and use of household income data
    - Build trust in the income verification process
    - Enable ease of required customer actions
    - Facilitate customer understanding and awareness of the new fixed charge rate component, as well as the income verification and appeals process
    - Enable the income assignment process to be as transparent as possible while protecting privacy
    - Facilitate a positive and consistent statewide customer experience

- **Accuracy**
  - Make the process as effective and efficient as possible, including for:
    - Resolving customer appeals claiming an incorrect household income assignment, and
    - Periodically refreshing household income categorizations for all customers
  - Minimize free ridership as well as potential impacts to other IOU programs with self-certification enrollment
  - Minimize inadvertently mis-categorizing low-income customers into other income groups due to verification challenges that low-income customer may face
  - Select a data source (or sources) that is comprehensive while also simple and cost-effective
- **Cost**
  - Minimize initial start-up costs to implement
  - Minimize ongoing operating, labor, communications, data storage and maintenance costs
- **Complexity**
  - Avoid requiring unduly complex systems
  - Minimize manual processes
  - Limit the resource burden and cost of ongoing maintenance
  - Minimize the number of customer appeals
  - Make the appeals process simple to implement and easy to access
- **Time to Implement**
  - Balance expediency of implementation with accuracy of income bracket assignment and degree of effectiveness
  - Consider timing effects of either complying with existing statutes or seeking possible legislative amendments that may be needed for the most optimal approach

- Availability of information for and speed of placement of new California residents in the correct Income Bracket

D. Stakeholder Input

1. Key Stakeholder Input

The Joint IOUs sought feedback from a diverse group of stakeholders regarding income verification process options. To this end, PG&E requested an IOU-facilitated follow-up workshop noticed to all parties, which was held on December 21, 2022. One key insight gained from this workshop was that a consistent approach is needed across the small and large IOUs that could leverage existing data to the maximum extent possible. Some stakeholders also noted that the IOUs may not be the best choice to conduct income verification. As presented in Chapter 5 of this exhibit, marketing research has already revealed that customers do not want their IOU to collect their income.

E. Income Definition

The Joint IOUs recommend that the definition of qualifying income that has already been established for the CARE program (e.g., Wages, Social Security, Pensions, Child Support) should be used as the starting point for identifying the fixed charge Income Bracket into which low-income customers should be placed. By doing so, a consistent definition of "income" would be used across the CARE program as well as the new IGFC rate component's household Income Brackets. The CARE program is an opt-in program with an application through which customers self-certify that their income is within the qualifying threshold (or by self-certifying that they qualify through categorical eligibility by participating in one of several listed programs). Because the definition of qualifying income was first established through the Low Income proceeding, the Joint IOUs recommend that further discussion or review of the definition of qualifying income be conducted in that proceeding. The Joint IOUs recommend that the time component of qualifying income be aligned with calendar year.

F. **Household Income Brackets**

As discussed in the Rate Design chapter of this exhibit, the Joint IOUs recommend four fixed charge household Income Brackets. The Joint IOUs developed their recommended Income Bracket proposal by, first, creating two low-income brackets, namely: (1) Income Bracket 1 (extra discounted) for CARE customers with household incomes of 100% FPL and below, and (2) Income Bracket 2 (discounted) for CARE customers with household incomes greater than 100%, plus FERA enrolled customers. Sub-dividing the group of low-income customers into two brackets allows the most economically vulnerable households to receive a lower fixed charge than that which would result from blending these two subcategories into a single category.

Next, the Joint IOUs divided the Non-CARE/FERA households into the third and fourth household Income Brackets: (3) Non-CARE/FERA customers with household income up to or equal to 650% of Federal Poverty Level, and (4) all remaining Non-CARE/FERA households, with incomes starting at 650% FPL. Providing two Income Brackets above the two lowest brackets provides some relief for moderate-income households while carrying out AB 205's intent that low-income customers pay "a smaller fixed charge and high-income customers pay a higher fixed charge."[87] By providing two levels of progressively higher non-low-income fixed charges, the Joint IOUs are balancing the desire for simplicity with equity concerns. This proposed design results in an equitable distribution of IGFC impact among very low, low, moderate- and higher-income households.

The proposed household Income Brackets and estimated number of customers in each bracket are shown in the Table III-11.

[87] Pub. Util. Code § 739.9(e)(2).

Table III-11
Joint IOUs Percentage of Residential Customers by Income Brackets

Income Bracket	Income Bracket Eligibility	Estimated Percentage of Total Residential Customers[88]		
		PG&E	SDG&E	SCE
1	CARE Customers 0% to 100% FPL	13%	12%	11%
2	CARE/FERA Customers > 100% FPL	15%	15%	15%
3	Non-CARE/FERA Customers <= 650% FPL	47%	50%	55%
4	Non-CARE/FERA Customers > 650% FPL	25%	23%	19%

G. Income Verification Options Evaluated by the Joint IOUs

1. Introduction

The Joint IOUs investigated methods for determining and verifying customer household income for the purpose of assigning a monthly fixed charge, including:

(1) using currently available income data from the income qualified programs administered by the Joint IOUs,

(2) leveraging available state processes such as the CalFresh Confirm process or the CPUC-administered LifeLine (TelCom low-income) Program[89],

(3) partnering with consumer credit reporting companies to access and match household income data,

(4) using customer stated or verified income data, and

(5) using an IOU-developed data model to verify income data.

All of these methods have significant hurdles that would need to be overcome to effectively verify income for the purpose of assigning a monthly fixed charge. This discussion is

[88] Using the data in the Public Tool.

[89] As suggested in the Energy Division's Income Graduated Fixed Charge Guidance Memo issued January 17, 2023.

intended to serve as a list of the most thoroughly investigated proposals but does not represent an exhaustive list of all ideas considered.

2. Using Current Program Information

Currently, the Joint IOUs receive customer-supplied income data to verify eligibility for income qualified opt-in programs including CARE/FERA, and Energy Savings Assistance (ESA).

For the ESA program, participation is temporary because energy efficiency services occur at a single point in time. Accordingly, ESA applicants provide qualifying income information when they apply to participate. While this income data is eventually verified during the enrollment process, such a process would not be useful for assessing an ongoing fixed charge because: (1) the income information is only provided as part of initial enrollment and (2) applications for these programs are handled by contractor networks that could not scale to handle the full residential customer population.

In contrast, CARE and FERA are ongoing opt-in income-qualified programs, which allow customers to continue to participate year-over-year as long as they remain eligible. Initially, CARE/FERA eligibility is determined during enrollment through self-reported data that customers include in their application. The initial CARE/FERA self-certified information includes: (1) household size and (2) either proof of (a) their participation in one or more public assistance programs or (b) their household income[90] and income sources. Every year, each large IOU validates a sample of its CARE/FERA-enrolled customers through a Post-Enrollment Verification process through which SCE, PG&E, and SDG&E validate approximately 7%, 8%, and 6% of enrolled customers, respectively. The Joint IOUs do not collect income data from

[90] The SCE and SDG&E CARE/FERA applications have a "fill in the blank" question for customer income level. The PG&E CARE/FERA application includes a selection of income ranges and asks the customer to "check a box". As a result, SCE and SDG&E have information on a customer's specific income level while PG&E currently has a customer's income range. PG&E will begin collecting specific income information in mid-2023 for new CARE applicants and customers undergoing recertification.

customers for purposes other than enrollment in income qualified programs. Also, because that information only covers a subset of the residential population and is (a) only verified once during enrollment (in the case of ESA and similar programs) for all applicants, and (b) re-verified on an irregular basis for some (not all) CARE/FERA-enrolled customers, this process is not robust enough to be appropriately relied upon for determining the level of a mandatory monthly income graduated fixed charge on a long-term basis. Further discussion about the challenges of building on the CARE/FERA processes to expand to income verification or stated income collection to customers of all income levels can be found further below, in the "Using Customer Stated or Verified Income" section (III.E.5).

3. Using Available State Processes

a) DSS's "CalFresh Confirm" Data

The Joint IOUs also investigated whether the DSS's CalFresh Confirm process might be a useful means of income verification for the IGFC. The Joint IOUs reviewed documentation on CalFresh program eligibility and income verification methods and also spoke with program administrators from the DSS as well as one of the data providers for the CalFresh verification program.

The CalFresh Confirm process could enable verification that a customer is a CalFresh recipient, and therefore has a household income <200% of the FPL. However, the Joint IOUs determined that the CalFresh Confirm system has several significant limitations, most notably that it does not match the Joint IOUs' proposed household Income Brackets. It only confirms whether the information entered matches the information for an individual CalFresh recipient, which would only be partially useful in trying to validate whether the total household income makes that residential account eligible for either Income Bracket 1 or 2. However, income verification for customers with low incomes who are not CalFresh recipients, as well as moderate- and higher-income customers, cannot currently be accomplished by CalFresh. In general, the CalFresh program in its current form would not be immediately transferrable to income verification for the purposes of the IGFC, since it uses only a single income cut-off that does not match the proposed total household cut-offs for establishing two low income-graduated fixed charge brackets. It is conceivable that a Third-Party verification process could be built using the same underlying data but including additional income cut-offs. However, the Joint IOUs understand that at least one of the data-sources underlying CalFresh is credit agency data that requires affirmative customer consent to complete the verification, which poses significant administrative challenges for the IGFC. In this situation, affirmative customer consent would have to be collected from each and every one of the Joint IOUs' 10.8 million residential customer accounts. This would not just have to be done once during the initial deployment, but repeatedly, as individual as well as household income varies over a person's lifetime.[91] In addition, consent would have to be obtained for each new account turn-on, from both the named customers on the account as well as every other individual in their household. The repeated, large-scale collection of such consent documentation would be costly and would impose a significant burden on customers (as well as dilute the IGFC's benefits for electrification if verification costs were included in rates). Further, it is likely many customers would not respond.[92] Under this kind of verification model, non-respondents may have to be placed on a higher 'default' Income Bracket, which could cause equity concerns for customers who are legitimately eligible for a lower fixed charge but failed to respond.

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[91] Year over year income variation reached 25 percent or more for a quarter of households between 2004 and 2005. Congressional Budget Office, Recent Trends in the Variability of Individual Earnings and Household Income (June 2008), *available at* https://www.cbo.gov/publication/41714?index=9507.

[92] Section E.5 of this exhibit discusses available information on customer response rate to the CARE Post Enrollment Verification process, which can be used as a proxy to indicate customer likelihood to respond to consent requests.

b) CPUC/ Third Party LifeLine Low Income Program for Telecom Utilities

The Joint IOUs also reviewed the Telecommunications' LifeLine program's income verification process, to see if a similar process could be used to verify income for the IGFC. The LifeLine income verification program is administered through a CPUC interagency contract with a Third Party, an organization called Maximus. The LifeLine process requires customers to go through an income verification process at the time of enrollment as well as automated recertification. The LifeLine program primarily uses enrollment in CalFresh (51%) or MediCal (43%) as a proxy to confirm LifeLine eligibility, but also accepts enrollment in other programs, or proof of Federal/State income or Supplemental Security Income (SSI).[93] The LifeLine program, which serves approximately 1.3 million households,[94] currently costs $46 million for the three years between October 2022 - October 2025 to administer (including enrollment of applicants, verification of Income Brackets, operation of information technology systems, operation of a call center, and database management).[95] The Joint IOUs have not been able to determine what portion of program funding is used to verify customer income but note that even its current steady state cost of approximately $11.80 per customer per year is significant, especially given that 94% of eligibility is being verified through enrollment in other state programs. In addition, CPUC decisions show that the LifeLine program initially had significant challenges that required adjustments resulting in today's program.[96] Thus, LifeLine's current

[93] Consensus and Collaboration Program and Institute for Social Research, California State University, Sacramento, California LifeLine Program Assessment & Evaluation(May 2022), at p. 38 *available at* https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M478/K367/478367564.PDF.

[94] *Id*., at p.18.

[95] *See Administrative Law Judge's Ruling Providing Guidance for Phase 1 Track A Proposals and Requesting Comments on a Consulting Services Proposal* (Jan. 17, 2023), Attachment 1, R.22-07-005, Phase 1 Track A: Income Graduated Fixed Charge Guidance Memo, at p. 10. This $46 million over three years comes out to an average of 15.3 million per year for 1.3 million households, or about $11.80 per household per year.

[96] The Joint IOUs would appreciate assistance from Energy Division in researching what the earlier costs were for the LifeLine programs' income verification administration by the CPUC, which would be more comparable to the start-up nature of the IGFC.

costs are not directly transferable for IGFC income verification because the majority of IOU customers have household incomes above LifeLine requirements or do not otherwise qualify for income-qualified public assistance programs that could be used as a proxy. Customer households with incomes above the LifeLine income requirements will instead require income verification through more complex means, such as review of tax records or income statements, which is likely to be more costly than using a proxy as is done for 94% of LifeLine customers. Furthermore, whereas 98% of LifeLine applicants verify income in person through the direct application process,[97] it is unlikely that a similar process would scale to meet the income application needs of the Joint IOUs' approximately 10.8 million residential electric customers. For these reasons, the Joint IOUs conclude that though the LifeLine program provides an example of a centralized CPUC managed Third Party income verification process, its processes and current costs are not likely to be a direct indicator of the structure or costs of the type of Third Party administered income verification needed to support an IGFC. Like CARE/FERA, the LifeLine program is a discount program for low income households, and its income verification requirements put the onus on a customer to seek enrollment and prove income eligibility by way of documentation or enrollment in another income-qualified program. Nevertheless, the LifeLine income verification process provides a workable example for having a Third Party administrator handle income verification under the Commission's direction.

4. Using Credit Agency Data

The Joint IOUs investigated whether a Third Party could partner with consumer credit reporting agencies to access and match household income data for IGFC household bracket assignments, appeals, and periodic refreshes. The Joint IOUs found that existing products provided by credit agencies, such as Experian's "Income Insight," and Equifax's "Work Number" are not designed to be the sole source of data for decision making to determine income

[97] Consensus and Collaboration Program and Institute for Social Research, California State University, Sacramento, California LifeLine Program Assessment & Evaluation (May 2022), at p. 38*, available at* **https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M478/K367/478367564.PDF**.

categorization[98], as discussed below. Rather, they were developed to 1) provide information useful for marketing products to a specific income segment, or 2) serve as a check against income information that has already been received from a potential customer. The Joint IOUs understand that Equifax's "Work Number" product is used to verify eligibility for several state-level social programs such as Medicaid, Supplemental Nutrition Assistance Program (SNAP), Public Housing, and for child support enforcement, but it requires affirmative customer consent. In addition, the Joint IOUs found that these types of products primarily source their income information from payroll reporting data but contain only limited or no data on other sources of income (such as pensions, investments, rental income, child support, etc.), and similarly require customer consent to access.

When considering the Joint IOUs' use case of assigning an IGFC using income data models, the contacted credit agencies relayed that this was not the intended use of their product, would violate the terms of use, and may be inconsistent with the Fair Credit Reporting Act and/or other credit laws. When presented with an alternative use case of placing all customers into the highest Income Bracket and allowing customers to apply for a lower bracket, credit agencies responded that their products could be used to corroborate a customer's stated income as long as in the case of a mismatch between the customer's income statement and the credit agency data, the customer retained the option to verify their income with documentation. While this use case is allowable, the Joint IOUs do not find it feasible because 1) it would require defaulting customers to the highest household Income Bracket which would result in customers being assigned a fixed charge that is potentially higher than appropriate for their actual income; 2) these products mostly rely on payroll data which will leave significant gaps for customers whose income is not based on reported payroll wages; 3) it would be burdensome to require the majority of customers to contact the Joint IOUs and provide consent for Joint IOUs to use credit

[98] Credit agencies the Joint IOUs spoke with relayed that their products could not be used in ways that would result in adverse action against a customer, and placing customers in different price levels could be construed as adverse action.

data to confirm their income and assign them to the correct Income Bracket; 4) it would result in operational impacts such as high call volumes, and frequent Income Bracket changes; and 5) it does not provide a pathway for the Joint IOUs to update income data for a customer except with customer consent, which means the Joint IOUs would have to rely on stale data or receive a new customer permission each time to check their stated income against a credit agency product.

