

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Establish a
Framework and Processes for Assessing the
Affordability of Utility Service.

Rulemaking 18-07-006
(filed July 12, 2018)

**COMMENTS OF THE CALIFORNIA COMMUNITY CHOICE ASSOCIATION IN
RESPONSE TO THE ADMINISTRATIVE LAW JUDGE'S RULING ADDING
WORKSHOP PRESENTATIONS INTO THE RECORD AND INVITING POST-
WORKSHOP COMMENTS**

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For: California Community Choice Association

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I. Introduction

The California Community Choice Association (“CalCCA”) respectfully submits these comments in response to the Administrative Law Judge’s Ruling Adding Workshop Presentations into the Record and Inviting Post-Workshop Comments filed April 12, 2019.

The members of CalCCA are the 19 community choice aggregators (“CCAs”) and affiliated cities and counties interested in exploring the opportunities of community choice energy. As local government agencies, local governments, or community groups, we are keenly aware of the needs of our communities for affordable energy and the many intersections of social, economic and energy needs. CalCCA focuses our comments on questions of energy affordability in particular as this represents the area of particular expertise of our members, but we are interested in promoting comprehensive consideration of the affordability of all utility bills jointly.

II. Definitions

1. How can the definition of essential service above be refined?

The definition of essential service levels must be revised to include not just health, comfort and safety, but also levels of utility service needed to support functions fundamental to a household’s social and economic participation. As identified in the Affordability Framework (Appendix J)¹ a lack of adequate utility services undermines customers’ critical social, economic, and educational participation. Any concept of “essential service quantity” must rest fundamentally on a concept of “essential” that incorporates all functions necessary to facilitate household members’ ability to pursue their social, academic, and economic goals without incurring financial hardship. A failure to incorporate these aspects risks undermining the household’s ability to pay bills on a sustainable basis.

California’s experience has shown sharply how such hardships in turn quickly undermine health, safety, and comfort. For example, as emphasized in the disconnection proceeding R.18-

¹ Affordability Definitions, Metrics, and Implementation of Affordability Framework: Background and Questions for Parties, Appendix J, Attachment A, Administrative Law Judge’s Ruling Adding Workshop Presentations into the Record and Inviting Post-Workshop Comments (April 12, 2019).

10-005,² energy insecurity can lead to job losses, poorer academic performance, and potentially social isolation, while a lack of broadband access is associated with lower graduation rates³ and difficulties to maintain employment. The loss of these social and economic functions can ultimately drive a loss of health, safety, or comfort and drive social consequences and costs far in excess of the relatively small cost of providing the minimal utility service. While addressing affordability may raise costs for other customers, non-collection of utility bills does also, as do the social and economic consequences of social and economic dislocation.

This more focused concept of essential service must include an assessment of the impacts of shortfalls in utility service on the ability of families and individuals to maintain their own abilities to support themselves. A systematic assessment of the essential services should ideally extend beyond the bare minimum of comfort, health and safety to evaluate the consequences for social and economic participation from shortfalls of utility services.

This concept also is fundamental to understanding affordability in frameworks that incorporate an assessment of essential expenses, such as Teodoro’s Affordability Ratio. In both contexts, the evaluation of what is essential is tied to non-discretionary spending above that required to support critical functioning. Therefore, the CalCCA members recommend focusing the scope of the definition of “essential service levels” to include support of agreed-upon essential functions:

An essential service quantity of utility service is that amount necessary for health, comfort, and, safety as well as to facilitate social, economic and academic participation.

2. Is the definition suitable to all public utility services? Why, why not?

Yes. Each public utility service supports critical social, economic, and health functions, so the basic analysis remains the same. Although how much utility service is required to avoid negative social and economic consequences will vary between different services, all have some base level of utility service below which negative consequences begin to accrue.

² See, e.g., Workshop #3: Improving Energy Access by Reducing and Avoiding Disconnections, Disconnections Proceeding, R.18-07-005.

³ Council of Economic Advisers (2016) The Digital Divide and Economic Benefits of Broadband Access (cited by Achilles, Appendix H).

3. Is it appropriate to connect the concepts of affordability and essential service?

Unequivocally yes. Both essential service and affordability begin with an assessment of a household’s essential needs. In the context of essential services, these needs determine essential service quantities, while the non-utility costs of meeting these needs also define non-discretionary budgets that underlie concepts such as poverty measures (e.g., standard federal poverty guidelines, federal supplemental poverty thresholds, and the California Poverty Measure all feature spending on an essential set of goods and services) or the Affordability Ratio. Without such a linkage in a common understanding of what defines essential service and essential expenses, both risk becoming divorced from the lived experiences of customers and ultimately misinforms policy makers.

