

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 Designs, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations.

Rulemaking 12-06-013

(Filed June 21, 2012)

THE CONSUMER FEDERATION OF CALIFORNIA'S OPENING COMMENTS ON RATE DESIGN PROPOSALS SUBMITTED PURSUANT TO RULEMAKING 12-06-013

I. INTRODUCTION

The Consumer Federation of California would like to thank the Commission for the opportunity to provide these Opening Comments, in accordance with the procedural schedule set forth in the Assigned Commission's Ruling "Ruling") dated June 24, 2013. Pursuant to that Ruling the Consumer Federation of California (the CFC) respectfully presents its Opening Comments in the above captioned matter.

The CFC is a non-profit advocacy organization. Since 1960, The CFC has been a powerful voice for consumer rights. We campaign for state and federal laws focused on consumer protection. Each year, we testify before the California legislature on dozens of bills that affect millions of our state's consumers. We also appear before state agencies in support of consumer regulations and in pursuing consumer protection goals. Our central purpose is to represent consumers and their interests, educate on consumer issues and advocate for laws and regulations that protect California consumers.

The CFC is a non-profit 501(c) (4) federation of individual consumer members and organizations that are comprised of California consumers, including consumer groups, senior citizen groups, labor groups and other organizations.

Because the CFC is consumer protection and education organization created to represent the interests of California consumers, the following comments focus on the interests of California electricity *consumers*. Our focus is not only electricity rates and rate design implementation, and how rates and rate design impact consumers; we also focus also on consumer health and safety. Consumer health and safety, in the context of this rulemaking,

includes environmental issues and issues concerning available and affordable electricity. The reduction of greenhouse gasses, the external costs associated with CO2 emissions, and policy decisions aimed at sustaining a stable and reliable electricity grid are also consumer health and safety issues that concern the CFC.

As such, the recommendations and positions espoused in these comments are intended to promote those rate design elements that the CFC believes will be the most beneficial to the consumers of California.

The CFC has studied the rate design proposals submitted by the parties to this rulemaking. The CFC has also continued to review various studies and white papers relating to successful transition to time varying and dynamic rates.¹

II. EXECUTIVE SUMMARY

- The CFC's central purpose is to represent consumers and their interests, educate on consumer issues and advocate for laws and regulations that protect consumers, both as to rates paid and as to consumer health and safety issues.
- The CFC believes that proactive and comprehensive consumer outreach and education relating to the transition should start immediately.
- According to PG&E most consumers lack a basic understanding of how their energy bills are calculated therefore a comprehensive "Communications, Education and Outreach Strategy" needs to be developed, now.
- The IOUs should use bill inserts for education and outreach relating to the transition.
- The IOUs should draft detailed action plans regarding future outreach and education efforts relating to the transition.
- The Commission should establish a Communication, Education and Outreach Grant Program.
- A strategic timeline relating to consumer outreach and education is needed.
- Education and outreach should be clear and consistent.

¹ The CFC, at times, refers to the transition to time varying and dynamic rates as "the transition."

- The Commission should devote a section of its website to education and outreach relating specifically to the transition.
- Consumers should be informed about new technologies.
- A special emphasis should be put on “Air Conditioning Education.”
- The Inclining Block Rate design should be preserved but it must be modified.
- A properly designed inclining block rate design would promote environmental and social goals and promote fairness and equity in rates.
- The IBR should be designed to promote the Commission’s stated goals and the policies of the State of California.
- The IBR design should have three tiers.
- The differences between the tiers should be more uniform than the current design.
- The modified baseline allowances must not unfairly impact energy consumers in the first tier.
- Geographic differentiation and attendant bill volatility must be addressed.
- TOU rates should not be mandatory during the initial phases of the transition.
- Dynamic Rate Designs should not be mandatory during the initial phases of the transition.
- The phenomenon known as overgeneration should be explored.
- Fixed and demand charges should not be allowed.

III. PROCATIVE AND COMPREHENSIVE CONSUMER OUT REACH AND EDUCATION SHOULD START IMMEDIATELY

A. According to PG&E Most Consumers Lack a Basic Understanding of How Their Energy Bills are Calculated

PG&E asserts, that, “[O]ver half of PG&E customers do not even know they are on a tiered rate, and many do not understand how the tiered rate design – and their energy consumption – drive their utility bills.” If this assertion is factual it raises this simple question:

Why is it so many California consumers do not know the basics of electricity rating or the rating design they are subject to? We believe this lack of knowledge is in great part attributable to the lack of meaningful education and outreach.

