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	)))	R.18-07-006

SOUTHERN CALIFORNIA EDISON COMPANY'S (U 338-E) REPLY COMMENTS ON STAFF PROPOSAL ON ESSENTIAL SERVICE AND AFFORDABILITY METRICS

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I.

INTRODUCTION

Pursuant to the August 20, 2019 Administrative Law Judges' Ruling Inviting Comments on Staff Proposal (the Ruling), Southern California Edison Company (SCE) submits these reply comments on the Staff Proposal on Essential Service and Affordability Metrics (Staff Proposal).

SCE replies to other parties' opening comments on the questions posed in the Ruling as follows:

- **When and How Affordability Metrics Should be Utilized.**
  - SCE agrees with the comments of Pacific Gas and Electric Company (PG&E), Southwest Gas, and California Water Association (CWA) that the affordability metrics should not be used for 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 customers and what, if any, reasonable cost alternatives exist that can meet the same objectives.

- The Commission should reject The Utility Reform Network's (TURN's), The California Community Choice Association's (CalCCA's), and GRID Alternatives' proposals for the Commission to set affordability thresholds. As indicated in the Staff Proposal, it is not appropriate to use the metrics for concluding in absolute terms whether bills are affordable, and such an analysis would be overly simplistic and misleading. Affordability thresholds would also imply potential rejection of activities once such a threshold is crossed without consideration of the impact of not undertaking these activities on safety, reliability, resilience, or other customer impacts.
- Annual reporting of the affordability metrics, as proposed by several parties including SCE, better serves this proceeding's goals and is more practical than the Commission assessing the affordability metrics for utility rate requests repeatedly, regardless of size or timing, as supported by TURN, the Center for Accessible Technology (CforAT), CalCCA, and the Public Advocates Office (Cal Advocates).
- The Commission should take sufficient time to assess the proposed metrics, rather than implementing them immediately, in order to understand how and why outputs for these metrics might change. This assessment should occur through workshops rather than in actual, ongoing matters as proposed by Cal Advocates. Workshops would allow for the input of all relevant stakeholders and ensure consistency in the understanding and application of these metrics.
- CalCCA's proposal that the Commission adopt a reporting template that includes a ten-year forecast of revenue requirement increases and rate impacts should be rejected. Forecasting revenue requirement increases and rate impacts ten years into the future would neither be reliable nor useful.

- **Adequacy of Proposed Affordability Metrics.**
  - SCE disagrees with adding arrearages and disconnections as affordability metrics as recommended by the Utility Consumer's Action Network (UCAN) and CalCCA. The relationship between rate increases and disconnections or arrearages is a complex relationship with multiple other variables. As a result, attempting to explain changes based only on rate increases may lead to flawed and erroneous conclusions.
  - The Commission should not adjust out essential non-utility expenses in the Affordability Ratio, as recommended by TURN and GRID Alternatives, because of the practical difficulties in obtaining and standardizing data associated with these expenses and because doing so would not provide any additional clarity into a relative comparison of affordability when comparing spatial and temporal changes.
  - SCE supports many of Cal Advocates' recommendations for modifying the proposed metrics to make them more accurate and suitable, including their recommendations that household size should be disregarded when calculating the affordability metrics, that essential service quantities should be calculated per residential connection rather than per capita, and that the Commission should not place equal value in a decision-making context on metrics that combine all utility industries.

II.

COMMENTS

A. When and How Affordability Metrics Should be Utilized

1. Revenue requests should still be assessed based on what is the reasonable cost of providing safe and reliable utility services or otherwise advancing the State's policy goals.

SCE agrees with the comments by PG&E, Southwest Gas, and CWA that the affordability metrics should not be used as a determining factor for whether a specific rate request is reasonable.[1] As stated in SCE's Opening Comments, utility rate requests should instead continue to be assessed based on the value they will provide to customers (including meeting SCE's statutory obligation to ensure the safety and reliability of the electric service it provides and advancing the State's policy goals) and what, if any, reasonable cost alternatives exist that can meet the same objectives.[2] The affordability metrics should supplement that analysis by enabling the Commission and stakeholders to examine actual costs to customers over time. However, as Staff noted, the affordability metrics themselves should not be used as "criteria to determine in absolute terms whether bills are affordable or not."[3]

