



**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

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Application of Pacific Gas and Electric Company To
Revise Its Electric Marginal Costs, Revenue
Allocation, and Rate Design Including Real Time
Pricing, to Revise its Customer Energy Statements,
and to Seek Recovery of Incremental Expenditures.
(U 39 M).

**Application 10-03-014
(Filed March 22, 2010)**

**SIERRA CLUB CALIFORNIA
OPENING BRIEF ON THE
GENERAL RATE CASE, PHASE 2**

December 20, 2010

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Summary of Recommendations

Sierra Club California urges the California Public Utilities Commission to:

1. Reject the proposal to consolidate residential electric rate tiers 3 and 4 into a single tier 3.
2. Reject the proposal to assess a flat monthly customer charge of \$3 per month.
3. Consider the negative impacts and inconsistencies of the proposed residential rate design with adopted California energy policies, including the loading order for energy conservation, energy efficiency, and renewable energy, and California laws and programs designed to achieve solar installation and greenhouse gas emissions reduction.
4. Support time of use rates that provide an adequate and meaningful incentive for solar.
5. Reject the proposal to allow “flat generation and distribution rates” using a “conservation incentive adjustment” on the distribution side of the bill, as this is a non-cost-based attempt to interfere with Community Choice Aggregators.

1 **I. Introduction and General Background**

2

3 In this brief before the California Public Utilities Commission, Sierra Club California

4 (“Sierra Club,” or “SCC”) presents evidence, policy, and legal arguments for Pacific Gas and

5 Electric’s (PG&E) electricity rates over the period of this General Rate Case (GRC). PG&E is

6 proposing significant changes to its existing rate structure, including merging current residential

7 tiers 3 and 4 into a single tier 3 rate, creating a new tier 3 rate for CARE customers, and

8 assessing all residential customers a flat customer charge of \$3 (\$2.40 for CARE customers).¹ In

9 addition, PG&E proposes changing baseline quantities from 60% to 55% of average usage within

10 each climate zone.² These changes are in addition to a recently approved Decision to collapse

11 tiers 4 and tier 5 which was approved earlier in 2010.³ PG&E is also proposing a “generation

12 flattening” that would assess a complex charge on the distribution side of the bill.⁴

13 Sierra Club California is opposed to several of these rate design changes, most

14 particularly the consolidation of tiers 3 and 4, the monthly customer charge of \$3 due to impacts

15 on energy conservation, energy efficiency and renewable energy generation, and the generation

16 flattening.

17 The effect of consolidating tiers 3 and 4, and assessing revenue through a flat customer

18 charge cause significant environmental impacts from increased energy consumption, reduced

19 energy efficiency retrofits, reduced photovoltaic solar installation, and associated criteria

20 pollutant and greenhouse gas emissions from increased energy consumption from polluting

21 power plants. The generation flattening would have the effect of discouraging community

¹ Exhibit 7 (Sierra Club) at 3; Exhibit 1 (PG&E).

² Id.

³ CPUC Decision A.10-02-029.

⁴ Exhibit 8 (Sierra Club) at 1.

1 choice aggregators from forming, generation providers with the potential to procure higher levels
2 of renewable energy generation. These rate design changes contradict many energy policies of
3 the state of California and should be rejected by the Commission.

4
5 **II. Overall Residential Rate Design Proposals Discourage Energy Conservation,**
6 **and Eliminate Incentives for Energy Efficiency and Renewable Energy.**

7
8 **a. Ratemaking Policy and California Energy Law and Policies Support**
9 **Promotion of Energy Efficiency and Renewable Energy.**

10
11 Reasonable cost recovery is a general goal of ratemaking.⁵ However, cost recovery as a
12 general goal of ratemaking is accompanied by other policy goals, including the equitable pursuit
13 of the public good.⁶ California law and adopted energy policy is highly supportive of promoting
14 energy conservation through rate design, and promoting policies that prioritize energy efficiency
15 and renewable energy. These policies lead to the conclusion that rate design options that are
16 detrimental to energy conservation, energy efficiency, and renewable energy are discouraged and
17 in this case should be rejected.

