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Witnesses:	Sean Matlock, Cynthia Fisher, and Robert Meredith
Commissioner:	Alice Reynolds
ALJ:	Stephanie Wang

JOINT REPLY TESTIMONY OF
BEAR VALLEY ELECTRIC SERVICE, INC. (U 913 E),
LIBERTY UTILITIES (CALPECO ELECTRIC) LLC (U 933 E),
AND PACIFICORP (U 901 E)

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Joint Reply Testimony Of Bear Valley Electric Service, Inc. (U 913 E), Liberty Utilities (CalPeco Electric) LLC (U 933 E), and PacifiCorp (U 901 E)

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JOINT REPLY TESTIMONY OF

BEAR VALLEY ELECTRIC SERVICE, INC. (U 913 E), LIBERTY UTILITIES (CALPECO ELECTRIC) LLC (U 933 E), AND PACIFICORP (U 901 E)

I. INTRODUCTION AND QUALIFICATIONS

In accordance with Assembly Bill ("AB") 205, the January 17, 2023 Administrative Law Judge's Ruling Providing Guidance for Phase 1 Track A Proposals and Requesting Comments on a Consulting Services Proposal, the Phase 1 Track A: Income-Graduated Fixed Charge Guidance Memo ("Guidance Memo"), and the February 22, 2023 Procedural Email Granting Request for Extension of Deadlines for Track A Testimony, Bear Valley Electric Service, Inc. ("Bear Valley"), Liberty Utilities (CalPeco Electric) LLC ("Liberty"), and PacifiCorp (collectively, the small and multi-jurisdictional utilities ("SMJUs")) hereby provide this joint reply testimony.

The witnesses providing this joint reply testimony, Sean Matlock, Cynthia Fisher, and Robert M. Meredith, are the same witnesses that provided opening testimony on April 7, 2023 on behalf of Bear Valley, Liberty, and PacifiCorp, respectively. Witness titles and qualifications are provided in the April 7, 2023 opening testimony of Bear Valley, Liberty, and PacifiCorp.[1]

II. BACKGROUND AND SUMMARY

AB 205 repealed caps on basic charges for residential customers and requires that the California Public Utilities Commission ("Commission") approve income-graduated fixed charges for each of the investor-owned utilities, with no fewer than three income thresholds, by

[1] *See* Opening Testimony of Bear Valley Providing Income-Graduated Fixed Charge Proposal, p. 1; Liberty Testimony, p. 1 and Attachment 2; and PacifiCorp Direct Testimony of Robert M. Meredith, p. 1.

July 1, 2024. On April 7, 2023, utilities, stakeholder groups, and the Public Advocates Office at the California Public Utilities Commission ("Cal Advocates") filed opening testimony presenting their income-graduated fixed charge proposals. While the SMJUs submitted different proposals for each of their utilities that reflected their different circumstances, there are key similarities between the proposals they made. All SMJUs proposed that there be three income tiers, that those income tiers be based upon multiples of federal poverty level, and that all distribution function costs be recovered through fixed charges. While other parties' proposals focused on income-graduated fixed charges for the three large investor-owned utilities, there are some elements of their proposals that should not be applied to SMJUs. This joint SMJU reply testimony addresses those elements and explains why the individual proposals from the SMJUs should be approved.

When evaluating income-graduated fixed charge proposals, the Commission should take into consideration the unique characteristics of SMJUs. SMJUs have far less customers than the larger investor-owned utilities. PacifiCorp, Liberty, and Bear Valley have about 48,000, 50,000, and 24,500 customers, respectively. Bear Valley has only 45 employees and Liberty has 137 employees. While PacifiCorp has more employees, its customers in California represent about two percent of its total customers from all six states PacifiCorp serves. In California, PacifiCorp serves a geographically dispersed service area with an average of four customers per square mile of service area. Bear Valley and Liberty serve areas that have a high proportion of seasonal vacation home customers who are not full-time residents.[2]

[2] 64.5% of Bear Valley's residential customers and 59% of Liberty's residential customers are seasonal non-permanent customers.

Because of these differences from the large investor-owned utilities, more onerous requirements will be more challenging for the more limited staff of SMJUs and potentially more costly for their customers to implement as fixed costs get spread over a smaller customer base. The SMJUs recommend that if more complicated income-graduated fixed charge programs are developed for the large investor-owned utilities, the SMJUs should be exempted from those complications and allowed to implement the simplified programs they have proposed which are better suited to SMJU circumstances.[3] This testimony discusses specific concepts raised in direct testimony and why many of those concepts should not be applied to the SMJUs.

III. INCOME GRADUATED TIER LEVELS

In each of their proposals, SMJUs requested three income levels – one at 100 percent or less of federal poverty level which is half the level of California Alternate Rates for Energy ("CARE") eligibility, the second between 100 and 200 percent of federal poverty capturing all remaining CARE eligible customers, and a default non-low-income level for income above 200 percent of federal poverty level. This structure works well for SMJUs because it uses the same definition of eligibility as CARE and keeps the structure simple by minimizing the number of tiers.

