



Staff Report Item 21

TO: Ava Community Energy Authority

FROM: Todd Edmister, Senior Director
Alec Ward, Principal Legislative Manager
Michael Quiroz, Regulatory Analyst

SUBJECT: Income-Graduated Fixed Charge - Background and Customer Impacts

DATE: April 17, 2024

Recommendation

This is an informational item on the “income-graduated fixed charge” (“IGFC”). The IGFC is pending before the California Public Utilities Commission (PUC) in Rulemaking 22-07-005 and the legislature, primarily in Assembly Bill (AB) 1999.

IGFC is a change to how utilities collect distribution rates. There is no single IGFC. Rather, there are a multitude of different IGFC variants under evaluation at the PUC and at the legislature. IGFC, properly structured, can encourage electrification by reducing marginal energy rates, shift the cost burden for the distribution system away from low-income customers, and align fixed costs with a fixed method of recovery rather than volumetric. IGFC, improperly structured, can shift the rate burden to lower income customers and users of the least energy while spiking bills for some unfortunate customers and providing a windfall to others. The devil is in the details.

Ava staff detail the zero-day impact of various IGFC proposals on Ava customers in the attached slides. A PUC decision on IGFC is currently scheduled for the PUC’s May 9, 2024 business meeting. Ava have shared earlier iterations of the attached deck with PUC staff, legislative staff including AB 1999’s lead author, and the Governor’s office.

Ava staff will continue to monitor the PUC proceeding and AB 1999 and similar bills, and will include any recommendation for a position on these bills along with recommendations on other pending legislation at a later Board meeting.

Background and Discussion

In 2022, the California legislature passed AB 205 along with the 2023-24 state budget.¹ AB 205, at Section 10, contained a provision to restructure residential electricity rates. As the Legislative Counsel explained at the time:

[AB 205 will] authorize the PUC to authorize fixed charges for any rate schedule applicable to residential customer accounts. The bill would eliminate the cap on the amount of the fixed charge that the PUC may authorize. The bill would require the fixed charge to be established on an income-graduated basis, as provided, with no fewer than 3 income thresholds so that low-income ratepayers in each baseline territory would realize a lower average monthly bill without making any changes in usage. The bill would require the PUC, no later than July 1, 2024, to authorize a fixed charge for default residential rates.²

After AB 205's passage, the action shifted from Sacramento and the Legislature to San Francisco and the California Public Utilities Commission (PUC). In July of 2022, the CPUC initiated the Demand Flexibility proceeding to set about implementing AB 205.³ In 2023, investor-owned utilities (IOUs) filed their proposals for "income-graduated fixed charges" (IGFC) at the PUC, and other organizations (TURN, NRDC, California Public Advocate's office, etc.) filed alternative proposals. The PUC's process has continued to move forward to hit the legislature's July 1, 2024 deadline for IGFC implementation. A welter of proposals, briefing, rulings, and ex parte meetings culminated in the assigned Commissioner issuing a Proposed Decision (PD) on March 27, 2024.⁴

While all this was happening at the PUC, legislators began to take a renewed interest in their earlier handiwork.⁵ An October 27, 2023 letter⁶ from numerous Assemblymembers to the PUC's President requested "that the CPUC, at a minimum, extend the timeline for the proceeding, allowing for the Commission to hold public

¹ https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB205

² https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202120220AB205

³ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M498/K072/498072273.PDF>

⁴ <https://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M528/K422/528422138.PDF>

⁵ <https://www.utilitydive.com/news/california-lawmakers-backpedal-on-income-based-utility-charges-as-iou-oth/707859/>

⁶ <https://static.politico.com/0e/06/ae7f527c4b848899a3f9b7d5c1ad/cpuc-fixed-charge-10-27-letter.pdf>

participation hearings on this proceeding. Further, the majority of the current proposals are unreasonable and the Commission must ensure that any fixed rate being considered be in line with national rates.” Assemblymember Irwin subsequently introduced AB 1999 to cap the IGFC at \$5 for CARE customers and \$10 for non-CARE customers; in other words, AB 1999 would revert AB 205 and restore the previous fixed charge caps.

Before turning to the IGFC proposals at the PUC and the Legislature, it is worth level-setting on what AB 205’s IGFC is and is not.

IGFC combines two elements of setting utility rates:

- Income graduation, which ties charges/rates to customer income, and
- Fixed charges, which bill a customer a set monthly amount regardless of energy use. Fixed charges are distinct from demand charges and volumetric charges, where there is a rate for a given unit of use (e.g., kw/month or kw/hour), and the amount billed each month varies with energy use. It is related to, but distinct from minimum bills, which set a floor on monthly residential charges but are otherwise incorporated into volumetric charges.⁷

The fixed charge authorized by AB 205 is limited to “collecting a reasonable portion of the fixed costs of providing electrical service to residential customers.”⁸ So it covers only:

- Utility fixed costs; in practical terms this means distribution service costs as distinct from energy costs (which are variable), or transmission costs (which are outside the PUC’s jurisdiction);
- Residential customers; IGFC does not affect other customer classes such as commercial and industrial.

IGFC further shall contain: “no fewer than three income thresholds so that a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage.”

In sum, then, IGFC is a mechanism for PUC-regulated utilities to recover distribution costs from residential customers through fixed charges. Fixed charges, must vary by customer income, and must lower “average monthly bills” for low-income customers.

⁷ <https://www.pge.com/en/account/rate-plans/how-rates-work.html#accordion-c60b7c28ba-item-df54c23b22>

⁸ PU Code § 739.9(d).i

IGFC changes how customers pay for electric service, and by extension who pays how much for electric service. IGFC reduces the *marginal* cost of electricity, so higher users pay less, all else equal, while lower users will pay more. Lower marginal cost can incentivize electrification by making each additional unit of use less expensive to the customer. Overall revenue to the utility remains unchanged.

So much for what IGFC is. Now to what IGFC is not.

- IGFC is not a change to energy generation charges; it does not affect Ava's rates, which are only for energy generation.
- IGFC does not change how much IOUs can recover from customers. Utility revenue requirements remain at levels the PUC sets in general rate cases.
- IGFC is not a tax; IOUs collect and keep revenues from IGFC, not the government.

Against that backdrop it is possible to evaluate IGFC's customer impacts.

- IGFC proposals and their zero-day impacts on Ava Customers

The attached slide deck addresses competing IGFC proposals and their impacts in detail. The key takeaways from the analysis are that:

(1) proposals' impacts vary substantially in:

- (a) what percentage of customers benefit or do not and
- (b) the magnitude of the benefit or non-benefit;

(2) looking at the *distribution* of impacts is as or more important than looking at *average* impacts;

(3) on *average* Ava customers will pay more under all proposals; some are better off, some are worse off;

(4) the *distribution* of impacts varies by income group and by proposal, as does the magnitude;

(5) capping the maximum fixed charge, as AB 1999 contemplates, could have the paradoxical effect of increasing the percentage of low-income customers who are worse off under IGFC, but caps do minimize the dollar impact of the adverse impact. Thus caps can reduce the impact on customers who are worse off under IGFC, especially net metering customers.

- Next steps

As noted above, IGFC concerns only distribution, and does not affect Ava's energy rates. Notwithstanding, Ava staff have met with numerous parties to the PUC

proceeding, as well as PUC staff, the Governor's office, legislative staff, and academics to share Ava's analysis of IGFC proposals. There is a high likelihood that both what is in the PUC PD, and what is in AB 1999 will change from what we see today.

There is a nuanced conversation to be had here, beyond whether IGFC is *per se* good or bad. As noted earlier, IGFC reflects an attempt to encourage electrification by reducing marginal energy rates, to shift the cost burden for the distribution system away from low-income customers, and to align fixed costs with a fixed method of recovery rather than volumetric. In concept these goals are laudable, and variants of fixed charges (if not income graduated ones) are appearing nationwide. Ava staff are concerned, however, that the proposals here will not achieve these goals, and require different trade-offs among these and other goals. An IGFC could be structured so that all low-income customers are better off but with average non low-income customers being worse off. Encouraging electrification, for instance, stands at odds with traditional notions of conserving electricity. Moreover, as discussed in Ava staff's March regarding Load Management Standards, there is reason to question whether/to what extent residential customers respond to price signals.

