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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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.

Rulemaking 12-06-013
(Filed June 21, 2012)

**ASSIGNED COMMISSIONER AND ADMINISTRATIVE LAW JUDGES'
JOINT RULING INVITING COMMENTS
AND SCHEDULING PREHEARING CONFERENCE**

1. Summary

Today's ruling sets October 5, 2012 as the date for opening comments on the list of questions contained in the order instituting this rulemaking (OIR) and subsequently revised in light of parties comments offered in a workshop held on August 27, 2012 at the Commission in San Francisco. In addition, this ruling sets October 19, 2012 as the date for reply comments.

Finally, the ruling sets a prehearing conference (PHC) for October 24, 2012 at the Commission in San Francisco.

2. Procedural History

In 2009, the Legislature enacted Senate Bill 695 which allows the Commission to transition residential customers onto time variant rates as early as 2013. To investigate issues related to such a transition, on June 28, 2012, the Commission instituted this OIR. Specifically, the OIR proposes to examine current residential electric rate design, including the tier structure in effect for

residential customers, the state of time variant and dynamic pricing, potential pathways from tiers to time variant and dynamic pricing, and preferable residential rate design to be implemented when statutory restrictions are lifted.

Through the OIR, the Commission seeks to examine whether the current tiered rate structure continues to support the underlying state-wide energy goals, facilitates the technologies that enable customers to better manage their usage and bills, and whether rates result in inequitable treatment across customers and customers classes. The OIR set forth a tentative list of themes and preliminary questions for discussion. The OIR also set forth a tentative procedural schedule for refining the discussion questions set forth in the OIR.

A workshop was held on August 27, 2012 in advance of comments from parties to discuss and refine the questions in order to insure that the scope of this proceeding is clear to all parties and sufficient to create a record for the adoption of new policies.

This Assigned Commissioner Ruling (ACR) sets forth the list of questions as refined by the workshop. Following written comments and replies from the parties on these revised questions and a prehearing conference further discussing the scope and timetable for this proceeding, the Commission will issue a scoping memo setting forth a case management plan for resolving the issues in this proceeding.

Prior to requesting and investigating rate design proposals from the parties and consistent with the plan set forth in the OIR, the Commission will attempt to establish consensus (or identify disagreement) in the following areas:

1. Goals of Optimal Residential Rate Design
2. Definitions of key terms
3. Available data sources

4. Bill impact calculator
5. Coordination with other proceedings
6. Questions and metrics for evaluating specific rate design proposals

A shared understanding of these matters is a key to ensuring that the discussions in this proceeding minimize conflicts that arise from misunderstandings pertaining to definitions, assumptions, or technical models.

3. Refined List of Questions from OIR for Comment

The OIR that initiated this proceeding stated:

To begin its examination, the Commission invites discussion on the following themes surrounding rate design. The Commission will hold a workshop in advance of comments to discuss and refine these preliminary questions and will thereafter, by ACR, file and serve a list of questions for comment.¹

This ACR refines these questions and seeks further comment concerning the scope of this proceeding.

3.1. August 27, 2012 Workshop Summary

A workshop to discuss the questions set forth in the OIR was held on August 27, 2012. The questions were divided into four sections: 1) Goals of Residential Rate Design; 2) Rate Design; 3) Equity Concerns; and 4) Coordination. For each section of questions panelists provided suggestions and comments, followed by input from the audience. Panelists included representatives of utilities, consumer interest groups, academia, environmental

¹ R.12-06-013 at 20.

groups, the solar industry, and others affected by the issues in this proceeding. In addition, each panel of the workshop set aside time for public questions and discussion, both from those in the workshop setting and over the internet.

The workshop served as an opening discussion on the issues and concerns raised by a new rate design. Participants provided insightful and constructive comments. Because the workshop is not part of the record, we have not attempted to summarize all issues raised here. A recording of the complete workshop can be found at <http://www.californiaadmin.com/cpuc.shtml>. Based on the comments offered at the workshop, we have revised our proposed questions and now invite parties to provide written comments on the revised list of questions, including memorializing comments from the workshop for the record.

