



# Overview of Rate Design

---

- **2001 Energy Crisis Impact on Rate Design**
- **Provisions of Assembly Bill 327**
- **Summer 2014 Revenue Drivers and Impact by Utility**
- **Rate Design Goals for 2014 and Beyond**
  - \* **Near-Term:** Bring Tier 2 & 3 rates closer together and reduce CARE discount for PG&E
  - \* **Mid-Term:** Merge Tiers 2 & 3
  - \* **Longer-Term:** Default Two-Tier TOU Rate



# Energy Crisis Impact on Rates

---

- **2001 - Assembly Bill 1X:** Froze Tiers 1 & 2 Rates, creating the need to establish five tiers to recover future revenue requirement increases.
- **2009 - Senate Bill 695:** Allowed modest increases to Tiers 1 & 2, making it possible to reduce the number of tiers from five to four in 2010 – 2012.
  - \* To keep Tier 4 from getting too high, the Tier 3 rate was allowed to increase to collect more revenues.
  - \* This has resulted in a large difference between Tier 2 and Tier 3 rates.
- **2013 - Assembly Bill 327:** Provides greater flexibility in setting residential rates to address previous framework that set limitations on tiers 1 and 2 causing rates for tiers 3 and 4 to more than double those for tiers 1 and 2.



# Provisions of Assembly Bill 327

---

- ❑ Repeals limitations on Tiers 1 and 2 rate increases established by Assembly Bill 1X and Senate Bill 695.
- ❑ Requires at least two rate tiers to accommodate baseline.
- ❑ Allows a monthly fixed charge, starting in 2015: up to \$10 for non-CARE customers and \$5 for CARE customers.
- ❑ Allows default Time of Use (TOU) rates in 2018.
- ❑ Establishes the CARE discount at 30% - 35%.
- ❑ Requires the development of new NEM rates that would be applied to new customers starting in 2017 that balances the costs and benefits of NEM.



# Near-Term Goals: Summer 2014

---

## □ Tier Differentials

- \* Reduce rate differences between highest and lowest tiers.
- \* Bring Tier 2 and Tier 3 rates closer together.
- \* Revenue Requirement increases will impact how much tier differences can be reduced this summer.
  - SDG&E is projecting the smallest increases; SCE the largest.

## □ CARE

- \* CARE discounts close to statutory limits for SCE and SDG&E, and 2014 rate changes may put them outside the limits.
- \* PG&E's CARE discount is ~49% and needs to slowly be reduced.

## □ Avoid Large Bill Impacts for Both Large and Small Customers

- \* Percentage increase for small customers is likely to be larger because increases on Tiers 1 and 2 have been constrained for over a decade.



# Residential Rate Design Settlement

---

- ORA entered into settlements with PG&E, SCE, and SDG&E for 2014 residential rates.
- Complies with the law and minimizes bill impacts on baseline usage and low-income customers.
- Proposes rules that would adjust the rates depending on the Revenue Requirement changes, given they are uncertain at this time.
  - \* Rate Design does NOT set Revenue Requirements.
- Addresses both non-CARE and CARE tiers rate adjustments.



# PG&E Pending Revenue Changes

## Summer 2014

### PG&E Revenue Allocation to Residential Class (\$ millions)

November 2013	Total Request	Likely Outcome
5,418	5,836	5,675

### 2014 PG&E Revenue Drivers

- 2013 under-collection in procurement costs; 2014 transmission increase (\$200 million); power exchange settlement credit (\$300 million reduction).
- Pending General Rate Case (\$730 system million increase from existing levels, including \$200 million for nuclear O&M, hydro upgrade, and \$460 million customer care costs).