2. Establishing affordability thresholds would be inappropriate.

SCE opposes the recommendations made by TURN, CalCCA, and GRID Alternatives that the Commission set affordability thresholds or ranges.[4] These recommendations run counter to both the Staff Proposal's correct decision to "not set forth criteria to determine in absolute terms whether bills are affordable or not"[5] and Dr. Teodoro's conclusions that the "affordability of anything is rarely a strictly yes/no phenomenon" and that using such a binary standard "causes simplistic and misleading analyses."[6] Instead, SCE agrees with Cal Advocates that "the Commission should not set hard thresholds for affordability and unaffordability based on the metrics, but rather should measure them on a comparative basis, over time."[7] Metrics can serve as a useful tool to assess cumulative bill impacts and backward-looking trend analyses, and be a useful source of information to inform Commission decision-making. However, attempting to set thresholds for what is affordable oversimplifies not only the complex and sometimes

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1 PG&E Opening Comments, p. 2; Southwest Gas Opening Comments, p. 4; CWA Opening Comments, pp. 4-5.

2 SCE Opening Comments, pp. 3-4.

3 Staff Proposal, p. 8.

4 TURN Opening Comments, p. 10; CalCCA Opening Comments, p. 4; GRID Alternatives Opening Comments, p. 2.

5 Staff Proposal, p. 8.

6 *See* April 12, 2019 Administrative Law Judge's Ruling Adding Workshop Presentations into the Record and Inviting Post-Workshop Comments, Attachment E, pp. 14-15.

7 Cal Advocates Opening Comments, p. 24.

competing policy priorities that the Commission must consider (including safety, reliability, resiliency, decarbonization, and affordability) as it resolves rate-setting proceedings, but also the reasoning and tradeoffs inherent in individual households' financial decisions.

3. Annual reporting of the affordability metrics better serves this proceeding's goals and is more practical than requiring a comprehensive affordability analysis for every rate request.

SCE also opposes the recommendation made by several parties—including TURN, CforAT, CalCCA, and Cal Advocates—that the Commission require an affordability analysis using the affordability metrics with every rate request, regardless of the size of the total dollar request or timing in relation to a General Rate Request or other large filing.[8] Instead, as expressed in SCE's Opening Comments and the opening comments of San Diego Gas & Electric Company and Southern California Gas Company (SDG&E and SoCalGas), the Greenlining Institute (Greenlining), and PG&E, it is more appropriate and practical for the Commission to require an analysis of the cumulative impact of the utilities' approved and/or pending rate requests through an annual report, or a similar periodic cadence.[9]

Analyzing affordability for every rate request for every utility would overwhelm the Commission and stakeholders with affordability information that is only slightly changed from assessment to assessment.[10] It would also be impractical because each time period would be too brief to account for the cumulative effects of multiple rate changes and the fluctuating schedules of various proceedings.[11] In contrast, an annual assessment of affordability would provide substantial, cumulative affordability data that could inform individual rate request proceedings throughout the following year and obviate the need to reassess individual metrics in each

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[8] TURN Opening Comments, p. 11; CforAT Opening Comments, p. 8; CalCCA Opening Comments, p. 6-7; Cal Advocates Opening Comments, p. 4-5.

[9] SCE Opening Comments, p. 4; SDG&E and SoCalGas Joint Opening Comments, pp. 10-11; Greenlining Opening Comments, p. 3; PG&E Opening Comments, p. 12.

[10] SCE Opening Comments, p. 4.

[11] SDG&E and SoCalGas Joint Opening Comments, p. 10-11.

regulatory proceeding.[12] Because such an annual assessment would be more comprehensive and informative than an assessment accompanying every rate request, such an annual assessment would also align more closely with the Commission's stated desire in instituting this OIR to "comprehensively analyze the cumulative impact of rate requests and programs across proceedings and industries."[13]

4. Affordability metrics should not be piloted yet in connection with unique proceedings or in advice letter submissions, but instead be vetted through workshops.

