

**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

R.12-06-013
(Filed: June 21, 2012)

U 39 E

**OPENING BRIEF OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E),
THE OFFICE OF RATEPAYER ADVOCATES, AND THE
UTILITY REFORM NETWORK IN SUPPORT OF
MOTION TO ADOPT SETTLEMENT**

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Summary of Recommendations

1. Approve the March 5, 2014 Settlement between PG&E, ORA and TURN in Phase 2 of this proceeding as a modest step forward in compliance with Assembly Bill (AB) 327, that is reasonable in light of the record as a whole, consistent with the law, and in the public interest.
2. Defer the issue of whether, and if so how, to include the California Climate Credit in the calculation of AB327's effective percentage for CARE discounts, and find that it does not need to be decided in Phase 2, as it does not affect in any way the Settlement proposed by ORA, PG&E and TURN.
3. Take any and all other necessary actions to ensure that a final decision adopting the Phase 2 Settlement is voted on at the CPUC's June 12, 2014 decision conference.

**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

R.12-06-013
(Filed: June 21, 2012)

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**OPENING BRIEF OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E),
THE OFFICE OF RATEPAYER ADVOCATES, AND THE
UTILITY REFORM NETWORK IN SUPPORT OF
MOTION TO ADOPT PHASE 2 SETTLEMENT**

I. INTRODUCTION AND EXECUTIVE SUMMARY

Pursuant to Rule 12.1 of the Commission's Rules of Practice and Procedure and the Administrative Law Judge's (ALJ) Ruling dated February 25, 2014, Pacific Gas and Electric Company (PG&E), the Office of Ratepayer Advocates (ORA), and The Utility Reform Network (TURN) (jointly, Settling Parties) hereby file this Opening Brief in Support of their March 5, 2014 Joint Motion to Adopt the Settlement (Joint Motion) in Phase 2 of this proceeding.^{1/} As discussed in more detail below, the summer 2014 rate reform proposals in the Settlement are reasonable, lawful and in the public interest. The Settlement is a compromise that resulted from earnest, good faith negotiations during which the Settling Parties considered the interests of all of the active parties on the full range of disputed issues. The Settlement addresses each of these interests in a fair and balanced manner, and should be promptly approved.

The Settlement fully complies with Assembly Bill (AB) 327 and the guidance provided by the Commission's January 24, 2014, Second Amended Scoping Memo (Scoping Memo) in this proceeding. In accordance with the Scoping Memo, the Settlement maintains the existing four-tiered residential rate structure and does not make major adjustments to the California Alternative Rates for Energy (CARE), Family Electric Rate Assistance Program (FERA) or

^{1/} Counsel for ORA and TURN have authorized PG&E to file this Opening Brief on their behalf as regards Sections I – VII and IX. As regards section VIII on the California Climate Credit, TURN and ORA do not join, and may file separate briefs.

Medical Baseline programs.²

The Settlement takes a step forward in response to AB 327 by beginning to narrow reasonably the differential between the highest and lowest tier rates for non-CARE customers. Between 2001 and 2009, legislative restrictions on adjusting CARE rates and lower-tier non-CARE rates ended up allocating virtually all residential class revenue increases to upper-tier non-CARE rates. During this period, PG&E's non-CARE upper tier rates increased significantly. After the enactment of Senate Bill (SB) 695 (Kehoe), PG&E's Tier 4 and 5 rates declined from their 2009-2010 peaks, while Tier 3 rates continued to rise.

However, despite the CPUC's efforts to date, the ratio of the highest to the lowest non-CARE rates is 2.75:1 (compared to 2.14:1 in 2001 and 1.15:1 before the Energy Crisis). And PG&E's effective CARE discount is now about 48 percent (compared to 15 percent before the Energy Crisis).³ This is simply unsustainable.

Therefore, both the CPUC and Legislature have recognized the need to consider changes to today's rate structure, with the Legislature passing AB 327 last fall, even as the CPUC conducted the rulemaking portion of this OIR, which envisions a multi-year path for residential rate reform. This Settlement is a reasonable and necessary step forward in beginning to mitigate the very high summer bills of hundreds of thousands of upper-tier consuming PG&E customers, while also moderating effects on lower tier customers.

The Settlement provides modest yet appreciable benefits to upper tier consuming households who have been burdened for over a decade by high electric bills. The process of providing such relief by bringing upper-tier non-CARE rates closer to the class average cost of service necessarily requires raising Tier 1 and 2 rates. Accordingly, the Settlement takes great care to limit summer 2014 increases in the lower tiers to modest levels that are commensurate with projected increases in the PG&E's overall revenue requirement allocated to the residential class plus no more than a few percentage points. Yet it does so in a manner that still keeps the

² Second Amended Scoping Memo, R.12-06-013 (Phase 2), January 24, 2014, pp. 2-3; Exh. PG&E-1, Joint Motion, pp. 8-9.

³ Exh. PG&E-4, pp. 1-6 to 1-7 and Exh. PG&E-8 (assuming 50 percent revenue requirement increase scenario).

upper tiers within a range that will avoid the potential for significant bill volatility and rate shock in the summer.⁴

Finally, because PG&E's effective CARE discount is far greater than 35 percent, the Settlement makes a modest adjustment to CARE rates to bring the effective CARE discount down by about 3 percent,⁵ putting CARE rates on a glide path to reach the 30 to 35 percent discount level required by AB 327.⁶ At the same time, the Settlement provides restrictions on the CARE rate changes to avoid rate shock for CARE customers.⁷

Taken as a whole, the Settlement makes modest and careful progress in response to AB 327, is in alignment with the ratemaking principles already established in this proceeding, and should be promptly adopted for implementation in summer 2014.

