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)

MOTION OF THE UTILITY REFORM NETWORK FOR EVIDENTIARY HEARINGS

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THE UTILITY REFORM NETWORK

Lower bills. Livable planet.

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MOTION OF THE UTILITY REFORM NETWORK FOR EVIDENTIARY HEARINGS

Pursuant to the directions in the October 25, 2013 "Assigned Commissioner' Ruling Inviting Utilities to Submit Interim Rate Change Supplemental Filings" ("ACR"), as amended by the ALJ at the prehearing conference on December 5, 2013, the Utility Reform Network ("TURN") respectfully submits this Motion for Evidentiary Hearings.

1. Summary

Evidentiary hearings provide the trier of fact and other parties the opportunity to test the competence, veracity and accuracy of witness testimonies. Evidentiary hearings are essential to evaluating the assumptions and bases for factual assertions, especially if there exist disputed material issues of fact. They are also important for testing the assumptions and bases for opinions that support policies that the Commission may adopt as part of its quasi-legislative functions.

Whether there are disputed material issues of fact is generally established after the submission of expert testimony by competing witnesses. Since only the utilities have submitted testimony to date, TURN cannot conclusively determine whether there will be disputed factual issues in this proceeding. However, based on a review of utility showings, TURN believes that there may be factual disputes, especially concerning the assumptions and data underlying bill impact analyses.

The selection of a reasonable rate design and rate levels has historically been guided by consideration of the "Bonbright principles."[1] While the Commission must exercise judgment in making policy determinations and balancing various goals, one of the primary factors the Commission generally considers is the bill impact of proposed rates on different customers.[2] Only by understanding the accuracy and limits of calculated bill impacts can the Commission determine whether proposed rate changes advance policy goals and avoid unnecessary "rate shock."

As discussed below, TURN believes that evidentiary hearings may be required to clarify the facts and assumptions underlying bill impact analyses and other rate recommendations. TURN thus requests that the Assigned Administrative Law Judge schedule 3-6 days of evidentiary hearings for all witnesses. However, given the legal directives of AB 327, the directions in the

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[1] See, for example, OIR 12-06-013, p. 1-2 (listing five principles, which include most of Bonbright's ten principles). See, Bonbright, *Principles of Public Utility Rates,* 1988, p. 383-384.

[2] See, for example, D.11-05-047, p. 15-16 (discussing the "importance of avoiding rate shock" and the assumptions underlying PG&E's bill impacts analyses); D.07-09-004, p. 22 ("The settled revenue allocation moderates potentially harsh bill impacts while better aligning rates with costs."); D.10-02-032 (discussing importance of bill impacts of new dynamic rates for commercial and agricultural customers).

Assigned Commissioner's Ruling, and the goal of reducing upper tier rates by May of 2014, TURN hopes that settlement negotiations will result in a consensus proposal for short-term changes to residential rates. TURN agrees with the ORA that if a settled outcome can be reached, or if intervenor testimonies show a lack of disputed issues, the evidentiary hearings can be canceled or limited to utility proposals that remain disputed or unsettled.[3]

2. There Are Several Material Factual Issues in Dispute, Though It Is Impossible to Conclusively Determine Disputed Issues Prior to the Submission of Intervenor Testimonies

In its protest, TURN identified a number of deficiencies in the utilities' initial showings. These deficiencies may be cured, but at present they result in disputes concerning material issues of fact, including the following:

- The assumptions and data underlying bill impact analyses;
- The potential impact of adopting different baseline quantities or season definitions than proposed by PG&E for each baseline territory;
- The impact of using adopting a different method of flowing revenue requirement changes through to CARE rates than proposed by PG&E;
- The impacts of adopting a different CARE discount method or amount than proposed by SCE;

[3] See, ORA Protest, p. 7.

- The impacts of using different methodologies of calculating the FERA discount.

Due to its importance in choosing reasonable rates for 2014, TURN provides more detail regarding the disputed issues related to bill impact analyses.

3. Based Solely on Utility Testimonies and Protests, TURN Identifies Significant Potential Disputes Concerning the Assumptions Underlying Bill Impact Analyses

a. Bill Impact Analyses Are Critical to Determining the Proper Policy Balance For Increasing Tier 1 Rates

The supplemental filings propose the single largest change in residential rate design in over a decade. The ORA correctly pointed out that there is a fundamental tension in the directives in the October 25, 2013 ACR between the first goal – to apply increased revenue requirements to raise lower tier rates, and the second goal – to prevent rate shock due to excessive increases in Tier 1 and 2 rates.[4]

The key issue for any immediate rate design change is how much to increase the Tier 1 rate, and what differentials to adopt between Tiers 2 and 3 versus Tier 1. The primary way in which the Commission can balance these competing objectives is by evaluating the bill impacts of alternative rate choices. Bill impact analyses show the change in average monthly bills for different categories of residential customers, generally segregated by usage bins. Bill impacts are caused by changes in both revenue requirements and rate design.

