

**COMMENTS OF THE UTILITY REFORM NETWORK  
ON RESIDENTIAL RATES CUSTOMER SURVEY**

**1. TO ACHIEVE MEANINGFUL RESPONSES, PARTICIPANTS MUST UNDERSTAND THE CONSEQUENCES OF THEIR CHOICES**

Because the survey does not allow customers to determine the financial consequences of various rate design options using their own consumption patterns, the “revealed preferences” expressed by the customer through the survey process will not be useful. Customers must have information on their own usage, an understanding of the feasibility of reducing their usage during peak and off-peak periods, and the likely savings (or bill increases) associated with various actions taken by the customer. Alternatively, and at a minimum, customers must have some sense of the bill impacts of specific load-shifting or conservation actions under different rate options.

*a. Understanding possible usage or demand reductions*

As found in research on the SPP, customers in general do not understand the kilowatt-hour (kWh) as a unit of measurement. Furthermore they do not in general understand what level of effort may be required to save 1 kWh at any time during the day or night. Without such an understanding, they cannot evaluate the implications of various per-kWh charges involved in the rate alternatives that are presented in the survey.

This is important because our research has shown that for most average customers it will be difficult to save significant amounts of peak time kWh (and even more difficult to reduce peak demand by an entire kW over every 15 minute, or hourly, period throughout the month). Either the customers do not have significant usage during the period when savings would be required, for example on-peak, or they are unlikely to tolerate the comfort reductions that would be involved in obtaining significant savings.<sup>1</sup> Thus the Survey’s premise that a customer will be able to save significant kWh, or shift significant kW load, and thereby achieve significant bill savings may not be true for the majority of California customers, especially for the numerous California customers who do not have central air conditioning. **By offering a false**

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<sup>1</sup> For example our quick calculations indicate that in order to save 1 kWh on-peak a customer would need to turn off 3 plasma TVs for an hour, or increase the summer AC thermostat by 6 degrees.

**premise to customers, the Survey responses obtained will not be legitimate or meaningful.**

As part of the education section, several reasonable options should be offered of how much is likely to be saved on a monthly basis. For example,

- “If an average household increases the AC temperature by 2 degrees during the peak period [2 to 7 pm] every weekday over the course of the entire summer, you are likely to save roughly X kWh per month.”
- “If an average household shifts use of the laundry equipment from the peak [2 to 7 pm] to the off-peak period on two weekdays each week, you are likely to reduce your on-peak usage by Y kWh per month.”

Statements such as these will help the survey participants to realistically assess the options available to them and allow them to provide a more informed preference about rate options.

*b. Understanding possible bill reductions*

As a corollary to the discussion of energy consequences above, when customers realize that the financial savings possible with different rate designs will typically be small, the interest in changing behavior to “save money” diminishes. Unless these realistic financial consequences are captured, the survey results will be misleading. Since prior research has shown that the financial incentive is primary, specific financial consequences should be attached to each rate design option to characterize realistic savings for the average household. For example, “monthly savings if you increase the AC temperature by 2 degrees during the summer peak period [2-7 pm on weekdays] are likely to be \$X.”

When referring to “savings” and “a lot of savings” in the Survey, customers are expecting more than 6% bill savings. Results from Sempra’s research showed the following:<sup>2</sup>

- “Many claimed they would need to anticipate saving at least 10%, and possibly as much as 25%, each month on electricity to make adjusting their usage behavior worthwhile...Simply put, the likely savings struck respondents as hardly worth the effort.” (p.9)
- “The 6% savings isn’t that huge to inconvenience myself to do things in the

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<sup>2</sup> Sempra sponsored a Focus Group study of residential customers, identifying interest in switching to a TOU rate or a CPP rate with a critical peak price of 90 cents/kWh. Orsino Marketing Research, “SDG&E Automated Metering Infrastructure Focus Group Study,” November 2005.

evening.” (p.9)

- “Six percent is nothing, not worth the stress of running around changing things.” (p.9)

The premise of the survey (that meaningful financial savings are realizable) must be tested through the use of specific monetary increments that are reasonably achievable for average customers. For example, Q6.1b assumes the customer can “save money.” Many respondents would feel misled if the “money” at stake is a few dollars per month or less.

