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

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

Joint IOUs' Exhibit 3

Before the
Public Utilities Commission of the State of California

June 2, 2023

Joint IOUs' Reply Testimony Addressing Income-Graduated Fixed Charge Proposals

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I.

INTRODUCTION AND POLICY

[MICHAEL BACKSTROM]

A. **Procedural Background**

The purpose of this Reply Testimony, which is jointly sponsored by Southern California Edison Company (SCE), Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E) (collectively, the Joint IOUs) is to provide the Joint IOUs' responses to the various proposals made by other parties in their April 7, 2023, concurrent Opening Testimony. Specifically, the following parties submitted to the California Public Utilities Commission (CPUC or Commission) a total of nine proposals for Income-Graduated Fixed Charges (IGFC) on April 7, 2023:

- The three large electric investor-owned utilities (IOU), jointly (which results in differing utility-specific fixed charges based on the unique cost and rate structures of SCE, PG&E, and SDG&E);
- Each of the three small IOUs, individually (Bear Valley Electric Service, Inc. (Bear Valley or BVES); PacifiCorp d/b/a Pacific Power (PacifiCorp or PAC); and Liberty Utilities LLC (Liberty);
- The Public Advocates Office at the California Public Utilities Commission (Cal Advocates);
- The Utility Reform Network (TURN) jointly with the Natural Resources Defense Council (NRDC) (collectively TURN/NRDC);
- The Sierra Club (Sierra Club);
- The Solar Energy Industries Association (SEIA); and
- California Environmental Justice Advocates (CEJA).

Due to the significant volume of Opening Testimony on the novel issue of IGFCs, combined with the limited time available to conduct discovery and prepare this Joint Reply Testimony, the Joint IOUs' silence or brief treatment of any issue or position should not be deemed to indicate that the Joint IOUs' either support or oppose such aspect of one or more proposals.

Having reviewed the Opening Testimony, the Joint IOUs are heartened that there appears to be some degree of agreement on certain sub issues across many of the proposals initially presented. However, the testimony provided to date represents only twelve of the 68 parties on the service list in this proceeding. To the degree other parties, who did not make a proposal in Opening Testimony, attempt to present a full new proposal in their Reply Testimony, the Joint IOUs express concern that there appears to be no opportunity, under the current case schedule, to provide responsive testimony addressing such belated proposals or underlying new substantive assertions.

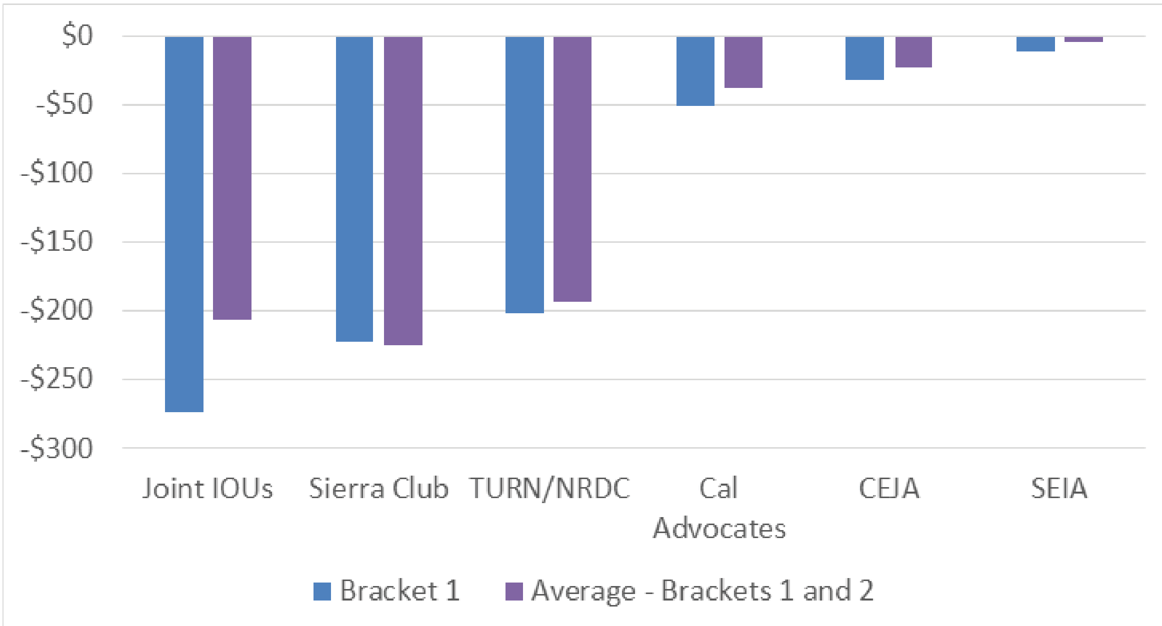
The Joint IOUs appreciate that the CPUC is required to authorize an Assembly Bill (AB) 205-compliant income graduated fixed charge by the July 1, 2024, statutory deadline, and that this requirement necessitates an expeditious process to create an evidentiary record and reach a timely final decision. The Joint IOUs have done our best to provide the best available information in both our Opening Testimony as well as this Reply Testimony. Once all parties' Reply Testimonies have been reviewed, the Joint IOUs are open to discussions in June and July of 2023 to explore whether any type of joint stipulation or settlement might be possible, at least on some subset of contested issues and/or at least among some subset of the many parties to this proceeding.

B. <u>Policy Introduction</u>

Based on the proposals submitted in parties' Opening Testimony, it is clear there is broad alignment between IOUs, consumer advocates, and certain environmental organizations that significant and fundamental changes must be made to California's residential electricity rate structure to promote greater equity, bill stability, and affordability for customers. As customers continue to adopt clean energy technologies using more electricity, consistent with achieving the state's decarbonization goals, designing electricity rates that send appropriate price signals and that are more aligned with underlying costs will be paramount to helping ensure California's energy transition will be more equitable and affordable than the status quo. Relative to other party proposals, the Joint IOUs' proposals strike the right balance of bill savings and stability, meaningful volumetric rate reduction, and an income graduation structure that meets AB 205's requirements while appropriately balancing granularity and complexity. Unlike TURN/NRDC's proposal that includes the same level of fixed charges across the Joint IOUs, it will be important for the Commission to adopt individual fixed charge levels for each of the Joint IOUs. Each IOU has its own unique service territory, underlying costs, rate structure, and volumetric rate levels thus requiring a bespoke approach so that the IGFC and resulting volumetric rates can achieve the necessary levels to support both affordability and electrification adoption, while incenting appropriate, cost-based load flexibility.

The Commission has a unique opportunity to make meaningful rate reform in this proceeding to help provide savings for the IOUs' lowest income customers while also setting the stage for a more affordable energy transition. Comparing proposals submitted by intervening parties, the Joint IOUs' proposals create the greatest overall bill savings for the most economically vulnerable customers - those living at or below 100% of the federal poverty level (FPL). Looking at the average low-income customers (those currently enrolled in California Alternate Rates for Energy (CARE)/Family Electric Rate Assistance (FERA) programs or Brackets 1 and 2 in the Joint IOUs' proposals), the Joint IOUs' proposals also offer meaningful savings of approximately $200 a year on average, as shown in Figure I-1 below.

Figure I-1
Weighted Average Annual Bill Savings for Low-Income Customers

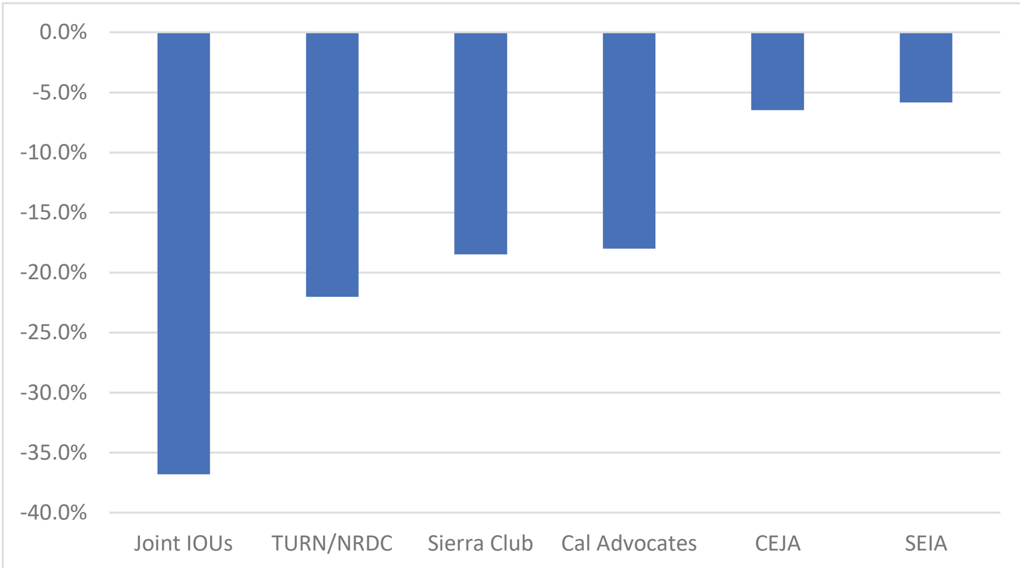


*[1]

While the Joint IOUs recognize that Sierra Club's annual bill savings shown above are slightly greater for the CARE/FERA segment without any change in usage, taken as a whole, the Joint IOUs' proposal offers significant annual savings for average low-income customers, while also providing the largest reduction in volumetric rates across all proposals applicable to the Joint IOUs' customers (as seen in Figure I-2, below).

[1] Bill savings are calculated using the IOUs' proposed definitions for Income Brackets 1 and 2.

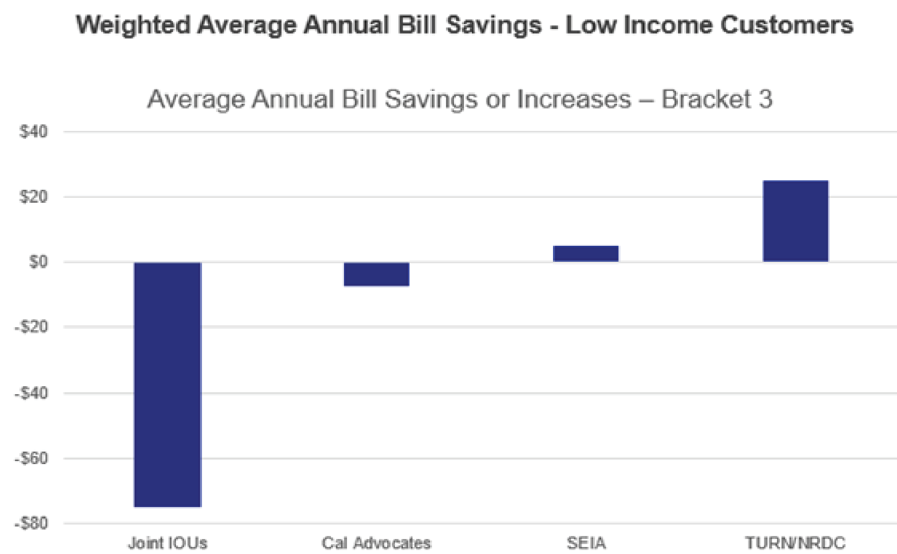
Figure I-2
Average Percent Reduction in the Volumetric Rate Relative to the Current Volumetric Rate



Significantly lower volumetric rates as proposed by the Joint IOUs will help make incremental electricity use more affordable. These lower volumetric rates will be particularly apparent to customers in hot summer months, customers currently living in warmer climate zones, and customers increasing their usage through the adoption of electric vehicles, and appliances, including water heating, and heating, ventilation, and air conditioning (HVAC). In addition, meaningful fixed charges and lower volumetric rates will be essential to making customer bills more stable. Intuitively, collecting more costs that do not vary based on electricity usage in an IGFC will decrease bill volatility for customers.

In addition to providing the lowest volumetric rates and the meaningful savings for its lowest income customers relative, the Joint IOUs' proposal strikes the right balance between savings for more vulnerable customers and the complexity that accompanies an increased number of income brackets. The parties' proposals vary widely on how many income brackets should be adopted to be AB 205 compliant, ranging from three brackets[2] to ten,[3] with the Joint IOUs proposing four income brackets. While both TURN/NRDC and CalAdvocates have a moderate- vs. high-income bracket, this alone is not sufficient to provide meaningful savings to moderate-income customers.[4] Comparing moderate-income customers' annual bill impacts (customers that fall into the Joint IOUs' Bracket 3) between the Joint IOUs' proposals and those proposals that offer three brackets of income graduation, the Joint IOUs are able to offer superior average annual bill savings relative to those proposals.

Figure I-3
Weighted Average Annual Bill Savings of Moderate Income Customers
Joint IOU Proposal Compared to Proposals with Three Income Brackets



*[5]

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[2] For example, see Cal Advocates Opening Testimony (Exhibit Cal Advocates-01), p. 12, line 9; and TURN/NRDC Opening Testimony (Exhibit NRDC-TURN-01), p. 22, line 20.

[3] CEJA Opening Testimony (Exhibit CEJA-01), p. 10, lines 7-10.

[4] SEIA's proposal is the only proposal not to attempt to subdivide non-CARE/FERA customers.

[5] As stated in the Joint IOUs' Opening Testimony (Exhibit Joint IOUs-01), p. 5, lines 3-4, Bracket 3 is composed of non-CARE/FERA customers whose household income is up to 650% of FPL.

While Cal Advocates' proposal offers minimal bill savings for customers in Bracket 3, both SEIA and TURN/NRDC's proposals would increase the bills of the average moderate-income customer.

Proposals from intervening parties with more than four income brackets may also offer bill savings for moderate income customers but are much more complex to implement and could create additional customer confusion relative to the Joint IOUs' proposal. Sierra Club proposes five income brackets[6] while CEJA suggests eight to ten income brackets for a steeper degree of fixed charge graduation.[7] Proposals that recommend additional brackets but do not build on the current low-income program structure that uses FPL not only add complexity and customer confusion, but also lack volumetric rate reduction necessary to help incentivize electrification adoption relative to the Joint IOUs proposals. These proposals do little compared to the Joint IOUs' proposals to reduce overall volumetric rates to incentivize customers to adopt cleaner electrification technologies. Sierra Club's proposal only reduces average volumetric rates by an average of 19% while CEJA's proposal only reduces average volumetric rates by an average of 7%, compared to the average of the IOUs' proposals of 37%. Further, Sierra Club's proposed fixed charges for customers in the highest income bracket are $94/month for PG&E, $189/month for SCE and $136/month for SDG&E. While nominally similar in magnitude to the IOU's proposed maximum fixed charges, these are coupled with far less volumetric rate reduction and therefore will significantly increase the bills of customers in these brackets while also offering less bill savings for these customers as they adopt electrification technologies. A final IGFC structure that does not sufficiently reduce volumetric rates would create a costly and complex structure that outweighs the benefits it provides.

The Joint IOUs' proposal in their Opening Testimony offers the most balanced solution. Establishing an average fixed charge that meaningfully reduces volumetric rates, receiving

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[6] Direct Testimony of John D. Wilson on behalf of Sierra Club (Sierra Club Direct Testimony), p. 31, line 18.

[7] Exhibit CEJA-01, p. 19, lines 1-3.

accurate information, and transitioning customers to the correct income bracket once statewide income verification is available will support more equitable and accurate rate design, provide meaningful average bill savings for low-to-moderate income customers, support the state's electrification goals through lower volumetric rates, and offer a more streamlined customer experience. If the CPUC decides an interim fixed charge structure and process (e.g., three income brackets) is necessary due to timing considerations, then the interim process should maintain a meaningful reduction in volumetric rates and utilize existing data from the CARE and FERA programs - which could be a faster approach while not developing new, complex or potentially costly income verification approaches that may need to be rebuilt once a more robust data set is available. The Joint IOUs' Chapter III (Income Verification), below, discusses our concern that the CPUC does not have sufficient factual showings before it to conclude that Credit Agency data could be used for timely or cost-effective income verification in the nearer-term, as recommended by TURN/NRDC and Cal Advocates.

As highlighted in the Joint IOUs' Opening Testimony, the state must decarbonize faster than it has over the last decade to meet its aggressive, but necessary, environmental goals. Building and transportation electrification will play a key role in achieving these mandates. Failure to adopt meaningful reductions in volumetric rates, as the Joint IOUs propose, may jeopardize the speed of the State's decarbonization effort.

The Joint IOUs' Reply Testimony below further expands on these points and highlights how the Joint IOUs' proposals better balance between customer equity, affordability, complexity, and customer experience compared to other proposals. The passage of AB 205 and opening of this subsequent rulemaking provides the CPUC an opportunity to fundamentally reshape residential rate design that will set the stage for a more equitable and affordable energy transition. Delays in making the meaningful changes proposed by the Joint IOUs will further exacerbate affordability challenges for the most economically vulnerable customers and would inhibit the rate of electrification adoption necessary to meet the State's collective environmental goals.

This residential rate reform is overdue and is needed now. The Joint IOUs urge the Commission to adopt their proposal and make significant updates to electric rate design, which would better support our State's efforts to meet its objectives in a more equitable and affordable manner for its customers.

The substantive Reply Testimony presented below by the Joint IOUs is organized in chapters that parallel the structure of our Opening Testimony, namely:

Chapter II. Rate Design

Chapter III. Income Verification

Chapter IV. Implementation

Chapter V. Marketing Education and Outreach (ME&O)

Chapter VI. Cost Recovery

II.

RATE DESIGN

[COLIN KERRIGAN, GWEN MORIEN, AND ROBERT THOMAS]

A. Rate Design Introduction and Summary

Multiple parties' Opening Testimony agreed that the Commission should adopt a meaningful IGFC to reduce volumetric rates and incentivize electrification to achieve state policy goals, even as they differ on the level of fixed charge and volumetric rate reduction that would be meaningful. Cal Advocates states it is imperative that the Commission take steps to reduce volumetric rates, because high volumetric rates hinder California's ability to meet Greenhouse Gas (GHG) reduction goals.[8] Similarly, TURN/NRDC state that rising electric rates discourage electrification investments.[9] The Joint IOUs agree with these statements made by Cal Advocates and TURN/NRDC; however the Joint IOUs maintain that our proposal's rate design will best meet the state's policy goals by significantly lowering volumetric rates, supporting affordability for low-to-moderate income customers, and incentivizing electrification. This is because, as seen below in Table II-1, the Joint IOUs' proposals result in the highest average fixed charge and lowest volumetric rates, providing significant bill savings for low- and moderate-income customers. Party proposals that only marginally reduce volumetric rates will not create a sufficient incentive for customers to electrify.

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[8] Exhibit Cal Advocates-01, p. 1-1, line 17 to p. 1-2, line 4.

[9] Exhibit NRDC-TURN-01, p. 2, lines 9-12.

Table II-1
Summary of Average Fixed Charges ($/month) and Volumetric Rate Reduction ($/kWh) from Parties' Opening Proposals

	PG&E			SDG&E			SCE		
Party	Avg Fixed Charge ($/month)	Avg Rate (¢/kWh) ******	% Reduction from Status Quo	Avg Fixed Charge ($/month)	Avg Rate (¢/kWh) ******	% Reduction from Status Quo	Avg Fixed Charge ($/month)	Avg Rate (¢/kWh) ******	% Reduction from Status Quo
Status Quo*******	-	34.4	-	-	49.1	-	-	35.2	-
Joint IOUs	$53	21.9	-36%	$74	27.8	-43%	$49	24.3	-31%
TURN/NRDC*	$37	26.3	-23%	$37	39.0	-21%	$37	27.5	-22%
Cal Advocates**	$29	28.1	-18%	$35	39.8	-19%	$28	29.2	-17%
Sierra Club***	$28	28.8	-16%	$36	40.1	-18%	$37	27.8	-21%
CEJA****	$7	31.9	-7%	$11	46.5	-5%	$7	32.7	-7%
SEIA*****	$8	32.5	-5%	$11	45.8	-7%	$8	33.3	-5%

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10 Exhibit NRDC-TURN-01 Errata, p. 4, Table 1.

11 Exhibit Cal Advocates-01-E (Cal Advocates Errata), p. 12, Table 4.

12 Exhibit SC-01E (Sierra Club Errata), p. 44, Table 9.

13 CEJA did not provide average fixed charges in its testimony. These amounts are calculated using data from CEJA's Public Tool printout and from the Public Tool.

14 SEIA Prepared Direct Testimony (SEIA Direct Testimony), p. 17, Table 2.

15 Average rates calculated using each party's "Revenue Requirement Components" tab from the Public Tool printout.

16 Status quo reflects the current average non-CARE rate calculated using the Public Tool Printout "Revenue Requirements Component" page from the errata Public Tool.

Table II-2
Summary of Proposed Fixed Charges and Volumetric Rate Reduction from Small IOU Proposals

Party	Current Average Fixed Charge ($/month)	Current Avgerage Volumetric Rate (¢/kWh)	Proposed Average Fixed Charge ($/month)	Proposed Volumetric Rate (¢/kWh)	Volumetric Rate Reduction (%)
PacifiCorp*	$8	16.2**	$63**	9.8**	-39%
Liberty***	$10	29.0****	$112	11.0****	-62%
Bear Valley*****	$6	20.3******	$35	14.1******	-31%

*17
**18
***19
****20
*****21
******22

Similar to the Joint IOUs, the three Small Multijurisdictional IOUs, Bear Valley Electric Service (Bear Valley), Liberty Utilities (Liberty), and PacifiCorp (the Small IOUs) also propose significant volumetric rate reductions, from 31% to 62%, as seen above in Table II-2. They propose average fixed charges ranging from $35 to $112/month. All three propose to include all residential distribution revenues in their respective fixed charges, and Liberty proposes to also include generation base revenues.[23]

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17 PacifiCorp Direct Testimony (Exhibit PAC/100), p. 2, lines 5-6, and p. 10, lines 4-10 and Table 1; Proposed Avg Fixed Charge represents PacifiCorp's proposed end state (year 5 of their proposed glidepath).

18 Exhibit PAC/100, p. 23, lines 3-4. Current average volumetric rate is calculated as 9.8 cents/kWh + 6.4 cents/kWh reduction.

19 Liberty current average fixed charge. Liberty's proposed average fixed charge is calculated using data in Attachment 1. Exhibit Liberty-01, p. 2.

20 Liberty's volumetric rates provided in Liberty's response to Data Request SDGE-Liberty-01, Request #1, dated May 31, 2023 in Appendix A at the end of this exhibit.

21 Bear Valley average fixed charges calculated as $/day amount for a 30 day billing cycle ($0.21/day x 30 days = $6.30/month, and $1.161 x 30 days = $34.83/month). Exhibit BVES-01, p. 8, lines 5-18.

22 Exhibit BVES-01, Attachment D.

23 Bear Valley Exhibit BVES-01, p. 2-, line 3, PacifiCorp, to p. 3, line 2, Exhibit PAC/100, p. 2, lines 2-17, and Exhibit Liberty, p-01, pp. 2--3.

Conceptually, the cost build-up and rate design of the TURN/NRDC and Cal Advocates IGFC proposals are similar to the Joint IOUs. There is significant overlap in the proposed cost categories to include in a fixed charge, as illustrated in Table II-3 below. There are differences in the number of income brackets and income verification proposals, as discussed below, but the IGFC cost category buildup for the Joint IOUs, TURN/NRDC, Cal Advocates, and to a certain extent Sierra Club, are grounded in the same logic.