Ava staff are sharing the attached impact analysis with key decisionmakers at the PUC, the legislature, and the Governor's office. Ava staff will continue to monitor IGFC proposals, share analyses with policymakers and interested parties, and update this analysis as alternatives arise.

Fiscal Impact

None

Attachments

IGFC Analysis April.ppt



Income graduated fixed charge bill impact analysis

April 2024





OPINION • Editorial

Income-based utility charges a foolish idea that should be terminated

WSJ | OPINION

World Business U.S. Politics Economy Tech Finance **Opinion** Arts & Culture Lifestyl

A Progressive California Epiphany Over Soaring Electricity Rates

Democrats want to repeal the graduated income tax on electricity they passed two years ago.

NRDC

Reforming CA's Electric Rates for Decarbonization and Equity

ENERGY INSTITUTE BLOG

Rebalancing Rates for Electrification and Equity



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The effort to fix California's electricity pricing

OP-EDS

Income-Based Utilities Plan Is the Most California Plan Ever

pV magazine

The income graduated fixed charges in California will harm customers with low electric bills

"The Governor is aware that the Public Utilities Commission is working diligently with dozens of stakeholders in its public decision-making process, and he looks forward to seeing a Commission proposal that is consistent with AB 205 when it is released."

**Gov. Newsom's Office
Statement**

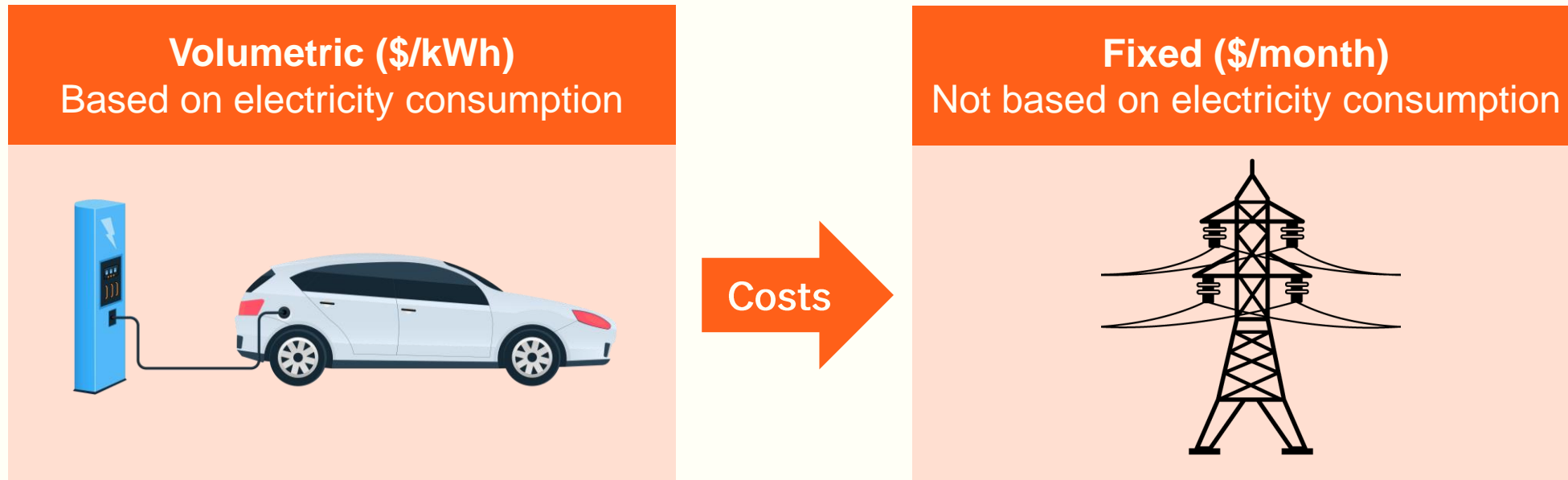




ELECTRICITY PAY BASED OFF INCOME?



What would an income graduated fixed charge do?



- Implementing an income graduated fixed charge would not increase the total amount of money the IOUs are allowed to charge customers.
- It shifts how and from whom existing costs are recovered by changing rate design.
- “Income graduated” means that higher income customers will face higher monthly fixed charges than lower income customers.

Why pursue an income graduated fixed charge?

- **Cost causation:** Improve “accuracy” of cost recovery
 - Fixed costs: interconnection, public purpose programs, regulatory compliance
 - Usage-based costs: fuel, purchased power
- **Electrification:** Reduce volumetric price (\$/kWh) to encourage consumption
- **Equity:** Reduce energy burden for lower income customers

Regulatory and legislative background

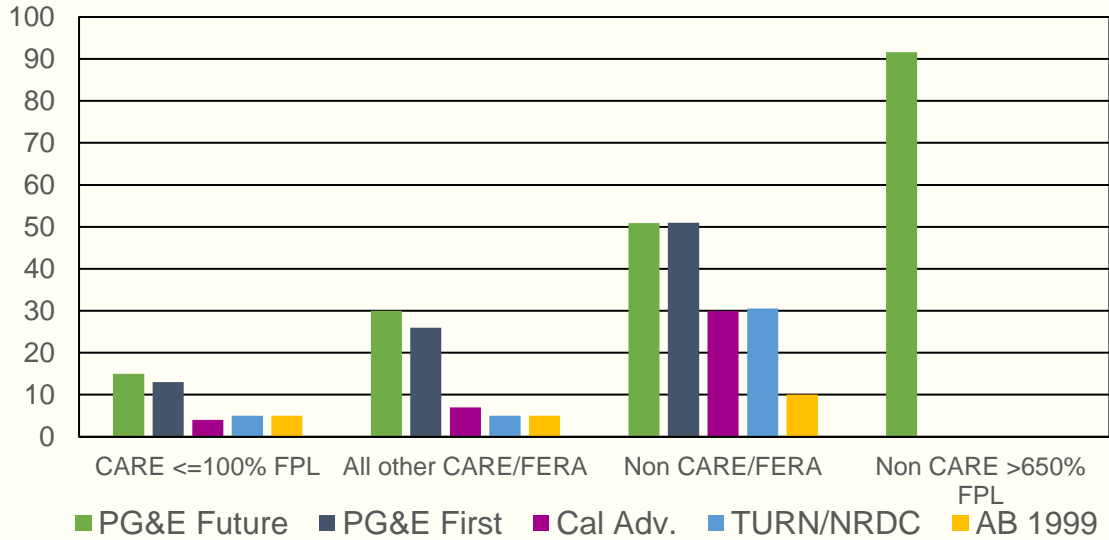
- **June 2022:** AB 205 passed, requiring an IGFC for residential rates by July 1, 2024
- **July 2022:** Demand Flexibility proceeding initiated at the CPUC, Track A dedicated to IGFC
- **April 2023 - Nov 2023:** Stakeholders submitted proposals for IGFC in Demand Flexibility
- **Feb 2024:** AB 1999 (Irwin) introduced, would cap fixed charges at \$5/care, \$10/non-CARE
- **March 2024:** CPUC issued a proposed decision
- **July 2024:** Deadline for CPUC to issue a final decision authorizing IGFC and setting implementation timeline

Analysis overview

- Ava Community Energy (Ava) conducted an analysis to understand how Ava customers would fare under different Income Graduated Fixed Charge (IGFC) proposals.
- Ava examined proposals from PG&E, Cal Advocates, NRDC/TURN, AB 1999, and the CPUC's proposed decision, to determine:
 - Are there more customers who are better off (lower bills) or worse off (higher bills)?
 - By how much are those customers better or worse?
 - How do low-income customers and rooftop solar customers fare relative to other customers?

