

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Item #7 (Rev. 1)

AGENDA ID 14834

**ENERGY DIVISION
RESOLUTION E-4782**

May 26, 2016

R E S O L U T I O N

Resolution E-4782. Adoption of electricity prices consistent with Decision 15-07-001.

PROPOSED OUTCOME:

- Pacific Gas & Electric Company's (PG&E's) advice letter setting out prices for electricity consistent with Decision 15-07-001 is approved.

SAFETY CONSIDERATIONS:

- There is no impact on safety.

ESTIMATED COST:

- There is no incremental cost associated with this Resolution.

By PG&E Advice Letter (AL) 4810-E, filed March 24, 2016.

SUMMARY

On March 24, 2016, Pacific Gas & Electric Company (PG&E) filed Advice Letter 4810-E (advice letter) seeking changes to its residential electric rates and consolidation of pricing tiers for residential customers in accordance with Decision (D.) 15-07-001 (the Decision) in the Residential Rate Reform proceeding (R.12-06-013). The advice letter proposed the following changes to their residential electric rates:

- The price for tier 1 electricity (up to 100% of baseline) would be increased by 11.4% relative to tier 1 prices as of March 1, 2015 in compliance with the

Decision's requirement that annual tier 1 price increases be capped at the increase in the residential average rate (RAR) plus 5%.¹

- Existing tiers 2 and 3 would be collapsed into a single tier for all residential electricity sales between 100% and 200% of baseline quantities.
- As a result of the collapse of tiers 2 and 3 into a single tier 2, the price for new tier 2 electricity (101%-200% of baseline) would increase 29% relative to former tier 2 (101%-130% of baseline) prices as of March 1, 2015 and decrease 12.4% relative to former tier 3 (131%-200% of baseline) prices as of March 1, 2015.
- The price for tier 3 electricity (over 200% of baseline) would increase 19.4% relative to former tier 4 (over 200% of baseline) prices as of March 1, 2015.

As discussed in detail below, PG&E's advice letter fulfills the requirements of the Decision as applied to PG&E's particular circumstances by this resolution and is approved subject to this resolution's findings and ordering paragraphs. Due to factors that were not anticipated at the time of the Decision's adoption last year, it is impossible for PG&E to simultaneously adhere to the Decision's requirements to 1) cap 2016 tier 1 rate increases to a given percentage and 2) to maintain the mandated 2016 ratio between tier 1, tier 2 and tier 3 prices.

This resolution approves PG&E's proposed solution in this instance.

BACKGROUND

Assembly Bill (AB) 327 (Perea, 2013) set in motion a series of reforms to residential electricity rates in California. Among these was the authorization for the CPUC to consider collapsing the number of tiers used to price residential electricity.

The CPUC issued Decision (D.) 15-07-001 last year implementing reforms to the default tiered price structure for residential electricity. The Decision began a process under which a time-of-use (TOU) system may become the default

¹ D.15-07-001 at 277.

residential electricity price structure in 2019. Prior to this time, the various tiers for residential pricing were to be restructured and their differentials reduced through a glidepath established for each IOU. The approved glidepath for PG&E appears below.²

Approved Glidepath for Tier Consolidation (PG&E)

	Current	2015	2016	2017	2018	2019
Number of Tiers	4 tiers	4 tiers	3 tiers	2 tiers	2 tiers	2 tiers
Usage covered			Baseline 101 – 200% BQ Over 200% BQ	Baseline > 100% BQ	Baseline > 100% BQ	Same as 2018
Tier Differential		1:1.18:1.5:1.91	1:1.23:1.81	1:1.361	1:1.313	1:1.25
SUE Surcharge ⁵⁸¹	N/A	N/A	N/A	1:1.89	1:2.033	1:2.19

The Decision noted the CPUC’s concern regarding the collapse of tier 2 (usage between 101-130% of baseline) and tier 3 (usage between 131-200% of baseline) into a single tier 2 (usage between 101-200% of baseline) in 2016. According to the Decision’s analysis of PG&E’s original glidepath proposal, “[t]he most significant bill impact for lower tier customers will occur when Tiers 2 and 3 are consolidated.... To reduce the rate shock of such an increase, we direct PG&E to reduce the differential between Tiers 2 and 3 before combining these tiers.”³