II. PROCEDURAL HISTORY

The Settlement is a direct result of encouragement by the ALJ and the Office of the Assigned Commissioner to the active parties to seek a reasonable compromise and settlement in order to expedite a Commission decision on PG&E's proposals before the summer of 2014.⁸ The Settling Parties held differing views on numerous aspects of PG&E's Summer 2014 Residential Electric Rate Reform Proposals in Phase 2 of this proceeding.

On November 22, 2013, PG&E submitted its original rate change proposal in R.12-06-013. On December 23, 2013, ORA filed a protest against PG&E's rate change proposal. ORA's protest identified several issues that needed to be addressed in this proceeding including: bill impacts, rate structure, CARE discounts, and the treatment of revenue requirement increases until the next rate design proceeding. On December 23, 2013, TURN filed a protest against PG&E's rate change proposal. TURN's protest expressed concerns with proposed increases to Tier 1 rates, proposed changes to the Family Electric Rate Assistance (FERA) program, the

⁴ Exh. PG&E-1, Joint Motion, Table 1, p. 9.

⁵ The ultimate figure will depend on the revenue requirements the CPUC adopts. Exh PG&E-8 shows that the Settlement's CARE discount under the 100 percent revenue requirement scenario would drop from 48.4 percent to 46.5 percent (1.9 percentage points), whereas under the 50 percent revenue requirement scenario it would drop from 48.4 percent to 44.9 percent (3.5 percentage points).

⁶ Exh. PG&E-08.

⁷ Exh. PG&E-1, Joint Motion, p. 3.

⁸ Exh. PG&E-1, Joint Motion, p. 1.

proposed reduction of baseline quantities to 50 percent of average usage, and suggested changes to the CARE discount.⁹

The January 24, 2014 Amended Scoping Memo provided that the simplified rate change proposals to be submitted by PG&E and the other utilities should:

[M]aintain the existing four-tiered structure and should not entail any major adjustments to California Alternative Rates for Energy (CARE), Family Electric Rate Assistance Program (FERA) or medical baseline programs. Instead, changes should be limited to increases in the lower tiers commensurate with 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. If the resulting CARE effective discount would be greater than 35%, the utility should propose an adjustment that would put CARE rates on a glide path to 35%. The adjustment should avoid rate shock for CARE customers. (January 24, 2014 Scoping Memo, pp. 2-3).

On January 28, 2014, PG&E served its Revised Prepared Testimony in conformance with these new guidelines.¹⁰ Informal settlement discussions began after PG&E filed its original proposal on November 22, 2013, and continued after the service of PG&E's January 28, 2014 revised proposal. Having reached a settlement in principle, on February 26, 2014, PG&E served notice on all parties under Rule 12 of the Commission's Rules of Practice and Procedure, and a Settlement Conference was held the morning of March 5, 2014 to present the agreement in principle that became this Settlement. Later that day, PG&E, ORA and TURN finalized and jointly filed a Motion for Adoption of Settlement. On March 12, 2014, PG&E served rebuttal testimony that provided further support for the Settlement. On the March 14, 2014 deadline set by the ALJ, the only party to file comments was the Coalition of California Utility Employees (CCUE), which supports the Settlement.

In advance of the March 25, 2014 evidentiary hearings, all parties waived cross-examination. (Hearing Transcript (TR.) p. 4, lines 2 – 3.) At the hearing, the ALJ received into evidence PG&E's exhibits supporting the Settlement as well as other parties' testimony on PG&E's January 28, 2014 proposal. No party filed comments or served testimony opposing the Settlement.¹¹ The Settling Parties presented a panel of witnesses that responded to questions

⁹ TURN Protest to PG&E's Summer 2014 Rate Reform Proposal, December 23, 2013, pp. 3-4; Exh. PG&E-1, Joint Motion, pp. 3- 4.

¹⁰ Exh. PG&E-1, Joint Motion, p. 5.

¹¹ The only party whose testimony opposed PG&E's January 28, 2014 revised proposal was the

from the ALJ as well as a couple clarifying questions from counsel for CforAT. In response to requests made by the ALJs during hearings, on April 1, 2014, PG&E served, for inclusion in the record, three late-filed exhibits to provide additional data for the record on Settlement rates and bill impacts (Exh. PG&E-7), CARE discount comparison tables (Exh. PG&E-8), and bill-to-income ratios (Exh. PG&E-9).¹²

III. THE SETTLEMENT IS REASONABLE

The Second Amended Scoping Memo and Ruling directed the three investor-owned utilities (IOUs) to refile their rate proposals and allowed limited rate changes. Accordingly, PG&E's revised rates filed on January 28, 2014 had more moderated bill impacts when compared to PG&E's November 22, 2013 filing. PG&E's January 2014 proposal served as a four-tier starting point that ultimately allowed ORA and TURN to reach this Settlement with PG&E.

The Settlement should be adopted as a reasonable step forward in implementing AB 327 in a manner that fairly balances all parties' interests and results in modest bill impacts during the period starting in summer 2014 and continuing through a Commission decision on the IOUs' Phase 1 rate design proposals, expected by the end of 2014. As the Settling Parties (ORA, TURN and PG&E) noted during hearings, there are three major features of the balanced compromise to which the Settling Parties have agreed, all of which work together for an overall result that is reasonable under the record as a whole.