4. How can the concept of “substantial hardship” be refined and what data sources could be used to further define the concept?

Customers face hardship when they are unable to afford other essential expenses due to high utility bills. If affordability is assessed in terms of the ability to pay for both essential utility service and essential household needs, any adopted metrics are more likely to ensure that utility bills do not crowd out other critical spending categories or lead to utility disconnection. This approach drives several key conclusions about how to measure affordability.

1. ***Unit of measurement*** - Metrics should be developed at the *meter level*, rather than be assessed by market-level or rate impacts, which may reflect affordability unevenly across households.
2. ***Geographic area*** - Metrics should make use of the available county, zip-code, and census tract level data that exist in order to capture the wide diversity of economic conditions across the state.
3. ***Household data***- should reflect the fact that affordability varies among households depending on expenses and income.
4. ***Consideration of all utility bills*** – The sum of all utility costs should be assessed for their cumulative impacts.

1) Unit of Measurement -Since the actual impacts of utility bills can best be understood in the context of household expenses, affordability measures should be expressly tied to a household's other non-discretionary expenses. Since basic definitions revolve around the ability to pay bills without compromising other essential expenses, the most direct measures should include those costs in relation to income in some form. Thus, household metrics should incorporate non-discretionary expenses in order to determine the degree to which utility costs impinge on non-discretionary spending, following the approach of measures such as CPUC's material hardship survey in the 2016 Low Income Needs Assessment or the budget-based analysis of the California Budget & Policy Center.

Such an accounting is superior to utility-specific measures, such as energy burden measures, because the simple ratios do not account for what other essential expenses exist and thus are more likely to fail to capture actual hardship. This can become a serious issue with measures that adopt a fixed ratio, because the discretionary proportion of a household budget does not vary in a linear fashion with income. In particular, housing costs are exceptionally high in California, which means lower percentages are more appropriate generally in California than those based on the experience in other jurisdictions and that the appropriate ratio will differ sharply across the state.

2) Geographic Area - Geographic indexing is critical, since essentials, such as food, housing, medical needs, or child care as well as aggregate utility costs, can vary dramatically across the state. Thus, geographic-based approaches may do a better job of more precisely capturing substantial hardship by sub-state geographies and by demographic groups, provided the data include not just climate, but also variation in housing costs, food costs and other essential costs. While this increases the need for data to derive affordability metrics, there are several existing sources, such as those underlying the California Poverty Measure or the American Community Survey. County social services agencies are also a source of aggregate data on household expenses for low income residents.

3) Household data - Affordability measures must ideally include household size (e.g., the number of dependents, their age, and the number of income-earning adults), household type (e.g., single parent, two-parent, retiree, etc.) and other measures that can refine the understanding

of essential expenses. Each of these variables have substantial impacts on the level of essential expenses. Various existing state data (such as those used to calculate the California Poverty Measure, or the BLS Consumer Expenditure Survey) can provide a useful basis for estimating essential costs.

Several workshop presentations emphasized that affordability occurs on a continuum, so metrics should capture the diversity of the income distribution. For example, the AR₂₀ measure is designed to capture the impact low income households specifically (at the 20th percentile). However, to the extent that rates are discontinuous across the income spectrum (e.g., CARE rates are available only below certain income thresholds, such that affordability measures may be sharply different above and below eligibility thresholds.), the Commission should assess affordability impacts at several points in the income distribution, especially around rate discontinuities.

4) Consideration of all utility bills - Since utility costs are defined as essential, the affordability of any single utility type should not be assessed in isolation. While different utility services may be easier to shape to address affordability the impacts on household costs are felt jointly. Thus, the measurement of affordability and efforts to address it should include joint consideration of all utility bills with each sector assigned a percentage of the “utility costs.”

II. Utility Metrics

A. General framework

CalCCA recommends applying the following methodology or selection criteria to the Commission’s process for choosing affordability metrics. The metrics adopted in this proceeding, collectively or by themselves, should:

- **Reflect regional variation in income.** Metrics must capture sub-state level differences in income in order to avoid obscuring impacts to customers whose incomes are low relative to the essential expenses in high-cost areas.
- **Account for the cost of essential non-utility household expenses (e.g., food, housing, child care, transportation), which may vary by region.** Affordability assessments for utility service should reflect ability of customers to pay without compromising the ability

to afford other basic needs. Essential expenses vary both geographically and as a function of household composition.

