

**SB 695 Report**  
**To California Public Utility Commission (CPUC) *Energy Division***  
**San Diego Gas and Electric Company**  
**2015**

**Part II: Section 748(b) Utility Study and Report (Cyndee/Sharim)**

San Diego Gas & Electric (SDG&E) appreciates the opportunity to provide input to the California Public Utilities Commission (CPUC or Commission) in response to SB 695-enacted changes to PUC Section 748. This report addresses PUC Section 748(b).

SDG&E's response addressing PUC Section 748(a), which provided data related to both gas and electric revenue requirements, was submitted separately.

SDG&E's objective in this response is to provide information that the CPUC may find useful as it prepares its annual report for the Governor and Legislature. Accordingly, SDG&E's report provides data related to both gas and electric revenue requirements and rates. With respect to overall presentation, SDG&E's report is structured as per the Energy Division's request under the following headings:

- Overall Rate Policy
- Management Control of Rate Components
- Utility Policies and Recommendations for Limiting Costs and Rate Increases While Meeting State's Energy and Environment Goals for Reducing Greenhouse Gases.

**1. Recommendations to the CPUC and Legislature**

**A. Opening Comments**

California is the most populous state in the nation and the 8th largest economy<sup>1</sup> in the world. It is only fitting that California is also a national leader in innovative energy policies. California's law and policy makers have kept this state on the leading edge of new developments in the utility and energy industry, including in the areas of energy efficiency, renewable energy, greenhouse gas reduction, demand response, and the smart grid. These

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<sup>1</sup> <http://www.lao.ca.gov/Publications/Detail/3154>

policies have resulted in some significant achievements. Per the Integrated Energy Policy Report, “A wide array of energy efficiency programs for utility customers has contributed to keeping energy use per person in California relatively constant, while use in the rest of the United States has increased by roughly 40 percent.” California also has a 33% renewable portfolio standard, one of the most ambitious in the country, but at a significant cost. From 2013 to January 2015, SDG&E’s RPS percentage has increased from approximately 17% to over 28% resulting in over \$250 million in increased commodity costs. While the implementation of AB 32 provided for residential and small businesses to be made neutral to the rate impacts associated with the implementation of greenhouse gas (GHG) costs through allowance credit offsets (with residential even receiving the additional benefit of semi-annual California Climate Credit) the remaining business customers, including the majority of SDG&E’s medium and large commercial and industrial customers experienced only the increase in GHG costs in rates. The adoption of solar by nearly 50,000 customers out of 1.4 million under the current net-energy metering (NEM) provisions now results in a shift of revenues to other customers of over \$100 million a year and is largely driven by a rate design that fails to reflect actual cost to serve customers.

These changes have also affected how the utilities provide services to customers and are already being reflected in a proceeding currently before the Commission. For instance, SDG&E’s 2015 Rate Design Window (A.14-01-027) is a proceeding pending before the Commission that addresses the need to change TOU periods due to the changes in when the highest cost of providing commodity services net load now occurs. TOU periods have not changed since the 80s, In addition, the Distribution Resource Plan proceeding ( R.14-08-013) in which the Commission will review each distribution resources plan proposal submitted by an electrical corporation and approve, or modify and approve, a distribution resources plan for the corporation to ensure that overall system costs are minimized and ratepayer benefit from investments in distributed resources are maximized. In order to maintain the pace of new development and to ensure California’s future as a leader among states pushing the envelope toward a cleaner, more efficient and affordable electric system, some of the mechanics of how customers pay for electric service must change as well to match the changes occurring in how utility services are provided. These issues have begun to be addressed by the Legislature and the Commission with AB 327 that now permits

changes to significantly outdated legacy tiered rate design for residential customers as well as re-examination of the design of rates applicable to NEM customers. These issues are now before the Commission. In the Residential Rate Reform proceeding (R.12-06-013) the Commission is addressing the future of tiered rates and the application of fixed charges for residential customers. Current SDG&E residential customers do not have any fixed monthly charges despite the fact that fixed monthly charges are a common feature among other utility services, such as water and telecommunication, among other California electric utilities (excluding the three CA IOUs, 70% of California electric utilities have a residential fixed charge), and among IOUs nationally (174 of 180, or 97% of IOUs outside of California have a residential fixed charge). Still to be addressed before the Commission is the question of rate design for future NEM customers and the level at which other customers will continue to subsidize solar rooftop owners.

