BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Revise Its Electric Marginal Costs, Revenue Allocation, and Rate Design Including Real Time Pricing, to Revise Its Customer Energy Statements, and to Seek Recovery of Incremental Expenditures. (U 39 M)

Application No. 10-03-014
(Filed March 22, 2010)

EVIDENTIARY HEARING STATEMENT
OF THE KERN COUNTY TAXPAYERS ASSOCIATION
REGARDING THE GENERAL RATE CASE APPLICATION
OF THE PACIFIC GAS AND ELECTRIC COMPANY

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Michael Peevey, Commissioner
Thomas R. Pulsifer, Administrative Law Judge

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I. Background.

KERNTAX is a member-supported, non-partisan, 501(c) 4 non-profit corporation, whose purpose is to bring about, through cooperative effort and communication, greater economy, efficiency, and effectiveness in government, basing its recommendations upon the analysis of facts obtained through research. Being non-partisan, KERNTAX is politically independent, viewing matters and policies in an objective, impartial manner, and taking positions based on the Association's adopted principles. Founded in 1939, KERNTAX has had only one bias, the best interests of Kern County taxpayers.

KERNTAX views any government collection of funds through any financial conduit to be taxation, be it a clearly identified as a tax, a fee for government service or a regulated rate structure. If it is excessive or not appropriate, KernTax must, by charter, act to educate and facilitate resolution and ensure fair representation and treatment. Kern County citizens should expect no less from KernTax and its members. We do not seek subsidies; we simply seek fair return to our local citizens from all regulatory bodies and their agent for levied taxes, fees, etc. We fundamentally support PG&E's effort to bring rational pricing structures back in line with fair value and customer's capabilities to pay. We believe that this perspective aligns closely with the goals of PG&E shareholders, and we hope to assist the company and the Commission in achieving a lasting resolution of the current structurally flawed E-1 rate system and to this end we commend both the Commission and PG&E in advance for their foresight and efforts.

KERNTAX accepts PG&E's *Smart Meters* as unbiased and accurate sources of real-time and time-of-use energy usage information, and that the current issues with the *Smart Meters* indicate that the residential rate process needs to be redesigned to achieve the desired outcome of energy use conservation in a manner that is fair and brings real value and savings to all residential ratepayers regardless of geographical region, size of family, or income status.

It is a matter of fairness and value that causes KERNTAX to participate in this hearing before the Commission to advocate for changes to PG&E's application of its current structurally flawed E-1 residential electricity rates.

Since June 1996, intended and unintended consequences of legislative and regulatory actions have resulted in discriminatory and punitive E-1 rates being paid by 52% of PG&E's E-1 electric ratepayers which account for less than 25% of total residential electricity sales. (SEE EXHIBIT 01). These ratepayers "normal" electric usage occurs in Tiers 3 through 5. *This is in sharp contrast to the remaining 48% of PG&E's residential E-1 customers that pay E-1 electric rates averaging 31% below PG&E's cost to generate, transmit, and distribute electricity. These ratepayers "normal" electric usage is contained within Tiers 1 and 2.* KERNTAX contends and provides support that without major reform to PG&E's current E-1 baseline usage allowance structure that PG&E's application seeking an increase in E-1 residential electric rates will produce even higher discriminatory artificially contrived rates that will continue to discriminate against 52% of PG&E's E-1 customer base[1].

Even though all PG&E's E-1 residential ratepayers are subject to the same 5-tier E-1 residential rate structure, the mechanism for applying E-1 rates, the baseline usage allowance, is ultimately the product of Commission processes. The recent testing of the installed Smart Metering raises the question of whether or not PG&E's E-1 baseline usage allowance convention produces flawed and disproportionate benefit to cooler regions or users with electric usage that can be contained within Tier 2 or below. *PG&E's present baseline usage allowances result in recovering only 67% of the cost incurred ($2.25 billion in revenues collected against costs of $3.37 billion) to serve better than 48% of its E-1 customers, whose "normal" electric consumption accounts for more than 75% of PG&E's E-1 electric sales.* (SEE EXHIBITS 01 and 02).

