

Decision **PROPOSED DECISION OF ALJS MCKINNEY AND HALLIGAN**
(Mailed 5/9/14)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the
Commission's Own Motion to Conduct a
Comprehensive Examination of Investor
Owned Electric Utilities' Residential Rate
Structures, the Transition to Time Varying
and Dynamic Rates, and Other Statutory
Obligations.

Rulemaking 12-06-013
(Filed June 21, 2012)

(See Attachment F for List of Appearances)

**DECISION ON PHASE 2 RATE CHANGE PROPOSAL
SETTLEMENT AGREEMENTS OF PACIFIC GAS AND ELECTRIC COMPANY,
SOUTHERN CALIFORNIA EDISON COMPANY, AND SAN DIEGO GAS & ELECTRIC
COMPANY FOR SUMMER 2014 RATE REFORM**

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**DECISION ON PHASE 2 RATE CHANGE PROPOSAL
SETTLEMENT AGREEMENTS OF PACIFIC GAS AND ELECTRIC COMPANY,
SOUTHERN CALIFORNIA EDISON COMPANY, AND SAN DIEGO GAS & ELECTRIC
COMPANY FOR SUMMER 2014 RATE REFORM**

1. Summary

This decision approves summer 2014 residential rate reform for Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas & Electric Company.

2. Procedural History

Although this decision evaluates only summer rate change proposals for 2014 as permitted under Assembly Bill (AB) 327 (Perea, Ch. 611, Stats. 2013), the procedural history of this proceeding dates back almost two years. During that time, the parties have worked to develop rate design proposals, standards for evaluating rates, and bill impact calculators for estimating rate changes.

2.1. The Order Instituting Rulemaking (OIR)

The California Public Utilities Commission (Commission) initiated this OIR, “to examine current residential electric rate design, including the tier structure in effect for residential customers, the state of time variant and dynamic pricing, potential pathways from tiers to time variant and dynamic pricing, and preferable residential rate design to be implemented when statutory restrictions are lifted.”¹ At that time, the Commission was, and continues to be, interested in exploring improved residential rate design structures in order to ensure that rates are both equitable and affordable while meeting the Commission’s rate and policy objectives for the residential sector. (OIR at 1.) Currently, residential

¹ OIR at 1.

electricity rates have an “inclining block” structure consisting of multiple tiers based on usage. By statute, Tier 1 is equal to the “baseline quantity” which is defined as 50% to 60% of average residential consumption of electricity. (California Public Utilities Code Section 739.)² As a customer’s energy usage increases into higher tiers, the price paid for that energy also increases. This increase is made without regard to the cost to provide the increased amount of electricity.

For over a decade, statutory restrictions prevented the utilities from implementing rates that give residential customers an accurate price signal as to the costs of their electricity service. AB 1X (Keeley, Ch. 4, Stats. 2001), enacted in 2001 in response to the energy crisis of 2000-2001, suspended direct access and capped residential rates for usage up to 130% of baseline quantities (Tiers 1 and 2) at the levels in effect on February 1, 2001. As a result of the AB 1X restrictions, the rates that apply to usage in Tiers 1 and 2 did not increase until the end of the decade.³ As a result, higher usage customers have experienced large rate increases that do not reflect cost of service. Thus, by 2009 residential tiered rates did not comport with the Commission’s general policies to design rates consistent with cost to serve.

In 2009, Senate Bill (SB) 695 (Kehoe, Ch. 337, Stats. 2009) was enacted to allow some increases in Tier 1 and Tier 2 rates, and California Alternate Rates for

² All subsequent Section references are to the California Public Utilities Code unless otherwise specified.

³ Senate Bill 1 (Murray, Ch. 132, Stats. 2006), which established the California Solar Initiative program, is the only exception. SB 1 specifically allowed costs to be allocated to non-California Alternate Rates for Energy (CARE) residential customers’ Tier 1 and Tier 2 usage. (Section 2851(d)(2).)

Energy (CARE) rates. Specifically, SB 695 allowed Tier 1 and Tier 2 rates to be increased annually by the cost of living plus 1%, and CARE rates up to 130% of baseline to be increased annually by the increase of benefits provided under the California Work Opportunity and Responsibility to Kids (CalWORKs) program. CARE rate increases were capped at 3% and non-CARE rate increases were capped at 5%. Higher tiers were set residually to recover the residential revenue requirement.

Following enactment of SB 695, residential rates in Tiers 1 and 2 were increased, but because the Legislature suspended the CalWORKS index, no increases to CARE Tier 1 and Tier 2 rates were made until January 2014. Despite these changes, residential rates still are not consistent with the Commission's cost to serve objective and these rates impede the Commission's ability to implement many other policy objectives.

On November 26, 2012, the assigned Commissioner issued the original Scoping Memo and Ruling. Over the next ten months, a variety of parties actively participated in the proceeding to examine residential rate structures. Those parties included: California Large Energy Consumers Association (CLECA); Center for Accessible Technology (CforAT) and The Greenlining Institute (Greenlining); Consumer Federation of California (CFC), Distributed Energy Consumer Advocates (DECA); Office of Ratepayer Advocates (ORA);⁴ Environmental Defense Fund; Interstate Renewable Energy Council, Inc. (IREC); Energy Producers and Users Coalition, Natural Resources Defense Council (NRDC); Pacific Gas and Electric Company (PG&E); San Diego Gas & Electric

⁴ The Office of Ratepayer Advocates was formerly known as the Division of Ratepayer Advocates (DRA). See Stats. 2013, Ch. 356, § 42.

Company (SDG&E); San Diego Consumers' Action Network (SDCAN); Sierra Club; Silicon Valley Leadership Group, Solar Energy Industries Association; The Vote Solar Initiative (Vote Solar); Utility Consumers' Action Network (UCAN), Southern California Edison Company (SCE); and The Utility Reform Network (TURN). PG&E, SDG&E and SCE are referred to collectively herein as the investor-owned utilities (IOUs).

As part of the proceeding, the utilities each developed a "Rate Impact Calculator" designed to help parties understand the impact of different rate designs. The calculators were developed over a period of several months with the input of all interested parties. Although the final calculators do not provide all of the modeling abilities that the parties sought, the calculators represent a useful tool for comparing rate structures that has been used and cited by various parties. During the same period, the parties worked with the utilities to develop a customer survey to explore how well residential customers understand their rates. The bill impact calculators and the customer survey were moved into the evidentiary record pursuant to a later ruling. (*See*, Amended Scoping Memo and Ruling of Assigned Commissioner, dated January 6, 2014.)

On October 7, 2013, AB 327 was signed into law. AB 327 lifts many of the restrictions on residential rate design. With its passage, the utilities can now propose residential rates that are more reflective of cost, in keeping with the Commission's principle that rates should be based on cost-causation. AB 327 also contains limits designed to protect certain classes of vulnerable customers.

AB 327 makes specific changes to residential rate design, and allows additional changes going forward. For purposes of today's decision, the relevant provisions of AB 327 are (1) setting the CARE effective discount rate between 30% and 35%, and (2) allowing an increase in rates for Tiers 1 and 2.

2.2. Phase 2

In light of the new rate structures permitted by AB 327, on October 25, 2013, the assigned Commissioner issued a ruling (October 2013 ACR) opening Phase 2 of this proceeding and inviting utilities to submit interim rate change proposals for summer 2014.

The purpose of Phase 2 is to allow some interim changes to be made to stabilize and rebalance tiered rates while longer-term rate design is evaluated in Phase 1. In order to ensure that any interim rate proposals would be modest enough to be sufficiently evaluated over the next six months, the October 2013 ACR instructed utilities that all changes must be consistent with the statutory requirements that changes be made through a reasonable phase-in schedule relative to rates in effect prior to January 1, 2014, that differentials between tiers should be gradual, that rates not unreasonably impair incentives for conservation and energy efficiency and that rates not overburden low income customers. (Sections 739.9(b); 739(d)(1); 739(e).) In addition, if changes to CARE rates are necessary to reduce the effective discount to 35%, the effective discount must not be reduced by more than a reasonable percentage each year. (Section 739.1(c)(2).)

The IOUs submitted their Phase 2 Proposals on November 22, 2013. A Phase 2 prehearing conference (PHC) was held on December 5, 2013. Parties filed protests to the Phase 2 Proposals on December 23, 2014 and the IOUs filed their replies on January 3, 2014.

On January 6, 2014, the assigned Commissioner issued the Amended Scoping Memo and Ruling (January 2014 Scoping Memo). The January 2014 Scoping Memo re-categorized Phase 1 as ratesetting, rather than quasi-legislative. The January 2014 Scoping Memo also presented the rate design proposal of Energy Division (Staff Proposal). The Staff Proposal was based on

review of rate design proposals and other documents filed by parties during the course of this proceeding, the bill impact calculators provided by the IOUs, and additional research.⁵ Importantly, the Staff Proposal demonstrates the considerable effort and thought that parties put into this proceeding prior to passage of AB 327. Although the Staff Proposal is part of the record, it was not subject to any type of cross-examination and serves only as a reference tool. The Staff Proposal should not be considered evidence which can be relied on for the truth of the statements therein.

At a Phase 2 PHC on January 8, 2014, the IOUs were instructed to simplify their Phase 2 Rate Change Proposals so that the proposals could be adequately reviewed and analyzed prior to summer 2014.

A Second Amended Scoping Memo and Ruling was issued on January 24, 2014 (January 24, 2014 Scoping Memo) and set the procedural schedule, including evidentiary hearings, for Phase 2. The January 24, 2014 Scoping Memo reiterated the instructions for the IOUs to simplify their Phase 2 Proposals:

The simplified rate change proposals that are to be submitted by the IOUs should maintain the existing four-tiered structure and should not entail any major adjustments to California Alternative Rates for Energy (CARE), Family Electric Rate Assistance Program (FERA) or medical baseline programs. Instead, changes should be limited to increases in the lower tiers commensurate with projected increases in the overall revenue requirement allocated to the residential class, plus no more than a few percentage points, if necessary, to keep the upper tiers within a range that will avoid

⁵ Parties filed proposed corrections to the Staff Proposal in January 2014. A revised Staff Proposal incorporating those corrections is expected to be issued in May 2014.

the potential for significant bill volatility and rate shock in the summer. If the resulting CARE effective discount would be greater than 35%, the utility should propose an adjustment that would put CARE rates on a glide path to 35%. The adjustment should avoid rate shock for CARE customers.

As directed by the January 24, 2014 Scoping Memo, the IOUs filed their simplified Phase 2 Proposals on January 28, 2014. Over the next few weeks, the IOUs worked with other parties to arrive at settlements.

- On March 4, 2014, SCE, ORA, TURN, Coalition of California Utility Employees (CCUE), Sierra Club and NRDC filed a Joint Motion for Adoption of Settlement Agreement for Phase 2 Simplified Summer 2014 Residential Rate Design Changes for SCE.
- On March 5, 2014, PG&E, ORA, and TURN filed a Joint Motion to Adopt Settlement for PG&E.
- On March 28, 2014, SDG&E, ORA, TURN, UCAN, SDCAN, and CCUE filed a Joint Motion for Adoption of Settlement Agreement for Phase 2 Interim Residential Rate Design Changes for SDG&E.

These motions were made during the same period of time that written testimony and briefs were filed and evidentiary hearings were held.⁶ No parties filed opposition to the settlements. However, CforAT/Greenlining objected to all three settlements in their Opening Brief on the grounds that the affordability

⁶ Opening Testimony was due March 5, 2014 (the same day that the PG&E Settlement was filed); Rebuttal Testimony was due March 12, 2014. Protests on the SCE and PG&E Settlement were due on March 14, 2014, but none were filed. Evidentiary Hearings were held on March 25, 2014. The term sheet for the SDG&E settlement was presented at Evidentiary Hearings, but the actual motion was filed afterwards, with a request for a shortened protest period such that protests were due the same day as Opening Briefs (April 7, 2014).

of simplified Phase 2 Proposals, as modified by the settlements, had not been sufficiently examined in this proceeding.

The IOUs were asked to include specific data in their testimony, including comparative rate impacts assuming (a) 50% and (b) 100% of pending revenue requirements are approved. This decision does not change any of the IOUs approved revenue requirements. For purposes of this decision, we have presented the rates and bill impacts that would result if 100% of pending revenue requests are granted.

On April 7, 2014, parties filed four opening briefs addressing Phase 2 Proposals for summer rate reform: (1) CforAT and Greenlining Phase 2 Brief (CforAT/Greenlining Opening Brief), (2) Joint Phase 2 Opening Brief of SCE, ORA, TURN and CCUE (Joint SCE Settlement Opening Brief), (3) Opening Brief of PG&E, ORA, TURN and CCUE (Joint PG&E Settlement Opening Brief, and (4) Opening Brief of SDG&E, ORA, TURN, UCAN, SDCAN, and CCUE (Joint SDG&E Settlement Opening Brief).

Reply briefs were filed on April 16, 2014 by SCE, TURN, PG&E, ORA, CforAT/Greenlining, SDG&E and UCAN.

In addition, as discussed below, parties were directed to file legal briefs on whether the California Climate Credit (Climate Credit) should be included in the calculation of the CARE effective discount rate.

2.3. Coordination with other Proceedings

Elements of the IOUs' rate designs are also addressed in other Commission proceedings. On March 10, 2014, the assigned Administrative Law Judges (ALJs) issued a ruling on the Rate Design Element Inventory (Rate Design Element Inventory Ruling) to clarify which rate design elements would be addressed in this proceeding and which would continue to be addressed in other Commission

proceedings. ORA, SCE, SDG&E, TURN and UCAN filed comments on the Rate Design Element Inventory Ruling, and parties discussed the rate design elements included in the inventory at the March 14, 2014 PHC for Phase 1.

On April 15, 2014, the Third Amended Scoping Memo issued and included a revised Rate Design Element Matrix that applies to both Phase 1 and Phase 2.

2.4. Overview of Settlement Agreements

The simplified Phase 2 Proposals, as amended by the settlement agreements (the Phase 2 Settlement Rates), would (1) retain the current multi-tier rate structure, (2) retain current CARE discounts, or begin the gradual glide path toward the CARE effective discount maximum of 35%, and (3) not institute new fixed customer charges.

The Phase 2 Settlement Rates will begin to shift a portion of costs to the lower tiers and prevent the disparity between lower and upper tiers from getting wider over the coming year. The settlements also provide a methodology to address any revenue requirement increases or decreases that arise between the implementation of Phase 2 Settlement Rates and a Phase 1 long term rate decision. Long term rate proposals have been made in Phase 1 of this proceeding and will be examined over the remainder of this year.

3. Framework for Resolving Rate Design Proposals and Settlements

We evaluate the proposed settlements implementing new rates for summer 2014 in accordance with the Commission's standard of review for settlement agreements. As part of that review, we must consider whether the proposed rates meet applicable statutory requirements and the rate design principles developed in this proceeding.

3.1. Legal Review for Rate Design Proposals

3.1.1. Statutory Law

Rate designs must comply with a wide variety of laws designed to protect consumers, ensure reliability of the electricity grid, promote clean energy, and ensure safety. The Phase 2 Settlement Rates must comply with long-standing laws and with the changes to law made by AB 327. The following statutes are of particular relevance in evaluating the Phase 2 Settlement Rates.

- Section 451 requires that rates be “just and reasonable.”
- Section 382(b), as amended by AB 327, states that “electricity is a basic necessity” and that “all residents of the state should be able to afford essential electricity.” Section 382(b) directs the Commission to ensure that low-income ratepayers are not “jeopardized or overburdened by monthly energy expenditures.”
- Section 739 defines baseline quantity and, in Section 739(d)(1), requires that the Commission “establish an appropriate gradual differential between the rates for the respective blocks of usage.”
- Section 739.1, which was amended by AB 327, addresses the CARE program. Section 739.1(c) requires the average effective CARE discount to be between 30-35% “of the revenues that would have been produced for the same billed usage by non-CARE customers.”
- Section 739.9, which, pursuant to AB 327, replaced the prior Section 739.9, requires that any increases to electrical rates, including reductions in the CARE effective discount, “be reasonable and subject to a reasonable phase-in schedule relative to the rates and charges in effect prior to January 2014.”

3.1.2. The Rate Design Principles

Rate design proposals must also adhere to the Rate Design Principles developed in this proceeding to evaluate residential rate design options.

The initial OIR set forth a preliminary list of principles for optimal rate design. (OIR at 20-21.) The OIR list echoed Commission decisions, such as Decision (D.) 08-07-045, and was similar to the “Bonbright principles.”⁷ After extensive input from the parties, including a workshop and written comments, we developed the following list of ten optimal Rate Design Principles for use in this proceeding. (Scoping Memo at 5-7.)

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

⁷ The “Bonbright Principles” include rate attributes such as fair apportionment of costs among customers, encouragement of efficient use of energy, rate stability, and ability to meet revenue requirement under the fair return standard. *See, Bonbright, James C., Principles of Public Utility Rates, Columbia University Press, New York NY, 1961.*

and appropriately considers the bill impacts associated with such transitions.

Certain Rate Design Principles are of particular relevance to Phase 2 of the proceeding.

First, a significant portion of the principles relate to setting rates to reflect cost of service (Principles 2, 3, 7, 8, and 9). These principles weigh in favor of setting rates based on cost of service so that consumers have accurate price-signals. This promotes economically efficient decisions. During the past decade, residential rate design has not allocated costs to residential ratepayers in a manner that reflects the individual ratepayer's impact on the cost of electricity. Instead, rates for certain ratepayers (lower usage ratepayers) have been artificially kept low, and the remaining ratepayers have made up the difference. As a result, as of February 2014, residential rates for lowest and highest tiers were as follows:

Utility/Date	Tier 1 (per kWh)	Tier 4 (per kWh)	Residential Average Rate (per kWh)
SCE	13.3 cents	30.4 cents	17.5 cents
SDG&E	15.4 cents	36.9 cents	21.1 cents
PG&E	13.2 cents	36.4 cents	17.5 cents

Neither consumer pays close to the actual average residential per kilowatt hour (kWh) rate. AB 327 allows us for the first time in over a decade to align customer rates with cost of service.

Because the current tiered electricity rates increase sharply with increased usage, and because residential customers typically do not know at what point during the month their usage will reach a higher tier threshold, customers can experience unexpected large increases in monthly bills for a small increase in usage. (Exhibit PGE-04 at 1-8 and at 1-4 through 1-10.) This is particularly true during high-use periods such as summer months. (*Id.*)

All three IOUs are facing rate increases for summer 2014. Unless changes are made to the residential rate structure, as now permitted by AB 327, those increases will be borne entirely by upper-tier customers. (See, e.g., Exhibit SCE-03 at 13.) Even under currently effective rates, in SCE's service territory, higher use customers, both CARE and non-CARE, are the most likely to ask for bill payment assistance or extensions. (Exhibit SCE-03 at 32-35.) Moreover, higher usage customers have, on average, higher energy burdens than lower usage customers. (Exhibit SCE-05 at 29.)