For California to continue to be successful in its pursuit of a clean energy future, rate design must evolve hand-in-hand with advances in energy efficiency, demand response, renewable energy and distributed generation. By updating utility rate design, the Commission can help ensure that as customers experience and live within the more modern and advanced technologies, they are provided the correct price signals that provide the necessary information to understand the costs of a lower carbon energy supply and to make economically efficient decisions about when and how to use energy. Adoption of rate design that is more consistent with the reality of modern energy use and generation will also further the development and deployment of new low carbon technologies by ensuring customers have the correct price signals in order to be able to evaluate different technologies fairly and by eliminating unintended cost shifts that artificially inflate customer rates. SDG&E's Vehicle-Grid Integration Pilot Program (A.14-04-014) looks at alternative rate structures with enabling charging technology to provide customers access to those low cost hours.

As California continues to look forward to a clean energy future, SDG&E plays a critical role in this pursuit. SDG&E rate proposals provides the platform for utility customers to make economically efficient decisions in how to use energy regarding investments in energy efficiency (EE), demand response (DR), and distributed energy

resources (DER). SDG&E's effectiveness in this role becomes even more critical as California moves forward to pursue greater penetration of renewables and promotion of net zero energy construction. For SDG&E to be effective in this role requires:

1. Cost-based rates.
2. Transparency
3. Effective Customer Education
4. Simple Bills
5. Competitive Customer Choices

In SDG&E's 2014 Part II response, SDG&E stated that "[t]he broad and universal application of rate design characterized by the following will be critical to continue on this path.

- Utilities charge for the services they provide;
- Rates are designed to recover costs on the same basis as they are incurred; and,
- Incentives or subsidies that have been deemed necessary to further public policy objectives are separately and transparently identified and charged to customers in a fair manner."

It is only with this kind of rate design can we also meet all 10 of the Commission's rate design principles. A rate structure that is cost-based and has transparency on the services customers are paying for is critical to provide customers with the ability to tie the prices customers see to the services they receive. Accurate prices are necessary for customers to understand the costs of a lower carbon energy supply and for economically efficient decision-making. Such rate design changes will limit cost shifts to other customers and ensure that the benefits from incentives are maximized.

Ratemaking is complex. There's no question about that. This makes the partnership with effective customer education and simple bill presentations critical to ensure that customers understand the price signals provided. For instance, many residential solar customers believe that the installation of solar on their roofs means they are completely

disconnected from the grid, failing to recognize the reliability, standby, and energy bank services that continue to be provided by the utility grid to ensure that their lights still come on when the sun is no longer shining.

Only with the combination of cost-based rates, transparency, effective customer education and bills can SDG&E be an effective platform for ensuring customers have full access to competitive customer choices in a manner that is economically efficient and beneficial to all customers.

## **B. Overall Rate Policy**

In the November 26, 2012 Scoping Memo and Ruling in Rulemaking (“R.”)12-06-013, *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* (“RROIR”), the CPUC identified the following principles to guide residential rate design:

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 stability, simplicity and 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; and
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, avoids the potential for rate shock.

While these principles are in the rulemaking for residential rate design, SDG&E supports these principles for the rate design applied to all customers.

**C. Management Control of Rate Components (Utility Management’s Policy to Control Costs and Control Rate Increases for Customers)**

SDG&E’s rate components can be broken down into the following broad categories of services that they provide:

- Generation service: provision of energy service, including reliability and ancillary services. The costs associated with generation services are in addition to the costs of providing energy services to meet customer load are heavily compliance driven - both legislative compliance (i.e., RPS) and regulatory compliance from various regulatory agencies (i.e., GHG under ARB).
- Transmission service: provision of system delivery and reliability. These costs are addressed at the Federal Energy Regulatory Commission (FERC).
- Distribution services: provision of local delivery and reliability and customer services.
- Public Policy programs.

Additionally power quality requires the coordination of distribution, transmission and generation resources.

Being a regulated utility, all changes to revenues recovered through rates or the recovery structure through which revenues are collected is subject to the authority of the CPUC or the Federal Energy Regulatory Commission (FERC).

Prior to this year, SDG&E customers typically had three electric rate changes a year: (1) January 1<sup>st</sup> for implementation of its Consolidated rates for electric, (2) a mid-year change for implementation of its annual ERRA Forecast, and (3) September 1<sup>st</sup> Transmission rate change for the implementation of its base transmission revenue requirements. Because of the impact to our customers, SDG&E requested and received approval at the CPUC and FERC to change the filing and implementation schedule for both its ERRA Forecast and base transmission revenue requirements to provide customers with greater rate stability. Beginning 2015, SDG&E’s base transmission revenue requirements are now implemented on January 1 of each year. 2015 was also the first

year of the new schedule for SDG&E's ERRA Forecast which was implemented February 1. SDG&E continues to work with the Commission to get an ERRA Forecast implementation date on January 1.

