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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)

THE UTILITY CONSUMERS' ACTION NETWORK'S COMMENTS ON AFFORDABILITY STAFF PROPOSAL

UCAN
UTILITY CONSUMERS' ACTION NETWORK
San Diego's Utility Watchdog

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I. Introduction

Pursuant to the August 20, 2019 Ruling of Administrative Law Judge Park, the Utility Consumers' Action Network ("UCAN") submits its Comments to the questions posed in this Ruling.

II. Responses to Questions

1. Do Affordability Metrics Adequately Assess Affordability? If not, How Should They be Changed?

UCAN believes that one of the metrics the Commission has proposed to measure affordability, the Ability to Pay Index provides useful data for assessing the affordability, however, by itself, this index is not enough to provide an accurate measure of affordability. If the Ability to Pay Index is used in conjunction with a review of the level of arrearages of a given utility, the Commission will have a good methodology for assessing the affordability of utility services in California.

In its earlier comments on the Commission's proposed measures of affordability UCAN noted that hours at minimum wage metric has a number of glaring deficiencies that render it a poor choice as an affordability metric including the lack of uniformity of minimum wage levels across the state, the very limited number of individuals that actually work at minimum wage, and inability of this metric to account for widespread variations in the cost of housing in California[1]. UCAN recommends that the Commission should avoid using the hours at minimum wage as an affordability metric.

The Affordability Ratio has several attractive characteristics as a metric in that is more accurately measures discretionary income of low-income ratepayers than hours as minimum wage and has been used in other jurisdictions to evaluate the affordability of utility expenses. UCAN has a number of concerns about the data set that was used to perform the affordability ratio calculations including the figures it uses to calculate housing costs for low-to-moderate income customers. For example, the study states low income customers have average housing costs of $3,449.50 per year, a figure that is unrealistically low given California's housing costs. Another figure that raises concern is the study's assumption that housing costs for a single household with an income of $82,340.56 total $53,854 per year or $4,487 per month. This figure appears to be unrealistically high.

The chart that compares affordability ratio, hours at minimum wage, and ability to pay index indicates that the affordability ratio presents problems with the geographic resolution of the data and it requires a number of assumptions about the types of utilities an individual household subscribes to. Given the problems with the underlying income data and housing costs, the lack of geographic resolution in the data, and the assumptions required to use affordability ratio as a metric, UCAN recommends that it should not be used to measure the affordability of essential utility services in California.

Of the three metrics proposed by Commission staff, the Ability to Pay Index is the best measure of the affordability of essential utility services. One particular merit of this approach is that it provides a geographic portrait of communities that are struggling to pay their utility bills and provides useful historic data on how affordability has changed over time. Similar to the other two proposed metrics, the ability to pay index does not account for individuals that heat their residences via propane or wood, however, this limitation could be dealt with by further refining the data set by contacting community-based organizations in areas where non-traditional heating sources are common.
Of the three metrics proposed by staff in their report, the Ability to Pay Index offers the most promise as a potential measure of affordability. UCAN believes that it can be

[1] Answers of the Utility Consumers' Action Network to the Questions Posed in Appendix J, pg. 25

refined if Commission staff contacts community-based organizations, and checks its findings by looking at other measures of affordability such as the affordability ratio. Moreover, additional efforts should be made to ensure the data sets being used accurately reflect the state of California's housing market.

UCAN believes that a refined version of the ability to pay index may work as a measure of affordability in future Commission proceedings. The data within this metric should be checked closely with updated income data from such sources as the U.S. Census Bureau, data from the Supplemental Nutrition Assistance Program ("SNAP" formerly food stamps), commercial sources, and academic studies.

Another approach that the Commission should explore is examining both short-and-long term trends with regard to utility arrearages. Arrearages provide an immediate measure of the burden high utility costs are placing on the state's ratepayers and are a telling measure of whether utility service is affordable for low-to-moderate income Californians. When looking at arrearages, it is important to focus on households that are genuinely struggling to pay their bills over the long-term rather than a household that may have inadvertently missed paying a bill. High arrearage rates and repeated service terminations are strongly correlated with unaffordable utility rates.

2. Are the Proposed Sources of Data Acceptable for Creating Metrics?

In its answer to Question 1 above, UCAN noted its concern about the accuracy of the housing costs used by Commission staff to evaluate the affordability ratio. Housing costs are not difficult to quantify. Indeed, average rental costs are closely tracked and widely available from both commercial and public sources. Moreover, both the U.S. Census Bureau and the Bureau of Labor Statistics have extensive data on living costs (including housing). The problem is not one of a dearth of data, but rather the challenge is to develop a metric that accurately measures how high utility costs are affecting the state's households.