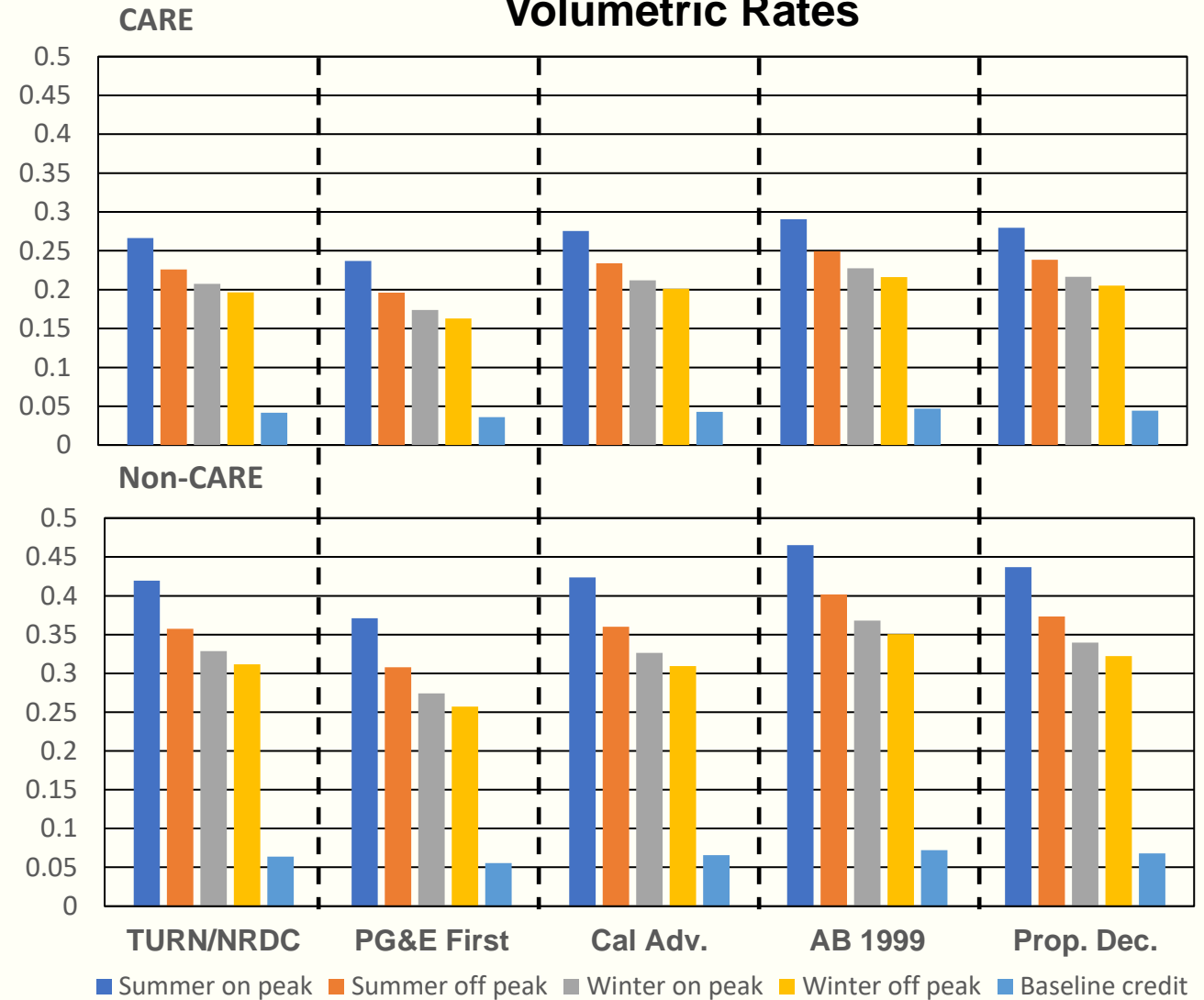
IGFC proposal rate comparison

Fixed Charges



- Higher fixed charges lead to lower volumetric rates
- Charges/brackets proposed by the CPUC:
 - CARE: \$6
 - FERA: \$12.08
 - Non-CARE/FERA: \$24.15

Volumetric Rates



Methodology/Assumptions

Methodology

- Current bill = current rates x customer usage
- IGFC bill = proposed rates x customer usage
- Δ = IGFC bill – current bill

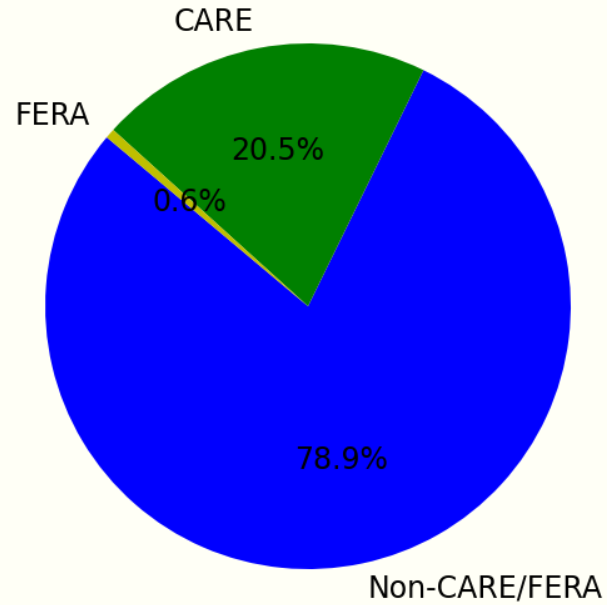
Assumptions

- **Time period:** Oct 2022 to Oct 2023
- **Customers:** E-TOU-C only
- **Customer price elasticity:** None
- **Rates:** Sourced from IOU/PAO testimony and E3 tool
- **AB 1999:** does not explicitly require the CPUC to enact \$5 and \$10 fixed charges. We assume the CPUC chooses to.