*The Voice of Consumers, Making a Difference!*



7

# PG&E 2014 SUMMER RATES

	Nov 2013 Rates	Jan 2014 Rates		Illustrative Summer 2014 Settlement Rates			
			% Change btwn Jan 2014 & Nov 2013	Likely CPUC Authorized Revenue	% change btwn Summer 2014 & Nov 2013	High Case – C P U C Authorizes 100% of PG&E Request	% Change btwn Summer 2014 & Nov 2013
<b>Non-CARE Rates</b>							
<b>T1 &lt;100% BL</b>	\$0.1323	\$0.1363	3%	\$0.1470	11%	\$0.1470	11%
<b>T2 100-130% BL</b>	\$0.1504	\$0.1549	3%	\$0.1700	13%	\$0.1774	18%
<b>T3 130-200% BL</b>	\$0.3192	\$0.3135	-2%	\$0.2795	-12%	\$0.2972	-7%
<b>T4 &gt;200% BL</b>	\$0.3592	\$0.3535	-2%	\$0.3395	-5%	\$0.3572	-1%
<b>CARE Rates</b>							
<b>T1 &lt;100% BL</b>	\$0.0832	\$0.0857	3%	\$0.0924	11%	\$0.0924	11%
<b>T2 100-130% BL</b>	\$0.0956	\$0.0985	3%	\$0.1063	11%	\$0.1063	11%
<b>T3 130-200% BL</b>	\$0.1397	\$0.1397	0%	\$0.1508	8%	\$0.1508	8%
<b>T4 &gt;200% BL</b>	\$0.1397	\$0.1397	0%	\$0.1508	8%	\$0.1508	8%

**Notes:**

Likely CPUC Authorized Revenue assumes CPUC authorizes 50% of PG&E's revenue increase request.  
High Case Revenue assumes CPUC authorizes 100% of PG&E's request.

**Definitions:** "BL" = Baseline Quantity. "T1" = Tier 1, "T2" = Tier 2, etc.

*The Voice of Consumers, Making a Difference!*





# SCE Pending Revenue Changes

## Summer 2014

### SCE Revenue Allocation to Residential Class (\$ millions)

November 2013	Likely Outcome	Optimistic Outcome
5,128	5,747	5,447

### 2014 SCE Revenue Drivers

- ❑ ERRA filing (a net of \$1.2 billion revenue increase from the current level due to the fact that there are two years' ERRA requests accumulated into one single year).
- ❑ Likely outcome assumes \$450 millions in SONGS, costs not to be decided in time for summer rates.
- ❑ Pending outcomes for SONGS (possible disallowance of \$300 million ).

*The Voice of Consumers, Making a Difference!*



9

# SCE 2014 SUMMER RATES

	November Rates	Likely Outcome	% Change	Optimistic Outcome	% Change
<b>Non-CARE Rates</b>					
<b>T1 &lt;100% BL</b>	\$ 0.128	\$ 0.149	16%	\$ 0.149	16%
<b>T2 100-130% BL</b>	\$ 0.160	\$ 0.193	21%	\$ 0.193	21%
<b>T3 130-200% BL</b>	\$ 0.278	\$ 0.279	0.4%	\$ 0.262	-5.8%
<b>T4 &gt;200% BL</b>	\$ 0.318	\$ 0.319	0.3%	\$ 0.312	-1.9%
<b>CARE Rates</b>					
<b>T1 &lt;100% BL</b>	\$ 0.085	\$ 0.097	14%	\$ 0.097	14%
<b>T2 100-130% BL</b>	\$ 0.107	\$ 0.125	17%	\$ 0.125	17%
<b>T3 130-200% BL</b>	\$ 0.214	\$ 0.210	-1.9%	\$ 0.196	-8.4%
<b>T4 &gt;200% BL</b>	\$ 0.214	\$ 0.210	-1.9%	\$ 0.196	-8.4%

**Definitions:** "BL" = Baseline Quantity. "T1" = Tier 1, "T2" = Tier 2, etc.

*The Voice of Consumers, Making a Difference!*



# SDG&E Revenue Changes

## Summer 2014

SDG&E Revenue Allocation to Residential Class (\$ millions)	
November 2013	Anticipated Revenue
1,611	1,822

### 2014 SDG&E Revenue Drivers

(Less uncertain than other IOUs)

- Cumulative effects from two years of ERRA filings that were approved for 2014 rates (\$558 million net effect).
- ERRA Trigger filing for 2013 and 2014 (\$293 million system revenue increase, \$213 million included in the above \$588 million).