Table II-3
Summary of Parties' Proposed Cost Categories for Inclusion in Default IGFC

Cost Category	Joint IOUs	TURN NRDC	Cal Advocates	Sierra Club	CEJA	SEIA
Power Charge Indifference Adjustment (PCIA)	0%	100%	0%	0%	0%	0%
Marginal Energy Cost	0%	0%	0%	0%	0%	0%
Marginal Generation Capacity Cost	0%	0%	0%	0%	0%	0%
Non-Marginal Generation	0%	0%	0%	0%	0%	0%
Marginal Customer Access Costs (MCAC)	100%	100%	100%	100%	0%	100%
Marginal Distribution Capacity – Primary	0%	0%	0%	0%	0%	0%
Marginal Distribution Capacity Cost - New Business	100%	100%	0%	0%	0%	0%
Marginal Distribution Capacity Cost – Secondary	0%	0%	0%	0%	0%	0%
Marginal Distribution – Grid	0%	0%	0%	0%	0%	0%
Marginal Distribution – Peak	0%	0%	0%	0%	0%	0%
Marginal Distribution Demand - Non-Coincident Peak	0%	0%	0%	0%	0%	0%
Marginal Distribution Demand - Coincident Peak	0%	0%	0%	0%	0%	0%
Non-Marginal Distribution Costs	100%	7-45%	23-45%	20-46%	0%	0%
Transmission	0%	0%	0%	0%	0%	0%
Public Purpose Programs – SGIP	100%	100%	100%	100%	100%	0%
Wildfire Fund Charge	0%	0%	100%	100%	100%	0%
Wildfire Hardening Charge	100%	100%	100%	100%	0%	0%
Recovery Bond Charge	0%	0%	0%	100%	100%	0%
Recovery Bond Credit	0%	0%	0%	100%	100%	0%
Public Purpose Programs - Non-CARE Exempt	100%	100%	100%	100%	100%	0%
Nuclear Decommissioning	100%	100%	0%	100%	100%	0%
New System Generation Charge/Local Generation Charge*	100%	100%	0%	0%	0%	0%
Competition Transition Charge	0%	0%	0%	100%	100%	0%
Energy Cost Recovery Account	0%	0%	0%	100%	0%	0%
Baseline Adjustment Component (TRAC)	0%	0%	0%	0%	0%	0%
Reliability Services	0%	0%	0%	0%	0%	0%
Residential CARE Contribution	100%	100%	100%	100%	100%	0%

*[24]

[24] PG&E and SDG&E propose to include 100% of NSGC/LGC in the IGFC.

As discussed further in the sections below, several overall considerations make the Joint IOUs' proposal preferable to others.

1. The IGFCs Should Not Be the Same Across All Three Large IOUs, as TURN/NRDC Propose.

First, TURN/NRDC propose the same fixed charges for the Joint IOUs.[25] However, adopting the exact same fixed charge for all three IOUs unreasonably deviates from the principle that rates should be cost-based, as each IOU has different average volumetric rates and costs that require appropriate individual consideration. Therefore, the Joint IOUs respectfully urge the Commission to adopt different average IGFCs for each large IOU, as proposed in their Opening Testimony.[26]

2. Proposals that Include a $0 per month Tier for Low-Income Customers, Dilute the Volumetric Rate Reduction Needed to Achieve the Legislature's Electrification Goals.

While Sierra Club proposes a modest average IGFC ($28 for PG&E, $37 for SCE, and $36 for SDG&E),[27] its overly complicated proposal would assign CARE and FERA customers a IGFC of $0/month. This would place a significant burden on non-CARE/FERA customers to recover the difference.[28] Sierra Club's reasoning for setting the CARE/FERA IGFC at $0/month is based on an interpretation of AB 205 that every low-income customer must see a bill decrease with no changes in usage.[29] As stated in the Joint IOUs' Statutory Interpretation Reply Brief, the interpretation that AB 205 requires every low-income customer to see a bill decrease is not

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[25] Exhibit NRDC-TURN-01 Errata, p. 24, Table 4.

[26] Each of the Joint IOUs provided, as supplementary Opening Testimony, its own, utility-specific Exhibit setting forth how the application of the Joint IOUs' overall proposal results in different specific IGFC values for each IOU based on its currently-adopted marginal costs. See, Exhibit PG&E-01, PG&E-Implementation of IGFC (Apr. 7, 2023); Exhibit SCE-02, SCE-Implementation of IGFC (Apr. 7, 2023); and Exhibit SDGE-02, SDGE-Implementation of IGFC (Apr. 7, 2023).

[27] Exhibit SC-01E, p. 3, lines 5-7.

[28] Exhibit SC-01E, p. 39, lines 4-28.

[29] *Id.*, at lines 4-11.

logical.[30] The Commission should assess a reasonable fixed charge on CARE customers so that the *average* CARE customer sees a bill decrease without any changes in usage. In addition, the statute's plain language refers to low-income customers "paying" a "lower" fixed charge, which implies a non-zero amount (otherwise they would be "paying" no fixed charge at all). Therefore, it is unnecessary and misguided to set the CARE and/or FERA IGFC at $0/month. As shown in the Joint IOUs' Opening Testimony, our proposals' fixed charges of $15-$34 for CARE/FERA customers provide those with low incomes an effective fixed charge discount of approximately 45-50%, compared to the 30-35% statutory discount CARE customers receive today.[31] Similarly, CEJA proposes a fixed charge of $0/month for CARE and FERA customers.[32] For the reasons discussed above, the Commission should not adopt a $0 fixed charge for low-income customers.

3. <u>**Significant Reductions in Volumetric Rates are Critically Important to Achieve California's Electrification Goals.**</u>

Contrary to many of its statements about incentivizing electrification, SEIA claims that only a small IGFC is necessary to meet state goals, and that cost-based time-of-use (TOU) rates are a more important tool than a fixed charge to promote electrification. The Joint IOUs disagree that TOU rates are a *more* important tool than fixed charges in promoting electrification. TOU rates can influence customer behavior to shift consumption, but if the TOU rate in the off-peak period remains high, the operating costs of electrifying buildings and transportation will also remain high even if customers are somehow able to shift all of their usage to the off-peak, so customers will not be adequately incentivized to electrify. SEIA's argument also fails in respect to large peak-to-off peak TOU differentials. As seen below in Table II-4, the Joint IOUs' proposal results in greater TOU differential ratios than SEIA's proposal, and by SEIA's logic, provide a greater incentive to shift usage to non-peak periods.

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[30] Joint IOUs' Reply Brief on AB 205 (Feb. 13, 2023), pp. 18-19.

[31] Exhibit Joint IOUs-01, p. 48, Tables II-8, II-9, and II-10.

[32] Exhibit CEJA-01, p. 2, lines 9-12.

SEIA states that electrifying vehicles and buildings is widely viewed as the least-cost means to reduce carbon emissions in the transportation and building sectors, and that the rate customers pay for electricity to power the Distributed Energy Resources (DER) must be competitive with the fossil fuel displaced for residential customers to have an economic incentive to adopt these DERs.[33] However, SEIA's proposed rates will result in super off-peak volumetric rates that would still be significantly higher than the levels needed to encourage electrification. For example, as seen below in Table II-4, SEIA's proposal would result in winter super off-peak rates of $0.47/kWh for SDG&E's default TOU rate. For customers considering adopting an electric vehicle (EV) and increasing their Tier 2 usage, incremental charges of $0.47/kWh equate to approximately $3.92/gallon of gasoline.[34] While this may be marginally attractive compared to today's average gasoline prices, SDG&E's proposed rate of $0.30/kWh is approximately equivalent to $2.50/gallon of gasoline, making an electric vehicle more attractive from a cost perspective, even if gasoline prices fall. Comparing SEIA's proposal to the Joint IOUs' proposals for incremental usage, SEIA's proposal does not encourage customers to electrify because operating costs would be higher than the Joint IOUs, as described later in this chapter.

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33 SEIA Direct Testimony, p. 9, lines 11-14.

34 Assuming a 25-mpg average efficiency combustion engine vehicle (CEV) and an EV that travels 3 miles/kWh. For a 35-mpg CEV, $0.47/kWh is the equivalent of ~$5.50/gal.

Table II-4
Comparison of SDG&E Status Quo to SEIA and SDG&E Proposed Volumetric Rates

SDG&E TOU-DR1: Non-CARE			
	Status Quo Rate* ($/kWh)	SEIA Proposed Rate ($/kWh)	SDG&E Proposed Rate ($/kWh)
Summer: On-Peak	0.85	0.82	0.60
Summer: Off-Peak	0.54	0.51	0.29
Summer: Super Off-Peak	0.37	0.34	0.12
Winter: On-Peak	0.65	0.58	0.41
Winter: Off-Peak	0.57	0.50	0.32
Winter: Super Off-Peak	0.55	0.47	0.30
Baseline Credit	(0.12)	(0.09)	(0.07)
Summer: On/Super Off Differential	2.3:1	2.4:1	4.8:1
Winter: On/Super Off Differential	1.2:1	1.2:1	1.4:1

*[35]

As seen in Table II-4 above, the Joint IOUs' proposals retain strong price signals to encourage energy efficiency and load shifting. The Joint IOUs' proposals reduce volumetric rates the most, which is critical to incentivizing electrification. Parties whose proposals only marginally reduce volumetric rates do not even result in volumetric rate levels that were effective five years ago.[36] Significantly reducing volumetric rates will increase the percent TOU differentials between the On-Peak and Super-Off-Peak period rates. The Joint IOUs' proposals do more to increase the percent differentials between TOU periods because fewer fixed costs need to be recovered in volumetric rates. As discussed further below, SEIA's proposal also appears to be non-compliant with AB 205, as the average CARE customer in certain climate zones see overall bill increases.

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[35] Counterfactual TOU-DR1 rate as calculated by the errata E3 Public Tool (Public Tool).

[36] PG&E's average bundled non-CARE residential rate on 1/1/2018 was $0.232/kWh. SDG&E's average bundled residential rate on 1/1/2018 was $0.276/kWh. SCE average bundled non-CARE residential rate on 1/1/2018 was $0.201/kWh.

4. <u>The Commission must Weigh Implementation Cost and Feasibility as well as Address Complexity and Customer Understanding when Deciding the Final Structure of the IGFC.</u>

While incentivizing electrification and efficient use of DERs is a key aspect of this OIR, it is also important to increase affordability and equity for all customers, including those who are not able to adopt electrification technologies. Similarly, incentive structures for load shifting must also consider the tradeoffs and affordability for all customers including those who have not yet been able to achieve electrification. In general, costly, overly complex proposals or program elements should be avoided when policy goals can be better achieved through simpler IGFC approaches.

CEJA's proposal suggests there should be ten different income brackets, each with different fixed charges. While arguably the most progressively differentiated proposal of all, CEJA's approach is overly complex, as discussed in the Chapter IV (Implementation) below. Additionally, it would raise little revenue to lower the overall average volumetric rate and it would collect the most revenue from a small number of the highest-income households. This structure could lead to swings in cost recovery from year to year in the plausible event of the number of households paying the highest fixed charge being volatile. Furthermore, CEJA's proposed average fixed charge of approximately \$7-\$11 (depending on the IOU) is insufficient to meaningfully lower the average volumetric rate, which is essential to accomplish the legislature's electrification goal, as displayed in Table II-1.[37]

Parties that propose complex IGFC structures that also do little to reduce overall volumetric rates do not advance the goals of the proceeding or the State because they will require a complex and costly implementation while doing little to adequately incentivize electrification. Implementation of the IGFC and income verification is already complex. A final IGFC structure that barely reduces volumetric rates would waste the opportunity before the Commission while

[37] CEJA does not provide an "average fixed charge" number in its testimony. Therefore, the Joint IOUs calculated an average fixed charge for CEJA using the data provided in Exhibit CEJA-01, Attachment 2 to calculate these numbers.

creating a costly and complex structure that may outweigh the benefits it provides. Given the complexity of CEJA's proposal and the minimal benefit it provides in reducing volumetric rates, the Commission should not adopt CEJA's proposal.

Sierra Club's proposal is similar to CEJA's, featuring several income brackets varying by geography, a $0 IGFC for CARE/FERA-enrolled customers, lacks a meaningful reduction in volumetric rates, and thus should also not be adopted. Additionally, Sierra Club's proposal to calculate non-marginal customer access costs is unnecessarily complex and more reflective of embedded costs, rather than marginal costs, as discussed in more detail below.

B. Alternate Versions of the CPUC's Historical Treatment of Fixed Charge Proposals Before AB 205 Should be Given No Weight.

SEIA's argument that fixed charges should be limited to only marginal customer access costs ignores more recent decisions than D.17-09-035.[38] In effect, SEIA's proposal argues that AB 205 changed nothing, when it obviously did. Prior to AB 205's passage, AB 327 (2013-2014 Reg. Sess.) limited fixed charges to $10 for non-CARE customers and $5 for CARE customers initially, with that limit increased according to the Consumer Price Index starting in 2016.[39] It is not credible that the legislative intent of passing a bill which: (1) eliminated the cap on fixed charges; and (2) required income graduation such that low-income customers would achieve greater bill savings than today merely meant that the CPUC should authorize virtually the same fixed charges that they could have authorized all along.[40] SEIA conceded this in response to discovery, admitting that only its proposed SDG&E non-CARE fixed charge exceeds

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38 SEIA Direct Testimony, p. 14, line 13 to p. 17, line 11, including fn. 27.

39 AB 327 (2013-2014 Reg. Sess.). For illustrative purposes, according to the Federal Bureau of Labor Statistics Inflation Calculator, these limits would have been $12.63 and $6.31 in 2023 for Non-CARE and CARE customers, respectively.

40 SEIA proposes fixed charges of $13.14 and $7.43 for SDG&E non-CARE and CARE customers, respectively; all other proposed fixed charges are lower than the pre-AB 205 limits. SEIA Direct Testimony, p. 22, Table 3.

what was allowed by AB 327.[41] However, SEIA also incorrectly claims that its proposal provides "a larger discount to the Tier 1 CARE fixed charge (i.e., about a 45% discount) than would have been allowed prior to the enactment of AB 205 (which was a 30% to 35% discount)."[42] This is an incorrect statement as preexisting law set the cap for CARE fixed charges at 50% of the cap of non-CARE fixed charges. SEIA's proposal is not credible because it reflects an interpretation that the two ways in which AB 205 changed the law would only: (1) allow a slightly higher fixed charge for non-CARE customers of one utility and (2) allow a lower discount on fixed charges for CARE customers.

SEIA's proposal is not compliant with the letter of AB 205 by any interpretation offered by parties in their statutory interpretation briefs. AB 205 expressly requires that the IGFC to be established "so that low-income ratepayers in each baseline territory would realize a lower average monthly bill without making any changes in usage."[43] As shown below in Figure II-4, SEIA's Public Tool results show bill *increases* for CARE customers in PG&E's climate zone T, SDG&E's coastal climate zone, and SCE's climate zones 6 and 8, for each IOUs' default rate schedule E-TOU-C, TOU-DR1, and TOU-D 4-9. Based on the Joint IOUs' assessment of AB 205 Interpretation Briefs, this appears to be contrary to the Joint IOUs' and all other parties' respective interpretations of this requirement.[44] In those briefs, SEIA did not offer its own interpretation or reply to those of any other party. However, now SEIA offers what appears to be a new interpretation in testimony that this requirement merely requires that low-income fixed charges be lower than other customer groups' fixed charges.[45] SEIA's legal conclusion should

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[41] SEIA's Response to Data Request PG&E-SEIA001, Question 2, dated 5/5/23 in Appendix A at the end of this exhibit.

[42] *Ibid.*

[43] Pub. Util. Code, § 739.9€(1).

[44] SEIA Opening Brief on AB 205 (Jan. 23, 2023), p. 18.

[45] SEIA Direct Testimony, p. 22, lines 21-25.

be rejected because it is not compliant with AB 205. Therefore, the Joint IOUs respectfully urge the Commission reject SEIA's proposal.

Figure II-4
SEIA's Direct Testimony Errata Public Tool CARE Customer Bill Impact Results

PG&E

			Customer Average Bill Impact ($/mo)										
Income Bracket	Bill Discount		PG&E	P	Q	R	S	T	V	W	X	Y	Z
$0 - $25,000	CARE	1	$ (0.94)	$ (3.47)	$ (2.17)	$ (2.44)	$ (1.83)	$ 1.14	$ (0.04)	$ (2.24)	$ (0.06)	$ (2.55)	$ (0.69)
$25,000 - $50,000	CARE	2	$ (1.05)	$ (3.44)	$ (2.17)	$ (2.31)	$ (1.74)	$ 1.15	$ (0.04)	$ (2.04)	$ (0.03)	$ (2.55)	$ (0.74)
$50,000 - $75,000	CARE	3	$ (0.86)	$ (3.38)	$ (2.05)	$ (2.17)	$ (1.67)	$ 1.16	$ (0.01)	$ (1.82)	$ (0.01)	$ (2.54)	$ (0.76)
$75,000 - $100,000	CARE	4	$ (0.79)	$ (3.37)	$ (1.81)	$ (2.11)	$ (1.57)	$ 1.17	$ 0.03	$ (1.61)	$ (0.01)	$ (2.54)	$ (0.77)
$100,00 - $150,000	CARE	5	$ (0.68)	$ (3.33)	$ (2.13)	$ (1.95)	$ (1.47)	$ 1.18	$ (0.03)	$ (1.49)	$ 0.02	$ (2.53)	$ (0.79)
$150,000 - $200,000	CARE	6	$ (0.49)	$ (3.26)	$ (2.23)	$ (1.84)	$ (1.39)	$ 1.17	$ (0.04)	$ (1.19)	$ 0.03	$ (2.53)	$ (0.71)
$200,000+	CARE	7	$ (0.22)	$ (3.03)	$ (2.23)	$ (1.64)	$ (1.25)	$ 1.18	$ 0.03	$ (1.06)	$ 0.07	$ (2.53)	$ (1.95)

SDG&E

			Customer Average Bill Impact ($/mo)				
Income Bracket	Bill Discount		SDG&E	Inland	Coastal	Desert	Mountain
$0 - $25,000	CARE	1	$ (0.33)	$ (1.15)	$ 0.73	$ (9.21)	$ (13.97)
$25,000 - $50,000	CARE	2	$ (0.34)	$ (1.13)	$ 0.73	$ (9.76)	$ (12.89)
$50,000 - $75,000	CARE	3	$ (0.27)	$ (1.10)	$ 0.74	N/A	$ (13.07)
$75,000 - $100,000	CARE	4	$ (0.10)	$ (1.08)	$ 0.78	N/A	$ (14.37)
$100,00 - $150,000	CARE	5	$ 0.03	$ (1.11)	$ 0.76	N/A	N/A
$150,000 - $200,000	CARE	6	$ 0.95	N/A	$ 0.95	N/A	N/A
$200,000+	CARE	7	N/A	N/A	N/A	N/A	N/A

SCE

			Customer Average Bill Impact ($/mo)									
Income Bracket	Bill Discount		SCE	5	6	8	9	10	13	14	15	16
$0 - $25,000	CARE	1	$ (1.82)	N/A	$ 1.23	$ 0.15	$ (0.89)	$ (3.53)	$ (4.45)	$ (5.09)	$ (4.24)	$ (2.19)
$25,000 - $50,000	CARE	2	$ (1.74)	N/A	$ 1.23	$ 0.15	$ (0.89)	$ (3.48)	$ (4.33)	$ (4.99)	$ (4.11)	$ (2.16)
$50,000 - $75,000	CARE	3	$ (1.69)	N/A	$ 1.23	$ 0.16	$ (0.89)	$ (3.41)	$ (4.24)	$ (4.93)	$ (4.04)	$ (2.16)
$75,000 - $100,000	CARE	4	$ (1.70)	N/A	$ 1.23	$ 0.16	$ (0.89)	$ (3.36)	$ (4.15)	$ (4.92)	$ (3.98)	$ (2.16)
$100,00 - $150,000	CARE	5	$ (1.60)	N/A	$ 1.23	$ 0.16	$ (0.89)	$ (3.28)	$ (4.14)	$ (4.81)	$ (3.94)	$ (2.11)
$150,000 - $200,000	CARE	6	$ (1.43)	N/A	$ 1.23	$ 0.17	$ (0.90)	$ (3.14)	$ (4.03)	$ (4.70)	$ (3.84)	$ (2.05)
$200,000+	CARE	7	$ (1.17)	N/A	$ 1.23	$ 0.17	$ (0.90)	$ (3.04)	$ (3.87)	$ (4.61)	$ (3.65)	$ (1.98)

C. <u>The Overall Level of Fixed Charge Should Not be Limited to Marginal Customer Access Costs but Rather Include All Costs that Do Not Vary with Changes in Electricity Consumption.</u>

Several key parties' Opening Testimony (Cal Advocates, TURN/NRDC and the Joint IOUs) conforms with the economic theory expressed in the Haas Institute's Reports, by identifying an overall level of average fixed costs that would be necessary to establish a cost-based relationship between fixed and volumetric revenue recovery.[46] However, SEIA's Opening Testimony, which is based on a mischaracterization of AB 205, does not sufficiently identify an average fixed cost and thus is inconsistent with prevailing economic theory as reflected in the Haas research.

Economic theory states that efficient rate designs are achieved by establishing a cost-based relationship between fixed and volumetric revenue recovery that maximizes the value to the consumer by reducing the consumer's costs for each marginal unit of consumption.[47] In its guidance to parties regarding the development of proposals that are consistent with AB 205, Energy Division cited recent research by the Haas Institute regarding fixed and volumetric cost recovery.[48] The basic concept demonstrated through the Haas research is one where costs that are fixed in nature are properly recovered through a fixed charge, thus reducing the volumetric rates to a level that better aligns with the marginal cost of providing electricity service. The research shows the inclusion of fixed charges alone leads to a more efficient rate structure relative to the current structure, with the addition of income graduation making the structure

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[46] Exhibit NRDC-TURN-01, p. 6, lines 14-28; Exhibit Cal Advocates-01, p. 1-1, lines 6-11; and Exhibit Joint IOUs-01, p. 28, lines 17-22.

[47] Next 10 and Energy Institute at Haas, Designing Electricity Rates for An Equitable Energy Transition (Feb. 23, 2021); and, Paying for Electricity in California: How Residential Rate Design Impacts Equity and Electrification (Sept. 22, 2022).

[48] See *Administrative Law Judge's Ruling Providing Guidance for Phase 1 Track A Proposals* (Jan. 17, 2023), Attachment: Track A: Income-Graduated Fixed Charge Guidance Memo, at 13, fn.28, citing Borenstein, et al., Paying for Electricity in California: How Residential Rate Design Impacts Equity and Electrification. Next 10 and the Energy Institute (Sept. 22, 2022).

more progressive and equitable. This rate design principle is best accomplished when the level of fixed costs recovered through the IGFC approaches the full cost level contained within the IOUs' revenue requirements attributable to fixed costs. The same economic principle, regarding fixed cost recovery from the Haas work, is reflected in the Opening Testimonies of Cal Advocates, TURN/NRDC, and Joint IOUs, who have presented proposals identifying an overall level of fixed costs that would be necessary to reach an outcome where the marginal (volumetric) price for each unit of consumption approaches the marginal costs of providing an incremental unit of electricity. However, the alternative valuation of the average fixed costs level offered by SEIA (a three bracket proposal with charges from $4.93 on the low end to $13.14 on the upper end)[49] does not sufficiently identify fixed costs, producing a result that is inconsistent with the Haas research and what the Joint IOUs understand to be the intent of AB 205. SEIA asserts that such fixed charges should collect only "marginal costs that are not driven by customer usage," including "the costs of the transformer, service drop, and meter required to provide a customer with access to the grid, plus the associated operating costs for revenue cycle services, such as billing and customer care."[50] However, SEIA's alternative proposal is not consistent with the rate design principles[51] the Commission has adopted, the intent of AB 205, or the goals of this proceeding. Thus, the Commission should reject SEIA's alternative proposal and should adopt the Joint IOUs' proposal for establishing the average fixed charge level.

SEIA's justification for its proposal is misguided in at least two respects. First, although SEIA asserts that its approach is consistent with AB 205, in fact, SEIA's definition of what costs should be recovered by a fixed charge is overly narrow based on the plain language of the statute. SEIA incorrectly states that Public Utilities Code, Section 739.9(a) "clearly defines a

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[49] See SEIA Direct Testimony, p. 22, Table 3.

