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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

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| 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<br>(Filed June 21, 2012) |

# ASSIGNED COMMISSIONER'S RULING REQUIRING UTILITIES TO SUBMIT PHASE 1 RATE CHANGE PROPOSALS

## 1. Summary

This Assigned Commissioner's Ruling Requiring Utilities to Submit Phase 1 Rate Change Proposals (Ruling) directs each of Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE) to file rate change proposals for post-2014 residential rates in this docket by no later than February 28, 2014.

## 2. Background

The scope of this proceeding, as set forth in the November 26, 2012 Scoping Memo and Ruling of Assigned Commissioner (Original Scoping Memo), is to answer the following questions: "Do existing rate design structures and statutory requirements support the ability of the Commission and electric utilities to enact electricity policies; would implementing time varying rates instead of or in combination with the existing tier structure allow for the creation of a more equitable rate structure and better meet the Commission's rate objectives; and are changes to existing statutes needed to implement a preferable rate

structure?" (Original Scoping Memo at 4 quoting Order Instituting Rulemaking (OIR) at 22.)

The Commission is interested in exploring improved residential rate design structures in order to ensure that rates are both equitable and affordable while meeting the Commission's rate and policy objectives for the residential sector. (OIR at 1.)

Assembly Bill (AB) 1X was enacted in 2001 in response to the energy crisis of 2000-2001. The bill suspended direct access and capped residential rates for usage up to 130% of baseline quantities (Tiers 1 and 2) at the levels in effect on February 1, 2001. As a result of the AB 1X restrictions, the rates that apply to usage in Tiers 1 and 2 did not increase until the end of the decade.[1] As a result, higher usage customers have experienced large rate increases that do not reflect cost of service. Thus, by 2009 residential tiered rates did not comport with the Commission's general policies to design rates that reflect the cost of service.

In 2009, SB 695 was enacted to allow some increases in Tier 1 and Tier 2 rates, and California Alternate Rates for Energy (CARE) rates. Specifically, SB 695 allowed non-CARE Tier 1 and Tier 2 rates to be increased annually by the cost of living plus 1% (not to exceed 5%), and CARE Tier 1 and Tier 2 by the annual increase in benefits provided under the CalWORKs program, not to exceed 3% and subject to the limitation that CARE rates not exceed 80% of the corresponding rate charges to non-CARE residential customers.

Following the enactment of SB 695, residential rates in Tiers 1 and 2 were increased modestly for non-CARE customers. Despite these changes, residential rates still are not consistent with the Commission's cost of service

[1] Senate Bill (SB) 1, which established the California Solar Initiative program, is the only exception. SB 1 specifically allowed costs to be allocated to non-CARE residential customers' Tier 1 and Tier 2 usage. (Section 2851(d)(2).)

principle and these rates impede the Commission's ability to implement many other policy objectives.

In October 2013, AB 327 was signed into law. AB 327 makes significant changes to the types of residential rate structures that are permitted. AB 327 also contains limits designed to protect certain classes of vulnerable customers. Phase 1 will continue to examine optimal residential rate designs using the criteria developed in this proceeding.[2]

On October 25, 2013, the assigned Commissioner issued a ruling inviting utilities to submit interim rate change proposals complying with AB 327. Those proposals were submitted on November 22, 2013 and are being reviewed in Phase 2 of this proceeding.

On January 6, 2014, the assigned Commissioner issued an Amended Scoping Memo and Ruling issuing the Energy Division's "Staff Proposal for Residential Rate Reform in Compliance with Rulemaking 12-06-013 and Assembly Bill 327," recategorizing the proceeding as ratesetting and amending the scope of Phase 1. At the January 8, 2014 PHC, parties discussed the scope of Phase 1 and a preliminary procedural schedule.

## 3. Phase 1 Rate Change Proposals

This Ruling directs utilities to submit Rate Change Proposals for the period beginning January 1, 2015. All proposed changes must be consistent with the statutory requirements that changes be made through a reasonable phase-in schedule relative to rates in effect prior to January 1, 2014, that differentials between tiers should be gradual, that rates not unreasonably impair incentives for conservation and energy efficiency and that rates not overburden low income customers. (California Public Utilities Code Sections 739.9(b); 739(d)(1);

[2] *See*, Administrative Law Judge's Ruling Requesting Residential Rate Design Proposals, March 19, 2013.

