

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)

REPLY COMMENTS OF SAN DIEGO CONSUMERS' ACTION NETWORK ON RATE DESIGN PROPOSALS

Pursuant to the ALJ's Scoping Memo, San Diego Consumers' Action Network (SDCAN) submits reply comments on this rulemaking. SDCAN offers the following three observations:

- 1) SDG&E's late-filed "vision" for an optimal rate design is inadequate and disturbing;
- 2) The fact that none of the parties addressed the viability of third-party energy management viability is notable; and
- 3) There is a trade-off between mandatory or opt-in TOU and the aggressiveness of the TOU rate structure that must be considered by the Commission.

As SDCAN noted in its opening comments, SDG&E's failure to adhere to the ALJ's June 13th ruling impeded parties' ability to comment upon its proposed rate design. Subsequent to the filing of the opening comments, SDG&E provided parties with a "Supplemental Response" that continues to evade responsiveness to the specific question posed by the Commission and answered by most all other parties. SDG&E argues: "it would be inappropriate, inaccurate and misleading to try to predict any such specific transition proposal at this time" and declines to offer an analysis that reflects total bill impacts.

It offers attachments which, SDG&E insists, are *not* its Optimal Rate Design. After the better part of a year in which this Rulemaking has been ongoing, SDG&E says its

proposal has not reviewed by customers or stakeholders and therefore can't offer anything specific other than three criteria that parrot its earlier submission. Instead, SDG&E urges the Commission to defer any specific rate design proposals to a General Rate Case.

SDCAN appreciates SDG&E's resistance submitting a proposal: it envisions a transition to a \$38.42 per month "basic service fee" that is untenable and would be subject to severe customer backlash. Just to provide some degree of context to this number; SDG&E's average customer uses 500kWhrs per month. At SDG&E's current average residential class rate of 18.09 cents per kWh¹, the average SDG&E residential bill is \$90 per month. With a \$38.42 flat fee, SDG&E would be requiring its customers to pay about 43% of their monthly bill in the form of a fixed charge, thus cutting almost in half the price elasticity incentives inherent in electric pricing. This is a sobering and, from SDCAN's perspective, frightening vision for future pricing. Moreover, it is not indicated. As noted by Professor Borenstein at the June workshop, fixed cost recovery is only indicated where long-run incremental costs do not exceed average costs. Yet, there is no evidence presented by SDG&E, nor any consensus amongst parties, that long-run incremental costs are lower than average costs. Some parties, such as NRDC, contend just the opposite.

Secondly, SDCAN notes that not one party commented upon the important role of third-party energy management stakeholders in this process. From this, SDCAN can conclude one of two things. Either no party has a cogent response to SDCAN's concerns or, in the alternative, all of the parties concur that this issue is de minimis, and/or outside the scope of this proceeding. While these alternative scenarios can be best assessed by the Commission, SDCAN re-asserts that, any serious reform of residential rate design will have failed if it does not facilitate the deployment of new energy technologies and private energy management service companies serving residential customers. SDCAN's vision for the emerging real-time price environment is one of

¹ The residential class rate is based upon SDG&E's update filed on June 28, 2013 in A. 11-10-002.

helping to build a market for new services available to the residential and small business markets. An essential complement to these changes will be a marketplace where third parties will be providing energy and energy-related services that have not previously been available to residential consumers. For the residential consumer, whether new rate designs are embraced will be dependent, in large part, upon the success of energy management services. Third-party companies will need to deploy and likely use net-based applications and/or in-home technologies to permit customers to take advantage of real-time pricing schedules. SDCAN urges the Commission not to take on faith that a third party market will develop or have assumed that no such market is necessary.

Third, many of the parties' opening comments offered opinions about whether there should be TOU pricing and whether it should be mandatory/voluntary or opt-in/opt-out. With the apparent exception of SDG&E, the IOUs seem focused on an incremental adoption so as to reduce customer pushback and forestall the entry of third-party energy management companies into the California market. Some of the solar and environmental groups appear more comfortable with a more aggressively priced TOU rate structure so as to reflect the "true costs" of peak and non-peak power.

Notably, no party seems to hone in on the *essential trade-off in time-of-use pricing*; to the extent that the CPUC wants to send aggressive pricing signals for customers to implement demand-responsiveness, the TOU rates should be voluntary and opt-in. This is because customers who are inadvertently thrust into a severe pricing environment without the intent or knowledge of how to consumer power in such an environment will become resentful and distrustful. Conversely, if the Commission wishes to send modest and incremental TOU pricing signals, then opt-out implementation might be more acceptable to customers. Ultimately, the Commission must decide whether it wants to truly test whether pricing will promote demand response by reflecting "true cost" of time-based power or whether it wishes only to make a glacial change into this new pricing environment. SDCAN does not have any dog in the aggressive vs. incremental race. But it does wish to remind the Commission that if its objective is to really test price responsiveness through a steeper TOU rate design, it would be well served to do so gently in a voluntary, opt-in manner. Further, a more aggressive rate structure will

increase the likelihood that third-party energy management companies will be drawn to the California residential energy markets. To the extent that the Commission concurs with SDCAN's vision of third-party involvement in the residential markets, the Commission would be better served adopting a steeper, more aggressive TOU rate design, especially for those customers in higher tiers.

Finally, SDCAN reiterates its request that parties be given an opportunity to develop in-depth comments on the Energy Division's "strawperson" proposal rather than on the disparate and, in SDG&E's case, fantastical proposals. SDCAN urges the Commission to provide for sufficient time for parties to evaluate and comment upon the Energy Division's work product.

Respectfully submitted,

Dated: July 26, 2013

/s/

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