STATE OF CALIFORNIA GAVI *Governor*

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

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Ratesetting

TO PARTIES OF RECORD IN APPLICATION 17-12-011 ET AL.:

This is the proposed decision of Administrative Law Judges Doherty and Park. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's March 12, 2020, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, ex parte communications are prohibited pursuant to Rule 8.2(c)(4)(B).

/s/ ANNE E. SIMON
Anne E. Simon
Chief Administrative Law Judge

AES:jt2

Attachment

324473005

Decision **PROPOSED DECISION OF ALJs DOHERTY and PARK**
(Mailed 2/5/2020)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of its Residential Rate Design Window Proposals, including to Implement a Residential Default Time-Of-Use Rate along with a Menu of Residential Rate Options, followed by addition of a Fixed Charge Component to Residential Rates (U39E).	Application 17-12-011
And Related Matters.	Application 17-12-012 Application 17-12-013

DECISION ADDRESSING PROPOSED FIXED CHARGE FOR RESIDENTIAL CUSTOMERS

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DECISION ADDRESSING PROPOSED FIXED CHARGE FOR RESIDENTIAL CUSTOMERS

Summary

In this final phase of Application 17-12-011, et al., the Commission considers whether to adopt a new or expanded fixed charge for residential customers of the state's three largest investor-owned electric utilities. This decision does not adopt any new or expanded fixed charges for residential customers. The record of this proceeding reveals that the utilities have not sufficiently planned for the marketing, education, and outreach necessary to ensure a successful introduction of a new or expanded residential fixed charge.

A minimum bill for residential customers is maintained at current levels, with annual increases authorized that are in line with inflation. The minimum bill calculation methodology is changed such that the minimum bill will be calculated solely on the basis of distribution charges.

The proposal of San Diego Gas & Electric Company for an optional residential rate with substantial fixed charge is denied.

The consolidated proceeding is closed.

1. Background

In Decision (D.) 15-07-001 the Commission began wide-scale reforms to the residential rate designs of California's three large investor-owned electric utilities (IOUs). That decision directed Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and San Diego Gas & Electric Company (SDG&E) to reform their tiered residential rates by eliminating tiers and narrowing the difference between tiers. The IOUs were also ordered to each file a residential rate design window (RDW) application no later than January 1, 2018 that proposes a default time-of-use (TOU) rate structure for their residential customers. These RDW applications were also to consider a potential fixed charge for residential customers.

On December 20, 2017, PG&E filed Application (A.) 17-12-011 for approval of its residential rate design proposals, including implementation of a residential default TOU rate along with a menu of other residential rate options, followed by the addition of a fixed charge component to residential rates. On December 20, 2017 SDG&E filed A.17-12-013 for approval of its residential default TOU rate designs and fixed charges. On December 21, 2017 SCE filed A.17-12-012 for approval of its residential default TOU rate designs and an increase to its residential fixed charge.

On January 25, 2018 the assigned Administrative Law Judge (ALJ) issued a ruling consolidating A.17-12-011, A.17-12-012, and A.17-12-013.

On February 21, 2018 a prehearing conference was held to determine the parties, discuss the scope and schedule of the proceeding, and address other procedural matters.

On March 1, 2018 the assigned Commissioner issued a Scoping Memo and Ruling (scoping memo) adopting a scope of issues and schedule for Phase I of this consolidated proceeding. The scoping memo determined that the scope of Phase I would include the issue of the proposed timing for default TOU, as well as any safety considerations with respect to the proposed timing.

On April 10, 2018 the assigned Commissioner issued an Amended Scoping Memo and Ruling (amended scoping memo) adopting a scope of issues and schedule for Phases II and III of this proceeding. Phase II considered the IOUs' specific rate design proposals for default TOU and other rate options, as well as implementation issues related to default TOU. Phase II was bifurcated into Phases IIA and IIB in order to timely resolve issues on a schedule that would enable each IOU to implement residential default TOU on the start date adopted for that utility. Because SDG&E's transition to default TOU rates would occur first, Phase IIA primarily focused on SDG&E's rate design proposals and implementation issues while the majority of issues specific to SCE and PG&E were included in Phase IIB. Phase III was designated to consider the IOUs' proposals for fixed charges and/or minimum bills.

On May 17, 2018 the Commission issued D.18-05-011, the Phase I decision addressing the timing of the transition to residential default TOU rates. That decision authorized SDG&E to begin transitioning eligible residential customers to default TOU rates beginning March 2019, and authorized PG&E and SCE to begin transitioning eligible residential customers to default TOU rates beginning October 2020.

On December 21, 2018 the Commission issued the Phase IIA decision, D.18-12-004, which addressed rate design proposals and implementation details for SDG&E's transition to default TOU rates. The decision also adopted proposals by PG&E and SCE to implement a line item discount for the California Alternate Rates for Energy (CARE) and Family Electric Rate Assistance (FERA) programs.

On July 19, 2019 the Commission issued the Phase IIB decision, D.19-07-004, which addressed rate design proposals and implementation details for the transition of SCE and PG&E residential customers to default TOU rates. The decision also addressed modeling meant to estimate the greenhouse gas (GHG) emission and utility cost impacts of default residential TOU.

Separately in A.16-06-013 (PG&E's 2018 General Rate Case (GRC) Phase 2 proceeding), the Commission issued D.17-09-035. That decision identified the categories of fixed costs that should be used in Phase III of this proceeding to generate a proposed fixed charge for residential customers of the IOUs.

An evidentiary hearing on Phase III issues was held on August 5 – 9, 2019. Opening briefs were filed by the Solar Energy Industries Association (SEIA), SCE, PG&E, the Center for Accessible Technology (CforAT), SDG&E, Sierra Club, The Utility Reform Network (TURN), and the Public Advocates Office of the California Public Utilities Commission (Cal Advocates) on September 23, 2019. Reply briefs were filed by SEIA, TURN, Cal Advocates, SDG&E, SCE, PG&E, and Sierra Club on October 14, 2019.

An ALJ ruling of September 27, 2019 sought more information from SDG&E on one of its optional residential fixed charge proposals. That ruling required the information to be served and filed by SDG&E by October 14, 2019. SDG&E timely filed their response to the ruling on October 14, 2019, and upon that date the record of the proceeding was considered submitted.

2. Phase 3 Issues

The following issues were determined by the amended scoping memo of April 10, 2018 to be within the scope of Phase III of this proceeding:

SDG&E Issues

- Whether SDG&E's proposal for a residential fixed charge of $10 for non-CARE customers and $5 for CARE, FERA, and medical baseline customers is reasonable.
- Whether SDG&E's proposal for the implementation of a higher minimum bill amount based on a minimum level of service requirement ($37.25 for non-CARE and $18.62 for CARE, FERA, and medical baseline customers) is reasonable.
- Whether SDG&E's proposal to offer a higher fixed charge option based on the total calculated fixed costs for the average residential service, which is $67.30, is reasonable.

SCE Issues

- Whether SCE's proposal for a residential fixed charge of $7.48 for non-CARE customers and $5.05 for CARE, FERA, and medical baseline customers is reasonable.
- Whether it is reasonable for SCE to adjust its proposed fixed charges by actual Consumer Price Index (CPI) increases from 2017-2021 when the increased fixed charges are proposed to be implemented.
- Whether it is reasonable for SCE to implement both a fixed charge and a minimum bill.

PG&E Issues

- Whether PG&E's request to increase its minimum bill amount to $15 per month, to be in effect only until any fixed charge is adopted and implemented, is reasonable.
- Whether PG&E's fixed charge calculated using the rental method and a CPI adjustment starting in 2018 is reasonable.

Issues Common to the IOUs

- Whether a fixed charge should be part of the IOUs' residential default TOU and tiered rates and, if so, at what levels for non-CARE and CARE customers.
- Whether any fixed charges adopted for any of the IOUs should start around 12 months after the start of that IOU's initial default TOU migration period.
- The method the IOUs should use to determine the minimum bill amount.
- If the Commission allows for increased fixed charges, which method—the real economic carrying charge method (also known as the rental method); the new customer hookup only method; or the adjusted rental method—should be used for determining the level of fixed charge.
- Whether the IOUs' minimum observed cost method to determine minimum transformer and service line costs is reasonable.

- Whether the IOUs' marketing, education, and outreach (ME&O) plans with respect to the proposed fixed charges are reasonable.

3. Is It Reasonable To Impose a New or Expanded Default Fixed Charge on IOU Residential Customers?

The primary issue in this phase of the proceeding is whether to grant the request of the IOUs to impose a default fixed charge on their residential customers. Both PG&E and SDG&E seek to impose new, monthly fixed charges on their non-CARE residential customers of $6.37 and $10 respectively. SCE already imposes a default fixed charge of less than $1 per month on its residential customers, and SCE is seeking a substantial increase of its default non-CARE residential fixed charge to $6.68 per month. For the sake of clarity, references in this decision to the imposition of a default fixed charge for residential customers should be read to include SCE's request to substantially increase its existing default residential fixed charge.