739(e).)[3] In addition, if an electrical corporation provides an average effective CARE discount in excess of the 30-35% maximum, such discount must not be changed by more than a reasonable percentage each year. (Section 739.1(c)(2).)

### 3.1. Scope of Rate Change Proposal

All Phase 1 Rate Change Proposals should cover the period from January 1, 2015 through December 31, 2018 (OIR Rate Period). The Rate Change Proposal should present illustrative rates based on two scenarios: (a) no additional revenue requirement change and (b) a CPI-adjusted escalation of revenue requirements.

### 3.2. Standardized Rate Design Questions

A set of Rate Design Questions is attached as Appendix A. These questions are intended to serve multiple purposes. First, the questions are designed to ensure that utilities address all the issues that might be raised by their Rate Change Proposals. Second, using the same set of questions for all three utilities will allow for efficient review of the proposals. Third, responses to the questions may be used to identify issues that should be addressed in a later phase of this proceeding or in a new proceeding. For example, the specific details of outreach programs are likely beyond the scope of Phase 1, but it is necessary to have some information on utility plans in order to make this determination.

Because one purpose of standardizing the format and questions is to promote efficient review of the proposals, it is important that the utilities adhere to the format. For example, although some questions may seem repetitive, it is important to provide complete, stand-alone, separate answers to each question

[3] All subsequent section references are to the California Public Utilities Code unless otherwise specified.

so that they can be easily evaluated without time-consuming cross-referencing.

### 3.3. Scope of Rate Change Proposal: CARE

AB 327 has several important impacts on the CARE Program: (1) it sets the effective discount range between 30 – 35%, (2) it allows utilities to restructure their CARE Program rates while maintaining the required effective discount range, and (3) it requires CARE eligibility rules to allow one-person households to qualify based on the income guidelines for two-person households.

In order to efficiently and fairly evaluate changes to CARE Program rates, the majority of CARE-related issues are deferred to a later phase of this proceeding. Specifically, the scope of Phase 1 will not include review of issues surrounding the restructuring of CARE Program rates, with one exception. That one exception is our review of any proposed phase-in plan and schedule to reduce the effective CARE discount to 35%.

AB 327 requires that if a utility has an effective CARE discount higher than 35%, the utility must reduce the level of discount on a reasonable phase-in schedule. PG&E is currently in that situation. Therefore, it is important that PG&E include a proposed timeline for reducing the discount in its filing. Likewise, SCE and SDG&E should ensure that their respective effective CARE discounts do not rise above the 35% maximum.

Except for reductions necessary to reach the 35% maximum, the Phase 1 decision will not address reductions in the level of discount. However, as part of its Phase 1 Rate Change Proposal, a utility may propose its phase-in plan and schedule to reduce the effective CARE discount. All proposals to reduce the CARE discount should include plans for effective messaging to CARE Program customers prior to any rate changes or impacts.

Many innovative ideas for CARE rate restructuring have been suggested. Examples of possible structures include: (a) providing greater discounts for the lowest income households and smaller discounts for higher-income

CARE-eligible customers, (b) different rates of discount for each tier of usage, and (c) a flat 35% credit applied to a CARE customer's monthly bill. Any restructuring of CARE rates will require careful evaluation and will need to be coordinated with the ongoing administration of the CARE Program. (*See*, e.g, Application (A.) 11-05-017, *et al.* or its successor proceeding.) In light of this, CARE rate restructuring will not be included in the scope of Phase 1. Rather, we anticipate addressing it in a separate later phase of this proceeding or a new proceeding that is dedicated specifically to rates for the CARE Program.

Changes to the CARE eligibility rules are within the scope of A.11-05-017, *et al*., and do not require consideration in this proceeding.

