

Supplemental Filing of SAN DIEGO GAS &
ELECTRIC COMPANY (U 902 M) For Phase 2
Interim Rate Changes.

Rulemaking 12-06-013 Phase 2
Exhibit No.: (SDG&E-0X)

PREPARED DIRECT TESTIMONY OF
CHRIS YUNKER
CHAPTER 1
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

NOVEMBER 22, 2013



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1 **PREPARED DIRECT TESTIMONY OF**

2 **CHRIS YUNKER**

3 **CHAPTER 1**

4 **I. INTRODUCTION**

5 This Supplemental Filing presents San Diego Gas & Electric Company's ("SDG&E") rate
6 change proposals pursuant to the *Assigned Commissioner's Ruling Inviting Utilities to Submit*
7 *Interim Rate Change Applications* ("ACR") in Rulemaking ("R.") 12-06-013 and in accordance
8 with Assembly Bill ("AB") 327. SDG&E's Supplemental Filing, supported by this direct
9 testimony, makes five new proposals:

- 10 1. Lifting the Tier 1 rate to the same level as the Tier 2 rate;
- 11 2. Moving the California Alternate Rates for Energy ("CARE") discount to a line item
12 on a CARE customer's bill;
- 13 3. Transitioning the effective discount provided to CARE customers between 30-35%
14 in accordance with statute;
- 15 4. Transitioning non-CARE medical baseline customers to non-CARE rates over four
16 years; and
- 17 5. Implementing future revenue requirement changes.

18 These proposals are consistent with both the guidance provided in the ACR and the ten Rate
19 Design Principles that were developed in Phase 1 of this proceeding.¹ In that regard, the ACR
20 provides:

21 *I propose the following guidelines for the Interim Rate Change Applications:*

¹ Administrative Law Judge's Ruling Requesting Residential Rate Design Proposals, issued on March 19, 2013, Attachment A Principles of Rate Design.

- 1 *1. To prevent further disparity in lower and upper tiers, any rate increase resulting from*
- 2 *increased revenue requirements should be applied first to the lower tiers.*
- 3 *2. To avoid rate shock, and in compliance with statute, Tier 1 and Tier 2 rates should not be*
- 4 *increased by an excessive amount.*
- 5 *3. To prevent future rate shock, Tier 1 and Tier 2 rates changes should begin to increase in*
- 6 *2014.*
- 7 *4. Rates should be adjusted as necessary to prevent CARE rates from increasing beyond the*
- 8 *statutory effective CARE discount rate of 35%.*
- 9 *5. If the effective CARE discount rate is already above 35%, CARE rates should be adjusted*
- 10 *on a glide path towards the 35% effective discount limit without reducing the discount more*
- 11 *than a reasonable percentage annually.²*

12 The ACR also provides that, “[r]ate design changes proposed for 2014 should be modest,
13 *easy to evaluate, and consistent with AB 327.*”³ As is discussed in greater detail below, SDG&E’s
14 rate change proposals are designed to fulfill these objectives, in a manner that is consistent with the
15 Rate Design Principles that were updated and outlined in Phase 1 of R.12-06-013:

- 16 *1. Low-income and medical baseline customers should have access to enough electricity to*
- 17 *ensure basic needs (such as health and comfort) are met at an affordable cost;*
- 18 *2. Rates should be based on marginal cost;*
- 19 *3. Rates should be based on cost-causation principles*
- 20 *4. Rates should encourage conservation and energy efficiency;*
- 21 *5. Rates should encourage reduction of both coincident and non-coincident peak demand;*
- 22 *6. Rates should provide stability, simplicity and customer choice;*

² ACR, at p. 5.

³ ACR, at p. 4.

- 1 7. Rates should avoid cross-subsidies, unless the cross-subsidies appropriately support
2 explicit state policy goals;
- 3 8. Rates should encourage economically efficient decision-making;
- 4 9. Incentives should be explicit and transparent; and
- 5 10. Transitions to the new rate structure should emphasize customer education and outreach
6 that enhances customer understanding and acceptance of new rates, and minimizes and
7 avoids the potential for rate shock.⁴

8 To complement its showing, SDG&E’s Supplemental Filing is also supported by the
9 following testimony:

- 10 • Chapter 2: (Cynthia Fang) Rate Design.

11 **II. PURPOSE OF MY TESTIMONY**

12 The purpose of my testimony is to explain how SDG&E’s rate change proposals are
13 consistent with the guidance provided by the Commission’s ACR as well as the Rate Design
14 Principles the Commission has identified in Phase 1 of R.12-06-013. My testimony also explains
15 how SDG&E’s proposals are designed as interim steps towards the establishment of a sustainable
16 rate design that provides customers with accurate pricing information regarding the energy
17 alternatives that are available to them, allows innovation in new low carbon technologies to
18 flourish, and enables customer choice and economically efficient decision-making.