[4] See, ORA Protest, p. 3. See, ACR, October 25, 2013, p. 5.

b. The Fact That Proposed Rates and Bill Impacts Are Illustrative Does Not Change the Fact That Understanding the Assumptions and Accuracy of the Forecast Rates is Critical to Choosing Reasonable Rates

In its protest to the utility filings, TURN identified a number of factual deficiencies with the utility bill impact analyses, such as: a) the inclusion of the climate dividend in the revenue requirement (SCE), b) the lack of adequate numerical presentation of bill impacts (SDG&E), c) the lack of data concerning consumption levels (PG&E), and d) an inaccurate revenue requirement embedded in the bill impact analyses (SCE). Clarification of the validity and accuracy of the bill impact analyses may require evidentiary hearings.

In its reply to protests, SCE discounted TURN's concerns regarding the revenue requirement forecasts embedded in its proposed rates and bill impact analyses. SCE explained that rates will undoubtedly differ from forecasts used in its proposal, and thus all bill impacts are simply "illustrative."[5] SCE further explained that because it assumed no decrease in revenue requirements due to disputed SONGS costs, its illustrative bill impacts represent a worst case scenario and thus need not be updated.[6]

While SCE is correct that rate design proposals and bill impact calculations must be based on forecasts and assumptions, the validity of the assumptions and forecasts are critical to evaluating rate design.

[5] SCE Reply to Protests, January 3, 2014, p. 2.

[6] SCE Reply to Protests, January 3, 2014, p. 4-5.

TURN is concerned about the utilities' selection of Tier 1 rates and tier differentials. TURN seeks to limit Tier 1 rate increases while gradually and adequately lowering Tiers 2 and 3. As multiple parties pointed out in their protests, the utilities have proposed Tier 1 rate increases of between 14% and 40%. TURN is likely to propose different rates for 2014 which would ameliorate the problems of existing high upper tiers without unreasonably increasing the bills for a majority of residential customers.

The choice between potential competing rate proposals is not merely a policy dispute which can be decided independent of the facts in this case. Different potential rates can be compared based on the degree and distribution of bill impacts. It is thus critical to understand the validity of the assumptions underlying bill impact analyses, even though actual rates will vary somewhat from forecasts.

One of the important factors impacting the bill impact analysis is the revenue requirement forecast for 2014. An unreasonably high revenue forecast makes it almost impossible to achieve the twin goals of limiting Tier 1 rate increases and lowering Tier 3 rates. The outcome might be a rate design with unreasonably high Tier 1 increases and inequitable tier differentials. And if such a rate design is adopted as the starting point, the resulting bill impacts would not be ameliorated even if it turns out the actual revenue requirements will be lower than forecast.

c. The Initial Choice of Rates Will Impact Any Future Rate Changes Due to Revenue Changes

An example from SCE's filing illustrates how a poor initial rate design choice will lead to negative outcomes in the future. SCE forecasts a very large increase in system average rates due to its increased revenue requirement requested in the ERRA proceeding. Modeling results indicate that due to the large revenue increase, it is difficult to adopt a Tier 1 rate below 15 cents without relatively high Tier 2 and 3 rates. As a result SCE proposes a Tier 1 rate increase of 40%, from 12.8 to 17.9 cents/kWh,[7] with Tier 2 and 3 rates of 23.3 and 28.7 cents/kWh.

If SCE's proposal is adopted, but its revenue requirement is proven to be excessive due to reductions in SONGS revenue requirements, then presumably SCE would lower all rates keeping the same tier differentials of 1.3 and 1.6.[8] This means that there would be reductions in all tiers, depending on the complex relationship between usage bandwidths and tier differentials. It is also possible that SCE would simply overcollect its balancing accounts, absent a mid-year rate change.

However, if one assumes a lower revenue requirement at the outset, the outcome would be a different starting point, with a lower initial Tier 1 rate.

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[7] SCE Testimony, Table I-1 and IV-10, pp. 4, 24. SCE masks to total change by starting with a 13.2-cent Tier 1 rate in January 2014 due to SB 695 rate changes.

[8] SCE's testimony is not explicit about any future revisions due to revenue requirement changes. Moreover, there is no guarantee of interim rate changes unless so ordered by the Commission.

Modeling results indicate that a Tier 1 rate of 15 cents and a Tier 3 rate of less than 35 cents is quite possible with a revenue requirement reduction of $200,000,000, which is arguably a more reasonable assumption.[9] The resulting distribution of bill impacts would be different than the result if SCE's initial proposed rates are adopted.

4. Conclusion

Based solely on utility testimonies and protests, TURN submits that there exist factual disputes concerning assumptions and data underlying material issues concerning rate design, such as the assumptions embedded in bill impact analyses. Given that there has been no intervenor testimony, TURN does not provide additional examples of disputed factual issues. TURN recommends that the Scoping Memo adopt a schedule including 3-6 days of evidentiary hearings. TURN, like ORA, is hopeful that if settlement negotiations prove successful, the hearings would be taken off calendar.

[9] See, TURN Protest, p. 5-6.

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Respectfully submitted,

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