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Order Instituting Rulemaking to Establish a Framework and Processes for Assessing the Affordability of Utility Service	)))	R.18-07-006

<u>SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) OPENING COMMENTS ON STAFF PROPOSAL ON ESSENTIAL SERVICE AND AFFORDABILITY METRICS</u>

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I.

INTRODUCTION

Pursuant to the Administrative Law Judges' Ruling Inviting Comments on Staff Proposal on August 20, 2019 (the Ruling), Southern California Edison Company (SCE) submits these opening comments on the Staff Proposal on Essential Service and Affordability Metrics (Staff Proposal), which sets forth a proposed framework for the Commission to assess the affordability of public utility rates across utility types and services.

SCE appreciates the fair and balanced approach of the Water Division, Energy Division, and Communications Division staff (collectively, the Staff) in developing the proposal, the clear reasoning, explanations, and examples Staff included in the proposal, and the Staff's openness to parties' comments and questions at the August 26 workshop.

SCE is generally supportive of the Staff Proposal and the proposed metrics framework, and is aligned with Staff's stated goal in developing this framework:

> Staff develop this affordability framework to enable spatial and temporal comparisons of affordability. We do not set forth criteria to determine in absolute terms whether bills are affordable or not. The proposed metrics may be used to describe, for example, the degree to which essential utility services become more

> or less affordable due to a proposed change, how much the affordability of bills has changed over time, and the degree to which utility services are more or less affordable in particular geographies.[1]

As such, SCE's comments are limited to suggested refinements and improvements to the Staff Proposal and proposed metrics framework. These comments address the following questions posed in the Ruling:

- **When and how should affordability metrics be utilized in Commission decisions and program implementation?** As discussed in Section A, the proposed metrics should be used to inform, not pre-determine, Commission decisions. While the metrics can serve as a useful tool when assessing cumulative bill impacts and examining backward-looking trend analyses, each rate request should be assessed based on the value it will provide to customers and what, if any, reasonable cost alternatives exist that can meet the same objectives. Additionally, rather than requiring utilities to provide a detailed, cumulative affordability assessment with every request for rate increase, the Commission should provide a set timeline, such as an annual report, for the utilities to conduct and provide an analysis of the cumulative impact of the utilities' approved and/or pending rate requests. Finally, SCE recommends that the Commission assess the proposed metrics over time before using them to inform decision-making.
- **Do the proposed affordability metrics adequately assess affordability and are the proposed sources of data for household-level information acceptable for constructing affordability metrics?** Yes, as discussed in Section B, SCE supports the proposed affordability metrics and the proposed sources of data, but believes small modifications are warranted to the Affordability Ratio, to account for programs that directly reduce customers' bills, and Hours at Minimum Wage, to align the time frames of the minimum wage values and the bills being

1 Staff Proposal, p. 8.

compared. SCE also believes that Energy Burden should be added as a fourth, energy utility-specific metric, which complements the Affordability Ratio by allowing the Commission and stakeholders to examine the affordability of utility service compared to a household's income with and without adjusting out housing costs that are as much an essential expenditure as electricity.

Finally, in Section C, these comments address the Staff Proposal's definitions of affordability and energy essential service, and proposed quantifications for essential electric, water, and gas service.

II.

COMMENTS

A. When and How Affordability Metrics Should be Utilized

1. SCE agrees with the Staff that the proposed metrics should be used to inform, not pre-determine, Commission decisions.

SCE supports Staff's decision to "not set forth criteria to determine in absolute terms whether bills are affordable or not."[2] This decision is consistent with the Commission's consideration earlier in this proceeding,[3] which was supported by SCE and other stakeholders, that the affordability of utility service is not a binary (yes/no) determination.[4]

Thus, while the affordability metrics should serve as one useful tool among many that the Commission should utilize when assessing cumulative bill impacts, these metrics should not be used for the purposes of determining whether a specific rate request is reasonable. Each utility rate request should instead continue to be assessed based on the value it will provide to

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[2] *Id.*

[3] *See* April 12, 2019 Administrative Law Judge's Ruling Adding Workshop Presentations into the Record and Inviting Post-Workshop Comments, Attachment J, p. 4

[4] June 4, 2019, SCE's Reply Comments on Ruling Adding Workshop Presentations into the Record and Inviting Post-Workshop Comments, p. 4; May 13, 2019, Opening Comments of the Public Advocates Office on the Administrative Law Judge's Ruling Adding Workshop Presentations into the Record and Inviting Post-Workshop Comments, pp. 2, 26; May 12, 2019 Center for Accessible Technology's Post-Workshop Comments, pp. 1, 17, 20.

customers and what, if any, reasonable cost alternatives exist that can meet the same objectives. The affordability metrics should supplement (but not replace) that analysis by enabling the Commission and stakeholders to examine actual costs to ratepayers (i.e., bill impacts) over time.

