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ITEM 6

Affordability Proceeding Presentation

Affordability Proceeding DACAG Presentation

Presenters:

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California Public
Utilities Commission

Presentation Outline

- Affordability Proceeding Phase 2 goals and proposed decision
- Affordability Proceeding Phase 3 en banc proposals and next steps

R.18-07-006 Phase 2 Overview and Timeline

- **Goals of Phase 2:**

- Develop methodology for forecasting future values of affordability metrics
- Establish procedures by which metrics can be calculated by parties
- Mandate when metrics will be included in applications to CPUC
- Identify other ways metrics can be used by CPUC

- **Timeline:**

- Staff proposal issued – November 1, 2021
- Workshop – November 15, 2021
- Additional Workshops (water cost and rate tracker) – Dec 2021/Jan 2022
- Opening and reply comments – January 2022
- Proposed Decision – June 10, 2022

Overview of Phase 2 Staff Proposal

- Develop methodology for forecasting future values of metrics
- **Create Affordability Ratio Calculator**
 - Tool to compute AR values available to stakeholders & staff
 - Essential usage bill levels and socioeconomic data updated annually
- **Identify vulnerable communities using metrics**
 - Areas of affordability concern (AAC)
 - SEVI-DACs – variation of traditional disadvantage communities (DAC) that relies on socioeconomic vulnerability index (SEVI) rather than CalEnviroScreen
- **Recommendations for implementation of metrics in decision-making**
 - Use Case #1 – Understanding affordability of expected rate increases (threshold of 1% growth in revenue requirement for energy applications)
 - Use Case #2 – Using relative values of metrics to prioritize resources
 - Use Case #3 – Use affordability metrics to evaluate options to mitigate rate growth (Phase 3 proposals)

Overview of Phase 2 Proposed Decision

- Adopts the staff proposal, with the changes described on this slide
- Establish a two-year evaluation period, and solicit feedback from parties on implementation of metrics after each of the next two Annual Affordability Reports are issued
- Replace SEVI-DAC with traditional definition of DAC, and SEVI with CalEnviroScreen
- Require update to the metrics by IOUs concurrent with whatever mechanism is utilized to produce updated rate impacts associated with the authorized revenue requirement (for instance, alongside a negotiated settlement during a GRC Phase 1)
- Require IOUs to provide an itemized list and tally of all revenues pending incorporation into current rates, whether approved or requested, as well as recently implemented revenues
- Requires SDG&E 2024 GRC Phase 2 to include affordability metrics in application in order to test integration of metrics into revenue allocation proceedings

Affordability Phase 3 En Banc Proposals

- About two dozen proposals addressing residential electric rate affordability were discussed during the CPUC rates en banc held on February 24, 2021.
- R.18-07-006 Phase 3 scoping memo required a workshop be held in February 2022 to discuss affordability proposals in more depth. The en banc was held on February 28 and March 1 2022.
 - Gas rates have been scoped into Phase 3.
- An Assigned Commissioner's Ruling issued in May 2022 solicited recommendations from parties on proposed strategies to mitigate energy rate increases and proposed listening sessions.
- A staff proposal is scheduled to be issued in Q2-Q3 2023 on recommended strategies to mitigate energy rate increases.

Phase 3 Proposal Evaluation Criteria

- The following criteria have been proposed to evaluate affordability proposals and in the overall proceeding.
 - Affordability impact
 - Equity impact
 - Environmental and social justice impact
 - Revenue requirement and rate impact
 - Economic impact
 - Regulatory and statutory reforms and political feasibility

Phase 3 En Banc Proposals for Further Discussion

- Move Public Purpose Program costs to tax base.
 - Move Wildfire Mitigation costs to tax base.
 - Authorize utilities to deploy capital and recover cost for building decarbonization upgrades via tariffed on-bill structures that enable participation regardless of income, credit score, or renter status.
 - Expand implementation of Percentage of Income Payment plans.
 - Reduce IOUs' authorized Return on Equity.
 - GRC phase I anchor bias reduction alternative scenario requirement.
 - Implement an income-based fixed charge where the amount charged progressively increases based on income.
- ❖ **Note:** Some of these proposals have since been taken up for consideration in the current Legislative session and may be subject to revision or adaptation, if signed into law and implemented.