Affordable electricity and state low-income assistance programs are addressed in two of the principles (Principles 1, 7). Although rates should reflect cost, they should also keep the necessary amount of electricity affordable. In addition, state law requires certain specific subsidies for qualifying customers. Those subsidy programs are CARE, FERA, and medical baseline. The CARE effective discount was originally set at approximately 15% and was increased by approximately 5% following the 2000-2001 energy crisis, but over time, the actual effective discount has grown to as high as 48.4%.⁸ AB 327 sets clear direction for determining the right range of effective discount (30-35%). AB 327 also requires that any changes in CARE rates should be phased-in over a reasonable period of time.

Three of the principles relate to conservation of electricity (Principles 4, 5, and 7). Although rates should encourage conservation and energy efficiency (Principle 4), they should also minimize cross-subsidies and send accurate price signals so that consumers can make economically efficient decisions. AB 327

⁸ Exhibit PG&E -4, at 1-6 to 1-7 and Exhibit PG&E-8.

allows the Commission to consider reducing the number of tiers, but requires that the differentials between tiers be gradual. (Section 739(d)(1).) The Phase 2 Settlement Rates would retain the same number of tiers, but would permit some flattening of the differentials. The historic argument for tiers based on usage is that consumers with high usage will be motivated to conserve energy and install energy efficiency measures, in order to bring their usage down to the lower tier levels. In Phase 1 of this proceeding, where reduction in the number of tiers and the differential between tiers is under consideration, we will consider whether flattening of tiers would unreasonably discourage conservation and energy efficiency.

3.2. Legal Standard for Settlement Agreements

The Commission has long favored the settlement of disputes. However, pursuant to Rule 12.1(d) of the Commission's Rules of Practice and Procedure,⁹ the Commission will not approve a settlement, whether contested or uncontested, unless it is found to be reasonable in light of the whole record, consistent with law and in the public interest. Although the proposed settlements were not protested, and only CforAT/Greenlining has argued against their adoption, a settlement by a subset of parties will be subject to more scrutiny than an all-party settlement agreement.

⁹ Unless otherwise indicated, subsequent rule references are to the Commission's Rules of Practice and Procedure.

4. California Climate Credit

4.1. The California Cap-and-Trade Program and the CARE Program

The California Climate Credit (Climate Credit) is part of the State's recently implemented Cap-and-Trade program for regulating greenhouse gas (GHG) emissions pursuant to the Global Warming Solutions Act of 2006 (AB 32 (Nunez, Ch. 488, Stats. 2006)). The program requires certain large sources of GHG emissions (including electricity generation facilities) to acquire GHG allowances or offsets for every metric ton of GHG they emit. As part of the program, the state grants electric utilities a direct allocation of allowances for the purpose of protecting electricity customers and advancing AB 32 objectives. (D.12-12-033, Finding of Fact 12.) The IOUs receive this allowance allocation on behalf of customers, and the IOUs may not use these allowances for their own compliance with the Cap-and-Trade program. (D.12-12-033, Findings of Fact 13 and 14.) Allowances are tradable so the program, administered by the California Air Resources Board (ARB), creates a market for GHG allowances through which the market price of allowances is expected to closely reflect the marginal cost of GHG abatement. ARB holds allowance auctions four times each year.

The increased costs of electricity resulting from the Cap-and-Trade program will ultimately be passed through to the end-users of electricity resulting in higher retail electricity costs. Businesses, in turn, may pass their increased costs on to consumers.

California's Cap-and-Trade program requires that revenue from the sale of the allowances allocated to utilities be returned directly to certain classes of retail customers, including low-income residential customers, to protect these customers from cost increases they face due to the program. (Section 748.5(a); D.12-33-033.) These increased costs could result from either increased electricity

rates or changes in the broader economy. Rulemaking 11-03-012 is examining the process for this revenue return and has determined that, in accordance with law, part of the revenue should be returned to residential customers on an equal per-household basis in the form of the Climate Credit. Parties disagree on how to treat the Climate Credit when calculating the CARE effective discount and evaluating bill impacts of rate change proposals.

The GHG allowance revenues have a different source and purpose than revenues collected from customers to pay for electricity charges. Pursuant to law, revenues from sale of the GHG allowances allocated to the utilities pass through the hands of the utilities, but are at all times part of a separate state program. (*See*, Section 748.5 and 17 Cal. Code of Regulations § 95800.) The revenues from ratepayers, referred to in the CARE statute, are not the same type of revenues as the GHG allowance revenues that ARB distributes to the utilities after its quarterly allowance auctions and that the utilities then return to the ratepayers.

The CARE program is another state-mandated program. Its goal is to make sure that a minimum amount of energy is available to low income customers at an affordable price. Prior to AB 327, CARE rates were set at least 20% below regular residential rates, and CARE customers were also exempt from paying certain types of charges.¹⁰ The result is that CARE customers currently

¹⁰ "Tier 1, tier 2, and tier 3 CARE rates shall not exceed 80 percent of the corresponding tier 1, tier 2, and tier 3 rates charged to residential customers not participating in the CARE program, excluding any Department of Water Resources bond charge . . . the CARE surcharge portion of the public goods charge, any charge imposed pursuant to the California Solar Initiative, and any charge imposed to fund other any other program that exempts CARE participants from paying the charge." (Section 739.1(b)(4) prior to AB 327.) The CARE discount was originally set at approximately 15%.

receive effective discounts well in excess of 20%. AB 327 modified the program to require the effective CARE discount to be in the range of 30-35%. The statute now reads as follows:

The average effective CARE discount shall not be less than 30 percent or more than 35 percent **of the revenues that would have been produced** for the same billed usage by non-CARE customers. The average effective discount determined by the commission **shall reflect any charges not paid by CARE customers**, including payments for the California Solar Initiative, payments for the self-generation incentive program made pursuant to Section 379.6, payment of the separate rate component to fund the CARE program pursuant to subdivision (a) of Section 381, payment made to the Department of Water Resources pursuant to Division 27 (commencing with Section 80000) of the Water Code, and any discount in a fixed charge. (Section 739.1(c)(1). (Emphasis added).)

4.2. Discussion

When construing a statute, the Commission must first look to the words and give them their usual and ordinary meaning. When more than one statutory construction is possible, the Commission should favor the construction that leads to the more reasonable result. (D.12-12-033 at 191-192, Conclusion of Law 9.)

Several parties argue that this issue is not ripe for resolution because there are settlement agreements for each of the Phase 2 Proposals, and because the Phase 2 Settlement Rates are within (or above) the statutory range for the CARE effective discount regardless of whether the Climate Credit is considered. However, as CforAT/Greenlining point out, the issue is within the scope of evaluating the rate proposals, and was initially raised by the IOUs themselves

when they provided their CARE effective discount and bill impact analyses.¹¹ As part of our required review of the settlements, we must find that they comply with the law before we approve them. Therefore, we consider treatment of the Climate Credit as part of this decision.

As CforAT/Greenlining point out, the question of whether to include the Climate Credit in the calculation of the discount is a legal question not a factual one. Detailed factual review is not necessary, and the legal briefs submitted provide sufficient basis for determining whether to include the Climate Credit. To ensure that parties understood that this issue is within the scope of Phase 2, parties were specifically invited to address the following issue in their briefs:

Should the CALIFORNIA CLIMATE CREDIT be included in the calculation of the effective discount percentage for CARE rates when determining if the effective discount is within the statutory range of 30-35%? [Please cite legal authority supporting your position.] (E-mail Ruling Requiring Additional Information, dated March 26, 2014.)

All three IOUs argue that the Climate Credit should be included as a bill reduction when calculating the CARE effective discount. CforAT/Greenlining, ORA, TURN, and UCAN all argue that the Climate Credit should not be included in the CARE effective discount.

¹¹ For example, in its bill impact analysis, SCE applied a bill credit based on the GHG climate dividend, reasoning that “The GHG climate dividend is a very real bill reduction to residential customers. In fact, many low-usage customers will see their entire April and October bills negated by the climate dividend.” (SCE-3 at 17, fn. 27.) In its January 2014 simplified Phase 2 Proposal, SCE estimated that the inclusion of the Climate Credit resulted in approximately 1% increase to the current effective CARE discount of 31%, resulting in an effective CARE discount of about 32%. (Exhibit SCE-3 at 39.)

Although Section 739.1(c)(1) does not specifically address whether the Climate Credit should or should not be included in the calculation of the CARE effective discount, when the Section 739.1(c)(1) is read in concert with the statutes governing the GHG reduction program (AB 32; Section 748.5), it is clear that the Climate Credit must not be included in the calculation of the CARE effective discount.

The IOUs argue that the Climate Credit is a “charge” not paid by CARE customers and that it is a “revenue that would have been produced” for the same usage by non-CARE customers. As SCE describes it, “the discount is to be calculated by comparing *revenues* from CARE customers with *revenues* from non-CARE customers for the same billed usage.” (SCE Phase 2 Opening Brief Regarding the Impact of the California Climate Credit on the Average Effective CARE Discount at 4.) As explained above, the language of the statute and D.12-12-033 implementing the statute make it clear that the Climate Credit is not an unpaid charge; it is compensation to the ratepayer for the increased cost of electricity and goods and services resulting from Cap-and-Trade program compliance, and it has no relation to a customer’s billed electricity usage.

In addition, Section 739.1(c)(1) provides examples of “charges not paid by CARE customers” that should be reflected in calculation of the effective discount. The examples include discounts on fixed charges as well as surcharges for specific programs such as the California Solar Initiative that are excluded from CARE customer bills. The revenue collected from these charges is put toward the IOU’s approved revenue requirement. In contrast, the Climate Credit is not a charge and the funds for the Climate Credit are at all times separate from the IOU’s revenue requirement.

Several parties point out that because the Climate Credit is made on a per-household basis, rather than volumetric basis, the Climate Credit will benefit ratepayers in the lower tiers disproportionately and that many lower tier customers are also low-income. The IOUs argue that this supports treating the Climate Credit as a reduction in CARE customer revenue. The language of D.12-12-033, however, better supports the argument of parties, such as CforAT/Greenlining, that the Climate Credit is intended to benefit lower-income customers to a greater degree because a per-household return achieves the policy objective of reversing expected impacts on low-income households. (D.12-12-033 at 110, reasoning that low-income customers are likely to be disproportionately burdened by the inclusion of the GHG compliance costs in consumer goods and services.) If the Climate Credit returned to low-income customers was counted in the amount of “charges” not collected from low-income customers for purposes of calculating the CARE effective discount, then this policy objective regarding GHG compliance costs would not be achieved.

Finally, D.12-12-033 and many other filings and documents have stressed the importance of ensuring that ratepayers understand the source of the Climate Credit. Ratepayers should not confuse the return of GHG allowance revenues, including the Climate Credit, as a credit from the IOUs. Indeed, as D.12-12-033 repeatedly points out, the decision to make the return through an on-bill Climate Credit was made simply to reduce administration costs. D.12-12-033 expressly stated that the on-bill Climate Credit should not be thought of as a reduction in the individual customer’s electricity bill. (D.12-12-033 at 120, discussing concerns that customers may perceive the GHG allowance return as a rate reduction if it is returned as an on-bill credit.)

4.3. Consideration of Climate Credit when Evaluating Bill Impacts

Determination of whether to include the Climate Credit when considering bill impacts of proposed rate changes is not a function of statutory interpretation. Rather, it is a reasonableness inquiry into whether the proposed rates will lead to rate shock or rates that are otherwise not “reasonable and just.” The analysis above sets forth detailed reasons why the Climate Credit should not be counted as part of the CARE effective discount. Many of those reasons also support not including the Climate Credit in the analysis of bill impacts generally. For example, the purpose of the Climate Credit return has specific policy objectives tied to the GHG emission reduction program implemented by AB 32. Therefore, for purposes of our analysis of rate changes in this proceeding, including both Phase 2 and Phase 1, we will not consider bill impact calculations that include the Climate Credit. From the start of analysis of the bill impacts of Phase 2, we have required IOUs to provide bill impact analyses that exclude the Climate Credit. Up until now, we have also allowed the IOUs to present bill impact analyses that include the Climate Credit. Because we are not considering the Climate Credit in our bill impact analysis, and because having this second set of bill impact calculations is confusing to parties and ratepayers, we direct the IOUs to exclude the Climate Credit in bill impact calculations in this proceeding going forward.

5. PG&E Settlement

On March 5, 2014, PG&E, ORA, and TURN filed a Joint Motion to Adopt Settlement for PG&E (PG&E Settlement). A copy of the PG&E Settlement is attached as Attachment A, and we provide a general summary of the terms below. According to the settling parties, the PG&E Settlement is designed to

narrow the differential between the highest and lowest tier rates while maintaining the existing four-tier rate structure. The PG&E Settlement resolves three primary contested issues between the settling parties.

First, it settles the issue of baseline quantities for PG&E at 52.5% of the historical usage in each climate zone. PG&E has a proposal in Application (A.) 12-02-020, its 2012 Rate Design Window proceeding, to reduce the baseline quantities from 55% of historical usage, to 50%. The baseline quantity reflects the amount in Tier 1. In their testimony, both TURN and ORA proposed leaving the baseline percentages at 55% for summer 2014. Unable to set rates for the summer without an agreement on the baseline quantity, the settling parties agreed to split the difference and set the baseline quantities at the mid-point between the two proposals, or 52.5%.

Second, the PG&E Settlement resolves summer 2014 rates. PG&E's initial proposal was to increase its Tier 1 and Tier 2 rates while decreasing the Tier 3 and Tier 4 rates, in order to narrow the large differential between the lower two tiers and the upper two tiers. While TURN and ORA supported the basic principle, they opposed PG&E's proposal to allocate all revenue requirement increases to the lower two tiers upon implementation of the summer rates. As a compromise, the settlement provides that PG&E's Tier 3 and Tier 4 non-CARE rates will also be subject to an increase under certain circumstances, and that, if the Tier 4 rates would exceed 35 cents per kWh under these circumstances, any revenue shortfall would be made up by increases in Tier 2, Tier 3, and Tier 4 rates on an equal cents per kWh basis. The PG&E Settlement exogenously sets CARE rates and lower tier non-CARE rates at levels that result in modest bill impacts for those customers. It then lets the non-CARE upper tier rates essentially float to collect the remaining revenue requirement. Compared to

PG&E's simplified Phase 2 Proposal, this would reduce the bill impacts on low-usage non-CARE customers.

Third, the PG&E Settlement resolves the contested issue of how to adjust rates between summer 2014 and the effective date of a Phase 1 decision on long-term rate changes (the Settlement Period). The settling parties have agreed that, for each rate change during the Settlement Period, both increases and decreases will be shared across all non-CARE and CARE tier rates on an equal cents per kWh basis, with the further limitation that in the event the rates would increase by more than 1.5 cents per kWh as a result of a rate change, the increases to the non-CARE Tier 1 rate, the CARE Tier 1 rate and the CARE Tier 2 rate would be capped at 1.5 cents per kWh, and any revenue shortfall resulting from these caps would be collected on an equal cents per kWh basis from sales in non-CARE Tiers 2, 3, and 4 and in CARE Tier 3. PG&E will also seek to consolidate authorized revenue requirement increases and decreases during the Settlement Period to the extent feasible. PG&E's simplified Phase 2 Proposal would have allocated each revenue requirement increase to all non-CARE and CARE rates in each tier on an equal cents per kWh basis, while allocating any revenue requirement decrease solely to non-CARE Tier 3 and 4 in order to continue reducing the tier differentials. The settlement approach has a less severe impact on the lower tiers.

The settling parties anticipate one or two rate changes between the Phase 2 decision and the Phase 1 decision, including the Powerex FERC refund settlement expected to be approved in 2014, the revenue requirement crediting of which PG&E shall seek to consolidate with the implementation of revenue requirement increases such as PG&E's 2014 General Rate Case (GRC) Phase 1 and Nuclear Decommissioning Trust revenue requirement changes.

A list of rate changes already implemented in 2014 or expected to be implemented before 2015, is found in Attachment D.

5.1. Specific Elements of Settlement Agreement

5.1.1. CARE Rates

The CARE Tier 1 rate will be 9.244 cents, the CARE Tier 2 rate will be 10.630 cents, and the CARE Tier 3 rate will be 15.081 cents. These rates are set exogenously and thus will not change regardless of the revenue requirement adopted. Any subsequent revenue requirements would be capped at 1.5 cents for CARE Tier 1 and Tier 2. The CARE Tier 3 rate is not capped.

The majority of CARE customers will see a monthly bill increase of less than \$5 under these rates compared to March 2014 rates. Assuming 100% of pending revenue requirement requests are adopted, 54% of CARE customers would experience an increase of less than \$5 per month, and 87% of CARE customers would experience an increase of less than \$10.

AB 327 requires that the CARE average effective discount be gradually reduced to reach the 30–35% statutory range. As of March 2014, the CARE average effective discount was 48.4%. Assuming 100% of pending revenue requirement requests are approved, the new effective discount will be 46.5%. (Exhibit PG&E-08.)

5.1.2. Non-CARE Rates

PG&E's non-CARE Tier 1 rate will be 14.707 cents, as proposed in PG&E's simplified Phase 2 Proposal. PG&E's non-CARE Tier 2 rate will be 17.028 cents. PG&E's non-CARE Tier 3 and 4 rates will be set to collect the residual revenue requirement, such that the resulting difference between the Tier 3 and 4 rates is 6 cents. However, if the non-CARE Tier 4 rate resulting under the previous sentence exceeds 35 cents per kWh, then the rates will be adjusted as follows:

Starting with non-CARE rates at 17.028 cents, 29 cents, and 35 cents for Tiers 2, 3, and 4, respectively. Using these rates, plus the non-CARE Tier 1 rate of 14.707 cents, and the CARE rates described in Section 5.1.1 above, the non-CARE Tier 2, Tier 3, and Tier 4 rates will be increased on an equal cents per kWh basis to eliminate the revenue shortfall.

Assuming all pending revenue requirement requests are approved, the majority of customers would experience bill increases over March 2014 rates of less than \$10 per month. Specifically, 34% of non-CARE customers would experience bill increases of less than \$5 per month, and 99.9% of customers would experience bill increases of less than \$10 per month.

5.1.3. Baseline Quantities

PG&E's baseline quantities will be based on 52.5% of historical average usage levels by climate zone until the Commission revises PG&E's baseline quantities in a future decision. The parties agree to mutually request that the issue of baseline quantities be removed from A.12-02-020.

