January 18, 2024

To: Members of the California Senate and Assembly
From: Public Advocates Office, The Utility Reform Network (TURN), and the Natural Resources Defense Council (NRDC)

Re: Equitable rate reform and the importance of implementing a fixed charge

Dear Members of the California Senate and Assembly:

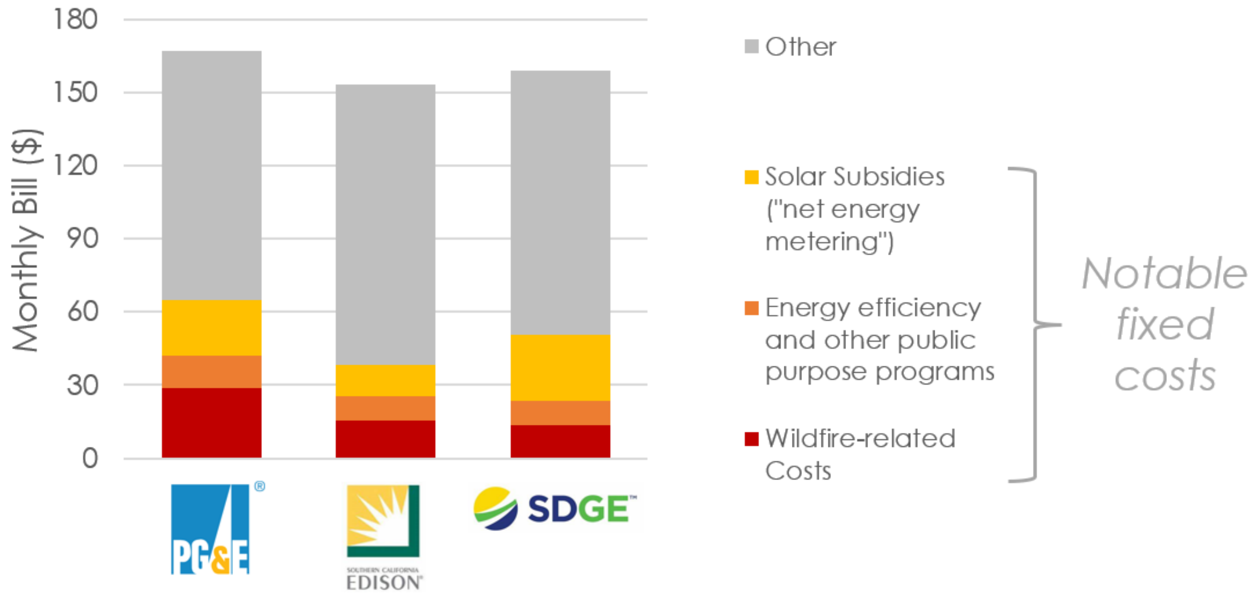
Our organizations work to develop pragmatic solutions to our state's affordability and climate crises. We are writing to express our support for expeditiously implementing a residential fixed charge to help lower electricity bills for low-income households and promote affordability in the energy transition.

Californians face some of the highest electricity rates in the nation, and the problem is only getting worse. In just the last 3 years, California's investor-owned utilities' standard residential rates have increased at an extraordinary pace. For example, residential customer rates are up by 81% for Pacific Gas & Electric and 67% for Southern California Edison. While lower-income residents can access a moderately discounted rate, these discounts have not been enough to blunt the impact of the steep rate increases, especially amid rising temperatures that are intensifying the need for more air conditioning to combat sweltering heat. **About 2.4 million customers of California's three largest utilities are behind on their bills to the tune of $1.8 billion in energy debt[1].**

One major contributor to the utility rates crisis in California is the Legislature's and Governor's decision to fund a variety of statewide priorities through electricity rates, including billions of dollars for wildfire mitigation each year. The graphic below shows the impact of certain state priorities on customer bills. This approach shrinks the economic incentives for upgrading to electric vehicles and appliances, and puts undue pressure on low-income households and those in hot inland climates that have significant cooling needs.

[1] November 2023 Disconnection Settlement Monthly Reports of PG&E, Southern California Edison, and SDG&E (R.18-07-005).

Average Customer Monthly Bill by Component (2022)



Source: Public Advocates Office based on CPUC SB 695 Annual Report (2023) data

Collecting these costs and other fixed costs like grid infrastructure, which do not vary with individual customer energy use, through per kilowatt hour electricity prices is problematic due to the inherently regressive nature of power bills relative to other basic services, with low-income customers contributing a far greater percentage of their income towards utility bills than high-income customers.

