

Date of Hearing: July 1, 2024

ASSEMBLY COMMITTEE ON UTILITIES AND ENERGY

Cottie Petrie-Norris, Chair

SB 1292 (Bradford) – As Amended June 23, 2024

SENATE VOTE: 37-0

SUBJECT: Electricity: fixed charges: report

SUMMARY: Requires the California Public Utilities Commission (CPUC) to evaluate the implementation and impacts of the residential fixed charge, and to submit a report to the Legislature by January 1, 2028, but no sooner than May 2026, detailing the evaluation. Also prohibits the CPUC from authorizing any new residential fixed charge until 30 days after the report has been provided to the Legislature.

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 establish 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% of the federal poverty guideline levels, and exempts any fixed charge from the discount. (Public Utilities Code § 739.1)

FISCAL EFFECT: According to the Senate Committee on Appropriations, this bill will result in one-time costs of about \$750,000, spread over three years, for the CPUC to perform the evaluation.

BACKGROUND:

Fixing charges – Traditionally, electrical corporations – also known as investor-owned utilities (IOUs) – with rates regulated by the CPUC have recovered nearly all of their costs of doing business through per-unit (i.e. “volumetric”) charges on the electricity used by their customers.¹ This includes costs that increase, generally, with the amount of electricity a customer uses (variable costs, such as the cost of fuel) as well as costs that do not vary with the amount of

¹ Pg. 14, CPUC, 2023 Senate Bill 695 Report, May 2023.

electricity used (fixed costs, such as the cost of electric poles and wires). This pricing arrangement means a customer who uses more electricity pays for more of the IOU's fixed costs than does a customer who uses relatively less electricity, even though the customer's greater use of electricity does not lead to an increase in the IOU's fixed costs. For many years, California policy favored this arrangement. This is because volumetric pricing rewards conservation and punishes consumption, thereby encouraging Californians to use energy efficiently.

State policy now favors widespread electrification. Yet, arguably, the distortion of electricity prices caused by volumetric pricing discourages adoption of electric appliances and vehicles. A solution could be to remove certain fixed costs from the price charged for a unit of electricity and, instead, place those fixed costs in set amounts charged to every IOU customer, regardless of the amount of electricity the customer uses. Many have advocated for such a solution.² Fixed charges are also employed by many utilities as part of their rate design, including many water utilities, and some municipal electric utilities (e.g., Sacramento Municipal Utility District (SMUD) has a \$20+/month fixed charge³).

In 2013, AB 327 (Perea, Chapter 611, Statutes of 2013) permitted the CPUC to adopt a fixed charge of no more than \$10 for most residential customers, and \$5 for CARE customers. The CPUC never adopted the \$10 fixed charge on standard residential rates; however, they have adopted optional electrification rates for electric vehicles and rooftop solar that require a fixed charge between \$12-15/month, with a lower volumetric rate.

AB 205 (Committee on Budget, Chapter 61, Statutes of 2022)⁴ removed the \$10 statutory cap, and requires the CPUC to instead authorize an "income graduated" fixed charge by July 1, 2024 for default residential rates. AB 205 requires that the fixed charge have "at least three income tiers" and must ensure low-income customers have a lower monthly bill, without unreasonably impairing incentives for electrification and greenhouse gas reduction, among other requirements.⁵ The discussion to implement the statute has been active and contentious.⁶

CPUC Decision – On March 27, 2024, the CPUC issued a proposed decision implementing an income-graduated fixed charge. The decision requires large electric IOUs to adopt billing changes that result in a \$6/month charge for customers who participate in the rate-subsidized CARE program, \$12/month for customers in the rate-assistance program FERA, and \$24/month for all other customers, as shown in Table 1.

² Borenstein, Fowle, Sallee; "Designing Electricity Rates for an Equitable Energy Transition," Energy Institute WP 314; February 2021; <https://haas.berkeley.edu/wp-content/uploads/WP314.pdf>

³ SMUD rate information, accessed on May 13, 2024; <https://www.smud.org/en/Rate-Information/Residential-rates>

⁴ PUC §739.9

⁵ See agenda for June 1, 2022, Assembly Budget Subcommittee No. 3 on the Governor's May Revision Energy Proposals, and discussion in that hearing, for more information:

<https://abgt.assembly.ca.gov/sites/abgt.assembly.ca.gov/files/June%201-%20Sub%203%20Energy%20May%20Revision%20Informational%20Hearing.pdf>

⁶ R. 22-07-005.

Table 1. Breakdown of the CPUC income graduated fixed charge decision.

