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 THE DIVISION OF RATEPAYER ADVOCATES ON THE JANUARY 31, 2013 ADMINISTRATIVE LAW JUDGES' RULING ON WORKSHOP REGARDING DEFINITIONS

LEE-WHEI TAN
Analyst for
the Division of Ratepayer Advocates

California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Phone: (415) 703-2901
Fax: (415) 703-1151
E-mail: lwt@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 January 31, 2011 Administrative Law Judges (ALJs) Ruling, the Division of Ratepayer Advocates ("DRA") hereby submits Opening Comments on the draft definitions attached to the Ruling. DRA agrees with the definitions for the majority of the terms listed in the Ruling. In these Opening Comments, DRA provides recommendations on a few terms. DRA reserves the right to reply to additional items based on parties' opening comments.

II. DISCUSSION

In this section, DRA comments on the definitions of "Fixed Costs", "Cost Causation", "Cross Subsidy", "Economic Efficiency", "Conservation Incentive Adjustment (CIA)", "Total Rate Adjustment Component (TRAC)", "Public Purpose Program Charge (PPPC)", and "Public Goods Charge (PGC)".

Fixed Costs: Costs that do not vary with usage or output.

DRA Comment: Fixed costs are not permanently fixed; they will change over time, and are only fixed in relation to a range of production levels during a relevant time period.

Cost-Causation: Method of allocating costs (e.g., generation, transmission, distribution) and designing rates to assign costs to the customers who cause the costs to be incurred.

DRA Comment: Cost-causation is not a method for allocating costs. Rather, it is the concept that different kinds of customers impose different levels of costs on the utility owing to differences in their consumption patterns and in the utility infrastructure provided to serve them. Cost-causation is embodied in the use of marginal costs for revenue allocation, but it is not a method of allocating costs in itself.

Cross-Subsidy: Recovering costs incurred by one group of customers from another group of customers.

DRA Comment: While the definition of cross-subsidy might be straightforward, DRA cautions that actually calculating cross subsidies will be challenging. Much of the difficulty stems from defining the underlying utility marginal costs that are used in calculating cross subsidies. The problem arises from the fact that the marginal costs that were settled in the general rate cases (GRCs) reflect class averages. Thus they are not particularly useful for looking at differences in how different customers within the residential class impose costs on the utility. This is particularly a problem for marginal customer costs where the infrastructure built to serve different customers varies greatly.

In addition, there are no settled numbers for PG&E. Furthermore, the settled numbers for the other two utilities reflect fairly significant compromises amongst the parties. Given the non-precedential nature of settlements, parties may not want to be held to those compromises in determining rate design policy in this proceeding that may be in place for many years. Moreover, the Commission itself has not set any definitive precedents in adopting these settlements.

The table below shows the large range of costs proposed by DRA and the utilities in the last three GRCs. This fairly large range might suggest that there will be significant controversy in this proceeding on the magnitude of any subsidies.

2011/2012 GRC Marginal Costs

	PG&E Residential Customer MC $/Yr-Customer	PG&E Generation Capacity MC $/MW -Yr
PG&E	93	80
DRA	63	32
	SCE Residential Customer MC	SCE Generation Capacity MC
SCE	160	144
DRA	74	98
	SDG&E Residential Customer MC	SDG&E Generation Capacity MC
SDG&E	259	138
DRA	78	101

Economic Efficiency: Obtaining maximum social welfare from available resources. In the rate design context, pricing that reflects the marginal cost of generating and delivering electricity, including externalities producing economic efficiency.

<u>DRA Comment</u>: DRA raises a similar caution with the definition of economic efficiency as it did with the definition of a cross-subsidy. Both are very dependent on the marginal cost determination, and the associated problems are described above. Furthermore, whether or not economic efficiency can be accomplished will depend on whether the customers have perfect information and on whether the transaction cost associating with reacting to a given price signal is almost zero.

Conservation Incentive Adjustment (CIA): PG&E's new rate structure converts generation and distribution into flat rates and adds a new set of tiered rates called the Conservation Incentive Adjustment (CIA). The purpose of the CIA rates is to allow the generation and distribution rate components to be flat (prior to July 1, 2012 both were tiered), while leaving the total rates tiered at their same levels.

Total Rate Adjustment Component (TRAC): The rate component through which subsidies ensuring Senate Bill 695 compliance are applied and recovered for SDG&E.

<u>DRA Comment</u>: The definitions of the CIA and TRAC rate components should be combined as they are designed to accomplish the same thing. Both rate components allow the utility to offer flat distribution[1] and generation rates, while maintaining the

[1] TRAC allows SDG&E to have flat distribution rates above baseline quantity.

existing level of rate tiering by capturing it in the CIA or TRAC.[2] PG&E and SCE call this mechanism the "CIA" while SDG&E calls it the "TRAC."

Public Purpose Program Charge (PPPC): Costs associated with state-mandated public purpose programs, including energy efficiency, demand response, solar and distributed generation, low-income and medical needs.

Public Goods Charge (PGC): A non-bypassable surcharge imposed on all retail sales to fund public goods research, development and demonstration, energy efficiency activities, and low income assistance programs.

DRA Comment: PPPC and PGC[3] appear to address the same thing. Again, they are different terms used by different utilities to represent the same concept.

III. CONCLUSIONS

DRA recommends that the Commission incorporate DRA's comments in its final definitions of the terms.

/s/ Gregory Heiden

Gregory Heiden
Staff Counsel

Attorney for the Division of Ratepayer Advocates

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[2] DRA notes that SDG&E in practice also includes CARE shortfall in TRAC when developing the rates, which DRA disputes and is a pending issue before the Commission in SDG&E's latest GRC Phase 2 (A.11-10-002).
[3] PCG has expired and no longer valid.