A clue as to why over half of PG&E's customers may not know they are on a tiered rate might be found by looking at a PG&E "Energy Statement" (usually referred to as "a bill.") To start, the term "tiered" appears nowhere on the Energy Statement. And, while this Energy Statement, on page 2 of 4, provides a section called "Electricity Industry Definitions," defining terms such as "Power Charge Indifference Adjustment" and "Nuclear Decommission Charges," there is no mention of "tiered rate" in this definition section. What this illustrates to us is a woeful and troubling lack of initiative on the part of PG&E to provide to electricity consumers important information. This information would, and will in the near future, help consumers make informed and economically sound decisions regarding their energy consumption, conservation and their ability to reduce their monthly energy expenditures.

We have to wonder whether, if PG&E were to include – in a prominent insert – a clearly worded explanation of exactly how tiered rating works, whether more California electricity consumers would know 1) what tiered rating is 2) that they are subject to a tiered rating design and 3) three they can lower their monthly energy expenditures through conservation by avoiding electricity usage that allows them to be billed at higher rates in the higher tiers?

That said, PG&E's assertion regarding the lack of knowledge on the part of its customers points to a larger issue, the lack of communication and outreach on the part of the IOUs.

B. A Comprehensive "Communications, Education and Outreach Strategy" Needs to Be Developed, Now.

The assertion that most electricity consumers do not know how their energy bill is calculated causes us great concern in terms of the transition to TOU and dynamic rating. If most consumers don't know they are subject to a tiered rating design why should anyone expect electricity consumers to know about, or to understand, TOU rates or other dynamic rate designs, like Critical Peak Pricing?

While we will, at the end of this process, have a roadmap to follow as we proceed toward the eventual transition to TOU rates and other dynamic pricing models, evidentiary rate

hearings will in all likelihood be required. So, even if we had the transitional roadmap in hand today, even if we knew exactly what TOU rate design was going to be implemented, even if we knew the details of what dynamic pricing models are going to be used, implementation will necessarily be delayed until the actual rates are determined.

While the CFC believes that time is of the essence in this case, the CFC believes the delay described above can be seen as an opportunity, an opportunity for education and outreach. The CFC believes a new, concerted and proactive effort to reach out and educate California consumers as to tiered rating, TOU rates and other dynamic pricing models should start as soon as possible.

The CFC believes education and outreach can only facilitate the transition because it is logical to assume that knowledgeable electricity consumers would be more apt to opt-in to TOU rates and other dynamic pricing models if they know what these rate structures are and how they may benefit from them. Put another way, it is logical to assume that electricity consumers are not going to opt-in to programs they have never heard of, or understand.

As the old adage says, “An educated consumer is the best consumer” and the CFC agrees. Therefore we believe a “Communications, Education and Outreach Strategy” needs to be developed as soon as possible with the long-term goal of encouraging consumers to transition into TOU and other dynamic pricing models, which in turn, facilitates the Commission’s stated goals and state policy such as reducing peak demand and reducing greenhouse gasses.²

The CFC suggests the Commission consider the following in developing a comprehensive Communications, Education and Outreach Strategy aimed at laying the ground work for the transition to TOU rates and other dynamic pricing models.

1. The IOUs Should Use Bill Inserts For Education and Outreach.

The IOUs should be encouraged, or ordered, to start, as soon as possible, to engage in vigorous outreach and education through the use of bill inserts. The CFC would be more than happy to help the utilities craft language explaining, in language easy to understand, the

² If developing a “comprehensive Communications, Education and Outreach Strategy requires a separate rulemaking we urge the Commission to order such a rulemaking to commence as soon holding such a rulemaking hearing is feasible.

transition, and the new rating structures. The notices should be multi-lingual.³

2. The IOUs Should Draft Detailed Action Plans Regarding Future Outreach and Education Efforts.

The IOUs should be asked, or required, to provide to the Commission detailed action plans outlining future communication, education and outreach relating to the transition. These plans should include detailed descriptions of how the internet, social media, TV, radio, print, and direct mailing, and other media, will be employed in this effort.

3. The Commission Should Establish a Communication, Education and Outreach Grant Program.

The Commission should establish a Communication, Education and Outreach Grant Program, administered by the Commission, or perhaps the Division of Ratepayer Advocates, or some other office within the California Public Utilities Commission, to fund participation in education and outreach. Grants would be awarded to not-for-profit consumer advocacy groups, community-focused groups, faith-based organizations, labor groups, Latino, Asian, other ethnic community groups, and other similarly situated organizations.