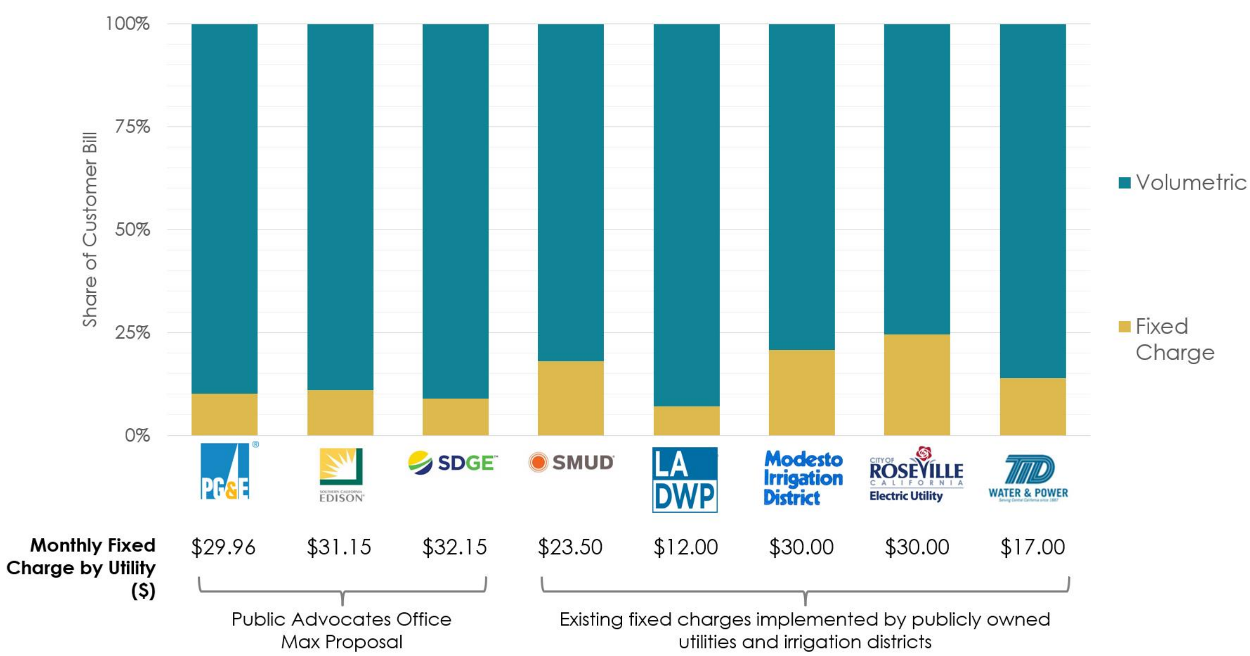
Without a significant change to the upward trajectory of electricity rates and a more equitable approach to paying for fixed costs, we will fail to meet our state's climate goals, fail to address inequalities in our current systems, and fail to decarbonize the grid in the timeframe envisioned by state policy.

To ensure a smooth energy transition, the cost of clean electricity must be affordable for households across all income levels. As one of many important actions needed to address this challenge, the CPUC is considering options for a residential customer fixed charge designed to more equitably share the costs for electricity infrastructure and policy priorities, while also unlocking greater savings for households when they upgrade to electric technologies.

The new monthly charge would remove some of these fixed costs from rates, decreasing the price of electricity for all customers. For example, the Public Advocates Office's initial proposal reduces the per kilowatt hour rate of electricity by about 20% for all PG&E customers, and would reduce total bills for low-income customers that qualify for existing utility bill discount programs (which includes about 30% of all customers). The TURN and NRDC's initial proposal is similar, and would reduce total bills for all low-income customers by $100 annually on average. The savings for low-income customers in hot inland climates, where air conditioning is a necessity, would be even greater with annual average bill savings of $144 for PG&E, $180 for SCE, and $240 for SDG&E.

Fixed charges have already been implemented in many areas of California by Publicly Owned Utilities, who earn no profits and have no shareholders. For example, the Sacramento Municipal Utility District (SMUD) has had a monthly charge for years that is slated to increase over time. The chart below shows that many Publicly Owned Utilities have residential fixed charges that exceed $20 per month and compares the fixed charge portion of these customer bills with the initial proposal submitted by the Public Advocates Office for the three major Investor Owned Utilities.

Fixed Charges as a Share of Customer Monthly Bills



Source: Public Advocates Office based on CPUC analysis
Represents a customer that consumes 750 kWh per month as of September 2023

Although not displayed in the figure above, TURN and NRDC also propose comparable fixed charges to the Public Advocates Office. The proposals made by our organizations in the current CPUC proceeding would result in fixed charges that collect a smaller portion of the total customer bill for the three Investor Owned Utilities than are collected by many of the state's Publicly Owned Utilities.

None of the fixed charge proposals, including the proposal by the state's major utilities, will alter the total amounts that utilities can collect from customers. The amounts collected by Investor Owned Utilities are determined in General Rate Cases and other related proceedings. The outcome of the fixed charge proceeding will not provide any opportunity for these utilities to increase their profits or raise overall rates.

Some have also raised concerns that a more equitable rate design will destroy the price signal to conserve energy or will make rooftop solar unaffordable. While it's true that income-based charges will lower the pricing of electricity consumption – which is vital for affordability – households who conserve electricity or install solar will still see significant savings on their electricity bills and realize favorable payback periods.

California is on path towards electrification, but how we get there matters. California should prioritize rate structures that encourage households to move toward electrifying appliances and cars in a way that does not increase the divide between the haves and the have nots. A well-structured fixed charge will provide meaningful benefits to households struggling to pay bills today and unlock additional savings for households transitioning off of fossil fuels.

While an income-based monthly charge paired with lower electricity prices will not solve all the issues driving California's electricity affordability crisis, it is a significant and much-needed step in the right direction. The ongoing fixed charge process at the CPUC is on the right track and should proceed without hindrance. Additionally, the Legislature should commit to measures that reduce electricity costs and move the state toward meeting its climate and clean energy goals in a cost-effective and equitable manner.

Sincerely,

Merrian Borgeson
Director, California Policy
Natural Resources Defense Council

Matt Baker
Director
Public Advocates Office

Matthew Freedman
Staff Attorney
The Utility Reform Network