



**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

Application No. 10-03-014

**REPLY BRIEF
OF THE SOLAR ALLIANCE**

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Pursuant to Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), the Solar Alliance¹ submits its Reply Brief on certain of the residential rate design issues currently pending in the above captioned proceeding.

I. INTRODUCTION

In its Opening Brief the Solar Alliance emphasized that the Commission should not view Pacific Gas & Electric Company's (PG&E) residential rate design proposal in a vacuum void of consideration of the energy policy goals which the state has been developing and implementing over the past decade.² Similar sentiment was expressed by several other parties to the proceeding.³ In this regard, the Solar Alliance noted that the Commission should review PG&E's proposal to collapse its residential E-1 rate from five tiers to three tiers in light of the

¹ The comments contained in this filing represent the position of the Solar Alliance as an organization, but not necessarily the views of any particular member with respect to any issue.

² Opening Brief of the Solar Alliance, A. 10-03-014 (December 20, 2010) (Solar Alliance Brief), at p. 2.

³ *See, e.g.*, Opening Brief of The Utility Reform Network on Residential Rate Design Issues, A. 10-03-014 (December 20, 2010) (TURN Brief), at p. 27; Sierra Club California, Opening Brief on the General Rate Case, Phase 2, A. 10-03-014 (December 20, 2010), at pp. 3-4.

priorities set forth in the state's Energy Action Plan (EAP). The Energy Action Plan gives the highest priority to encouraging energy efficiency, and establishes as the second priority the stimulation of the development of renewable generation, including on-site distributed generation such as solar PV. The Solar Alliance demonstrated how PG&E's proposal was directly contrary to the priorities in the Energy Action Plan.

Notably PG&E's Opening Brief does not even mention the state's EAP, but rather advances the position that the state's energy policy goals should take a backseat to the goal of lowering rates for high usage customers. Further, PG&E does so while acknowledging that substantial rate relief has already been provided to upper tier residential users through the rate design changes made in D. 10-05-051, but then dismisses such as insufficient. The question quickly becomes "where does the Commission draw the line?" How far does the Commission go to lower the rates of high usage customers – i.e., the customers at which energy efficiency and conservation efforts are primarily targeted – at the expense of the state's energy priorities of encouraging energy efficiency and stimulating of the development of renewable generation? The Solar Alliance submits that PG&E's proposal to collapse its residential E-1 rate from five tiers to three tiers goes too far, especially when a superior option is on the record for the Commission's consideration. Specifically, the record demonstrates that the Solar Alliance's rate design proposal creates a better balance between competing rate design objectives by affording high usage customers additional relief over that already afforded them less than twelve months ago through D. 10-05-051 (while not imposing as significant a rate increase on lower usage customers) *and* maintaining consistency with the state's energy policy by incenting customer conservation and renewable energy installations. The Solar Alliance's proposal should be adopted.

In addition to setting the appropriate tiers for residential E-1 customers, the Commission is also charged with ensuring that PG&E's residential time of use rates (Schedules E-6 and E-7) are compliant with the statutory requirements of Senate Bill (SB) 1. PG&E's proposed E-6 and E-7 rates fail to achieve the SB 1 goal of maximizing the incentive for ratepayers to install solar energy systems so that the system's peak electricity production coincides with California's peak electricity demands. The Solar Alliance has presented E-6 and E-7 rates which, based on long standing Commission policy of utilizing the equal percentage of marginal cost (EPMC) principle in rate design, more accurately reflect the costs of providing energy during peak periods and as such more precisely meet the requirement of SB 1. As shown herein, PG&E's attempts to disparage the Solar Alliance proposal are readily refuted. The Solar Alliance proposal should be adopted.

II. PG&E'S PROPOSED TIER CHANGES FOR NON-CARE CUSTOMERS IS CONTRARY TO STATE ENERGY POLICY GOALS, IS NOT JUSTIFIED ON EQUITY GROUNDS, AND SHOULD BE REJECTED IN FAVOR OF THE SOLAR ALLIANCE'S PROPOSAL

Through its Opening Brief, the Solar Alliance established that PG&E's proposed rate design is contrary to state energy policy goals, is not justified on equity grounds, and should be rejected in favor of the Solar Alliance's proposal which maintains a strong conservation incentive while also providing a degree of rate relief to upper tier users. PG&E has failed to effectively refute these points, thus providing inadequate justification for its proposed elimination of the fourth residential rate tier for non-CARE customers.

