Decision **PROPOSED DECISION OF ALJ PULSIFER (Mailed 4/5/2011)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company To Revise Its Electric Marginal Costs, Revenue Allocation, and Rate Design, including Real Time Pricing, to Revise its Customer Energy Statements, and to Seek Recovery of Incremental Expenditures. (U 39 M)	Application 10-03-014 (Filed March 22, 2010)

DECISION REGARDING RESIDENTIAL RATE DESIGN

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DECISION REGARDING RESIDENTIAL RATE DESIGN

1. Summary

This decision adopts residential electric rate design measures for Pacific Gas and Electric Company (PG&E) pursuant to its general rate case (GRC) Phase 2 application. These adopted measures shall apply in setting the rate structure for PG&E's residential electric customers over the next three-year cycle.[1] These adopted rate design measures are revenue neutral; this will not change the amount of residential revenues collected from PG&E customers, but will change the relative share of revenues billed and collected among lower-versus-higher usage customers. The rate changes resulting from the adopted residential rate design measures for Rate Schedule E-1 and EL-1 are set forth on an illustrative basis in Appendix Table A. The percentage effects on each customer's monthly bill will vary depending upon the customer's usage patterns and geographic region. The illustrative rates also do not incorporate any effects of increased revenues that may be adopted in PG&E's GRC Phase 1.

PG&E proposes the most significant changes in residential electric rate design in the last decade, largely aimed at addressing disparities between rate levels and the associated costs of service that have developed over the past decade. PG&E's residential electric rates are designed in an inverted four-tiered structure. Customers with the lowest usage (in Tiers 1 and 2) will pay the lowest per-kilowatt hour (kWh) rates while customers using more will pay higher per-kWh rates applicable to higher tiers. Over the past decade, the rates for

[1] A subsequent decision in this application will address rate design for non-residential customers, electric marginal costs and principles for revenue allocation to the customer class level.

higher-usage tiers have continued to rise while legislative restrictions kept lower-usage rate tiers frozen through 2009. Consequently, a growing disparity has developed in the rates charged lower-versus-higher-usage residential customers.

PG&E's proposals would generally increase utility bills for low-usage customers and reduce bills for higher-usage customers. Various intervening parties object that PG&E's proposed increases would a) produce unacceptable hardships on those low-income households least able to afford increases and b) that the proposed reductions for upper-tier usage customers would impair incentives to be more energy efficient.

The rate design measures adopted herein balance these conflicting interests, taking into account affordability, particularly for low-income households, while continuing movement toward a cost-based framework for rate design. We adopt a number of measures proposed by PG&E including creation of a Tier 3 for low-income households, reduction of baseline quantities, and adoption of a nonbypassable Conservation Incentive Adjustment (CIA). We also adopt PG&E's uncontested rate design proposals. We decline to eliminate Tier 4, but reduce the upper-tier differential. We decline to approve residential fixed customer charges.

2. Procedural Background

PG&E's GRC is considered in two phases—Phase 1 addresses revenue requirement issues and Phase 2 addresses marginal cost, revenue allocation, and rate design issues. This proceeding addresses the Phase 2 issues. PG&E's Phase 2 application was filed on March 22, 2010. In support of its request, PG&E provided testimony on marginal cost, revenue allocation, and rate design proposals.

Protests were timely filed on April 26, 2010, and PG&E replied on May 6, 2010. A prehearing conference for Phase 2 was held on May 19, 2010. On May 26, 2010, the Assigned Commissioner's Ruling and Scoping Memo was issued. The Scoping Memo, among other things, categorized this proceeding as ratesetting, identified the relevant issues, and set a schedule. A separate Phase 3 was created to consider dynamic pricing issues. Phase 2 was further bifurcated to separately address residential rate design issues on a priority basis. Non-residential rate design issues, as well as revenue allocation and marginal cost issues are deferred to a later sub-phase.

The sub-phase limited to residential rate design issues is the sole subject of this decision. PG&E served updated opening testimony on June 30, 2010. Division of Ratepayer Advocates (DRA) served testimony on September 8, 2010, and other parties served testimony on October 6, 2010. A settlement conference was held on October 13, 2010. PG&E served rebuttal testimony on October 29, 2010. PG&E and interested parties did not reach a settlement on residential rate design issues.

