



Affordable Residential Electric Rates

Background and proposal

- Residential rates have a tiered structure where rates increase as you use more electricity
- AB 1x (Chpt. 4, Stats of 2001) capped rates in lowest two tiers at levels in place in 2001
- For almost a decade, increased costs for utility services were borne mostly by upper-tier users
- SB 695 (Chpt. 337, Stats of 2009) provided limited relief by allowing rates in the lowest two tiers to increase by 3 to 5% annually based on the Consumer Price Index
- Average Rates in Tiers 1 and 2 have increased minimally since 2001 compared to upper tiers

Year	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
2001	11.4 c/kWh	13.0 c/kWh	18.1 c/kWh	22.5 c/kWh	24.5 c/kWh
2004	11.4 c/kWh	13.0 c/kWh	16.8 c/kWh	20.1 c/kWh	20.1 c/kWh
2009	11.5 c/kWh	13.1 c/kWh	26.0 c/kWh	37.9 c/kWh	44.1 c/kWh
2012	12.8 c/kWh	14.6 c/kWh	29.6 c/kWh	33.6 c/kWh	33.6 c/kWh

- Gap between Tier 2 and the highest Tier went from 5 cents per kWh to 15 cents per kWh today
- Absent reform, the gap between Tier 2 and the highest Tier doubles to nearly 29 cents per kWh by 2022
- Low Income customer rates were higher in 1993 than they are today

Year	Tier 1	Tier 2	Tier 3	Tier 4	Tier 5
1993	10.1 c/kWh	11.6 c/kWh	11.6 c/kWh	11.6 c/kWh	11.6 c/kWh
2012	8.3 c/kWh	9.6 c/kWh	12.5 c/kWh	12.5 c/kWh	12.5 c/kWh

- The CPUC has only very limited ability to fix residential rates without legislative changes removing current statutory restrictions
- State law provides for a 20% discount for qualified low-income customers yet the rate structure has resulted in discounts of up to 63% on upper tier usage.

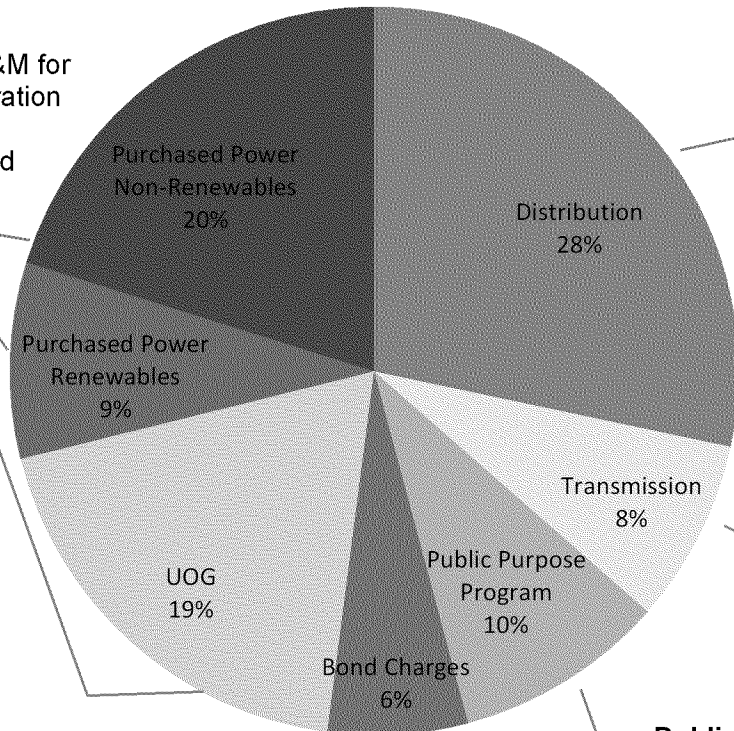


Overview of Rate Components

2012 System Average Bundled Rate: 15.3 cents/kWh

Generation

- Investment and O&M for utility owned generation (UOG)
- Fuel and purchased power costs



Distribution

- Investment in distribution: poles, wires, substations, service centers, meters, etc.
- California Solar Initiative
- Demand Response
- SmartMeter™

Transmission

- Investment and O&M in transmission (typically >220 kV)

Public Purpose Programs

- Legislative mandates (energy efficiency, RD&D, renewables investment, etc.)
- CPUC programs (additional energy efficiency, CARE program, etc.)