The basic rationale advanced by the IOUs for their proposals is that a default residential fixed charge would better communicate to customers the fixed costs incurred by the utility (i.e. metering, customer service, and other related costs, as defined in D.17-09-035) in providing service to the customer each month regardless of the amount of electricity actually used by the customer. The IOUs further argue that such fixed charges are used by many other electric utilities in California, including privately-owned electric utilities regulated by the Commission, and that the customers of these utilities accept and understand the fixed charge. Finally, the IOUs allege that their fixed charge proposals comply with statutory requirements that a residential fixed charge not unreasonably impair incentives for conservation or energy efficiency.

All of the non-IOU parties filing pleadings in this phase of the proceeding oppose the imposition of a default fixed charge. TURN asserts that the Commission should not approve any new or expanded fixed charges, citing the impact of a fixed charge on incentives for conservation and the lack of a firm justification for using a fixed charge to collect fixed costs.[1] CforAT also opposes fixed charges for residential customers, arguing that while statute authorizes the imposition of such fixed charges, they are not required by law.[2] Sierra Club urges the Commission to reject residential fixed charges, insisting that such charges unreasonably impair incentives for conservation and energy efficiency in contravention of statute.[3] Cal Advocates argues that the fixed charge proposals of the IOUs should be rejected due to the lack of purported benefits associated with fixed charges. Cal Advocates also reasons that its minimum bill proposal – whereby a residential customer's minimum bill would only pay for distribution costs – better accomplishes the IOUs' stated goals for a fixed charge and does so in a more equitable manner.[4]

SEIA objects to the fixed charge proposals and raises concerns expressed by the Commission in D.15-07-001 with customer acceptance and understanding of a residential fixed charge.[5] SEIA argues that customer understanding and acceptance is critical to justify adoption of the residential fixed charge proposals and SEIA asserts that "the IOUs have presented the Commission with no

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[1] TURN opening brief at 3.

[2] CforAT opening brief at 2.

[3] Sierra Club opening brief at 2-3.

[4] Cal Advocates opening brief at 3-4.

[5] D.15-07-001 at 215-216.

evidence suggesting that residential customers understand and would accept fixed charges as part of their electricity bill."[6]

3.1. Rate Design Principles

The Commission has established several rate design principles that are used to guide the Commission's consideration of rate design proposals such as the instant proposals for residential fixed charges. These rate design principles are:

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 be stable and understandable and provide customer choice;
7. Rates should generally avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals;
8. Incentives should be explicit and transparent;
9. Rates should encourage economically efficient decision-making;
10. Transitions to new rate structures should emphasize customer education and outreach that enhances customer understanding and acceptance of new rates, and minimizes and appropriately considers the bill impacts associated with such transitions.[7]

[6] SEIA opening brief at 3-5.

[7] *See* D.15-07-001 at 28.

The IOUs argue that establishing a residential fixed charge will enhance the compliance of residential rates with the rate design principles, particularly with regard to basing rates on marginal cost, cost-causation, and enhancing rate stability. However, non-IOU parties argue that the fixed charge proposals of the IOUs do not comply with several of the rate design principles, including principle 10 related to customer understanding and acceptance, while the minimum bill currently used in place of a fixed charge can adequately meet the other rate design principles purportedly supported by a fixed charge. Before addressing the merits of these arguments, it is important to address the more general context for the Commission's consideration of the residential fixed charge proposals and how that context interacts with the rate design principles.

3.2. Commission Focus on the Customer Experience of Utility Service Currently and in the Past

Rate design principle 10 states that transitions to new rate structures should emphasize customer education and outreach that enhance customer understanding and acceptance of new rates, and should minimize and appropriately consider the bill impacts associated with such transitions. Customer understanding and acceptance of a residential fixed charge is critical not simply because it is one of the rate design principles used to guide the decisions of the Commission. Recently, the Commission has opened several proceedings and issued numerous orders related to the customer experience and acceptance of IOU services. These include the unanimous Order Instituting Investigation (OII) that launched Investigation (I.) 19-11-013, to determine whether the IOUs prioritized safety and complied with the Commission's regulations and requirements with respect to their Public Safety Power Shutoff (PSPS) events in late 2019. I.19-11-013 will examine, among other things, "the effectiveness of the utility's procedures to notify the public of the PSPS events (including the information provided and outreach efforts)…".[8]

I.19-11-013 is a companion to Rulemaking (R.) 18-12-005, the Commission's rulemaking to examine utility de-energization of powerlines in dangerous conditions. In that proceeding, the Commission issued an order on November 12, 2019 directing PG&E to show cause why it should not be sanctioned by the Commission for violation of Public Utilities Code Section 451, D.19-05-042 and Resolution ESRB-8 by failing to properly communicate with its customers, and other entities, during the PSPS events during October 9 - 12, 2019, and October 23 - November 1, 2019.

While not directly applicable to the instant fixed charge proposals, the Commission's focus on the experience of IOU customers with their utility service, and in particular the examination of IOU outreach to their customers concerning critical aspects of their service, cannot be discounted. It is undisputed that the Commission is currently investigating the ability of the IOUs to communicate with their customers and the potential negative effects on the customer experience when that communication is inadequate.

This general Commission interest in utility outreach and its effect on the customer experience has previously been a matter of concern with respect to residential fixed charges as well. D.17-09-035 set out the categories of costs to be considered in the calculation of a residential fixed charge in this proceeding. That decision also considered the ME&O efforts necessary to implement a residential fixed charge. In light of concerns around customer communication

[8] I.19-11-013 OII at 5.

and a potential negative reaction to a residential fixed charge, the Commission stated that it "expects a showing on the plans for [ME&O] efforts with respect to the proposed fixed charges and in relation to the TOU rates and in compliance with the directives of D.15-07-001, if and when, a utility files a proposal for a fixed charge."[9]

D.15-07-001 was issued in a separate but related proceeding – R.12-06-013, the rulemaking on residential rate reform. D.15-07-001 established the roadmap to the current proceeding and the consideration of a residential fixed charge. In that decision the Commission held that "[i]n this proceeding we have repeatedly raised the importance of providing adequate marketing, education and outreach to customers so that they can understand and respond appropriately to their electricity rates."[10]

D.15-07-001 also mentioned that although the Commission believed that "it is beyond dispute that the record in this proceeding shows substantial customer hostility to fixed charges on residential bills," the Commission also believed that customer hostility could be cured through sufficient education.[11] However, that decision also stated that "[a]lthough a fixed monthly fee is used in the rate structure of many utilities, implementing a fixed charge for [the] IOUs at this time would be confusing to customers, *and would not be acceptable without significant education* and the ability to show customers that the fixed charge is not causing their electricity rates to increase"[12] (emphasis added). In D.15-07-001, the

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[9] D.17-09-035 at 52.

[10] D.15-07-001 at 255.

[11] D.15-07-001 at 226.

[12] D.15-07-001 at 269.

Commission made clear the importance of ME&O in mitigating the potential negative customer reaction to a residential fixed charge.

The history of IOU residential fixed charges also demonstrates that the implementation of any such charge must be handled with sensitivity and attention to customer experience. SDG&E implemented a default residential fixed charge of $4.80 per month, with Commission approval, in 1988.[13] In the face of public opposition, SDG&E sought and the Commission approved a withdrawal of SDG&E's residential fixed charge, replacing it with a $5 per month minimum bill, within eight months.[14] In repealing SDG&E's fixed charge, the Commission observed that "considerable weight must be given to the ability of residential customers to both understand the principles behind the rates they are charged and accept those principles as reasonable."[15]

PG&E has never imposed a fixed charge on its residential customers. In fact, in A.10-03-014 the Commission denied PG&E's proposal for a $3 per month fixed charge for its non-CARE customers and $2.40 per month fixed charge for its CARE customers.[16]

In this proceeding, PG&E's primary witness concerning the customer experience granted that the imposition of a residential fixed charge creates a risk of a negative customer experience, but recommended adopting a residential fixed charge in spite of that risk to reflect cost of service, help "customers understand what goes into their bill," and create bill reductions for some

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[13] D.87-12-069.

[14] D.88-07-023 at 10.

[15] D.88-07-023 at 5.

