**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

FILED
01/04/23
02:14 PM
R2207005

Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates	Rulemaking 22-07-005 (Filed July 14, 2022)

SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) REPLY COMMENTS ON RESPONSES TO QUESTIONS PRESENTED IN THE SCOPING MEMO AND RULING (PHASE 1, TRACK B)

Rebecca D. Hansson
8330 Century Park Court, CP32D
San Diego, California 92123-1530
Telephone: (858) 654-8278
E-mail: rhansson@sdge.com

Roger Cerda
8330 Century Park Court, CP32D
San Diego, California 92123-1530
Telephone: (858) 654-1781
E-mail: rcerda@sdge.com

Attorneys for:
SAN DIEGO GAS & ELECTRIC COMPANY

January 4, 2023

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Order Instituting Rulemaking to Advance Demand Flexibility Through Electric Rates	Rulemaking 22-07-005 (Filed July 14, 2022)

SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) REPLY COMMENTS ON RESPONSES TO QUESTIONS PRESENTED IN THE SCOPING MEMO AND RULING (PHASE 1, TRACK B)

I. INTRODUCTION

Pursuant to the Assigned Commissioner's Phase 1 Scoping Memo and Ruling ("Scoping Memo") dated November 2, 2022, San Diego Gas & Electric Company ("SDG&E") respectfully submits the following reply comments ("Reply") in response to opening comments to the Scoping Memo submitted by various parties.[1] This Reply addresses numerous issues raised by intervenors in their respective opening comments; failure of SDG&E to address any particular issue raised by intervenors does not indicate agreement or waiver.

As a general matter, SDG&E emphasizes that Rate Design Principles ("RDPs") will be applicable to all rates and cautions against overly specific or prescriptive language that may be limiting as policy or technology changes. Principles should emphasize core objectives, not specific strategies for achieving those objectives because specific strategies may change. Importantly, concepts such as understandability, affordability, cost-basis, and alignment with current state policy can be broadly applied in proceedings going forward but should not be limited in the ways in which they are applied.

[1] Scoping Memo, Ordering Paragraph ("OP") 6 at 15 directs parties to file opening comments by December 2, 2022 and replies by January 4, 2023. Citations to party opening comments are cited as follows: [party short form name] Opening Comments at [page number(s)].

In addition to the general comments above, SDG&E makes the following comments in its Reply:

- RDP #2 should not include reference to Contribution to Margin. If a requirement to conduct a Contribution to Margin analysis is included in the RDPs, it should be limited to particular kinds of rates and included in RDP #7 because it relates to cost-shifting.
- Solar Energy Industries Association's ("SEIA") suggestion that RDP #2 state that "Rates should be based on *long-run* marginal costs,"[2] is short sighted, will result in poor rate design, and should be rejected.
- SEIA's suggestion that RDP #10 protect individual investment in Distributed Energy Resources is inequitable and should be rejected.
- SEIA's request to increase the frequency of General Rate Case ("GRC") Phase 2 applications should be rejected outright as procedurally flawed.
- Finally, SDG&E supports Southern California Edison Company's ("SCE") suggestion to clarify the language in Demand Flexibility Design Principle ("DFDP") #3 and Sierra Club's suggestion to more clearly define how the RDPs and DFDPs are intended to interact, particularly when in conflict.

II. RESPONSE TO COMMENTS REGARDING ELECTRIC RATE DESIGN PRINCIPLES

A. Rates Should Not Be Based on Contribution to Margin ("CTM")

Current RDP #2: Rates should be based on marginal cost.

Proposed RDP #2: **Rates should be based on marginal cost and should not have a negative Contribution to Margin.**

SDG&E RDP #2: **Rates should be based on marginal costs.**

Regarding Energy Division's ("ED") proposal to add the CTM requirement to RDP #2, as SDG&E stated in its opening comments, "SDG&E disagrees with this proposed modification because CTM is not an appropriate measurement for all rates, it would be overly burdensome to calculate for all rates, and it creates an unnecessary redundancy with other RDPs."[3] SCE,

[2] SEIA Opening Comments at 3 (emphasis added).
[3] SDG&E Opening Comments at 5-6.

however, supports the proposal to add the CTM requirement to RDP #2 for designing rates because a non-negative CTM will minimize cost shifts.[4] SDG&E agrees that a non-negative CTM can minimize cost shifts *in certain situations* (i.e., discounted rates), but maintains that a CTM analysis is not appropriate for general rate design purposes. The CTM analysis should limited to determinations of whether offering a discounted rate provides a financial benefit to ratepayers. As more fully discussed in SDG&E's opening comments, the CTM analysis was developed for specific purposes and is not applicable to all rates. Applying the analysis to all rates could have unintended and negative consequences.[5] Further, because the CTM analysis is conducted on a per customer basis, it would be unnecessarily complicated and burdensome to conduct for all rates.[6]