Evidentiary hearings on residential rate design issues were held on November 12, 15, 18, 19, and 22, 2010. Opening briefs were filed on December 20, 2010, and reply briefs were filed on January 10, 2011. Intervenors sponsoring testimony on residential rate design issues in addition to DRA were The Utility Reform Network (TURN), Greenlining Institute (Greenlining), Disability Rights Advocates (DisabRA), Solar Alliance, Vote Solar, Sierra Club California (Sierra Club), KernTax, Kern County, California Large Energy Consumers Association/California Manufacturers and Technology Association, (CELCA/CMTA), City and County of San Francisco (CCSF) and Marin Energy

Authority (MEA). Southern California Edison (SCE) also sponsored testimony and briefs.

The Commission held eleven public participation hearings (PPHs) throughout PG&E's service territory during May and June of 2010, the scope of which included notice of PG&E's Phase 2 application.[2] The views and concerns presented at the PPHs relating to PG&E's rate design proposals were considered in reviewing the rate design issues in this proceeding. At the PPHs, 14.5 percent of the speakers expressed opposition to PG&E's rate design proposals. A majority of such speakers spoke on low-income consumer issues.

3. Framework for Resolving Rate Design Proposals

3.1. Historical Context for Residential Electric Rate Configurations

We evaluate PG&E's proposals in accordance with applicable statutory requirements and in the context of relevant economic changes over the past decade. Because PG&E seeks the most dramatic changes in its residential rate design in the last decade, it is useful to review relevant statutory and economic developments that have resulted in the current configuration of PG&E residential electric rates.

On February 1, 2001, Assembly Bill (AB) 1 from the First Extraordinary Session (Ch. 4, First Extraordinary Session 2001) (AB1X) was enacted, implementing measures to address rapidly rising energy costs resulting from the

[2] The public participation hearings were noticed as part of two different PG&E applications, namely Phase 1 of the 2011 Test Year General Rate Case (A. 09-12-020) and the Gas Transmission and Storage proceeding (A. 09-09-013). The notice setting the dates and times for the PPHs also provided notice of PG&E's Phase 2 application which is the subject of the instant decision.

2000-2001 energy crisis. For several years prior to the energy crisis, PG&E had previously applied a two-tiered residential rate structure, with the upper-tier rate set moderately above the lower-tier rate. This arrangement changed in response to California's energy crisis which resulted in rapid escalation in wholesale power costs.

With AB1X mandating that all residential electricity use up to 130 percent of baseline be capped at levels in effect on February 1, 2001, the Commission developed a rate design methodology so that investor-owned utilities could fully recover their respective residential revenue requirement allocations. In D.01-05-064, the Commission adopted a five-tier rate design for PG&E[3] based on an increasing rate per kWh within each successive tier, or "block" of use. Given the restrictions required by AB 1X, all future residential rate increases were allocated to rates in Tiers 3 through 5, above the Tier 1 baseline and Tier 2 (130 percent of baseline) threshold.

To protect low-income households against these escalating costs, the Commission froze rates for the California Alternate Rates for Energy (CARE) program[4] at July 2001 levels, after increasing the CARE discount from 15 to

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[3] In D.01-05-064 and D.01-09-059, the Commission adopted the same residential tier structure for PG&E, SCE, and SDG&E: Tier 1: For kWh use up to 100 percent of baseline;

Tier 2: For kWh use from 100 percent to 130 percent of baseline; Tier 3: For kWh use from 130 percent to 200 percent of baseline; Tier 4: For kWh use from 200 percent to 300 percent of baseline; Tier 5: For kWh use over 300 percent of baseline. The first two tiers are used to measure usage up to 130 percent of baseline.

[4] The CARE program provides assistance to low-income electric and gas customers with annual household incomes no greater than 200 percent of the federal poverty guideline levels. (See Pub. Util. Code Sec. 739.1 4)(b)(1)).

20 percent. Non-CARE Tier 1 and 2 rates were also frozen in early 2001 and with one minor exception, these rates have remained constant through 2009. Non-CARE rates only became subject to certain statutorily limited increases starting in 2010. About half of PG&E's residential households and three-quarters of its residential kWh sales currently fall into these "protected" categories (i.e., Tiers 1 and 2).

