

**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)

**COMMENTS OF MARIN ENERGY AUTHORITY
ON PARTIES' RESIDENTIAL RATE DESIGN PROPOSALS**

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I. Introduction

Pursuant to the *Administrative Law Judge’s Ruling Confirming E -Mail Ruling Amending Procedural Schedule* issued on June 24, 2013, the Marin Energy Authority (“MEA”) submit s these comments in response to various interested parties’ residential rate design proposals . MEA believes there are certain issues relevant to cost shifting and competitive neutrality that have not been addressed by parties when designing their residential rate design proposals within this proceeding. For example, MEA’s comments herein focus on one proposal presented by the Natural Resource Defense Council (“NRDC”) that would create possibly unintended inter -class cross-subsidization between ratepayers, as well as substantial anti -competitive impacts for certain customer classes.

II. Background

MEA is a Community Choice Aggregator (“CCA”), which acts as an alternate generation service provider for customers and communities electing to participate in its program . MEA administers the MCE Clean Energy program, which provides 50% and 100% renewable energy options to customers throughout the County of Marin and the City of Richmond. By the end of the summer, MEA expects to serve approximately 120,000 customers with 108,000 residential

customers in Northern California. For purposes of rate design, these 108,000 residential ratepayers are treated as unbundled customers because they elect to receive their generation services from MEA while still receiving transmission and distribution services from Pacific Gas & Electric (“PG&E”). Thus, any proposed residential rate structures contemplated within this proceeding will distinctly impact unbundled customers participating in CCAs. To the extent that these rate proposals shift costs between generation and non-generation components of the residential rate structure, unbundled customers will face anti-competitive rate design elements that bundled customers will not experience.

III. MEA Remains Concerned About the Lack of Analysis for Competitive Neutrality

Within this proceeding, MEA has repeatedly raised concerns regarding the lack of process for evaluating the cost allocation and competitive neutrality of the various residential rate design proposals being considered herein. MEA has filed two separate Motions within this proceeding requesting an analysis of cost allocation and competitive neutrality issues.¹ MEA continues to believe that these issues must be thoroughly explored prior to any Commission adoption of modifications to residential rates based upon proposals herein.

MEA has conducted a cursory review of parties’ rate design proposals in an attempt to identify potential cross-subsidization and anti-competitive impacts that might result from acting upon these proposals. MEA maintains its belief that the current proposal structure, focused on Investor Owned Utility (“IOU”) bill impact calculators, is not properly structured to delineate generation and non-generation rate components. This delineation is necessary to consider the competitive neutrality of these proposals; thus MEA’s preliminary review of these proposals

¹ Motion of Marin Energy Authority to Delineate Generation and Non-Generation Rate Functions Within Proposals, April 8, 2013; Request of Marin Energy Authority for Evidentiary Hearings, May 29, 2013.

should not in any way be considered ample process for evaluating the competitive neutrality of parties' residential rate design proposals.

IV. MEA is Concerned by Anti-Competitive Rate Design Proposals, such as NRDC's Proposal

MEA provides the following analysis of NRDC's proposal in an attempt to illustrate the mechanisms by which parties' proposals may inadvertently create anti-competitive impacts on CCAs, as well as additional cross-subsidization between ratepayer classes.

NRDC's proposal recommends separating lower-cost generation resources, such as hydroelectricity, from higher cost generation resources within the IOUs' generation portfolios, and subsequently attributing these lower-cost resources to a certain ratepayer class. In this case, the class is residential ratepayers. NRDC argues that this would provide these customers with a lower marginal cost, thus allowing these customers to face lower marginal prices for energy usage. NRDC's own analysis indicates:

This is, admittedly, an "embedded cost" rate design concept, but it has the advantage of providing customers with infra-marginal energy usage at infra-marginal prices, thereby allowing a limited revenue requirement to price incremental usage at long-run marginal cost, thereby achieving a principal goal of marginal cost pricing.²

MEA finds issue with this approach for several reasons: (i) this proposal would force other generation service providers such as CCAs, which are competing with the IOUs for primarily residential customers, to compete almost exclusively with extremely low legacy resource generation costs that simply cannot be matched by new entrants in the energy market; (ii) this parsing-out of the IOUs' generation portfolio into low-cost and other resources will

² Rate Design Proposal of the NRDC In Response to the Administrative Law Judges' Ruling Requesting Residential Rate Design Proposals at 35.

create cross-subsidization between ratepayer classes (i.e. between residential and non-residential); and (iii) this proposal would expose these residential customers to increased risk of rate fluctuations due to the seasonal nature of hydroelectric power. MEA addresses each of these concerns in further detail herein.

A. NRDC's Proposal Creates an Anti-Competitive Dynamic within Residential Rates

As stated previously, MEA's customer base is predominantly residential. Furthermore, according to California Public Utilities Code § 366.2(b), CCAs are only directed to offer services to all residential customers within its jurisdiction. While MEA has opted to provide service to commercial, municipal, and industrial customer classes as well, certain CCAs, such as the City of San Francisco's CleanPowerSF program, may be geared exclusively towards providing generation service to residential customers. Ultimately, CCAs are exposed to tremendous anti-competitive impacts – whether intentional or unintentional – brought about by modifications to IOU residential rate structures. NRDC's proposal would attribute low-cost legacy energy exclusively to the IOU's residential rates. This would have a tremendous anti-competitive impact on CCAs because it would force these CCAs to compete against these legacy contracts with current market rates. For this reason, MEA finds NRDC's proposal unacceptable.

B. NRDC's Proposal Creates ~~Cross~~-Subsidization Between Ratepayer Classes

While NRDC's proposal would lower the costs borne by the customers lucky enough to be attributed with this low-cost power, it would also drive up the costs faced by all other utility customers whose generation portfolio energy supply excludes these low-cost resources. Generation resources that vary in price are all part of a comprehensive utilities energy portfolio. If the lowest-cost resources are isolated from this portfolio, then the average cost of the resources remaining in the portfolio will inherently increase. In other words, this cherry picking approach

would attribute the lowest -cost resources to residential customers, while increasing the costs borne by non -residential customers. MEA believes that whenever possible, ratemaking should reflect true cost of service. NRDC’s proposal would skew both residential and non -residential rates further from these true costs of service.

C. NRDC’s Proposal Exposes Residential Customers to Increased Rate Uncertainty

While hydroelectric legacy generation resources can certainly be relied upon to provide low-cost, low greenhouse gas (“GHG”) emissions energy, the amount of energy provided fluctuates substantially from hydrological year to hydrological year. As made evident by PG&E’s recent 2014 Energy Resource Recovery Account Application (“A.”) 13-05-015, during years with low rainfall, the IOUs’ generation rates can increase rather substantially due to reduced generation from hydroelectricity. This variance is usually offset by increased purchasing of market power, which is both higher cost and higher in GHG emissions. By attributing hydroelectric generation exclusively to one ratepayer class, residential, this class would be exposed to both higher fluctuations of generation rates and the emissions tied to their electricity consumption. MEA believes NRDC’s proposal would create unnecessary risk and exposure to significant rate changes to the residential ratepayer class. MEA believes NRDC would agree that the residential ratepayer class is most economically threatened by substantial fluctuations in generation rates, and that the Commission should focus on protecting this ratepayer class from such variance in energy market costs, rather than increasing their exposure.

V. Conclusion

MEA thanks Assigned Commissioner Peevey and Assigned Administrative Law Judges McKinney and Sullivan for considering the concerns raised in these comments regarding the

cross-subsidization and anti-competitive aspects to be considered in evaluating parties' rate design proposals.

Respectfully submitted,

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