19 On May 29, 2013 in Phase 1 of this docket, SDG&E submitted its Optimal Residential Rate
20 Design proposal pursuant to the Ruling of Administrative Law Judge (“ALJ”) McKinney and the
21 November 26, 2012 Scoping Memo and Ruling of Assigned Commissioner (“Scoping Memo”). In

⁴ Administrative Law Judge’s Ruling Requesting Residential Rate Design Proposals, issued on March 19, 2013, Attachment A Principles of Rate Design. At the time of this instant Application, a Phase 1 decision is pending at the Commission.

1 addition to meeting all the Commission’s ten Rate Design Principles, SDG&E believes that an
2 Optimal Residential Rate Design is one that meets the following criteria:

- 3 • Utilities charge for the services they provide;
- 4 • Rates are designed to recover costs on the same basis as they are incurred; and,
- 5 • Incentives or subsidies that have been deemed necessary to further public policy
6 objectives are separately and transparently identified.

7 The transition to a rate design that will support California’s public policy goals, including its
8 low carbon policy, is one that cannot occur overnight and thoughtful steps need to be taken now in
9 order to create a reasonable opportunity to achieve California’s long-term emission reducing policy
10 objectives such as California’s Net Zero Energy Construction policy. In order to create the
11 foundation necessary to support higher levels of distributed renewable generation, consistent with
12 the state’s public policy goals, rate structures must be designed to reasonably allocate and recover
13 costs associated with the services that customers will require in this new world. In addition, to
14 achieve this path, SDG&E believes it is important to proactively communicate these changes to its
15 customers and will leverage, as applicable, its successful customer education and outreach plan that
16 was employed to manage the rate pressures that occurred in 2013.

17 The rate proposals SDG&E makes herein are modest in nature, and are primarily designed to
18 provide interim rate relief to the upper tiers in advance of summer 2014. These interim rate change
19 proposals are necessary at this time because of the number of revenue requirement pressures facing
20 SDG&E’s customers in advance of summer 2014. These pressures include significant increases in
21 the volume of renewable energy being delivered to SDG&E customers and the recovery of costs
22 associated with prior years that have been held up due to delays in decisions on applications, such
23 as the SDG&E’s Test Year 2012 General Rate Case (“GRC”) and various Energy Resource
24 Recovery Account (“ERRA”) proceedings.

1 Today, the majority of residential customers pay less than it costs to serve them, while a
2 minority of residential customers have had to make up the difference of the electricity cost increases
3 for more than a decade. This structure has left some customers more exposed to bill shock. Those
4 who live in hotter areas can be more susceptible to heat waves requiring more electricity to cool
5 their homes, using significant amount in a given month pushing them into the upper tiers. This
6 impacts customers regardless of their income level. It also results in low energy users having less
7 incentive to conserve. Without the rate reform requested in this Supplemental Filing, SDG&E's
8 upper tier residential rates will be in the range of the mid to upper 40 cents per kWh by summer
9 2014. This would be an increase of over 50% from summer of 2013 rate levels. For context,
10 SDG&E's residential class average rate will be increasing by roughly 25% over the same period.
11 SDG&E's proposal would lower that increase in the upper tiers to under the 30% range, with upper
12 tier rates in the mid 30 cents per kWh. While still substantial, the proposals put forth herein do keep
13 the impact to the lower tiers at a manageable level. Accordingly, SDG&E proposes to flatten Tiers
14 1 and 2 where the Tier 1 rate would go up to meet the Tier 2 rate. This equates to a roughly 16%
15 increase from approximately 14.8 to 17.1 cents per kWh. Bill impacts are included in the prepared
16 direct testimony of SDG&E witness Cynthia Fang and show the dollar per month impact as well as
17 percentage impact. It is important that the actual dollar bill impact be evaluated as well as the
18 percentage impact. This is true in particular for lower use customers as the low rates coupled with
19 low usage can be misleading. A small dollar movement on the bill can appear as a large percentage
20 since the bill is low.

21 SDG&E's proposals provide near term relief, are simple and provide a reasonable transition
22 step. However, they also are a step towards greater transparency and allow SDG&E to more simply
23 offer customers rate design options closer to cost based, for example Time of Use ("TOU") rates
24 with a baseline credit, which can effectively line up with SDG&E's proposed movement towards a

1 two-tiered structure in this Supplemental Filing. If all new residential construction is to be net-zero
2 energy by 2020, then SDG&E as well as the Commission need to take reasonable steps to prepare
3 for that future today.

4 **III. SDG&E PROPOSALS**

5 SDG&E's Supplemental Filing includes the five new proposals below including:

- 6 1. Lifting the Tier 1 rate to the same level as the Tier 2 rate;
- 7 2. Moving the CARE discount to a line item on a CARE customer's bill;
- 8 3. Transitioning the effective discount provided to CARE customers between 30-35%
9 in accordance with statute;
- 10 4. Transitioning non-CARE medical baseline customers to non-CARE rates over four
11 years; and
- 12 5. Implementing future revenue requirement changes.