In 2001, the Commission also replaced PG&E's two-tiered structure with a five-tiered structure. In view of the Tier 1 and 2 rate freeze, all residential rate increases between 2001 and 2009 had to be absorbed by Tiers 3, 4 and 5, (for usage exceeding 130 percent of baseline), representing less than one-quarter of all residential usage (i.e., non-CARE households consuming in Tiers 3, 4, and 5). PG&E's upper-tiered rates increased dramatically compared to those of the other California utilities. The increases in non-CARE upper-tier rates were not based upon cost of service, but were applied because statutory restrictions precluded recovering additional revenue requirements from Tiers 1 and 2.

Over time, the rate tier differentials have widened. Between 2001 and 2010, the differentials between the Tiers 2 and 3 expanded from about 5 cents to 15 cents, and Tiers 3 and 4 and Tiers 4 and 5 expanded from about 4 and 2 cents per kilowatt-hour (kWh), respectively, to about 13 and 7 cents per kWh. Between 2000 and 2009, the Tier 5 rate nearly doubled, increasing from 24.5 cents per kWh at the height of the energy crisis to 44.3 cents per kWh at the end of 2009. PG&E's current Tier 4 rate is still almost three times higher than the Tier 2 rate of 13.9 cents per kWh, constituting a subsidy paid by upper-tier to lower-tier consumers. (PG&E/Quadrini, Ex. 2, at 2-22, lines 11 to 15.) Upper-tier rates can produce very high bills when combined with high usage due to extreme temperatures.

A turning point occurred with the enactment of Senate Bill (SB) 695 (Chapter 337, Statutes of 2009) on October 11, 2009. SB 695 amended Pub. Util. Code Sec. 739.1, and added Sec. 739.9 to begin allowing limited annual Tier 1 and Tier 2 rate increases for both CARE (from 0 to 3 percent) and non-CARE customers (from 3 to 5 percent).[5] In addition, D.10-05-051 consolidated Tiers 4 and 5 into a single Tier 4. PG&E has thereby realized some progress toward narrowing the disparity between upper- and lower-tiered rates.

SB 695-related provisions implemented on January 1, 2010, increased non-CARE Tier 1 and 2 rates by three percent (or 0.3 and 0.4 cents per kWh, respectively). In the summer of 2010, PG&E's upper-tier residential rates were reduced from their highest level of 49 cents per kWh to 40 cents per kWh. SB 695 produced further changes effective January 1, 2011, with a 3 percent increase to non-CARE Tier 1 and 2 rates, no increase to CARE Tier 1 and 2 rates, and rate decreases by 3.6 percent for Tier 3 and 2.6 percent for Tier 4.

3.2. Overview of PG&E's Proposals

PG&E proposes the following:

a) Establish a fixed customer charge of $3 for all non-CARE residential schedules (except E-8), and $2.40 for all CARE schedules (except EL-8);

b) Establish a CARE Tier 3 rate set equal to 150 percent of the CARE Tier 1 rate for usage above 130 percent of

[5] Non-CARE rates may increase by the change in the third quarter Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), published by the U.S. Department of Labor, Bureau of Labor Statistics, compared to the previous year plus 1 percent (but no more than 5 percent and no less than 3 percent). CARE Tier 1 and 2 rates can increase by the annual increase in benefits under the California Work Opportunity and Responsibility to Kids (CalWORKs) program, but no more than three percent.

baseline, with further rate increases by 1.5 cents/kwh in 2012 and 2013, respectively. CARE usage exceeding 130 percent of baseline;

c) Collapse Tiers 3 and 4 into a single tier and charge only a Tier 3 rate for non-CARE usage exceeding 130 percent of baseline;

d) Lower residential electric baseline quantities from 60 to 55 percent of average usage (and from 70 percent 65 percent for all-electric customers) – the middle of the range allowed by law.

e) Establish flat generation and distribution rate components and implement rate tiering through a non-bypassable Conservation Incentive Adjustment (CIA) component; and

f) Other miscellaneous changes, including closing or consolidation of certain rate schedules and modifying certain eligibility requirements to qualify for low-income rate schedules.

PG&E's proposals in this proceeding would increase most residential customers' rates, representing lower-usage tiers that have been protected from prior increases, but would reduce the disproportionately high rates of the minority of customers in the higher-usage tiers. The resulting rates would be more comparable to the upper-tier rates of SCE and SDG&E.