### 3.4. Instructions for Content and Filing of Phase 1 Rate Change Proposals

The Phase 1 Rate Change Proposals should include the following elements:

1. Propose rates for the OIR Rate Period. To the extent possible, without filing a new application, follow Rule 3.2 (Authority to Increase Rates) and Article 2 (Applications Generally) of the Commission's Rules of Practice and Procedure (Rules). Comply with the notice requirements for rate changes required by the Rules.
2. Provide illustrative rates for the OIR Rate Period under two scenarios: (a) no additional revenue requirement change and (b) a CPI-adjusted escalation of revenue requirements.
3. Answer the questions 1 through 26 of the Rate Design Questions in Appendix A.
4. Include appropriate supporting testimony; include work papers demonstrating compliance with the CARE effective discount requirements.
5. Bill impact results should be prepared using the format developed in Phase 2 of this proceeding. Utilities should note where the Phase 2 format was modified.
6. If another application related to residential rates is currently

pending, the utility shall include multiple versions of rate impacts: a version showing rate impacts excluding other pending rate changes and additional versions showing incremental rate impacts including pending rate change applications.

7. Include an updated inventory of all residential rate tariffs and other issues that must be resolved in this or another proceeding or venue. For each inventory item, specify if it should be included in Phase 1 of this proceeding or in a different proceeding.

8. By no later than March 21, 2014, in a Phase 1 Supplemental Filing, answer the remaining questions from the Rate Design Questions in Appendix A.

The Phase 1 Rate Change Proposal should be filed with the Docket Office as a "Supplemental Filing" in this proceeding. The phrase "Phase 1" should be included in the title of all filed and served documents related to Phase 1.

## 4. Procedural Schedule

This ruling sets the following procedural dates for Phase 1:

| Event | Date |
|---|---|
| Utility's inventory of residential rate issues served[4] | February 14, 2014 |
| Supplemental Filing containing Phase 1 Rate Change Proposal filed and related utility testimony served | February 28, 2014 |
| PHC Statement filed | March 10, 2014 |
| PHC held | March 14, 2014<br>1:30 p.m.<br>505 Van Ness Street<br>San Francisco, CA |

[4] In a January 20, 2014 email ruling the assigned ALJ directed the utilities to inventory residential rate design issues to be resolved in this and other proceedings. The inventory will be used to clarify what aspects of residential rate design will be addressed in this proceeding and to ensure that all issues are being addressed in an appropriate Commission proceeding.

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| Supplemental Filing containing answers to Questions 27 – 39 filed and any related testimony served | March 21, 2014 |

A preliminary procedural schedule for the remainder of Phase 1 is set forth below. This procedural schedule will be discussed at the PHC and will be finalized in the Phase 1 Scoping Memo.

| **Event** | **Date** |
|---|---|
| Phase 1 Scoping Memo issued | March 31, 2014 |
| Supplemental Utility Testimony served (if necessary) | April 11, 2014 |
| Intervenor Testimony served | May 16, 2014 |
| Rebuttal Testimony served | May 30, 2014 |
| Evidentiary Hearings (EH) held | June/July 2014. Actual dates and number of days to be determined after PHC. |
| Opening Briefs filed | August 15, 2014 |
| Reply Briefs filed | August 29, 2014 |
| Proposed Decision issued | October 21, 2014 |

## 5. PHC Statement

The PHC Statements filed in March 2014 will be used to identify and refine the factual and legal issues that need to be resolved in Phase 1. Parties are invited to file PHC Statements addressing any of the following topics:

1. The specific factual and legal issues that the Commission needs to decide in Phase 1 of this proceeding;
2. The possibility and/or status of settlement discussions;
3. The need for discovery/data requests and the anticipated date that discovery will be completed;
4. The need for evidentiary hearings, including the estimated number of days required and type of testimony to be addressed at the hearings;
5. Comments on the preliminary procedural schedule above.

**IT IS RULED** that:

1. SCE, PG&E, and SDG&E shall file Phase 1 Rate Change Proposals and

serve related testimony in accordance with directions above no later than February 28, 2014. Answers to questions 28 – 40 of Appendix 1 are due not later than March 21, 2014.

2. Parties may file Phase 1 PHC Statements no later than March 10, 2014.
3. A Phase 1 PHC is set for March 14, 2014.

Dated February [___], 2014, at San Francisco, California.

