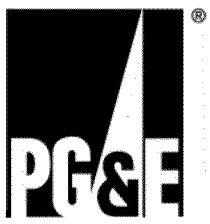
Rulemaking: 12-06-013
(U 39 E)
Exhibit No.:
Date: August 12, 2014
Witness(es):

PACIFIC GAS AND ELECTRIC COMPANY

LONG-TERM RESIDENTIAL ELECTRIC RATE DESIGN REFORM PROPOSAL

PHASE 2

ERRATA TO FEBRUARY 28, 2014 PREPARED TESTIMONY



PACIFIC GAS AND ELECTRIC COMPANY

R.12-06-013

Corrections to Phase 1 Testimony served on February 28, 2014

Chapter Title: Chapter 2 – "Long-Term Residential Rate Design"

Witness Name: Dennis M. Keane, Philip J. Quadrini

Page No.	Line No.	Item	As Filed	As Corrected
2-28	Table 2-7, Line 7	Average rate did not include Monthly Service Fee	2015: "$0.110" 2016: "$0.115" 2017: "$0.123" 2018: "$0.113"	2015: "$0.114" 2016: "$0.124" 2017: "$0.133" 2018: "$0.141"
2-29	25	Average rate did not include Monthly Service Fee	"11.0 cents per kWh"	"11.4 cents per kWh"
2-29	28	Average rate did not include Monthly Service Fee	"13.1 cents per kWh"	"14.1 cents per kWh"
2-29	29	Average rate did not include Monthly Service Fee	"25 percent"	"19 percent"
2-39	Line 4	Missing information	"on January 1, 2015, and to eliminate Schedules E-6, EL-6, EL-7, E-8 and"	"on January 1, 2015, and to eliminate Schedules E-6, EL-6, E-7, EL-7, E-8 and"
2-54	Table 2-11, Title	Typo	"Schedule E-6 Summer TOU Rates ($/kwh) as of January 1, 2014"	"Schedule E-6 TOU Rates ($/kwh) as of January 1, 2014"
2-65	Line 16	Typo	"objectives that support s"	"objectives that support"
2-65	Line 24	Missing information	"to incent households consuming in those tiers to consume."	"to incent households consuming in those tiers to consume less."

TABLE 2-7
PACIFIC GAS AND ELECTRIC COMPANY
PROPOSED CARE RATES (PER KWH)
WITH 2.1 PERCENT PER YEAR REVENUE INCREASES

Line No.	CARE Rates	Current (January 2014)	Current (SB 695-Adjusted)	Proposed (Assuming 2.1 Percent Annual Growth in Revenue Requirement) Summer 2014	2015	2016	2017	2018
1	Monthly Service Fee	NA	NA	NA	$2.50	$5.00	$5.11	$5.21
2	Energy Charges							
3	0 to 100% of Baseline Quantity (BQ)	$0.083	$0.086	$0.091	$0.097	$0.103	$0.112	$0.121
4	100% to 130% of BQ	$0.096	$0.099	$0.104	$0.118	$0.124	$0.136	$0.145
5	130% to 200% of BQ	$0.140	$0.140	$0.148	$0.118	$0.124	$0.136	$0.145
6	Over 200% of BQ	$0.140	$0.140	$0.148	$0.148	$0.148	$0.148	$0.145
7	Average Rate	$0.100	$0.101	$0.109	~~$0.110~~ 114	~~$0.115~~ 124	~~$0.123~~ 133	~~$0.131~~ 141

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PG&E's proposed rates in each successive year are designed to gradually reduce the overall CARE discount to no more than the legislated maximum of 35 percent while lowering the CARE Tier 3 discount until all three-tiered discounts equalize at about 32 percent in 2018.[41] Tier 1 rates would increase by just 0.6 cents per year in 2015 and 2016, followed by a 0.9 cent increase in 2017 and 2018. Tier 2 rates, after combining total usage between 100 percent and 200 percent of baseline in 2015, would increase by 0.6 cents in 2016, 1.2 cents in 2017 and 0.9 cents in 2018. In contrast, the Tier 3 rate for usage exceeding 200 percent of baseline would remain constant at 14.8 cents through 2017 as a rapidly dropping non-CARE Tier 3 rate swiftly lowers the CARE Tier 3 discount relative to those of Tier 1 and Tier 2. It would drop by 0.3 cents in 2018 as the discounts for all three CARE rates equalize. PG&E believes that these proposed rates represent relatively modest increases to CARE rates over the transition period, especially given the context of how little CARE rates have increased in the last two decades.