PG&E's proposals would cause 40 percent of above-average CARE users to see bill increases of over 14 percent, averaging approximately $11.60 per month. (PG&E/Quadrini, Exh. 2, at 2-25, lines 10-19; PG&E brief at 21). The average bill increase for low-income customers would be 14 percent, with 46 percent of CARE customers seeing an increase from $2.40 to $4.20 and an additional 15 percent seeing average increases of $5.20.

Under PG&E's rate proposals, more than 99.7 percent of low income customers on Schedule EL-1 would receive bill increases.[6] An estimated 86.5 percent of customers would receive bill increases of 10 percent or greater per year and 5.6 percent of customers would receive bill increases of 20 percent or greater.[7]

3.3. Overview of Intervening Parties' Position

DRA and other parties representing low-income and/or disabled customer interests argue that PG&E's proposals would make rates for basic energy needs unaffordable for customers already struggling to pay existing bills. DRA recognizes the need to reduce pressure on upper-tier rates, but disagrees with PG&E as to how to accomplish such relief. DRA advocates (1) decreasing the revenue allocation to the residential class, (2) restraint in increasing revenue requirements in PG&E's GRC Phase I proceeding, (3) continuation of the residential rate design changes adopted in D.10-05-051, (4) reliance on the residential Tier 1 and 2 non-CARE rate increases allowed by SB 695, and (5) allocating a greater portion of revenue allocation decreases to Tier 4. (DRA/Khoury, Ex. 23, at 6-6, lines 3 to 19.)

DRA and TURN both believe that SB 695, which provides for measured and predictable rate increases to Tiers 1 and 2, and recent changes to eliminate Tier 5, should gradually reduce the high rates over time, if the utility revenue requirements are kept under control. (TURN/Marcus, Ex. 11, at 60.) TURN also argues that if revenue requirements to residential customers cause the average

[6] Exhibit 23, at 6-14:21-22.

[7] Exhibit 23, at 6-15:2-5.

residential rate to go up by less than 3 percent, there will be lower percentage increases in Tiers 3 and 4 than in Tiers 1 and 2, while an increase of no more than 2 percent could allow decreases in Tiers 3 and 4. (Tr. at 198, line 20 to Tr. at 199, line 6, TURN/Marcus).

Other intervenors oppose PG&E's proposals based on concerns that reducing upper tier rates will impair incentives to be energy efficient or to move to solar technologies. Parties representing Community Choice Aggregators object to certain proposals deemed to be competitively unfair to their interests.

PG&E's proposed rate increases would be implemented at the same time that customers are seeking to cope with California's continuing economic difficulties. Various parties note that low-income customers increasingly cannot afford even current PG&E rates, as reflected in increasing levels of termination notices and involuntary service disconnections.

DisabRA calls attention to the Commission's obligation to protect the comfort and safety of low-income ratepayers. DisabRA contends that low-income households that budget every dollar have no reserve from which to pay higher utility rates of any amount, and that as a result, low-income customers will face greater risk of service disconnection for non-payment of bills or possibly to sacrifice other necessities to maintain electric service.

DisabRA argues that in light of the struggles faced particularly by low-income households already on the lowest rungs of the economic ladder, the historical context of frozen rates for low-income customers is meaningless. Whether or not CARE rates have been below cost over time, DisabRA argues that now is not the time to raise rates, and certainly not by the margin sought by PG&E. DisabRA described the hardships of disabled customers, many of whom

are on the medical baseline program. Increasing rates during a recessionary period would be especially difficult for these vulnerable customers.

As a basis for its testimony, DisabRA conducted outreach within the disability community in the PG&E service territory, soliciting input from disability-related community-based organizations and disabled individuals. DisabRA provided the results of this outreach effort in the testimony of DisabRA's outreach coordinator. Through this outreach, DisabRA presented anecdotal accounts of various people with disabilities and others on low or fixed incomes who had great difficulty in paying their PG&E utility bills, and who were "forced to juggle any combination of vital living expenses…"[8] DisabRA presented this testimony to show the potential harms and to relay fears expressed by low-income individuals with disabilities relating to the adoption of PG&E's rate proposals. DisabRA contends that although PG&E has the burden of demonstrating that its rate design proposals are affordable to low-income consumers, PG&E failed to conduct any affordability studies regarding its proposals.

