

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)

PROTEST OF THE UTILITY REFORM NETWORK
TO THE SUMMER 2014 RATE REFORM PROPOSALS OF
PACIFIC GAS & ELECTRIC, SOUTHERN CALIFORNIA EDISON,
AND SAN DIEGO GAS & ELECTRIC



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AND SAN DIEGO GAS & ELECTRIC**

Pursuant to the October 25, 2013 Assigned Commissioner ruling inviting utilities to submit interim rate change applications, The Utility Reform Network (TURN) submits this protest to the November 22nd filings of Pacific Gas & Electric (PG&E), Southern California Edison (SCE) and San Diego Gas & Electric (SDG&E). While TURN supports some elements of each application, no utility has proposed reforms that should be adopted without significant modifications. Furthermore, there are a number of critical omissions, misrepresentations and inadequate showings that require supplemental filings by each utility.

I. ENSURING COMPLIANCE WITH AB 327

TURN was a key stakeholder involved in the development of AB 327 (Perea) and agrees that long-term residential rate reform is appropriate. TURN also supports interim reforms that can be implemented by the summer of 2014. However, the Commission should take care to avoid rate shock for lower-usage residential customers including those on CARE rates in order to comply with the statutory requirement in AB 327 that “increases to electrical rates and charges in rate design proceedings, including any reduction in the California Alternate Rates for Energy (CARE) discount, shall be reasonable and subject to a reasonable phase-in schedule relative to the rates and charges in effect prior to January 1, 2014.”¹

TURN urges the Commission to implement other relevant AB 327 provisions related in tandem with any summer 2014 interim rate changes. Specifically, AB 327 requires the Commission to modify existing CARE eligibility rules to allow one-person

¹ Cal. Pub. Util. Code §739.9(b), *Effective January 1, 2014.*

households to qualify based on the income guidelines for a two-person household.² This change will allow greater participation in CARE by single-person households including seniors living on fixed incomes. Low-income single-person households just above the current CARE income eligibility cutoff are far more likely to experience bill increases under the utility proposals because of the focus on increasing rates for Tier 1 usage. Given the absence of any ambiguity related to this new statutory provision, the Commission should require that changes to income eligibility for single-person households be implemented no later than the summer of 2014.³

In addition, AB 327 provides explicit authority for the Commission to modify residential baseline quantities by adjusting both seasonal definitions and the applicable percentage of average consumption in any individual climate zone.⁴ TURN previously proposed changes to PG&E Central Valley baseline quantities that are explicitly authorized by this provision. These proposals, submitted in A.12-02-020 (PG&E 2012 Rate Design Window), should be considered alongside other proposed summer 2014 rate and baseline changes.

II. CONCERNS WITH PG&E APPLICATION

PG&E offers a broad array of rate changes for implementation in the summer of 2014 including a 3-tier rate structure that mirrors the consumption tiers proposed by

² Cal. Pub. Util. Code §739.1(a), *Effective January 1, 2014*. (“The commission shall continue a program of assistance to low-income electric and gas customers with annual household incomes that are no greater than 200 percent of the federal poverty guideline levels, the cost of which shall not be borne solely by any single class of customer. For one-person households, program eligibility shall be based on two-person household guideline levels. The program shall be referred to as the California Alternate Rates for Energy or CARE program. The commission shall ensure that the level of discount for low-income electric and gas customers correctly reflects the level of need.” [emphasis added for new statutory language])

³ This change requires modifications to D.12-08-044 (see page 267).

⁴ Cal. Pub. Util. Code §739.9(d), *Effective January 1, 2014* (“Consistent with the requirements of Section 739, the commission may modify the seasonal definitions and applicable percentage of average consumption for one or more climatic zones.”)

TURN in this OIR. PG&E also suggests major changes to CARE rates, the Family Electric Rate Assistance (FERA) program, and baseline quantities for certain territories. Finally, PG&E proposes a method for modifying the interim rates due to subsequent changes in revenue requirements.

TURN has several concerns about PG&E's proposals that will be addressed in more detail in subsequent filings:

- To minimize bill impacts on low-usage customers, the non-CARE Tier 1 rate should be reduced below 15 cents/kwh with the lost revenue being recovered in the proposed Tier 2 rate.
- TURN urges the Commission to adopt a CARE graduated discount (as proposed in Phase 1 of this rulemaking) with the deepest discounts applied to Tier 1 and smaller discounts applied to Tier 3.
- PG&E's proposal to provide a flat 12.5% FERA discount is inconsistent with current practice, is below the actual average discounts provided to PG&E FERA customers since 2010, and diverges significantly from the FERA proposals of SCE and SDG&E.⁵ The Commission should direct the utilities to apply a consistent FERA discount approach based on charging for usage between 101-200% of baseline at rates for usage up to 100% of baseline.
- PG&E's proposal to exempt non-CARE Tier 3 rates from changes in the event of revenue requirement increases is not reasonable. PG&E should be required to model the bill impacts of this proposal under various scenarios involving increases to revenue requirements.