- **Measure impacts on customers living at lower percentiles of the income distribution.** Impacts on impoverished customers are a key affordability concern that should be measurable by any metric adopted in this proceeding. Notably, in the California context, income alone, especially average or median income, is not a good measure of the impacts on lower income households. Income does not reflect the (often high) cost of essential expenses, including housing or the vast disparities in income that occur within communities or across the state.
- **Measure impacts across multiple income ranges.** While impacts on low-income customers are critical to measure, a comprehensive assessment of affordability must also take into account impacts on other income groups.
- **Rely on inputs that are relatively easy to obtain or calculate from public data sources.** Affordability of utility service will need to be addressed frequently if it is to inform the Commission’s decision-making regarding cost-causing filings and other utility activities. Metrics should therefore be relatively easy to calculate and update. However, metrics that are easy to calculate but do not accurately assess the ability of households to afford essential needs should be rejected (e.g., energy burden or % median household income).

With these selection criteria in mind, CalCCA has evaluated each of the metrics discussed in the ALJ Ruling as well as three additional metrics. CalCCA’s assessment of each of the proposed metrics is summarized in the table below.

CalCCA proposes three additional metrics be considered. First, as an alternative to a statewide % Median Household Income metric, CalCCA proposes at least an improvement to capture geographical differences by calculating the percentage of median households by region, county, or zip-codes. Since California has dramatic difference in incomes across the state, this “% Area Median Income” measure would scale to the local income distributions rather than a statewide average. The second measure, “% California Poverty Measure,” (“CPM”) would capture both geographic variation and have some linkage to essential expenses. By leveraging the county-level estimates of essential spending to establish local poverty guidelines in the CPM,



the % CPM measure would assess utility bills as a fraction of a regional cost-of-living adjusted minimum budget. The third measure, an “Approximate Affordability Ratio,” would combine these measures and be calculated as utility costs expressed as a percentage of the difference of the 20th percentile of county income and the CPM guideline level for a particular county ($AR_{20} = \frac{\text{utility costs}}{(\text{county 20th Percentile income} - \text{county CPM})}$). This metric would be a crude approximation of the actual Affordability Ratio, because the CPM may not reflect the full set of essential expenses the Commission would seek to include, but does include utility costs in the estimate of essential expenses. Ideally, the Commission would improve on this metric

As the table indicates, no single metric meets all the criteria listed above. The Commission should therefore assess affordability across several metrics in order to comprehensively measure impacts on customers. Based on an assessment of each metric against its selection criteria, CalCCA recommends prioritizing the adoption of % Area Median Income, the California Poverty Measure, and the approximate Affordability Ratio in combination. Each of these measures captures a slightly different aspect of affordability (e.g., the % Area Median Income captures general impacts on average customers, the % CPM evaluates impacts at the poverty line, while the Approximate Affordability Ratio may approximate the Affordability Ratio using existing data), so assessing affordability of rates with multiple measures should provide a more nuanced and sophisticated view into the impacts on different demographics. Should these measures agree, the Commission may have more confidence in the determination and where they disagree, the Commission can identify issues for further examination.

Table I. CalCCA Assessment of Proposed Affordability Metrics

		Selection Criteria			
#		Regional (i.e., Sub- state level)	Accounts for Cost of Essential Expenses	Captures Impacts on Range of Incomes	Simplicity and data availability
1	% Median Household Income	No.	No.	No.	Yes.
2	Affordability Ratio	Potentially	Yes.	Yes.	No.
3	Hours at Minimum Wage	Yes (if at city level)	No.	No.	Yes.
4	Average Household Bill, Rates, and Usage	Yes.	No.	No.	Yes.
<i>CalCCA-Proposed Additions:</i>					
5	% Area Median Income	Yes.	No.	Yes.	Yes.
6	% California Poverty Measure	Yes.	Yes.	No.	Yes.
7	Approximate Affordability Ratio	Yes	Yes	No	Yes

B. Specific Responses

CalCCA specifically addresses the numbered questions below in light of our focus on energy services.

8. Which value of average household consumption of energy – monthly average customer electricity and natural gas usage per household, or tier 1 baseline volume – is most appropriate for considering essential service quantity in the context of affordability and why?

Neither of these metrics adequately captures essential service levels. Essential service metrics must be grounded in the amount of utility service required to meet essential needs, especially for lower income households. This will require a dedicated essential use study be developed because neither the average usage nor baselines are derived from an assessment of essential household needs.