[16] TURN opening brief at 3-4.

customers.[17] Despite these purported benefits of a residential fixed charge, PG&E's witness did not recommend imposing a residential fixed charge until 2022 at the earliest given the risk of a negative customer backlash.[18]

For all of the reasons outlined above, and consistent with previous Commission decisions, this decision gives great weight to the arguments concerning rate design principle 10.[19] It is apparent that the history of the application of default fixed charges to residential customers of the IOUs is checkered, the Commission is gravely concerned with the potential for a negative customer reaction to residential fixed charges and inadequate utility communications generally, and the IOUs themselves grant that there is a risk of customer backlash if a residential fixed charge is imposed.

3.3. Mere Existence of Fixed Charges for Residential Customers of Other Utilities is Insufficient to Establish a Customer Acceptance of Fixed Charges

Notwithstanding the history of IOU residential fixed charges in California, residential customers of some other electric utilities in California pay fixed charges by default. For residential customers of the Sacramento Municipal Utilities District (SMUD) the "System Infrastructure" monthly fixed charge is $20.30.[20] For Alameda Municipal Power residential customers the fixed monthly

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[17] TR 1457:23-28.

[18] TR 1457:1-4.

[19] *See also* D.15-07-001 at 216 *citing* D.88-07-023 at 5.

[20] Available at: https://www.smud.org/-/media/Documents/Electric-Rates/Residential-and-Business-Rate-information/PDFs/1-R.ashx and

Footnote continued on next page

charge is either $17.30 or $6.75 depending on the rate schedule.[21] Residential customers of the City of Ukiah pay a sliding fixed charge depending on their monthly usage, ranging from $0.56 to $1.65 per month.[22] PacifiCorp residential customers pay a fixed charge (known as a "basic charge") of $7.20 per month that was approved by the Commission.[23]

While some California residential electricity customers currently pay fixed charges, this fact in and of itself does not justify the imposition of default residential fixed charges for the IOUs or demonstrate adherence to rate design principle 10. This is because the experience of a SMUD customer, for example, with a fixed charge cannot be assumed to predict the experience of an IOU customer with a fixed charge. There may be other factors unrelated to the fixed charge itself that differentiate the experience of a SMUD customer from an IOU customer. For example, a SMUD customer may be more likely to receive a certain kind of customer service or outreach from SMUD than an IOU customer, and such service or outreach may allow the SMUD customer to accept and understand a $20.30 per month fixed charge.

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https://www.smud.org/en/Rate-Information/Residential-rates. Last accessed October 2, 2019.

[21] Available at: https://www.alamedamp.com/DocumentCenter/View/193/Rate-Summary-PDF. Last accessed October 1, 2019.

[22] Available at: http://www.cityofukiah.com/NewWeb/wp-content/uploads/2013/09/2017-2020-Electric-Rates-final.pdf. Last accessed October 1, 2019.

[23] Available at: https://www.pacificpower.net/content/dam/pcorp/documents/en/pacificpower/rates-regulation/california/rates/D_Residential_Service.pdf. Last accessed November 22, 2019.

The IOUs have provided scant evidence in this proceeding concerning the ME&O pursued by other California utilities in their implementation of residential fixed charges. The IOUs have not supplied an analysis of the factors that might influence whether or not a residential electricity customer of a non-IOU utility accepts and understands a fixed charge. Even if such charges are accepted and understood, there is no record to answer the question of what drove customer acceptance and understanding of a residential fixed charge in these other California electric utilities.

3.4. ME&O Plans Offered by the IOUs to Support Their Fixed Charge Proposals

SEIA objects to the fixed charge proposals of the IOUs and raises concerns expressed by the Commission in D.15-07-001 with customer acceptance and understanding of a residential fixed charge.[24] SEIA argues that "the IOUs have presented the Commission with no evidence suggesting that residential customers understand and would accept fixed charges as part of their electricity bill."[25] This decision concurs and finds that, for the reasons discussed below, the ME&O plans proposed by the IOUs reflect a lack of research and concern regarding the necessary steps to ensure residential customer understanding and acceptance of a fixed charge.

While SCE states that it intends to educate all its residential customers about its proposed fixed charge increase, SCE plans to target ME&O on those low-usage customers that may see negative bill impacts as a result of the fixed

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[24] D.15-07-001 at 215-216.

[25] SEIA opening brief at 3-5.

charge.[26] However, SCE's customer research indicates that there may be a negative psychic impact of a fixed charge that cannot be avoided by changes in usage or by switching to a different rate plan.[27] For those customers, SCE intends to highlight the positive aspects of TOU rates generally rather than expressly educate customers about the fixed charge.[28]

SCE's ME&O proposal, therefore, does not appear to consider ME&O specific to fixed charges for most of its residential customers even if that customer would negatively view an unavoidable fixed charge. SCE's ME&O planning does not take into account that an increased fixed charge would essentially be new to the customer,[29] and therefore requires explanation as to the charge's purpose and impact.

Furthermore, while SCE appears to acknowledge that a survey of the experiences of other electric utilities with a fixed charge is a necessary component of developing fixed charge ME&O, it does not describe how this information will be used to inform its own ME&O plan.[30] SCE simply states that it will "reach out to other utilities and non-utilities to learn how they structured

[26] SCE opening brief at 28; Exh. SCE-02 at 77 ("SCE intends to analyze customer usage and bill percentage impact data, including for CARE and FERA customers, to determine which segments of customers will be most impacted and target them accordingly with ME&O").

[27] SCE's research on this question from 2011 indicates that roughly half its residential customers would prefer not to experience a fixed charge altogether by having the fixed charge revenue rolled into volumetric rates. (Exh. SCE-02 at 79.)

[28] SCE opening brief at 30-31; Exh. SCE-02 at 81-82.

[29] SCE grants that residential customer awareness of SCE's existing fixed charge is "quite low." (SCE opening brief at 29.)

[30] SCE opening brief at 29.

their fixed charge ME&O programs."[31] SCE states that it plans to conduct "primary research" in the future that will evaluate whether customers accept having to pay a fixed charge at various price points.[32]

With respect to the outreach channels SCE plans to use, it will leverage "a multi-channel communications approach" using direct mail and/or e-mail to those most negatively affected as well as CARE, FERA, and net energy metering customers, outbound calls to those most negatively affected, updates on SCE.com, bill onserts, and news media. While the structure of this approach is not unreasonable, the content used by the proposed approach is undefined and significant detail is lacking concerning the messaging and strategies, especially for those customers that may see negligible bill impacts but nevertheless are displeased to see an increased fixed monthly charge of several dollars on their bill.

PG&E explicitly grants the risk surrounding a negative customer reaction to a fixed charge, but does not provide much in the way of specifics regarding what it will actually do to mitigate that risk besides developing "carefully crafted messaging" after conducting "positioning research" prior to fixed charge implementation.[33] PG&E states that its fixed charge ME&O approach is "necessarily flexible, given the large number of unknowns that remain."[34]

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[31] Exh. SCE-02 at 79.

[32] SCE opening brief at 30.

[33] Exh. PGE-18, Chapter 4 at 4. PG&E does mention that it plans to leverage its customer service representatives, website, employees, and elected officials in support of its fixed charge communications. (Exh. PGE-18, Chapter 4 at 5-6).

[34] Exh. PGE-18, Chapter 4 at 8.

SDG&E's opening brief states that SDG&E's Exhibit 24 contains the proposed ME&O plan for the SDG&E fixed charge.[35] However, that exhibit concerns the monitoring plan that SDG&E plans to use to track customer complaints regarding the fixed charge, rather than the proactive ME&O that will mitigate the risk of negative customer reaction to a fixed charge.[36] With respect to such a proactive plan, SDG&E's opening brief only states that "SDG&E is committed to working with stakeholders and Energy Division in ME&O working groups to ensure that its plans are effective."[37]

The prepared direct testimony of SDG&E witness Tantum, served on December 20, 2017, appears to address SDG&E's proposed ME&O plan for a residential fixed charge. That testimony states that "[t]o effectively communicate with customers about fixed charge costs, SDG&E's recommended approach would be to incorporate messaging into its general awareness tactics that are available to customers at all times, including the bill package, social media, web site and outreach activities. Communications would be proactive to help ensure that customers are educated prior to receiving their first bill with a fixed charge. At a high level, fixed charge messaging would focus on the benefits (e.g., being a non-complex, predictable amount, and may include mention of the many services the charge incorporates)."[38]

SDG&E's reply brief, notably, attempts to introduce new detail into the record regarding specific elements of SDG&E's proposed ME&O plan for its

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[35] SDG&E opening brief at 33.

[36] Exh. SDGE-24.

[37] SDG&E opening brief at 33.

[38] Exh. SDGE-05 at 28-29.

fixed charge.[39] Per Commission Rule of Practice and Procedure (Rule) 13.11, factual assertions in briefs must be supported by identified evidence of record. SDG&E failed to do so in its reply brief with respect to the new details of its fixed charge ME&O plan, and therefore those details are disregarded by this decision.