18
19 **1. California Energy Conservation and Efficiency Policies**

20
21 Pub. Util. Code Section 739.7 requires the Commission to maintain “an appropriate
22 inverted rate structure” for residential rates, an approach that appropriately encourages customers

⁵ Pub. Util. Code section 451; *Pacific Telephone and Telegraph v. PUC*, 62 C. 2d 634 (1965); *Pacific Telephone and Telegraph v. PUC*, 34 C. 2d 822 (1950).

⁶ *Pacific Telephone and Telegraph v. PUC*, 7 C.3d 331, 357 (1974).

1 to conserve because rates increase as customers use more energy that bears a higher cost. This
2 approach encourages customers to pursue energy efficiency measures as directed by Public
3 Utilities Code Section 747.5, which directs an assessment of the extent that Commission “pricing
4 policies promote the pursuit of energy efficiency by customers.”

5 Public Utilities Code Section 454.5(b)(9)(C) requires utilities to first meet their “unmet
6 resource needs through all available energy efficiency and demand reduction resources that are
7 cost effective, reliable, and feasible.” The Commission and the California Energy Commission
8 (CEC) have additionally established California’s procurement policies through the “loading
9 order” in the California Energy Action Plan.⁷ The state’s first priority is to encourage energy
10 efficiency; the second priority is to achieve increased development of renewable energy
11 generation, including distributed generation such as solar PV, with efficient natural gas-fired
12 power plants and transmission infrastructure improvements third in the loading order.⁸

13 The California Energy Commission described the reasoning for the loading order in its
14 2009 Integrated Energy Policy Report (“IEPR”), stating that “Energy efficiency and demand
15 response measures are the first resources in the loading order because they can contribute to
16 meeting climate change goals with little or no impact on the environment and with measurable
17 benefits (for example, cost savings) to the consumer.”⁹

18 Strategies to achieve the energy efficiency goals of the loading order have been further
19 recognized by the Commission in what is known as the “Big Bold Energy Efficiency
20 Strategies.”¹⁰ These strategies include the goals that:

⁷ California Energy Commission, Energy Action Plan II, 2005.
http://docs.cpuc.ca.gov/word_pdf/REPORT/51604.pdf

⁸ Id.

⁹ California Energy Commission, *2009 Integrated Energy Policy Report*, Final Commission Report, December 2009, CEC -100-2009-003-CMF at 21.

¹⁰ CPUC Decisions D.07-10-032 and D.07-12-051.

- 1 1. All new residential construction in California will be zero net energy by 2020;
- 2 2. All new commercial construction in California will be zero net energy by 2030;
- 3 3. Heating, Ventilation and Air Conditioning (HVAC) will be transformed to ensure that
- 4 its energy performance is optimal for California’s climate; and
- 5 4. All eligible low-income customers will be given the opportunity to participate in the
- 6 low income energy efficiency program by 2020.¹¹

8 **2. California Renewable Energy and Solar Policies**

9

10 The California Solar Initiative (CSI) is another critical policy of the state of California to

11 achieve increased solar PV generation. The Commission created the CSI in January 2006 with a

12 goal to install 3,000 MW of distributed solar facilities within the period of 2007-2016, with the

13 ultimate goal of effecting a market transformation that will make solar PV systems cost-effective

14 in California.¹² The CSI provides reliable financial incentives for solar that decline over time as

15 solar installation is achieved. The program objectives include the benefits of (1) adding clean

16 renewable energy to peak demand resources; (2) mitigating risk by diversifying the state’s

17 energy portfolio; and (3) reducing the need for transmission and distribution system additions.¹³

18 The CPUC stated in the 2008 Energy Action Plan that, “Renewable energy policy is a

19 cornerstone of our approach to reducing greenhouse gas emissions in the electricity sector,” and

20 has committed to a goal of 33 percent of the power delivered in California to be from renewable

¹¹ Id.

¹² Decision 05-12-044 and Decision 06-01-024; Public Resources Code § 2851; Public Resources Code § 25780.

¹³ CPUC Decision 06-01-024 at 2.

1 sources by 2020.¹⁴ One of the significant accomplishments that the CPUC lists in its Energy
2 Action Plan is a “[s]urge in applications to install solar photovoltaics in 2007.” As described in
3 Section IV, the new rate structure proposed by PG&E will have a significant negative effect on
4 the rates of solar adoption, as it removes the incentives for residential solar installation for the
5 foreseeable future.

