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Decision **PROPOSED DECISION OF ALJ DOHERTY** (Mailed on 3/12/2020)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas &
Electric Company (U902E) for
Authority to Eliminate the Seasonal
Differential in its Residential Rates Per
Decision 19-04-018.

Application 19-09-014

**DECISION APPROVES THE REMOVAL OF THE SEASONAL DIFFERENTIAL
FROM THE RESIDENTIAL RATES OF SAN DIEGO GAS & ELECTRIC
COMPANY**

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**DECISION APPROVES THE REMOVAL OF THE SEASONAL DIFFERENTIAL
FROM THE RESIDENTIAL RATES OF SAN DIEGO GAS & ELECTRIC
COMPANY**

Summary

This decision approves the removal of the seasonal differential from San Diego Gas & Electric Company's (SDG&E's) residential tiered rates, resulting in tiered rates that are the same year-round. Redesign of SDG&E's residential time-of-use rates will be considered in a later phase of this proceeding.

This proceeding remains open.

1. Background

In Decision (D.) 19-04-018, the Commission considered and rejected a request by San Diego Gas & Electric Company (SDG&E) to eliminate the high usage charge for its residential tiered rate customers with very high electricity usage. SDG&E's request was premised on the theory that the elimination of the high usage charge would reduce summer bill volatility for tiered rate customers paying the charge. In rejecting SDG&E's proposal, the Commission ordered SDG&E to consider eliminating the seasonal differential in its residential rates instead, as the record demonstrated that such elimination would more effectively address seasonal bill volatility than SDG&E's original proposal.¹

SDG&E filed the instant application in compliance with D.19-04-018 on September 23, 2019. Protests and responses to the application were filed by the Center for Accessible Technology (CforAT), the Public Advocates Office (Cal Advocates), the Utility Consumers' Action Network, and The Utility Reform Network (TURN) on October 25 and 28, 2019. A prehearing conference

¹ D.19-04-018 at Ordering Paragraph (OP) 2.

was held on November 6, 2019, and an Assigned Commissioner's Scoping Memo and Ruling (scoping memo) was issued on November 21, 2019.

The scoping memo created two phases of this proceeding. In the first phase, the Commission is to consider whether SDG&E's proposal to eliminate the seasonal differential between summer and winter rates in all of its residential rate designs - including its residential time-of-use (TOU) rates - is reasonable, and whether the rate and bill impacts that would result from an elimination of the seasonal differential between summer and winter rates, including for all-electric customers, are reasonable. According to the scoping memo, the first phase of this proceeding is to be completed by April 2020 in order to allow SDG&E to make any approved changes to the seasonal differential in its residential rates in time for the summer 2020 season.

The second phase of this proceeding is to begin after April 2020, and is to consider whether the high usage charge in SDG&E's residential tiered rate should be modified or eliminated, and if so whether the rate and bill impacts that would result from a modification or elimination of the high usage charge are reasonable. The scoping memo contemplated ordering Southern California Edison Company (SCE) and Pacific Gas and Electric Company (PG&E) to join the second phase of this proceeding. This decision finds that it is reasonable to do so in order to jointly consider the potential modification of the high usage charge across all three large electrical corporations at the same time.

While an evidentiary hearing in the first phase of this proceeding was originally scheduled for January 21, 2020, parties waived the hearing and agreed to treat all previously proffered testimony as admissible. Opening briefs were filed by Cal Advocates, SDG&E, CforAT, and TURN on February 4, 2020, and a reply brief was filed by SDG&E on February 11, 2020. An Administrative Law

Judge (ALJ) e-mail ruling on February 10, 2020 required SDG&E to serve additional testimony, and SDG&E's response was served on February 25, 2020.

2. Issues Before the Commission

In this decision the Commission considers whether SDG&E's proposal to eliminate the seasonal differential between summer and winter rates in all of its residential rates – including its residential TOU rates – is reasonable, and whether the rate and bill impacts that would result from an elimination of the seasonal differential between summer and winter rates, including for all-electric customers, are reasonable.

3. Tiered Rate Seasonal Differential

SDG&E's residential rates contain what is known as a seasonal price differential, which creates generally higher rates during the summer as opposed to the winter.² According to SDG&E, this differential was originally adopted by the Commission in D.00-12-058 with respect to SDG&E's tiered residential rates.³ SDG&E's residential tiered rates are found in Schedules DR, DM, DS (an archaic rate schedule no longer open to new customers), DT (closed to new customers), and DT-RV.⁴

Tiered rates charge customers increasing prices throughout the month as the customer's usage increases. Tier 1 prices are the cheapest and may apply, for example, to the first 200 kilowatt-hours (kWh) consumed in a month. Tier 2 prices are more expensive and would apply to all usage beyond 200 kilowatts

² SDG&E's summer season runs from June through October, and its winter season is comprised of all other months.

³ Exh. SDG&E-01 at NM-3.

⁴ References to SDG&E's residential tiered rates throughout this decision refer to these rate schedules.

per hour (kWh), for example, in a given month. These prices do not vary by time of day. The Commission's application of higher summer prices to SDG&E's tiered rate in D.00-12-058 was premised on the assumption that some temporal price signal was appropriate in order to better reflect the higher cost incurred by SDG&E to serve a residential customer in the summer.⁵ In essence, because it costs more for SDG&E to procure marginal energy in the summer than the winter, the seasonal rate differential reflects this difference and encourages less consumption of more costly summer electricity.

3.1. Rationale for the Seasonal Differential in 2020

The seasonal rate differential was endorsed by the Commission and applied to SDG&E's residential rates decades prior to the advent of default TOU rates for SDG&E's residential customers. In contrast to tiered rates, TOU rates vary by time of day within a month so that a customer receives price signals that reflect the higher cost of electricity during certain times of the day in addition to the higher prices experienced during the summer. TOU rates therefore improve the cost signal present in seasonally differentiated tiered rates, as they more precisely target the hours of the day where marginal electricity costs are higher for the utility.

For example, with TOU rates an SDG&E customer may pay 30 cents for a kWh of electricity at 2 a.m. on a summer day, and 55.5 cents per kWh at 5 p.m. on a summer day. This difference signals that marginal electricity in the summer is less expensive to procure overnight than early in the evening. In contrast, under SDG&E's seasonally differentiated tiered rate, the same customer may pay

⁵ Exh. SDG&E-01 at NM-3 and NM-4.

37.9 cents for a Tier 1 kWh used on a summer day and 34.6 cents for a Tier 1 kWh used on a winter day, regardless of whether it is used at 2 a.m. or 5 p.m. While the customer on the tiered rate may be receiving an accurate signal that summer electricity is more expensive than winter electricity, the tiered rate price does not reflect intra-day differences in cost on an hourly basis.

