

**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 Utilities' Residential
Rate Structures, the Transition to Time Varying and
Dynamic Rates, and Other Statutory Obligations

R. 12-06-013
(Filed June 21, 2012)

**SIERRA CLUB OPENING COMMENTS ON THE ASSIGNED COMMISSIONER AND
ADMINISTRATIVE LAW JUDGES' JOINT RULING INVITING COMMENTS AND
SCHEDULING PREHEARING CONFERENCE**

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I. INTRODUCTION

The Sierra Club hereby submits these opening comments in response to the September 20, 2012 Assigned Commissioner and Administrative Law Judges' Joint Ruling Inviting Comments and Scheduling Prehearing Conference ("Ruling") seeking input on proposed coordination and rate design evaluation questions. Pursuant to Rule 1.4(2)(ii) of the Rules of Practice and Procedure, the Sierra Club also seeks to become a party to this proceeding through filing of these comments in response to the Rulemaking.

The Sierra Club is a non-profit public benefit corporation, incorporated in California, with 600,000 members nationwide and close to 150,000 members in California. Sierra Club's mission is to promote the responsible use of the earth's ecosystems and resources; educate and enlist humanity to protect and restore the quality of the natural and human environment; and use all lawful means to carry out these objectives. Sierra Club is a leader in the effort to reduce California and the nation's dependence on fossil fuels. The highest priority of Sierra Club's work is eliminating the need for fossil fuel-fired power plants through conservation, efficiency, and development of affordable renewable energy. Sierra Club has previously intervened as a party before the California Public Utilities Commission ("Commission") in General Rate Cases to advocate for conservation and efficiency, and rulemaking proceedings addressing renewable generation. Sierra Club members are primarily residential electricity customers who share Sierra Club's mission to protect the environment.

II. RESPONSES TO COORDINATION QUESTIONS

1. *Please list the major energy proceedings with which this proceeding should coordinate and explain what kind of coordination is needed.*

Other proceedings with which this proceeding should coordinate include, but are not limited to, the rulemaking regarding alternative-fueled vehicle tariffs,¹ the rulemaking regarding policies for the California Solar Initiative, the Self-Generation Incentive Program, and other distributed generation issues,² and the rulemaking regarding smart grid and demand response policies.³ Since rate structures have significant implications for cost-effectiveness of energy efficiency from a customer perspective, the Commission should also coordinate with future rulemakings on energy efficiency programs. Parties in this proceeding should be consulted prior to relying on findings from other proceedings, and if the Commission incorporates the evidentiary record, Parties should be given sufficient time to prepare comments and expert testimony to address new questions in the different context of this proceeding.

Like many parties to this proceeding, the Sierra Club is active in some, but not all of the proceedings implicated by changes to residential rate design. To assist the parties, Energy Division staff should prepare a straw proposal listing proceedings, findings, and evidence for which the Commission may consider relying on in this proceeding.

2. *How should customer outreach and education efforts in different proceedings be coordinating to maximize effectiveness and efficiency?*

No comment at this time.

3. *Should any of these proceedings be suspended, consolidated, or dismissed pending the resolution of this rulemaking?*

No comment at this time.

4. *What policies would help ensure that successful strategies will be shared between utilities?*

¹ R.09-08-009

² R.10-05-004

³ R.08-12-009

The Commission should facilitate open and transparent review of strategies in designing residential rate structures. Utilities should disclose customer outreach strategies, current practices and observed results, followed by additional discovery, workshops, and evidentiary hearings as needed. In addition, disclosure should not be limited to strategies deemed successful. Strategies that were attempted, but may not have yielded desired results, can also be informative in designing an optimal rate design and effective customer outreach programs and education.

5. *Are there proceedings at other government agencies, or legislation that should be tracked in connection with this proceeding?*

No comment at this time.

III. RESPONSES TO RATE DESIGN QUESTIONS

A. Comments on Proposed Goals

1. Rates Should Encourage Solar Generation Along with Conservation and Efficiency

Goal 4 should be revised to state: “Rates should encourage meaningful conservation and energy efficiency measures, *including solar photovoltaic self-generation.*” This revision is consistent with Commission decisions in General Rate Cases recognizing the importance of facilitating solar PV when setting rates. For example, in D.11-05-047, the Commission found that the “customer charge would conflict with price signals that encourage conservation and utilization of alternative resources such as solar.”⁴ Indeed, the Decision discussed the implications of residential rate design for solar in depth, and included in its findings of fact that “the continuation of a four-tier rate design will preserve a price signal to encourage customers to install solar photovoltaic facilities and promote progress toward achieving the CSI goal of creating a self-sustaining residential solar photovoltaic market. Promoting the market for residential PV helps advance the state’s loading order, meet greenhouse gas emission reduction

⁴ D.11-05-047 at 24.

goals, and achieve RPS compliance.”⁵ The Decision also adopted a Conclusion of Law recognizing that a “four-tier rate structure should continue as a means of promoting a price signal conducive to energy efficiency and a self-sustaining photovoltaic solar market.”⁶ Given the importance of residential PV in meeting State policy goals and reducing customer demand, consistent with other Commission rate proceedings, this Rulemaking should also explicitly include the goal of facilitating rooftop solar in considering rate design.