SCE disagrees with Cal Advocates' recommendation that the Commission should order small-scale "pilots" immediately in actual proceedings to shed light on who will update the input data, how frequently the data should be updated, and in what forum the data will be vetted.[14] As stated in SCE's Opening Comments, before formally implementing the broader affordability framework, the Commission should examine trends for these metrics in order to provide the Commission and stakeholders the opportunity to understand how and why outputs for these metrics change.[15] However, at this early stage, this examination should occur through workshops rather than in actual, ongoing matters. Workshops would allow for the input of all relevant stakeholders, ensure consistency in the understanding and potential application of these metrics to understand cumulative impacts within and across utilities where appropriate, and avoid the potential for premature reliance on the metrics to inform Commission decisions before the metrics can be fully vetted. Assessing the metrics in workshops would also avoid the possibility, inherent in Cal Advocates' proposal, of different Commission decisionmakers reaching inconsistent conclusions concerning the metrics and would avoid the inequity that could occur from separately testing the metrics for different utility industries in different pilots that have different time frames for resolution.

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[12] SCE Opening Comments, p. 4.
[13] Order Instituting Rulemaking, p. 6.
[14] Cal Advocates Opening Comments, pp. 21, 24-26.
[15] SCE Opening Comments, p. 5.

5. A ten-year forecast of utility revenue requirement increases and rate impacts would be too speculative to be useful.

SCE opposes CalCCA's proposal that the Commission should adopt, for purposes of tracking affordability on a recurring basis, the reporting template proposed by Cal Advocates on April 24, 2019 at the Commissioner Committee on Emerging Trends.[16] While SCE supports the tracking of affordability, the reporting template supported by CalCCA (which is not mentioned in Cal Advocates' own comments) includes a ten-year forecast of revenue requirement increases and rate impacts. Forecasting revenue requirement increases and rate impacts ten years into the future would neither be reliable nor useful given that rate designs are not static and that policy mandates and utility revenue requests can be driven by conditions outside of the electricity industry. As discussed above, a more robust and accurate approach would be to analyze the cumulative impact of the utilities' approved and/or pending rate requests on an annual basis.

B. Adequacy of Proposed Affordability Metrics

1. The level of disconnections and arrearages should not be added as affordability metrics.

SCE opposes adding the level of arrearages (proposed by UCAN and CalCCA)[17] or the number of disconnections (proposed by CalCCA)[18] as additional affordability metrics because the relationship between rate increases and disconnections or arrearages is not a simple linear relationship but rather a complex one involving multiple other variables (e.g., the overall economic environment, weather conditions, and increases in customer growth). That complex relationship makes it difficult to isolate the relationship of a single determinant, namely rate increases, from the effect of numerous other determinants that may influence the volume of arrearages or disconnections at a given time. As a result, while SCE has previously noted in this

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[16] CalCCA Opening Comments, p. 5.
[17] UCAN Opening Comments, p. 8; CalCCA Opening Comments, pp. 3-4.
[18] CalCCA Opening Comments, p. 3.

proceeding that arrearage information should not be overlooked when discussing affordability,[19] attempting to explain changes in arrearages or disconnections based only on one factor, rate increases, may lead to flawed and erroneous conclusions.

Moreover, as part of the reporting requirements instituted by the ongoing Disconnections OIR, R.18-07-005, the electric and gas investor-owned utilities (IOUs) have been reporting the number of customer arrearages and disconnections on a monthly basis. This reporting shows that UCAN's specific proposal—any 5% or higher monthly increase in arrearages triggering an affordability review of an individual utility's rates by the Commission[20]—would be unduly burdensome. From January to July 2019, three of the four IOUs reported at least one monthly fluctuation in the number of arrearages that exceeded the proposed 5% threshold:[21]

2019 Number of Customers in Arrears and Percent Change

	PG&E		SCE		SoCalGas		SDG&E	
	# of Customers	% Change from Previous Month	# of Customers	% Change from Previous Month	# of Customers	% Change from Previous Month	# of Customers	% Change from Previous Month
January 2019	1,026,605		1,092,832		1,116,048		1,042,959	
February 2019	966,886	-6%	1,071,030	-2%	1,207,337	8%	1,004,857	-4%
March 2019	1,023,252	6%	937,406	-12%	1,152,332	-5%	998,082	-1%
April 2019	963,956	-6%	944,251	1%	1,066,614	-7%	1,037,029	4%
May 2019	1,287,477	34%	933,448	-1%	2,717,856	155%	1,066,641	3%
June 2019	1,174,969	-9%	999,409	7%	2,134,155	-21%	1,037,827	-3%
July 2019	1,039,457	-12%	975,754	-2%	1,788,123	-16%	1,066,189	3%

The monthly volatility in the above table further supports the conclusion that many factors outside of utility rates affect the number of customers subject to arrears and supports the conclusion that this monthly data would not be a useful determinant of affordability.