13 SDG&E also includes the proposal to consolidate Tiers 3 and 4 originally included in
14 SDG&E's GRC Phase 2, which is currently pending before the Commission.⁵ If the consolidation
15 request is not approved in SDG&E's pending GRC Phase 2, SDG&E makes that request in this
16 proceeding.

17 SDG&E believes accurate price signals with direct incentives are the best means by which
18 to support California's policies of a low carbon future. Accurate information allows customers to
19 make economically efficient decisions to pursue energy efficiency and demand response. They also
20 create market opportunities for other new distributed technologies, such as storage and demand side
21 management technologies, which California will increasingly rely on in the future. Accurate price
22 signals with direct incentives, for example the CARE line item proposal in this Supplemental Filing,

⁵ SDG&E's GRC Phase 2 Application (A.11-10-002) was originally filed on October 3, 2011 and is currently pending Commission approval.

1 are the best way to comply with the Commission’s ten Rate Design Principles and seamlessly
2 support existing and emerging technologies, such as distributed solar and energy storage that
3 support California’s low carbon policy. However, while AB 327 removes the capping to rates
4 applied to 130% of baseline, it still includes limits on how far rates can be moved toward accurate
5 price signals for the default residential rate schedules. SDG&E’s proposals herein comply with
6 those limitations.

7 **A. Modest Tier Reform: Lifting Tier 1 Rate Up to Tier 2 Level and Consolidating**
8 **Tiers 3 and 4**

9 SDG&E proposes raising the Tier 1 rate by roughly 2.3 cents/kWh, the current differential
10 between Tiers 1 and 2. This would effectively create one lower tier at a discount to the class
11 average rate applied to usage up to 130% of baseline. This change would comply with the
12 Commission’s Rate Design Principles in that, by continuing a lower tier rate in combination with
13 the CARE discount proposal described below, it would ensure that low-income and medical
14 baseline customers have access to enough electricity to ensure basic needs (such as health and
15 comfort) are met at an affordable cost (Principle 1); by flattening tiered rates it would be a step
16 towards allowing rates to better align with marginal cost (Principle 2); better allow for rates to align
17 with cost-causation principles (Principle 3); by moving costs in lower tiers closer to the actual cost
18 of electricity it would better encourage conservation and energy efficiency (Principle 4); by
19 reducing the total number of tiers, it would provide more stability, simplicity and customer choice
20 (Principle 6); by moving CARE to a line item discount independent of rates, it would reduce the
21 level of cross-subsidies not supported by explicit state policy goals (Principle 7); by moving
22 towards more accurate price signals it would better encourage economically efficient decision-
23 making (Principle 8); and the gradual nature of the change proposed herein would begin the
24 transitions to the new rate structure that will be adopted in Phase 1 of this proceeding in a way that
25 enhances customer understanding and acceptance of new rates, and minimizes and avoids the

1 potential for rate shock by providing for a gradual change in rate design and in cost allocation
2 (Principle 10).

3 **1. Upper Tier Rates and Rate Shock**

4 A significant driver of residential rate reform is the quickly escalating upper tier rates that
5 have been required to adsorb most all of the cost pressures over the last decade. This has led to
6 inequitable upper tier rate levels (i.e. Tiers 3 and 4) approaching, and anticipated to quickly exceed,
7 40 cents/kWh. Rates over 200% of cost basis create an undue burden for upper tier customers, well
8 beyond anything that is necessary to promote energy efficiency or demand response. These upper
9 tier rates have corresponding lower tiers which reduce incentives to pursue energy efficiency or
10 demand response for around two-thirds of the residential electricity demand in San Diego. This is
11 especially true considering the composition of customers in the upper tiers which reflect a cross
12 section of all of SDG&E's customers.

13 **Table CY-1: Distribution of Household Income in Tiers 3 & 4 One Month per Year in 2012⁶**

Greater than Median Household Income	Less than Median Household Income	Total Households	Percent Greater than Median Household Income	Percent Less than Median Household Income
392,542	282,321	674,863	58%	42%

15 **Table CY-2: Distribution of Household Income in Tiers 3 & 4 Every Month in 2012⁷**

Greater than Median Household Income	Less than Median Household Income	Total Households	Percent Greater than Median Household Income	Percent Less than Median Household Income
192,457	89,394	281,851	68%	32%

16 In 2012, SDG&E served approximately 1 million customers throughout San Diego and
17 Orange Counties on the non-CARE, tiered rate schedule "DR." The median household income of
18 these customers in 2010 inflation-adjusted dollars was \$70,887. As shown above in Table 1 and
19 Table 2, the high-cost, upper-tier rates are not exclusive to high-income customers. Over 40 percent
20

⁶ Customer service address was used to identify the corresponding 2010 Federal Information Processing Standards (FIPS) Census Tract and the associated median household income which came from the 2010 American Community Survey 5-Year Estimates from the U.S. Census Bureau.