PG&E acknowledges that providing a price signal to incent conservation behavior is a valid rate design objective,⁴ but insists that either (a) its proposed changes to its tiered rate

⁴ Opening Brief of Pacific Gas and Electric Company on Residential Rate Design Issues, A. 10-03-014 (December 20, 2010) (PG&E Brief), at p. 58.

structure do just that⁵ or, in the alternative, (b) even if they do not, the Commission should just overlook that deficiency.⁶ With respect to the former claim, it is belied by the record. With respect to the latter claim, the Commission is not free to overlook the state's energy efficiency and conservation goals in order to approve a rate design proposal which PG&E has failed to justify on alternative grounds.⁷

A. PG&E Proposed Changes to the Tiers in its Residential Rate Structure are Contrary to the State's Energy Policy Goals.

PG&E's asserts that the proposed changes to the tiers in its residential rate structure (which are comprised of adding a Tier 3 rate for CARE customers and collapsing the Tiers 3 and 4 rates for Non-CARE customers) will promote conservation, will incent energy efficiency,⁸ and will not detract from a successful solar program in its service territory.⁹ The record of this proceeding, however, does not support these assertions, and the Commission should discount PG&E's attempt to manipulate the record evidence to support its claims.

1. PG&E's Proposed Rate Design Negates Conservation and Energy Efficiency Incentives for High Energy Users.

To support its claims that its proposed rate design promotes conservation PG&E hails the analysis of its witness Dr. Ahmad Faruqui, who concluded that *taken as a whole*, PG&E's rate design proposals provide a pro-conservation signal, and should be expected to produce a net decrease in energy sales of nearly 166,000 MWh per year.¹⁰ PG&E then faults those parties who

⁵ PG&E Brief at p. 17.

⁶ PG&E Brief at p. 58.

⁷ *See* Solar Alliance Brief at pp. 12 –17 (showing that PG&E's rate design proposal is not justified on equity or cost of service grounds).

⁸ PG&E Brief at p. 16.

⁹ PG&E Brief at p. 16 (claiming that the record demonstrates that PG&E's rate proposal would allow California's already successful solar program to continue growing and expanding.)

¹⁰ PG&E Brief at p. 14 citing Exhibit No. 1(PG&E-Faruqui), p. 11-9, lines 11-14.

focus on the conservation impacts to those customers with usage in Tier 4 (and what previously was Tier 5).¹¹ In other words, PG&E is telling the Commission that it must look at all of its rate design changes as a whole when assessing their conservation impacts, not at individual component parts. However, the facts cannot be disregarded; PG&E's rate design proposal by its own admission will not provide a pro-conservation signal to Tier 4 and Tier 5 customers, and it actually will result in *increased* usage by such customers.¹² Indeed, the fact that the increased usage by such customers can be somewhat masked by the potential decreased usage by CARE customers (if PG&E's CARE Tier 3 proposal is adopted) is not grounds, as PG&E would have it, to ignore the fact that high usage customers will be incented to use more.

First, as noted in the Solar Alliance's Opening Brief, should the Commission determine not to approve a Tier 3 for CARE customers, then what is left is a rate design proposal that, taken as a whole, incents increased energy usage.¹³ Even if the Commission approves the Tier 3 rate for CARE customers, what will be left is a rate design proposal that stimulates increased usage for the subset of customers that are already high energy users (using above 200 percent of baseline quantities). Stated another way, the Commission would be allowing PG&E to implement a rate design which would incent the group of customers who are the primary targets of energy conservation and efficiency programs to increase their usage. Such a rate design makes no sense in a state whose first priority under its Energy Action Plan is to *encourage* energy efficiency.

Moreover, as highlighted in TURN's Opening Brief,¹⁴ an analysis undertaken by PG&E

¹¹ PG&E Brief at p. 14.

¹² Exhibit No. 1 (PG&E- Faruqui), p. 11-9, lines 14-20.

