



CPUC Rate Reform Rulemaking (R.12-06-013)

Briefing for All Party Meeting
February 19, 2015





Background

- The CPUC 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 include the 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.
- **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 CPUC established two phases for this proceeding, in this order:**
 - **Phase 2** – Short-term proposals approved for summer 2014 began the process of changing residential rates, but did not change the residential rate structure or CARE discount structure.
 - **Phase 1** – Longer 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.





Some Residential Rate Design Options

Flat Rate:

Under a Flat Rate, you pay the same for each unit of electricity no matter how much or when you use electricity. California law does not permit flat rates.

Tiered Rates:

Most California residential customers pay Tiered Rates. Under Tiered Rates, the first units of electricity you use have a lower price. As you use more electricity during the month, you cross into a higher usage “tier” and pay higher prices. In California, lower tier rates were frozen in 2001. Only in 2010 did lower tier rates begin to increase in relation to electricity prices. This means that when the cost of electricity goes up, there is little change in price for low use customers, and high use customers must make up the difference.

Time of Use Rates:

Time of Use rates vary by time of day and season. The difference in electricity price is intended to reflect the fact that electricity is most expensive at “peak times”. In California, commercial customers already have TOU rates. TOU rates can be implemented as “opt-in” (customer chooses to go on TOU rate), or “default” (customer is put on TOU rate automatically unless customer elects otherwise).

Fixed Charge:

A fixed charge or customer service fee is typically same for all residential customers in a utility’s service area. The monthly service fee is intended to represent fixed costs that the utility incurs for to serve the customer. The proposed customer service charges would reduce energy charges on a dollar-for-dollar basis, but your bill may go up or down.





Assembly Bill 327 Allows Certain 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 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 beginning in 2015 of up to \$10 for non-CARE and \$5 for CARE customers plus an inflation adjustment thereafter, which will reduce charges collected through tiered rates.





Special Rate Considerations

California Alternate Rates for Energy (CARE,) Family Electric Rate Assistance (FERA), Medical Baseline Rates:

- These are special rates for customers who qualify. By law, any rate change must include protections for customers who qualify for these programs.
- These include discounts or baseline allowances for eligible customers.
- The Rates Rulemaking will begin to implement any changes necessary to achieve or preserve compliance with these mandates.

Net Energy Metering (NEM) Rates:

- Customers with rooftop solar are usually on special rates that allow them to “net” the amount of energy they generate during the year against the amount of energy they use.





Scope of the Utilities' Rate Design Proposals

- Reduction of the number of tiers, and reduction of the price difference between the lower tiers and the higher 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), Consumer Federation of California
 - **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**
 - Non-CARE: \$5 in 2015, \$10 in 2016, plus an inflation adjustment thereafter
 - CARE customers pay half the Non-CARE monthly service charge
 - To ensure that the same total revenue amount is collected, the volumetric rate (\$/kWh) will be reduced. As a result, high usage customers may see their bills go down and low usage customers may see their bills go up.
- **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**
 - Reduce the price difference between the high tiers and low tiers to pre-crisis levels.
 - General effect is to increase bills for low-usage customers with some decreases for high-usage customers.
- **Increase the current fixed charge to \$10 for non-CARE and \$5 for CARE customers by 2017.**
 - To ensure that the same total revenue amount is collected, the volumetric rate (\$/kWh) will be reduced. As a result, high usage customers may see their bills go down and low usage customers may see their bills go up.
- **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.**



SDG&E's Proposal for 2015 - 2018

- **Transition to 2 tiers starting in 2015**
 - a 20% differential between the tiers by 2018;
 - the differential currently is as high as 136%.
- **Introduction of a monthly service fee* of \$5 in 2015**
 - Gradual increase to \$10 plus an inflation adjustment in 2018.
 - To ensure that the same total revenue amount is collected, the volumetric rate (\$/kWh) will be reduced. As a result, high usage customers may see their bills go down and low usage customers may see their bills go up.
 - Compliance with AB 327's mandate to **gradually reduce the CARE discount** to 30 - 35%.
 - **Robust communication, education and outreach** to help customers make informed decisions.
- **SDG&E proposes to introduce 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.