3.5. The Proposed ME&O Plans Do Not Ensure That the Fixed Charge Proposals Will Satisfy Rate Design Principle 10

The ME&O plans offered by the IOUs in this proceeding do not adequately describe how residential customers will be prepared to accept and understand a charge that they cannot avoid. SCE's plan, while being the most specific, acknowledges that most of its residential customers will not receive targeted messaging about the fixed charge at all. Additionally, SCE's planned messaging to mitigate negative reaction to the fixed charge is to promote energy efficiency and conservation – two actions that will not actually reduce the impact of the fixed charge on a customer's bill.[40]

The risk of a negative customer reaction to residential fixed charges is demonstrated by history, granted by the IOUs,[41] and of great concern to the Commission. Far more detail is required for the Commission to approve the ME&O plans offered by the IOUs, particularly around the messages and tactics used by other California utilities that could help avoid a negative customer backlash to residential fixed charges.

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[39] SDG&E reply brief at 21-22.

[40] TR 1535:1-1537:23.

[41] *See, e.g.*, Exh. PGE-18, Chapter 4 at 3 ("The fixed charge and automatic default to TOU face similar challenges in their potential for negative-customer backlash and poor acceptance").

The ME&O plans provided by the IOUs in this phase of the proceeding lack detail and do not ensure that the fixed charge proposals of the IOUs will satisfy rate design principle 10. Given the great weight assigned to rate design principle 10 by this decision, the Commission holds that it is not reasonable to impose new or expanded fixed charges on residential customers of the IOUs at this time notwithstanding any improvement to cost causation or cost signals that may be created. For the sake of clarity, this holding does not affect the fixed charge SCE currently imposes on its residential customers, which is discussed further below.

4. Other Details Regarding Fixed Charge Calculation and Implementation are Moot

Because of this decision's holding that it is not reasonable to impose new or increased fixed charges on residential customers of the IOUs at this time, other issues within the scope of this proceeding related to the calculation and implementation of the residential fixed charge are moot.

5. Minimum Bill Amounts and Methodology

Given this decision's rejection of new or expanded residential fixed charges, it is reasonable to continue assessing minimum bills as a substitute for fixed charges as sanctioned by Public Utilities Code Section 739.9(h) in order to enhance equitable cost-sharing among residential ratepayers for the costs to provide electric service to residential customers.

The current version of the minimum bill imposed by the IOUs on their residential customers was authorized by D.15-07-001. That decision noted the previous existence of minimum bills for all IOU residential customers of varying amounts,[42] and harmonized the minimum bill amounts imposed by the IOUs at $10 per month for non-CARE customers and $5 per month for CARE, FERA, and medical baseline customers.[43] That decision also clarified that the minimum bill should be calculated based on the non-generation components of the residential tariff.[44] This means that the minimum bill for a residential customer is satisfied once the customer's volumetric non-generation charges meets or exceeds the minimum bill amount. If a customer's usage is insufficient to meet or exceed the minimum bill amount, the customer's non-generation component of the bill is raised to the minimum bill amount. In this way, the minimum bill has varying effects on customers. Most customers pay more than the minimum bill amount and therefore do not experience the minimum bill. Some customers may only pay a few cents extra each month to meet the minimum bill, while those customers that use almost no electricity will see a greater impact from the minimum bill.

The IOUs offer various proposals for modifying their minimum bills in this proceeding. SCE seeks to continue its "longstanding practice" of imposing both a fixed charge and a minimum bill on its residential customers.[45] SCE's current minimum bill is $10.52 per month for non-CARE customers and $5.26 per

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[42] D.15-07-001 at 218 ("PG&E has a residential minimum bill of $4.50 per month and SDG&E has a minimum bill of $0.17 per day or approximately $5 per month. SCE has a minimum bill of less than $2 per month").

[43] D.15-07-001 at 227.

[44] D.15-07-001 at 228 ("the minimum bill should be calculated using the method currently used by SCE, which calculates a minimum bill on only the delivery portion of the customer's bill (the delivery portion is defined as all rate components except for the generation rate)").

[45] SCE opening brief at 28.

month for CARE, FERA, and medical baseline customers.[46] SCE does not propose any modifications to its minimum bill in this proceeding.

PG&E proposes to increase its minimum bill to $10.73 per month for all of its residential customers, including CARE, FERA, and medical baseline customers, in the event that the Commission does not approve PG&E's fixed charge proposal.[47] PG&E's reasoning is that an additional 73 cents per month should be allowed due to language in Public Utilities Code Section 739.9 that allows an adjustment of the value of a fixed charge by the rate of inflation (formally, the CPI) beginning in 2016. Implicitly PG&E is arguing that such a CPI adjustment should be applied to minimum bills as well.

SDG&E proposes a substantial increase to their minimum bills resulting in an approximate $38.19 per month minimum bill for non-CARE customers and an approximate $19.10 per month minimum bill (or half of the non-CARE minimum bill) for CARE, FERA, and medical baseline customers, based on an actual minimum bill of $1.255 per day for non-CARE customers.[48] SDG&E reasons that the increased minimum bill represents the minimum cost that SDG&E incurs to serve a residential customer on a monthly basis. This minimum cost includes, by SDG&E's calculation, minimum customer costs, grid reliability costs, transmission costs, public policy program costs, and other costs that do not vary by usage.[49] SDG&E argues that the Commission did not set a cap on minimum

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[46] SCE opening brief at vi; 11.

[47] PG&E opening brief at 35; Exh. PG&E-19 at 2-11.

[48] SDG&E opening brief at 28-29.

[49] SDG&E opening brief at 28-31. The proposed minimum bill also includes approximately $5 per month in generation-related costs. (SEIA opening brief at 17.)

bill amounts in D.15-07-001, there is no cap on minimum bill amounts in statute, and therefore SDG&E's proposal to substantially increase its minimum bill beyond $10 per month does not run afoul of Commission orders or law.[50]

5.1. Amount of the Minimum Bill for PG&E and SCE

Cal Advocates argues against PG&E's proposal to increase its minimum bill to $10.73 per month for all of its residential customers, including CARE, FERA, and medical baseline customers, and instead argues that the minimum bill for PG&E customers should be set at an amount of $10 per month.[51] Cal Advocates did not specifically refer to SCE's minimum bill amount in their briefing. Other non-IOU parties did not address the minimum bill amounts proposed by PG&E or SCE.

SCE's proposed amount for its minimum bill is $10.52 per month for non-CARE customers and $5.26 per month for CARE, FERA, and medical baseline customers.[52] While not stated explicitly in its briefing, this decision assumes that SCE will continue to increase its minimum bill amount annually using the CPI as referenced in D.15-07-001.[53] No party addressed this annual escalation issue. Because SCE's proposed minimum bill maintains the existing structure and poses little risk of negative customer backlash, SCE shall continue

[50] SDG&E opening brief at 29-30.

[51] Cal Advocates opening brief at 27.

[52] SCE opening brief at vi.

[53] D.15-07-001 at 227; 283 (stating that SCE's minimum bill could begin increasing in line with CPI rates starting in 2018).

charging a minimum bill of $10.52 per month for non-CARE customers and $5.26 per month for CARE, FERA, and medical baseline customers.

Additionally, SCE is authorized to increase these minimum bill amounts on an annual basis by the annual percentage increase in the CPI for the prior calendar year. Applying the CPI adjustment on an on-going basis is reasonable as it follows the direction of D.15-07-001 and is in accord with annual CPI adjustments allowed for residential fixed charges (for which the minimum bill is a substitute) under Public Utilities Code Section 739.9(f).[54]

As noted above, PG&E seeks a similar authorization for its minimum bill, and wishes to increase its current minimum bill value of $10 per month to $10.73 to account for CPI increases since the first quarter of 2015.[55] PG&E misreads D.15-07-001 when seeking CPI adjustments dating back to 2015. As for SCE, D.15-07-001 set PG&E's minimum bill amount at $10 per month for non-CARE customers and $5 per month for CARE, FERA, and medical baseline customers, with increases only allowed beginning in 2018 to match CPI or adjustments to the minimum bill made in a GRC Phase 2 proceeding.[56] While Cal Advocates seeks to maintain a $10 per month minimum bill for PG&E customers, D.15-07-001 allows annual increases to the minimum bill in line with CPI increases beginning in 2018 and this decision does not disturb that holding.

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[54] "Beginning January 1, 2016, the maximum allowable fixed charge may be adjusted by no more than the annual percentage increase in the Consumer Price Index for the prior calendar year." For the purpose of this decision, the Commission assumes that the Legislature's reference to the Consumer Price Index in Public Utilities Code Section 739.9(f) is to the Consumer Price Index for All Urban Consumers for the U.S. City Average for All Items, prepared by the U.S. Bureau of Labor Statistics.

