

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 THE DIVISION OF RATEPAYER ADVOCATES  
ON THE SEPTEMBER 20, 2012 ASSIGNED COMMISSIONER AND  
ADMINISTRATIVE LAW JUDGES' JOINT RULING**

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OCTOBER 19, 2012

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**I. INTRODUCTION**

Pursuant to the September 20, 2012 Assigned Commissioner and Administrative Law Judges' Joint Ruling ("ACR"), the Division of Ratepayer Advocates ("DRA") hereby submits Reply Comments on issues identified in that Ruling. The ACR allows parties to submit reply comments on issues raised by other parties in this residential rate design Rulemaking ("R.")12-06-013.

Many parties filed useful comments that will be helpful to the Commission in its deliberations in this Rulemaking. DRA agrees with a number of these comments, but not all. Thus, silence does not signify DRA's agreement on those issues. DRA does respond to the opening comments of Pacific Gas and Electric ("PG&E"), Southern California Edison Company ("SCE"), Environmental Defense Fund ("EDF"), and the Sierra Club.

## II. DISCUSSION

### A. This Rulemaking Should Work to Develop a Consensus Before Submitting Proposals to the Legislature

PG&E, and to a lesser degree SCE, recommend that this Rulemaking should rush ahead and that action should be taken quickly at the Legislature in Sacramento. PG&E's comments further question the importance or difficulty of reaching a consensus.<sup>1</sup>

PG&E states:

“The Commission should set a procedural schedule in the ACR that includes recommendations to the Legislature by early 2013, regarding restoring the Commission's authority to reform the residential electric rate structure and approve “just and reasonable” rates without the prohibitions on rate reforms contained in SB 695.”<sup>2</sup>

SCE's comments go in a similar direction:

“Consistent with the OIR's recognition of the need to relieve existing restraints on the Commission's authority, as a first step in this OIR, the Commission should consider either issuing a decision, after receiving additional comments from parties, or directly communicating to the legislature the statutory restrictions that should be either be modified or removed in order to permit the commission to authorize reasonable rate reform measures, where such reforms are warranted.”<sup>3</sup>

DRA asserts that both PG&E and SCE are mistaken in trying to prematurely bring recommendations to the Legislature. If the Commission follows these recommendations, it runs the risk of wasting a considerable amount of the parties' time in the long run. Having agreement among the parties will help get legislation passed. If the Commission does what PG&E suggests, this likely will result in the debate and discussion on

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<sup>1</sup> “PG&E understands that interested parties and Commission staff prefer a “consensus” in the OIR on reforming residential electric rates that the Commission can take directly to the Legislature for approval. But unanimity in the “zero-sum” arena of rate design is rare, and the parties that heavily benefit from the status quo and “no reform” can be expected to oppose any consensus that seeks to remove the current inequities and distortions.” (PG&E comments p. 7)

<sup>2</sup> PG&E Comments, p. 2.

<sup>3</sup> SCE Comments, p. 2.

residential rate design simply being shifted to the Legislature. If this occurs, not only will the process be messier, but the Rulemaking would become less important.

Rather than rushing to the Legislature as PG&E proposes, it makes far more sense to work steadily on the Rulemaking and to attempt to reach a consensus at the Commission that could be built on in Sacramento. There is still much work that needs to be done in examining the residential rate design. First, parties must present their ideal rate designs, and afterwards these rate designs should be evaluated on how they impact customers. The aim of the Rulemaking process hopefully is to involve parties in reaching some kind of consensus. This is generally a time consuming process that requires a significant amount of work, but it is well worth the effort if a consensus is reached. If a consensus is reached, it then can be taken to the Legislature.

**B. DRA Generally Supports Suspension of Residential Time-Variant Pricing Applications Until This Rulemaking is Completed**

PG&E recommends that “schedules for proceedings considering implementation of major changes in residential dynamic pricing and time-variant pricing are suspended until the Commission is able to reform the tiered residential rate structure consistent with the principles in this OIR.”<sup>4</sup> DRA could support this proposal if it does not include the Peak Time Rebate (“PTR”) proceeding, which currently is before the Commission in A.10-02-028.

Pursuant to the Commission’s prior direction, both SCE and San Diego Gas and Electric (“SDG&E”) already have moved forward with the PTR, and it appears that the roll-out has been progressing smoothly. Furthermore, in PG&E’s PTR proceeding, parties already have testified, and the case has been briefed. A proposed decision is imminent. The decision will address whether or not PG&E should move forward with PTR. PG&E should not be allowed to use this Rulemaking to undermine the deliberation of the PTR proceeding.

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<sup>4</sup> PG&E Comments, p. 2.

