



BDC Presents: Equitable and Affordable Rate Reform

February 29, 2024

Summary:

Join our panel as we discuss different approaches to creating more equitable and affordable rates for households. Our panelists include: Alexis Sutterman (California Environmental Justice Alliance), Theo Caretto (Communities for a Better Environment), Akhilesh Ramakrishnan (Brattle), Dr. Sanem Sergici (Brattle), and Sarah Moskowitz (Citizens Utility Board).

Resources:

- [Slides](#)
- [Recording](#)
- [BDC newsletter sign up](#)

Events

- [California Policy Call](#): March 19th, 10am PT / 1pm ET
- [BDC Presents: Gradient Comfort](#): March 28th, 10am PT/ 1pm ET
- [The NY Thermal Energy Networks Summit](#): March 6th, 8:30am ET

Summary

Heat Pump Friendly Cost Based Rate Design (Sanem and Akhilesh, Brattle Group)

- [A customer action pathway](#) (e.g. energy efficiency, space & water heating electrification, etc.) is essential for meeting decarbonization targets
 - Nearly twice the potential to reduce GhG emissions compared to greening the grid alone
- Rates can be designed to encourage heat pump adoption and be cost-based
 - Currently, most rate design in the United States is flat volumetric rate design where customers are charged the same price across the year
 - This rate design does not encourage heat pump adoption because customers may pay more for heating than staying on gas boilers
 - [Heat Pump-Friendly Cost-Based Rate Designs](#)
 - In the report, when rates are designed to reflect real costs, such as rates that have higher fixed charges, volumetric time-of-use, and demand-based time-of-use, it makes heat pumps economically viable for all customers
 - These various rate designs are cost-reflective because they allow for seasonality
 - If customers fully electrify their homes, they might avoid all gas charges and save an additional \$350/yr.
 - One thing utilities need to focus on is who to market these rate designs to and which rates to recommend to different types of customers

Rate Reform in Illinois (Sarah Moskowitz, CUB)

- Illinois Overview
 - Illinois is a restructured state where electric utilities do not own generation
 - Existing residential rate options in Illinois: (1) *default residential rate*, where the rate is flat throughout the day, (2), *residential real-time pricing*, where the rate is matched to the cost of production, and (3) *time-of-use*, where the rate is determined by when the energy is used
- [Climate & Equitable Jobs Act \(CEJA\)](#): Huge importance in Illinois rate reform
 - Created a process for regulators to consider new low-income discount rates
 - Codified requirement for utilities to submit credit & collections reports to regulators
 - Allows the CUB to [identify that people in low- to moderate-income areas paid more than their fair share for capacity](#) and is instrumental in identifying problems and solutions to inequitable rates
- Illinois Gas Rate Case Final Orders Nov. 2023: enacted to help control gas bills
 - Tiered low-income discount rates to be place by October 2024
 - 5 tiers, ranging from 5% up to 83%, depending on income
 - Designed to be applied to the whole bill, but is currently being contested
- Other Considerations
 - No low-income discounts for electricity rates yet, soon to be filed at the ICC
 - Electric Utility Rate Design Docket: might consider dynamic rates to incentivize electrification, but it has yet to be fully examined in Illinois

Designing Equitable Income-Graduated Fixed Charges (Alexis Sutterman and Theo Caretto, CEJA; CBE)

- Californians are facing a utility bill affordability crisis
 - In 3 years, residential rates have increased 63% for PG&E, 52% for SCE, and 13% for SDG&E
 - One in five households served by the state's IOUs are now behind on their bills
 - The rate system is regressive, meaning it disproportionately burdens low-income customers with higher energy costs than those who are better off financially.
 - California needs solutions to address this crisis and reduce the energy burden of low-income households such as income-graduated fixed charges, but it must be done correctly.
- What are income-graduated fixed charges?
 - It is a charge that only encapsulates fixed costs of the utility grid. The goal is to move any fixed costs that don't vary with electricity usage out of the volumetric rate and into fixed costs and recover more of those fixed costs from high-income ratepayers.
 - This benefits low-income customers because they are no longer required to front costs to pay for fixed costs of the electrical grid to access volumetric electricity.
- In 2022, California lawmakers passed AB205, mandating the adoption of income-graduated fixed charges. However, the California Public Utility Commission is currently in the process of hearing proposals and determining how to roll the program out.
- CEJA's proposal for income-graduated fixed charges
 - Five-tier income-graduated structure, similar to CA's income tax system
 - Defines low income at or below 80% of area median income, leaving a majority of fixed costs
 - Would lower bills for over 85% of California households

After the call: CEJA's fixed charge proposal is summarized in our [briefing](#), and the proceeding docket is available [here](#). As a note, the regulatory proceeding has a second track addressing real time pricing pilots, so the docket is a little messy. If you have any questions please contact Alexis (alexis@ceja.org) or Theo (theodore@cbeccal.org).

