Docket No.: R.22-07-005
Exhibit No.: CEJA-02
Date: 6/2/2023
Witnesses: Tyson Siegele
Commissioner: President Alice Reynolds
ALJ: Stephanie Wang

PREPARED TRACK A REPLY TESTIMONY OF TYSON SIEGELE ON BEHALF OF THE CALIFORNIA ENVIRONMENTAL JUSTICE ALLIANCE IN R.22-07-005, THE ORDER INSTITUTING RULEMAKING TO ADVANCE DEMAND FLEXIBILITY THROUGH ELECTRIC RATES

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The California Environmental Justice Alliance ("CEJA") submits the following reply testimony in the Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates, proceeding R.22-07-005. This testimony responds to the Assembly Bill ("AB") 205 mandate regarding establishment of an income-graduated fixed charge, the January 17, 2023 Administrative Law Judge Ruling Providing Guidance for Phase 1 Track A Proposals and its attached guidance memo, and the March 23, 2023 Administrative Law Judge Ruling Providing Additional Guidance for Track A Proposals. This testimony is timely served pursuant to the February 22, 2023 email ruling regarding scheduling.

REPLY TESTIMONY OF TYSON SIEGELE

Summary of Recommendations:

- Establish a $0 fixed charge for Low Income (LI) ratepayers
- Create an Income Graduated Fixed Charge (IGFC) that is neutral (i.e. set as a percentage of income) or progressive (i.e. each tier pays an increasingly higher percentage of income)
- Ensure that self-certification of income is transparent and accessible, especially to LI customers
- Ensure that all LI customers pay lower bills under the IGFC through a $0 fixed charge for LI customers or through robust bill protections
- If the IGFC's structure is financially regressive at launch, require the IGFC to transition to a neutral or progressive fixed charge structure within 2 years
- If the IGFC does not include tiers above $200k at launch, create tiers above $200k within 2 years
- Create IGFC-based electrification incentives beyond reduction in volumetric rates.

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1. Introduction of topics

Shrinking the bills that confront low-income households was a top priority when the Legislature mandated the Commission to establish the income graduated fixed charge (IGFC).[1] My reply testimony makes several recommendations in response to parties' opening testimonies to ensure low-income households are protected as intended.

In response to other parties' opening testimony, I have also streamlined my proposed IGFC structure to include only 5 income brackets. I discuss why the regressive proposals submitted by several parties do not align with the Commission's prior actions regarding energy burden. I highlight the importance of making the IGFC transparent and accessible to limit miscategorization of customers. I discuss the significant issues raised by the IOU's proposed verification process, and a possible solution if the Commission decides to adopt a version of the IOU verification proposal. I recommend the IGFC include tiers above $200k in a progressive structure, and if that structure is not adopted upon implementation, that those attributes be added to the IGFC within 2 years of launch. Finally, I outline limitations on the IGFC's ability to increase electrification in California without additional incentives targeting electrification.

2. CEJA's proposed IGFC can be implemented with 5 tiers rather than 10.

My opening testimony recommends that the Commission divide fixed charges into 8-10 income brackets. My proposal can incorporate this many brackets because of the simplicity of self-certification and the use of public data to sort non-self-certifying customers into the appropriate income brackets. Other party proposals recommend from three to five brackets.[2]

To ensure that the proposal sponsored by CEJA would be as easy to implement as any other party's proposal, Table 1R below shows the proposal reduced to 5 income brackets. Reducing the proposal's number of income brackets would make self-certification easier for customers, which could improve the number of customers that self-certify. The five income brackets of the revised proposal are listed in Table 1R.

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[1] Public Utilities Code, Section 739.9(e)(1), unless otherwise noted all code references are to the California Public Utilities Code.

[2] Joint IOUs proposed 4 income brackets, CalAdvocates proposed 3 income brackets, SEIA proposed 3 income brackets, the small IOUs proposed 3 income brackets, Sierra Club proposed 5 income brackets, TURN/NRDC proposed 3 income brackets.

