Energy Division
California Public Utilities Commission

DATA REQUEST	
Date:	February 2, 2024
Originator:	Bridget Sieren-Smith
Email:	bridget.sieren-smith@cpuc.ca.gov
Due Date:	February 16, 2024
Subject:	**2024 SB 695 Report IOU Recommendations to Limit Cost and Rate - Increases (Electric and Gas IOUs) – Part II**
Priority:	**Time-Sensitive**

Please provide the information as requested below. Please submit your response to this data request directly to the Originator, Bridget Sieren-Smith (bridget.sieren-smith@cpuc.ca.gov). Questions regarding this data request should be immediately directed to the Originator.

This data request is issued regarding proposed recommendations of the electric and gas investor-owned utilities (IOU) to limit cost and rate increases consistent with the state's energy and environmental goals for reducing greenhouse gases, pursuant to Public Utilities Code Section 913.1 which requires the utilities to:

> "…study and report to the commission on measures that they recommend be undertaken to limit costs and rate increases."

In preparing your utility's response, the IOU should be as specific as possible in identifying and quantifying specific potential cost savings initiatives.[1]

The data provided in the response will be included in its entirety in an appendix to the 2024 SB 695 Report.

[1] Data reflecting rates trends, cost recovery mechanisms, types of cost recovery proceedings, and other data non-specific to studying and reporting on measures recommended to limit cost and rate increases should not be included, except to the extent that such data directly supports the recommendations.

SCE's Response

SCE's Recommendations to Limit Cost and Rate Increases

a. Fixed Charges

SCE is encouraged by the slate of issues the Commission is exploring in the interest of affordability, and particularly appreciative of opportunities to engage in proceedings focused on equitable outcomes for low-income and underserved customers. Consistent with Assembly Bill 205, Track A of the Demand Flexibility OIR (R.22-07-005) is contemplating proposals from SCE and numerous other parties to introduce fixed charges to the residential class of customers. Currently, residential rates do not include a meaningful monthly fixed charge to recover fixed costs relating to utility infrastructure (e.g., transmission and distribution grid) and public policy efforts (e.g., support for low-income programs and energy efficiency) that do not vary with changes in usage or demand. Instead, these fixed costs are recovered through volumetric charges that vary with changes in usage and demand. Recovery of fixed costs through volumetric rates distorts price signals and results in some customers paying more than their respective share of fixed costs and others paying less. Recovering fixed costs through volumetric rather than fixed rates increases volumetric rates and thereby may disincentivize adoption of GHG reducing technologies that require more household electric usage, such as electric vehicles and heat-pumps, the usage of which can offset emissions-intensive fuel consumption. The fixed charge proposed by SCE has the potential to materially reduce bills for lower income customers, providing a meaningful tool for the Commission to address affordability. Under SCE's proposal, the effective discount for lower income customers would increase from 32.5% (which results from existing assistance programs such as CARE) to 45%.

When coupled with programs that provide greater access to electrification technologies, residential fixed charges may have a compounding effect that reduces energy burdens for low-income customers and reduces GHG emissions by extending the benefits of both lower volumetric rates and, for those who qualify, low-income program discounts pertaining to vehicle fueling and home heating.

b. Accessing State General Funds for CARE/FERA Costs

SCE is supportive of continuing to seek opportunities to utilize non-customer funding for certain public purpose programs and other activities that are not specifically related to a utility's cost of service but are paid today through electric rates. For example, the program costs and subsidies associated with SCE's income-qualified CARE and FERA programs would be appropriate to fund with state funds, given that they provide valuable assistance for income-constrained customers, reflecting a beneficial public good beyond the utilities' operations and services. Fully funding CARE / FERA subsidy costs with state funds would result in a meaningful rate reduction for non-participating customers, improving the affordability of electric bills. The benefit could be even more significant if the state chooses to not only durably fund the costs through the general fund or other source, but also were to expand the eligibility criteria or the size of the subsidy as well.

c. Securitization of Certain O&M Costs

Under normal circumstances, SCE would seek recovery of all O&M expenses in rates in the period they are incurred or immediately upon a determination that they are just, reasonable, and consistent with long-standing cost of service ratemaking principles. However, securitization, for certain exceptional O&M expenses and/or during periods of economic uncertainty, is an important tool that supports both customer affordability by reducing near-term rate increases and utility financial health by maintaining compensatory cost-of-service ratemaking.