¹³ Solar Alliance Brief at p. 11.

¹⁴ TURN Brief at p. 25.

witness Dr. Faruqui on the optimal price differentials in block rates for the purpose of conservation impact demonstrates that PG&E's proposed collapsing of the Tier 3 and 4 rates will result in PG&E's overall rate design for non-CARE customers moving significantly farther away from a rate design which offers the maximum conservation impact. Thus, Dr. Faruqui concluded, having compared a "range of possibilities" with tier differential ratios between 1.27 and 3.72, that the maximum conservation impact is produced by a scenario with a ratio of 3.72 to 1 between the bottom and top tiers.¹⁵ Compared to scenarios with tier pricing differentials of less than 2 to 1, this scenario was found to produce approximately *three times* the short and long-run impacts on usage. As Dr. Faruqui explained, this 3.72 to 1 tier differential "can provide energy consumption savings in the 6 percent range over a few years and even higher savings over the long run."¹⁶

PG&E's current tier differentials provide less than the optimal 3.72 to 1 ratio cited by Dr. Faruqui, but with a ratio of 3.4 to 1 between the highest tier (Tier 4) and the lowest tier (Tier 1) it is not, based on the analysis performed by PG&E's own witness, that far removed from a rate tier differential found to have the maximum conservation impact. By contrast, PG&E's current proposal would set the maximum differential at 2.3 to 1 between its proposed highest tier (Tier 3) and its lowest tier (Tier 1), thus illustrating that PG&E's collapsing of the Tier 4 and Tier 3 rates will have a significant *negative* impact on energy conservation for PG&E's non-CARE customers.¹⁷ The bottom line is that PG&E's proposed collapsing of its Tiers 4 and 3 is directly at odds with the state's Energy Action Plan and long standing conservation goals. As such, it

¹⁵ Exhibit 1 (PG&E-Faruqui), Chapter 11, Appendix A, p. 11A-11.

¹⁶ Exhibit 1 (PG&E-Faruqui), Chapter 11, Appendix A, p. 11A-11.

¹⁷ The Solar Alliance's proposal would maintain a ration of approximately 3.5 to 1 between the highest and lowest tiers.

should be rejected.

Finally, while PG&E's proposal to implement a CARE Tier 3 may offset the anti-efficiency impacts of PG&E's E-1 proposal in this case, it is important for the Commission to remember that PG&E already has obtained significant rate relief for high-usage E-1 customers in D. 10-05-051. This relief included the elimination of the highest Tier 5 rate level *and* a reduction in the Tier 4 rate – two steps that also will have a negative impact on conservation incentives for residential users.¹⁸ Thus, in deciding a key question in this proceeding – “how much rate relief is enough” – the Commission must consider the cumulative impact of its response in conjunction with its other recent decisions on PG&E's residential rates.

2. PG&E's Rate Design Proposal Will Detract from a Successful Solar Program in its Service Territory.

To support its contention that its rate design proposal will not detract from a vibrant solar program in its service territory, PG&E points to the south, stating that “the evidence from Southern California makes clear that reducing the top rate to the level proposed by PG&E will not harm the solar industry.”¹⁹ Specifically PG&E points to the fact that its proposed top rate for Schedule E-1 customers is 27.6 cents per kWh, only slightly below the top rate charged in Southern California Edison and San Diego Gas & Electric Company service areas, where “robust” solar industries exist.²⁰

The Solar Alliance does not dispute that SCE and SDG&E have fairly successful solar programs. However, the record is clear that, of the three major investor owned utilities in the

¹⁸ Exhibit No. 37 (History for Non-CARE Schedule E-1 and CARE Schedule EL-1 rates from January 1st, 2001 to the Present, showing significant rate relief for higher tier usage).

¹⁹ PG&E Brief at p. 17.