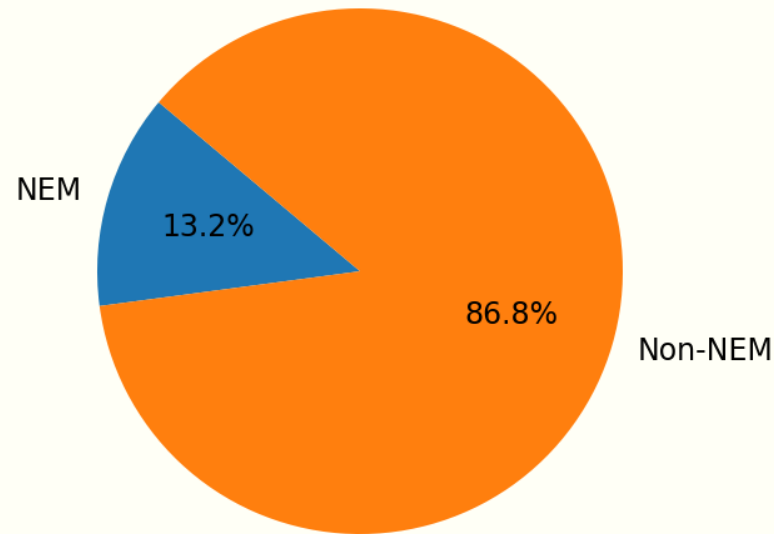
Analysis

Ava E-TOU-C customer demographics

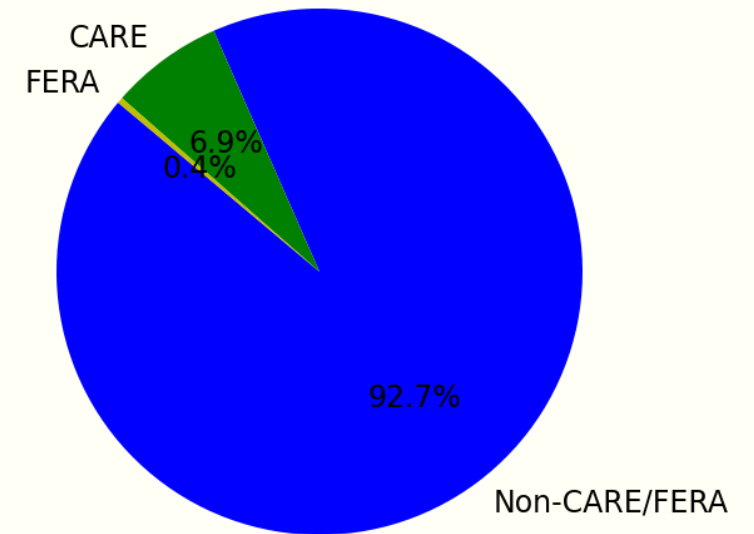
CARE/FERA Enrollment



NEM status

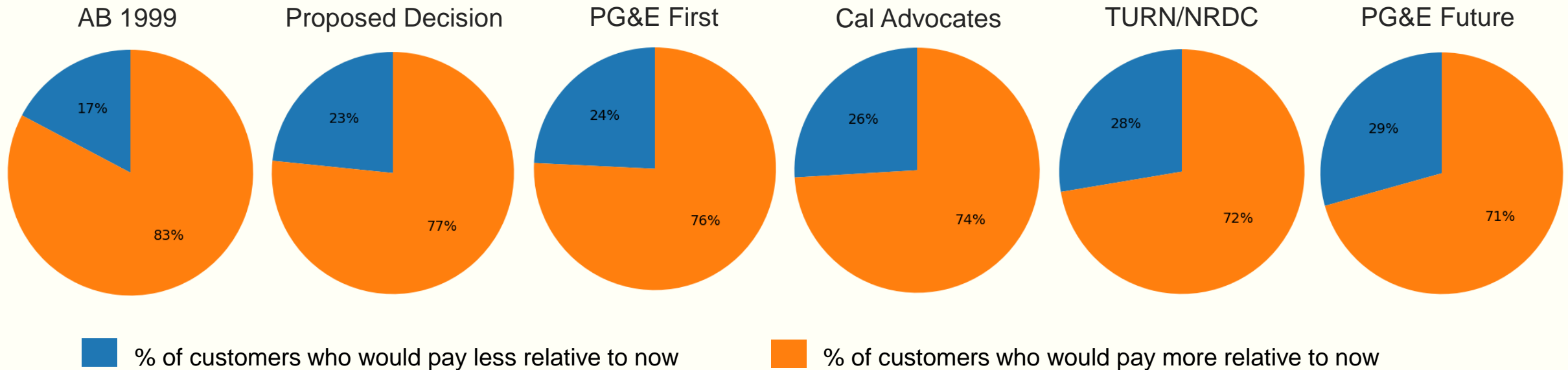


NEM customer income status



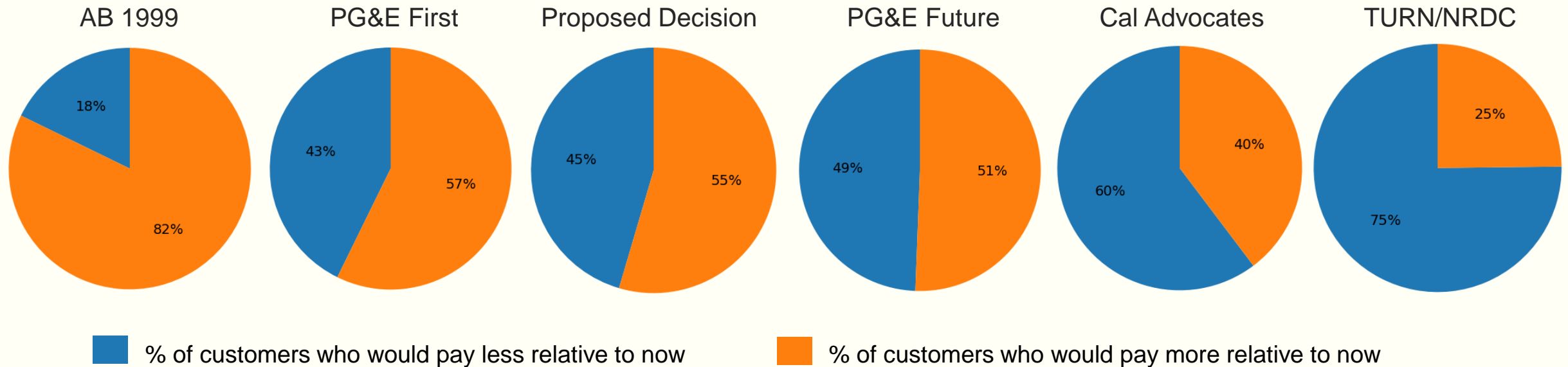
- On average, Ava's non-NEM E-TOU-C customers use **363 kWh** per month
- The average residential customer in California uses ~ **540 kWh** per month