Average household usage fails on multiple levels as an essential service quantity measure. First, usage patterns include both essential and non-essential uses and fails to relate that usage to essential needs. Second, by using an average, this measure has no relationship to the critical percentiles of the income distribution. For example, a small number of high users can skew the average upwards in ways that do not reflect the experience of most residents, and drive too high an estimate of essential utility service quantities. In particularly poor communities in which service is not affordable for many households, this measure might establish a level that is actually below essential levels if many residents are not receiving essential service levels. Finally, the average usage amount approximates levels used by the middle of the income distribution, and may obscure affordability issues for vulnerable populations.

Similarly, the IOU baseline kWh measures are not established based on an assessment of essential needs, although arguably these baselines should be. Thus, baselines may fail to capture actual essential service quantities. For example, many lower income residential customers may have higher essential needs than is estimated in baselines, if they are renters who live in older housing stock and have higher needs because of inefficient buildings or they may have limited ability to control their monthly usage. Tier 1 Baseline quantities may therefore not reflect the essential usage levels of these vulnerable customers, at least absent interventions through energy

efficiency programs and other services. (CalCCA also notes that baselines may need to be revised in light of societal changes such as heavier reliance in technology and greater reliance on space cooling during longer hot periods under climate change.)

Ultimately, the only appropriate approach to measuring essential service quantities is to evaluate essential use directly using an essential use study or other similar needs-based utility budget. CalCCA understands this will take time to develop an essential use study, but none of the currently available measures adequately assess the essential service level that is a necessary input of an accurate affordability measure.

9. Should essential service for energy be considered at the individual level, the household level, or some other scale? Why?

Essential service should be evaluated at the household level, as a function of household characteristics. Not only is billing at this level, but since service is provided at the household level (e.g., “meter”), this is also the most meaningful scale for analysis of affordability of utility bills. It is likely overly burdensome and thus unrealistic to calculate essential service at the individual level, and not particularly meaningful because it would be impossible to collect direct usage data. Additionally, larger community or regional scales will fail to capture the relationship between needs and energy use at the household level at which budgets are managed. Furthermore, variations in essential services levels and household essential needs are driven by differences in household characteristics, such as the number of income earners, children, or persons over 65, as well as by building characteristics, such as construction type, bedrooms, age and the ability to reduce their consumption, which may often be limited (e.g., renters, low-income households).

10. Are there other energy values for essential service quantity not listed previously that would be better suited for the purpose of establishing essential service?

At this time, CalCCA is not aware of existing metrics of essential service quantity that would be better-suited to this effort. Since existing measures are inadequate, new approaches will be required. Regardless, whatever measure is used, it must be able to capture cost impacts at lower percentiles (e.g. 20th percentile of household energy use) to better capture affordability in

key income segments. CalCCA recommends that this question be revisited after the various IOU Essential Use Studies are underway.

11. Should essential service for the purpose of energy affordability calculation differ by demographic and/or geographic segment? If so, describe and justify a proposed segmentation including relevant data sources and/or analytical results.

Yes. Any measure that will successfully capture affordability concerns for most or all households must consider geographic and demographic segmentation to account for differences in essential service quantities across jurisdictions and regions (e.g. climate zones), as well as to account for differences due to different household compositions. Ideal segmentation would also consider, among other factors, the age of existing housing stock, household types, homeownership, whether the home is all-electric, and square footage. We anticipate that these considerations would necessarily be incorporated in an essential use study.

This variation means there is no single essential service quantity that applies to all households in the state or even in a single community. Given that essential service quantities will occur across a distribution, the choice of affordability benchmarks will almost certainly involve normative decisions about what proportion of households are to receive affordable service.

III. Affordability Metrics

19. Is percent MHI a good metric for an affordability framework? Why or why not?

No. By itself, percent MHI is not a good metric for an affordability framework because it does not reflect regional variation in income levels, fails to assess impacts on poor households, and does not account for the cost of essential expenses. As the Commission recognizes in Attachment J of the ALJ Ruling, MHI has limitations and “can be tailored to incorporate other factors from the California Poverty Measure in the numerator.”⁴ The CCAs agree that this metric can – and should – be adjusted to incorporate other factors, particularly those that reflect

⁴ Ruling at Appendix J, p. 10



household-level affordability impacts. Therefore, CalCCA recommends relying on % Area Median Income (“AMI”) and the % California Poverty Measure (“CPM”) instead of % MHI.