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19 SCE Opening Comments on Ruling Adding Workshop Presentations into the Record, May 13, 2019, p. 20.

20 UCAN Opening Comments, p. 8.

21 Monthly Disconnect Data Report, found at: https://apps.cpuc.ca.gov/apex/f?p=401:56:0::NO:RP,57,RIR:P5_PROCEEDING_SELECT:R1807005.

2. Essential non-utility expenses should not be adjusted out in the Affordability Ratio because of the difficulties with obtaining and verifying this data.

SCE opposes the recommendation by TURN and GRID Alternatives that essential non-utility expenses be adjusted out in the Affordability Ratio metric.[22] First, adjusting out essential non-utility expenses would be unworkable from a practical data availability and validity perspective. As the Staff Proposal correctly points out: "To incorporate other sources of data to represent these essential expenses would introduce potential errors stemming from assumptions about household composition, parent working status, and mismatches in data geographic and temporal scale."[23] The difficulties in obtaining and standardizing data associated with essential non-utility household expenses should not be overlooked. Nor should the Commission overlook the additional challenge of determining what relationship, if any, exists among and between these non-utility expenses given household-specific tradeoffs. Second, while TURN opines that not adjusting out essential non-utility expenses results in values that "understate the absolute fraction of discretionary household budgets that would be allocated to essential utility services,"[24] adjusting out such non-utility expenses does not provide any additional clarity into a relative comparison of affordability when comparing spatial and temporal changes, which is the stated purpose of the affordability framework in the Staff Proposal.[25] In sum, adjusting out non-utility essential costs would render the Affordability Ratio metric more complex and less useful.

3. Several of Cal Advocates' recommended modifications to the proposed metrics are reasonable and should be considered.

SCE appreciates Cal Advocates' thoughtful analysis concerning ways to modify the proposed metrics to make them more accurate and suitable for Commission and stakeholder review. Specifically, SCE agrees with Cal Advocates that:

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22 TURN Opening Comments, pp. 2-7; GRID Alternatives Opening Comments, p. 2.

23 Staff Proposal, p. 18. For example, expenses such as food and childcare can vary substantially from region to region in the state of California, and household budgets allocated to such expenses may include a discretionary element that would be burdensome to isolate from what is deemed "essential."

24 TURN Opening Comments, p. 7.

25 Staff Proposal, p. 8.

- Household size should be disregarded when calculating the affordability metrics.[26] As noted by Cal Advocates, SCE does not collect or maintain data on household size, and therefore would have to rely on external sources to obtain that data and control for its quality, which would add additional complexity without any analytical value and risk inconsistency.[27]
- Essential service quantities should be calculated per residential connection rather than per capita.[28]
- Basing energy essential service on a percentage of actual average household usage per climate zone implicitly captures household size without the complexity of calculating affordability for various household sizes.[29]
- The Commission should not place equal value in a decision-making context on metrics that combine all utility industries.[30] Given the Commission's interest in cumulatively assessing affordability across industries, it would be inappropriate and inaccurate to use assessments of one utility's affordability as a lever to affect another utility's rate requests or use proxy bills from utilities it does not regulate as a means to influence the affordability metrics of those utilities it does regulate.[31]
- Isolating the affordability impacts to individual industries, alongside a cumulative assessment, so that decision-making affecting one industry is not unduly influenced by affordability variations in other industries would complement and

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[26] Cal Advocates Opening Comments, p. 5.
[27] *Id.*, pp. 5-6.
[28] *Id.*, p. 1.
[29] *Id.*, p. 12.
[30] *Id.*, p. 8.
[31] *Id.*

refine the proposed metrics, which currently include the combined effect of several utility industries.[32]

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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[32] *Id.*, pp. 6-8.