⁵ PG&E testimony, pages 2-12, 2-13.

- PG&E’s proposal to prevent any reduction in CARE rates in the event of revenue requirement decreases is not reasonable. Due to the implementation of the provisions of D.12-08-044 relating to high-usage CARE customers, PG&E expects significant reductions in the total CARE subsidy in 2014 which would reduce the average effective CARE discount.⁶ In addition, reductions in revenue requirements may occur due to the adoption of marginal cost and revenue allocation proposals in A.13-04-012 (PG&E Phase 2 General Rate Case). Allowing these (and other) revenue requirement decreases to additionally reduce the average effective CARE discount could violate the requirements of §739.1(c)(2).⁷

- PG&E renews its proposal from the 2012 Rate Design Window to reduce baseline quantities to 50% of the average usage in each territory between May 2008 and April 2012.⁸ PG&E also seeks reductions to Territory V baselines and increases to Territory Q winter baselines. To the extent that baseline quantity changes are being considered in the context of the interim summer rate applications, the Commission should also consider TURN’s pending proposal (from the 2012 Rate Design Window) to either adopt a 5-month summer baseline season for PG&E customers in 3 Central Valley territories (R, S, W) or increase summer baselines for these three territories by 5% above the

⁶ PG&E testimony, page 2-20. PG&E acknowledges that its rate projections do not include any assumed reductions in participation by high-usage CARE customers. Approximately 29% (or \$220 million) of the overall CARE subsidy is attributable to CARE customers with usage exceeding 400% of baseline for at least one month.

⁷ Cal. Pub. Util. Code §739.1(c)(2), *Effective January 1, 2014*. (“If an electrical corporation provides an average effective CARE discount in excess of the maximum percentage specified in paragraph (1), the electrical corporation shall not reduce, on an annual basis, the average effective CARE discount by more than a reasonable percentage decrease below the discount in effect on January 1, 2013, or that the electrical corporation had been authorized to place in effect by that date.”)

⁸ PG&E testimony, pages 2-4, 2-5.

percentage adopted for the rest of PG&E's service territory.⁹ AB 327 explicitly authorizes TURN's proposed changes to the extent they are found reasonable by the Commission.¹⁰

TURN may identify other concerns with PG&E's interim rate application and will provide relevant testimony for consideration on February 3.

II. CONCERNS WITH SCE APPLICATION

SCE proposes a 3-tier rate structure that mirrors the consumption tiers proposed by TURN in this OIR. In making this proposal, SCE identifies the potential for large revenue requirement increases in the spring of 2014 that could increase the system average rate from 15.5 cents/kwh to 17.2 cents/kwh and thereby drive the residential average class rate from 17.6 cents/kwh to 19.4 cents/kwh.¹¹ SCE points to ERRAs as the source of the expected rate increases.¹²

SCE's 2014 revenue requirement projections are flawed. SCE projects a \$1.6 billion increase in generation revenues between October 2013 and April 2014 and a net revenue requirement increase of \$1.2 billion but does not forecast any revenue requirement reductions associated with the ratemaking treatment of the premature retirement of the San Onofre Nuclear Generating Station (SONGS).¹³ In assuming full SONGS revenue requirements for capital and O&M in 2013 and 2014, SCE fails to make adjustments consistent with its own litigation proposal in I.12-10-013 (which proposed a 2014 revenue requirement reduction of over \$60 million).¹⁴ SCE also fails

⁹ These proposals were fully briefed by TURN in A.12-02-020 (PG&E 2012 Rate Design Window).

¹⁰ Cal. Pub. Util. Code §739.9(d), *Effective January 1, 2014*

¹¹ SCE testimony, pages 16-17.

¹² SCE testimony, page 15.

¹³ SCE testimony, Appendix B.

¹⁴ Ex. SCE-41, I.12-10-013, Table IV-2, page 17.

to make any adjustments to account for its pending request to use \$214 million from its nuclear decommissioning trust fund to cover base O&M costs at SONGS that are currently included in 2013 and 2014 revenue requirements.¹⁵ Assuming these two SCE proposals are adopted would result reduce the net \$1.2 billion projected revenue requirement increase by \$274 million.

The Commission is also considering much more significant reductions to SCE rates related to SONGS. These reductions include disallowances of replacement power costs for the extended SONGS outage in 2012, disallowances for unreasonable O&M and capital spending in 2012, eliminating any rate of return on retired assets, and disallowing recovery of some or all steam generator costs. In 2014, the Commission will act on these proposals and is likely to require substantial refunds from SCE shareholders.