Across the US, several government programs rely on the "Work Number" product by Equifax for verification of income eligibility, for social programs such as Medicaid, SNAP, Public Housing, or for child support enforcement. This product contains income data provided by employers and payroll providers. This product has the advantage of covering nationwide payroll data and eliminates the need for manual verification of payroll income. However, while the "Work Number" product provides a high level of confidence for a portion of payroll data it does not provide data on other sources of income; thus, it would not provide an accurate estimation of actual household income information. A process would still have to be devised to handle customers without a match in these income databases (including but not limited to new U.S. residents with no prior income record, young customers with no prior income record, and non-person account owners (such as businesses which hold accounts on residential rates). Simply defaulting such customers to the highest bracket of the IGFC would be financially impactful to many legitimately lower income customers. For example, a student moving away for college and with no prior income record would be assessed the highest fixed charge, even if they legitimately have no income. In addition to customers without a match, payroll data may also underestimate total income for certain customers. A shortcoming of payroll data is that it does not capture data from income sources other than payroll records, which would significantly underestimate real household income for certain segments of the population, e.g., those with investment income, such as seniors who may be living on a fixed income such as a pension plus social security, but whose total net worth is quite high. Based on IRS data for federal tax returns, about 20% of individuals residing in California who filed a federal tax return had no income from salary or wages[99] which suggests that the individuals in this 20% of California's population may not show up in payroll data. More importantly though, Equifax's "Work Number" product does not allow for pre-assignment of income data to each household, rather it only permits Equifax to share income data about the customer verification after receiving permission from that customer for Equifax to share data about the customer. There is also no refresh ability without additional permission from the customer, which is problematic given data for some customers is known to be highly variable over time.

Based on the research the Joint IOUs have been able to complete thus far, the Joint IOUs have determined that data sets available for purchase from credit reporting agencies are not designed to be used as the source of data for assigning an income categorized fixed charge bracket and attempting to use these data sets for this purpose may not be authorized by the data protection laws with which credit agencies are required to comply. Overcoming existing credit data protection laws, including the FCRA, appears to require either: (1) obtaining consent from each of over 10 million customers to use their income data (which was not viewed as being practicable on such a wide scale, for a rate component that is required rather than an "opt-in"), or (2) obtaining an amendment to the FCRA statute that exempts provision of data for IGFC purposes (which seems unlikely to happen in time, or at all, given the many interest groups who might object or seek their own exemptions).

5. Using Customer Stated or Verified Income Data

Due to the constraints on the availability of income data described above, the Joint IOUs explored the option of obtaining and verifying data from all customers directly. Even more than obtaining consent from all customers to use credit agency data, obtaining stated income data directly from all customers is not practicable due to high cost and customer impact. The

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[99] In 2020, according to the Internal Revenue Service, only 80% of federal income tax filers residing in California had income from salaries or wages, IRS: SOI Tax Stats - Adjusted Gross Income (AGI) Percentile Data by State, *available at* https://www.irs.gov/statistics/soi-tax-stats-historic-table-2.

[100] The customer population enrolled in CARE/FERA is 24%, 25% and 27% for PG&E, SCE, and SDG&E respectively.

CARE/FERA program experience is useful to consider as it does collect some stated income data. Approximately one quarter[100] of the Joint IOUs' total residential customer base are currently enrolled in CARE/FERA programs. Of these, approximately 40% of current CARE/FERA enrollees were enrolled in the program based on the customer's own statement of household size and total household income, whereas approximately 50% were enrolled based on their stated participation in one or more "proxy" assistance programs (see above) the final 10% were enrolled due to known participation in another income qualified program.[101] Most customers on CARE/FERA must recertify their eligibility every two years (four years for customers on a fixed income).

Each year, the Joint IOUs require approximately 6%-8% of their CARE/FERA participants to verify their stated information or else they will be removed from the program. Of the verification group, only about 28% respond and complete the verification process; the remaining 72%[102] who do not reply are removed from the opt-in CARE/FERA programs until they can apply again and certify their household is income-qualified. The Joint IOU's 2022 costs for CARE and FERA income verification were approximately $2.1 million, which represents about $9 per customer verified.[103] This process, however, is not appropriate for the IGFC, because customers who fail to respond cannot simply be removed from the IGFC. Fixed charges are mandatory, and presumably, non-respondents and customers who fail to recertify every 2 or 4 years would be defaulted to a predetermined fixed charge such as the highest fixed charge until proven otherwise.

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100 The customer population enrolled in CARE/FERA is 24%, 25% and 27% for PG&E, SCE, and SDG&E respectively.

101 Monthly Reports of PG&E, SCE, and SDG&E on Low Income Assistance Programs for December 2022 *available at* https://liob.cpuc.ca.gov/monthly-annual-reports/.

102 Opinion Dynamics, 2019 California Low Income Needs Assessment , Final Report (Dec. 13, 2019), (hereinafter 2019 LINA Report), available at https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/energy-division/documents/energy-efficiency/iqap/2019linavol3.pdf.

103 Monthly Reports of PG&E, SCE, and SDG&E on Low Income Assistance Programs for December 2022 *available at* https://liob.cpuc.ca.gov/monthly-annual-reports/ as mentioned in section E2 above , this represents steady state program verification cost not the CARE start-up verification cost which are believed to have been higher, but research continues.

The 2019 Low Income Needs Assessment (LINA) Report sheds further light on the process challenges of the CARE program's recertification and verification methods.[104] For the 2018 program year, about 28% of CARE participants statewide were selected for post-enrollment processes, of which:

- 21% were due for recertification (i.e., renewal application), with 39% of those being removed from the program, and 61% retained.
- 4% were selected for income verification, with 69% of those removed from CARE and 31% retained.
- 3% were selected for income verification due to high usage, 96% were removed from CARE and 4% were retained.

According to the LINA Report, the post-enrollment processes perform well at removing income-ineligible customers from CARE, however, LINA survey evidence also shows many removed participants reporting that the removals had not necessarily been income-related. Specifically, the 2019 LINA Report's survey of customers no longer on CARE showed: 42% reported the reason for removal as "inconvenience/forgot," 23% "didn't know how to continue,", and 9% reported "issues with the process." This suggests that there are process issues that prevent many eligible customers from responding to CARE recertification or verification outreach.

These findings from the 2019 LINA Report suggest that modeling income information collection and verification on CARE processes could result in many customers being defaulted to higher income categories than may be warranted, simply due to not providing or certifying income information. In the CARE program, such customers tend to then call the IOU once they receive a higher, non-CARE bill and seek to get back on the program, which creates both a burden on the customer as well as program operational impacts (call center resources, billing processing etc.). This also suggests that basing income bracket assignments on a high-quality

[104] 2019 LINA Report.

data source would significantly lessen customer and operational burdens on individuals and systems as opposed to a method modeled on CARE-type processes.

Examining the CARE program's income verification process and costs illustrates that an IOU-led process similar to the CARE Post-Enrollment Verification process would be unreasonable and exceedingly expensive to scale to the entire electric residential population. For the Joint IOUs, the cost of CARE Post-Enrollment Verification in 2022 was $2.1 million, to verify the selected subset of approximately 230,000 CARE customers. This equates to approximately $9 per customer on average[105]. But such average cost per customer is based on current CARE processes after decades of refinement, such that the per-customer costs for administering a completely novel IGFC income verification process would almost certainly be higher due to startup costs. Scaling the current CARE verification cost of approximately $9 per customer to the entire 10.8 million electric joint-IOU customers who need to have income assessed to determine the IGFC bracket for each and every customer (since IGFC is not an opt-in program) would put the cost at approximately $97 million. However, initial annual costs would likely reach upwards of $100 million to implement when also factoring in startup costs (which the cited $9 per customer cost does not include).[106]

If verifying all customer income information is cost-prohibitive, proceeding only with customer self-stated income information is unreasonable for reasons of accuracy and billing integrity. There would be little incentive for a high-income customer to provide accurate data and it is also likely that a significant portion of customers would fail to provide income data,[107] forcing those customers to be assessed the default fixed charge.

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[105] Monthly Reports of PG&E, SCE, and SDG&E on Low Income Assistance Programs for December 2022 are available at *https://liob.cpuc.ca.gov/monthly-annual-reports/.*

[106] The Joint IOUs are still researching the earlier level of CARE income verification costs closer to the time CARE was started, if available. Start-up costs for the IGFC are likely to differ from and be more expensive than CARE both because the IGFC is not an opt-in program requiring initial self-certification but also involves all levels of income so it would have to process about ten times as many customers' household income verifications per year.

[107] PG&E's and SCE's research demonstrate that customers are uncomfortable with IOUs having their income data.

With this in mind, the Joint IOUs considered and rejected a stated income approach, due to severe downstream financial and operational impacts and significant adverse customer impacts. This approach would collect stated income from all customers and then verify income for a subset of customers (e.g., a similar percentage as the CARE/FERA programs, that is, 7-9% annually). However, many customers would likely not submit their income information and it is unclear how many customer appeals this will result in, and what the corresponding total cost to process these appeals would be. If the analysis used the current steady-state CARE/FERA application processing cost of approximately $2-3 per customer (which is likely lower than any new and larger-scale program like the IGFC), the upfront stated income collection could cost approximately $25-30M each time the data were refreshed, but this would likely be dwarfed by the cost of a high volume of appeals. It would also require every customer to repeatedly take action to report income, imposing a significant burden on customers. Stated income collection, at a minimum, would require notification of each customer and processing information received from the customers. Such an approach would likely be more operationally impactful and cost-prohibitive than other potential approaches (but more research is needed to make valid estimates to compare). Notably, income information would need to be requested from every customer both before launch as well as periodically thereafter (e.g., every 1-2 years), and a secure system would have to be designed and implemented to collect, store, and update customer stated income information through various channels, such as business reply cards, the call center, and online self-service, so as to protect customer privacy concerns. Too much is unknown about the stated income collection approach, but what is understood caused the Joint IOUs not to propose it.

Most importantly, collecting stated income directly could result in a large number of non-responses. As noted above, the 2019 LINA study[108] provided evidence that there is a large drop-off of customers from CARE during recertification (61% retained) and even more so during income verification (only 31% retained) due to reasons other than income qualification. For

[108] 2019 LINA Report.

instance, it is possible that customers do not read/open their mail, or do not know how to complete the income verification. Per LINA, two thirds of removed customers experienced process issues with CARE that prevented them from remaining on the program. If two thirds of the 39% of customers removed during recertification were removed due to non-response or other process issues, this suggests that a quarter of all prior participants fail to reenroll in CARE due to process issues. Conceivably, collecting stated or verified income data from customers for the purposes of the income-graduated fixed charge would encounter similar process barriers as the CARE program. If the non-response rate approaches 25%, it could trigger a large number of appeals down the road.

Therefore, the Joint IOUs have concluded that an IOU-administered income verification process that seeks to collect customer-stated income information directly from each customer would not only be cost-prohibitive but would likely result in larger numbers of customer non-responses and refusals to provide household income data, due to both process barriers and privacy concerns regarding the Joint IOUs' possession of their household's specific total income data. Simply assigning non-respondent customers to the fixed charge for the highest income category would result in financial impacts to customers who should have been made eligible for a lower fixed charge, but who failed to submit income information. The Joint IOUs considered whether such customers could instead be assigned to the fixed charge for the moderate-income level, but this would create disincentives for high-income customers to provide income data which in turn could result in under collections or would dampen the IGFC's ability to reduce fixed charges for low-income customers, as fewer customers would be paying the higher income fixed charge.

6. <u>IOU Developed Data Model</u>

Another option the Joint IOUs considered was to predict income based on publicly available data points. Developing an income data model is also challenging due to a lack of publicly available source data that can be used as a reliable proxy for income at the *household* level. While there is publicly available data on aggregate incomes by area, such as by census tract from e.g., the Current Population Survey[109], American Community Survey[110], etc. that can be useful to discern income trends among populations and communities, such data is not reliable for predicting each individual household's income within that area. Using census tract income data to assess an IGFC could result in significant under-identification of low-income customers living in moderate- and higher-income census tracts, and vice versa. For these reasons, the Joint IOUs do not recommend using current publicly available data or developing internal models to determine and verify customer household income solely based on population data. It is important for IGFC income bracket placement to be as fair and accurate as practicable, to minimize customer appeals and to stabilize IOU revenue collection and resulting rates. Using modeled data would not be likely to provide accurate results, which could undermine trust and result in operationally unsustainable levels of appeals.

7. Key Findings on Evaluated Options

The options evaluated above did not lead to emergence of any single clear-cut solution that would minimize customer action, while also providing highly accurate results in a manner that is feasible, ensures billing integrity and is cost effective. To summarize: 1) Neither current program information nor current state programs are directly adaptable to the needs of income verification for fixed charge purposes; 2) Population-based data models cannot accurately predict individual household income; 3) The direct collection of customer-stated income is costly and burdensome and will likely result in considerable non-response; and 4) Obtaining affirmative consent to use credit-agency data, while somewhat more accurate and less burdensome to the customer, is still costly and the lack of data will likely affect a significant portion of customers.

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[109] Current Population Survey Data *available at* **https://www.census.gov/programs-surveys/cps/data.html.**

[110] American Community Survey Data *available at* **https://www.census.gov/programs-surveys/acs/data.html.**

There are two reasons the Joint IOUs have concluded that accurate initial income bracket assignments are essential to have before the initial launch of any IGFC. First, by presenting customers with an accurate initial income level assignment, customer trust and acceptance of the new IGFC is anticipated to be higher. If, instead, there is a higher degree of inaccuracy in the initial income bracket assignments, customers are likely to question the overall implementation of the rate structure, they may be less likely to accept the change, and the Joint IOUs will have to address high levels of customer dissatisfaction. Second, inaccurate initial assignments would result in more customers filing appeals seeking to be placed in an alternate income bracket. This would drive up costs to manage the higher volume of appeals. Focusing solely on the cost of appeals while using the CARE Post-Enrollment Verification system as a proxy for costs, an initial income bracket assignment process that results in 20% of customers appealing could result in approximately $20 million in costs across the Joint IOUs service territories. Given the data above about lack of Federal income information or State tax filings for over 20% of Californians, it seems more likely that the appeal rate might be higher than 20%. Many of the millions of non-low-income customers could also disagree with the results (given that it's based on household income, not one individual's return).

It Is impossible to know the exact degree of accuracy of any of the methods described above without conducting an actual data analysis using real customer income data, but pursuing a method that has even a 20% appeal rate would be costly. Aside from such Credit Agency products likely not being available for direct income verification without affirmative customer consent due to legal constraints, the Joint IOUs review of available credit agency data suggests error rates in excess of 10-20% assumed in the cost estimates above. This would impose very significant administrative costs no matter who is running the program, and would certainly result in a more negative customer experience than under a more accurate process.

A high number of customer income bracket appeals could also impact utility revenue stability as the utility would need to adjust rates the following year to account for the misplaced customers. One of the benefits of the IGFC rate structure is that it is anticipated to stabilize rates for residential customers. Adopting an income bracket assignment process and data source that is less accurate puts this benefit at risk.

8. **Recommendation**

Based on the initial research above and the necessity of accurate income bracket assignments, the Joint IOUs have concluded that the optimal approach would be for the CPUC to contract with a Third Party that would use actual income data on a consistent statewide basis. The LifeLine program provides a precedent for having a Third-Party administrator handle income verification under the Commission's direction. In D.05-04-026, the Commission concluded that income certification/verification should be performed by a Third Party Administrator (TPA) "under the direction of a state agency, namely the Commission."[111] As noted above, the LifeLine program is targeted towards low-income customers and therefore not directly transferable to the requirements for a fixed charge at various Income Brackets, but it nevertheless provides proof that Third Party administration is an established and workable model for income verification purposes.

Under such a model, each customer would be assigned to an Income Bracket based on available data specific to their household, and then be given an opportunity to appeal -- as opposed to having to proactively submit income data. The primary venue for obtaining such income verification data would be California's FTB. In 2020, the FTB received approximately 18.5 million state income tax returns[112], covering 13.2 million California households[113] and over 39 million inhabitants. However, it is estimated that the FTB does not have income information for up to 20% of California households who do not file any state income tax return[114]. A

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[111] D.05-04-026, at p. 26.

[112] Franchise Tax Board, Personal Income Tax (PIT) Annual Report 2021, *available at* https://data.ftb.ca.gov/California-Personal-Income-Tax/PIT-Annual-Report-2021/y7ws-kpcd.

[113] There are more individual tax returns than households because more than one earner can live at the same address.

[114] The Joint IOUs estimate that up to 20% of customers may be missing from an FTB data set through an analysis reviewing Census demographic data and FTB County resident tax filing data.

customer may choose not to submit a California income tax return if they file as a single individual and earn less than $20,913 per year [115]. This suggests that the pool of customers who do not file state tax returns are likely to predominantly be part of lower-income households. To address this gap, additional data from the California DSS' CalFresh program should also be included as part of the verification process, to provide additional income data for lower-income customers who may not be included in the FTB data set. As an example of how this could work, LifeLine executed an interagency agreement to use the CalFresh verification results.[116] It is conceivable that CalFresh verification could be enhanced to use the underlying data sources to meet the needs of income verification for the purposes of the electric fixed charge. One challenge remains obtaining customer consent for this step, but that would be for a much smaller group of customers without any FTB data match.