As a result of the discussion in the workshop, we have made several revisions to the list of questions. Notably, we have divided the questions into two sections: (A) Coordination Questions and (B) Rate Design Evaluation Questions.

Coordination Questions are the immediate questions that must be answered so that this proceeding is harmonized with legislation and other Commission proceedings and programs.

Rate Design Evaluation Questions are intended to include all of the questions parties must address with their rate design proposals, including specific goals and equity concerns. For example, equity concerns are included in the current list of goals by reference to specific customer classes (low-income, medical baseline), and by reference to cross-subsidies between customer classes. In their comments, parties should identify any equity concerns that are not

captured by these goals, as well as clarify what specific equity concerns they believe are included within these goals.

3.2. Refined List of Questions from OIR

3.2.1. Coordination Questions

Based on the discussions held during the workshop, we tentatively conclude that the following questions will elicit the information needed to coordinate this proceeding with the other proceedings that address energy issues and rates.

1. Please list the major energy proceedings with which this proceeding should coordinate and explain what kind of coordination is needed (e.g., actively coordinating, relying on findings, incorporating evidentiary record, monitoring).
2. How should customer outreach and education efforts in different proceedings be coordinating to maximize effectiveness and efficiency?
3. Should any of these proceedings be suspended, consolidated, or dismissed pending the resolution of this rulemaking?
4. What policies would help ensure that successful strategies will be shared between utilities?
5. Are there proceedings at other government agencies, or legislation that should be tracked in connection with this proceeding?

Please comment on whether the above questions adequately address the issue of coordinating this proceeding with legislation, policies, and other proceedings.

Following a review of comments and replies, the scoping memo will set forth the final list of coordination questions and set the comment schedule for parties to respond to the final list of coordination questions.

3.2.2. Rate Design Evaluation Questions

Based on the discussions at the August 27, 2012 workshop, we tentatively concluded that the discussion and evaluation of rate designs can be divided into a discussion of the goals that a Commission approved rate design should advance and the discussion of the elements in such a rate design. This ACR addresses each in turn.

3.2.2.1. Goals

Based on the discussion of goals at the workshops, we propose the following list of goals to ensure that the Commission develops a rate design consistent with long-standing legislative and policy goals.

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 provide stability, simplicity and customer choice;
7. Rates should avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals;
8. Rates should encourage economically efficient decision-making;
9. Incentives should be explicit and transparent; and
10. Transitions to the new rate structure should emphasize customer education and outreach that enhances customer understanding and acceptance of new rates, and minimizes and avoids the potential for rate shock.

The scoping memo will set forth the final list of goals for use in evaluating proposed rate designs. In your comments, please address (a) recommended

changes to these goals, including whether any of the goals are duplicative, and (b) what types of metrics could demonstrate that a rate design promotes a particular goal.

3.2.2.2. Rate Design Proposals

The scoping memo will set forth the final list of instructions for proposing rate designs and questions to be used to evaluate those proposals. However, as discussed in Section 4 below, the parties and the Commission will have additional workshops and comment opportunities before rate design proposals are due.

Based on the workshops held on August 27, 2012, we tentatively conclude that the following list of questions will elicit a full rate-design policy that the Commission can consider and adopt.

1. Please describe in detail an optimal residential rate design structure based on the goals listed above and the additional goals, if any, that you recommend. For purposes of this exercise, assume that there are no legislative restrictions.
Support your proposal with evidence citing research conducted in California or other jurisdictions.
2. Explain how your proposed rate design meets each goal and compare the performance of your rate design in meeting each goal to current rate design. Please discuss any cross-subsidies potentially resulting from the proposed rate design, including cross-subsidies due to geographic location (such as among climate zones), income, and load profile. Are any such cross-subsidies appropriate based on policy goals? Where trade-offs were made among the goals, explain how you prioritized the goals.
3. How would your proposed rate design affect the value of net energy metered facilities for participants and non-participants compared to current rates?