6 The 2009 IEPR also describes the benefits of distributed generation. The CEC found
7 that: “Increased use of distributed generation is another strategy for meeting the state’s GHG
8 reduction goals. Distributed energy systems are complementary to the traditional electric power
9 system and include small-scale power generation technologies (for example, CHP, photovoltaic,
10 small wind turbines) located close to where the energy is being used. Distributed generation has
11 many advantages, including increased grid reliability, energy price stability, and reduced
12 emissions, especially in industrial applications. California is leading the nation in implementing
13 policies to encourage distributed generation development.”¹⁵

14 The California Global Warming Solutions Act is a critical cornerstone of California law
15 advancing energy policies for conservation and renewable resource objectives.¹⁶ The Global
16 Warming Solutions Act established the goal of reducing greenhouse gas emissions to 1990 levels
17 by 2020. The Air Resources Board, acting pursuant to its authority under the law, adopted the
18 Climate Change Scoping Plan (“Scoping Plan”) in 2008.¹⁷ The Scoping Plan relies on energy
19 efficiency measures that reduce energy use by 32,000 GWh and 800 million therms by 2020,
20 corresponding to 15.2 million metric tons of CO₂-equivalent emissions (MMTCO₂E). The 33%

¹⁴ California Public Utilities Commission, the California Energy Commission, and the California Power Authority
Energy Action Plan Update, 2008, p. 2.

¹⁵ CEC -100-2009-003-CMF at 27.

¹⁶ Assembly Bill No. 32 (Pavley, 2006) California Health and Safety Code, §§ 38500 et seq.

¹⁷ California Air Resources Board, *Climate Change Scoping Plan*, December 2008, available at:
<http://www.arb.ca.gov/cc/scopingplan/scopingplan.htm>.

1 renewables portfolio standard is needed to achieve a reduction of 21.3 MMTCO₂E, and the
2 Million Solar Roofs measure is needed to achieve procurement of 3,000 MW total installations
3 to achieve reductions of 2.1 MMTCO₂E.¹⁸
4

5 **b. The Proposed Rate Design Changes Will be Extremely Detrimental and**
6 **Harmful to California Energy Policy.**

7
8 **1. Energy Conservation Impacts of the Proposed Rate Design**
9 **Changes**

10
11 The implementation of increasing-block rates as an incentive for residential energy
12 conservation has been an important part of the fundamental goals and impressive
13 accomplishments of the California Public Utilities Commission (CPUC). Since consumers
14 respond to increasing prices for energy, as illustrated below, the proposed changes in the PG&E
15 residential tier structure will remove an important incentive to increase energy efficiency and
16 conservation as well as renewable energy generation, thus undermining CPUC's achievements
17 and stated goals.

18 Using a quantitative analysis, Dr. Alan Spearot, an expert in econometrics, evaluated and
19 modelled PG&E's rate design proposals, and predicted that the proposed changes to the rate
20 schedule will increase total energy consumption by 110,044 MWh, or .387%.¹⁹ This analysis
21 assumed conservative elasticity assumptions of -0.4 for CARE customers and -0.2 for Non-
22 CARE customers, and applying these elasticities to average rates, and not marginal rates. This

¹⁸ Scoping Plan at 44-45, 53.

¹⁹ Exhibit 7 at 20.

1 analysis projects customer conservation response, and does not incorporate energy efficiency and
2 solar installation responses. The model includes a sensitivity analysis that estimates impacts
3 assuming greater elasticities, as other studies have found elasticities between -0.3 and -0.5.²⁰
4 Assuming an elasticity of -0.4 for all customers would correspond to an energy consumption
5 increase of 451,702 MWh, or 1.587%.²¹

6
7 **2. Energy Efficiency Impacts of the Proposed Rate Design**
8 **Changes**
9

10 The current increasing-block rate structure sends a price signal to customers to conserve
11 electricity and makes investment in energy efficiency measures cost-effective and attractive. By
12 reducing the marginal cost of consuming electricity above 130% of baseline and flattening rates
13 above that level, PG&E's proposed rate structure would reduce the price signal in favor of
14 conservation and reduce the cost-effectiveness of energy efficiency measures. The current
15 PG&E rates create a strong economic incentive to upgrade to more efficient air conditioners,
16 while the proposed three-tier rate structure virtually eliminates that incentive.²²

17 The efficiency of central air conditioning systems is rated by a Seasonal Energy
18 Efficiency Ratio (SEER). Current SEER ratings typically range from 13 to 23, with higher
19 numbers indicating more efficient units. The typical SEER rating of air conditioners
20 manufactured before 1992 is about 6. In 1992, the federal government established the minimum
21 cooling efficiency standard for units installed in new homes at SEER 10. The minimum standard
22 changed again in 2006 to SEER 13. To qualify for the federal Energy Star label a central air

²⁰ Exhibit 7 at 25.

