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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'S RULING INVITING UTILITIES TO SUBMIT INTERIM RATE CHANGE APPLICATIONS**

**1. Summary**

This Assigned Commissioner's Ruling Inviting Utilities to Submit Interim Rate Change Applications (Ruling) invites each of Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Edison Company (SCE) to file applications for interim residential rate changes in this docket by no later than November 29, 2013. A separate Phase 2 of this proceeding will be opened to review those applications while Phase 1 continues to evaluate optimal residential rate designs. It is expected that Phase 2 will be categorized as ratesetting. If any utility does not intend to seek interim rate changes, then it is not required to file an application.

**2. Background**

The scope of this proceeding, as set forth in the Scoping Memo, is to answer the following questions: "Do existing rate design structures and

statutory requirements support the ability of the Commission and electric utilities to enact electricity policies; would implementing time varying rates instead of or in combination with the existing tier structure allow for the creation of a more equitable rate structure and better meet the Commission's rate objectives; and are changes to existing statutes needed to implement a preferable rate structure?" (Scoping Memo at 4 quoting Order Instituting Rulemaking (OIR) at 22.)

The Commission is interested in exploring improved residential rate design structures in order to ensure that rates are both equitable and affordable while meeting the Commission's rate and policy objectives for the residential sector. (OIR at 1.)

Assembly Bill (AB) 1X was enacted in 2001 in response to the energy crisis of 2000-2001. The bill suspended direct access and capped residential rates for usage up to 130% of baseline quantities (Tiers 1 and 2) at the levels in effect on February 1, 2001. As a result of the AB 1X restrictions, the rates that apply to usage in Tiers 1 and 2 did not increase until the end of the decade.<sup>1</sup> As a result, higher usage customers have experienced large rate increases that do not reflect cost of service. Thus, by 2009 residential tiered rates did not comport with the Commission's general policies to design rates that reflect the cost of service.

In 2009, SB 695 was enacted to allow some increases in Tier 1 and Tier 2 rates, and California Alternate Rates for Energy (CARE) rates. Specifically, SB 695 allowed non-CARE Tier 1 and Tier 2 rates to be increased annually by the

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<sup>1</sup> Senate Bill (SB) 1, which established the California Solar Initiative program, is the only exception. SB 1 specifically allowed costs to be allocated to non-CARE residential customers' Tier 1 and Tier 2 usage. (Section 2851(d)(2).)

cost of living plus 1% (not to exceed 5%), and CARE Tier 1 and Tier 2 by the annual increase in benefits provided under the CalWORKs program, not to exceed 3% and subject to the limitation that CARE rates not exceed 80% of the corresponding rate charges to non-CARE residential customers.

Following the enactment of SB 695, residential rates in Tiers 1 and 2 were increased modestly for non-CARE customers. Despite these changes, residential rates still are not consistent with the Commission's cost of service principle and these rates impede the Commission's ability to implement many other policy objectives.

In October 2013, AB 327 was signed into law. AB 327 makes significant changes to the types of residential rate structures that are permitted. AB 327 also contains limits designed to protect certain classes of vulnerable customers. Phase 1 will continue to examine optimal residential rate designs using the criteria developed in this proceeding.<sup>2</sup>

In the meantime, Phase 2 will allow some interim changes to be made to stabilize and rebalance tiered rates. All changes must be consistent with the statutory requirements that changes be made through a reasonable phase-in schedule relative to rates in effect prior to January 1, 2014, that differentials between tiers should be gradual, that rates not unreasonably impair incentives for conservation and energy efficiency and that rates not overburden low income customers. (California Public Utilities Code Sections 739.9(b); 739(d)(1); 739(e).)<sup>3</sup>

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<sup>2</sup> See, Administrative Law Judge's Ruling Requesting Residential Rate Design Proposals, March 19, 2013.

<sup>3</sup> All subsequent section references are to the California Public Utilities Code unless otherwise specified.

In addition, if an electrical corporation provides an average effective CARE discount in excess of the 30-35% maximum, such discount must not be changed by more than a reasonable percentage each year. (Section 739.1(c)(2).)

Specific residential rate structure changes that are permitted beginning January 1, 2014 include the following:

- Residential rate structures are only required to have two tiers.
- CARE rates can be restructured but should have an average effective discount of 30 – 35 percent.