⁷ *Id.*

1 of customers that paid the upper-tier rates in at least one month of the year made less than the
2 median household income (282,321 households). Additionally, over 30 percent of customers that
3 paid the upper-tier rates on every monthly bill received over the course of the year made less than
4 the median household income (89,394 households).

5 Given this, there is a limit on how much of the costs can reasonably be adsorbed by these
6 customers. It follows that there is a limit to how high the upper tier rates can go, if rates are to be
7 kept at equitable levels. The question then becomes how to best manage the pressure on the upper
8 tier rates given public policy programs (such as the Renewable Portfolio Standard) and legislative
9 restrictions.

10 **2. Commission Guidance for Interim Tier Rate Proposals**

11 In the ACR, the Commission provided the following guidance in regards to proposals
12 related to residential tier reform:

- 13 *1. To prevent further disparity in lower and upper tiers, any rate increase resulting from*
14 *increased revenue requirements should be applied first to the lower tiers.*
- 15 *2. To avoid rate shock, and in compliance with statute, Tier 1 and Tier 2 rates should*
16 *not be increased by an excessive amount.*
- 17 *3. To prevent future rate shock, Tier 1 and Tier 2 rates changes should begin to increase*
18 *in 2014.⁸*

19 In addition, while the Commission's Rate Design Principles focus on accurate prices they
20 also emphasize the need to minimize and avoid the potential for rate shock:
21

⁸ ACR, at p. 5.

1 *10. Transitions to the new rate structure should emphasize customer education and*
2 *outreach that enhances customer understanding and acceptance of new rates, and*
3 *minimizes and avoids the potential for rate shock.*⁹

4 This Commission direction is consistent with the Rate Design Principles put forth in Phase 1
5 of R.12-06-013. Because California Investor-Owned Utilities (“IOUs”) have decoupled rate
6 designs, their revenues are balanced and trued up year to year and any subsidy in favor, or revenue
7 requirement shortfall, from one group of customers results in a rate increase to another group of
8 customers. The proposals SDG&E is making herein are designed to mitigate undue burdens that
9 would otherwise impact upper tier customers in the summer of 2014 in a way that is consistent with
10 the Commission’s long-term Rate Design Principles.

11 **3. SDG&E Specific Considerations**

12 While SDG&E currently has four tiers, SDG&E’s residential rate design effectively is a two
13 tier system. SDG&E’s upper tiers are separated, by design, by 2 cents/kWh and SDG&E’s lower
14 tiers are separated by roughly 2.3 cents/kWh. However, the upper and lower tiers are currently
15 separated by a gap of roughly 18 to 20 cents/kWh, roughly 8 to 10 times the 2 to 2.3 cent
16 differential separating upper and lower tiers, respectively.

17 While SDG&E proposed to consolidate Tier 3 and Tier 4 in its pending GRC Phase 2
18 proceeding, the decision to consolidate Tier 3 and 4 does not change the situation that currently
19 exists. SDG&E effectively has a two tier system with rates for usage up to 130% of baseline
20 provided at a discount and the remainder of sales priced at a significant premium relative to the
21 average cost of service. This is the structure that SDG&E customers have been exposed to and the
22 most noticeable rate and bill impacts are driven by changes relative to that two tier structure.

⁹ Administrative Law Judge’s Ruling Requesting Residential Rate Design Proposals, issued on March 19, 2013, Attachment A Principles of Rate Design.

1 The need for interim relief is driven by the fact that the residential class average rate is
2 expected to increase by roughly 12% between today and mid 2014 as outlined in the testimony of
3 Ms. Fang. In addition, residential class average rates have risen approximately 50% from the time
4 AB 1X was passed during the energy crisis in 2001.

5 **4. SDG&E Solution**

6 SDG&E's proposal to increase Tier 1 by roughly 2.3 cents, to Tier 2 levels, satisfies the
7 objectives outlined in the ACR to recover incremental revenues from the lower tiers first, that lower
8 tier increases should not be excessive and it minimizes the potential for rate shock to SDG&E
9 customers as SDG&E's current residential rate structure is already a two tier system. In the event
10 the Commission does not adopt SDG&E's proposal to consolidate Tiers 3 and 4 rates from its
11 pending GRC Phase 2, SDG&E proposes in this Supplemental Filing to consolidate Tiers 3 and 4
12 rates.

13 The consolidation of Tiers 3 and 4 rates, consistent with the rationale stated in GRC Phase 2,
14 should be adopted to simplify residential rate design. Currently, SDG&E's upper tier rates are
15 separated by 2 cents per kWh. As noted above, the upper tiers are separated from the lower tiers by
16 roughly 18 - 20 cents per kWh, approximately 8 to 10 times the 2 cent separation of the two upper
17 tiers. The two upper tiers provide the same relative price signal with summer Tier 3 and Tier 4
18 being 202% and 213% of Tier 2. Consolidating the two upper tiers is a simple proposal to simplify
19 residential rates. The bill impacts from this consolidation are minimal and outlined in the testimony
20 of Ms. Fang.