²¹ Exhibit 7 at 26.

²² Exhibit 7 at 59.

1 conditioner must have a SEER rating of at least 14. In some climate zones California Title 24
2 regulations require a SEER 14 rating or higher, so this should be considered a minimum likely
3 efficiency for a replacement unit. Even with the housing construction boom of the mid 2000s, the
4 vast majority of central air conditioning units installed in residences are SEER 10 or worse.²³

5 EcoShift modeled customer decisions under the existing and proposed rates, finding that,
6 as an example, a customer in Fresno upgrading from SEER 10 would save 1,514 kWh/year by
7 upgrading to SEER 14, and 2,650 kWh/year by upgrading to SEER 20.²⁴ To determine if
8 upgrades would continue to make economic sense if the proposed rate changes were adopted, the
9 Savings-to-Investment ratio (SIR) was used as an indicator. A SIR greater than 1 indicates that
10 an investment in energy efficiency equipment would pay for itself within its useful life, and a
11 SIR less than 1 indicates that the equipment would not be economically efficient.²⁵ The analysis
12 shows that for a homeowner in Fresno or Bakersfield (PG&E climate zones R and W), upgrading
13 from a SEER 10 to SEER 14 or 20 would make economic sense under the current rate structure,
14 but not under the proposed rate structure. For both upgrades in either climate zone, SIR is
15 greater than 1 under the existing rates, but less than 1 under the proposed rate changes.²⁶

16 The cumulative effect of eliminating this incentive can have negative consequences for
17 meeting the State's energy efficiency goals. In just these two climate zones, there is a potential
18 savings of 20,804 MWh/year for upgrades to SEER 14 and 53,369 MWh/year for upgrades to
19 SEER 20. While not all households will upgrade to SEER 20, and some may already have high
20 efficiency HVAC systems, these calculations give an indication of the energy savings from

²³ Exhibit 7 at 59.

²⁴ Exhibit 7 at 60.

²⁵ Exhibit 7 at 60.

²⁶ Exhibit 7 at 61.

1 energy efficiency that are at stake if the proposed rates are adopted.²⁷ The proposed rate design
2 also dampens the price signal that encourages customers to reduce residential electrical baseload,
3 including efficient use of refrigeration, plug-loads, and other appliances.²⁸

4

5 **3. Solar PV Impacts of the Proposed Rate Design Changes**

6

7 The proposed change to the E-1 residential rate structure will have a dramatic effect on
8 residential PV adoption in California because it creates economic disincentives for PV
9 installation at the household level. EcoShift Consulting performed an analysis of the proposed
10 rates on adoption of residential solar PV, analyzing levelized costs of grid electricity (LCOE)
11 and PV.²⁹ EcoShift found that combining tiers 3 and 4 and reducing the tier 3 rate will remove
12 an important financial incentive for the PG&E customers most likely to install solar PV, while
13 changes to the baseline and creating a tier 3 CARE rate will have no impact on PV adoption.

14 Under the current rate structure, customers in Tiers 4 and 5 have a LCOE greater than 1,
15 indicating that the investment in PV is above the break-even point and is a rational economic
16 decision³⁰. Under the proposed rate structure, customers in Tiers 4 and 5 are below the break-
17 even point, and no longer have a financial incentive to install solar PV. In comparing these
18 scenarios, 917,952 MWh/year of solar PV are currently incentivized, corresponding to 4.8
19 percent of all PG&E residential consumption. Under proposed rates, this number is 0.³¹ This
20 translates to 185,912 metric tons of carbon dioxide emissions, 2,249 tons of SO₂ emissions,

²⁷ Exhibit 7 at 62.

²⁸ Exhibit 7 at 66-68.

²⁹ Exhibit 7 at 29.

³⁰ Exhibit 7 at 33-34.

³¹ Exhibit 7 at 35.