4. How would your proposed rate design structure meet basic electricity needs of low-income customers and customers with medical needs?
5. What unintended consequences may arise as a result of your proposed rate structure and how could the risk of those unintended consequences be minimized?
6. Is your proposed rate structure compatible with innovative technologies that can help customers reduce consumption or shift consumption to a lower cost time period?
7. Describe how you would transition to this rate structure in a manner that promotes customer acceptance. Should customers be able to opt to another rate design other than the optimal rate design you propose? If so, briefly describe the other rate or rates that should be available? Discuss whether the other rate(s) would enable customers opting out to benefit from a cross-subsidy they would not enjoy under the optimal rate.
8. Are there any legal barriers that would hinder the implementation of your proposed rate design? If there are barriers, provide specific suggested edits to the sections of the Public Utilities Code. Describe how the transition to your proposed rate design would work in light of the need to obtain legislative and other changes and upcoming general rate cases.
9. How would your proposed rate design adapt over time to changing load shapes, changing marginal electricity costs, and to changing customer response?

Parties should comment on whether these questions should be modified to ensure that proposals contain the information needed for the Commission to consider and adopt a specific proposal.

4. Other Matters

This proceeding ultimately seeks to identify an optimal residential rate design. In order to do so, prior to requesting rate design proposals, this proceeding will first establish the shared assumptions, data sources, and framework for evaluating rate design proposals. In light of this, we anticipate

holding a number of workshops and an opportunity for comments on additional issues prior to inviting parties to propose their residential rate designs.

Attachment A contains a list of possible questions and workshop topics.

This, and all other procedural matters, will be discussed in the PHC.

5. Prehearing Conference and Scoping Memo

Following receipt of comments and replies, the Commission will hold a PHC on October 24, 2012 and subsequently issue a Scoping Ruling that sets the scope and the procedures for resolving the issues before the Commission.

Therefore, **IT IS RULED** that:

1. Parties may file opening comments on refining the list of questions from the OIR, as described in Section 3 above, due no later than October 5, 2012.

Reply comments are due October 19, 2012.

2. A prehearing conference is set for October 24, 2012 at 10:00 a.m. in the Commission Courtroom, 505 Van Ness Avenue, San Francisco, California.

Dated September 20, 2012, at San Francisco, California.

/s/ MICHAEL R. PEEVEY

Michael R. Peevey
Assigned Commissioner

/s/ JEANNE MCKINNEY

Jeanne McKinney
Administrative Law Judge

/s/ TIMOTHY J. SULLIVAN

Timothy J. Sullivan
Administrative Law Judge

Attachment A

Proposed Workshop

Workshop Day 1: Specific Rate Design Elements and Concepts.

Workshop Day 1 will consider the advantages and disadvantages of specific rate design elements and concepts such as the following:

- time varying rates that are also tiered,
- fixed charges,
- rate designs that adapt over time to changes in load shape and other market changes,
- baseline program,
- non-tiered time-varying rates,
- real time pricing,
- demand charges,
- dynamic pricing,
- approaches for providing support for low income and medical customers, and
- inclining block.

Workshop Day 2: Data and Definition Questions.

It is important for the parties to have a shared understanding of key terms, and to have access to the same data and models. Workshop Day 2 will identify (a) the terms that should be defined and possible definitions, (b) the types of data that parties would like to have and that the utilities can make available, and (c) parameters for a bill impact calculator. Questions for discussion may include:

- (1) What type of data and analysis are needed to inform the Commission what the optimal residential rate design structure should be?

- (2) What data and analyses may be needed in order to decide whether the low-income and medical baseline customers would have their basic needs met at an affordable cost?
- (3) The August 27, 2012 workshop identified the need for data to consider bill impacts of alternative rate designs on different customer subgroups, disaggregated by location, age, income, load profile, level of consumption, number of occupants, and type of household (single v. multifamily). How many levels of income disaggregation are needed? Are there other customer subgroups or disaggregated data that would be useful?
- (4) The August 27, 2012 workshop identified the need for a bill impact calculator. Are there other analytical tools that would be helpful to this proceeding?
- (5) What key terms should be defined? For example, Affordability, Economic efficiency, Fixed Costs, Cost-Causation, Cross-Subsidy, Peak, Off-Peak, Coincident and Non-Coincident Peak, marginal cost. Please propose definitions for the terms you identify.
- (6) What metrics should be used to estimate or track the impact of alternative rate designs on affordability, health and comfort and other areas?

(End of Attachment A)