However, because CTM can be useful tool to minimize cost shifts, if there is a desire to include the CTM requirement somewhere in the RDPs, SDG&E would suggest adding it to RDP #7, where the issue of cost shifts is discussed, as follows:

> Current RDP #7: Rates should avoid cross-subsidies, unless the cross-subsidies appropriately support explicit state policy goals.
>
> SDG&E RDP #7: **Rates should be technology-neutral and avoid cross-subsidies, unless the cross subsidies appropriately support explicit state policy goals. To avoid cross subsidies, discounted rates should not have a negative CTM.**

B. RDPs Should Not Specify "Long-Run" Marginal Costs

SEIA suggests that RDP #2 should be clarified to include an emphasis on "long-run marginal costs," as opposed to the more general principle that "[r]ates should be based on marginal costs."[7] In support of its position, SEIA argues that the "long-run perspective is vital

[4] SCE Opening Comments at 2-3.
[5] *See* SDG&E Opening Comments at 6-7.
[6] *Id.* at 7.
[7] *See* SEIA Opening Comments at 2-3.

because the state is relying on customers to make long-term investments in a variety of long-lived distributed energy resources (DERs)—electric vehicles, heat pumps, storage, solar, and energy efficiency/demand response measures—that will be essential to reducing the state's GHG emissions."[8] SDG&E opposes SEIA's suggestion because it implies that short-run marginal costs are not important to the rate-making analysis. Both short-run and long-run marginal costs should be considered as part of ratemaking. For instance, electric utilities are constrained by certain short-run fixed costs, such as generation and transmission capacity. These inputs are truly short-run costs and cannot be adjusted for the long-run. Further, long-run marginal costs are based on forecasts, and basing rates on long-term forecasted costs alone risks significant potential for forecast inaccuracy and therefore rate inaccuracy. If the actual results deviate from the forecast, which inevitably happens due to the fact that a forecast is a prediction, then rates based solely on that forecast will send the wrong price signals. Accordingly, inserting a reference to "long-term" marginal costs, as SEIA suggests, will skew rate analysis and result in poor rate design.

C. The Commission Should Adopt RDPs that Are Fair to All Customers, Not Single Out Customers with Distributed Energy Resources ("DERs")

Additionally, SEIA proposes to add language to RDP #10 that would require the Commission protect customers' investments in DERs.[9] By adopting this language, the Commission would be protecting individual investments, which would create inequities among groups of customers (i.e., those customers with DERs and those without). Protecting private investment in DERs through rates would disproportionately impact low-income residents because they are less likely to have the resources to purchase DERs. Protecting private investment in DERs is not the responsibility of the Commission, but protecting all ratepayers is.

[8] *Id.* at 2.
[9] SEIA Opening Comments at 7.

Moreover, a rate design principle promoting the protection of DERs could create conflicting requirements. For example, if rate design is required to protect a customer's investment in an electric heat pump, volumetric kWh rates should remain low. Conversely, behind-the-meter solar investments have a better value proposition when volumetric kWh rates are high.

In sum, the Commission should disregard this proposed language because protecting private investment in DERs is an inappropriate policy objective of the Commission, it will lead to inequitable results, and will very likely create confusion and conflicting incentives in rate design. To the extent the Commission deems it appropriate to provide incentives for customers to adopt DERs, they should be provided as up-front transparent incentives, which aligns with the RDP that incentives should be explicit and transparent.

D. SEIA's Suggestion to Revisit Residential Rate Structure on a More Frequent Basis is Procedurally Flawed, Based on Assumption, and Will Only Serve to Confuse Customers and Decrease Customer Engagement

In its Opening Comments, SEIA argues that the Commission needs to make speedier progress towards moving default residential rates toward full marginal costs, that this progress necessarily will require stronger time-of-use ("TOU") price signals, and that progress will require more frequent GRC Phase 2 cases (i.e., shorter than the recently-approved four year cycle).[10] This position should be disregarded as procedurally, factually, and practically inappropriate.

As an initial matter, SDG&E notes that the Commission should disregard this argument as procedurally deficient. SEIA cannot argue for a modification of the rate case plan ("RCP") via this Rulemaking. Any effort to seek modification of the current, and recently approved, four-year cycle must be brought in Rulemaking 13-11-006. The instant Rulemaking is meant to address the

[10] *See* SEIA Opening Comments at 12; D.20-01-002, OP 3 at 78 (changing the Rate Case Plan for the large investor-owned utilities from a three-year to four-year cycle).

requirements of Assembly Bill 205 and demand flexibility. Requests to modify the RCP are clearly out of scope and must be disregarded.