²⁰ PG&E Brief at p. 17.

state, PG&E's has been the most successful in encouraging solar installations.²¹ It is also clear that PG&E's rate structure has played a key role in that success.²² Moreover, what PG&E fails to highlight is that SDG&E has a four tier residential rate, while SCE has maintained five tiers – neither have gone to three tiers as PG&E now proposes. As detailed by the Vote Solar Initiative in its Opening Brief, maintaining a meaningful distinction between tier levels (regardless of whether the absolute rate level decreases or increases within a tier) is critical to the determination of whether to invest in solar.²³ SDG&E and SCE have residential rate designs which retain such meaningful distinctions.

In contrast, under PG&E's proposal to eliminate Tier 4, the price signal for the next kilowatt hour (kWh) a customer consumes will be flat for every kilowatt hour consumed over 130% of baseline, no matter how high the usage. By removing *any* price distinction for consumption above 130%, PG&E is proposing to eliminate the current price signal to residential customers consuming in Tier 4 (and what previously was Tier 5) that solar PV as well as energy efficiency and conservation are viable alternatives to purchasing the next kWh from PG&E. Removal of such price signal will have a detrimental impact on the rate of solar installation in the residential sector.

B. There is No Basis for the Commission to Overlook the State's Energy Policy Goals

PG&E asserts that even if its proposed rate design has an adverse impact on the state's energy goals, the Commission should overlook such impacts in this case because equity dictates that changes are necessary to alleviate the extremely high upper tier residential rates that are far

²¹ See, e.g., Exhibit No. 16 (Vote Solar-Rose), p. 7, lines 8-20.

²² Tr. Vol.3 (Vote Solar- Rose), p. 546, line 26 to p. 547, line 5.

²³ Opening Brief of Vote Solar Initiative in Phase 2 of the Pacific Gas and Electric Company Test
(footnote continued)

in excess of cost.²⁴ Even if the Commission was free to overlook the state's energy policy goals, which the Solar Alliance submits it is not, PG&E still has failed to make the case that equity requires its proposed elimination of the upper tier rates. As illustrated in the Solar Alliance's Opening Brief, the three primary facets of PG&E's equity argument (which PG&E has presented again in its Opening Brief) – unfair subsidization, rates which do not track costs, and customer unrest demonstrated through bill complaints – do not withstand scrutiny.²⁵ Indeed, PG&E's own Opening Brief highlights the deficiencies of their purported justifications.

1. Rates for High Tier Users Reflect Peak Period Usage Which PG&E Concedes is Appropriate

PG&E asserts that charging upper-tier users rates in 40 cents per kWh range when the cost to provide service is an average of only 18 cents per kWh high is economically inefficient. PG&E concedes, however, that it may be appropriate to charge very high prices during critical periods on hot summer days when capacity is strained.²⁶ Such a dynamic – i.e., charging high prices for peak period energy – is the very one which is captured under a four to five tiered residential rate structure.

The record of this proceeding demonstrates the strong correlation between higher tier usage and air conditioning loads during peak summer periods.²⁷ In addition, the record shows that the percentage of residential summer usage which falls into the on-peak time of use period – i.e., 20 percent – is approximately the same as the percentage of residential usage which occurs

Year 2011 General Rate Case, A. 10-3-014 (December 20, 2010) (Vote Solar Brief), at p. 8

²⁴ PG&E Brief at p. 58.

²⁵ Solar Alliance Brief at pp. 12-18.

²⁶ PG&E Brief at p. 56.

²⁷ See Exhibit No. 2 (PG&E-Keane), p 1-9 through p.1-10; Tr. Vol. 2 (PG&E- Keane),p. 306, lines 2-14; Tr. Vol. 3 (Kern County -Grammy), p. 556, lines 15-19.

in the higher tiers.²⁸ In other words, users who reach Tiers 4 and 5, on average, have 20 percent of their total electric usage charged at Tier 4 and 5 rates. These same customers on average use 20 percent of their electricity in peak periods. Therefore the 20 percent of electricity which is used during the peak periods by customers in the higher usage tiers is charged a higher rate reflecting the increased costs to produce electricity during such periods – the very thing which PG&E concedes it is appropriate to do.

2. Rates for Higher Tier Users Do Not Warrant Further Reduction

PG&E continues to point to the customer unrest over high bills in Central Valley in the summer of 2009 as justification for its rate design changes. PG&E contends that the rate relief afforded those customers through Decision 10-05-051 was insufficient and more needs to be done, in the form of lower rates for higher usage, in order to insulate the higher-use non-CARE households from extreme bill increases “during hot weather months in future summers.” PG&E, however, fails to explain why more rate relief is warranted.