4. A Strategic Timeline is Needed.

A strategic timeline, outlining the various phases of the Communication, Education and Outreach Strategy should be developed.

5. Education and Outreach Should Be Consistent.

The Commission, with input from all stakeholders, should develop educational materials, with stakeholder input, to be disseminated to the various groups qualifying for grants and the IOUs. This will ensure the messaging is consistent.

Even if a grant program is not established, education and outreach should be consistent and should be a function of the Commission, with input from stakeholders. Consistency and clarity in messaging should be seen as a crucial aspect of outreach and education.

6. The Commission Should Devote a Section of its Website to Education and Outreach Specific to the Transition.

³ The IOU's should be commended for the education and outreach regarding the transition they have already undertaken. But, if over half the electricity consumers in California have little or no understanding about how their energy bills are calculated, more needs to be done.

The Commission should develop an internet web page to address, in a clear and easy to read manner, TOU rates and dynamic pricing models, akin to its current “Energy Efficiency” website, which would include information relating to the opt-in TOU and dynamic pricing programs currently being offered by the IOUs and information related to the transition as well as explanations of TOU rates and dynamic pricing. Consumers should be alerted to the existence of this website through various means, but certain through bill inserts.

7. Professional Consultants Could Be Employed.

Perhaps a professional marketing group could be consulted, or contracted with, regarding the targets and the message.

8. Consumers Should Be Informed About New Technologies.

Many of the parties have addressed, extensively, the importance of various new technologies to be employed to enhance the success of TOU rating and dynamic pricing designs. The Communication, Education and Outreach Strategy should focus on disseminating information to electricity consumers about these new technologies, like smart thermostats, energy efficient appliances, smart appliances, in home alert devices other new technologies designed to enhance TOU and critical peak pricing, to save the consumer money, to reduce greenhouse gasses, and to reduce peak load.

9. A Special Emphasis Should Be Put on “Air Conditioning Education.”

One of the primary drivers of summer peak periods, if not the primary driver, is the use of air conditioning. While there is a great deal of discussion in the various rate design proposals regarding the need to reduce critical peak energy, very little has been said about air condition conservation alternatives.

Air conditioning has become something many of us simply take for granted, but if it were not for air conditioning, the landscape of America would look very different. In an article entitled: *Keepin' It Cool: How the Air Conditioner Made Modern America* (The Atlantic, July 2011) Rebecca J. Rosen points out:

Many of the central changes in our society since World War II would not have been possible were air conditioning not keeping our homes and workplaces cool. Florida, Southern California, Texas, Arizona, Georgia, and New Mexico all

experienced above-average growth during the latter half of the 20th century -- hard to imagine without air conditioning. In fact, the Sunbelt's share of the nation's populations exploded from 28 percent in 1950 to 40 percent in 2000.

It is unlikely that anyone would dispute that air conditioning is here to stay. And, as we continue to experience hotter conditions across the country, particularly in the American Southwest, and as people continue to migrate to places where air conditioning is all but required, we should expect air conditioning usage to continue to rise.

TOU rates and dynamic pricing are designed to, and with any luck will, make the users of air conditioning learn to conserve. Other approaches like air conditioner cycling programs, programmable controls, and smart thermostats are also cited often as that may be employed to enhance conservation in concert with TOU rates and dynamic pricing models. But the CFC believes we should not stop there. Education and outreach must focus on making sure electricity consumers in California are aware of how they can conserve energy during the summer months.

The CFC believes that as part of education and outreach, promoting new technologies (and even some old technologies) could be undertaken with the goal of reducing peak load and greenhouse gasses. In other words, we should not be relying on TOU rates and dynamic pricing alone to reach our conservation goals. California electricity consumers, especially those who use air conditioning, need to be made aware of what alternatives are available to them.

An example of new a technology, which is not be available to consumers at this time, but will be soon, is a revolutionary enhanced evaporation approach to cooling known as DEVAP, is said to provide air conditioning commensurate with current air conditioners, using 90% less power.⁴ When this technology becomes available for residential consumers, it should be promoted.

Until DEVAP and similar new technologies are made available to the consumers, consumers using air conditioning should be educated about what they can do now in terms of home cooling and about alternatives to the use of air conditioning. Things like evaporative cooling ("swamp coolers"), ceiling fans, window fans, house fans / attic ventilation, ventilation in general, energy-efficient air conditioning, AC floor units as opposed to central air, shade

⁴ See: *Air Conditioning Using 90 Percent Less*, Power Pacific Standard, September 2010.

trees, roof colors and roof materials, weatherization and insulation, and similar things that might help to reduce the use of air conditioning, should be promoted. Consumers should also be made aware of the various government sponsored rebates and other programs that can assist them in their conservation efforts.