An amendment to the existing California Revenue & Taxation Code would appear necessary to allow the FTB to accomplish mass provision of individuals' income data to any outside entity administering the IGFC categorization and appeals process. Access to customer-specific information from the California Department of Social Services, such as CalFresh, may also require amendment to existing law, or direct customer consent. It is also conceivable that a verification system could then use other secondary data source in a hierarchical order, which would reduce the incidence of "no matches" in the data. For example, as a secondary step in case there is no FTB or DSS data, the customer of record could be asked to either submit income information or to provide permission to verify income against a secondary database. As a final backstop for the "no-match" population, census tract data could be incorporated to make an educated guess for initial assignment, to help mitigate the possibility that a low-income customer

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[115] Franchise Tax Board, Filing Requirements, *available at* https://www.ftb.ca.gov/file/personal/residency-status/index.html.

[116] CPUC, 2021 Annual Report California Lifeline Program, Program Years January 20219-December 2021, p.18, (April 2022), *available at* **https://www.cpuc.ca.gov/-/media/cpuc-website/divisions/office-of-governmental-affairs-division/reports/2022/2021-ca-lifeline-annual-report.pdf**.

would be initially assigned to the highest income bracket, with communications to the customer providing them information on how to appeal if necessary.

H. Income Verification and Appeals Process

1. Income Verification Ownership and Implementation

The Joint IOUs recommend that the income verification process, described in further detail below (including initial assignment, handling any customer appeals, and the periodic refresh process), be conducted by a Third Party under the supervision of the CPUC. It is not practicable or cost-effective for each individual IOU (across the range of large and small IOUs regulated by the CPUC) to implement its own income verification process. Rather, using a single Third Party, supervised by the same governmental entity (as the CPUC has done with LifeLine), allows there to be a consistent statewide approach which should result in increased overall accuracy. Supervision of the Third Party by the CPUC would help to further maintain customer trust that their income information would not be accessed in any way by the IOUs. Furthermore, centralizing statewide income assignment and verification under a single administrator will benefit the customers of all the state's IOU's (small and large) by realizing economies of scale, as well as creating a one-stop-shop that consistently uses the same process equally for all.

Establishing a single Third-Party entity to conduct the income verification process, supervised by the CPUC, minimizes the cost of implementing the IGFC and limits access to income data, helping to establish customer trust in the process. In contrast, income verification conducted by each utility would result in replication of costs for a similar process. Further, with a Third Party conducting income verification, the State could also leverage the information it receives for other purposes and programs, providing additional benefit to Californians. Indeed, existing income verification programs beyond LifeLine are established or processed at the state level, for similar reasons.[117] Although the energy utilities do have some experience running the CARE/FERA programs' income verification process, that process only verifies a small number of low-income customers each year, and even that is expensive and labor-intensive for a steady-state program, let alone a start-up like the IGFC. The Joint IOUs have concluded that the CARE/FERA verification process is not reasonably scalable to provide initial and periodically recurring IGFC verification for the approximately 10.8 million residential electric customers who must receive a new IGFC on their electric bill. As discussed in the section above, scaling current CARE processes to income verify all residential electric customers in the Joint IOUs service territory could cost approximately $97 million, plus added "start-up" costs. The Joint IOUs conclude that doing so would be cost-prohibitive. Moreover, collecting stated income from a customer that applies for inclusion in a discount program like CARE or FERA (and in so doing represents they have qualifying income and consents to a utility verifying this representation) is fundamentally different from collecting and/or accessing personal, private income data from millions of customers who do not seek any discount in order to place those customers on income brackets to determine the fixed charge they will pay.

Furthermore, the Joint IOUs have limited experience building income verification models and may only be able to use public income data, which is not available at the household level.[118] For these reasons, the Joint IOUs recommend the IGFC income bracket assignment and appeal be administered through the CPUC, contracting with a Third Party (or another public agency if needed), rather than trying to develop an entirely new process to be conducted by the Joint IOUs.

Finally, initial marketing research conducted by the Joint IOUs revealed that many customers will likely be concerned about IOUs having access to customer income data. The

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117 Covered California, Government Code Title 22. California Health Benefit Exchange.SB 1208 (Reg. Sess. 2021-2022), Low-Income Utility Customer Assistance Programs: Concurrent Application Process.

118 The US Census Current Population Survey, *available at* **https://www.census.gov/programs-surveys/cps/data.html** and American Community Survey, *available at* **https://www.census.gov/programs-surveys/acs/data.html** only provide income data down to the census tract level.

challenges associated with income "verification" are compounded to the extent that a customer's assigned household income bracket and corresponding fixed charge will depend not only on the named customer's income, but on the collective income of that customer's entire household. Establishing a neutral Third-Party to conduct the process will ensure that a trusted, transparent, and secure process for evaluating customer household income and income bracket placement is consistent across the state.

For the reasons outlined above, the Joint IOUs reiterate that income bracket assignment and appeal processes should be conducted by a Third Party under the supervision of the CPUC. Although the LifeLine program (which depends on residents seeking out the discount and affirmatively providing proof of income eligibility) does not provide a template for a system in which each household served by a utility is assigned to an income bracket based on household income data collected or accessed without the customers' involvement, it does provide an example of a verification system that is administered by a Third Party administrator (TPA) under the supervision of the CPUC. As such, the Joint IOUs propose to utilize an administration model here that is similar to the LifeLine program[119] to handle IGFC income bracket assessment and appeals, as depicted in Figure III-7 below.

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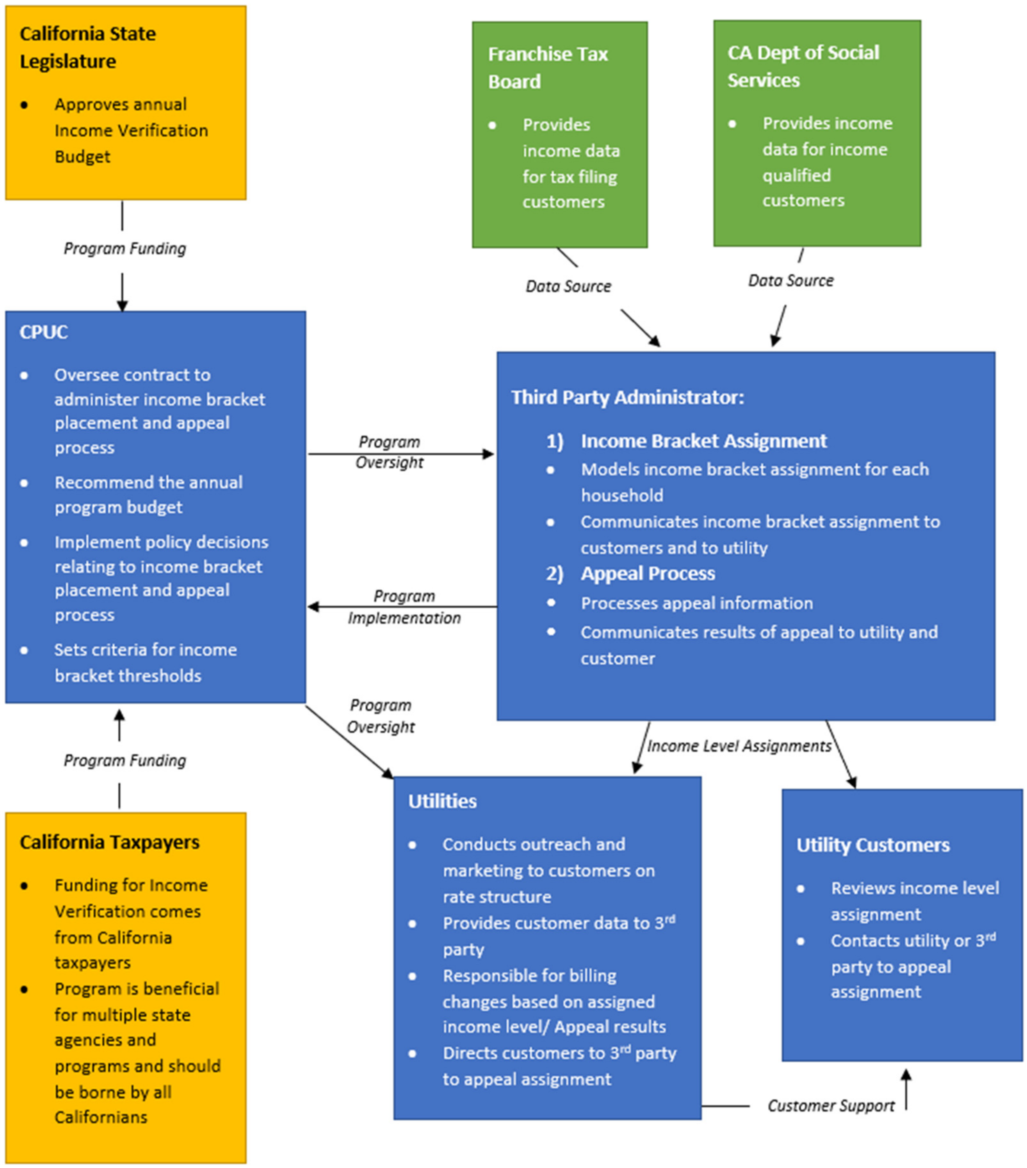
[119] Consensus and Collaboration Program and Institute for Social Research, California State University, Sacramento, California LifeLine Program Assessment & Evaluation (May 2022), at p. 37, *available at* https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M478/K367/478367564.PDF**.**

Figure III-7
Proposed High Level Chart of Entities Involved In Administration and Implementation of Income Bracket Assignment and Appeal Process



As depicted in the chart above, the Joint IOUs proposal seeks state funding for income verification to support the policy goals of the IGFC and not adversely impact customer rate affordability. Including funding for the state-administered process of income verification in electric rates would dilute desired impact of beneficial electrification for residential customers.

The Joint IOUs propose to collaborate with the CPUC to seek funding for the income verification costs from the State Budget.

2. High Level Utility Process Overview

The IGFC differs from CARE/FERA because it is not an opt-in rate rider, but a fundamental rate component to ensure that fixed costs are fairly recovered, on an ongoing basis, for the benefit of all customers -- as well as the environment -- by reducing the volumetric rate thus supporting the state's decarbonization climate action goals through building electrification. Therefore, the Joint IOUs recommend that the IGFC be applied to each and every rate under which all residential customers take electric service from an IOU. Because there are fixed costs to serve every residential customer, and AB 205 requires an income graduated set of fixed charges, there must be some process for categorizing each and every one of the over 10.8 million electric residential households served by the Joint IOUs into appropriate Income Brackets. PG&E, SCE, and SDG&E have approximately 4.9 million, 4.7 million, and 1.3 million electric residential households, respectively. Every one of these residential households must be categorized into the appropriate Income Bracket and then periodically reverified in the future because of income changes. Thus, the type of income verification needed for even a simple graduated fixed charge, at full scale, is a new and complex challenge that will undoubtedly present unanticipated difficulties and unintended effects. At a high level, the Joint IOUs anticipate that there will be three primary components of the verification process: (1) initial income bracket assignment, (2) processing of any appeals and taking any remedial action necessary, and (3) a periodic reverification that makes any necessary changes to income bracket assignments. Each step is described briefly below.

a) Initial Income Bracket Assignment

During the initial income bracket assignment, customers are placed in the appropriate Income Bracket by the process to be established by the Third-Party, under the CPUC's supervision. The Joint IOUs are responsible for providing the customer data including customer account information (e.g., name and address, and social security number if available), and the file is used by the Third Party to identify the appropriate Income Bracket, using income data that the Third Party obtains from one or more sources such as FTB and other state entities. The customer's assignment is then relayed back to the utility, who is responsible for informing the customer of their income bracket placement and providing contact information for assignment appeal with the Third Party. The Joint IOUs stress that in advance of implementation, thorough testing of the income bracket assignment process with real customer data is necessary to demonstrate the accuracy of initial placements and minimize appeals. The testing results could also be used to influence staffing levels for customer support services, such as call center staffing. Further, the Joint IOUs recommend that the Third Party selected by the CPUC for income bracket assignment meet key criteria such as strong data modeling capabilities, a reputation for secure handling of customer data, and accurate results to establish public trust in the process. Information regarding customer outreach and education in this phase is detailed in the Marketing and Outreach, Chapter 5.

For existing customers, this process is expected to occur in advance of implementation to give customers adequate time to appeal if their initial income bracket placement is incorrect. New customers would be informed about the income verification process at some point during the move-in process. This process has a more compressed timeline than the initial income verification. The income bracket assignment would have to occur during the first billing cycle and in many cases, the first customer bill cycle is less than a full month. New customers will have to be provided notice of their income bracket assignment so that an appeal can be initiated if needed. From a customer perspective, the ideal solution is to check income during the move-in, through regular data exchange with the Third-Party income verifier. The customer could then be immediately informed of their assigned Income Bracket, either over the phone during a call center turn-on, or on the IOU website during a self-service turn-on.

It is probable that some populations of customers will not be matched with Third Party data during initial income bracket assignment or during turn-on. For example, there may be a lack of data for new immigrants, customers whose primary residence is in another state or country and who pay no California taxes, or residential accounts that are held by a non-person entity, e.g., a property management company, non-profit organization, or a Home Owners Association taking service for common space lighting. The total number and breadth of these cases is not known. The non-matches are likely higher as a percentage of new move-ins than as a percentage of the existing customer population. The Joint IOUs recommend that the Third-Party track and report out on the number of customers that cannot be matched with income data annually. That data should be evaluated to determine what subpopulations exist and if those subpopulations can be identified and assigned an appropriate fixed charge level. The Commission should address the evaluation of this population in a ruling at such time as relevant data become available which is likely within two years of implementation of the IGFC. In the meantime, in cases where a customer is not able to be matched with income data, a secondary data source could be applied. In the absence of such a process, Joint IOUs should assess Income Bracket 3 and inform the customer of the appeal process. In addition, the Joint IOUs acknowledge that some customers may be uncomfortable with any level of data collection, and so an opt-out policy is needed to allow customers their right to privacy. In this scenario, customers opting out would be assessed the highest fixed charge.

For a small proportion of customers enrolled in the CARE and FERA programs, Joint IOUs have self-reported income data that has been provided by the customer directly, as long as the customer enrolled based on income, or voluntarily provided income when enrolling via the categorical eligibility method. Additionally, only approximately 6-8% of customers who participate in CARE/FERA programs are subject to income verification through existing processes. As such, Joint IOUs will use Third Party data to assign Income Bracket 1 or Income Bracket 2 fixed charges for customers enrolled in the CARE and FERA programs. If at any time, a CARE/FERA customer becomes no longer enrolled in CARE or FERA the customer will then be assigned an Income Bracket 3 or Income Bracket 4 fixed charge based on Third Party data. Likewise, a non-CARE/FERA enrolled customer who then enrolls in CARE or FERA would be assigned to the Income Bracket 1 or Income Bracket 2 fixed charge. The Joint IOUs recognize that the CPUC's decision authorizing the IGFC may, once implemented, warrant a CPUC re-examination of current CARE/FERA processes, and recommend that any efficiencies or revisions be discussed in the Low Income Proceeding.

b) <u>Appeals Process and Customer-Initiated Income Updates</u>

The Joint IOUs' proposed CPUC process for resolution of customer disputes over their IGFC Income Bracket assignment will provide all residential electric customers an ongoing opportunity to "appeal" and seek what they assert to be a more appropriate categorization of their total household income assignment. The Joint IOUs recommend the customer appeal or dispute resolution process should consist of the following steps:

1. Customer contacts the utility through either the call center or the website, and is directed to the Third-Party website or call center to initiate an appeals claim
2. Customer claimant provides the Third Party with all requested information, which could include but is not limited to: a complete listing of the legal names of all residents in their household, and for each household member: recent pay stubs, copy of federal tax filings and W2 or 1099, affidavit from employer (for cash wages only), finally signed releases from each household member allowing access (for each person) to data from the Department of Social Services, or other such agency
3. Third party conducts the appeals process by reviewing the provided documentation and, if necessary, using the releases to obtain any appropriate additional income verification data, and determines whether appeal should be approved or denied
4. Third party informs the customer
5. Third party informs the respective IOU of the results of the appeal
6. IOU adjusts customer's IGFC Income Bracket within its billing system

This recommended appeals process (to be conducted by the Third Party under the supervision of the CPUC) may have three mutually exclusive potential outcomes.