Some other parties recommend more tiers or different measurements of income. For example, Cal Advocates recommends for the larger investor-owned utilities that there be six income tiers.[4] These tiers would depend on overall household income and a customer's

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[3] This approach is also consistent with the simplified review process contemplated for the SMJUs. While a Fixed Charge Tool was developed by E3 to help assess income-graduated fixed charge proposals, that tool was designed around the large investor-owned utilities and does not account for the small sizes and unique characteristics of the SMJUs. Accordingly, the E3 Fixed Charge Tool cannot be used to assess SMJU income-graduated fixed charge proposals.

[4] These six tiers are based on Cal Advocates' proposed three income brackets for both CARE and non-CARE customers. (Cal Advocates Opening Testimony, pp. 7-8, 12-17.)

enrollment in the CARE program. The income level appears to be a flat amount per household irrespective of household size and not tied to any external measurement. California Environmental Justice Alliance ("CEJA") recommends 8-10 income tiers with a discount for all-electric customers.[5] Sierra Club recommends five income tiers.[6]

The simpler structures that the SMJUs proposed for income tiers should be accepted for the SMJUs even if more complicated choices are made for the three large investor-owned utilities. Having more than the minimum three tier requirement, using a different metric than federal poverty level, or adding additional parameters like whether a customer is all-electric or not increases the complexity and administrative burden for SMJUs. Using the same definition of customer income as used by the CARE program avoids customer confusion, which would be inevitable if a customer was considered low income under one utility program but not low income under another utility program. Using the same definition of customer income as the CARE program also allows for administrative simplicity from the utilities, allowing enrollment in both programs based on a single collection of customer income information. Additionally, tying income applicability to the federal poverty level will allow eligible incomes to adjust regularly to reflect changing income measurements without requiring regular filings to reevaluate fixed income tiers set solely for the income graduated fixed charges program.

IV. INCOME VERIFICATION

Some of the parties recommend using specific agencies to verify income either temporarily or long-term that includes utilizing the TheWorkNumber from Equifax and the

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[5] CEJA Opening Testimony, pp. 19-23.

[6] Sierra Club Opening Testimony, pp. 2, 31-32.

Federal Tax Board.[7] The SMJUs agree that using a federal or state agency or other third-party to verify income can be appropriate in the long term and are open to making a permanent change to the income verification process to accommodate the third-party verification at a later date when the SMJUs can agree on the appropriate third-party.

However, in the short term the SMJUs propose that income verification leverages the existing self-attestation process for enrollment in the CARE program. As with determining income-graduated fixed charge tiers, using the same eligibility structure as CARE would keep the process simpler and would avoid customer confusion. Utilizing the existing process also provides less administrative burden on the utility to implement. Customers not enrolled in the CARE program would be automatically put on the default non-low-income first tier, with the CARE program recipients being automatically enrolled in the second tier. The third tier CARE customers would have to self-attest that their income levels are at or below 100% of federal poverty levels.

V. ASSIGNING CLIMATE CREDITS TO FIXED CHARGES

Cal Advocates recommends that the California Climate Credit be redesigned to offset fixed charges to the greatest extent possible for low-income customers.[8] The SMJUs recommend that any proposed changes to the California Climate Credit should be made in a separate proceeding including all parties interested in the distribution of the Cap and Trade allocated allowance auction proceeds. The current structure of the residential California Climate Credit has been determined through extensive review and consideration and should not be adjusted lightly nor in the context of this limited docket. The SMJUs initial response to Cal Advocates'

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[7] *See* CEJA Opening Testimony, pp. 18-21; Cal Advocates Opening Testimony, pp. 7-16; Natural Resources Defense Council and The Utility Reform Network Opening Testimony, pp. 34-38.

[8] Cal Advocates Opening Testimony, pp. 2, 7, 23-24.

proposal is that it would be very challenging to implement. Every year the climate credit changes. Income-graduated fixed charges will also change over time and at different times than the climate credit. Achieving a perfect offset for low-income fixed charges would be difficult at best and would certainly add complexity to customer bills and administrative burden in tracking and billing the climate credit for the utilities. The existing distribution of the residential climate credit is a reasonable method that can be used by customers to offset any change to fixed charges over time if the customer so chooses, or can be used by the customer to invest in energy efficiency measures. Cal Advocates' proposal to redeploy the California Climate Credit to specifically offset the fixed charges for low-income customers should not be approved for SMJUs.

VI. PARTICULAR CONSIDERATION FOR SETTING FIXED CHARGE LEVELS FOR SMJUS

Apart from the challenge of implementation and administration given staffing levels for SMJUs, there are significant differences between the larger investor-owned utilities and the SMJUs. PacifiCorp serves a very rural, sparsely populated service area and Bear Valley and Liberty serve customer bases that include a significant proportion of part-time residents. These factors support the full inclusion of distribution function costs into the fixed charge.