Education and outreach should also emphasize the personal costs and disadvantages of air conditioning with a major emphasis on the monetary costs of using air conditioning. Also, air conditioning users should be made aware that air conditioning usage is a major factor in summer brownouts and blackouts and that brownouts and blackouts may present serious health and safety issues. Air conditioning users should be made aware of the role air conditioners play in terms of environmental issues, like climate change and air pollution. The use of “peaker plants” and their impact on the environment should also be explained.

C. Conclusion

The CFC is aware much of this information is available to those who choose to seek it out. But what we are suggesting is a much more pro-active, and comprehensive approach to consumer education.

We believe that the time to formulate a concerted Communication, Education and Outreach Strategy is now. We sincerely hope the Commission will consider some of these suggestions and we are sure other stakeholders will have more suggestions.

IV. THE INCLINING BLOCK RATE DESIGN SHOULD BE PRESERVED BUT IT MUST BE MODIFIED

To quote PG&E in its rate design proposal, “The current residential electric rates design in California is broken.” The CFC, for the most part, agrees with this assessment. The CFC also believes it will be best for the consumers of California if the transition into TOU and dynamic pricing is done gradually and logically, but only after the current inclining block rate (IBR) design is modified.

Tiered rating designs, otherwise known as inclining block rates; have been in use in California since 1975. In 2001, in response to AB 1x, the two-tier design was significantly modified and the number of tiers was increased to five. Since that time, due to a variety of causes and events, there has developed a very large difference in prices between the first two

tiers and the three upper tiers. This large disparity in rates between the lower and upper tiers is believed to result in a tiered rating model that promotes unfair cross-subsidies, whereby larger electricity consumers subsidize consumers who use less electricity. And, there seems to be something akin to consensus among the parties to this rulemaking, at the among those who think IBR should be preserved, that the current five tier rating design needs to be modified.

It is often said large organizations move at a “glacial pace.” Unfortunately, time is not a luxury we have as the glaciers that form the basis of the above quoted metaphor are melting at anything but a glacial pace. Therefore, the CFC believes the time to act is now to curb greenhouse gasses by any and all means at our disposal, while making sure electricity is available and affordable to all California consumers.

But, as the numerous Rate Design Proposals make very clear, and as we are sure the Commission is aware, in terms of the transition, there are numerous rate design options, options, myriad combinations of rate design options, and any number of issues attendant to the transition. At times it seems the entire rulemaking is getting bogged down in the details.

That is why the CFC believes the IBR design should be given priority and the modifications be made as soon as possible. We believe this to be the most logical first step and quickest way to move forward as we transition to time varying and dynamic rates.

The CFC believes this approach is best because California consumers, whether they know it or not, are currently, and have since 1971, been billed using an IBR design. So, There is no paradigm shift in modifying the IBR design and no new rate designs to confuse consumers. Also, repairing the IBR structure is relatively easy compared to implementing the new rate designs. The IBR design in place today and can be repaired, and, we hope, could be up and running, relatively quickly. And, as IBR are more traditional and not based on as many variables as TOU and dynamic prices, and as there is a history of rate hearings setting residential IBR, modifications to the IBR design should lend itself to a more streamlined process as compared to setting the rates for the new rate structures. While we understand California has to move forward with TOU and other dynamic pricing models, the CFC believes modifications to the current IBR design should be the Commission’s number one priority, even if that entails an evidentiary hearing, for the reasons stated above and because it will start the transition process moving along in a concrete way.

A. A Properly Designed Inclining Block Rate Design Would Promote Environmental and Social Goals and Promote Fairness and Equity in Rates.

Pursuant to the Commission's stated goals inclining block rates must encourage conservation, and efficiency. We believe these goals can be achieved, with IBR, by sending an appropriate price signal.⁵

The design must also focus on the impact of rate increases on lower consuming, lower-middle income and lower income consumers. The design must not result in rates that are unfairly discriminatory to any consumer. And, of course, the IBR must ensure that electricity is available and affordable for all consumers.

As many have pointed out, the current IBR rate design, for various reasons, has resulted in what many believe to be unfair differentials between tiers one and two, and the remaining tiers. The CFC believes this can be mitigated by modifying the current tier structure.