As pointed out by the Solar Alliance, the summer of 2009 was the hottest summer in 25 years in the Bakersfield area. Electricity bills were high because usage was high and complaints ensued. In the summer of 2010, when the rate relief afforded through Decision 10-05-051 was in place and the temperatures were more moderate (resulting in lower usage), complaints declined to typical levels. Thus, it is not the rate alone, but the combination of the rate and the temperature (which often dictates usage) that results in high bills and produces complaints.²⁹ The Commission does not dictate the weather. It has already lowered the rate. PG&E has not provided sufficient justification for once again, within a twelve-month period, adopting a

²⁸ Tr. Vol. 5 (PG&E -Quadrini), p. 873, line 20 to p. 874, line 1.

²⁹ Tr. Vol. 2 (PG&E-Keane), p. 244, lines 13-28.

substantial reduction in upper tier residential rates.

C. Contrary to PG&E’s Assertions, the Solar Alliance Proposal Provides an Incentive to Conserve, While Offering Further Rate Relief to High Usage Customers

Finally, PG&E states that “even if one believed providing an overall incentive to conserve is the sole objective of rate design, none of the parties have presented credible evidence that their proposals to maintain the current tier structure would do that” better than PG&E’s proposal.³⁰ This is a blatantly false statement.

As set forth in its testimony and Opening Brief, the Solar Alliance has proposed the use of a five-tier residential rate design which would create a differential between the Tier 3 and Tier 4 rates of 3 cents per kWh, and a difference between the Tier 4 and Tier 5 rates of 7 cents per kWh.³¹ Thus, the total difference between the Tier 3 and Tier 5 rates would be fixed at 10 cents per kWh.³² This design would bring the top three tiers of PG&E’s E-1 rate much closer together than they have been, but still maintain a sufficient enough differential to provide an appropriate conservation incentive. Indeed, the 3.5 to 1 ratio between the lowest tier (Tier 1) and the highest tier (Tier 5) under the Solar Alliance proposal is very close to what PG&E witness Faruqui described as optimal to achieve the maximum conservation effect. Similarly, maintaining meaningful tier differentials provides the price signal critical to incenting solar installations.

Moreover, an analysis performed by Solar Alliance witness Beach, using the methodology and elasticities presented by Dr. Faruqui, compared the changes in residential

³⁰ PG&E Brief at p. 59.

³¹ Exhibit No. 26 (Solar Alliance-Beach), p. 11, lines 16-20.

³² PG&E’s proposal in A. 10-02-029 would have set both the Tiers 3-4 and Tiers 4-5 differentials at 5 cents per kWh. The Solar Alliance prefers a lower Tiers 3-4 differential (3 cents per kWh) and a higher Tiers 4-5 differential (7 cents per kWh) in order to provide a stronger price signal to the highest usage customers.

electric use from the PG&E (three-tier), DRA (four-tier), and Solar Alliance (five-tier) proposals for E-1 rates, compared to usage at March 2010 E-1 rates that were in place before D. 10-05-051.³³ The results of this analysis, which were not rebutted by PG&E, show that the Solar Alliance proposal produces the lowest increase in residential consumption³⁴ and thus best reflects the state’s energy policy goals. PG&E is simply wrong in its assertion that none of the alternative proposals results in a better conservation incentive. The Solar Alliance proposal clearly does.

Indeed, review of PG&E’s Opening Brief finds that the best it can muster in criticizing the Solar Alliance proposal is to argue that it will “reverse the progress made in D.10-05-051 toward a more equitable, cost-based, rate structure with fewer tiers and a less steeply inclining block rate structure.”³⁵ But this statement is inaccurate as well.