5. Support for SDG&E's Tier Proposals

Roughly 60% of SDG&E's non-CARE residential sales are in Tier 1.¹⁰ The result is that a modest increase of roughly 2.3 cents to Tier 2 levels can provide significant relief to the upper tiers. Increasing the lower tier rate by 2.3 cents is roughly a 16% increase in Tier 1 rates. When including all lower tier rate adjustments from today, including Senate Bill ("SB") 695 and the California Solar Initiative ("CSI"), Tier 1 rates would be increased by roughly 19%. As noted above, residential class average rates are expected to rise roughly 12% by mid-2014 from today's level. From 2002 until today, the residential class average rate has risen 50%. With this proposal, the lower tier rates will have risen 15% since 2002, making the proposed step a modest one in any transition time frame. While the exact percentages can change depending on pending Commission decisions, SDG&E's proposal to increase Tier 1 to Tier 2 is modest and reasonable in light of cost pressures to date, as well as additional near term cost pressures that upper tier customers face. As Tier 2 customers are also charged Tier 1 rates, lower tier customers all share in the absorption of the Tier 1 rate increase with this proposal. Importantly, all upper tier customers also pay the Tier 1 rate as well. With all customers contributing, more relief can be achieved by smaller movements in prices mitigating the potential for rate shocks for a subset of customers. The bill impacts reflect this are outlined in the testimony of Ms. Fang.

In addition, SDG&E's upper and lower tier alignment is reasonable relative to other solutions, such as to create a third intermediary, which introduces additional rate shock pressures. A third intermediary tier could require reducing the sales covered by SDG&E's effective lower tier, currently comprised of Tier 1 and 2 sales. Removing the Tier 2 sales from the effective lower tier price level would create rate shocks for a minority of low energy consumer in the band between 100% to 130% of baseline. Another alternative for a third intermediary tier would be to move sales

¹⁰ Defined as customer in Tier 1 usage 12 months out of 12.

1 covered in what is now closely priced Tier 3 and 4 rates into a third intermediary rate level. Such a
2 move would require either moving the 1) lower tier or 2) upper tier rate level higher to make up the
3 revenue for the sales that are no longer subject to the higher upper tier rate. Increasing the lower
4 tier price beyond the existing band increases pressure contributing to rate shock beyond what would
5 have been otherwise required. Increasing the upper tier level is counter to the relief sought by the
6 rate reform in AB 327.

7 Maintaining the two tier structure also supports the ability to offer simple un-tiered TOU
8 rates for residential customers in the future. With an effective two tier structure, a single line item
9 bill credit for lower tier usage could be applied on top of an un-tiered TOU rate. Such a structure
10 could ease the introduction of TOU rates for residential customers mitigating bill impacts and
11 simplifying customer choice. TOU rates provide for greater accuracy in pricing and provide a clear
12 signal for conservation at times when energy prices are high and increased demand could require
13 additional infrastructure investments, and were supported by many parties (such as the Office of
14 Ratepayer Advocates [“ORA”], Consumer Federation of California [“CFC”], and Environmental
15 Defense Fund [“EDF”]) in Phase 1 of this proceeding. In that way, TOU price signals are
16 consistent with all the Commission’s Rate Design Principles, specifically supporting Principles 2, 3,
17 4, 5, 6, and 8. While not necessitating TOU rates, a two tiered structure provides a solid foundation
18 upon which future rate designs options for customers can be more simply introduced. This meets
19 the objective of simplicity and customer choice consistent with Rate Design Principle 6 and smooth
20 transitions noted in Rate Design Principle 10.

21 Lifting the price level of Tier 1 to Tier 2 follows the guidance provided by the Commission
22 of directing increased revenue collections in the lower tiers first, managing rate shock by spreading
23 the impact amongst all effective lower tier users and providing a solid foundation upon which future
24 rate options such as un-tiered TOU rates could be incorporated. Given SDG&E’s existing rate

1 structure and the objective of minimizing rate shock a reasonable solution is to maintain, SDG&E's
2 existing structure of two effective tiers by raising Tier 1 to the same level as Tier 2 and
3 consolidating Tiers 3 and 4.

4 **B. CARE Proposals**

5 SDG&E's CARE proposals are consistent with AB 327 and include three items. The first is
6 moving the CARE subsidy to a line item on a CARE customer's bill. The second is taking a first
7 step to lower the effective CARE discount from current levels of 39% to within 30-35%. The third
8 is to transition non-CARE medical baseline customers tied to CARE rates to non-CARE schedule
9 "DR" rates over four years.