For all-electric customers in winter, baseline quantities will be based on 62.5% of historical usage.

The baseline quantity values will be based upon the historical usage data by climate zone for the May 2008 through April 2012 period, as described in Appendix A to the PG&E Settlement.

5.1.4. FERA and Medical Baseline Programs

The PG&E Settlement does not change the structure of the FERA program. Under the FERA program, residential customers meeting certain household income and family size criteria are charged the Tier 2 rates for energy usage in Tier 3. The settlement reduces the differential between Tiers 2 and 3, from the current 16 cents to about 11 cents, resulting in a decrease in the discount FERA

customers receive on Tier 3 usage of approximately 10% (from an approximately 50% discount to an approximately 40% discount).¹²

The PG&E Settlement also does not change the structure of the medical baseline program. PG&E medical baseline customers receive two forms of discounts: (1) medical baseline customers receive an additional baseline allowance of at least 16.5 kWh per day (approximately 500 kWh per month)¹³ and (2) medical baseline customers are charged Tier 3 rates for Tier 4 usage. Under the PG&E Settlement, the differential between Tier 3 and Tier 4 will increase from 4 cents to 6 cents. This means that medical baseline customers with Tier 4 usage will see a slightly higher discount (moving from 11% to 17%) for Tier 4 usage under the new rates.

5.2. Party Positions

Several parties responded in protest to PG&E's original November 22, 2014 rate change proposal. ORA expressed concern with bill impacts, rate structure, CARE discounts, and the treatment of revenue requirement increases. TURN's protest also expressed concern with Tier 1 rates, proposed changes to the FERA program, the proposed reduction of baseline quantities, and changes to the CARE discount. Protests were also filed by CforAT/Greenlining, Marin Clean Energy, The Alliance for Solar Choice (TASC), Vote Solar and Solar Energy Industries Association (SEIA), IREC, and NRDC and Sierra Club (jointly). CLECA filed a response that included a partial protest. Many of the arguments

¹² Reporter's Transcript at 52, line 27 - 53, line 7.

¹³ Some medical baseline customers qualify for additional allowance increments.

made in the protests became moot once PG&E filed its simplified Phase 2 Proposal.

PG&E notes that informal settlement discussion began after it served the original proposal and continued after PG&E served its January 28, 2014 simplified Phase 2 Proposal. The simplified Phase 2 Proposal addressed several of the concerns raised in the protests, and presented a simplified plan in conformance with the January 24, 2014 Scoping Memo. The only party to serve testimony opposing PG&E's January 28, 2014 simplified Phase 2 Proposal was CforAT.

PG&E's simplified Phase 2 Proposal would have set rates based on the assumption that PG&E's proposal to reduce baseline quantities from 55% to 50% of historical average usage levels by climate zone would be adopted in PG&E's pending 2012 Rate Design Window (A.12-02-020). ORA and TURN opposed this proposal and supported retaining the current baseline quantity of 55%. As a compromise, the settling parties agreed that baseline quantities used to design rates would be set at the mid-point between those positions, 52.5%.

PG&E had also proposed to apply all new revenue requirement changes to increase Tier 1 and Tier 2 rates while decreasing the Tier 3 and Tier 4 rates. ORA and TURN opposed the proposal.

PG&E proposed to allocate any authorized post-summer 2014 revenue requirement increases during the Settlement Period to all non-CARE and CARE rates in every tier on a cents per kWh basis, while allocating any revenue requirement decreases to Tiers 3 and 4. The settling parties compromised and agreed that both increases and decreases in authorized revenue requirement would be shared across all non-CARE and CARE tiers on an equal cents per kWh basis, with a cap on increases to CARE and non-CARE Tier 1 and CARE Tier 2

rates at 1.5 cents per kWh. Any revenue shortfalls from the cap would be collected on an equal cents per kWh basis from the remaining tiers.

CforAT/Greenlining's arguments regarding the sufficiency of the affordability analysis are addressed in the Discussion section below.

Illustrative rates are shown on Attachment E.

6. SCE Settlement

On March 4, 2014, SCE, ORA, TURN, CCUE, Sierra Club and NRDC filed a Joint Motion for Adoption of Settlement Agreement for Phase 2 Simplified Summer 2014 Residential Rate Design Changes for SCE (SCE Settlement). A copy of the SCE Settlement is attached as Attachment B, and we provide a general summary of the terms below.

At the time of implementation, the SCE Settlement will fix rates for non-CARE Tier 1 and Tier 2 at 14.85 cents per kWh and 19.28 cents per kWh respectively. From the effective date through the date of a Phase 1 decision or other decision that modifies or supplants the Settlement Agreement (the SCE Settlement Period), these rates would increase or decrease (with one exception)¹⁴ by the residential class average rate (RAR)¹⁵ percentage change when future revenue requirement changes are reflected in rates. The SCE Settlement sets the

¹⁴ Should the residential rate class revenue requirement decrease on January 1, 2015 relative to the residential rate class revenue requirement on December 21, 2014: (a) the then-current non-CARE Tier 1 and 2 rates will not change; and (b) the non-CARE Tiers 3 and 4 rates will be set residually to collect (along with revenues collected from CARE rates) the then-current authorized residential rate class revenue requirement such that the tier differential between Tiers 3 and 4 shall be at least 4 cents per kWh.

¹⁵ The RAR is the average per kWh rate that would need to be collected from all residential customers for each kWh used in order to meet the portion of the system revenue requirement allocated to the residential customer class.

rates for non-CARE Tiers 3 and 4 residually with a 4 cents per kWh rate differential between Tiers 3 and 4, and requires these rates to increase or decrease by the RAR percentage during the SCE Settlement Period.

The SCE Settlement discounts CARE Tier 1 and 2 rates at 35% off the corresponding non-CARE rates, and sets the CARE Tier 3 rate residually such that the average effective CARE discount equals 32.5%.¹⁶

The SCE Settlement modifies the Residential Rate Design Settlement Agreement approved in D.13-03-031 by increasing the Tier 3 and Tier 4 rate differential (from 3 cents per kWh to 4 cents per kWh) as well as increasing volumetric rates for Tiers 1 and 2 for other than SB 695 rate changes.¹⁷

The SCE Settlement maintains the current level of Basic Charges for CARE and non-CARE customers, as well as the current FERA program terms and discount, and the current medical baseline allowance. It also preserves the four-tiered default non-CARE residential rate structure and tier definitions.

The settling parties seek Commission approval of the SCE Settlement no later than June 12, 2014, in order to implement the revised rates no later than July 12, 2014. SCE further requests that it be given discretion as to the actual date of implementation so that it can be coordinated with SCE's annual seasonal changes to residential rates scheduled for June 1, 2014. Implementing additional

¹⁶ The settling parties agreed to exclude the revenue effect of the return of the Climate Credit to residential customers in establishing the 32.5% average effective CARE discount.

¹⁷ Joint Motion of Southern California Edison Company, the Office Of Ratepayer Advocates, the Utility Reform Network, the Coalition Of California Utility Employees, the Sierra Club and the Natural Resources Defense Council for Adoption of Settlement Agreement for Phase 2 Simplified Summer 2014 Residential Rate Design Changes, March 4, 2014, at 11.

rate changes within 34 days of that date will result in triple pro-ration of customer bills, which SCE states could lead to customer confusion.¹⁸ A list of rate changes already implemented in 2014 or expected to be implemented before 2015, is found in Attachment D.

6.1. Specific Elements of Settlement Agreement

6.1.1. CARE Rates

The SCE Settlement sets CARE Tier 1 and Tier 2 electricity rates at 35% off the corresponding non-CARE rates, and sets the CARE Tier 3 rate residually such that the average effective CARE discount shall equal 32.5%. At initial implementation, the rates for CARE Tier 1 and Tier 2 customers would rise by 10% and 14%, respectively, for summer 2014.¹⁹ CARE Tier 3 rates would increase by 5%.²⁰

The majority of CARE customers will see a monthly bill increase from January 2014 rates of less than \$5 under these rates. Assuming 100% of pending revenue requirement requests are adopted, 60% of CARE customers would experience an increase of less than \$5 per month, and 87% of customers would experience an increase of less than \$10.

¹⁸ *Ibid.* at 13.

¹⁹ Joint Motion of Southern California Edison Company (U 338-E), the Office Of Ratepayer Advocates, the Utility Reform Network, the Coalition Of California Utility Employees, the Sierra Club and the Natural Resources Defense Council for Adoption of Settlement Agreement for Phase 2 Simplified Summer 2014 Residential Rate Design Changes, March 4, 2014, at 10, Table IV-2.

²⁰ *Id.*

Based on the settlement rates, the average effective CARE discount will be 32.5%. This is the highest historical average effective discount for SCE's CARE customers.²¹

6.1.2. Non-CARE Rates

At initial implementation, the non-CARE Tier 1 rate would increase by 12% and would be fixed at 14.85 cents per kWh. Non-CARE Tier 2 rates would increase by 17% and would be fixed at 19.28 cents per kWh. Non-CARE Tiers 3 and 4 rates would be set residually to collect the then-current authorized residential rate class revenue requirement such that the differential between Tiers 3 and 4 shall be 4 cents per kWh. This results in an increase in non-CARE Tier 3 and Tier 4 rates of 2% and 5%, respectively, at initial implementation.

The majority of non-CARE customers will see a monthly bill increase of less than \$10 per month compared to January 2014 rates. Assuming 100% of pending revenue requirement requests are adopted, 24% of non-CARE customers will see an increase of less than \$5 per month and 68% of non-CARE customers will see an increase of less than \$10.

Compared to the January 2014 simplified Phase 2 Proposal, the SCE Settlement results in a lower increase for non-CARE Tier 1 usage (12% under the settlement compared to 17%).²²

²¹ Joint Phase 2 Opening Brief of Southern California Edison Company (U 338-E), the Office of Ratepayer Advocates, The Utility Reform Network, and the Coalition of California Utility Employees, at 7.

²² The January 2014 simplified Phase 2 Proposal was based on a forecast RAR of 12%, but this forecast had been reduced to 8% at the time the SCE Settlement was filed. The 8% increase reflects an SCE system average rate increase consistent with the proposed decision issued in A.13-08-004 on March 25, 2014. The proposed decision was approved by the Commission on May 1, 2014. (D.14-05-003.)

6.1.3. Baseline Percentage

The SCE Settlement does not change the baseline percentage for Tier 1 usage currently set at 53%.²³

6.1.4. FERA and Medical Baseline

The SCE Settlement does not change the FERA or medical baseline program tariffs.²⁴

Under the FERA program, residential customers meeting certain household income and family size criteria are charged the Tier 2 rates for energy usage in Tier 3. The settlement reduces the differential between Tiers 2 and 3, resulting in a decrease in the discount FERA customers receive on Tier 3 usage of approximately 9% (from an approximately 40% discount to an approximately 31% discount).²⁵ While the discount percentage for FERA customers is decreasing, it remains close to the historically highest level.²⁶

SCE medical baseline customers will continue to receive an additional baseline allowance of at least 16.5 kWh per day (approximately 500 kWh per month).²⁷

6.2. Party Positions

On December 23, 2014, protests to the November 22, 2013 Phase 2 Proposal were filed by CforAT/Greenlining, Marin Clean Energy, TASC, Vote Solar and SEIA, IREC, and NRDC and Sierra Club (jointly). CLECA filed a response that

²³ SCE Settlement Agreement Section 4.d at 8.

²⁴ *Id.* at 11.

²⁵ Reporter's Transcript at 52, line 27 - 53, line 7.

²⁶ Reporter's Transcript at 77, line 1 - 18.

²⁷ Some medical baseline customers qualify for additional allowance increments.

included a partial protest. ORA argued that SCE's proposed three-tiered rate would result in substantial bill increases compared to current rates²⁸ and was too dramatic for an interim rate design proposal. TURN stated that the proposed increases to non-CARE and CARE rates for Tier 1 were excessive. The Sierra Club and NRDC jointly argued that SCE's proposal was "excessive" and not "modest,"²⁹ contrary to the directions provided in the October 2013 ACR. Many of the arguments made in the protests became moot once SCE filed its simplified Phase 2 Proposal. ORA, TURN, Sierra Club and NRDC all support the SCE Settlement.

CforAT/Greenlining filed intervenor testimony on SCE's January 2014 simplified Phase 2 Proposal (Exhibit GL-01.) No party protested the terms of the SCE Settlement. CforAT/Greenlining's arguments regarding the sufficiency of the affordability analysis, are addressed in the Discussion section below.

Illustrative rates are shown on Attachment E.

7. SDG&E Settlement

On March 27, 2014, SDGE, TURN, ORA, UCAN, SDCAN, and CCUE filed a joint motion for adoption of the Settlement Agreement for Phase Two Interim Residential Rate Design Changes for SDG&E (SDG&E Settlement). A copy of the SDG&E Settlement is attached as Attachment C, and we provide a general summary of the terms below. Like the other two settlements, the SDG&E Settlement represents a compromise of the positions of the settling parties. The SDG&E Settlement sets forth rules governing changes to tiered rates resulting

²⁸ ORA December 23, 2014 Protest at 4.

²⁹ NRDC/Sierra Club December 23, 2014, Joint Protest at 3.

from revenue requirement changes for the period from February 1, 2014 until a decision in Phase 1 (SDG&E Settlement Period).

The SDG&E Settlement provides that non-CARE Tier 1 rates shall change at a level of RAR plus 2%, but in no event less than 7% relative to February 2014 rates. In the event that Tier 1 rates change at the floor level of 7%, the existing cents per kWh differential between Tier 1 and Tier 2 shall be maintained.

Non-CARE Tier 2 rates shall change at a level of RAR plus 4%, subject to the provisions applicable to the Tier 1 and Tier 2 differential in the event the Tier 1 rate reaches the 7% floor.

CARE Tier 1 and Tier 2 rates shall change at a level of RAR plus 2%, while CARE Tier 3 rates shall change at a level of RAR plus 5%.

After following the rules described above, the non-CARE Tier 3 and Tier 4 rates are then adjusted in a manner that maintains the existing 2 cent differential between Tier 3 and Tier 4 rates.

During the SDG&E Settlement Period, SDG&E will consolidate revenue requirement changes whenever feasible to reduce unnecessary rate fluctuations. The settling parties also agreed that upon adoption of the SDG&E Settlement, there would be no other changes to the non-CARE or CARE rate structures other than those in the SDG&E Settlement during the SDG&E Settlement Period. In addition, as part of the SDG&E Settlement, ORA agreed to withdraw its protest to SDG&E's Advice Letter 2575-E concerning SDG&E's GRC Phase 2.

ORA emphasizes that the SDG&E Settlement relies on the agreed-upon formula to address the revenue uncertainty. ORA notes that while residential cost compared to the system as a whole was going to see a 5% reduction, SDG&E initially proposed to base the rate changes on the system average rate (SAR).

According to ORA, residential customers will benefit from the fact that the formula in the SDG&E Settlement is tied to RAR instead of SAR.

In addition, ORA notes that the agreement ties all other future rate changes to the February 1, 2014 rate, and the residential cost, plus a percentage change, so Tier 1 and the CARE customers will not see increases of more than a couple of percentage points above the average residential rate increase.³⁰

Similarly, TURN states that the rule-based approach was very important due to potential shifting in the revenue requirement on issues related to the San Onofre nuclear power plant.

7.1. Specific Elements of Settlement Agreement

7.1.1. CARE Rates

CARE Tier 1 and Tier 2 rates would change at a level of RAR plus 2% and CARE Tier 3 rates would change at a level of RAR plus 5%.

Almost half of CARE customers will see a monthly bill increase of less than \$5 under these rates compared to the rates effective on February 1, 2014. Assuming 100% of pending revenue requirement requests are approved, 47% of CARE customers would experience an increase of less than \$5 per month, and 81% of customers would experience an increase of less than \$10 per month. These rates result in an average CARE effective discount of 37.8%.

7.1.2. Non-CARE Rates

Non-CARE Tier 1 rates would change at a level of RAR plus 2%, but in no event less than 7% relative to February 1, 2014 rates. In the event that Tier 1 rates

³⁰ Reporter's Transcript at 103.

change at the floor level of 7%, the existing cents per kWh differential between Tier 1 and Tier 2 rates shall be maintained.

Non-CARE Tier 2 rates would change at a level of RAR plus 4%, subject to the provisions applicable to the Tier 1 and Tier 2 differential in the event that Tier 1 reaches the 7% floor above.

After following the rules described above, the non-CARE Tier 3 and Tier 4 rates are then adjusted in a manner that maintains the existing 2 cents differential between Tier 3 and Tier 4 rates.

AB 327 requires that the CARE effective discount be gradually reduced to reach the 30-35% statutory range. As of March 2014, the CARE effective discount was 39.2%. Assuming 100% of pending revenue requirement requests are approved, the new effective discount will be 37.8%.

7.1.3. Baseline Percentage

The SDG&E Settlement does not change the baseline percentage for basic customers' Tier 1 usage which is currently set between 52-54% (depending on climate zone) in the summer and 53-55% (depending on climate zone) in the winter.

7.1.4. FERA and Medical Baseline

The SDG&E Settlement includes no major structural adjustments to the FERA or medical baseline programs.

Under the FERA program, residential customers meeting certain household income and family size criteria are charged the Tier 2 rates for energy usage in Tier 3. The settlement reduces the differential between Tiers 2 and 3 approximately .2 cents, but on a percentage basis reduces the discount FERA customers receive on Tier 3 usage by approximately 3% (from an approximately 49% discount to an approximately 46% discount).

Medical baseline customers will continue to receive a discount in the form of an additional baseline allowance of at least 16.5 kWh per day (approximately 500 kWh per month).³¹

7.2. Party Positions

SDG&E's initial proposal included proposals to: increase Tier 1 and Tier 2 rates; consolidate Tiers 3 and 4; move CARE subsidies from rates to a line item on the bill for residential and non-residential CARE customers; begin the transition to an effective CARE discount rate of 30-35%; and to adopt a four-year transition for non-CARE medical baseline rates. On December 23, 2014, protests to the November 22, 2013 Phase 2 Proposal were filed by CforAT/Greenlining, Marin Clean Energy, TASC, Vote Solar and SEIA, IREC, NRDC and Sierra Club, and SDCAN. CLECA filed a response that included a partial protest.

In response to the January 2014 Scoping Memo, SDG&E's January 28, 2014, the simplified Phase 2 Proposal recommended increasing Tier 1 and Tier 2 rates at the same level as SAR increases; changing CARE rates with and at the same level as SAR changes; increasing Tier 1 non-CARE rates by an additional 1 cent per kWh; and reducing the differential between Tier 3 and Tier 4 non-CARE rates from 2 cents per kWh to 1 cent per kWh. Many of the arguments made in the protests became moot once SDG&E filed its simplified Phase 2 Proposal. However, ORA, TURN, UCAN and SDCAN each filed testimony in response to the simplified Phase 2 Proposal. The intervenors expressed concern regarding impacts on lower tier customers and the potential for rate shock associated with SDG&E's proposal to quickly approach a two-tiered rate structure.