On the opposite end of the rate spectrum are Tier 3 through 5 customers with baseline usage allowances so punishing that their "normal" electric usage is charged at top rates exceeding 119% of PG&E's cost. Since 2001 following the approval of AB1X, PG&E's Tier 3 through 5 E-1 rate structure has placed the financial burden of recovering not only the cost of Tier 3 through 5 E-1 electric usage from Tier 3 through 5 customers, but also the recovery of "unrecovered costs," i.e., losses incurred from Tier 1 and 2 customers' usage. This cost shift between tier usage, now entering its tenth year, is the result of Tier 1 and 2 E-1 baseline usage

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[1] Excerpt cited from a page titled "Residential Electric Tiered Rates" contained in a PG&E information package handed out in late 2009 to a community group in Bakersfield, California, in response to high summer electric bills and the controversy involving the accuracy of the Smart Meter:

PG&E has 4.7 million residential electric customers. Of this total, 2.2 million either maintain their usage within Tiers 1 and 2, or are CARE customers (Attachment 1). As a result, about 48% of customers have been insulated from rate increases since 2001 (or, 52% of the customers have borne all the rate increases). A large differential has grown over the last 8 years between the two frozen tiers and rates for Tiers 3 through 5 (Attachment 2). This is because all revenue increases since 2001 (including higher commodity costs, increased costs of investment in our infrastructure, general inflation etc) must be collected through Tiers 3 through 5, which account for less than 25% of the total residential sales.

allowances set so high that normal electric usage by Tier 1 and 2 customers is rewarded with an artificial rate that is 31% below PG&E's cost to serve.

KERNTAX's analysis shows that PG&E loses money on every E-1 customer with total electric usage below the upper range of Tier 3, no matter where the customer is located within PG&E's ten sales regions. This high breakeven point results in 75% or more of PG&E's E-1 sales being sold at a loss, with the loss being levied on its remaining energy users. *It is incomprehensible that this Commission has approved PG&E selling more than 75% of its E-1 residential energy generation at a loss. Even more disturbing is that this Commission has failed to protect 52% of PG&E's customers by approving PG&E's E-1 rate structure that places 100% of the responsibility of making up losses on Tier 1 and 2 sales from Tier 3 and above customers that did not create them* (SEE EXHIBIT 03).

KERNTAX contends that if PG&E's Tier 3 through 5 E-1 customers conserve power as PG&E routinely asks them to do through whatever means[2] such that their usage is contained within Tier 2 or below KERNTAX estimates that PG&E would lose $1.5 billion annually from selling electricity at Tier 1 and 2 rates because those rates average 31% below PG&E's cost. If this is an unacceptable result to this Commission, why then is allowing PG&E to sell 75% of its E-1 energy at a loss any less unacceptable? Should the Commission find that conservation efforts by 52% of PG&E's E-1 customer base representing less than 25% of E-1 sales volume could lead to such a financially devastating outcome, how then can this Commission continue allowing PG&E to sell 75% of E-1 generation at a loss? Under KERNTAX's hypothetical scenario PG&E

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[2] PG&E's marketing ad appearing in the *Bakersfield Californian* following the heat storm that hit Bakersfield with 111 degree temperatures on August 25, 2010:

At Pacific Gas and Electric Company, we want to help you save electricity, money, and the environment this summer. Start your day by closing windows and shades to hold in cooler night air, reducing your use of air conditioning. Turn off household lights and appliances when not needed – they all produce unwanted heat. On extremely hot days, visit a movie theater or a nearby pool while leaving your home thermostat set to 85 degrees. Your house won't mind, and your bank account will thank you. And remember to check with anyone you know who might be sensitive to the heat to see if they need assistance. For more tips, cooling center locations, and other ways to use less electricity, please visit www.pge.com/summer.

would have no choice but to seek from this Commission a 44% increase from the current approved Tier 1 and 2 E-1 rates, which average $0.123 per kilowatt hour, to $0.18259 kilowatt hour, its current E-1 revenue requirement rate.[3]

Recently, KERNTAX learned that PG&E will be requesting later this year an E-1 electric rate increase due to having lower system-wide E-1 energy sales. PG&E's request will likely stem from the effects of California's sluggish economy coupled with price-driven conservation efforts by its 52% E-1 Tier 3 through 5 customer base. The harsh reality facing these customers is the fact that their price-driven conservation efforts, when combined with a discriminatory baseline usage allowance structure will actually result in even higher, punishing E-1 Tier 3 through 5 rates. The very minority base that PG&E and this Commission are encouraging to conserve power will in the end pay higher rates for their power, all while PG&E continues to sell 75% of its E-1 energy at a loss. *Clearly, without a major restructuring of PG&E's E-1 baseline usage allowance upper tier ratepayers conservation efforts responding to PG&E's marketing campaign advising how to save electricity, money, and the environment this summer will only lead to higher rates and monthly bills. This is quite the opposite of PG&E's marketing promise that less usage means lower monthly bills. Clearly, PG&E will find itself selling more electricity at a loss as more customers find ways to conserve.*