Table 1R: Opening testimony proposal reduced to five income brackets

	A	B	C	D	E
Income Bracket (000)	Share of Income Tax Returns	Share of Income Tax Liability	Fixed Charge Weighting by Bracket (B x 200 = C) (Proportion scaled by 200 and rounded to nearest whole number to approximate w/ whole numbers)	Average share of tax liability per return in bracket (B / A = C)	Ratio of fixed charge payment by customer setting lowest tier to 1 (Dx0.96=E)**
[0,80% AMI*]	77.949%	7.646%	15	0.098087	0
[80% AMI*,200]	13.797%	14.330%	29	1.039	1
[200,500]	6.336%	20.935%	42	3.304	3
[500,2000]	1.681%	21.657%	43	12.886	12
[2000+]	0.238%	35.431%	71	148.637	143

Notes:
(*) 80% of AMI approximated using HCD county data for 3-person households. Statewide population-weighted average is $84,859, because the FTB reported data does not include that granularity, the 80% of AMI level is appoximated for calculate fixed charge ratios in the table above.
(**) The ratio of fixed charge is set to approximate a weighting of 1 for the second tier of income brackets.

For the brackets above, I used California Franchise Tax Board (FTB) data to estimate weightings of the brackets shown with the assumption that 80% of AMI is close to $100k. In 2022, the statewide population weighted average for 3-person households for 80% of AMI was approximately $85k.[3] The weighting of the fixed charge can be set according to the percentage of tax returns within each income bracket as is done in Table 1R, above. The weighting of the fixed charge by customer (column E) shows the fixed charge weighting according to the progressiveness of the California income tax structure.

Figure 1R below illustrates the share of California personal tax income by bracket (column B in Table 1R above) that the 5-tier structure follows for the IGFC.

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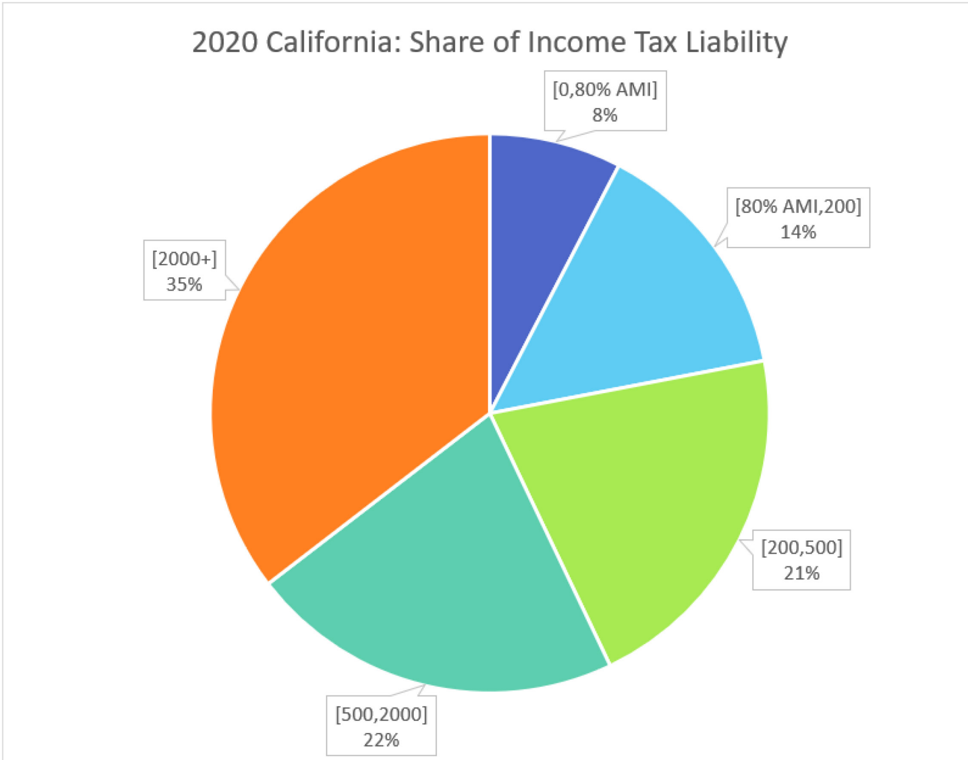
[3] This is described in more detail in other sections of my reply testimony.

Figure 1R: 2020 California income liability by income bracket



Section 739.9(e)(1)-(2) states that "the [C]ommission may authorize fixed charges for any rate schedule applicable to a residential customer account. The fixed charge shall be established on an income-graduated basis…so that a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage… For purposes of this subdivision, 'income-graduated' means that low-income customers pay a smaller fixed charge than high-income customers."[4]

In opening briefing CEJA explained that defining low-income as 80% of area median income is consistent with California law and policy.[5] The California Department of Housing and

[4] Section 739.9(e)(1)-(2), ("For the purposes of this section and Section 739.1, the commission may authorize fixed charges for any rate schedule applicable to a residential customer account. The fixed charge shall be established on an income-graduated basis with 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. The commission shall, no later than July 1, 2024, authorize a fixed charge for default residential rates. (2) For purposes of this subdivision, "income-graduated" means that low-income customers pay a smaller fixed charge than high-income customers.").