Additionally, although SDG&E agrees that residential rate design should be based on marginal cost, SDG&E does not agree that more frequent updates to marginal costs are necessarily beneficial. Residential rate design should be based on numerous factors, hence the ten RDPs, and while marginal costs is one of those factors, rate stability and understandability is equally as important and would be compromised by a shorter GRC Phase 2 cycle. The current, four-year cycle allows customers time to receive and absorb informational marketing about any changes and the subsequent time necessary to change their behavior. SDG&E believes shorter cycles would lead to less reliable data on behavior changes, because it does not account for the time customers need to adapt. Further, there are numerous other proceedings that address marginal costs that *do* change annually, such as the Electric Procurement Revenue Requirement proceeding, which now includes an update to the electric sales forecast.[11] Thus, it is unnecessary and unwise to shorten the GRC Phase 2 cycle to advance the goal of moving default residential rates toward full marginal costs.

Finally, SDG&E does not necessarily agree that moving default residential rates toward full marginal costs will result in greater TOU differentials. SEIA is making the assumption that TOU period differentials will always be larger if default residential rates are based on "full marginal costs."[12] Although marginal cost studies may have proved that to be true in the past, it is an assumption that may not be true in the future. Thus, SEIA's request for a shortened GRC

---

[11] *See, e.g.,* A.22-05-025, Application of SDG&E for Approval of its 2023 Electric Procurement Revenue Requirement Forecasts, 2023 Electric Sales Forecast, and GHG Related Forecasts (May 31, 2022).
[12] SEIA Opening Comments at 12.

Phase 2 cycle for the purpose of implementing larger TOU differentials is not only procedurally deficient, but factually unsupported.

III. RESPONSE TO COMMENTS REGARDING DEMAND FLEXIBILITY DESIGN PRINCIPLES

A. SDG&E Supports Clarifying the Difference between RDPs and DFDPs

SDG&E supports Sierra Club's recommendation that the DFDPs be referred to by another name such as "DF Guidance" both to avoid confusion, as suggested by Sierra Club, and to clarify that the DFDPs are specific to this proceeding and do not carry the same weight as the RDPs.[13]

Although SDG&E maintains that the DFDPs are unnecessary and that the demand flexibility rates should be guided by the same RDPs as all other rates,[14] to the extent that the Commission determines separate guidance is necessary for demand flexibility rates, the Commission should clarify that the RDPs must be considered the primary guidance for all rate design, including demand flexibility rates, and the DFDPs are secondary to the RDPs. If DFDPs are adopted, investor-owned utilities ("IOUs") will have 16 principles to adhere to for demand flexibility rates (the 10 RDPs and the 6 DFDPs), and avoidance of confusion/conflict should be carefully considered and addressed before implementation of additional principles or guidance.

B. Demand Flexibility Design Principle #3 Should Be Clarified

SDG&E agrees with the recommendation of SCE that DFDP #3 should replace the word "integrate" with the word "include."[15] With this edit, the proposed DFDP would read as follows: *The systems & processes needed to calculate the dynamic price signal should be able to **include** bundled and unbundled rate components so that all Load Serving Entities can elect to participate.*

---

[13] Sierra Club Opening Comments at 6.
[14] SDG&E Opening Comments at 13-14.
[15] SCE Opening Comments at 9.

Changing the word "integrate" to "include" provides clarity that the price signal needs to have both bundled and unbundled components without implying that they have to be combined. During the ongoing California Energy Commission ("CEC") workshops regarding the Load Management Standards ("LMS") and implementing the CEC's Market Informed Demand Automation Server ("MIDAS") system, this concept of integration has been flagged as an issue in trying to combine rates from IOUs with rates from Community Choice Aggregations ("CCAs") in MIDAS.[16] Attempting to show ratepayers one single rate in MIDAS may be difficult when the rate is comprised of a commodity piece, which could come from a CCA, and a distribution and transmission piece, which comes from the IOU. Although the CEC workshops are still in early stages, combining both the distribution and transmission aspect of the rate with the commodity portion of the rate may prove to be technically difficult.[17] Accordingly, because the word "integrate" may suggest that those rate components must be combined, DFDP #3 should allow for the possibility that they remain separate but still "included."

IV. CONCLUSION

SDG&E appreciates the opportunity to provide these Reply Comments and looks forward to working with the Commission and other parties as this proceeding moves forward.

DATED this January 4, 2023, at San Diego, California.

Respectfully submitted,

/s/ *Rebecca D. Hansson*

Rebecca D. Hansson
8330 Century Park Court, CP32D
San Diego, CA 92123-1530
Telephone: (858) 654-8278
E-mail: rhansson@sdge.com
Attorney for:
SAN DIEGO GAS & ELECTRIC COMPANY

---

[16] *See generally* CEC Docket 21-OIR-03 (2022 Load Management Rulemaking).
[17] Only two workshops have been held as of date of this Reply.