*c. Conclusion*

Without some references or examples that allow customers to locate themselves with meaningful consequences of their choices, both in terms of how much energy they can possibly save and what the financial consequences are likely to be, the Survey results will not be meaningful or reliable.

## **2. THE RISK OF BILL INCREASES**

Customers should be queried to determine their reactions to bill increases associated with switching to different rate designs. After selecting their preferred rate designs, the survey should ask customers whether their preferences would change if their preferred rate design were to increase their monthly bill by a certain amount (absent changed behavior). The survey should test customer preferences for various rate designs in the event of 5%, 10% and 20% bill increases. Bill increases/decreases of 5% are not adequate to capture the rate design alternatives being presented here.

Thus after each question about the preference for a rate plan, for example Q 3.3, Section 4.X, and section 5.1 should be a subsequent question such as:

“Would your preference/choice remain the same if this rate plan increased your monthly bill by 5%?\_\_\_\_, 10%\_\_\_\_, 20%\_\_\_\_?”

or

“If you are unable to shift energy away from the peak periods, are you willing to see bill increases with this rate design of 5%\_\_\_\_ 10%\_\_\_\_, 20%?”

### **3. THE SURVEY SHOULD ATTEMPT TO DETERMINE THE EXTENT TO WHICH CUSTOMERS ARE MORE CONCERNED ABOUT BILL INCREASES VERSUS THE OPPORTUNITY FOR LOWER BILLS**

Evidence on customer preferences from the SPP shows that customers are more concerned about bill increases rather than the opportunity for potential savings. Protection from the risk of bill increases provides superior customer value than the opportunity for an equivalent amount of savings. For example, customers often perceive a 10% bill increase to be worse than the opportunity for a 20% savings.<sup>3</sup> The proposed Survey instrument fails to even probe this preference dynamic by focusing on the promise of bill savings but placing little emphasis on the very real possibility of bill increases. The repeated appearance of “savings” with no “bill increase” creates a troubling bias in favor of a new electric rate plan (for example in the introduction, Q 2.4 and 2.5, section 3, section 4 education, etc.). A thorough scrubbing of the bias in the Survey instrument is needed with respect to this issue.

Some of the rate designs, if implemented as a default plan, can increase customer bills even if the customer attempts to reduce usage. These “disadvantaged” customers, such as low income customers in the Central Valley with a worse-than-average load profile, could still end up paying more than under current rates. For these customers it is not accurate to state that conservation or shifting energy use will necessarily result in bill savings.

### **4. BIASED “EDUCATIONAL MATERIALS”**

The "educational materials" concerning the different rate designs provided in the survey are biased and intended to promote customer acceptance of alternative rate design options and to undermine support for the existing rate structure. As a result, these materials resemble those used in a "push poll" and need substantial modification. TURN and SDCAN have proposed redline changes to the survey to reduce this bias, but more significant revisions may be necessary. TURN would be willing to review another draft of these documents.

Additionally, the description of demand charges completely fails to note that a demand charge is typically based on the peak demand during a short time interval. Especially for residential

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<sup>3</sup> See the quotations in Testimony of Gayatri Schilberg on Demand Response Benefits in A.07-07-026 (SCE AMI), January 25, 2008, p. 5-6.

customers, who have no experience whatsoever with demand charges, it would be critical to ensure proper understanding. TURN is concerned that introducing this element to the survey adds a confusing and time-consuming topic and is unwarranted given the nature of suggested reforms to residential rates for the vast majority of residential customers.

## **5. IMPORTANCE OF BILL STABILITY**

Much research already demonstrates that customers prefer lower bills. But there is significant market research showing customers strongly value monthly bill stability, even at the risk of slightly higher total annual bills. There is also actual market data supporting this view, as evidenced by customer selection of balanced payment plans, and by customer selection of stable gas price options offered by core aggregators. The Survey contains no information on how different tiered rates or TOU rates might impact monthly bill volatility, which is especially important since both rates and usage increase during the summer for some areas in California. The Survey could provide useful information if a conjoint analysis showed the preference for customer tradeoffs between low bills and bill stability. Q 6.1 parts d) and e) attempt to gather raw data on the bill stability expectations by the participants of different rate plans. Hopefully this data can be analyzed and compared with preferences for low bills to derive meaningful results on the low bill/bill stability tradeoff.