For example, PG&E's witness Dr. Keane stated that PG&E "was pleased to have been able to work with ORA and TURN to reach what we think is a balanced settlement. It's a first step towards implementing the legislative intent in AB 327 to start to bring down the upper tier and non-tier rates, while modestly increasing the lower tier rates and the CARE rates."

(Panel/Keane, TR. p. 13, lines 10- 16.) TURN's witness Mr. Marcus added that, given that the AB 327 "is moving toward increasing the...Tier 1 and Tier 2 rates over time, we believe this [Settlement] was an appropriate and moderate change given the statutory requirement."

Center for Accessible Technology (CforAT). However, CforAT neither filed comments nor served testimony opposing the Settlement.

¹² The Settling Parties request that these three late-filed exhibits be received into evidence.

(Panel/Marcus, TR. p. 47, lines 2 – 7.) ORA’s witness, Ms. Tan, pointed out that the Settlement takes reasonable steps to protect vulnerable customers while also setting parameters that recognize and mitigate impacts of revenue uncertainty. (Panel/Tan, TR. p. 48, line 15 to p. 49, line 2.) Both ORA’s and TURN’s witnesses testified that it is reasonable for the Settlement to set a formula that can be used until the CPUC completes its review of the next step in residential rate reform in Phase 1. (Panel/Marcus, TR. p. 47, lines 13 – 20; Panel/Tan, TR. p. 48, lines 19 – 21.)

The reasonableness of each of the three major elements of the Settlement is discussed in detail below.

A. The Settling Parties’ 52.5 Percent Baseline Compromise is Reasonable

The first element of the Settlement is a compromise on the issue of baseline quantities.

PG&E’s proposed rates had assumed adoption of PG&E’s 2012 Rate Design Window (2012 RDW) proposal^{13/} to reduce baseline quantities from 55 to 50 percent of historical average usage levels by climate zone.¹⁴ ORA and TURN opposed this proposal, and instead supported retaining the current baseline quantity of 55 percent. That dispute had been fully litigated and was awaiting a proposed decision. As PG&E’s witness, Dr. Keane, testified during the hearings: “[W]hen we started our settlement talks, it became apparent that the uncertainty about the baseline quantities made it hard to agree on a set of rates for the summer. So we negotiated. Basically, we agreed to split the difference and set the baseline quantities at halfway in between our two [prior] positions.” (Panel/Keane, TR. p. 15, lines 8 – 15.) Thus, as a compromise, the Settling Parties agreed that the baseline quantities used to design rates would be set at the mid-point between those two positions – at 52.5 percent unless and until the Commission revises PG&E’s baseline quantities in a future proceeding.¹⁵

¹³ Application (A.) 12-02-020, PG&E’s 2012 RDW proceeding.

¹⁴ With the exception of winter season baseline quantities for All-Electric customers, which under the Settlement principles should be reduced from 65 to 62.5 percent of historical average usage levels by climate zone, per PG&E’s 2012 RDW proposal. This Settlement result falls within the 60 to 70 percent range for All-Electric customers provided for in P.U. Code Section 739(a)(1).

¹⁵ See Settlement, Exh. PG&E-1, p. 6, Section IV.A., and Joint Motion to Adopt Settlement, p. 2, footnote 2, providing that PG&E’s 2012 RDW proceeding does not constitute such a future proceeding. Rather, if the settlement is approved, the Settling Parties agree to mutually request that the issue of baseline quantities be removed from consideration in the CPUC’s decision in PG&E’s 2012 RDW.

The effect of the Settlement's compromise 52.5 percent baseline, as compared with PG&E's proposed 50 percent baseline, is that more customers' usage stays in Tiers 1 and 2 and does not reach the higher tiers as soon. (Panel/Quadrini, TR. p. 35, lines 18 – 24.) Therefore, one beneficial effect of this compromise is to somewhat reduce the bill impacts of PG&E's proposed summer 2014 rate design changes on lower usage non-CARE residential customers in Tier 2 of PG&E's residential rate structure, and to maintain bill impacts on CARE customers roughly comparable to those in PG&E's January 28, 2014 proposals.¹⁶

B. The Settlement's Rules for Moderating Summer 2014 Rates are Reasonable

The second element of the Settlement is a compromise related to how summer 2014 residential rate levels are determined.

PG&E had proposed to modestly increase its Tier 1 and 2 rates while decreasing the Tier 3 and 4 rates, in order to take a first step toward narrowing the very large rate differentials that currently exist between Tier 1 and 2 rates on the one hand, and Tier 3 and 4 rates on the other. Although ORA and TURN supported the general direction of PG&E's proposal, they opposed the principle of allocating all of PG&E revenue requirement increases solely to Tier 1 and 2 rates upon initial implementation of the summer rates. As a compromise, the Settling Parties agreed to "exogenously set CARE rate[s] and lower tier non-CARE rates at levels which result in modest bill impacts for those customers. Then the Settlement allows the non-CARE upper tier [Tier 3 and 4] rates [to] essentially float to collect whatever the remaining revenue requirement is" because there is uncertainty about what the revenue requirement might really end up being for summer 2014. (Panel/Keane, TR. p. 13, line 25 to p. 14, line 7.) ORA, TURN and PG&E developed a set of rules that would govern what the rate levels would be under any possible revenue requirement result. (Id. p. 16, lines 1 – 4.) These were illustrated in Table 1 at page 9 of the Motion to Approve Settlement in Exhibit PG&E-1, showing what the rate levels under

(Panel/Keane, TR. p. 15, lines 16 – 20).

