Public Participation Hearings For Electric Utility Residential Rate Proposals Pending At The California Public Utilities Commission

Pacific Gas and Electric Company

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Background

- The California Public Utilities Commission opened a regulatory proceeding in June 2012 to examine appropriate electric rate structures for residential customers.

- **This proceeding will not increase the amount of revenue utilities receive.**

- Participants in the proceeding include the state's three major electric utilities (Southern California Edison (SCE), Pacific Gas and Electric (PG&E) and San Diego Gas & Electric (SDG&E)), consumer groups, low-income advocates, solar groups, environmental groups, and others listed later in the presentation.

- In October 2013, Assembly Bill (AB) 327 was signed into law, removing some restrictions on residential rates, allowing a fixed charge on customer bills, establishing a 30-35% discount range for California Alternate Rates for Energy (CARE) customers, and outlining a path forward for net energy metering (NEM).
  - The Commission has a separate, ongoing proceeding to address new rules for net energy metering.

- The CPUC established two phases for this proceeding, in this order:
  - Phase 2 – Short-term proposals for summer 2014 rate reform began the process of reform, but did not change the residential rate structure, number of tiers or CARE discount structure.
  - Phase 1 – Long-term proposals, covering years 2015 through 2018, that may change the residential rate structure. A CPUC decision is expected in the second quarter of 2015.

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Why Is Residential Rate Reform Needed?

- A law passed in the wake of the Energy Crisis produced consequences for "tiered rates," which charge customers more per kilowatt-hour as consumption increases.
  - The law froze the costs for lower-tier rates at February 2001 levels until 2010 when yearly cost-of-living increases were allowed.
  - AB 327 removed these restrictions starting January 2014.

- Over time, the difference between upper and lower tiers grew and became inequitable.
  - Today, Tier 3 & 4 rates are among the highest in the country, penalizing customers who need more energy (e.g., families with children at home).
  - High upper-tier rates create bill volatility.

- Most customers do not understand the current 4-tiered rate system.

- Certain customers are required to heavily subsidize other customers.

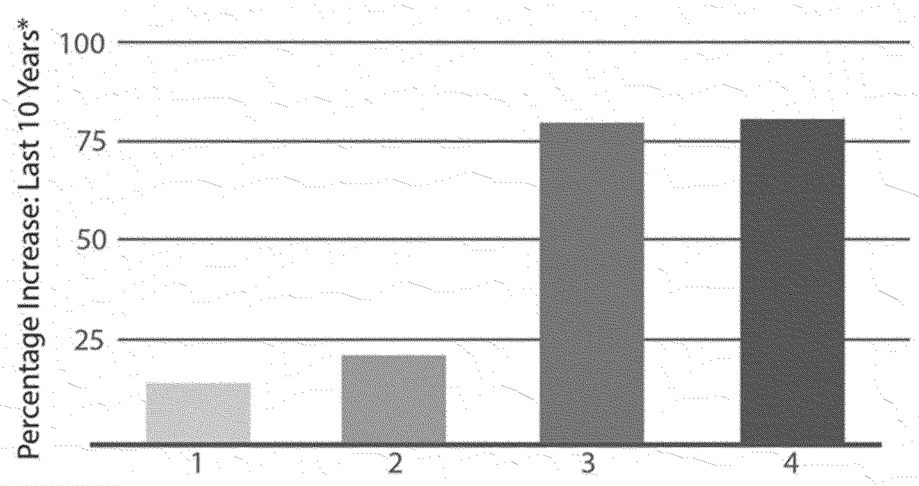
- Today, some customers are paying at least 50% more than the actual cost to serve them, which could increase without rate reform.
  - Majority of customers who would be paying these high prices are not rich, but are ineligible for low-income rate discounts.
  - Inequity occurs no matter where customers live in California.

Illustration of the Problem

A BUILT-UP RESIDENTIAL RATE INEQUITY

Since 2001, about one quarter of Residential customers have paid for nearly all of the investments to improve system reliability and to realize California's clean energy goals.

Rates for low usage customers were essentially frozen forcing high use customers to pay more than their fair share.



Tier (Non-CARE) Increases from January 2004 to January 2014.
* Updated Jan 2014 and does not include changes approved for Summer Relief (Phase 2) of this proceeding.

AB 327 Opens the Door to Rate Changes

- Returns authority to the CPUC to make reasonable changes, including lifting the cap on lower-tier rates, with a plan to phase-in changes gradually.
- Was enacted through the support of a broad coalition of consumer, senior, labor, utility, solar, environmental and community groups.
- Establishes CARE discounts of 30% to 35% to protect low-income customers.
- Allows CPUC to implement time-of-use (TOU) rates, on a default basis, no earlier than January 2018, subject to certain restrictions.
- Allows CPUC to implement a fixed customer charge up to $10 for non-CARE and $5 for CARE customers plus an inflation adjustment thereafter, which will reduce charges collected through tiered rates.