UCAN believes that tracking arrearage levels at the various utilities would be perhaps the best measure of affordability. Ratepayers that have high arrearages and/or have had their service terminated because of non-payment are the proper focus of this rulemaking, however, the Commission should not look solely at disconnection statistics.

Many households that consistently pay their bills may be making other sacrifices to keep their lights, water and communications services operating. Effective survey works along with close tracking of arrearage levels (both overall dollars of arrearages and number of customers in arrears should be tracked) is a good way for the Commission to keep abreast of how the cost of utility services is affecting vulnerable customers.

UCAN urges Commission staff to contact their counterparts in other states (through NARUC and the National Regulatory Research Institute) that have addressed affordability issues as well as the National Association of State Utility Consumer Advocates and state legislative staff to ensure the data sets they are using reflect actual conditions facing California's ratepayers and to ensure that other data sets that may be available are being consulted. Moreover, Commission staff should avail itself of commercially available data on rent levels, cost of medical care and food and transportation. In addition, staff may need to consider whether a separate set of metrics applicable to the state's rural population should be used when evaluating affordability because housing, food and transportation costs vary between urban and rural portions of the state, and vary significantly between coastal and inland locations.

3. What Regulatory, Operational and/or Resources Considerations Might be Necessary to Effectively Implement Metrics?

Because utility rates change more frequently than the traditional three-to-four-year rate case cycles through advice letter filings, and other regulatory processes available to utilities, simply looking at affordability as part of the rate case process will not adequately address the issue. Instead, UCAN believes that –at a minimum— affordability assessments be performed at least every 18 months. While an 18-month cycle is not consistent with existing regulatory processes, it reflects the reality that utility rates change quite frequently in California due to a combination of factors. If the legislature is sincere in having Commission staff look at affordability in depth and on a regular basis it must be willing to ensure that the Commission has sufficient staff to actively monitor affordability on an on-going basis.

It is worth noting that in measuring affordability, the Commission must look beyond the cost of utility services of its jurisdictional utilities and instead include an assessment of municipal water rates and telecommunications costs (most of the latter also being beyond the Commission's control). For example, if the Commission were considering whether a proposed rate increase for Southern California Gas Company was affordable, it would need to examine cost trends at the Los Angeles' Department of Water and Power's electric and water rates, the water rates of various municipalities in SoCal Gas' service territory, and trends in local cable and telecommunications rates.

a) How Should the Commission Monitor and Track Affordability on a Recurring Basis?

In its above answer UCAN recommended that affordability be assessed every 18 months. This process should be somewhat dynamic and should allow the Commission to look at affordability if unusual circumstances arise that affect the cost of utility service such as natural disasters, economic fluctuations, extrinsic events that affect costs, and other contingencies. It may be useful for the Commission to develop proxy consumers to track how the cost of utility services is affecting their economic well-being. For example, a model low-income household living in Southern California could be evaluated to see how utility expenses are affecting them. Similarly, model low-income single households and elderly households could be used as proxies to evaluate affordability.

Whenever a utility proposes a rate change in excess of 3% the Commission should perform an affordability study to determine how the proposed rate change would affect the affordability of utility service to low-income households. In doing so, the Commission should consult available data sources on how other changes in the cost of living are affecting California's low-income ratepayers. Again, sources such as SNAP, the U.S. Census Bureau, the Bureau of Labor Statistics and commercially available material should be reviewed to determine how rising costs are affecting the ability of California's low-income population to pay for utility services. In that regard, Commission staff should track the arrearage levels (both absolute dollars and total number of affected customers) of the utility proposing the rate increase. If arrearage levels are rising it is a strong indication that affordability is an increasing challenge for the utility's customer base.

4. How is it Best to Use Metrics at the Commission?

a) What is the Best Way to Use or Interpret Resulting Affordability Values in Commission Proceedings?