¹⁶ The bill comparisons cited in PG&E's opening testimony compared customer bills under current rates and the originally proposed rates, both at 50 percent baseline quantities. Bill comparisons at current rates and Settlement rates, both at 52.5 percent baseline quantities, show a shift of about 1 percent of customers from the \$0 to \$5 range into the \$5 to \$10 range, and about 2 percent of customers from the \$5 to \$10 range into the over \$10 range, compared to the bill impacts shown in PG&E's testimony.

these rules would be for various revenue requirement scenarios, which was updated in late-filed Exhibit PG&E-7. Key rate comparison highlights per the Settlement are shown below:

PG&E Settlement Rate Comparison Under Two Illustrative Revenue Scenarios

Usage Level	SB 695-Adjusted January 2014 Rates ¹⁷	Summer 2014 Settlement (Assuming 50% of RRQ Increases Approved) ^{18,19}	Summer 2014 Settlement (Assuming 100% of RRQ Increases Approved)
Non-CARE (Sched E-1)			
Tier 1	\$0.136	\$0.147	\$0.147
Tier 2	\$0.155	\$0.170	\$0.176
Tier 3	\$0.314	\$0.278	\$0.296
Tier 4	\$0.354	\$0.338	\$0.356
CARE (Schedule EL-1)			
Tier 1	\$0.086	\$0.092	\$0.092
Tier 2	\$0.099	\$0.106	\$0.106
Tier 3	\$0.140	\$0.151	\$0.151

The Settlement exogenously sets the CARE rates at the levels shown in Table 1 of Exh. PG&E-1 and in Exh. PG&E-7 (as summarized in the Table above), such that the CARE Tier 1 rate would be about 9.24 cents per kilowatt-hour (kWh), the CARE Tier 2 rate would be 10.63 cents/kWh and the CARE Tier 3 rates would be about 15.08 cents /kWh *regardless of what the ultimate revenue requirement turns out to be*, thus providing some certainty for CARE rates. Similarly, the non-CARE Tier 1 rate is set at about 14.71 cents/kWh and *will not change under different revenue requirement scenarios*, thus eliminating uncertainty there as well. As for the non-CARE Tier 2 rate, it is set at about 17.03 cents/kWh under most of the revenue requirement

¹⁷ January 2014 rates reflect Baseline quantities set at 55 percent of historical average usage.

¹⁸ All Summer 2014 Settlement rates reflect Baseline quantities set at 52.5 percent of historical average usage.

¹⁹ Exh. PG&E-7's Settlement rates for tiers that are not set exogenously (i.e., the unshaded rates above, that are allowed to "float" to collect the residual revenue requirement not covered because of caps to other tiers) differ very slightly from the illustrative rates shown in Exh. PG&E-1, Table 2, of the Motion to Adopt the Settlement, because the Table 2 rates were estimated with an approximate model. The rates shown here and in more detail in Exh. PG&E-7 are from PG&E's filing-quality, detailed rate design model.

scenarios, so long as the resulting Tier 4 rate is at 35 cents/kWh or less.

Under the Settlement, one simply solves for whatever levels the non-CARE Tier 3 and 4 rates have to be set at to collect the residual revenue requirement, so they may increase subject to two provisos. First, Tiers 3 and 4 must stay 6 cents apart. Second, if the Tier 4 rate were to exceed 35 cents/kWh, any revenue shortfall would be made up by increases in Tier 2, 3 and 4 rates on an equal cents per kWh basis.²⁰ (Panel/Keane, TR. p. 18, lines 2 – 18.) The latter guideline mitigates bill volatility and rate shock for Tier 4 customers. Another effect of this compromise is to further reduce the bill impacts of PG&E's rate design changes on low usage non-CARE customers in Tiers 1 and 2 compared to PG&E's January 28, 2014 proposals.²¹

C. The Agreed Rules for Rate Changes Between Summer 2014 and the CPUC's Decision in Phase 1 are Reasonable.

Third, the Settlement includes a reasonable compromise to determine how to change rates between summer 2014 and when the CPUC issues a decision in Phase 1 of this proceeding for rates effective in 2015.

PG&E had proposed to allocate each authorized post-summer 2014 revenue requirement increases during the Settlement period to all non-CARE and CARE rates in every tier on an equal-cents-per-kWh basis, while allocating any such revenue requirement decreases solely to non-CARE Tier 3 and 4 rates, in order to continue progress on reducing the tier differentials. ORA and TURN expressed concern regarding this asymmetry and that the timing of revenue requirement increases and decreases could result in volatility and unintended increases in Tier 1 and 2 rates.

As a compromise, the Settling Parties agreed that, for each rate change during the period after initial implementation of these summer rates and until a decision is reached in Phase 1 of this RROIR proceeding, both increases and decreases will be shared across all non-CARE and CARE rate tiers on an equal-cents-per-kWh basis, so that, in general, every rate – CARE and non-CARE – would go up by the same amount. However, the Settlement adds a further

²⁰ The tiered rate starting points for the equal cents increase are: for Tier 4, 35 cents/kWh; for Tier 3 29 cents/kWh and for Tier 2, its current rate at the time.

²¹ Exh. PG&E-1, Joint Motion, pp. 6- 7; *see also*, Exh. PG&E-3: Rate Comparison of PG&E Proposed vs. Settlement Rates, and late-filed Exh. PG&E-7: Rate and Bill Comparison Tables.

protection: should a future rate change cause an increase of more than 1.5 cents per kWh, increases to CARE and non-CARE Tier 1 rates, as well as to the CARE Tier 2 rate would be capped at 1.5 cents/kWh, with the revenue shortfall resulting from these caps to be collected on an equal-cents-per-kWh basis from sales in non-CARE Tiers 2, 3, and 4 and in CARE Tier 3. PG&E would also seek to consolidate authorized revenue requirement increases and decreases during the Settlement period, to the extent feasible and consistent with timely ratemaking.