1 486.5 tons of NOx emissions, and 27.5 tons of PM₁₀.³² The proposed rate design changes have
2 serious consequences for advancing solar energy in California, and severely undermine
3 California’s renewable energy and solar goals. Using a sensitivity analysis, EcoShift found that
4 these consequences persist unless solar prices drop to \$7/watt, an unlikely scenario even given
5 recent declines in the price of solar.³³

6 PG&E has fallen short of the Renewables Portfolio Standard (RPS) requirement of 20%
7 renewable energy by 2010, as the current amount of renewables in the portfolio amounts to only
8 14.4%.³⁴ The proposed changes would also impact the estimated 6,900 well-paid jobs associated
9 with installing residential solar PV, which would have cascading effects on the solar energy
10 industry as a whole, which currently employs up to 17,500 workers in California.³⁵

11
12

13 **III. Proposed Monthly Customer Charge Discourages Energy Conservation, and**
14 **Reduces Incentives for Energy Efficiency and Renewable Energy.**

15

16 PG&E proposes to assess \$3 non-CARE and a \$2.40 CARE customer charge. In their
17 argument, they state that the current system results in higher-paying customers subsidizing
18 lower-paying customers for these costs. In general, fixed prices do not encourage energy
19 conservation since they are not at all tied to how much energy is consumed, and customers
20 cannot avoid these charges by using less energy. On basic economic grounds we argue that the
21 effect on conservation will be negative.

³² Exhibit 7 at 50.
³³ Exhibit 7 at 39.
³⁴ Exhibit 7 at 43.
³⁵ Exhibit 7 at 53.

1 Recovering revenue lost through the proposed rate change would be equivalent to
2 reducing tier 3 rates by 2 cents/kWh, or a 7% reduction in the marginal price for tier 3 customers.
3 In effect, this is another blow to the efficacy of a tiered system, and will further limit the
4 effectiveness of the CPUC in achieving energy efficiency and renewable energy goals discussed
5 in Section II. In the context of this rate case, collecting revenue through a customer charge will
6 lower the marginal price charged to Tier 4, and will reduce the effectiveness of the rate structure
7 providing incentives for energy efficiency retrofits and solar installation.

8 Sierra Club California concurs with the legal analysis of PG&E’s proposed customer
9 charge that is included in TURN’s June 16, 2010 Motion to Strike and in DRA and Solar
10 Alliance’s Testimony.³⁶ Public Utilities Code Section 739.9(a) limits increases in residential
11 rates for usage up to 130% baseline to “the annual percentage change in the Consumer Price
12 Index from the prior year plus 1 percent, but not less than 3 percent and not more than 5 percent
13 per year.” The Commission has longstanding policies that customer charges must be included in
14 the calculation of baseline rates, and that there must be more than a 10% difference between Tier
15 1 and 2 rates. The proposed \$3 customer charge exceeds the limits of Section 739.9(a) and
16 cannot be implemented under current Tier 1 and 2 baseline rates are reduced.

17

18 **IV. Proposed CARE Tier 3 Rate**

19

20 Sierra Club California takes no position on the proposed CARE Tier 3 rate. While it is important
21 to ensure adequate price signals to conserve energy, the evidence in the record does not indicate

³⁶ “Motion of The Utility Reform Network to Strike a Portion of the Application Proposing a Residential Customer Charge” (filed June 16, 2010 in this docket), available at <http://docs.cpuc.ca.gov/efile/MOTION/119540.pdf>. Also Exhibit 23 (DRA) at 6-8 to 6-11. Also Exhibit 26 (Solar Alliance) at 17-18.

1 that the proposed rates will bring measurable changes in energy efficiency investments or
2 residential PV installation.

3

4 **V. Proposed Reduction in Baseline Percentage from 60 % to 55%**

5

6 Sierra Club California takes no position on the proposed Reduction in Baseline Percentage from
7 60% to 55%. While a greater number of customers will be charged at a higher tier rate for a
8 portion of their billed energy use, the marginal rate for the higher tiers also declines to maintain
9 the constant revenue requirement. Dr. Spearot’s analysis of energy consumption testing the
10 impact of the change to baseline quantities resulted in a very small increase to total energy
11 consumption by 0.02%.³⁷ This proposal also had no impact on the EcoShift economic model
12 affecting solar PV.³⁸

13

14 **VI. Proposed Tier Changes for Non-CARE customers Discourage Energy**
15 **Conservation, and Eliminate Incentives for Energy Efficiency and Renewable**
16 **Energy.**

17

18 The five-tier residential rate structure that has been in place from 2001-2009 has
19 advanced the priorities in the state’s loading order by sending effective price signals to high-
20 usage customers to reduce energy usage, and to consider energy efficiency and installing solar
21 PV to reduce or eliminate the customer’s energy use.

