BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations.	)))))))	Rulemaking 12-06-013 (Filed June 21, 2012)

REPLY COMMENTS OF DEMAND RESPONSE AND SMART GRID COALITION (DRSG) ON COORDINATION QUESTIONS AND RATE DESIGN EVALUATION QUESTIONS

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I. INTRODUCTION

The Demand Response and Smart Grid Coalition (DRSG) is an association of companies that provide products and services in the areas of demand response and smart grid technologies and services. DRSG works to educate and provide information to policymakers, utilities, the media, the financial community, and stakeholders on how demand response and smart grid technologies such as smart meters can help modernize our electricity system and provide customers with new information and options for managing their electricity use. More information is available at www.drsgcoalition.org.

DRSG's Reply Comments address the Opening Comments filed by the Silicon Valley Leadership Group (SVLG); Pacific Gas & Electric (PG&E); the Division of Ratepayer Advocates (DRA); the Coalition of California Utility Employees (CUE); the Utility Reform Network (TURN); and the San Diego Consumer Action Network (SDCAN). DRSG appreciates

this opportunity to provide its Reply Comments to the California Public Utilities Commission (Commission).

II. COMMENTS

Response to Opening Comments by PG&E and SVLG

DRSG wishes to respond to certain comments made by SVLG and PG&E, which it sees as related. SVLG points out that rate simplicity is important for technology providers and energy users, because simplicity makes it easier for energy users to respond to price signals. Numerous technology companies provide technologies to deliver price signals as well as to act on them. PG&E suggests reviewing rate policies in other states. Having common, or at least somewhat consistent, rate approaches, further promotes the ability of innovative companies to develop and market technologies. California, being the largest single market among the states, has a clear leadership role in adopting consumer-friendly rate policies (e.g. transparency, efficiency, simplicity, etc.) that can be further promoted via consumer empowerment by the technology community. For these reasons, DRSG supports the suggestions of PG&E and SVLG in this regard.

Response to Opening Comments by DRA

DRSG would like to address two aspects of the DRA's Opening Comments. First, DRSG responds to the DRA's recommendation to add the following goal: "Rates should be easily understandable and result in widespread customer approval/acceptance." DRSG believes that the future direction of rate design will recognize that not all customers are alike in their needs and their preferences. Future rates should recognize the fact that customers like to have choices as they make their purchases—including electricity. The future of rates should be a portfolio of

choices—not mandates—with different customers selecting different rates. Choices are the path to customer acceptance. Thus any measure (or consideration) of "widespread approval/acceptance," if it ever was adopted as a generic metric goal, would need to be crafted within this framework of future rates.

Second, the DRSG turns to the following statement in the DRA's Opening Comments:

> "DRA recognizes that some facets of residential rate design should support the important goal of reducing Greenhouse Gas ("GHG") emissions. Thus, in general, DRA favors rate designs that, to the extent possible:
>
> - Promote cost-effective renewable generation;
> - Promote investment in and off-peak charging of electric vehicles; and
> - Promote shifting electric loads to off-peak periods when the least efficient and most polluting generation sources can be avoided and wind generation is available."

DRSG agrees with DRA that rate design can be used to help achieve environmental goals. Time-based rates may not only be helpful in this regard, but also possibly essential in terms of integration of variable, intermittent, and off-peak renewable energy. Furthermore, as the DRA points out, peak shifting as a result of time-based rates may also help reduce emissions during the peak period. This could assist in the attainment of non-attainment goals in certain areas.

Response to Opening Comments by CUE

DRSG responds to the following statement by CUE:

"The OIR describes in detail the Commission's history in basing rates on marginal costs and cost-causation principles. D.08-07-045 adopted a set of guiding principles for the Commission and utilities to utilize in designing dynamic rates, which included basing rates on marginal cost, cost-causation principles, and encouraging economically efficient decision-making. However, that decision set *principles,* not policy goals. The Commission has incorrectly listed these principles as goals in this ACR. More accurately, marginal costs and cost-causation are tools used to meet stated policy goals. The goal should be listed as 'rate design should encourage equitable sharing of costs,' and then marginal costs may be used a tool to reach this goal.

"The same is true for cost-causation principles or economic efficiency. For example, we now have residential customers pay the same rates whether they live in a dense urban environment or a remote rural environment, even though the cost of serving these customers is very different. It is not economically efficient to make the both types of ratepayers pay their actual costs, but it is good policy. Economic efficiency, marginal costs, and cost-causation principles are not goals, they are guiding tools which the Commission may or may not use depending on whether they advance a policy of equitable sharing of costs.

"Therefore, CUE recommends removing Goals 2 and 3 and replacing them with CUE's proposed Goal 2—which can then use

> tools such as marginal costs and cost-causation principles to meet the goal of encouraging equitable sharing of costs when appropriate."

DRSG agrees with CUE that the overall goal of any action on pricing, demand response, and smart grid by the Commission should be that it supports growth and sustenance of the state's economy. DRSG respectively disagrees with the change in goals for this proceeding. DRSG believes that rates should be based on marginal cost principles and that this should be a goal of the proceeding.

Response to Opening Comments by TURN

DRSG responds to TURN's proposed modification of Goal 5 and its rationale for it. Turn wrote:

> **"5. Rates should encourage reduction of ~~*both*~~ coincident peak demand, ~~and~~ non-coincident peak demand, and overall energy usage.**
>
> "TURN is concerned about the failure to include reductions in total customer energy usage in this goal. In the context of energy efficiency programs, the Commission has repeatedly endorsed the goal of reducing overall customer energy usage wholly apart from any goals related to reductions in peak customer demand. It would be a mistake for the rate design process to ignore this objective and focus exclusively on promoting peak customer demand reductions. Such a focus could lead to rate design that leads to higher overall energy usage, a result that would run contrary to longstanding state

> energy policy that emphasizes reductions in per capita energy usage, greenhouse gas emissions, and natural gas consumption."

DRSG believes that the thrust of TURN's comment here is in an important direction for this and other related proceedings. It is important to pursue the integration of traditional energy efficiency with demand response (including time-based rates). This should be pursued both in terms of business models and practices, but also in development and implementation of policy.

III. CONCLUSION

The DRSG appreciates the opportunity to comment.

Respectfully submitted this 19th day of October, 2012,

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