Dr. Keane explained during hearings that this agreement is reasonable because it is “pretty likely that there may be one or two, or who knows how many, rate changes in between then, and it...depends on when the Commission reaches a decision in Phase 1. So we [the Settling Parties] have developed a set of rules for settling those rates too, which is essentially equal-cents-per-kilowatt changes, subject to caps on certain of the rates.” (Panel/Keane, p. 14, lines 13 – 21.) This compromise provides additional protections to CARE customers with usage in Tiers 1 and 2, as well as to non-CARE customers with usage in Tier 1, to guard them from unintended rate volatility due to timing of revenue requirement changes on PG&E’s system.²²

IV. THE SETTLEMENT IS LAWFUL

The Settlement fully complies with AB 327. It also, as discussed in Section VI below, implements improvements in rate design consistent with a number of the ten rate design principles previously set forth in this Rulemaking 12-06-013. (Panel/Keane, TR. p. 31, lines 5 – 18.) In particular, the Settlement provides for gradual, modest changes in the residential electric rate design structure that move electric rates slightly closer to cost starting in summer 2014, thus slightly reducing the subsidies that upper tier non-CARE customers are currently paying to cover the shortfall from lower tier customers’ below-cost rates. The Settlement sets Tier 2 and 3 rates a little bit closer together now, so that if the CPUC chooses to collapse Tiers 2 and 3 as part of its Phase 1 decision, it will not be as great a bill impact for customers consuming in those ranges.

²² Exh. PG&E-1, Joint Motion, p. 7. In the event the revenue requirement should decrease, the Settlement provides for equal cents/kWh decreases to all rate tiers – both CARE and non-CARE – in order to collect the lower revenue. Thus, although PG&E’s initial proposal had called for any revenue decreases to be used exclusively to reduce non-CARE Tier 3 and 4 rates, the Settlement would reduce rates for all tiers, and thus all customers would equally enjoy any such benefits.

At the same time, the Settlement preserves significant assistance to low-income customers during the required transition of the CARE rate discount to the legislatively mandated range of 30 to 35 percent. Further, the agreed baseline quantities, at 52.5 percent of total average usage by climate zone, is within the 50 – 60 percent legislative range established in P.U. Code section 739(a)(1).

V. THE SETTLEMENT IS IN THE PUBLIC INTEREST

As described above, the Settlement complies with all of the parameters set by the CPUC in its Second Amended Scoping Memo in this proceeding, and begins to implement AB 327 in a way that limits the necessary rate increases to lower tier non-CARE and CARE customers to modest levels, while also keeping the upper tier rates within a range that avoids significant bill volatility and rate shock. The effect is to reduce the gap between PG&E's highest and lowest residential rate tiers, which today are very far apart, and begin the process of narrowing that gap so that all rates move closer to the residential average cost of service. Similarly, while taking steps to comply with AB 327 for summer 2014, the Settlement still results in significant effective discounts for CARE customers (about 45 percent for summer 2014²³), FERA customers (40 percent on Tier 3 usage),²⁴ and Medical Baseline customers will see greater benefits, as the current 4-cent discount on Tier 4 usage will increase to a 6-cent discount.²⁵

PG&E's testimony and exhibits in support of the Settlement,²⁶ including an updated

²³ This figure is from the 50 percent revenue requirement increase scenario. *See* footnote 6 above.

²⁴ The Settlement does not change the structure of the FERA program, under which eligible families pay the Tier 2 rate for their usage in Tier 3. Because the settlement results in a reduction of the differential between Tiers 2 and 3, from the current gap of about 16 cents to about 11 cents, the effective discount for FERA customers' usage in Tier 3 will go down from about a 50 percent effective discount today to about a 40 percent discount. (Panel/Tan, TR. p. 52, line 27 to p. 53, line 7; Panel/Keane, TR. p. 50, line 4 – 21.) However, as PG&E witness Keane noted, when the FERA program originated in 2004, the difference between Tiers 2 and 3 was only 5 cents, and that is what the CPUC adopted as the discount, whereas the Settlement's discount is still more than double that amount. (Id. TR. p. 50, line 22 to p. 51, line 7.)

²⁵ Panel/Keane, TR. p. 51, line 8 to p. 52 line 4.

²⁶ *See, e.g.*, PG&E's testimony in Exh. PG&E-4, which in Appendices C-1, C-2 and C-3 showed various bill comparisons, including what customers' bills would look like for summer 2014 if there were no rate reform compared to PG&E's proposed rates. PG&E provided the same type of bill comparison analysis based on its January 28, 2014 proposal in a format requested by the Energy Division in Exhibit PG&E-5.

analysis of bill-to-income impacts of the Settlement requested by the ALJs at the hearings,²⁷ demonstrate that the bill impacts are modest and that potential PG&E revenue requirement increases during the period the Settlement is in effect will not have a significant adverse impact on low-income CARE customers or low usage non-CARE customers.

For CARE customers, the Settlement calls for modest cents per kWh increases to each CARE tiered rate, (the CARE Tier 1 increase over current rates is 0.7 cents/kWh, the CARE Tier 2 increase is 0.8 cents/kWh, and the CARE Tier 3 increase is 1.1 cents/kWh). As PG&E witness, Mr. Quadrini, noted: “81 percent of all CARE customers would experience rate increases of less than \$5 per month, and over half of those would actually see increases under \$2.50 per month. And although the original analysis showed 3 percent of current CARE customers – the highest users – seeing bill increases greater than \$10 per month, PG&E’s compliance with D.12-08-044 (which is expected to largely be completed by fall 2014) is showing that 85 to 90 percent of these high use customers (400 percent of baseline and above) are actually ineligible for the CARE program anyway.” (Panel/Quadrini, TR. p. 33, line 2 to p. 34, line 21.)