Tier	Qualification	Fixed Charge Amount (monthly)
CARE customers	Household income <200% federal poverty guidelines (~ \$ 60k/year for family of 4)	\$6
Family Electric Rate Assistance (FERA) customers or customers in deed-restricted housing	Household income 200-250% of federal poverty guidelines (~ \$ 75k/year for family of 4) Or customers living in affordable housing restricted with incomes below 80% area median income	\$12
Everyone else	>250% federal poverty guidelines	\$24.15

The proposed decision also cuts the volumetric usage rate by 5-7 cents per kilowatt-hour, seemingly reducing overall bills for most customers despite the imposition of the fixed charge.

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 between January 1, 2026 and March 31, 2026. On Thursday, May 9th, 2024, the CPUC adopted the income graduated fixed charge proposal at its voting meeting.

COMMENTS:

- 1) *Author's Statement.* According to the author, "California's current utility rate system recovers fixed system costs, including wildfire hardening, grid infrastructure and public benefits programs, from everyone at the same rate based on how much energy they use. The average total household electric bill in California is \$157 per month. This structure is regressive because California's low-income customers are paying the same bill per kilowatt hour as millionaires. The California Public Utilities Commission (CPUC) has approved an income-based fixed charge for residential rates. Because of the extensive impacts that a fixed charge could have on the affordability of Californian's utility bills, more transparency is needed in this process. SB 1292 would require the CPUC to report to the Legislature on the implementation of an income-based fixed charge and its impacts on customers before any future changes can be made."
- 2) *Data Welcome.* 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. Statute requires the CPUC, in designing and implementing a fixed charge, to ensure low-income

customers have a lower monthly bill, without unreasonably impairing incentives for electrification and greenhouse gas reduction, among other requirements. Yet it is unclear just how the recently adopted fixed charge will yield these outcomes. As a result, as the author notes, the fixed charge could have extensive impacts on utility bills. Therefore more transparency and data are needed – as called for in this measure – on the fixed charge’s implementation and impact.

This bill prohibits the CPUC from adopting any new residential fixed charges until 30 days after submitting a report to the Legislature. However, this bill does not overturn nor reverse the existing fixed charge the CPUC adopted in May. The bill permits that fixed charge to be fully implemented, and then requires the CPUC to monitor its implementation and impact and report back to the Legislature on certain metrics. Such a report must be submitted before January 1, 2028, but no sooner than two years following the adoption of the income-graduated fixed charge, which is May 2026. The report shall include customer impacts for each tier of the fixed charge; administration and operational challenges with implementing the fixed charge; impacts on master-metered residential customers; a summary of customer complaints about the fixed charge; and a list of potential challenges with future adjustments to the fixed charge.

However, one of the primary justifications for adopting the recent fixed charge has been to encourage customer electrification. Proponents of income-graduated fixed charges – including electric IOUs, the Natural Resources Defense Council, The Utility Reform Network, and the Public Advocates’ Office – suggest that not implementing the income-based fixed charges will deter customers from electrifying their homes and vehicles, diminishing the state’s efforts to achieve its emission reduction goals. Opponents of income-graduated fixed charges 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. They also worry that the fixed charge sends the wrong price signal to customers, and could hinder the state’s longstanding practice of incentivizing customer conservation.

While encouraging electrification has been cited as a primary motivation for the recent fixed charge adoption, the evaluation called for under this bill is silent as to how the fixed charge is impacting customer electrification efforts. Given the value in the Legislature knowing whether the fixed charge is meeting its stated intent, it may be worth any evaluation to consider impacts to electrification, conservation, and distributed resource adoption. *As such, the committee recommends amendments to add as part of the evaluation the impact of the fixed charge on building electrification, installation of air conditioning, customer energy conservation, electric vehicle charging patterns, and installation of distributed solar and storage.*

3) *Related Legislation.*

AB 1999 (Irwin) revokes, on July 1, 2028, the income-graduated fixed charge for electric IOU residential customers, and replaces it with prior statutory language capping the fixed charge at \$5 for CARE discounted customers and \$10 for everyone else. Also calls for a report by July 1, 2027, on the implementation of the fixed charge. Status: *failed passage* in the Assembly Committee on Appropriations on a 2-0-13 vote.

SB 1326 (Jones) repeals the provisions adopted in AB 205 which authorize an income-graduated fixed charge in electric IOU rates, replaces with the language that existed prior which capped fixed charges. Status: *failed passage* in the Senate Committee on Energy, Utilities, and Communications on a 4-0-14 vote; granted reconsideration.

4) *Prior Legislation.*

AB 205 (Committee on Budget) 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 a lower average monthly bill without making any changes in usage, as specified. Status: Chapter 61, Statutes of 2022.

AB 327 (Perea) 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. Status: Chapter 611, Statutes of 2013.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Support If Amended

Natural Resources Defense Council
The Utility Reform Network (TURN)

Other

San Diego Gas and Electric Company

Opposition

None on file.

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