³⁷ Exhibit 7 at 20.

³⁸ Exhibit 7 at 29.

1 PG&E’s proposal argues that the increasing costs of energy have been disproportionately
2 borne by users that currently fall under tiers 4 and 5. Furthermore, PG&E argues that less than
3 one-quarter of all residential usage had to absorb all residential rate increases since 2001, and
4 Tier 5 rate has doubled since it was initiated in 2001. However, these households also represent
5 the heaviest energy users, with tiers 4 and 5 representing users that consume over 200% of
6 baseline energy use, where baseline is defined as “between 50 and 60 percent of average use for
7 basic-electric customers in both the summer and winter and for all-electric and gas customer in
8 the summer” for each of the climate zones defined by PG&E. The current proposal will result in
9 decreased rates for tiers 4 and 5 of almost 35%, and, combined with changes to rates earlier in
10 the year, will bring tier 5 prices essentially back to 2001 levels when accounting for inflation.³⁹.

11 PG&E argues that there is inequality between high-consumption and low-consumption
12 households, whereby “PG&E’s current tiered generation rate structure produces results whereby
13 households consuming in the upper tiers are subsidizing households with consumption limited to
14 the lower tiers.”⁴⁰ However, a key objective of increasing-block energy pricing is to provide an
15 incentive for energy conservation. The system of inverted block rates is designed to create a
16 clear price signal for consumers that should discourage high energy use. Users that currently
17 conserve electricity will see their overall bills increase, by as much as 15% compared to current
18 rates, while upper tier users see their bills decrease by as much as 35% ⁴¹

19 This proposal, as part of the overall impacts of the proposed changes discussed in Section
20 II, would result in a virtual stand-still of the residential solar industry, posing significant
21 challenges to meet clean energy goals in the state of California without additional incentives.
22 The economic incentive for energy efficiency retrofits, most notably air conditioner retrofits,

³⁹ Exhibit 7 at 9.

⁴⁰ Exhibit 1.

⁴¹ Exhibit 7 at 13.

1 would also be eliminated unless significantly higher rebates were offered. Finally, the proposed
2 elimination of tier 4 would also dampen the incentive for energy conservation, counter to the
3 conservation policies expressed in the Public Utilities Code.

4
5 **VII. Proposed TOU rates, and Proposals for E-A7, EL-A7, baseline credit for E-7**
6 **and EL-7, and E-9A and E-9**

7
8 Sierra Club California concurs with the proposal and technical analysis of the Solar Alliance, in
9 their recommendations for E-6 and E-7 rates that encourage solar PV.⁴² Time of Use price
10 signals should generally be simple and understandable to customers. Such rates should provide
11 an adequate and meaningful incentive for solar installation so as to comply with SB 1. The Solar
12 Alliance recommendations accomplish this.

13
14 **VIII. The Proposal for Flat Generation and Distribution Rates with Tiered**
15 **Conservation Incentive Adjustment Has No Cost Basis, Discourages Community**
16 **Choice Aggregation, and Should be Rejected**

17
18 PG&E has proposed “flat generation and distribution rates” with a “conservation
19 incentive adjustment” charged on the distribution side of the bill. Sierra Club California agrees
20 with the City and County of San Francisco and Marin Energy Authority that PG&E’s proposal is
21 an attempt to interfere with the competition of Community Choice Aggregators and other

⁴² Exhibit 26 (Solar Alliance) at 19-49.