Michael R. Peevey
Assigned Commissioner

# Appendix A

## Rate Design Questions

Each of PG&E, SCE and SDG&E should answer the following questions in their Phase 1 Rate Change Proposal. Please provide complete answers in response to each question. Even if you believe you have answered a question in a previous question do not refer back to that answer. Include answers to questions 1 through 26 with your Rate Change Proposal, and answer questions 27 through 39 by no later than March 21, 2014.

**Overall Rate Design Structure**

1) Please describe, in summary form, the proposed default residential rate structure for each year 2015 – 2018, including your proposed rates under two scenarios: : (a) no additional revenue requirement change and (b) a CPI-adjusted escalation of revenue requirements.
   Include a Rate Design Roadmap that provides a detailed year-by-year narrative, and a summary table that shows the major rate design structure, policy, and elements year-by-year including the proposed rates. Include any optional rates that you are proposing in this proceeding as well as other optional rates in effect or being determined in other proceedings.

2) Briefly describe how your rate design proposal conforms to each of the 10 rate design principles in R.12-06-013.

3) Describe how your rate design proposal complies legally and substantively with the relevant provisions of D.08-07-045, particularly ordering paragraph 8.[5]

4) Does your default rate design request for 2018 and beyond include two, three, or four tiered rates? If so, how steeply tiered should these rates be? If you propose

[5] Decision Adopting Dynamic Pricing Timetable and Rate Design Guidance for Pacific Gas and Electric Company. The Commission has previously adopted rate design guidance requiring utilities to develop default rates based on dynamic and time-variant pricing. (*See, e.g.*, D.08-07-045.) In D.08-07-0453, the Commission ordered PG&E to file an application proposing a default residential rate based on time variant pricing (TVP) after AB 1X restrictions were lifted. (D.08-07-045 (Ordering Paragraph 8.)) D.08-07-045 found that, for its purposes, Critical Peak Pricing (CPP) combined with TOU was the optimal TVP or dynamic pricing mechanism for residential rates.

fewer than four tiers, how should the tiered rates transition over time to ensure a reasonable phase-in schedule? If you propose retaining more than two tiers in 2018 and beyond, either as a default or an optional rate, please discuss the rationale for retaining three or more tiers.

5) Does your rate design request propose default time-of-use (TOU) rates beginning January 1, 2018 or thereafter? Why or why not?

6) Please explain whether and why default TOU rates should be tiered or not?

7) Regardless of whether you propose defaulting customers to a TOU a rate, please explain why default TOU rates should or should not be tiered?

8) If you are proposing default TOU in 2018, what is your proposed opt-out rate or rates? For tiered rates, how many tiers are included and how steeply tiered are they?

9) Prior to 2018, does your rate design request include optional TOU rates? Please explain whether and why these optional TOU rates should be tiered or not. If your proposal includes optional TOU rates with fewer tiers than the default rate, do you expect some amount of revenue shortfall associated with higher cost upper tier customers migrating to the TOU rate? How would you handle that revenue shortfall? Should the optional TOU rates remain revenue neutral to the default rate during the 2015-2018 transitional period? Why or why not? What about after 2018?

10) What other optional residential tariffs are you proposing either in this proceeding or in other proceedings? Do you propose additional optional time-variant pricing options that would take effect between 2015 and 2018? If yes, then describe these rates, e.g. critical peak pricing, electric vehicle rates, etc. Include specific details on: peak event period timing and pricing, event notification, and rate structure.

11) How should the Commission ensure that any time-of-use rate schedule does not cause unreasonable hardship for senior citizens or economically vulnerable customers in hot climate zones?

**Fixed Charges, Demand Charges and Minimum Bills**

12) If your proposal contains fixed charges, demand charges, or minimum bills that are higher than current minimum bills, describe such charges, and why they are

appropriate. Please state whether such charges reflect different costs of serving multi-family vs. single-family customers, or other cost-based distinctions among residential households. If no such cost-based distinctions among residential households should apply with respect to fixed charges, demand charges, and/or minimum bills, please explain your rationale for reaching that conclusion.