[55] Exh. PG&E-19 at 2-11.

[56] D.15-07-001 at 227; 274.

Therefore, PG&E shall increase its minimum bill amount of $10 per month for non-CARE customers and $5 per month for CARE, FERA, and medical baseline customers in 2020 by the annual percentage increase in the CPI recorded for 2018 and 2019. Beginning in 2021, PG&E is authorized to increase these minimum bill amounts on an annual basis by the annual percentage increase in the CPI for the prior calendar year.

PG&E's proposal to charge the same minimum bill to all of its residential customers is not adopted. D.15-07-001 ordered PG&E to apply a minimum bill of $10 per month to its non-CARE customers and $5 per month to its CARE, FERA, and medical baseline customers. That decision's twenty-first conclusion of law was that "[t]he adopted minimum bill amount should be applied to all residential rate schedules with a 50% discount for CARE, FERA and medical baseline customers."[57] This decision does not disturb the existing differentiation of the minimum bill amounts for PG&E's residential customers, as PG&E has not met its burden to demonstrate why it is necessary or equitable to effectively increase the minimum bill for CARE, FERA, and medical baseline customers. PG&E shall ensure that its CARE, FERA, and medical baseline customers are only charged a $5 per month minimum bill, adjusted for recent CPI increases as discussed above, until such time as the Commission reconsiders this issue. This decision takes notice of the fact that PG&E has requested a similar change to the CARE, FERA, and medical baseline minimum bill amount in its recently filed GRC Phase 2 application (A.19-11-019). This decision defers to that proceeding for further consideration of this issue.

[57] D.15-07-001, Conclusion of Law (COL) 21.

5.2. Amount of the Minimum Bill for SDG&E

SDG&E proposes a substantial increase to its minimum bills resulting in an approximate $38.19 per month minimum bill for non-CARE customers and an approximate $19.10 per month minimum bill (or half of the non-CARE minimum bill) for CARE, FERA, and medical baseline customers, based on an actual minimum bill of $1.255 per day for non-CARE customers.

Cal Advocates rejects SDG&E's proposal to substantially increase its minimum bill amount, claiming that the purported benefits of the higher minimum bill do not exist and that, in any event, the amount sought by SDG&E contradicts Commission findings that a minimum bill far in excess of $10 per month would be inappropriate.[58]

TURN strongly opposes SDG&E's proposal for a substantially increased minimum bill on several grounds. They argue that the data SDG&E used to produce its desired minimum bill amount were not easily discerned from the record of the proceeding, and that the large minimum bill increase would adversely affect a substantial number of SDG&E customers. TURN further asserts that the definition of fixed costs used to generate SDG&E's proposed minimum bill has never been endorsed by the Commission for that purpose.[59] TURN recommends that the minimum bill be set at an amount no greater than $20 per month.[60]

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[58] Cal Advocates opening brief at 28-29.

[59] TURN opening brief at 37-38.

[60] TURN opening brief at 38.

SEIA calls SDG&E's minimum bill proposal "grossly excessive" and "directly antithetical to a number of the Commission's rate design principles."[61] SEIA asserts that 12% of SDG&E's CARE customers would see an average bill increase of 27% under SDG&E's minimum bill proposal,[62] while in a given month approximately one quarter of SDG&E's residential customers would be impacted by the new minimum bill.[63]

SEIA also argues that SDG&E's proposed minimum bill does not provide an accurate price signal and interferes with cost causation because it would collect revenue to pay for costs beyond customer-specific costs.[64] SEIA further reasons that the proposed minimum bill should be rejected as it would adversely affect conservation by low-usage customers, unduly destabilize rates and bills for low-usage customers, and would not be understood or accepted by residential customers as no specific ME&O for the minimum bill was proposed by SDG&E in this proceeding.[65]

SEIA's recommended amount for all of the minimum bills of the IOUs is the greater of $10 per month (escalated annually by CPI) or the IOU's marginal customer costs.[66]

Sierra Club shares SEIA's concern with SDG&E's proposal for a minimum bill of nearly $40 per month, calling it "illegal, unreasonable, and inconsistent

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[61] SEIA opening brief at 13.

[62] SEIA opening brief at 13.

[63] SEIA opening brief at 15.

[64] SEIA opening brief at 13-14.

[65] SEIA opening brief at 14.

[66] SEIA opening brief at 18.

with Commission policy."[67] Sierra Club reasons that D.15-07-001 essentially prohibited minimum bill amounts that were far in excess of $10 per month, and that it held that a minimum bill of $25 per month would be inappropriate.[68] Sierra Club asserts that D.15-07-001 held that a minimum bill should be used to recover customer-related costs only, and that SDG&E's proposal to include far more than customer-related costs in its minimum bill is counter to that directive.[69]

Beyond these arguments regarding the holdings of D.15-07-001, Sierra Club contends that SDG&E's proposal would adversely affect many of SDG&E's low-usage customers and that it would target demand-related costs rather than focusing on customer-specific costs. Finally, Sierra Club claims that adopting SDG&E's proposal would result in the highest minimum bill for electricity in the country.[70]

Likewise, CforAT argues that D.15-07-001 essentially held that a minimum bill value as proposed by SDG&E would be inappropriate and therefore should be rejected by the Commission in this proceeding.[71]

SDG&E's reply brief notes these arguments, and grants that its proposed minimum bill increase is significant. However, SDG&E asserts that there are minimum costs to serve residential customers regardless of their usage, and therefore the proposed minimum bill increase to match those costs is reasonable.

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[67] Sierra Club opening brief at 23.

[68] Sierra Club opening brief at 23.

[69] *Id.*

[70] Sierra Club opening brief at 25.

[71] CforAT opening brief at 13-14.

Furthermore, SDG&E responds to the bill impact arguments by claiming that most CARE and non-CARE customers would actually see bill decreases due to the increased minimum bill. As for those customers that would see a bill increase, SDG&E claims such increases are reasonable to ensure low-usage customers are not subsidized by higher-usage customers and pay the minimum cost to serve them.[72]

The Commission agrees with the parties opposing SDG&E's minimum bill proposal on the grounds that the holdings from D.15-07-001 essentially prohibit the increased minimum bill sought by SDG&E. D.15-07-001 established the Commission's reasoning regarding the purpose of the minimum bill, its relation to the fixed charge, and the appropriateness of the various potential minimum bill amounts. Among other things, D.15-07-001 held that:

- The minimum bill charge is a mechanism that is designed to recover a minimum level of revenue, recognizing that some costs are still incurred to maintain service even in the event that a customer does not use energy.[73]
- Statute authorizes the Commission to consider minimum bills as an alternative (i.e., substitute) to fixed charges, although minimum bills and fixed charges are not the same and have differing statutory requirements for application.[74]
- While there are no caps on minimum bills mandated by statute, a minimum bill amount "far in excess of the fixed charge caps," or which undermines legislative objectives, would not be appropriate.[75]

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[72] SDG&E reply brief at 18.

[73] D.15-07-001 at 217.

[74] D.15-07-001 at 217; 220-224.

[75] D.15-07-001 at 224; CoL 23.

- Given the disagreement regarding the appropriate amount of fixed customer costs, it was reasonable to adopt a minimum bill amount for all three IOUs that was consistent with the statutory limit for fixed charges.[76]

In line with these holdings, D.15-07-001 ordered SDG&E to apply a minimum bill of $10 per month to its non-CARE customers and $5 per month to its CARE, FERA, and medical baseline customers.[77] SDG&E was allowed to increase these minimum bill amounts beginning in 2018 either based on CPI increases or on adjustments to the minimum bill amount made in a GRC Phase 2 proceeding.

While SDG&E asserts that D.15-07-001 did not impose a cap on the amount of the minimum bill in the abstract,[78] in reality that decision did cap the minimum bill amount for SDG&E at the limit allowed by law for residential fixed charges for several years, and then required that SDG&E seek approval for any increase beyond CPI in a separate proceeding.

SDG&E's argument that D.15-07-001's holdings should be revised in order to reflect the minimum cost to serve an SDG&E residential customer is not persuasive. SDG&E's volumetric rates for residential customers allow SDG&E to collect the revenue it requires to serve the residential class from the residential class as a whole. SDG&E presented no evidence that it is unable to collect revenue required to serve the residential class using the current minimum bill and volumetric rates.

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[76] D.15-07-001 at 227; CoL 24.

[77] D.15-07-001 at 227.

[78] Exh. SDG&E-21 at 16-17.

