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)

RESPONSE AND PARTIAL PROTEST OF THE CALIFORNIA LARGE ENERGY CONSUMERS ASSOCIATION

Barbara Barkovich
Barkovich & Yap, Inc.
PO Box 11031
Oakland, CA 94611
707.937.6203
Barbara@barkovichandyap.com

Consultant to the California Large Energy Consumers Association

Nora Sheriff
Alcantar & Kahl LLP
33 New Montgomery Street
Suite 1850
San Francisco, CA 94105
415.421.4143 office
415.989.1263 fax
nes@a-klaw.com

Counsel to the California Large Energy Consumers Association

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The California Large Energy Consumers Association (CLECA) submits this Response pursuant to Rule 2.6 of the Rules of Practice and Procedure of the California Public Utilities Commission and the schedule set at the Prehearing Conference on December 5, 2013 as confirmed by e-mail on December 10, 2013.

I. INTRODUCTION

CLECA generally supports the utilities' applications for residential rate reforms beginning in Summer 2014 and offers two key points we believe would be useful to the Commission in acting on the applications. First, reducing the number of tiers and flattening the differentials among the tiers as proposed by the utilities would send price signals to residential customers that are closer to cost; this would reduce intra-class subsidies, ameliorating the inefficient economic decision-making on electric usage resulting from those subsidies. This should help improve overall system efficiency. Residential rate design affects residential usage patterns and thus overall system costs. California utilities' low load factors and large summer peaks currently result in spreading fixed costs over relatively less load, raising all customers' rates. For Southern California Edison Company (SCE) and Pacific Gas and Electric Company (PG&E), approximately 70% of residential usage has been largely insulated from cost increases for almost thirteen years.[1] Reforming residential rate design to incent changes to residential load patterns that lower costs could benefit the entire system, as well as reducing costs to serve residential customers.

Second, costs of the low-income California Alternate Rates for Energy (CARE) program and reduced rates for residential customers with medical needs exceed $1 billion per year; PG&E's effective discount now approaches 50%. The law mandates that the effective discount range be 30-35%, and PG&E's proposal would begin moving its effective CARE discount to where it is supposed to be.

II. RESPONSE

A. Tier Reforms

AB 327 permits the utilities to revise the number of tiers for residential rates, so long as at least two usage tiers are provided.[2] PG&E proposes to reduce its number of tiers from 4 to 3 by consolidating the current tiers 2 and 3 into a single tier for 100-200% of baseline.[3] PG&E also proposes to make the differential between its highest tier and lowest tier smaller and update its baseline usage quantities.[4] SCE proposes similar reforms to its residential tiers.[5] SDG&E proposes to combine the current Tiers 1 and 2 and Tiers 3 and 4, creating effectively a new two-tier structure.

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1 SCE Interim Residential Rate Design, Testimony of Russell Garwacki, pp. 7-8; PG&E workpapers, RD_RES.xlsx.

2 PUCode §739.9(c).

3 PG&E Phase 2 Testimony, at 1-1 to 1-3.

4 Id.

5 SCE Phase 2 Interim Residential Rate Design Proposal, at 1-3.

While it would be desirable to move toward a more consistent rate design for the three utilities over time, each is starting from a different place and each also has different amounts of usage in each tier.

CLECA generally supports the flattening of tiers and the reduction in their number, since this will provide rates closer to cost-of-service levels and thus better price signals. These proposals should reduce the intra-class subsidies that currently interfere with price signals. Cross-subsidies lead to less economically efficient decision-making. Low rates, priced below cost, such as those for the first two residential tiers and CARE rates, can lead to inefficient consumption or consumption at times that are most costly for the system. Rates that are closer to actual cost of service should lead to more economic decision-making regarding electricity consumption and use; in turn, this should increase system efficiency by increasing the load factor. Flattening the current tiers will facilitate a transition to TOU rates for residential customers, something CLECA also supports.

B. CARE Discount

The costs of the CARE discount have grown unsustainably, reaching over $1 billion. These costs are spread to all customers, including industrial customers, on an equal cents per kWh basis.[6] As PG&E states, in January 2001, the CARE discount was "a modest 15.3 percent" - today it is 48 percent.[7] Similarly, SDG&E projects that the CARE discount will reach 43 percent by mid 2014 under current

6 A portion of the SDG&E discount is spread within the residential class. SDG&E Supplemental Filing, Testimony of Cynthia Fang, p. 9.

7 PG&E Phase 2 Testimony, at 1-4 to 1-5. SCE's CARE discount has also grown, but it is not as high as PG&E's CARE discount.

ratemaking policies.[8] AB 327 provides that "the effective CARE discount shall not be less than 30 percent% or more than 35 percent of the revenues that would have been produced for the same billed usage by non-CARE customers."[9] This mandated range of 30-35% for the CARE discount includes the charges from which CARE customers are exempt.[10]

Utilities with higher effective CARE discounts may reduce the discount annually by "a reasonable percentage decrease" to get the discount down to the mandated range over time.[11] The effective CARE discount in PG&E's service territory is higher than the 30-35% range, currently 47.6%, and it actually rises to 48.9% on January 1, 2014.[12] With the reforms proposed in PG&E's application, however, it would fall to 42.6% in the summer of 2014.[13] CLECA supports this reasonable reduction in the effective CARE discount as it moves customers closer to their cost of service and provides more of a price signal than the current rates.

SDG&E, on the other hand, actually proposes to maintain the current weighted average CARE discount of 39% through the end of 2015 as part of its intention to transfer the entire discount to a line item at the bottom of the bill.[14] Furthermore, SDG&E acknowledges that transferring the discount to a line item results in a significant reallocation of cost responsibility for the CARE discount from residential customers to non-residential customers.[15] SDG&E's own testimony

8 SDG&E Supplemental Filing, Testimony of Cynthia Fang, p. 14.
9 PUCode §739.1(c)(1).
10 PUCode §739.1(c)(1).
11 PUCode §739.1(c)(2).
12 PG&E Application, Exhibit A, CARE Effective Discount Compliance Workpaper.
13 Id.
14 SDG&E Supplemental Filing, Testimony of Cynthia Fang, p. 15.
15 Id. at 9.

states that its proposal would increase rates for business customers by over 2.6 mills/kWh while reducing residential rates by over 4.3 mills/kWh.[16] While we support the line item approach since it provides a better price signal to CARE customers as to the true cost of the power they use, we protest the SDG&E's proposal to reallocate the cost responsibility for the CARE discount.

Furthermore, we protest SDG&E's failure to reduce the level of the CARE discount to the statutory range of 30-35% in a timely manner.

SCE's proposal falls within the statutory guidelines and appears reasonable.

III. CONCLUSION

CLECA generally supports the utility applications and urges expeditious Commission action on the proposed reforms to enable implementation of the reformed rates by June 1, 2014.

Respectfully submitted,

Nora Sheriff

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Counsel to the California Large Energy
Consumers Association

December 23, 2013

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[16] Id. at 16.