July 25, 2023

TO: All CALSSA Member Companies

RE: Residential fixed charge proposals

The CPUC is currently considering proposals for large monthly charges for all residential customers. This memo provides context and expectations.

These proposals stem from legislation that was hastily passed last year at the urging of the investor owned utilities like PG&E. As a result, the CPUC is required to adopt an "income graduated fixed charge" with at least three income tiers. A decision is expected in April 2024.

CALSSA's proposal to comply with the legislative requirement is to create a monthly charge of $10-$15, similar to many utilities across the country, with a discount if you are moderate income and a deeper discount if you are low income.

A fixed charge is never good for solar, but with California's high rates a modest monthly fee would not reduce solar savings significantly. Bear in mind the fee would be assessed on all residential customers, whether they have solar or not. If you have a fee on your pre-solar bill, it is not a tax for going solar and solar can still provide significant consumer savings based on kWh rates. If the fees are large, the reduction in kWh rates would eat into solar savings, but if the fees are small this impact is minimal.

The utilities proposed very high charges. For households earning $150,000 per year or more, they proposed monthly charges of $85 for SCE, $92 for PG&E, and $128 for SDG&E. It is our assessment that the CPUC will not approve fixed charges of that magnitude and that the utilities don't expect to get approval for the amount they are requesting. It is typical strategy for the utilities to propose far more than they expect to get approval for.

Part of the reasoning behind the residential fixed charge is to bring down rates to make it easier for customers to adopt electric vehicles and heat pumps. Switching your home heating and water heating from cheap natural gas to expensive electricity is not a smart economic decision if you are not able to generate your own power. This is a real barrier that policy makers are grappling with. Under the proposals, energy rates ($/kWh) will be reduced somewhat to counterbalance the new monthly fee, with the utilities collecting the same total amount from all customers. However, the level of fixed charge that would be needed to make a difference in rates from an electrification point of view would be intolerable to customers. CALSSA contracted with Flagstaff Research to produce an analysis showing that small or moderate fixed charges do not help with electrification, and that the real result of any fixed charge proposal is that small homes and apartments would be subsidizing large homes. We expect those points to resonate with the CPUC, and we will push them to adopt a small charge to comply with the legislation and move on.

On June 19, the CPUC issued a ruling indicating that they intend to start small and proceed slowly. It said they will adopt a “gradual approach [that] will allow the Commission to gain experience from the first version of IGFCs and conduct research and solicit stakeholder input before providing design guidance for the next version of IGFCs.” It also said: “The earliest that the first version of IGFCs could be implemented in rates is the end of 2026.” This is not set in stone and a lot of work remains, but the ruling was clearly meant to calm nerves about the outrageous proposals from the utilities.

Respectfully,

Brad Heavner
Policy Director