Metrics must take regional essential expenses into account if they are to appropriately characterize affordability. Data presented by Sara Kimberlin at the January 22 workshop helps illustrate this point. Using the census Supplemental Poverty Measure, which accounts for expenditures on food, clothing, shelter, utilities, and differences in housing costs, California’s poverty rate is 19%.⁵ This is the highest poverty rate of the 50 states (excluding Washington, D.C.), according to the U.S. Census Bureau. Under the traditional official census measure of poverty, however, California doesn’t even make the top ten.⁶ This disparity highlights the critical importance of capturing essential expenses in any assessment of affordability.

As noted above, there are several relatively straightforward improvements on % MHI. First, percent of Area Median Income (“AMI”) represents one possible improvement, particularly if measured across several income thresholds as described in the response to question 20 below, because it reflects regional variation in income levels. Overall, however, if a percentage of income approach were to be used, a percentage of California Poverty Measure (“CPM”) may be the better alternative to a percentage of MHI, because it captures an index of essential expenses at the county level, and accounts for demographic variation. Affordability should also be assessed at the lowest income levels, and the CPM poverty threshold should be used for this purpose. As described in the January 2019 Affordability Workshop presentation by the California Budget and Policy Center, the CPM “accounts for state-specific policy context and demographics,” and provides granular information at the region or county level.⁷ The combination of state-specific information, adjustment for the cost essential expenses, and sub-state level of granularity makes the CPM a preferable metric.

⁵ Kimberlin, Sara. “Basic Needs and Economic Insecurity in California: Definitions and Data.” Presented at Affordability Workshop #1: Defining and Measuring Affordability. January 22, 2019. p. 11.

⁶U.S. Census Bureau. “Supplemental Poverty Measure: 2017.” p. 26. Available at <https://www.census.gov/content/dam/Census/library/publications/2018/demo/p60-265.pdf>

⁷ Kimberlin, Sara. “Basic Needs and Economic Insecurity in California: Definitions and Data.” Presented at Affordability Workshop #1: Defining and Measuring Affordability. January 22, 2019. p. 14.

CalCCA believes that affordability thresholds are set according to fundamentally normative questions that cannot be addressed by analytics alone – i.e., how much should households reasonably be expected to pay for energy services and/or how many hours a household’s earners would need to work at minimum wage? Recognizing that there is no “golden number,” CalCCA supports the approach of adopting a threshold as a guideline because addressing affordability ultimately requires an understanding of what costs are unaffordable, based on an understanding of other essential expenses. Of course, the benchmark percent chosen represents a normative determination and would be grounded in estimates of the fraction of income typical low-income households should spend on energy to meet essential needs. However, establishing that threshold is a question that should involve careful discussion with all stakeholders to ensure a just threshold is chosen.

20. Should percent MHI be measured using a single threshold, multiple thresholds, or a continuum? At what value or values should an affordability threshold be set, if any?

Any affordability metric (whether it’s MHI, CPM, or AMI) should be measured across multiple thresholds and adjusted for household size (similar to the way income limits are defined for affordable housing), household type, as well as for other household characteristics that may affect essential service. In addition, rates should be evaluated at multiple points in the income distribution, including at median income, at incomes above CARE eligibility levels, at the 20th percentile (commonly used as the boundary of low income), and the poverty line. Similarly, once budgets for essential needs are determined, the Commission would be able to have different benchmarks for different percentiles of the household income distribution as appropriate.

Such an approach of assessing affordability at different thresholds may capture affordability issues that arise because programs such as CARE or FERA are applied in stepwise fashion such that utility rates may be more affordable below certain thresholds where programs apply, but unaffordable at higher income levels that are not eligible for such programs.

21. Should the percent MHI metric be refined to be more sensitive to other essential household expenses? Why or why not?

- a. If so, how should the other essential household expenses be incorporated into the metric?**
- b. What other household expenses should be considered essential (e.g., child care costs, medical expenses, food, etc.)?**

Without refinement, the % MHI fails to capture whether utility bills are precluding essential spending and it fails to capture the dynamics of the poorest households, which are of most concern. Therefore, CalCCA recommends that this metric either be refined or replaced to use a measure that does incorporate an assessment of non-discretionary spending, such as the % California Poverty Measure, which accounts for essential household expenses – housing and utilities, food, child care, health care, transportation, taxes, etc. – by county.