10 Currently, CARE subsidies are buried in rates. The result is that as non-CARE rates
11 increase, and CARE rates do not increase at the same rate, the subsidy provided to CARE customers
12 grows. As provided in AB 327, "[t]he average effective CARE discount shall not be less than 30
13 percent or more than 35 percent of the revenues that would have been produced for the same billed
14 usage by non-CARE customers."¹¹ This is in order to balance the needs of providing affordable
15 energy to low income customers and the cost burden borne by non-CARE customers. Also, non-
16 CARE medical baseline customers, who are currently tied to CARE rates, also are increasing the
17 cost of the subsidy as they are receiving the expanding CARE rate subsidy intended for low income
18 customers.

19 As noted above, upper tier customers represent a cross section of SDG&E's customers
20 including those above and below median house hold income levels. As such it is important to
21 manage the costs borne by the upper tiers to ensure that rates are equitable for customers of all
22 income levels.

¹¹ Section 739.1(c)(1) of the Public Utilities Code as amended by AB 327.

1 **1. SDG&E’s CARE Proposals are Consistent with the Commission’s Rate**
2 **Design Principles, AB 327, and Commission Direction**

3 SDG&E’s CARE proposals are consistent with the Commission’s Rate Design Principles
4 and would ensure low-income and medical baseline customers should have access to enough
5 electricity to ensure basic needs (such as health and comfort) are met at an affordable cost (Principle
6 1); ensure create greater transparency of the CARE discount, (Principle 9); provide stability,
7 simplicity and customer choice by providing greater transparency of the CARE discount (Principle
8 5); ensuring that any cross-subsidies appropriately supports explicit state policy goals (Principle 7);
9 and, begin a gradual transitions to the new rate structure that minimizes and avoids the potential for
10 rate shock (Principle 10). SDG&E’s CARE proposals are also consistent with the need to begin
11 reducing the SDG&E CARE discount gradually in order to comply with the required CARE
12 discount level of 30-35% provided for in AB 327. Similarly, SDG&E’s proposals are consistent
13 with the guidance provided for in the ACR for proposals related to CARE reform:

14 *4. Rates should be adjusted as necessary to prevent CARE rates from increasing beyond the*
15 *statutory effective CARE discount rate of 35%.*

16 *5. If the effective CARE discount rate is already above 35%, CARE rates should be adjusted*
17 *on a glide path towards the 35% effective discount limit without reducing the discount more*
18 *than a reasonable percentage annually.¹²*

19 **2. SDG&E CARE Rates**

20 The costs associated with creating the residential tiers are kept within the residential class.
21 Therefore, while the legislated bill discount of 20%¹³, now 30% to 35%, was spread amongst all
22 customer classes, the rate subsidy created by CARE rate design remained within the residential
23 class. This is another source of pressure on non-CARE upper tier rates.

¹² ACR, at p. 5.

¹³ Decision (“D.”) 01-06-010, June 7, 2001, at Ordering Paragraph 2.

1 In January 2013, the effective CARE discount was 34%. Because of rising upper tier rates,
2 today it is roughly 39%, increasing about 5% in 10 months. By mid-2014, SDG&E estimates the
3 CARE discount could rise to the mid 40%.

4 SDG&E Tier 3 CARE rates are currently frozen.¹⁴ But the effective CARE discount is not.
5 While no increase was requested, SDG&E proposed to remove the freeze on Tier 3 CARE rates in
6 its Test Year 2012 GRC Phase 2 for which the decision is still pending. Therefore, currently,
7 whenever the non-CARE upper tier rates increase, the effective CARE discount increased. Given
8 that the non-CARE upper tier rates have been growing much faster than the lower tiers, the subsidy
9 provided to the high use CARE customers in Tiers 3 has been growing faster than the subsidy
10 provided to low use CARE customers.

11 Non-CARE medical baseline customers have also received a substantial increase in
12 subsidies. Medical baseline customers have been tied to CARE rates. As the rate portion of the
13 CARE subsidy has grown, the non-CARE medical baseline customers' subsidy has grown with it.

14 **3. SDG&E Solution**

15 SDG&E proposes to move the current effective CARE discount of 39% out of the rate
16 design to a line item on the bill as well as a transition path to bring the effective discount within the
17 legislated range of 30-35%. For non-Residential CARE, SDG&E also proposes to reduce the
18 effective discount to 45% with a separate transition path to account for the differences in the
19 effective discounts that are currently in place. The exact level of the subsidy and transition is
20 outlined in the testimony of Ms. Fang.

21 SDG&E also proposes to transition non-CARE medical baseline customers, who are
22 currently tied to CARE rates, to non-CARE "DR" rates over a four year period. As SDG&E
23 proposes to eliminate CARE rates in favor of a line item discount, and non-CARE medical baseline

¹⁴ D.09-09-036 adopted the Settlement in SDG&E's 2009 Rate Design Window ("RDW") (A.08-11-014).

1 customers are not eligible for CARE discounts, SDG&E proposes to transition these customers over
2 four years to mitigate bill impacts. The medical baseline subsidy which doubles the baseline
3 allowance for medical baseline customers is maintained.