The first is a denial determination, with the Third Party deciding that the customer's initial household income level placement had been correct or that the customer has not submitted sufficient or qualifying information to prove that the assigned income level was incorrect. In such instances, the appeal would be denied, with the customer and their IOU being informed that no change will be made to the customer's existing, assigned income level.

The second potential outcome would be approval by the Third Party if it finds a significant enough change in total household income to warrant a revision to the customer's previous IGFC Income Bracket placement. In such instances, Third Party would have found that its initial Income Bracket placement (at the time of the most recent IGFC data refresh, or account turn-on) had been correct; nevertheless, the Third Party could still approve the appeal if the available evidence successfully showed that household's total income had since changed enough to merit placement in a different fixed charge category, going forward. The Third Party would inform the customer that their appeal has been approved and, simultaneously, notify their IOU to update that customer's fixed charge Income Bracket assignment, as of the next one or two billing cycles after the date of the ruling and notice to the customer and IOU. One to two billing cycles is the standard duration to allow adequate time to process other types of account changes initiated by a customer. Sufficient time is needed for the IOU to process a change in account information reflected in the billing system. The Joint IOUs do not plan to rebill customers for updated income information as this does not constitute a billing error. The Joint IOUs would place the customer onto their updated household Income Bracket prospectively. It is standard practice to receive updated information from a customer that qualifies them for a program or rate and place them into the program or rate on a going-forward basis, per customer request. Examples include 1) a customer applying for CARE for the first time, despite potentially having qualified in the past; 2) a customer buying an electric vehicle, but not sharing information about the purchase and only taking service on an EV rate until months later; 3) a customer installing a smart thermostat, but not signing up for a demand response program until the following year. In these cases, the Joint IOUs do not retroactively place customers on these rates.

For efficiency, it is important for the CPUC to consider a limitation on the frequency with which appeals could be made by a given customer. Likewise, because the customer must provide evidence of their updated household income to result in a change to their fixed charge level, then it is important that an account so verified may maintain the new fixed charge level for a certain period of time. To avoid overriding the verified income information, a good option would be to restart the clock for the regular data refresh with the completed appeal. Otherwise, the customer could be caught in an endless appeals loop, which could result in customer frustration. Therefore, any change to the fixed charge Income Bracket pursuant to appeal should be set for a predetermined period (e.g., one or two years). It would be appropriate to apply the same period of time as for the regular data refresh cycle. This will require that an account having gone through appeal and verification be identifiable as such in the Joint IOUs' billing systems and it will require the Third Party transmit information to the Joint IOUs on the outcome of the appeals process for individual customer accounts. At a minimum, the Third Party should provide the IOU an updated start/end date for the validity of the Income Bracket assignment.

The third potential outcome would be that the customer appeal is approved if evidence provided by the customer can demonstrate that their initial household Income Bracket placement at the most recent Income Bracket assignment was already incorrect (e.g., because the income data was incorrect and put them into the wrong category). IOUs have rules governing "billing errors" which are defined similarly as errors by the utility that result in incorrect meter reads or clerical errors that result in the customer being placed on the wrong rate or being charged based on the wrong billing factor or calculation.[120] While the Joint IOUs do not consider the situation where a customer was placed on an Income Bracket assignment based on information provided by the CPUC contracted Third Party which was later overturned on appeal to constitute a billing

[120] *See* PG&E Rule 17, SCE Rule 17.D and SDG&E Rule 18.C.

error, this assumption should be confirmed in the CPUC's decision. Furthermore, the Joint IOUs recommend that the CPUC order the IOUs to update their applicable Rules governing billing errors to explicitly state that the situation described above does not constitute a billing error and does not warrant a retroactive bill correction. If the CPUC disagrees and finds that in these instances a rebill is warranted, this type of appeal would require the Third Party to review the information the customer provides with their appeal application seeking to verify it, as well as an additional process for submitting information to the IOUs about the appropriate time period to rebill (e.g., to provide the date as of which the income level needed to be corrected). Depending on the level of accuracy of the income verification data the Third Party uses, this enhanced appeals process to correct an actual income data mistake is likely to be more time- and labor-intensive than the other two appeal outcomes. The volume of appeals requests and therefore the operational and financial impact of this third appeals outcome will depend on the accuracy of the underlying data. The higher the quality of the data, the less likely the need for appeals.

In general, the as-yet unresolved details about this process that the CPUC will determine in its final decision would likely result in significant impacts on the operational requirements for and costs of such income verification appeals. For instance, if the CPUC decides that accounts with no income data match should be defaulted to the highest fixed charge Income Bracket, then it would seem much more likely that more account owners might initiate the appeals process, which in turn would result in additional processing. In contrast, putting accounts with no data match on Income Bracket 3 could create revenue impacts, but in turn lower appeal volumes and processing costs. This would provide disincentives for customers with high income and no data to provide their true income level. As mentioned above, the Joint IOUs recommend that the population without a data match be analyzed to determine the best approach, and potentially a secondary data source be used for such accounts. Another important determinant of the impact of the appeals process is when customers are informed about the Income Bracket and their ability to update information or appeal. If customers are informed about the ability to appeal at initial assignment and at each change of the Income Bracket, the onus would be on customers to inform the Third Party managing the income verification in a timely manner.

c) Periodic Refresh

The final component of the overall income verification process is periodic refreshes of household income categorization. During this phase, the Third-Party would re-evaluate each customer's existing household Income Bracket placement, applying the same method used to identify initial placement, but would incorporate any results of the appeal process that may have resulted in a customer being moved to an alternate Income Bracket as well as any other newly available household income data. As with the initial Income Bracket assignment process, the Third Party being supervised by the CPUC would conduct the analysis and assign Income Bracket to customer accounts. The Joint IOUs would only be provided the refreshed categorization results for all customers, so as to inform customers whose household income level placement has changed. The Joint IOUs recommend considering operational impacts to the IOUs' respective internal processes, such as billing and call center volume, when determining the appropriate refresh cadence, timing, and cost recovery.

I. Currently Projected Costs of Joint IOUs' Proposal

The Joint IOUs anticipate that, under their recommended approach where the CPUC would contract with and supervise a Third-Party income verification process, all of the electric IOUs (small and large) would still incur incremental costs during the income level assignment and appeal processes. Such cost categories include marketing and outreach costs, call center costs, IT and billing operations costs to move customers to a different Income Bracket and revise customer bills based on the appeals process, and administration costs to staff and maintain operations relating to the new income verification process. The majority of these costs are presented in the next two chapters, on Implementation and Marketing chapters, with the exception of staff administration costs. Estimated costs for administration and support costs for each Joint IOU, specific to income verification, under our recommended CPUC-supervised Third Party approach, are listed here in Table III-12 below.

Table III-12
Summary of Each Joint IOU's Internal Costs to Support our Recommended CPUC-Supervised Third-Party Approach to IGFC Income Verification

Cost Category	PG&E	SCE	SDG&E	Total
Labor	$1.6M	$0.5M	$0.7M	$2.8M

NOTE: Labor costs cover four years, and include labor for compliance related activities, and anticipated impacts to CARE program

J. Anticipated Costs for CPUC-Supervised Third Party Income Verification

The Joint IOUs anticipate that the costs for the recommended implementation of income verification under a CPUC supervised Third Party implementer are likely to include such cost categories as: (1) data transfer and potential purchasing and modeling costs, (2) data management and storage costs, (3) systems and business process costs, including the costs of handling appeals, notifying the customer-appellant as well as their IOU of the outcome, and (4) customer outreach and call center costs to handle customer concerns and results of appeals, (5) other resource costs including ongoing program management costs. The initial costs to start-up this new income verification process and apply it to 10.8 million residential electric customers of the Joint IOUs cannot be reliably estimated, however, until more information is known. The Joint IOUs look forward to working with Energy Division and the parties to this proceeding, perhaps in a workshop forum, to further define and research each of the potential costs.

As mentioned above, the LifeLine program cannot currently be used as an accurate cost comparison point for the IGFC, for two major reasons. On the one hand, LifeLine program costs may include other cost elements such as customer outreach, etc. that go beyond what we believe would need to be handled for fixed charge income verification and more research is needed to make sure the LifeLine totals can be made apples-to-apples comparable with the IGFC income verification only functions proposed here. On the other hand, the LifeLine program may underestimate IGFC costs because of differences like: (1) an initial IGFC assignment is mandatory whereas LifeLine is an optional rate rider for which a customer application to participate is provided first, and (2) the larger scope including numbers of customers as well as breadth of income types necessary for IGFC income verification seem likely to cause increased overall costs. It is not yet possible to know the precise cost of the much larger scope involved for the IGFC, which must initially verify income for about 10.8 million customers of all Income Brackets, as well as conduct appeals and periodic reverification. At a minimum it could be expected that the statewide IGFC start-up costs of the IGFC would be higher than the current costs for LifeLine. The Joint IOUs also anticipate that startup costs would be more significant. A comparison of existing income verification program costs and how they might be initially estimated to compare to IGFC is shown in Table III-13, below:

Table III-13
Comparison of Third Party Income Verification Implementation Costs

Program	**Cost per year**	**Cost per Participant**	**Difference from IGFC**
LifeLine	$46M for 3 years*	$11.80	IGFC is anticipated to cost more because it is a much larger scale program. Some Lifeline costs are not comparable due to major program differences, including that LifeLine only manages 1.3M customers, while IGFC would be implemented for about 10.8M electric customers.
CARE** 1. Application/ Recertification 2. Verification Costs	1. $3.4M 2. $2.1M	1. $2.37 2. $9.40	IGFC is anticipated to cost more due to scale of program in comparison to CARE. Similar to the logic above, IGFC requires that *all* 10.8 M electric residential customers are transitioned to the rate structure, resulting in more costs than the optional CARE rate for X customers. Further, the CARE program processes have been refined and improved since the 1990's. IGFC is anticipated to have startup costs that are not reflected in this comparison.
CalFresh	CalFresh costs were researched and found to be $2.1 billion from 2020 to 2021,*** but due to the nature of funding, which includes state and federal funding, exact income verification costs were unable to be determined. However, due to the high frequency of required verifications for CalFresh, IGFC costs are anticipated to be lower.		

** See Administrative Law Judge's Ruling Providing Guidance for Phase 1 Track A Proposals and Requesting Comments on a Consulting Services Proposal (Jan. 17, 2023), Attachment 1, R.22-07-005, Phase 1 Track A: Income Graduated Fixed Charge Guidance Memo, at p. 10. This $46 million over three years comes out to an average of 15.3 million per year for 1.3 million households, or about $11.80 per household per year.*

***CARE costs displayed here only include costs relating to applications, recertifications, and verification processes. The CARE program includes additional annual costs in categories such as general administration, IT programming, pilots and studies, measurement and evaluation, regulatory compliance, and marketing and outreach costs. Source: Monthly Reports of PG&E, SCE, and SDG&E on Low Income Assistance Programs for December 2022 available at https://liob.cpuc.ca.gov/monthly-annual-reports/.*

****Source: The 2022-23 Budget: California Food Assistance Program available at https://loa.ca.gov/reports/2022/4532/CA-Food-Assistance-Program-021122.pdf*

AB 205 did not mention the IGFC costs in its estimated fiscal impact for the bill. However, because the legislature adopted the IGFC out of concern that high electric rates tend to disincentivize adoption of beneficial electrification technologies necessary to decarbonize California's economy, the CPUC should consider whether the costs of verification should be borne by ratepayers at all, given its likely magnitude. Instead, since the fixed charge is being income graduated for the public purpose of both climate action as well as improved equity and keeping rates affordable, (especially for lower income customers), the CPUC should consider requesting state funding to cover the income verification costs rather than putting the costs into electric rates that would directly undercut the state's decarbonization and climate action. Further, once this system is established, there will likely be benefits to other Third Parties across the state, such as the State Agencies who are administering State Programs where income verification is required (e.g., CalFresh, Medicaid, LifeLine).

1. High-Level Cost Estimates for the Other Major Scenarios Evaluated but not Recommended – In-House IOU Income Verification

The Joint IOUs acknowledge that the guidance provided by the ALJ requests that parties provide cost estimates for alternative scenarios to help the CPUC gather a full range of options to compare and evaluate. One primary element of the Joint IOUs' income verification proposal is that the processes should be conducted by a Third Party and overseen by the CPUC. As discussed in Section F.1 above, there are both cost and policy supporting arguments for this structure. Regarding cost, utilizing the most accurate data set will limit costs associated with handling calls and analysis for appeals. Additionally, utilizing one centralized party for administration would minimize costs as economies of scale are able to be achieved. Furthermore, a centralized administration structure would provide consistency across the state and help enable smaller utilities to implement the IGFC structure. As the CPUC currently oversees a similar process with the LifeLine program, they are the ideal party to oversee this process.

As stated above, the Joint IOUs are not able to estimate costs for establishing an in-house IOU income verification process because, despite an exhaustive and ongoing search as described in Section E of this chapter, the Joint IOUs lack access to a data source that would provide an acceptable level of data accuracy. Adopting a data source with significant gaps and/or a high probability of mis-assignment of Income Bracket would likely result in a higher number of customer appeals requiring manual verification of income documentation, thus the potential cost of such a verification process are likely to be higher than the Joint IOUs' proposal. Although the Joint IOUs currently perform manual verification for a small subset of CARE/FERA customers as described in Section E.5, the process is very costly and not scalable to meet the demands of a process for the entire residential population of the Joint Utilities.

Implementation costs are discussed in the Implementation Chapter. Most Implementation costs are not driven by any particular income verification method and as such are unlikely to change significantly based on selection of a method other than the IOU recommended model. Exceptions to this are calls relating to appeals. Those figures currently assume an accurate data set based on state tax data and other state data sources. Should a less accurate data source be used, the costs for handling calls related to the misassignment of Income Brackets and appeals would increase roughly proportionally with the decreased accuracy of the data.

K. <u>Timeline for Implementation of Third-Party Income Verification</u>

As noted in the CPUC guidance memo, legislation will likely be required to allow the FTB to provide taxpayer data to another entity (such as the CPUC supervising a Third Party implementor) for purposes of IGFC income verification. It is possible that other legislation will be needed to modify existing customer privacy laws as it relates to sharing of income data. The Joint IOUs anticipate that any necessary legislation could still occur in the 2023 legislative session. Assuming legislation is adopted swiftly in 2023, in 2024, any impacted state agency or agencies could issue new regulations and implement any necessary changes to website privacy statements, which could be made effective in January 1, 2025. In 2024, the CPUC could begin a solicitation for a Third Party to perform the income verification function in anticipation of receiving income data from the FTB and other state agencies once it becomes legally accessible in the following year. In 2025, the Third Party would develop processes to receive FTB and data from other state agencies and develop a process to determine household income and associated household Income Brackets. Concurrently in 2025, the Third Party would enter into agreements with the IOUs and begin to work through data sharing protocols and requirements as well as cybersecurity reviews. Work between the IOUs and the Third Parties is likely to begin in 2026, and the remaining steps are discussed in detail in the Implementation chapter of this exhibit.[121]

In Summary:

- 2023: Legislation for FTB & State Agency Data should be passed.
- 2024: State agencies issue updated regulations and implement changes to privacy statements; CPUC solicits for and contracts with a Third Party implementer.
- 2025: Third Party develops solution. Joint IOUs enter into contracts with the Third Party for IOU implementation functions, such as data sharing. See Chapter 4 Section C.1 Implementation Timing Table IV-17, line 8.
- 2026: System integration with Third Party begins, see Chapter 4 Section C.1 Implementation Timing Table IV-17, line 7.

[121] The Joint IOUs have worked hard to assess a practicable timeline for implementation of the Joint IOUs' IGFC Income Verification proposal that balances the desire to expedite with the need to be realistic and cost effective; that timeline is represented in this testimony. However, the Joint IOUs are committed to implementing our respective IGFCs as soon as practicable, and we are open to exploring other practicable solutions for accelerating the timeline proposed above.

IV.

IMPLEMENTATION

A. Introduction

In this chapter, the Joint IOUs describe our plan for implementing the Joint IOUs' proposed IGFCs, with a focus on: (1) required changes to the Joint IOUs' respective billing systems, (2) the need for increased customer support staff resources for activities such as managing customer inquiries, and (3) adjustments to customer-facing rate tools. Other features of the Joint IOUs' implementation plan are covered elsewhere in this testimony but cross-referenced in this chapter. For example, the Joint IOUs' recommended income assignment and verification process is covered above in Chapter 3 (Income Verification), while the overarching marketing, education and outreach (ME&O) plans are described in Chapter 5 (Marketing Education and Outreach), as well as in each of the Joint IOU's utility-specific separate exhibit. The showings in this Chapter are presented in the following sections:

- Section B outlines the principles that guide the Joint IOUs' implementation approach and provides a high-level overview of our proposed plan.
- Section C describes the significant billing technology infrastructure changes that will be required to implement IGFCs for each of the Joint IOUs' various residential rate schedules. This section also outlines the Joint IOUs' recommended approach to transitioning customers as well as updates that will be required to online customer-facing tools to incorporate IGFC rates.
- Section D describes the Joint IOUs' proposed coordination activities with Community Choice Aggregators relating to IGFC implementation.
- Section E describes how the Joint IOUs' existing customer support processes will be leveraged and, if necessary, amended to assist customers during the transition to IGFC rates.