[50] See SEIA Direct Testimony, p. 15, lines 11-13.

[51] See D.23-04-040, p. 2. As with prior rate design principles, rates should be based on (ii) marginal costs and (iii) cost-causation, but now, also rates should (iv) encourage economically efficient use of energy, reduction of greenhouse gas emissions and electrification.

'fixed charge' as a charge 'not based on the volume of electricity consumed' that collects 'a reasonable portion of the fixed costs of providing electric service to residential customers.'"[52] It is correct that Section 739.9(a) defines a fixed charge as "any fixed customer charge, basic service fee, demand differentiated basic service fee, demand charge, or other charge not based upon the volume of electricity consumed."[53] However, the "reasonable portion" language cited comes not from Section 739.9(a) but Section 739.9(d), which does not define the term "fixed charge" but rather authorizes the Commission to adopt or expand "fixed charges for the purpose of collecting a reasonable portion of the fixed costs of providing electrical service to residential customers."[54] In other words, the "reasonable portion" provision in Section 739.9(d) does not place any qualification or limitation on the definition of "fixed charge" provided in Section 739.9(a). In addition, while Section 739.9(a) defines "fixed charge" as any "charge not based on the volume of electricity consumed," SEIA uses a more restrictive definition whereby a fixed charges can only recoup "marginal costs that are not driven by customer usage" (which SEIA identifies as the costs of the transformer, service drop, meter, and associated operating costs such as billing and customer care).[55] However, charges not based on the volume of electricity consumed go beyond such "marginal costs," such that those charges can (and should) encompass costs associated with energy efficiency programs, affordability measures for low-income customers, and non-marginal distribution costs.

Second, SEIA's proposed limitation of fixed charges to the marginal customer access cost results in a rate structure that is ineffective at reaching any of the primary objectives outlined in AB 205 and in this proceeding. SEIA's proposal does not provide lower bills to low-income customers in each climate zone[56] and does not provide price signals to encourage

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[52] SEIA Direct Testimony, p. 15, lines 3-6.

[53] Pub. Util. Code, § 739.9(a).

[54] Pub. Util. Code, § 739.9(d).

[55] See SEIA Direct Testimony, p. 15, lines 9-10.

[56] SEIA Direct Testimony, p. 23, lines 20-26; and p. 35, lines 18-22.

electrification, as discussed herein Section 3 above. SEIA's disregard of the economic construct behind legislature's IGFC requirement in AB 205 results in a rate proposal that brings on the burden of a fixed charge without the relief afforded by a meaningful reduction in the volumetric rate. This basic premise regarding the need to balance fixed and volumetric cost recovery across an income distribution from the Haas studies is entirely absent in SEIA's proposal. For the reasons discussed above, the Commission should reject SEIA's proposal, and any other party proposals that limit the level of fixed costs recovered through the IGFC solely to marginal customer access costs.

The Commission should also reject proposals that purport to restrict the Commission from future reviews of fixed costs to be recovered through the IGFC structure. The language of Section 739.9(d), partially captured in SEIA's reference, allows the Commission to review costs that are fixed in nature and include a reasonable portion of those costs within the IGFC. The Joint IOUs' proposal[57] is consistent with the plain language of Section 739.9(d) by identifying the upper range of an average fixed charge and then balancing other considerations to reach a "reasonable" average fixed charge[58] as an initial step. TURN/NRDC took a similar path, also based on the Haas research in proposing its stepped approach[59] to IGFC implementation, adding "the Commission should continue updating this rate structure to ensure that income graduated fixed charges are collected more progressively over time, and that rates continue to balance Commission priorities for cost-effective energy efficiency and demand response, beneficial electrification, and cost-effective distributed generation."[60]

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57 Exhibit Joint IOUs-01, p. 51, lines 14-19.

58 Exhibit Joint IOUs-01, p. 5, Table I-1. Average fixed charges by IOU: PG&E, $53/mo.; SDG&E, $74/mo.; and SCE, $49/mo.

59 Exhibit NRDC-TURN-01, p. 17, lines 24-27.

60 Exhibit NRDC-TURN-01, p. 18, lines 12-16.

1. Fixed Charges Should Change with Underlying Revenue Requirements.

Certain parties propose fixed charges that are static, and would not change with revenue requirement changes. SEIA proposes fixed charges that only include marginal customer access costs (MCAC),[61] meaning that the IGFC would be static between each utility's GRC Phase 2, when MCAC are updated. Sierra Club also proposes to use MCAC for its "Below Average Income" bracket.[62] These proposals are ineffective because if the fixed charge adopted were static and did not change between rate design proceedings such as a GRC Phase 2, all incremental costs would have to be added to volumetric rates, which would erode the effectiveness of the IGFC and intent of this effort, especially if costs changed rapidly between GRCs.

The IGFC should be able to fluctuate with revenue requirement changes so as not to dilute the impact of the IGFC on volumetric rates. Restricting the ability of the Joint IOUs to update the IGFC in between rate design proceedings would be shortsighted, as GRC Phase 2s would become even more contentious in setting updated IGFCs every four years or so. As proposed in the Joint IOUs' Opening Testimony, the cost basis for the IGFC could be revisited in GRC Phase 2 rate design proceedings,[63] but the IOUs should be authorized to match the IGFC to the underlying revenue requirements during the time between these lengthy cases.

For example, if the Commission decides to recover the Public Purpose Programs (PPP) charge in the IGFC, it should authorize the IOUs to recover the full cost of the PPP, and not adopt a specific dollar amount that recovers the 2023 PPP revenue requirement that sets the rate for 2024 and beyond, because each large IOU updates its PPP rate annually whereas GRC Phase 2s happen on a staggered four-year cycle under the CPUC's updated Rate Case Plan. If the Commission were to adopt a specific dollar amount (instead of the cost category), when PPP

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[61] SEIA Direct Testimony, p. 16, lines 1-13.

[62] Exhibit SC-01E, p. 38, Table 7.

[63] Exhibit Joint IOUs-01, p. 46, lines 5-8.

rates were updated, the Joint IOUs would be forced to design PPP rates that include both a fixed charge and a volumetric charge for any incremental increases or decreases in PPP revenue requirements. This is the case with all rate components. As discussed in Chapter VI (Cost Recovery) below, if the Commission approves a structure where 60% of distribution costs are recovered in the IGFC and 40% of distribution costs are recovered in volumetric rates, any incremental distribution revenue requirements should be allocated to the IGFC and volumetric rates using the same proportions.

D. Sierra Club's NCAMC Methodology is Overly Complicated, Unnecessary, and Produces Results Inconsistent with Marginal Cost-based Rate Design.

Sierra Club proposes to use a new methodology to scale marginal costs rates to their retail revenue requirement levels. This new approach would be used in place of the Equal Percent Marginal Costs (EPMC) scalar methodology adopted for use today. The Commission has repeatedly approved the use of the EPMC scalar methodology to ensure the drivers of costs and customer determinants from underlying GRC Phase 2 marginal cost studies are reflected in retail electric rates. Because the EPMC methodology scales marginal costs rates to the retail rate level, the process ensures rates will deliver price signals that are reflective of cost drivers (e.g., incremental customer additions over a cycle, or higher or lower transformation costs due to technology evolution). The EPMC scalar is a key component of the Commission's policy regarding marginal cost revenue allocation and rate design. However, the Non-Marginal Customer Access Marginal Costs (NCAMC) factor methodology proposed by Sierra Club is more aligned with embedded cost rate making and fails to provide a price signal consistent with the Commission's long-standing policy regarding marginal costs rate design.[64] The Commission should reject Sierra Club's NCAMC methodology.

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[64] See D.18-08-013, pp. 12-13, for a brief description regarding the CPUC's move from embedded cost approach to an approach based on marginal costs.

The NCAMC methodology is based on the net plant in service value of historical customer access costs. The study includes depreciation expense, capital, operation, and maintenance costs. Through the steps described by Sierra Club in its Opening Testimony,[65] Sierra Club's new NCAMC methodology would produces a factor of 46% for SCE. This means 46% of the non-marginal distribution revenue requirement would be attributed to the customer access function and added to the IGFC as a customer access cost. The results imply that 46% of SCE's non-marginal distribution revenue requirement is associated with connecting new customers to the grid in addition to replacements of existing facilities. This is despite SCE's recent need for wildfire hardening and grid resiliency expenditures. Even when viewed from the perspective of expected new connections and forecasted replacements, the SCE NCAMC factor still appears to be overstated. The EPMC methodology produces an equivalent allocation factor of approximately 24%, which represents the marginal cost responsibility of the residential class, from SCE's 2021 GRC Phase 2, reflecting the combined changes in customer counts, replacements, facilities costs, and customer service costs.

In its testimony, Sierra Club highlights complications[66] associated with its new NCAMC methodology, but states that these complications do not "seriously undermine" Sierra Club's arguments.[67] The Joint IOUs disagree and posit that at least one such complication would be detrimental. In particular, revenue requirements do not have a simple correlation with FERC Form 1 costs, which is to be expected as FERC Form 1 data represents raw accounting records. Specifically, each FERC Plant Account that Sierra Club proposes categorizing as Customer Access Costs (CAC) and Demand Distribution Costs (DDC) has a unique set of parameters (i.e., economic life, cost of removal, tax treatment, etc.) that produce unique lifecycle revenue requirements for each Plant Account. For example, an investment in an asset with a longer economic life will generally have a lower annual revenue requirement stream than the same

65 Sierra Club Direct Testimony, p. 12, lines 6-29.

66 Sierra Club Direct Testimony, p. 13, lines 2-13.

67 *Id*.

investment in an asset with a shorter economic life. Sierra Club's proposal to use the relative weight of CAC and DDC Net Plant in Service as the basis for allocating NMDC revenue requirements does not reasonably account for these types of differences.

In summary, the NCAMC methodology is an embedded cost methodology that is deficient in allocating non-marginal customer access costs and is based on an unproven accounting construct that would result in nearly half of SCE's non-marginal distribution costs being allocated to the customer access function. The EPMC methodology, a key component of the Commission's policy of marginal costs rate design, properly translates the underlying marginal costs drivers to the retail rates. The Commission should reject Sierra Club's NCAMC factor methodology.

E. <u>IGFC Structures</u>

Independent of the amount of revenue to be collected through parties' IGFCs, the proposals presented in Opening Testimony vary in the manner and the degree to which proposed fixed charges are income graduated. This section is organized as follows:

1. <u>Income Definitions</u>: What metric do parties propose to use for determining income thresholds?
2. <u>Number of Income Graduations</u>: How many income categories do parties include?
3. <u>Degree of Graduation</u>: How much do proposed fixed charges vary by income graduation?

While the Joint IOUs continue to support their original proposal, this Reply Testimony identifies characteristics of parties' various proposals, describes the trade-offs inherent in determining the design of the IGFC, and suggests how the Commission could adapt these characteristics and tradeoffs into a final decision.

1. Income Definitions

All of the parties' proposals in Opening Testimony at least in part leverage the two existing income qualified rate discounts (the CARE and FERA programs) to establish the income brackets for their proposal. For the reasons described in the Joint IOUs' Opening Testimony, any IGFC should build off of these existing programs to the greatest extent practicable and establish thresholds keyed to percentages of the FPL as CARE and FERA already do.[68] This consistency will avoid customer confusion regarding overlapping eligibility criteria and carries the benefit of adjusting income thresholds to account for household size. Further, FPL is regularly updated over time, ensuring that definitions will keep pace with inflation and other economic indicators.

The TURN/NRDC proposal includes three income brackets, with the first bracket defined as CARE and FERA customers, the second as non-CARE/FERA customers with household incomes less than $150,000, and the third as non-CARE/FERA customers with household incomes greater than $150,000.[69] The TURN/NRDC proposal is the closest to the Joint IOUs' in how income categories are defined. TURN/NRDC's first bracket combines the Joint IOUs' first two brackets. However, TURN/NRDC's threshold between their middle bracket and high bracket (synonymous with the Joint IOUs' brackets 3 and 4) is a $150,000 annual household income. While initially very similar in practice (and identical for the purposes of the Public Tool) to the Joint IOUs' 650% of FPL threshold, this approach has the downside of treating very large households the same as small households and also fails to update with inflation. For example, a household of five full-time minimum wage earners would count as high income and would be treated the same as a single person making the same income.[70] While the Joint IOUs recognize that TURN/NRDC's simpler income definition may seem easier to administer and

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[68] Exhibit Joint IOUs-01, p. 4, line 10 to p. 5, line 12.

[69] Exhibit NRDC-TURN-01, p. 22, line 26 to p. 23, line 7.

[70] A person working 2,000 hours in a year at California minimum wage of $15.50/hour would earn $31,000; five such people in a household would earn $155,000.

understand for customers, we believe distinguishing this threshold by household size is critical for customer acceptance and equity. In addition, use of the FPL aligns with existing CARE/FERA eligibility statutes, creating congruency across programs.

Cal Advocates proposes income definitions independent of existing programs, and would establish income brackets as: (1) less than $50,000, (2) $50,000-$100,000, and (3) above $100,000, rather than being based on FPL.[71] Cal Advocates proposes that these income brackets be independent of the CARE program definitions.[72] The Joint IOUs respectfully recommend the Commission reject this aspect of Cal Advocates' proposal because it would lead to the confusing result that, for the purposes of the IGFC, a CARE customer could be deemed moderate or even high income. However, if a version of Cal Advocates' structure were accepted, at minimum it should make the low-income fixed charge category synonymous with CARE enrollment. While the Joint IOUs believe converting Cal Advocates' $100,000 threshold for its high-income bracket to a percentage of FPL would be preferable, this is less essential for customer understanding and acceptance than the need to harmonize the low-income category with the CARE customer definition.

Sierra Club proposes to initially base income definitions on percentages of FPL.[73] However, they also propose that, at some point in the future, these definitions should shift to percentages of Area Median Income (AMI). The Joint IOUs respectfully request that the Commission reject this proposal because it is critical that income definitions align with existing rate discount programs as much as possible, as they require use of FPL, not AMI.

Sierra Club argues that regional variations in income and housing costs across would support basing income thresholds for the IGFC on AMI rather than a single set of thresholds based on FPL.[74] Sierra Club points out that the definition of low-income for a three-person

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[71] Exhibit Cal Advocates-01, p. 2, lines 5-17.

[72] *Id*., p. 2, line 5 to p. 3, Table 1.

[73] Sierra Club Direct Testimony, p. 36, lines 10-18.

[74] *Id*., p. 34, line 10 to p. 35, line 13.

household would range from $56,000 to $134,000 under its AMI-based structure. As a practical matter, establishing different income thresholds based on geography will further complicate an already incredibly complex implementation effort for customers and the Joint IOUs, especially given that the CARE and FERA programs will remain tied to FPL definitions. The addition of fixed charges is already going to be challenging to communicate to customers without changing from a known FPL-based income definition to a new AMI-based one. However, the use of AMI in this situation should be rejected on the policy merits; as Sierra Club notes, AMI is appropriate in the context of housing assistance programs, as AMI and housing costs are inextricably linked.[75] However, the IGFC is intended to promote electric bill affordability; while there is geographic variation in usage, per longstanding CPUC policy, there is no geography-based variation in rate levels within an IOU's service territory.[76] Sierra Club's claim that AB 205's reference to "'a low-income ratepayer in each baseline territory' implies some degree of geographic differentiation in rate design" and therefore supports use of AMI is implausible.[77] The distinguishing characteristic of baseline territories is that they are based on climate conditions as they have affected energy usage; the extent to which there are income differences between baseline territories is likely due to higher demand for housing in cooler coastal regions resulting in lower-income households being forced to live elsewhere. The fact that housing costs are extremely high in San Francisco compared to Stockton is not a reason to provide low-income electric bill discounts to six figure income households in San Francisco.

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75 Sierra Club Direct Testimony, p. 35, lines 6-10.

76 While baseline quantities are different across regions, this is intended to keep average rate levels across geographies consistent in the context of an increasing block rate structure, not less.

77 Sierra Club Direct Testimony, p. 34, lines 12-14.

2. Number of Income Graduations

Party proposals range from proposing three income graduations (SEIA and TURN/NRDC) to ten income graduations (CEJA).[78] This design criteria requires balancing granularity against increasing administrative challenges.

In response to CEJA's ten income graduations, more income graduations can both improve progressivity and reduce the bill impact of shifting customer eligibility. However, an inherent drawback of the IGFC structure required by AB 205 is that small marginal changes in income can result in large changes in monthly utility bills. While more categories can narrow the differentials between brackets and mitigate this issue, it is likely to increase customer confusion and makes administration more challenging. Therefore, the difference between brackets must be somewhat significant to justify the increased complexity to customers and the IOUs. For example, the Joint IOUs propose to establish separate brackets for the <100% FPL CARE population and the >100% FPL CARE population, with a meaningful difference in the fixed charge between the categories.

The Joint IOUs continue to strongly support subdividing low-income customers into two brackets allowing the most economically vulnerable households to receive a lower fixed charge, as opposed to blending these two subcategories into a single category. However, if the CPUC adopts a structure that compresses the differential between the low-income brackets to less than $10/month there is likely less value in maintaining two low-income brackets because it will increase implementation, complexity, and administrative costs for little customer benefit.

3. Degree of Income Graduation.

Parties' proposals vary widely in the degree to which fixed charges are income differentiated. Table II-5 below summarizes party fixed charge proposals by what each income category pays as a percent of the average fixed charge of the proposal when applied to PG&E's

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[78] Exhibit NRDC-TURN-01, p. 22, line 19 to p. 24, line 13; Exhibit CEJA-01, p. 19, lines 1-10.

rates. This allows a consistent comparison of the income graduation design of each proposal, independent of the overall magnitude of each party's fixed charge proposal.

Table II-5
Proposed IGFC Levels as Percent of Average Fixed Charge, PG&E Rates[79]

CARE Status	Income Category	% of Population	PG&E	NRDC/ TURN	Cal Advocates (w/o CCC)	Cal Advocates (w/ CCC)	Sierra Club	CEJA	SEIA
CARE	$0 - $25k	14%	28%	14%	37%	17%	0%	0%	65%
	$25k- $50k	8%	56%	14%	37%	17%	0%	0%	65%
	$50k- $100k	4%	56%	14%	51%	68%	0%	0%	65%
	$100k+	2%	56%	14%	59%	75%	0%	0%	65%
Non-CARE	$0 - $50k	10%	96%	114%	83%	17%	32%	0%	98%
	$50k-$75k	11%	96%	114%	117%	134%	32%	0%	98%
	$75k-$100k	11%	96%	114%	117%	134%	32%	0%	120%
	$100k-150k	15%	96%	114%	136%	152%	64%	56%	120%
	$150k - $200k	9%	173%	172%	136%	152%	192%	56%	120%
	$200k+	15%	173%	172%	136%	152%	402%	558%	120%

As with the related question of how many income categories should be used in the IGFC, the question of how steeply to differentiate the IGFC between brackets is a difficult balancing act between achieving the improved levels of progressivity against simplicity and practicality. The Joint IOUs offer the following observations and conclusions on reviewing party proposals:

a) <u>SEIA</u>

SEIA's is the least progressive of all proposals, as shown by the narrow band of fixed charge levels in Table II-5. Further, as discussed in Section B of this Chapter, SEIA's proposal is non-compliant with the intent as well as the letter of AB 205's statutory amendments to

[79] Cal Advocates proposal shown with and without impact of CCC redistribution to aid in comparability. Note that the reduction in the CCC received by all customers is included in the second scenario to reflect its equivalence to assessing higher fixed charges. Sierra Club's proposed charges by income category in testimony used to inform this table instead of Sierra Club's Public Tool model inputs to ensure comparability with other proposals.

Section 739.9. As interpreted by all other parties, AB 205 requires (at some point) differentiation between moderate- and high-income customers. Further, all other parties agree that AB 205's requires CARE customers receive a higher effective discount than they do today. SEIA's proposal does neither—as shown in their testimony, average low-income customers in multiple baseline territories would face bill increases under SEIA's proposal. If the CPUC were to adopt a proposal structure that relied solely on existing income qualified program participation, the effective discount provided to CARE customers via the IGFC would need to be higher than proposed by SEIA to comply with AB 205.

b) <u>Sierra Club and CEJA</u>

Sierra Club and CEJA propose the highest degree of progressivity; under their proposals, the highest income segments would pay over four times the average fixed charge. While Sierra Club's and CEJA's proposals achieve high degrees of progressivity on paper, in practice they may collect far less revenue than expected due to avoidance by high income customers. Intuitively, the more the IGFC structure relies on collecting revenue from a small group of high-income customers, the more volatile the actual collected revenue will be when enrollment in each income category inevitably deviates from forecast due to both avoidance and exogenous economic treads. As discussed above, Sierra Club and CEJA also propose low average fixed charge levels; unlike other proposals which offer significant volumetric rate reductions. These two proposals could be perceived as purely punitive by higher income customers due to the lack of perceivable benefit from reduced volumetric rates, therefore resulting in significant utility administrative and customer burden costs for little policy benefit.

c) <u>Cal Advocates</u>

Cal Advocates' proposed income graduation is not far off from the IOU proposals; the Joint IOUs have no comments on its exact degree of graduation beyond those noted in Chapter I (Introduction and Policy) above. However, the Joint IOUs do have concerns with how this differentiation is achieved. Cal Advocates' proposal to reallocate the California Climate Credit (CCC) makes this proposal difficult to compare; the effect of reallocating the CCC effectively increases the fixed charge by $4.50/month for PG&E in all income categories, while nominally providing a new credit to zero out the fixed charge for the low-income categories.[80] The Joint IOUs prefer that rate designs be as transparent as possible, and therefore oppose this method of achieving the IGFC differentiation.

The Joint IOUs have additional concerns about the use of the CCC for this purpose. The CCC is inherently volatile, and Cal Advocates recognizes that it may not always be sufficiently funded to provide the credits proposed here.[81] While historical budget levels have been sufficient to provide the benefit Cal Advocates propose, there is no guarantee this will always be the case. Even if the CCC budget remained sufficient, the proposed reallocation would have the effect of making the residual CCC credit provided to all customers more volatile. While an innovative way of reallocating this existing bill credit, on balance the Joint IOUs prefer a more transparent approach in which the IGFC mechanism (along with CARE, to the extent appropriate) self-funds low-income discounts.

d) TURN/NRDC

The TURN/NRDC proposal's income differentiation is similar to the Joint IOUs,' but with a much higher discount for the lowest income category. The Joint IOUs recognize this is a policy call. On balance, under the Joint IOUs' proposal, the effective CARE discount will be much higher than it is today; going even further as TURN/NRDC would and only requiring low-income customers to pay a nominal fixed charge would have the effect of requiring moderate- and high-income customers to face additional bill increases.

As shown in the Joint IOUs' Opening Testimony, this proceeding will cause the overall bill-to-bill discount received by low-income customers to increase significantly from where it is

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[80] Exhibit Cal Advocates-01-E, p. 1-23, lines 4-6.

[81] Exhibit Cal Advocates-01, p. 24, Table 13.

today.[82] While lowering the fixed charge assessed on low-income customers ensures even the lowest usage low-income customers will realize bill savings as a result of the IGFC, this has the consequence of either: (A) requiring moderate income customers to pay well above the average fixed charge amount; or (B) requiring greater differentials between the moderate- and high-income category. The former may reduce the acceptability of an IGFC structure, while the latter increases the risk of income misassignment. TURN/NRDC has selected a parameter set leaning more on option A than option B.

F. Other Issues

1. Size Differentiation

TURN/NRDC and Sierra Club both suggest that customers living in multi-family buildings[83] should be assessed lower overall IGFCs to account for the lower cost-of-service for these customers.[84] Both propose to defer differentiation of IGFCs between single-family and multi-family buildings to future GRCs and ask that the Commission require the IOUs to improve data collection.[85] First, the IOUs note that the statutory requirement that fixed charges "reasonably reflect the costs of serving small and large customers" is not necessarily satisfied by differentiating single-family from multi-family homes. While we agree that, on average, individual apartments have smaller square footage and thus have lower electrical demands than single-family homes, the two categories overlap. An eight hundred square foot bungalow's electricity usage has more in common with a similarly sized apartment's usage than that of a two-story single-family home, let alone a mansion. So, while offering a lower fixed charge to multi-family customers could be argued to meet this statutory requirement, it would still be an

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82 Exhibit Joint IOUs-01, p. 48, Tables II-8, II-9 and II-10.

