PREPARED REBUTTAL TESTIMONY OF DAVID CROYLE

Regarding San Diego Gas and Electric's

2014 Phase 2 Proposal for Interim Rate Relief

On Behalf of the Utility Consumers' Action Network (UCAN)

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OVERVIEW

The purpose of my testimony is to review testimony of various parties, including the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), San Diego Consumers Action Network (SDCAN) and the Greenlining Institute with the Center for Accessible Technology and recommend the best path forward in Phase 2 of this OIR. The driving force behind many parties' Phase 2 testimony appears to be a desire to get a head start on designing the tiered residential rate for Phase 1 of the OIR proceeding.

In Phase 2, the parties seek to use this interim rate design to advance their Phase 1 goals. San Diego Gas and Electric (SDG&E) certainly did so in its direct testimony by moving aggressively toward a two-tiered residential rate. ORA, TURN and SDCAN do much the same in their testimony by moving aggressively in a different direction for often different reasons toward a three-tiered residential rate. Where SDG&E closed the gaps between Tiers 1 and 2 and between Tiers 3 and 4, ORA, TURN and SDCAN propose widening various gaps to pave the way to a three-tiered rate. SDCAN actually designed a three-tiered rate by pricing two of the four tiers at the same rate. But while the parties seek to use Phase 2 as a first step toward Phase 1, these are Phase 1 issues and Phase 2 is not the forum in which to resolve them.

The scope of Phase 2 is much more limited: to redesign an interim four-tier residential rate,[1] including an *optional* revenue neutral redesign of the four-tiered rate, to be followed by adding any pending rate increases for 2014 in such a way that customer bill impacts are gradual and rate shock is avoided. These are the main goals of Phase 2. Phase 1 issues, such how the Commission should decide the various rate design and structural issues on the tiered residential rates, e.g., should it have two or three tiers, are not to be resolved in this phase. The Commission, in fact, required all parties to resubmit their earlier rate proposals and maintain four tiers instead of reducing the number of tiers to two or three.

The Second Amended Scoping Memorandum, dated January 24, 2014 stated that "[t]he simplified rate change proposals submitted by the IOUs should retain the existing four-tiered structure and should not entail any major rate adjustments to California Alternative Rates for Energy (CARE), Family Electric Rate Assistance Program (FERA) and medical baseline programs. Instead, changes should be limited to increases in the lower tiers commensurate with the projected increases in the overall revenue requirement allocated to the residential class, *plus no more than a few percentage points*, if necessary, to keep the upper tiers within a range that will avoid the potential for significant bill volatility and rate shock in the summer." (ORA, p.7, Second ACR, pp. 2-3*, italics mine*)

[1] The Commission rejected the original two-tier design proposal by SDG&E and directed the utility to resubmit its interim residential rate proposal but this time maintain the four-tier structure.

Consequently, UCAN's review of parties' testimony tries to maintain focus on whether the proposal meets the main objectives of reasonable customer bill impacts and not whether the design supports a two-tiered or three-tiered rate in the future. Using SDG&E's proposal as an example, UCAN's criticism is not whether it moved toward a two-tiered rate structure when others were proposing a three-tiered structure but that by allocating excessive revenue to Tier 1, maintaining the Tier 4 price below 40 cents per kWh , closing the gaps between Tiers 1 and 2 prices and Tiers 3 and 4 prices, and applying the System Average Rate increase of 17.2 percent to the first two tiers, the customer bill impacts to the lower tiers, especially Tier 1, were excessive. This was the problem with the SDG&E proposal and not the fact that it was moving aggressively toward a two-tiered rate.

Had SDG&E not been so ambitious, and focused primarily on mitigating bill impacts, the choices the utility made regarding the allocation of revenues to the tiers might have resulted in a more balanced design. Moving toward two tiers or three tiers more gradually and avoiding rate shock to all customers across the tiers would have met the ACR requirements. But bill impact mitigation is the central concern.