Customer outcomes



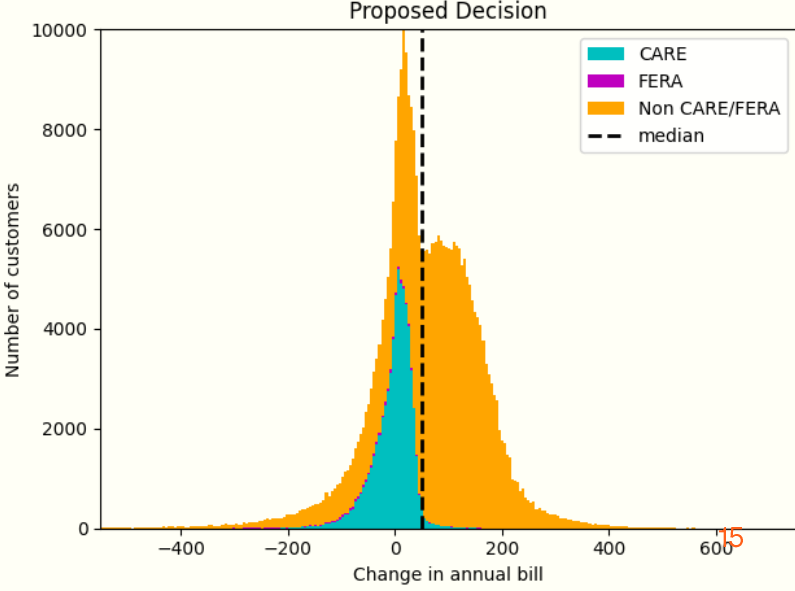
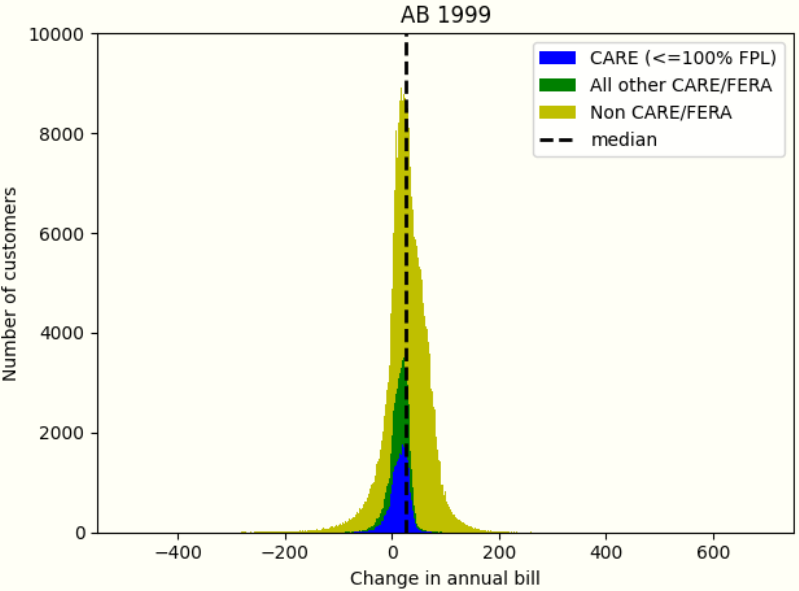
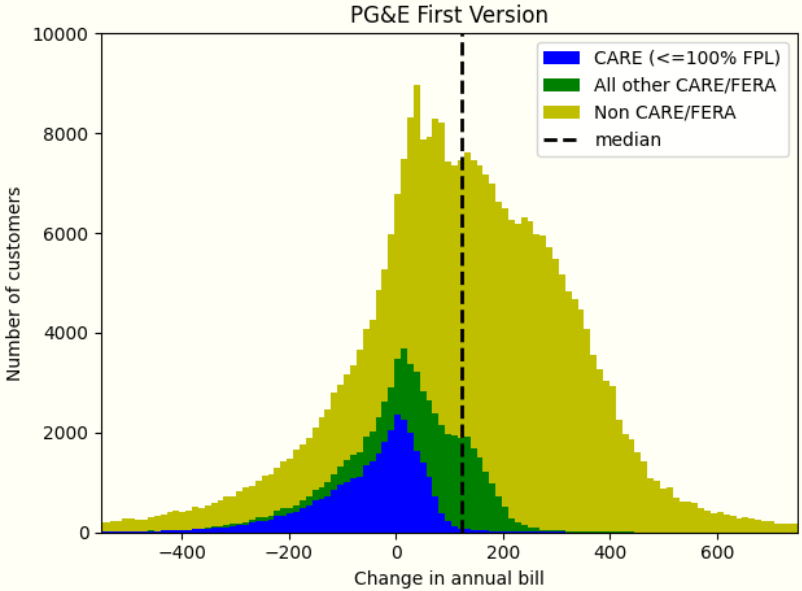
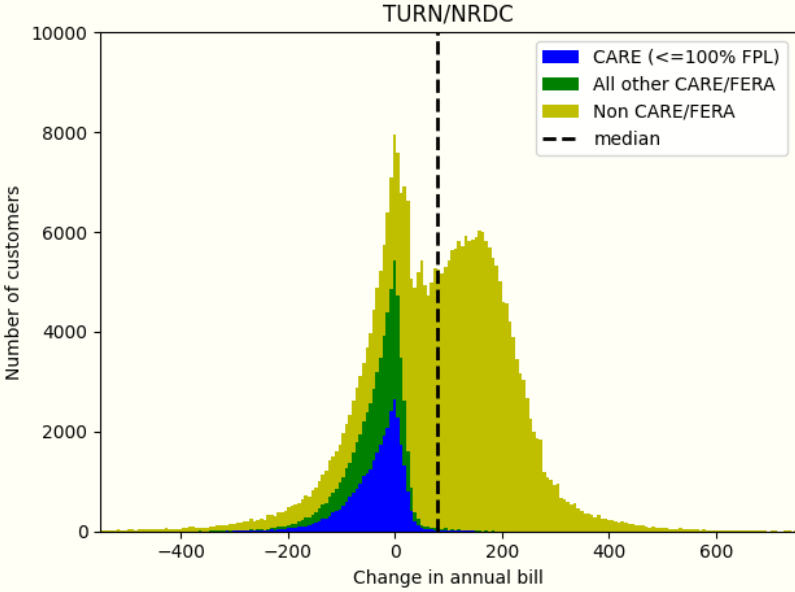
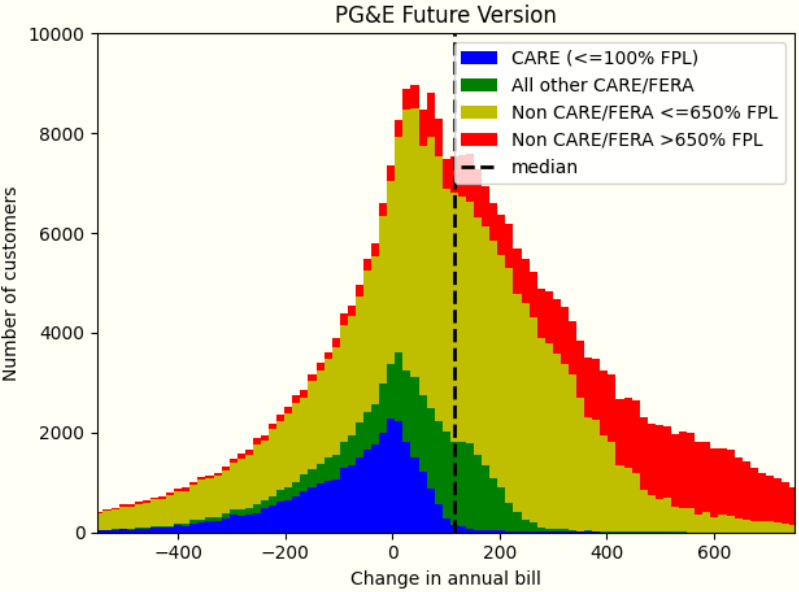
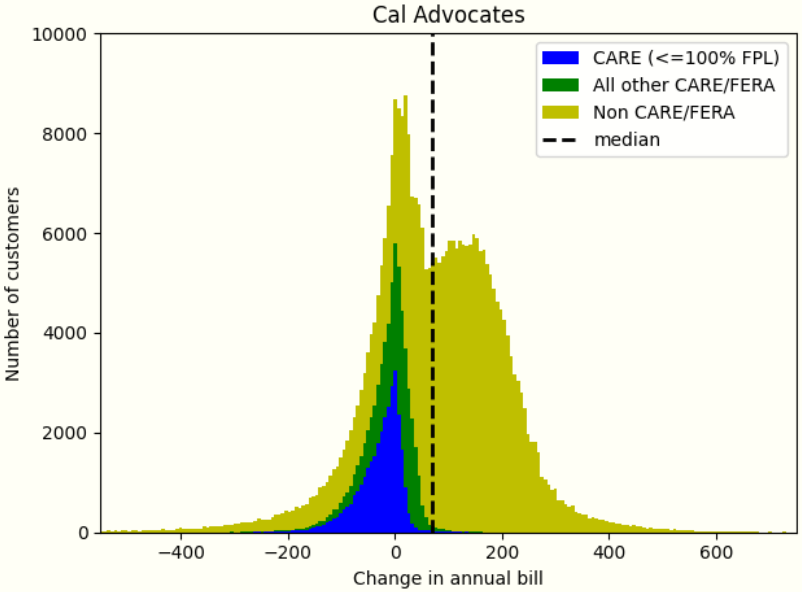
- Why do so many Ava customers have higher bills under IGFC?
 - Ava customers consume around 160kWh less than the average Californian per month
 - IGFC structurally benefits customers with high usage
 - Results could look different for other service territories with higher customer usage