Scope of the Utilities' Rate Design Proposals

- Reduction of the number of tiers, and smaller rate differentials between tiers;
- New or increased fixed (per month, per customer) charges;
- Maintain or bring CARE discount within 30-35% range;
- Modify and simplify the Family Electric Rate Assistance Program (FERA), for customers who do not qualify for CARE, to conform to tier changes;
- Proposals regarding default (opt-out) and/or opt-in TOU rates; and
- Gradual and reasonable transition of all reforms, with appropriate customer outreach and education.

CPUC's Core Principles for Rate Design Proposals

1. Low-income and medical baseline customers should have access to enough electricity to ensure basic needs (such as health and comfort) are met at an affordable cost
2. Rates should be based on marginal cost
3. Rates should be based on cost-causation principles
4. Rates should encourage conservation and energy efficiency
5. Rates should encourage reduction of both coincident and non-coincident peak demand
6. Rates should be stable and understandable and provide customer choice
7. Rates should generally avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals
8. Incentives should be explicit and transparent
9. Rates should encourage economically efficient decision-making
10. Transitions to the new rate structures should emphasize customer education and outreach that enhances customer understanding and acceptance of new rates, and minimizes and appropriately considers the bill impacts associated with such transitions

Stakeholders and Proceeding Schedule

- There are many non-utility parties involved:
  - **Consumer groups** (the Office of Ratepayer Advocates, The Utility Reform Network, Greenlining, the Center for Accessible Technology, Utilities' Consumer Action Network, San Diego Consumer Action Network)
  - **Environmental groups** (the Natural Resources Defense Council, the Environmental Defense Fund, the Sierra Club)
  - **Solar/distributed generation** (Solar Energy Industries Association, the California Solar Energy Industries Association, Vote Solar, Distributed Energy Consumer Advocates, The Alliance for Solar Choice, Interstate Renewable Energy Council)
  - **Non-residential groups** (the California Large Energy Consumers Association, the Energy Producers and Users Coalition)

- Upcoming schedule:
  - Evidentiary Hearings at CPUC – November
  - Final decision expected in time for Summer 2015 rate changes

PG&E's Proposal for 2015 - 2018

- Flatten rate tiers
  - Drop from four tiers to three in 2015, then to two in 2018
  - Reduce top vs. bottom tier difference from 22.3¢ to 3.5¢ in 2018
- Introduce monthly service charge to equitably share fixed costs
  - Non-CARE: $5 in 2015, $10 in 2016, then increase by CPI
  - CARE customers pay half the Non-CARE monthly service charge
  - Revenue-neutral: offset by reductions in rates for volumetric usage
- Reduce the CARE discount to comply with AB 327
  - Gradual reduction from 44 percent today to 35 percent by 2018
- Offer simpler, non-tiered Time-of-Use (TOU) rate choice
  - Replace current tiered TOU with non-tiered for new customers in 2015
  - Eliminate tiered TOU rates entirely January 1, 2016
  - Do PG&E TOU pilot before evaluating post-2018 default for all

SCE's Proposal for 2015 - 2018

- Reduce tiers from four to two between 2015 and 2018 and reduce rate differentials to approximate level prior to 2001. General effect is to modestly increase bills for low-usage customers with some decreases for high-usage customers.

- Gradually increase the current fixed charge to $10 for non-CARE and $5 for CARE customers by 2018.
  - Fixed charges are common for most utility services (water, phone, cable, etc.) and for other municipal electric utilities.
  - Increased fixed charges lower per kWh energy charges, which otherwise can create unstable bills.
  - The $10 proposal is still less than 1/3 of the minimum monthly cost of the power network.

- Retain protections for lower income customers.
  - Maintain the lowest rate for essential electric usage, as required by law.
  - Keep the CARE discount at 32.5%.
  - Simplify the FERA discount program to reflect a 10% discount off customers' bills.
  - Continue the medical baseline program.

- Promote customer choice and adoption of optional time-of-use (TOU) rates, which give customers the opportunity to lower bills by shifting usage.
  - Several parties propose to move all residential customers to default TOU rates unless they "opt out" to tiered rates.

SDG&E's Proposal for 2015 - 2018

- With guidance from the CPUC, SDG&E is moving toward a **simpler**, **more equitable** and **affordable** rate structure based on the utility's cost to serve customers.
- Key elements include:
  - **Transition to 2 tiers** starting in 2015, with a 20% differential between the tiers by 2018; the differential currently is as high as 136%.
  - **Introduction of a monthly service fee*** o f$5 in 2015 with gradual increase to $10 + CPI in 2018. Monthly fee offset by corresponding decrease in the cost of each kWh of electricity a customer consumes.
  - Compliance with AB 327's mandate to **gradually reduce the CARE discount** to a range of 30% - 35%.
  - **Robust communication, education and outreach** to help customers make informed decisions.
- Only after these key elements have been implemented SDG&E would support the introduction of time-of-use rates in transitional phases while providing customers with rate plan options.

* The monthly service fee for CARE customers would be half these amounts.

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