In 1993, the CARE discount in each tier was 15 percent, as was the overall average CARE discount. In the ensuing two decades the CARE

41 Since the CARE monthly service fee is discounted by 50 percent, the two CARE energy rates must be discounted by less than that, about 32 percent in order to yield an overall CARE discount to be 35 percent. PG&E may propose additional reductions in the CARE discount in subsequent years, consistent with the criteria of the Pub. Util. Code.

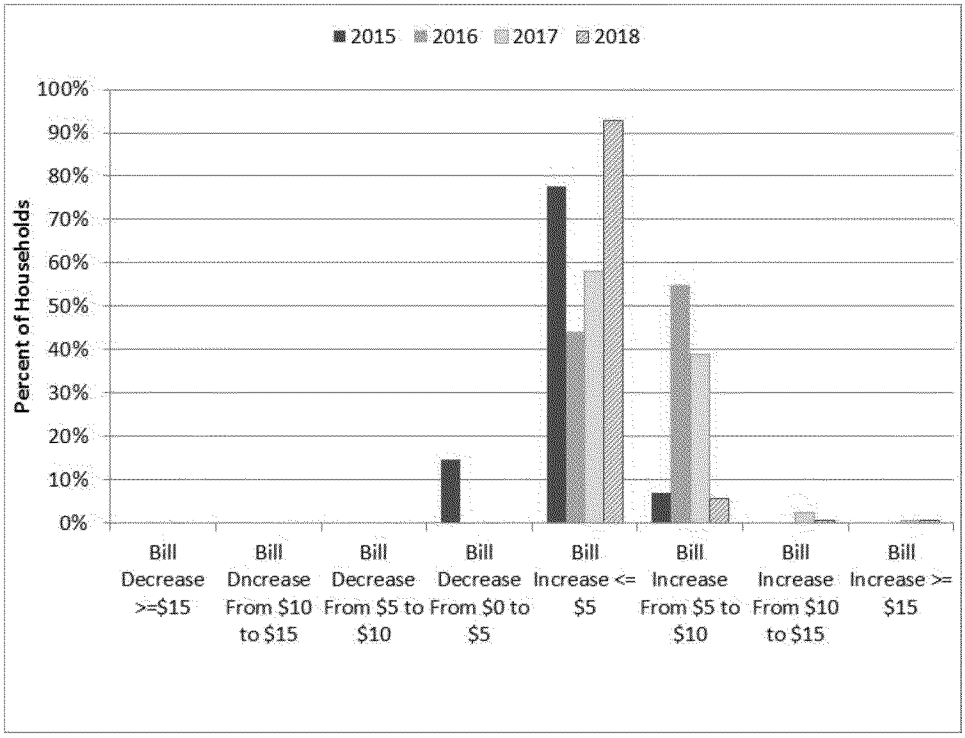
discount has grown tremendously, with the overall average discount more than tripling to today's 49 percent level. Adoption of PG&E's long term rate reform proposal would gradually lower that figure, reaching 35 percent by 2018, at the high end of the range adopted in AB 327. PG&E chose an initial target of an overall 35 percent discount by 2018 as a mechanism to moderate CARE bill increases, but reserves the right to make additional proposals for post-2018 adjustments to ensure PG&E's effective CARE discount remains within the 30 percent to 35 percent range required under AB 327.

2. CARE Rates Remain at a Large Real Discount Compared to Those Charged in 1993

Over the last two decades, CARE rates have slipped further and further below the cost of service and the rate of inflation. 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. Figure 2-3 shows that if the 10.5-cent-per-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.[42] Instead, as of January 1, 2014, 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. Clearly, electricity has become much more affordable for CARE customers in real terms, due to nominal CARE rates slightly decreasing while other prices in the economy and household incomes rose in nominal terms with inflation. Although PG&E's 2015 proposed Phase 1 CARE rates would increase the average CARE rate from 10.0 cents to ~~10~~ 11.4 cents per kWh, this average rate would still remain far below the 17.3 cent nominal level rate in 2014 that is equivalent, in real terms, to the CARE rate level approved by the Commission in 1993. Even in 2018, the estimated CARE average rate of ~~13~~ 14.1 cents per kWh would still remain nearly ~~25~~ 19 percent below the 17.3 cent nominal rate in 2014.

42 Per Global Insight's Q1 2013 US Economy Forecast for the PG&E service territory, inflation rates are assumed to be at 1.44 percent for 2013 and 1.72 percent for 2014. For comparison purposes, the U.S. CPI rose 1.46 percent in 2013.