CARE/FERA customer outcomes

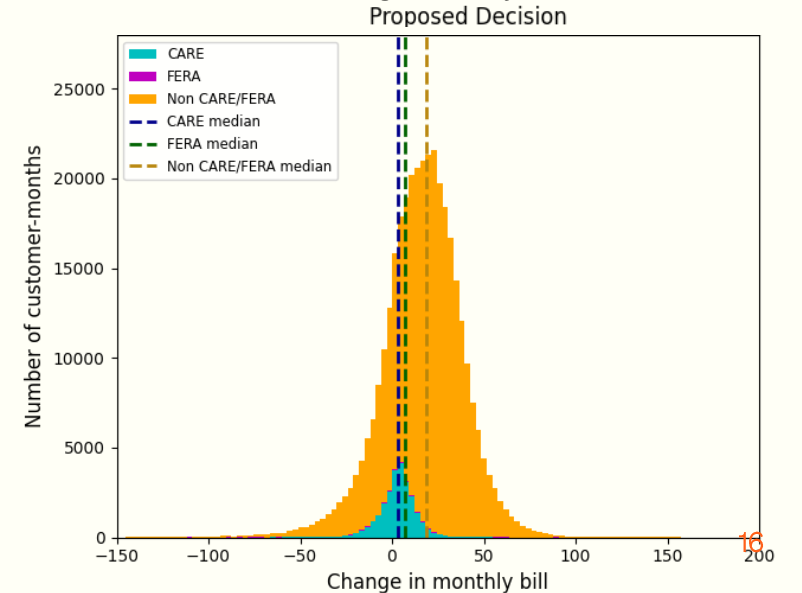
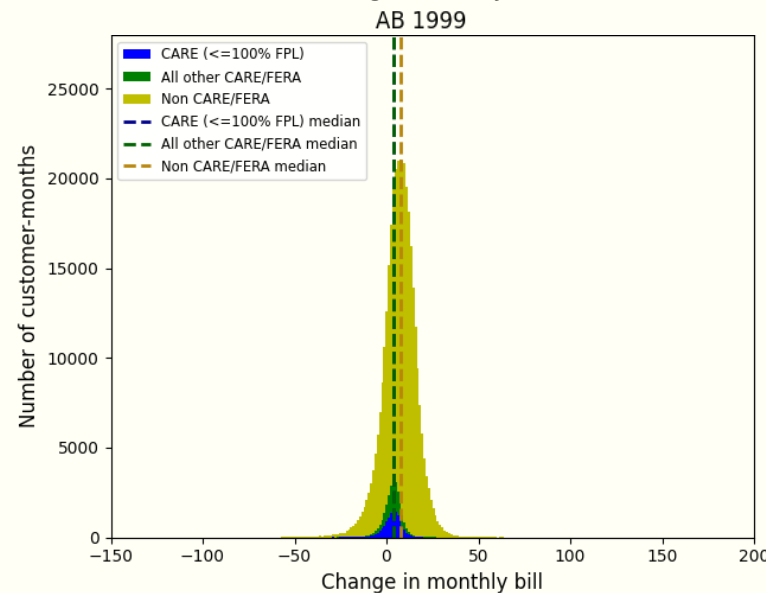
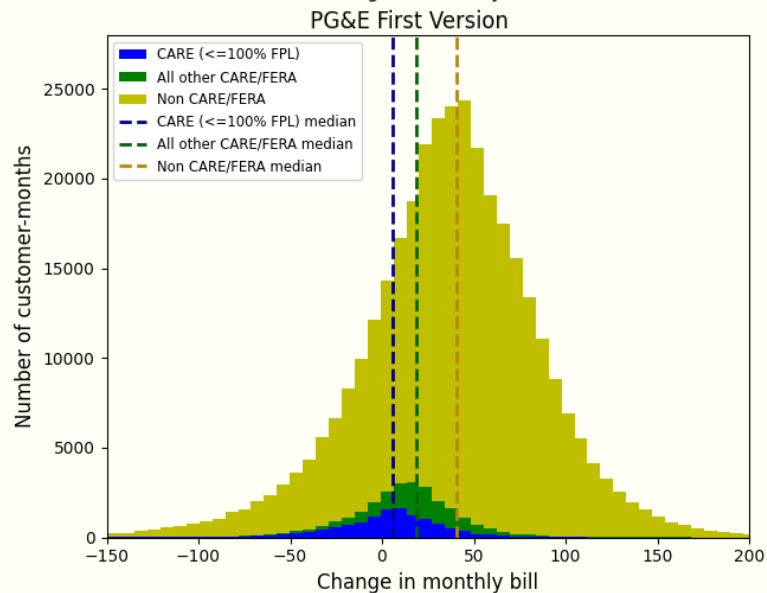
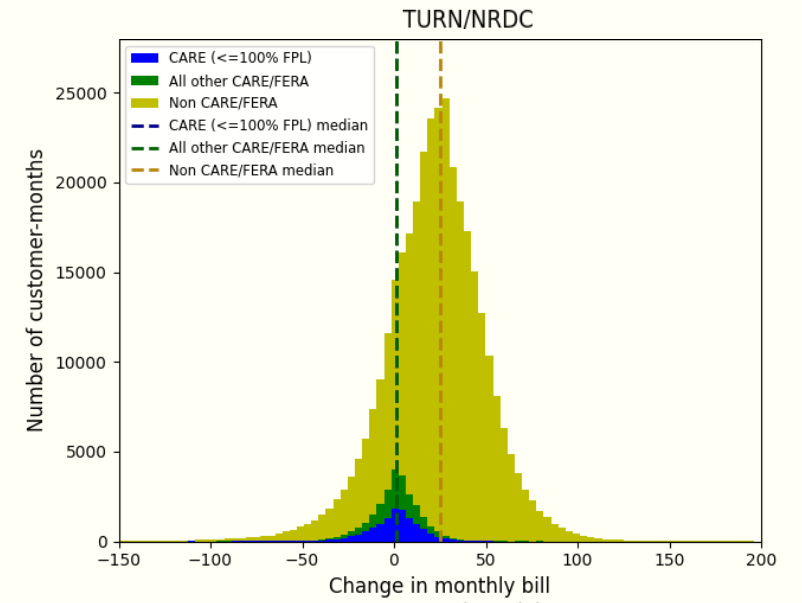
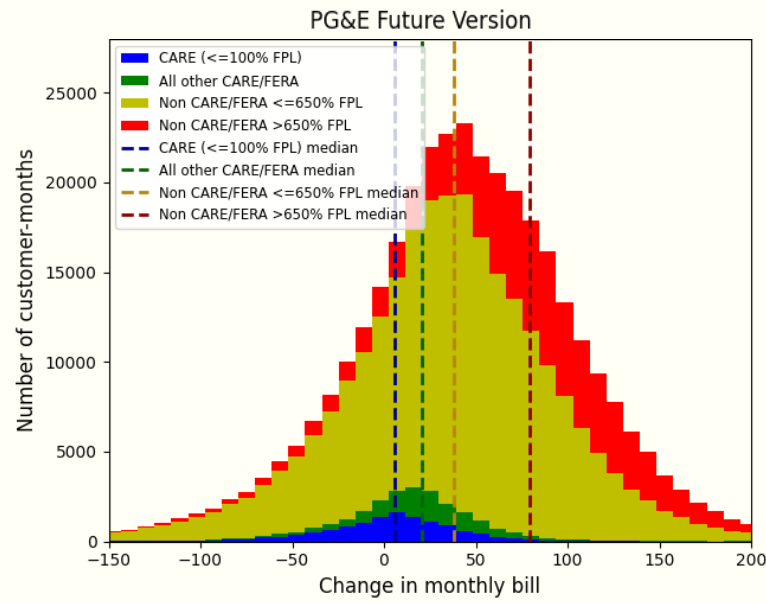
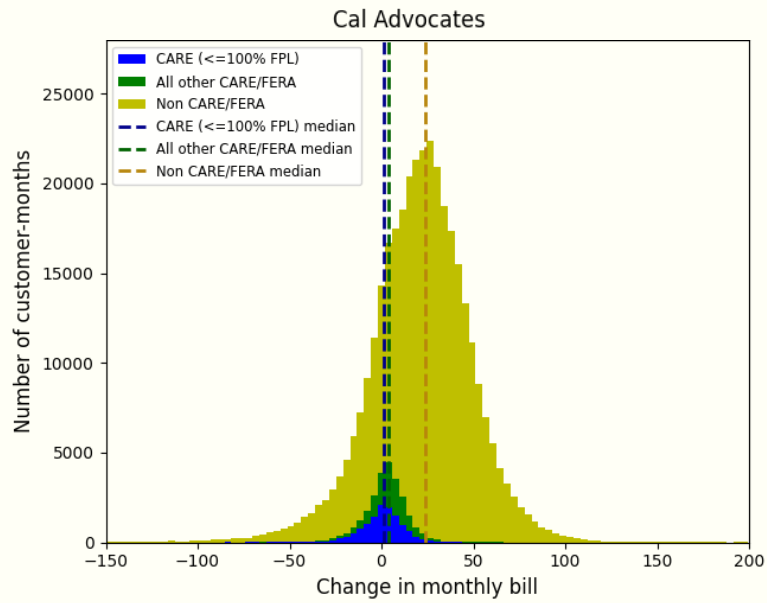


- The TURN/NRDC and Cal Advocates proposals are the only where most CARE/FERA have lower bills
- Both have high differentials between CARE and non-CARE fixed charges
- Both have low differentials (if any) between CARE/FERA < FPL and CARE/FERA > FPL brackets