- Section F provides cost estimates for implementation activities that are not separately covered in Chapters 3 and 5 (Income Verification and ME&O). Section F also covers estimated costs associated with the Joint IOUs' proposed Measurement and Evaluation activities that are further detailed in Chapter 2 (Rate Design).
- Section G describes how the Joint IOUs plan to address the Energy Division's IGFC Guidance Memo to assess implementation costs associated with other parties' proposals.

The implementation cost estimates for the Joint IOUs proposal, provided in this chapter, may need to be adjusted based on the final rate structure and other programmatic directives provided in the CPUC's Final Decision.

B. Implementation Objectives and Plan Overview

The Joint IOUs' proposals for implementing the transition to rates with IGFCs may be further refined based on additional stakeholder and customer feedback. Currently, our approach seeks to:

- Provide customers timely notifications about when the structural IGFC changes will take effect.
- Offer customers an opportunity to appeal their assignment to a given Income Bracket before they are transitioned to a rate with IGFCs.
- Promote customer understanding of why changes are being made to existing rates.
- Educate customers about how they will be affected and where they can find information about their IGFC for their current rate.
- Provide customers information and tools to explore how they may benefit from electrification and reduced bill volatility with the IGFC.

The Joint IOUs' testimony on Marketing Education and Outreach (ME&O), outlined in Chapter 5 below, covers the strategies the Joint IOUs propose to use to ensure timely notifications and promote customer understanding. The proposed ME&O effort will include significant outreach to build customer awareness and understanding ahead of the transition to rates with IGFCs. These efforts will also inform customers about their specific fixed charge household Income Bracket to which they have been assigned and will describe how customers can appeal that assignment prior to being transitioned to the new rates with IGFCs. The Marketing approach outlined in Chapter 5 is further supported by the IOU-specific supplemental exhibits which present cost estimates based on each IOU's unique circumstances.

The Joint IOUs plan to transition all residential customers to rate plans with IGFCs, as described in Chapters 1 (Policy) and 2 (Rate Design). In Section C, below, the Joint IOUs elaborate on our planned transition approach. The following is a brief overview of the Joint IOUs' transition plan.

- Prior to transitioning customers, the Joint IOUs will need to receive the Income Bracket for each customer, which each IOU will utilize to provide its residential customers with information on how they are likely to be impacted by the new IGFC rate design.
- Prior to the transition, each IOU will also need to make the necessary billing system and website changes and provide IGFC-related training to our customer contact center personnel.
- After the IGFC transition, customers will continue to have access to online tools that enable them to determine their best available rate given their historical usage patterns.
- On an ongoing basis, customers will receive periodic notifications of any re-assignment to a different Income Bracket, along with information about how to appeal that assignment through the Third Party process.

C. <u>Billing Information Technology System Changes</u>

As is described in Chapter 2 (Rate Design), implementing an IGFC component into the Joint IOUs' residential electric rates will require structural billing system changes with reprogramming and related testing to modify each of the following residential rate plans to include IGFC components:

Table IV-14
Joint IOU Residential Rates Impacted by IGFCs

IOU	Rates that will be modified to include IGFCs
PG&E	E-1, E-TOU-C, E-TOU-D, EV2-A, E-ELEC
SCE	Domestic, TOU-D-4-9PM, TOU-D-5-8PM, TOU-D-PRIME
SDG&E	TOU-DR-1, TOU-DR-2, DR, DR-SES, EV-TOU-2, EV- TOU-5, TOU-ELEC

Additionally, the following rate modifiers that may be used in combination with each residential rate plan will also be made available and tested for the new IGFC rates:

- Legacy NEM 1 and 2
- Net Billing
- CARE, FERA
- Medical Baseline
- Critical Peak Pricing (SmartRate for PG&E, Summer Advantage Incentive for SCE, Time of Use Plus for SDG&E)
- Summer Discount Plan (SCE), Smart Energy Program (SCE), ACSaver (SDG&E), Summer Saver (SDG&E)

Each of the Joint IOUs' systems will need to interface with the database provided by the Third Party, which will contain information about each customer's categorization into the appropriate household Income Bracket.[122] Each IOU can then use this data to update its billing

[122] The Joint IOUs expect that, due to customer privacy requirements, the data provided by the Third Party will only indicate which of the four household income categories a customer's electric service account was assigned.

system(s) and other tools to reflect the household Income Bracket assignment of each customer so the account is charged the corresponding monthly fixed charge amount. The approach for developing this database is described in Chapter 3 (Income Verification).

1. Implementation Timing

The Joint IOUs' Billing Implementation timelines are shaped by dependencies with the Third Party income verification process described in Chapter 3, as well as with the ME&O efforts set forth in Chapter 5 of the Joint IOUs' IGFC testimony. Some workstreams can be completed in parallel but dependencies between the workstreams put constraints on when the IGFC rates can go live in each of the Joint IOU's billing systems. The Joint IOUs estimate a minimum of 32 months from the time at which contracting and cyber security review have been completed between each IOU and the Third Party, and the "go live" date on which customers will begin to receive bills with IGFC rates.[123] The following key implementation workstreams are interdependent with income assignment/verification and ME&O:

- Contracting and cybersecurity reviews must be completed with the Third Party
- Income assignment data must be integrated with the Joint IOUs' billing systems and tested (estimated to span 12-18 months for integration plus another 1-2 months for testing)
- Modeling of customer bill impacts must be completed for IOUs who plan to send customers this information in their pre-launch customer notifications (estimated to span 1-3 months)
- Customer notifications must be sent out enough months ahead of the initial launch of IGFCs on bills to allow customers to respond and for the Third Party to resolve appeals (estimated to span 6 months)

[123] Timing and costs for PG&E to make necessary changes to its billing system may vary due to its multi-year billing modernization initiative. Please see PG&E's supplemental implementation chapter for more details.

Table III-12 illustrates a preliminary timeline for billing implementation and key dependencies. Due to uncertainty about when the Third-Party income assignment and verification system will provide household income bracket assignments, the Joint IOUs are showing the timeline with reference to month "*t*" which indicates the month in which the IGFC goes live in the Joint IOUs' billing systems and customers begin receiving bills that show the IGFC rate component and the reduced volumetric rate.

The Joint IOUs believe that income assignment information must be available and billing calculations must be coded into the Joint IOUs' billing systems roughly 12 months before the "Go Live" month when customers would begin receiving bills under IGFC rates (line 1 in Table IV-16 below). This would allow integration of the income assignment data with Joint IOUs' billing systems (line 6), which would then allow rate modeling of what customers' impacts would be on the IGFC rates to enable such information to be included if and as appropriate in the Joint IOUs' pre-launch notifications sent to customers. These notifications will be staggered to avoid overloading the Joint IOUs' contact centers with customer inquiries triggered by the new IGFC changes set forth therein. The exact timing for each utility will likely be different for each IOU based on system capabilities and customer preferences.

The integration of income assignments into the billing system, as well as other needed system changes, is estimated to take about 12-18 months. This is based on discussions with the Joint IOUs' Information Technology (IT) organizations as well as on prior experiences in system integration with Third Party vendors when a two-way data feed is required. This effort would not begin until contracting and cyber reviews have been completed with the Third Party which is estimated to be the end of 2025 as described in the Income Verification Chapter Section H. This timeline is an estimate across all three utilities and may increase or decrease in duration for a given IOU, based on the time required for that IOU to execute these steps. Timing may also be impacted by other unknowns related to implementation of the income verification process.

Table IV-15
Implementation Milestones

Line	Month	Milestone/Activity	Dependency (Line)
1	t minus 0 (t-0) months	Launch date when customers' bills start separately showing the IGFC and reduced volumetric charge	3
2	t-6 through t-1	Third party processes customer appeals	3
3	t-6 through t-3	Customer notifications sent	4
4	t-9 through t-7	Customer impacts are modeled and customer communications are prepared	5
5	t-11 through t-10	Complete integration and testing of income assignment data and billing system changes	6
6	t-12	Income assignment data from Third Party is fully integrated into IOU's billing system(s)	7
7	t-31 through t-13	IOUs Implement IT changes needed to restructure rate calculations and bills to show the IGFC line item and integrate income assignment data flow from Third Party	8
8	t-32	Contracting and cybersecurity review completed with Third Party	n/a

2. Approach to Transitioning Customers

Once all of the required prerequisites have been accomplished, including: (1) Joint IOUs' billing system changes are in place, (2) household income categorizations have been prepared by a Third Party for all customers and transmitted to each IOU, and (3) appropriate pre-transition ME&O has been accomplished, the Joint IOUs will transition their residential customers to IGFC rates during a time of year when customers' attention is less likely to be diverted to higher bills, weather events, or potential outages. This timing aims to reduce the chance that the impact of the transition to IGFCs could be confounded by other changes that also affect the customer's total bill.

At the time an IOU's customers are transitioned to a rate with an IGFC, Net Energy Metering and Net Billing customers will retain their banked bill credits accrued prior to the addition of the IGFC, and these bill credits will carry forward through the end of their relevant true-up period. By design, rate changes or changes to an existing rate will not trigger the relevant true-up period to end prematurely in the billing system.

Customers will be transitioned to the updated version of the same rate schedule on which they currently take service (like for like), after it is modified to include the new IGFC line item as well as the reduced volumetric rate. This avoids the customer having to navigate changes to other elements of their rate structure, while also understanding the IGFC changes. The Joint IOUs' cost estimates assume that the transition to new rates will occur during one billing cycle over approximately one month, with customers transitioning on their billing cycle date, which varies by customer. However, the exact rollout approach is still being reviewed.

3. Updates to Current Customer-Facing Tools

The Joint IOUs currently provide residential customers access to online rate analysis tools that help customers determine their best rate option. The tools leverage a given customer's latest year of historical electricity usage to determine what their bill would have been on alternative rates and show customers the lowest cost rate. Current customer-facing tools will be updated with IGFC rates to help customers determine their best rate option once they have transitioned. Also, PG&E and SCE offer an online solar calculator to our customers, where customers can use their last year's usage history to examine the economics of investing in solar. This tool will also be updated to reflect the changes in rate structure resulting from the final IGFC decision.

SCE and PG&E also offer budget assistant tools that helps customers predict their upcoming bill amounts. All of the Joint IOUs provide Bill-Forecast and/or Bill-to-Date capabilities for their customers. These tools will likewise have to be updated.

4. New Tools

To support decarbonization through beneficial electrification, the Joint IOUs propose to explore developing additional tools during the roll-out of IGFCs, such as adding technology modeling to existing rate analysis tools or offering calculators that estimate the price of energy for an electrification technology compared to non-electric technologies. Our current cost estimates do not include the cost of implementing and maintaining such tools.

D. Coordination with Community Choice Aggregators

The Joint IOUs propose to coordinate with Community Choice Aggregators (CCAs) about the rate design changes adopted by the CPUC. As is explained in Chapter 2 (Rate Design), generation costs will not be included in the IGFCs so CCA generation rates will not be directly affected. Joint IOUs will also communicate with the CCAs in their service areas about IGFC transition plans and monitor any CCA transition activities that might occur simultaneously so that customer communication about the multiple changes to their billing is considered.

E. Customer Support Resources - Contact Centers

Each of the Joint IOUs has customer contact centers that collectively fielded about 12.5 million customer calls per year on average between 2019 and 2022 (PG&E fielding about 6.4 million customer calls per year, SCE fielding about 4.5 million, and SDG&E about 1.6 million calls per year). The majority of these calls are related to billing and rates which, as a category, generally have the highest average handle times among residential calls. The Joint IOUs anticipate a considerable increase in customer inquiries before, during, and after deployment of the IGFC rates because the changes required for the IGFC are a new rate framework that customers will have to navigate. The Joint IOUs' proposal will seek to minimize customer calls through use of self-service Interactive Voice Response software and online resources to provide information that may respond to the customers' questions without requiring them to talk with a live customer service representative. Even with those measures, the Joint IOUs expect that the volume of calls coming into our call centers will increase, with the magnitude of increase dependent in part on how accurate the household Income Bracket assignments are, which will be influenced by the type of data available used in the process the CPUC ultimately adopts. An approach like the Joint IOUs' proposal to have an independent Third Party, supervised by the

CPUC, that uses highly accurate data sources will likely result in fewer misassignments and resulting customer appeals than an approach that depends on less reliable income data sources. Based on the income assignment approach described in Chapter 3 (Income Verification), the Joint IOUs expect that calls would increase significantly in the period before, during, and shortly after deployment of the fixed charges. Each of the Joint IOUs has provided current estimates of the associated costs of handling increased calls if the Joint IOUs' IGFC rate and process proposals are adopted without modification. Deviations from the Joint IOUs' proposal have the potential to increase these costs significantly. A summary of PG&E's, SCE's, and SDG&E's respective IOU-specific information can be found in each of their supplemental exhibits SCE-01, PG&E-01, and SDG&E-01.

F. Costs

The Joint IOUs' current cost estimates associated with our proposed income verification approach are described in Chapter 3 (Income Verification). Costs associated with the Joint IOUs' ME&O approaches are covered in Chapter 5 (Marketing, Education & Outreach). In this Implementation chapter, the Joint IOUs outline and provide cost estimates for other costs associated with implementation. For convenience, this Exhibit presents as Appendix C, a table reflecting the currently estimated IOU costs under the Joint IOUs' proposal for Implementation, IOU Income Verification, and ME&O.

1. Implementation Costs

Key implementation costs include IT billing system changes and revisions to rate calculations that support a number of customer-facing tools. Significant costs are also likely to be incurred by the Joint IOUs' contact centers, which will need to be appropriately staffed and trained to field questions about how and why the IGFC-related changes are being made to residential rates, as well as address customers' questions about household Income Bracket assignment and verification. Table IV-16 below presents the currently estimated costs, by Joint IOU, for the anticipated major cost areas:

Table IV-16
Estimated Implementation Costs by IOU

	Cost per IOU (in thousands of dollars)			
Cost Category	PG&E	SCE	SDG&E	Joint IOUs' total
Billing IT Implementation including incorporation of income data into billing system and coding and testing of new rates	$5,000	$5,900	$6,500	$17,400
Updates of customer-facing online rate tools and Distributed Energy Resource calculators	$1,010	$59	$1,200	$2,269
Contact Center Training and Operations (in the year prior to deployment and two years after deployment)	$15,910	$9,900	$5,138	$30,948
Program/Project Management of Implementation	$2,400	n/a	$1,560	$3,960
Total:	**$24,320**	**$15,859**	**$14,398**	**$54,577**

These estimates are based on the Joint IOUs' implementation proposal, and they do not reflect costs associated with other approaches to implementation, or the costs resulting from the CPUC's 2024 final decision, if it differs from the Joint IOUs' opening testimony proposal herein. The Joint IOUs request the authority to file an Advice Letter, within 90-days after the CPUC issues its Final Decision. In this filing, the Joint IOUs will provide more detailed implementation costs for which we will seek balancing account recovery, as described in Chapter 6 (Cost Recovery).

Exhibits (PG&E-01), (SCE-01), and (SDG&E-01, et seq.) provide more detail on each of the Joint IOUs' currently expected individual, IOU-specific Implementation cost estimates. Differences between costs and timing among the Joint IOUs are primarily explained by the following:

- SDG&E serves fewer customers than SCE and PG&E, thus SDG&E's customer-specific costs can be expected to be lower.

- SCE believes it has sufficient resources for Program/Project Management to implement the Joint IOUs' proposal but reserves the right to reassess costs once the final decision's approach is adopted.

2. **Measurement and Evaluation**

To evaluate the effectiveness of the transition to residential rates with IGFCs, the Joint IOUs propose that the CPUC provide sufficient funding to assess whether the IGFC transition has met the policy objectives outlined in the Assigned Commissioners Phase 1 Scoping Memo for R-22-07-005 that are relevant to income-graduated fixed charges. One of the Joint IOUs should be tasked with leading the Measurement and Evaluation (M&E) effort for all affected IOUs.