The result of Decision 10-05-051 was to eliminate Tier 5, set the Tier 4 rate at approximately 40 cents, and to set the differential between Tier 4 and Tier 3 at approximately ten cents. Under the Solar Alliance proposal, while a Tier 5 would be reinstated, the rate for that Tier 5 would remain at approximately 40 cents, and the differential between Tier 3 and Tier 5 would remain at 10 cents. Thus, under the Solar Alliance proposal the highest rate is the same as approved in Decision 10-05-051, and, because it retains a Tier 4 (at approximately 34 cents), has an even less steeply inclining block rate structure than was approved in Decision 10-05-051. Moreover, because the Solar Alliance’s proposal maintains both a Tier 4 and 5, certain customers will only be paying approximately 34 cents for Tier 4 usage, rather than the 40 cents for Tier 4

³³ In this analysis, the PG&E rate design includes the utility’s proposed changes to baseline quantities and the addition of a \$3 per month customer charge; the DRA and Solar Alliance rates assume current baseline quantities and no customer charge.

³⁴ Exhibit No. 26 (Solar Alliance-Beach), p. 12, line 8 to p. 13, line 2 and Table 1.

³⁵ PG&E Brief at p. 60.

usage approved under D. 10-05-051. The result is greater rate relief for high-usage customers under Solar Alliance’s five-tier proposal than for the four tiered rate design approved in Decision 10-05-051 and supported by DRA in this case.³⁶ The Solar Alliance proposal does not “reverse” any progress made in Decision 10-05-051. To the contrary it improves on that progress by providing a modest amount of *additional* relief above the rate relief afforded customers in the upper tiers as recently as last June, while maintaining a multi-tiered rate structure for high-usage customers as a means to advance energy efficiency and conservation goals.

III. THE SOLAR ALLIANCE PROPOSED RATES FOR TOU SCHEDULES E-6 AND E-7 BEST MEET THE REQUIREMENTS OF SB 1 AND SHOULD BE ADOPTED

In its Opening Brief, the Solar Alliance explained why time-of-use (TOU) rates should be designed to recognize fully the importance of summer on-peak usage as a key driver of utility costs. Specifically, TOU rates should send a strong signal to solar customers to design their systems to maximize production during the on-peak period, to ensure that their systems operate well in summer months, and to provide a strong incentive on the margin for customers to shift their electric usage out of peak periods.³⁷ The Solar Alliance also demonstrated how PG&E’s proposed rates for Schedules E-6 and E-7 fail to meet such goal and, in lieu thereof, the Solar Alliance recommended the use of the equal percent of marginal cost (EPMC) method to scale Tier 1 rates based on marginal costs up to equal the revenue requirement.³⁸

PG&E asserts that the Solar Alliance proposed use of the EPMC methodology to set tier differentials in residential TOU rates must be rejected because (1) “the Solar Alliance witness could not identify any decision where the CPUC had used EPMC principles to set the rate design

³⁶ Exhibit No.26 (Solar Alliance-Beach), p. 15, line 20 to p. 16, line 1 and Figure 1.

³⁷ Solar Alliance Brief at p. 23.

³⁸ Solar Alliance Brief at pp. 23-25.

within a class,” and (2) “there is no real relationship between EPMC rate allocation and the Solar Alliance’s new method for artificially inflating on-peak TOU prices (and on-peak TOU bill credits) for upper tier usage.”³⁹ Neither statement is accurate.

In response to a question on cross examination regarding the identification of a Commission Decision where it had used EPMC to set rate levels within a class, the Solar Alliance witness did not respond that the EPMC methodology had never been employed, but rather that:

I believe that the Commission has used EPMC in setting generation costs within a class for rate schedules. For example, marginal energy costs are set on a time-of-use basis, and energy costs are often, for a class, are often scaled up or down in order to recover the costs allocated to that class.

So I believe the Commission has done something like this with commercial and industrial rates in the past.⁴⁰

The reality is, as PG&E is well aware, that in the last decade all utility GRC Phase 2 cases have been resolved by settlements which, under Commission rules, are non-precedential. As a result, although an EPMC methodology may have been employed in those cases within a rate class, there are no recent Commission precedents specifically addressing such a rate design method. Moreover, as identified in the Solar Alliance’s Opening Brief,⁴¹ PG&E uses exactly the same EPMC method to scale its marginal generation energy costs in each TOU period up to equal the generation revenues allocated to energy charges, just as Mr. Beach correctly testified on the stand.⁴² The bottom line is that the use of EMPC principle to set rate design within a class is not

³⁹ PG&E Brief at p. 65.