Another important feature of the Decision’s mandated glidepath was the imposition of a cap on the annual increase in tier 1 prices. This meant that tier 1 increases resulting from the tier consolidation were to be capped at the change in the residential average rate (RAR) plus 5% relative to rates for the prior 12 months.⁴

² D.15-07-001 at 278. The acronym “BQ” stands for “baseline quantity” of electricity available to each PG&E customer in a month. The size of the BQ depends on which climate zone a customer lives in. Hotter climate zones tend to have larger BQs. The term “SUE Surcharge” means Super User Electric Surcharge and will cover monthly usage in excess of 400% of baseline starting in 2017.

³ D.15-07-001 at 274-275.

⁴ D.15-07-001 at 277.

The Decision also directed PG&E to file a Tier 2 advice letter (AL) in the fall of 2015 setting out future predicted rates according to the glidepath. PG&E filed this glidepath advice letter (AL 4697-E) on September 1, 2015. PG&E’s estimated rates from AL 4697-E appear below.

Rate	3/1/2015	9/1/2015	2016	2017	2018	2019	2020
Non-CARE							
Monthly Minimum Charge	\$4.50	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00	\$10.00
Energy Charges							
0 to 100% of BQ	\$0.16352	\$0.16700	\$0.17446	\$0.17736	\$0.17963	\$0.18247	\$0.18239
100% to 130% of BQ	\$0.18673	\$0.19824	\$0.21659	\$0.24363	\$0.23799	\$0.23013	\$0.23003
130% to 200% of BQ	\$0.27504	\$0.25200	\$0.21659	\$0.24363	\$0.23799	\$0.23013	\$0.23003
200% to 400% of BQ	\$0.33504	\$0.32088	\$0.31873	\$0.24363	\$0.23799	\$0.23013	\$0.23003
Over 400% of BQ	\$0.33504	\$0.32088	\$0.31873	\$0.33832	\$0.36306	\$0.40319	\$0.40301
Average Non-CARE Rate	\$0.215	\$0.212	\$0.212	\$0.212	\$0.212	\$0.212	\$0.212
CARE							
Monthly Minimum Charge	\$3.60	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00	\$5.00
Energy Charges							
0 to 100% of BQ	\$0.10889	\$0.10741	\$0.10980	\$0.11260	\$0.11490	\$0.11760	\$0.11850
100% to 130% of BQ	\$0.12275	\$0.12830	\$0.13628	\$0.15447	\$0.15218	\$0.14825	\$0.14938
130% to 200% of BQ	\$0.16726	\$0.16467	\$0.13628	\$0.15447	\$0.15218	\$0.14825	\$0.14938
200% to 400% of BQ	\$0.16726	\$0.16467	\$0.20055	\$0.15447	\$0.15218	\$0.14825	\$0.14938
Over 400% of BQ	\$0.16726	\$0.16467	\$0.20055	\$0.21452	\$0.23215	\$0.25973	\$0.26171
Average CARE Rate	\$0.126	\$0.125	\$0.127	\$0.129	\$0.130	\$0.131	\$0.131
CARE Discount	37.6%	37.6%	37.0%	36.5%	36.0%	35.5%	35.0%

As can be seen above, non-CARE tier 2 prices were proposed to increase 16% between 2015 and 2016, and the ratio between tiers 1 and 2 was forecasted to be very close to the Decision’s mandate (PG&E’s forecasted ratio of 1:1.24 versus the Decision’s directed ratio of 1:1.23). PG&E noted in AL 4697-E that these estimates were made without assuming any future changes in sales and were based on revenue requirements as of September 1, 2015.⁵

PG&E began the process of collapsing tiers 2 and 3 into a single tier 2 with the filing of AL 4795-E on February 17, 2016. In that advice letter, PG&E proposed

⁵ PG&E Advice Letter 4697-E at 2.

the following default rate structure for non-CARE residential customers to become effective March 1, 2016.