Furthermore, SDG&E did not offer sufficient argument to disturb the core holdings of D.15-07-001 regarding the minimum bill and the guidelines for setting its amount. It remains the case today that a minimum bill amount far in excess of the fixed charge caps or which undermines legislative objectives would not be appropriate. This is because the minimum bill considered in this decision is designed to do the same thing that the fixed charge is designed to do – collect a certain amount of revenue from each customer to compensate the utility for the costs related to keeping that customer connected to the grid. While this decision does not repeat the analysis of D.15-07-001 in detail, the reference in Public Utilities Code Section 739.9(h) to the use of the minimum bill as a "substitute" for a residential fixed charge means that the Commission views the statutory fixed charge caps as strong guidelines when determining the appropriate amount of a minimum bill.[79] While parties may debate the actual minimum cost to serve a residential customer, the Legislature and the Commission have been clear that unavoidable charges to recover such costs should be capped at a level far below what SDG&E proposes in this proceeding.

TURN's arguments around the opacity of the costs used to calculate SDG&E's proposed minimum bill also lead the Commission to reject SDG&E's proposal. SDG&E did not sufficiently demonstrate how the minimum bill cost values were calculated, nor has SDG&E explained why certain costs that would seem to be related to usage – generation capacity costs, for example – should be included in a minimum bill that cannot be avoided by a residential customer through changes in usage. Finally, the bill impacts of SDG&E's minimum bill

[79] *See* D.15-07-001 at 223 ("[w]hile a minimum bill of $12 might be an appropriate substitute for a non-CARE fixed charge of $10, a minimum bill of $25 probably would not").

proposal appear to negatively impact a large number of low-usage and low-income customers. For example, the fact that 12% of SDG&E's CARE customers would see an average bill increase of 27% under SDG&E's minimum bill proposal means that the proposal fails to comply with the Commission's rate design principles concerning rate stability. Even if the proposed minimum bill amount would lower the bills of other CARE customers, bill instability and a negative customer reaction by those facing higher bills of the magnitude illustrated would likely result.

For all of the above reasons, this decision rejects SDG&E's proposal to substantially increase its minimum bills to approximately $38.19 per month for non-CARE customers and approximately $19.10 per month (or half of the non-CARE minimum bill) for CARE, FERA, and medical baseline customers, based on an actual minimum bill of $1.255 per day for non-CARE customers. Instead, SDG&E shall continue charging a minimum bill of $0.338 per day for non-CARE customers and $0.169 per day for CARE, FERA, and medical baseline customers. SDG&E is authorized to increase these minimum bill amounts on an annual basis by the annual percentage increase in the CPI for the prior calendar year.

5.3. Methodology for Calculating the Minimum Bill

The minimum bill for the IOUs is currently calculated on the basis of the non-generation volumetric rates, which include distribution, transmission, and other non-bypassable charges. Cal Advocates proposes that the appropriate way to calculate the minimum bill would be to assess it based solely on distribution rates, and allow non-bypassable charges and transmission charges to be assessed based solely on usage (i.e., volumetrically and separate from a minimum bill).

To illustrate the difference between the existing minimum bill calculation methodology and Cal Advocates' proposal, imagine that a typical California utility's total residential rate may include four different components: generation, distribution, transmission, and non-bypassable charges for public purpose programs (PPP). The table below illustrates how such a rate could be designed on a per kilowatt-hour (kWh) basis.

Distribution Rate	10 cents/kWh
Transmission Rate	5 cents/kWh
PPP Rate	5 cents/kWh
Sub-total: Non-Generation Rates	*20 cents/kWh*
Generation Rate	10 cents/kWh
Total Rate	**30 cents/kWh**

If a $10 minimum bill is applied to the non-generation portion of the customer's rate, as is currently the case, then using the example rate above the customer would pay half of that $10 amount toward distribution (as half the non-generation total is made up of distribution charges), one-quarter toward transmission, and one-quarter toward PPP, even if the customer only used one or two kWh over the course of the month. This means that the hypothetical customer would pay $2.50 toward PPP even if the customer only used one or two kWh per month. In the absence of the minimum bill, the customer would have only paid 10 cents toward the PPP if the customer used two kWh in a month.

Cal Advocates reasons that its proposal to calculate the minimum bill solely on distribution rates, and allow non-bypassable charges such as PPP and transmission charges to be assessed based solely on usage, would improve equity as it would ensure that very low usage customers do not pay more in non-bypassable charges for certain costs than contemplated by the Commission or the Legislature. As in the example above, a PPP rate of five cents per kWh effectively becomes a PPP rate of 50 cents or more per kWh when the minimum bill is applied to very low-usage customers.

Cal Advocates further argues that limiting collections via the minimum bill to distribution charges would effectively increase the amount of revenue collected by the minimum bill for distribution, even if the amount of the minimum bill remained constant.[80]

SEIA reasons that Commission decisions and the law contemplate a minimum bill as a substitute for a fixed charge, and therefore a minimum bill should serve the same function as a fixed charge and collect only the costs authorized for collection by a fixed charge in D.17-09-035 (i.e., customer-specific distribution charges).[81] TURN asserts that collecting delivery charges through a minimum bill (as opposed to merely distribution charges) remains a prudent approach.[82]

Both SCE and PG&E concur with Cal Advocates that the methodology for calculating the minimum bill should be changed such that only the distribution volumetric charges count toward the minimum bill, rather than all non-generation charges (also referred to as delivery charges).[83] SDG&E's minimum bill proposal, by definition, includes far more than distribution costs,

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[80] Exh. Cal Advocates-5, Chapter 1 at 3-6. Cal Advocates reckons that a $10 minimum bill would capture $3 in customer-related costs and $7 in distribution demand-related costs.

[81] SEIA opening brief at 16.

[82] TURN opening brief at 38-39.

[83] SCE opening brief at 27; PG&E opening brief at 35.

and consequently SDG&E does not specifically endorse the methodology proposed by Cal Advocates.[84]

Cal Advocates' argument on this point is persuasive. Specifically, calculating the minimum bill based solely on distribution rates, and allowing non-bypassable charges such as PPP and transmission charges to be assessed based solely on usage, would improve equity as it would ensure that very low usage customers do not pay more in non-bypassable charges for certain costs than contemplated by the Commission or the Legislature.

It is important to note that a minimum bill would not necessarily satisfy other rate design principles addressed by a fixed charge, such as communicating to the customer the customer-specific costs they impose on the IOU.[85] Thus, there are other justifications for the imposition of a residential fixed charge that the Commission may consider in the future. This decision does not prejudice the ability of an IOU to apply to the Commission for the application of a default residential fixed charge.

Given the enhancement of equity afforded by Cal Advocates' proposal, the proposal should be adopted. Each of PG&E, SCE, and SDG&E shall calculate the minimum bill amounts defined in this decision on the basis of distribution charges only beginning no later than October 1, 2020.

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[84] *See* Exh. SDG&E-21 at 15 and 19.

[85] D.15-07-001, FoF 178 ("[a] minimum bill will not result in a perceptible impact for customers other than extreme low usage customers").

5.4. SCE' Simultaneous Minimum Bill and Fixed Charge

Several parties objected to the simultaneous use by the IOUs of both a minimum bill and a fixed charge, arguing that statute allows for the use of a minimum bill as a substitute or replacement for a fixed charge and not as a complementary element of a customer's bill.[86] The IOUs generally argued for the ability to apply minimum bills and fixed charges at the same time. The issue of whether or not to maintain SCE's existing fixed charge of less than $1 per month was not discretely addressed.

Public Utilities Code Section 739.9(h) states "[t]he commission may consider whether minimum bills are appropriate as a substitute for any fixed charges." Subsection (e) of the same code section states "[t]he commission may adopt new, or expand existing, fixed charges for the purpose of collecting a reasonable portion of the fixed costs of providing electric service to residential customers." D.15-07-001 authorized SCE to maintain its existing fixed charge without increasing it, as that decision only rejected new and expanded fixed charges.[87]

This holding of D.15-07-001 is maintained by this decision. SCE's existing fixed charge was authorized by the Commission in 1996, nearly two decades before the Legislature adopted Public Utilities Code Section 739.9.[88] The reference in subsection (e) of that section to "new, or expand[ed] existing" fixed charges is significant, as it suggests the Legislature was aware of SCE's existing

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[86] Cal Advocates opening brief at 8-9; Sierra Club at 20-22; SEIA opening brief at 10-12; CforAT opening brief at 9-10.

[87] D.15-07-001 at 283.

[88] *See* D.96-04-050.

residential fixed charge and chose not to apply the requirements of subsection (e) to that charge. Obviously if SCE's fixed charge was expanded, then it would become subject to subsection (e).