This greater accuracy in communicating costs is one of the reasons the Commission ordered SDG&E to transition many of its residential customers to TOU rates, and away from tiered rates, starting in 2019. The Commission found that TOU rates better reflect marginal costs and are likely to motivate customers to shift their usage to lower-cost periods within the day.⁶

Because the Commission found that TOU rates better communicate cost signals to SDG&E's residential customers, and that therefore most of SDG&E's tiered rate customers should be transitioned to TOU rates by default, it is appropriate to reevaluate the rationale for applying a seasonal differential to SDG&E's tiered residential rate. The original rationale for applying the seasonal differential has been adopted and overtaken by the imposition of default TOU rates. The default rate for SDG&E's residential customers now more effectively communicates seasonal and hourly differences in costs to serve them. Therefore, there is no compelling reason to continue to apply a seasonal differential to SDG&E's tiered rate beyond the general rate design principle that rates should reflect the cost to serve customers.

⁶ D.18-12-004 at 15-16, 19-21.

3.2. Rationale for Eliminating the Seasonal Differential in SDG&E's Tiered Rate

While the rate design principle of cost causation may be sufficient on its own to justify the continued application of the seasonal differential to SDG&E's tiered rate, there are other factors to militate against the differential.

3.2.1. Summer Bill Volatility

Firstly, as argued by SDG&E in its application, the seasonal rate differential leads to large seasonal bill volatility if a customer substantially increases their usage during the summer as compared to the winter. As noted by SDG&E, increasing summer temperatures and climate variability generally in the San Diego area may encourage some residential customers to utilize their air conditioning more frequently than in the past, leading to summer usage that far exceeds winter usage and consequently higher than expected summer bills.⁷ SDG&E's testimony asserts that summer bill volatility could be reduced by up to 20% if the seasonal differential is removed from SDG&E's tiered rate.⁸

This decision finds that removing the seasonal differential in SDG&E's tiered rate will reduce seasonal bill volatility for customers on the tiered rate, and that this outcome helps to justify the removal of the seasonal differential from the tiered rate. Reduction of seasonal bill volatility complies with the sixth of the Commission's rate design principles, namely that "rates should be stable and understandable."⁹

⁷ Exh. SDG&E-01 at NM-4 to NM-5, NM-7; *see also* D.19-04-018 at Finding of Fact 1.

⁸ Exh. SDG&E-01 at NM-8.

⁹ Exh. SDG&E-01 at NM-6.

3.2.2. Spirit of Public Utilities Code Section 745

As noted above, removal of the seasonal differential in the tiered rate may enhance certain rate design principles, but it may diminish others such as the second principle that “rates should be based on marginal cost.”¹⁰ It is therefore important to understand the purpose of a residential tiered rate in a new rate environment where TOU rates are the default rate for most residential customers in California.

Public Utilities Code Section 745 authorized the Commission to impose default TOU rates on residential customers, and this authority formed the basis of D.18-12-004 that began the transition of most SDG&E residential customers to TOU rates. Subsection (c)(6) of Section 745 states that “[r]esidential customers have the option to not receive service pursuant to a TOU rate schedule and incur no additional charges as a result of the exercise of that option.”¹¹ The Commission has retained residential tiered rates in order to satisfy this condition of default TOU implementation. If residential customers do not wish to take service on a default TOU rate, or any other time-varying rate, the tiered rate option is available for those customers.

The statute does not place any condition on what that alternative rate should look like, other than that it should not be a “time-of-use” rate and should not lead to the imposition of additional charges. In previous decisions, the Commission has made clear that TOU rates are a preferred default residential rate schedule because they better communicate the marginal costs incurred by a utility than a tiered rate. These marginal cost signals relate to both the hourly

¹⁰ *Id.*

¹¹ Pub. Util. Code § 745(c)(6).

differences in marginal costs within a day, *and* the difference in marginal costs between summer and winter. A TOU rate communicates both signals to residential customers.

A reasonable interpretation of Section 745(c)(6) is, therefore, that an alternative rate should not communicate the temporal price signals inherent in a TOU rate – both hourly and seasonal. It is possible that the Legislature understood that these non-time varying rates are simple for customers to understand and adjust to – using less leads to cheaper bills, regardless of when the usage occurs during the month. Removing the seasonal differentiation from SDG&E’s tiered rate helps to fulfill the intention of Section 745 to ensure that residential customers have an alternative rate available to them that does not contain temporal marginal price signals, as it removes a temporal price element that causes bills to rise even if usage stays constant (or even decreases). This alignment with Section 745’s intent therefore buttresses the argument for removing the seasonal differential from tiered rates, even if other rate design principles are diminished.

3.2.3. Previous Commission Policy on Seasonal Tiered Rates

The Commission’s general position on a seasonal differentiation in residential tiered rates has evolved over the past several years. As noted by SDG&E, the Commission originally authorized seasonal tiered rates for SDG&E in 2000 on the premise that sending a meaningful price signal to residential customers concerning higher summer electricity costs was desirable. In D.15-07-001 the Commission reiterated its approval for this approach and recommended that PG&E and SCE each propose seasonal differentiation in their tiered rates to enhance the marginal cost signals in the rate.

However, the Commission reconsidered this approach in light of the advent of default TOU rates. In D.18-12-004, which approved SDG&E's default TOU rates, the Commission lowered the seasonal differential proposed by SDG&E to ameliorate the bill impact of the differential on all customers.¹² In D.19-07-004 the Commission explicitly overturned its previous holdings that seasonal differentials in tiered rates were desirable. As noted by SDG&E, in that decision the Commission held that a seasonal differential in SCE's residential tiered rate was not in the public interest due to the overly burdensome summer bill impacts inherent to a seasonally differentiated tiered rate.¹³

Therefore, removing the seasonal differential from SDG&E's residential tiered rate is in accord with recent Commission decisions on this matter.

3.2.4. Bill Impacts

Before the Commission can remove the seasonal differential from SDG&E's tiered rate, it must consider the bill impacts that result from such a change.¹⁴ SDG&E's proposed removal of the seasonal differential from its tiered rate would not change the overall amount of revenue SDG&E collects from its residential customers on a tiered rate (*i.e.*, the proposal is revenue neutral). Instead, the impact of the removal is to increase the winter tiered rate by 4.1% while decreasing the summer tiered rate by 4.6%. The changes to the tiered rate are outlined in the table below.

Tiered Rate Element	Before Seasonal Differential Removal¹⁵	After Seasonal Differential Removal
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¹² D.18-12-004 at 29.

¹³ Exh. SDG&E-01 at NM-5; *see also* D.19-07-004 at 198.

¹⁴ *See* Pub. Util. Code § 451.

¹⁵ Rates as of June 1, 2019. (*See* Exh. SDG&E-01 at NM-13.)

