Achieving Equitable Rate Reform Through An Income Graduated Fixed Charge

CALIFORNIA ENVIRONMENTAL JUSTICE ALLIANCE

Background

Californians are facing a utility bill affordability crisis. In just three years, residential rates have spiked 63% for Pacific Gas & Electric customers, 52% for Southern California Edison customers, and 13% for San Diego Gas & Electric customers. One in five households served by the state's largest investor-owned utilities are now behind on their bills.

State leaders urgently need to address the burden that rapidly rising electric system costs impose on low-income households. As an initial step, lawmakers passed a law in 2022 requiring restructuring the state's electricity pricing to protect low-income households. This set the stage for regulators at the California Public Utilities Commission (CPUC) to implement a more progressive and equitable billing system through an income graduated fixed charge. This reform could lower bills for most utility customers by shifting some of the cost of maintaining the state's electricity grid to higher earners. The law requires the new reform to lower bills for low-income customers.

The CPUC is now considering proposals for how to set these new income graduated fixed charges submitted by the state's three big investor-owned utilities — Pacific Gas & Electric, San Diego Gas & Electric and Southern California Edison — as well as the state's Public Advocate's Office, the Sierra Club, Natural Resources Defense Council, California Environmental Justice Alliance (CEJA) and others.

The proposals before the CPUC vary dramatically in the protections they offer for low-income households. Done right, an income graduated fixed charge can deliver relief from unsustainable rate hikes. But under a proposal put forth by utilities, low-income customers could see their bills increase – an unacceptable outcome that does not comply with the law.

The stakes for low-income households could not be higher – it is critical that the CPUC get the design of this right to bring immediate bill relief and pave the way for a more equitable energy system.

What Is An Income Graduated Fixed Charge?

California can lower utility bills for struggling households by shifting some of the cost of maintaining the state's electricity system to higher earners who can afford it. There are two important ways that utility bills would change if the state adopts an income graduated fixed charge:

- Utilities would lower the price of electricity to approach the cost of production. This allows households to affordably increase their use as they upgrade to electric cars and heating systems.
- Utilities would charge customers a flat fee to cover the fixed costs associated with the electricity system, which do not change when households increase consumption. The flat fee varies in accordance with household income.

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Why Does California Need To Reform Its Electricity Rates?

- **California is paying for surging infrastructure costs through higher electricity rates. Low-income households are disproportionately burdened.**

  California's electricity grid keeps sparking wildfires – but the cost of fixing the problem is going to be enormously expensive. Utilities have plans to underground tens of thousands of miles of power lines in the coming decades to reduce risk, at a cost of anywhere from $1.85 million to $6.1 million *per mile.* Wildfire prevention costs have been a key driver of rate increases in recent years.

  With costs expected to continue increasing in upcoming years, California needs to take action to protect low-income households from enormous bill hikes.

- **Ensuring clean electricity is affordable to all is critical to meeting our climate targets.**

  California's climate targets hinge on upgrading our homes, transportation systems, and industry to run on clean electricity – but the state's high electricity prices are slowing the transition. Making clean electricity affordable to all Californians is an integral part of our strategy to fight climate change and protect our communities.

- **The way we currently pay for energy is regressive.**

  Right now, fixed costs associated with the electricity grid (including for grid maintenance, wildfire mitigation, and energy-efficiency programs) are baked into the volumetric price we pay for electricity, even though fixed costs do not vary with usage. As these rising fixed costs get absorbed into volumetric rates, the energy burden will worsen for low-income households who already spend a disproportionate amount of their income on their energy bills.

  California needs to transform this highly regressive rate structure. The state employs more equitable methods – such as the state's income tax system, which distributes more of the costs to higher earners – to pay for other fixed public costs. It only makes sense to deploy an equitable approach to paying for the energy we need to be healthy and safe.

About CEJA's Income Graduated Fixed Charge Proposal

California Environmental Justice Alliance (CEJA) has put forth a proposal modeled after California's progressive income tax system, a tried and true strategy for equitably distributing infrastructure costs that are in the public good.

CEJA's proposal focuses on strong protections for low-income customers and would provide bill savings for low- and moderate-income customers through a five tier income-graduated structure. CEJA defines low-income at or below 80% of area median income (AMI) in accordance with the California Health and Safety Code, California Department of Housing and Community Development state income limits, and California Low-Income Weatherization Program. CEJA's proposal sets a zero-dollar fixed charge for low-income households.

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If adopted, our proposal would immediately lower bills for over 85% of California households by ensuring those within the wealthiest tier pay their fair share.

The PUC has set 4% - 5% of income as an acceptable energy burden in prior decisions. To illustrate how far California is from bill equity, even a $1,000 dollar monthly fixed charge would equate to less than 1% of the total income of customers within CEJA's highest proposed income bracket.

CEJA's proposal includes the following income brackets:

- $0 - 80% AMI (The CPUC has a history of using this standard to define low-income households.)
- 80% AMI - $200k
- $200k - $500k
- $500k - $2 million
- Above $2 million

Distributing costs of maintaining the electric system across a broad range of low-income classes is critical to an equitable income graduated fixed charge.

Utility Proposals Could Increase Rates For Low-Income Households

Investor-owned utilities have put forward a proposal for an income graduated fixed charge that would actually *increase* utility bills for some low-income households. This regressive proposal lumps households that make $65,000 into the highest income tier along with millionaires. That's unacceptable – and would not comply with the letter of the law.

Likewise, the Public Advocates Office and the Solar Energy Industries Association (SEIA) have introduced proposals that would treat many customers who earn less than 80% area median income (AMI) as *high income,* exacerbating rather than addressing existing energy burden.

What's Next

The CPUC has a deadline of July 2024 to consider the proposals. Parties to the CPUC proceeding have already submitted testimony including income graduated fixed charge proposals, comments responding to a myriad of clarifying questions asked by the Commission, and extensive legal briefing supported by prior writings. In order to adopt an income graduated fixed charge by July 1, 2024, the Commission will have to issue a proposed decision in the coming months and allow parties to comment before issuing its final decision.

On December 18, 2023, the Commission issued an additional ruling seeking clarification on matters of budget and timing, including clarification on implications of delaying adoption of an income graduated fixed charge until 2025.

In January 2024, a group of lawmakers announced a legislative effort to repeal the CPUC's authority to move forward with adopting an income graduated fixed charge.