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Exhibit No.:
Date: March 12, 2014
Witness(es): Philip J. Quadrini

PACIFIC GAS AND ELECTRIC COMPANY

SUMMER 2014 RESIDENTIAL ELECTRIC RATE REFORM PROPOSAL

PHASE 2

REBUTTAL TESTIMONY

PG&E®

PACIFIC GAS AND ELECTRIC COMPANY

REBUTTAL TESTIMONY OF

PHILIP J. QUADRINI TO THE

PREPARED TESTIMONY OF

HENRY J. CONTRERAS SUBMITTED ON BEHALF

OF THE CENTER FOR ACCESSIBLE TECHNOLOGY AND

THE GREENLINING INSTITUTE

PACIFIC GAS AND ELECTRIC COMPANY
REBUTTAL TESTIMONY

Q 1 What is your name and title?

A 1 My name is Philip J. Quadrini and I am a senior regulatory analyst. I sponsored the following testimony in Pacific Gas and Electric Company's (PG&E) Phase 2 Summer 2014 Residential Electric Rate Reform Proposal:

- Chapter 2, "Amended Summer 2014 Residential Rate Design":
  - Section D, "Standard CARE Rates."
  - Section E, "Optional Schedules Rate Design."
- Appendix A, "Electric Baseline Quantities."

Q 2 What is the purpose of your testimony?

A 2 My rebuttal testimony responds to the Prepared Testimony of Henry J. Contreras submitted on behalf of The Center for Accessible Technology (CforAT) and The Greenlining Institute (Greenlining), specifically as to its findings on PG&E's California Alternate Rates for Energy (CARE) rate proposal.

Q 3 Do CforAT and Greenlining offer any plan to reduce the percentage CARE discount received by PG&E customers to the 30 to 35 percent level mandated by Assembly Bill (AB) 327?

A 3 No, they do not. They never mention this statutory requirement in their testimony.

Q 4 Do CforAT and Greenlining state the conditions under which any increase in the CARE rate would be acceptable?

A 4 No, they appear to oppose *any* increase to any tiered CARE rate absent further consideration of what they call "affordability in context." (Contreras, p. 8, #16.) This ignores the legislative requirements of AB 327 to reduce the CARE discount to the 30 to 35 percent level.

Q 5 Although CforAT and Greenlining expresses concerns about rising costs of living and what they assert to be "reduced or stagnant" benefit programs, do they present any data showing that the energy burden for disabled customers and other low income customers has increased over the last several years in response to changes in programs serving those customers?

A 5 No. Mr. Contreras admits (at page 12) that the level of the mean energy burden for low income customers—which CforAT and Greenlining note was 8 percent statewide in the most recent Low Income Needs Assessment (LINA)—has remained "statistically unchanged from the data provided in the earlier KEMA report, which was published in 2007." He then draws this conclusion: "This means that the situation for low-income customers with disabilities has remained problematic through the recent severe economic downturn, and that recent improvements to the overall state economy have not resulted in the benefits for those who were most disadvantaged during the downturn." However, a review of the 2013 LINA report shows that the statewide energy burden for those with disabilities is 9.3 percent for physical disabilities and 9.1 percent for mental disabilities. This is not much higher than the 8.0 percent figure for all low-income customers. (LINA, Volume 2, p. 5-90.)

Q 6 Who does CforAT and Greenlining believe to be the most vulnerable among disabled customers?

A 6 It appears that CforAT and Greenlining believe that disabled customers served by Centers for Independent Living are the most vulnerable to increases in the cost of living. Mr. Contreras states on page 5, #10, "Without reliable and affordable electricity, some people with disabilities would be forced into institutionalized settings…"

Q 7 Do CforAT and Greenlining provide any specific data on the energy burden for disabled customers served by Centers for Independent Living to support their statements?

A 7 No data were provided.

Q 8 Mr. Contreras states on page 8, #16, that "because nothing in the utility submissions indicates in any way that affordability was considered in this manner, no changes should be enacted at this time." Do you agree?