FIGURE 2-6
PACIFIC GAS AND ELECTRIC COMPANY
SCHEDULE EL-1 – DISTRIBUTION OF YEAR-TO-YEAR AVERAGE
MONTHLY BILL IMPACTS FROM PG&E'S RATE PROPOSAL



F. Optional Tiered Schedules

1. Rate Closure and Elimination

PG&E proposes to close Schedules E-6 and EL-6 to new participants[56] on January 1, 2015, and to eliminate Schedules E-6, EL-6, EL-7, E-8 and EL-8 on January 1, 2016. On that date, customers on the aforementioned schedules who have the necessary SmartMeter™ data will be moved to PG&E's proposed non-tiered TOU rate schedule (described in Section G), or to Schedule E-1 (or EL-1), depending on which tariff produces the lowest annual bill for that specific customer. Otherwise, customers on Schedules E-6, EL-6, E-7 and EL-7 will be migrated to E-TOU whereas

56 Schedules E-7, EL-7, E-8 and EL-8 are already closed to new participants.

summer peak usage than other customers pay for summer off-peak usage. This is economically illogical and inefficient.

For example, a customer could desire, on the 26th of the month, to use outdoor lighting to enhance night time security between the hours of 2:00 a.m. and 4:00 a.m. However, because it is near the end of the month, this customer is required to pay a high tiered rate that bears absolutely no relation to the actual cost. Table 2-11 demonstrates the current problem embedded in the E-6 rate design. This problem also exists for Schedules EL-6, E-7 and EL-7.

TABLE 2-11
PACIFIC GAS AND ELECTRIC COMPANY
SCHEDULE E-6 ~~SUMMER~~ TOU RATES ($/KWH) AS OF JANUARY 1, 2014

Line No.	Energy Rates	Peak	Part-Peak	Off-Peak
1	Summer Rates			
2	Baseline Usage	0.287	0.175	0.101
2	101% – 130% of Baseline	0.305	0.193	0.119
3	131% – 200% of Baseline	0.478	0.366	0.291
4	Over 200% of Baseline	0.518	0.406	0.331
5	Winter Rates			
6	Baseline Usage	NA	0.121	0.105
7	101% – 130% of Baseline	NA	0.139	0.123
8	131% – 200% of Baseline	NA	0.312	0.296
9	Over 200% of Baseline	NA	0.352	0.336

As shown in Table 2-11, Schedule E-6 Tier 3 and Tier 4 customers pay more for electricity at 3:00 a.m. than Tier 1 customers pay at 3:00 p.m. during the summer. They even pay more in the winter, when loads are significantly below those in both the summer peak and summer part-peak periods, than a Tier 1 customer pays for peak power in the summer. In addition, Schedule E-6 customers are confronted with a confusing array of prices depending on which tier they are in, something that can only be ascertained by either checking their usage online in My Energy, or by receiving an email or text from PG&E informing them that they have entered, or will soon enter, a higher tier.

In contrast, customers would be very clear about the price they would pay under a non-tiered TOU rate design. They know whether today is a

- Tactics such as number of touches, personalized usage/bill updates

- Sample appropriately sized to address:
  - CARE/Non-CARE
  - Climate Zones
  - Small/Medium/Large energy users

PG&E expects to design and launch the pilot in 2015 with final results available no later than 2017.

H. Impacts of Proposals on Conservation

The rate design objectives enumerated by the Commission in its March 19, 2013 Ruling include providing incentives for customers to conserve.[72] PG&E agrees that having rate structures that provide signals for conservation are both appropriate and important rate design objectives. However, given how "broken" residential rates are today – with very steep tiers that are completely divorced from cost of service – the Commission should give much greater weight to the core rate design objectives that support providing more equitable and simpler rates, and more accurate, cost-based price signals. Nevertheless, PG&E's analysis shows that the effects of its proposed changes to rate structures and levels will have minimal effects on overall conservation in the residential class.

Proponents of steeply inclining tiered rates often tout their ability, compared to flatter structures (or even to completely flat rates with a single volumetric charge) to encourage conservation by providing very high price signals in the upper tiers. In other words, proponents focus on the ability of the high upper-tier rates to incent households consuming in those tiers to conserve. But this ignores the fact that setting higher than average cost upper-tier rates means that, correspondingly, the lower tier rates are then set lower than average cost (since otherwise revenue over-collection would occur). Thus, while upper-tier consuming households have a greater incentive to conserve, lower-tier consuming ones have a lesser incentive to do so – and it is in the lower tiers where the vast majority of the consumption occurs (slightly more than two-thirds for PG&E).

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72 See Rate Design Principle 4 in ALJ Ruling Requesting Residential Rate Design Proposals, March 19, 2013, Appendix A.