[5] R.22-07-005, Opening Brief of Sierra Club and the California Environmental Justice Alliance (January 23, 2023), p. 10.

Community Development (HCD) adjusts AMI to show income thresholds by household size.[6] HCD's low-income thresholds by household size equates to approximately 80% of AMI. For 3-person households, this results in a low-income top threshold from $56,100 to $134,200 depending upon in which of the 58 California counties the household is located.[7]

As I stated in my opening testimony, to best adhere to the requirement of Section 739.9(e)(1) for lower average monthly bills, the Commission should set the fixed charge to $0 for low-income ratepayers.[8] In the 5-tier structure from Table 1R above, the fixed charge for the lowest tier should be set to $0 to conform to the statutory requirement. Setting a $0 fixed charge for low-income ratepayers is the simplest way to ensure that AB 205's IGFC mandate is met. Without a zero charge for low-income customers, the Commission will find it necessary to implement new bill protections for millions of Californians. The weightings as shown in column E maintain the progressiveness of the California income tax structure for each income bracket.

3. The IGFC Structure and Income verification must be transparent and accessible to ensure that LI/DAC households understand the process and accurately self-certify. Verification should also limit system costs and miscategorizations.

The Joint IOUs' Opening Testimony reported that the findings of their focus group research showed negative customer views of a fixed charge.[9] A consistent concern was that bills would increase, with concerns about how utilities would acquire personal income data and desire for "clear and open communication before implementing the IGFC".[10] This customer feedback demonstrates the importance of transparency in IGFC structure and an accessible, transparent verification system.

Under my proposal in opening testimony, all customers would receive a simple self-verification request, and approximately 78% of customer bills will be less than they would under a non-IGFC system. All party proposals will reduce volumetric rates. For example, if the Commission adopts my proposal for a $0 fixed charge for the lowest income tier and a system that allows customers to self-certify their income, it is reasonable to assume that the Commission

[6] Dept. Housing and Community Dev., State Income Limits for 2022 (May 13, 2022), see https://www.hcd.ca.gov/docs/grants-and-funding/inc2k22.pdf.
[7] *Id*.
[8] Exhibit CEJA-01, p. 16.
[9] Exhibit Joint IOU-01, pp. 109-114.
[10] Exhibit Joint IOU-01, p. 112, 113.

will receive correct self-certifications from most customers. This is because most customers fall into the lowest income tiers and accurate self-certification would mean those customers would see a $0 fixed charge, or a fixed charge within the range PG&E's survey reports customers would expect.[11]

The type of transparent and cost-effective self-verification system described above is crucial for the success of an IGFC system. The Joint IOUs testified that income verification for the CalFresh program for 2020-2021 cost approximately $2.1 billion,[12] and that if the utilities performed income verification that the verification "would not be cost effective."[13] It would make little sense for the Commission to implement an income verification system if the system itself adds billions of dollars to the revenue requirement or to the state's general fund spending.[14] The Joint IOUs propose that the dollars needed for the IOUs' income verification scheme should come out of the general fund, possibly billions of dollars. However, California's budget deficit and urgent funding needs of existing programs, and that the Legislature did not allocate funds when it adopted AB 205 militate strongly against the Joint IOUs' proposal.

As the IOUs noted, the CARE and FERA programs, which are based on self-certification similar to my proposal, only cost $3.4 million/year for application and recertification.[15] CARE and FERA customers are 26% of all ratepayers.[16] Extrapolating those costs to estimate the annual cost for application and recertification for all customers in a self-certification program is $13.1 million/year instead of the $2.1 billion verification of CalFresh, or 0.6% of CalFresh.[17]

While SEIA's IGFC proposal does not align with CEJA's, SEIA's income verification is both cost effective and adequately transparent.[18] SEIA's opening testimony relies on the existing