	Proposed Energy Rate per kilowatt-hour of usage
Up to 100% baseline usage (Tier 1)	\$0.18212
101% - 200% baseline usage (new Tier 2)	\$0.25444
Over 200% baseline usage (new Tier 3)	\$0.37442

As PG&E noted in AL 4795-E, combining the approved glidepath ratios with new estimated revenue requirements applied as equal percentages across the tiers would result in tier 1 prices that violated the RAR+5% cap.⁶ Because it was not possible to simultaneously maintain the Decision's glidepath ratios and the tier 1 cap, PG&E proposed the above rates acknowledging that they were interpreting the requirements of the Decision to maintain two features of the approved glidepath (the tier 1 cap and the ratio between new tiers 2 and 3), while not maintaining the Decision's requirement that the Tier 1:Tier 2 ratio be set at 1:1.23 for 2016.

As a result, PG&E's proposed rates represented a significant departure from the rates estimated in PG&E's AL 4697-E. Instead of the predicted rise in tier 2 rates of 16%, PG&E instead proposed an increase of over 30%. For this and other reasons, Energy Division rejected PG&E's AL 4795-E on February 29, 2016.

PG&E's AL 4810-E, the subject of this resolution, is meant to address the problem originally highlighted in PG&E's AL 4795-E. The issue is how to balance the competing goals of the Decision's approved glidepath (i.e., collapsing tiers while allowing only moderate price increases for lower-tier customers) when those goals cannot be simultaneously fulfilled. This resolution addresses this central question.

⁶ AL 4795-E at 4.

NOTICE

Notice of the PG&E AL 4810-E was made by publication in the CPUC's Daily Calendar. PG&E states that their advice letter was distributed in accordance with General Order (GO) 96-B, and was also served on the R.12-06-013 service list.

PROTESTS

No protests were received.

DISCUSSION

The central question posed by PG&E's advice letter is how to balance competing objectives of the Decision when simultaneous compliance with those objectives is impossible. The Decision sets out several objectives for the reform of PG&E's residential electricity rates in 2016:

- 1) Existing tiers 2 and 3 may be collapsed into a single tier for all residential electricity sales between 100% and 200% of baseline quantities.⁷
- 2) As a result of this collapse, tier 2 prices should not increase in such a way as to cause rate shock – an increase of over 19% was found to be undesirable.⁸
- 3) The price for tier 1 electricity (up to 100% of baseline) should be capped at the increase in the RAR plus 5%.⁹
- 4) The difference in price for new tier 3 electricity (above 200% of baseline) and the price for tier 1 electricity should be lowered to 81%.¹⁰

Due to circumstances not anticipated at the time the Decision was adopted, it is not possible for PG&E to comply with all of these objectives in 2016. The principal issue is that PG&E is experiencing declines in its residential sales and increases in its revenue requirement beyond what was expected in 2015 when the

⁷ D.15-07-001 at 278.

⁸ D.15-07-001 at 277-278.

⁹ D.15-07-001 at 277.

¹⁰ D.15-07-001 at 278.

Decision was adopted. This means that there are fewer sales of kilowatt-hours (kWh) across which to collect increasing costs. As a result, rates are increasing faster than anticipated, meaning that the goal of lowering high-tier prices while moderately increasing lower-tier prices on a year-over-year basis is not possible in 2016.

PG&E proposes the following rate structure for non-CARE residential customers in its advice letter. As PG&E's proposed CARE rates are in compliance with all Decision mandates, they are not reviewed here in detail and are approved.

PG&E E-1 Rates	Price per kWh	Change compared to March 1, 2015
Tier 1 (0-100% BQ)	\$0.18212	11.4% increase
Tier 2 (101-200% BQ)	\$0.24090	29% increase for 101-130% BQ, 12.4% decrease for 131-200% BQ
Tier 3 (> 200% BQ)	\$0.39999	19.4% increase

PG&E's non-CARE rate proposal seeks to rebalance the objectives of the Decision to 1) maintain the Decision's cap on tier 1 price increases, 2) collapse tiers 2 and 3 such that the increase in tier 2 prices is somewhat moderated, and 3) allow tier 3 prices to increase.

PG&E's proposal is a practical solution to the problem of implementing both the cap on tier 1 price increases and ensuring a smooth transition to a total 25% tier differential by 2019. We recognize that approval of this proposal leads to a risk that the transition to a 25% differential in 2019 will be more abrupt than originally ordered by the Decision and that higher tier prices will not decrease as rapidly as expected. We believe, however, that on balance this is an appropriate compromise that ensures tier 1 prices do not rise uncontrollably during the transition to 2019.