⁴⁰ Tr. Vol. 5 (Solar Alliance –Beach), p. 954, lines 3-18.

⁴¹ Solar Alliance Brief at p. 24.

⁴² Exhibit No. 1 (PG&E-Keane), p. 1-10, lines 29-32 (“For TOU schedules or schedules with energy charges that are differentiated by season, PG&E proposes to assign all other generation revenue allocated to each schedule to energy charges based on the ratio of generation marginal

(footnote continued)

a concept foreign to Commission-approved rate design.

Similarly, PG&E’s claim that Solar Alliance’s proposed methodology “artificially inflates” on-peak TOU prices is contrived. The basis of the EPMC methodology is to take the amount which is collected in rates set at marginal costs, and then scale those rates up by an equal percentage until the revenue requirement is collected. PG&E sets its TOU rates by using its marginal costs to set the TOU components of the Tier 1 rate.⁴³ Therefore applying the EPMC methodology would result in scaling up Tier 1 rates, set on marginal costs, to recover the additional non-marginal costs included in the revenue requirement. This is what the Solar Alliance has done, and it reflects the Commission’s longstanding policy that EPMC is the best approach to recover non-marginal costs because it best preserves the marginal cost signal. In addition, the Solar Alliance has designed E-6 and E-7 rates that are revenue neutral for the residential class; thus, its proposed rates will neither over- or under- recover PG&E’s revenue requirement for Schedules E-6 and E-7. As the Solar Alliance proposal utilizes the Commission recognized EPMC methodology and is designed to be revenue neutral to the residential class, there is no artificial inflation of on-peak TOU prices as claimed by PG&E. In contrast, PG&E’s approach of using the same, constant tier differential for all TOU periods results in rates that are not economically efficient and that undervalue on-peak usage and overvalue off-peak consumption – exactly the wrong result.

This is the first Phase 2 of a PG&E general rate case to be filed since the passage of SB 1, which required the Commission to develop TOU tariffs that create, among other things, “the maximum incentive for ratepayers to install solar energy systems” that serve peak electric

energy costs by TOU period.”)

⁴³ Tr. Vol. 5 (PG&E-Quadrini), p. 878, line 28 to p. 879, line 3.

demands. As has been illustrated by the Solar Alliance, PG&E's proposed E-6 and E-7 rates do not comply with the requirements of SB 1.⁴⁴ In contrast, the Solar Alliance proposal, through the use of EPMC, best preserves the primary benefit of marginal cost-based rates, which is to send an accurate marginal cost signal to encourage the economically-efficient use of energy (i.e., more accurately to reflect the costs of providing energy during peak periods). As such, the Solar Alliance proposal meets the requirements of SB 1 and should be adopted.

IV. PG&E OFFERS NO LEGAL OR POLICY BASIS TO IMPOSE A CUSTOMER CHARGE

Public Utilities Code Section 739.9(a) limits increases in "rates" charged residential customers for usage up to 130% of baseline to "the annual percentage change in the Consumer Price Index from the prior year plus 1 percent, but not less than 3 percent and not more than 5 percent per year." As set forth in the Solar Alliance's Opening Brief, when the long standing Commission policies of including customer charges in the calculation of baseline rates and requiring more than a ten percent difference between Tier 1 and 2 rates are applied to the design of Tier 1 and 2 rates in 2011, there is no mathematical way that a \$3 per month customer charge as proposed by PG&E can be implemented within the limits of Section 739.9(a), unless Tier 1 baseline rates are reduced.⁴⁵ PG&E contests the Solar Alliance's (as well as other parties') interpretation of the statute, alleging that because the statute refers to rates charged for "electricity usage," it does not apply to customer charges because such are not based on usage. Thus, according to PG&E, the 3 to 5 percent limit on annual increases in Section 739.9(a)

⁴⁴ Solar Alliance Brief at pp. 23-24.

