BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Develop Methods to Assess the Affordability Impacts of Utility Rate Requests and Commission Proceedings	Rulemaking 18-07-006 (Filed July 12, 2018)

JOINT COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) ON 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 ("Ruling"), dated August 20, 2019, San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas") (collectively "SDG&E and SoCalGas") hereby provide the following Comments.

SDG&E and SoCalGas appreciate the efforts of the Water Division, Energy Division, and Communications Division Staff ("Staff") in the development of the August 20, 2019 Staff Proposal on Essential Service and Affordability Metrics ("Staff Proposal"). The Staff Proposal is thoughtful and seeks to find a balanced and reasonable approach to address a complex and critical issue. For ease of reference, each of the Ruling's specific questions are provided below, followed by comments from SDG&E and SoCalGas.

In prior comments, SDG&E and SoCalGas recommended a portfolio of affordability metrics guided by the following principles:[1]

[1] Post-Workshop Comments of San Diego Gas & Electric Company and Southern California Gas Company

- metrics should be based on data that is publicly available, available at the state level at a minimum, and verifiable;
- metrics should be easy to understand and not overly complicated, so they may be replicated/verified by others;
- metrics should be flexible enough to allow for changes over time; and
- use of the metrics should also consider the value of the services and benefits being provided.

In addition, in Joint Comments on Attachment J, SDG&E and SoCalGas stated that they believe an Affordability Framework should reflect the principles that provide the basis for the Modern Rate Architecture:

- **Transparency**: Clear identification of costs and benefits and the value of services received is the critical first step to achieving the following principles of Equity, Sustainability and Access. Customer bills need to segregate actual utility products from the costs to meet state-mandated policy programs, so customers understand what they are paying for.
- **Equity**: In pursing the State and Commission's policy objectives, including affordability, safe and reliable service and access and participation in California's clean energy future, the needs of and impacts on all customers should be considered equally. Rates must be fair and minimize costs caused by one customer group from being shifted to other groups, while recognizing that customers use the grid, consume products and pay their bills in different ways.

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on the Selected Proposals and Questions Presented in Attachment J to Administrative Law Judge Ruling (May 13, 2019) ("Post-Workshop Opening Comments") at 3.

- **Sustainability**: The pursuit of the State and Commission's policy mandates should be achieved in a least-cost manner. The new framework should be forward-looking and malleable so that it can accommodate new products, services, and business models and help California achieve its goals at a reasonable cost.
- **Access**: Customers should have equal access to the many options to manage their energy services. All technologies and service providers should be able to participate in a competitive marketplace in a manner that provides all customers with options on how to manage their energy services.

Those principles continue to guide the comments provided by SDG&E and SoCalGas below.

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

SDG&E and SoCalGas:

- support the use of the Hours Minimum Wage ("HM") metric as outlined in the Staff Proposal;
- do not oppose the inclusion of the Affordability Ratio ("AR") or Ability-to-Pay Index ("API"), subject to the comments below; and
- SDG&E and SoCalGas recommend the addition of the Percent Median Household Income ("%MHI") metric, otherwise known as energy burden, to the portfolio of metrics.

Regardless of which metric is used, SDG&E and SoCalGas also recommend the following refinements to how the metrics are applied to better assess affordability: (1) benefits from existing customer assistance programs (e.g., the California Alternative Rates for Energy ["CARE"] discount) should be accounted for when calculating the cost of utility services, and (2) costs associated with community choice aggregator ("CCA") and direct access ("DA") services should be incorporated when calculating the cost of electric utility services for departing load customers.

SDG&E and SoCalGas are supportive of the Staff Proposal's definition of essential energy use, with the recognition that this may change over time, and the Staff's proposal that electric Tier 1 and gas baseline quantities be used to describe essential service quantities until a more robust determination of essential service quantities can be made. Further, the definition of essential energy services provides guidance to inform the scope for essential use studies. Below, SDG&E and SoCalGas provide additional information regarding joint electric utility efforts on the Essential Use studies and recommendations regarding further differentiation between essential use and essential services.