Tiered Rate Element	Before Seasonal Differential Removal¹⁵	After Seasonal Differential Removal
Summer Tier 1	28.8 cents/kWh	27.5 cents/kWh
Summer Tier 2	39.2 cents/kWh	37.4 cents/kWh
Summer High Usage Charge	55.1 cents/kWh	52.6 cents/kWh
Winter Tier 1	26.4 cents/kWh	27.5 cents/kWh
Winter Tier 2	35.9 cents/kWh	37.4 cents/kWh
Winter High Usage Charge	50.5 cents/kWh	52.6 cents/kWh

As seen above, the removal of the seasonal differential flattens the tiered rate between seasons – the price per kWh in different tiers will remain constant throughout the year. However, the increase in the winter rate and the decrease in the summer rate do lead to increased bills in the winter assuming usage stays constant. SDG&E estimates that non-California Alternate Rates for Energy (CARE) winter bills will increase 4% (or \$4.06 per month), on average and assuming no change in usage, as a result of removing the seasonal differential in tiered rates.¹⁶ For CARE customers, SDG&E estimates winter bill increases of 4.3% (or \$2.36 per month), on average and assuming no change in usage, as a result of removing the seasonal differential.¹⁷

These winter bill increases are offset on an annual basis by lower summer bills. SDG&E estimates that non-CARE summer bills will decrease 4.6% (or \$6.63 per month), on average and assuming no change in usage, as a result of

¹⁶ Exh. SDG&E-01 at NM-15.

¹⁷ Exh. SDG&E-01 at NM-17.

removing the seasonal differential in tiered rates.¹⁸ For CARE customers, SDG&E estimates summer bill decreases of 4.8% (or \$3.57 per month), on average and assuming no change in usage, as a result of removing the seasonal differential.¹⁹

On an average annual basis these increases and decreases cancel out, and there is virtually no annual change to either a non-CARE or CARE customer's bill on an average annual basis, assuming no change in usage.²⁰

Because there is no average annual difference in bills if the seasonal differential in the tiered rate is eliminated, the annual bill impacts of SDG&E's proposal are de facto reasonable. However, there is evidence that winter bills for tiered rate customers will increase due to the proposal, and these increased bills must be considered and weighed against the benefits of a removal of the seasonal differential.

Parties generally approve of the proposal to eliminate the seasonal differential from SDG&E's tiered rate in spite of these bill impacts.²¹ Cal Advocates specifically cites the expected reductions in average summer bills and bill volatility as justifying the estimated increase in winter bills for tiered rate customers.²²

The average winter bill increase is on the order of \$2 - \$4 per month, depending on whether or not the customer is a CARE customer. These increases

¹⁸ Exh. SDG&E-01 at NM-15.

¹⁹ Exh. SDG&E-01 at NM-17.

²⁰ Exh. SDG&E-01 at NM-15 and NM-17.

²¹ Exh. CforAT-01 at 2; Exh. TURN-01 at 2 (approving of SDG&E's proposal only if certain mitigating measures were adopted by the Commission).

²² Exh. Cal Advocates-01 at 4.

on their own invite scrutiny. However, given that removal of the seasonal differential will lower seasonal bill instability, promote stable rates for tiered rate customers, and enhance the objective of Pub. Util. Code § 745 to provide a non-temporal alternative to the default TOU rate, the increased average winter bills are a reasonable and acceptable trade-off to achieve those goals. The rate and bill impacts of SDG&E's proposal to eliminate the seasonal differential from its tiered rates is therefore reasonable.

For these reasons, the proposal of SDG&E to remove the seasonal differential from its residential tiered rates (Schedules DR, DM, DS, DT, and DT-RV) is reasonable and should be approved. SDG&E shall remove the seasonal differential from Schedules DR, DM, DS, DT, and DT-RV no later than June 1, 2020.

3.2.5. Special Consideration of Winter Electric Heating Customers

These average bill impacts conceal important differences between certain customers. CforAT and TURN each submitted testimony highlighting the impact of the winter rate increases on those residential customers that use electricity for home heating. These customers may take service as "all-electric" customers with an enhanced baseline allotment, or they may take service on tiered rates without an enhanced baseline.

CforAT notes that all-electric customers in SDG&E's desert zone would see the highest average winter bill impacts.²³ According to SDG&E, non-CARE all-electric customers in the desert climate zone would see average percentage monthly bill increases of around 4% in the winter; but due to their higher

²³ Exh. CforAT-01 at 6.

consumption rates these 4% increases could lead to absolute increases of \$5 or \$10 per month depending on the customer.²⁴ Similar results are seen for all-electric CARE customers in the desert zone, although their absolute average monthly bill increases are almost all lower than \$10 per month.²⁵

Citing these estimated winter bill impacts for all-electric customers in the desert zone, CforAT expresses concern that these customers could be subjected to rate shock, experience increased risk of disconnection, and encouraged to reduce their usage in order to avoid severe bill impacts, resulting in actions that might compromise their health and safety.²⁶ In light of these risks, CforAT recommends that the Commission “direct SDG&E to proposed targeted protections for all-electric customers in the coldest areas to reduce the risk of these customers experiencing increased levels of service disconnection for non-payment based on increased winter bills.”²⁷

TURN voices similar concerns in their testimony. TURN reflects on the bill impacts for those all-electric customers on both the tiered rate and TOU rates, given SDG&E’s proposal to eliminate the seasonal differential for both kinds of rates.²⁸

In general, TURN is concerned that vulnerable customers may not be able to afford the winter bill increases estimated by SDG&E, even if the impact of

²⁴ Exh. SDG&E-01, Attachment A “Run 1” at 20.

²⁵ Exh. SDG&E-01, Attachment A “Run 1” at 26.

²⁶ Exh. CforAT-01 at 6.

²⁷ Exh. CforAT-01 at 7.

²⁸ It should be noted that in this part of the decision, the Commission is only considering the bill impacts for tiered rate customers.

those increases are mollified by summer bill reductions.²⁹ The particular risk that arises from this concern is that of disconnection. TURN notes that SDG&E's all-electric customers have higher rates of disconnection than other customers, and that within the all-electric population CARE and Family Electric Rate Assistance Program customers have a higher rate of disconnection than average.³⁰

TURN seeks mitigations to ensure that vulnerable all-electric customers do not see higher rates of disconnection as a result of the removal of the seasonal rate differential. In particular, TURN recommends that the Commission prohibit disconnections of all-electric customers for one year after the seasonal differential is removed.³¹ In the alternative, TURN proposes that the Commission allow all-electric to opt-out of the seasonally flat rates, or prohibit their transition to newly seasonally flat rates.³²

SDG&E argues in rebuttal that the specific mitigations proposed by TURN are unnecessary because the general, class-level impacts of the proposal are positive.³³ In essence, SDG&E argues that the affected population of concern is too small to merit the relatively expansive mitigation measures sought by TURN.³⁴ Specifically with respect to a prohibition on disconnections, SDG&E argues that Rulemaking (R.) 18-07-005 (informally known as the disconnections

²⁹ Exh. TURN-01 at 3.

³⁰ Exh. TURN-01 at 3-4.

³¹ Exh. TURN-01 at 4.

³² Exh. TURN-01 at 5.

³³ SDG&E also responds to Cal Advocates and CforAT in its rebuttal, but those arguments generally concern proposals for the residential TOU rates offered by SDG&E. Those issues are considered later in this decision.