UCAN supports the Office of Ratepayer Advocates (ORA) Balanced Alternative Tiered Rate Proposal

In UCAN's original testimony, we stated that the initial revenue neutral tilt/flattening to reduce the Tier 4 price caused the Tier 1 price to increase. When this rate tilting/flattening is added to the substantial pending increases, the change in price on Tier 1 was too much in a single year and caused customer bill impacts that were clearly excessive and unnecessary given the range of alternative design possibilities. UCAN's testimony argued that when pending rate increases in 2014 or in any one year, for that matter, are so substantial, a revenue neutral redesign is really unwise because it can cause large bill increases to the lower-tiered customers. Most often, utilities do not make substantial design changes in rates when there are large rate increases accompanying those structural changes for precisely the reason that the customer bill impacts caused by the combination of revenue requirement increases and rate structural changes can be excessive. ORA makes a very similar observation:

> "The significant revenue increases going into effect in 2014 are unfortunate, because it limits the ability to make significant reforms to the rate structure without causing unreasonable bill impacts for lower usage customers." (ORA, p.2).

It is UCAN's position that the purpose of the interim residential rate is to begin the process of flattening the four-tiered rate giving the utilities and other parties the *option* of proposing a revenue neutral four-tiered residential rate and then allocating any pending rate increases for 2014 to keep the rate increases gradual and to avoid rate shock to residential customers. But the main task of redesigning the residential DR rate is postponed until Phase 1.

The Commission's intent in Phase 2 was not to determine a specific direction in favor of a two-tiered or three-tiered residential rate but to postpone these decisions to Phase 1. SDG&E made a clear effort to move towards a two-tiered rate by trying to close the gap between the Tier 1 and Tier 2 rates (by adding an extra 1 cent to Tier 1) and closing the gap between the Tier 3 and Tier 4 rates from 2 cents to 1 cent. By taking this approach, the proposed SDG&E residential rate moves closer to what they are advocating as an end state two-tiered s residential rate alternative to the default TOU rate in Phase 1.

ORA, on the other hand, widened the gap between the Tier 1 and 2 by adding slightly more revenues to Tier 2 (18%) than to Tier 1 (15%) and by increasing the gap between Tier 3 and 4 from 2 cents to 4 cents. This closes the gap between Tier 2 and 3 and moves the tiered residential rate in the direction of a three-tiered rate. ORA also exceeded Tier 4 price of 40 cents proposed by SDG&E with the Tier 4 price at 41.1 cent per kWh. In Cynthia Fang's direct testimony for SDG&E, pages CF-15 and CF-16, she lays out several rules of thumb that indicate the trade-offs between tier price increases and decreases.[2]

As Ms. Fang's testimony shows, the most powerful way to reduce bill impacts on Tier 1 is to allow Tier 4 prices to rise. For example, her testimony at CF-15 indicates that if you increase Tier 1 by 2 cents, you lower Tier 4 price by 3 cents. Conversely, then, if you want to lower Tier 1 price by 2 cents, you can raise the Tier 4 price by 3 cents. A willingness to exceed 40 cents on the Tier 4 price helps reduce the bill impacts on Tier 1 customers more than any other tier price increase. The other relationships to Tier 4 prices, i.e., changing Tier 2 prices and changing the gap between Tier 3 and 4 are other means to affect Tier 4 prices. ORA used these relationships implicitly and allowed the Tier 4 price to surpass 40 cents while allocating less to Tier 1 and more to Tier 2 (widening the Tier 1 to Tier 2 gap) and widening the gap between Tiers 3 and 4 compared to SDG&E's proposal which reduced both gaps.

UCAN agrees with ORA when they state: "Comparing rates between February 1, 2014 and summer 2014 gives a false sense of milder bill impacts for lower usage customers." In fact, ORA calculates: "Tier 1 and Tier 2 rates are currently 4.1 percent higher than they were in November 2013." (ORA, p. 5)

As UCAN has pointed out in our testimony, and what ORA has also notes, is that this means the 24 percent increase in the Tier 1 rate in SDG&E's proposal from February 2014 to Mid-Year (summer) 2014 is really 4.1 percent higher if compared to November 2013 rates. That increase is roughly the

[2] See Attachment A, SDG&E witness Cynthia Fang's testimony at pp CF-16 to CF-17.

