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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Establish a Framework and Processes for Assessing the Affordability of Utility Service.	Rulemaking 18-07-006 (Filed July 12, 2018)

OPENING COMMENTS OF THE CALIFORNIA COMMUNITY CHOICE ASSOCIATION IN RESPONSE TO THE ADMINISTRATIVE LAW JUDGE'S RULING INVITING COMMENTS ON STAFF PROPOSAL

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I. Introduction

Pursuant to the *Administrative Law Judge's Ruling Inviting Comments on Staff Proposal,* issued August 20, 2019 ("ALJ Ruling"), the California Community Choice Association ("CalCCA") submits these opening comments on the "Staff Proposal on Essential Service and Affordability Metrics," ("Staff Proposal") developed by Commission Staff from the Water, Energy, and Communications divisions. The ALJ Ruling invites parties to comment on the Staff Proposal, and includes four questions which parties may also address.

CalCCA appreciates the tremendous work of staff on the development of the Staff Proposal. Overall, the proposed metrics are very well-researched, thoughtful, and will support the overarching goal in this proceeding to assess the impacts of utility rate requests on affordability for customers. In these opening comments, CalCCA offers several specific suggestions and responses to questions in the ALJ Ruling.

In summary, CalCCA recommends that the Commission:

- Adopt the affordability reporting template proposed by the Public Advocates Office at the April 24, 2019 meeting of the Commissioner Committee on Emerging Trends, [1] and adapt it to reflect the metrics included in the Staff Proposal.
- Define, for each proposed metric, what constitutes "substantial hardship," to better align with the definition of "affordability" included in the Staff Proposal.
- Apply affordability metrics in two ways: (1) in the design of programs to assist customers facing hardship, based on an assessment of the cumulative affordability impacts of utility bills across all three utility sectors, and (2) in the decision-making process to approve new rate requests, based on an assessment of the incremental impacts of cost-causing filings within the utility sector in question.

[1] "Rate Trends 2009-2019." Presentation by Elizabeth Echols, Matthew Karle, Nathan Chou. April 24, 2019. Available at https://www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/News_Room/NewsUpdates/2019/Cal%20Advocates%20Rate%20Trend%20Presentation%20-%20April%2024th%202019.pdf.

- Adopt two additional metrics as indicators of the inability of households to pay for essential services: number of disconnections, and number of households in arrears for more than 60 days.
- Implement refinements to the proposed metrics, specifically:
    1. Calculating an Affordability Ratio for 1-person households, since they have the lowest median household income.
    2. Using CalEnviroScreen's Housing Burden Percentile score as a proxy for the Ability to Pay Index ("API"), if in the future the API dataset is no longer available or current.

These recommendations are described in more detail below.

II. Responses to Questions in ALJ Ruling

1. Do the proposed affordability metrics adequately assess affordability? If not, how should the metrics be changed?

Overall, yes. The proposed metrics include (1) Affordability Ratio ("AR"), which tracks how much of household income, after housing costs, goes to utilities; (2) Hours at Minimum Wage ("HM"), which reflects the number of hours an individual must work in order to pay for basic utility service; and (3) Ability to Pay Index ("API"), which includes an overall measure of economic vulnerability. Overall, the metrics are well-suited for assessing affordability because – particularly in the case of AR and API, which take income and housing expenses into account – they reflect both regional costs and ability to pay. CalCCA also strongly supports Staff's proposed method for calculating AR, since it incorporates individual household income and housing cost data while relying on publicly available information.

While the metrics are adequate overall, CalCCA recommends two specific refinements. First, CalCCA proposes that the AR be used to evaluate 1-person and 4-person households instead of 2-person and 4-person households. The Staff Proposal presents an example approach for presenting the AR in which 2-person and 4-person household AR values were computed and states that the AR could be calculated for other household sizes as well.[2] CalCCA supports doing so and notes that if there are ever constraints on how many different variations of AR can be calculated, then the calculation of 1-person and 4-person households should be prioritized. This is because 1) 1-person households have the lowest median household income,[3] and calculating the AR for 1-person households might make the AR seem smaller if it is a 2-person household with two incomes, since that would increase the size of the denominator in the ratio; and 2) there is more heterogeneity in 2-person households (e.g., could be a household with a single parent and child, a household with more than one income source, or a retired couple with a fixed income).

Second, the proposed metrics could be further improved by including the costs of essential expenses like childcare, medical expenses, and transportation in the AR and API calculations. The Staff Proposal's rationale for excluding these costs is largely based on practical considerations, such as data mismatches and the fact that housing costs represent the largest portion of most household budgets.[4] CalCCA maintains that transportation and child care costs can be significant for some households, particularly in California, and should be further considered for inclusion in metric calculations.

