SENATE COMMITTEE ON ENERGY, UTILITIES AND COMMUNICATIONS
Senator Steven Bradford, Chair
2023 - 2024 Regular

Bill No:	SB 1292	**Hearing Date:**	4/22/2024
Author:	Bradford		
Version:	2/15/2024 Introduced		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Electricity: fixed charges: report

DIGEST: This bill requires the California Public Utilities Commission (CPUC), by July 1, 2027, but no sooner than two years after the adoption of the income-graduated fixed charge for default residential rates, to submit a report to the relevant policy committees of both houses of the Legislature. This bill also prohibits the CPUC from authorizing a second phase income-graduated fixed charge until 30 days after the report has been provided to the Legislature.

ANALYSIS:

Existing law:

1) Establishes and vests the CPUC with regulatory authority over public utilities, including electrical corporations. (Article XII of the California Constitution)

2) Authorizes the CPUC to adopt new, or expand existing, fixed charges, as defined, for the purpose of collecting a reasonable portion of the fixed costs of providing electrical service to residential customers. (Public Utilities Code §739.9(d))

3) Authorizes the CPUC to establishes fixed charges for any rate schedule applicable to a residential customer account, and is required, no later than July 1, 2024, to authorize a fixed charge for default residential rates. Requires these fixed charges to be established on an income-graduated basis, with no fewer than three income thresholds, so that low-income ratepayers in each baseline territory would realize a lower average monthly bill without making any changes in usage. (Public Utilities Code §739.9(e))

4) Requires the CPUC to continue the California Alternative Rates for Energy (CARE) program to provide assistance to low-income electric and gas customers with annual household incomes that are no greater than 200 percent

of the federal poverty guideline levels, and exempts any fixed charge from the discount. (Public Utilities Code §739.1)

This bill:

1) Requires the CPUC, on or before July 1, 2027, but no sooner than two years after the adoption of the income-graduated fixed charge for default residential rates, to submit a report to the relevant policy committees of both houses of the Legislature on the electrical corporations' implementation of the fixed charge, as specified.

2) Prohibits the CPUC from authorizing a fixed charge other than the income-graduated fixed charge for default residential rates until 30 days after the report is submitted.

Background

About fixed charges. Fixed charges provide utilities the ability to recover certain costs via a consistent charge on utility bills that is unrelated to usage, as opposed to recovering these costs via volumetric usage (the amount of electricity used) on the utility bill. These costs might include those related to utility billing systems, wildfire mitigation, public purpose programs, and others. Fixed charges are employed by many utilities as part of their rate design, including many water utilities, and some electric utilities (e.g. Sacramento Municipal Utility District (SMUD) has a $20+/month fixed charge) to recover costs that may be unaffected by usage and which are used to support the operation of the utility system. However, the CPUC has largely declined to adopt fixed charges on electric utility bills, as consumer organizations have largely opposed such proposals. Historically, the CPUC has approved very limited fixed charges (under $2/month) for default residential rates and largely opted for alternative rate designs that don't include a fixed charge but instead collect most costs based on usage.

AB 327 (Perea, Chapter 611, Statutes of 2013). Prior to the adoption of AB 205 (Committee on Budget, Chapter 61, Statutes of 2022), existing law, as adopted by AB 327, provided the CPUC could authorize electric investor-owned utilities (IOUs) to adopt a fixed charge but capped at no more than $10 per month for residential customers and $5 per month for eligible low-income customers participating in the low-income assistance program CARE. The fixed charges would apply to residential customers of electric IOUs, such as Pacific Gas & Electric (PG&E), San Diego Gas & Electric (SDG&E), Southern California Edison (SCE), and a few smaller utilities in the state, which are rate-regulated by the CPUC. These changes in legislation do NOT apply to publicly-owned utilities

(POUs), such as Sacramento Municipal Utility District (SMUD), Silicon Valley Power, Los Angeles Department of Water and Power (LADWP) whose governing board sets rates. However, in many instances POUs have adopted fixed charges.