combination of a 4.1 percent increase from November 2013 to February 1, 2014, the 6.5 percent increase due to the revenue neutral rate redesign and the 17.2 percent System Average Rate (SAR) increase all applied to Tier 1 since November 2013. As UCAN indicated in direct testimony, the revenue neutral redesign that added the 6.5 percent increase to Tier 1 prior to any pending rate increase was unnecessary and undertaken to reduce the Tier 4 price prior to adding the substantial pending increases in summer 2014. Pending increases were more than sufficient to allocate revenues disproportionately to the lower tiers. The revenue neutral design approach only added more revenues to Tier 1 customers.

Given the proposals presently pending in Phase 2 of this proceeding, ORA presents a balanced approach that UCAN can endorse.

The Utility Reform Network (TURN) Endorses the ORA Tiered Rate Proposal

TURN compares the SDG&E proposal to the PG&E and SCE proposal and settlement. In William Marcus' testimony for TURN, he states: "By contrast, SCE proposes a 4.4 cent differential between Tiers 1 and 2 and at least 4 cents between Tiers 3 and 4." (TURN, p. 4) This is a slight increase in the proposed Tier 1 to Tier 2 gap for SCE. The current differential between Tier 3 and 4 for SCE is 3 cents. SCE proposed the same 3 cent gap but settled for 4 cents.

Marcus stated: "PG&E proposes a differential of at least 2.3 cents between Tiers 1 and 2 and 6 cents between Tiers 3 and 4." (TURN, p. 4) This is also a slight increase in the proposed gap between the Tier 1 and Tier 2 rate for PG&E. The current differential between Tier 3 and 4 is 4 cents for PG&E so the increase in the Tier 3 to 4 gap is 2 cents for PG&E.

After asserting TURN's preference for a three-tier rate structure and reviewing the other two utility proposals and settlements, TURN endorsed the ORA positions as essentially consistent with theirs. It must be noted that while TURN is adopting the ORA position, their end game is not the same as ORA's. TURN prefers a three-tiered default rate over a TOU default rate whereas ORA prefers a TOU default and the three-tiered residential rate is only transitional to a two-tiered residential rate as an opt-out alternative in the end state, 2018. This suggests a very different strategy going forward as we enter Phase 1 with the tiered residential rate that is ultimately adopted in this case.

UCAN is concerned that the Commission not move too far in either direction in this interim rate and accept a rate design that will allow for either a two-tier or a three-tier rate to emerge as the preferred tiered rate option to the TOU rate as we complete Phase 1.

San Diego Utility Action Network (SDCAN) Proposes an Alternative to SDG&E and ORA

According to SDCAN, "In its revision, SDG&E has preserved its four pricing tiers for residential customers but has modified them as to unduly raise Tier 1 rates in its effort to narrow tier differentials." In this testimony, SDCAN's expert Michael Shames "…submits that residential customers are best served by a pricing scheme comprised of equally differentiated tiers to preserve the conservation benefits of tiered rates while permitting the top tier levels to be reduced." (SDCAN, p.3) But SDCAN embedded a three-tiered rate in a four-tiered structure by pricing two of the tiers the same as shown in Attachment B of SDCAN's testimony. Mr. Shames testimony at page 7 differs from SDCAN's Attachment B. UCAN was unclear regarding which position to use but the clearer position was stated in Attachment B so that is the position we used for our comparison to SDG&E and other parties. We discuss our reasoning below.

SDCAN believes that the largest revenue allocation should be to Tiers 2 and 3 to separate the tiers and pave the way toward a three-tiered rate in 2015 or 2016. SDCAN asserts that its goal is a three-tiered rate with significant differentiation among the tiers to encourage conservation and energy efficiency. "Thus, any rate changes made in this proceeding should be done with an eye towards movement towards three equally differentiated tiers." (SDCAN, p. 7) Mr. Shames writes: "In comparing SDG&E's Table CF-8 [SDG&E Proposal under Present and Mid-2014 Pending Proceeding Scenario, p. CF-26] and Attachment B provided by SDG&E to SDCAN in their First Set of Data Requests, Tier 1 should be increased to no more than 16 cents and Tier 2 should be raised from 17.8 to close to 22 cents per kWh.[3] Meanwhile, Tiers 3 and 4 [can] be brought closer to the 34 cent range. This is substantially different [than] SDG&E's proposed design of Summer kWh rate of 19.1 [cents] for Tier 1, 20.8 [cents] for Tier 2, 35.4 [cents] for Tier 3 and 36.4 [cents] for Tier 4, as set forth in Table CF-8." (SDCAN, p. 7)