4 **4. Support for SDG&E's CARE Proposals**

5 By removing the subsidies buried in rate design to a line item discount on the customer's bill
6 SDG&E's proposal is consistent with AB 327, the Commission's Rate Design Principles, and the
7 ACR's guidance to, "*prevent CARE rates from increasing beyond the statutory effective CARE*
8 *discount rate of 35%.*"¹⁵ The CARE subsidy has grown because of the subsidy buried in rate
9 design. By taking the subsidy out of rate design the growth in the subsidy is effectively halted.

10 Setting the residential CARE effective discount at the current effective CARE discount of
11 39% meets the Commissions additional guidance of "*CARE rates should be adjusted on a glide*
12 *path towards the 35% effective discount limit...*"¹⁶ This step would allow residential CARE
13 discounts to get in line with legislated levels within a reasonable three year time frame. For non-
14 Residential CARE the path would be roughly five years.

15 By setting the effective CARE discount in the range of 30 to 35%, AB 327 provides
16 direction on the Commissions' Rate Design Principles 1 and 7. Also, Commission's Rate Design
17 Principles 1 and 7 are consistent with transitioning non-CARE medical baseline customers off of
18 CARE rates, while maintaining the additional baseline allotment. Further, by removing CARE
19 subsidies from rate design and instead moving to a line item bill credit, SDG&E's CARE proposal
20 supports transparency highlighted in the Commission's Rate Design Principle 9.

21 The CARE rate subsidy that had been provided to non-CARE medical baseline customers
22 also creates cost pressure on upper tier rates. Phasing this rate subsidy out over four years balances

¹⁵ ACR, at p. 5.

¹⁶ ACR, at p. 5.

1 providing relief to the upper tiers and the bill impacts to non-CARE medical baseline customers as
2 they are transitioned to non-CARE rates. It is important to note that the non-CARE medical
3 baseline customers continue to receive their medical baseline subsidy of doubling the baseline
4 allowance.

5 Providing incentives and subsidies transparently allows the incentives and subsidies to be
6 appropriately sized. This is critical as evident in the rapid growth in CARE subsidies, in particular
7 to high use customers relative to low use customers. A transparent subsidy outside of rate design
8 allows for the policy direction to be clearly implemented. It also allows for the costs to be
9 appropriately tracked and collected. When subsidies or incentives are buried in rates the level of the
10 incentive or subsidy is hidden and who ultimately bears the cost of the incentive or subsidy can be
11 difficult to see.

12 **C. Implementation of Future Revenue Requirement Changes**

13 SDG&E proposes to update rates with forthcoming revenue requirement changes by
14 directing costs towards the lower tiers first. With any new revenue requirement increase, SDG&E
15 proposes a ratio of 1.5 to 1 when updating rates in the lower and upper tier, respectively. By
16 increasing the lower tiers moderately faster than the rate of class average escalations, SDG&E will
17 provide relief to the upper tiers through measured increases to the lower tiers.

18 SDG&E's proposal is consistent with the guidance provided in the ACR to direct any
19 increase in revenue requirements to the lower tiers first. The 1.5 to 1 ratio for lower and upper tiers
20 is also a moderate step that can be implemented with any revenue requirement increases so as to
21 provide a smooth transition when flattening rates. Such incremental steps are a reasonable means
22 by which to avoid the rate shock noted in the Commission's guidance.

23 Similar to raising the Tier 1 rate up to the Tier 2 level the ratio to adjust future revenue
24 requirement increases to the lower tiers would comply with the Commission's Rate Design

1 Principles in that, it maintains a lower tier rate that in combination with the CARE discount
2 proposal described above, would ensure that low-income and medical baseline customers have
3 access to enough electricity to ensure basic needs (such as health and comfort) are met at an
4 affordable cost (Principle 1); by flattening tiered rates it would be a step towards allowing rates to
5 better align with marginal cost (Principle 2); better allow for rates to align with cost-causation
6 principles (Principle 3); by better aligning costs in lower tiers with the actual cost of electricity it
7 would better encourage conservation and energy efficiency (Principle 4); by reducing the lower tier
8 discount, it would reduce the level of cross-subsidies that are not supported by explicit state policy
9 goals (Principle 7); by taking steps towards a more accurate price signals it would better encourage
10 economically efficient decision-making (Principle 8); and the gradual nature of the change proposed
11 would provide a steady transition to the new rate structure that will be adopted in Phase 1 of this
12 proceeding in a way that enhances customer understanding and acceptance of new rates, and
13 minimizes and avoids the potential for rate shock by providing for a gradual change in rate levels
14 (Principle 10).

15 **D. Customer Outreach & Education**

16 A robust communication, education and outreach plan was developed for SDG&E's higher
17 use customers because SDG&E knew that the delay in its Test Year 2012 GRC decision would
18 cause significant rate pressure to all of our Tier 3 and 4 customers. In addition, SDG&E's ERRA
19 2013 Forecast Application (A.12-10-002) was pending well past the beginning of the 2013 and the
20 pending ERRA Trigger Application (A.13-04-017) continues to grow every month with a
21 significant under-collected balance. These three factors were certainly going to add to the
22 forecasted rate increases for SDG&E's upper tier customers.