SDG&E rates continue to experience volatility associated with regulatory balances. This includes balances associated with SDG&E's Energy Resource Recovery Account (ERRA) as well as SDG&E's 2012 GRC Phase 1 due to the impact of delayed regulatory decisions. Previously SDG&E's ERRA Forecast filing schedule did not allow for the ability to have decisions in time to implement in a manner that reflected the calendar year costs of those proceedings. With the approval of SDG&E's Petition for Modification to change that filing date, beginning 2015, SDG&E hopes to reduce the rate volatility as a result of moving the ERRA application to April 15 from October 1 in order to get a timely decision and avoid triggers. In addition, SDG&E has included as a part of its 2016 GRC Phase 1 proceeding a rate stabilization plan, a proposal to mitigate potential rate volatility from any potential delay in that decision. .

**D. Utility's Policies and Recommendations For Limiting Costs and Rate Increases While Meeting State's Energy and Environment Goals for Reducing Greenhouse Gases**

**1. List the Policies the Utility is Advocating**

SDG&E recommends the following policies for limiting costs and rate increases while meeting the State's energy and environment goals for reducing greenhouse gases:

1. Cost-based rates to ensure that customers pay for the services they receive and to minimize cost-shifts which exaggerate the cost burden for certain customers;
2. Transparency in the incentives customers receive and in the incentives that other customers pay for to further the State's goals;
3. Effective Customer Education to ensure that customers understand the services they receive;
4. Simple Bills to ensure customer understand the services they are paying for; and
5. Competitive Customer Choices to ensure that customers are making

economically efficient decisions that can benefit all customers.

## **2. Provide recommendations for the CPUC and Legislature to help minimize rate increases in the future**

SDG&E makes the following recommendation to the CPUC and Legislature to help minimize rate increases in the future:

### **1. Rate Reform with Expeditious Implementation:**

Under AB 327, the Legislature has made significant strides in allowing for movement towards such a rate design. The question of the future of residential rate design is now pending before the Commission. SDG&E recommends that the Commission take this opportunity to take a similar bold step forward and move residential rates to be more cost-based. Only with a cost-based rate structure and transparent incentives will there be pricing that allows for customers to accurately assess alternative energy services on a competitive basis. In addition, only with cost-based rate structure and transparent incentives can a clean energy future be supported without artificially inflating customer rates resulting from subsidies buried in rate design.

While AB 327 allows for significant movement in residential rate design by removing the prior restrictions on tiered rates and allowing for the introduction of a fixed charge, constraints continue to exist for residential rate design. The current restrictions on the level of fixed charge fail to recognize that the majority of the services provided by the utility, such as the utility infrastructure that support local and system reliability do not vary by a customer kWh usage.

### **2. Cost Analysis of State Mandated Programs Needed Before Adoption**

SDG&E fully supports the State's pursuit for a clean energy future. SDG&E simply cautions the Legislature and the Commission to ensure that that the pursuit of this clean energy future be done in a thoughtful manner that always takes into consideration the rate and bill implications to utility customers before adopted.

Currently in pursuit of the State's clean energy goals, SDG&E has a multitude of goals and objectives, such as RPS standard, EE and DR goals, and Energy Storage targets.



The greater flexibility the Commission provides the IOUs in the manner in which these tools are used to reach the State's objectives and meet the unique characteristics of each service territory, the greater the ability the IOUs will have to meet these goals in a least cost manner. The Commission has already taken steps in that direction with proceedings like the Integrated Demand Side Management proceeding (R-14-10-003) that recognizes "the integration of demand-side management (DSM) options including energy efficiency (EE), demand response (DR), and distributed generation (DG) as fundamental to achieving California's strategic energy goals." SDG&E recommend that the Legislature and the Commission continue to move towards this direction to provide the utilities the ability to meet the States clean energy goals in a least cost manner.

### 3. Reduce Cross Subsidies

In addition, SDG&E recommends that the Legislature and the Commission ensure that the costs of these programs are paid equitably by all customers and limit the ability for customers to bypass paying for their fair share of these programs. This will ensure that the State's clean energy goals are achieved in a sustainable manner.

Sustainable growth for the new technologies that are critical for this clean energy future can only occur when all customers have equal access to energy options, such as the NEM program, without negatively impacting non-participating customers through the shifting of costs to non-participating customers or putting at risk the safety and reliability of the grid. Sustainable growth only occurs when all customers pay for the services they receive, which requires the rates they pay be based on the costs that are incurred to provide those services.