But what SDCAN describes above is close to a three-tier rate with Tier 3 and 4 close to 34 cents. More to the point if you look at Shames' Attachment B from which the data was supposedly obtained, Tier 2 and Tier 3 are the same at 23.099 cents/kWh for the summer and 21.876 cents for the winter. Tier 4 is 34.075 cents/kWh. Neither version (testimony at page 7 or Attachment B represents the four-tier rate required by the ACR. Using Attachment B of SDCAN's proposal, and the summer rate of 23.099 cents for Tiers 2 and 3 as shown, it appears SDCAN has proposed a three-tiered rate. The rate produced in the data request by SDG&E as shown in Attachment B was likely designed to produce the appropriate level

[3] In SDCAN's testimony they cite to a Tier 2 price of close to 22 cents. In their Attachment B the winter rate for Tiers 2 and 3 is .21876 cents while the summer rate is .23099 cents. Mr. Shames inhis testimony at footnote 6 notes that all rates SDCAN proposes are summer rates only. However, in Attachment B it is the winter rate at .21876 cents that is closer to 22 cents.

of revenue requirements. The alternative rate design specification in the testimony at page 7 would not necessarily produce the same revenue requirements or at least the two presentations are sufficiently confusing and so UCAN used the Attachment B design for comparison to SDG&E and ORA.

Greenling Institute and the Center for Accessible Technology

Greenlining/Center for Accessible Technology does not offer an alternative rate proposal nor does it endorse any existing proposal. Instead it rejects all proposals citing the absence of an affordability analysis in the following statement:

"Because California law, prior California decisions, and sound public policy dictate that changes such as those proposed by each electric utility cannot be put into effect without consideration of the impact of such changes on affordability, in the context of the economic environment facing the affected customers, and because nothing in the utility submissions indicates in any way that affordability was considered in this manner, no changes should be made at this time. Only after the utilities make a showing regarding affordability in context, which includes a review of what customers can actually afford to pay rather than a spreadsheet-based review of percentage change to bills without any connection to real world experiences of the people who receive the "bill impacts," should the Commission consider such rate adjustments." (Greenlining/CfAT, #16, p.8)

In fact, the concern of Greenlining/Center for Accessible Technology is something that speaks to why the purpose of Phase 2 is not to make decisions better suited to Phase 1 but to simply make incremental changes to the same four-tiered residential rate that currently exists without changing CARE, FERA, or the medical baseline and only adding a few percentage points to the class average rate that is pending for 2014. Affordability is one of those issues that must be resolved in Phase 1 as the rate structure is redesigned over the 2015-2018 period. In 2014, the rate structure changes are expected to be modest enough that reasonable bill impacts should be gradual.

Summary Table of SDG&E, ORA and SDCAN Tiered Rate Proposals

In TABLE A, we compare the rate proposals of SDG&E, ORA (endorsed by UCAN and TURN) and SDCAN. These rate increases are based on the current rates in effect on February 2014. In TABLE B, on the other hand, current rates are defined as rates in effect at the beginning of the year and as early as September and November 2013. Using current rates in effect at the beginning of 2014, the full impact of SDG&E's pending rate increases for 2014, including those occurring between January and February 2014 cannot be understated or minimized. The full impact of pending increases in all of 2014 is shown much better in TABLE B and the balanced allocation by ORA is also shown compared to the heavy SDG&E allocation to Tiers 1.