To address the uncertainty surrounding 2014 revenue requirements, SCE should be required to model several rate scenarios based on different revenue requirement assumptions. This exercise will ensure that the Commission does not permit SCE's proposed changes to residential rates in 2014 to be adopted based on false assumptions. Moreover, this exercise will allow the Commission to identify, in advance, the adjustments to interim rates that will occur once the Commission acts on the proposed disallowance of significant revenues relating to SCE's mismanagement of SONGS.

In addition, TURN has several major concerns about fatal deficiencies in SCE's filing and testimony:

- The increases to non-CARE and CARE rates for the first 130% of baseline usage are excessive and violate both §739.9(b) and the explicit direction

¹⁵ SCE Advice Letter 2968-E (filed November 18, 2013)

provided in the October 25, 2013 Assigned Commissioner Ruling.¹⁶ SCE proposes a 40% increase for non-CARE usage up to 100% of baseline and a 46% increase for non-CARE usage between 101-130% of baseline. SCE similarly proposes a 47% increase for CARE usage up to 100% of baseline and a 52% increase for CARE usage between 101-130% of baseline.¹⁷ These impacts are unacceptable and do not represent a “reasonable phase-in” as required by statute.

- SCE fails to adequately model the bill impacts of its proposed summer 2014 rates and never shows total expected monthly bill impacts relative to current rates. The modeling in SCE’s application is limited to the difference between “Spring 2014” rates and “January 2014” rates and the analysis imputes a portion of the twice-yearly credit for the Climate Dividend to each monthly bill.¹⁸ As a result, SCE’s testimony fails to provide sufficient information for the Commission to actually understand the real bill impacts on residential customers when compared to current rates. SCE should be required to provide additional information on the total bill impacts of its summer 2014 expected rates relative to current (2013) rates without any imputed monthly impact from the semi-annual Climate Dividend.

- SCE fails to accurately calculate the changes to proposed rates for the first 130% of baseline usage by CARE and non-CARE customers. Non-CARE rates

¹⁶ Cal. Pub. Util. Code §739.9(b), *Effective January 1, 2014*. (“Increases to electrical rates and charges in rate design proceedings, including any reduction in the California Alternate Rates for Energy (CARE) discount, shall be reasonable and subject to a reasonable phase-in schedule relative to the rates and charges in effect prior to January 1, 2014.”); October 25th Assigned Commissioner Ruling, page 5 (“To avoid rate shock, and in compliance with statute, Tier 1 and Tier 2 rates should not be increased by an excessive amount.”)

¹⁷ SCE proposes increasing the non-CARE Tier 1 rate from 12.8 cents to 17.9 cents (+40%), the non-CARE Tier 2 rate from 16 cents to 23.3 cents (+46%), the CARE Tier 1 rate from 8.5 cents to 12.5 cents (+47%) and the CARE Tier 2 rate from 10.7 cents to 16.3 cents (+52%).

¹⁸ SCE testimony, page 17.

for usage between 101-130% of baseline are shown rising between January and Summer 2014 from 16.5 to 23.3 cents/kwh (a 41% increase) yet SCE's own table inexplicably shows this change as only a 3% increase.¹⁹ Similarly, CARE rates for usage between 101-130% of baseline are shown rising between January and Summer 2014 from 11 to 16.3 cents/kwh (a 48% increase) yet SCE's own table shows this change as a 1% decrease.²⁰ SCE should be directed to revise these tables to provide accurate information.

- SCE should be directed to remove the expected impact of the 2014 semi-annual climate dividend from its analysis of monthly bill impacts. The Climate Dividend does not have the impact on monthly bills portrayed by SCE and should not be imputed to all 12 billing cycles unless the Commission decides to change its policy and make the dividend a monthly credit.
- SCE proposes a flat 30% CARE discount.²¹ TURN believes that the CARE discount should be set at 35% (the top of the statutory range) in light of the major rate increases proposed by SCE. Moreover, TURN urges the Commission to adopt a graduated discount (as proposed in Phase 1 of this rulemaking) with the deepest discounts applied to Tier 1 and smaller discounts applied to Tier 3.
- TURN supports SCE's proposal to bill FERA customers at the Tier 2 rate for Tier 3 usage.²² This is consistent with the discount provided under current rates and should be adopted for all utilities.

¹⁹ SCE testimony, page 24, Table IV-10.

²⁰ SCE testimony, page 24, Table IV-10.

²¹ SCE testimony, pages 38-39.

²² SCE addendum, page 1.

TURN is very disappointed that SCE has used this filing to effectively ‘hide the ball’ and omit useful and accurate information about the extent of proposed rate changes, the actual monthly bill impacts relative to current rates and the likelihood that 2014 revenue requirements will not increase to the extent claimed. The Commission should direct SCE to refile its application to include accurate information on all these topics.