KernTax and Kern County, representing Central Valley customer interests, support PG&E's rate proposals, however, arguing that the current structure places a discriminatory "climate tax" on residential customers based on where they live, the size of their home, and whether they have family at home during the day. KernTax and Kern County argue that residents in the Central Valley are being unfairly forced to subsidize customers residing in cooler climate zones whose usage is priced significantly below cost. They claim that the current

[8] See Reyes/Disability Rights Advocates Testimony at 5.

formula for allocating costs among PG&E's 10 baseline usage allowance regions results in 48 percent of PG&E's E-1 customers (which account for more than 75 percent of E-1 power consumption) receiving an unfair "rate credit" of 31 percent, while the remaining 52 percent pay a discriminatory "rate surcharge" exceeding PG&E's cost by 119 percent.

PG&E contends, however, that the rate tier changes permitted by SB 695 will not be significant enough to rectify existing rate disparities. PG&E was not able to increase CARE Tier 1 and 2 rates in 2010 or 2011, since the CalWORKS index is suspended. (Tr. at 1024, line 27 to Tr. at 1025, line 1, PG&E/Quadrini; Tr. at 384, lines 22 to 27, PG&E/Keane.) For non-CARE Tiers 1 and 2, the 3 percent increase effective January 1, 2010 was only approximately 3/10ths of a cent for Tier 1 and 4/10ths of a cent for Tier 2. (Tr. at 198, lines 2 to 5, TURN/Marcus.) Cross examination Ex. 37 graphs the rates for CARE Tiers 1 and 2 and non-CARE Tiers 1, 2, 3, 4, and 5 for the last decade and includes the SB 695 increase for non-CARE Tiers 1 and 2 on January 1, 2010. Ex. 37 shows that the SB 695 rate change on January 1, 2010 was almost imperceptible compared to the rate differentials for Tiers 3, 4 and 5. PG&E points to this graph to illustrate the "limited ability" of SB 695 to help correct the rate inequities. (PG&E/Keane, Ex. 2, at 1-16, lines 10 to 14.) PG&E thus argues that its proposals for rate reform are needed now.

PG&E argues that protection of low-income customers should not eclipse other principles of economic efficiency and equity. PG&E characterizes its proposed increases as being relatively small in absolute dollars. Given the existing below-cost levels of CARE bills, even a modest dollar increase can translate into a significant percentage change. PG&E argues, however, that such percentage figures do not translate into large dollar increases.

CLECA/CMTA argue that current CARE subsidies are unfair and should be reduced considerably. The CARE subsidy is funded by charging higher rates for all other customers, making it more difficult for commercial and industrial customers to compete in the marketplace, to sell their goods and services and to employ Californians. CLECA/CMTA witness Barkovich testified that large industrial customers' rates over the past decade were up 86 percent, with rates for non-firm large industrial customers up 127 percent. Meanwhile CARE rates have not increased since 1991 but have actually fallen by 46 percent in real, inflation-adjusted terms. CLECA/CMTA also argue that the revenue allocation between the residential class and all other classes is a problem, whereby other classes contribute an annual subsidy of approximately $500 million to the residential class.

The CARE subsidy is currently 2.5 times in excess of the statutory requirement of a 20 percent discount and will total more than $700 million this year, adding nearly 9 mills to the rates of all non-CARE, non-Street Lighting customers. The CARE subsidy has grown from just $30 million to its current proportions. The current effective rate for CARE usage above 130 percent of baseline is 20 cents lower that the current non-CARE Tier 3 rate and more than 30 cents below the non-CARE Tier 4 rate. The resulting CARE discounts of 67 percent and 76 percent respectively, contrast to the required 20 percent CARE discount. This rate differential is a primary factor accounting for the CARE subsidy amount.

As a result of the cap on rate increases for Tier 1 and 2 usage over the past decade, these rates are now 5-to-6 cents-per-kWh below the class average residential rate. Tier 1 and 2 usage rates now cover 70 percent of residential load.

Effectively, just 21 percent of residential load has been available to absorb cost increases allocated to the class.

