

**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 SAN DIEGO GAS & ELECTRIC COMPANY (U902M) IN
RESPONSE TO ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW
JUDGES' JOINT RULING INVITING COMMENTS AND SCHEDULING
PREHEARING CONFERENCE**

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

Order Instituting Rulemaking Regarding Policies,
Procedures and Rules for the California Solar
Initiative, the Self-Generation Incentive Program
and Other Distributed Generation Issues.

Rulemaking 12-06-013
(Filed June 21, 2012)

**REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U902M) IN
RESPONSE TO ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW
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I. INTRODUCTION

The electricity industry is changing rapidly, the details of rate design for residential customers are largely proscribed by statute, and the basic residential utility rate design was created for the technologies on which the industry has relied for the past century, rather than the customer empowering and emission reducing technologies that California is trying to promote today. Given this environment, the Commission has wisely instituted this Rulemaking proceeding to examine rate design structure for residential customers. SDG&E appreciates this opportunity to reply to comments submitted by parties in response to the Assigned Commissioner and Administrative Law Judge's Ruling ("Ruling").

As many parties in this proceeding have noted, the changes that are facing the electricity industry create the promise for significant environmental and consumer benefits. The opportunity exists to empower customers with new choices that allow them to customize the ways in which their energy is produced and consumed and will lead to new products and

services that help customers reduce their emissions and energy costs. But this promise can only be realized for the long-term under a rate design that is based, as the Commission has articulated in its Proposed Goals, on accurate price signals for the services utilities provide their customers. By contrast, as PG&E points out in its comments, current rate design reflects a distorted tiered rate structure that fails to provide sufficient financial incentives to encourage Energy Efficiency (EE) for approximately two thirds of the State’s residential electricity consumption. Indeed, the current rate design imposes on approximately one third of residential electricity demand the vast majority of cost increases incurred by electric utilities, including the costs utilities incur to implement the State’s Greenhouse Gas reduction law (i.e., Assembly Bill [“AB”]32).

The Commission’s Proposed Goals would correct these deficiencies. Rate design based on these goals would create the foundation for long-term, sustainable growth in new low emission and customer empowering technologies, and do so in a way that recognizes that all customers are different, informs customers regarding the cost of the various options they may be considering, and ensures that all customers are treated fairly. The Proposed Goals would also allow for the creation of mechanisms under which public policy initiatives can be pursued, but would do so without obscuring from customers the costs utilities incur to provide the services customers receive.

II. RESIDENTIAL RATE REFORM CANNOT BE DELAYED

As PG&E points out in its Comments, rate design reform is needed now. Towards that end, SDG&E supports PG&E’s call for a Phase 1 decision adopting recommendations for legislative changes that would be necessary to eliminate unnecessary constraints on the Commission’s authority to implement necessary rate reforms based on its consideration of the input and analysis that will be submitted in this proceeding. SDG&E also agrees with Vote Solar that the Commission should consider reforms in this proceeding that would not require

legislative action. That is, to the extent legislation cannot be enacted eliminating constraints on the Commission's existing ratemaking authority to correct the deficiencies of current residential rate design, the Commission should ascertain what can be done in the absence of legislation and pursue those changes if legislative action is delayed.

III. THE PROPOSED RATE DESIGN GOALS SHOULD NOT BE REVISED IN WAYS THAT WOULD CREATE BIAS

In general, most of the commenting parties have expressed general support for the Commission's Proposed Goals, offering only relatively minor revisions.¹ In their sincere desire to promote various favored market outcomes, however, many parties have proposed revisions to the Proposed Goals that would tilt goals in favor of certain technologies or policy outcomes. Changes to the Commission's Proposed Goals are not necessary, however, to achieve the State's policy objectives because the Proposed Goals already create the opportunity to implement transparent incentives if necessary to achieve State policy goals.