[11] Exhibit Joint IOU-01, p. 112 ($20 to $25.)
[12] Exhibit Joint IOU-01, Table III-13, p. 92.
[13] Exhibit Joint IOU-01, p. 2.
[14] The IOUs' propose that income verification be conducted through a complex process paid for by the state's general fund.
[15] Exhibit Joint IOU-01, Table III-13, p. 92.
[16] R. 18-07-005, Monthly Disconnect Data Report compliance filings.
[17] $5.5 million / 0.26 = $13.076 million. From a technical perspective, if implementing the IGFC requires significant funds from the Legislature, it would be simpler and accomplish the same goal to impose a flat fixed charge and transfer the funds to offset 100% of that charge. Although the charge would be flat, because California's income tax is graduated, offsetting the fixed charge with income tax-derived moneys would turn the fixed charge into a graduated fixed charge that could thus meet the requirements of AB 205, eliminate wasteful spending of state funds, complex billing procedures, and concerns over a new fee.
[18] The SEIA proposal would leverage the existing CARE and FERA program data to determine the fixed charge.

CARE and FERA verification procedures, taking advantage of existing customer trust and goodwill, self-verification, and limited spot-checks. If the Commission is deciding between a third-party verification process like the Joint IOUs' proposal that could cost billions of dollars to implement, or the SEIA proposal that uses existing data, I recommend the Commission select the SEIA proposal's verification scheme.[19]

My proposal uses self-certification as the initial basis for customer income categorization. Customers who decline to self-certify will be assigned to an income bracket using public data. Self-certification can be completed through something as simple as a text message response. A spot-check process, as noted in my opening testimony, would be used to help verify the accuracy of the self-certification process. The Commission can determine the optimal percentage of customers to spot check, but if the Commission annually checks the customer accounts corresponding to the top 8% of assessed property values, then the Commission would address the customers most likely to be responsible for paying the bulk of the fixed charge according to the 5-tier structure I describe above, or the 9-tier structure in my opening testimony.

4. The income verification process should avoid defaulting customers into the top income tier.

Multiple testimonies recommend defaulting all customers into the highest income bracket and then removing the customers through an income verification process.[20] This process would fall heaviest on low-income customers and require new, sweeping protections to avoid punishing California's most vulnerable households. Without new, meaningful bill protections every miscategorized customer would remain in that highest tier unless they (1) notice that they pay a fixed charge (2) notice that the fixed charge changes based on income (3) determine that the fixed charge does not correspond to their income because their income was inaccurately verified by the administrator (4) contact the IOU (5) ask how to challenge the income tier to which they are assigned (7) make contact with the third part administrator responsible for income verification (8) complete the formwork to challenge the assigned income tier (9) provide the proper documentation to prove their income level (10) follow up with any corrections needed to

[19] The Commission would have to lower both the CARE and FERA fixed charges in the SEIA proposal to ensure that low-income customers pay less under the IGFC system in alignment with the AB 205 statutory requirements.

[20] Exhibit Cal Advocates-02, p. 2-2; Exhibit NRDC-TURN-01, p. 34.

the formwork. Failure to complete any one of the 10 steps would cause the customer to remain in the incorrect income bracket.

In contrast, my proposal uses a simple text-based customer self-certification. If the customer does not complete the self-certification, then they are assigned to an income category using publicly available data. The publicly available data sorting process may miscategorize some customers into lower income brackets than the one that corresponds to their true income level, but it is unlikely to assign a low-income customer to one of the high-income tiers. Miscategorization of low-income customers into high-income tiers can result in severe energy affordability issues. Inversely, the occasional miscategorization of a high-income customer into a low-income tier will not have the same consequences. Additionally, under my proposal, utilities would be incentivized to accurately and efficiently spot-check high-income customers who may have been incorrectly placed in a lower tier. Competing proposals which default all customers into the highest tier place the onus entirely on low-income customers to remedy their miscategorization. Under such proposals, utilities have no financial incentive to lower their fixed charge revenue by properly recategorizing low-income customers into the appropriate tier.