%MHI Should be Added to the Suite of Metrics in the Staff Proposal to Provide an Accurate Evaluation of Utility Affordability Over Time

SDG&E and SoCalGas believe the proposed metrics in the Staff Proposal present several views of affordability that can be used to "[d]evelop a framework and principles to identify and define affordability criteria for all utility services under California Public Utilities Commission jurisdiction."[2] In addition to the metrics presented, SDG&E and SoCalGas continue to support the use of %MHI, also referred to as energy burden, which measures affordability as a percentage of median household income. SDG&E and SoCalGas urge the Commission to add this metric to the Staff Proposal because it is a simple and practical measurement that can be used across all industries and service territories, is the only metric that focuses narrowly on the impact of utility expenses, and can be developed based on publicly available data.[3] Further, SDG&E and SoCalGas

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[2] Rulemaking ("R.") 18-07-006, Order Instituting Rulemaking to Develop Methods to Assess the Affordability Impacts of Utility Rate Requests and Commission Proceedings (dated July 12, 2018) ("R.18-07-006") at 2.
[3] Post-Workshop Opening Comments at 13-14.

continue to support the inclusion of the Public Advocates Office's ("CalPA's") recommended modifications to %MHI to reflect first (or first and second) income quartiles.[4]

The %MHI metric comes closest to measuring utility costs as a percentage of household income. In order to measure the impact of utility costs for Commission-jurisdictional utility services, it is imperative that a metric be available to capture solely the changes in utility costs, all other things being equal, over time. That is, it is important to isolate multiple independent variables affecting a dependent variable in determining causation. Adopting a metric where just utility service costs are compared to household income over time, such as with %MHI, would be most effective in meeting the second stated goal of the instant proceeding.[5]

Recognizing the Commission's stated concern that the %MHI metric can produce results that vary by location and that it may have different meanings to different people,[6] SDG&E and SoCalGas suggest consideration of the API and HM metrics, since they produce strong indicators of localized impact of changes over time in essential use and essential services. When viewed in conjunction with %MHI, HM and API will present a more comprehensive and localized view of affordability. Also, the %MHI metric can be 'localized' by using household income information at the county or Public Use Microdata Area ("PUMA") level. SDG&E and SoCalGas support the addition of the percent MHI metric to the proposed affordability metrics by either modifying the Affordability Ratio metric to measure just the utilities' service cost as a percentage of household income or by adding the percent MHI metric to the affordability metric portfolio.

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[4] Post-Workshop Reply Comments of San Diego Gas & Electric Company and Southern California Gas Company on Responses to Questions Presented in Attachment J to Administrative Law Judge Ruling (June 4, 2019) ("Post-Workshop Reply Comments") at 5-6.
[5] R.18-07-006 at 2. "Develop the methodologies, data sources, and processes necessary to comprehensively assess the impacts on affordability of individual Commission proceedings and utility rate requests." *Id.*
[6] *Id.* at 4.

AR Should Be Used with Caution and in the Appropriate Context

SDG&E and SoCalGas have previously expressed concern with the use of an AR that includes non-utility expenses, as well as various concerns related to the data sources that would be needed.[7] SDG&E and SoCalGas appreciate that the Staff Proposal limits the adjustments for non-utility household expenses exclusively to housing expenses. SDG&E and SoCalGas continue to have concerns about the adjustment for housing expenses and recommend that %MHI be added to the portfolio of metrics to provide a more complete assessment of changes over time in essential use and essential services.

SDG&E and SoCalGas believe that inherent in the requirement to comprehensively assess the affordability of utility essential use and services is the need to make accurate comparisons over time. However, none of the proposed metrics, by themselves, can provide an accurate assessment of utility rate requests or evaluate the impact on rates from public policy mandates over time as they contain other non-utility cost elements that will similarly fluctuate. For example, in a given year, large increases in housing costs could obscure the impact of any utility rates changes. Accordingly, SDG&E and SoCalGas have proposed a portfolio of metrics, as described above.

API May Provide Guidance for a More Targeted Assessment of Affordability

SDG&E/SoCalGas appreciate the intent behind the inclusion of API as one of the metrics to provide information at a more granular level about potential economic vulnerability of utility customers. As noted above, for any metric to adequately assess affordability would require that it include the benefits customers receive from various existing utility and non-utility programs. In the event the Commission determines API to be an appropriate metric, Figure 3 from the Staff Proposal (*API Values for California Census Tracts*)[8] illustrates the need for targeted solutions to

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[7] Post-Workshop Opening Comments at 14-16.
[8] Ruling at Attachment 2, Staff Proposal at 23.

address potential affordability concerns. A more localized metric such as API once, adjusted to include program benefits, may provide an opportunity for re-examination of the existing portfolio of programs available to support utility customers, to ensure that they are effective in providing the more targeted benefits to those in need in a manner that does not result in greater utility costs for all other customers. This is discussed further below.