³⁴ Exh. SDG&E-02 at NM-3.

rulemaking) is a more appropriate proceeding in which to discuss protections for those customers most at risk of disconnection, and that a Commission decision in that proceeding has already taken steps to provide “rapid relief” to such customers.³⁵ With respect to the alternative proposal to allow all-electric customers to remain on seasonally differentiated tiered rates, SDG&E argues this would be operationally burdensome and essentially require SDG&E to maintain parallel rate schedules – one for all-electric customers and one for everyone else.³⁶

TURN’s proposals are not adopted at this time. TURN’s concern is anchored by the assumption that some winter heating customers may face bill increases of \$20 per month if seasonal differentiation is eliminated. These estimated impacts are for TOU customers, not tiered rate customers. As discussed previously, the winter bill increases for tiered rate customers will generally be less than that. For example, even the most impacted all-electric CARE customers in the desert region are not estimated to see bill increases exceeding \$10 per month.

In light of these bill impacts, the mitigation proposed by TURN is not necessary, given the reasonableness of the population-level impacts revealed by SDG&E’s testimony. This decision therefore finds that the rate and bill impacts of SDG&E’s proposed elimination of the seasonal differential in its tiered rates are reasonable for its all-electric customers.

However, all-electric customers should still be made aware of the rate change and be given the opportunity to switch to a TOU rate that maintains

³⁵ Exh. SDG&E-02 at NM-9 and NM-10.

³⁶ Exh. SDG&E-02 at NM-10.

lower winter rates if they are concerned about the impact of seasonally flat rates on their winter electricity bills. To that end, SDG&E shall communicate with its residential all-electric customers taking service on a tiered rate this summer and advise them that the seasonal differential is being removed from the tiered rate. This advice shall also communicate that summer bills are expected to decrease and winter bills are expected to increase as a result of this change, assuming that there is no change in the customer's usage. This advice shall also remind SDG&E's all-electric customers on the tiered rate that they may take service on a TOU rate if they wish to continue taking service on a rate with lower rates in the winter as compared to the summer.

4. TOU Rates Seasonal Differential

SDG&E proposes in its application to eliminate the seasonal differential and the difference between summer and winter TOU period prices in its residential TOU rates.³⁷ According to SDG&E, the seasonal differential was originally adopted by the Commission in D.01-11-021 with respect to SDG&E's TOU rates.³⁸ SDG&E's residential TOU rates are found in Schedules DR-TOU (closed to new customers), TOU-DR, DR-SES, TOU-DR1, TOU-DR2, TOU-DR-P, EV-TOU, EV-TOU2, and EV-TOU5.³⁹ SDG&E's proposal is in compliance with OP 2 of D.19-04-018, which required SDG&E to propose elimination of the seasonal differential from all of its residential rates if SDG&E believed it was justified.

³⁷ As will be explained further in this decision, these are two distinct "differentials."

³⁸ Exh. SDG&E-01 at NM-3.

³⁹ References to SDG&E's residential TOU rates throughout this decision refer to these rate schedules.

As with SDG&E's tiered rates, SDG&E argues that eliminating the seasonal differential from its residential TOU rates will reduce bill volatility experienced by customers in the summer in light of increasing summer temperatures in the San Diego region.

Additionally, and specifically with respect to its residential TOU rates, SDG&E argues that eliminating the difference between summer and winter TOU period prices in its residential TOU rates will not impact the price signals inherent in TOU rates, and will allow SDG&E to more clearly present (and customers to more clearly understand) TOU peak period price signals.⁴⁰ SDG&E further claims that by maintaining the peak price signal at the same price throughout the year, the conservation signal included in the TOU rate will not be affected by the removal of the seasonal differential.

The illustrative effect of SDG&E's proposal on Schedule TOU-DR1 (its default TOU rate for residential customers) is described in the table below.

TOU-DR1 Rate Element	Before Seasonal Differential Removal⁴¹	After Seasonal Differential Removal
Summer Peak Price	56.5 cents/kWh	46.2 cents/kWh
Summer Off-Peak Price	34.5 cents/kWh	35.3 cents/kWh
Summer Super Off-Peak Price	29.5 cents/kWh	32.3 cents/kWh
Winter Peak Price	37 cents/kWh	46.2 cents/kWh
Winter Off-Peak Price	36 cents/kWh	35.3 cents/kWh
Winter Super Off-Peak Price	35 cents/kWh	32.3 cents/kWh

⁴⁰ Exh. SDG&E-01 at NM-2.

⁴¹ Rates as of June 1, 2019. (See Exh. SDG&E-01 at NM-13.) These are non-baseline TOU charges, and a change to the baseline credit of less than one cent/kWh is not included in the table appearing in this decision.

SDG&E's proposal to eliminate the seasonal differential from its residential TOU rates and flatten TOU period prices throughout the year would dramatically change the peak price for energy (charged for energy consumed between 4 p.m. and 9 p.m. any day of the week) in both the winter and the summer. Summer peak prices would be reduced by roughly 18% while winter peak prices would be increased by around 25%. The peak price of electricity would be 46.2 cents/kWh year-round.

The bill impacts of the illustrative TOU-DR1 rate are similar to those presented for tiered rate customers in the absence of a seasonal differential. SDG&E estimates that non-CARE winter bills will increase 3% (or \$4.12 per month), on average and assuming no change in usage, as a result of removing the seasonal differential from Schedule TOU-DR1.⁴² For CARE customers, SDG&E estimates winter bill increases of 3.1% (or \$1.99 per month), on average and assuming no change in usage, as a result of removing the seasonal differential from Schedule TOU-DR1.⁴³

These winter bill increases are offset on an annual basis by lower summer bills. SDG&E estimates that non-CARE summer bills will decrease 3.5% (or \$6.48 per month), on average and assuming no change in usage, as a result of removing the seasonal differential from Schedule TOU-DR1.⁴⁴ For CARE customers, SDG&E estimates summer bill decreases of 3.3% (or \$2.82 per month),

⁴² Exh. SDG&E-01 at NM-16.

⁴³ Exh. SDG&E-01 at NM-18.

⁴⁴ Exh. SDG&E-01 at NM-16.

on average and assuming no change in usage, as a result of removing the seasonal differential.⁴⁵

4.1. Party Responses to the Proposed Removal of the Seasonal Differential from Residential TOU Rates

TURN's response to the proposal to remove the seasonal differential from SDG&E's residential TOU rates mirrored its recommendations with respect to the tiered rate proposal. TURN notes that some all-electric TOU customers could see substantial winter bill increases, with some bills increasing 20% assuming no change in usage. In light of those estimated bill impacts, TURN recommends that the Commission either prohibit disconnections for all-electric TOU customers for one year after the removal of the seasonal differential, or exclude all-electric TOU customers from the transition to seasonally flat TOU rates, and allow those customers to continue taking service on TOU rates that contain a seasonal differential (and therefore lower winter rates).⁴⁶

CforAT and Cal Advocates were opposed to SDG&E's proposal to remove the seasonal differential from its residential TOU rates. CforAT argues that the proposal is unreasonable as it would "risk increased bill volatility for certain customers with peaky loads, and it would violate the Commission's requirements for the TOU roll-out, including the expectation that customers will have an opportunity to adapt to TOU rates with a modest differential (TOU-Lite) and the expectation of stability in TOU rates."⁴⁷ CforAT also reiterates its concern that all-electric customers in SDG&E's desert region may experience

⁴⁵ Exh. SDG&E-01 at NM-18.