IV. Affordability Ratio:

22. Is AR, or a variation of it, a good metric for an affordability framework? Why or why not?

The Affordability Ratio (AR) is a much better metric for measuring affordability because it incorporates both income and costs of essential expenses by household. One challenge with AR, as proposed, is its focus on a single income percentile. But as the Affordability Framework (Appendix J) notes (and discussed below), “affordability could be considered either at a single income percentile (AR₂₀) or several (AR₁₀, AR₂₀, AR₃₀, etc.), representing different measurements of affordability for different economic strata.”⁸ CalCCA recognizes that the requisite data may not be readily available, but the Commission should strive to adopt a measure that does not have *a priori* methodological shortcomings.

CalCCA recommends the following inputs at the county or sub-county level as data availability permits:

- Price of Basic Service: levels determined by Essential Use Studies

⁸ Affordability Definitions, Metrics, and Implementation of Affordability Framework: Background and Questions for Parties (Attachment J), April 12, 2019, p. 12.

- Household Income: Percentiles of Median Household Income from American Communities Survey
- Essential non-utility Household Expenses: Sample budgets from California Budget and Policy Center or from an Essential Use Study. As a proxy, the CPM may be used.

23. How should affordability measured by AR be evaluated?

a. Should affordability be considered at a single income percentile (just AR₂₀) or multiple (AR₁₅, AR₂₀, AR₃₀)? What are the advantages and disadvantages of each approach?

As discussed above, evaluating AR at different percentiles would develop a more sophisticated picture of affordability and help the Commission identify issues that may arise as a result of discontinuities in rates and other programs and trends. While the AR may be typically assessed at the 20th percentile because “mainstream assessments of welfare economics...typically identify the 20th percentile as the lower boundary of the middle class,”⁹ this ratio would provide valuable insights at other income levels, such as just above CARE eligibility and the median income. While employing a field-standard measure has benefits in comparability, there are additional key segments of the income distribution to which the Commission should give special attention.

b. For each income percentile considered, should there be one threshold of affordability or several tiers? What are the advantages and disadvantages of each approach?

As noted above, affordability thresholds are set according to fundamentally normative questions that cannot be addressed by analytics alone – i.e., how much *should* households reasonably be expected to pay for energy services? Recognizing that there is no “golden number,” Teodoro (2018) recommends adopting a 10% threshold as a rule of thumb to frame decision-making.¹⁰ CalCCA supports the approach of adopting a threshold as a guideline after

⁹ Teodoro, M (2018) “Measuring Household Affordability for Water and Sewer Utilities”. J. Am. Water 110: 13-24, at p.15

¹⁰ Teodoro, M (2018) “Measuring Household Affordability for Water and Sewer Utilities”. J. Am. Water 110: 13-24, at p.21

consultation with stakeholders, because addressing affordability ultimately requires an understanding of what costs are *unaffordable*, based on an understanding of other essential costs.

24. How should “essential non-utility household expenses” be defined? What components should be included?

- a. Are the sample budgets from the California Budget and Policy Center’s “Making Ends Meet” report good proxies for non-utility household expenses? Why or why not?**
- b. What other sources of data could inform the input of non-utility household expenses?**

The sample budgets from the California Budget and Policy Center are good proxies for “essential non-utility household expenses,” and presumably Essential Use Studies would develop additional sophisticated analyses. CalCCA agrees with the way the household budget components are defined in the CBCP study. (However, CalCCA notes that the cost of housing and utilities are currently combined in the sample budgets and must therefore be separated in order to determine “non-utility” essential expenses.) CalCCA strongly supports the inclusion of, at least, housing costs in the measurement of essential expenses.

25. Is there a different variation of AR or way to evaluate AR that would better indicate affordability?

As discussed above, the fundamental concept of the AR is sound in that it expressly looks at income less essential expenses but the concept should be expanded to examine particular geographic variations and a broader range of income segments.

26. What should an appropriate AR value (or values) for affordability be? How should it (or they) be determined?

CalCCA supports the Teodoro paper’s suggestion to adopt an AR₂₀ value of no more than 10% as one benchmark among several to assess overall affordability. But as we note above, affordability thresholds are set according to fundamentally normative questions that cannot be addressed by analytics alone – i.e., how much should households reasonably be expected to pay

for energy services? Recognizing that there is no “golden number,” CalCCA supports the approach of adopting thresholds as guidelines.