*The Voice of Consumers, Making a Difference!*



# SDG&E 2014 Summer Rates

## Phase 2 Proposed Settlement Terms

### Illustrative Summer Rates (cents/kWh)

	Current (2/1/2014)	Illustrative Rates (Full Revenue Change)	% Change from Current	Illustrative Rates (50% Revenue Change)	% Change from Current
RAR	21.1	23.3	11%	21.7	3%
<b>Non-CARE Rates</b>					
T1 <100% BL	15.4	17.3	13%	16.5	7%
T2 100-130% BL	17.8	20.4	15%	18.9	6%
T3 130-200% BL	34.9	37.7	8%	34.6	-1%
T4 >200% BL	36.9	39.7	8%	36.6	-1%
<b>CARE Rates</b>					
T1 <100% BL	10.3	11.6	13%	10.8	5%
T2 100-130% BL	12.0	13.5	13%	12.6	5%
T3 130-200% BL	17.6	20.3	16%	19.0	8%
T4 >200% BL	17.6	20.3	16%	19.0	8%

*The Voice of Consumers, Making a Difference!*



# Mid-Term Goals: 2015 - 2017

---

## Tier Differentials

- \* When the rates for Tiers 2 and 3 get close enough, merge the two tiers to collapse the four-tier rate design into three tiers.
- \* After transitioning to a three-tier rate design, start to slowly reduce the difference between the top two tiers so they can be merged in the future.

## CARE

- \* Continue to move PG&E's CARE discount closer to the 30% – 35% statutory limits.

## Time-of-Use Rates (TOU)

- \* Establish voluntary introductory TOU rates that place a surcharge on the tiered rates in the on-peak hours and an offsetting credit in off-peak hours.
- \* The surcharge and credit initially would be small, and the rate heavily marketed, in order to prepare for a future transition to default TOU rates.



# Long-Term Goals: 2018 and Beyond

---

## ☐ Tier Differentials

- \* When rates for Tiers 2 and 3 get close enough, merge the two tiers to collapse the three-tier rate design into two tiers.
- \* Work towards reducing rate differential in the two-tiered rate to 20% - 30%.

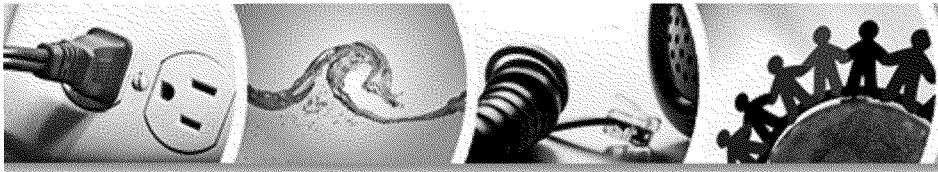
## ☐ CARE

- \* Continue to move PG&E's CARE discount closer to 30% – 35% statutory limits.

## ☐ Time-of-Use Rates (TOU)

- \* In 2018, transition to default TOU rates whether or not rates have been collapsed to two tiers, and use a small on-peak surcharge and off-peak credit to simplify the rate.
- \* Allow customers to opt out to a non-TOU tiered rate design where the tiered rates are similar to the TOU rate without the surcharge and credit.
- \* Market voluntary, more aggressive cost-based TOU rates to prepare customers for moving from the default TOU rate to a fully cost-based design (with on-peak to off-peak rate differences of 2.5 to 1).
- \* When a two-tiered rate design becomes possible, offer the default TOU rate as a simple non-tiered rate with a baseline credit.





## Contact

---

### **Mike Campbell**

Program Manager, Electricity Pricing and Customer Programs

[msc@cpuc.ca.gov](mailto:msc@cpuc.ca.gov)

415-973-1826

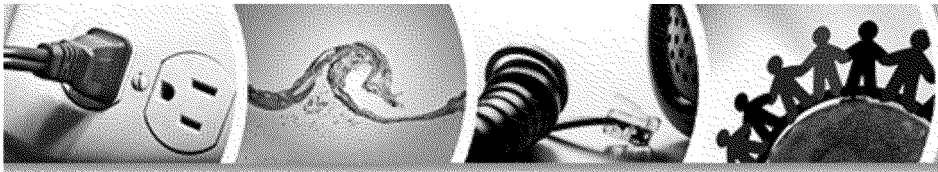
### **Cheryl Cox**

Policy Advisor

[cxc@cpuc.ca.gov](mailto:cxc@cpuc.ca.gov)

415-703-2495





# The Current Four Tier Rate Design

Chart shows PG&E's history of tiered rates since energy crisis