⁴⁶ Exh. TURN-01 at 4-5.

⁴⁷ Exh. CforAT-01 at 1.

much higher winter bills under SDG&E's proposal. Echoing Cal Advocates, CforAT asserts that SDG&E's proposed increase to the winter on-peak rate to the exclusion of all other winter rate increases is not needed to eliminate the seasonal differential.⁴⁸

Cal Advocates objects to the proposed changes to SDG&E's TOU rates on the grounds that it disproportionately places most of the shifted costs into the winter peak rate and consequently creates a risk of adverse bill impacts for customers using winter peak electricity.⁴⁹ Cal Advocates notes that the bill impact estimates for SDG&E's residential TOU customers is somewhat unrepresentative, as those estimates do not include SDG&E customers that have been transitioned to the new default TOU rate in March 2019.⁵⁰

Like CforAT, Cal Advocates notes that SDG&E residential customers have only just been defaulted onto TOU rates, and the introduction of such significant changes to the peak prices as proposed by SDG&E could create customer confusion and work against SDG&E's existing marketing and outreach campaign to alert customers to how their bills may be affected by a switch to TOU.⁵¹

Furthermore, Cal Advocates argues that SDG&E's TOU proposal does not follow marginal cost principles.⁵² Cal Advocates asserts that a review of SDG&E's workpapers reveals that the commodity cost difference between peak and super-off-peak prices in the winter is only 1.8 cents/kWh, as contrasted to

⁴⁸ CforAT opening brief at 2.

⁴⁹ Exh. Cal Advocates-01 at 1-2.

⁵⁰ Exh. Cal Advocates-01 at 5.

⁵¹ *Id.*

⁵² Exh. Cal Advocates-01 at 6.

the 14 cents/kWh winter peak-to-super-off-peak differential proposed by SDG&E.⁵³

Finally, Cal Advocates suggests that SDG&E fundamentally misunderstood the directive to propose removing the seasonal differential in its TOU rates as including the removal of any difference between peak and off-peak prices year-round. Cal Advocates argues that the Commission already drew a distinction between these two features of SDG&E's residential TOU rates (the seasonal difference vs. the peak-to-off-peak difference) in D.18-12-004 which approved SDG&E's default residential TOU rate. In that decision, the Commission held that SDG&E's default residential TOU rate should have a seasonal differential lower than proposed by SDG&E, while also maintaining the price differentials within seasons for peak to off-peak/super off-peak periods as proposed by SDG&E.⁵⁴ Cal Advocates asserts that the Commission should remain consistent with the previous decision and not conflate the issue of seasonal differential with TOU period price differentials.⁵⁵

However, Cal Advocates does support moderating the existing seasonal differential in SDG&E's TOU rates, namely by making the *average* rate in the two seasons identical, even if the differentials between peak and off-peak periods are different in each season. Cal Advocates proposes to achieve this by applying a 4.6% reduction to all summer TOU prices equally, and a 4.1% increase to all winter TOU prices equally.⁵⁶ According to Cal Advocates, this would allow SDG&E to discontinue the seasonal difference in its TOU rates, while

⁵³ *Id.*

⁵⁴ D.18-12-004 at 29.

⁵⁵ Exh. Cal Advocates-01 at 9.

⁵⁶ Exh. Cal Advocates-01 at 4-6.

maintaining existing differentials between peak and off-peak prices in SDG&E's TOU rates. Cal Advocates notes that this was the rate design approach embraced by PG&E, and approved by the Commission, with respect to PG&E's default residential TOU rate.⁵⁷

CforAT supports the alternative rate design proposal offered by Cal Advocates, as it eliminates the seasonal differential in SDG&E's residential TOU rates while maintaining TOU-Lite differentials between winter peak and off-peak prices.⁵⁸ They also state that they do not believe customer mitigations to protect vulnerable customers from higher winter bills are necessary if Cal Advocates' rate design is adopted.⁵⁹

4.2. The Cost Basis for SDG&E's Proposed TOU Rates

SDG&E argues that its proposal to remove the seasonal differential from its residential TOU rates retains cost based TOU rates, even though the summer and winter peak prices are identical. Cal Advocates disagrees and asserts that the increased electric procurement costs during the summer are no longer reflected in the new TOU rates as proposed.

SDG&E's response to a Cal Advocates data request, as attached to exhibit SDG&E-02, explains that SDG&E's proposed year-round non-baseline peak price of 46 cents/kWh "has been allocated the summer on-peak generation capacity costs, and all on-peak volumetric energy costs."⁶⁰ In other words, under the

⁵⁷ Exh. Cal-Advocates-01 at 7-8.

⁵⁸ CforAT opening brief at 9.

⁵⁹ CforAT opening brief at 12.

⁶⁰ Exh. SDG&E-02, Attachment A1, response to data request "CALPA-SDGE-DR-02" at 1.

TOU rates as proposed, SDG&E's residential customers would be paying for summertime peak energy costs in winter months.

SDG&E's argument, and Cal Advocates' opposition, illuminates the inherent tension in designing TOU rates between the desire to accurately reflect costs and the need to promote customer understanding and rate stability. Averaging high cost and low cost hours across many hours in a month or season is the defining feature of TOU rate design. Inevitably, there are some hours in any given month or season where customers pay for high cost electricity even though a particular hour may not require high-cost procurement.⁶¹ A more granular rate, such as a dynamic or "real-time" rate, seeks to solve this problem by only charging high prices in an hour when the actual procurement cost is expected to be high for that hour. However, these rates are necessarily complex and may change rapidly over the course of a day or week. In contrast, TOU rates seek to provide stability and promote customer understanding by averaging high cost and low cost hours over a certain time period (usually a season) to produce a rate that does not fluctuate often.

SDG&E's proposal takes this averaging concept inherent to TOU rate design to the extreme. It would not differentiate between any hour of the year that falls between 4 p.m. and 9 p.m., and instead assign all of those hours (1,830 of them in 2020) the costs that are estimated to fall during those hours over the course of an entire year.⁶² While there is an elegance to this approach, it also

⁶¹ For example, marginal electricity procurement tends to be expensive during August between 4 p.m. and 9 p.m.; but the 6 p.m. hour on August 9, 2020 may not be a high-cost hour if the weather is cool and demand for electricity is relatively low.