Therefore, PG&E's proposal for changes to the non-CARE tier compression glidepath is approved as outlined in its advice letter. Our decision in this resolution applies only to PG&E's 2016 rate reform changes and does not necessarily apply to any other investor-owned utility.

Going forward, it is possible that PG&E will continue to face the problem of complying with the Decision's cap on non-CARE tier 1 price increases and the need to bring the difference in tiered prices to 25% by 2019. The Administrative Law Judge's Email Ruling Setting Forth Requirements for Future Advice Letter Filings and Notifying Parties of Next PRRR Workshop and Other Procedural Matters of March 14, 2016 sets forth appropriate procedures for handling future rate reform-related changes that are beyond the bounds of the Decision's original requirements. This resolution affirms the procedures set forth in that ruling.

PG&E Billing Situation

We note that on page 2 of its advice letter, PG&E comments that "[t]o enable implementation at the earliest date possible, PG&E has retained in tariffs and billing the current four-tier non-CARE structure that provided for different rates for usage from 101 percent of baseline to 130 percent of baseline, and from 131 percent of baseline to 200 percent of baseline. However, the rate charged over this entire range of usage (i.e., 101 percent of baseline to 200 percent of baseline) now will be identical, so mathematically this is equivalent to a three-tier rate structure."

Mathematical equivalence may not sufficiently assist a customer to understand the changing nature of the tiered electricity pricing system. It is necessary for PG&E to modify its tariffs and bills so that residential customers are not led to believe that they are subject to a four-tiered rate structure when in fact it is a three-tiered rate structure. PG&E is ordered to change its bills so that customers are shown a three-tiered structure. This change must be made by a target date of August 1, 2016 but in no event later than a September 1, 2016 date certain. Future changes to tiers, such as when a two-tiered system becomes effective in 2017, must be immediately reflected on customer bills.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the CPUC. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

PG&E filed comments on the draft resolution on May 20, 2016. In those comments, PG&E generally supports the draft resolution and its findings. PG&E requested clarification on two issues: the timing of the approved changes to residential rates and the timing of changes to PG&E's bills. PG&E requests that the draft resolution's requirement that PG&E change its bills to reflect a three-tiered rate structure be modified so that the deadline is September 1, 2016 rather than July 1, 2016. PG&E states that due to unavoidable workflow constraints it cannot guarantee that its billing system can be modified before that date.

PG&E's requested change to the 2016 bill presentment deadline in ordering paragraph 3 is incorporated. However, we maintain the order that PG&E immediately modify its bills to reflect changes to the tiered rate structure going forward.

FINDINGS

1. Pacific Gas & Electric Company's (PG&E's) non-CARE rate proposal seeks to rebalance the objectives of the Decision to 1) maintain the Decision's cap on tier 1 price increases, 2) collapse tiers 2 and 3 such that the increase in tier 2 prices is moderated, and 3) allow tier 3 prices to increase. On balance this is an appropriate compromise that ensures tier 1 prices do not rise uncontrollably during the transition to 2019.
2. Our analysis in this resolution applies only to PG&E's 2016 rate reform changes and may not necessarily apply to any other investor-owned utilities as the circumstances confronted by each utility are likely to vary.

3. It is necessary for PG&E to modify its tariffs and bills so that residential customers are not led to believe that they are on a four-tiered rate structure when they are on a three-tiered rate structure.

THEREFORE IT IS ORDERED THAT:

1. Pacific Gas & Electric Company's (PG&E's) proposal for changes to the non-CARE tier compression glidepath is approved as outlined in its advice letter.
2. PG&E's CARE rate proposal complies with all Decision mandates and is therefore approved.
3. PG&E is ordered to, by June 1, 2016, change the rate values set forth in its residential tariffs. PG&E must also change its bills so that customers are shown a three-tiered structure. This change must be made by a target date of August 1, 2016 but in no event later than a September 1, 2016 date certain. Future changes to tiers, such as when a two-tiered system becomes effective in 2017, must be immediately reflected on customer bills.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 26, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director