3.4. Discussion

We resolve PG&E's rate proposals in accordance with applicable legal requirements and established ratemaking and energy policy principles. We consider whether the proposals are permissible under applicable law and if so, whether the proposals produce "just and reasonable" rates in conformance with Pub. Util. Code Sec. 451.[9]

In evaluating PG&E's proposals, we weigh and balance countervailing goals. We recognize, on the one hand, the importance of moving toward rates designed in relation to the costs of service. This concern becomes more pronounced in view of the large imbalance between upper versus lower-tiered rates over the past decade.

On the other hand, we recognize the importance of avoiding rate shock and keeping essential energy needs affordable, particularly for low-income households. California law requires that retail electric service remains affordable. Sec. 382(b) states, in part:

> In order to meet the legitimate needs of electric and gas customers who are unable to pay their electric and gas bills and who satisfy eligibility criteria for assistance, recognizing that electricity is a basic necessity, and that all residents in the state should be able to afford essential electricity and gas supplies, the commission shall ensure that low-income ratepayers are not jeopardized or overburdened by monthly energy expenditures.

[9] Unless otherwise noted, subsequent statutory section references are to the California Public Utilities Code.

Our obligation to maintain affordable rates must be addressed in the context of California's ongoing economic crisis, high unemployment rates, and rising income inequality. Affordable electricity prices make it easier for poor Californians to pay their energy bills and maintain some degree of comfort and safety.

PG&E's claimed bill impacts assume that its proposed revenue allocation reductions to the residential class of 1.9 percent are adopted, but exclude any future revenue requirements increases requested in its GRC Phase I. Thus, if all of PG&E's proposals are adopted, depending on the effects of the GRC Phase I and subject to any revenue allocation changes adopted for the residential class, actual bill impacts of PG&E's rate proposals could be more extreme.

While we recognize the economic difficulties particularly facing low income households, we are also concerned that higher-usage customers bear a disproportionate burden of cost subsidies. For almost two decades, CARE rates capped while the consumer price index has increased by approximately 51 percent. Thus, CARE customers' bills have declined in real terms by a significant amount. (PG&E/Quadrini, Ex. 2, at 2-26, line 15 to at 2-27, line 2.) The average CARE rate, adjusted for inflation, is 46 percent lower than it was in 1991.[10] Even with a combination of the proposed CARE Tier 3 rate, the proposed change in baseline quantities and the proposed $2.40 customer charge, the average CARE rate in the first year following this decision, in nominal terms, would be slightly above where it was in 1991.

[10] PG&E Ex. 1, at 3-5.

With more CARE customers and CARE usage than ever before, CARE discounts have risen above the longstanding historical target of 20 percent of the rate. The discounts now range from 29 to 30 percent in the lower two tiers and up to 76 percent in Tier 4. (*Id.,* at 2-27, lines 3 to 7.)

More than one million households participate in PG&E's CARE program and receive CARE discounts on their electric service. CARE Tier 1 and 2 rates may not increase in the near future because the index specified in Section 739.1 for CARE is not expected to trigger increases in those tiers. (*Id.,* at 6, lines 13 to 16; Tr. at 384, lines 22 to 27, PG&E/Keane.) Thus, existing CARE statutory restrictions provide certain rate affordability protections for low-income customers for their baseline.

We take all of these factors into view in addressing PG&E's proposals. We disagree with those positions that categorically oppose *any* rate increases that affect low-income customers. We recognize the merits of approving *some* movement toward rectifying cumulative imbalances between CARE and non-CARE rates. By moving toward rate levels that align more closely with costs, rate levels will necessarily increase for the most economically vulnerable customers. Yet, because these rate imbalances developed over a period of several years, we cannot immediately rectify all such imbalances without risking undue rate shock, particularly for low-income households. In this regard, we decline to approve *all* of PG&E's proposed rate changes. Instead, our adopted rate design changes produce an appropriate balancing of interests while keeping overall rate levels reasonably affordable.

Another important criterion for rate design is to encourage energy efficiency and use of renewable resources consistent with the Commission's Energy Action Plan. Thus, our adopted rate design measures preserve price

signals that promote achievement of energy efficiency and related energy resource goals.

We take into account the statistics cited by CLEC/CMTA, cited above, concerning the significant increases in the CARE discounts over the past decade, and the related disproportionate increase in cost burden progressively borne by other customers over the same period.