⁶² Exh. Cal Advocates-04 at 6 ("in this Application SDG&E is proposing to recover the on-peak summer generation costs from both summer and winter on-peak commodity rates which will result in an on-peak rate that is the same year-round for customers for schedule TOU-DR1").

obliterates the price signal that exists during the summer when marginal electric procurement costs are higher during the 4:00 p.m. to 9:00 p.m. period than in the winter over those same hours.⁶³ SDG&E grants as much when it states:

Although there is an inevitable muting of summer price signals by no longer having seasonally differentiated rates, SDG&E's proposed rate design is still reasonably cost based. Generation capacity costs are still derived and allocated to the on-peak and off-peak periods in the same manner as they currently are, and volumetric energy cost-based rates also follow the same rate design principles as current [sic]... [residential customers] are still paying for these costs over the course of a year, but in a more stable manner. Customers can enjoy this rate stability, while still experiencing meaningful and less complicated TOU price signals daily.⁶⁴

This decision finds that the muting of the summer peak price signal proposed by SDG&E for its residential TOU rates is too severe and is not reasonably cost based. As noted by Cal Advocates, SDG&E's approach "sidesteps" available data on the marginal generation costs faced by SDG&E during the winter peak period.⁶⁵ SDG&E has not refuted Cal Advocates' analysis that there is little, if any, marginal cost difference between winter peak and off-peak periods, and therefore inadequate justification for the rather large

⁶³ See Exh. SDG&E-02 at NM-7, stating that SDG&E's proposed TOU rates in this proceeding were based on marginal costs developed for SDG&E's 2016 General Rate Case Phase 2 (A.15-04-012). The record of that proceeding reveals that SDG&E's marginal electric procurement costs are higher in the summer than the winter. The decision in that proceeding, D.17-08-030, found that SDG&E's proposal for higher peak TOU prices generally (for both residential and non-residential customers) in a revised five-month summer versus the winter was justified. (D.17-08-030 at 15-17.)

⁶⁴ Exh. SDG&E-02, Attachment A1, response to data request "CALPA-SDGE-DR-02" at 1.

⁶⁵ Cal Advocates opening brief at 5.

14 cents/kWh differential SDG&E proposes for winter peak and super off-peak prices.⁶⁶

Furthermore, adopting SDG&E's TOU proposal would not be in accord with previous Commission decisions setting default residential TOU rate designs. All default residential TOU rates approved by the Commission for SDG&E, SCE, and PG&E include higher peak prices in the summer than the winter in order to send residential customers a price signal that accurately reflects the higher cost to procure electricity during the summer peak period.⁶⁷

As noted by Cal Advocates, the Commission has previously distinguished between a seasonal differential and a difference between peak and off-peak prices within seasons.⁶⁸ These differentials are not the same, although the similar terminology may be confusing. It appears that SDG&E genuinely believed that in order to remove seasonality from their residential rates it was necessary to flatten the TOU peak period prices between seasons.⁶⁹

In order to resolve any confusion, this decision finds that it is appropriate for a residential TOU rate to charge higher peak prices in the summer than the winter in order to send residential customers a price signal that accurately reflects the higher cost to procure electricity during the summer period. This is appropriate even if a residential TOU rate is designed to remove a classically defined "seasonal differential" by collecting equal amounts of revenue in the summer and the winter. Because SDG&E's TOU proposal does not send a

⁶⁶ See Cal Advocates opening brief at 5-7.

⁶⁷ D.19-07-004 at 19-22 and 39.

⁶⁸ Cal Advocates opening brief at 10, citing D.19-07-004 at 51. (See also D.18-12-004 at 29.)

⁶⁹ See Exh. Cal Advocates-04 at 5.

specific summer price signal to residential TOU customers, the proposal is inappropriate and should not be adopted.

4.3. Bill Impacts of SDG&E's Proposed TOU Rates

The bill impacts of SDG&E's proposed revision to its residential TOU rates also support this decision's reasoning that the proposal should not be adopted. SDG&E responses to data requests in this proceeding show that 14% of SDG&E's non-CARE all-electric coastal zone customers would see winter bill increases of greater than 5%, and that this is greater than the winter bill increase that any customer would see under the tiered rate proposal adopted by this decision.⁷⁰ SDG&E rejects these arguments, pointing to negligible average annual bill impacts of TOU customers as evidence that the bill impacts of the TOU proposal are reasonable trade-offs for ensuring greater seasonal bill stability.⁷¹

This decision previously deemed the winter bill impacts for the tiered rate proposal reasonable in light of improved seasonal bill stability, the promotion of stable rates for tiered rate customers, and the enhancement of the objective of Pub. Util. Code § 745 to provide a non-temporal alternative to the default TOU rate. It is true that average annual seasonal bill stability would be enhanced by SDG&E's TOU proposal, and it would also create stable rates across the year for TOU customers; but it is also true that the winter bill impacts of the TOU proposal can be more punitive for certain customer groups than under the tiered rate proposal. As noted by Cal Advocates, many TOU coastal zone customers would see winter bill increases in excess of what any SDG&E customer would

⁷⁰ Cal Advocates opening brief at 5; Exh. SDG&E-02, Attachment A1, Cal PA DR 02_Bill Impact Reformatted Q3 at 8.

⁷¹ SDG&E opening brief at 13-16.

see under the tiered rate proposal. SDG&E's data also reveal that over 16% of CARE coastal customers and 15% of CARE inland customers can expect winter bill increases of over 5% under SDG&E's TOU proposal.⁷²

It is also the case that enhancement of the objectives of Pub. Util. Code § 745 do not apply to the consideration of SDG&E's proposed changes to its residential TOU rate designs.

In light of the more severe winter bill impacts for certain SDG&E customers under the TOU proposal as compared to the tiered rate proposal, this decision finds that the bill impacts of SDG&E's TOU proposal support the denial of the SDG&E TOU rate proposal.

4.4. Cal Advocates' Alternate TOU Rate Proposal

Cal Advocates offers a different method for removing the seasonal differential from SDG&E's residential TOU rates. Cal Advocates proposes to make SDG&E's average residential TOU rates during the summer and winter the same.⁷³ However, it also defines the neutralization of a seasonal differential as designing rates so that the average revenue collected in summer is equal to the average revenue collected in the winter.⁷⁴ Cal Advocates argues that collecting equal amounts of revenue in the summer and the winter would mirror the approach taken by PG&E in the design of its default residential TOU rate - E-TOU-C.⁷⁵ Cal Advocates supplies illustrative TOU rates based on its proposal,

⁷² Exh. SDG&E-02, Attachment A1, Cal PA DR 02_Bill Impact Reformatted Q3 at 11 and 35.

⁷³ Exh. Cal Advocates-01 at 2.

⁷⁴ Exh. Cal Advocates-01 at 2, footnote 12.

⁷⁵ Exh. Cal Advocates-01 at 7-8.

although the accuracy of the illustrative rates are called into question by SDG&E.⁷⁶

To eliminate any confusion in the record regarding the rate design proposed by Cal Advocates, this decision interprets Cal Advocates' proposal as redesigning SDG&E's residential TOU rates in a revenue neutral fashion to: 1) collect an equal amount of commodity revenue in SDG&E's summer season (June 1 through October 31) and its winter season (November 1 through May 31), and 2) use the existing dollar per kWh differentials for commodity rates within each season for on-peak to super-off peak periods, or on-peak to off-peak periods where there is no super off-peak period.