83 Sierra Club's proposed multi-family discount would apply to customers with shared service connections. (Sierra Club Direct Testimony, p. 38, Table 7.) TURN/NRDC does not define multi-family.

84 Exhibit SC-01E, p. 42, lines 12-16; and Exhibit NRDC-TURN-01 Errata, p. 16, lines 13-19.

85 *Id*.

imperfect proxy. Only a capacity-based charge can truly reflect the continuum of costs imposed by different size residential customers. Additionally, there are complications in defining multi-family properties and applying that definition in practice. For example, a townhome shares walls with other units but is usually more similar in size and usage to a single-family home than a one-bedroom apartment or condominium. There are many scenarios that the Commission would need to address.

Based on Sierra Club's Opening Testimony, the only difference in the IGFC for multi-family building customers would be based on service drops, which are only a portion of MCAC. As presented in the Public Tool, MCAC make up 6-7% of the Joint IOUs' total revenue requirements.[86] Sierra Club assumes that the costs of shared service drops reflect a lower cost-per-customer than dedicated service drops, and therefore the MCACs should reflect a discount for shared service drops.[87] However, as stated in SDG&E's 2024 GRC Phase 2 Application (A.23-01-008), based on recent multi-family residential and non-residential project data, the cost per customer is higher for shared service drops compared to the cost per customer for dedicated service drops, because the type of service drops installed for shared service carries a much higher cost.[88] Additionally, because service drops are only a portion of the MCAC, it is likely that any differences in final IGFC would be small, as all other components (non-marginal distribution, non-bypassable charges, etc.) would not be differentiated by size.

As stated previously, not all of the Joint IOUs have billing quality data to identify single-family vs. multi-family homes for each and every account in their service territories. It would be difficult, time consuming and costly to develop the data for the various levels of costs data described by Sierra Club[89] and then to implement an IGFC that may only have a nominal

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[86] Excluding GHG allowances.

[87] Sierra Club Direct Testimony, p. 42, line 6 to p. 43, line 3; and p. 60, lines 5-7, and 32-33.

[88] A.23-01-008, SDG&E 2024 GRC Phase 2, Prepared Direct Testimony of William G. Saxe, Chapter 4 (Jan. 17, 2023), p. WGS-9, line 16 to p. WSG-10, line 13.

[89] Sierra Club Direct Testimony, p. 42, line 6 to p. 43, line 26.

difference due to service drop costs. The additional complexity could serve to confuse customers, with very little gain in economic efficiency.

While the Joint IOUs would prefer methodologies that reflect the continuum of customer size, such as something based on demand, we agree with Sierra Club and TURN/NRDC that if the CPUC prefers to adopt a discrete identifier such as single-family vs. multi-family, it should be dealt with in future GRCs instead of the present proceeding to allow resolution of the acknowledged data challenges and related costs. The Joint IOUs do not believe that the IGFC adopted in this proceeding should be modified as suggested by Sierra Club since this would complicate the calculation and implementation of the IGFC with little benefit.

However, we take this opportunity to clarify how customers taking service on master-metered rates would be billed under the IGFC. The underlying IGFC should be assessed on a per unit basis; to the extent existing tariffs include adjustments for master-metered customers, those should continue to apply.

2. Electrification

a) The Joint IOUs' IGFC proposal Promotes Electrification Better than Any Other Party's Proposal.

Other proposals properly cite the need to incentivize electrification, with SEIA noting that "for residential customers to have an economic incentive to adopt these DERs, the rate that they pay for electricity to power the DER must be competitive with the fossil fuel that is displaced, such that the savings in operating costs contribute to offsetting what can be the higher capital cost of the DER compared with the fossil-fueled alternative."[90] TURN/NRDC also note that customers will be more motivated to electrify if retail electric rates were lower.[91] However, as shown in Table II-1 above, other parties' proposals retain higher volumetric rates compared to

[90] SEIA Direct Testimony, p. 9, lines 11-14.

[91] Exhibit NRDC-TURN-01 Errata, p. 10, lines 10-14.

the Joint IOUs' proposal, which is still above national and statewide average residential electric rates.

Even at the volumetric rate levels included in the Joint IOUs' proposals, volumetric rates would remain significantly higher than the national average of approximately 16 cents/kWh,[92] particularly in the on-peak period, maintaining an incentive for load shifting. Paired with the lower average volumetric rates proposed by the Joint IOUs, increased TOU differentials provide greater incentives to customers who shift load out of the on-peak compared to existing default rates, as seen in Table II-6 below.

Table II-6
TOU Differential Ratios in SDG&E's Proposed and Current Default Rates

Rate Component	SDG&E TOU-DR1 Status Quo	SDG&E TOU-DR1 Proposed
Average Fixed Charge ($/month)	N/A	$74
Summer Energy: ($/kWh)		
On-Peak: Super-Off-Peak	2.3	4.8
On-Peak: Off-Peak	1.6	2.1
Off-Peak: Super-Off-Peak	1.4	2.3
Winter Energy: ($/kWh)		
On-Peak: Super-Off-Peak	1.2	1.4
On-Peak: Off-Peak	1.1	1.3
Off-Peak: Super-Off-Peak	1.0	1.1

Effective support for state electrification policy through rates requires a balance of predictability and ability to respond to changing grid needs for both customers and the system. Fixed charges provide stability both for customer bills and significant revenues necessary for grid reliability.

92 U.S. Energy Information Administration (EIA), Electric Power Monthly (Feb. 2023), available at <https://www.eia.gov/electricity/monthly/epm_table_grapher.php?t=epmt_5_6_a> (accessed May 23, 2023).

SEIA's Opening Testimony cites "send[ing] customers signals to increase the flexibility of their electric demand" as "the goal of this OIR."[93] However, earlier in its Opening Testimony, SEIA correctly describes the *six* objectives of the OIR as:

> 1. enhance the reliability of California's electric system;
> 2. make electric bills more affordable and equitable;
> 3. reduce the curtailment of renewable energy and greenhouse gas emissions associated with meeting the state's future system load;
> 4. enable widespread electrification of buildings and transportation to meet the state's climate goals;
> 5. reduce long-term system costs through more efficient pricing of electricity; and
> 6. enable participation in demand flexibility by both bundled and unbundled customers."[94]

SEIA errs by over-emphasizing objective 6 at the expense of failing to appropriately acknowledge the other five objectives. The Joint IOUs' proposal balances all of the objectives of this OIR by meaningfully incentivizing electrification through lower volumetric electric rates, and considers the interests of both those who are able to and those who are less able to adopt beneficial electrification technologies. As stated in the Joint IOUs' Opening Testimony and above, the scope of this proceeding clearly indicates that significant, not incremental, rate reform is needed. The Joint IOU proposal achieves this while offering immediate bill savings to the average low- and middle- income customers, as well as supporting the potential for further savings for all customers as they electrify.

Additionally, it is important to consider that the bill impacts shown in the Public Tool do not assume any behavior change. Customers with beneficial electrification technologies who are able to align their grid consumption with periods of low-cost electricity have the ability to achieve greater savings.

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[93] SEIA Direct Testimony, p. 31, lines 5-6.

[94] SEIA Direct Testimony, p. 3, lines 19-28.

b) CEJA's Proposed All-Electric Discount is Neither Practical nor Equitable.

CEJA proposes a fixed charge discount for customers with electric-only homes, depending on income.[95] For customers with annual incomes less than $500,000, CEJA proposes a 100% fixed charge discount. For customers with annual incomes greater than $500,000, CEJA proposes a 50% fixed charge discount. This proposal should be rejected, as it is not equitable for customers who have less ability to eliminate their natural gas service and fully electrify their homes, such as renters or low-income customers. As shown in CEJA's testimony, the number of all-electric customers as reported by the Joint IOUs range from 11% to 34%.[96] It would not be reasonable or equitable to exempt 34% of customers from paying the IGFC until 2030, simply because they happen to live in a home that is all-electric at the time of implementation. This discount would shift costs from all-electric customers to mixed fuel customers, although these mixed fuel customers may not have the ability to electrify. CEJA's proposal would result in such mixed fuel customers being moved further away from being able to take the very action of beneficial electrification desired by the legislature in AB 205, as CEJA would actually cause customers (that include lower- and moderate-income customers) to receive less volumetric rate reduction and therefore less incentive to install beneficial electrification technologies.

Additionally, while a customer may not receive gas service from one of the Joint IOUs, this does not mean that the customer does not have other fuel sources. Customers may have propane or heating oil delivered to their homes or run gasoline or diesel generators. The Joint IOUs have no comprehensive way of obtaining data to know for sure whether a customer's only energy source is electricity; therefore, reducing or eliminating the IGFC for these customers would be unwise. For these reasons, the Commission should reject CEJA's proposal that would give existing all-electric customers either a 50% discount or total exemption from the IGFC.

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[95] Exhibit CEJA-01, p. 33, lines 10-24.

[96] *Id.*, at lines 3-5.

c) **Electrification Rates**

Both TURN/NRDC and Sierra Club propose different IGFCs for existing electrification rates.[97] As stated in the Joint IOUs' Opening Testimony, if the Commission were to adopt a relatively low average IGFC, the average IGFC for electrification rates[98] should be higher, to maintain the option for customers who want a lower volumetric rate than the default rates. TURN/NRDC agree and propose a higher fixed charge for the Joint IOUs' "electrification rates," which currently have fixed charges in the $12-$16 per month range. Specifically, TURN/NRDC's proposal acknowledges that it has decided to only reflect a portion of actual fixed costs in its main (or "default") initial fixed charge proposal (for an average default fixed charge of $36 per month). Therefore, TURN/NRDC compensate for this through their accompanying proposal to provide higher fixed charges for customers on specialty electrification rates, to provide price signals to such customers that better achieve the state's electrification goals.[99] Specifically, TURN/NRDC propose average fixed charges of $47/month for all three of the Joint IOUs in order to provide customers on these specialty pro-electrification rates with a greater reduction in the volumetric rate than TURN/NRDC proposes for the majority of residential customers not on these electrification rates.[100] Table II-7 below compares TURN/NRDC's volumetric rates for each of the Joint IOUs for their default average fixed charge and electrification average fixed charge.

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[97] Exhibit NRDC-TURN-01, p. 1, line 18 to p. 2, line 1, and Sierra Club Direct Testimony, p. 46, line 3 to p. 48, line 9. Although Sierra Club states it is not proposing to change the current electrification rates and that they should be addressed in each utility's next GRC Phase 2, its testimony includes a proposal specifically for electrification rates and includes the Public Tool results for its proposed electrification rates as its Attachment 3.

[98] Exhibit NRDC-TURN-01, p. 26, lines 1-5 and Table 6 (PG&E E-ELEC, SCE TOU-D-PRIME, SDG&E TOU-ELEC).

[99] Exhibit NRDC-TURN-01, p. 4, lines 16-18; p. 17, line 27 to p. 18, line 2.

[100] Exhibit NRDC-TURN-01 Errata, p. 4, Table 1.

Table II-7
Joint IOU Compared to TURN/NRDC Proposals

	PG&E		SDG&E		SCE	
Party	Avg Non-CARE Rate	% Reduction from Status Quo	Avg Non-CARE Rate	% Reduction from Status Quo	Avg Non-CARE Rate	% Reduction from Status Quo
Status Quo	34.4	-	49.1	-	35.2	-
Joint IOUs	21.9	-36%	27.8	-43%	24.3	-31%
TURN/NRDC – Electrification Rates*	24.0	-30%	36.0	-27%	25.3	-28%
TURN/NRDC – Default Rates	26.3	-23%	39.0	-21%	27.5	-22%

*[101]

TURN/NRDC's "two track" system, where only customers on electrification rates see a more accurate, cost-based fixed charge, fails to provide a cost-based reduction in volumetric rates for the vast majority of residential customers. It also fails to give everyone the appropriate additional incentive to electrify through a cost-based reduction in all average volumetric rates. The Joint IOUs do not oppose having higher fixed charges for electrification rates, but do not believe that TURN/NRDC's proposed default average fixed charges provide sufficiently meaningful volumetric rate reduction that will incentivize customers to electrify.

SEIA proposes to maintain the current electrification rate fixed charges.[102] Notwithstanding the other issues in SEIA's proposal discussed throughout this Reply Testimony, the Commission should not maintain the current electrification rates untouched, as this would create an arbitrage opportunity particularly for high income customers who are able to avoid a high fixed charge through enrollment on an electrification rate. This cost shift would lead to a larger share of fixed costs recovered from low- and moderate-income customers on default electric rates.

[101] Exhibit NRDC-TURN-01, p. 4, lines 16-18; and p. 17, line 27 to p. 18, line 2. Average rates calculated consistent with Public Tool presentation.

[102] SEIA Direct Testimony, p. 22, lines 15-19.

The Joint IOUs oppose this approach, as it fails to provide meaningful reductions to volumetric rates for all residential customers. Rather, the IGFCs for electrification rates should initially be set *at least* at the level of the default IGFC. In response to discovery, SEIA states it would not necessarily support increasing the electrification rate fixed charges to match those of higher default rates determined in this proceeding, claiming "it could continue to make good sense to retain the existing $15 per month fixed charge in E-ELEC as an incentive for customers to choose E-ELEC with its more aggressive, more cost-based TOU rates and lower off-peak rates."[103] Maintaining lower fixed charges and higher volumetric rates on rates specifically designed to have higher fixed charges and lower volumetric rates compared to other rates is contrary to the intent of the policy. It makes no sense for customers on these specialty electrification rates to have a fixed charge further away from cost-basis, resulting in a higher average volumetric rate compared to the volumetric charges on all the other rates. If the average fixed charge adopted by the CPUC for default rates is lower than the Joint IOUs' proposal, then, at minimum, the CPUC should ensure that there are rate options available to customers that have higher average IGFCs and lower average volumetric rates, compared to the default rate.

3. Concerns that Customers Will Defect from the Grid are Speculative and Ignore Current Load Defection.

SEIA argues in its Opening Testimony that a high average IGFC will lead to what it calls "grid defections."[104] [105] However, there are important differences between *levels* of support for and reliance on the grid. This testimony will use "partial grid defection," or "load defection" to describe when a customer installs either distributed generation or distributed generation plus

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[103] SEIA's Response to Data Request PG&E-SEIA001, Question 3, dated 5/5/23 in Appendix A at the end of this exhibit.

[104] SEIA Direct Testimony, p. 31, lines 15-18.

[105] The Joint IOUs repeat use of the term "defection" from SEIA's testimony for the sake of consistency; however, the Joint IOUs find the term to be imprecise, overbroad, and carry a negative connotation that may not be warranted. As such, the Joint IOUs do not condone the use of the term outside the context of this Reply Testimony.

storage, but is still connected to the electric grid to receive and deliver some of their energy, or is connected as a backup when they are unable to generate enough self-supply to meet their needs. This is distinct from "full grid defection," where a customer relies solely on self-generated energy, battery storage, and/or other sources of energy, and is no longer connected to the electric grid.

As described by SEIA, "partial grid defection" does not seem to be different from existing DER (mainly distributed behind-the-meter solar and storage) adoption. Currently, a "partial grid defection" case, where customers generate some amount of electricity on-site but remain connected to the grid, is happening at a rapid pace.[106] The extent to which customers are economically incentivized to leave the grid, either fully or in part, would be an assessment based on their cost to remain traditionally connected to the grid and the cost to leave. The less likely scenario of "full grid defection" is the only one in which customers would not be able to contribute either financially or through load flexibility to the grid. In the former ("partial grid defection"), a fixed charge that fully recovers fixed costs is the more reliable mechanism for collecting grid maintenance revenue.

Further, a customer's decision about the level of grid services they wish to use is not based solely on a high fixed charge, but rather by the combination of rising electric bills and falling DG technology costs (among other considerations). Both factors are happening today. The structure proposed by the Joint IOUs offers a solution to, rather than a proliferation of, the problems caused by "partial grid defection." The savings resulting from avoiding the highest

[106] CSI Administrators, et al., California Distributed Generation Statistics, at: <https://www.californiadgstats.ca.gov/charts/> (accessed May 25, 2023).

fixed charge proposed by the Joint IOUs are marginal relative to current rates and seem unlikely to incentivize widespread levels of "full grid defection."[107]

The extent to which customers might be economically incentivized to leave the grid, either fully or in part, is an assessment based on their cost to remain traditionally connected to the grid and the cost to leave. As noted by SEIA, "Grid defection may become increasingly economic in California due to the combination of the state's rising electric rates and the declining costs of solar and battery technologies."[108] This may encourage more customers to adopt these technologies regardless of electric rates or rate designs. Second, there is little evidence to support customers being more likely to leave the grid when subject to a high fixed charge rather than a high volumetric rate. Although there is research showing that low-demand (pre-adoption of behind-the-meter solar or storage) customers may fully defect when they are willing to accept a more "flexible" level of reliability and fixed charges are higher, the paper is clear that "a broader exploration of consumer preferences for electricity service, which could affect willingness-to-defect, is outside the scope of this paper."[109] Additionally, the paper acknowledges that its modeling, which sizes large solar and storage systems required to meet the electricity needs of the consumer, may not be practical in the residential context,[110] and concludes that "even if the utility decided to set rates to wholesale electricity costs, only limited defection would occur, and only by low demand customers" in a case where "perfect" reliability

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[107] Example: average annual bill increases under Joint IOU high income bracket is ~$500 as seen in the Joint IOUs' Direct Testimony Figure I-2; i.e., these are the average savings gained by avoiding the fixed charge specifically. A fully disconnected BTM system still requires a significant investment of $20,000-300,000 to achieve these savings. Penn, *Frustrated With Utilities, Some Californians Are Leaving the Grid*, The New York Times (Mar. 13, 2022), <https://www.nytimes.com/2022/03/13/business/energy-environment/california-off-grid.html?smid=url-share> (accessed May 25, 2023).

[108] SEIA Direct Testimony, p. 31, lines 18-20.

[109] Gorman, et. al., Applied Energy, Vol. 262, *Should I Stay or Should I Go? The importance of electricity rate design for household defection from the power grid* (Mar. 15, 2020.), pp. 3 and 8.

[110] *Id*., p. 6.

is required.[111] The Joint IOUs are not proposing to set volumetric rates to marginal costs or wholesale costs.

The high volumetric rate levels currently effective in California could also be argued to incentivize grid defection. To the extent that a significant number of customers decrease their consumption from the grid and as a result contribute less to grid costs (load defection), a higher fixed charge does more to maintain fairness in cost recovery from these customers than would a lower fixed charge that is paired with a higher volumetric rate. For those customers who maintain their grid connection but consume only when a BTM system is not generating enough to meet their on-site needs, grid access is maintained 24/7 but contribution to grid costs is limited to the volumetric import rate, net of any exports under their applicable tariff. Further, as these systems proliferate, they will likely be utilizing the distribution system at similar times when weather conditions limit on-site generation in a given geographic area.

4. SEIA's Argument that TOU Differentiation is More Important than Fixed Charges Misses the Point and Presents a False Choice.

SEIA states "Fixed charges by definition do nothing to encourage the stated goal of this rulemaking – encouraging customers to be flexible in when they impose demands on the electric system."[112] SEIA ignores that the stated goals of this Rulemaking also include enabling widespread electrification to meet the state's climate goals and making electric bills more affordable and equitable. The Commission will need to balance different interests in this proceeding, and SEIA's statement that the Commission's only concern in the instant proceeding is customer flexibility fails to acknowledge the larger picture, that a variety of tools will be needed to meet this proceeding's multiple and sometimes conflicting goals. The fixed charges to be adopted in Track A are integral to lowering volumetric rates and encouraging electrification, as well as redistributing costs more equitably among customers. Reductions in volumetric rates

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[111] *Id.*, p. 9.

[112] SEIA Direct Testimony, p. ii.

are a foundational starting point that is not mutually exclusive from the additional dynamic pricing and demand flexibility efforts being undertaken in Track B. Both are needed.

a) Load Flexibility Benefits

SEIA claims fixed charges perform poorly with regard to demand flexibility,[113] as the portion of the customer's bill exposed to demand flexible pricing is reduced. Contrary to SEIA's claims, fixed charges complement TOU rates' (and other more dynamic rates) ability to promote load flexibility. Moreover, the Joint IOUs' proposal results in higher peak to off-peak differentials than SEIA's proposal, and will therefore perform better with regard to demand flexibility, not worse.

SEIA's arguments regarding the detrimental effects of fixed charge rate structures with respect to DER adoption are contradictory and not supported by analyses or facts. On the one hand SEIA argues for the adoption of rate structures that allow customers to minimize bills, increase flexibility of demand, support investments in DERs, and reflect charges that are closer to cost with lower off-peak rates relative to the on-peak rates.[114] On the other hand, despite these arguments that align with the intent of the IGFC proceeding, SEIA's IGFC proposal achieves none of these goals. SEIA's proposal does not make meaningful progress towards developing a technology agnostic rate designed to encourage electrification. Indeed, the CPUC's updated Rate Design Principles specifically state that "ix. Rate design should not be technology-specific and should avoid creating unintended cost-shifts."[115]

As shown in Figures II-5 and II-6 reproduced from the Public Tool's Electrification Dashboard with inputs from SEIA's Printable Results,[116] SEIA's proposed average 2-cent-per-kWh reduction in the average volumetric charge results in an overall rate that is no

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[113] SEIA Direct Testimony, p. 30, line 1.

[114] SEIA Direct Testimony, p. 30, line 28 to p. 31, line 13; and p. 32, lines 6-10.

[115] D.23-04-040, p. 2.

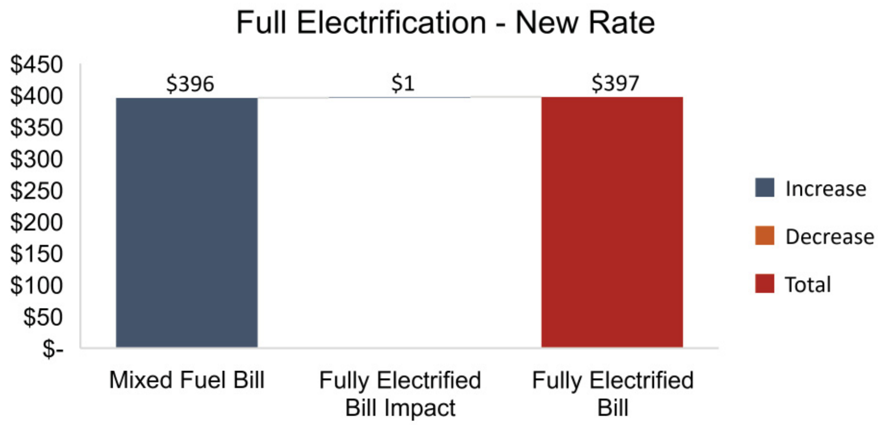
[116] SEIA Direct Testimony, Attachment RTB-2, "Fixed Charge Tool Outputs for SEIA's Income-Graduated Fixed Charges."

different, or slightly worse, than the current rate structure when it comes to encouraging the adoption of electrification technologies. SEIA's proposal fails to recognize how restructuring residential rates to recover costs through a cost-based combination of fixed and volumetric charges can encourage DER adoption by lowering a household's costs for each marginal unit of energy consumed. The inclusion of meaningful fixed charges, in any rate structure, represents a more efficient cost recovery mechanism with a price signal that is closer to costs, which can lead to more load flexibility. This is because costs that do not vary with changes in usage or demand are more efficiently recovered through fixed charges, which then allows the costs collected through volumetric rates comprising of costs that vary on some frequency (i.e., hourly, daily, monthly etc.) when changes in consumption, demand, market conditions, or grid conditions occur. The fluctuations in the variable component cost drivers coupled with the opportunity to save money through load flexibility then influences decisions on when and how much energy to consume. Counter to SEIA's assertions, the recovery of fixed costs through volumetric rates distorts the dynamic price signal by artificially inflating the consumer's marginal cost of electricity. When placing SEIA's rate design inputs into the Public Tool, the results confirm SEIA's assertions regarding fixed cost recovery and their resulting IGFC proposal is deficient.