KERNTAX must question the basis of the Commission's prior approvals of PG&E's rate structures and baseline allowances as fair and nondiscriminatory when conservation efforts associated with only 25% of PG&E's total E-1 residential generation could lead to a 44% increase in Tier 1 and 2 rates. While such extreme conservation efforts are not likely to occur, KERNTAX's hypothetical question should not be summarily dismissed. KERNTAX's position is very clear. PG&E's E-1 revenue rates are a function of actual costs, historic rate components,

[3] PG&E's residential electric rate filed February 26, 2010, to be effective June 1, 2010. http://www.pge.com/nots/rates/tariffs/electric.shtml#RESELEC

and baseline usage allowances that appear to unfairly concentrate costs among certain E-1 users while favoring others. Continuing to allow 75% of PG&E's E-1 energy generation to be sold at rates frozen over 14 years ago will only lead to further discriminatory cost shifting within a single rate class.

PG&E's top-tier E-1 rates are far higher than the underlying cost necessary to serve higher usage customers, and far higher than what is necessary to promote conservation[4]. This disclosure, made by PG&E's management representative, is just as true when applied in reverse: <u>PG&E's lower tiered rates do not reflect PG&E's cost to generate, transmit, and distribute power, and are far below the rate necessary to promote conservation.</u> *Given that PG&E's current E-1 rates do not reflect let alone approach PG&E's actual cost at either end of the rate spectrum, this Commission should not continue approving PG&E setting baseline usage allowances so high that 75% of PG&E's E-1 sales will continue to be priced at a 31% loss resulting in a cost shift of under-collected costs of $1.1 billion to Tier 3 through 5 customers and rates exceeding PG&E's cost by 119%. Further, KERNTAX is concerned that the higher baselines and subsidized low-tier pricing actually shifts energy demand from peak demand periods to an increase in the 100% demand duration.*

PG&E's citing the "average" effect of the rate increase in Application 10-03-014 is misleading as it is based on 100% of its E-1 energy sales volume, when in fact 87% of the increase will be applied to only 25% of its E-1 sales volume. For example, prior to SB 695 PG&E would claim a $500 million increase would increase E-1 rates 11%. In fact, because 75% of PG&E's E-1 energy generation is being sold at frozen rates, the increase for Tier 3 through 5

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4 Ken Cooper of PG&E March 2, 2010, comments to the Kern County Board of Supervisors in addressing KERNTAX's residential electric tiered rates presentation:

" The combination of legislative and regulatory constraints has led to an unsustainable and arguably punitive situation for Tier 5 customers. The Tier 5 rate is far in excess of the cost to produce and deliver these kilowatts, and far in excess of what is necessary to encourage conservation; again, as pointed out in his [Turnipseed's] presentation. Such extreme upper tier rates are difficult to justify on grounds of equity. So, we understand it, we're trying to do something about it with regards to approaching the Commission for changes in what we charge each tier, and we're asking for rate reductions before the summer."

ratepayers is closer to 19%, and 0% for tiers 2 and below. Under SB 695, a $500 million E-1 rate increase will result in an effective rate increase of 19% on 52% of PG&E's E-1 ratepayers, i.e., its Tier 3 through 5 ratepayers, and only 3% on PG&E's remaining E-1 ratepayers with normal usage in Tier 2 and below. (SEE EXHIBIT 04).

PG&E's marketing and communication programs that continue to cite "average" effects of pending cost impacts on ratepayers is in sharp contrast to comments made by PG&E's Andrew Tang, a senior director with PG&E's advanced meter program. In comments found in an *Intelligent Utility* article from January of 2010, explaining PG&E's findings and lessons learned from PG&E's Smart Meter deployment, Mr. Tang makes the following cautionary point about using the word "average":

> "Whenever you hear the word 'average' be afraid. While the "average" temperature for a day might be 73 degrees Fahrenheit, in the height of the day, it might be 110 degrees, dipping considerably after sundown. "We don't turn our air conditioning on based on average temperature for the day."

Mr. Tang is further cited about communicating changes to ratepayers:

> "The key is communication, communication, communication. We did have these rate increases that we passed through before the summer of 2009. Rate increases are a function of commodity prices, *<u>but customers aren't always aware of the bigger picture</u>*. We underestimated the need to be much more proactive in communicating those rate increases, and helping our customers understand what this meant to them."