³¹ Some medical baseline customers qualify for additional allowance increments of 500 kWh.

ORA recommended that the tier rate changes should be based on RAR changes rather than the SAR changes and that the starting point for bill impact calculation should be November 2013 instead of February 2, 2014 to allow the Commission to see the cumulative bill impacts over a longer and more meaningful period. In particular, ORA noted that SDG&E's Tier 1 and Tier 2 rates are currently 4.1% higher than they were in November 2013.³² ORA stated that its recommendation would have resulted in rate increases of 15% and 18% for non-CARE Tiers 1 and 2, compared to SDG&E's revised proposal, which would have resulted in increases of 29% and 22%, respectively, for non-CARE Tiers 1 and 2.

TURN's testimony noted that compared to the simplified Phase 2 Proposals of PG&E and SCE, the SDG&E Phase 2 Proposal would significantly increase the Tier 1 rate (by 24% versus 7.9% for PG&E and 12.5% for SCE).³³ TURN objected to SDG&E's proposal to significantly reduce both the Tier 2 to Tier 1 differential and the Tier 3 to Tier 4 differential. The proposed differentials would, in essence, result in a two-tiered rate structure. Instead, TURN recommended movement toward a three-tiered rate structure and adoption of ORA's recommendation for interim rates.

SDCAN recommended that any significant rate changes should occur in Tiers 2 and 3, in order to move toward a three-tiered rate structure instead of a two-tiered rate structure. SDCAN also recommended that SDG&E's revenues

³² Exhibit ORA-01 at 5, lines 11-12.

³³ Exhibit TURN-01 at 4.

should be revised to either exclude projected rate increases or to incorporate offsetting decreases, such as those expected in Investigation 12-10-013.

UCAN stated that SDG&E's proposal results in excessive bill impacts for the lower tiers, particularly Tier 1. For example, UCAN's testimony identified the need to take SDG&E's substantial pending rate increase into account when evaluating whether to increase Tier 1 rates by an additional 1 cent. The SDG&E Settlement reflects issues raised in UCAN's testimony.

TURN, ORA, SDCAN and UCAN all support the SDG&E Settlement.

CforAT/Greenlining's arguments regarding the sufficiency of the affordability analysis are addressed in the Discussion section below.

Illustrative rates are shown on Attachment E.

7.3. Discussion

7.3.1. Article 12

The rules for submission and review of Commission settlements are set forth in Article 12 of the Commission's Rules of Practice and Procedure. The general criteria for Commission approval of settlements are stated in Rule 12.1(d) which provides that "[t]he Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest."

As a matter of public policy, the Commission favors settlement of disputed issues if they are fair and reasonable in light of the whole record. This policy supports worthwhile goals, including reducing the expense of litigation, conserving scarce Commission resources, and allowing parties to reduce the risk

that litigation will produce unacceptable results.³⁴ We must decide whether the settlements, as proposed, meet the requirements established by Rule 12(d).

Below we consider each of the three requirements.

7.3.2. Are Settlement Agreements Reasonable in Light of the Whole Record?

First, we consider whether the three settlements are reasonable in light of the whole record. The record to date, in relevant part, includes the IOUs' Phase 2 Proposals submitted on November 22, 2013, protests to the proposals filed on December 23, 2014, the IOUs' simplified Phase 2 Proposals submitted on January 28, 2014, the joint motions for adoption of settlement agreements concerning PG&E, SCE, and SDG&E filed by the applicable settling parties, and the testimony from the IOUs and intervenors to the extent accepted into the evidentiary record.

The resulting settlements represent some movement from all settling parties' positions and attempts to balance the interests of all residential ratepayers. We conclude that the settling parties have appropriately complied with the applicable procedural rules governing notice and submission of the settlements presented in this proceeding. The parties convened and provided notice of a settlement conference. The settling parties filed motions for approval of the settlements, each of which provided a statement of the factual and legal considerations adequate to advise the Commission as to the scope of the settlement and of the grounds on which approval is requested.

The settlements are not all-party settlements, but only two parties, CforAT/Greenlining (jointly) have argued against approval and no party filed a

³⁴ D.92-12-019, 46 CPUC2d 538, 553.

protest to any of the settlements. Commission policy is that contested settlements should be subject to more scrutiny than an all-party settlement.³⁵ Here, CforAT/Greenlining argue that (1) there is insufficient record on which to evaluate whether these settlements would meet statutory requirements for affordable electric service, and (2) to the extent there is such a record, it does not support the SDG&E and PG&E proposals. CforAT/Greenlining's arguments, including sufficiency of the record, are addressed in Section 7.3.5 below.

Although no party requested time to question the witnesses sponsoring each of the three settlements, we conducted an Evidentiary Hearing to hear the settlement proposals and question the sponsoring witnesses. Participation in each of the settlements varied depending on the parties' specific interests. However, a review of the signatories to each settlement reveals that the sponsoring parties are fairly reflective of the affected interests and the sponsors of each settlement fairly represent the customers and customer classes affected by the issues in this proceeding.

We find that the PG&E Settlement, the SCE Settlement, and SDG&E Settlement represent reasonable compromises of each of the settling parties' respective positions.

For example, the SCE Settlement provides that rates for Tier 1 and Tier 2 will increase by 12% and 17% respectively, compared to SCE's January 2014 simplified Phase 2 Proposal which would have increased both Tier 1 and Tier 2 rates by 17%.

³⁵ D.07-03-044 at 13 (citing D.96-01-011, Finding of Fact 5).

The PG&E Settlement reflects similar compromises. While PG&E's January 2014 Phase 2 Proposal would have applied revenue requirement increases to non-CARE Tier 1 and Tier 2 rates while decreasing non-CARE Tier 3 and Tier 4 rates, the PG&E Settlement provides that PG&E's non-CARE Tier 3 and Tier 4 rates will be subject to increases under certain circumstances. The parties to the PG&E Settlement also agreed to compromise regarding baseline quantities, essentially splitting the difference between the two proposals.

The SDG&E Settlement also reflects compromise by the settling parties. For example, SDG&E's January 2014 simplified Phase 2 Proposal would have reduced the differential between non-CARE Tier 1 and Tier 2 and increased Tier 1 rates at the same level as SAR plus one cent per kWh, but the SDG&E Settlement provides that non-CARE Tier 1 rates change at a level of RAR plus 2% (but in no event less than 7%) while non-CARE Tier 2 rates change at a level of RAR plus 4%. And, rather than changing CARE rates at the same level as SAR changes, as SDG&E proposed, the SDG&E Settlement provides that CARE Tier 1 and Tier 2 rates change at a level of RAR plus 2% and CARE Tier 3 rates change at a level of RAR plus 5%.

7.3.3. Are Settlement Agreements Consistent with the Law?

7.3.3.1. Applicable Laws

The terms of each settlement are also consistent with the law. The settlements contain detailed descriptions of the rationale supporting the settlement and the rate changes to be implemented and the manner in which they are to be implemented. In light of the various revenue requirement changes stemming from other proceedings, and the urgent need to revise rates to better reflect cost of service and reduce historical subsidies, we find that the interim

rates resulting from the settlements represent measured changes, consistent with the law, including AB 327, Section 382(b) and Section 451.

Each of the settlement agreements results in the allocation of revenue requirement increases among residential customer and tiers in a manner that is measured and fair while continuing to move in the direction of more cost-based rate structure. Each of the settlements also limits the bill impacts for CARE and Tier 1 customers significantly, compared to the IOU's November 2013 Phase 2 Proposals. The settlements do not change the structure of the FERA or medical baseline programs. The settlement agreements retain significant CARE discounts, with the SDG&E Settlement resulting in an effective CARE discount of 37.4%,³⁶ and the PG&E Settlement resulting in an effective CARE discount of 45%, while still effectively placing each of the IOUs on the required "glide path" towards the 30-35% effective CARE discount limit set forth in Section 739.1(c)(1).

7.3.4. Rate Design Principles

Each of the settlements is consistent with the Rate Design Principles set forth above. The settlements represent a gradual step toward electric rates that are closer to cost of service beginning in summer 2014, in accordance with Rate Design Principles 2, 3, 7, 8 and 9. In recognition of Principles 1 and 7, the settlements limit the increase in rates and add protections for non-CARE Tier 1 and CARE Tier 1 and Tier 2 customers in the event of high revenue requirement increases. The settlements address Principles 4 and 7 by moving rates closer to cost of service so that lower tier customers can make more economic decisions regarding their energy use. In addition, under the settlements the current tier

³⁶ Reporter's Transcript at 107-108.

structure for all three IOUs remain intact, thus deferring to Phase 1 any need for a closer examination of whether the inclining block structure provides a sufficient conservation incentive for all customers. Principle 6, to limit subsidies, is also addressed by the slight reduction of the subsidies paid by upper tier non-CARE customers to cover the shortfall created by below-cost rates for CARE and lower tier usage customers. The rate changes do not address Principle 5 which seeks to reduce both coincident and non-coincident peak demand.

7.3.5. Affordability Requirements

7.3.5.1. Overview

The settlements are also consistent with the affordability requirement of Section 382(b), that low-income ratepayers not be “jeopardized or overburdened by monthly energy expenditures.” And, because Tier 1 rates continue to be set using the baseline quantity, the settlements ensure that the per kWh rates for an essential amount of electricity remains affordable. Each of the settlements preserves significant assistance to low-income customers, does not change the structure of the FERA and medical baseline programs, and, where necessary, begins the transition to the legislatively-mandated CARE discount range of 30-35% in compliance with Section 739.1.

7.3.5.2. Affordability of Changed Rates

As CforAT/Greenlining point out, analysis of residential rate changes must consider affordability. CforAT/Greenlining argue that this proceeding has not given adequate consideration to this concern.

Affordability analysis is framed by state law including Section 451 (requiring just and reasonable rates) and Section 382(b) (requiring reduced rates for certain low income customers and endeavoring to provide essential electricity at an affordable cost).

The burden is on the IOUs to justify proposed rate changes by showing they meet the law, including affordability requirements. The IOUs have done so by entering into multi-party settlements, and providing bill impact and energy burden analysis.

CforAT/Greenlining argue that the settlement rates do not meet their interpretation of Section 382(b) affordability requirements, but CforAT/Greenlining do not suggest an alternative to this rate design that would meet all the legal requirements and Rate Design Principles. As SCE puts it, CforAT/Greenlining “essentially advocate for a rate design for this summer that would result in all authorized revenue increases being reflected only in non-CARE Rates for Tiers 3 and 4.” Such a design would not meet all the legal requirements and Rate Design Principles. In particular, current rate design does not reflect cost of service, which makes it difficult to argue that current rate design is “just and reasonable” as required by Section 451. Moreover, by passing AB 327, the Legislature indicated its support for making residential rates more reflective of cost.

7.3.5.3. Sufficiency of Evidence on Affordability

CforAT/Greenlining also argue that the testimony in this proceeding did not include sufficient information about the impacts of rate changes on affordability. Notably, as part of the initial rate change proposals, only SCE included energy burden data. Energy burden is the ratio of the customer’s cost for electricity and gas compared to the customer’s income. In this proceeding, we have primarily relied on electricity burden: the ratio of electricity bill charges to income. Prior to the due date for briefs, all three IOUs provided testimony

that includes electricity burden data. (Exhibit SCE-03 at 19; Exhibit SCE-08 Amended at 29-48; Exhibit PGE-09; Exhibit SDGE-10.)

In addition, as ORA points out, bill impact analysis, which has been the centerpiece of the rate design analysis in this proceeding, does address affordability. Indeed, similar bill impact analyses are used in general rate cases and rate design windows to evaluate whether new rates will cause rate shocks or make energy unaffordable. (ORA at 6.)

7.3.6. Compliance with Affordability Requirements

CforAT/Greenlining use a 5% energy burden (combined gas and electricity) as a benchmark for “high energy burden.” This benchmark is used by the Low Income Needs Assessment (LINA) Report.³⁷ (CforAT/Greenlining Opening citing LINA at 5-84 – 5-85.) However, neither the Commission nor state law has adopted a specific benchmark or test to determine whether a customer’s energy burden is “high” and whether energy burden by itself can be used to evaluate affordability of electricity. SCE also points out that high usage customers bear the highest energy burden. (Exhibit SCE-05 at 29.)

CforAT/Greenlining did not specifically protest the SCE Settlement rates in its briefs. SCE’s rate proposal does not change its currently effective baseline

³⁷ The full name of the LINA Report is the “Needs Assessment for Energy Savings Assistance and the California Alternate Rates for Energy Programs” prepared by Evergreen Economics, December 2013. An earlier low income needs assessment known as the “KEMA Report” is also referenced. The full name of the “KEMA Report” is the “Final Report on Phase 2 Low Income Needs Assessment” prepared by the consulting firm KEMA for the Commission, dated September 7, 2007. Portions of the LINA Report are included in the evidentiary record within Exhibit CforAT-01 (Revised Prepared Testimony of Henry J. Contreras Addressing Affordability Issues for Vulnerable Customers for Summer 2014).

quantity. (SCE Reply at 2.) Baseline allowances are designed pursuant to Section 739(d)(2) with the goal of ensuring affordable bills for baseline usage of electricity. SCE's average CARE average discount (excluding the effect of Climate Credit) will be 32.5% for SCE CARE customers. This is an increase from current levels.

Only approximately 2% of SDG&E's non-CARE customers face a 5% or above energy burden. However, CforAT/Greenlining calculate that in the desert climate zone over 18% of customers face an energy burden of 5% or above. CforAT/Greenlining is correct that aggregate data may hide extreme differentials, such as the higher energy burdens experienced in the desert climate zone. We are not convinced, however, that at this time such a differential violates the requirements for affordable quantities of essential energy.

The electricity burden analysis provided by PG&E shows that PG&E's bill-to-income ratio calculations for CARE customers under the PG&E Settlement result in a median bill-to-income ratio below 2.5% with 90% of CARE customers spending less than 6.7% of their 2009 income on electricity.³⁸ CforAT/Greenlining's primary affordability concern regarding the PG&E Settlement is the impact of future revenue requirement increases on CARE and lower tier customers. The PG&E Settlement, however, caps any such increases thereby preventing any extreme bill impacts on CARE Tier 1 and Tier 2 usage and non-CARE Tier 1 usage.³⁹

³⁸ PG&E Opening Brief at 12, citing Exhibit PG&E-6 at 6, lines 6-33.

³⁹ The CARE Tier 3 rate is not capped.

**7.3.6.1. Rates Must be Considered
in Context**

When evaluating proposed rate changes for affordability, it is necessary to consider the context of the proposal.

First, as noted above, all three IOUs are implementing higher revenue requirements at or around the same time that the Phase 2 Settlement Rates would go into effect. This increase in revenue requirement accounts for a substantial portion of the increase in the CARE and Tier 1 and 2 rates. For example, SCE residential customers as a group face an 8% increase in RAR for revenue increases being reviewed in other proceedings. (SCE Reply at 4.)

Second, evaluation of rates should consider both the percentage increase and the actual dollar increase. For customers with lower tier usage, and CARE customers, the percentage on their already lower bills appears higher than the percentage impact on customers with high usage. The actual dollar amount of increases in lower tier and CARE rates, however, is modest.

Third, high usage customers, both CARE and non-CARE, are the most likely to contact their utility to ask for payment extensions and arrangements. (SCE Reply at 13 citing Exhibit SCE-03 at 32-25.)

Fourth, CARE and Tier 1 and 2 rates have not experienced any significant increases over the last decade. During that same period, the RAR for each IOU has grown substantially.

Finally, it is important to note that the Joint Opening Briefs demonstrate that a variety of parties, including both IOUs and ratepayer advocacy groups, support the settled rates. The settled rates will limit the bill impact for non-CARE and CARE Tier 1 usage, retain a high effective CARE discount, and retain discounts to assist FERA customers.

7.3.7. Modeling

The IOUs' rate change proposals require complex utility rate design models to develop rates as well as bill impact models to evaluate the impact of the proposed rates on customers. As noted above, in this proceeding we directed the IOUs to develop rate impact calculators to assist parties in understanding and testing the impacts of different rate design scenarios. The calculators were developed over a period of several months with the input of all interested parties. Because the rate design changes associated with the settlements are limited, the resulting bill impacts stem, in large, part from the various underlying revenue requirement changes that have been and will be determined in other proceedings, and are not exclusively the result of the changes to rate design adopted herein. The settlements we adopt today each require the utilities to consolidate revenue requirement increases and/or decreases to the extent feasible to avoid frequent rate changes and rate shock.

7.4. Are Settlement Agreements in the Public Interest?

The settlement agreements are in the public interest. In addition to the reasons set forth in the discussion above, it is important to implement these rate changes in time to reduce the volatility of summer electricity rates. The settlement agreements are also in the public interest because they reduce the time and expense of litigation for all parties and they conserve Commission resources.

7.5. Settlement Agreements Meet Article 12 Requirements

The settlement agreements represent a reasonable compromise of the parties' respective positions and result in interim rates that are equitable, affordable, and consistent with the Commission's rate and policy objectives for residential rate design.

Each of the settlements complies with the requirements of AB 327, balances the Rate Design Principles and limits increases to CARE customers to the extent reasonable in light of the statutory requirement to bring the effective CARE discount down to 30-35%. Consistent with the January 24, 2014 Scoping Memo, the settlements do not include any major adjustments or structural changes to the CARE, FERA or medical baseline programs.

In conclusion, consistent with Rule 12.1(d), we find that the PG&E Settlement, the SCE Settlement, and the SDG&E Settlement presented above and attached as Attachments A, B, and C, respectively, are reasonable in light of the whole record, consistent with the law, and in the public interest. We adopt the settlement agreements and authorize PG&E, SCE and SDG&E to file Tier 1 Advice Letters to implement the changes in rates in accordance with their respective settlements.

7.6. Tier 1 Compliance Advice Letters

In their settlement agreements both SDG&E⁴⁰ and SCE⁴¹ request authority to file Tier 1 Compliance Advice Letters implementing tariffs containing the rate changes resulting from the settlements as soon as practical following issuance of a final Commission decision. In their joint motion for adoption of settlement both SDG&E⁴² and SCE⁴³ state that the intent of the

⁴⁰ Settlement Agreement for Phase 2 Interim Residential Rate Design Changes for San Diego Gas and Electric Company, March 27, 2014, at 10.