13) Should such charges be phased in over time concurrent with other changes proposed herein? If so on what timetable?

14) For any proposed fixed charges address how your proposed charges satisfy the following criteria contained in AB 327:

- Reasonably reflect the different costs of serving small and large customers.
- Not unreasonably impair incentives for conservation, customer generation, and energy efficiency.
- Not overburden low-income customers.

**CARE, Family Electric Rate Assistance (FERA), and Medical Baseline Programs**

CARE structural changes will be dealt with in a later phase of this proceeding or in the next CARE and Energy Saving Assistance Program proceeding. Phase 1 of this proceeding will deal with the level of CARE discount. A subsequent phase or separate proceeding will address how that discount should be structured, i.e. using any of the four models identified in the ED Staff Proposal or other approaches.

15) What level of CARE discount are you proposing for the years 2015-2018, and how will your CARE proposal satisfy the following criteria in 2015 and in subsequent years:
    a) The average 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.
    b) That low-income ratepayers are not jeopardized or overburdened by monthly energy expenditures, pursuant to subdivision (b) of Section 382.
    c) That the level of the discount for low-income electricity ratepayers correctly reflects the level of need as determined by the needs assessment conducted pursuant to subdivision (d) of Section 382.
    d) If the level of CARE discount is current above 35% the currently effective discount in excess of this amount should be reduced by a reasonable amount on an annual basis.

16) Describe how you propose to structure and operate the FERA program in each year of your rate design proposal.

17) Describe how you propose to structure and operate the Medical Baseline program in each year of your rate design proposal.

**Greenhouse Gas (GHG) Costs Embedded in Residential Rates**

18) When do you propose to embed GHG costs in residential rates?

19) Quantify the rate impact of including GHG costs in residential rates.

**Impact of Rate Design Changes on and Coordination with other Commission Demand-Side Management Programs: Customer Generation, Demand Response, and Energy Efficiency**

20) How would proposed rate design changes affect the IOU's ability to meet or exceed Commission-adopted energy efficiency (EE) and demand response (DR) goals?

21) If you are proposing or piloting new EE measures for use of programmable and communicating thermostats (and other similar devices) please describe such efforts and discuss how such EE measures are or should be coordinated with efforts to encourage adoption of TVP rates.

22) Please quantify and discuss the impacts of any rate design changes on customer participation and load impact in EE, DR, and distributed generation (DG) programs (for example estimate the elasticity factor and Ex Ante load impact to answer this question).

23) How would the proposed rate design changes affect the value of net energy metered facilities for customer generators and the cost born by non-participants?

24) Please quantify the bill impacts (including the average, median, and range) of any rate design changes on NEM customers.

25) How would the proposed rate design changes impact the value of customer-side distributed energy storage systems?

**Additional Details on TOU Rates, Time Periods and Seasons**

26) For any default and optional TOU rate proposed describe in detail:

- Peak to off-peak ratios and semi-peak to off-peak ratios by season
- TOU time periods by season
- Definition of seasons

AB 327 directs the Commission to strive to adopt time periods for TOU rates that are appropriate for at least 5 years.

27) Provide any analysis which demonstrates that the time periods and seasons that you propose for your TOU and critical peak pricing (CPP) rates are appropriate for at least 5 years.

28) When should the Commission next modify TOU and CPP time periods and seasons and why?

29) What is the appropriate proceeding to address modifications to the TOU and CPP time periods and seasons in a coordinated fashion, and the optimal process and frequency of developing and approving subsequent changes? (including this proceeding.)

30) If TOU time periods and seasons should be addressed in this proceeding should they be part of Phase 1 and or a later subsequent phase of this proceeding? Please explain your answer.