Using the results from the Public Tool's Electrification Dashboard, Figure II

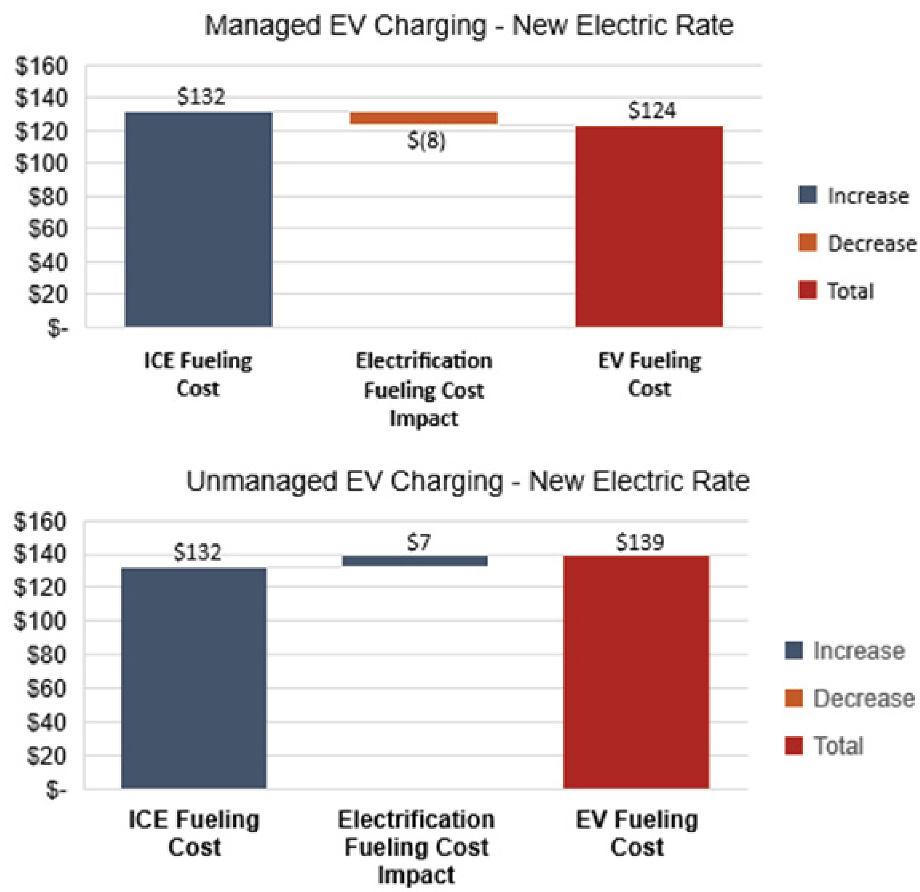
-5 shows a comparison between SEIA's proposal and the results of the Public Tool's "counterfactual current rate." As can be seen, SEIA's proposal provides no benefit for building electrification when comparing the Fully Electrified home relative to Mixed Fuel alternative.

Figure II-5
Comparison of a Mixed Fuel Home and a Fully Electric Home Monthly Bill under SEIA's Rate Proposal for an Income Bracket 3, Inland SCE Customer



The results are similarly deficient for the electric vehicle adoption scenario. Because overall EV usage represents a combination of managed and unmanaged load, SEIA's proposal provides monthly bills that are essentially identical to the counterfactual existing rate structure. Figure II-6 below illustrates how SEIA's proposal does not deliver a bill sufficiently different to drive an EV ownership decision. The is due to SEIA's fixed charge proposal that leaves a significant proportion of fixed costs in the volumetric rate, thus increasing the cost of electricity for each marginal unit of consumption. Again, the results from the Public Tool clearly demonstrate that SEIA's claims err regarding the negative impacts of cost-based fixed charges.

Figure II-6
Comparison of ICE and EV Monthly Fueling Costs under SEIA's Rate Proposal for an Income Bracket 3, Inland SCE Customer



When viewed from the "share of wallet"[117] perspective, the Public Tool results highlight how SEIA's proposal would fall short of helping California meet its GHG reduction goals because SEIA would maintain the status quo. By contrast, the Joint IOUs' proposal takes meaningful steps to define and recover fixed costs through a fixed charge. The Joint IOUs' proposal thus reduces a household's costs for each marginal unit of consumption and by extension the overall household's cost of energy post electrification. Table II-8 shows the results of the Public Tool organized to illustrate the differences in monthly energy expenses at various

[117] The share of annual or monthly income represented by energy expenses.

stages of green technology adoption. At each stage, the Joint IOUs' proposal provides a benefit to adopters that is approximately 75% greater than SEIA's results ranging from $8/month to $25/month. At these low savings levels, as presented by SEIA, customers would not be likely to be driven to make investments in new green technologies whose up-front costs are much more significant. Again, SEIA's assertions[118] that fixed charges are incongruent with rates designs intended to encourage electrification are not supported by the Public Tool results.

Table II-8

Comparison of Electrification Bills under the Joint IOU Proposed Rate Structure and SEIA's Proposed Rate Structure Relative to a Mixed Fuel under Existing Rate Structure

Share of Wallet Summary ($/mo.)		**EV Only Adoption** (Post Adoption Monthly Expenses)		**Fully Electrified** (Post Adoption Monthly Expenses)		**Fully Electrified w/ EV**	
Expense Item	Mixed Fuel Bill	JIOU	SEIA	JIOU	SEIA	JIOU	SEIA
Electric	$330			$343	$397	$343	$397
Gas	$84			$0	$0	$0	$0
Sub Total	$413			$343	$397	$343	$397
Internal Combustion Engine (ICE)	$132	$0	$0			$0	$0
Electric Vehicle (EV)	$0	$93	$124			$93	$124
Total	$546	$506	$537	$476	$530	$436	$521
$/mo. Difference from Mixed Fuel		-$39	-$8	-$70	-$16	-$110	-$25
Percent Difference JIOU v SEIA (%)			-78%		-77%		-77%

As captured in the Joint IOUs' proposal, a meaningful distribution of cost recovery between fixed and volumetric charges will produce rate structures that encourage the adoption of new technologies and serve as platforms for dynamic pricing. SEIA's proposals do not allow customers to minimize their bills through the energy transition. While SEIA's proposal introduces an IGFC, the average fixed charge is at a level that does not meaningfully reduce the average volumetric rate. Thus, customers would not gain a meaningful marginal benefit from each unit of consumption. SEIA's proposal is effectively the same as the current rate structure, in which only the customer access costs are included in the IGFC. Additionally, retaining the flat cent-per-kWh charge for items such as Public Purpose Programs, the costs of low-income programs, and continuing to recover non-marginal distribution costs in the volumetric rate

[118] SEIA Direct Testimony, p. 30, lines 13-25.

reduces the effectiveness of SEIA's volumetric rate to provide a dynamic price signal. However as in the Joint IOUs' proposal, in which Public Purpose Programs, the costs of low-income programs, and non-marginal distribution costs are included in the fixed charge, the resulting redistribution of fixed versus variable cost recovery provides the leverage needed to reduce customers' marginal costs of consumption. SEIA's argument regarding the limitations of fixed charges should be rejected as they are factually and analytically unsupported by facts, and these unfounded assumptions resulted in SEIA developing an IGFC structure that fails to meet the Commission's goals (and those of AB 205) for an IGFC regarding electrification and load flexibility.

III.

INCOME VERIFICATION

[ROSA ALVAREZ, CLAIRE COUGHLAN, AND MIRIAM FISCHLEIN]

A. Considerations for Select Aspects of Other Party Proposals

The income verification proposals presented in other parties' Opening Testimony raise serious concerns about accuracy, fairness and transparency, and will result in pain points for customers that could undermine the success of the IGFC. In contrast, the Joint IOUs' Opening Testimony's income verification proposal is the most accurate, fair, and transparent way to assign millions of residential electric households in California into the correct income bracket and associated fixed charge level, while also minimizing potential pain points for customers. This first section discusses certain elements of other parties' alternative income verification proposals that share key structural features similar to the Joint IOUs' proposal – such as the use of a Third-Party Administrator (TPA) as well as consistent statewide implementation through CPUC oversight of a centralized TPA. These elements provide a good foundational starting point for the CPUC's decision.

1. Support for a Statewide Third-Party Administrator Overseen by the CPUC

One key aspect of the Joint IOUs' proposal that is also advocated for by the majority of other parties' proposals is that the income verification process should be conducted by a TPA.[119] A TPA should be responsible for implementing the income verification process to encourage customer trust that the process is fair and accurate, and that no income data is being accessed by the IOUs. Further, a single TPA would provide consistency across the State and help decrease implementation costs by taking advantage of economies of scale. Early customer research has indicated that customers are concerned about the IOUs having access to their income data, and a

[119] Exhibit Cal Advocates-01; Exhibit Cal Advocates-02C, p. 2-1, lines 12-19; Exhibit NRDC-TURN-01, p. 34, lines 13-20; Exhibit BVES-01, p. 11, lines 8-12; and Exhibit PAC/100, p. 22, lines 11-13.

TPA would help alleviate these concerns. In addition, a TPA is a proven structure that works with the LifeLine program and should be leveraged to implement the IGFC.

A TPA is the best method to address customer privacy concerns over the Joint IOUs having access to income data. Cal Advocates[120] maintains that "The output of a score, as opposed to detailed income information, maintains customer privacy." The Joint IOUs agree with Cal Advocates that the best way to maintain customer privacy is to ensure that the Joint IOUs do not have direct access to customers' income data. A CPUC-supervised TPA would maintain customer income data privacy by providing a score or bracket level back to the Joint IOUs instead of actual income information. Importantly, safe-guarding privacy is not contingent on the CPUC-supervised TPA working with any particular data source. In fact, the TPA structure is agnostic to the data source and any future updates to replace or add additional data sources would not require a full reworking of the data exchange between the Joint IOUs and the TPA income verifier, as long as the number of income brackets used remains the same.

2. Some Parties Agree that a CPUC-Overseen TPA Using Franchise Tax Board Income Data Would be the Most Accurate.

In addition to alignment on the necessity of a TPA for implementing complex income verification, particularly for customers above the CARE and FERA income levels, for which customers the Joint IOUs have little information, many parties noted that a statewide implementation of income verification overseen by the CPUC that also utilizes real income data from the Franchise Tax Board (FTB) would be the most accurate way to implement the income verification process.[121]

The Joint IOUs support this conclusion because FTB data would be the most accurate and transparent way to assign customers to income brackets. If FTB data is used (either from the

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[120] Exhibit Cal Advocates-02C, p. 2-11, lines 13-15.

[121] Exhibit Cal Advocates-02C, p. 2-1, lines 12-19; Exhibit NRDC-TURN-01, p. 34, lines 13-20; Exhibit BVES-01, p. 11, lines 15-21; and Exhibit PAC/100, p. 20, line 23 to p. 21, line 3.

first or as a longer-term step), then the sensitivity of such data makes it even more important to use a TPA, to reassure customers that their tax and income information will never be accessed by the individual IOUs. As discussed in depth in the Joint IOUs' Opening Testimony, accuracy in income bracket assignment is essential to minimize downstream costs including customer appeals. If a less accurate or incomplete data source were used to assign IGFC brackets, a 20% rate of customer appeals would cost approximately $20 million across Joint IOU service territories. This $20 million figure uses as a proxy the costs experienced in the current CARE Post-Enrollment Verification process, however the Joint IOUs caution that income verification difficulties in the start-up years for the CARE program (and its LIRA predecessor), as well as for the TelComs' LifeLine program, suggest that costs in the initial years of IGFC implementation could be significantly higher. But designing income graduation verification to manage the potential cost impact of IGFCs is only one consideration. A statewide implementation approach, using a TPA supervised by a state agency like the CPUC (as is done for LifeLine), is also important to foster greater customer confidence that the income verification system is being applied consistently for greater fairness and that data privacy is maintained.

3. <u>TPA Requirements</u>

The Joint IOUs believe TURN/NRDC's proposed condition that "the TPA may be a non-profit organization or government agency with the capability of performing the specifically delegated functions," while well-intended in theory, could in practice unnecessarily limit the choices of viable candidates for the TPA. The Joint IOUs believe that the primary criterion used in the selection of the TPA should be that the entity is able to use available data (from the FTB, DSS, and potentially other sources) to accurately place customer households in the appropriate income bracket while maintaining the secure data set to protect customer privacy. The most capable party to do this should be selected, and limiting the TPA to a non-profit organization or government agency could limit viable candidates.

4. **Timing Concerns**

As pre-emptively noted in numerous parties' Opening Testimony, the FTB income verification process supported by the Joint IOUs' Opening Testimony – while more fair, accurate and transparent – carries the disadvantage of requiring a long lead time before the IGFC could be implemented.[122] The Joint IOUs acknowledged this concern in our concurrent Opening Testimony, which provided a detailed discussion of timing challenges, and noted that one component of the lead time is attributed to new legislation to open up access to state data (FTB and potentially Department of Social Services (DSS)) needed to achieve appropriate levels of accuracy. In addition, any implementation will require time to complete the TPA contracting process and connect the TPA's data systems' outputs with the IOUs' data systems, which is a complex process, and this lead time is not reduced in a scenario using credit agency data.

Cal Advocates' Opening Testimony attaches an email exchange in which Equifax claimed: "We are able to set up an online portal (to The Work Number® product) within a quarter's time."[123] While this may be true for a new employer setting up a connection to The Work Number® product in its current form, such an online portal is only one of many facets necessary to establish the entire IGFC process flow, administration, and implementation of the IGFC bracket assignment and appeal processes. Other dependencies that must be accomplished before the overall IGFC income verification process will be ready to launch include: (1) the CPUC must solicit for and select a TPA to perform the income verification function in anticipation of receiving income data (hopefully from a highly accurate source); (2) the TPA must build processes to receive such data, develop an algorithm to determine household income, and use it to assign customers to an IGFC bracket based on total household income; (3) the Joint IOUs must enter into contracts with the TPA for IOU implementation functions, such as two-way data sharing but with appropriate privacy and cybersecurity protections (such as to

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[122] Exhibit Cal Advocates-02C, p. 2-17, lines 12-17.

[123] Exhibit Cal Advocates-02C, Appendix A.6, par. 10.

ensure that the IOUs never receive or see the underlying income data for any customer - only the resulting bracket categorization). These dependencies are discussed in more detail in the Chapter IV (Implementation). Thus, even under The Work Number® product only approach, the timeline to launch will require much more than just "one quarter," as Cal Advocates seems to suggest. Specifically, if an interim approach using only The Work Number® were pursued, under the Joint IOUs' previous estimates the lead-time would still likely be 32 months from the time at which contracting and cyber security review have been completed between each IOU and the TPA, and the "go live" date on which customers will begin to receive bills with IGFC rates. The only reduction gained may be the one-year period assumed needed to pass any legislation that would be needed for either FTB data and/or credit agency data sets beyond The Work Number® to be released to the CPUC for IGFC, without the currently-required individual pre-authorization. Although further analysis would be needed to conclusively refine an estimated timeline for a specific scenario based solely on The Work Number® product, the Joint IOUs can testify with confidence that it is definitely not "one quarter."

Many parties proposed income verification processes that could potentially be implemented more quickly,[124] but as discussed above and in Chapter IV (Implementation), any proposal that includes any type of income verification system requiring IOU system integration and contracting (such as with a credit agency, or a TPA) would take significant time to implement.[125] In reviewing party proposals through the lens of the fastest implementation option, the Joint IOUs point to aspects of such proposals that entirely use existing processes (see income verification proposals presented by SEIA[126] and Liberty,[127] and the fallback option proposed by PacifiCorp[128] who - though their primary proposal is to leverage a TPA with access

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[124] Exhibit Cal Advocates-02C, p. 2-8, lines 5-12; Exhibit PAC/100, p. 21, line 13 to p. 22 line 13.

[125] Exhibit Cal Advocates-02C, p. 2-8, lines 5-12; Exhibit PAC/100, p. 21, line 13 to p. 22 line 13.

[126] SEIA Direct Testimony, p. 20, lines 6-8, and Figure 1.

[127] Exhibit Liberty-01, p. 5.

[128] Exhibit PAC/100, p. 21, line 13 to p. 22, line 13.

to FTB income data as the preferred methodology - suggest that if the required legislation cannot be approved quickly enough, the existing CARE income verification process should be utilized). These parties all proposed an income verification process that utilizes existing CARE/FERA processes. Note that these parties do not propose to expand the CARE/FERA self-certification process beyond the current population. Utilizing existing data from the CARE and FERA programs and limiting the number of income brackets would be a faster way to implement the income graduated fixed charge, while also not developing any new, complex, or potentially costly income verification system that may need to be rebuilt once a more robust data set is available.

The Joint IOUs strongly support their Opening Testimony's proposal as the most accurate income verification solution. Ensuring the IGFC is based on the most accurate possible information, as well as only transitioning customers once, to the correct income brackets, using accurate statewide income verification data, will support the most cost-effective IGFC rate design, which does the most to reduce volumetric charges, as well as provides the Joint IOUs' over 10 million residential electric customers with more streamlined and less confusing IGFC customer journey. If the CPUC nonetheless decides an interim process is warranted prior to the end-state solution—due to the amount of time it will take to put effective, transparent and accurate income verification in place—there are several aspects the CPUC should carefully consider. Any potential interim process should: (1) provide immediate benefit for low-income customers in line with AB 205, (2) avoid complicating the customer journey to the end-state by selecting income brackets and rules that are compatible with an eventual transition to the end-state structure, (3) be implementable with a transition or deadline for achieving a pre-approved ultimate end-state structure, and (4) have a minimal impact on total costs for both the interim and the end-state process.

5. **There is Insufficient Evidence to Support Adoption of an Interim Approach using Credit Agency Data.**

TURN/NRDC's and Cal Advocates' Opening Testimony recommends using credit agency data, namely The Equifax Work Number® product, as a near term mechanism for income verification.[129] Bear Valley also includes the credit agency data underlying CalFresh certification as a possible income verification data source.[130] However, as discussed in this Reply Testimony, below, these proposals lack the necessary level of rigorous evidentiary support to allow the CPUC to find it just and reasonable to adopt such an interim implementation approach. Indeed, TURN/NRDC's opening testimonies concedes that there are shortcomings to using credit agency data as a method of income verification for the IGFC.[131]

Other parties do not mention the use of credit agency data at all,[132] or considered such data, but do not recommend it.[133] For example, no party's testimony disputed that using credit agency data would require affirmative customer consent, unless there were a change made to existing consumer protection laws;[134] however, the evidence shows low customer response rates to such requests.[135] Similarly, no party denies that credit agency data is only informative for certain sub-populations. Indeed, no showing sufficiently establishes, as a matter of fact, that The Work Number® product is likely to be able to adequately establish household income with a degree of accuracy that results in sufficient matches to the Joint IOUs' over 10 million electricity accounts to allow for a successful IGFC transition - as evidenced by product sheets from Equifax, and other information discussed further below. This Reply Testimony provides

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[129] *E.g.*, Exhibit Cal Advocates-02C, p. 2-7, lines 13-15; Exhibit NRDC-TURN-01, p. 35, line 16 to p. 36, line 1.

[130] Exhibit BVES-01, p. 11, lines 15-21.

[131] Exhibit NRDC-TURN-01, p. 39, lines 2-24; Exhibit Cal Advocates-02C, p. 2-7, lines 21-24.

[132] *E.g.,* Sierra Club Direct Testimony.

[133] *E.g.,* Exhibit CEJA-01, p. 26, lines 12-18.

[134] See *e.g.*, Exhibit NRDC-TURN-01, p. 36, line 7 to p. 37, line 4, and fn. 42; Exhibit Joint IOUs-01, p. 66, line 11 to p. 67, line 5; and Exhibit CEJA-01, p. 24, lines 3-15.

[135] Exhibit Joint IOUs-01, p. 72, line 22 to p. 73, line 15.

additional clarification to supplement the Joint IOUs' Opening Testimony, which already presented sufficient evidence to establish that there are significant shortcomings and risks to the types of nearer-term credit agency-based income verification approaches proposed by other parties. While we sympathize with the desire to find a viable nearer-term solution than the ultimate use of more accurate FTB income data, the CPUC should not close its eyes and jump, on a "faith basis," to The Work Number® product as an interim data source, without having before it a realistic and factually robust analysis of the actions needed to overcome the shortcomings of credit agency data, and their likely costs and complexities or the customer-facing implications.

a) Challenges with Aggregating The Work Number® Income Data for Individual Earners to a Household Level.

Verification of income for purposes of the IGFC will have to solve the challenge of how to determine income not just for the individual account holder, but the entire household. As described in Chapter II (Rate Design), the Joint IOUs agree with many of the other parties that percent of Federal Poverty Level (FPL) for each household is the most equitable underlying metric by which to determine income gradation for the purposes of the IGFC. If FTB data were used from the start, then the household size could be based on the FTB data on co-filers and dependents that are listed on state income tax returns. Thus, the FTB tax return data inherently includes attested information that can be used as a primary determinant of household size, relational data that is not present in credit agency data.

By statute,[136] the Joint IOUs' CARE and FERA programs use percent of FPL at the household level for determining eligibility. Several parties explicitly or implicitly state that the underlying measure for determining the IGFC income bracket should be defined as income at the household level. For example, Cal Advocates builds its proposal on leveraging "available

[136] Pub. Util. Code, § 2790(f)(1).

income data from existing low-income programs, such as the California Alternate Rates for Energy Program (CARE) and Family Electric Rate Assistance Program (FERA), to support assignment and verification into the adopted income brackets."[137] TURN/NRDC proposed that the "lowest income tier should capture customers currently enrolled in the CARE and FERA programs, with household income up to 200 and 250 percent of the FPL. This will provide consistent support for protected low-income households, based on a well-established metric of household earnings relative to size."[138]

No party disputes that many households include multiple members and more than one income. It is unclear how a credit agency would know about other household members. These gaps will not be filled, unless the TPA is able to obtain and share with the Credit Agency information about household members other than the primary account owner, and then obtain permission from each additional household member to disclose all of their individual income information to verify the combined household income for IGFC purposes, which could be especially difficult if the members of the household are not related by blood and do not use the same surname, or perhaps did not apply for credit together.

In a discussion with the Joint IOUs, Equifax indicated that a government agency must issue a law or ruling allowing Equifax's products to be used to determine the eligibility of a household for a "government benefit" based on permission from a single household member. It is unclear whether the CPUC has jurisdiction to issue such a ruling or if assigning a household to the correct IGFC bracket constitutes a "government benefit." Furthermore, a lack of accurate household matching could lead to many challenges, including for example, inaccurate bracket placement, or undercounting of the minors or other family members without a credit history who live in that household, which in turn would lead to an undercount of the number of people in the

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[137] Exhibit Cal Advocates-02C, p. 2-2, lines 22-25.

[138] Exhibit NRDC-TURN-01, p. 22, lines 21-25.

household which is needed to calculate the actual value for FPL, which is based on household size.

Because credit agency data presents greater challenges for aggregating from the individual to the household level, it carries a greater vulnerability to free-ridership because verification is more difficult. For example, a household could decide to put its electricity account under the name of the household member with the lowest income and then not provide the names of or consent to income verification for additional household members. Customers have a financial incentive to withhold their consent to allow verification to include complete, accurate income information, because if additional household members contribute income about which The Work Number® dataset was unaware, disclosing this fact would increase the total income amount for that household, which may lead to it being assigned a higher fixed charge. It is telling that Equifax stated in its exchange with Cal Advocates that they "cannot estimate accuracy" of Cal Advocates' proposal for assigning households to the correct income bracket.[139] Indeed, this statement by Equifax would seem to effectively put the CPUC on notice that the accuracy of The Work Number® product for purposes of a household income-based IGFC has *not* been adequately proven by its proponents.