A 8 No. PG&E documented in Table 2-3 (p. 2-20) of its testimony that after including the effect of the Climate Dividend (now the California Climate Credit or CCC), there is virtually no change in the annual average rate paid by CARE customers as a whole. In addition, PG&E stated on page 2-21 that "CARE customers using an average of 455 kWh[1] per month would still see an annual average bill *decrease* in 2014, compared to 2013, after accounting for the Climate Dividend."[2] PG&E also stated that "Customers in this group represent more than 40 percent of all CARE customers." Furthermore, PG&E stated on page 2-22, that its "proposed CARE rates are lower than those of the other two utilities' present rates in all but one instance (SCE's Tier 1 rate)...In approving Southern California Edison Company's and San Diego Gas & Electric Company's CARE rates currently in effect, the Commission has previously determined that these rate levels are reasonable and affordable for CARE customers in Southern California. There is no reason to believe that PG&E's proposed CARE rates here—which are comparable or lower than the Commission-approved rates for the other two utilities—would not similarly be reasonable and affordable." Finally, while Greenlining's Enrique Gallardo filed testimony specifically opposing SCE's and SDG&E's CARE rate proposals, no such specific rebuttal testimony was filed opposing PG&E's CARE rate proposal.

Q 9 Mr. Contreras claims that customers with a high energy burden will "cut back on other necessities (such as food and medicine)..." (p. 13, #29.) Do you agree?

A 9 No. The 2013 LINA report indicates that over 80 percent of low income customers report that they either never or rarely cut back on food or medicine to pay their utility bills. (Volume 2, p. 5-93.)

Q 10 On page 16, Mr. Contreras compares 2014 Social Security Disability Income (SSDI) and Supplemental Security Income (SSI) benefit levels to the California Budget Project (CBP) estimate for the annual cost of living for a single adult. It shows a statewide annual "shortfall" of $16,625 to $23,025 for individuals on SSDI or SSI. Is this an accurate comparison?

A 10 No. First, the CBP estimate for a single adult of $32,625 exceeds the CARE program maximum qualifying income level of $31,020 for a 1- or 2-person household. Since the CARE program limits qualifying income to no more

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[1] This number varies depending on the climate zone and was calculated as a weighted average.

[2] The Climate Dividend is now referred to as the California Climate Credit (CCC).

than 200 percent of the federal poverty level, it is inaccurate to use the CBP estimate for comparison purposes. Second, the CBP estimate represents 280 percent of the 2013 federal poverty level for a single adult. This would place this individual within the middle class, which begins at 250 percent of the federal poverty level. Third, the housing cost component of the CBP estimate uses rents paid by recent movers into a particular area at the 40th percentile. This level is most likely within the range of rents paid by those in the middle class, albeit at the lower end of the range. Fourth, there are other types of assistance available to California low income and disabled households that are not reflected in simply looking at SSDI and SSI. Mr. Contreras shows only the actual SSDI and SSI benefit levels, which range from $9,600 to $16,000 per year for SSDI and $10,524 per year SSI, and fails to include benefits from other programs, most notably food stamps (i.e., the Supplemental Nutrition Assistance Program, or SNAP). Finally, the CBP housing cost component combines both housing costs and utilities, including combining both electric and gas, which makes these numbers largely irrelevant and useless for determining the electric energy burden in this proceeding. Instead, there are better data sources, such as the LINA study results (with adjustments for other available forms of income assistance that reduce the energy burden).

Q 11 How does the energy burden for PG&E's customers compare to the national average?

A 11 PG&E's average energy burden for low-income customers has been statistically unchanged between 2003 and 2013 when comparing results under the Overall Energy Burden[3] methodology reported on the Low-Income Needs Assessment reports.[4] Specifically, using the same methodology KEMA Inc. used in its 2007 study of the low-income energy burden in 2003, Evergreen Economics found that the overall energy burden

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3 The Overall Energy Burden methodology totals all customer bills and divides that number by total customer income. It is different from the mean or "customer" energy burden cited earlier by Mr. Contreras.