⁴⁵ See Solar Alliance Brief at p.6, citing Exhibit No. 26 (Solar Alliance–Beach), p. 18, lines 1-4 and Table 2.

applies only to the volumetric rates.⁴⁶ Such is a strained interpretation of the statute and should be ignored by the Commission. While it is true that a customer charge does not vary based on the amount of electric usage, it is a rate tied to electric usage. If a customer was not interconnected to the grid for the purposes of using electricity, then there would be no customer charge. The Commission has consistently viewed the price for access and the price for the commodity as part of the baseline rate.⁴⁷ PG&E's attempt to separate certain costs from its overall rate and to give them a new name – i.e., customer charge – is merely an attempt to circumvent the statutory restrictions. A customer charge clearly must be figured into the rate increase restrictions of the statute. When such is done, PG&E's proposed \$3.00 customer charge exceeds the statutory limits.

Coupled with its distorted interpretation of Section 739.9(a), PG&E attempts to advance its proposal on policy grounds by arguing that “the customer charge also would implement a very important principle in PG&E's residential rates.”⁴⁸ Specifically, PG&E points to the fact that there are costs to connect the customer to the grid, maintain that connection and service the account which exist regardless of the customer's level of energy usage. Thus, PG&E argues, that “since these costs are largely fixed and cannot be avoided, setting a rate to recover at least a portion of these costs on a fixed basis appropriately reflects cost causation, and supports more equitable recovery of PG&E's fixed costs among customers.”⁴⁹ In short, PG&E asserts that “[t]hese costs should be paid by all customers, as opposed to avoided by some and thus shifted

⁴⁶ PG&E Brief at p. 26. Through this argument, however, PG&E appears to be conceding that the customer charge is a rate, but a fixed rate, not a volumetric one as it asserts falls within the limitation of Section 739.9(a).

⁴⁷ *See, e.g.*, Decision 97-04-082, at p. 118.

⁴⁸ PG&E Brief at p. 31.

⁴⁹ PG&E Brief at p. 31.

to, and paid by, others.”⁵⁰

Looking at a customer charge from this perspective, it appears that the problem that it is intended to address is the situation where a customer can avoid paying fixed costs by reducing his purchases of electricity to zero. A good example of this issue is the solar customer who is able to offset his entire load with his on-site production. Such a “problem” can be remedied just as effectively through a minimum bill as through a fixed customer charge. Indeed, PG&E has an existing minimum bill of about \$4.50 per month. Such a minimum bill actually collects a larger share of PG&E’s fixed, customer-related costs from customers that reduce their usage to zero than would PG&E’s proposed \$3 per month customer charge.⁵¹ There is no overriding policy reason which necessitates the implementation of a customer charge.

V. CONCLUSION

The record clearly shows that PG&E’s proposed changes to E-1 rate design would undermine the effectiveness of that rate design in advancing the Commission’s key policy goals of strongly encouraging both energy efficiency and the development of distributed generation sources such as solar. It would do so in the absence of a strong countervailing policy reason. As such it should not be adopted. In contrast, the Solar Alliance’s proposal protects the state’s energy policy goals while still recognizing the cost concerns of high usage customers and providing them with a modest amount of additional rate relief in additions to the significant relief already provided in Decision 10-05-051. The Solar Alliance’s proposal is the most balanced proposal on the record and should be adopted.

Similarly, the record shows that PG&E’s proposed E-6 and E-7 TOU rates do not meet

⁵⁰ Exhibit No. 2 (PG&E-Keane), p. 1-11, lines 19 to 21 and p. 1-12, lines 22 to 25.

⁵¹ Tr. Vol. 2 (PG&E-Keane), p.271, lines 11-21.

CERTIFICATE OF SERVICE

I, Melinda LaJaunie, certify that I have on this 10th day of January 2011 caused a copy of the foregoing

REPLY BRIEF OF THE SOLAR ALLIANCE

to be served on all known parties to A.10-03-014 listed on the most recently updated service list available on the California Public Utilities Commission website, via email to those listed with email and via U.S. mail to those without email service. I also caused courtesy copies to be hand-delivered as follows:

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I declare under penalty of perjury that the foregoing is true and correct. Executed this 10th day of January 2011 at San Francisco, California.

/s/ Melinda LaJaunie
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