Again, verification of income at the household program level would only be possible if the IGFC were an application-based, opt-in program such that the applications would not be accepted until the requirement to submit names of all household members had been satisfied, as well as that each of those household members had separately agreed to income verification. The IGFC is not an opt-in discount program like CARE/FERA, but rather is a rate component applicable to all residential customers on a given rate. The need to obtain this household-level data (names and consent to income verification) would impose a considerable burden on customers and the proponents have not provided factual evidence to counter the Joint IOUs'

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[139] Exhibit Cal Advocates-02C, Appendix A.6, par. 6.

showing in Opening Testimony[140] that process barriers and privacy concerns could result in a large non-response and thus mass defaulting of customers to an inaccurate income bracket.

b) <u>Coverage Gaps in Credit Agency Data</u>

Another challenge related to using credit agency data, such as The Work Number® product by Equifax, is that such data does not cover certain populations and many types of income.

As discussed above in Section 5, both Cal Advocates and TURN/NRDC present Equifax' Work Number® product as a viable option for near-term income verification.[141] There are pros and cons to using this database for purposes of IGFC income verification. On the positive side, the Joint IOUs acknowledge that The Work Number® product includes frequently updated payroll data for a significant share of the salaried and wage workforce. Also, The Work Number® product is used as a secondary data source to verify eligibility for income-qualified social programs (e.g., Department of Health Care Services for Medi-Cal eligibility). Indeed, it is the only available credit agency product that can be used by a government agency as a determinant of a government benefit under the Fair Credit Report Act (FCRA), in contrast to non-regulated credit products intended for marketing which cannot be used for this purpose.

However, despite these favorable considerations, the Joint IOUs cannot conclude that The Work Number® product could be the preferred solution for verifying income for the purposes of IGFC, due to its lack of coverage for certain populations and many other income sources. The Work Number® product works best for a moderate-income population whose income is primarily from wages and salaries. Cal Advocates states that The Work Number® includes payroll data "for over two thirds of the working population;" unfortunately, this is actually somewhat of a misstatement. While Equifax reports that The Work Number® product

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[140] Exhibit Joint IOUs-01, p. 73, lines 10-15.

[141] *E.g.*, Exhibit Cal Advocates-02C, p. 2-7, lines 13-15; Exhibit NRDC-TURN-01, p. 36, lines 16-22.

includes 618 million employment records,[142] its product documentation also discloses that The Work Number® database covers only about two-thirds of non-farm workers nationwide.[143] Thus The Work Number® dataset not only leaves out a third of the salaried and wage workforce—notably those employed by smaller employers[144]—but is also missing any data on employees other than non-farm employees. Per the Bureau of Labor Statistics definition used by Equifax, The Work Number® dataset thus excludes farm workers, private household employees, and non-profit organization employees. Available California employment workforce data suggests that The Work Number® product's coverage limitation leaves out a significant share of Californians, including, but not limited to approximately 650,000 California farm workers[145] and over 300,000 domestic employees statewide.[146]

The Work Number® product, by itself, does not include information on other types of income including the significant income earned through capital gains, pensions, partnerships or S Corporations, which, respectively, constitute 9%, 6%, and 6% of total income for federal

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[142] Equifax: The Work Number® Product – Social Service Verification. Available at: <https://theworknumber.com/solutions/products/social-service-verification> (accessed May 19, 2023).

[143] Exhibit Cal Advocates-02C, Appendix A.8: The WorkNumber® Product Sheet Brochure states in a footnote: "*US non-farm payroll: Non-farm payroll is a term used by the Bureau of Labor Statistics, and is a statistic that represents how many people are employed in the US in manufacturing, construction, and goods companies. Non-farm payroll excludes farm workers, private household employees, or non-profit organization employees. Data referenced here is based on EFX data and BLS data as of June 2022."

[144] Approximately 2.6M people in California receive income from a company with fewer than 20 employees. See US Census Statistics of US Businesses Data Tables for 202 available at: <https://www.census.gov/data/tables/2020/econ/susb/2020-susb-annual.html> (accessed May 24, 2023).

[145] The California Farm Labor Force: Overview and Trends from the National Agriculture Workers Survey (June 2005), available at: <https://www.alrb.ca.gov/wp-content/uploads/sites/196/2018/05/CalifFarmLaborForceNAWS.pdf> (accessed May 19, 2023).

[146] UCLA Labor Center 2018: Profile of Domestic Workers in California, available at: <https://www.labor.ucla.edu/wp-content/uploads/2020/12/Profile-of-Domestic-Workers-in-California.pdf> (accessed May 19, 2023).

income tax filers.[147] Neither does The Work Number® product, by itself, include such other sources of income as dividends, rental income, or unemployment and other types of income, which can make up the remainder of a household's total income.[148] It is likely that the majority of non-wage income such as income from capital gains, pensions, and S Corporations is primarily earned by upper income households; while unemployment and welfare income generally goes to low-income households. A credit agency data set like The Work Number® product might be considered sufficient to use as a tool for income verification for an opt-in program such as verifying applications for optional income qualified benefit programs like Medi-Cal where the eligibility to apply focuses on a low-income population. Such customers are more likely to be captured by The Work Number® product because it is less likely they receive significant non-wage income that would negate their eligibility for CARE/FERA. However, the fixed charge is not an opt-in program and is not limited to low-income customers.

Cal Advocates specifically propose to use The Work Number® product to verify income for customers whose incomes exceed the CARE/FERA eligibility limits, and would make them ineligible for, either the CARE or FERA low-income programs.[149] This means the mandatory IGFC would be using The Work Number® data for a population that could be quite different from the moderate-income benefit population for which The Work Number® product was designed and has, over time, proven to perform adequately. The gaps in the Work Number® dataset, by itself, may present a greater challenge for comprehensively capturing income information for households at the higher end of the income scale which are likely to have significant broader income sources, including business and investment income, which are not reflected in The Work Number® product.

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[147] IRS Income Tax Returns Filed and Sources of Income Table 1.3 for Year 2020, available at: <https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-filing-status#_grp1> (accessed May 19, 2023).

[148] *Ibid.*

[149] Exhibit Cal Advocates-01, p. 7, line 12 to p. 9, line 8.

Consider for example 1099 self-employment income. Equifax contracts with over 2.5 million employers,[150] as well as payroll companies to produce a product like The Work Number® dataset. While The Work Number® product does include some IRS Form 1099 income data, it does so only to a limited degree. Because The Work Number® product is largely based on data exchange agreements between Equifax and larger firms or payroll providers, it is likely that the 1099 data only reflects companies with a large 1099 workforce (for example, a rideshare or grocery delivery service), but not other, small independent contractors. Post-pandemic, self-employment is growing again in the US, and stands at over 10% of the workforce as of 2022.[151] Again, while The Work Number® product may be seen as functioning well enough for income verification among those with lower incomes (where the workforce is more likely to have wage or gig-economy type income), it would appear likely to function less well for the higher income ranges, where customers may have substantial investment, business, self-employment, pensions, or other non-wage/non-salary income.

Another income category not covered by The Work Number® product is non-earned income. To the Joint IOUs' knowledge, The Work Number® product does not reflect Social Security income, or other public assistance such as Supplemental Security Income/State Supplementary Payment (SSI/SSP), Unemployment benefits, etc. While Cal Advocates is quick to point out that The Work Number® product is used by California agencies to verify income eligibility,[152] it is in fact just one tool that is accessible to state agencies in addition to systems which have direct access to income verification data through the Internal Revenue Service (IRS), Social Security Administration (SSA), Employment Development Department and the FTB.[153]

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[150] Exhibit Cal Advocates-02C, Appendix A.7: The WorkNumber® Government Services Brochure, p. 3.

[151] Federal Reserve Bank of St. Louis: Self-Employment Grows during COVID-19 Pandemic, available at: <https://www.stlouisfed.org/on-the-economy/2022/jul/self-employment-returns-growth-path-pandemic> (accessed May 19, 2023).

[152] Exhibit Cal Advocates-02C, p. 2-9, line 5 to p. 2-10, line 15.

[153] Exhibit Cal Advocates-02C, Appendix A.5, p. 1.

Even with this seemingly vast access to income data through multiple state and federal sources, CDSS continues to maintain a manual income verification process where recipients are required to provide proof of income.[154]

Cal Advocates' testimony shows that Equifax states: "Since our data is comprised of data provided by employers themselves, what we can provide is highly reliable, but if income is earned or received from other, non-reported sources, actual personal income could be higher that [sic] reported in our data but very unlikely lower. Individuals are therefore very unlikely to be assigned a tier that is higher than actually eligible."[155] It seems plausible that, for customers with any covered wage or salary income data, an approach based solely on The Work Number® product would more likely than not, tend to underestimate total household income. From a harm avoidance standpoint, assigning a residential electric customer to a lower fixed charge income bracket is obviously preferrable to overestimating their income and placing them in too high a bracket. However, systematic underestimation of income for large swaths of the Joint IOUs' customer base could undermine not only the equitable distribution of customers across IGFC brackets, but also the ability to collect sufficient revenue from higher brackets that is designed to balance out the below average fixed charges for lower income customers- and such undercollections would impact all customers' rates once the IOUs' annual true-up proceeding is completed the following year, as discussed in Chapter VI Section C (Cost Recovery), below.

In addition, when an electric accountholder is not found in The Work Number® database at all, the impact could be more severe, both in terms of customer burden and in terms of operational impacts. Under the verification process proposed by CalAdvocates, customers who are not on the CARE or FERA programs would be defaulted to the highest bracket and provided an opportunity to work with the TPA to authorize and accomplish verification through The Work Number® product later. Consider a hypothetical situation where the accountholder knows their

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[154] CDSS Request For Verification Form available at: <https://www.cdss.ca.gov/cdssweb/entres/forms/english/cw2200.pdf> (accessed May 19, 2023).

[155] Exhibit Cal Advocates-02C, Appendix A.6, par. 6.

personal income does not fall into the highest bracket, so that customer then applies for income verification. In the product documentation[156] available for an Equifax product based on the same database as The Work Number® product, the match rate cited for finding customers in the database averages only 57%. In contrast, FTB data would include all sources of income, including non-wage or salary income, as well as relational information about the incomes of others in that household.

Further analysis of The Work Number® product and its accuracy in identifying and matching IOU customers should be conducted before allowing it to be used for IGFC income verification purposes,[157] to ensure the capabilities of this product in practice are more fully understood. For example, if The Work Number® product were to only be able to identify 57% of IOU residential customers (consistent with the product documentation for a related Equifax dataset, cited above), it can be assumed that the remaining 43% of residential customers would need to undergo an alternative process to verify their income and place them in the correct income bracket instead of all being defaulted to the highest bracket. If the follow-up income verification process for each of these 43% of customers cost the same as the current $9 per customer CARE income verification cost, it seems quite possible that using The Work Number® product could result in possible additional costs of $42 million per year (if an annual

[156] The Work Number® ID. Product Sheet, available at: <https://assets.equifax.com/wfs/theworknumber/assets/twn_The_Work_Number_ID_Product_Sheet.pdf> (accessed May 19, 2023).

[157] In 2019, PG&E conducted a project with Equifax to test and validate the model PG&E was using to identify potential CARE and FERA customers. As part of this project, PG&E attempted to match all 5.4 million of its residential customer names and addresses associated with each customer account (i.e., the customer name on file) against Equifax income data assets, including The Work Number® product, IXI Services, and Consumer Income View (using the Equifax product Connexus to assist in linking customer data (additional information can be found here: https://assets.equifax.com/marketing/US/assets/connexus_ps.pdf)) to validate and audit PG&E's CARE income propensity model. The results from this project are designated as proprietary to Equifax, and would require prior permission for PG&E to disclose in this Reply Testimony. PG&E is exploring pursuing a second phase of this analysis to understand how the income data products may have changed over the past four years.

re-authorization cadence is adopted), or more given that it will be a start-up and there were significant “hiccups“ during the initial years roll-out for both LifeLine and CARE income verification. These costs are significant and provide further support for the CPUC insisting on better understanding the accuracy and limitations of credit agency products before applying them to all customers in an IGFC setting in which it already appears public opinion can be negatively charged.

6. **Expanding CARE/ FERA or Similar Self-Certification and Verification Processes.**

Certain elements of other parties’ various proposals suggest utilizing income data collected through the CARE/FERA programs or expanding current CARE/ FERA processes (such as self-certification). The Joint IOUs do not support any expansion of CARE/FERA processes for implementation of the income graduated fixed charge. As discussed in Section A above, the Joint IOUs support utilizing existing CARE/FERA processes ONLY for customers that are already enrolled in CARE or FERA, and not for an expanded population.

As recommended in Cal Advocates’ Opening Testimony: “The Commission should require IOUs to leverage existing income information from customer programs with customer income data in order to accurately assign [and verify] customers [into] adopted income brackets.”[158] “Through their administration of existing low-income programs, IOUs already possess information regarding income status for a large portion of customers that could be leveraged to default them to adopted income brackets.”[159] This assertion is inaccurate. The Joint IOUs have only verified household income data in a minority of cases—approximately 7% of existing CARE/FERA households, or 2% of total households. Furthermore, in the majority of such cases, the Joint IOUs only possess self-reported data from customers who joined CARE via categorical eligibility (participation in one or more public assistance programs) or self-reported,

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[158] Exhibit Cal Advocates-02C, p. 2-2, lines 17-20.

[159] Exhibit Cal Advocates-02C, p. 2-2, line 29 to p. 2-3, line 1.

unverified household income from CARE and FERA customers who joined via income eligibility. The IOUs maintain that a CPUC-supervised TPA, that assigns customers into income brackets based on a high-quality data source (such as FTB), would lessen customer and operational burdens, including for households that could potentially be assigned an incorrect income bracket due to inaccurate, incomplete or missing data.

CEJA proposes that income verification start with self-certification for all customers.[160] However, the Joint IOUs agree with Cal Advocates' statement[161] that customer self-attestation for enrollment in the IGFC's income brackets for all residential customers, while permitted for CARE and FERA purposes, is "a non-viable proposal when verifying income for this magnitude of customers."[162] CEJA's self-certification approach would present many implementation challenges, most notably that many customers are unlikely to respond.[163] Non-responsive customers would then need to be defaulted (such as to the highest income bracket), which seems likely to result in an unknown (but probably large) number of customer inquiries and/or appeals, that could overwhelm either the TPA's and/or the IOU's call centers and billing operations staff. Further, requiring all customers to self-certify could result in an unacceptable level of fraud. To combat the temptation to become a free-rider, a significant percentage of customer placements would need to be verified, in a manner similar to the current CARE Post-Enrollment Verification process to ensure they are on the appropriate fixed charge level. This "spot-checking" is likely to be costly and administratively burdensome, both for the IOUs and for the customers. The Joint IOUs' Opening Testimony noted that their combined 2022 costs for CARE and FERA income verification, of approximately \$2.1 million, represents about \$9 per customer verified.[164] If, for example, IOUs had to verify and potentially correct another 10% of customer IGFC

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[160] Exhibit CEJA-01, p. 2, lines 13-24.

[161] Exhibit Cal Advocates-02C, p. 2-12, fn. 47.

[162] Exhibit Cal Advocates-02C, p. 2-12, fn. 47.

[163] Exhibit Joint IOUs-01, p. 72, line 22 to p. 73, line 6.

[164] *Id*., p. 69, lines 14-16.

self-certifications, it could cost an additional $9.7 million, not only initially but also *each time the IGFC bracket assignments are periodically updated*.[165] Similarly, if (as suggested from Experian documentation for a Work Number-related product), there might only be 57% matches (leaving 43% initially unmatched), the costs could mount to $40 million or more, as discussed in Section 5b above. Although self-certification has for the most part worked acceptably for the opt-in CARE and FERA programs for many years, the evidence available to date suggests that it would be inappropriate to expand that same process to the broader, non-opt-in IGFC customer population.

7. Some Secondary Income Verification Source May be Needed, but CEJA's Assessed Home Value Proposal Does Not Accurately Represent a Customer's Income and Should Not be Used.

In Opening Testimony, CEJA correctly stated that "there is no accurate, reliable source of income data for all California IOU customers."[166] The Joint IOUs have come to a similar conclusion, and, in our Opening Testimony, addressed the issue of not being able to match some customers with the selected data source by proposing "that a verification system could then use [another] secondary data source in hierarchical order, which would reduce the incidence of 'no matches' in the data."[167] The Joint IOUs also proposed that the number of customers who cannot be matched using the primary income data source be tracked and reported out annually by the TPA to the CPUC and all parties, so that it can be determined what subpopulations exist, and how those populations might more appropriately be assigned to an IGFC income bracket.[168] If an inaccurate primary data source is used, such as customer stated income, the CARE/FERA-like income verification process would be needed. Such a process would compare primary to

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[165] In Opening Testimony, Joint IOUs estimated that scaling CARE/FERA income verification to all residential customers would cost $97 million. See Exhibit Joint IOUs-01, p. 71, lines 11-14.

[166] Exhibit CEJA-01 p. 26, lines 14-15.

[167] Exhibit Joint IOUs-01, p. 77, lines 16-18.

[168] Exhibit Joint IOUs-01, p. 84, lines 8-11.

secondary income data sources to identify customers with a significant discrepancy who would be required to verify their income (or else remain on the default fixed charge). The Joint IOUs propose that an accurate data source, such as FTB, be selected, rather than implementing a complex and expensive process to try to make up for the inaccuracies of other primary data sources.

While the Joint IOUs agree with CEJA that any income data source selected will have gaps, and that a secondary income data source or sources may be needed to minimize those gaps, the Joint IOUs strongly disagree with CEJA's selection of Assessed Home Value as their secondary data source. Specifically, CEJA recommends that the IGFC process use the assessed value of a customer's service address as a secondary method to verify customer income for six reasons, because it is: (1) publicly available, and (2) updated frequently (statements with which the Joint IOUs agree); but CEJA incorrectly goes on to assert that (3) values of properties more accurately represent long-term income, (4) mortgage or rent payments frequently reflect household income, (5) assessed value is a better representation of income than market value and (6) it is easy to determine if there is a disconnect between stated income and assessed home value.[169] While the Joint IOUs appreciate CEJA's attempt to find a suitable alternate public data source to consider using as a proxy for income, its latter assertions lack adequate factual foundation.

As discussed below, among the many substantial problems with CEJA's proposal to use assessed home value as a proxy for income are that: (1) there are significant differences in the average length of time for home ownership[170] and the frequency of income changes,[171]

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[169] Exhibit CEJA-01, p. 26, line 19 to p. 27, line 10.

[170] American Housing Survey 2021 California General Housing Data All Occupied Units, available at: <https://www.census.gov/programs-surveys/ahs/data/interactive/ahstablecreator.html?s_areas=00006&s_year=2021&s_tablename=TABLE1&s_bygroup1=12&s_bygroup2=1&s_filtergroup1=1&s_filtergroup2=1> (accessed May 19, 2023).

[171] 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> (accessed May 19, 2023).

(2) assessed home value and mortgage payments are frequently disconnected as demonstrated below, and (3) there are significant challenges concerning customers who live in a small portion of a multi-unit building that may have a very high assessed value which bears absolutely no relationship to the renter's income. Importantly, it should be noted that fully 45.7% of California residents are renters.[172] Indeed, no other party's Opening Testimony has supported or shown why CEJA's Assessed Housing Value would be an appropriate proxy for income.

As admitted in CEJA's own testimony[173] (and also noted by the Joint IOUs[174]) CEJA's recommendation that the Commission "must establish a system of income verification updated frequently"[175] is actually inconsistent with its later recommendation to use assessed housing value, which changes so infrequently[176] for many customers that it could unfairly result in locking them into an income bracket, for a long time, that may differ from their actual household income.

Furthermore, using assessed home value as a proxy for income ignores the practical reality of the disconnect between the assessed value of a home and affordability of monthly mortgage payments. For instance, two home purchasers purchasing identical homes, with identical assessed values on the same day, are likely to have significantly different monthly mortgage payments based on the differing financing terms including differences in down payment amounts, credit risk, and length of mortgage term. CEJA's claim that "mortgage or rent payments frequently reflect household income"[177] ignores the fact that home mortgage payments can vary wildly based on financing terms. For example, an $850,000 home purchased with 10%

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[172] American Housing Survey 2021 California General Housing Data All Occupied Unites, available at: <https://www.census.gov/programs-surveys/ahs/data/interactive/ahstablecreator.html?s_areas=00006&s_year=2021&s_tablename=TABLE1&s_bygroup1=2&s_bygroup2=1&s_filtergroup1=1&s_filtergroup2=1> (accessed May 19, 2023).

[173] Exhibit CEJA-01, p. 25, lines 22-25.

[174] Exhibit Joint IOUs-01, p. 63, lines 3-10.

[175] Exhibit CEJA-01, p. 26, lines 1-2.

[176] Property re-assessment is limited by Article XIIIA of the California Constitution.

[177] Exhibit CEJA-01, p. 26, lines 26-27.

down and a 15-year mortgage at 6.789% could cost $6,786/month before taxes and fees, but an identical home purchased with 40% down and a 30-year mortgage at 7.287% could cost $3,492/month. And for two similar houses bought in very *different* times, the effect of Prop 13 can result in a further confounding effect and be even more disconnected with owners' current incomes. For example, a home on the San Francisco Peninsula might have been purchased for $300,000 in 1989 but even with Prop 13 might now have an assessed value closer to $600,000, while actually being worth $3 million. However, its owner-occupants may have fully paid off their 30-year mortgage and be retired living on limited social security and/or pension income. Or they might have passed on their house to their children, which would not have resulted in a change in assessed value under California's property tax inheritance exclusion until 2021. These children could have a level of income (high or low) that has little relation to the assessed value of the property. In fact, the Legislative Analyst's Office reported the following in 2017 about the impact of the inheritance exclusion on property taxes based on assessed value:[178] "Substantial differences occur even among property owners of similar ages, incomes, and wealth. For example, there is significant variation among similar homeowners in the Bay Area. Looking at 45- to 55-year-old homeowners with homes worth $650,000 to $750,000 and incomes of $80,000 to $100,000 (values characteristic of the region), property tax payments in 2015 ranged from less than $2,000 to over $8,000." The difference in property tax implies significant differences in underlying assessed value for homeowners with similar incomes and property values. Again, AB 205 refers to "income," which can bear little relationship to assessed value of a home.

Finally, CEJA inadequately addresses how to handle customers who live in multi-family housing. CEJA proposes to handle renters in multi-unit dwellings by assigning them to the median income of the census tract for non-Disadvantaged Community (DAC) census tracts or to the lowest income bracket, for DAC census tracts.[179] The result would be that low-income

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[178] Legislative Analyst's Office, 2017: The Property Tax Inheritance Exclusion. Available at: <**https://lao.ca.gov/Publications/Report/3706**> (accessed May 26, 2023).

[179] Exhibit CEJA-01 p. 3, lines 3-7.

customers in high income census tracts would be assigned to a bracket that is too high, while high income customers living in lower income census tracts would be assigned a bracket that is too low. Furthermore, middle- and higher-income customers in multi-unit dwellings in DACs, (approximately 29% of census tracts) would be assigned to the low bracket despite their income level. While the Joint IOUs appreciate CEJA's admission that its proposal to use each residential property's current assessed value as an income proxy does not work for multi-unit dwellings,[180] its attempt to make up for this significant shortcoming would rely on median income level of the census tract,[181] a data set which is even less adequate at verifying a customer's specific income. There is substantial evidence showing why CEJA's entire assessed residential property value (used to set property taxes) lacks an acceptable level of accuracy to be found to be a just and reasonable proxy for a customer's household income.