There are arguments in favor of retaining the current IBR design. One argument is, if you use more you should pay more. Another is the pronounced rate differentials between tiers, which are the source of the cross-subsidies, are actually sending a very strong conservation signal. Another argument is that under current legislative constraints (which caused much of the disparity in the first place), lower consuming electricity consumers, who are thought to be lower and lower-middle income consumers, are protected from sudden and large increases in electricity rates.

While these arguments are not without merit, given the stated goals and state policy, the CFC believes that as we transition to TOU and dynamic rate designs, the current tiered rate design should be modified. The principles of fairness, equity and cost causation, standards against which future rates will be measured, make modification the current IBR design all but unavoidable.⁶

While we do not believe all of the Commission's stated goals can be achieved through modification of the IBR alone, we believe it is time to forge ahead and begin to explore modification of the current IBR design.

⁵ According to Dr Faruqui Inclining Block rate do encourage conservation. See "Inclining Toward Efficiency," Public Utilities Fortnightly, August, 2008.

⁶ Much of what is stated herein assumes passage of AB 237 which will allow greater freedom to the Commission to design the rate structure.

B. The IBR Should Be Designed to Promote the Commission's Stated Goals and State Policy.

The following proceeds from the assumption that the current IBR design does not meet the policy goals or the Commission's stated principles and the applicable statutory constraints will be modified.

1. The IBR Design Should Have Three Tiers.

Having reviewed untold volumes of material, the CFC is convinced that a three tier inclining block rate, with seasonal baseline differentials, and geographic baseline differentials, is the optimum design for the IBR. Three tiers can be easily explained and should be easily understood. And, if designed properly, the three tier design can send a strong price signal / conservation signal to electricity consumers.

2. The Tiers Should Be More Uniform.

We are mindful that certain legislative constraints, and other issues, have impacted the current IBR and have significantly contributed to the disparities in the rates charged in the upper tiers as opposed to the rates charged in the lower tiers. Once these legislative constraints are lifted, obviously the first order of business would be smoothing out the differentials in an effort to eliminate inequities. The CFC is hopeful that more equal and uniform price differentials should mitigate against the real or perceived cross-subsidies as they relate to IBR.

3. The Modified Baseline Allowances Must Not Unfairly Impact Energy Consumers in the First Tier.

Speaking from consumer protection standpoint, the CFC is concerned specifically with lowering the baseline allowance in the first tier to a level that makes it difficult for low and low-middle income consumers to stay in Tier 1. The CFC believes setting the baseline allowance too low could cause some low and low-middle income consumers to suffer economic hardship.

That said, concerns relating to the baseline allowance would have to be balanced against the goals of conservation and the reduction of greenhouse gasses. In order for tiered rating to have any impact on conservation and in order to change consumers' electricity consumption patterns, the studies indicate a strong price point, one that gives a clear signal to the consumer, is imperative for the modification of energy consumption behavior.

Therefore, while the differentiations should be relatively uniform, careful consideration should be given to the rate in the third tier. On entering the third tier, the price point must be one that sends a clear conservation signal to electricity consumers.

One source has indicated to us that, currently, few electricity consumers stay in the first tier. We think this is an important point because if most electricity consumers consistently use more than the first-tier baseline allowance, reducing the number of tiers to three might cause some rate shock. That is because if it is true that almost everyone crosses over to the second tier each month, most electricity consumer will be charged what will most likely be higher second tier rates than they are charged today. We think the Commission should gather data, as soon as possible, from the IOUs, to see if it is true that almost all electricity consumers use more than the current, first tier, baseline allowance.

4. Geographic Differentiation and Bill Volatility Must Be Addressed.

Climate-differentiated baseline allowances will continue as they are required by law, unless the law is changed. The IBR design in place today recognizes geographical differentiation. And today California utilities use location, within their service territories, to distinguish between electricity consumers, by the use of geographically differentiated baselines.

Considering climate differentiated baselines in the various climate zones promotes the Commission's stated goals because it promotes fairness and equity in rates by equalizing rates among California's extremely diverse climate zones. And as stated above consideration of geographic differentials in ratemaking is legally required, as the legislature has directed the Commission, explicitly, to consider California's diverse geographical regions in setting the baselines.

That said, even though geographic location within climate zones is supposed to be considered in ratemaking, there seems to be agreement among the parties who have commented on this issue, that under the current tiered rating design, due to the high differentials among the tiers, customers living inland, in climates warmer than those on the coast, experience significant, and disproportionate, bill volatility due to the use of air conditioning. The CFC believes this disproportionality must be addressed during the process of modification of the baselines.