5. The Joint IOUs, Cal Advocates, and SEIA each proposed a regressive fixed charge structure.

My proposal recommended the IGFC follow the progressiveness of the California personal income tax. In testimony, most parties agreed that the Commission should adopt a progressive IGFC including Sierra Club, NRDC/TURN, Cal Advocates, Joint IOUs.[21] The United States Internal Revenue Service (IRS) defines a progressive structure as one "that takes a

[21] Exhibit SC-01E, p. 2 ("I sought to develop a progressive income-graduated tier system for several reasons."), p. 31; Exhibit NRDC-TURN-01, pp. 3, 38, ("Equitable outcomes require that customer electric bills be affordable and as progressive as possible." *also* "This new system could facilitate the implementation of granular income tiers and a more progressive graduation of the fixed charge, to increasingly align with income tax collection over time."); Exhibit Joint IOUs-01, p. 4 ("it could be argued that these costs would be better recovered through a progressive cost recovery mechanism, such as the IGFC." *also* "The Joint IOUs propose to collaborate with the CPUC to seek state funding for these costs, lest the well-intended income verification for a first-ever progressive fixed charge structure undermine the overall legislative intent."); Exhibit Cal Advocates-01, p 7, ("Cal Advocates proposes that fixed charges collect between \$27-\$35 from all residential customers in a progressive manner spanning three income brackets.").

larger *percentage* of income from high-income groups than from low-income groups."[22] While parties' proposals recommended collecting higher fixed charges from mid- and high-income customers than from low-income customers, nearly all proposals still recommend that a *lower percentage* of income be collected from mid- and high-income customers than from low-income customers. Every proposal that recommends collecting a lower percentage of income from high-income customers than from low-income customers is, by definition, financially regressive. The California income tax is almost neutral but does lean slightly progressive.

Each of the proposals meet the statutory mandate that "low-income customers pay a smaller fixed charge than high-income customers." However, none of the proposals align with the recommendation from the majority of parties – including recommendations by the Joint IOUs and Cal Advocates – that the IGFC assume a progressive structure.

In my opening testimony, I discussed the Commission's findings on energy burdens. A customer's energy burden is percentage of income with further adjustments to more heavily weight disposable income than total income. The Commission established an electricity energy burden was reasonable if the percent of income spent on electric was less than 3% of total income.[23] Without adjusting for disposable income, this cap creates a financially neutral energy burden determinant. If the IGFC were to be set according to a level energy burden for each customer (i.e. percent of income), then the IGFC would be neutral.

Other than my proposal, the only proposal with a progressive structure is Mr. Wilson's proposal for Sierra Club. Because the majority of parties support a progressive IGFC, I recommend that the Commission adopt either my proposal or Mr. Wilson's proposal for fixed-charge tier weighting.

6. If the IGFC's structure is financially regressive at launch, the Commission should require the IGFC to transition to a neutral or progressive fixed charge structure within 2 years of the launch date.

My opening testimony focuses on the IGFC tier structure including income brackets and progressiveness of fixed charge collections. My testimony only addressed fixed charge cost

[22] IRS, progressive tax definition, emphasis added, see https://apps.irs.gov/app/understandingTaxes/student/glossary.jsp#progressivetax [last accessed June 2, 2023].

[23] Exhibit CEJA-01, p. 17.

components at a high level because the selection of income brackets and the weighting of the fixed charge by income bracket could have a larger effect on low-income customers than the cost components included in the charge. In preparing a proposal for CEJA, I adhered to CEJA's statutory interpretation that cost components for the fixed charge should exclude generation, transmission, and distribution.[24] In contrast, most parties recommended some of those costs be included in the fixed charge. As noted by Cal Advocates and others, the cost of grid connection may be a reasonable starting point for a fixed charge.[25] The argument that grid connection cost should be included is sound.

When the Commission determines which cost components from parties' proposals will be included in the fixed charge, a phased approach to implementation would help to achieve a progressive or neutral fixed charge. Regardless of the final cost components to be included in the fixed charge, the Commission may want to establish a low initial fixed charge to allow time for the ME&O program rollout. This approach is similar to the Cal Advocates proposal which made recommendations based on ease of implementation.[26]

If the Commission adopts a regressive fixed charge for the initial launch of the IGFC (i.e. a fixed charge that represents a lower percentage of income for high customers), I recommend that the Commission also require the IOUs to phase in a progressive graduation within 2 years after the date of launch. This recommendation aligns with the NRDC/TURN proposal that the IGFC "increasingly align with income tax collection over time."[27] Sierra Club also recommends that the IGFC use the tax structure as a model when it stated that "[a]s California aspires to a progressive revenue system for state government funding, so too should its energy finance and policy objectives be funded in a progressive manner."[28]

Thus, both the Sierra Club and NRDC/TURN opening testimony align with the progressive IGFC structure I proposed in opening testimony and the tier structure herein.