Equitably Electrifying California (EEC) Proposal

What is it?

- A proposal to fund the costs of public purpose programs (PPP) with state tax revenues instead of electric utility rates

What does it accomplish?

- Supports SB 100/electrification goals by reducing the rate of utility bill increases to prevent reaching a threshold where electrification is disincentivized
- Social policy program costs are paid for in a more progressive way, reducing the burden on lower-income customers

Estimated Costs

- EBCE's back-of-the-envelope estimate: PPP including CARE is ~ \$2.7B/year



Fund Social Policy Costs from Outside Rate-base: Cumulative Impacts

	E-1				D-CARE			
	Bills (\$)	Bills (% Δ)	Rates (\$)	Rates (% Δ)	Bills (\$)	Bills (% Δ)	Rates (\$)	Rates (%Δ)
Current	\$1,947		\$0.31		\$1,161		\$0.19	
Wildfire Fund	Δ \$(39)	-2%	Δ \$(0.006)	-2%	Δ \$0	0%	Δ \$0	0%
CARE/FERA	Δ \$(77)	-4%	Δ \$(0.012)	-4%	Δ \$0	0%	Δ \$0	0%
CARE & Wildfire Fund	Δ \$(116)	-6%	Δ \$(0.018)	-6%	Δ \$0	0%	Δ \$0	0%
All non-delivery	Δ \$(139)	-7%	Δ \$(0.022)	-7%	Δ \$(17)	-1%	Δ \$(0.003)	-1%

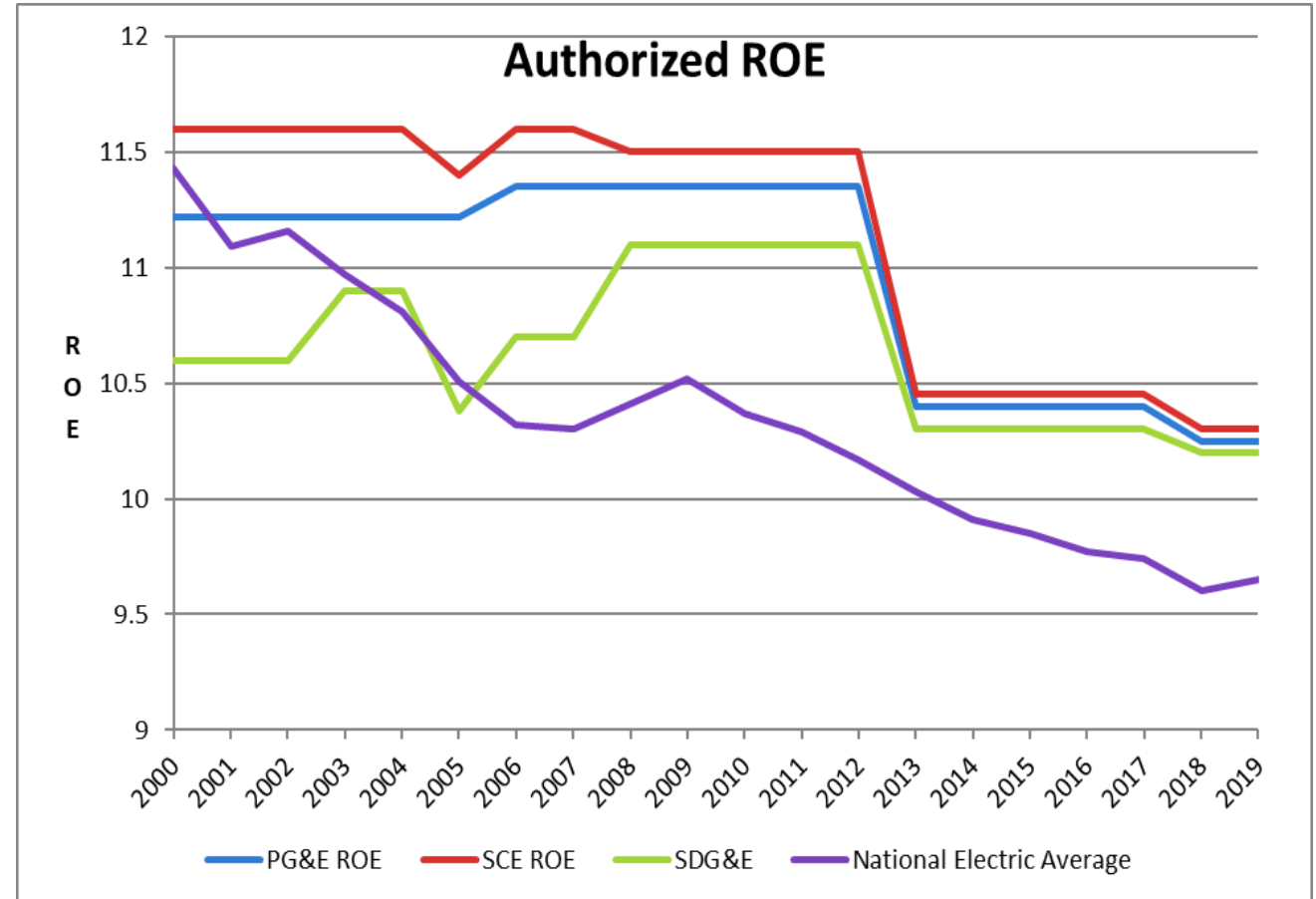
Source: Natural Resources Defense Council/Synapse