V. Hours at Minimum Wage:

27. Is HM a good metric for an affordability framework? Why or why not?

Hours at minimum wage (“HM”) is a modestly helpful metric for understanding impacts on low-income customers, since it “represents the cost of basic water and sewer service for low-income households, many of which work at or near minimum wage.”¹¹ However, HM does not provide complete affordability information because it is difficult to place in context. For example, to interpret HM, it is critical to understand whether households have other costs that render a particular HM affordable or unaffordable, such as housing costs, child care, food, transportation, and so forth. Furthermore, since many households may not earn net minimum wage (e.g. workers dependent on tip income or those with significant work expenses), HM alone may miss important dynamics among low income households. This absence of context makes the metric less useful than others considered here. Regardless of these other considerations, establishing a threshold is also a normative decision what amount of work is acceptable to devote to utility service. This decision will require careful discussion and consideration with stakeholders.

28. Should HM be used by itself or in combination with another affordability metric? Why or why not?

If explored further, HM may be useful in combination with other metrics. As stated above, income alone, including income at minimum wage, may not be a good indicator of poverty in highly expensive areas. Metrics that provide a regional assessment of household’s expenses (such as CPM or AR) will provide a more complete picture of impacts.

¹¹ Teodoro, Manuel P. “Measuring Household Affordability for Water and Sewer Utilities.” Journal AWWA. January 2018. p.16

29. What is an appropriate HM value to indicate affordability?

Prof. Teodoro’s presentation at the January 22 workshop recommended that HM be less than or equal to approximately 8 hours.¹² However, whether households can afford to dedicate 8 hours of wages to utility costs depends on what other costs the household has. As noted elsewhere, establishing a threshold is inherently normative. That said, should HM be a preferred metric, it must be modified to incorporate, or be used in tandem with, other metrics that address sub-state differences and include basic needs.

CalCCA feels that staff resources should be preferentially devoted to other measures first.

VI. Average Monthly Household Bill, Rates, and Service Usage

30. Are the average monthly household bill, rates, and service usage appropriate proxies for measuring household-level burden, rate impacts, and cumulative impacts of rate requests and programs across proceedings and industries?

No. Average monthly household bills miss most of the critical drivers of affordability: geographic variation, total essential household expenses, and focus on key vulnerable segments. Thus, average bills, rates and usage fail to capture the critical dimensions of affordability.

a. Are there additional metrics that should be added to this group?

Affordability ratio and % CPM both do a better job of capturing key drivers of affordability.

b. Should any be removed?

Since these are less informative than many other measures, it is unclear what value they provide or why these measures would be retained.

c. Do these metrics translate well between energy, water, and telecommunications industries?

In principle, the metrics of affordability should translate between all utilities that provide essential services required to meet essential needs. By the same token, the metrics that fail to

¹² Teodoro, Manuel P. “Affordability: Meaning and Measurement.” Presented at Affordability Workshop #1: Defining and Measuring Affordability. January 22, 2019. p.16.

capture critical aspects of affordability for energy will also fail to capture critical aspects of affordability for other services.

31. Would displaying average monthly household bill, rates, and service usage by geographical region, zip code, or political boundaries provide more insight into affordability?

Subject to the caveat that these measures do not capture the key dynamic of household essential spending, geographically segmented measures could provide insights into where there are particular affordability concerns if, for example, particular zip codes have especially high averages.

32. How can these metrics complement or add value to metrics such as AR₂₀ or Energy Burden?

They may identify locations where additional data collection should be focused.

VII. Implementation of an Affordability Framework

34. Assuming affordability should be assessed over a certain time period to account for the cumulative effects of multiple rate changes, what should the period be or how should it be determined?

CalCCA agrees with the Framework (Attachment J) that, “a given rate change’s impact on affordability should be analyzed as part of the justification that the rate change in question is just and reasonable.” To that end, CalCCA also agrees that an assessment of proposed rate change impacts on affordability should be conducted in each filing or proceeding that would result in rate changes.¹³ CalCCA is also mindful that assessing the cumulative impacts of multiple changes quickly becomes extremely complex, but this level of granularity will help define which factors are most critical.

CalCCA urges the Commission to consider an individual proceeding’s impacts on affordability in the context of a comprehensive understanding of the cumulative impact of

¹³ Affordability Definitions, Metrics, and Implementation of Affordability Framework: Background and Questions for Parties (Attachment J), April 12, 2019, p. 17.

current, pending and planned rate changes (across proceedings and industries) on a customer’s bill. As noted in the Public Advocates Office April 24 presentation to the Commission’s Emerging Trends Committee, seemingly minor revenue increases, which are often reflected in system average rates, can have larger impacts on some customers, such as baseline rate increases that have well exceeded inflation.¹⁴ These individual proceedings’ revenue increases have cumulative impacts on customer bills.