The CFC urges further study on how the base rates, intended to consider geographic location, are calculated. If it is true that under the current five-tier rate design, even where rates

are said to be calculated with geographic differentials in mind, inland electricity consumers are still suffering large, disproportionate bill volatility, then equalizing rates among California's extremely diverse climates should be an important goal.

V. TOU SHOULD NOT BE MANDATORY DURING THE INITIAL PHASES OF THE TRANSITION.

The CFC agrees with Joint Solar Partners and TURN that an IBR design should remain the "default" rate design, for the time being, but there should be a TOU option (an opt-in option) for electricity consumers.

As stated above, until a comprehensive Communications, Education and Outreach Strategy is formulated and employed, to educate California energy consumers about the transition and about TOU and other dynamic rate designs, TOU should not be mandatory.

VI. DYNAMIC RATE DESIGNS SHOULD NOT BE MANDATORY DURING THE INITIAL PHASES OF THE TRANSITION.

Again, until a comprehensive Communications, Education and Outreach Strategy is formulated and employed, to educate California energy consumers about the transition and about TOU and other dynamic rate designs, dynamic rate designs should not be mandatory.

That said, the CFC is of the opinion that the number of critical peak events and attendant issues are complex and cannot be solved short of a rate hearing.

VII. The Phenomenon Known as Overgeneration Should Be Explored

With "rolling blackouts" continually cited as the scourge the transition will help to avoid, we were intrigued by the following statement contained in the SDG&E rate design proposal, at page 20:

In the future, as renewable penetration continues to increase, *utilities could face periods of over-generation* creating the need to create incentives for consumers to shift electricity demand to those hours to avoid wholesale market sales of renewable energy at a loss. (Our emphasis.)

Over-generation, or more aptly, overgeneration refers to a condition where the total energy output exceeds the load used by the system. It is our understanding that

overgeneration is not necessarily harmful to the grid because excess power can be bled off to mitigate any stress on the system. However, overgeneration may be an undesirable situation for producers of energy as energy that cannot be put to a productive use has no value. There may also be an impact on the IOUs if they are forced to bleed off energy they have already paid for. But that is speculation on our part. We are also curious as to who it is that have to “avoid wholesale market sales of renewable energy at a loss.”

The CFC does not know if overgeneration should be an issue in this rulemaking. We would, however, recommend that the Commission find out more about SDG&E’s concerns regarding overgeneration. With solar and other distributed generation growing steadily in California it would behoove the electricity consumers of California to know whether overgeneration is, in fact, a future peril.

VIII. Fixed and Demand Charges Should Not Be Allowed

The IOUs suggest fixed charges are required to address fixed costs and for other reasons. The CFC does not think the IOUs should be allowed to charge electricity consumer fixed charges for the following reasons. The question of what is or is not a fixed cost has not been determined in this hearing. There is a growing school of thought that believes “fixed costs” especially over the long term, are something of a fiction. Fixed charges have no time differentiation. Fixed charges are not responsive to alerts and other signals. Fixed charges are simply unfair and inequitable in that the lower energy consumer pays the same rate as the large energy consumer and fixed charges therefore promote cross-subsidies. Fixed charges are not actually “cost based.” A fixed charge is unavoidable and does nothing to promote conservation.

Fixed charges are also detrimental to the environment and fly in the face of the Commission’s stated goals, state policy and sound ratemaking principles. A recent study⁷ published in *Energy Policy* supports this contention. What the authors found was by addressing the “fixed costs” directly in the rate, rather than using an unavoidable fixed charge, many tons of carbon dioxide emissions would be eliminated. How? The reductions would come

⁷ J. M. Pearce and Paul J. Harris. Reducing greenhouse gas emissions by inducing energy conservation and distributed generation from elimination of electric utility customer charges; *Energy Policy*, 35, pp. 6514–6525, 2007.

from increased avoidable costs made available through distributed generation (DG). The study also claims that fixed charges are a deterrent to residential DG because DG, on the residential scale, does not make as much sense when fixed and demand charges will be applied in the monthly bill. In theory, according to the study, if the fixed charge were eliminated, it would act to promote DG in significant ways. The Commission should not allow rate designs that act as a deterrent to renewables.

IX. Conclusion

We sincerely hope the Commission will consider our concerns and suggestions and we thank the Commission for the opportunity to submit these opening comments.

Respectfully Submitted July 12, 2013

_____/s/_____,

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