Finally, in considering whether the proposed metrics adequately assess affordability, we note that the proposal defines affordability as, "the degree to which a household can <u>regularly pay</u> for essential service of each public utility type on a full and timely basis <u>without substantial hardship</u>"[5] (emphasis added). While the proposed metrics are a very strong step in the right direction, CalCCA believes they can be advanced to better align with the definition of affordability included in the Staff Proposal in two ways. First, to better capture whether households can "regularly pay" for essential service, the Commission should track as an additional metric in this proceeding the number of utility disconnections. We also suggest

[2] Staff Proposal, p.29.
[3] "Median Household Income in the Past 12 Months (in 2017 Inflation-Adjusted Dollars) by Household Size." 2017 American Community Survey 1-Year Estimates for California. Table B19019. https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_17_1YR_B19019&prodType=table.
[4] Staff Proposal at p.18,
[5] Staff Proposal at p.6.

tracking information on the number of households in arrears for more than 60 days in a year, since such data would indicate "hardship" in making payments despite not being disconnected.

Second, to better capture which households experience substantial hardship, it is necessary to define, for each proposed metric, what constitutes hardship. For example, approximately how many additional hours worked to afford a utility bill increase would result in substantial hardship for a given customer segment? As stated in the OIR, one goal of this proceeding is to "Develop a framework and principles to…define affordability criteria."[6] Without clear guidelines in place for consideration of "substantial hardship," the Commission risks spending considerable staff time developing complex metrics that are ultimately not actionable because they do not lend themselves to defining affordability. CalCCA recommends that subsequent versions of the Staff Proposal also include a section on interpretation and implementation of these metrics. To assist the Commission in this effort, CalCCA provides several suggestions for interpretation and use of the metrics below, in response to Question 4.

2. Are the proposed sources of data for household-level information acceptable for constructing affordability metrics? If not, what sources would be more appropriate, and why?

Yes. The proposed sources of data are desirable because they are publicly accessible (e.g., through the American Community Survey datasets, county websites, and/or online through NREL) and developed based upon well-established methodologies.

The Staff Proposal notes, however, that the existing API dataset may not be updated in the future. If and when the API data are no longer available, the Commission could look to the "Housing Burden" score in CalEnviroScreen's Excel-based dataset as an alternative source of similar information. This dataset is developed based on a well-established methodology, is publicly available, and the Excel-based format is easily accessible.[7]

[6] OIR at p.2.

[7] CalCCA does *not* recommend using the CalEnviroScreen Cumulative Score for this purpose because the score includes variables that are not relevant to affordability.

The CalEnviroScreen Housing Burden Percentile data is similar to API because both datasets account for the cost of housing and household income by census tract. Specifically, Housing Burden Percentiles in CalEnviroScreen indicate the relative extent to which households in a given census tract are both low income (defined as those making less than 80% of their county's median family income) and severely burdened by housing costs (defined as those paying greater than 50% of their income for housing costs).[8] Similarly, API groups customers by income level (as a percentage of AMI) and percentage of income spent on housing, producing a weighted score for households in each census tract. If, in the future, API is no longer available, customers could thus be grouped by the CalEnviroScreen Housing Burden Percentile instead of the current practice.

3. What regulatory, operational, and/or resource considerations might be necessary to effectively implement affordability metrics? How should the Commission monitor and track affordability on a recurring basis, outside of specific proceedings?

To track affordability on a recurring basis, outside of specific proceedings, CalCCA strongly supports adopting the Public Advocates Office proposed reporting template,[9] and adapting it to reflect the affordability metrics included in the Staff Proposal. The template is designed to comprehensively track the cumulative rate and bill impacts across cost-causing filings. As currently designed, the reporting template includes line items for individual proceedings or applications. It would capture the revenue requirements, bill impacts, and rate impacts of cost causing filings, and would also track the rate recovery mechanism. The Public Advocates Office has noted, and CalCCA agrees, that a key benefit of the reporting template is that it would better allow the Commission to consider cumulative impacts, which is more

[8] See https://oehha.ca.gov/media/downloads/calenviroscreen/report/ces3report.pdf#page=135, page 127-130.

[9] See slides 29-32, Public Advocates Office presentation on "Rate Trends 2009-2019," presented April 24, 2019 at Commissioner Committee on Emerging Trends. Available at https://www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/News_Room/NewsUpdates/2019/Cal%20Advocates%20Rate%20Trend%20Presentation%20-%20April%2024th%202019.pdf

meaningful than assessing the impact of a single request in isolation.[10] Inclusion of the staff-proposed affordability metrics in the affordability reporting template would retain this benefit.

Additionally, CalCCA recognizes that the data collection and analysis efforts associated with development of these metrics may be time consuming. However, CalCCA believes that once the general analytical framework is in place, the use of macros and other software tools could help partly automate the data collection and analysis process. CalCCA members are happy to work with Commission staff to develop this technical framework.