### **3. Phase 2: Short Term Transitional Rate Change Applications**

Design and implementation of new residential rate structures should not be rushed. First, a long-term policy decision will be issued in Phase 1. Second, each utility will need to implement any new rate structure through a general rate case or other ratesetting proceeding. In the meantime, Phase 2 will endeavor to implement interim rate changes that will better align residential electricity prices with the Commission's cost to serve and other policy objectives, and that will reduce the size of rate changes required to implement future rate structures.

To the extent that PG&E, SDG&E and SCE intend to apply for interim rate changes, they are directed to file applications in this docket. The applications will be reviewed in Phase 2 of this proceeding. Phase 2 will proceed concurrently with Phase 1.

Rate design changes proposed for 2014 should be modest, easy to evaluate, and consistent with AB 327. I invite parties to work amongst themselves to see if agreement can be reached on minimum and maximum increases to Tier 1 and Tier 2 rates and other terms. Although the Commission cannot restrict investor owned utilities from applying for other, more complex, changes in residential

rate design, I do not think that it would be productive to make those proposals as part of Phase 2.

I propose the following guidelines for the Interim Rate Change

Applications:

1. To prevent further disparity in lower and upper tiers, any rate increase resulting from increased revenue requirements should be applied first to the lower tiers.
2. To avoid rate shock, and in compliance with statute, Tier 1 and Tier 2 rates should not be increased by an excessive amount.
3. To prevent future rate shock, Tier 1 and Tier 2 rates changes should begin to increase in 2014.
4. Rates should be adjusted as necessary to prevent CARE rates from increasing beyond the statutory effective CARE discount rate of 35%.
5. If the effective CARE discount rate is already above 35%, CARE rates should be adjusted on a glidepath towards the 35% effective discount limit without reducing the discount more than a reasonable percentage annually.

Applications should include a summary chart of rate impacts including actual numbers and the percentage by which a rate is proposed to be changed, work papers demonstrating compliance with the CARE effective discount requirements, and appropriate supporting testimony.

If another application related to residential rates is currently pending, the utility shall include multiple versions of rate impacts: a version showing rate impacts excluding other pending rate changes and additional versions showing rate impacts combined with other pending rate change applications. Pending residential rate changes include: (a) for all three utilities, any SB 695 rate change request made (or expected to be made) for 2014 rates, (b) for PG&E, Application

(A.) 12-02-020,<sup>4</sup> and (c) for SDG&E, A.11-10-002. Questions regarding presentation of rate impacts should be directed to Energy Division staff.

**4. Proposed Schedule:**

All parties are invited to comment on the procedural schedule set forth below and the need for evidentiary hearings in Phase 2.

<b>Event</b>	<b>Date</b>
Comments on procedural schedule and need for evidentiary hearings	November 8, 2013
Applications filed; Opening Testimony served	November 22, 2013
Protests filed	December 23, 2013
Replies filed	January 7, 2014
Motions for Evidentiary Hearings filed	January 10, 2014
Prehearing Conference held	January 14, 2014
Phase 2 Scoping Memo issued	January 21, 2014
Reply Testimony served	February 3, 2014
Rebuttal Testimony served	February 10, 2014
Proposed Decision issued for comment	March 2014

The Phase 2 Scoping Memo will cover issues raised in the protests and responses, the need for hearings, admission of testimony if appropriate, the issues to be addressed in the decision, and the categorization of the Phase 2 proceeding.

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<sup>4</sup> At this time, PG&E does not need to include proposed residential rate impacts from A. 13-04-012 as part of an application for changed rates in R.12-06-013.

**5. Phase 2 Category and *Ex Parte* Rules**

Because the applications for Phase 2 involve specific rates, the category of Phase 2 is expected to be ratesetting. In the absence of any subsequent determination to the contrary, parties are directed to follow *ex parte* rules for ratesetting cases as set forth in the Commission's Rules of Practice and Procedure 8.1, 8.2, 8.3, 8.5, and Section 1703(c) for any communications related to Phase 2 applications.

**IT IS RULED that:**

1. Any utility seeking interim rate changes under Assembly Bill 327 shall file an Application for Interim Rate Change in this docket no later than November 29, 2013.
2. The time for protests and replies on the applications is hereby shortened as set forth in the procedural schedule above to allow for a decision on this matter in time for summer 2014 implementation.
3. Because it is anticipated that Phase 2 will be categorized as ratesetting, parties shall treat Phase 2 as ratesetting and shall follow all applicable *ex parte* rules for ratesetting procedures for communications related to any Phase 2 applications until and unless the Commission sets a different category.

Dated October 25, 2013, at San Francisco, California.

/s/ MICHAEL R. PEEVEY

Michael R. Peevey  
Assigned Commissioner