To a certain extent the Commission already looks at affordability through the general rate case process, however, it does not do so on a systematic or consistent basis. Instead, it receives anecdotal information through public participation hearings, communications to the Commissioners from the public, and other information sources. While useful, these types of information sources present an incomplete picture of how utility expenses are affecting the state's households. UCAN recommends that the Commission develop a systematic process for measuring affordability that tracks both the Ability to Pay Index in a given utility's service territory and both the absolute number of customers in arrears and the trend in overall arrearage balances. If the proposed rate change is in excess of 3%, the Commission should evaluate how this will affect these two metrics and determine whether the proposed rate increase should nonetheless be granted. If the proposed rate increase is granted, the Commission should condition its approval on requiring the affected utility to enhance its efforts to afford access to its CARE and other programs designed to provide relief to low-income customers.

UCAN recognizes that a 3% rate increase standard is somewhat arbitrary, however, it is high enough that minor increases in rates will not be subject to an affordability scrutiny while it still ensures that rate increases that have the potential to significantly affect a substantial number of low-income customers would receive appropriate affordability scrutiny.

Devising the specific methodology that would be best to deploy to establish affordability metrics is probably a process best left to dedicated workshops. UCAN is willing to participate in this type of process. The Commission's affordability metrics workshops would also substantially benefit from the contributions of community-based organizations that have direct contact with the population most at risk of being unable to pay their utility bills.

b) How Should Affordability Metrics Be Used to Prioritize or Design Ratepayer Programs?

UCAN's answers to several of the above questions include suggestions about how affordability metrics could be used to design ratepayer programs. Tracking arrearages is an almost real-time vehicle for measuring how ratepayers are coping (or failing to cope) with the rising cost of utility services. Whenever, arrearages rapidly escalate, e.g., a 5% or higher increase in arrearages is observed, an affordability review of an individual utility's rates should be triggered. A spike in arrearages should serve as a catalyst to Commission review since it indicates an increased number of customers are finding themselves unable to afford their utility expenses.

In addition to tracking the pattern of arrearages, the Commission should perform surveys of low-income consumers to determine how high utility expenses are affecting their households' spending patterns. For example, surveys could be used to determine whether affected ratepayers are avoiding necessary health-related expenditures, food purchases and other essential purchases to be able to afford their utility bills. It is UCAN's understanding that most ratepayers are not finding paying for baseline quantities of utility services are unduly burdensome, however, for many burdened customers, baseline quantities are insufficient to provide adequate service to their households. The Commission should consider reviewing the accounts of a sample group of ratepayers that are, or have been in arrears, to determine whether they have routinely exceeded baseline consumption levels. If their consumption routinely is above baseline levels the Commission may need to consider adjustment to baseline consumption levels for geographic areas that have a high rate of arrearages. The data from the Ability to Pay Index would be a useful input into this type of an analysis since it tracks geographic areas that face challenges in paying utility bills.

c. Where Should the Commission Assess Affordability? What Criteria Should be Used to Determine if Affordability Needs to Be Assessed?

Existing Commission processes such as the general rate case proceedings for energy utilities are an obvious and appropriate venue in which to assess the affordability of utility services. In its response to Question 3(A) above, UCAN recommended that affordability be assessed every 18-months, however, UCAN recognizes that staffing constraints may make this proposal somewhat unrealistic. As a an alternative, any time that a proposed Commission decision would increase rates in excess of 3% an affordability evaluation could be triggered.

A variety of criteria could be deployed to determine whether an affordability review should be triggered. In addition to the aforementioned 3% threshold, UCAN has suggested that a 5% increase in the number of customers in arrears could serve as an affordability trigger, however, this approach suffers somewhat in that arrearage increases are likely to be most substantial after a Commission-approved rate increase of some kind. Thus, an arrearage spike screen would only be useful if the Commission were to revisit its earlier decision approving a rate case. Nonetheless, if an arrearage spike is observed after a rate increase decision, an affordability review should be performed as part of the next rate-setting proceeding involving the same utility.

UCAN also urges the Commission to develop a systematic process for consulting with community-based organizations that regularly deal with low-income customers struggling to pay their utility bills. If these groups notice a significant increase in customers seeking the Commission, they could notify Commission staff. This type of an increase in ratepayers seeking assistance, e.g., 5% increment, should be considered grounds for an affordability review.

UCAN notes that California's Commission is not the only state utility regulator that has addressed affordability issues. Massachusetts, Washington D.C., and several other jurisdictions have addressed this issue with a variety of different approaches. UCAN urges the Commission to study their examples to see if they have any useful lessons that could inform the Commission's deliberations on this matter.

III. Conclusion

UCAN is eager to continue to participate in this proceeding and trusts that its Opening Comments will contribute to a successful outcome of this Rulemaking.

Date: September 10, 2019 Respectfully submitted by: ______*/S/*______

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