4 Needs Assessment for the Energy Savings Assistance and the California Alternate Rates for Energy Programs, Volume 2: Detailed Findings, Final Report, p. 5-93. Evergreen Economics, December 16, 2013.

for California's low-income customers was essentially unchanged at 4.1 percent in 2013 compared to 4.2 percent in 2003.[5]

Evergreen Economics also calculated the "customer energy burden," which gives equal weights to each customer's energy burden by separately dividing each customer's energy bill by its total income, then taking the average of each customer's energy burden and accumulating those numbers. This showed the energy burden for PG&E's low-income customers to be 9.9 percent in 2013, lower than the national average of 13.6 percent in 2007, as calculated for the Low-Income Home Energy Assistance Program (LIHEAP).[6] Moreover, the calculations by both Evergreen Economics and LIHEAP did not specifically take into account any of the other income assistance already received by low-income customers, such as the Earned Income Tax Credit, SNAP, Section 8 housing subsidies, school lunch programs, etc.[7] When these additional sources of income are taken into account, the effective energy burden for PG&E customers is less than the 9.9 percent shown here. Even so, as noted above, PG&E's customer energy burden remains substantially below the LIHEAP national average of 13.6 percent.

Q 12 Are the rate increases proposed under PG&E's Settlement agreement with Office of Ratepayer Advocates (ORA) and The Utility Reform Network (TURN) modest?

A 12 Yes. The rate increases under both PG&E's original proposal and its proposed Phase 2 Settlement with ORA and TURN (filed March 5, 2014) are quite modest, especially given the context of how little CARE rates have increased in the last two decades. First, PG&E's proposed CARE Tier 1 and Tier 2 rates are still more than 10 percent below their nominal levels in 1993 when the CARE maximum income qualifying level was considerably lower than it is now (150 percent of the federal poverty level versus its

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5 Final Report on Phase 2 Low Income Needs Assessment, p. 5-9. KEMA Inc., September 7, 2007.

6 LIHEAP Home Energy Notebook for FH 2007: Executive Summary, p. i. U.S. Department of Health and Human Services, June 2009.

7 Customers were asked to state their total household income, but were not specifically asked about income or assistance from other programs.

current level of 200 percent of the federal poverty level). Second, the present average CARE EL-1 rate of 10.0 cents is, in nominal terms, below the EL-1 average rate of 10.5 cents charged back in 1993. In real terms, it is much lower today than two decades ago. If the 10.5-cent-per-kilowatt-hour (kWh) average CARE rate in 1993 had simply increased each year with the rate of inflation, it would be 17.3 cents per kWh today. Instead, it is just 10.0 cents per kWh. This represents a 42 percent decrease in the average CARE rate in real terms over the last 21 years.

Third, as discussed above, in 2014, residential customers will begin receiving the CCC, which results in annualized bill reductions of approximately $60. As a result, the CCC will lower PG&E's proposed annual average CARE rate of 10.9 cents per kWh under PG&E's settlement proposal to just 10.0 cents per kWh, virtually the same annual average rate paid in 2013, and it will still be significantly below the nominal 10.5 cent average rate two decades ago, in 1993. Although PG&E's proposal would increase the nominal Tier 1 rate from 8.6 cents to 9.2 cents, the net effective Tier 1 rate paid by CARE customers under this proposal, after deducting the total annual CCC from total CARE Tier 1 revenues, would drop to an effective annual average of 7.8 cents per kWh, a 9 percent decrease over the current EL-1 Tier 1 rate.

Finally, the class average rate remains at 10.9 cents (before the addition of the CCC) when coupled with higher baseline quantities set at 52.5 percent.

Q 13 Are the bill impacts under PG&E's proposed Phase 2 Settlement with ORA and TURN, when compared with rates in effect in 2013, also modest?

A 13 Yes. PG&E calculated bill-to-income ratios for CARE customers for the Settlement rates proposed for summer 2014 in Phase 2. Figure 1-1 shows, under PG&E's proposed Summer 2014 CARE rates, that the median bill-to-income ratio is below 2.5 percent and that 90 percent of CARE customers will spend less than 6.7 percent of their 2009 income on electricity. In other words, 90 percent of CARE customers would spend between 0 percent and 6.7 percent of their reported income on electricity. PG&E considers these to be very reasonable bill-to-income ratios.