2. Cumulative affordability reporting should follow a schedule and not be reassessed in every individual rate request.

The Commission should not require utilities to provide a detailed, cumulative affordability assessment with every request for rate increase because that would overwhelm the Commission and stakeholders with affordability information that is only slightly changed from assessment to assessment. Instead, as emphasized in SCE's prior comments in this proceeding,[5] the Commission should provide a set timeline for the utilities to conduct and provide an analysis of the cumulative impact of the utilities' approved and/or pending rate requests, such as through an annual report showing (a) bill impacts of the rate-setting applications filed and/or pending at the Commission; (b) calculations for the adopted affordability metrics; (c) the benefits associated with the pending revenue requirement requests; and (d) any other useful information the utility elects to show. This would both provide utilities an appropriate amount of time to compile the relevant information, and provide an opportunity for the Commission and all interested parties to review the information before the next assessment is complete. In addition to such an annual report, SCE would support the Commission requiring this type of analysis for its General Rate Case Phase 1 showings.

3. The metrics should also be used to inform existing programs designed to address affordability concerns.

Although not mentioned in the Staff Proposal, SCE continues to recommend that, beyond simply providing data points for the Commission's consideration, the metrics should help inform if and how existing programs, budgets, policies, and rates that address affordability concerns

[5] Reply Comments on Ruling Adding Workshop Presentations into the Record and Inviting Post-Workshop Comments, p. 9.

provide the most value. For example, if metrics identify high-usage, low-income customers as relatively more burdened compared to other customer groups, that may support the need to deploy the Energy Savings Assistance (ESA) Program to target those customers with energy efficiency treatments.

4. The Commission should assess the proposed metrics over time before using them to inform decision-making.

While SCE supports the proposed metrics with minor improvements, as discussed in Section B below, the Commission should test the metrics over certain time horizons (to the extent reliable data is available) before formally implementing the broader affordability framework. Specifically, SCE recommends that, before formal implementation, the Commission examine trends for these metrics:

1) over historical periods of time, both before, during, and after periods of considerable rate restructuring (e.g., residential rate reform 2009-current) and economic change (e.g., the recession of 2007-2009, the California electricity crisis of 2000 and 2001, etc.); and
2) going forward for a reasonable period of time (such as through 2020).

This recommended examination will provide the Commission and stakeholders the opportunity to understand both how and why outputs for these metrics change. Only by understanding how the metrics' outputs behave (both under typical and atypical conditions) can the Commission and stakeholders effectively rely upon these metrics to assess the affordability of a rate request or to inform projects or programs designed to address affordability concerns. Moreover, if testing the metrics in this way reveals sudden and/or large changes in outputs that can be attributed to factors exogenous to utility cost of service, then the Commission and stakeholders will want to take that volatility into account when using these metrics.

B. Adequacy of Proposed Affordability Metrics and SCE's Proposed Inclusion of Energy Burden

1. Affordability Ratio should account for participation in programs that directly reduce customers' bills.

As the Affordability Ratio is partially based on data from individual households (i.e., income and housing costs used in the denominator), participation in programs that directly reduce customers' bills, such as California Alternate Rates for Energy (CARE) and Family Electric Rate Assistance (FERA), must be factored into the calculation of essential service bills used in the metric's numerator. SCE recommends that for energy utilities the metric be presented both with and without the CARE discount, at least for the 20th percentile of income. As CARE eligibility is a reasonable proxy for low income customers, presenting the metric inclusive of the discount will provide a more accurate representation of the Affordability Ratio for low income customers.

2. Hours at Minimum Wage should be modified to align the time frames of the minimum wage values and the bills being compared.

SCE supports Hours at Minimum Wage as a useful metric. SCE recommends that the calculation be improved, however, by aligning the prevailing minimum wage with the timeframe of when bills are being assessed. For example, 2013 minimum wage should be used to assess Hours at Minimum Wage for a rate in effect in 2013, while the expected 2023 minimum wage should be used to assess Hours at Minimum Wage for a proposed rate going into effect in 2023.