Income-based fixed charges. The idea of basing the fixed charge on income was proposed by academic researchers, published in two reports by Next10 and Energy Institute at Haas, several years ago and has received traction with some stakeholders who are concerned that the increasing costs of electric utility bills are hampering efforts to encourage customers to shift from fossil fuel uses to electricity (e.g. gasoline for vehicles, natural gas for home space and water heating). Many of these stakeholders contend that utility cost recovery based on volumetric usage is more regressive than a specified fixed charge applied to all customers, with the amount of the charge varying by income, where lower income customers pay a lower fixed charge as compared to higher income customers. They contend that a fixed charge will help reduce the volumetric rate to encourage customers to transition to electrification.

AB 205 fixed charge electric rate provisions. Among its many provisions, AB 205 requires the CPUC to authorize a "fixed-charge" for default residential electric utility rates established on an income-graduated basis. The income-graduated basis must have no fewer than three income thresholds so that low-income customers realize a lower average monthly bill without making any changes in usage and that low-income customers pay a smaller fixed charge than higher-income customers.

CPUC proceeding (Rulemaking 22-07-005). Since the adoption of AB 205, the CPUC has been conducting an active proceeding on how best to adopt the income-graduated fixed charge, including several stakeholders with multiple proposals, workshops, and solicitations for comments. Parties to the proceeding are proposing various rate designs with a spectrum of fixed charge amounts (ranging from the $5 to over $100) in order to satisfy the requirements of AB 205. The CPUC has been working towards ultimately adopting an income-graduated fixed charge by July 1, 2024 (as required by the statute).

CPUC issues proposed decision. On March 27, the CPUC issued the proposed decision in the proceeding with the following elements:

Large electric IOUs are required to adopt billing structure changes that require:

a) Tier 1: Customers enrolled in the CARE program will pay $6 per month.

b) Tier 2: Customers enrolled in the Family Electric Rate Assistance (FERA) program or who live in affordable housing restricted with incomes below 80 percent area median income will pay $12 per month.

c) Tier 3: All other customers will pay a fixed amount of $24.15 per month.

The proposed decision requires SCE and SDG&E to apply the fixed charges between October 1, 2025 and December 15, 2025, and requires PG&E to apply fixed charges to residential customers' bills between January 1, 2026 and March 31, 2026. The proposed decision is available for comments and the earliest a decision can be made is at the May 9, 2024 CPUC business meeting.

Comments

Need for this bill. The author contends the important role of the Legislature to ensure the CPUC moves in a reasonable direction to design the income-graduated fixed charge required by the Legislature in AB 205 (2022). As such, the Legislature must be apprised of learnings and challenges of implementing the income-graduated fixed charge to ensure the authority granted in AB 205 remains consistent with the Legislature's intent.

Why income-graduated fixed charges? Proponents of income-graduated fixed charges, including electric IOUs, Natural Resources Defense Council, The Utility Reform Network, Public Advocates' Office, and the Administration, suggest that not implementing the income-based fixed charges will hamper efforts to address electric utility bill affordability in the rate design. These proponents express concerns that a lack of affordability of electric utility bills will deter customers from electrifying current fossil-fueled applications (including adopting electric vehicles, electric space and water heating, electric cooking, etc.). They contend that customers' reluctance to electrify these applications will thwart the state's efforts to achieve its greenhouse gas reduction goals. The supporters of income-graduated fixed charges acknowledge a fixed charge can diminish the price signal for energy conservation, but contend the need to transition to electrification and to structure rates to better protect low-income customers, particularly those in inland areas that require more electricity to cool their homes. They express concerns about the growing costs of utility bills and the dependence on usage rates to recover the fixed costs of the system, including infrastructure and wildfire mitigation, that is unaffected by usage.