Existing authorizing legislation (*i.e.,* Assembly Bill (AB) 1054) allows for the securitization of wildfire mitigation-related O&M expenses, other wildfire-related costs above insurance, and wildfire-related restoration expenses. In D.21-10-025, the Commission determined that AB 1054 does not preclude the Commission from considering securitization of wildfire mitigation expenses that provide both short-term and long-term economic benefits to customers.[2] Utilizing this securitization authority would minimize bill increases, particularly for SCE's most economically vulnerable customers. This is because, under the current statute, SCE's income-qualified customers are exempt from the Fixed Recovery Charges (FRCs) used to recover securitized costs.[3] If SCE had been allowed to securitize approximately $478 million of 2018-2019 wildfire mitigation O&M and a portion of its 2020 incremental uncollectibles as proposed in its June 2021 Application for Authority to Issue Recovery Bonds, for example, CARE customers would have seen an annual bill reduction of approximately $38 compared to traditional financing.[4] There are also near-term rate reductions for customers who are responsible for securitized costs because these amounts go into rate levels at a significantly lower amount compared to traditional compensatory recovery of O&M expenses (e.g., in the prior example, instead of increasing rate levels by $478 million in a single year, the rate increase in the first year related to the securitized costs would have been approximately $25 million). These near-term rate reductions are particularly important at a time when rate pressures on these vulnerable customers can be significant and economic circumstances are uncertain.

SCE's customers further benefit from this type of financing because unlike lengthy and non-compensatory amortization periods, targeted securitization aligns with cost-of-service ratemaking and is excluded from SCE's credit metrics. Better credit metrics represent improved financial health and support lower costs of traditional financing, which benefit current and future customers. That said, there is a limit to how much of SCE's revenue can be securitized while still receiving a AAA rating that

---

[2] *See* D.21-10-025. p. 15.

[3] Public Utilities Code Section 850.1(i) requires that utilities exclude the Fixed Recovery Charge from the utility bills of customers who participate in the CARE and FERA programs.

[4] *See* SCE's Opening Brief in A.21-06-016, pp. 2-3.

allows for low interest rates.[5] As such, SCE intends to assess any broader use of securitization based on the then-current environment and does not consider it to be the default tool for financing business-as-usual investments. However, given the benefits to customer affordability and corresponding utility financial health, securitization is a tool that should be authorized when conditions warrant such action.

The opportunity already exists today for the Commission to approve greater use of securitization to the benefit of customers, particularly for wildfire-related expenses above insurance.

d. Prompt Commission Decisions Authorizing the Recovery of Costs in Balancing and Memorandum Accounts or Interim Rate Recovery

Timely Commission decisions authorizing recovery of the costs tracked in balancing and memorandum accounts reduce the financing-related costs borne by customers in rates. The costs recorded in balancing and memorandum accounts accrue interest monthly at the short-term three-month commercial paper rate, which has risen from near zero in 2020 to well over 5 percent for much of 2023 and continuing into 2024.[6] As a result, delays in issuing decisions that authorize recovery of prudently-incurred amounts recorded in these accounts expose customers to materially higher financing costs in rates in addition to the direct costs to be recovered. For example, at the under-collected level of $2.2 billion held in SCE's memo account balances at year end 2022 (inclusive of accounts approved for recovery but that are still being amortized over multi-year periods per the Commission's direction and excluding wildfire claims that are tracked separately), customers would incur financing expense of $10 million each month.

Extended timelines to authorize recovery also further increase customer costs due to the credit metric impacts from associated debt increases and cash flow delays, which result in higher borrowing costs that customers then incur for financings across the rest of SCE's portfolio. Since 2018, SCE has issued $6.5 billion of 30-year debt to finance operations, and these issuances have been at higher costs than non-California peers due to wildfire cost recovery risk and weakened financial metrics. This has increased customer costs by over $1.3 billion[7] over the life of the bonds.

Additionally, the use of interim rate recovery (IRR) is a complementary tool that also supports reduced financing costs for customers by allowing recorded costs in balancing and memorandum accounts to be recovered during the pendency of a proceeding, subject to refund upon the issuance of a final decision. This tool helps reduce customer interest charges as well as the accumulation of historical costs that must be recovered on top of forecast costs, which otherwise can lead to "rate pancaking" and volatility for customers and, in some cases, the use of non-compensatory extended amortization periods that further stress credit metrics and future borrowing costs.

---

[5] Fitch's limit on AAA-rated securitization debt allows for the fixed recovery charge from securitization to rise only as high as 20 percent of the amounts otherwise in rates.

[6] The applicable interest rate as of January 2024 was 5.36 percent.

[7] Based on credit spreads of SCE's 2018 – 2023 30-year financings compared to those of Public Service Electric and GasCo. (PSEG) and PECO in same period (SCE issued at ~65 basis points higher, on average).

e. State Support for Electrification

Achieving California's greenhouse gas (GHG) emission reduction and clean air goals requires substantial decarbonization across all sectors of the economy and necessitates rigorous planning to keep energy safe, reliable, clean, and affordable. Multiple public studies have shown that electrification of transportation and buildings provides a feasible and economic route to achieve climate neutrality by 2045, reflecting the state's climate change commitment.