Because of a dispute between the parties regarding the accuracy of the illustrative rates proposed by Cal Advocates, this decision relies on calculations made by SDG&E in response to an ALJ ruling of February 10, 2020 to evaluate the illustrative rates that would result from Cal Advocates' proposal. That ruling asked SDG&E to assume a redesign of its residential TOU rates as described in the previous paragraph, and provide illustrative rates for all its residential TOU rates and bill impacts for the default residential TOU rate with that assumption in mind. SDG&E's response to the ALJ ruling of February 10, 2020, served on February 25, 2020, constitutes exhibits SDG&E-03, SDG&E-04, and SDG&E-05. These exhibits are attached as Appendix A. The illustrative rates prepared by SDG&E are compared to SDG&E's residential rates as of June 1, 2019.⁷⁷

A review of the illustrative rates prepared by SDG&E reveals that the rates do not correspond with the ruling's request. While the ALJ ruling sought

⁷⁶ Exh. Cal Advocates-01 at 3; SDG&E reply brief at 5.

⁷⁷ Exh. SDG&E-05 at 2.

illustrative rates that maintained existing dollar per kWh differentials for commodity rates within each season for on-peak to super-off peak periods, or on-peak to off-peak periods where there is no super off-peak period, the illustrative rates prepared by SDG&E maintained the commodity rate ratios between the TOU periods rather than the dollar per kWh differentials requested.

Regardless of the methodology used by SDG&E, the illustrative rates show far less significant changes to the summer and winter peak prices than originally proposed by SDG&E. The table below, prepared by SDG&E, compares the impact of SDG&E's proposal and Cal Advocates' proposal (identified as the "ALJ Requested Proposed Rates") on the default residential TOU rate (Schedule TOU-DR1).⁷⁸

	Current Effective Rates 6/1/19 (\$/kWh)	SDG&E** Proposed Rates (\$/kWh)	Change from Present (\$/kWh)	Change from Present (%)	ALJ*** Requested Proposed Rates (\$/kWh)	Change from Present (\$/kWh)	Change from Present (%)
Summer Energy							
On-Peak	0.56455	0.46205	\$ (0.10250)	-18.2%	0.53189	\$ (0.03266)	-5.8%
Off-Peak	0.34524	0.35327	\$ 0.00803	2.3%	0.35051	\$ 0.00527	1.5%
Super Off-Peak	0.29455	0.32268	\$ 0.02813	9.6%	0.30859	\$ 0.01404	4.8%
Winter Energy							
On-Peak	0.36998	0.46205	\$ 0.09207	24.9%	0.37581	\$ 0.00583	1.6%
Off-Peak	0.36016	0.35327	\$ (0.00689)	-1.9%	0.36333	\$ 0.00317	0.9%
Super Off-Peak	0.34927	0.32268	\$ (0.02659)	-7.6%	0.34950	\$ 0.00023	0.1%
Summer Baseline Adjustment Credit up to 130%	(0.10404)	(0.09926)	\$ 0.00478	4.6%	(0.09929)	\$ 0.00475	4.6%
Winter Baseline Adjustment Credit up to 130%	(0.09536)	(0.09926)	\$ (0.00390)	-4.1%	(0.09929)	\$ (0.00393)	-4.1%
RAR	0.27368	0.27368	\$ -	0.0%	0.27368	\$ -	0.0%

As noted by SDG&E in their exhibit, the newly calculated rates have a very small effect on SDG&E's proposed tiered rates for residential customers of

⁷⁸ *Id.*

around one-tenth of a cent per kWh. SDG&E's prepared table demonstrating the effect is included below.⁷⁹

	Current*** Effective Rates 6/1/19 (\$/kWh)	SDG&E** Proposed Rates (\$/kWh)	Change from Present (\$/kWh)	Change from Present (%)	ALJ*** Requested Proposed Rates (\$/kWh)	Change from Present (\$/kWh)	Change from Present (%)
Summer Energy							
Up to 130% of Baseline	0.28801	0.27479	\$ (0.01322)	-4.6%	0.27486	\$ (0.01315)	-4.6%
131% to 400% of Baseline	0.39205	0.37406	\$ (0.01799)	-4.6%	0.37414	\$ (0.01791)	-4.6%
Above 400% of Baseline	0.55137	0.52606	\$ (0.02531)	-4.6%	0.52618	\$ (0.02519)	-4.6%
Winter Energy							
Up to 130% of Baseline	0.26400	0.27479	\$ 0.01079	4.1%	0.27486	\$ 0.01086	4.1%
131% to 400% of Baseline	0.35936	0.37406	\$ 0.01470	4.1%	0.37414	\$ 0.01478	4.1%
Above 400% of Baseline	0.50540	0.52606	\$ 0.02066	4.1%	0.52618	\$ 0.02078	4.1%
RAR	0.27368	0.27368	\$ -	0.0%	0.27368	\$ -	0.0%

Qualitatively, the effect of the newly calculated rates is to raise the winter peak TOU price and decrease the summer peak TOU price much more gently than originally proposed by SDG&E. They therefore mitigate some of the difference between summer and winter prices currently experienced by Schedule TOU-DR1 customers.

The bill impacts of the newly calculated default residential TOU rate are also more moderate than the original SDG&E proposal. A grand total of 28 out of 171,581 customers for which SDG&E estimated bill impacts were predicted to experience a monthly bill increase or decrease of more than 5%, and none of these average bill changes exceeded 10%.⁸⁰ This suggests that bills for 99.98% of Schedule TOU-DR1 customers will remain relatively stable if the newly calculated rates are adopted.

⁷⁹ *Id.*

⁸⁰ Exh. SDG&E-04.

Because the response of SDG&E to the ALJ ruling of February 10, 2020 did not provide illustrative rates designed in the manner requested, this decision does not rule on any potential adjustments to the seasonal differential present in SDG&E's default or opt-in residential TOU rates. The Commission will consider changes to SDG&E's default residential TOU rate in an expedited fashion, and parties should expect a proposed decision on SDG&E's default residential TOU rate to be served in May 2020 for consideration at a Commission meeting in June 2020. Consideration of changes to SDG&E's opt-in residential TOU rates will occur later in Phase 2 of this proceeding.

5. Outstanding Motions and Evidence

Parties to the proceeding agreed that all proffered evidence should be accepted as admissible. Therefore, all exhibits served by the parties in this proceeding are deemed accepted as evidence. This decision also deems all motions not previously ruled on denied.

6. Comments on Proposed Decision

The proposed decision of ALJ Doherty in this matter was mailed to parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on April 1, 2020 by Cal Advocates, CforAT, and SDG&E. Reply comments were filed on April 6, 2020 by CforAT, TURN, Cal Advocates, and SDG&E. Changes to the decision were made throughout in response to party comments. In particular, the proposed decision's revisions to the default residential TOU rate were eliminated and will instead be addressed in an expedited decision that will be served in May 2020 for consideration at a Commission meeting in June 2020. The elimination of the default TOU rate

revisions from this decision is not prejudicial and is strictly to allow for the development of a more transparent record regarding those proposed changes.

7. Assignment of Proceeding

Genevieve Shiroma is the assigned Commissioner and Patrick Doherty is the assigned ALJ in this proceeding.

Findings of Fact

1. The seasonal rate differential in SDG&E's tiered rate leads to large seasonal bill volatility if a customer substantially increases their usage during the summer as compared to the winter.