Under the Settlement, CARE customers are paying about the same average rate compared to PG&E’s original proposal, so the bill comparisons shown in late-filed Exhibit PG&E-7 (Settlement bill comparisons) are virtually the same as discussed in PG&E’s testimony.²⁸

In response to Commission direction to provide rate burden analysis, the Settling Parties note that PG&E’s bill-to-income ratio calculations for CARE customers under the Settlement proposed for summer 2014 showed a median bill-to-income ratio below 2.5 percent, with 90 percent of CARE customers spending less than 6.7 percent of their 2009 income on electricity. (Exh. PG&E-6, p. 6, lines 26 - 33) And this goes down to about 5.9 percent of income when adjusted for the 85 to 90 percent ineligibility for high use CARE customers that is being found through compliance with D.12-08-044. (Id. at p. 7, lines 1 – 13 and Panel/Quadrini, TR. p. 36,

²⁷ Exh. PG&E-9, served on April 2, 2014.

²⁸ As shown in PG&E-6, the actual dollar impacts on bills under the Settlement, compared with 2013 rates are quite modest. Nearly half of all CARE customers (47%) would see bill decreases after including the effect of the California Climate Credit. See Exh. PG&E-6, p. 9.

lines 1 - 25.) Settling Parties caution that, from a policy perspective, bill impacts to customers are a more important metric than energy rate burden analysis when considering rate changes.²⁹ For non-CARE customers, the average bill-to-income ratio was just 2.1 percent over the entire population. Moreover, as the first table in Exh. PG&E-9 shows, only five usage categories (representing less than 4 percent of all customers, generally those using large amounts of electricity) show average bill to income ratios in excess of 5 percent.

PG&E believes that these bill-to-income ratios are very reasonable, especially since the incomes used in this analysis do not reflect either the improvement in the economy since 2009, or the upcoming July 2014 increase in the minimum wage from \$8.00 per hour to \$9.00 per hour, both of which would further lower bill-to-income ratios. (Exh. PG&E-6, p. 6, line 33 to p. 7, line 29.) Furthermore the Evergreen Economic Low Income Needs Assessment Report, December 16, 2013, found that the overall energy burden for California's low-income customers was essentially unchanged at 4.1 percent in 2013 compared to 4.2 percent in 2003, and the customer energy burden for PG&E's low-income customers was 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).³⁰

VI. THE SETTLEMENT ALIGNS WITH THE CPUC'S OIR PRINCIPLES

To guide the development of an optimal residential rate design structure in this proceeding, the Assigned Commissioner set forth ten guiding principles (Principles), after receiving extensive comments.³¹ The following is a brief summary of how the Settlement aligns with these rate design objectives (grouped by like topics for convenience of the reader):

²⁹ TURN and ORA did not rely on PG&E's bill-to-income ratio calculations and are not endorsing this approach in signing onto the Settlement and this brief. As ORA witness testified on the stand "I just want to point out that even though energy burden may be -- can be used as one of the supporting factors, but ORA want to caution use of that factor. If we were litigating, we may not push it this way, especially because energy is essential service. If you don't have, no matter how much money you need to pay, if you don't have it, it sometimes is a life-and-death issue." (ORA/Tan, TR. p. 37, lines 12-21.)

³⁰ The effective customer energy burden for PG&E's low-income customers is lower than the 9.9 percent figure, however, because the calculations by both Evergreen Economics and LIHEAP did not specifically take into account any of the other income assistance already received by these low-income customers, such as the Earned Income Tax Credit, SNAP, Section 8 housing subsidies, school lunch programs, etc. (Exh. PG&E-6 p. 5, lines 7 – 18.)

³¹ See Administrative Law Judge Ruling Requesting Residential Rate Design Proposals, March 19,

A. Principles 2, 3, 8, 9 & 10 -- Rates Should: be Based on Cost-Causation Principles; Encourage Economically Efficient Decision Making; Include Incentives that are Explicit and Transparent; and Generally Avoid Cross-Subsidies Unless they Appropriately Support Explicit State Policy Goals.

Although rate design must balance a number of different objectives that can sometimes come into conflict with one another, it is not surprising that half of the Principles relate to the foundational objective of basing rates as much as possible on cost-causation. The Settlement takes a modest but appreciable step forward in transitioning residential rates to be more “just and reasonable” (per Public Utilities (P.U.) Code Section 451), which has traditionally meant ensuring rates are based on the *cost of service*.³² Cost-based rates send more accurate price signals that encourage customers to make economically efficient decisions. Moving today’s steeply tiered rates closer to cost of service is also equitable, in contrast to the current state of residential rates in which upper-tier non-CARE rates have, for years, had to bear a larger share of residential cost of service due to post-energy crisis restrictions on changes to rates for Tiers 1 and 2. Approving the Settlement will move PG&E’s residential rates closer to cost of service than what would have otherwise happened for summer 2014 if the CPUC took no action. The Settlement’s modest tier flattening and initial reduction in the CARE discount both reduce cross-subsidies. The latter not only puts PG&E on a glide path toward eventually reaching AB 327’s prescribed 30 to 35 percent range for the effective CARE discount, and moves these rates somewhat closer to cost of service, but the Settlement also does so in a way that still maintains a substantial discount for these lower income customers.