Finally, to ensure that the Commission is identifying all significant household types, CalCCA recommends it consider how to account for the percentage of unconventional households, such as roommates comprised of people who are not in a familial or domestic partnership arrangements, but who share a dwelling as a matter of economic necessity. The percentage of individuals in these sorts of living arrangements comprises a significant percentage of "households," likely given high housing costs in portions of the state. Indeed, according to the American Community Survey, approximately 17% of households in California are "nonfamily households."[11]

4. When and how should affordability metrics be utilized in Commission decisions and program implementation?

a. How should the Commission use or interpret the resulting values from affordability metrics in proceedings?

Affordability metrics should have two related but distinct areas of application. First, *cumulative* impacts, based on utility bills today, should be considered in the development of programs targeted to assist customers facing hardship. (Please see CalCCA response to question 4b, below, for additional suggestions on how these metrics can be used to develop targeted customer programs.) Secondly, *incremental* impacts of pending rate requests, through rate cases

[10] Public Advocates Office Reply Comments at p. 11

[11] "Household Type by Relatives and Nonrelatives for Population in Households." American Community Survey. 2017 1-Year Estimates for California. Table B11002. https://factfinder.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=ACS_17_5YR_B11002&prodType=table

or applications, for example, should be tracked for the purpose of informing Commission decisions to approve new rate increases.

To ensure Commissioners have the best-available information when approving rate increases, CalCCA also recommends separately calculating affordability metrics associated with the type of utility in question, as staff did in the workshop presentations on August 26. In other words, if Commissioners are approving an electric rate increase, affordability metrics should be calculated based on essential service of electricity only. The Staff Proposal recommends assessing affordability *across* the three types of utilities; however, affordability assessments of a proposed bill increase based on a single utility are more intuitive to understand. Moreover, the Commission must balance interests to prevent one utility sector from constraining another from necessary cost decisions within its sector in the name of overall affordability. In such an instance where the cumulative burden is deemed to cause hardship, the Commission is encouraged to find ways to relieve the cost burden without harmfully constraining a utility sector.

Finally, the proposed metrics should be used to provide a historical context for affordability. Analyzing the metrics over time could shed light on whether rates are currently affordable by historic standards, or by comparison to other jurisdictions. Similarly, marginal increases in metrics would be easier to interpret (i.e., whether a particular increase is large or small compared to other increases) if stakeholders are aware of the distribution of marginal rate increases over time.

b. How should the Commission use affordability metrics to prioritize or design ratepayer programs?

The metrics should be used initially to identify geographic areas where a significant portion of the population faces substantial hardship due to utility costs. CalCCA notes that this does not exist today: CARE enrollment rates and local poverty levels offer potential proxies, but provide incomplete information. For example, the Commission should consider using the proposed metrics to identify geographic concentrations of customers who are experiencing substantial hardship and may thus be considered for additional rate relief programs (e.g., a "CARE+" program).

As several parties recommended in opening and reply comments on the *Administrative Law Judge's Ruling Adding Workshop Presentations to the Record and Inviting Post-Workshop Comments*, definitions and metrics used in this proceeding should be sure to highlight affordability impacts to disadvantaged communities. To this end, map layers of affordability metrics should be used in conjunction with maps of disadvantaged communities, defined according to the Disadvantaged Communities Advisory Group's Equity Framework.[12] However, since the focus of this proceeding is on affordability, we caution the Commission to use the "Poverty" score, rather than the cumulative CalEnviroScreen score, because the environmental variables included in the score may skew away from very poor communities with comparatively less pollution than other communities that may, in turn, have comparatively less poverty.

c. In which types of proceedings should the Commission assess affordability? What criteria should be used to determine if a proceeding requires an affordability assessment?

To be comprehensive, the Commission should base its affordability assessments on the cumulative impacts of all cost-causing filings, and new assessments for individual utility sectors should be required as part of Commission decisions to approve new rate requests. Proceedings should not be assessed in isolation. Once criteria for "substantial hardship," are defined, comprehensive affordability assessments across utilities should also be conducted on a quarterly basis.

III. Conclusion

[12] As stated in CalCCA's *Reply Comments in Response to the Administrative Law Judge's Ruling Adding Workshop Presentations to the Record and Inviting Post-Workshop Comments*, filed June 4, 2019, "CalCCA supports the use of this DAC definition, particularly because it includes areas where income levels are less than 80% of Area Median Income, and thus reflects regional differences in earnings. Additionally, CalCCA believes that this definition could be further improved by including census tracts within the top 25% for poverty, as measured either by CalEnviroScreen's "poverty" column, or with household income levels below the CPM poverty thresholds by county.

CalCCA appreciates the opportunity to provide these comments on the Staff Proposal. We believe that the approaches recommended here will help ensure the Commission adopts an actionable and holistic affordability framework.

Respectfully submitted,

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