3. Energy burden should be added as a fourth metric for energy utilities.

SCE recommends that Energy Burden, which is defined as the percentage of a household's annual income that is spent on energy (in SCE's case, this is electricity only), be adopted as a fourth metric that is complementary to Affordability Ratio for assessing affordability for energy utilities. The Affordability Ratio, while a useful metric, is intended to show the percent of a household's income remaining after housing costs that is spent on essential utility expenses. However, subtracting housing costs from the household's income in the denominator can obscure the impact of utility bills, and changes in utility bills, on affordability given that housing constitutes a much larger percentage of a household's essential expenditures than utility expenses. Additionally, the subtraction of housing costs in the denominator makes the Affordability Ratio vulnerable to fluctuations in housing market costs that result from exogeneous economic factors that are beyond the utility's control.

Thus, Energy Burden can complement the Affordability Ratio by providing a view of the impact of utility bills on a household's overall income without any housing adjustment and without risking an incomplete picture of the impact of other household expenses on the affordability of utility bills. Energy Burden is a simple metric with which the Commission is already familiar,[6] and its use by the Commission in prior proceedings can help provide useful benchmarking.[7] Energy Burden is also more precise than the Affordability Ratio because SCE calculates it using customers' *actual* bills relative to household-specific income data SCE procures from Acxiom (as opposed to the Affordability ratio which relies on census data for income and, for electricity, looks only at proxy bills for Tier 1 baseline quantities).[8] Finally, Energy Burden is a more flexible metric than the Affordability Ratio because it can be easily calculated for more granular customer populations (e.g., by usage levels, climate zones, CARE status, etc.).

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[6] *See* Order Instituting Rulemaking to Develop Methods to Assess the Affordability Impacts of Utility Rate Requests and Commission Proceedings, p. 4 ("energy burden, or the ratio of the median cost of a service to the medium income, is one of the simplest metrics used to evaluate affordability today").

[7] *See, e.g.*, D.15-07-001 ("The bill impact and energy burden analyses provided by the IOUs support our finding that the rates approved for 2015, and the direction of rates during the Roadmap period, are affordable."); D.14-06-029, p. 46 ("Energy burden is the ratio of the customer's cost for electricity and gas compared to the customer's income. In this proceeding, we have primarily relied on electricity burden: the ratio of electricity bill charges to income."); D.08-11-031, p. 205, FOF 12 ("households that spend a large portion of income on such bills have a high energy burden").

[8] Alternatively, the Commission could choose to calculate Energy Burden the same way as Affordability Ratio (i.e., by not subtracting housing costs from the denominator when calculating the Affordability Ratio). However, this would limit the precision and flexibility of the metric.

C. Appropriateness of the Proposed Definitions for Affordability and Essential Service

1. The Staff Proposal's definitions of affordability and energy essential service are appropriate but may need to be updated in the future.

SCE agrees that Staff's proposed definitions for affordability and energy essential service are generally appropriate but notes that these definitions may need to be updated in the future. For example, SCE agrees with Staff's proposal that electric Tier 1 quantities should be used as a proxy for electric essential service until the essential use studies are complete. Once those studies are conducted, the definition and quantification for energy essential service will likely need to be updated. Similarly, changing circumstances, such as increased electrification of residential heating and cooling systems and increased transportation electrification, may warrant future updates to these definitions.

2. The essential service quantities for water and gas should account for the uniqueness of SCE's water and gas systems on Catalina Island.

SCE owns and operates a Class C water utility, serving approximately 2,000 customers on Catalina Island. Water systems across the state, including SCE's Catalina water system, are unique. Many elements differ from utility to utility, including the amount of water which is considered "essential." Residential customers on Catalina, for example, only require approximately 30 gallons per capita per day on average,[9] which is reflected in how SCE's water rates are structured. Establishing a single value for essential water use and applying it across the approximately 100 Commission-regulated water utilities could result in inconsistent and counterproductive outcomes.[10]

SCE also owns and operates a small gas utility on Catalina Island, serving approximately 1,400 customers. SCE's Catalina Gas distribution system is also unique in that a liquified petroleum gas-air mix is served to customers instead of natural gas. Catalina Island is a resort

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[9] Based on a 10-year average for residential water sales and an estimated population of 4,000 residents.

[10] Please see SCE's comments in the Water Affordability OIR (R.17-06-024), available at: http://www3.sce.com/law/cpucproceedings.nsf/frmMainPage?ReadForm.

town supported entirely by a tourism economy. This results in a large proportion of the usage (approximately 60 percent) being commercial, even though commercial customers account for only approximately eight percent of the customer base.[11] The Commission should consider the uniqueness of individual gas systems when establishing an energy essential service quantity.

III.

CONCLUSION

SCE appreciates this opportunity to submit comments on the Staff Proposal and the Commission's consideration of these comments.

Respectfully submitted,

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[11] SCE Catalina Gas 2018 Annual Report to the CPUC.