B. Principle 1 -- Low-Income and Medical Baseline Customers Should Have Access to Enough Electricity to Ensure Basic Needs are Met at an Affordable Cost.

There is no change to the structure of the medical baseline program under the Settlement, so these customers will continue to receive additional baseline allowances. In addition, if such customers’ usage reaches Tier 4 they are only charged the Tier 3 rate for that usage. As PG&E’s Dr. Keane pointed out during hearings, although the Settlement will change the difference in

2013, Appendix A.

³² See Bonbright, Danielson, and Kanerschen, Principles of Public Utility Rates, specifically, Chapter 5, entitled “Cost of Service as a Basic Standard of Reasonableness.”

PG&E's Tier 3 and 4 rates, that change (from the current 4 cent/kWh differential to the new 6 cent/kWh differential) results in an increased discount for these customers. (Panel/Keane, TR. p. 51, line 8 to p. 52, line 4.) In addition, low income customers who qualify for CARE will receive a CARE discount of about 45 percent under the Settlement, which is far greater than the 15 percent CARE discount that was in place prior to the Energy Crisis. And this begins a gradual realignment of that discount to, over the next several years, reach AB 327's required range of between 30 and 35 percent.

C. Principle 4 -- Rates should Encourage Conservation and Energy Efficiency.

The Settlement's modest movement toward tier rate normalization includes a slight increase to lower tier rates, and, depending on the ultimately adopted revenue requirements, either a slight reduction in upper tier non-CARE rates or at least less of an increase than would otherwise have happened. The Settling Parties believe that the proposed structure retains an appropriate price signal that will encourage large numbers of customers with usage across the tiers to conserve. Even as the Settlement makes modest increases in lower tier rates for all customers, PG&E's Tier 3 and 4 non-CARE rates remain very high, and thus will continue to send a conservation signal as well.

D. Principle 5 -- Rates should Encourage Reduction of both Coincident and Non-Coincident Peak Demand.

The Settlement does not make any changes that will affect this issue.

E. Principles 6 and 10 -- Rates should be Stable and Understandable and Provide Customer Choice, and Transitions to New Rate Structures should Emphasize Customer Education and Outreach to Enhance Customer Understanding and Acceptance of New Rates, and Minimize and Appropriately Consider the Bill Impacts associated with such Transitions.

While a primary driver of rate design should be to move toward more appropriate, economically efficient and cost-based price signals, rates should be as simple and understandable as possible, to better empower customers to take actions to control their energy expenses and usage, while retaining appropriate price signals and offering meaningful choices to customers. Cost-based rate changes should be tempered with a concern for mitigating sudden and unduly large bill increases. This means that the full extent of "cost-based rates" cannot be implemented

in one step, but must be gradually implemented over a reasonable period. The Scoping Memo took structural changes in residential rates off the table for Phase 2 (leaving them to be addressed in Phase 1). Although the Settlement had to leave in place the current 4-tiered structure, its modest step toward fixing the current inequitable rate imbalances is carefully balanced with caps that mitigate bill impacts, thus resulting in bill impacts that are quite modest.

VII. NO PARTY HAS FILED COMMENTS OR SERVED TESTIMONY OPPOSING THE SETTLEMENT

No party filed comments opposing the Settlement, and prior to hearings all parties waived cross-examination. Nor did any party at the hearings announce that it would oppose the Settlement.³³ Accordingly, PG&E, ORA and TURN consider the Settlement to be effectively uncontested.

Despite the tight timeframes under the expedited schedule in this proceeding, the two major parties which represent the full range of residential customers – ORA and TURN – were able to reach a fair and balanced Settlement with PG&E. The Settlement also has received support from CCUE. Rule 12.1 makes it clear that “Settlements need not be joined by all parties.” Indeed, in D.10-12-035, the CPUC stated that, for many years, it has been willing to consider, and when appropriate approve, a settlement not supported by all parties under the following criteria:

[W]e consider whether the Settlement taken as a whole is in the public interest. In doing so, we consider the individual elements of the settlement in order to determine whether the settlement generally balances the various interests at stake as well as to assure that each element is consistent with our policy objectives and the law. (D.10-12-035, mimeo, p. 27.)

As described further above, the Settlement meets all of these criteria, as well as the usual requirements of Rule 12.1(d), and should be approved.

VIII. CALCULATION AND CONSIDERATION OF CALIFORNIA CLIMATE CREDIT UNDER THE SETTLEMENT

The Administrative Law Judges asked parties to brief an additional issue in Phase 2:

³³ Although Parties may still indicate opposition to the Settlement in their briefs, any such late-filed opposition should be given little credence or deference, given that no party previously filed comments in opposition to the Settlement.

“Should the California Climate Credit be included in the calculation of the effective discount percentage for CARE rates when determining if the effective discount is within the statutory range of 30 - 35 percent? Please cite legal authority supporting your position.”

PG&E believes this legal issue does not need to be decided in this Phase 2 proceeding, as it does not affect in any way the Phase 2 Settlement proposed by the Settling Parties.³⁴ PG&E’s primary proposal is to request that this issue be deferred for decision at some point during Phase 1 of this proceeding, but in no event should it delay the CPUC’s decision on the Settlement. However, in response to the ALJs’ question, PG&E provides as follows:

AB 327 expressly requires that the average effective CARE discount “shall be not 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.” (P. U. Code Section 739.1(c)(1)(emphasis added).) In simple arithmetic terms, this means that the revenues “produced” from CARE customers for their billed usage need to be compared against the revenues “produced” from non-CARE customers. “Revenues...produced” from customers’ bills are just that: the actual dollars collected (“produced”) from customers on each monthly bill after taking into account all charges and credits on the bill.

