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

Bill No:	SB 1326	**Hearing Date:**	4/22/2024
Author:	Jones		
Version:	2/16/2024 Introduced		
Urgency:	Yes	**Fiscal:**	Yes
Consultant:	Nidia Bautista		

SUBJECT: Electricity: fixed charges

DIGEST: This bill repeals the provisions adopted in AB 205 (Committee on Budget, Chapter 61, Statutes of 2022) which requires the California Public Utilities Commission (CPUC) to implement an income-graduated fixed charge for electric investor-owned utility (IOU) rates, and replaces with the language that existed prior to the passage of AB 205, which authorized and capped fixed charges.

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 to require each electrical corporation to offer default rates to residential customers with at least two usage tiers, as provided.

2) Eliminates the requirement that the fixed charges be established on an income-graduated basis as described above, repeal related findings and declarations of the Legislature, and authorize the CPUC to instead authorize fixed charges that, as of January 1, 2015, do not exceed $10 per residential customer account per month for customers not enrolled in the CARE program and $5 per residential customer account per month for customers enrolled in the CARE program.

3) Authorizes the maximum allowable fixed charge to be adjusted by no more than the annual percentage increase in the Consumer Price Index for the prior calendar year, as specified.

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, existing law, as adopted by AB 327, provided the CPUC could authorize electric 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 SMUD, Silicon Valley Power, Los Angeles Department of Water and Power (LA DWP) 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, and 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. In 2022, the Legislature passed a budget trailer bill, AB 205, which included language that had been proposed by the Administration earlier that year and which requires the CPUC to authorize a "fixed-charge" for default residential electric utility rates established on an income-graduated basis. Pursuant to the language, 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. The proceeding involves 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 open for comments and the earliest a decision can be made is at the May 9, 2024 CPUC business meeting.

Comments

Need for this bill. This bill proposes to delete the provisions adopted in the AB 205 budget trailer bill and largely replace with language that reverts to the statute as it existed prior to the adoption of the budget trailer bill. As such, this bill would cap the fixed charges the CPUC could adopt for electric IOUs to $10 per month for residential customers and $5 per month for CARE-eligible residential customers (as adopted in AB 327) and eliminates the requirement to adopt the income-graduated fixed charges by July 1, 2024.

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, other the author and supporter of this bill support capping the fixed charges to the $10 previously in the statute. The California Solar and Storage Association who supports this bill, opposes proposals in the CPUC proceeding for much higher fixed charges 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, would immediately take effect, thereby eliminating the CPUC proposed decision and reverting to the pre-2022 authorized fixed charges.

Prior/Related Legislation

SB 1292 (Bradford, 2024) requires a report on learnings and challenges of the first phase of the CPUC's adoption of income-graduated fixed charges and prohibits adoption of a second phase until after the report is provided. The bill is pending before this committee.

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 required 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: Yes

SUPPORT:

California Solar & Storage Association

OPPOSITION:

Pacific Gas and Electric Company
San Diego Gas and Electric Company
Southern California Edison

ARGUMENTS IN SUPPORT: The California Solar and Storage Association states:

> This bill would place a statutory cap on the residential fixed charge, helping to rein in out of control utility spending while protecting energy efficiency, conservation and local solar energy and energy storage resources. High fixed charges, such as those under consideration at the California Public Utilities Commission (CPUC) unfairly raise monthly bills for low energy users in order to lower monthly bills for high energy users. This hurts working-class and middle-class families who can least afford yet another increase in their utility bills. It also hurts any consumer who takes steps to lower their energy consumption either through conservation, energy efficiency, or distributed solar and storage technologies.

ARGUMENTS IN OPPOSITION: In opposition to this bill, San Diego Gas & Electric states:

> Without reasonable fixed charges, the state will not be able to lower the cost to operate electric technologies to get the level of electrification we need to reach California's climate goals. A customer will not want to electrify unless they see overall energy savings. If the recently released commission PD was

approved, the estimated per kilowatt hour cost that SDG&E customers pay could be reduced by approximately 10%.

Additionally, reinstituting the cap on the fixed charge, as SB 1326 mandates impedes the implementation of the CPUC's recent proposed decision on AB 205. It would limit the ability of the Commission to do its job. Adoption of a reasonable fixed charge will protect low-income customers and in fact their bills would be lower under the Commission's PD. This would not be possible if the $10 fixed charge cap is reinstated. Not only would the fixed charge be unable to capture the full operational and maintenance utility costs, but the charge would also not be flexible enough to shift some of those fixed costs away from the lower-income customers.

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