31) Regardless of when and where TOU time periods and seasons are addressed please comment[6] on the following potential list of issues and questions and add any additional issues or questions that should be addressed:

a) What factors, in addition to high marginal energy costs, should determine the selection of the peak hours for TOU rate design?
b) What is the optimal length of peak pricing periods that will induce peak

[6] By comment we mean comment on the questions and issues themselves without attempting to answer the actual questions. If you are proposing that TOU time periods and seasons be addressed in Phase 1 of this proceeding then please answers the questions in substance as well.

demand reduction and load shifting;

c) Would offering multiple TOU rate options (e.g., a choice of shorter or longer peak periods) increase the attractiveness of optional TOU rates?[7]
d) Whether to have a single peak period reflecting the highest marginal energy costs in the day or two diurnal peaks (one peak reflecting the morning ramp and the other the late afternoon/evening ramp);
e) Whether to include a super off-peak rate in general TOU rates to encourage off-peak EV charging or to encourage electric vehicle (EV) owners to switch to an EV-specific rate schedule;
f) How steeply differentiated to make the peak to off-peak and semi-peak to off--peak ratios;
g) Whether TOU time periods and seasons should be consistent statewide for all IOUs for the purpose of coordinating outreach and education and customer awareness; and
h) How best to balance the need for technical precision around system needs with consumer comprehension and ability to take action.

**Customer Communication, Outreach and Education, and Technology**

32) Provide a year-by-year roadmap for customer communication, outreach and education, and technology that addresses how you will prepare customers for the changes in the residential rate design over the 2015-2018 period and beyond. Discuss how your roadmap addresses rate design principle #10 in this proceeding. Specifically, describe how your plan addresses each of following groups:
    - Elderly and vulnerable customers including medical baseline and third party notification customers.
    - CARE and other low-income customers.
    - Customers from diverse cultural and linguistic communities.
    - Other hard to reach customers

33) What level of expenditure do you propose each year for customer communication, outreach and education, and technology? How are these expenditures broken out, and what is the justification for the level of budget?

34) Explain how rate-related customer communication, outreach and education, and technology efforts will interface with similar efforts related to residential demand response and energy efficiency programs.

[7] Arizona's Salt River Project has implemented such a strategy.

35) How will your utility attract the maximum number of customers to opt-in to time-variant rates prior to 2018? Describe your strategy and the methods you will use to target and segment outreach to customers that maximizes effectiveness of outreach efforts. During the transition period (2015-2017), would financial incentives either as rebates or rate discounts, be appropriate as a means to induce customers to experiment with TOU and CPP rates? Why or why not? During the transition period (2015-2017) should customer outreach and education about TOU and CPP rates, and possibly incentives to adopt them, be targeted based any or all of the following:
    - Geographic based on climate zones with greatest potential peak load to shed.
    - Low-income and hard to reach customers.
    - Geographic based on highest avoided Transmission and Distribution (T&D) cost areas.
    - Other demographics that indicate greatest likelihood to reduce peak load.

36) Consistent with Sec. 745 (a)(5) describe how the utility shall provide each residential customer, not less than once per year, using a reasonable delivery method of the customer's choosing, a summary of available tariff options with a calculation of expected annual bill impacts under each available tariff. Describe whether this rate comparison is currently offered online, will continue to be offered online, and what, if any, improvements you will make to enhance customers' understanding of their rate options in economic terms.

37) Given the evidence that enabling technologies such as communicating and programmable thermostats[8] increase customer load response when coupled with TOU and CPP rates, how would you propose to encourage adoption of such devices in conjunction with the roll-out of new TVP rates? Describe whether any of the following approaches are appropriate and reasonable as well as other methods you propose:

- Incentives for the adoption of enabling technology either as rebates or rate discounts.
- Targeting of incentives for technology based any or all of the following:
    - Geographic based on climate zones with greatest potential peak load

[8] Some models are capable of connecting to smart meter data.

to shed.
- Low-income and hard to reach customers.
- Geographic based on highest avoided T&D cost areas.
- Other demographics that indicate greatest likelihood to reduce peak load.

38) Do you propose any pilot programs to measure customer load reduction and the effectiveness of enabling technologies? If so what are some of the research questions and objectives of these pilot programs? What is your proposed timeline for implementing these pilot programs.

39) Should the Commission establish a parallel phase in this proceeding to address particular aspects of Customer Communication, Outreach and Education, and Technology that are best addressed outside of Phase 1? For example, should co-ordination of TOU rollout with demand response and energy efficiency outreach be considered in a separate phase? If yes, which topics would you propose get addressed in a parallel phase and what should be expected results of that phase?