The California Climate Credit (CCC) is an example of a credit that offsets the charges on customers’ bills and results in a reduced net amount of revenue collected (“produced”) by the customer. In this regard, the CCC is no different from any other credit or other adjustment that reduces the revenue requirement included in customers’ bills, such as a credit for a previous overcollection that results in a credit against the overall utility revenue requirement or an overpayment by the individual customer that results in a specific credit on the customer’s bill.

More importantly, the CCC itself is, by definition, a portion of the overall AB 32 allowance revenues received by PG&E and other investor-owned utilities that the Commission in D.12-12-033 and pursuant to Public Utilities Code Section 748.5 determined should be used to

³⁴ Regardless of whether the California Climate Credit is included or not included in the calculation of the effective CARE discount, PG&E’s effective CARE discounts will remain significantly above the 35 percent maximum during the period of the Settlement.

offset (“neutralize”) the rate impacts of AB 32 costs and thus reduce the revenues “produced” by both CARE and non-CARE customers through a “semi-annual, on-bill credit” to residential customers. (D.12-12-033, December 20, 2012, pp. 2-3.) That the CCC appears on customers’ bills as a lump-sum only twice a year does not change the fact that it is a “credit” that reduces the “revenues produced” by CARE and non-CARE customers. Nor is the fact that the CCC stems from a California environmental regulatory program make it any different from any other “credit” or “offset” to the revenues collected by PG&E from customers.

In addition, the methodology for reflecting the CCC in the calculation of the effective CARE discount is the same as would be used for any credit or charge in customers’ bills, such as the monthly service fee/fixed charge authorized by AB 327. The following is the arithmetic step-by-step process for calculating the effective CARE discount that would apply equally to the CCC or a countervailing charge in customers’ bills such as the monthly service fee/fixed charge:

The effective CARE discount percentage is calculated based upon the billing determinants of the CARE customers (i.e., the number of CARE customer-months and annual CARE sales by tier), CARE rates and non-CARE rates. It is calculated in steps as follows:

1. Calculate the annual revenues that would be provided by CARE customers assuming they paid **non-CARE** rates.
 - a. Today, this calculation involves multiplying forecasted CARE sales in each tier by the corresponding **non-CARE** rate for the tier, then summing the results.
 - b. If the non-CARE rates include a monthly service fee (as SCE currently has, and PG&E has proposed to have in 2015), then this revenue, which is calculated by multiplying total CARE customer-months by the **non-CARE** monthly service fee, must be included as well.
 - c. Once the CCC is implemented in May 2014, then this negative revenue, which is calculated by multiplying total CARE customer-months by the **non-CARE** CCC (expressed in dollars per customer-month), must be included as well.
 - d. Summing the positive revenues from 1.a and 1.b, and the negative revenues from 1.c, yields the total annual revenue that would have been provided by CARE customers if they had been billed at **non-CARE** rates.
2. Calculate the annual revenues that actually are provided by CARE customers (i.e., based upon the **CARE** rates they actually pay).
 - a. Today, this calculation involves multiplying forecasted CARE sales in each tier by the corresponding **CARE** rate for the tier, then summing the results. Note that 2.a will be lower than 1.a, since CARE rates by tier are lower than non-CARE rates.
 - b. If the CARE rates include a monthly service fee (as SCE currently has, and PG&E has proposed to have in 2015), then this revenue, which is calculated

by multiplying total CARE customer-months by the **CARE** monthly service fee, must be included as well. Note that 2.b will be lower than 1.b, since the CARE monthly service fee is (or will be, if approved for PG&E) lower than the non-CARE monthly service fee.

- c. Once the CCC is implemented in May 2014, then this negative revenue, which is calculated by multiplying total CARE customer-months by the **CARE** CCC (expressed in dollars per customer-month), must be included as well. Note that 2.c will be equal to 1.c, since the CARE and non-CARE CCCs are identical.
 - d. Summing the positive revenues from 2.a and 2.b, and the negative revenues from 2.c, yields the total annual revenue that actually is provided by CARE customers billed at **CARE** rates.
3. Calculate the CARE discount by subtracting 2.d from 1.d, yielding the difference between what CARE customers would have paid on non-CARE rates and what they actually paid on CARE rates.
 4. Calculate the CARE discount percentage by dividing 3 by 1.d. This expresses the CARE discount as a percentage of what CARE customers would have paid if they were on non-CARE rates.

The CCC must be included in the calculation in Steps 1.c and 2.c for the same reason as revenues from a monthly service fee calculated in Steps 1.b and 2.b, must be included; otherwise, the revenue totals will not accurately reflect the difference between what would have been collected from CARE customers on non-CARE rates and the amounts actually collected on CARE rates, and the CARE discount and discount percentages will not be correct.

For these reasons, the Commission must include the amount of the CCC in the calculation of the effective discount percentage for CARE rates when determining if the effective discount is within the statutory range of 30 - 35 percent, in the same way other credits and charges would be included in the calculation. Separate from the calculation itself, it also is essential for the evaluation of bill impacts to include the CC because it is actual money in the pockets of residential customers and therefore certainly has a positive effect on “affordability.”

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IX. CONCLUSION

For the reasons discussed above, the Settling Parties respectfully request that the Commission promptly approve the Settlement (as contained in Exhibits PG&E-1 and PG&E-2) as being reasonable in light of the whole record, consistent with law, and in the public interest.

Respectfully Submitted,

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