For that reason, this decision concludes that even if Public Utilities Code Section 739.9 prohibits the simultaneous use of fixed charges and minimum bills, this prohibition does not apply to SCE's current residential fixed charge, which predates the statute. The Legislature could have spoken to the existing SCE fixed charge, but appeared to forego the opportunity. Furthermore, the customer experience concerns related to new and expanded fixed charges discussed previously in this decision do not apply to SCE's existing residential fixed charge, as that charge has been in place for decades and therefore its continued existence is not likely to affect the customer experience at this time in any meaningful way. No party explicitly proposed that SCE's existing fixed charge be eliminated nor does the record reflect what rate changes or bill impacts would result from the elimination of SCE's existing fixed charge.

SCE shall maintain its existing default residential fixed charge, but shall not increase it until authorized to do so by the Commission. This decision authorizes no increase to SCE's default residential fixed charge at this time.

6. If it is Reasonable to Impose a Default Minimum Bill, to Which Residential Rates Should They Apply?

SDG&E and PG&E propose to apply the minimum bill to all of their residential rate schedules. SCE intends to apply the minimum bill to all of its residential rates with the exception of TOU-D-PRIME and EV-1, which each have a $12 per month fixed charge.

There is little record in this proceeding concerning the prevalence of fixed charges in optional residential rates offered by the IOUs. There is also little information on what costs those fixed charges are designed to recover. This means that even though Public Utilities Code Section 739.9(h) states "[t]he commission may consider whether minimum bills are appropriate as a substitute for any fixed charges," it is not clear whether the distribution-only minimum bill is truly a substitute for the existing optional fixed charges as the revenue those fixed charges are designed to recover is not described in the record of this proceeding.

On the other hand, simplicity may be called for until the Commission can compare the fixed charges and minimum bills proposed for each residential rate schedule to determine if a minimum bill is a substitute for, and therefore should displace, a fixed charge. Therefore, to the extent an optional IOU residential rate authorized by the Commission includes a fixed charge – such as SCE's TOU-D-PRIME – customers on those rates shall not be assessed a minimum bill. All other IOU residential rates may include the minimum bills authorized by this decision. This order does not apply to SCE's existing default residential fixed charge of less than $1 per month.

7. Is it Reasonable to Adopt an Optional Residential Rate With a High Fixed Charge for Customers of SDG&E?

In this phase of the proceeding SDG&E proposes to create an optional residential TOU rate with a fixed charge of approximately $72 per month. The rate would maintain the three-period TOU rate structure used by SDG&E for its default residential TOU rate, but with a major difference. The high fixed charge of roughly $72 per month would capture the revenue that otherwise would have been collected through volumetric rates, meaning that the optional rate would substantially lower the volumetric charges faced by residential customers on SDG&E's current TOU rates. SDG&E's illustrative rate indicates winter volumetric prices under 10 cents per kWh, regardless of the time of day, and summer off-peak energy charges of 12 cents per kWh and super off-peak energy charges of 6.5 cents per kWh. Illustrative summer peak energy charges are 35.8 cents per kWh.[89]

SDG&E argues that this optional rate should be adopted to alleviate the burden of high volumetric rates on certain residential customers and provide them with more bill predictability.[90] SDG&E claims that its un-tiered TOU rate for electric vehicle drivers, with a fixed charge of $16 per month, has elicited "positive feedback" from customers. The proposed high fixed charge rate option is intended to provide such an optional rate to a "broader subset of residential customers."[91]

In response to concerns raised by parties that the optional rate would lead to a revenue shortfall (due to high-usage customers paying less for the same amount of energy consumed on existing rates), SDG&E states that it will cap participation on the new optional rate to 2,000 residential customers and remove public purpose program charges from the fixed charge.[92]

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[89] SDG&E opening brief at 31-32.

[90] SDG&E opening brief at 32-33.

[91] SDG&E opening brief at 31.

[92] SDG&E opening brief at 32. Removing public purpose program charges from the fixed charge ensures that high usage customers continue paying for public purpose programs on a per kWh basis.

7.1. Rationale for the Proposed High Fixed Charge Rate

SDG&E's rationale for creating the high fixed charge rate is, essentially, to make high-usage customers happy by providing a rate that lowers bill instability and overall bills for those customers.[93]

Sierra Club believes the Commission should reject SDG&E's proposal for an optional high fixed charge rate, reasoning that the lower volumetric charges would unreasonably reduce incentives for conservation and energy efficiency, and would shift costs to non-participants.[94]

Other parties make similar criticisms of SDG&E's proposal. CforAT argues that low-usage customers, including many low-income customers, would pay for the revenue shortfall while not being able to benefit from the rate itself. They also point out that the Commission rejected a proposal for an un-tiered TOU rate for SDG&E residential customers without eligibility requirements in an earlier phase of this proceeding.[95]

TURN asserts that SDG&E is likely to propose increases to the 2,000-customer cap in the future, meaning that there is no meaningful mechanism to protect non-participants from revenue shortfalls related to the rate.[96] TURN calculates that an annual revenue shortfall of $18,260,880 –

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[93] *See* Exh. SDGE-22 at 4. The estimated maximum revenue shortfall of $18,260,880 suggests that 2,000 residential customers would save, on average, approximately $9,000 per year (or approximately $750 per month) by taking service on the high fixed charge rate. As noted by SDG&E, this is a worst-case scenario that assumes the 2,000 customers that would benefit the most from the rate all take service on the rate.

[94] Sierra Club opening brief at 25-26.

[95] CforAT opening brief at 15-16, citing D.18-12-004 at 30.

[96] TURN opening brief at 39.

estimated by SDG&E to be the maximum revenue shortfall possible with an enrollment cap of 2,000 customers – would lead to an increase in the average residential rate of 0.3 cents per kWh (a 1.13% increase). TURN argues this would only increase the already high retail rates faced by SDG&E's residential customers.[97]

Cal Advocates opposes the high fixed charge rate option proposal for three reasons: 1) the cost shift created by the rate's expected revenue shortfall, 2) the disincentive it creates for conservation, and 3) the impact it may have on baseline contribution. Like TURN, Cal Advocates argues that increases to residential retail rates would be necessary to account for the expected revenue shortfall produced by the rate. Cal Advocates asserts that this rate increase would impact lower-usage customers that have already seen substantial increases to the price of baseline energy since SDG&E's glidepath rate reforms began in 2016.[98]

The Commission agrees that SDG&E's optional high fixed charge rate, as proposed, would create a rate that will effectively subsidize a handful of high electricity users by potentially hundreds of dollars a month. This subsidy would be paid for by those residential customers not taking advantage of the rate. While bill savings and increased bill stability may be laudable goals, creating such advantages only for 2,000 very high-usage customers at the expense of all other SDG&E residential customers is unsupportable without additional justification.

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[97] TURN opening brief at 41.

[98] Cal Advocates opening brief at 31.

7.2. SDG&E Should Develop an Un-tiered Residential TOU Rate to Encourage Electrification and Support State Policy Goals

The Commission reiterates its recommendation from D.18-12-004 that SDG&E explore the creation of an un-tiered residential TOU rate to encourage residential electrification, similar to the TOU-D-PRIME rate utilized by SCE. A rate similar to SCE's TOU-D-PRIME may help the state meet its electrification policy goals.

While opposed to SDG&E's proposal for an optional high fixed charge rate in this proceeding, Sierra Club addresses more generally the argument that fixed charges might assist with decarbonization by lowering the volumetric energy prices and thereby lowering the marginal cost of using electric appliances. Sierra Club argues that the IOUs currently utilize effective rate designs to encourage residential decarbonization, pointing to two features of these rate designs that are distinguishable from the default residential fixed charge proposals:
1) targeting specific electric end-uses, and 2) providing strong price signals to use off-peak electricity. Specifically, Sierra Club highlights SCE's optional rate TOU-D-PRIME as a rate that it believes can encourage residential decarbonization, due to the fact that it requires customers to use electric vehicles, energy storage, or heat pump systems and due to its "more powerful price signals" for using electric appliances during the off-peak and super off-peak periods that leads to "beneficial electrification."[99]

[99] Sierra Club opening brief at 19-20.

SCE's reply brief argues "[d]ecarbonization is a real benefit of lower volumetric rates."[100] SCE also asserts in its reply brief that no party disputes that lower volumetric rates lead to more consumption. PG&E echoes this general policy consideration in its rebuttal testimony where it argues that "[i]f California policymakers are serious about trying to encourage electrification, the time is now to begin implementing measures to significantly reduce volumetric rates. Otherwise, residential customers will have little incentive to switch to electric appliances/equipment if doing so pushes their usage into the high-priced upper tiers…".[101]

While D.18-12-004 recommended that SDG&E develop an un-tiered residential TOU rate in its current GRC Phase 2 proceeding (A.19-03-002),[102] a review of the prepared testimony in that proceeding reveals that SDG&E has not proposed such a rate in that forum. SDG&E should take the next available opportunity to develop an un-tiered residential TOU rate with the assistance and input of other parties to encourage residential electrification.