**C. Before Any “Coordinated Review” Parties Should Submit Comments on Ideal Rate Design**

PG&E recommends setting a specific schedule for coordinated review and approval of individual utility residential rate reform proposals.<sup>5</sup> It is not entirely clear what PG&E is trying to say here, but this appears to be another attempt by PG&E to expedite the proceeding. DRA again notes that the analysis and work of designing ideal residential rate designs needs to be performed first. Next, parties could work on building a consensus that could be taken to the Legislature. Once the Legislature approves any changes, then an implementation schedule could be adopted.

**D. PG&E’s Proposed Benchmark Should be Rejected**

PG&E proposes to compile “... information regarding the residential rate structures of other public and investor owned utilities in California, as well as other major electric utilities around the country ...” (PG&E comments, p. 8) PG&E, in previous rate design proceedings, has presented similar information, and PG&E gives this information more weight than other parties. PG&E could use such information as part of its reasoning to support its own proposals, but DRA objects to PG&E’s proposal to use such information as some kind of benchmark of a preferred residential rate design proposal.

**E. Customer Surveys Should Be Designed and Administered by Impartial Entities**

PG&E proposes that there should be “... an evaluation of direct opinion and feedback from a significantly significant sample of California IOU residential electricity customers regarding their preferences and needs for electricity pricing and choices.” (PG&E comments, p. 2) PG&E’s proposal would seem to be related to the goal of achieving customer understanding and acceptance. This proposal should be considered, but substantial time may be required to design and administer such a survey. Any valid survey would need to be impartial and be administered by an impartial entity, such as a

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<sup>5</sup> See PG&E Comments, bullet 2b on p. 2.

third party vendor. It also is important to solicit input from consumer parties on any surveys to help make any survey unbiased and meaningful.

**F. PG&E’s Proposed “Order of Priorities” is Premature Considering Parties Have Not Yet Submitted Substantive Comments or Reviewed Other Parties’ Proposals**

PG&E recommends that:

“The Rate Design Evaluation Questions” in the ACR should be revised to include a proposed order of priority for consideration of issues and specific reform proposals in the OIR. This order of priority should exclude factual matters that are not in dispute and therefore need not be subject to extensive comment, e.g., the fact that current tiered residential electricity rates are not cost-based, are not simple for customers to understand, and do contain extensive cross-subsidies on both an inter-class and intra-class basis. Likewise, this order of priority should provide for immediate development of common, publicly-available rate and cross-subsidy models that would allow early consideration of specific rate design proposals to transition residential electric customers over an appropriate period of time to a reformed residential rate structure that is cost-based and simple for customers to understand ...”<sup>6</sup>

Rather than the Commission specifying priorities in advance, every party should be allowed to explain their own order of priorities when they describe their ideal residential rate designs. It is certainly premature to establish priorities before parties have presented their proposals. It also is premature for PG&E to essentially write its brief on residential rate design issues by presenting its views, at this stage, on which factual matters are not in dispute. It is unlikely that parties will agree with PG&E’s understanding of the “facts,” and parties should not be limited in developing their own ideal residential rate designs by one utility’s view of the world.

PG&E goes on to discuss publically available data and models. DRA agrees that it would be desirable to make available data and models that could be used in the development of residential rate design proposals. However, DRA recommends starting with models that that are sufficiently robust to allow developing a wide range of rate

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<sup>6</sup> PG&E Comments, pp. 2-3.

designs and testing them for bill impacts. The data and models that would be most useful should be discussed and developed in a Workshop, as is currently envisioned by the ACR.

**G. DRA Disagrees With SCE’s Proposed Modifications to Rate Design Goals**

SCE proposes to modify goal 7 by adding the phrase “and the subsidies are equitably allocated among customers.” This additional phrase is not needed, and SCE can comment on CARE allocation issues when it writes its comments. SCE also recommends that a phrase from goal 10, “and minimizes and avoids the potential for rate shock” be replaced with the phrase “and appropriately considers the bill impacts associated with such transitions.” This change also is unnecessary. Parties likely will discuss the bill impacts of various proposals. Avoiding rate shock is an important goal of any rate design change because avoiding rate shock will reduce the likelihood of widespread customer backlash.

**H. DRA Believes EDF’s Proposals are Outside the Scope of This Proceeding**

DRA comments on two proposals made by EDF: 1) consider locational marginal cost pricing in this Rulemaking,<sup>7</sup> 2) consider other compensation methods for IOUs.

DRA notes that there are already many proposed methods for calculating marginal costs. There is no widespread agreement on the appropriate methods for calculating them. Including the additional complexity of locational marginal cost pricing would increase the complexity of calculating marginal costs, and doing so would add substantial time to this Rulemaking.

