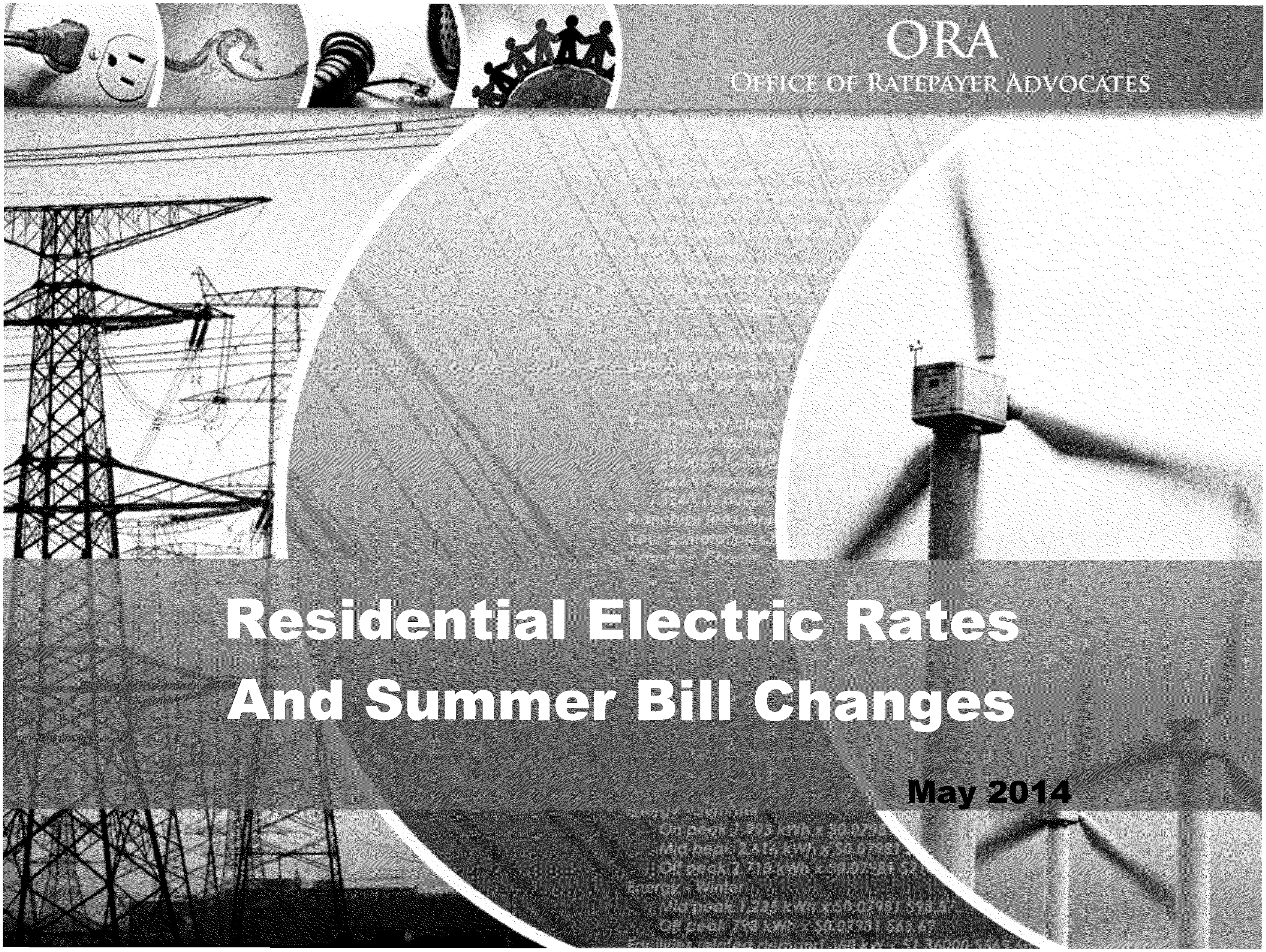
ORA
OFFICE OF RATEPAYER ADVOCATES
Residential Electric Rates
And Summer Bill Changes
May 2014

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).

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
Non-CARE Rates							
T1 <100% BL	$0.1323	$0.1363	3%	$0.1470	11%	$0.1470	11%
T2 100-130% BL	$0.1504	$0.1549	3%	$0.1700	13%	$0.1774	18%
T3 130-200% BL	$0.3192	$0.3135	-2%	$0.2795	-12%	$0.2972	-7%
T4 >200% BL	$0.3592	$0.3535	-2%	$0.3395	-5%	$0.3572	-1%
CARE Rates							
T1 <100% BL	$0.0832	$0.0857	3%	$0.0924	11%	$0.0924	11%
T2 100-130% BL	$0.0956	$0.0985	3%	$0.1063	11%	$0.1063	11%
T3 130-200% BL	$0.1397	$0.1397	0%	$0.1508	8%	$0.1508	8%
T4 >200% BL	$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.

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).

SCE 2014 SUMMER RATES

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

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

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).

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%
Non-CARE Rates					
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%
CARE Rates					
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%

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.

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The Current Four Tier Rate Design

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