III. CONCERNS WITH SDG&E’S APPLICATION

SDG&E proposes a shift to a 2-tier rate structure, a line-item CARE discount, and identifies the potential for a 14.5% system average rate increase (with a 7.36% average increase for residential customers).²³ With these changes, SDG&E proposes a 19% increase for non-CARE usage up to 100% of baseline relative to current rates and net decreases of up to 7.6% for non-CARE usage above 200% of baseline (compared to current rates).²⁴

As explained with respect to SCE, SDG&E’s 2014 projected revenue requirement increases are flawed. SDG&E projects increases due to ERRRA filings but does not forecast any revenue requirement reductions associated with the premature retirement of the San Onofre Nuclear Generating Station (SONGS).²⁵ In assuming full SONGS revenue requirements for capital and O&M, SDG&E fails to make adjustments consistent with its own litigation proposal in I.12-10-013. The Commission is also considering much more significant reductions to SDG&E rates related to SONGS including disallowances of replacement power costs for the extended SONGS outage in 2012, disallowances for unreasonable O&M and capital spending in 2012, eliminating any rate of return on retired assets, and disallowing recovery of some or all steam generator costs. In 2014, the Commission will act on

²³ SDG&E testimony, CF-Attachment E.

²⁴ SDG&E testimony, CF-Attachment G, page 1.

²⁵ SDG&E testimony, CF-Attachment E.

these proposals and is likely to require substantial refunds from SDG&E shareholders.

In addition, TURN has several major concerns with SDG&E's application and testimony:

- TURN opposes the transition to a 2-tier rate and believes that a 3-tier structure offers a better path to reform. SDG&E should be required to model a 3-tier rate as an alternative to its 2-tier approach so the Commission will be able to consider a structure that is comparable to the rates proposed by SCE and PG&E.
- SDG&E does not present expected bill impacts that identify the percentage of customers receiving various levels of monthly increases or decreases. Instead, SDG&E shows bill impact by consumption level (in kwh) by baseline zone. The absence of any information showing the number of customers in each consumption tier represents a serious deficiency. The Commission cannot reasonably approve rate changes without this type of information.
- SDG&E proposes to maintain its current average effective CARE discount of 39% and reduce it by 2.5% per year beginning in 2016 until the discount reaches 34%.²⁶ This two-year rampdown between 2016 and 2018 represents a reasonable approach to bringing the CARE discount in line with the requirements of AB 327 and stands in contrast to PG&E's approach.
- TURN urges the Commission to adopt a graduated discount (as proposed in Phase 1 of this rulemaking) with the deepest discounts applied to Tier 1 and smaller discounts applied to Tier 3.

²⁶ SDG&E testimony, pages CF-15, CF-16.

- SDG&E proposes to allocate all revenue requirement increases disproportionately to its proposed Tier 1 using a “ratio of 1.5 to 1 when updating rates in the lower and upper tier.”²⁷ It is not clear what SDG&E intends by this reference to a “ratio” since the meaning is not self-evident.²⁸ Moreover, SDG&E fails to consider the possibility of revenue requirement decreases (which will almost certainly occur due to SONGS) and does not explain whether its “ratio” proposal would be symmetrically applied in this event.

- TURN supports SDG&E’s proposal to bill FERA customers at the Tier 2 rate for Tier 3 usage.²⁹ This is consistent with the discount provided under current rates and should be adopted for all utilities.

TURN may identify other concerns with SDG&E’s interim rate application and will provide relevant testimony for consideration on February 3.

IV. CONCLUSION

TURN urges the Commission to direct the three utilities to make adjustments to their summer 2014 rate proposals based on the concerns raised in this protest. The Commission should act quickly to ensure that sufficient information is available to consider these significant rate changes. To the extent that utilities fail to provide accurate or complete proposals (with meaningful bill impact modeling), it will be difficult or impossible to satisfy the expedited schedule for this phase of the proceeding.

²⁷ SDG&E testimony, page CY-18.

²⁸ One plausible interpretation is that 60% of every incremental dollar of revenue requirement should be collected through the new Tier 1 rate. Another plausible interpretation is that the proposed Tier 1 rate should increase by 1.5 cents/kwh for every 1 cent/kwh increase in the proposed Tier 2 rate.

²⁹ SDG&E testimony, page CF-16.

Respectfully submitted,

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VERIFICATION

I, Matthew Freedman, am an attorney of record for THE UTILITY REFORM NETWORK in this proceeding and am authorized to make this verification on the organization's behalf. The statements in the foregoing document are true of my own knowledge, except for those matters which are stated on information and belief, and as to those matters, I believe them to be true.

I am making this verification on TURN's behalf because, as the lead attorney in the proceeding, I have unique personal knowledge of certain facts stated in the foregoing document.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on May 14, 2012, at San Francisco, California.

_____/S/____

Matthew Freedman
Staff Attorney