Q & A

1. What is the role of subsidies in rates? Are there solutions to invest vs keep rates affordable?

- **Sanem:** I worry about implementing subsidies to rate structure because we are drastically changing the efficiency of price signals and it could lead to big and long-lived consequences that might provide perverse incentives that discourage conservation. In my opinion, the better way to do this is through providing bill assistance, through bill discounts instead of rate discounts. There is also the idea of personalized income programs where you target an energy burden level for individual customers and you cap bills at that level.
- **Sarah:** We struggle with this balance as well. In Illinois, we do have a percentage of income payment program (PIPP) that is a state supplement to the federal program Low Income Home Energy Assistance Program (LIHEAP). Through PIPP, customers are held to 6% of their income to energy bills. It's been impactful for many customers who have been stuck in the disconnect-reconnect cycle through traditional LIHEAP, but the issue is that it's underfunded and full. It hasn't accepted new applications for a couple of years now.

2. Does Brattle's analysis take into account that some customers currently without A/C may use more electricity when they use their heat pump for cooling?

- **Sanem:** Great question! We did not model this impact, as most customers have some type of cooling, so the impact is likely to be small. There is a broader discussion on page 6 of [Heat Pump-Friendly Cost-Based Rate Designs](#).

3. Did the ESIG analysis consider more TOU granularity? Looks like very broad Peak vs Off-Peak buckets only - what about more nuance (4+ daily TOU periods)?

- **Akhilesh:** No, we considered only a two-period, seasonal TOU. It would definitely be interesting to add more rate options, including real-time pricing.

4. How has real-time pricing in IL been seen to benefit (or not?) customers who are electrifying their homes?

- **Sarah:** Illinois is a summer-peaking state so real-time rates are generally very very low in the winter and so good for electric heat customers.

5. What are the fixed charges that those below 80% AMI (area medium income) wouldn't have to pay under the proposal?

- **Theo:** This is a live issue up for debate in the regulatory proceeding. Some of the fixed costs being considered are customer access & grid connection costs, certain wildfire response costs, public program costs, & more.

6. Does CEJA use AMI on a county-level or statewide-level basis? And what are the bill savings \$ expected for 1st and 2nd tiers?

- **Alexis:** The AMI definition CEJA is advocating for is county and statewide AMI whichever is higher to ensure households in both urban and rural areas are protected.

7. Also, is this CEJA proposal being challenged legally? We are working on developing a rate reform proposal in Massachusetts.

- **Theo:** There are threats of litigation against fixed charges however, because no charges have been adopted, I don't think that litigation is live. The bill is also being challenged in the legislature.

8. I agree that low-income customers need to be supported, especially considering those residents tend to live in the hottest areas of CA. I wonder, however, if this would discourage customers from saving energy or installing energy-efficient systems since they will be paying a high fixed cost anyway. Would there be other ways to support low-income customers? taxing fossil fuels maybe?

- **Theo:** This is a difficult question we've been grappling with quite a bit. Since rates are so high in California, even after we reform rates to take some of these fixed grid costs out, there's still going to be a significant incentive to serve. In addition, the data that we are seeing shows that customers who are most price responsive are low-income and very low-income customers who are often not using electricity when they need it. CEJA's goal here is to address this affordability crisis to ensure that these customers who have been forging power can access that power. And so those incentives to conserve are still going to be there for a majority of customers.
- **Beckie:** I will also note that in California, our traditional conservation signals are changing rapidly. We are finding ourselves in places where we are curtailing renewable energy in the middle of the day because we don't have enough demand for it, and it really is becoming more a question of when you're saving the energy as opposed to saving energy overall if we're looking at greenhouse gas signals.

9. How do CEJA's proposed fixed charges per income category compare to the proposals by others? Also, could you please provide a link to CEJA's latest proposal in the CPUC docket or elsewhere?

- **Theo:** [CEJA's proposal](#) has the most progressive fixed charges. There are no parties that advocate for income brackets that are as skewed upwards as CEJA's. Other proposals are quite economically regressive and would not do a great deal to protect a lot of customers. And just to note, all those proposals are before the Public Utilities Commission who will be weighing in likely this quarter with how they want to move forward and its proposal for moving forward. So nothing is set in stone yet.

10. Did you say that the Illinois Utilities don't generate the electricity?

- **Sarah:** That's right. In Illinois, we are a deregulated or restructured state. So in the late 90s, essentially, our utilities were required to spin off their generation assets into separate entities. So now Commonwealth Edison is a completely separate company from Constellation Energy, which is the entity now that owns the nuclear plants that ComEd used to own. So ComEd customers are part of the PJM (Pennsylvania-New Jersey- Maryland) grid operator territory, and AMR customers are in MISO (Midcontinent Independent System Operator). And so the actual rates come from these regional markets.