8. Outstanding Motions

All motions not previously ruled on in this proceeding are deemed denied.

9. Comments on Proposed Decision

The proposed decision of ALJs Doherty and Park in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice

[100] SCE reply brief at 4.

[101] Exh. PG&E-19 at 2-12.

[102] D.18-12-004 at 30.

and Procedure. Comments were filed on ___________, and reply comments were filed on ___________ by ______________.

10. Assignment of Proceeding

Marybel Batjer is the assigned Commissioner and Patrick Doherty and Sophia Park are the assigned Administrative Law Judges in this proceeding.

Findings of Fact

1. The fixed charge ME&O plans offered by the IOUs in this proceeding do not adequately describe how residential customers will be prepared to accept and understand a charge that they cannot avoid.
2. SCE's fixed charge ME&O plan, while being the most specific, acknowledges that most of its residential customers will not receive targeted messaging about the fixed charge at all. Additionally, SCE's planned messaging to mitigate negative reaction to the fixed charge is to promote energy efficiency and conservation – two actions that will not actually reduce the impact of the fixed charge on a customer's bill.
3. The risk of a negative customer reaction to residential fixed charges is demonstrated by history, granted by the IOUs, and of great concern to the Commission.
4. Far more detail regarding fixed charge ME&O is required for the Commission to approve the ME&O plans offered by the IOUs, particularly around the messages and tactics used by other California utilities that could help avoid a negative customer backlash to residential fixed charges.
5. The ME&O plans provided by the IOUs in this phase of the proceeding lack detail and do not ensure that the fixed charge proposals of the IOUs will satisfy rate design principle 10.

6. SCE's current minimum bill is $10.52 per month for non-CARE customers and $5.26 per month for CARE, FERA, and medical baseline customers.

7. D.15-07-001 set PG&E's minimum bill amount at $10 per month for non-CARE customers and $5 per month for CARE, FERA, and medical baseline customers, with increases only allowed beginning in 2018 to match CPI or adjustments to the minimum bill made in a GRC Phase 2 proceeding.

8. D.15-07-001 allows annual increases to the minimum bill in line with CPI increases beginning in 2018.

9. PG&E has not met its burden to demonstrate that its proposal to increase the minimum bill for CARE, FERA, and medical baseline customers is necessary or equitable.

10. D.15-07-001 ordered SDG&E to apply a minimum bill of $10 per month to its non-CARE customers and $5 per month to its CARE, FERA, and medical baseline customers.

11. SDG&E was allowed by D.15-07-001 to increase its minimum bill amounts beginning in 2018 either based on CPI increases or on adjustments to the minimum bill amount made in a GRC Phase 2 proceeding.

12. SDG&E's volumetric rates for residential customers allow SDG&E to collect the revenue it requires to serve the residential class from the residential class as a whole.

13. The minimum bill considered in this decision is designed to do the same thing that the fixed charge is designed to do – collect a certain amount of revenue from each customer to compensate the utility for the costs related to keeping that customer connected to the grid.

14. SDG&E did not sufficiently demonstrate how its proposed minimum bill cost values were calculated, nor has SDG&E explained why certain costs that

would seem to be related to usage – generation capacity costs, for example – should be included in a minimum bill that cannot be avoided by a residential customer through changes in usage.

15. The bill impacts of SDG&E's minimum bill proposal appear to negatively impact a large number of low-usage and low-income customers, and bill instability and a negative customer reaction by those facing higher bills of the magnitude illustrated would likely result.

16. D.15-07-001 authorized SCE to maintain its existing fixed charge without increasing it, as that decision only rejected new and expanded existing fixed charges.

17. SCE's existing fixed charge was authorized by the Commission in 1996, nearly two decades before the Legislature adopted Public Utilities Code Section 739.9.

18. The customer experience concerns related to new and expanded fixed charges do not apply to SCE's existing residential fixed charge, as that charge has been in place for decades and therefore its continued existence is not likely to affect the customer experience at this time in any meaningful way.

Conclusions of Law

1. Given the great weight assigned to rate design principle 10 by this decision, the Commission holds that it is not reasonable to impose new or expanded fixed charges on residential customers of the IOUs at this time notwithstanding any improvement to cost causation or cost signals that may be created. For the sake of clarity, this holding does not affect the fixed charge SCE currently imposes on its residential customers.

2. Given this decision's rejection of new or expanded residential fixed charges, it is reasonable to continue assessing minimum bills as a substitute for

fixed charges as sanctioned by Public Utilities Code Section 739.9(h) in order to enhance equitable cost-sharing among residential ratepayers for the costs to provide electric service to residential customers.

3. Applying the CPI adjustment on an on-going basis is reasonable as it follows the direction of D.15-07-001 and is in accord with annual CPI adjustments allowed for residential fixed charges (for which the minimum bill is a substitute) under Public Utilities Code Section 739.9(f).

4. SCE is authorized to increase its approved minimum bill amounts on an annual basis by the annual percentage increase in the CPI for the prior calendar year.

5. Beginning in 2021, PG&E is authorized to increase its residential minimum bill amounts on an annual basis by the annual percentage increase in the CPI for the prior calendar year.

6. PG&E's minimum bill amount should be applied to all residential rate schedules with a 50% discount for CARE, FERA and medical baseline customers.

7. The increased minimum bill sought by SDG&E is inconsistent with the holdings of D.15-07-001.

8. A minimum bill amount far in excess of the statutory fixed charge caps or which undermines legislative objectives would not be appropriate.

9. The statutory fixed charge caps serve as strong guidelines when determining the appropriate amount of a minimum bill.

10. SDG&E is authorized to increase its approved minimum bill amounts on an annual basis by the annual percentage increase in the CPI for the prior calendar year.

11. Calculating a minimum bill solely on distribution rates, and allowing non-bypassable charges and transmission charges to be assessed based solely on

usage, would improve equity as it would ensure that very low usage customers do not pay more in non-bypassable charges for certain costs than contemplated by the Commission or the Legislature.

12. The reference in Public Utilities Code Section 739.9(e) to "new, or expand[ed] existing" fixed charges is significant, as it suggests the Legislature was aware of SCE's existing residential fixed charge and chose not to apply the requirements of subsection (e) to that charge.

13. Even if Public Utilities Code Section 739.9 prohibits the simultaneous use of fixed charges and minimum bills, this prohibition does not apply to SCE's current residential fixed charge, which predates the statute.

14. It is reasonable for residential customers on any optional residential rate schedule with a fixed charge to not be assessed a minimum bill until the Commission can compare the fixed charges and minimum bills proposed for each residential rate schedule to determine if a minimum bill is a substitute for, and therefore should displace, a fixed charge.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company shall continue charging a minimum bill of $10.52 per month for non-California Alternate Rates for Energy customers and $5.26 per month for California Alternate Rates for Energy, Family Electric Rate Assistance, and medical baseline customers.

2. Pacific Gas and Electric Company shall increase its minimum bill amount of $10 per month for non-California Alternate Rates for Energy customers and $5 per month for California Alternate Rates for Energy, Family Electric Rate

Assistance, and medical baseline customers in 2020 by the annual percentage increase in the Consumer Price Index recorded for 2018 and 2019.

3. Pacific Gas and Electric Company shall ensure that its California Alternate Rates for Energy, Family Electric Rate Assistance, and medical baseline customers are only charged a $5 per month minimum bill, adjusted for Consumer Price Index increases as permitted by this decision, until such time as the Commission reconsiders this issue.

4. San Diego Gas & Electric Company shall continue charging a minimum bill of $0.338 per day for non-California Alternate Rates for Energy customers and $0.169 per day for California Alternate Rates for Energy, Family Electric Rate Assistance, and medical baseline customers.

5. Each of Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company shall calculate the minimum bill amounts defined in this decision on the basis of distribution charges only beginning no later than October 1, 2020.

6. Southern California Edison Company shall maintain its existing default residential fixed charge, but shall not increase it until authorized to do so by the Commission.

7. To the extent an optional San Diego Gas & Electric Company residential rate authorized by the Commission includes a fixed charge, customers on those rates shall not be assessed a minimum bill.

8. To the extent an optional Southern California Edison Company residential rate authorized by the Commission includes a fixed charge, customers on those rates shall not be assessed a minimum bill. This order does not apply to Southern California Edison Company's existing default residential fixed charge of less than $1 per month.

9. To the extent an optional Pacific Gas and Electric Company residential rate authorized by the Commission includes a fixed charge, customers on those rates shall not be assessed a minimum bill.

10. Application 17-12-011 is closed.

11. Application 17-12-012 is closed.

12. Application 17-12-013 is closed.

This order is effective today.

Dated ____________________________, at Sacramento, California.