2. Increasing summer temperatures and climate variability generally in the San Diego area may encourage some residential customers to utilize their air conditioning more frequently than in the past, leading to summer usage that far exceeds winter usage and consequently higher than expected summer bills.

3. Summer bill volatility could be reduced by up to 20% if the seasonal differential is removed from SDG&E's tiered rate.

4. Removing the seasonal differential in SDG&E's tiered rate will reduce seasonal bill volatility for customers on the tiered rate.

5. Reduction of seasonal bill volatility complies with the sixth of the Commission's rate design principles, namely that rates should be stable and understandable.

6. SDG&E's proposed removal of the seasonal differential from its tiered rate would not change the overall amount of revenue SDG&E collects from its residential customers on a tiered rate (*i.e.*, the proposal is revenue neutral). Instead, the impact of the removal is to increase the winter tiered rate by 4.1% while decreasing the summer tiered rate by 4.6%.

7. SDG&E estimates that non-CARE winter bills will increase 4% (or \$4.06 per month), on average and assuming no change in usage, as a result of removing the seasonal differential in tiered rates. For CARE customers, SDG&E estimates winter bill increases of 4.3% (or \$2.36 per month), on average and assuming no change in usage, as a result of removing the seasonal differential from the tiered rate.

8. SDG&E estimates that non-CARE summer bills will decrease 4.6% (or \$6.63 per month), on average and assuming no change in usage, as a result of removing the seasonal differential in tiered rates. For CARE customers, SDG&E estimates summer bill decreases of 4.8% (or \$3.57 per month), on average and assuming no change in usage, as a result of removing the seasonal differential from the tiered rate.

9. SDG&E estimates that there is virtually no annual change to either a non-CARE or CARE customer's bill on an average annual basis, assuming no change in usage as a result of removing the seasonal differential from the tiered rate.

10. SDG&E's proposal to eliminate the seasonal differential from its residential TOU rates and flatten TOU period prices throughout the year would change the peak price for energy (charged for energy consumed between 4 p.m. and 9 p.m. any day of the week) in both the winter and the summer such that summer peak prices would be reduced by roughly 18% while winter peak prices would be increased by around 25%.

11. SDG&E's proposed year-round non-baseline peak price of 46 cents/kWh in Schedule TOU-DR1 has been allocated the summer on-peak generation capacity costs and all on-peak volumetric energy costs, meaning that SDG&E's residential customers would be paying for summertime peak energy costs in winter months under SDG&E's TOU proposal.

12. During the summer, SDG&E's marginal electric procurement costs are higher during the 4 p.m. to 9 p.m. period than in the winter over those same hours.

13. SDG&E's TOU proposal mutes the price signal that exists during the summer when electric procurement costs are higher during the 4 p.m. to 9 p.m. period than in the winter over those same hours.

14. There is little, if any, marginal cost difference between winter peak and off-peak periods in SDG&E territory.

15. Adopting SDG&E's TOU proposal would not be in accord with previous Commission decisions setting default residential TOU rate designs.

16. All default residential TOU rates approved by the Commission for SDG&E, SCE, and PG&E include higher peak prices in the summer than the winter in order to send residential customers a price signal that accurately reflects the higher cost to procure electricity during the summer peak period.

17. SDG&E's TOU proposal would result in 14% of SDG&E's non-CARE all-electric coastal zone customers experiencing winter bill increases of greater than 5%, and this is greater than the winter bill increase that any customer would see under the tiered rate proposal adopted by this decision.

18. SDG&E's data reveal that over 16% of CARE coastal customers and 15% of CARE inland customers can expect winter bill increases of over 5% under SDG&E's TOU proposal.

19. There are more severe winter bill impacts for certain SDG&E customers under the TOU proposal as compared to the tiered rate proposal.

Conclusions of Law

1. The Commission has retained residential tiered rates in order to satisfy the mandate of Pub. Util. Code § 745(c)(6) that residential customers have the option

to not receive service pursuant to a TOU rate schedule and incur no additional charges as a result of the exercise of that option. If residential customers do not wish to take service on a default TOU rate, or any other time-varying rate, the tiered rate option is available for those customers.

2. A reasonable interpretation of Pub. Util. Code § 745(c)(6) is that an alternative rate should not communicate the temporal price signals inherent in a TOU rate – both hourly and seasonal.

3. Removing the seasonal differentiation from SDG&E's tiered rate helps to fulfill the intention of Pub. Util. Code § 745(c)(6) to ensure that residential customers have an alternative rate available to them that does not contain temporal marginal price signals, as it removes a temporal price element that causes bills to rise even if usage stays constant (or even decreases).

4. Removing the seasonal differential from SDG&E's residential tiered rate is in accord with recent Commission decisions on this matter – D.18-12-004 and D.19-07-004.

5. Given that removal of the seasonal differential from SDG&E's residential tiered rates will reduce lower seasonal bill instability, promote stable rates for tiered rate customers, and enhance the objective of Pub. Util. Code § 745(c)(6) to provide a non-temporal alternative to the default TOU rate, the increased average winter bills are a reasonable and acceptable trade-off to achieve those goals.

6. The rate and bill impacts of SDG&E's proposal to eliminate the seasonal differential from its tiered rates are reasonable.

7. The proposal of SDG&E to remove the seasonal differential from its residential tiered rates (Schedules DR, DM, DS, DT, and DT-RV) is reasonable and should be approved.

8. The rate and bill impacts of SDG&E's proposed elimination of the seasonal differential in its tiered rates are reasonable for its all-electric customers.

9. SDG&E's all-electric customers should still be made aware of the rate change and be given the opportunity to switch to a TOU rate that maintains lower winter rates if they are concerned about the impact of seasonally flat rates on their winter electricity bills.

10. The muting of the summer peak price signal proposed by SDG&E for its residential TOU rates is too severe and is not reasonably cost based, and there is inadequate justification for the rather large 14 cents/kWh differential SDG&E proposes for winter peak and super off-peak prices.

11. It is appropriate for a residential TOU rate to charge higher peak prices in the summer than the winter in order to send residential customers a price signal that accurately reflects the higher cost to procure electricity during the summer peak period.

12. It is reasonable to deny SDG&E's proposal to eliminate the seasonal differential from its residential TOU rates.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company and Pacific Gas and Electric Company shall participate in the second phase of this proceeding.

2. San Diego Gas & Electric Company shall remove the seasonal differential from Schedules DR, DM, DS, DT, and DT-RV no later than June 1, 2020 by filing a Tier 1 advice letter making the rate changes with the Commission's Energy Division no later than May 1, 2020.

3. San Diego Gas & Electric Company shall communicate with its residential all-electric customers taking service on a tiered rate this summer and advise

them that the seasonal differential is being removed from the tiered rate. This advice shall also communicate that summer bills are expected to decrease and winter bills are expected to increase as a result of this change, assuming that there is no change in the customer's usage. This advice shall also remind San Diego Gas & Electric Company's all-electric customers on the tiered rate that they may take service on a time-of-use rate if they wish to continue taking service on a rate with lower rates in the winter as compared to the summer.

4. Application 19-09-014 remains open.

This order is effective today.

Dated _____, at San Francisco, California.