Mr. Tang's comments illustrate the "bigger picture" of how misleading the term "average rates" is when describing the "average" versus the "real" effect of pending rate increases on its E-1 upper-tier ratepayers. In fact, PG&E's senior vice president of regulatory relations, Tom

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Bottorff, on March 9, 2010, before the Kern County Board of Supervisors cited that PG&E's customers in Kern County paid an "average" rate of $.14/kWh which is well below the average rate in other PG&E service areas. Yet the Smart Meter issue of 2009 was commonly labeled the "Bakersfield problem". KERNTAX believes that PG&E is making every effort to bring a rational rate structure to play that will make the new Smart Meter a welcome addition to every home in Bakersfield, Kern County and the rest of their service territory.

Mr. Bottorff's appearance before the Board was in response to an appearance on March 2, 2010, by Mr. Ken Cooper of PG&E, who told the supervisors: "Kern County customers are being impacted with high costs and are subsidizing other areas of the state." Under questioning by Board supervisors, Mr. Bottorff revealed that the average rate he was citing, and which was reflected in PG&E's full-page ad appearing in the *Bakersfield Californian* the day before the March 9, 2010, meeting was based on both E-1 and CARE sales volumes. Effectively, PG&E "averaged-in" CARE kilowatt sales volumes priced at rates that average below $.10/kWh in order to be able to cite lower average rates. This value avoids specifically addressing how high E-1 rates currently are, and more importantly how much they will increase under PG&E's pending rate applications

PG&E first appeared before the Board of Supervisors on March 2, 2010, to address a KERNTAX presentation that showed how unfair and discriminatory upper tier rates in comparison to other regions in the state. KERNTAX showed the dramatic cost disparity between one month of PG&E's 2010 summer electric charges when compared to those of a Sacramento Municipal Utility District (SMUD) or a Los Angeles Department of Water and Power (LADWP) ratepayer. KERNTAX showed that a Sacramento resident using 2500 kWh of electricity would pay approximately $394. That is $438 a month lower than PG&E's charge. While the two regions' climate characteristics are nearly the same, KERNTAX questioned why a Bakersfield resident is paying PG&E $438 a month more for the same amount of power, especially when

PG&E's average cost of providing residential service is within one cent of SMUD's cost of providing residential service! (SEE EXHIBIT 03).

KERNTAX's analysis showed that a PG&E customer pays almost the same as a SMUD or LADWP customer when usage is below 1000 kWh a month. However, above 1100 kWh a month, the level where Tier 4 pricing starts for PG&E's zone "W" E-1 customers, a PG&E customer's cost starts to dramatically increase from a SMUD or LADWP customer's cost such that monthly usage above 2500 kWh results in the PG&E customer paying twice that of a SMUD or LADWP customer! KERNTAX showed that an actual San Francisco E-1 customer using slightly more than 400 kilowatt hours of electricity in July 2009 paid $47, which represented a 34% loss against PG&E's cost of $72. The San Francisco customer paid an "average" rate of $0.115 per kWh on usage that was 100% covered under Tier 1 and 2 baseline usage allowances. KERNTAX then showed the extreme of what happens at the other end of PG&E's rate structure. A Bakersfield customer using just under 4100 kWh of electricity in July 2009 paid $1,448, which represented a 100% gain against PG&E's cost of $723. The Bakersfield customer paid an "average" rate of $0.354 per kWh on usage that was less than 19% covered by Tier 1 and 2 baseline usage allowances. This Commission cannot allow such cost treatment of ratepayers at either end of PG&E's tiered rate structure to continue, especially when PG&E's 2009 cost of E-1 generation, transmission, and distribution costs of electricity was $0.177 per kWh.

KERNTAX believes that rate making for residential customers must by design return to simpler formulae that allows PG&E customers to pay their fair share of costs within their single rate class, and that the Smart Meter be the measurement device that sends real time price signals to ratepayers from which to make informed energy usage decisions. KERNTAX encourages PG&E to continue to seek a fair return for their shareholders, and we would implore the Commission to use their good offices to work with all concerned parties to seek legislation that brings fairness and equity for all residential ratepayers regardless of geographical region, size of family or dwelling, or income level.