Presently, most distribution function costs are recovered through volumetric energy charges. Marginal distribution costs are considered both commitment- (customer) and demand-related. For non-residential customers, the cost of the distribution system can accordingly be recovered through both customer and demand charges. Demand charges for residential customers have challenges, so the fundamental question becomes what is the greater driver of the cost of the distribution system for residential customers – energy usage or customer count? The number of customers and their geographic presence on the system is a significant driver for the cost of the distribution system. Using volumetric energy usage as a proxy for demand has a far weaker basis in cost causation. If a residential customer uses more energy, that incremental usage is very unlikely to cause a utility to deploy more poles and wires or upgrade the size of a transformer.

This is particularly true for the SMJUs, who either provide service to more remote areas or to significant populations of part-time residents. Assigning the entire distribution function to fixed charges is also a simpler methodology which will require less effort for the SMJUs and other parties to prepare and review on an ongoing basis. Recovering all distribution function costs in the fixed charge, instead of a more limited proportion of distribution costs, as some parties recommend, should be approved for the SMJUs as a more equitable revenue recovery mechanism. To the extent that the Commission wishes to blunt the impact to customers of the larger fixed charges resulting from collecting all distribution costs through the fixed charge, a specific percentage could be applied to reduce the amount of total distribution costs collected through fixed charges and/or a transition period could be applied to gradually increase fixed charges to the full distribution cost collection level.

VII. NON-BYPASSABLE CHARGES

Cal Advocates recommends that non-bypassable charges be recovered in income graduated fixed charges.[9] It is first important to note that a non-bypassable charge is a concept related to Net Energy Metering ("NEM") 2.0, a customer-generator program that the larger investor-owned utilities have.[10] While the SMJUs have net metering programs, the SMJUs are

[9] Cal Advocates Opening Testimony, pp. 10-12.

[10] *See* https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/demand-side-management/net-energy-metering/nem-revisit/frequently-asked-questions.

not subject to NEM 2.0 requirements and their net metering programs differ from the NEM 2.0 program. Therefore, the SMJUs do not have a defined list of non-bypassable charges. The SMJUs assume that, for them, non-bypassable charges would translate to specific programs funded through separate adjustment schedules not related to the utility's base revenue requirement. Examples include surcharges to fund public purpose or demand side management programs, the surcharge to fund the CARE discount, and the surcharge to fund the public utility commission reimbursement fee.

In principle, redesigning such charges from the current volumetric rates into fixed charges seems appropriate where those costs being recovered are not directly related to volumetric use. However, their inclusion into fixed charges for SMJUs will complicate billing and regulatory accounting work for the SMJUs that have far less staff to deal with complexity and far fewer customers over which administrative expenses can be spread. Fixed charges now are generally changed only in the context of a general rate case. Revising separate adjustment schedules into a fixed charge means that the fixed charge will need to change more frequently with every change to an adjustment schedule. It will also make the tracking of adjustment schedule revenue potentially more challenging as current systems are built to measure revenue from volumetrically designed rates. Embedding fixed charge adjustments into the new larger, fixed charges that will be billed to customers will serve to further increase the magnitude of monthly fixed charges that customers see. To reduce complexity and administrative burden and to avoid increasing the magnitude of the fixed charges customers will see even further, adjustment schedules for the SMJUs should continue to be collected through volumetric rates at this time and not be converted to fixed per customer charges. The Commission could revisit the application of adjustment surcharges in the future, if warranted.[11]

In the event that the Commission determines that such adjustment schedule charges should be converted to fixed per customer charges for the SMJUs, the SMJUs recommend that the fixed charges for adjustment schedule rates should at least not be income-graduated. Given the limited extent of these costs compared to the overall distribution-related costs, the burden of these surcharges if applied in a single, non-graduated tier would not be as great on low-income customers. The value of easing the administrative burden for the SMJUs by applying single tier fixed rates for adjustment schedules would outweigh the limited benefit of more complicated income graduated rates for these adjustments.

VIII. CONCLUSION

In recognition of the key differences between the SMJUs and the large investor-owned utilities, more complex and burdensome proposals and recommendations for income-graduated fixed charges should not be adopted for the SMJUs. Instead, Bear Valley, Liberty, and PacifiCorp should adopt the straightforward and more easily applied income-graduated fixed charge proposals as recommended in their opening testimony. This will minimize burdens on the limited staff of the SMJUs and avoid higher costs associated with more complex proposals that are ultimately borne by the SMJUs' smaller customer bases. For these reasons, as well as the reasons outlined in the SMJUs' opening testimony, SMJU income-graduated fixed charges should: (i) utilize three income levels, (ii) leverage existing CARE self-attestation mechanisms for income verification at this time, (iii) avoid adjustments to the California Climate Credit, (iv)

[11] It should be noted that adjustments to surcharges would require adjustments to Commission fees and fee allocation given that fees are currently allocated based on volume and set using a single volumetric rate for all utilities.

include full distribution function costs in fixed charges, and (v) avoid including non-bypassable charges or adjustment schedules in fixed charges.