In opposition to income-graduated fixed charges. On the other hand, opponents of the income-graduated fixed charges, including the California Solar and Storage Association, oppose proposals in the CPUC proceeding for much higher fixed charges (particularly those above $12-16), as the ability of customers to control the utility bill costs and provide the incentives to encourage solar adoption. These stakeholders worry that a high fixed charge amount will reduce the value of installing solar or energy efficiency upgrades for customers, as the payback periods could be longer than with a lower or non-existent fixed charge amount. Some opponents of income-based fixed charges also take issue with the income-based distinctions in utility bills that would be managed by utilities and could require customers' income information, beyond those of voluntary rate assistance programs.

Allocating utility costs. A rate design is not intended to affect the amount a utility can recover, as the process to determine a utility's just and reasonable costs is unaffected by the design. However, a rate design will affect customers differently depending on their usage. There has been substantial attention to the various proposals in the CPUC proceeding, including those by utilities which at various times proposed $70 to upwards of $100 per month fixed charges, as well as, concerns about how a utility would manage customer income information. However, the CPUC has now issued a proposed decision that tends to fall closer to the fixed charge more closely aligned with that of SMUD – at $24 per month – and a phase in schedule over multiple years. The income tiers proposed by the CPUC rely on the income eligibility of existing rate assistance programs – CARE and FERA. The CPUC's proposed decision is structured to reduce the usage (volumetric) rate by 5 to 7 cents per kilowatt hour. The proposed decision is also structured with the intent to reduce the average low-income customers' utility bill in every baseline territory compared to what their bill would have been without the fixed charge. This bill, if passed, the CPUC would be required to provide a report to the Legislature on the learnings and challenges of the first-phase of the income graduated fixed charges. This bill would also prevent the CPUC from instituting a second phase of income-graduated fixed charges until 30 days after the report is issued. In this regard, the author may wish to consider the decision that the CPUC adopts by July 1, 2024 to inform whether to continue to include or adjust this provision in this bill.

Need for amendments. In light of the proposed decision's anticipated implementation schedule for the first-phase of income-graduated fixed charges, the author and committee may wish to amend this bill to adjust the date by when the report is due to better account for the anticipated schedule and remove the reference to "default" residential rates, so as to include all residential rates.

Prior/Related Legislation

SB 1326 (Jones, 2024) repeals the provisions adopted in AB 205 which authorize an income-graduated fixed charge in electric IOU rates, replaces with the language that existed prior which capped fixed charges.

AB 205 (Committee on Budget, Chapter 61, Statutes of 2022) among its provisions, repealed the $10 fixed charge cap for residential electric IOU customers. Authorized the CPUC to use fixed charges for any rate schedule for residential customers, as specified. The bill requires the fixed charge to be established on an income-graduated basis with no fewer than three income thresholds, such that a low-income ratepayer would realize lower average monthly bill without making any chances in usage, as specified.

AB 327 (Perea, Chapter 611, Statutes of 2013) among its provisions, included language authorizing fixed charges for electric IOU rates, but capped the fixed charge to $10 per month for residential non-CARE customers, and $5 per month for CARE customers.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

SUPPORT:

None received

OPPOSITION:

None received

ARGUMENTS IN SUPPORT: According to the author:

> Californians have generally enjoyed lower energy bills when compared to the rest of the country, largely due to milder weather and investments in energy efficiency. However, in more recent years, these trends have been changing as California's higher energy rates are also resulting in higher energy utility bills.
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> California's current utility rate system recovers fixed system costs, including wildfire hardening, grid infrastructure and public benefits programs, from everyone at the same rate based on how much energy they use. The average total household electric bill in California is $157 per month. This is regressive because California's low-income customers are paying the same bill per kilowatt hour as millionaires.

The California Public Utilities Commission (CPUC) has begun a proceeding to establish an income-based fixed charge for residential rates that will be completed by July of 2024. Designed correctly, adjusting the utility rate structure to include a fixed-rate could lower bills for most Californians.

Because of the extensive impacts that a fixed charge could have on the affordability of Californian's utility bills, more transparency is needed in this process. SB 1292 would require the CPUC to report to the Legislature on the implementation of an income-based fixed charge and its impacts on customers before any future adjustments are made.

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