Existing Benefits for Low-Income Customers Should Be Accounted for When Assessing the Cost and Affordability of Utility Services

The calculation of affordability metrics currently presented in the Staff Proposal reflects the calculation of costs of essential utility services using "standard" rates. Standard rates will fail to capture existing program benefits received by low-income customers and other vulnerable populations. For instance, SDG&E's electric CARE customers currently receive an average discount of 37% on their electric bill when compared to Non-CARE customers. Similarly, Family Electric Rate Assistance Program ("FERA") customers receive an effective discount of 18%,[9] and medical baseline customers receive additional daily baseline allowance of 16.5 kWh per day.[10] Any metric must capture the existing benefits provided to customers in order to appropriately assess affordability.

The use of "standard" rates for electric customers also fails to consider the continued expansion of customer choice. While currently the majority of electric customers in SDG&E's service territory are bundled customers, *i.e.* they receive commodity services from SDG&E, the continued expansion of customer choice is expected to result in a future where the majority

[9] San Diego Gas & Electric Company Electric Tariff, Schedule FERA, Family Electric Rate Assistance Program at Revised Cal. P.U.C. Sheet No. 32154-E, Sheet 1, *available at* http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-SCHEDS_FERA.pdf.

[10] *See* San Diego Gas & Electric Company Electric Tariff, Schedule DR, Residential Service at Revised Cal. P.U.C. Sheet No. 31698-E, Sheet 5, Special Condition 4, *available at* http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-SCHEDS_DR.pdf. Current daily baseline allowances range from 9.0 to 24.7 kWh depending upon service type (Basic/All-Electric), climate zone (Coastal/Inland/Mountain/Desert), and season (summer/winter).

SDG&E electric customers are CCA or DA customers who receive commodity services from an energy provider other than SDG&E. The cost of commodity services constitutes approximately half the system average electricity rate at SDG&E. Therefore, the costs of CCA or DA services are expected to be a significant portion of the electric bill for CCA and DA customers. For any metric to adequately assess affordability, it must also accurately capture the commodity portion of the bill for electric services provided by companies other than SDG&E.

Comments on Definition of Essential Use and Essential Service

With regard to essential use for electric and gas service, SDG&E and SoCalGas support the Staff Proposal definitions – Tier 1 baseline usage subject to future evaluation of essential use based on essential use studies' results to be conducted by the electric investor-owned utilities ("IOUs") and subsequently the gas IOUs.[11] The Staff Proposal recognizes that currently only Pacific Gas and Electric Company ("PG&E") and Southern California Edison Company ("SCE") have requirements to conduct electric essential use studies, and goes on to recommend that SDG&E and SoCalGas be required to also develop essential use studies no later than the essential use study submitted by SCE.[12] SDG&E and SoCalGas are supportive of Staff's recommendation that both SDG&E and SoCalGas conduct essential use studies. Two webinars have been conducted to date by PG&E, SCE and SDG&E, which were noticed to parties in this proceeding, to discuss a proposal for the three electric IOUs to jointly conduct an electric essential use study.[13] SDG&E and SoCalGas request that additional time be permitted for the development of a natural gas essential use study to allow for a survey design that incorporates learnings from the completed electric essential use study. SDG&E and SoCalGas also recommend that the Commission consider

[11] For SDG&E electric customers, Tier 1 usage represents 130% of baseline.
[12] Ruling at Attachment 2, Staff Proposal at 11.
[13] August 28, 2019 and September 6, 2019.

that the gas essential use study be conducted jointly between the gas IOUs so as to take advantage of potential reductions in time and/or costs that would result from a joint approach.