⁴¹ Settlement Agreement For Southern California Edison Company's Phase 2 Simplified Summer 2014 Residential Rate Design Change, March 4, 2014, at 8.

⁴² Joint Motion of San Diego Gas & Electric Company (U 902E), the Office Of Ratepayer Advocates, The Utility Reform Network, the Utility Consumers' Action Network, the San Diego Consumers' Action Network, and the Coalition of California Utility

Footnote continued on next page

settling parties is to seek Commission approval of the Settlement Agreements no later than June 12, 2014, so as to implement the revised rates no later than July 12, 2014. SCE further states it “...would like to be given discretion as to when it will implement rate changes following a final Commission decision and before July 12, 2014.”

PG&E’s settlement agreement did not specify the steps for implementation of the rate changes.

Pursuant to the SDG&E Settlement, SDG&E’s advice letter will include data regarding February 1, 2014 rates, and RAR and SAR contrasted to the February 1, 2014 rate as percent changes to assist parties in reviewing the revenue requirement changes.

Because one of the purposes of the proposed rate changes is to reduce bill volatility for summer 2014, the IOUs should act promptly to implement the rate changes once the settlements are approved.

We therefore direct the IOUs to each file a Tier 1 Compliance Advice Letter, in accordance with their applicable settlement agreement and this decision, no later than 15 days after a final Phase 2 decision is issued.

We also direct all three IOUs to include in their advice letter data regarding (a) February 1, 2014 rates, (2) RAR and SAR changes relative to the

Employees for Adoption of Settlement Agreement for Phase 2 Interim Residential Rate Design Changes, March 27, 2014, at 12.

⁴³ Joint Motion of Southern California Edison Company (U 338-E), the Office Of Ratepayer Advocates, the Utility Reform Network, the Coalition Of California Utility Employees, the Sierra Club and the Natural Resources Defense Council for Adoption of Settlement Agreement for Phase 2 Simplified Summer 2014 Residential Rate Design Changes, March 4, 2014, at 13.

February 1, 2014 rates, and (3) percent changes to assist parties in reviewing the advice letters.

8. Safety Considerations

The Commission's regulatory responsibility includes ensuring that utility safety programs and measures are adequately funded. Parties did not identify any other safety issues raised by this rate design proceeding. Other Commission proceedings, such as the IOUs' general rate cases, are charged with ensuring that customer rates are collected and used appropriately to fund safety programs and measures. We will continue to consider the safety implications of rate design in Phase 1 of this proceeding.

9. Comments on Proposed Decision

The proposed decision of the ALJs 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 and Procedure. Comments were filed on May 29, 2014 by CforAT, Greenlining, PG&E, SCE, and UCAN. No reply comments were filed.

10. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Jeanne M. McKinney and Julie M. Halligan are the assigned ALJs in this proceeding.

Findings of Fact

1. Residential rates for the three IOUs are based on an inclining block price structure, wherein monthly usage is broken into tiers by volume with usage in the lower tiers paying a lower rate than usage in the higher tiers.

2. One purpose of the inclining block rate structure is to encourage residential customers to reduce aggregate electricity consumption.

3. Since 2001, lower usage tier rates have essentially been frozen resulting in all increases in revenue requirements allocated to residential customers being borne by customers with usage in the upper tiers.

4. For all three IOUs, the current rates charged for electricity usage falling in Tier 4 are more than double the rates charged for electricity usage falling in Tier 1.

5. The steep differentials between usage tiers result in lower tier rates substantially below cost of service and upper tier rates substantially above cost of service.

6. Residential customers do not receive price signals that reflect their cost of service.

7. Because electricity rates increase sharply with increased usage, and because residential customers typically do not know at what point during the month their usage will reach a higher tier threshold, customers can experience unexpected large increases in monthly bills for a small increase in usage. This is particularly true during high-use periods such as summer months.

8. Customers with high use and low income are especially disadvantaged by the current steeply tiered rates.

9. In SCE's service territory, customers with use in the higher tiers are the most likely to ask for bill payment assistance or extensions.

10. In SCE's service territory, the highest electricity burdens are faced by customers with the highest usage.

11. The CARE discount was originally set at approximately 15% off otherwise applicable non-CARE rates.

12. Currently, the effective discount rates for CARE have increased to 48.4% (PG&E), 32% (SCE), and 39.2% (SDG&E).

13. All three IOUs have pending requests that, if approved, would substantially increase their revenue requirements, resulting in substantially increased average rates.

14. This proceeding does not address IOU revenue requirements.

15. A substantial portion of the rate increases that may occur when this decision is implemented are the result of underlying revenue requirement increases that are being examined in separate proceedings.

16. Rates that are set independently from pending revenue requirement changes, such as the lower tier and CARE rates set by the PG&E Settlement, can provide protection and certainty for customers with usage in those tiers regardless of approved revenue requirement.

17. All three IOUs have filed settlement agreements and no party filed a protest to any of those settlement agreements. CforAT/Greenlining, however, did contest the settlement agreements in its briefs.

18. The parties to the Settlement Agreements represent diverse interests.

19. The proposed Settlement Agreements represent a balance between the original positions as otherwise litigated in the prepared testimony of the parties.

20. The rate design changes proposed in the Settlement Agreements are reasonable.

21. One measure of affordability is the ratios of electricity charges to customer income (electricity burden). The Commission does not have a specific benchmark or metric for identifying what ratio constitutes a “high” electricity burden.

22. On March 5, 2014, PG&E, ORA, and TURN filed a Joint Motion to Adopt Settlement for PG&E. The PG&E Settlement is attached to this decision as Attachment A. The PG&E Settlement does not change the number of usage tiers,

or the structure of FERA or medical baseline programs. It does not include a fixed customer charge. The PG&E Settlement does modify baseline quantities for each climate zone, update baseline quantity values based on historical usage data by climate zone for the May 2008 through April 2012 period, and modifies the differentials between usage tiers.

23. The PG&E Settlement set CARE rates and non-CARE Tier 1 and Tier 2 rates independently of pending changes in its revenue requirement.

24. In the event that 100% of PG&E's pending revenue requirement requests are approved, the new CARE average effective discount will be 46.5%.

25. Until otherwise decided by the Commission, future revenue requirement increases and decreases will be made pursuant to the PG&E Settlement, which provides that generally increases and decreases be shared across all non-CARE and CARE tier rates on an equal cents per kWh basis, except that increases to non-CARE Tier 1 and CARE Tiers 1 and 2 are capped at 1.5 cents per kWh. During this period, PG&E will seek to consolidate authorized revenue requirement increases and decreases.

26. On March 4, 2014, SCE, ORA, TURN, CCUE, Sierra Club and NRDC filed a Joint Motion for Adoption of Settlement Agreement for Phase 2 Simplified Summer 2014 Residential Rate Design Changes for SCE. The SCE Settlement does not change the number of usage tiers or the structure of FERA or medical baseline programs. It does not change the currently applicable Basic Customer Charge. The SCE Settlement does modify the differentials between usage tiers.

27. Under the SCE Settlement, the CARE average effective discount will be 32.5%.

28. Under the SCE Settlement, the CARE average effective discount will be at its highest historical level.

29. Until otherwise decided by the Commission, future revenue requirement increases and decreases for SCE will be allocated according to the SCE Settlement, which provides, generally, that non-CARE rates will be increased or decreased by the same percentage, except in the event of a decrease between December 31, 2014 and January 1, 2015, in which event the non-CARE Tier 1 and Tier 2 rates will not change and the non-CARE Tier 3 and Tier 4 rates will be set residually to collect the authorized revenue requirement such that the rate differential between Tiers 3 and 4 is at least 4 cents. CARE rates will continue to be set residually so that Tiers 1 and 2 are each discounted by 35% and the average CARE effective discount for all three tiers is 32.5%.

30. On March 28, 2014, SDG&E, ORA, TURN, UCAN, SDCAN, and CCUE filed a Joint Motion for Adoption of Settlement Agreement for Phase 2 Interim Residential Rate Design Changes for SDG&E. The SDG&E Settlement does not change the number of usage tiers or the structure of the FERA or medical baseline programs. It does not include a fixed customer charge and it does not change the current baseline quantities. The SDG&E Settlement does change the differentials between tiers.

31. Under the SDG&E Settlement, the average effective CARE discount will be 37.8%.

32. Until otherwise decided by the Commission, future revenue requirement increases and decreases will be made according to the SDG&E Settlement, which provides, generally, that CARE Tier 1 and 2 and non-CARE Tier 1 be set at RAR plus 2%, non-CARE Tiers 1 and 2 at RAR plus 4% and CARE Tier 3 at RAR plus 5%. Non-CARE Tier 3 and Tier 4 will be set residually and will maintain a 2 cent differential. During this period, SDG&E will seek to consolidate authorized revenue changes.

33. Electricity rates must be designed to achieve multiple goals and balance multiple principles.

34. The decision opening this OIR suggested specific rate design principles which were examined and modified by the parties through this proceeding. A final version of the optimal rate design principles for this proceeding was included in the Scoping Memo.

35. Setting forth specific rate design principles for this proceeding provides a useful tool for evaluating, comparing and balancing attributes of different residential rate designs.

36. ARB administers the AB 32 Cap-and-Trade program pursuant to which the state grants a direct allocation of GHG allowances to electric utilities on behalf of customers for the dual purposes of protecting electricity customers and of advancing AB 32 objectives. The revenue from the sale of GHG allowances is returned to customers through a variety of means, including the California Climate Credit which is made on a per household basis to residential customers.

37. The Climate Credit currently appears as a credit on each residential customer's bill twice per year.

38. The CARE program is mandated by the state for the purpose of ensuring that energy is available to low income customers at an affordable price.

39. The AB 32 Cap-and-Trade program and the CARE program are both administered through the IOUs, but the programs have separate goals and the revenues received from customers and the revenues from sale of GHG allowances are treated differently.

Conclusions of Law

1. AB 327 lifted the freeze on lower tier rates.

2. The proposed settlement rates comply with Section 451 which requires that rates be “just and reasonable.”

3. The proposed settlement rates comply with the Section 382(b) requirement to ensure that low-income ratepayers are not “jeopardized or overburdened by monthly energy expenditures.”

4. Proposed changes to baseline comply with Section 739(a)(1) to set the baseline allowance between 50-60% of average residential consumption for basic customers and 60-70% for all-electric customers in the winter heating season.

5. Compared to current tier differentials, the proposed differentials between tiers better comply with the Section 739(d)(1) requirement that the Commission “establish an appropriate gradual differential between the rates for the respective blocks of usage.”

6. The proposed SCE CARE rates comply with Section 739.1(c) which requires the average effective CARE discount to be between 30-35% “of the revenues that would have been produced for the same billed usage by non-CARE customers.”

7. The proposed PG&E and SDG&E CARE reductions to the average effective CARE discount comply with Section 739.9 which requires that reductions made to the average effective CARE discount be reasonable and be made on a reasonable phase-in schedule.

8. The proposed rate changes comply with the Section 739.9 requirement that increases to electrical rates, including reduction in CARE rates effective discounts, “be reasonable and subject to a reasonable phase-in schedule relative to the rates and charges in effect prior to January 2014.”

9. The optimal Rate Design Principles developed in this proceeding should be adopted by the Commission for evaluating rate changes in this proceeding.

10. Applying the Rate Design Principles to proposed rate changes requires a balancing of countervailing public policy goals and interests within the context of current economic and regulatory trends affecting residential rates.

11. The proposed rates represent a reasonable balancing of the Rate Design Principles.

12. The Commission is responsible for ensuring that low income ratepayers are not jeopardized or overburdened by monthly energy expenditures and that rate design promotes conservation and energy efficiency. In meeting these responsibilities, the Commission must also ensure that rates are just and reasonable for all residential customers.

13. Although an on-bill credit is used to return the Climate Credit to residential customers, the Climate Credit should not be considered a reduction in the individual customer's electricity bill.

14. For calculation of the CARE effective discount, the Climate Credit must be excluded.

15. For calculation of bill impacts of proposed rates in this proceeding, the Climate Credit should be excluded.

16. The IOU settlement agreements are reasonable in light of the record, consistent with law, and in the public interest.

17. The IOU settlement agreements should be approved.

18. All outstanding motions and requests in this proceeding that are not specifically addressed in this decision should be denied.

O R D E R

IT IS ORDERED that:

1. The March 5, 2014 Joint Motion of Pacific Gas and Electric Company (PG&E), Office of Ratepayer Advocates, and The Utility Reform Network to Adopt Settlement for PG&E is granted. The settlement agreement attached as Attachment A to this decision is adopted.

2. The March 4, 2014, Joint Motion of Southern California Edison Company (SCE), Office of Ratepayer Advocates, The Utility Reform Network, Coalition of California Utility Employees, Sierra Club and National Resources Defense Council for Adoption of Settlement Agreement for Phase 2 Simplified Summer 2014 Residential Rate Design Changes for SCE is granted. The settlement agreement attached as Attachment B to this decision is adopted.

3. The March 28, 2014 Joint Motion of San Diego Gas & Electric Company (SDG&E), Office of Ratepayer Advocates, The Utility Reform Network, Utility Consumers' Action Network, San Diego Consumers' Action Network, and Coalition of California Utility Employees for Adoption of Settlement Agreement for Phase 2 Interim Residential Rate Design Changes for SDG&E is granted. The settlement agreement attached as Attachment C to this decision is adopted.

4. The ten optimal Rate Design Principles for this proceeding are adopted for use in evaluating residential rate design changes:

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; and
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.

5. Within 15 days of the date of this decision, Pacific Gas and Electric Company, Southern California Edison Company, and San Diego Gas and Electric Company shall each file a Tier 1 Advice Letter setting forth the new residential rates adopted from their respective settlement agreements with a requested effective date no earlier than June 30, 2014 and no later than August 1, 2014. The Advice Letter shall include revised tariff sheets to implement the rate designs adopted in this order and documentation sufficient to permit the Commission's Energy Division to determine if the Advice Letter is in compliance with this decision and any other decisions approving rate changes to be implemented concurrently with the changes in rate design. The tariff sheets shall become effective on the requested effective date pending disposition by the Commission's Energy Division and the Advice Letter shall prominently

designate that it is “effective pending disposition.” The requested effective date shall be at least 14 days after the date the Advice Letter is filed.

6. The investor-owned utilities and intervenors in this proceeding are ordered to exclude the Climate Credit when calculating the California Alternate Rates for Energy average effective discount and when providing bill impact analyses in this proceeding.

7. All outstanding motions and requests in this proceeding that are not specifically addressed in this decision are denied.

8. Rulemaking 12-06-013 shall remain open.

This order is effective today.

Dated _____, at San Francisco, California.

Attachment A

PG&E Settlement

**SETTLEMENT AGREEMENT
AMONG
PACIFIC GAS AND ELECTRIC COMPANY,
OFFICE OF RATEPAYER ADVOCATES, AND
THE UTILITY REFORM NETWORK**

I. INTRODUCTION

A. In accordance with Article 12 of the California Public Utilities Commission's (Commission or CPUC) Rules of Practice and Procedure, the parties to this Settlement Agreement, Pacific Gas and Electric Company (PG&E), the Office of Ratepayer Advocates (ORA), and The Utility Reform Network (TURN) (collectively, the Settling Parties), hereby enter into this Settlement Agreement (Settlement) as a compromise among their respective litigation positions to resolve all disputed issues raised by the parties in PG&E's Summer 2014 Residential Electric Rate Reform Proposal contained in its Revised Prepared Testimony dated January 28, 2014 in Phase 2 of Rulemaking (R.)12-06-013. The Settling Parties agree that this Settlement is reasonable in light of the whole record, consistent with law, and in the public interest.

B. This Settlement is a direct result of encouragement by the Administrative Law Judge and the Office of the Assigned Commissioner to the active parties to seek a reasonable compromise and settlement in order to expedite a Commission decision on PG&E's proposals before the summer of 2014. The Settling Parties held differing views on numerous aspects of PG&E's Summer 2014 Residential Electric Rate Reform Proposals in Phase 2 of this proceeding. However, the Settling Parties have bargained earnestly and in good faith to seek a compromise and to develop this Settlement, which is the result of arms-length negotiations among the Settling Parties on the full range of disputed issues. These negotiations considered the interests of all of the active parties on these issues, and the Settlement addresses each of these interests in a fair and balanced manner.

C. The Settling Parties crafted this Settlement by agreeing to concessions and trade-offs among themselves. Thus the various elements and sections of the Settlement are intimately

interrelated, and should not be altered as the Settling Parties intend that the Settlement be treated as a comprehensive resolution which strives to balance and align the interests of each party. Accordingly, the Settling Parties respectfully request that the Commission promptly approve the Settlement without modification. Any material change to the Settlement shall render it null and void, unless all of the Settling Parties agree in writing to such changes.

II. GENERAL CONDITIONS

A. This Settlement Agreement resolves all issues raised by the Settling Parties regarding PG&E's Summer 2014 Residential Electric Rate Reform proposals in Phase 2 of R.12-06-013, as well as the related issue of the percentage used to calculate baseline quantities currently pending in PG&E's 2012 Rate Design Window proceeding, A.12-02-020, subject to the conditions set forth below.

B. This Settlement Agreement embodies the entire understanding and agreement of the Settling Parties resolving their differences on the matters presented in this Phase 2, R.12-06-013 proceeding. Unless otherwise provided in this Agreement, all proposals and recommendations by the parties, are withdrawn or considered subsumed without adoption by this Settlement. This Settlement Agreement supersedes prior oral or written agreements, principles, negotiations, statements, representations, or understandings among the Settling Parties with respect to those matters.

C. This Settlement Agreement represents a negotiated compromise among the Settling Parties' respective positions on the matters described, and the Settling Parties have assented to the terms of the Settlement only to arrive at the agreement embodied herein. Nothing contained in the Settlement should be considered an admission of, acceptance of, agreement to, or endorsement of any disputed fact, principle, or position previously presented by any of the Settling Parties on these matters in this proceeding.

D. This Settlement Agreement does not constitute and should not be used as a precedent regarding any principle or issue in this proceeding or in any future proceeding.

E. The Settling Parties agree that this Settlement Agreement is reasonable in light of the testimony submitted, consistent with the law, and in the public interest.

F. The Settling Parties agree that no provision of this Settlement Agreement shall be construed against any Settling Party because that Settling Party or its counsel or advocate drafted the provision.

G. The Settling Parties agree that this Settlement Agreement addresses all Summer 2014 Residential Rate Reform issues except those expressly excluded in this Settlement Agreement.

H. This Settlement Agreement may be amended or changed only by a written agreement signed by the Settling Parties.

I. The Settling Parties shall jointly request Commission approval of this Settlement Agreement and shall actively support its prompt approval. Active support shall include written and oral testimony if testimony is required,^{1/} briefing if briefing is required, comments and reply comments on the proposed decision, advocacy to Commissioners and their advisors as needed, and other appropriate means as needed to obtain the requested approval.