1 potential competitors by reducing PG&E’s generation rates for its highest usage customers,
2 without demonstrating that such reduced rates are cost-based.⁴³

3 The proposal transfers PG&E portfolio generation-related costs, outside of the power
4 contracts that CCAs are withdrawing from PG&E procurement, onto transmission and
5 distribution costs that are born by CCA customers.⁴⁴

6 CCAs have ratesetting authority under Public Utilities Code Section 366.2(c)(3)(B), and
7 are afforded specific protection against both outside interference or regulation by the
8 Commission, and against cost-shifting or charges for costs not attributable to them. Only costs
9 that are attributable to a CCA customer may be charged to that customer.⁴⁵ As PG&E
10 generation-related cost allocations, from which its conservation funding is extracted, no longer
11 serve a CCA customer’s Transmission and Distribution customer following the customer’s CCA
12 enrollment, commencement of service and 120-day opt-out period, there is no legal or policy
13 basis for that customer to be charged any fee.

14 The CIA will allow the potential for cost-shifting onto a CCA customer. Approximately
15 \$6.4 billion in energy purchases per year, of a 7% shift in energy costs is moved by the CIA.⁴⁶
16 The Marin Energy Authority found through a discovery request in this proceeding that its
17 customers would face 6% higher rates due to the CIA.

18 While PG&E claims this is overall revenue-neutral to its customers, this is actually cost-
19 shifting 7% of its entire annual power cost onto the distribution side of the bill, translating into
20 charges that are revenue neutral to bundled customers, but not revenue-neutral to CCA

⁴³ Exhibit 6 (CCSF) at 2.

⁴⁴ Exhibit 9 (Sierra Club) at 6.

⁴⁵ Public Utilities Code 366.2(c)(17).

⁴⁶ Exhibit 9 at 9.

1 (unbundled) customer bills. Sierra Club California urges a clear separation of distribution and
2 generation charges so that such cost-shifting may not occur.

3 PG&E admits in its testimony that the proposed CIA rates will harm economic bypass for
4 CCAs:

5 Because the CIA rates are calculated residually, PG&E’s proposal to
6 flatten generation and distribution rates does not affect the total rates,
7 and thus there are no bill impacts to bundled customers. However, the
8 CIA can have an impact on DA/CCA bills. Because the CIA rate will be
9 generally negative in Tiers 1 and 2 and positive in Tier 3, PG&E’s
10 proposal will generally reduce the PG&E bills of lower-tier consuming
11 DA/CCA households and increase the PG&E bills of upper-tier
12 consuming households. The overall effect on DA/CCA customers’ bills
13 (i.e., the combined PG&E and DA/CCA bill paid), though, will depend
14 upon the rates charged by the DA/CCA provider. In any event, the
15 flattening of the generation component of PG&E’s rates leads to a level
16 playing field and a fair, transparent, cost-based price signal for
17 customers choosing between PG&E and a non-utility generation
18 provider, which does not currently exist.⁴⁷

19
20 However, it is not the role of PG&E, or the Commission, to artificially design generation
21 rates for CCAs, as the Public Utilities Code expressly and exclusively grants this authority to the
22 locally elected boards of the Community Choice Aggregators. The Commission decided in

⁴⁷ Exhibit 1 (PG&E) at 20.

1 R.03-10-003 that the CPUC does not intend to regulate CCAs. In D.04-12-046, the Commission
2 decided that utilities must prepare for load departure of CCAs.

3 To the extent that any utility Generation costs are shifted onto CCAs, whether by
4 surcharge or change of cost allocation. This would both break with Commission policy not to
5 regulate CCAs and send a signal that CCA customers remain Generation customers of the utility,
6 when in fact AB 117 and Commission policy determine that Community Choice will be under
7 local government supervision, subject to Brown Act, public meeting laws, and local elections.
8 CCAs will not otherwise be subject to Generation-related PG&E costs following load departure
9 and payment of the CCA CRS according to the established Commission process.⁴⁸

10 Further, under FERC Order 888, transmission access is supposed to be non-
11 discriminatory in order to facilitate wholesale competition. PG&E's proposal to adopt a CIA that
12 would disproportionately impact CCA customers through a Transmission and Distribution
13 Charge, is discriminatory against customers considering or receiving service from companies
14 that seek to compete with PG&E under AB 117, the CCA law.

15 There is a significant history and documented record indicating the motivation to take
16 such actions in the ratesetting process, specifically PG&E statements that CCAs are “taking our
17 customers.”⁴⁹ PG&E has also engaged in heavy local lobbying and non-cooperative activities to
18 obstruct CCA formation.⁵⁰

19 PG&E has not been able to justify this proposal by demonstrating that flat generation
20 rates are more cost-based than tiered generation rates. This change would require re-
21 programming PG&E’s billing system at a cost of \$3.6 million.⁵¹

⁴⁸ Exhibit 8 at 45.