While the Staff Proposal acknowledges that there is a difference between essential service and essential use or usage,[14] SDG&E and SoCalGas recommend that there be a further distinction made between essential use (which can be measured by kWh or therms) and essential services (which may or may not be measured by such units). What constitutes essential services provided by the utilities may change over time due to changes in state-mandated and Commission-directed policies, as well as changes in customer needs or other industry changes. For instance, various State and Commission policies have resulted in changes in utility costs over time such as policies to advance clean energy objectives or combat climate change such as renewable portfolio standards and decarbonization goals and the need to address wildfire mitigation due to climate change. While these policy programs may result in increased cost of utility services and should be considered an essential part of utility services, they are not expected to change the quantity of service needed for essential use. Staff recognized that affordability metrics will need to be flexible and are expected to change over time. Thus, any metric will need to capture changes in essential services to appropriately reflect affordability.

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?**

While the metrics included in the Staff Proposal do utilize non-utility costs and information, SDG&E and SoCalGas appreciate that the data supporting the metrics do not require the collection of personal information of customers and instead rely on publicly available sources. SDG&E and SoCalGas are opposed to the use of metrics that would rely on non-utility customer

[14] Ruling at Attachment 2, Staff Proposal at 9.

information that require utilities to collect and/or hold additional personal information regarding individual customers.[15]

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?**

SDG&E and SoCalGas support the calculation and maintenance of affordability metrics by the Commission, which will allow for improved consistency in the development of metrics across the various utility industries and services. Additionally, SDG&E and SoCalGas continue to recommend that, while affordability metrics are expected to inform various proceedings, the calculation and assessment of affordability metrics should not be addressed as part of individual proceedings, but rather should be compiled in an annual assessment accompanied by an annual workshop or summit.

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

SDG&E and SoCalGas generally agree with the premise that affordability should be assessed over a certain time period to account for the cumulative effects of multiple rate changes. Currently, a review of rate and bill impacts are already part of every application where energy utilities request an increase to revenue requirements for the recovery of incremental costs. An annual assessment of affordability will be available to further inform these cases, obviating the need to reassess individual metrics in each regulatory proceeding. Isolated decision-making without perspective and context from previous decisions, historic changes in rates, and levels of energy burden will not be fully informed. Furthermore, there are numerous decisions each year where small changes in rates are due to pilot implementations or when the reallocation of program

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[15] Post-Workshop Reply Comments at 3-5. The California Consumer Privacy Act ("CCPA") defines personal information as "information that identifies, relates to, describes, is capable of being associated with, or could reasonably be linked, directly or indirectly, with a particular consumer or household." *See* Assembly Bill 375, Stats. 2017-2018, Ch. 55 (Cal. 2018).

funds occur. In light of the number of rate-setting proceedings completed each year, reassessing the affordability of utility rates for each rate increase is impractical because each time period would be too brief to account for the cumulative effects of multiple rate changes.

SDG&E and SoCalGas recommend that affordability metrics be used to take a historical look to measure directional trends and past drivers that have impacted affordability as well as changes in essential use and services over time. To ensure a robust discussion of these critical issues, SDG&E and SoCalGas further recommend an annual workshop to discuss the results of the annual reports.

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

SDG&E and SoCalGas appreciate that the Staff Proposal does "not set forth criteria to determine in absolute terms whether bills are affordable or not."[16] Such a framework will allow for a more flexible assessment of affordability that will have the ability to account for changes in essential service over time. By looking at past decisions, along with their impacts and any unintended consequences, we will be able to learn about trends and observe actual causes and effects that will improve decision-making in the future.

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

SDG&E and SoCalGas believe that the development and the use of a more localized metric such as API can provide new insights into how California may wish to consider program benefits in the future. For any metric to adequately assess affordability would require that it include the benefits customers receive from various existing utility and non-utility programs. If appropriately adjusted to reflect these benefits, a metric such as API could provide the Commission with greater

[16] Ruling at Attachment 2, Staff Proposal at 8.

insight to determine the effectiveness of utility and non-utility low income assistance programs to address affordability rather than the historic use of blunt instruments such as rates and rate design, which may increase the cost of utility services for the remaining utility customers. SDG&E and SoCalGas recognize that the re-examination of available programs is currently not in scope of the instant proceeding and recommend such an evaluation take place in appropriate venues before the Commission.

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?

See response to Question 4 above.

II. CONCLUSION

SDG&E and SoCalGas appreciate the opportunity to provide these Comments and look forward to working with the Commission and other parties as this proceeding moves forward.

DATED this 10th day of September 2019, at San Diego, California.

Respectfully submitted,

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