II. Dealing with the Effects of Electric Rate Legislation[5]

Since the passage of AB1X in 2001, PG&E's baseline usage allowance settings have placed 100% of all cost increases and the corresponding E-1 revenue requirement increases on only 52% of its sales base, its Tier 3, 4, and 5 E-1 ratepayers. (SEE EXHIBIT 05). Effectively, AB 1890 put the rate freeze into place to protect PG&E, while AB1X maintained the freeze to protect ratepayers and help PG&E through the 5-tier rate structure recover its costs. This Commission needs to address why it failed to protect 52% of PG&E's E-1 ratepayers by approving 100% of costs increases to be borne exclusively on ratepayers purchasing less than 25% of PG&E's energy production. (SEE EXHIBITS 06 AND 07). This result is clearly not equitable nor reasonable. More importantly, this Commission must require that for any increase granted under PG&E's Application 10-03-014 that PG&E set E-1 baseline usage allowance such that all ratepayers' "normal" E-1 electric usage will be priced closer to PG&E's cost.

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[5] PG&E's residential electric rates were frozen by state law in June 1996, and reduced 10 percent in 1998 under the same bill, to give PG&E an opportunity to recover its generation related uneconomic costs. PG&E's frozen rate structure consisted of two tiers allowing enough "headroom" for PG&E to recover imbedded costs from its generation investments and long-term fuel commitments. The rate freeze was intended to be in effect no later than March 2002 as part of state legislation (AB 1890) designed to usher in deregulation of the electric industry.

PG&E's 1996 regulated rate structure bundled fixed costs with variable energy rate components, unlike the deregulated competitive market contemplated under AB 1890 which could offer separate rates for generation, transmission, distribution, retail services, and public interest programs (energy efficiency, research and development, renewable energy, and low-income programs). More importantly, under a deregulated competitive market customers could choose their energy provider i.e. either PG&E or another provider for generation services. It was the "choice" feature of AB 1890 that led to the utilities' imbedded cost recovery concerns, and the reason why E-1 rates were frozen. Effectively, PG&E's shareholders' value was protected by frozen rates from a potential inability by PG&E to recover the costs of its investments should its customer base shrink.

California's entry into a deregulated competitive power market unraveled in early 2001 when the energy crisis hit the state and the utilities. By 2001, private companies now owned and operated the once utility-owned fossil-based generation facilities, and California found its power market being manipulated. Both the utilities and consumers were at the mercy of the manipulators. AB1X stemmed from this crisis by addressing soaring costs facing the state's three utilities and by protecting consumers from market manipulation. AB1X created the present five-tier rate E-1 structure used by PG&E. Ironically, the rate freeze designed to ensure utilities recovery of their investment costs protected consumers from "above-market" power rates, but in the process, the rate freeze drove the utilities towards bankruptcy. By passing the price risk to the customer, a complete reversal of the intent of the law passed in AB 1890 had taken place through AB1X.

In 2009, recognizing that the regulated utilities' rate structures were discriminatory and creating an unfair burden on E-1 Tier 3, 4, and 5 ratepayers the legislature passed SB 695, which allowed the Commission to authorize annual increases between 3% and 5% to E-1 Tier 1 and 2 rates beginning January 1, 2010. SB 695 is designed to allow modest costs increases to be reflected in Tier 1 and 2 pricing such that in time and theory PG&E's E-1 rates will become more fair and equitable by relieving the cost burden that has been unfairly placed on E-1 residential Tier 3, 4, and 5 ratepayers.

However, while SB 695 provides for modestly increasing Tier 1 and 2 E-1 rates, they will still remain well below PG&E's cost. Without a major reform of E-1 baseline usage allowances the E-1 rate structure will remain inherently flawed and unfairly discriminate against higher energy users. SB 695's modest allowance for 3% annual increases to E-1 Tier 1 and 2 rates will not keep pace with expected PG&E revenue increases. In fact, KERNTAX contends that left as is PG&E will continue selling over 75% of its E-1 energy at a 31% loss, and shift those losses and upwards of 100% of Application 10-03-014's cost increases onto E-1 Tier 3, 4, and 5 ratepayers. The Commission should not let this occur.

The homepage of the Commission website states, "The Commission serves the public interest by protecting consumers and ensuring the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement and a healthy California economy." Reasonable is defined as acceptable and according to common sense or normal practice; not expecting or demanding more than is possible or achievable; fairly priced and not too expensive. PG&E's March 1, 2010, Tier 5 rate of $.498/kWh and "emergency" application, A.10-02-029 that was approved to combine Tier 4/5 rate of $.400/kWh demonstrates that PG&E's E-1 rates are discriminatory and not reasonable, and do not promote a "healthy California economy." If such were true then the SMUD, Irrigation Districts and all other electric service providers would be promoting the same rate schedules. KERNTAX argues that PG&E's tiered structure is an evolutionary failure that served some well meaning programs' theories, but has no merit in the face of Smart Meter technology. The time has come for PG&E and its ratepayers to be unshackled from rates that are spiraling out of control.