As more customers electrify, the added sales will spread SCE's fixed operating costs over a larger volume of sales, resulting in a downward pressure on rates. In order to manage the transition toward electrification in an affordable and equitable way, accelerating building and transportation electrification now, particularly in environmental and social justice communities, is an investment that avoids unnecessary costs and generates real benefits over the present and long term.

For buildings, public and private stakeholders need to do all they can to accelerate heat pump technology adoption to meet California's climate goals. The electric sector, state agencies, and legislators should enact policies and implement programs that strive to achieve the 6 million heat pump target by 2030 set by the governor and rapidly lower costs and reduce market barriers. For example, SCE, the Commission, and other stakeholders should work closely with the California Air Resource Board (CARB) on zero-emissions standards for new appliances that are in alignment with its 2022 Scoping Plan for Achieving Carbon Neutrality.

For transportation, CARB's Low Carbon Fuel Standard (LCFS) regulation provides a source of non-ratepayer funding (through LCFS credit revenues) for projects that will help accelerate the transition to zero emission vehicles, including funding for: (1) the statewide Clean Fuel Reward (CFR) program and (2) utility "Holdback" projects that are intended to benefit electric vehicle drivers. A recent proposed amendment to the LCFS regulation directs the CFR program to provide a rebate on the price of a new purchased or leased medium- or heavy-duty electric vehicle, provided it is not subject to CARB's High Priority and Federal Fleets requirements. Additionally, CARB is proposing amendments to the LCFS Holdback projects to clarify eligibility and order 75% of Holdback credit revenues to be used in support of projects that benefit equity communities (i.e., low-income, disadvantaged, or on federally recognized tribal land). Using LCFS to fund pilots, programs, and services that help accelerate customer adoption of electric vehicles allows those customers to start realizing the cost benefits of fuel switching immediately, and increases total electric system utilization, which directly applies downward pressure on electricity rates (which benefits all electricity customers, not just EV drivers).

f. Grant Funding to Offset the Cost of Investment to Customers

SCE has pursued and continues to apply for opportunities for alternative funding from outside sources, when appropriate, to decrease cost impacts to its customers. These opportunities are primarily from the Infrastructure Investment and Jobs Act, the Department of Energy, and the California Energy Commission. To secure these grant opportunities, it is often necessary to comply with requirements that are different from what the CPUC normally requires or to provide matching funding sources.

Resolving these questions around requirements and funding quickly with the Commission can help place SCE in a more competitive position to secure these grants.

Simply because there are grant opportunities, however, does not mean SCE is directly eligible to win such grants, or that it will win such grants. Moreover, the uncertainty around the timing, continuity, and ability of SCE to be the successful recipient for available grant funds means that this potential availability cannot adequately replace the need for traditional SCE investments.

g. Monetizing and Increasing the Customer Revenue Stream From Tower Attachments

SCE recently filed an Application, A.23-11-002, requesting Commission authorization involving its current and future business of entering into agreements for limited use of its transmission towers and other utility property by wireless carriers to attach or install telecommunications equipment, structures, and facilities. In the proposed transaction, a third-party buyer would provide SCE an upfront payment and agree to providing SCE a share of future incremental revenue streams in exchange for the assignment of certain of SCE's rights under existing agreements with carriers. The buyer would also receive the right to market to and contract with carriers for new tower sites and new ground sites. SCE's rationale for undertaking the proposed transaction is to monetize and potentially increase the revenue stream from this business for the benefit of SCE and its customers.

Customers will receive both short-term and long-term financial benefits from the proposed transaction. SCE will receive one lump sum payment from the buyer reflecting both (i) the value the buyer places on the future revenue from the existing sites, as well as (ii) the value the buyer places on the rights to enter agreements with carriers for new sites. This will have immediate rate reduction impacts for customers. Also, because the buyer is expected to have a focus on the tower attachment business and thus an expertise in identifying potential sites and executing carrier agreements, and because the buyer may also have a lower discount rate than SCE, it is expected that the upfront proceeds from the proposed transaction will exceed the net present value of the future revenue under the status quo. In the long-term, a portion of SCE's negotiated share of revenue for new agreements that the buyer enters into with carriers will be allocated to customers consistent with the sharing mechanism set forth in SCE's Non-Tariffed Product and Services (NTP&S) program. The buyer's operational focus on and expertise in the business can expand the potential number of sites utilized by carriers, which in turn would increase incremental NTP&S revenue and rate reduction benefits for customers.