J. The Settling Parties intend the Settlement Agreement to be interpreted and treated as a unified, integrated agreement. In the event the Commission rejects or modifies this Settlement Agreement, the Settling Parties reserve their rights under Rule 12.4 of the CPUC's Rules of Practice and Procedure, and the Settlement should not be admitted into evidence in this or any other proceeding. Further, in the event that the Commission rejects or modifies this Settlement Agreement, the Settling Parties agree that all parties to this proceeding should have the right to submit testimony.

^{1/} Any oral and written testimony that the CPUC might require may be prepared jointly among parties with similar interests.

III. PROCEDURAL HISTORY

A. In June, 2012, the Commission initiated Rulemaking (R.) 12-06-013 on its own motion to conduct a comprehensive examination of investor-owned electric utilities' residential rate structures, the transition to time varying and dynamic rates, and other statutory obligations.

B. In October, 2013, Assembly Bill (AB) 327 was signed into law, making significant changes to the restrictions on retail residential electric rate structures that the Commission is permitted to authorize, and also containing limits designed to protect certain classes of vulnerable customers.

C. On October 25, 2013, the Assigned Commissioner in R.12-06-013 issued a ruling inviting utilities to submit interim rate change proposals complying with AB 327.

D. On November 22, 2013, PG&E submitted its rate change proposal in R.12-06-013.

E. On December 23, 2013, ORA filed a protest against PG&E's rate change proposal. ORA's protest identified several issues that needed to be addressed in this proceeding including bill impacts, rate structure, CARE discounts, and the treatment of revenue requirement increases until the next rate design proceeding.

F. On December 23, 2013, TURN filed a protest against PG&E's rate change proposal. TURN's protest expressed concerns with proposed increases to Tier 1 rates, proposed changes to the Family Electric Rate Assistance (FERA) program, the proposed reduction of baseline quantities to 50% of average usage, and suggested changes to the CARE discount.

G. On January 8, 2014, a prehearing conference was held in which the Office of the Assigned Commissioner and the Administrative Law Judge indicated that in order to fairly evaluate PG&E's and other utilities' rate change proposals in time to implement new residential rates in 2014, PG&E and the other utilities would need to revise and simplify their proposals.

H. On January 24, 2014, the Assigned Commissioner and Administrative Law Judge issued their Second Amended Scoping Memo, providing that the simplified rate change proposals to be submitted by PG&E and the other utilities "should maintain the existing four-

tiered structure and should not entail any major adjustments to California Alternative Rates for Energy (CARE), Family Electric Rate Assistance Program (FERA) or medical baseline programs. Instead, changes should be limited to increases in the lower tiers commensurate with projected increases in the overall revenue requirement allocated to the residential class, plus no more than a few percentage points, if necessary, to keep the upper tiers within a range that will avoid the potential for significant bill volatility and rate shock in the summer. If the resulting CARE effective discount would be greater than 35%, the utility should propose an adjustment that would put CARE rates on a glide path to 35%. The adjustment should avoid rate shock for CARE customers.” (Second Amended Scoping Memo, R.12-06-013, January 24, 2014, pp. 2-3).

I. On January 28, 2014, PG&E served its Revised Prepared Testimony in response to the guidance provided at the January 8, 2014, prehearing conference and in the January 24, 2014, Second Amended Scoping Memo.

J. Between the November 22, 2013, filing of PG&E’s rate change proposal, and the date of this Settlement, the Settling Parties have engaged in good faith and detailed settlement discussions and negotiations with the objective of reaching a consensus on a PG&E Summer, 2014 rate change proposal that the Settling Parties could support as fair and reasonable and that the Commission could approve as consistent with its guidance for implementation of rate changes by the summer of 2014.

K. On February 25, pursuant to the request of the Settling Parties and Southern California Edison Company, the Administrative Law Judges modified the schedule in this proceeding to defer intervenor testimony from February 28, 2014 to March 5, 2014 and to accommodate potential settlements that might be filed in this proceeding by March 5, 2014.

L. This Settlement is the result of the Settling Parties’ discussions and negotiations.

IV. SPECIFIC TERMS

A. Baseline Quantities

PG&E's baseline quantities will be based on fifty-two and one-half (52.5) percent of historical average usage levels, unless and until the Commission revises PG&E's baseline quantities in a future proceeding.^{2/}

B. All Electric Customers

For All-Electric customers in winter, baseline quantities will be based on sixty-two and one-half (62.5) percent of historical usage.

C. Historical Usage Data

The specific baseline quantity values will be based upon the historical usage data by climate zone for the May 2008 through April 2012 period, as described in Appendix A to this Settlement.

D. Residential Electric Rates

1. Term

PG&E's residential electric rates shall be as shown in this section (in dollars per kWh) until and unless revised or modified by a CPUC decision on the merits of PG&E's proposed residential electric rates in Phase 1 of R.12-06-013.

2. Non-CARE Rates

(a) PG&E's Non-CARE Tier 1 rate shall be \$0.14707.

(b) So long as it does not result in the non-CARE tier 4 rate exceeding \$0.35000, PG&E's Non-CARE Tier 2, 3 and 4 rates shall be calculated as follows:

(i) PG&E's Non-CARE Tier 2 rate shall be \$0.17028.

^{2/} PG&E's 2012 Rate Design Window proceeding, A.12-02-020, does not constitute such a future proceeding, and upon CPUC approval of this Settlement, the Settling Parties agree to mutually request that the issue of baseline quantities be removed from A.12-02-020.

(ii) PG&E's **Non-CARE Tier 3 and 4** rates shall be **set to collect the residual revenue requirement**, such that the resulting difference between the Tier 3 and 4 rates is \$0.06000.

(iii) However, **if the Non-CARE Tier 4 rate** resulting under subsections (b)(i) and (b)(ii) **exceeds \$0.35000 per kWh**, the incremental revenue requirement should be spread to non-CARE tier 2,3,and 4 rates on an equal cents per kWh basis in the following manner:

(1) Start with the following rates:

--Non-CARE Tier 1: \$0.14707

--Non-CARE Tier 2: \$0.17028

--Non-CARE Tier 3: \$0.29000

--Non-CARE Tier 4: \$0.35000

(2) Using these rates, and the CARE rates in Section 3 below, calculate the revenue shortfall relative to the authorized revenue requirement.

(3) Increase the non-CARE Tier 2, 3 and 4 rates on an equal cents per kWh basis to eliminate the revenue shortfall.

3. CARE Rates

(a) The CARE Tier 1 rate shall be \$0.09244.

(b) The CARE Tier 2 rate shall be \$0.10630.

(c) The CARE Tier 3 rate shall be \$0.15081.

4. Rate Changes Between Summer 2014 and Decision on PG&E's Rate Proposal in Phase 1 of R.12-06-013

During the period between the effective date of CPUC approval of this Settlement and a CPUC decision on the merits of PG&E's rate proposal on Phase 1 of R.12-06-013, the following shall apply to each rate change:

(a) For residential electric rate changes caused by an authorized increase in PG&E's residential electric revenue requirement, all

non-CARE and CARE rates in every tier shall be increased on an equal-cent-per-kWh basis in order to collect the higher revenue requirement

- (b) However, if the equal-cent-per-kWh rate increase resulting under subsection 4(a) **exceeds \$0.01500 per kWh**, then the increases for the non-CARE tier 1 rate, the CARE tier 1 rate, and the CARE tier 2 rate shall be capped at \$0.01500 per kWh, and the revenue shortfall resulting from these caps shall be collected on an equal-cents-per-kWh basis from sales in non-CARE tiers 2, 3, and 4 and in CARE tier 3.
- (c) For residential electric rate changes caused by an authorized decrease in PG&E's residential revenue requirement, all non-CARE and CARE rates in every tier shall be decreased on an equal-cent-per-kWh basis in order to collect the lower revenue requirement.

(d) In implementing subsection 4(a) and (b), PG&E shall seek, to the extent feasible and consistent with timely ratemaking, to consolidate authorized revenue requirement increases with revenue requirement decreases in order to manage rate volatility and achieve rate stability. This includes the Powerex FERC refund settlement expected to be approved in 2014, the revenue requirement crediting of which PG&E shall seek to consolidate with the implementation of other 2014 expected authorized increases in residential electric revenue requirements such as PG&E's 2014 General Rate Case Phase 1 and Nuclear Decommissioning Trust revenue requirement changes.

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V. EXECUTION

This document may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. In witness whereof, intending to be legally bound, the Settling Parties hereto have duly executed this Settlement on behalf of the parties they represent.

The undersigned represent that they are authorized to sign on behalf of the Party represented, for the purposes of this 2014 Residential Electric Rate Reform Settlement Agreement in Phase 2 of R.12-06-013.

PACIFIC GAS AND ELECTRIC COMPANY

By: /s/ Christopher J. Warner
CHRISTOPHER J. WARNER
Title: Attorney
Date: March 5, 2014

THE OFFICE OF RATEPAYER ADVOCATES

By: /s/ Joseph P. Como
JOSEPH P. COMO
Title: Acting Director
Date: March 5, 2014

THE UTILITY REFORM NETWORK

By: /s/ Matthew Freedman
MATTHEW FREEDMAN
Title: Attorney
Date: March 5, 2014

APPENDIX A
To
Settlement Agreement Among
Pacific Gas and Electric Company, Office of Ratepayer
Advocates, and The Utility Reform Network

PACIFIC GAS & ELECTRIC COMPANY
2014 RESIDENTIAL TARGET BASELINE QUANTITIES BASED ON 2008-2012 USAGE (1)

TERRITORY	SUMMER (2)			WINTER (2)			SUMMER (2)			WINTER (2)		
	55% Daily	52.5% Daily	50% Daily	55% Daily	52.5% Daily	50% Daily	55% Daily	52.5% Daily	50% Daily	55% Daily	52.5% Daily	50% Daily
	E-1, E-6, E-7, E-A7, E-8, E-9, ES, ESR, ET (3) (and CARE)						EM (4) (and CARE)					
	ALL-ELECTRIC QUANTITIES (kWh)						ALL-ELECTRIC QUANTITIES (kWh)					
P	17.6	16.4	15.5	29.7	29.6	28.3	9.7	9.1	8.6	16.0	15.4	14.7
Q	8.9	8.3	7.8	30.7	29.6	28.3	5.8	5.4	5.2	16.2	15.4	14.7
R	20.2	18.8	17.8	31.4	29.8	28.5	9.8	9.2	8.7	16.3	15.4	14.5
S	17.6	16.4	15.5	28.7	27.1	25.8	9.7	9.1	8.6	16.2	15.3	14.4
T	8.9	8.3	7.8	16.0	14.9	13.9	5.8	5.4	5.2	10.5	9.8	9.3
V	14.7	13.6	12.8	29.2	26.6	25.3	11.2	8.0	7.6	15.8	14.5	14.1
W	22.4	20.8	19.6	22.0	20.6	19.3	11.0	10.3	10.0	13.8	12.9	12.1
X	10.1	9.3	8.7	18.0	16.7	15.6	7.9	7.5	7.1	14.7	14.0	13.2
Y	14.0	13.0	12.3	28.4	27.1	25.6	8.5	8.1	7.7	19.5	18.0	16.7
Z	8.4	7.7	7.2	20.1	18.7	17.5	5.1	4.8	4.5	13.9	12.5	11.5
	BASIC QUANTITIES (kWh)						BASIC QUANTITIES (kWh)					
P	14.8	13.8	13.1	13.1	12.3	11.7	6.3	5.9	5.6	5.9	5.6	5.3
Q	7.5	7.0	6.7	12.9	12.3	11.7	4.2	3.9	3.8	6.0	5.6	5.3
R	16.6	15.6	14.7	11.7	11.0	10.5	7.1	6.6	6.3	5.5	5.3	5.0
S	14.8	13.8	13.1	11.8	11.2	10.6	6.3	5.9	5.6	5.5	5.1	4.9
T	7.5	7.0	6.7	9.0	8.5	8.0	4.2	3.9	3.8	5.1	4.8	4.6
V	9.3	8.7	8.3	11.2	10.6	10.0	4.6	4.3	4.1	5.6	5.2	5.0
W	18.0	16.8	15.9	10.8	10.1	9.6	7.9	7.4	7.0	5.9	5.5	5.3
X	10.8	10.1	9.6	11.5	10.9	10.3	5.8	5.4	5.2	6.6	6.2	5.9
Y	11.3	10.6	10.0	13.3	12.6	11.9	9.7	9.0	8.2	9.0	8.3	7.8
Z	6.6	6.2	5.8	9.6	9.0	8.4	5.7	5.3	4.8	6.6	5.9	5.6

(1) Data is from May 2008 through April 2012.

(2) The Summer season is May through October. The Winter season is November through April.

(3) These baseline allowances cover 98 percent of electric households in PG&E's service territory.

(4) These baseline allowances cover 2 percent of electric households in PG&E's service territory.

Attachment B

SCE Settlement

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

Order Instituting Rulemaking on the
Commission's Own Motion to Conduct a
Comprehensive Examination of Investor Owned
Electric Utilities' Residential Rate Structures, the
Transition to Time Varying and Dynamic Rates,
and Other Statutory Obligations.

R.12-06-013
(Filed June 21, 2012)

**SETTLEMENT AGREEMENT FOR SOUTHERN CALIFORNIA EDISON
COMPANY'S PHASE 2 SIMPLIFIED SUMMER 2014 RESIDENTIAL RATE DESIGN
CHANGES**

Dated: March 4, 2014

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

Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations.

R.12-06-013
(Filed June 21, 2012)

**SETTLEMENT AGREEMENT FOR SOUTHERN CALIFORNIA EDISON COMPANY'S PHASE 2
SIMPLIFIED SUMMER 2014 RESIDENTIAL RATE DESIGN CHANGES**

This Settlement Agreement for Southern California Edison Company's (SCE's) Phase 2 Simplified Summer 2014 Residential Rate Design Changes (Settlement Agreement) is entered into by the undersigned Parties hereto, with reference to the following.

1. **Parties**

The Parties to this Settlement Agreement are Southern California Edison Company (SCE), the Office of Ratepayer Advocates (ORA), The Utility Reform Network (TURN), the Sierra Club, the Natural Resources Defense Council (NRDC), and the Coalition of California Utility Employees (CUE) (referred to hereinafter collectively as Settling Parties, or individually as Party).

- a. SCE is an investor-owned public utility and is subject to the jurisdiction of the California Public Utilities Commission (Commission or CPUC) with respect to providing electric service to its CPUC-jurisdictional retail customers.
- b. ORA is a division of the Commission that represents the interests of public utility customers. Its goal is to obtain the lowest possible rate for service consistent with reliable and safe service levels. Pursuant to Public Utilities Code Section 309.5(a), the ORA is directed to

- primarily consider the interests of residential and small commercial customers in revenue allocation and rate design matters.
- c. TURN is an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.
 - d. Sierra Club is a non-profit public benefit organization with over 150,000 members in California supporting its mission to protect the environment and the climate. Sierra Club's priority is to reduce greenhouse gases and dependence on fossil fuels through conservation, efficiency, and the development of renewable energy.
 - e. NRDC is a non-profit membership organization, representing nearly 100,000 California members with an interest in receiving affordable energy services and reducing the environmental impact of California's energy consumption.
 - f. The member labor unions of CUE represent approximately 35,000 employees of most of the electric utilities in California.

2. **Definitions**

When used in initial capitalization in this Settlement Agreement, whether in singular or plural, the following terms shall have the meanings set forth below or, if not set forth below, then as they are defined elsewhere in this Settlement Agreement:

- a. "ACR" means Assigned Commissioner's Ruling;
- b. "CARE" means California Alternate Rates for Energy program, which provides customers meeting a certain household income criteria a discount from SCE's otherwise applicable residential rates.
- c. "Energy Rates" means the volumetric rates paid by customers who are served on SCE's residential rate schedules.

- d. “FERA” means Family Electric Rate Assistance Program, which currently provides residential customers meeting certain household income and family size criteria a discount by charging Tier 2 Energy Rates for usage incurred in Tier 3.
- e. “Initial Implementation” means the date on which this Settlement Agreement is first implemented after a Commission decision approving this Settlement Agreement.
- f. “IOUs” means investor-owned utilities. As used in this Settlement Agreement, the IOUs are SCE, Pacific Gas and Electric Company and San Diego Gas and Electric Company.
- g. “kWh” means kilowatt hours.
- h. “Settlement Agreement” shall have the meaning given to such term in the introductory paragraph hereof.
- i. “Settling Parties” means SCE, ORA, TURN, Sierra Club, NRDC and CUE.

3. **Recitals**

- a. On June 28, 2012, the Commission issued an Order Instituting Rulemaking On The Commission’s Own Motion To Conduct A Comprehensive Examination Of Investor-Owned Electric Utilities’ Residential Rate Structures, The Transition To Time Varying And Dynamic Rates, And Other Statutory Obligations (Rulemaking, or “R.” 12-06-013). The Rulemaking was initiated, among other reasons, “to examine current residential electric rate design, including the tier structure in effect for residential customers, the state of time variant and dynamic pricing, potential pathways from tiers to time variant and dynamic pricing, and preferable residential rate design to be implemented when statutory restrictions are lifted.”¹

¹ R.12-06-013, p. 2. The “statutory restrictions” to which the Rulemaking referred are described in detail on pages 6-8 of the testimony in support of SCE’s Phase 2 Interim Residential Rate Design Proposal, served on November 22, 2013 and preliminarily marked as Exhibit SCE-1 in this proceeding.