Determining the significance of small changes that add up to a cumulatively significant impact requires a sophisticated assessment of each change in context. The key information the Commission will need to determine the relative impact of each change compared to all others would be to have a measure of the relative impact of each decision. The Commission would then be in a position to evaluate which relatively large impacts are worth pursuing and which may not be.

In accord with the Public Advocates Office April 24 presentation, CalCCA recommends a ten-year time period for the evaluation of impacts from individual decisions. While the later years in a ten-year “look-ahead” may not be dispositive, they can provide the Commission and stakeholders a longer-term view on affordability.

35. What level of demographic and geographic segmentation of the residential customer population do the metrics need to consider to “comprehensively assess the impacts on affordability of individual Commission proceedings considering utility rate changes”?

a. Is a county-by-county analysis sufficient? If not, how should sub-county and other demographic segments be determined?

While the ultimate metrics, demographic segmentations, and geographic segmentations the Commission adopts will be subject to the practicalities of available data and feasibility, the Commission should maintain its intention “to reflect the cumulative bill impacts since a

¹⁴ Rate Trends 2009-2019, Public Advocates Office presentation at the Commission’s Emerging Trends Committee, April 24, 2019, http://www.cpuc.ca.gov/uploadedFiles/CPUCWebsite/Content/News_Room/NewsUpdates/2019/Cal%20Advocates%20Rate%20Trend%20Presentation%20-%20April%2024th%202019.pdf.



customer often pays for electricity, gas, water, and telecommunications services under a single household budget.”¹⁵

While much data is available at the county level, CalCCA appreciates the need to examine residential customers at the sub-county level. California is home to the largest and most populous counties in the country—San Bernardino has over 20,000 square miles, and more than 10 million people live in Los Angeles County. Where available, zip-code and/or census-tract geographic segmentation of residential customers demographic data should be used. Thus, county level geographic segmentation is probably a sensible approach given existing data at that level, but it may prove that the zip code or census tract level data is rich enough to support the desired analyses. Ultimately, this choice will turn on the available data and whether the error associated with the inherently smaller sample sizes at the zip code and census tract level will render the metrics too variable to be useful.

Demographic segmentation provides a similar value because essential household expenses vary considerably depending on the nature of the household. Thus, a better segmented analysis will result in much more accurate assessment of impacts. Thus, demographic data should include at least:

- Household income by household size
- Household type (e.g., single parent family, double parent family, adults, retirees, medical baseline, etc.)
- Area median income
- Median rents by number of bedrooms
- Homeownership
- Food costs by household size
- Child care costs
- Healthcare costs by household size
- Transportation costs by household size

¹⁵ Assigned Commissioner’s Scoping Memo and Ruling, November 19, 2018, p. 3.

- Miscellaneous costs by household size that accounts for costs including clothing, personal and household needs and education expenses.

b. What is the best way to apply the affordability framework to other vulnerable populations that may be overlooked by examining only household income?

If the demographic analysis segments incorporate vulnerable segments, the Commission will be in a position to assess the impacts on those segments specifically. However, definition of those vulnerable populations will require careful stakeholder consideration.

36. What other vulnerable populations should be considered within the context of this framework, or how should vulnerable populations be determined?

CalCCA recommends a more thorough discussion among stakeholders on how “vulnerable populations” should be defined. Broadly, the vulnerable populations definition should reflect key household characteristics that heighten the impact of higher utility bills on the household’s ability to meet basic household needs. In the Disconnection and De-Energization proceedings definitions of vulnerable populations focus on the impact of losing (electrical) utility service, which is a valuable framework, but neither adequately accounts for the (in)ability to pay for such service. In this context, vulnerability should probably refer to households that are vulnerable to inability to pay and vulnerability to severe impacts if the power is disconnected (and reconnected with attendant fees).

For residential customers with vulnerable populations, the affordability frameworks should reflect the key household characteristics that heighten the impact of utility bills. The Commission may wish to consider vulnerable populations to include, in part:

- Households on medical baseline, which may have higher electricity usage and greater medical needs/expenses, that are different from “regular” households.
- Households headed by a single parent (e.g. female headed household with two children) may have limited incomes and greater expenses as compared to a three-person household with two adults and one child.



- Households with a member that is disabled, which may have higher medical expenses and/or limitations on the ability to earn income.
- Households with a larger share of residents over 65 years of age may have fixed incomes.

VIII. Conclusion

CalCCA appreciates the opportunity to participate in this critical discussion and looks forward to playing a constructive role as the Commission seeks to address the questions of affordability that are critical to the well-being of the state.

Respectfully submitted,

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