EDF also recommends adding the following rate design question:

“To the extent that new rate design creates uncertainty for utilities that the residential rate base will contribute adequately to the utilities revenue requirement, what

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<sup>7</sup> “Tariffs that accurately reflect locational differences in marginal costs or value of service should be a goal of this proceeding.” (EDF comments, p. 4)

other compensation methods should be developed (or, if existing, refined) to ensure that (a) utilities achieve their revenue requirements, and (b) utilities are compensated for the risk associated with new uncertainties?”<sup>8</sup>

This proposal is well outside the scope of this Rulemaking. Changes to a utility’s risk profile can be considered in the cost of capital proceedings. Changes to balancing account protection could be considered in General Rate Case proceedings. EDF seems to be unfamiliar with the fact that the IOUs currently have nearly complete balancing account protection of their authorized revenue requirements. If IOUs do not recover their full revenue requirements in one year, they can recover any shortfall in the following year.

#### **I. DRA Agrees With Some Parties’ Ideas for Metrics, and Disagrees With Others**

The September 20, 2012 ACR not only asked for parties to provide their recommended changes to the rate design goals listed in the ACR, but it also asked parties to identify questions and metrics for evaluating specific rate design proposals.<sup>9</sup>

SCE and the Sierra Club proposed a number of metrics in their opening comments. SCE stated that the metrics that are used to evaluate rate performance relative to various goals should be simple and standardized. DRA concurs. However, some of SCE’s proposed metrics don’t seem to meet these criteria. For example, SCE identified the following conservation goal and suggested metrics:

#### **Conservation and Reduction of Peak Demand (Goals 4 and 5):**

Evaluate customer understanding or comprehension of rates and kWh growth rate of various utilities based on various rate structures.<sup>10</sup>

It is unclear why a metric to measure the conservation or peak demand reduction would be to evaluate customers’ understanding of rates.

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<sup>8</sup> EDF Comments, p. 5.

<sup>9</sup> ACR at 4.

<sup>10</sup> SCE Comments, p. 7.



In addition, some of the metrics appear to be either based on untested assumptions or are biased against certain rate structures. The following are two examples:

**Affordability and Cross Subsidies (Goals 1 and 7):** Evaluate CARE and medical baseline enrollment metrics and quantify effective subsidies (*e.g.* CARE surcharge revenues) in both absolute dollars and as percentage deviations from cost.<sup>11</sup>

**Rate Transition Impacts (Goal 10):** Evaluate bills relative to their cost basis and in comparison to historical rate structures such as those that existed immediately prior to the energy crisis (adjusted for inflation).<sup>12</sup>

Regarding Goals 1 and 7, measuring CARE and medical baseline enrollment may not be the most effective way of assessing affordability, for enrollment should be reviewed along with disconnection rates over time. Also, it is not certain that CARE surcharge revenues represent an accurate measurement of subsidies. A clear definition of the term “subsidy” is needed before one can decide how to measure CARE subsidies. Regarding Goal 10, the costs or rates ten years ago (adjusted for inflation) might provide an interesting comparison to today’s rates. But they bear no relationship with goal 10, which pertains to assessing the rate shock caused by rate/bill change from the current structure to the alternative one, which may or may not resemble what existed prior to the energy crisis. It is crucial that the metrics are objective and can effectively measure the goals, and what SCE proposes has nothing to do with Goal 10.

DRA notes that the ACR also provided lists of items to be discussed at a two-day workshop. The second day is to address data and definitions, and include the following:

- What key terms should be defined? For example, Affordability, Economic efficiency, Fixed Costs, Cost-Causation, Cross-Subsidy, Peak, Off-Peak, Coincident and Non-Coincident Peak, marginal cost. Please propose definitions for the terms you identify.

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<sup>11</sup> SCE Comments, p. 6.

<sup>12</sup> SCE Comments, p. 7.

- What metrics should be used to estimate or track the impact of alternative rate designs on affordability, health and comfort and other areas?

DRA disagrees with some of the metrics proposed in SCE's Opening Comments. It would seem more reasonable to address the definition of key terms and the proper metrics at the workshop as the ACR appears to contemplate.

Several of Sierra Club's proposed metrics appear simpler to adopt than SCE's. For example, Sierra Club suggested using kWh consumed by individual customers as well as total MWh consumed, MW of peak load, greenhouse gas emissions, and other metrics to measure the level of conservation, the adoption energy efficiency measures, the penetration of solar generation, and the level of environmental impacts. However, it would be necessary to discuss how the baseline values in these metrics would be developed as there are many causal factors that may influence these metrics other than different rate structures.

Respectfully submitted,

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