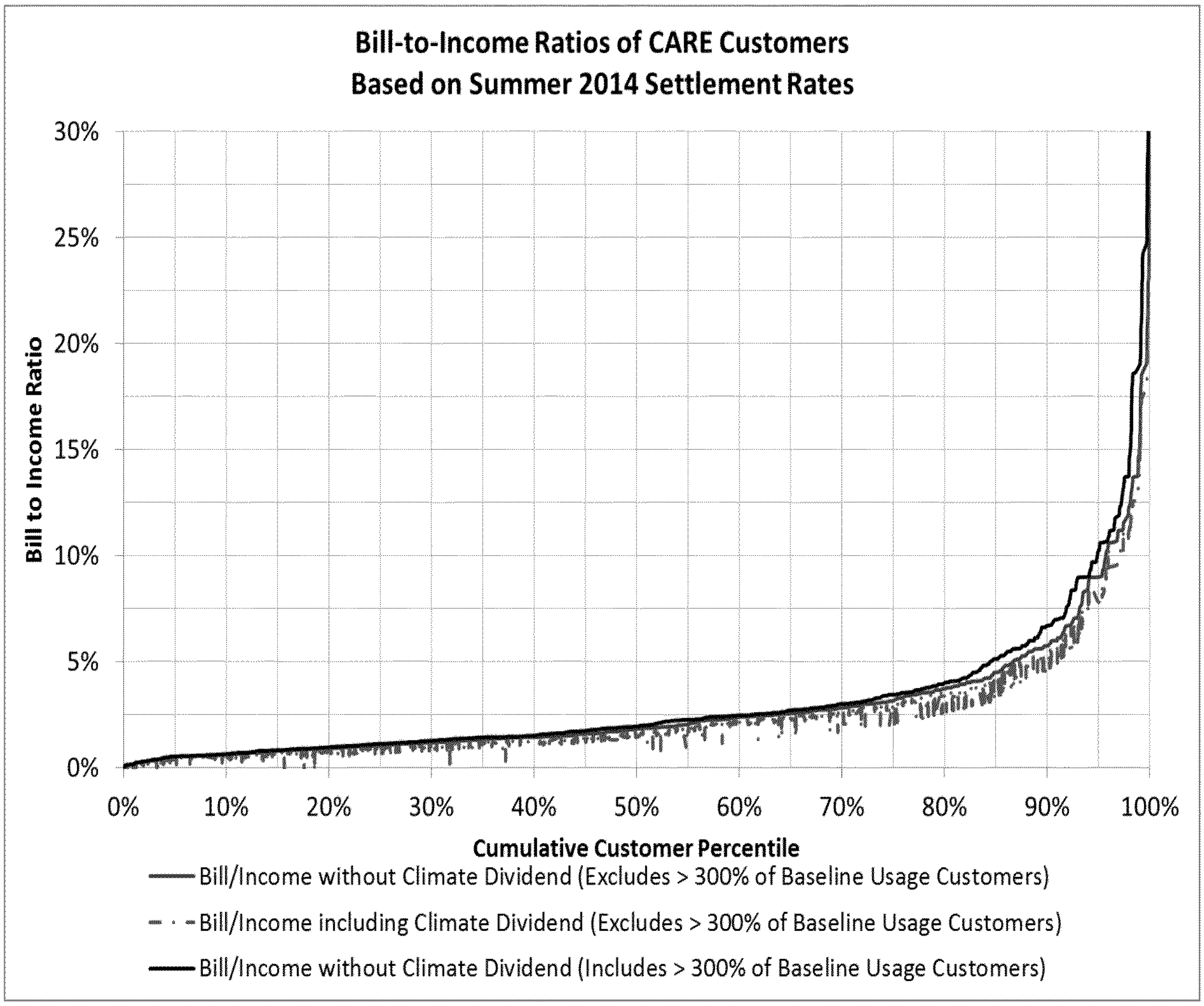
PG&E also looked at what the bill-to-income ratios would be if PG&E eliminated all customers exceeding 300 percent of baseline in any one month. PG&E did this for three reasons. First, customers at this high level of usage are, given the stated income limits of the CARE program, automatically going to have high bill-to-income ratios regardless of rate levels. Second, through the implementation of Decision 12-08-044, PG&E has already found that 85 to 90 percent of customers exceeding 400 percent of baseline in any one month are ineligible and is removing them from the CARE program. Third, given the extremely high level of ineligibility of customers exceeding 400 percent of baseline, it is likely that over half of CARE customers between 300 percent and 400 percent of baseline are also ineligible. This lowers the amount spent on electricity at the 90th percentile of customers from 6.7 percent to about 5.9 percent of income.

