Energy Division
California Public Utilities Commission

DATA REQUEST	
Date:	March 3, 2023
Originator:	Bridget Sieren-Smith
Email:	bridget.sieren-smith@cpuc.ca.gov
Due Date:	March 17, 2023
Subject:	**2023 SB 695 Report IOU Recommendations to Limit Cost and Rate Increases (Electric and Gas IOUs)**
Priority:	**Time-Sensitive**

Please provide the information as requested below. Please submit your response to this data request directly to 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 2023 SB 695 Report.

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[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. Income-Graduated Fixed Charges

SCE is encouraged by the slate of issues the Commission is currently exploring in the interest of affordability, and particularly appreciative of opportunities to engage in proceedings with strong focuses on equitable outcomes for low-income and underserved customers. For instance, in the Demand Flexibility OIR (R.22-07-005), SCE will submit a rate design proposal in April 2023 that is consistent with Assembly Bill 205 and would introduce income-graduated fixed charges to the residential class of customers. Currently, residential rates do not include a meaningful monthly fixed charge for recovery of fixed costs like utility infrastructure (e.g., transmission and distribution grid) and public policy efforts (e.g., costs to support low-income programs and energy efficiency) that do not vary with changes in usage or demand. Instead, these fixed costs are currently recovered under volumetric charges that vary with changes in usage and demand. This results in higher volumetric rates than they would be otherwise, which is inefficient from a pricing perspective. These inflated volumetric rates impede the adoption of GHG reducing technologies.

Changing the residential rate structure so that fixed costs are instead recovered through a fixed charge paid by all customers would mitigate this inefficiency by lowering volumetric rates for all residential customers. However, having all customers pay the same fixed charge would result in a regressive rate structure placing more pressure on low-income customers. Thus, the California legislature added income gradation to the fixed charge requirements of AB 205 to reduce the fixed charge of lower-income customers, improving affordability and reducing the electricity burden for lower-income customers. When coupled with programs that provide greater access to electrification technologies, income-graduated fixed charges may have a compounding effect that reduces energy burdens for low-income customers by extending the benefits of lower volumetric rates 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. Wildfire Self-Insurance

SCE actively pursues and maintains productivity improvement and cost control measures, which has helped SCE maintain a lower system average rate than PG&E and SDG&E. One recent cost control measure taken by SCE is a move to a pure self-insurance model for wildfire liability risk. SCE recently entered into an agreement with The Utility Reform Network and the Public Advocates Office that would have SCE rely 100% on self-insurance for wildfire insurance starting with the latter half of 2023. This agreement was submitted for Commission approval in a February 22, 2023 Joint Petition for Modification of the Commission's Track 1 Decision in SCE's 2021 General Rate Case (GRC).[2] A self-insurance framework like the one agreed-to offers potential benefits to customers as compared to purchasing third-party insurance from the commercial market.

First, to the extent funds are not needed to cover losses in a given year, the self-insurance revenue requirement remains available for subsequent years. This is not the case for commercial insurance, where the insurers generally keep the premiums paid regardless of the amount of claims ultimately made against the policy. Under this "use it or lose it" paradigm and given current market prices, in a year with relatively low claims submitted to the insurer for reimbursement, customers are potentially leaving the insurers with hundreds of millions of dollars in premiums exceeding the amount of paid claims. In a self-insurance program, such collections and savings would be to the customers' gain, available when needed and potentially allowing for a premium holiday in future years.

Second, there is often a lag between the time a wildfire event occurs and the time when claims are ultimately paid. As such, the amount of self-insurance that may be necessary to pay claims in future years does not necessarily need to be collected in rates upfront, and all at once. This is not the case for commercial insurance, where the entire amount of premium needs to be paid to the insurance company at the time the policy is purchased, which is often years before the covered claims are paid and reimbursed by the insurer.

For these reasons, if the agreement is approved by the Commission, SCE is likely to achieve necessary liability coverage at a substantially lower cost to customers than would be the case through continued reliance on third-party insurance offerings. Specifically, the agreement would reduce the 2023 calendar year revenue requirement currently authorized by the Commission for wildfire liability insurance by approximately $80 million and could reduce the 2024 revenue requirement by approximately $160 million, along with a one-time credit of up to $24 million depending on wildfire liability incurred. In recognition of the likelihood of achieving increased benefits from a self-insurance program that extends for at least several years, the parties also stipulated in the agreement to support and defend the extension of the agreement in SCE's 2025 GRC.

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[2] *See* A.19-08-013, Feb. 22, 2023 Joint Petition for Modification of Decision (D.) 21-08-036 and Expedited Approval and Adoption of the Attached Agreement of Southern California Edison Company (U 338-E), the Public Advocates Office, and The Utility Reform Network Regarding Wildfire Liability Insurance.

d. 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.[3] 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.[4] 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.[5] 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 allows for low interest rates.[6] 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.

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

[4] 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.

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

[6] 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.

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.

e. 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 reduces the financing-related costs borne by customers. 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 approximately 5 percent as of early 2023 and may continue to rise. As a result, delay in issuing a decision that authorizes recovery of amounts recorded in these accounts exposes customers to materially higher financing costs in addition to the direct costs to be recovered. For example, at the under-collected level of $3.0 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 tracked separately, customers would incur financing expense of $12 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 $5.8 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 $1.1 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 the build up 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.

[7] Based on credit spreads of SCE's 2018 – 2023 YTD, 30-year financings compared to those of Public Service Electric and Gas Co. and PECO in same period (SCE issued at ~64 basis points higher, on average).