BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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


DEXTER KHOURY
Analyst for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-1200
Fax: (415) 703-1151
E-mail: bsl@cpuc.ca.gov

GREGORY HEIDEN
Staff Counsel
Attorney for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 355-5539
Fax: (415) 703-2262
E-mail:gregory.heiden@cpuc.ca.gov


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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 Opening Comments on issues identified in that Ruling. The ACR allows parties to comment on the proposed framework of goals, coordination issues, and questions that need to be examined in this residential rate design Rulemaking ("R").12-06-013. The ACR also gives parties the opportunity to articulate and put into the record the ideas and suggestions that were discussed at the August 27th workshop.

# II. DISCUSSION

## A. Goals of Residential Rate Design

The September 20th ACR lists a wide variety of rate design goals. Some of these proposed goals are potentially contradictory and require tradeoffs. Accordingly, different parties will place more importance on some goals than on others. Parties can explain which goals they deem to be most important later on when they describe their preferred residential rate design. DRA believes it is important for the list of goals to be as allinclusive as possible, thus allowing parties to discuss all the goals that they regard as important and why these goals are important to them. In this spirit, DRA suggests adding three additional goals to the rate design goals: 1) affordability of essential uses for all residential customers; 2) reduction of Green-House Gas ("GHG") emissions; and 3) customer acceptance.

### 1. Affordability

As discussed in the August 27th workshop, DRA strongly recommends the addition of the goal of providing affordable electricity for all residential customers for basic energy needs. Electricity and gas are necessities that are provided by monopoly investor owned utilities ("IOU"), making it appropriate for the Commission to regulate electric rates and to continue to guarantee affordable rates covering basic needs[1] for all customers. In addition, the Commission also should continue to offer discounted rates for the most vulnerable customers who receive service on California Alternate Rates for Energy ("CARE"), and medical baseline rates.

The Commission has provided lower, more affordable rates for basic usage for all residential customers since at least 1975 when lifeline rates were established. When the Miller-Warren Lifeline Act was enacted, the Legislature declared that "Light and heat are basic human rights, and must be made available to all people at low cost for basic minimum quantities."[2] In 1982, lifeline rates were simplified and transformed into the baseline program. Since then, all residential customers have received a lower, more affordable rate on basic usage, which was established to be 50% to 60% of average residential usage in each climate zone.[3] Customers receive cheaper rates on the baseline or tier 1 residential rate, and pay higher rates on usage above baseline usage. Customers

[1] Some uses of electricity are necessary for health and safety, but not all uses of electricity are essential.
[2] California Stats 1975 ch 1010, Section 1 (a)
[3] The IOU service territories are broken up into different climate zones designed to account for different geographical and weather conditions.

receive the benefit of affordable rates for some usage and then face incentives to conserve when usage exceeds baseline usage.[4]

DRA and other consumer groups continue to support the basic concept underlying the Baseline program of providing a lower rate for basic uses. It helps protect all customers for part of their usage of electricity, which is a necessity of modern life. All customers receive this benefit, making it fair, and easy for IOUs to administer. It is similar to the progressive income tax structure where taxpayers receive the same lower income tax rate on lower level incomes, and increases to income tax rate in steps as income increases.

Eliminating the baseline program likely would result in dramatic bill increases to many customers, especially to low usage and low income customers. Maintaining the baseline program would help maintain stability in a time of change to the residential rate structure. The baseline program also provides benefits to low income customers who exceed the eligibility threshold of income up to 200% of the federal poverty guideline level[5]. People in San Francisco and other urban areas with income above this threshold often have difficulty making ends meet. The baseline program helps these people in a way that does not add to the CARE program shortfall.

DRA recommends maintaining the long-standing legislative and policy goal of providing affordable energy for a portion of energy usage for all residential customers. Maintaining the Baseline program should be an important goal of any residential rate design that results from this residential rate design OIR. DRA continues to believe that electricity and gas are necessities for which low affordable rates are desirable for basic uses, and that maintaining this program would assure more stability. If one of the goals in this OIR is to move toward a consensus of a large number of parties on an ideal residential rate design at the Commission and also at the Legislature in Sacramento, it is

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[4] Initially there were two tiers of residential rates—baseline and above baseline rates. In 2001, the Commission instituted a five tier residential rate design for PG&E, SCE, and SDG&E when the Commission instituted a second energy surcharge to help pay for cost increases during the energy crisis.

[5] See P.U. Code Section 739 (b) (2).

essential to maintain the Baseline program and built other features of a residential rate design on top of it.

### 2. Environmental Goals

Conservation and Energy Efficiency issues are included in the September 20th list of goals, and DRA recommends adding an explicit environmental goal to this list:

*Rate design in conjunction with other policy goals should support California's climate change initiatives.*

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.

### 3. Customer Acceptance

Goal 10, on page 7 of the September 20th Ruling, summarizes a number of important goals of any rate design. For example, customer education and outreach that helps customers understand and accept the new rates is a valid goal. The avoidance of rate shock is another important goal. Both of these goals are related to a similar goal that DRA included in its list of proposed additions to goals at the August 27th workshop. DRA continues to recommend the addition of the following goal:

- Rates should be easily understandable and result in widespread customer approval/acceptance.

This goal is simple common sense. It makes sense to attempt to design a program that meets widespread customer acceptance and does not result in a widespread customer backlash.

### B. Questions on Rate Design Proposals

DRA proposes adding one question and revising another in the section of the ACR dealing with Rate Design proposals.

Proper rate design relies on carefully analyzing data such as customers' load profile, their bills, and how different rate structure may impact their bills. Therefore, DRA recommends adding the following question:

> *What type of data and analyses are needed to adequately inform the Commission what the optimal residential rate design structure should be? One example of useful data is data needed to calculate bill impacts. We should also consider impacts on different customer subgroups, disaggregated by location, age, income, load profile.*

At the workshop, DRA emphasized that the Commission should let the rate options stimulate technology development instead of letting technology drive the rate design. Question 6, currently shown in the ACR, reads as follows:

> Is your proposed rate structure compatible with innovative technologies that can help customers reduce consumption or shift consumption to a lower cost time period?

DRA recommends modifying the above question as follows:

> *What technologies are available to assist customers in reducing consumption or in shifting consumption to lower cost time periods? How much do those technologies cost and when will they be available? How effective are the technologies and to what extent are customers likely to use them? How much weight should the availability, cost, effectiveness, and user friendliness of these technologies be given in selecting the optimal rate design? What is a realistic timeline for a significant number of customers to acquire technologies that easily allow for loads to be shifted to off-peak periods?*

Review of proposals from other parties may suggest further issues which DRA could discuss in its reply comments.

### C. Coordination Issues

This is another area that requires making tradeoffs. It is important to have a comprehensive review, but at a certain point, doing so may become impractical. When that occurs, the Commission may need to prioritize the issues.

In general, DRA agrees with the Coordination Issues identified in the ACR. Review of proposals from other parties may suggest further issues which DRA could discuss in its reply comments.

Respectfully submitted,

/s/ GREGORY HEIDEN

Gregory Heiden
Staff Counsel

Attorney for the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 355-5539
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E-mail: gxh@cpuc.ca.gov

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