[24] R.22-07-005, Opening Brief of Sierra Club and the California Environmental Justice Alliance (January 23, 2023), p. 8.
[25] Exhibit Cal Advocates-01, p. 8.
[26] Exhibit Cal Advocates-01, p. 14, ("Fewer tiers and flatter differentials, like those in Cal Advocates' IGFC proposal, should make the IGFC proposal easier to implement and minimize the consequences of income verification errors during the earlier years of the IGFC roll out. Cal Advocates anticipates that as the Commission and the IOUs gain more experience with implementing an IGFC, more tiers and differentiation could be introduced over time.").
[27] Exhibit NRDC-TURN-01, p. 38.
[28] Exhibit SC-01E, p. 31.

7. If the IGFC does not include any tiers above $200k at launch, the Commission should create tiers above $200k within 2 years of the launch date.

My opening testimony was the only testimony to include income tiers above $200k.[29] I showed that the share of income tax liability associated with tax returns greater than $200k equals 78% of the total personal tax income liability in the state.[30] If less than 78% of the income graduated fixed charge is collected from customers with incomes above $200k, then the IGFC is less progressive than the California income tax. I proposed that the IGFC align with the progressiveness of the California personal income tax.

Other proposals noted an interest in creating tiers higher than $200k similar to my proposal. The Sierra Club proposal recommends the Commission phase in higher income tiers above the tiers that were explicitly in its proposal. As Mr. Wilson's testimony states:[31]

> I also considered an additional upper income tier that would capture only the top 3% of earners in California. However, I determined that the Fixed Cost Tool did not allow for the creation of such a tier, because the upper income limit within the tool is for incomes over $200,000. An upper-plus income tier could be used to increase the progressivity of the IGFC, lower fixed charges for other income tiers, and increase equity.

A phase-in of this higher tier or tiers as contemplated by Mr. Wilson would more closely align the Sierra Club proposal with the CEJA proposal. This statement by Mr. Wilson also highlights that other parties were interested in proposing tiers above the tiers in the fixed charge tool. They may have feared their proposals would be rejected unless they made their proposals conform to the limitations of the tool.

I recommend that the Commission engage E3 to update the fixed charge tool to include income brackets for higher incomes (e.g. through at least $5 million in annual income) in alignment with the tier structure that I have proposed, and that Mr. Wilson wanted to propose on behalf of Sierra Club. This update should be completed within 2 years after the implementation of the IGCF.

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[29] The Sierra Club's proposed top tier will rise above $200k in some California counties.
[30] Exhibit CEJA-01, Table 3, p. 15.
[31] Exhibit SC-01E, p. 36.

The Commission should adopt the recommendations by Sierra Club, NRDC/TURN, and me that the IGFC use a progressive structure based on the California tax structure rather than the regressive structures proposed by other parties. Alternatively, a neutral structure for the fixed charge could be calculated using the energy burden model to assign tier graduations as I noted in opening testimony.[32]

8. The Joint IOUs' proposal and other parties' proposals violate the requirement of 739.9(e)(1).

The Joint IOUs' proposal fails to ensure that "a low-income ratepayer in each baseline territory would realize a lower average monthly bill without making any changes in usage."[33] The Joint IOUs' proposal places all non-CARE and non-FERA customers with incomes below 650% of the Federal Poverty Level (FPL) in the second highest income bracket. As noted in my opening testimony, the average California household contains just under than 3 people.[34] The income cap for a 3-person household to qualify for FERA is $57,575.[35] The 3-person household income at 650% of the FPL is $149,695.[36] Thus, the IOUs' second highest income bracket is $0 to $149,695 for a non-CARE and non-FERA 3-person household.

As discussed in Section 2, the Commission should define "low-income" as 80% of AMI, resulting in an income threshold between $56,100 and $134,200 across California.[37] More than half of the people in California, 24 million, live in a county where the HCD's 3-person household's low-income threshold is $85,000 or more, and the statewide population-weighted average for the same household class is $84,859.

The FERA income cap for 2022 for a 3-person household was $57,575.[38] Approximately 34 million Californians live in counties where the HCD low-income threshold for a 3-person household is more than the FERA income cap, including extremely populous counties like Los

[32] Exhibit CEJA-01, p. 17.
[33] Section 739.9(e)(1).
[34] Exhibit CEJA-01, p. 25.
[35] Public Utilities Commission, Family Electric Rate Assistance Program (FERA), see https://www.cpuc.ca.gov/consumer-support/financial-assistance-savings-and-discounts/family-electric-rate-assistance-program [last accessed June 2, 2023] (the income cap is 250% of the FPL).
[36] 2022 FPL for a household of 3 is $23,030; 650% of FPL is ($23,030 x 6.5 =) $149,695; for FPL see HealthCare.gov, Federal poverty level (FPL) https://www.healthcare.gov/glossary/federal-poverty-level-fpl/ [last accessed June 2, 2023].
[37] For 3-person households.
[38] 250% of the 2022 FPL.