Annual net bill impacts distribution

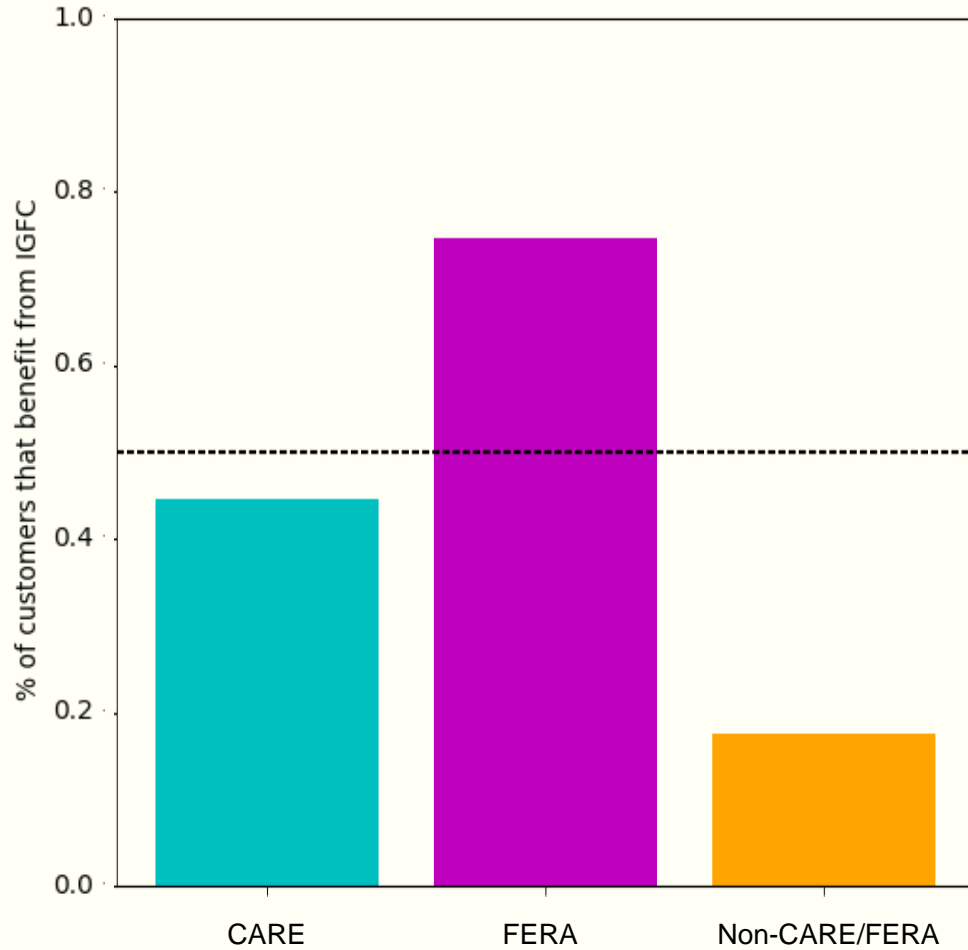


Monthly net bill impacts for NEM customers

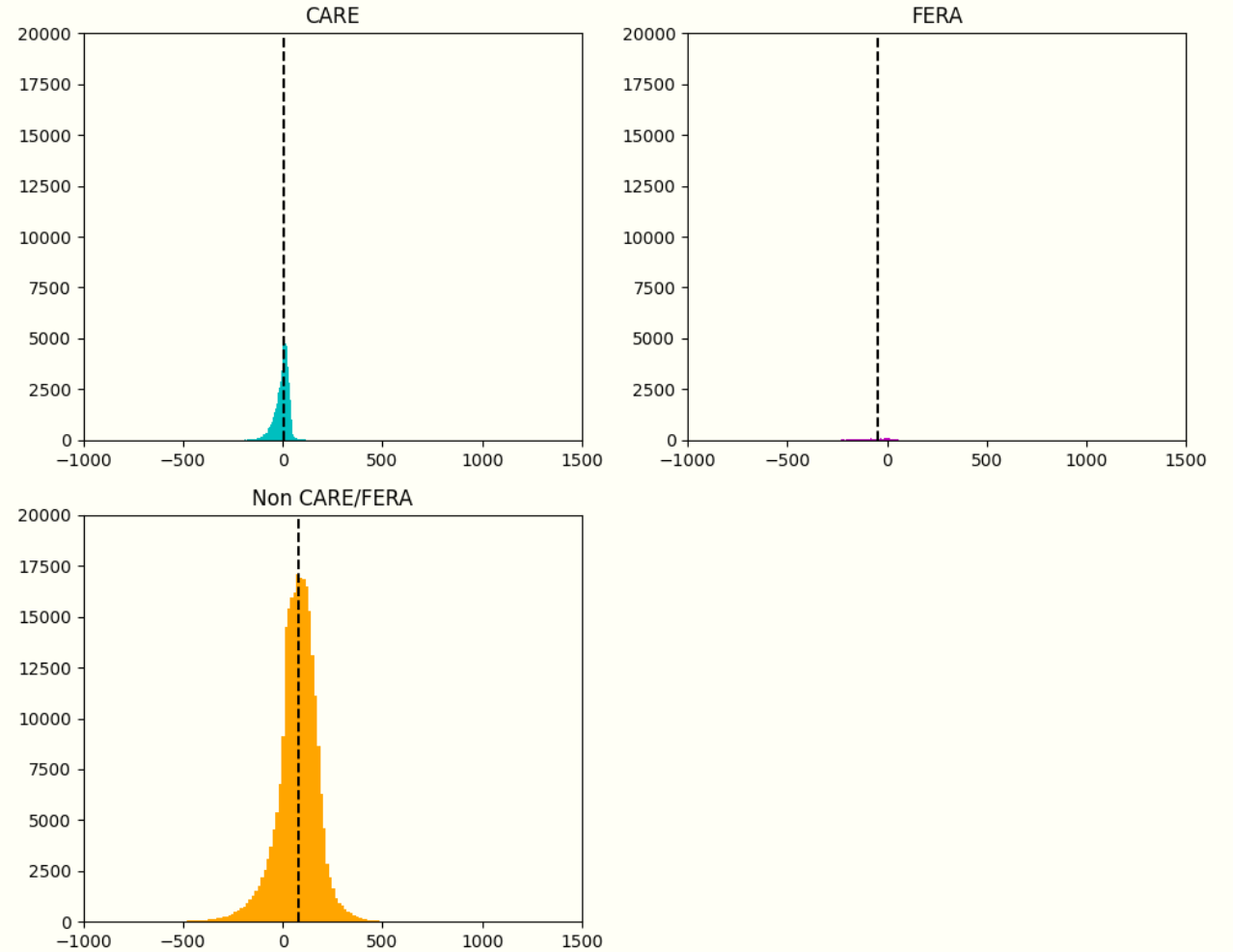


Breakdown of proposed decision

% Customers that Benefit IGFC



Annual Bill Impacts Breakdown



Conclusions

- Most Ava customers have higher bills under IGFC in all proposals analyzed
 - TURN/NRDC and Cal Advocates are the only proposals where most low-income customers save money
- Higher fixed charges for higher income customers lead to worse outcomes for rooftop solar but can improve outcomes for low-income customers
- Lower fixed charges result in a smaller magnitude of bill impacts, but don't necessarily increase the number of customers that save money under IGFC
- Because the IGFC benefits customers with high usage, Ava customers are at a structural disadvantage under IGFC due to lower usage today than other Californians
 - Usage may increase over time with electrification, improving customer outcomes
 - Ava is currently incorporating data from Stockton. Customers in the Central Valley may fare better due to higher consumption
- Ava customers may also be disadvantaged due to higher incomes compared to state average. The IGFC income brackets may not be appropriate for Bay Area cost of living:

- **CARE/FERA <= 100% FPL:** below \$25,000
- **All other CARE/FERA:** \$25,000-\$62,000
- **Non-CARE/FERA:** \$62,000-162,000
- **Non-Care/FERA >650% FPL:** above \$162,000