⁴⁹ Exhibit 9 at 6.

⁵⁰ Exhibit 9 at 36-39.

⁵¹ Exhibit 6 at Exhibit A.

1 Sierra Club California urges that PG&E’s proposed charges for the CIA and EPMC be
2 rejected in their entirety in the GRC because these charges constitute shifting costs from bundled
3 service customers’ generation costs to CCA customers transmission costs in violation of AB 117
4 and CPUC decisions not to regulate CCA’s. These charges additionally harm economic bypass
5 conditions, and hinder the energy efficiency, conservation, and renewable portfolio standard
6 acceleration that CCA’s help to bring.

7

8 **IX. Other Issues**

9

10 **X. Conclusion**

11

12 Overall, Sierra Club California finds that the proposed change in tier structures and
13 baseline usage will negatively affect energy conservation, renewable energy adoption, and
14 energy efficiency by PG&E customers, as well as shift the burdens of paying for energy from
15 wealthier households that consume more electricity to lower-income, low-consuming
16 households. We find that consumption will increase by 110 GWh annually, which corresponds to
17 an additional release of 26,171 metric tons of CO2.

18 We also find that, due to the elimination of financial incentives for purchasing residential
19 solar PV, a potential savings of 918.0 GWh per year is forgone (185,912 metric tons of CO2). In
20 terms of jobs related to PV, if all residential PV currently incentivized were installed, roughly
21 21,085 jobs would be created.

1 In energy efficiency, just looking at air conditioner upgrades in two PG&E climate zones,
2 savings of up to 53.4 GWh per year (25,423 metric tons of CO2) will be disincentivized. The
3 total impact for all of PG&E territory would likely be much higher.

4 Due to the projected increase in energy consumption, greenhouse gas and criteria
5 pollution emissions, and loss of renewable energy and efficiency retrofit and PV installation
6 jobs, we find that the proposed residential rate design will be detrimental to the goals of the
7 CPUC and the state of California. The proposed residential rate design runs counter to
8 ratemaking principles encouraging conservation and efficiency in the Public Utilities Code, the
9 loading order, the goals stated in the Energy Action Plan, Integrated Energy Policy Report, and
10 the Climate Change Scoping Plan, including the Million Solar Roofs and California Solar
11 Initiatives. Sierra Club California strongly urges the Commission to reject the customer charge
12 and the consolidation of tiers 3 and 4.

13 Sierra Club California urges that PG&E's proposed charges for the CIA and EPMC be
14 rejected in their entirety in the GRC because these charges constitute shifting costs from bundled
15 service customers' generation costs to CCA customers transmission costs in violation of AB 117
16 and CPUC decisions not to regulate CCA's. These charges additionally harm economic bypass
17 conditions, and hinder the energy efficiency, conservation, and renewable portfolio standard
18 acceleration that CCA's help to bring.

19

20 Respectfully submitted on this day, December 20, 2010

21

22

/s/ Jim Metropulos

23

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VERIFICATION

I am the Senior Advocate with Sierra Club California and am authorized to make this verification on its behalf. I am informed and believe that the matters stated in this pleading are true.

I declare under penalty of perjury that the matters stated in this pleading are true and correct.

Executed on the **20th day of December, 2010**, at Sacramento, California.

/s/ Jim Metropulos

Jim Metropulos, Senior Advocate

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1 CERTIFICATION OF SERVICE

2 Application 10-03-014
3

4 I, Jim Metropulos, certify that on this day December 28, 2010, I sent copies of the
5 attached Sierra Club California’s comments on the General Rate Case, Phase 2 to be served
6 on all parties by emailing a copy to all parties identified on the electronic service list provided by
7 the California Public Utilities Commission for this proceeding, and also by efileing to the CPUC
8 Docket office, with a paper copy to Administrative Law Judge Thomas Pulsifer, and Presiding
9 Commissioner Michael Peevey.
10

11 I declare under penalty of perjury that the foregoing is true and correct and that this
12 declaration was executed on December 28, 2010, at Sacramento, California.
13
14
15

16 Dated: December 28, 2010 at Sacramento, California.
17
18
19

20 /s/ Jim Metropulos

21 _____
22 DECLARANT

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