Table A

Comparison of SDG&E, ORA and SDCAN Tiered Rate Proposals

(Current Rates based on February 2014 vs. Pending Rates Mid-Year 2014)

TIER	SDG&E (Summer Rates)			ORA/UCAN/TURN		SDCAN	
Non-Care	Cents/kWh	Cents/kWh	% Change	Cents/kWh	% Change	Cents/kWh	% Change
Tier 1	15.4	19.1	24.0%	17.016	10.5%	15.620	1.4%
Tier 2	17.8	20.8	16.9%	20.153	13.2%	23.099 [4]	29.8%
Tier 3	34.9	35.4	1.4%	37.141	6.4%	23.099	(33.8%)
Tier 4	36.9	36.4	(1.4%)	41.141	11.5%	34.075	(7.7%)

Table B

Comparison of SDG&E, ORA and SDCAN Tiered Rate Proposals

(Current Rates based on January 2014 vs. Pending Rates Mid-Year 2014)

	SDG&E (Summer Rates)			ORA/UCAN/TURN		SDCAN	
Non-Care	Cents/kWh	Cents/kWh	% Change	Cents/kWh	% Change	Cents/kWh	% Change
Tier 1	14.8 [5]	19.1	29.1%	17.016	15.0%	15.620	5.5%
Tier 2	17.1	20.8	21.6%	20.153	17.9%	23.099 [6]	35.1%
Tier 3	34.6	35.4	2.3%	37.141	7.3%	23.099	(33.2%)
Tier 4	36.6	36.4	(0.5%)	41.141	12.4%	34.075	(6.9%)

Keeping Phase 1 Strategy Out of Phase 2 Tactics

[4] In SDCAN's Attachment B from SDG&E Data Request, Tier 2 and 3 assumed identical and 23.099 cents summer rate which differs slightly from Mr. Shames' testimony at page 7 of "close to 22 cents per kWhr". UCAN would note that in attachment B to SDCAN's testimony the winter rate is "close to 22 cents" at .21876.

[5] Current rates in Table B are those in effect at the end of 2013. ORA described them as current rates in data request, DR005-02142014 (November 2013 rates) and they are also described as September 2013 rates in C. Fang testimony in Table CF-3 at page CF-22.

[6] In SDCAN's Attachment B from SDG&E Data Request, Tier 2 and 3 assumed identical and 23.099 cents summer rate which differs slightly from Mr. Shames' testimony at page 7 of "close to 22 cents per kWhr". UCAN would note that in attachment B to SDCAN's testimony the winter rate is "close to 22 cents" at .21876.

UCAN believes the balanced decision in Phase 2 would be to focus on achieving reasonable customer bill impacts in 2014, including any proposed interim revenue neutral redesign and/or pending rate increases without making it difficult or impossible to design *either* a two-tiered or three-tiered residential rate in Phase 1. Neither rate option should be pre-empted by what is decided in Phase 2. The Second ACR of January 24 2014 said to focus on increasing the lower tier prices by the class average *plus a few percentage points* -- not to create a significant gap between tier prices to create the opportunity in 2015 for a three-tier path to 2018 anymore than to close the gap between the tier prices to create a similar opportunity for a two-tier path to 2018.

Phase 2 needs to focus on allocating slightly more revenues to the two lower tiers than the two upper tiers of the four-tier rate to begin the process of tilting or flattening the rate to address the decade of under-recovery from the smaller customers in the lower tiers and reducing the burden to the larger customers in the upper tiers. This must be accomplished while making sure that customer bill impacts are gradual and that all customers avoid rate shock now in 2014 and throughout 2015-18.

CONCLUSION

UCAN's Endorsement of the ORA Proposal

UCAN endorses the ORA proposal simply because it appears to represent a balanced allocation of revenues to the existing four-tier residential rate that maintains reasonable customer bill impacts and satisfies the spirit of both the ACR and AB 327. ORA's willingness to breach the 40 cent Tier 4 price to keep the lower tier prices down also appeared to be necessary given the pending increases for 2014, the requirement to allocate more to the lower tiers and the necessity to mitigate bill impacts in the process.

Attachment A

SDG&E Witness Cynthia Fang's testimony pp 15-16

Attachment B

Resume of David Croyle