23 One of the key lessons learned from the energy crisis of 2000-2001 was that SDG&E
24 customers made it very clear that they wanted to hear news from SDG&E, good or bad, as early as

1 possible. Because SDG&E knew that these three decisions were pending, the decision was made to
2 prepare and initiate a thorough proactive and personalized communications plan to SDG&E
3 impacted customers.

4 Due to post-energy crisis legislation, the vast majority of any new rate increases are applied
5 to SDG&E's higher use customers. A detailed customer analytics effort determined that
6 approximately 25% of SDG&E's residential customers would be impacted by the rate increases,
7 which equates to approximately 300,000 Tiers 3 and 4 customers.

8 SDG&E began a proactive campaign through the use of direct mail, email, social media,
9 phone calls and community events to educate customers and provide them with energy savings
10 solutions. A series of letters were sent to the impacted customers about the following: why prices
11 were increasing, personalized energy solutions, and the long-term legislative and regulatory rate
12 reform.

13 The outreach effort provided SDG&E with an opportunity to educate customers on the
14 factors that were driving the rate increases and also make them aware of energy saving steps they
15 could take to reduce their energy usage and therefore lessen the impacts from the rate increases.
16 Through a comprehensive website (www.sdge.com/2013Rates) that provided many educational
17 resources, customers were able to understand rates and the pertinent issues and obtain tips and
18 solutions to mitigate the increases. A series of videos were produced on topics such as "Why Rates
19 are Changing", "Energy Savings for Homes and Businesses" and "The Long-Term Solution."

20 The letter/email campaign also created thousands of communication opportunities with
21 SDG&E's customers. Each of these one-on-one communications provided SDG&E with an
22 opportunity to learn about each individual customer, their energy usage and ways that SDG&E
23 could become an energy advisor with tools and solutions to reduce the customer's energy bills. The
24 outcome of those communications provided the following results:

- 1 • More than 2,500 customers were converted to the CARE program;
- 2 • More than 900 customers were enrolled in the Medical Baseline program;
- 3 • 898 In-Home Energy Audits were performed, which is on track to exceed our goal of
- 4 1,000 energy audits by year-end 2013;
- 5 • More than 2,200 customers were enrolled in the Level Pay Plan;
- 6 • More than 9,000 customers signed up for My Account program; and
- 7 • More than 3,200 rebates have been issued during the campaign.

8 Additionally, numerous community meetings were held in the highest impacted areas of the
9 service territory. The highest impacted areas were defined as the highest concentrations of Tier 3
10 and 4 customers with whose median household incomes were less than \$75,000. Over 30
11 community tailgates were held in conjunction with our Community Based Organizations (“CBOs”)
12 to ensure the messages, education and solutions were reaching all of SDG&E’s customers. The
13 beauty of the over 100 CBOs are that they can ensure messages and solutions were distributed in the
14 channels that our diverse population uses to receive information.

15 Lastly, SDG&E initiated a social gaming concept that engaged customers to use less energy.
16 The program called “Manage-Act-Save” allowed affected customers to view their energy use on-
17 line, provided personalized tips to save energy, and rewarded those who could save the most
18 amount of energy. The program was successful with over 10,000 customers engaged.

19 The proactive education and outreach campaign during the 2013 rate challenges has been
20 very successful and SDG&E plans to expand these communications in 2014 in an effort to
21 education our customers on the various rate reform proposals in light of the passage of AB 327.

22
23 This concludes my testimony.
24

1 **IV. QUALIFICATIONS**

2 My name is Christopher F. Yunker. My business address is 8330 Century Park Court, San
3 Diego, California, 92123. I have been employed as the Rates & Analysis Manager overseeing the
4 Electric Rates, Load Analysis and Demand Forecasting groups for San Diego Gas & Electric
5 Company since 2010. Prior to my position as Rates & Analysis Manager I was employed as
6 Strategic Planning Manager from 2009 to 2010. I have held a variety of positions at SDG&E in the
7 Resource Planning, Technology Development and Finance departments. I began work with Sempra
8 Energy in 2002, working as a Financial Analyst with Sempra Connections. Prior to my work with
9 Sempra Energy, I worked for GEA Power Cooling Systems, Inc., as an Application Engineer and
10 Project Development Engineer developing vacuum condensing systems for combined cycle,
11 combined heat and power and waste to energy power plants.

12 I received a B.S. in Mechanical Engineering from the University of California, San Diego
13 and a Masters in Business Administration from the University of Southern California. I am a
14 Professional Engineer in Mechanical Engineering in the State of California and a Certified Energy
15 Manager through the Association of Energy Engineers.

16 I have previously provided testimony to the Commission.