To summarize, the Joint IOUs cannot support CEJA's proposal because: (1) assessed values of homes change less frequently than individuals' incomes; (2) the assessed value of homes does not significantly correlate with mortgage payments or income, and (3) this approach does not adequately address the significant portion of customers living as renters in multi-family dwellings.

8. **<u>Sierra Club's Proposal to Use Area Median Income is Inferior to Continued Use of FPL as is Done for CARE.</u>**

Sierra Club proposes to use AMI to assign customers to IGFC brackets, an approach no other party proposed. Sierra Club claims AMI is appropriate because: (1) AB 205 implies geographic differentiation in rate design, (2) AMI is used in one Commission definition of "low-income household," and (3) AMI advances equity goals because it reflects regional variation in income.[182] These issues have been partially addressed in Chapter II (Rate Design) of

[180] Exhibit CEJA-01 p. 3, lines 8-10.

[181] Exhibit CEJA-01 p. 3, lines 3-7.

[182] Sierra Club Direct Testimony, p. 34, line 10 to p. 35, line 5.

this Reply Testimony; this section focuses in more detail on the implementation and administrative challenges of the AMI approach.

While the Joint IOUs recognize that AMI could be viewed as a legitimate metric for establishing income brackets in another context, we maintain that income brackets based, instead, on the existing metric of percentage of FPL should be used for the IGFC. Not only does the existing CARE/FERA program already, by law, rely on percentage of FPL, but having a new income-based customer rate component based on a different metric would needlessly increase complexity and customer confusion.

Sierra Club's proposal to use AMI stems from the Commissions Environmental & Social Justice Action Plan, which references AMI in its definition of "low-income customer."[183] While this is not incorrect, a stronger precedent for an existing metric on which to base income level would be the legislature's use of percentage of FPL for CARE/ FERA, because the Commission has already been required, by statutory authority, to define the low-income customer bracket threshold in this manner.[184] The notion of using AMI to determine the low-income definition for income qualified programs, including rate reduction programs like CARE and FERA, was recently discussed in the low income proceeding.[185] This concept, which was opposed by SCE, SDG&E, and TURN, was ultimately denied by the Commission which concluded: "[…] we agree with the IOUs that these requirements are based in statute which cannot be modified in a Commission decision."[186] Finally, if the Commission were nonetheless to adopt an IGFC income definition based on the very different AMI metric, this is likely to lead to confusion among customers who are also enrolled in income qualified programs such as CARE, FERA, Arrearage Management Plan (AMP), Low Income Home Energy Assistance Program (LIHEAP), the Energy Assistance Fund (EAF) and Percentage of Income Payment Plan (PIPP), and other

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[183] Sierra Club Direct Testimony, p. 34, lines 10-14.

[184] See Pub. Util. Code, §§ 739.1 and 739.12(a).

[185] D.21-06-015, pp. 137-142, §§ 6.3.6 and 6.3.7.

[186] D.21.06-015, p. 142.

programs - *all* of which base eligibility on the customer's household income *as a percentage of FPL*. If the Commission were to choose to make changes in how household income is defined and used, the Joint IOUs respectfully suggest that it should do so on a consistent, comprehensive basis, only after statutory limitations are removed or modified, as necessary. If desired, then the Commission should select an appropriate proceeding in which to make a comprehensive change across various income-qualified programs (and rate components that utilize income eligibility). By doing so, it would ensure the minimization of customer confusion and administrative burden associated with managing (and explaining) multiple income threshold determination methodologies across the IOUs' portfolio of programs and the new IGFC income-based rate component required by AB 205.

Sierra Club's "Lowest IGFC Bracket" based on AMI (i.e., CARE up to $100,000, or, for a non-CARE household, up to $50,000) will include many non-low-income households, making AB 205 compliance for low-income households a challenge. The Joint IOUs also oppose an AMI strata definition for Non-CARE customers because this would cause an overlap with the CARE/FERA bracket and make the Below Average Income bracket more difficult to access for those who live in lower-AMI counties. The Joint IOUs respectfully hope that the CPUC will take note that the majority of parties' Opening Testimony supported the use of FPL and that,[187] even Sierra Club in its "Near-Term Simplification" of non-CARE brackets, used stratification through FPL multiples.[188]

9. Defaulting Customers to Highest Income Bracket

Cal Advocates and TURN/NDRC both propose that customers who are not enrolled on CARE or FERA be defaulted to the highest income bracket, after which such customers must

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[187] Exhibit Joint IOUs-01, p. 4, line 16 to p. 5, line 5; Exhibit NRDC-TURN-01, p. 22, lines 20-25 ; SEIA Direct Testimony, p. 13, line 23 to p. 14, line 10; Exhibit BVES-01, p. 7, lines 2-6; Exhibit Liberty-01, p. 4; and Exhibit PAC/100, p. 2, lines 7-17.

[188] Sierra Club Direct Testimony, p. 32, Table 5.

request to be moved to a lower income bracket if they are eligible and provide consent to disclosure of the data needed to verify their asserted household income.[189] This approach has multiple drawbacks. First, it seems likely to potentially harm low-income customers who are not enrolled in CARE or FERA by placing them in the highest income bracket. Any income verification solution may harm low-income customers who are not enrolled in CARE or FERA due to lack of any other available data to place them in a lower bracket; however, *defaulting* all non-matches to the highest bracket adds additional cost burdens for customers who are likely already struggling to pay their bills. Although high CARE enrollment penetration figures[190] have been achieved over CARE's (and its predecessor, LIRA's) five-decades-long existence, there are still customers eligible for CARE that do not participate in the program. The more recently-created FERA program has very limited eligibility (it is only open to families of three or more with incomes from 200-250% of FPL), and, propensity analysis indicates there are likely many FERA-eligible customers that do not yet participate in that discount program, perhaps because, by statute, it offers a lower 18% electric bill discount (which is about half of the maximum 35% discount allowable under the CARE statute). In both cases, a non-enrolled but eligible low-income customer would be defaulted into the highest income bracket and would then need to take action to prove that they should be moved out of the highest-income bracket and into a lower IGFC bracket. As already noted above, the Joint IOUs believe requiring such defaulted customers to then take action to be moved to the correct income bracket is likely to result in a high percentage of such customers remaining in the incorrect bracket, even though they would have been eligible to move to a lower income bracket had they acted. Past experiences with CARE/FERA program requests for customer responses suggest that many customers would seem unlikely to respond.[191] This would result in an IGFC structure under

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[189] Exhibit Cal Advocates-02C, p. 2-6, line 9 to p. 2-7, line 12; Exhibit NRDC-TURN-01, p. 35, lines 2-16.

[190] Monthly Reports of PG&E, SCE, and SDG&E on Low Income Assistance Programs for January 2023 are available at: <https://liob.cpuc.ca.gov/monthly-annual-reports/> (accessed May 19, 2023).

[191] Exhibit Joint IOUs-01, p. 69, lines 10-13.

which many customers could end up paying an incorrect, higher (default) fixed charge amount, which would be especially harmful for lower-income customers who have indicated they are already struggling to pay their bills. Further, the customers that *do* respond to request they be moved to the correct bracket would likely result in a large influx of calls to the IOUs' contact center, as well as requests to the TPA to be moved immediately after implementation—which could overwhelm IOUs' contact center teams, as well as the TPA, which may require costly added personnel to maintain acceptable levels of service.

Further, defaulting customers to the highest income bracket would be a negative customer experience. Customers would either need to take action to prove their household income, or else remain being subject to a higher fixed charge than their household income may warrant. This is likely to result in many customer complaints both to the IOUs and to the CPUC and will likely make customers wary of utility programs in the future. Finally, it is unclear what an income verification "refresh" process would look like in this scenario. Would all customers be defaulted back to the highest income bracket at a certain time period and again need to re-certify to request correct placement? Any proposal that includes only placing customers once would not appear to adequately account for how any given household's total income changes over time.

The Joint IOUs conducted further research to better understand the LifeLine program in the context of the proposal to default non-CARE/FERA customers to the highest bracket for IGFC implementation. Certain aspects of the LifeLine model continue to be promising, such as its use of a TPA under the supervision of the CPUC. However, one aspect of the early years of developing the LifeLine model raises concerns when evaluated against party proposals that would default non-CARE/FERA-enrolled customers to the highest IGFC bracket. A review of past CPUC decisions indicated that the opt-in LifeLine program initially had a slow uptick in enrollments by eligible populations until a categorical eligibility approach was adopted through which customers could be automatically enrolled if the data showed they were already enrolled in another income qualifying program. This is concerning for defaulting in a non-opt-in program like the IGFC, because it suggests that many moderate-income customers may not take the necessary affirmative steps to move to the appropriate lower bracket and would thus be inappropriately charged a higher fixed charge. Further, this moderate-income population would have no option for "categorical eligibility" as is done in Lifeline, because the middle-income bracket's income levels fall just above any other qualifying assistance programs. While including more than one income bracket above the CARE/FERA levels helps to provide further relief through lower fixed charges for customers in the lower- and moderate-income brackets, if moderate-income customers are defaulted to the highest bracket, past experiences in the CARE/FERA and LifeLine programs show that customers are unlikely to respond to outreach. Many such moderate-income customers would likely end up unfairly paying a fixed charge that is higher than what the CPUC determined to be their fair share, than if the assignment had been based on a more accurate indicator of actual income.

IV.

IMPLEMENTATION

[NORMA KANE, MELANIE McCUTCHAN, AND EVA MOLNAR]

A. Introduction

In Opening Testimony, the Joint IOUs proposed an implementation plan, schedule and timeline that was based both on the Joint IOU income verification proposal and the tasks required to successfully implement and transition customers to rates with IGFCs. Other parties concurrently presented their own income verification and implementation proposals which differ from the Joint IOUs' proposal. In the following sections, the Joint IOUs discuss the cost and schedule impacts these other proposals would have, including how they relate to the Joint IOUs' proposal. Additionally, while the Joint IOUs continue to strongly support their Opening Testimony proposal as the best overall approach, in this chapter, the Joint IOUs also discuss considerations should the CPUC decide to adopt other party proposals for an interim solution.

B. Any Proposal that Requires a TPA will Still Require Significant Time to Implement, but There are Other Solutions that Could be Implemented More Quickly.

As many parties mention, a statewide implementation of income verification utilizing data from FTB, overseen by the CPUC, is ultimately necessary for effective, transparent, and accurate income verification.[192] As discussed above in Chapter III (Income Verification), several parties proposed interim solutions, such as having the Third Party Administrator (TPA) start by using more readily available data than FTB data from sources such as credit agencies, property tax records, or the U.S. Census Bureau as a near-term interim approach until the end-state FTB-based process can be put in place. These interim income verification proposals did not include assessments of their impacts on cost and timeline, such as the Joint IOUs showed in our

[192] Exhibit Cal Advocates-02C, p. 2-1, lines 12-19; Exhibit NRDC-TURN-01, p. 34, lines 13-20; Exhibit BVES-01, p. 11, lines 8-14; and Exhibit PAC/100, p. 20, line 21 to p. 21, line 11.

Opening Testimony. In fact, any interim proposals that would require a TPA would not enable significantly faster implementation than the Joint IOU proposal, as described in more detail in Section C below. The Joint IOUs strongly support the proposal presented in our Opening Testimony as the best income verification solution. Receiving and using accurate information, as well as transitioning customers to the correct income bracket, is more important than the alleged gains in speed potentially provided by an interim solution. Waiting until statewide accurate household income verification is available will support a more streamlined customer experience that minimizes the potential for strong customer backlash.

If the CPUC nonetheless decides to proceed with an interim process due to concerns about the amount of time it would take to put effective, transparent and accurate income verification in place, the Joint IOUs respectfully recommend that any such interim process should: (1) provide immediate benefit for low-income customers in line with AB 205; (2) avoid complicating the customer journey to the end-state by selecting income brackets and rules that are compatible with an eventual transition to the end-state structure; (3) be implementable with a transition or deadline for achieving a pre-approved ultimate end-state structure; and (4) have minimal impact on total costs for both the interim and the end-state process.

As described in Chapter II (Rate Design), the Joint IOUs do not support SEIA's proposed fixed charge levels. That said, Joint IOUs agree that any interim solution, such as that proposed by SEIA[193] or PacifiCorp,[194] which would not require a TPA because it aligns with the current CARE and FERA income levels, and would likely require significantly less time to implement because existing CARE/FERA data and income verification processes could be leveraged.

In addition, if the Commission considers adopting an alternate to what the Joint IOUs filed, the Joint IOUs respectfully recommend that the Commission carefully evaluate and assess the impacts on the implementation budget and timeline likely needed to carry out such an

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[193] SEIA Direct Testimony, p. 20, lines 4-15.

[194] Exhibit PAC/100, p. 20, line 22 to p. 22, line 13.

approach.[195] While the budgets provided in the Joint IOUs' Opening Testimony are the best cost estimates based on what is currently understood about implementation of the Joint IOUs' proposals, they are not likely to reflect the costs and timelines associated with implementing whatever differing directives the CPUC might include in its final decision. Also, as explained below, if the CPUC were to adopt an interim solution that aligned with the current CARE/FERA discount structure, it would be possible to implement faster than other interim approaches. However, the Joint IOUs would still need to determine whether that faster solution is possible, based on the specific requirements in the CPUC's final decision, as well as depending on when that final decision is issued.[196]

C. **Many of the Parties' Opening Proposals Would Impact Implementation Complexity and Costs While Not Improving Implementation Timing.**

Cal Advocates and TURN/NRDC advocate for an interim solution based on Equifax's The Work Number® product, which they claim could help expedite initial implementation of the IGFC (relative to proposals like the Joint IOUs' that counsel waiting for the more accurate FTB-based approach), but neither of these parties provided timelines and costs for their proposed interim solutions.

Cal Advocates' proposal states that incorporating data from The Work Number® could be done within three to four months of signing a Master Service Agreement with the Commission. However, as stated in the Joint IOUs' Opening Testimony,[197] adopting a TPA-based interim solution, such as Cal Advocates proposes, will take additional time as well as costs for the IOUs to connect their customer billing systems with that database, and to intake the "scores" that are associated with the adopted income brackets. Additionally, time will be needed for IOUs to contract with the entity responsible for collecting income scores determined by

195 Exhibit Joint IOUs-01, p. 106, line 3 to p. 108, line 6.

196 Exhibit PG&E-01, p. 2-7, lines 24-32.

197 Exhibit Joint IOUs-01, p. 100, line 5 to p. 102, Table IV-15.

Equifax. Finally, contracting with a credit bureau to purchase credit information for purposes of income verification on an interim basis would result in costs which are incremental to the costs of implementing an end-state solution which uses data from the FTB.[198]

TURN/NRDC also proposed a designated TPA to run the income verification process, in five stages wherein: (1) customers enrolled in CARE/FERA programs would be assigned the lowest bracket, (2) the TPA would use an income estimation service to identify and encourage middle income customers to opt-in to apply to a middle-income bracket, (3) middle income customers who apply would have their income verified, (4) all customers would be notified of their bracket assignment and the appeals process, and (5) income bracket assignments would be sent to the customer's IOU.[199] Like Cal Advocates, TURN/NRDC's verification process also proposes to utilize Equifax's Work Number® product, or a like type of Credit Bureau service, to attempt to place the Joint IOUs' over 10 million residential electric customer accounts in the appropriate household income bracket.

Any proposal that relies on a TPA for income verification, such as Cal Advocates and TURN/NRDC's proposals, will take appreciable time to implement, even if that TPA were to use available data that may not require legislative amendments to access (which leveraging the FTB data would require). Such proposals would not significantly reduce the timeline for implementation presented in the Joint IOUs' Opening Testimony, which leverages a TPA using FTB data, because many other steps would still be needed to partner with a TPA. These steps include: each IOU contracting with the TPA, cybersecurity reviews between each IOU and the TPA, and integrating each IOUs' billing system with the TPA's data. Furthermore, integrating with a TPA and using a credit bureau data source will introduce additional ongoing IOU administrative and maintenance costs as well as contracting costs with the credit bureau, which

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[198] See Chapter III, Section A.3.

[199] Exhibit NRDC-TURN-01, pp. 34-35.

would be incremental to costs estimated in the Joint IOUs' Opening Testimony as being necessary to ultimately obtain state income data from the FTB.

As discussed in detail in Section 8.A of Chapter III (Income Verification), Sierra Club's proposal to use AMI to assign customers to IGFC brackets will create customer confusion and the potential for more movement within the five (more granular) income brackets that Sierra Club proposes. Using AMI by geography creates more parameters that add more complexity and results in a structure which is more challenging for customers to understand for little benefit. As a result, customers will be more likely to become confused and contact the IOUs for clarification. This will result in increased implementation, operations, and contact center costs for both the IOUs and the TPA.

CEJA's proposal to implement, in a short to medium timeframe, eight-to-ten brackets is based on implementing a solution which will require self-certification and eventual integration with a third party for either property tax or income data. CEJA's proposal would add more complexity and cost for little benefit, impose a burden on customers to self-certify. This would likely increase IOUs' estimated implementation, operations, and call center costs, as well as, likely the TPA's handling costs, because highly granular income brackets will increase the frequency of customers moving from one IGFC income bracket to another over time. CEJA's higher number of brackets (up to ten) by definition would have narrower income "bands than other parties' proposals."[200]

Cal Advocates proposal to have separate tier structures for CARE and Non-CARE customers, and to use the California Climate Credit (CCC) to offset fixed charge levels for certain low-income customers, will result in an additional burden for the IOUs' and TPA's operations and greater customer understanding challenges. Most parties' Opening Testimony (including TURN/NRDC, SEIA, CEJA, Bear Valley, Liberty, PacifiCorp, and the Joint IOUs) proposed income bracket approaches that assign CARE/FERA-enrolled customers to lower

[200] Exhibit Joint IOUs-01, p. 63, fn. 91.

brackets and non-CARE/FERA customers to higher brackets. However, Cal Advocates proposes *two* sets of fixed charges using the same three income brackets: one set of fixed charges that would apply only to CARE customers and another set of fixed charges that would which apply only to non-CARE customers.[201] Additional income brackets will increase operational costs because each time a customer moves from one bracket to another, they must be notified and may become confused. These customers would likely make inquiries for clarification and may appeal the decision in hopes of being moved to a lower income bracket. Most other parties propose simpler approaches that would result in fewer movements between income brackets and greater stability for customers. The Joint IOUs recommend the Commission consider the value of the stability of a customer's IGFC for customer understanding when evaluating whether to adopt a more complex IGFC structure with brackets that differ based on enrollment in income qualified programs.

Cal Advocates proposes to use the CCC to offset income graduated fixed charges for the lowest brackets by charging the IGFC in one line item and then offsetting the IGFC using the CCC in a second line item.[202] In addition to the challenges mentioned in Chapter II (Rate Design), this structure would needlessly complicate the customer's bills by adding two new line items which negate each other since the CCC would likely completely cover the IGFC for this group of customers.[203]

D. Any Interim Solution Adopted in Addition to an End-State Solution (such as the Joint IOUs' FTB-based proposal) Should be Configured and Built to Minimize Additional or Duplicate Work to Reach the End-State.

In opening testimony, the income verification source proposed by the Joint IOUs requires new legislation which would have to be accomplished outside of this proceeding and may result

[201] Exhibit Cal Advocates-01, p. 3, Table 1.

[202] Exhibit Cal Advocates-01, p. 16, Table 6, and lines 7-13.

[203] Exhibit Cal Advocates-01, p. 23, lines 4-12.

in significant time passing before FTB data is available.[204] Both Cal Advocates[205] and TURN/NRDC[206] have proposed interim solutions. Cal Advocates describes a process whereby a data source would provide customer income information in the form of a score. This score would be stored and maintained by the Commission on an internal server which can then be labeled with customer account numbers and accessed by the IOUs.[207] If the Commission determines that an interim solution with a readily accessible income data source will be utilized until data from the FTB becomes available, the Joint IOUs recommend the Commission adopt an interim solution that minimizes the work needed to transition between data sources. For example, it would be possible for the Commission to adopt an interim solution which relies on data the IOUs currently have. In opening testimony, SEIA proposed three income brackets based on CARE/FERA enrollment where the lowest charge applies to CARE-enrolled customers, the next lowest applies to FERA-enrolled customers, and finally the highest tier applies to all non-CARE/FERA-enrolled customers.[208] While this approach would rely on stated income and categorical eligibility, this approach would be the easiest to implement because it relies upon information the IOUs already possess. In fact, SCE's current "Basic Charge"[209] is a flat per-day charge on all customers and is reduced by the CARE/FERA discounts, and therefore functions the same way as the three income-bracket IGFC proposed by SEIA. Implementation of this type of structure could be done fastest because it would require the least amount of additional verification processes beyond those already managed through the CARE/FERA programs today. Further, no contracts or system integrations with a Third Party would need to be performed. Implementation would be limited to system changes needed to implement the IGFC (which would vary by IOU) and time needed for ME&O to inform customers of the change—which

[204] Exhibit Joint IOUs-01, p. 94, lines 14-26.

[205] Exhibit Cal Advocates-02C, p. 2-16, line 20 to p. 2-19, line 7.

[206] Exhibit NRDC-TURN-01, pp. 34-38.

[207] Exhibit Cal Advocates-02C, p. 2-11, lines 8-22.

[208] SEIA Direct Testimony, p. 13, line 23 to p. 14, line 21.

[209] SCE Schedule D Domestic Service Sheet 2.

would also be relatively short given its reliance on programs with which customers are already familiar.

Joint IOUs continue to support a single implementation that leverages a TPA working with the most complete data from the FTB. If the Commission adopts an interim solution which includes a TPA but uses a credit agency database, such as the one described by Cal Advocates, it will take significant time and cost for IOUs to connect their customer billing systems with that database in order to be ready to intake the "scores" associated with whatever income brackets the CPUC adopts. If the income source were to later change from a credit agency to FTB, the most efficient implementation would be one where the database structure remains unchanged, such that only the data itself is derived from a new source. An approach like this would likely be transparent to the IOUs, whose systems would then be connecting to the same database in the same way, but would be receiving revised customer income scores. Additionally, when/if a TPA is selected to match customer information with income data, the scope of that Third Party's work should include both the interim data source (if adopted) and end-state solution to minimize any delays caused by needing to find a new Third Party to handle a new data source.

Finally, the Joint IOUs should only be required to modify their billing systems in such a way that would work for both the end-state solution as well as any interim solution adopted. This would be achieved by the CPUC adopting, up front, the specific number of income brackets for the end-state solution, so this structure could be programmed into IOU billing systems from the start, avoiding reprogramming later. For example, if the Commission's final decision were to adopt an interim solution with three income brackets, and determine that the long-term solution should have no more than four income brackets, the IOUs could design their billing systems with placeholders that could later accommodate four income brackets, so that the eventual transition from the interim to the long-term structure would require little to no further system enhancements. If the number of income brackets in the end-state solution is left unclear, that could create additional time and costs later when the IOUs are implementing additional income brackets in their billing systems. Finally, if a TPA is used for an interim solution, Joint IOUs recommend that the TPA transmit the same data format and fields (e.g., only the income bracket assignment, rather than the actual customer income data itself) to the IOUs that would be used for the end-state solution, so that billing systems do not have to be modified twice to handle different types of information.

V.

MARKETING, EDUCATION, AND OUTREACH

[APRIL BERNHARDT, BRIAN KOPEC, AND ERIKA WASMUND]

A. Introduction

All parties generally agree with the Joint IOUs that Marketing, Education, and Outreach (ME&O) is fundamental to gaining customer awareness, understanding, and acceptance of the IGFC. The Joint IOUs' proposal generally aligns with Cal Advocates' recommendations that the Joint IOUs should coordinate with community-based organizations, and that they should engage in significant early outreach. Other aspects of the parties' proposals are unworkable from an ME&O perspective, because they fail to account for the extent of ME&O required. For example, SEIA's proposal to primarily use existing CARE and FERA marketing channels for the IGFC underestimates the amount of outreach and clarity of message that will be required to gain customer awareness, understanding, and acceptance of the new IGFC structure. Additionally, CEJA's proposal to use up to ten income tiers will complicate customer communications and drive up the cost of ME&O, as explained below.