Senate Bill 1020 (Laird, 2022)

- Proposed bill under consideration that would create Climate and Equity Trust Fund that "supports the costs of decarbonization, clean energy, and wildfire mitigation activities with funding sources outside of electricity rates."
- If approved and signed, would likely address the 2022 CPUC En Banc proposals aimed at covering program and wildfire related expenditures to be covered by non-ratepayer funding sources.

California IOUs' Authorized Return on Equity (ROE) Has Been Well Above the National Average

- **The CPUC sets return on equity (ROE)** by estimating expected return on alternative investments of comparable risk in capital markets using financial models.
- IOUs have argued that a higher ROE in California is necessary due to the higher risk of investment and cost recovery. These ROE figures reflect California jurisdictional costs only.



Utility	% Difference in ROE b/w IOUs and Nat'l Average	Impact on Rev Req (million \$)
SCE	0.65%	128.85
SDG&E	0.55%	22.49
PG&E	0.60%	125.22

Reduce Return on Equity: Impacts

ROE, % Equity	E-1				D-CARE			
	Bills (\$)	Bills (% Δ)	Rates (\$)	Rates (% Δ)	Bills (\$)	Bills (% Δ)	Rates (\$)	Rates (% Δ)
Current	\$1,947		\$0.31		\$1,161		\$0.19	
9.5%, 52%	Δ \$(22)	-1%	Δ \$(0.004)	-1%	Δ \$(21)	-2%	Δ \$(0.004)	-2%
7%, 55.5%	Δ \$(89)	-5%	Δ \$(0.014)	-5%	Δ \$(84)	-7%	Δ \$(0.014)	-7%

Source: Natural Resources Defense Council/Synapse

Average 5% Electricity Burden Impacts

	E-1				D-CARE			
	Bills (\$)	Bills (% Δ)	Rates (\$)	Rates (% Δ)	Bills (\$)	Bills (% Δ)	Rates (\$)	Rates (% Δ)
Current	\$1,947		\$0.31		\$1,161		\$0.19	
5% limit	Δ \$100	5%	Δ \$0.014	5%	Δ (\$259)	-22%	Δ \$(0.194)	-100%

If collected only via *residential* electric rates, this would require additional 1.45¢/kWh from residential non-CARE customers (bundled and unbundled)

Rate impact reduced to 0.44¢/kWh if collected from *all* non-CARE customers (residential and non-residential)

Source: Natural Resources Defense Council/Synapse

Phase 3 Next Steps

- Listening Sessions tentatively planned throughout the state in Fall 2022
- Legislation pending that would implement ideas discussed in the 2022 en banc, including:
 - Moving wildfire mitigation, energy efficiency, and other costs out of rate base.

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Questions?





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