The policy objectives to be evaluated include:

- Goal (b) make electric bills more affordable and equitable
- Goal (d) enable widespread electrification of buildings and transportation to meet the state's climate goals

The Joint IOUs' proposed process for assessing and evaluating the IGFCs' ability to meet the goals set forth in the CPUC's final Track A decision can be found in the Rate Design Chapter.

G. **High-Level Estimates of Timing and Cost for Other Anticipated Proposals**

The Energy Division's January 17, 2023, Guidance Memo states that "IOUs should provide estimated timelines for different implementation options that the IOUs anticipate that other parties will propose."[124] It is very difficult to anticipate and understand what other parties are recommending without having seen the details of what they actually propose in their concurrent Opening Testimony due April 7, 2023. The Joint IOUs have been informally

124 Administrative Law Judge's Ruling Providing Guidance for Phase 1 Track A Proposals and Requesting Comments on a Consulting Services Proposal (Jan. 17, 2023), Attachment 1,R.22-07-005, Phase 1 Track A: Income Graduated Fixed Charge Guidance Memo, at p. 10.

communicating with a number of stakeholders as we have worked to develop our Opening Testimony, but parties have still been in the process of determining their specific proposals. The Joint IOUs intend to review all proposals as quickly as possible, as well as conduct discovery to gain clarification through data requests, if needed. Additional information evaluating and comparing high level impacts of their proposals, including its impacts on implementation costs, will be provided in Reply Testimony, to the extent practicable.

V.

MARKETING EDUCATION & OUTREACH

A. Introduction

The Joint IOUs recognize that Marketing, Education, and Outreach (ME&O) is fundamental to gaining customer awareness, understanding, and acceptance of the IGFC.

The Joint IOUs' ME&O approach is constructed with the understanding that energy costs are a disproportionate burden on lower-income families, with households across California struggling to pay their bills. It is an opportunity to educate customers about how implementing the IGFC will help address equity and affordability. Additionally, the IGFC sets the stage for beneficial electrification in California by reducing volumetric charges for all residential customers. Effective communication with customers before, during, and after introducing the IGFC for electric service will be critical to improving customer understanding and reducing complaints.

The overarching ME&O approach outlined in this chapter aims to demonstrate how the Joint IOUs propose to test, adjust, and inform customers that the IGFC will help cover incremental costs associated with providing electricity in a less regressive, more efficient structure. The expected outcomes of the ME&O are awareness, understanding, and acceptance.

B. Research Insights

1. PG&E

In fall 2022, PG&E hired C-Space to conduct initial qualitative research exploring customer reactions to messaging and positioning of descriptive language for a residential Fixed Charge (PG&E's 2022 Messaging Research). This initial research also identified customer-facing names for this rate component that would be intuitive to customers and accurately represent the intent underlying AB 205's directives to the CPUC requiring it to approve conforming residential IGFCs for all IOUs by mid-2024.

More specifically, PG&E's 2022 Messaging Research set out to understand:

1. Customer perceptions of a generic illustrative fixed charge rate component, and whether their perceptions change based on potential impact to their bills;

2. Reactions to different amounts for this charge, as well as the reaction to the charge varying based on household income categories;

3. How clearly did customers understand the exploratory descriptions, and what did customers want to learn about the IGFC;

4. Best way(s) to message this charge for understanding and acceptance;

5. Through what communication channels would customers prefer to receive information to learn about the IGFC;

6. Recommendations on what customer-facing name customers prefer for referring to Fixed Charges.

PG&E's 2022 Messaging Research was conducted in English and Spanish and included both CARE and non-CARE customers. Methods included video focus groups of high, medium, and low-income customers across hot and cool climate zones (three one-hour video focus groups, 4-5 participants per group), in-depth one-to-one interviews in hot climates of Spanish speakers, and an online survey (284 participants).

a) <u>Stimuli</u>

Customers were given a written description to introduce the concept of a Fixed Charge based on an early generic understanding of a potential implementation. The description was intentionally written in a straight-forward, factual manner to monitor initial customer reactions, understanding of basic concepts, pinpoint areas of potential confusion or need for further clarity of details (information we may not have today but that will come later in this process). *The research purposefully did not initially state the potential dollar amount(s)of residential fixed charges, to allow early discussions to probe for what preconceived amounts could be in each* *customer's mind*. The initial descriptive statement, without yet putting forth any fixed charge dollar amount, was provided as follows:

> *The way PG&E charges customers for electric use will be changing. A new monthly charge, currently called* ***Fixed Charge,*** *separates usage from other costs to help make the actual cost of energy more transparent. The charge includes service costs such as billing, call center services, and a portion of the cost of delivering energy through wires, transformers, and poles.*
>
> *These costs are currently covered in your overall electric usage charges. The* ***Fixed Charge*** *pulls these costs out of electric usage and applies them as a separate, fixed amount on the monthly bill. This change will lower your usage-related costs by reducing the price per unit (kWh). Many other energy and utility companies already apply a similar charge to their monthly statements to cover these types of operational costs.*
>
> *With the* ***Fixed Charge****, lower income households will pay a lower charge, higher income households will pay more. Some customers will see their bills decrease with the* ***Fixed Charge****, especially those in higher use climates and larger households. This will also reduce bill swings across the year due to seasonality from heating and cooling and other usage resulting in more predictable energy bills.*

PG&E's 2022 Messaging Research also probed customers on what potential names for the charge might be considered, and provided the below examples, in addition to "Fixed *Charge*" to gain reaction as to which one is most descriptive:

- Basic Services Charge
- Customer Services Charge
- Base Charge
- Standard Charge
- Shared Services Charge

b) <u>Key Findings</u>

Results from PG&E's 2022 focus groups and survey provided clear direction on how to evolve messaging and *outreach* to achieve greater customer understanding and acceptance. Highlights include:

- Initial reactions to the IGFC involve confusion and distrust. Customers had a lot of questions about how the charge would work and the impact it would have on their bills.

- Customers from all income groups expected their bills to increase with the implementation of the IGFC
- Customers presumed the IGFC amount may go up to $20 or $25 dollars at most and reacted negatively to any amount above this range.
- There is a general concern that the IGFC would not incentivize conservation. Many, especially CARE customers in the study, felt the IGFC would be unfair to those who intentionally try to minimize their energy usage.
    - The income-based structure doesn't sit well with most customers, as many are confused about whether or how PG&E might get such income information as well as perceived it as unfair. There should be clear and open communication before implementing the IGFC. Customers would like to have data to understand the calculations, real examples of what the charge covers, bill mock-ups, and comparisons with the previous way of charging.
- Email and bill inserts are preferred channels of communication, but some customers point out that a personalized approach is also needed. They would like to have 3-6 months of notice before the new residential IGFC first appears in their bills.
- When asked to provide feedback on potential names for the charge, customers most preferred "Basic Services Charge," followed by "Base Charge." Customers said the terms "Basic" and "Base" helped them identify that the charge represents the foundational costs to maintain and operate their service, which is completely separate from their energy usage. These terms also helped them understand that all residential customers would experience a fixed charge.
- PG&E's 2022 Messaging Research indicated that moderate- and higher- income customers understand and are even in favor of lower income customers not having to bear the higher portion of this charge. However, their initial reactions to the concept were not positive and they appeared to need further information, with real examples of before and after bills, to increase understanding and acceptance.

2. SDG&E

In the first quarter of 2023, SDG&E hired Travis Research to facilitate qualitative research to help inform the ME&O strategy and implementation. The primary goals of the qualitative research were to understand customers' current rate structure better, gauge their reactions regarding an IGFC, and gain initial feedback on messaging areas. A total of 22 in-depth interviews lasting up to one hour each was conducted with participants representing the following customer segments: low income, moderate-income, and high-income, as well as Spanish-speaking and existing solar customers.

SDG&E's key Q1 2023 research findings showed that:

- Participants assumed the IGFC would automatically result in higher bills;
- There was concern about increased usage being more affordable, with several mentioning it goes against the conservation message that they've been receiving for years;
- Email was the preferred communication channel, slightly higher than direct mail followed by the SDG&E app;
- Participants indicated a preference for three- to six-months' notice before implementation of the IGFC, although some thought that a month might be sufficient; and
- Several participants felt the dollar differential between the basic service fees for low-income vs. high-income was too large. This further fueled the opinion that this structure is unfair to customers who make more money; although some were more open to the concept of higher-income households paying more.

3. SCE

In the first quarter of 2023, SCE conducted an online survey of nearly 700 residential customers using the cloud-based platform, Alida, about perceptions of a fixed charge. Insights from SCE's Q1 2023 Research generally align with the research insights from studies conducted by PG&E and SDG&E.

The concept of an IGFC was not well-received by residential customers. The charge evoked negative feelings of worry, helplessness, anger and/or confusion, with 66% feeling that it was not acceptable for SCE to have access to their income data and that they believed it was effectively a tax, and another way for SCE to make higher profits.

Other relevant insights from SCE's Q1 2023 Research include:

- Customers would be more likely to support a fixed charge based mainly on their usage instead of solely on their income level (54% support vs. 25% oppose this option).
- Overall, customers believed it was not fair that the fixed charge be based on their income, but instead, it should be based on usage. For example, energy conscious lower users felt they were being penalized through fixed charges. Also, they stated they already pay high property taxes, and believed that the IGFC would increase their financial burden.
- When asked if customers would seek out additional information on the charge, only 13% said no.

C. <u>Joint IOU ME&O Proposal's Objectives</u>

The objectives for the Joint IOUs' proposals for ME&O outreach are to:

- 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 IGFC will be a separate line item shown on their bill rather than a change in rate design; educate that the new IGFC charge line item on their bill had previously been embedded in their volumetric energy use charge (and how all customers' volumetric charge 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 IGFC, as well as that after the shift to a separate IGFC line item, they may actually see lower bills as a result;
- Craft targeted messaging for subgroups more likely to need specialized outreach, as discussed below;
- Explore the use of clean energy and electrification messaging, while explaining that the pricing structure encourages adoption of technologies that allow expanded use of lower-priced, cleaner, more plentiful electricity and reduced use of GHG-emitting fossil fuels;

D. Lessons Learned from Residential Time-of-Use Transition Inform IGFC Outreach Strategies

Recent IOU experiences transitioning millions of residential customers to default Time-of-Use (TOU) rate plans provide useful insights to help inform customers, calm potential backlash, and make sure vulnerable customers are included in the conversation. Key lessons from the TOU default TOU transition, as shown in Table V-17 below, include communicating with customers early and often about how the change will impact their bills, what the IGFC covers, the reasoning behind it, and how it will create a more equitable, cleaner energy future.

Table V-17
Useful Lessons from Residential Default TOU Transition to Inform IGFC

Lesson	Learning from TOU Transition	Application to IGFC Transition
Communicate early and often across multiple channels	Direct communications began at least 90-days in advance of a rate change and was accompanied by other tactics including outreach by Community-Based Organizations (CBOs), web geographically targeted earned and paid media, and messaging in IOU owned channels.	As learned from TOU and supported by initial IGFC research, the Joint IOUs propose to use broader channels to begin messaging at least six months in advance of the change to IGFC; direct notification to customers will begin approximately 120-days in advance and include at least two communications. (This approach was substantiated by research in which customer preferred to be notified at least three months in advance of the change.)
Explain how the change will impact bills	TOU Transition-eligible customers were provided with rate impacts	Customers will be provided with sample bill impacts based on their IGFC household income category assignment, which should closely align with their typical monthly bill. This was also requested by customers in research to date.
Inform on reasoning for the change; Educate how the change will create a more equitable, cleaner energy future	Customers' acceptance improved when they were told why the TOU Transition was occurring (I.e., to encourage use of cleaner energy during certain times of day, move usage away from peak times, move towards a cleaner energy future, and take away stress from the grid).	Customers will be educated on how previous rate structures put an unfair burden on some customers and why the move to IGFC will make rates more equitable overall. Additionally, IGFC will encourage them to move to beneficial electrification technologies because it reduces their price per energy units, which encourages the use of cleaner energy sources.

The Joint IOUs took RROIR's default TOU transition lessons, summarized above, and applied them to come up with the following IGFC outreach strategies:

- Integrate and coordinate general market communications with targeted direct channels, to create awareness, understanding, and acceptance;
- Leverage the IOU's network of CBOs, earned media, and external stakeholders, to help increase awareness and understanding of the IGFC;
- Use customer segmentation to create personalized, tailored communications;

- Take a multi-touch approach, with targeted marketing and outreach, to drive awareness across all customers; and
- Strategically integrate messaging into other marketing efforts, as appropriate.

E. Plans to Refine Outreach Plans Based on Findings from Additional Research

The Joint IOUs plan to conduct additional research prior to the start of outreach to continue to learn from customers about their preferred approach to IGFC messaging and education, so as to enable parties to further refine their marketing, education and outreach using the customer voice. We will share research approaches and outcomes to align on results, and implementation of these learnings on customer outreach. Areas of research may include:

1. Refine and validate language that clearly communicates the intended message;
2. Identify areas of potential confusion that may require further clarification
3. Validate materials and tools to address specific customer needs;
4. Learn when and how to differentiate messaging by the three phases and by bill impact and customer segment;
5. Identify clear and well-received terminology to use in customer-facing communications when referencing the IGFC; and
6. Test and validate specialized messaging necessary for customers in Income Brackets 1-4, as well as for solar customers segments within the various Income Brackets, among other targeted customer segments as appropriate.

F. Target Audiences

The Joint IOUs propose to use bill analysis as well as IGFC household income category assignments (once the Third Party makes that list available) to determine target audiences as well as to assess impacts and determine customer segments. Customer segments may include low-income, moderate- and high-income/low-usage users, as well as solar customers, and segments large enough to warrant in-language communications, among others. These segments may require the Joint IOU's proposal here to be adjusted for any further incremental outreach efforts and specialized messaging found to be appropriate (as it cannot yet be included here). If so, such additional specialized messaging for segment-specific communications would need to be tested and validated through additional research as described in section F above.

G. Rollout and Implementation

To effectively support ME&O efforts, customer communications are planned to begin approximately six months ahead of the Joint IOUs' transition showing the IGFC on customers' bills. The Joint IOUs propose multiple touchpoint communications in a phased approach, with additional rate communications after the transition. In addition, outreach to external stakeholders and community leaders, including elected officials, Community-Based Organizations (CBOs) and media may start as soon as the CPUC's final decision on the IGFC is issued.

Similar to the residential default TOU transition, the IOUs' customers will need time to become aware of the new IGFC rate structure, understand what costs are being pulled out of the volumetric rate and charged separately through a new fixed charge line item, as well as understand how this structural change will likely affect their own household electricity bills. Therefore, the Joint IOUs propose to use a phased approach when communicating with customers, to achieve customer awareness, understanding, and acceptance. This approach will inform the timing of tactics and allow for progression of the messaging and outreach channels.

Phase 1 – Awareness: Setting the context for what the IGFC is, why it is being implemented, and when it will take effect;

Phase 2 – Inform: Further emphasis on individual bill impacts including the income category a customer has been assigned, and the income verification and appeals process; these materials will also reinforce available online resources where customers can get more information; and

Phase 3 –Engagement: After IGFC implementation, outreach will focus on the total bill experience. Ongoing rate education will reinforce the desired behaviors to support the state's decarbonization goals, along with the cost saving benefits of shifting usage out of the higher cost and higher emissions TOU peak times, as well as promote other bill management solutions.

Table V-18 (below) outlines three sample personas and touchpoints for each phase as outlined above to help bring to life how a customer may experience education and outreach. Actual customer touchpoints may vary depending on the customer segment, service territory and any final directives provided through this proceeding.