- b. From summer 2012 through summer 2013, parties to the Rulemaking submitted opening and reply comments in response to a series of policy and other questions in the initial Rulemaking; attended an initial prehearing conference; filed another round of opening and reply comments on questions posed by the Assigned Administrative Law Judge (ALJ) regarding how the Rulemaking should be coordinated with other residential rate design proceedings; filed opening comments on definitional matters in advance of an in-person workshop facilitated by the assigned ALJ and Commission staff; and filed “optimal” residential rate design proposals assuming no legislative restrictions, including opening and reply comments thereto. Informal and formal discovery has been ongoing throughout the Rulemaking.
- c. In October 2013, over one year after the Rulemaking was opened, the California Legislature passed Assembly Bill (AB) 327, which was supported by the IOUs, ORA, TURN, AARP, and the Greenlining Institute. AB 327 lifted many of the statutory restrictions that had applied to residential rates for usage up to 130% of baseline under AB 1X beginning in February 2001, and by SB 695, which became effective in January 2010.
- d. Following the passage of AB 327, an ACR was issued on October 25, 2013 inviting the IOUs to submit “interim” rate change proposals that were consistent with the Commission’s authority under AB 327. The goal of the interim proposals was to “stabilize and rebalance tiered rates” through a reasonable phase-in schedule relative to rates in effect prior to January 1, 2014, and consistent with statutory requirements that differentials between tiers should be gradual, that rates not unreasonably impair incentives for conservation and energy efficiency, and that rates not overburden low-income customers.² The IOUs were instructed to file

² October 25, 2013 ACR, p. 3.

interim proposals in a newly opened “Phase 2” of the Rulemaking, categorized as ratesetting, which was to run concurrently with Phase 1.³

- e. To comply with the October 25, 2013 ACR, SCE filed its Phase Two Supplemental Filing For Interim Residential Rate Design Changes on November 22, 2013 (November 22 Proposal), concurrently with the service of supporting testimony in an Exhibit marked SCE-01. The November 22 Proposal requested authorization to implement a three-tiered default residential rate structure with tier rate differentials relative to the baseline (Tier 1) Energy Rate of 1.3 and 1.6 to 1.0 for Tiers 2 and 3, respectively. Several parties filed protests to the November 22 Proposal and SCE filed a reply.
- f. SCE provided notice to customers via bill insert, electronic access to the insert, and by publication of its November 22, 2013 Phase 2 proposal.
- g. On January 24, 2014 (consistent with conclusions drawn at a prehearing conference held January 8, 2014), a Second Amended Scoping Memo and Ruling Of Assigned Commissioner and Assigned Administrative Law Judge (Second Amended Scoping Memo) was issued, in which the IOUs were instructed to serve “simplified” interim residential rate design proposals to supplement the testimony filed on November 22, 2013. The stated reason for instructing the IOUs to re-serve simplified proposals was “in order [for the Commission] to fairly evaluate the IOU rate change proposals in time to implement new residential rates in 2014.”⁴ The Second Amended Scoping Memo stated that the simplified proposals “should be limited to increases in the lower tiers commensurate with projected increases in the overall revenue requirement allocated to the residential class, plus no more than a few percentage

³ See Amended Scoping Memo and Ruling Of Assigned Commissioner, dated January 6, 2014. Phase 1, designed to address the years 2015-2018, was also categorized as ratesetting, but the longer-term issues to be decided in Phase 1 are beyond the scope of this Settlement Agreement.

⁴ Second Amended Scoping Memo, p. 2.

points, if necessary, to keep the upper tiers within a range that will avoid the potential for significant bill volatility and rate shock in the summer.”⁵

- h. To comply with these directives and guidelines, on January 28, 2014, SCE served its Simplified Residential Rate Design Proposal (Simplified Proposal), as described in an exhibit preliminarily marked SCE-04.
- i. On February 28, 2014, SCE provided notice to all parties of its intent to formally hold a settlement conference, and an initial settlement conference pursuant to Article 12 of the Commission’s Rules of Practice and Procedure was held telephonically on February 21, 2014.
- j. The Settling Parties have evaluated the various issues in Phase 2 of the Rulemaking, desire to resolve all Phase 2-related issues involving SCE’s residential non-CARE and CARE default rates, and have reached an agreement that resolves all disputed Phase 2-related issues involving SCE’s residential non-CARE and CARE default rates as indicated in Paragraph 4 of this Settlement Agreement.

4. **Agreement**

In consideration of the mutual obligations, covenants and conditions contained herein, the Settling Parties agree to the terms of this Settlement Agreement. Nothing in this Settlement Agreement shall be deemed to constitute an admission by any Party that its position on any issue lacks merit or that its position has greater or lesser merit than the position taken by any other Party. This Settlement Agreement is subject to the express limitation on precedent described in Section 10.

a. Establishing Rate Levels for non-CARE Tiers 1, 2, 3 and 4 (Schedule D)

At the time of Initial Implementation, the non-CARE Tier 1 Energy Rate for Schedule D shall be fixed at 14.85 cents per kilowatt-hour (kWh), and the non-CARE Tier 2 Energy Rate

⁵ *Id.*, pp. 2-3.

shall be fixed at 19.28 cents per kWh. The Energy Rates for non-CARE Tiers 3 and 4 shall be set residually to collect (along with revenues collected from CARE rates established as described in Paragraph 4.b.) the then-current authorized residential rate class revenue requirement such that the rate differential between Tiers 3 and 4 shall be 4 cents per kWh.

b. Establishment of CARE Rates (Schedule D-CARE)

Rates for CARE Tiers 1 and 2 shall be set at a discount of 35% off of the Energy Rates for non-CARE Tiers 1 and 2, respectively. The CARE Tier 3 Energy Rate will be set residually such that the average effective CARE discount shall equal 32.5%.⁶

c. Treatment of Revenue Requirement Changes Subsequent To Initial Implementation

For residential rate changes occurring between the date of Initial Implementation and the date on which a subsequent Commission decision is implemented that modifies this Settlement Agreement, SCE shall set rates as follows:

- (i) The non-CARE Energy Rates shall change by the same percentage that the residential rate class revenue requirement changes (whether that is a percentage increase or decrease), *except that*, should the residential rate class revenue requirement decrease on January 1, 2015 relative to the residential rate class revenue requirement on December 31, 2014: (a) the then-current non-CARE Tier 1 and 2 Energy Rates shall not change; and (b) the Energy Rates for non-CARE Tiers 3 and 4 shall be set residually to collect (along with revenues collected from CARE rates established as described in Paragraph 4.b.) the then-current authorized residential rate class revenue requirement such that the rate differential between Tiers 3 and 4 shall be at least 4 cents⁷ per kWh.
- (ii) Energy Rates for Schedule D-CARE shall be established in accordance with Paragraph 4.b.

⁶ For purposes of this Settlement Agreement only, in establishing the 32.5% average effective CARE discount, the Settling Parties agree to exclude the revenue effect of the return of the California Climate Credit to residential customers.

⁷ In determining what the “at least 4 cent” differential should be, SCE shall consult in good faith with the Settling Parties before filing a Tier 1 Advice Letter implementing changes consistent with this provision of the Settlement Agreement.

d. No Modifications To Current Tariff Schedule Components

This Settlement Agreement makes no changes to the levels of the non-CARE or CARE Basic Charges, Minimum Charges or number of tiers, nor does it make changes to the FERA program, the medical baseline-related tariffs, the baseline percentage for Tier 1 usage (currently set at 53%), or the definition of the usage amounts in each tier.

e. Term of Agreement

This Settlement Agreement, including the methods of establishing Energy Rates and allocation of authorized residential rate class revenues described in this Settlement Agreement, shall remain in effect unless modified by a subsequent Commission decision.

5. Implementation of Settlement Agreement

It is the intent of the Settling Parties that SCE should be authorized to file a Tier 1 Advice Letter implementing tariffs containing the rate changes resulting from this Settlement Agreement as soon as practicable following the issuance of a final Commission decision approving this Settlement Agreement.

6. Record Evidence

The Settling Parties recommend that the testimony in support of both the November 22 Proposal (Exhibit SCE-01) and the Simplified Proposal (Exhibit SCE-04) be admitted as part of the evidentiary record of this proceeding. The protests of the November 22 Proposal⁸ filed by TURN, ORA, the Sierra Club and NRDC were filed with the Docket Office and are already part of the record.

7. Signature Date

This Settlement Agreement shall become binding as of the last signature date of the Settling Parties.

⁸ The Second Amended Scoping Memo did not provide for the filing of protests to the Simplified Proposals.

8. **Regulatory Approval**

The Settling Parties, by signing this Settlement Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all the provisions of this Settlement Agreement. The Settling Parties shall use their best efforts to obtain Commission approval of this Settlement Agreement no later than June 12, 2014. The Settling Parties shall jointly request that the Commission approve the Settlement Agreement without change, and find this Settlement Agreement to be reasonable, consistent with law and in the public interest.

9. **Compromise Of Disputed Claims**

This Settlement Agreement represents a compromise of disputed claims between the Settling Parties. The Settling Parties have reached this Settlement Agreement after taking into account the possibility that each Party may or may not prevail on any given issue. The Settling Parties assert that this Settlement Agreement is reasonable, consistent with law and in the public interest.

10. **Non-Precedent**

Consistent with Rule 12.5 of the Commission's Rules of Practice and Procedure, this Settlement Agreement is not precedential in any other pending or future proceeding before this Commission, except as expressly provided in this Settlement Agreement or unless the Commission expressly provides otherwise. The Settling Parties expressly recognize that each Party may advocate a position that is inconsistent with this Agreement for rate changes occurring on or after January 1, 2015 in Phase 1 of R.12-06-013, or in Phase 2 of SCE's 2015 General Rate Case. Until the Commission issues a decision modifying the terms of this Agreement, the Settling Parties will support the continued applicability of Section 4 to govern any rate changes.

11. **Previous Communications**

The Settlement Agreement contains the entire agreement and understanding between the Settling Parties as to the resolution of Phase 2 issues in the Rulemaking. In the event there is any conflict

between the terms and scope of this Settlement Agreement and the terms and scope of the accompanying joint motion in support of the Settlement Agreement, the Settlement Agreement shall govern.

12. **Non-Waiver**

None of the provisions of this Settlement Agreement shall be considered waived by any Party unless such waiver is given in writing. The failure of a Party to insist in any one or more instances upon strict performance of any of the provisions of this Settlement Agreement or to take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

13. **Effect Of Subject Headings**

Subject headings in this Settlement Agreement are inserted for convenience only, and shall not be construed as interpretations of the text.

14. **Governing Law**

This Settlement Agreement shall be interpreted, governed and construed under the laws of the State of California, including Commission decisions, orders and rulings, as if executed and to be performed wholly within the State of California.

15. **Number Of Originals**

This Settlement Agreement is executed in counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the Party represented.

SOUTHERN CALIFORNIA EDISON COMPANY

/s/ Megan Scott-Kakures

By: Megan Scott-Kakures

27 February, 2014

Title: Vice President, Regulatory Operations

THE OFFICE OF RATEPAYER ADVOCATES

/s/ Joseph P. Como

By: Joseph P. Como

27 February, 2014

Title: Acting Director

THE UTILITY REFORM NETWORK

/s/ Matthew Freedman

By: Matthew Freedman

27 February, 2014

Title: Staff Attorney

THE NATURAL RESOURCES DEFENSE COUNCIL

/s/ Sheryl Carter

By: Sheryl Carter

28 February, 2014

Title: Co-Director, Energy Program

THE SIERRA CLUB

/s/ Andy Katz

By: Andy Katz

3 March, 2014

Title: Attorney

COALITION OF CALIFORNIA UTILITY EMPLOYEES

/s/ Jamie L. Mauldin

By: Jamie L. Mauldin

27 February, 2014

Title: Attorney

Attachment C

SDG&E Settlement

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

Order Instituting Rulemaking on the Commission's
Own Motion to Conduct a Comprehensive
Examination of Investor Owned Electric Utilities'
Residential Rate Structures, the Transition to Time
Varying and Dynamic Rates, and Other Statutory
Obligations.

Rulemaking 12-06-013
(Filed June 21, 2012)

**SETTLEMENT AGREEMENT FOR
PHASE 2 INTERIM RESIDENTIAL RATE DESIGN CHANGES
FOR SAN DIEGO GAS AND ELECTRIC COMPANY**

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Dated: March 27, 2014

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

Order Instituting Rulemaking on the Commission’s Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities’ Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations.

Rulemaking 12-06-013
(Filed June 21, 2012)

**SETTLEMENT AGREEMENT FOR
PHASE 2 INTERIM RESIDENTIAL RATE DESIGN CHANGES
FOR SAN DIEGO GAS AND ELECTRIC COMPANY**

This Settlement Agreement for Phase 2 Interim Residential Rate Design Changes (Settlement Agreement) for San Diego Gas & Electric Company (“SDG&E”) is entered into by the undersigned Parties hereto, with reference to the following.

I. PARTIES

The Parties to this Settlement Agreement are SDG&E, the Office of Ratepayer Advocates (“ORA”), The Utility Reform Network (“TURN”), the Utility Consumers’ Action Network (“UCAN”) the San Diego Consumers’ Action Network (“SDCAN”); and the Coalition of California Utility Employees (“CUE”).

a. ORA is a division of the Commission that represents the interests of public utility customers. Its goal is to obtain the lowest possible rate for service consistent with reliable and safe service levels. Pursuant to Public Utilities Code Section 309.5(a), the ORA is directed to primarily consider the interests of residential and small commercial customers in revenue allocation and rate design matters.

b. TURN is an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.

c. UCAN is an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.

d. SDCAN an independent, non-profit consumer advocacy organization that represents the interests of residential and small commercial utility customers.

e. CUE is a coalition of labor unions and represents approximately 35,000 employees of most of the electric utilities in California. DEFINITIONS

When used in initial capitalization in this Settlement Agreement, whether in singular or plural, the following terms shall have the meanings set forth below or, if not set forth below, then as they are defined elsewhere in this Settlement Agreement:

a. “ACR” means Assigned Commissioner’s Ruling;

b. “CARE” means California Alternate Rates for Energy program, which provides customers meeting a certain household income criteria a discount from SDG&E’s otherwise applicable residential rates.

c. “Energy Rates” means the volumetric rates paid by customers who are served on SDG&E’s residential rate schedules.

d. “FERA” means Family Electric Rate Assistance Program, which currently provides residential customers meeting certain household income and family size criteria a discount by charging Tier 2 Energy Rates for usage incurred in Tier 3.e. “IOUs” means investor-owned utilities. As used in this Settlement Agreement, the IOUs are Southern California Edison Company, Pacific Gas and Electric Company and SDG&E.

f. “kWh” means kilowatt hours.

g. The terms “Tier 1,” Tier 2”, Tier 3” and “Tier 4,” as used herein, are defined as follows

- Tier 1: usage up to 100% of baseline
- Tier 2: usage between 100% up to 130% of baseline
- Tier 3: usage between 130% up to 200% of baseline
- Tier 4: usage above 200% of baseline.

h. “Settlement Agreement” shall have the meaning given to such term in the introductory paragraph hereof.

i. “Settling Parties” means SDG&E, ORA, TURN, UCAN, SDCAN and CUE.

II. RECITALS

a. On June 28, 2012, the Commission issued an Order Instituting Rulemaking on the Commission’s Own Motion To Conduct A Comprehensive Examination Of Investor-Owned Electric Utilities’ Residential Rate Structures, The Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations (Rulemaking, or “R.” 12-06-013). The Rulemaking was initiated, among other reasons, “to examine current residential electric rate design, including the tier structure in effect for residential customers, the state of time variant and dynamic pricing, potential pathways from tiers to time variant and dynamic pricing, and preferable residential rate design to be implemented when statutory restrictions are lifted.”¹

b. From summer 2012 through summer 2013, parties to the Rulemaking submitted opening and reply comments in response to a series of policy and other questions in the initial Rulemaking; attended an initial prehearing conference; filed another round of opening and reply comments on questions posed by the Assigned Administrative Law Judge (“ALJ”) regarding how the Rulemaking should be coordinated with other residential rate design proceedings; filed opening comments on definitional matters in advance of an in-person workshop facilitated by the

¹ R.12-06-013, p. 2.

assigned ALJ and Commission staff; and filed “optimal” residential rate design proposals assuming no legislative restrictions, including opening and reply comments thereto. Informal and formal discovery has been ongoing throughout the Rulemaking.

c. In October 2013, over one year after the Rulemaking was initiated, the California Legislature passed Assembly Bill (AB) 327, which was supported by the IOUs, ORA, TURN, American Association of Retired Persons (“AARP”), and the Greenlining Institute. Among other things, AB 327 lifted many of the statutory restrictions that had applied to residential rates for usage up to 130% of baseline under AB 1X beginning in February 2001, and by Senate Bill (“SB”) 695, which became effective in January 2010.

d. Following the passage of AB 327, an ACR was issued on October 25, 2013 inviting the IOUs to submit “interim” rate change proposals that were consistent with the Commission’s authority under AB 327. The goal of the interim proposals was to “stabilize and rebalance tiered rates” through a reasonable phase-in schedule relative to rates in effect prior to January 1, 2014, and consistent with statutory requirements that differentials between tiers should be gradual, that rates not unreasonably impair incentives for conservation and energy efficiency, and that rates not overburden low-income customers.² The IOUs were instructed to file interim proposals in a newly opened “Phase 2” of the Rulemaking, which was categorized as ratesetting, and was to run concurrently with Phase 1.³

e. To comply with the October 25, 2013 ACR, SDG&E filed its Phase 2 Supplemental Filing For Interim Residential Rate Design Changes on November 22, 2013 (“November 22 Proposal”), concurrently with the service of supporting testimony. The

² October 25, 2013 ACR, p. 3.

³ See Amended Scoping Memo and Ruling Of Assigned Commissioner, dated January 6, 2014. Phase 1, designed to address the years 2015-2018, was also categorized as ratesetting, but the longer-term issues to be decided in Phase 1 are beyond the scope of this Settlement Agreement.

November 22 Proposal requested authorization to: increase lower tier rates; increase Tier 1 rates to Tier 2 levels; consolidate Tiers 3 and 4⁴; move California Alternate Rates for Energy (“CARE”) subsidies from rates to a line item on the bill for residential and non-residential CARE customers; implement a transition path to bring the effective CARE discount within 30-35% for residential and non-residential CARE customers; and adopt a four year transition for rates applicable to non-CARE medical baseline customers. Several parties filed protests to the November 22 Proposal and SDG&E filed a reply.

f. SDG&E provided notice to customers via bill insert, electronic access to the insert, and by publication of its November 22, 2013 Phase 2 proposal.

g. On January 24, 2014 (consistent with conclusions drawn at a prehearing conference held January 8, 2014), a Second Amended Scoping Memo and Ruling Of Assigned Commissioner and Assigned Administrative Law Judge (“Second Amended Scoping Memo”) was issued, in which the IOUs were instructed to serve “simplified” interim residential rate design proposals to supplement the testimony filed on November 22, 2013. The stated reason for instructing the IOUs to re-serve simplified proposals was “in order [for the Commission] to fairly evaluate the IOU rate change proposals in time to implement new residential rates in 2014.”⁵ The Second Amended Scoping Memo stated that the simplified proposals “should be limited to increases in the lower tiers commensurate with projected increases in the overall revenue requirement allocated to the residential class, plus no more than a few percentage points, if necessary, to keep the upper tiers within a range that will avoid the potential for significant bill volatility and rate shock in the summer.”⁵

⁴ In the event SDG&E does not receive approval for the consolidation of Tiers 3 and 4 in its pending Test Year 2012 General Rate Case Phase 2 Application (“A.”) 11-10-002, originally filed on October 3, 2011 (“2012 GRC P2”).