Angeles, Orange and San Diego Counties.[39] These low-income households, with incomes greater than the FERA maximum income, will pay the second highest fixed charge in the Joint IOUs' proposal.

If the Commission adopts the Joint IOUs' tier structure and proposed IGFC, many low-income customers will pay a higher bill without changing their monthly electricity usage, and for that reason, the IOUs' Joint proposal violates section 739.9(e)(1).

Other parties' testimonies also conflict with 739.9(e)(1). For example, Cal Advocates' middle tier includes low-income customers in the income bracket between $50,000 and $100,000. This bracket includes *all* FERA customers in 3- to 6-person households.[40] The tool calculations attached to the Cal Advocates' testimony show that FERA customers will see bill increases.[41] FERA is a low-income program serving low-income customers. Like the Joint IOUs' proposal, the Cal Advocates proposal violates section 739.9(e)(1). If the Commission adopts a proposal that does not ensure – through the proposal – that low-income customers would pay a lower bill after implementation of the IGFC, then only extensive bill protections could ensure compliance with section 739.9(e)(1).

These bill protections would include a dual calculation billing system where low-income customers' bills would need to be calculated both under a non-IGFC billing structure and under the IGFC structure. Finally, the low-income customers would be billed the lower of the two amounts. Instead of requiring a dual billing structure, the Commission should reject proposals that fail to meet the requirements of 739.9(e)(1).

9. The Commission needs electrification incentives that affect consumer electrification decisions.

To avoid disincentivizing electrification through the IGFC, the Commission should pair the IGFC with a bill discount for electric-only customers. AB 205 requires that the IGFC "(n)ot unreasonably impair incentives for conservation, energy efficiency, and beneficial electrification and greenhouse gas emissions reduction."[42] Implementation of the IGFC will cost money. Even

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[39] DHCD, State Income Limits for 2022, *supra*; U.S. Census, Quick Facts, see https://www.census.gov/quickfacts/fact/table/US/PST045222 [last accessed June 2, 2023].
[40] PUC, FERA, *supra*.
[41] Exhibit Cal Advocates-01, Appendix A.1, pp. 10-12.
[42] Section 739.9(d)(2).

low-cost options like the one proposed by CEJA will add some costs thereby increasing the revenue requirement. Because the fixed charge is income graduated, higher income customers will see bill increases, and lower-income customers will see bill decreases, but on average, customers will pay more under the IGFC system. These facts will impact consumers' electrification decisions.

55% of California residences are owner occupied.[43] High-income customers are more likely to own their homes than low-income customers, and AB 205 requires that the fixed charge be income graduated, which means high-income customers will pay a larger fixed-charge than low-income customers. If homeowners are paying a higher electricity bill, it may reduce their incentive to electrify their homes. To counteract any such disincentive on building electrification, in opening testimony I proposed an IGFC discount for electric-only customers.[44] The discount would be lower for high-income households than for moderate-income households. My testimony proposes that low-income households would have a $0 fixed change. If the Commission opts for a greater than $0 fixed change for low-income households, the low-income households that are electrified should receive a 100% discount on the IGFC.

In opening testimony no other party proposed a way to avoid the electrification disincentives inherent in the IGFC other than to assume that the built-in volumetric rate reduction would negate the effect of high electricity bills. Electrification data contradicts that assumption. In most of the U.S., electricity rates are significantly lower than in California, yet there is no region where customers are electrifying their residences in any significant percentages.[45] The existing electric-only percentage remains static year after year regardless of high or low electricity rates.

I found the same to be true in California based on EIA data and the IOUs' responses to CEJA's data requests. Table 2R below shows an annual percentage change analysis of the IOU data that I summarized in my opening testimony.

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[43] U.S. Census, Quick Facts, *supra*.

[44] Exhibit CEJA-01, p. 31-34.