Table V-18
Joint IOUs' Proposed Phased IGFC Communication Sample

		Phase 1 – Aware 6+ months prior to implementation	Phase 2 – Inform Up to ~180 days prior to Implementation	Phase 3 – Engage Post implementation
		Setting the stage for the IGFC What, when and why it is being implemented; where to get more information	**Personalization** Individual bill impacts, how to challenge your assigned tier, online resources (outreach timing will be determined upon further implementation details for each IOU)	**Total Bill Experience** Ongoing energy management messaging, education and promotion of electrification
	CUSTOMER EXPERIENCE EXAMPLES: Bringing the Customer Journey Phases and Tactics to life through samples personas in each territory			

SDG&E	*Torres Household, Chula Vista*
	• Tier 2 income level
	• Existing CARE customer
	• Larger electric user; will see bills slightly lower
	• Spanish preferred
		• Customer attends a presentation at a local community center
		  • Receives in-language fact sheet and FAQs from CBO and they see that their CARE discount will continue, and they are likely to see bills go down
		  • Uses QR code to visit sdge.com where the customer can use online tool or views bill samples to look for one like theirs
			• Receives personalized email(s) up to ~180 days prior to implementation with IGCF tier assignment and instructions on how to request a new assignment if needed
			  • Sees personalized sample bill info that aligns with monthly average usage and sees their bills will stay about the same or be a little bit less
			  • Sub-messaging: What this means as a CARE customer
			• Sees IGFC messaging on their bill 60+/30+ days prior to implementation
			• Sees information about IGFC in CARE integrated messaging
			• Reads in-language print advertisement in community paper
			• Sees digital ad and clicks through to website
				• Receives seasonal emails with EE and program energy saving information
				• Sees social media post about how to set your thermostat for savings in the summer
				• Sees out-of-home messaging about saving energy and money with Time-of-Use at local convenience store

PG&E	*Chen household, San Mateo*
	• Tier 4 income level
	• Solar customer
	• Lower electric user; will see bills rise
	• English preferred
		• Reads article about IGFC on SFGate.com
		• Visits dedicated web page listed in article at pge.com and views bill samples to look for one like theirs
			• Receives personalized email(s) ~180 days prior to implementation with IGCF tier assignment and instructions on how to request a new assignment if needed
			  • Sees personalized sample bill info that aligns with monthly average usage and sees their bills will stay about the same or be a bit more every month and understands they are a in a higher-income assignment and will pay more for IGFC
			  • Sub-messaging: What this means as a solar customer
			• Sees IGFC messaging on their bill 60+/30+ days prior to implementation
			• Visits pge.com/currents to read article about IGFC to learn more about why this is happening
				• Receives seasonal emails with EE and program energy saving information
				• Sees an e-newsletter article in Energy Advisory about Electric Home rate plan that they are eligible for an visits website to learn more/sign-up to save money.
				• Does a Home Energy Checkup at pge.com to see that additional savings measures they can take; decide to purchase a heat pump water heater

SCE	*Walker household, Monrovia*
	• Tier 3 income level
	• English preferred
	• Disagrees with income level assignment
	• No email on file
		• Attends community event and receives pocket flier with information about IGFC
		• Scans flier with QR code
		  • Visits dedicated webpage at sce.com
			• Receives personalized direct mail up to ~180 days prior to implementation with IGCF tier assignment and instructions on how to dispute
			  • Calls Customer Contact Center
			  • Customer follows instructions (TBD based on third party income verification)
			• IGFC messaging on their bill 60+ days prior to implementation
				• Reads On-bill messaging and sees correct tier assignment on bill
				• Sees seasonal ad about lowering usage in winter and clicks on ad; visits webpage at sce.com

H. <u>Messaging Phases and Customer Journey</u>

The Joint IOUs plan to differentiate messaging by the phases noted above, as well as by bill impact and customer segment once it is tested and validated through additional customer research.

In Phase I (Aware), all customers will receive base messaging that provides over-arching information about the IGFC. Early messaging will communicate how the charge will apply to all residential customers. Communications will detail the various fixed charge Income Brackets as well as emphasize why the change is occurring.

Marketing materials will be developed to illustrate what the proposed IGFC means for customer bills, and to engage stakeholders, such as media, elected officials, and CBOs early in the process. The change in the way customers are billed could easily be misunderstood unless the narrative is communicated in advance and proactively supported by examples of customer bill outcomes.

Building on Phase 1 (Aware), Phase 2 (Inform) will expand to clearly explain what to expect when and where to find personalized information. This is a key step toward educating customers about the proposed IGFC as the focus evolves to the benefits most customers will gain from the rate structure, including helping to achieve California's climate goals and increase electrification. Messaging may also include how the IGFC helps low-income customers, provides more transparency in electric bills, and makes bills more predictable.

The Joint IOUs also plan to create representative scenarios with representative amounts of monthly usage combined with CPUC-adopted fixed charges for the various IGFC Income Brackets. This will also include a comparison of several typical bills before and after the IGFC is applied. These scenarios will include a breakdown of the IGFC and the volumetric usage charge to illustrate how the costs are not new but have only been reallocated. As with other major changes to rates or bill structures, it will be critical to steer customers toward tailored information about how it may directly affect their own bills. This information will be provided on the Joint IOUs' websites, in customer notifications, as well as through other channels detailed in the Tactics section below.

Once the IGFC has been implemented, the Joint IOUs propose to focus on Phase 3 (Engage) to continue educating customers about energy-saving and efficient electrification behaviors and actions they can take to help manage their bills. Messaging may promote energy management solutions, such as available incentives and rebates, building and transportation electrification and Time-of-Use, and assistance programs.

I. <u>Integrated Campaign Tactics</u>

The Joint IOUs plan to use various outreach channels to form a holistic, integrated education and outreach campaign to support IGFC implementation. Tactics may include direct-to-customer messaging, broad customer outreach, and paid channels, as well as IOU-owned channels. In-language materials will be developed based on target audience, and may vary, depending on each IOUs' unique service area's demographics.

Integrated campaign tactics may include:

1. **Direct-to-Customer**: Direct Marketing tactics will be part of specific, targeted campaigns that will leverage customer segmentation data. Timing scenarios are for illustrative purposes and may change due to exact implementation and operational requirements. These tactics include:

a. **Direct Email or Direct Mail**: Direct channels will be used to inform customers of the IGFC and will drive them online to learn more and find applicable bill examples that apply to their households. This approach will help inform customers and satisfy their need to understand how the IGFC will affect their electric bills. As with the TOU transition, the Joint IOUs propose to deploy multiple touchpoints throughout the customer journey. The Joint IOUs anticipate direct customer outreach may begin up to 180 to 90-days prior to the transition, to notify them of their IGFC bracket and the appropriate cadence and response channels for submitting bracket assignment change requests. Each IOU will adopt their own plan, depending on the details of the final decision, the rate structure, and the IGFC implementation timing.

(1) For increased cost efficiencies, the Joint IOUs plan to adopt an "email first" communication channel approach, in which customers will be contacted by email if they have email addresses on file. Direct mail will be used for those customers without email addresses on file.

b. **Bill Package:** Additional opportunities to directly reach customers about the IGFC include leveraging customer bill inserts, "onsert" messages, and/or on-bill messaging at least 60-days or one to two bill cycles prior to implementation and throughout the first transition year. These tactics will help educate customers at the point at which they may be the most confused. A short explanation can guide customers to a website for more in-depth information.

2. **Web Presence:** Many customers will go online as the primary source of information about the new IGFC. The Joint IOUs' websites will provide both higher-level explanations of the IGFC as well as more in-depth information of the services it covers and the illustrative impacts it may have on bills. The web is an important channel to support and educate as many customers as possible, when it is convenient for them to self-serve information. It is also critical to help the Joint IOUs reduce the volume of follow-up calls to customer contact centers. Content will include:

a. An overview of the income verification process, and guidance on how to appeal their assigned income bracket;

b. Visual examples of high, medium, and lower electricity bills before and after the IGFC is implemented. Research findings indicate this must be explained through visuals that customers can easily understand. These visuals will illustrate how rates were previously structured, how the IGFC will adjust their bills based on various fixed charge amounts and usage, and how the per-unit price of energy is lowered accordingly for all customers

3. **Media Relations/IOU Blogs:** The Joint IOUs anticipate the IGFC will receive press attention, perhaps even before the CPUC makes its final decision. Customers and the media may misconstrue the IGFC as a new charge or many focus on the fixed charge amount itself, without the full context of the reduction in volumetric rates that results from showing customers on a separate line item their costs for basic services that do not vary depending on their usage. The Joint IOUs will engage and inform media about the construct of the proposed IGFC, the legislative impetus behind it as a way to better support decarbonization, how all other customer classes within California's IOUs as well as other utilities and business entities employ fixed charges, as well as how customers' bills within each electric IOU's service territory, may be impacted for each of the four Income Brackets. Accurate local reporting about the IGFCs will

be critical. Communication channels will include media engagement, social media and the Joint IOUs' blogs (*Currents* for PG&E, *News Center* for SDG&E, and *Energized by Edison* for SCE).

4. **Digital Newsletters:** The Joint IOUs propose to leverage their own digital newsletters or similar email communications to feature information about the IGFC and link to more information available online.

5. **Paid Media:** Using the successful individual default TOU paid media campaigns as a case study for localized, paid outreach, the Joint IOUs plan to consider employing a campaign to inform customers about the bill change. Paired with outreach through other channels, cost-effective paid media can be used to target customers by geography, income (at the ZIP code Level), in-language, and provide supplementary coverage to support other channels. Before committing to customer funding for this effort, the Joint IOUs will explore customer interest levels for this channel of messaging, and test ads to ensure they are simple, clear, resonant, and that they add value beyond utility-owned communication channels. Paid media channels may include highly targeted digital, search, and community and/or ethnic print advertising.

6. **Social Media:** Social media channels (i.e., Twitter, Facebook, Instagram, Nextdoor, and/or YouTube) may be leveraged as an interactive and targeted way to broadly inform customers about the IGFC. Posts will be, brief, clear, and easy to understand, and will guide customers to obtain more information online via direct links.

7. **Collateral:** Printed materials, such as brochures and fact sheets, may be produced for use with various customer segments and through various channels, such as outreach teams, field representatives, branch offices, and CBOs.

a. **Quick-Response (QR) Codes**: QR codes may be leveraged, where appropriate and feasible, on print materials as another opportunity to connect customers directly to the Joint IOUs' websites, where they can find additional information and resources.

8. **Integration**: The Joint IOUs each will also identify opportunities to integrate fixed charge messaging into other relevant ME&O efforts being otherwise undertaken by that

IOU. Message integration will be based on how well the audience and calls to action overlap, and which channel is used. In addition, different channels will be evaluated individually for their potential to carry multiple messages. Messaging will also be integrated into planned outreach to specific target groups such as low income, solar, and other program outreach.

J. Community Outreach Tactics

1. Community Based Outreach (CBO)

The Joint IOUs will collaborate with CBOs to help educate customers about what the IGFC means for them and engage them in solutions including connecting them to valuable programs, services, and tools. These organizations represent the diverse communities of PG&E, SCE, and SDG&E service areas, spanning across agricultural, residential, civic, and public sectors. Many of these CBOs are small grassroots agencies serving individuals with access and functional needs, including those who are multicultural, multilingual, low-income, seniors, and Limited English Proficient (LEP) audiences in communities of concern.

Together, the CBOs and the Joint IOUs will communicate why and when the IGFC is being implemented, how customers may be impacted, the income verification processes, and how they can appeal their assigned household income bracket. Additionally, low-income customers who participate in CARE and FERA will be reassured that their program participation benefits will not be impacted and shown how they may get greater assistance from the IGFC.

Efforts to inform customers about available resources for managing energy costs will continue. CBOs regularly share communications about programs and services, such as Energy Savings Assistance, Medical Baseline, and available rebates and incentives, through social media, newsletters, eblasts, blog posts, and direct stakeholder engagement efforts like digital webinars.

2. Joint IOU Employee Outreach

ME&O activities will also include outreach and education to employees prior to the implementation of the IGFC. Employees may be engaged through internal channels, including internal events, emails, and internal online resources. Internal customer-facing groups will be leveraged to help drive early education about the IGFC for utility-employees, especially those whose work is customer-facing about the IGFC. Customer-facing groups may include the employees at each of the Joint IOUs' Customer Contact Centers, payment locations and branch offices, field service teams, and credit and collections groups.

3. External Stakeholders:

Information will be provided to external stakeholders, including elected officials, tribal leaders, local media, and Community Choice Aggregators, to help them understand the impetus of the IGFC as well as its benefits, and to address potential questions from constituents.

K. Metrics and Tracking

The Joint IOUs propose to measure and track key pieces of outreach data to monitor progress in reaching customers with messages about the IGFC. In more broad-based messaging channels, this will include measurements including press article mentions, reach and/or impressions of paid media, outbound targeted communications (like e-newsletters), bill messages, email response, call center feedback, customer listening post, etc. Reporting on account-level notifications and customer responses regarding IGFC assignments will also be tracked.

L. Budget

In this section, the Joint IOUs identify ME&O-associated research and tactics that require incremental revenue recovery to implement. Essential implementation costs include incremental labor resources needed to develop, manage and implement the proposed ME&O tactics and the deliverables. The Joint IOUs are recommending a digital-first approach to mitigate costs. However, not all customers have an email address on file and will require direct mail, which is more costly. Additional prices that can drive up the ME&O budget include paid advertising. Again, to mitigate costs and still effectively reach customers, the Joint IOUs are proposing more targeted paid media strategies. The following are estimated ME&O costs, by IOU:

Table V-19
Initial Estimates of ME&O Costs, by IOU

	Cost per IOU		
	PG&E	SCE	SDG&E
Total by IOU	$11,440,000	$8,252,000	$4,420,000

These are still relatively high-level estimates based on what is currently understood about implementation of the Joint IOUs' Opening Testimony proposals; they may not reflect costs associated with implementing whatever differing directives the CPUC may issue in its final decision at the end of this proceeding, after all the evidence has been considered. The Joint IOUs respectfully request the authority for each IOU (including the small IOUs) to file an Advice Letter within 90-days after the Final Decision in which each IOU will provide its more detailed final ME&O costs to implement what the final decision authorized, for which the Joint IOUs propose be recovered through the balancing account approach described in the Cost Recovery Chapter.

Chapters PG&E-01, SCE-02, and SDG&E-01, et seq., provide more detail on each of the Joint IOUs' respective utility-specific cost estimates related to these proposals. Differences among the estimated costs provided by each of the Joint IOUs are primarily based on the residential population size as well as the demographics within each IOU's unique service territory, as well as other IOU-specific considerations such as numbers of media markets and costs of using such media markets' channels.

VI.

COST RECOVERY

A. Introduction

This chapter discusses the cost recovery for the Joint IOUs' proposal to establish an income-graduated fixed charge for residential rates (IGFC) as discussed in other chapters of this joint testimony and in the concurrently served IOU-specific testimony. This chapter discusses the cost recovery and rate allocation (together "cost recovery") for the Joint IOUs' proposal to establish an IGFC for residential rates, as discussed in other chapters of this joint testimony and in the concurrently served IOU-specific testimony. The Joint IOUs provide preliminary cost estimates in their separately submitted testimony sponsored by their respective witnesses. These preliminary estimates are contingent on the Commission approving the IOUs' proposals in the Joint IOUs' testimony and in the separately submitted testimony of each IOU. If the Commission requires modifications to the Joint IOUs' proposals, or approves different proposals, the Joint IOUs' estimates presented in their opening testimony would no longer be applicable. As necessary, the Joint IOUs reserve the right to develop and submit updated cost estimates based on the Commission's final, adopted implementation approach. Specifically, upon the issuance of a final Commission decision, the Joint IOUs expect that work for the purpose of updating costs according to whatever was adopted will begin, and a process that can allow cost recovery will be needed. After the Commission's final decision, as the IOUs, Energy Division, and other interested third parties work through implementation, updates to these cost estimates may be needed. Therefore, the Joint IOUs propose that the CPUC adopt cost recovery mechanisms and processes that can accommodate the development of updated costs in the future.

Additionally, this chapter also discusses potential impacts to the cost recovery mechanisms as a result of the new rate design associated with the IGFC and the corresponding lower volumetric rate, shifting the recovery of certain categories of authorized costs from volumetric rates to the fixed charge. The IOUs assert that the cost recovery authority for costs that are moved from a volumetric basis to the IGFC will not change. The IOUs anticipate that there may be changes needed to their respective tariffs and preliminary statements as a result of shifting the recovery of these costs from volumetric rates to the IGFC and propose to submit separate advice letters with those modifications prior to the fixed charge going into effect.

Finally, this chapter proposes an IGFC Calibration Mechanism that would allow for timely recovery of any large revenue imbalances (*i.e.*, undercollections) as a result of uncertainties around the accuracy of the income level forecasting, especially in the initial years after implementation. A calibration mechanism will allow the Joint IOUs to adjust rates timely to avoid large undercollections growing throughout a given year to an amount that would significantly impact the following year's rates.

The Joint IOUs propose the following cost recovery proposals for the Commission's consideration and approval:

- Authorize each Joint IOU to separately submit a Tier 2 advice letter after the approval of the final decision to provide a budget consistent with the final decision and the related revenue requirements;
- Authorize each Joint IOU to separately submit a Tier 1 advice letter, 30-days after the issuance of a final decision in this proceeding, to establish a new two-way balancing account to recover the costs associated with the final IGFC approach approved by the CPUC at the end of this proceeding, to be recovered from all customers through public purpose program (PPP) rates;
- Approve the Joint IOUs' proposal that the Income Verification costs associated with the IGFC be paid for through state funding rather than through ratepayers, which would be accomplished by either having the IOU incur the Income Verification costs as a debit in the IGFCBA with an offsetting credit for the amount of state funding received or by having a Third-Party incur the costs with state funding provided directly to the third party (in which case no debits or credits for Income Verification would be included in the IGFCBA);

- Approve the Joint IOUs' proposal to separately submit a Tier 1 advice letter before the IGFC goes into effect to modify any applicable tariffs and/or preliminary statements, as needed, to maintain appropriate operation of cost recovery mechanisms for cost items removed from volumetric rates and included in the IGFC; and
- Approve the Joint IOUs' proposal for an IGFC Calibration Mechanism to allow for timelier recovery of any large revenue imbalances.