The Commission's Proposed Goals, as stated, would lead to rates that provide more accurate and reliable information for customers in a technology-neutral manner, while allowing the Commission to pursue the important public policy goals that have been identified by many commenting parties:

¹ One party, San Diego Consumer Action Network ("SDCAN"), is an outlier, and is arguing that the prices utilities charge for the services they should provide should not include any reference to cost causation principles. Not surprisingly, SDCAN also argues that there is no reason to include a policy of avoiding cross-subsidies that are not supported by public policy, begging the question of why a cross-subsidy would exist if it were not supported by public policy. Rates that are set without reference to cost causation principles are guaranteed to create all kinds of subsidies, most of which would not support state policy goals. Accordingly, SDCAN's comments are without merit and inconsistent with those of the vast majority of parties who recognize the significance of supporting cost causation as a sound basis for fair and transparent rate design.

1. low-income and medical baseline customers should have access to enough electricity to ensure basic needs are met at an affordable cost;
2. rates should be based on marginal cost;
3. rates should be based on cost-causation principles;
4. rates should encourage conservation and energy efficiency;
5. rates should encourage reduction of both coincident and non-coincident peak demand;
6. rates should provide stability, simplicity and customer choice;
7. rates should avoid cross-subsidies, unless the cross-subsidies appropriately support explicit State policy goals;
8. rates should encourage economically efficient decision-making;
9. incentives should be explicit and transparent; and
10. transitions to the new rate structure should emphasize customer education and outreach that enhances customer understanding and acceptance of new rates, and minimizes and avoids the potential for rate shock. (Ruling, at p. 7.)

These Proposed Goals would support affordability where necessary, while empowering customers with rates that accurately reflect costs based on marginal cost and cost causation principles (Proposed Goal nos. 1, 2, and 3). The Proposed Goals would also promote an assortment of environmental benefits that are not limited to GHG emissions through price signals that discourage activities that would otherwise result in the need to construct unnecessary distribution capacity (which is constructed to meet non-coincident demand) or the unnecessary transmission capacity (which is constructed to meet non-coincident peak demand), avoiding the environmental impacts that would otherwise be associated with these activities (Proposed Goal 5). For these reasons, SDCAN's suggestion that Proposed Goal 5 be deleted must be rejected.

By promoting economically efficient decision making (Proposed Goal 8), the Proposed Goals would better inform customers and create economically efficient outcomes, minimizing costs to all customers. Combined with Proposed Goals 2 and 3, Goal 5 would

lead to rates that are more likely to remain stable and predictable over time because they are based on the actual costs utilities incur to provide services, enabling better energy management and investment decisions by consumers. At the same time, the Proposed Goals would also provide the opportunity to implement an explicit and transparent incentive mechanism, when necessary, to further the State's policy goals (Proposed Goals 7 and 9).

Proposed Goals 7 and 9 should also eliminate any need or desire to incorporate any preference for particular technologies or programs in the Commission's Proposed Goals. For this reason, for example, the Proposed Goal of encouraging economically efficient decision-making should not be limited to decisions regarding the use of existing generation resources and customer investments in EE, Demand Side Management (DSM), storage and renewable distributed generation ("DG"), as has been proposed by TURN and the Joint Parties. To the extent the Commission sees a need to promote these kinds of programs, it can do so under various programs (as has been noted by the Natural Resources Defense Council) or through transparent and explicit incentives adopted consistent with the Proposed Goals.

As currently framed, the Proposed Goals would provide customers with pricing information that accurately reflects the costs of the services they receive. This, in turn, would empower customers to knowledgeably shop for alternatives on a technology-neutral basis, with the knowledge that the basic rate structure on which their decisions are based will remain stable over time. This would create new market opportunities that would open the door for innovation in new energy technologies and applications in the future.

IV. CONCLUSION

SDG&E appreciates the opportunity to submit these Reply Comments on the Ruling. As noted in our Opening Comments, the Ruling sets forth a well considered list of questions that will allow the Commission to fully consider and adopt proposals for residential rate reform that will benefit customers, as well as the California environment, long into the future.

Those Proposed Goals should not be revised in ways that are designed to favor particular technologies or market outcomes.

SDG&E agrees with PG&E that residential rate reform is needed now and that the Commission should act expeditiously to issue a Phase 1 decision setting forth legislative recommendations. SDG&E also agrees with Vote Solar that the Commission should consider rate design reform that it could implement in the absence of such legislation.

DATED at San Diego, California, on this 19th day of October, 2012.

Respectfully submitted,

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