

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)

OPENING COMMENTS OF ENVIRONMENTAL DEFENSE FUND
REGARDING THE REFINED LIST OF QUESTIONS FROM THE 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 12-06-013

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1. INTRODUCTION

Environmental Defense Fund ("EDF") commends the California Public Utility Commission ("CPUC" or "Commission") for its continuing efforts to redesign residential rate structures through the 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, Jun. 21, 2012 (R. 12-06-013) ("OIR") process. EDF is a party to the OIR proceeding and, as such, was invited to comment on the refined list of rate design questions and goals per the Assigned Commission and Administrative Law Judges' Joint Ruling Inviting Comments and Scheduling Prehearing Conference, Sep. 20, 2012 (R. 12-06-013) (the "ALJ Ruling"). In general, EDF supports the revisions made to the initial set of OIR questions and goals. However, EDF

recommends that the Commission include the following questions and goals in its final scoping order.

2. COORDINATION QUESTIONS

The OIR stated that it is Commission policy that rate designs encourage the “growth in third party offerings for demand response, energy efficiency and other energy management services by providing the utility with greater visibility into the distribution grid in real-time and near-real-time.”¹ Given the increasingly important role non-utility organizations play and will continue to play in the residential energy market, EDF proposes that an additional coordination question be added, specifically:

6. What policies would help ensure that non-utility energy providers are provided with adequate information and price signals to effectively participate in opportunities created by new residential rate designs?

3. GOALS

EDF proposes a modified goal with respect to the environment and three goals with respect to equity. With respect to the environment, as stated in the OIR, California’s statewide environmental goals “have an impact on utility operations, utility costs, how the utility recovers those costs, and, ultimately, the rate itself.”² Current question four (4) should be modified to read as follows:

4. Rates should encourage conservation, energy efficiency and the fulfillment of the state’s environmental requirements;

With respect to equity, the ALJ ruling noted that:

¹ OIR at 8.

² OIR at 7-8.

“...equity concerns are included in the current list of goals by reference to specific customer classes (low-income, medical baseline), and by reference to cross-subsidies between customer classes. In their comments, parties should identify any equity concerns that are not captured by these goals, as well as clarify what specific equity concerns they believe are included within these goals.”³

EDF proposes three (3) additional goals with respect to geographic, income and generational equity that are not captured in the current list of goals. First, as indicated by the ALJ ruling, EDF notes that there are geographic-based inequities embedded in current residential rate designs.⁴ Tariffs that accurately reflect locational differences in marginal costs or value of service should be a goal of this proceeding.

Second, EDF notes that neighborhoods disproportionately populated by low-income ratepayers can be subject to high levels of grid-related polluting air emissions, and lower penetration of environmentally beneficial technologies and behaviors. Addressing these inequities should be included as a proceeding goal.

Third, intergenerational equity is also a relevant goal for this proceeding. In the context of residential rate design, this equity concern pertains to the effect of current decisions on future generations as they relate to environmental impacts. These environmental impact costs include those related to the effects of climate change, as well as health costs associated with grid-based air pollution. These may relate to the deferral of implementing rates that increase environmental benefits or the deferral of rates that encourage investments needed to maintain reliable service. As such, the following goals to should be added to the current list:

11. Rates should encourage geographic equity
12. Rates should discourage disproportionate negative environmental impacts on low-income ratepayers

³ ALJ Ruling at 5-6.

⁴See ALJ Ruling at 8, stating “Please discuss any cross-subsidies potentially resulting from the proposed rate design, including corss subsidies due to geograhic location (such as among climate zones)...”

13. Rates should mitigate environmental impacts to current and future generations on an accelerated basis

5. RATE DESIGN PROPOSALS

EDF is concerned that the list of questions to be addressed in submitting rate design proposals may be insufficiently robust to develop a comprehensive record on which to base a Commission decision. EDF's unease is partially related to the definition of "optimal rate design structure." In particular, while EDF supports marginal cost-based rates as an effective means of signaling rational price based incentives, we are cognizant that the complexity of the problem may in some cases lead to sub optimal rate proposals that may not fully imbed cost causation principles in a robust or comprehensive manner. In this case, rates will not fully communicate the cost consequences of electricity use at a given time and location, and will not effectively induce environmentally efficient behaviors on the part of the utilities, ratepayers, and third party providers.

Given this potential, EDF recommends that the following questions be added to the refined list of eight (8) questions:

9. To the extent that the proposed rate design does not fully reflect marginal costs and cost consequences, what additional activities should be adopted to ensure that utilities, ratepayers, and third party providers are presented with economically efficient signals?
10. To the extent that the proposed rate design does not fully reflect marginal costs and cost consequences, what information tracking mechanisms should be adopted to enable the Commission to gauge progress towards meeting the adopted goals?
11. 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 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?

With respect to current question six (6), EDF also recommends that rates structures be more than “compatible” with innovative technologies, but actively demonstrate how they serve to communicate price signals to induce distributed energy resources into the emerging market.⁵ Specifically, the question should read as follows:

6. How will your proposed rate structure communicate price signals that can help customers reduce consumption or shift consumption to a lower cost time period and also enable distributed energy resources?

Finally, EDF is confident that in calling for detailed rate design proposals from parties, the Commission is not closing off avenues for stakeholders that prefer to play a critiquing role from fully participating in the proceeding. All intervenors, regardless of size or ability to field proposals, should have ample opportunities to provide comments and engage in whatever participation level they deem necessary for their voices to be heard.

6. CONCLUSION

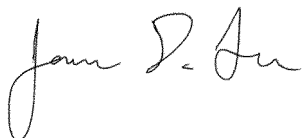
EDF respectfully requests that the Commission, pursuant to the ALJ Ruling and the OIR, consider further refining the coordination, goals and rate design proposal questions as described above.

⁵ ALJ Ruling at 9.

Respectfully signed and submitted on October 5, 2012

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A handwritten signature in cursive script, appearing to read "James D. Fine".

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