PG&E then examined the impact of the CCC, which is about $60 per year. It found that this further lowers the amount spent on electricity at the 90th percentile of customers to about 4.5 percent of income. Even at the 95th percentile, the bill-to-income ratio for electricity would still be below 8.0 percent of income. It is also easy to see the significant impact of the CCC on customers between the 70th and 90th percentile. It shows that these customers have extremely low reported incomes, $5,000 or less per year, which is why an annual reduction of $60 per year has such a huge impact on the percent of their income spent on electricity. But it also demonstrates how percentage changes, up or down, can be misleading compared to the actual dollar amounts.

It should be noted that the incomes used in this analysis are from 2009 and do not reflect the improvement in the economy since that time, nor do they include the effect of the scheduled July 1, 2014, 12.5 percent increase in the minimum wage from $8.00 per hour to $9.00 per hour. Both of these factors would further lower the bill-to-income ratios.

Finally, PG&E has included the bill-to-income ratios for CARE rates in effect in 2013. Figure 1-2 shows that most CARE customers are paying near or above the percentage of income they would pay in 2014 under PG&E's proposal.

FIGURE 1-1
PACIFIC GAS AND ELECTRIC COMPANY
BILL-TO-INCOME RATIOS FOR CARE CUSTOMERS(a)
MAY 2014



(a) Income held constant at 2009 levels.

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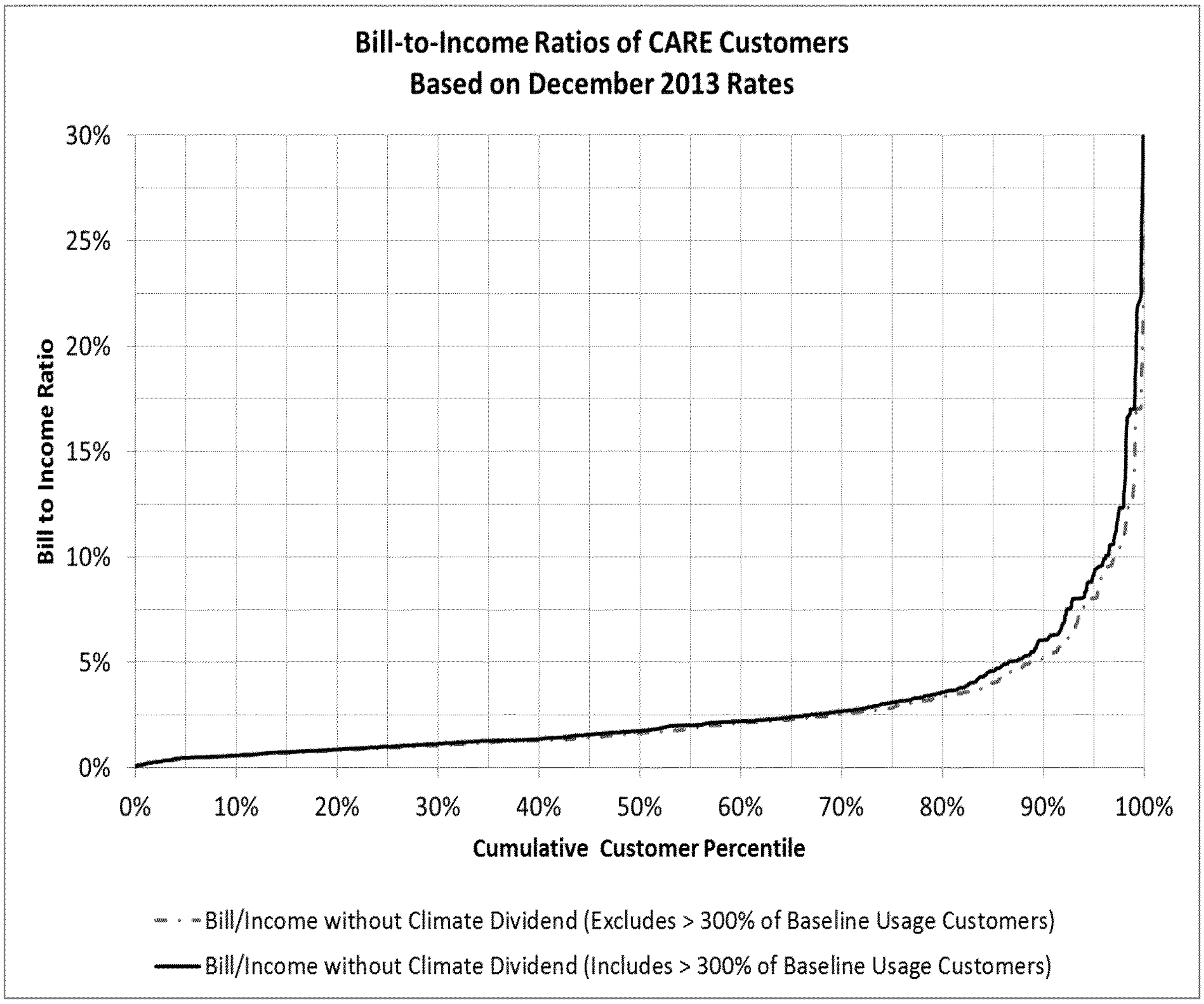
FIGURE 1-2
PACIFIC GAS AND ELECTRIC COMPANY
BILL-TO-INCOME RATIOS FOR CARE CUSTOMERS(a)
DECEMBER 2013