The Joint IOUs request the Commission approve their Joint Cost Recovery Proposal as reasonable and necessary to implement each of their proposals to establish an IGFC for residential rates, to promote the state's electrification policy and adoption of technologies that use electricity and reduce or avoid greenhouse gases (GHG).

B. Cost Recovery and Rate Making Proposal

1. Cost Recovery Advice Letters Filings

The costs separately presented by each of the Joint IOUs in its respective utility-specific testimony are estimates based on what is known at present and are not meant to represent each individual IOUs' forecasted budget or the amount requested for recovery in rates. Upon issuance of a final decision in this proceeding, the Joint IOUs propose to separately submit Tier 1 advice letters within 30-days to each establish a new two-way balancing account, the Income Graduated Fixed Charge Balancing Account (IGFCBA). The Joint IOUs propose that the effective date for this new balancing account be the effective date of the decision in order to allow for an immediate commencement of the work needed to implement the new IGFC. All costs recorded to the IGFCBA would be incremental and would not include costs requested in the IOUs' General Rate Cases (GRCs) or other Commission-approved funding.

Additionally, the Joint IOUs propose that each IOU submit a separate Tier 2 advice letter after the final decision is issued to provide a budget and the associated revenue requirements based on the elements for the fixed charge adopted in the final decision. All actual costs incurred by each IOU from the effective date of the final decision would be included in that IOU's respective budget submitted in its Tier 2 advice letter. The revenue requirements included in these Tier 2 advice letters, once approved, would become the authorized revenue requirements used in the IGFCBA, as further discussed below. All costs recorded to the IGFCBA would be incremental and would not include costs requested in the respective IOUs' General Rate Cases (GRCs) or other Commission approved funding.

2. Income Graduated Fixed Charge Balancing Account (IGFCBA)

As described in the Joint IOUs' testimony and in the separately submitted testimony by each IOU, the IOUs have identified three main cost categories associated with the IGFC: (1) income verification,[125] (2) implementation, and (3) marketing, education, and outreach (ME&O). The Joint IOUs propose that all costs incurred by the IOU, i.e., the actual incremental operations and maintenance (O&M) expenses and the capital-related revenue requirements associated with the actual incremental capital expenditures, be tracked and recorded in a new balancing account, the Income Graduated Fixed Charge Balancing Account (IGFCBA).

The IGFCBA will be a two-way balancing account that will track and record on an annual basis the difference between (1) actual O&M expenses incurred plus the capital-related revenue requirement associated with actual capital expenditures, and (2) the total authorized revenue requirement. To the extent the actual capital-related revenue requirements and O&M expenses are greater than or lesser than the authorized revenue requirement, the Joint IOUs respectfully request authorization to recover or return, without further reasonableness review, the difference (i.e., the December 31 balance) on an annual basis. The Joint IOUs propose to return or recover the December 31 balance in their respective IGFCBAs from all customers through the following year's PPP rates[126] using the annual year-end rate change advice letter process adopted

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[125] Income verification costs recorded to the IGFCBA and recovered from customers would be those costs not funded by the state of California's general fund as discussed below in Section B.4. of this chapter.

[126] PG&E would transfer the December 31 balance in its IGFCBA to its Public Policy Charge Balancing Account (PPCBA). SCE would transfer the December 31 balance in its IGFCBA to its Public

in Resolution E-5127. The annual authorized revenue requirements would be recovered on a forecast basis in PPP rates.[127] The Joint IOUs propose to no longer utilize the IGFCBAs once the ongoing revenue requirements associated with maintenance and operations can be forecast and included as part of GRC base rates.[128] This timing will likely vary by IOU given the difference in the timing of each of the Joint IOU's GRC Phase 1 four-year cycle.

The Joint IOUs believe that two-way balancing account treatment is appropriate to recover the cost categories outlined above because these costs are incremental amounts necessary to comply with Assembly Bill 205. Additionally, two-way balancing account treatment is appropriate in situations where the program or activity is highly volatile, difficult to estimate, outside the utility's control, and/or material to customers and investors. Two-way balancing account treatment in these circumstances would ensure that neither customers nor investors are disadvantaged unduly by inherently unpredictable program costs. As previously described above and in the separately supplemental testimony concurrently provided by each of the Joint IOUs as separate links within the same Notice of Availability used to serve this Joint IOU Opening Testimony, there is a high degree of uncertainty in the ultimate cost of establishing an income-graduated fixed charge for residential rates. Two-way balancing account treatment provides a reasonable method for addressing this uncertainty. A two-way balancing account requires the Joint IOUs to return to their respective customers any revenue collected that exceed actual costs, while allowing for unforeseen costs to be recovered.[129]

Purpose Programs Adjustment Mechanism (PPPAM). SDG&E would include the balance within its annual PPP advice letter.

[127] PG&E would record its forecast authorized revenue requirement in its PPCBA. SCE would record its forecast authorized revenue requirement in its PPPAM. SDG&E would record its forecast authorized revenue requirement in its IGFCBA.

[128] For PG&E, the ongoing recovery once in GRC base rates would be via the Distribution Revenue Adjustment Mechanism (DRAM). For SCE, the ongoing recovery once in GRC base rates would be via the Authorized Distribution Base Revenue Requirement (ADBRR). For SDG&E, the ongoing recovery once in GRC base rates would be via the Electric Distribution Fixed Costs Account (EDFCA).

[129] If the utility does not have the ability to recover unforeseen costs, that can result in deferred or delayed work. To prevent this, the Commission has authorized two-way balancing accounts to ensure

The Commission adopted a similar cost-recovery approach in the Gas Leak Abatement proceeding (Rulemaking (R.) 15-01-008), when it authorized PG&E to create the two-way New Environmental Regulations Balancing Account (NERBA)[130] for incremental costs to implement best practices to reduce methane emissions from gas systems. In doing so, the CPUC explained:

> "The primary purpose of balancing accounts is to ensure that a utility recovers its CPUC authorized revenue requirement from ratepayers for a given program or functions, but no more or less. [¶] Two-way balancing accounts authorize a utility to collect more or less than the authorized revenue requirement for an existing program depending on actual costs, and are intended to ensure that the utility does not make or lose money to uncertainties in the scope of work. [¶] The Commission typically reviews the entries and the net balance in a balancing account and authorizes recovery from or refunds to rate payers on an annual basis."[131]

More recently in D.22-11-009, the Commission authorized PG&E to establish a two-way balancing subaccount, the Third-Party DGEMS Contracts Subaccount, in the Microgrids Balancing Account (MGBA)[132] to record and recover costs related to Third-Party contracts for multi-season Distributed Generation-Enabled Microgrid Services (DGEMS). Although the Commission considered authorizing a one-way balancing account in which the amounts to be spent and recovered from customers would be capped, it noted that "the costs incurred by PG&E in any given year under a Third-Party Distributed Generation Enabled Microgrid Service contract is likely to be different than the costs of it reasonably forecast at the time of the proposing solution. Thus, the use of a one-way (capped) balancing account is suboptimal given the variability."[133] As such, the Commission considered it "more reasonable"[134] to authorize a two-way balancing account while controlling costs through stakeholder review via the GRC or a separate application.

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that work is not deferred or delayed. *See* Section 8.1.1 of D.21-08-036, which directed SCE to establish a two-way Underground Structures Replacement Balancing Account (USRBA) given lack of clarity on the scope of the work and the desire for work not to be deferred.

130 *See* PG&E Gas Preliminary Statement Part DZ.

131 D.17-06-015, at p. 131.

132 *See* PG&E Electric Preliminary Statement Part IT.

133 D.22-11-009, at p. 47.

134 D.22-11-009, at p. 47.

The Joint IOUs' proposed approach to IGFC cost recovery, using a two-way balancing account, allows the flexibility to "to ensure that the utility does not make or lose money due to uncertainties in the scope of work."[135] Oversight would be achieved through the submittal of the Tier 2 advice letters outlined above that would include a budget and revenue requirements based on the adopted final decision. Therefore, it is reasonable and appropriate for the Commission to authorize the establishment of two-way balancing accounts to recover the costs associated with the IGFC for the reasons outlined above.

1. <u>Recovery of the IGFCBA Via the PPP Rate Component</u>

As discussed in the Policy and Rate Design Chapters above, the legislature intended implementation of the IGFC to support California's efforts against climate change and remove the current disincentive to broad-scale customer adoption of beneficial electrification technologies to reduce California's GHG emissions. For these reasons, it is appropriate that the costs needed to help support the movement to IGFCs are recovered from all customers because all customers should experience the intended benefits of this change. The PPP charge funds programs considered by law to benefit society. This includes costs to administer income qualified programs such as the California Alternative Rates for Energy program (CARE) and energy efficiency programs. Given the public purpose benefit associated with the integration of IGFCs into residential rates, the related costs for this transition should be included in the PPP rate, as the most appropriate rate component in which to recover costs associated with this shift.

2. <u>Recovery of Income Verification Costs through State Funding</u>

As discussed in the Policy Chapter, the Joint IOUs propose that the state of California's general fund be used as the primary funding source for costs related to income verification. As discussed in the Income Verification Chapter of this Exhibit, recovery of all income verification costs through rates could overly exacerbate the unaffordability of electric rates; thus, its inclusion in rates could inappropriately disincentivize the beneficial electrification that caused the

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[135] D.17-06-015, at p. 131.

legislature to pass AB 205. The Joint IOUs propose to collaborate with the CPUC to seek state funding for these costs, lest the well-intended income verification for a first-ever progressive fixed charge structure undermine the overall legislative intent.

If the costs associated with income verification are incurred by the IOU, but seeking state funding for income verification is successful, the Joint IOUs propose that these costs be recorded as debit entries in the IGFCBA with any offsetting state funding received recorded as credit entries in the IGFCBA, which results in a net zero cost to ratepayers. If the IOUs do not incur the costs associated with income verification (*i.e.,* the costs are directly incurred by a Third-Party and are not "charged back" to the IOU), no amounts (debits or credits) would need to be recorded in the IGFCBA. Ultimately, if there are any income verification costs incurred by the IOUs that are not offset with state funding, those costs would be recoverable from ratepayers via the IGFCBA and the PPP rate as discussed in Sections B.2. and B.3 of this chapter.

C. Recovery of Authorized Costs via the IGFC

The new rate design associated with the IGFC, and lower volumetric rate will shift how certain categories of authorized costs are recovered from a volumetric basis to a fixed charge. The Commission will ultimately determine which costs will be included in IGFCs and moved out of the volumetric rates. Shifting recovery from a volumetric basis to an IGFC basis should not change the cost recovery authority for costs that are moved. For instance, GRC Phase 1 authorized distribution costs should still be entitled to rate recovery for differences between forecast and actual sales or forecast and actual IGFC revenues. Other costs that are subject to two-way balancing account recovery for the difference between authorized costs and actual costs must continue to be recoverable on that basis, whether they are part of a fixed charge or volumetric rate.

The Joint IOUs have not yet been able to determine what, if any of their respective tariffs or preliminary statements, might need modification if costs authorized for recovery therein are moved to a fixed charge, instead of volumetric rates. That evaluation will depend on what the

Commission approves for inclusion in the fixed charge. Therefore, the Joint IOUs propose that, after the CPUC's final decision but before the fixed charge goes into effect, each IOU would separately submit its own Tier 1 advice letter with proposed modifications to tariffs and/or preliminary statements, if needed to maintain appropriate operation of cost recovery mechanisms for cost items removed from volumetric rates and included in the fixed charge.

D. <u>IGFC Calibration Mechanism</u>

To enable ratesetting, the Joint IOUs will each need to forecast the number of residential customer accounts that will fall into each IGFC income brackets. If there are deviations in what the IOUs have forecasted compared to the income brackets that customers actually fall in when billed, the potential exists for revenue imbalances that would have to be recovered in the following year's rates. It is most likely that this potential revenue imbalance would be an undercollection, meaning that the forecasts overestimate the number of customers that would be billed at the higher IGFC brackets because customers moving down in income level are more likely to notify the utility given the potential economic hardship relative to customers who saw increases in income.

Given the uncertainty around how accurate the income bracket assignment will be, especially in the initial years after implementation, the Joint IOUs propose the authorization of an IGFC Calibration Mechanism to allow for timelier recovery of any large revenue imbalance undercollections as opposed to allowing the undercollections to grow throughout the year to an amount that significantly impacts the following year's rates.

The Joint IOUs' proposed IGFC Calibration Mechanism would function as follows:

- Beginning each year in January, and every month thereafter throughout the remainder of the calendar year, an IOU will track the amount of revenue that was forecast to be recovered via the IGFC (this can be done either at an aggregate level or at each income bracket with the IGFC) and the amount that was actually recovered via the IGFC.[136]

- If the revenue imbalance results in an undercollection that exceeds 10 percent of the forecast revenue to be recovered from the IGFC on a cumulative monthly basis,[137] an IGFC Calibration threshold will have been exceeded.[138]
- Once an IGFC Calibration Mechanism has occurred, the IOU will have the option in its next regularly scheduled rate change to do one of the following three activities:
    - Option 1: Increase rates for the remainder of the calendar year[139] to recover the IGFC Calibration Mechanism Balance that exists as of one month preceding the date of the rate change (i.e., a June 1 rate change would implement the under collection that had accumulated from January through April, since May numbers are not available until after June 1) AND adjust the IGFC income bracket customer account forecast to mitigate the revenue imbalance from continuing to accumulate on a going-forward basis; OR

[136] This functionality will need to be built into the IOUs' respective billing and revenue reporting systems, the costs of which would record to the IGFCBA.

[137] For example, if the IGFC was set to recover $200 million in both January and February and only recovered $185 million and $180 million, respectively, the 10 percent IGFC Calibration Mechanism Threshold would not have been reached. However, in March, if the IGFC was set to recover $200 million and only recovered $170 million, the 10 percent IGFC Calibration Mechanism would have been reached because only $535 million of the $600 million forecasted would have been recovered (and that difference (*i.e.,* the $65 million) exceeds 10 percent of $600 million (*i.e.,* $60 million)).

[138] There are no new cost recovery accounts needed to track the undercollection. Instead, the undercollection will record to the IOUs' existing revenue balancing accounts based on which costs are ultimately included in the IGFC.

[139] For example, if the IGFC Calibration Mechanism Balance was $300 million as of April 30 (and assuming all of the costs included in the IGFC are distribution-related costs solely for the purposes of this example), the IOU would increase its June 1 distribution-related revenue requirement by $300 million for the remainder of the calendar year to be recovered from all customers. Whatever balance remained at the end of the calendar year would be included in the annual year-end ratesetting true-up process as directed in Resolution E-5217. Assuming perfect ratemaking and all else being equal, this would result in an undercollection of only $125 million at year-end instead of $300 million (and significantly more given the undercollection would likely have continued into the remaining months of the year).

- Option 2: Only adjust the IGFC income bracket customer account forecast to mitigate the revenue imbalance from continuing to accumulate on a going-forward basis (but do not change rates to recover the existing IGFC Calibration Mechanism Balance);[140] OR
- Option 3: Take no action.

- The Joint IOUs would use their Tier 1 or Tier 2 rate change advice letters (based on the tier level presently used) to effectuate the IGFC Calibration Mechanism process, including the rationale for selecting Option 1, 2 or 3.
- The Joint IOUs propose to have the IGFC Calibration Mechanism take effect in the second year following the implementation of the IGFC to minimize rate volatility in the first year of implementation (recognizing this could result in sizeable undercollections that would be recovered in the second year after implementation).

Ideally, the IGFC Calibration Mechanism will ultimately prove to be unnecessary. However, the Joint IOUs respectfully request that the Commission authorize the establishment of this mechanism to protect against the potential for sizeable undercollections that would result in upward pressure on rates for customers in the following year and cash flow and financing impacts to the utility in the current year.

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[140] This option would most likely be utilized in situations where an undercollection resulted from deviations to the IGFC income level forecast, but the revenue balancing account overall was overcollected or barely undercollected. This could occur, for example, during periods where an IOU overcollects on the volumetric portion of the rate due to weather-related events like heat waves.