This Commission has failed to protect PG&E's upper-tier E-1 customers while allowing PG&E to represent in its rate structure that Tier 1 and 2 rates represent PG&E's true cost to generate, transmit, and distribute energy. The Commission and PG&E have created an undesirable situation where Tier 1 and 2 energy users will cry foul when their energy usage remains the same but their bill increases should this Commission instruct PG&E to price "normal" energy usage closer to PG&E's true cost.

PG&E's low usage E-1 customers have been paying below PG&E's cost for electric power for so long that restructuring rates closer to actual costs will cause a firestorm of controversy. It will seem illogical to 48% of PG&E's E-1 customers that their electric bill increased when their normal amount of power consumed has not changed. It was exactly this type of controversy that confronted both the Commission and PG&E when Kern County ratepayers challenged the validity of their PG&E energy bill in the 2009 after *Smart Meters* were installed – same usage pattern but higher energy bills.

Should PG&E only rely on SB 695 to justify increasing its E-1 Tier 1 and 2 rates, rather than employ real rate reform through a dramatic reduction of baseline usage allowances, tiers 3 and above ratepayers will continue heavily subsidizing 48% of PG&E's E-1 customers. *Lowering baseline usage allowances will produce the most immediate results by aligning revenues to PG&E's cost to serve.* As the baseline usage allowance is lowered, ratepayers' heavily subsidized "normal" Tier 1 and 2 usage will be moved into PG&E's higher E-1 tiers that are not subsidized. Discounted rates will still apply to a level of usage as Tier 1 and 2 rates are legislatively frozen. But, the era of 75% of PG&E's sales being made at a loss and that loss being shifted to ratepayers that were not responsible for it must come to an immediate end. *PG&E needs to provide assurance to this Commission that for each of its ten E-1 service regions that the cost of E-1 power to serve each service region is recovered by revenue received only from that region's E-1 ratepayers.* Neither the Commission nor PG&E can justify transmitting and distributing E-1 electricity to a region at a cost of $0.183 per kWh and collect only $0.128 per kWh, unless the Commission approves PG&E selling its electricity at a loss below its system-wide average rate.

III. The Summer of Discontent

The summer of 2009 was warmer than normal in Kern County and throughout the San Joaquin Valley. Many ratepayers depend on air conditioning to make life indoors comfortable. However, the E-1 Tier 5 rate of $0.44098 per kWh, which was far in excess of the cost to produce and deliver the kilowatts needed to operate an air conditioner, created controversy when many residents saw their electric bills more than triple from 2001 levels.

Many residents blamed their new *Smart Meters*. KERNTAX began following the issue when concerns brought to it by a number of PG&E's Kern County energy customers prompted KERNTAX's review of rates being charged by PG&E. Following KERNTAX's evaluation and subsequent presentation to the Kern County Board of Supervisors KERNTAX was asked by the Commission to submit questions regarding its concerns[6]. KERNTAX submitted the questions

[6] KERNTAX's questions submitted to the Commission on March 31, 2010.

1. In light of PG&E's comments noted in footnote 3, how has the Commission protected E-1 tier 3 through 5 ratepayers by approving March 1, 2010, E-1 Tier 3, 4, and 5 rates of $.286, $.425, and $.498 kWh, respectively, which are 1.1, 2.2, and 2.7 times, respectively, above PG&E's cost of providing residential energy, while at the same time continuing to approve E-1 Tier 1 and 2 rates priced at a June 1996 price level, now equaling 65% of PG&E's costs, creating the impression among ratepayers that E-1 Tier 1 and 2 rates reward conservation and help low income ratepayers while top tier rates are set to promote conservation and price-punish higher volume energy users?
2. PG&E's expanded CARE rate program is available to subsidize qualifying low income residential ratepayers. Why then the continuing need for tiered E-1 prices versus a single rate? If tiered pricing is desired, why aren't E-1 rates priced closer to PG&E's average E-1 cost? Will all E-1 ratepayers be burdened with the CARE cost subsidy rather than just the E-1 ratepayers tiers 3 and above?

but failed to receive a response. Hard working Valley homeowners (who may not be eligible for Commission regulated subsidy) will be forced to balance paying their mortgage, leaving their family to suffer in sweltering heat or pay rates that neither reflect market prices or presence of the large Valley-wide concentration of renewable and fossil-fired capacity delivering energy to the entire service territory. For this reason, KERNTAX is now intervening on behalf of Kern County ratepayers. We believe that this is the start of our involvement, we hope that PG&E is successful in this effort and that they will continue to hear our voices as we bring our concerns to the table.