2. Ratesetting Goals Should Include Encouraging Reductions in Greenhouse Gas Pollution

The Commission should include an additional environmental goal for rates to “encourage reductions in greenhouse gas pollution.” California’s greenhouse gas reduction goals are to reduce greenhouse gas pollution to 1990 levels by 2020 and to 80% below 1990 levels by 2050.⁷ Conservation and energy efficiency do not serve as an adequate proxy for reductions in greenhouse gas pollution because the scale and load shape of conservation and efficiency measures have varying impacts on greenhouse gas reductions. This can be due to differing emissions profiles of older peaker power plants or periods of significant ramping. This proceeding should therefore also specifically evaluate the impact of the proposed rate design on reducing greenhouse gas pollution and encourage a rate design that maximizes needed emissions reductions.

3. Long-Term Marginal Costs Should Be Emphasized as Well as Marginal Cost Compatibility with State Conservation and Efficiency Goals

The proposed goal that “[r]ates should be based on marginal cost” fails to distinguish between short run and long run marginal costs. The latter are relevant for comparing alternative

⁵ Id. at 80.

⁶ Id. at 85.

⁷ Global Warming Solutions Act of 2006, Health and Safety Code 38500 et. seq. (“AB 32”); Executive Order S-3-05.

investment patterns – as when alternative providers have different technologies (such as gas or solar). The Commission should examine marginal cost from a long-term perspective to ensure renewable technologies with no fuel costs are not improperly disadvantaged in rate design.

Accordingly, this goal should be revised to state “Rates should be based on marginal cost, *with consideration and emphasis on long-term marginal cost.*”

In addition, strict adherence to marginal cost (Goal 2) and cost causation (Goal 3) may lead to a rate structure that undermines state policy on conservation and energy efficiency. If marginal cost and cost causation are included as goals in this proceeding, a condition similar to Goal 7 should also be added. Goal 2 should be further revised to state “Rates should be based on marginal cost, with consideration and emphasis on long-term marginal cost, *to the extent marginal cost supports state conservation and efficiency goals.*” Goal 3 should be revised to state: “Rates should be based on cost-causation principles, *to the extent cost causation supports conservation and efficiency goals.*”

4. It is More Important for Rates to Be Understandable than Simple

Goal 6 should replace “simplicity” with “understandability.” Several proposed goals encourage conservation, efficiency, and peak demand reduction. These objectives could be achieved using a number of design features, which must be understandable to customers to achieve the intended response. While rates that are simple may also be understandable, limiting rates to what is deemed “simple” may arbitrarily limit alternatives that can achieve conservation-related goals. The Commission is considering how to transition to time-of-use and dynamic pricing, and may consider how to modify the role of tiers in the rate structure. The state’s diverse geography adds another layer of complexity to rates. In addition, the rate structure may provide choices for customers with electric vehicles or net-metered solar.

Rates may adopt complex features, but can be understandable to customers with appropriate customer outreach and education. A customer asked to review an existing E-1 (residential) tariff may deem it complex, but if shown effective utility customer outreach materials, the customer would be able to understand key features important for fair disclosure about billing and usage, and to respond to conservation incentives. In addition, ensuring that rates are understandable will smooth the transition to a new rate structure by helping customers make choices that avoid increases in overall energy costs. Therefore, Goal 6 should be revised to state: “Rates should provide stability, understandability, and customer choice.”

B. The Commission Should Consider Metrics that Evaluate Conservation, Efficiency, Solar, and Environmental Impacts

The Commission should include in its evaluation metrics that measure conservation, efficiency, solar, and environmental impacts. This should include: (1) kWh consumed by customer and MWh consumed total, (2) MW of peak load, (3) greenhouse gas emissions, and emissions of criteria pollutants and toxic air contaminants, (4) the comparative Savings-to-Investment ratio for key individual efficiency measures, and for a modeled whole-home efficiency retrofit for a range of specified customer and load use types, and (5) a positive Levelized Cost of Energy for coincident solar photovoltaic installations for a range of specified customer and load use types.

C. Comments on Evaluation Questions

With regard to Question 6, it may be helpful to include more specificity to ensure that useful information on rate impacts from innovative technologies is not omitted. For example, Question 6 could specifically reference rate compatibility with distributed storage and applications of the smart grid using integrated appliances.

IV. DATA COLLECTION SHOULD BE FACILITATED EARLY IN THIS PROCEEDING

Sierra Club supports the early collection of data sources in this proceeding. This will allow for parties to understand the assumptions underpinning proposed rate structures and allow for a common understanding of how to design rates that achieve the Commission's policy goals and are effective in achieving conservation, energy efficiency, solar programs, and greenhouse gas reductions.

V. SERVICE

All correspondence, pleadings, notices, orders and other communications in this proceeding should be addressed to the following:

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Respectfully Submitted,

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