Whatever proposal the Commission ultimately adopts will have downstream effects on ME&O that are difficult to quantify at this stage, and that are largely unaddressed by the parties' proposals. In general, the more complicated the proposal, the more costly it will be to conduct outreach and achieve customer acceptance. For example, a multi-step or interim approach would require additional rounds of ME&O beyond that contemplated by the Joint IOUs' proposal and could potentially raise costs by two-fold or more.

The ME&O budgets provided in the Joint IOUs' Opening Testimony are the Joint IOUs' best estimates based on what is currently understood about implementation of their proposal. If the Commission adopts an alternate proposal, the impacts on ME&O, and the associated ME&O

budget requirements, are uncertain. The budgets provided by the Joint IOUs may not reflect costs associated with implementing differing directives the CPUC may issue in its final decision.

B. Considerations for Select Aspects of Party Proposals

1. The Joint IOUs Generally Agree with Cal Advocates' Recommendations to Coordinate with Community-Based Organizations and Provide Significant Early ME&O.

The Joint IOUs agree with Cal Advocates that they should leverage community-based organizations (CBOs) to inform customers about the new IGFC and income verification requirements.[210] CBO outreach is one of many outreach channels proposed by the Joint IOUs to form a holistic and integrated education and outreach campaign to support IGFC implementation. In their proposal, the Joint IOUs explained that they would "collaborate with CBOs to help educate customers about what the IGFC means for them," and "[t]ogether, 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."[211]

The Joint IOUs also agree with Cal Advocates that it is important to provide significant early ME&O. Cal Advocates proposes that "several months in advance of the application of IGFCs, customers should learn about IGFCs[,]" and "[m]onthly statements mailed to customers can reflect projected bracket."[212] While it is unclear exactly when Cal Advocates believes these monthly communications should begin, the Joint IOUs agree that customers will need advance notice of the IGFC before it is implemented and addresses this in its timeline of tactics. Coordinating with the CBOs, conducting the necessary research, developing materials, and

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[210] Exhibit Cal Advocates-02C, p. 2-15, lines 8-19.

[211] Exhibit Joint IOUs-01, p. 125, lines 7-8, and 14-16.

[212] Exhibit Cal Advocates-02C, p. 2-15, lines 15-16.

refining the messaging needed to execute an ME&O strategy that drives customers from awareness, to education, to acceptance is a significant undertaking. While some of the activities can take place concurrently, it will take significant planning and development to develop and distribute the first set of outreach materials once a decision is issued. Based on lessons learned from the Residential Time-of-Use Transition, the Joint IOUs anticipate beginning direct customer outreach through email and/or direct mail within the 90 to 180 day period before the transition, and will inform customers about individual bill impacts, including their assigned income categories, and the income verification and appeal process.

In addition to CBO collaboration and direct customer communications, the Joint IOUs will explore more cost-effective paid media channels, including highly targeted digital, search, and community and/or ethnic print advertising, rather than the expensive television advertising suggested by Cal Advocates.[213]

2. Existing Marketing Channels for CARE and FERA Should Not Solely Be Used to Educate Those Customers About the IGFC, as SEIA proposes.

SEIA proposes using existing marketing channels for CARE and FERA to market the IGFC to customers enrolled in those programs. While it is true, as SEIA points out, that there are marketing budgets and procedures already in place for CARE and FERA,[214] they cannot support the additional ME&O needed to educate customers about the IGFC.

The current budget for CARE and FERA ME&O was established to promote and enroll customers in those bill discount programs. It was not established to address the additional complexities of an IGFC. Post enrollment communication with CARE/FERA customers is limited to initial program enrollment verification, periodic program recertification (as needed) and/or post enrollment income verification to a small percentage of program participants. These customer touchpoints would not be appropriate as the sole channels for IGFC education. As

[213] Exhibit Cal Advocates-02C, p. 2-15, lines 8-13.

[214] SEIA Direct Testimony, p. 20, lines 6-8.

outlined in the Joint IOUs' Opening Testimony, significant additional outreach will still be required for this customer segment to raise awareness of the IGFC, educate customers about its purpose and goals, and clarify what, if any, impact the IGFC will have on their enrollment status.[215]

Additionally, any changes to the FERA eligibility requirements—even "minor" changes as suggested by SEIA[216]—would require customer outreach beyond what is currently planned and budgeted under the existing program requirements. There would be an increase in costs to promote the new eligibility requirements and identify and enroll eligible customers as well as an expansion in ongoing ME&O costs for this assistance program, as the eligible population would increase.

Even if they are not financially impacted, it will be critical that CARE/FERA customers receive dedicated communications and outreach regarding any IGFC decision. The absence of communications, or only combining IGFC communications with existing program enrollment communications, could create unnecessary confusion and concerns from these vulnerable customers.

3. <u>CEJA's Proposal to use California's Tax Income Brackets and a Self-Certification Questionnaire will Unnecessarily Increase ME&O Costs.</u>

Each layer of complexity in a given proposal drives up ME&O costs because it means more outreach would be required to achieve customer understanding and acceptance. CEJA recommends eight to ten income brackets for the IGFC.[217] In contrast, the Joint IOUs proposed four brackets (and most other parties proposed three). From just an ME&O perspective, additional brackets would make communications more complex and risk increasing customer confusion. Additional brackets would also trigger more bouncing between brackets and would

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215 Exhibit Joint IOUs-01, p. 115, lines 1-22; and p. 125, lines 7-18.

216 SEIA Direct Testimony, p, 21, lines 8-16.

217 Exhibit CEJA-01, p. 19, lines 1-3.

increase ongoing implementation and appeals communications costs, as detailed in Chapter IV (Implementation).

CEJA's proposal also states that the IOUs "should attempt to communicate the importance of responding to the income self-certification questionnaire."[218] Based on past experience with CARE Recertification Results across the Joint IOUs, it is consistently a challenging and ongoing effort to encourage customer responses, even where customers stand to benefit from a significant bill discount. Table V-9 provides CARE program response rates for the Joint IOUs.

Table V-9
CARE Recertification Response Rates 2022

IOU	CARE Response Rates
PG&E	50% recertification rate in 2022
SCE	11% recertification rate in 2022
SDG&E	38% recertification rate in 2022

An income self-certification questionnaire for the IGFC would likely garner even less customer response. In sum, it is reasonable to assume that ME&O efforts directed at customer income self-certification would be costly and time-consuming, with similarly low (or lower) response rates that would jeopardize the accuracy of the IGFC.

218 Exhibit CEJA-01, p. 34, lines 13-14.

VI.

COST RECOVERY

[REBECCA MADSEN, GWEN MORIEN, AND ERIN PULGAR]

A. Introduction

This chapter replies to other parties' cost recovery proposals to establish an IGFC for residential rates. In particular, this rebuttal testimony chapter addresses the testimony from the following parties regarding updating the IGFC charges as a result of changes to the underlying revenue requirements and trueing-up over/under collections:

- The Public Advocates Office ("Cal Advocates") of the California Public Utilities Commission ("CPUC" or "Commission"), submitted by Mr. Nathan Chau and Mr. Otto Nichols on April 7, 2023.
- Joint Testimony by The Natural Resources Defense Council ("NRDC") and The Utility Reform Network ("TURN"), submitted by Mr. Mohit Chhabra and Mrs. Sylvie Ashford on April 7, 2023.
- The California Environmental Justice Alliance ("CEJA"), submitted by Mr. Tyson Siegele on April 7, 2023.
- Sierra Club ("Sierra"), submitted by Mr. John D. Wilson on April 7, 2023.
- Solar Energy Industries Association ("SEIA"), submitted by Mr. Thomas Beach on April 7, 2023.
- Liberty Utilities ("Liberty"), submitted by Mrs. Cynthia Fisher on April 7, 2023.
- Bear Valley Electric Service, Inc ("Bear Valley"), submitted by Mr. Sean Matlock on April 7, 2023.
- PacificCorp ("PacificCorp"), submitted by Mr. Robert Meredith on April 7, 2023.

B. The Overall Level of the IGFC (Average Fixed Charge) Must Fluctuate with Revenue Requirement and Rate Changes.

It is important that the Commission adopt a policy that allows the IOUs to update the IGFC charges as the underlying revenue requirements change.[219] SEIA and Sierra Club have put forward proposals that would not allow any changes to the level of the IGFC (or subset of IGFC) for set periods of time. For example, SEIA argues that a residential fixed charge should collect only MCAC.[220] Likewise, Sierra Club proposes that customers with below average income would pay a fixed charge of only MCAC,[221] while higher tiers would pay MCAC plus the non-bypassable charges listed in Table 3 of their Direct Testimony.[222] Each IOU evaluates marginal customer access costs only during its respective General Rate Case (GRC) Phase 2 proceedings. Therefore, SEIA and Sierra Club's proposed IGFCs would be frozen between GRC Phase 2 proceedings, and any incremental distribution revenue would be recovered through energy charges, resulting in a higher volumetric distribution rate and an unchanged fixed charge.

Costs inevitably fluctuate year over year as the IOUs' revenue requirements change. For example, IOUs are authorized to update their rates on an annual basis to account for changes in base distribution revenue requirements as approved in the GRC Phase 1 and attrition year decisions, in their annual consolidated January 1 advice letters. Rate changes may also happen during the year, depending on the timing of decisions and requirements that the IOUs implement a decision on a certain timeline. The IGFC should be treated the same as current residential volumetric rate components, which change with revenue requirement changes. The smaller multi-jurisdictional IOUs (Liberty, Bear Valley and PacifiCorp) appear to agree with the Joint IOUs, as each has proposed to adjust their IGFCs for revenue requirement changes in the future. Bear Valley proposes to update its IGFC with authorized GRC revenue requirement changes.

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[219] Exhibit Joint IOUs-01, p. 45, lines 10-14.

[220] SEIA Direct Testimony, p. 15, lines 6-7.

[221] Sierra Club Direct Testimony, p. 40, lines 4-11, and 16-17.

[222] Sierra Club, Direct Testimony, p. 25, Table 3.

Likewise, PacifiCorp proposes to include all distribution costs in the IGFC[223] and Liberty proposes to include their entire distribution base revenues and generation base revenues in the fixed charge.[224] Therefore, the Joint IOUs infer that PacifiCorp and Liberty will adjust their IGFCs with underlying authorized base distribution and generation revenue requirement changes.

The Joint IOUs believe that the IGFC will provide more bill stability for customers, as it will help relieve the upward pressure on volumetric energy rates and will provide less volatile bills for customers. To avoid diluting the stabilizing impact of the fixed charge, the IGFCs should be able to scale with applicable revenue requirement changes.

Additionally, if the Commission's approved IGFC structure includes nonbypassable costs, the fixed charge should change every year to fully recover the full revenue requirement for each applicable nonbypassable cost. For example, the Nuclear Decommissioning (ND) revenue requirement varies by year. In past years for SDG&E, it has been a credit, and in the current year, it is a charge for customers. It would not make sense to set a static fixed charge based on this year's ND revenue requirement, when ND is expected to fluctuate in the future. The Commission should adopt a policy that allows for flexibility to recover the full revenue requirement for nonbypassable charges that are included fully in the IGFC, and allows for proportional recovery of incremental costs for cost categories that may include both a volumetric and fixed component (i.e., distribution). This will prevent incremental costs from only being added to volumetric rates, diluting the impact of the fixed charge over time until each IOU's next GRC Phase 2 resets all marginal costs and resulting rate components.

[223] Exhibit PAC/100, p. 6, line 11.

[224] Exhibit Liberty-01, p. 6.

C. Allocating Under- and/or Over-Collections Resulting from the IGFC to Volumetric Rates Will Dilute the Benefits of the Fixed Charge Over Time.

Parties disagree on the timing and rate components to be used to true-up rates resulting from under/over collections from the IGFC. CEJA and Cal Advocates propose to allocate any under/over collections resulting from the IGFC in volumetric rates.[225, 226] Alternatively, TURN/NRDC propose that any over/under collections should be trued up annually to reduce or increase, as applicable, the following year's fixed charge revenue requirement.[227]

CEJA argues that the IGFC revenue requirement should be rebalanced annually, with under-collections added to volumetric rates for the following year and over-collections subtracted from the fixed charge the following year, stating that this will incentivize the IOUs to produce an accurate estimate of revenue collections each year based on the combined volumetric and fixed charges.[228]

CEJA adds unnecessary complexity to the rate recovery of the IGFC and it also fails to show how the IOUs would produce a more precise estimate from this complicated non-symmetric proposal. The sales forecasts that the IOUs propose every year in their respective ERRA Forecast proceedings are the best available forecasts using the information the IOUs possess. To suggest that the IOUs would produce and propose a forecast for the IGFC that is not based on the best available information is nonsensical. It is likely that, especially in the first years of implementation, forecasts of customer income data used to categorize customers for IGFC brackets may be misaligned with actual IGFC revenue collections as a result of the income brackets to which the customers are actually assigned – which it must be noted will be set by the TPA, not the IOUs. Furthermore, adding the under-collection of the IGFC to volumetric rates

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225 Exhibit CEJA-01, p. 3, lines 28-29; and Exhibit Cal Advocates-01, p. 24, lines 19-20.

226 Cal Advocates argues that any fixed charge under- or over-collections should be allocated to volumetric rates during the first years of IGFC rollout. Exhibit Cal Advocates-01, p. 24, lines 19-20.

227 Exhibit NRDC-TURN-01, p. 41, lines 23-24.

228 Exhibit CEJA-01, p. 3, line 28 to p. 4, line 3.

but using the overcollection to reduce the fixed charge is unreasonable as this could in theory cause a compounding effect of reducing the IGFC year after year, increasing volumetric rates, and undermining its purpose.

Similarly, Cal Advocates proposes that any fixed charge under- or over-collections should be allocated to volumetric rates, at least during the initial rollout of the IGFC. Cal Advocates argues that having unexpected fluctuations in IGFC levels may cause customer confusion, and that once the IGFCs are rolled out *en masse*, parties may propose changes to annual rate adjustment policy and to costs recovered in the IGFCs in future GRC Phase 2 proceedings.[229] The Joint IOUs agree that IGFC stability is important but disagree with the notion that changes to level of the IGFC would cause consumer confusion. As discussed in Chapter V (ME&O), the Joint IOUs plan to do extensive ME&O months prior to the rollout of the IGFC[230] and several months post implementation so that customers understand the purpose of fixed charges.[231] Postponing any adjustments to the IGFC to rate design proceedings is also not practical, as this would continue adding upward pressure to volumetric rates. Overall, these recommendations are short-sighted and would dilute the benefits of the IGFC, which was intended by the legislature to incentivize widespread electrification by lowering volumetric rates and equitably collect fixed costs through a progressive IGFC rate structure.

The Joint IOUs support TURN/NRDC's position that the IGFC over- and under-collections should be trued up at least annually, with over-collections applied to reduce the next year's fixed charge revenue requirement, and under-collections applied to increase the subsequent year's fixed charge revenue requirement.[232] The Joint IOUs maintain that the IGFC should be adjusted at least annually to include any under-/over-collections that originate from the difference between forecasted and actual IGFC revenues collected and not allocated to

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[229] Exhibit Cal Advocates-01, p. 24, line 17 to p. 25, line 3.

[230] Exhibit Joint IOUs-01, p. 118, line 6 to p. 121, line 11.

[231] Exhibit Joint IOUs-01, p. 121, lines 12-25.

[232] Exhibit NRDC-TURN-01, p. 41, lines 23-28.

volumetric rates. High volumetric energy rates pose a barrier to customers choosing to electrify, and the Commission should not adopt proposals that fail to allow for adjustments to the IGFC for under- and over-collections and instead increase volumetric rates.

D. The Joint IOUs' Calibration Mechanism Will Improve Bill Stability.

The Joint IOUs and other intervenors such as Bear Valley acknowledge that there could be discrepancies between the projected number of customers enrolled in each income bracket and the actual numbers,[233] which could lead to over- or under-collections for a given IOU. A large under-collection could lead to bill volatility if the under-collection is not addressed promptly. Therefore, the Joint IOUs proposed an IGFC Calibration Mechanism that would allow for a timely recovery of any large revenue imbalances as a result of inaccurate income level forecasting after implementation of the IGFC.[234] Bear Valley has a similar proposal which states that, if an under- or over-collection is equal to or greater than five percent (5%) of the revenue requirement established for the previous twelve months, Bear Valley proposes to submit a Tier 2 Advice Letter filing with the necessary amortization charges expected to amortize the balance over the next twelve months.[235] The Joint IOUs maintain that the IGFC Calibration Mechanism is necessary for bill stability and is in the residential customers' best interest.

E. Conclusion

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 equitably promote our State's decarbonization policy by sending price signals that better support adoption of beneficial electrification technologies and result in reduced or avoided GHG emissions.

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[233] Exhibit BVES-01, p. 14, lines 15-22.

[234] Exhibit Joint IOUs-01, p. 129, lines 5-10.

[235] Exhibit BVES-01, p. 15, lines 2-5.

THE JOINT IOUs' REPLY TESTIMONY

APPENDIX A

DATA REQUESTS

PACIFIC GAS AND ELECTRIC COMPANY
Electric Rates Demand Flexibility OIR
Rulemaking 22-07-005
Data Request

To:	Solar Energy Industries Association		
Recipient Name:	R. Thomas Beach		
PG&E Data Request No.:	PGE_SEIA001		
PG&E File Name:	ElectricRatesDemandFlexibility_DR_PGE_SEIA001		
Request Date:	April 21, 2023	PG&E Witness:	Colin Kerrigan
Due Date:	May 5, 2023; or sooner, if possible	PG&E Witness Phone No.:	415-973-3635

Q 1: Please provide any and all workpapers that show basis for the numeric proposals in your April 7, 2023, DFOIR IGFC opening testimony, and any other calculations that makes clear what assumptions or inputs underlie such calculations. For all such workpapers, please provide copies of any models and/ or supporting electronic (such as Excel-compatible spreadsheets or computer programs), with macros, data, links and formulae intact and functioning.

SEIA Response: SEIA's complete workpapers for its direct testimony (including the May 1 errata) are available at the following link, as certain files (i.e. the E3 tool) are too large to email:

https://www.dropbox.com/scl/fo/b1r5j95xbszml9xh7vom0/h?dl=0&rlkey=7n9qao3802pr0rntbgt1xk6lq

Q 2: What elements of SEIA's proposal, if any, were prohibited by state law prior to enactment of AB205?

SEIA Response: SEIA believes that the following elements of its proposal would not have been possible prior to the enactment of AB 205:

1. A residential fixed charge for default rate schedules greater than $10 per month. SEIA's proposed Tier 3 fixed charge for SDG&E's default rate is over $13 per month, and the fixed charges for the other IOUs could be above $10 per month in the future depending on the future magnitude of their marginal customer access costs.

2. SEIA's fixed charges collect the fixed charge discounts provided to CARE and FERA+ customers in the fixed charges of Tier 3, non-CARE/FERA customers. AB 205 added the provision in P.U. Code Section 739.1(c)(1) that "The average effective [CARE] discount determined by the commission shall not reflect… discounts to fixed charges…." This results in a larger discount to the

Tier 1 CARE fixed charge (i.e. about a 45% discount) than would have been allowed prior to the enactment of AB 205 (which was a 30% to 35% discount).

Q 3: On page 26 and 27 of testimony, SEIA appears to oppose any increase to the fixed charges on electrification rates such as PG&E's E-ELEC. Is this correct? If so, does this opposition apply to any increase in the fixed charge, or only increases higher than those applicable to all other rate schedules? As a specific example, if the Commission were to approve a variant of SEIA's proposal where the non-CARE fixed charge was $20, would SEIA still oppose the E-ELEC non-CARE fixed charge increasing to $20?

SEIA Response: SEIA cannot answer this hypothetical without understanding the reasons why the Commission might approve a $20 per month "non-CARE fixed charge" (which SEIA interprets to mean the fixed charge for all non-CARE residential rates except for the electrification rates such as E-ELEC). If the Commission found that marginal customer access costs for all residential customers were $20 per month, SEIA might accept the E-ELEC non-CARE fixed charge increasing to $20 along with all other residential non-CARE fixed charges. However, if the "non-CARE fixed charge" is raised to $20 per month for other reasons not based on underlying marginal costs, in SEIA's view it could continue to make good sense to retain the existing $15 per month fixed charge in E-ELEC as an incentive for customers to choose E-ELEC with its more aggressive, more cost-based TOU rates and lower off-peak rates. The best, cleanest, most cost-effective means for the state to promote electrification is to encourage strongly the use of cost-based, off-peak electricity in EVs and heat pumps, so that the incremental electric use in these electrification technologies is clean, abundant, and low-cost, and so that the use of incremental, on-peak, high-emission electricity is strongly discouraged. Rates such as E-ELEC and EV2A do a much better job in these respects than the "TOU-lite" default rates such as E-TOU-C.

Q4: Does SEIA believe any element of any proposal in opening testimony from any part is a "DER Specific Fixed Charge? If so, please identify these elements.

SEIA Response: SEIA's review of parties' opening testimony is ongoing, and discovery is not complete. To date, SEIA has identified the Joint IOU proposal that the fixed charges in the IOU electrification rates should be higher than those in other residential rates, under certain conditions, as an example of a DER Specific Fixed Charge. See Joint IOU Testimony, at p. 51. A customer must adopt one of several DERs in order to qualify for the existing IOU electrification rates.

May 10, 2023

DATA REQUEST RESPONSE

LIBERTY UTILITIES (LIBERTY)

R.22-07-005

Data Request No.: SDGE-Liberty-01

Requesting Party: San Diego Gas & Electric

Originator: Tyler Kirchhoff tmkirch2@sdge.com

REQUEST NO. 1:

What is Liberty's current average residential volumetric rate ($/kWh)?

RESPONSE TO REQUEST NO. 1:

Liberty's current average residential volumetric rate is $0.29/kWh.

REQUEST NO. 2:

What is Liberty's proposed average residential volumetric rate ($/kWh) assuming its proposed IGFC is adopted by the CPUC?

RESPONSE TO REQUEST NO. 2:

Liberty's average residential volumetric rate under its proposed IGFC is $0.11/kWh.

THE JOINT IOUs' REPLY TESTIMONY

APPENDIX B

UPDATED STATEMENT OF QUALIFICATIONS

SOUTHERN CALIFORNIA EDISON COMPANY
QUALIFICATIONS AND PREPARED TESTIMONY
OF EVA MOLNAR

Q. Please state your name and business address for the record.

A. My name is Eva Molnar, and my business address is 4777 Irwindale Ave, Irwindale, CA 91706.

Q. Briefly describe your present responsibilities at Southern California Edison Company (SCE).

A. I am the Senior Manager of Pricing Implementation, and I have been in this role since March 2016. My responsibilities currently include overseeing the rollout of major rate initiatives, as well as the launch, enhancement, and management of customer energy management tools.

Q. Please summarize your educational and professional background.

A. I graduated from the Wharton School of Business, University of Pennsylvania in 1994 with a Bachelor of Science in Economics. I received my MBA from Pepperdine University in 2006. I have over 20 years of experience with launching programs, products, and rates for a variety of different businesses. I started SCE in 2006 and have worked at SCE for over 16 years in a variety of different positions in Customer Programs & Services.

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony in this proceeding is to sponsor portions of Joint IOUs-03, as identified in the Table of Contest thereto.

Q. Was this material prepared by you or under your supervision?

A. Yes, it was.

Q. Insofar as this material is factual in nature, do you believe it to be correct?

A. Yes, I do.

Q. Insofar as this material is in the nature of opinion or judgment, does it represent your best judgment?

A. Yes, it does.

Q. Does this conclude your qualifications and prepared testimony?

A. Yes, it does.