IV. In Summary

As we became more familiar with the legislation and regulation that influences the electric rate making process, there is one word that KERNTAX keeps asking, "WHY?"

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3. What evidence does the Commission have that supports that a single rate applied to E-1 ratepayer consumption would not incentivize all E-1 ratepayers to conserve and use power wisely?
4. What evidence does the Commission have that supports that baseline usage allowances reflect normal usage across PG&E's vast service territory when in fact 75% of E-1 kilowatt sales are contained within Tier 2 or below?
5. 75% of PG&E's E-1 kilowatt sales are contained within Tier 2 or below and sold 31% below PG&E's cost to generate, transmit, and distribute energy. Given that such a large percentage of PG&E's E-1 sales are contained within Tier 2 or below why does this large volume of sales qualify to be sold at a 31% loss?
6. Why has the Commission not intervened and protected E-1 tier 3 and above ratepayers, whose sales volume represents less than 25% of PG&E's residential energy sales, from being targeted and allocated 100% rather than its proportional 25% of costs associated with general inflation; commodity fuel and transportation increases; generation, transmission, distribution, and metering system changes and improvements; and lower E-1 sales since the five tier rate structure went into effect in 2001?
7. PG&E has yet to introduce into E-1 rates the costs associated with California's RPS program. What are PG&E's and the Commission's projections of E-1 rates in 2012, 2015, 2018 and 2021 on both a tiered and average cost basis given the power projects approved and or in construction?
8. When an E-1 ratepayer installs a solar or wind-driven energy source to avoid purchasing power from PG&E, what has the Commission done to ensure that remaining E-1 ratepayers don't end up paying higher rates due to PG&E's loss of E-1 sales?
9. Homeowners with "normal" E-1 kilowatt usage above tier2 are facing power bills equal to or in excess of a mortgage payment. Such high utility bills could lead to depressed home values in affected regions, and overstated property tax valuations. What is the Commission doing to ensure that energy rates and baseline usage allowances are being applied fairly across PG&E's service territories such that PG&E's zonal E-1 rates cannot impact a property's value?

- WHY do the investor owned utilities (IOU's) in general, and PG&E in particular, have rate structures so disproportional to those of the municipal utility districts (MUD's)? (SEE EXHIBIT 08).
- With the great disparity in rates, WHY do state legislative and regulatory actions continue to punish a minority of ratepayers in the IOU service areas with excessive rates for electric service that far exceed PG&E's cost?
- With the E-1 rate table reflecting such inequity, WHY hasn't the Commission, through the Division of Ratepayer Advocate (DRA) worked with the legislature to address the inequities in legislation and regulations that adversely affect current E-1 rate structure?
- The homepage of the Commission website states, "The Commission serves the public interest by protecting consumers and ensuring the provision of safe, reliable utility service and infrastructure at reasonable rates, with a commitment to environmental enhancement and a healthy California economy." WHY has the Commission not protected the interests of upper-tier ratepayers from electric rates that are discriminatory and punitive?

The Commission should require that PG&E correct the present discriminatory and unfair E-1 rate structure applied to E-1 power usage by ensuring that the average E-1 rate billed is closer to PG&E's average cost. The Commission should find that PG&E's E-1 rate structure should be reduced from five rates to no more than three, or two as KERNTAX recommends. If there is a three-tier rate structure with low-tier rates discounted from PG&E's cost, the Commission should require PG&E to support that the discount is necessary and justifiable, and that it be no more than statutory minimums (10%) for PG&E's cost to generate, transmit, and distribute E-1 energy. The Commission should require that the Tier 2/3 rate(s) be priced to recover the Tier 1/2 discount(s) and PG&E's cost. A region's climate, as Mr. Bottorff acknowledged to the Kern County Board of Supervisors, may require a customer to use more energy. However, his assertion that higher usage merits higher rates exceeding 119% of cost should be flatly rejected by the Commission. **Leaving the current rate and baseline usage allowance structures in place is equivalent to placing a discriminatory climate tax on residential customers based on where they live, the size of their home, and whether or not they have family at home during the day.** KERNTAX demonstrated the negative effect that PG&E's E-1 rates can have on residential home values. Central Valley residents are being deprived of the full enjoyment and use of their homes out of fear of high cost electric bills for cooling in summer months. Can the same be said about residents living in Los Angeles, Sacramento, San Francisco, or cooler regions of the state? Market values of Central Valley homes could be negatively impacted by high utility bills due to increasing the monthly cost of total home ownership i.e., mortgage payment, utilities, insurance, and property taxes. Home mortgage lenders in qualifying buyers may likely raise income qualifications to meet these higher monthly costs leading to lower market values and lower taxed assessed values. Ultimately, property tax revenues will be reduced in the Central Valley. (See Exhibit 09) The Commission should find that PG&E's current formula allocating costs among E-1 ratepayers through the setting of ten region baseline usage allowances results in 48% of PG&E's E-1 customers (which account for more than 75% of E-1 power consumption) receiving an unfair "rate credit" of 31%, while the remaining 52% are paying a discriminatory "rate surcharge" exceeding PG&E's cost by 119%.