[45] U.S. Energy Information Administration, Residential Energy Consumption Survey (RECS), available at https://www.eia.gov/consumption/residential/data/2020/ [last accessed June 2, 2023], (The EIA data include 4 regions South, West, Northeast, and Midwest. In each of these regions except the Midwest region the EIA reports that the number of gas homes increased more than the number of electric homes between the 2015 and 2020 surveys. In the Midwest region, of the 26 million homes, the new electric fuel homes outpaced the new gas fuel homes by 260,000. The homes in the survey may have multiple energy fuel types.)

Table 2R: Residential Customer Electrification Percent per Year, 2010-2023

	PG&E		SCE		SDG&E	
Year	electric-only residential customer percent	electric-only residential customer % diff from the previous year	electric-only residential customer percent	electric-only residential customer % diff from the previous year	electric-only residential customer percent	electric-only residential customer % diff from the previous year
2010	27.68%		No Data	No Data	No Data	No Data
2011	27.71%	0.03%	No Data	No Data	No Data	No Data
2012	27.71%	0.01%	No Data	No Data	No Data	No Data
2013	27.76%	0.05%	No Data	No Data	No Data	No Data
2014	27.85%	0.09%	No Data	No Data	No Data	No Data
2015	27.93%	0.08%	No Data	No Data	No Data	No Data
2016	28.02%	0.10%	No Data	No Data	0.337	No Data
2017	28.13%	0.11%	No Data	No Data	0.337	0.02%
2018	28.21%	0.08%	No Data	No Data	0.338	0.15%
2019	28.33%	0.12%	No Data	No Data	0.341	0.24%
2020	28.49%	0.15%	No Data	No Data	0.343	0.24%
2021	28.79%	0.30%	11.28%	No Data	0.344	0.12%
2022	28.89%	0.10%	11.13%	-0.15%	0.345	0.04%
2023	29.01%	0.12%	11.02%	-0.11%	0.347	0.23%
Average electrification percent/year		**0.10%**		**-0.13%**		**0.15%**

Table 2R, above, shows that PG&E and SDG&E customers are electrifying their residences at about a tenth of a percent a year and that SCE customers are de-electrifying their residences at about the same pace. At a high level, the status quo has been maintained for as long as data has been collected.[46]

In opening testimony, I recommended an electrification incentive structure that would (1) reduce or eliminate the IGCF for electric-only customers and (2) phase out by 2035. Based on the data, there is little reason to believe that the IGFC effect on volumetric rates will have an impact on customers' pace of electrification. At the current pace of electrification, residential energy will never eliminate gas use, indeed, SCE's percentage of electric-only customers has

[46] In the case of PG&E, the status quo has been maintained for the full time horizon of the data requested by CEJA.

decreased each of the last two years.[47] I recommend the Commission implement a more extensive electrification incentive in this proceeding – more extensive than simply a reduction in volumetric rates – by adopting my IGFC discount for electric-only customers. The electrification discount would serve two purposes (1) it would give customers the ability to reduce or eliminate the fixed charge through their behavior (i.e. electrifying their residence) and (2) it would encourage electrification through a new incentive structure. The first point is particularly important because the IGFC limits the amount by which a customer can reduce their electricity bills through their own actions. The IGFC discount would give back some control to customers.

An IGFC could encourage electrification by providing customers additional options to reduce their electricity bills. After the Commission implements the IGFC, it should evaluate the effect on of the IGFC on electrification. To do that, the Commission needs to know the number of electric-only customers. In response to CEJA's data requests to the IOUs, it became clear that the dual fuel utilities do not track which customers receive only electric service instead of dual-fuel service because the because the dual-fuel utilities' gas service territories are not identical to the electric service territories. The information in Table 2R above – provided by the utilities – was provided with caveats. The Commission should require the IOUs to determine accurate electric-only customer counts and to incorporate that data into regular reports to the Commission so that the data are available to evaluate the effectiveness of the IGFC and electrification incentive programs.

In summary, the Commission should try new and different electrification incentives to see what types of incentives work to increase electrification and retain those that are successful.

10. Conclusion

In conclusion, the CEJA proposal is the easiest to implement and uses the most accurate income proxy. It is the only proposal to adhere to AB 205's requirement requiring the Commission to ensure that low-income customers pay less under the IGFC structure. It is the only proposal to consider an equitable energy burden. It is one of only two proposals to incorporate a progressive rate structure. This concludes my reply testimony.

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[47] SCE Response to data request 5 ("the total electric-only residential customers is not available for years before 2021 as SCE's prior billing database did not identify those customers.")