(a) Income held constant at 2009 levels.

Q 14 What are the actual dollar impacts on bills under PG&E's proposed Phase 2 Settlement with ORA and TURN, compared to 2013 rates?

A 14 Again, these are quite modest. Nearly half of all CARE customers, 47 percent, would see bill *decreases* after inclusion of the CCC. Another 36 percent would see bill increases between $0 and $5 per month, while 12 percent would see bill increases between $5 and $10. Only 5 percent would see bill increases greater than $10 per month. Monthly usage for those customers with bill increases greater than $10 per month is quite high; it ranges from 1,200 kWh per month to nearly 12,000 kWh per month.

The average CARE household uses about 565 kWh per month. Finally, because the bill comparison data set uses 2011 data, many of these customers (those exceeding 400 percent of baseline) have been, or will be, removed from the CARE program by the end of 2014.

Q 15 Do you agree with Greenlining and CforAT that the CARE program should be considered an income assistance program providing general assistance for all household expenses, and thus take into account all such expenses and living costs?

A 15 No. The CARE program for electric customers is designed to give low income households a significant discount solely on their electric bills. It is not intended or designed to be a general income assistance or welfare program. The discount from full retail electric rates was originally set at 15 percent, increased to a minimum of 20 percent in 2001, then ballooned to its current level of 48 percent. This will gradually be lowered to a range of 30 percent to 35 percent beginning this year. It is set for the low income population as a whole—those households with incomes up to 200 percent of the federal poverty level. This discount does not vary based on the income needs of individual customers, nor does it vary based on the income needs of qualifying subgroups.

Q 16 As a matter of public policy, should the CARE program be designed as a general anti-poverty program?

A 16 The CARE program was never designed and should not be designed to be an anti-poverty program. The gas and electric bill is one of the smallest components of an average household's cost of living, including low income households. On average, it is just 9.9 percent for PG&E's CARE customers. This means that even a 10 percent increase in the average CARE rate would only increase the average energy burden by just 1 percent of reported income. Similarly, a 10 percent reduction in CARE rates would only reduce the cost of living by just 1 percent, leaving unaffected the largest drivers in any customer's cost of living: food, rent, clothing, healthcare, transportation, etc. The overall level of need for income assistance for certain customers, as described by CforAT and Greenlining, is best addressed through different targeted programs rather than through a blunt instrument, such as the CARE program, which serves all customers with incomes up to 200 percent of the federal poverty level. For PG&E, this represents 1.25 million electric households. Finally, as previously stated, the class average annual energy bill for CARE customers in 2014 will remain unchanged under PG&E's proposal, due to the impact of the CCC, which will also lower bills for nearly half of all CARE customers.

Q 17 Does this conclude your rebuttal testimony?

A 17 Yes, it does.