Bond Charges

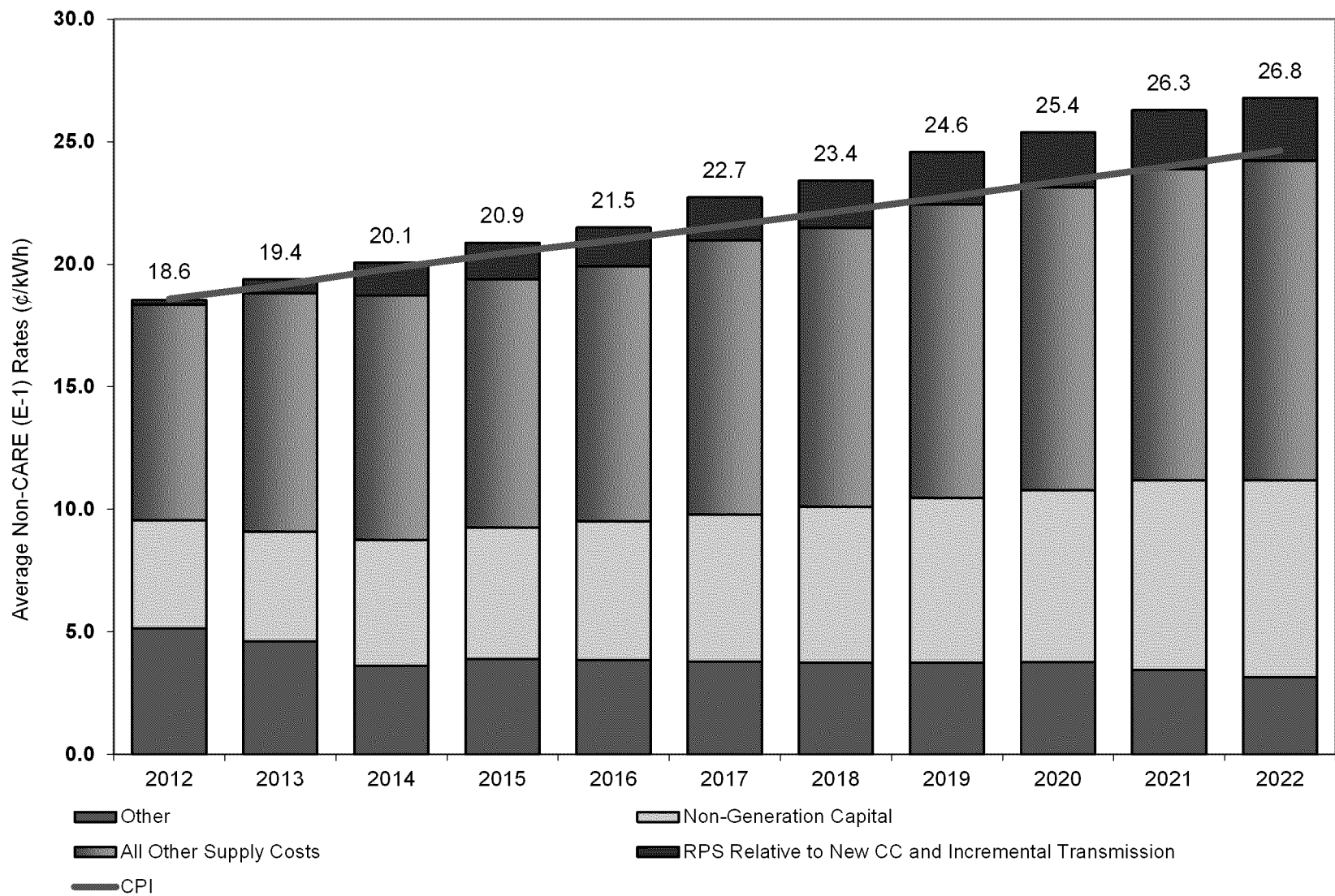
- Cost recovery related to contracts entered into on behalf of IOUs during energy crisis

Conclusion

Half of retail revenues fund generation-related activities:
PG&E spends 52% of its revenues on non-generation services such as distribution and transmission system development and reliability, energy efficiency, demand response, and low income assistance programs