The Commission should find that PG&E's discriminatory rate design is a product of past legislation that no longer protects the ratepayer it was designed to protect. The Commission must see to it that all residential ratepayers are treated fairly. It is well beyond the time that all PG&E's E-1 customers pay the actual cost of power. There should be no subsidized rates. PG&E's "normal" power usage rate should be consistent throughout its service territories. The

Commission should find that PG&E's E-1 rate structure needs immediate reform, that the cost shift from Tier 1 and 2 ratepayers' usage to higher tiered ratepayers is discriminatory and unfair, that baseline usage allowances needs to be structured such that "normal" usage is priced at PG&E's cost with higher tiered rates set no higher than 15% above PG&E's E-1 cost, and that to eliminate regional cost transfers and subsidies that PG&E can only recover the cost of power sold within each of its ten service regions from the region served. Additionally, KERNTAX would respectfully request that the Commission direct PG&E to establish interim rate structures that are tied to 50% baseline values.

V. The Significance of A.1003014 in Rate Structure Reform.

For fairer rates and tariff simplification, and to enhance ratepayer equity, PG&E has proposed several changes to make its rates fairer, easier to understand and to apply, including:

- Introduction of a modest customer charge for all residential customers, $2.40 for California Alternative Rates for Energy (CARE) customers, and $3.00 for non-CARE customers, bringing residential charges more into line with charges applicable to other customer classes. KERNTAX supports fair and equitable charges for all classes and tiers.
- Collapsing of residential Tiers 3-5 into a single Tier 3, which will affect non-CARE customers only. KERNTAX supports the elimination of tiers and the flattening of the E-1 rate structure to take advantage of Smart Meter real time pricing opportunities.
- Introduction of a Tier 3 rate for CARE customers with usage in excess of 130 percent of their baseline quantities, bringing PG&E's CARE rates more into line with those of other California utilities; KERNTAX understands the need for the CARE program, but, in the spirit of actually promoting conservation, CARE customers should not be given unlimited electric usage for $.095 per kWh. The Commission should justify the basis for the 49% discount from PG&E's E-1 system average cost for CARE customers.
- Significant reduction of the baseline usage allowance for all residential customers such that

normal usage is priced closer to PG&E's cost to generate, transmit, and distribute energy. KERNTAX believes all PG&E's E-1 ratepayers should be treated in the same, fair, equitable manner. The baselines must be lower to create a fair and equitable distribution of costs.

- General increase in customer and demand charges, where supported by cost of service, with a general decrease in energy charges. KERNTAX believes all customers should pay for the cost of goods supplied. General service costs should be borne in an equitable, fair manner and each E-1 customer should fully pay for the energy consumed by that customer.

VI. Support for A.1003014.

The Kern County Taxpayers Association supports PG&E's A.1003014, as the second step on the road for fair and equitable rates for all PG&E E-1 customers. We view these rates as the product of interim rate formulae and look to the future for simpler and consistent Smart Meter-based transparent allocation of fair market based costs on a real time basis. The structural problems caused by AB1890, AB1X and SB695 must be addressed by the State Legislature for truly fair and equitable electric rates for all of the states IOU's.

Respectfully submitted,

/s/ Michael Turnipseed

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Attachments: Exhibit 01: PG &E Tiered Rate Revenues 1996-2010

Exhibit 02: PG&E Tiered Rates 2001-2010

Exhibit 03: Summer 2010 Electric Bill Comparison for PG&E, LADWP and SMUD

Exhibit 04: PG&E Cost Allocation Under SB 695

Exhibit 05: PG&E E-1 Electric Tiered Rate Recovery 1996-2010

Exhibit 06: PG&E E-1 Tier Rates, 2000-2010

Exhibit 07: Unintended Consequences of AB 1890 and AB1X

Exhibit 08: Electric Rate Structures 2010

Exhibit 09: Home Market & Property Tax Value Impact