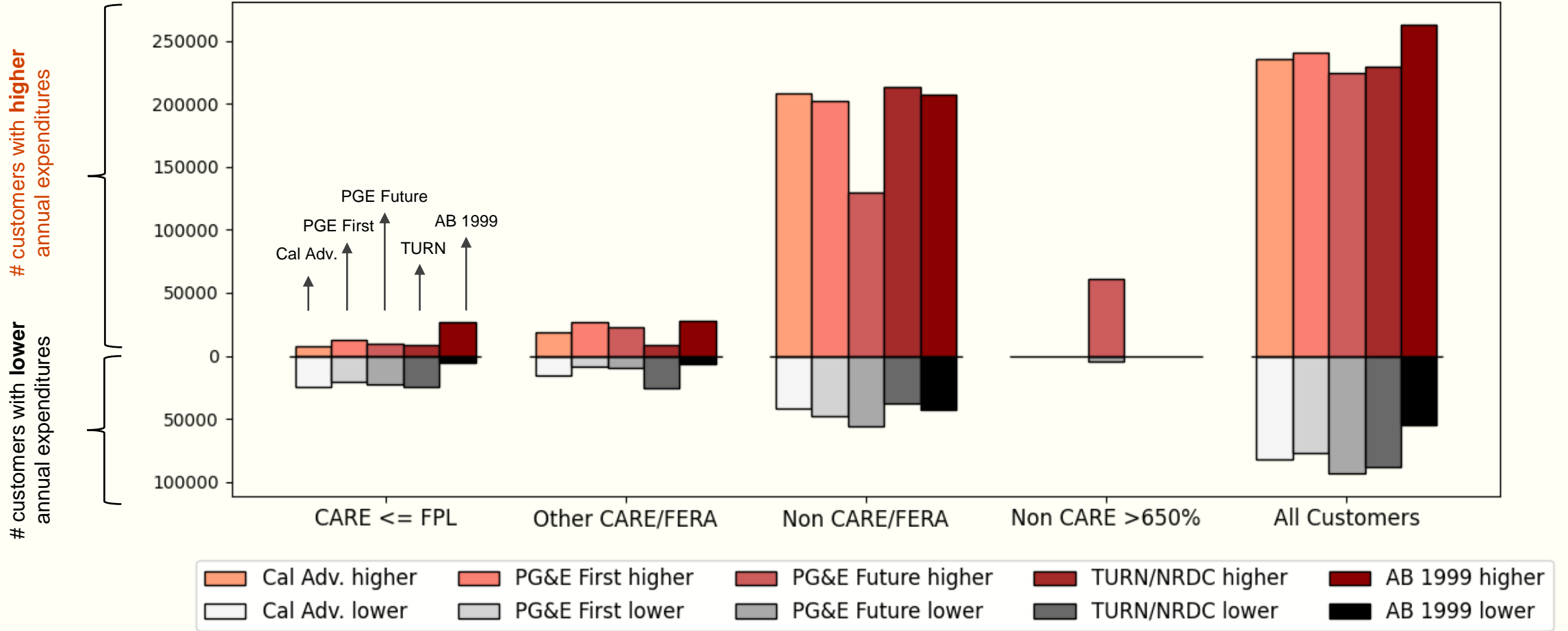
Next modeling steps

- Model proposed decision
- Incorporate Stockton data
- Assist other CCAs with analysis for their service territory

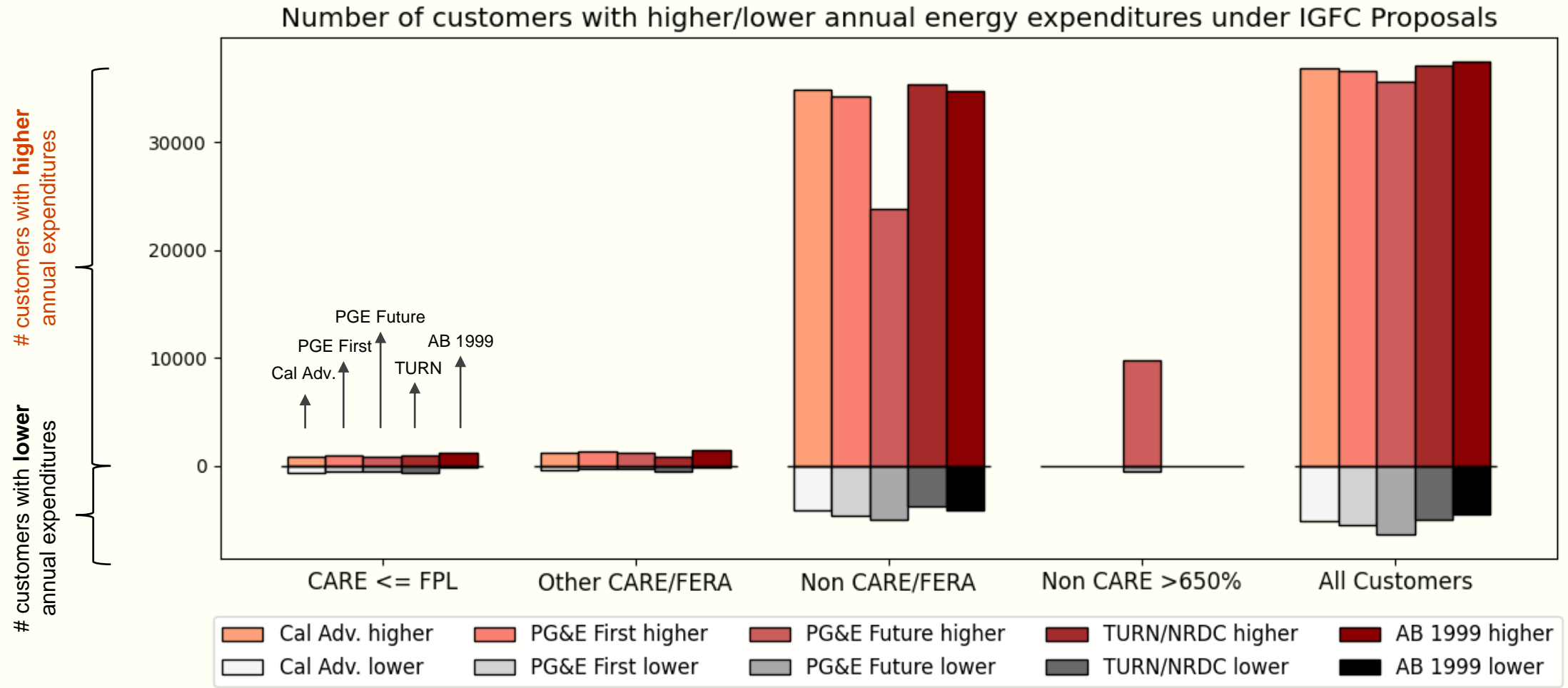
Appendix

Customer outcomes

Number of customers with higher/lower annual energy expenditures under IGFC Proposals



Rooftop solar customers outcomes



Sources

- Rates, current: [E3 Fixed Charge Tool](#) (link downloads the workbook)
- Rates, Cal Advocates: [Cal Advocates Demand Flexibility Opening Brief](#)
- Rates, PG&E First Version: [Supplemental Testimony of Southern California Edison Company, Pacific Gas and Electric Company, and San Diego Gas & Electric Company Addressing Income-Graduated Fixed Charge Proposals. Joint IOUs' Exhibit 4](#)
- Rates, PG&E Future Version: [Joint Testimony of Southern California Edison Company, Pacific Gas and Electric Company, and San Diego Gas & Electric Company \(the Joint IOUs\) Describing Income-Graduated Fixed Charge Proposals](#)
- Rates, TURN/NRDC: [Joint Opening Brief of the Utility Reform Network and the Natural Resources Defense Council on Phase 1 Track A Issues Relating to the First Version Income-Graduated Fixed Charges](#)
- Alameda poverty statistic: [S1701, 2022 American Community Survey 1-Year Estimates](#)
- Average residential consumption in California: [EIA 2020 Residential Energy Consumption Survey \(RECS\)](#)
- Overview of first vs. future proposals: [Joint IOU Demand Flexibility Opening Brief](#)
- June 19 Ruling: [Administrative law Judge's Ruling on the Implementation Pathway for Income-Graduated Fixed Charges June 19, 2023](#)