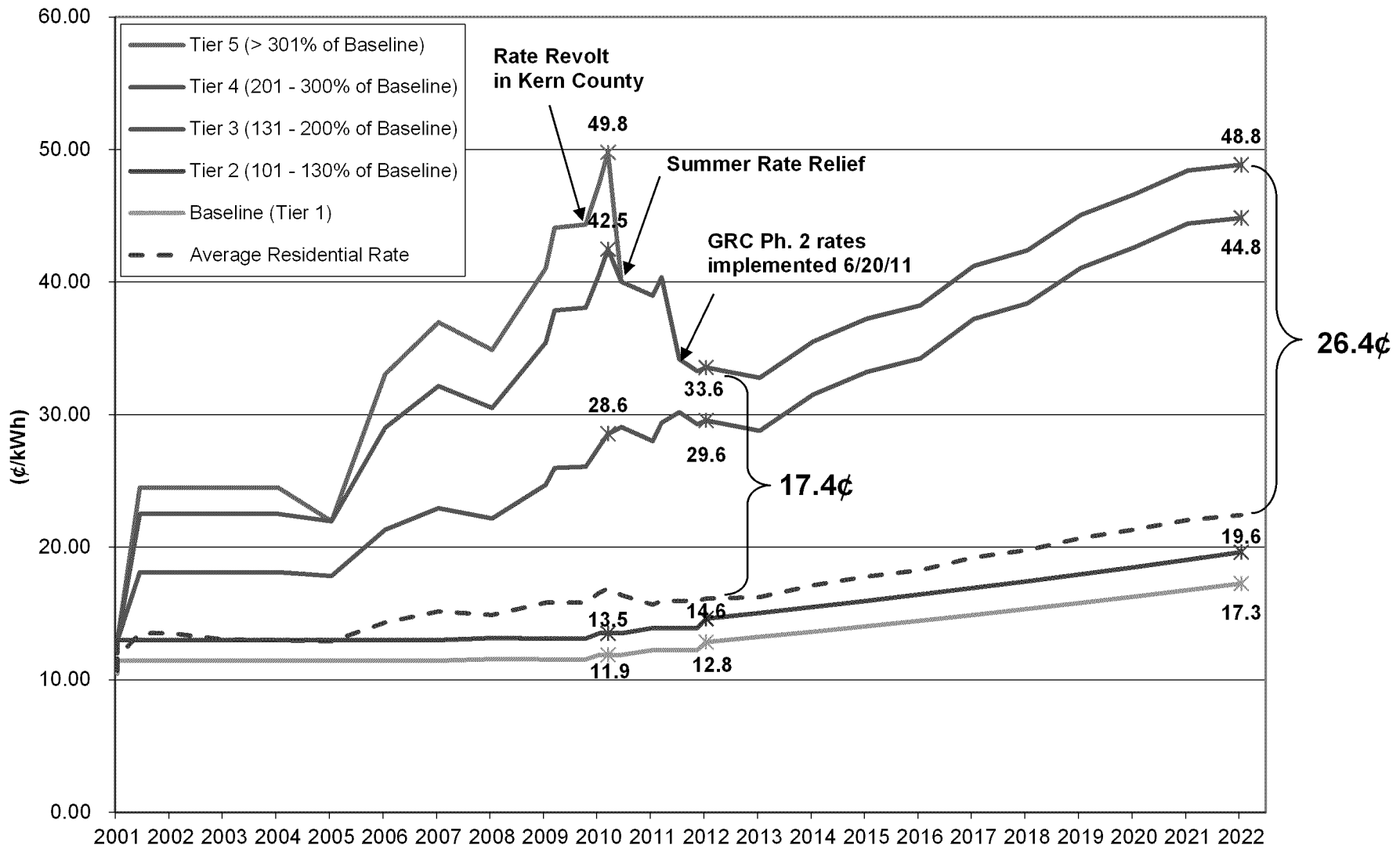


Projected Average Non-CARE (E1) Rates





Without Reform — Residential Rates Are Unsustainable





Income versus Usage for non-CARE Households

- **Many non-CARE, low-income households have high usage**.**

Income Range	Total Non-CARE Households	High Usage Non-CARE Households
30K to < 60 K	865,000	297,000 (34%)

- **At the same time, many non-CARE, high-income households have low usage**.**

Income Range	Total Non-CARE Households	Low Usage Non-CARE Households
100K and Above	1,063,000	435,000 (41%)

NOTE

**High usage households are defined to have Tier-3 and above usage in all 12 months of 2009. The remaining customers are defined to be Low Usage households. Customers who qualify for CARE program are excluded.*



Affordability Problem – Not an Issue of Income Level

- Many high-income customers pay below the cost.

Income	Annual Usage (kWh)	Annual Bill Amount	Annual Cost Based Amount	Under Payment
175,000	6,596	\$805	\$1,074	(\$269)
125,000	5,740	\$674	\$935	(\$261)
125,000	5,468	\$636	\$891	(\$254)
125,000	6,924	\$879	\$1,128	(\$249)

- At the same time, many low-income customers pay above the cost.

Income	Annual Usage (kWh)	Annual Bill Amount	Annual Cost Based Amount	Over Payment
55,000	12,675	\$2,631	\$2,065	\$567
55,000	13,988	\$3,099	\$2,279	\$821
67,500	15,384	\$3,612	\$2,506	\$1,106
45,000	15,147	\$3,717	\$2,467	\$1,250

- In 2009,
 - approximately 20% of the “low income” households over paid. There are approximately 30% “low income” households.
 - approximately 34% of the “high income” households have overpaid, which means that about 66% of the high income households have under-paid. There are approximately 23% “high income” households.