⁵ Second Amended Scoping Memo, p. 2.

h. To comply with these directives and guidelines, on January 28, 2014, SDG&E served the Revised Prepared Direct Testimony of Cynthia Fang On Behalf of San Diego Gas & Electric Company, revising its Interim Residential Rate Design Proposal (Revised Proposal). Through this testimony, SDG&E proposed: to increase Tier 1 and Tier 2 rates with and at the same level as system average rate (“SAR”) increases; to change CARE rates with and at the same level as SAR changes to better maintain current effective discount levels and avoid moving further from the 30-35% legislated range; to increase Tier 1 non-CARE rates by an additional 1 cent/kWh; and to reduce the differential between Tier 3 and Tier 4 non-CARE rates from 2 cents/kWh to 1 cent/kWh. On March 5, 2014, parties served intervenor testimony, raising various issues and concerns regarding SDG&E’s Revised Proposal. SDG&E served rebuttal testimony on March 12, 2014 in response to intervenor testimony.

i. On March 21, 2014, SDG&E filed a Motion Seeking Leave to Notice a Settlement Conference on less than 7 days’ notice, attaching a notice of settlement conference as an appendix. On March 21, 2014, ALJ McKinney issued an order granting SDG&E’s request. On that basis, SDG&E provided notice to all parties of its intent to formally hold a settlement conference, and an initial settlement conference pursuant to Article 12 of the Commission’s Rules of Practice and Procedure was held telephonically on March 24, 2014.

j. The Settling Parties have evaluated the various issues in Phase 2 of the Rulemaking, desire to resolve all Phase 2-related issues involving SDG&E’s residential non-CARE and CARE default rates, and have reached an agreement that resolves all disputed Phase 2-related issues involving SDG&E’s residential non-CARE and CARE default rates as indicated in Paragraph 4 of this Settlement Agreement.

III. AGREEMENT

In consideration of the mutual obligations, covenants and conditions contained herein, the Settling Parties agree to the terms of this Settlement Agreement. Nothing in this Settlement Agreement shall be deemed to constitute an admission by any Party that its position on any issue lacks merit or that its position has greater or lesser merit than the position taken by any other Party. This Settlement Agreement is subject to the express limitation on precedent described in Section 10.

A. Term and Applicability

The provisions provided for herein will apply to revenue requirement adjustments to rates in effect as of February 1, 2014, until a Commission decision approving the terms of this agreement is superseded by a Commission decision in Phase 1 of R.12-06-013.

B. Treatment of Revenue Requirement Changes Post-February 1, 2014

Revenue Requirement changes post-February 1, 2014 and prior to the implementation of any changes required by a decision in Phase 1 shall be implemented pursuant to the following rules:

- Non-CARE Tier 1: Tier 1 Rates shall change at a level of residential class average rate (“RAR”) plus 2%, but in no event less than 7% relative to February 1, 2014 rates. In the event that Tier 1 rates change at the floor level of 7%, the existing cents/kWh differential between Tier 1 and Tier 2 rates shall be maintained.
- Non-CARE Tier 2: Tier 2 Rates shall change at a level of RAR plus 4%, subject to the provisions applicable to the Tier 1 and Tier 2 differential in the event Tier 1 reaches the 7% floor set forth above.
- CARE Tier 1: CARE Tier 1 Rates shall change at a level of RAR plus 2%.

- CARE Tier 2: CARE Tier 2 Rates shall change at a level of RAR plus 2%.
- CARE Tier 3: CARE Tier 3 Rates shall change at a level of RAR plus 5%.
- Non-CARE Tier 3 and Tier 4: Tier 3 Rates shall be adjusted, after implementation of the forgoing rules for Non-CARE Tier 1 and Tier 2 Rates as well as CARE Tier 1, Tier 2 and Tier 3 Rates treatment of post February 1, 2014 revenue requirement changes, in a manner that maintains the existing 2 cent differential between Tier 3 and Tier 4 Rates.
- SDG&E will consolidate revenue requirement changes whenever feasible to reduce unnecessary rate fluctuations.
- When SDG&E files an Advice Letter to reflect revenue requirement changes, it will include data about February 1, 2014 rates, RAR and system average rate (“SAR”) contrast to Feb 1, 2014 percent changes to help parties to review them more efficiently.

The Settlement agreement provides for rules regarding how tiered rates will change with changes in revenue requirements rather than setting fixed rate levels. Table 1 below provides illustrative Settlement rates under different revenue requirement scenarios.

Table 1: Illustrative Settlement Rates under Full Revenue⁶ and 50% Revenue⁷ Scenarios

	Current (2/1/2014)	Illustrative Settlement Rates (Full Revenue Change)	% Change from Current	Illustrative Settlement Rates (50% Revenue Change)	% Change from Current
RAR	21.1	23.3	11%	21.7	3%
Non-CARE					
Tier 1	15.4	17.3	13%	16.5	7%
Tier 2	17.8	20.4	15%	18.9	6%
Tier 3	34.9	37.7	8%	34.6	-1%
Tier 4	36.9	39.7	8%	36.6	-1%
CARE					
Tier 1	10.3	11.6	13%	10.8	5%
Tier 2	12.0	13.5	13%	12.6	5%
Tier 3	17.6	20.3	16%	19.0	8%

C. Office of Ratepayer Advocates (“ORA”) Protest of SDG&E Advice Letter 2575-E

ORA shall withdraw its protest of SDG&E Advice Letter 2575-E.

D. No Modifications to Current Tariff Schedule Components

Prior to the implementation of any rate changes required by of a decision in Phase 1 of R. 12-06-013, no changes shall be made to non-CARE or CARE rate structures other than those identified above, i.e. there would be no changes to the monthly service fee, minimum charges, number of tiers, or the structure to CARE, the FERA program, medical baseline-related programs.

⁶ Full Revenue reflects incremental impacts of (1) 2014 ERRRA Forecast (A.13-09-017), (2) ERRRA Trigger Application (A.13-04-017) assuming year-end 2013 balance of \$213.3 million, and (3) incremental balance of \$80 million anticipated for 2014. Also includes impacts of 2012 GRC P2 implementation of (1) change in revenue allocation, (2) change in allocation of CARE rate design subsidy, and (3) change in class definition for Schedule PA-T-1.

⁷ 50% revenue reflects incremental impacts of (1) 50% of the incremental impact of 2014 ERRRA Forecast (A.13-09-017), (2) 50% of incremental impact of ERRRA Trigger Application (A.13-04-017) assuming year-end 2013 balance of \$213.3 million, and (3) 50% of the incremental balance of \$80 million anticipated for 2014. Also includes impacts of 2012 GRC P2 implementation of (1) Change in revenue allocation, (2) change in allocation of CARE rate design subsidy, and (3) change in class definition for Schedule PA-T-1.

E. Implementation of Settlement Agreement

The undersigned Parties agree to support a Motion for Adoption of Settlement Agreement incorporating the terms set forth herein as a whole and as to each and every of its terms and conditions without modification so as to preserve the balance struck as between the interests of the Settling Parties.

IV. IMPLEMENTATION OF SETTLEMENT AGREEMENT

It is the intent of the Settling Parties that SDG&E should be authorized to file a Tier 1 Advice Letter implementing tariffs containing the rate changes resulting from this Settlement Agreement as soon as practicable following the issuance of a final Commission decision approving this Settlement Agreement.

V. RECORD EVIDENCE

The Settling Parties recommend that the testimony in support of both SDG&E's November 22 Proposal and the Simplified Proposal as well as the testimony of other parties on these proposals be admitted as part of the evidentiary record of this proceeding. The protests of the November 22 Proposal filed by TURN, ORA, UCAN, and SDCAN were filed with the Docket Office and are already part of the record.

VI. SIGNATURE DATE

This Settlement Agreement shall become binding as of the last signature date of the Settling Parties.

VII. REGULATORY APPROVAL

The Settling Parties, by signing this Settlement Agreement, acknowledge that they pledge support for Commission approval and subsequent implementation of all the provisions of this Settlement Agreement. The Settling Parties shall use their best efforts to obtain Commission

approval of this Settlement Agreement by no later than June 12, 2014. The Settling Parties shall jointly request that the Commission approve the Settlement Agreement without change, and find this Settlement Agreement to be reasonable, consistent with law and in the public interest.

VIII. COMPROMISE OF DISPUTED CLAIMS

This Settlement Agreement represents a compromise of disputed claims between the Settling Parties. The Settling Parties have reached this Settlement Agreement after taking into account the possibility that each Party may or may not prevail on any given issue. The Settling Parties assert that this Settlement Agreement is reasonable, consistent with law and in the public interest.

IX. NON-PRECEDENT

Consistent with Rule 12.5 of the Commission's Rules of Practice and Procedure, this Settlement Agreement is not precedential in any other pending or future proceeding before this Commission, except as expressly provided in this Settlement Agreement or unless the Commission expressly provides otherwise. The Settling Parties expressly recognize that each Party may advocate a position that is inconsistent with this Agreement for rate changes occurring on or after January 1, 2015 in Phase 1 of R.12-06-013, or in another ratesetting proceeding. Until the Commission issues a decision modifying the terms of this Agreement, the Settling Parties will support the continued applicability of Section 4 to govern any rate changes.

X. PREVIOUS COMMUNICATIONS

The Settlement Agreement contains the entire agreement and understanding between the Settling Parties as to the resolution of Phase 2 issues in the Rulemaking. In the event there is any conflict between the terms and scope of this Settlement Agreement and the terms and scope of

the accompanying joint motion in support of the Settlement Agreement, the Settlement Agreement shall govern.

XI. NON-WAIVER

None of the provisions of this Settlement Agreement shall be considered waived by any Party unless such waiver is given in writing. The failure of a Party to insist in any one or more instances upon strict performance of any of the provisions of this Settlement Agreement or to take advantage of any of their rights hereunder shall not be construed as a waiver of any such provisions or the relinquishment of any such rights for the future, but the same shall continue and remain in full force and effect.

XII. EFFECT OF SUBJECT HEADINGS

Subject headings in this Settlement Agreement are inserted for convenience only, and shall not be construed as interpretations of the text.

XIII. GOVERNING LAW

This Settlement Agreement shall be interpreted, governed and construed under the laws of the State of California, including Commission decisions, orders and rulings, as if executed and to be performed wholly within the State of California.

XIV. NUMBER OF ORIGINALS

This Settlement Agreement is executed in counterparts, each of which shall be deemed an original. The undersigned represent that they are authorized to sign on behalf of the Party represented.

Dated: March 27, 2014

San Diego Gas & Electric Company

/s/ Lee Schavrien

By: Lee Schavrien
Senior Vice President, Financial,
Regulatory and Legislative Affairs

Dated: March 27, 2014

The Office of Ratepayer Advocates

/s/ Joseph P. Como

By: Joseph P. Como
Acting Director

Dated: March 27, 2014

The Utility Reform Network

/s/ Matthew Freedman

By: Matthew Freedman
Staff Attorney

Dated: March 27, 2014

Utility Consumers' Action Network

/s/ Donald Kelly, Esq.

By: Donald Kelly, Esq
Executive Director

Dated: March 27, 2014

San Diego Consumers' Action Network

/s/ Michael Shames

By: Michael Shames
Director

Dated: March 27, 2014

Coalition of California Utility Employees

/s/ Jamie Mauldin

By: Jamie Mauldin
Attorney

Attachment D

Residential Rate Changes

PG&E 2014 Residential Rate Changes

	Date	Description	Residential Class Average Rate (cents/kWh)**
1.	January 1, 2014	Annual Electric True-Up Filing (Resolution E-4620 and Advice 4278-E)	17.5
2.	January 1, 2014	Implementation of SB 695 authorized residential rate changes (Advice 4314-E-B). Rate changes were implemented on March 1, 2014.	17.5
3.	March 1, 2014	Transmission-related revenue requirement changes (FERC Docket # ER14-799-000, Advice Letter 4344-E in compliance with Resolution 3930; March 1 rate change Advice Letter 4370-E)	17.6
4.	May 1, 2014	Implementation of revenue requirement and rate changes pursuant to (1) Electric Rate Changes to Introduce GHG Allowance Costs and GHG Allowance Revenues (D.13-12-041 and Advice 4403-E) and (2) Transmission Revenue Balancing Account Adjustment (TRBAA approved by FERC in FERC Docket No. ER14-81-000; Advice Letter 4307-E; and May 1 rate change per Tier 1 Advice Letter 4405-E filed April 30, 2014 with effective date of May 1, 2014.)	17.6
5.	July 1, 2014 (expected)	Anticipated implementation of revenue requirement changes pursuant to (1) 2014 GRC (A.12-11-009) and (2) PowerEx Credit (subject to FERC Approval FERC Docket EL00-95, 145 FERC ¶ 61,015). Implementation would coincide with rate adjustments pursuant to the PG&E Settlement if approved.	18.9
6.	January 1, 2015 (expected)	Anticipated implementation of revenue requirement changes pursuant to 2015 ERRRA Forecast	TBD

** Excludes Climate Credit

SCE 2014 Residential Rate Changes

	Date	Description	Residential Class Average Rate (RAR) (cents/kWh)**
1.	January 1, 2014	Implementation of SB 695 authorized residential rate changes and miscellaneous revenue changes (Advice Letter 2978-E-A)	17.5
2.	April 1, 2014	Implementation of GHG Program Costs and Revenues in Compliance with D.12-12-033, D.13-12-002, D.13-12-003 and D.13-12-041 (Advice Letter 3008-E)	17.2
3.	June 1, 2014 (expected)	Anticipated: Revenue requirement changes pursuant to implementation of 2014 ERRRA Forecast (D.14-05-003).	18.9
4.	January 1, 2015 (expected)	Anticipated: Implementation of 2015 ERRRA Forecast (expected to be filed May 2014) and SONGS Settlement (disposition TBD)	TBD

** Excludes California Climate Credit

SDG&E 2014 Residential Rate Changes

	Date	Description	Residential Class Average Rate (cents/kWh)**
1.	January 1, 2014	Rates as of January 1, 2014	21.1
2.	February 1, 2014	Implementation of SB 695 authorized residential rate changes (Advice Letter 2568-E)	21.1
3.	April 1, 2014	Implementation of revenue requirement and rate changes pursuant to (1) ERRRA Trigger D.14-02-022 and (2) GHG costs and revenues D.13-12-041. (Advice Letter 2587-E)	21.8
4.	May 1, 2014	Implementation of 2014 GRC Phase 2 Decision (D.14-01-002), Advice Letter 2595-E, and Tier 1 Advice Letter 2597-E filed on 4/30/14 with a 5/1/14 effective date. While there are no changes to system average rates (SAR), the changes in class allocations and the definition of customer classes changes the revenue requirements associated with each customer class.	20.6
5.	July 1, 2014 (expected)	Anticipated implementation of revenue requirement changes pursuant to 2014 ERRRA Forecast (A.13-09-017). Implementation would coincide with rate adjustments pursuant to the SDG&E Settlement if approved.	22.1
6.	January 1, 2015 (expected)	Anticipated implementation of revenue requirement changes pursuant to 2015 ERRRA Forecast, SONGS related adjustments, Year-end Balances	TBD

** Excludes California Climate Credit

(END OF ATTACHMENT D)

Attachment E

Comparison of Non-CARE Rates,
CARE Rates, and Effective CARE Discounts

Comparison of Non-CARE Rates

Comparison of Current, Initial Proposed, and Settlement Non-CARE Rates of PG&E, SCE, and SDG&E (Includes Projected Residential Revenue Requirement Changes of PG&E: 5.9%, SCE: 8%, SDG&E: 11%)					
Non-CARE	Current Rates (February 2014)	Proposed Rates	% Change from Current	Settlement Rates	% Change from Current
	(cents/kWh)	(cents/kWh)		(cents/kWh)	
PG&E					
Tier 1	13.6	14.7	8%	14.7	8%
Tier 2	15.5	17.0	10%	17.6	14%
Tier 3	31.4	28.6	-9%	29.6	-6%
Tier 4	35.4	34.6	-2%	35.6	1%
SCE					
Tier 1	13.3	15.5	17%	14.9	12%
Tier 2	16.5	19.3	17%	19.3	17%
Tier 3	27.4	29.9	9%	27.9	2%
Tier 4	30.4	32.9	8%	31.9	5%
SDG&E					
Tier 1	15.4	19.1	24%	17.3	12%
Tier 2	17.8	20.8	17%	20.4	15%
Tier 3	34.9	35.4	1%	37.7	8%
Tier 4	36.9	36.4	-1%	39.7	8%
SOURCES: January 28, 2014 IOU Summer 2014 Residential Electric Rate Reform Proposal Phase 2 Revisions Opening Phase 2 Briefs of Settling Parties for each IOU					

Comparison of CARE Rates

Comparison of Current, Initial Proposed, and Settlement CARE Rates of PG&E, SCE, and SDG&E (Includes Projected Residential Revenue Requirement Changes of PG&E: 5.9%, SCE: 8%, SDG&E: 11%)					
CARE	Current Rates (February 2014)	Proposed Rates	% Change from Current	Settlement Rates	% Change from Current
	(cents/kWh)	(cents/kWh)		(cents/kWh)	
PG&E					
Tier 1	8.6	9.1	6%	9.2	7.0%
Tier 2	9.9	10.4	5%	10.6	7.1%
Tier 3	14.0	14.8	6%	15.1	7.9%
SCE					
Tier 1	8.8	10.4	18%	9.7	10%
Tier 2	11.0	12.9	17%	12.5	14%
Tier 3	20.1	20.1	0%	21.0	5%
SDG&E					
Tier 1	10.3	13.1	27%	11.6	13%
Tier 2	12.0	14.3	19%	13.5	13%
Tier 3	17.6	22.2	26%	20.3	15%
SOURCES: January 28, 2014 IOU Summer 2014 Residential Electric Rate Reform Proposal Phase 2 Revisions Opening Phase 2 Briefs of Settling Parties for each IOU					

Effective CARE Discounts Under the Proposed Settlements

Effective CARE Discounts of PG&E, SCE, and SDG&E in 2013, 2014, and in Proposed Settlement*				
	End of 2013	March 2014	Settlement	Change from March 2014
PG&E	47.7%	48.4%	46.5%	-3.9%
SCE	30.9%	32.0%	32.5%	1.6%
SDG&E	40.0%	39.2%	37.8%	-3.6%
*Excluding the California Climate Dividend				
<p>SOURCES: PG&E - 08 CARE Discount Table SCE's April 1, 2014 Response to ALJs' March 26, 2014 Request for Additional Post-Hearing Information (Phase 2) at p. 52 SDG&E - 09 Attachment D.1</p>				

(END OF ATTACHMENT E)

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