4. Disposition of Specific Rate Proposals

4.1. Residential Customer Charge Proposal

4.1.1. Parties' Positions

PG&E proposes to institute a residential fixed customer charge applicable both for CARE and non-CARE customers. PG&E currently applies fixed customer charges only in non-residential customer classes, but recovers its fixed costs associated with servicing residential customer accounts through volumetric rates based upon usage.

PG&E does apply a minimum charge of $4.50 per month, which helps collect for facilities in place to serve residential customers. For customers with no or very low usage, the minimum charge functions like a customer charge and collects fixed revenues. Customers who use more energy (and whose bills exceed $4.50 per month) pay no minimum charge but pay for customer access only through volumetric rates. A minimum charge ensures that a customer who uses little or no electricity will contribute to customer access facilities.

PG&E proposes to reduce its current minimum charge to zero and to initiate a fixed customer charge of $3.00 per month for non-CARE customers and $2.40 per month for CARE customers. PG&E proposes to implement the customer charges in mid-2011 in addition to any authorized annual SB 695 increases to Tier 1 and Tier 2 rates. The revenues from a fixed customer charge

would be used to reduce per-kWh rates for upper-tier usage. The Tier 3 and 4 rates would thereby decline by approximately 2 cents per kWh.

PG&E argues that imposing the customer charge will help contribute toward realigning rates more closely with costs of service. PG&E characterizes the customer charge impacts as small, accounting for only about $160 million out of almost $5 billion in annual residential revenues. PG&E argues that a fixed residential customer charge would mitigate swings in monthly revenue collections.

Various parties, including DRA, TURN, Greenlining, and DisabRA, oppose PG&E's customer charge proposal, both on legal and policy grounds. PG&E is supported in its legal and policy positions by SCE, Kern County, and Kern Tax.

TURN, in particular, argues that PG&E's customer charge proposal is contrary to Sec 739.1(b)(2) for CARE rates and 739.9(a) for non-CARE rates, both enacted as part of SB 695. TURN contends that the introduction of a fixed customer charge, combined with allowed increases in Tier 1 and Tier 2 volumetric rates, would exceed legal limits specified by these statutory requirements.[11]

TURN supports its position with the opinion of the Legislative Counsel Bureau (attorneys for the state Legislature). The Legislative Counsel opinion was produced in response to an inquiry from Senator Kehoe, the

[11] TURN initially presented legal arguments in opposition to the customer charge in a motion to strike. Parties filed responsive pleadings. The Assigned Commissioner deferred ruling on the substance of the motion to strike, directing that legal and factual issues relating to PG&E's customer charge proposal be addressed in this decision.

primary author of SB 695.[12] The Legislative Counsel concluded that an electrical corporation formerly subject to Section 80110 of the Water Code may not increase or institute a fixed monthly customer charge in addition to increasing commodity rates by the maximum percentages provided under Sec. 739.1 and 739.9.

The pertinent provisions of Sec. 739.1(b)(2) authorize the Commission to grant increases in "rates in effect for CARE program participants for electricity usage up to 130 percent of baseline quantities" by prescribed amounts "not to exceed 3 percent per year."

Sec. 739.9(a) prescribes that any "increase [in] the rates charged residential customers for electricity usage up 130 percent of the baseline quantities" be capped at the "annual percentage changes in the Consumer Price Index from the prior year plus 1 percent, but not less than 3 percent and not more than 5 percent per year." TURN interprets these restrictions to include fixed customer charges. (TURN/Florio, Ex. 13, at 4.) TURN argues that under the referenced statutory requirements, fixed customer charge revenues must be included when calculating whether an increase in "rates for usage" meets the applicable percentage test. TURN thus contends that PG&E is foreclosed by law from implementing the proposed residential customer charge.

TURN contends that since PG&E has already been authorized to increase Tier 1 rate within the range specified by statute, any revenues produced by a new customer charge; together with the Tier 1 rate increase; would therefore produce composite "baseline rates" that exceed the specified percentage limits.

[12] See Ex. 13, Attachment A to Testimony of Michel P. Florio.

A $3.00 monthly customer charge would increase winter baseline rates by more than 5 percent in every climate zone and would increase in summer baseline rates above 5 percent in all but two climate zones.

PG&E disputes TURN's interpretation regarding the applicability of fixed customer charges to the baseline restrictions of Sec. 739.1(b)(2) and 739.9(a). SCE supports PG&E's legal interpretation. PG&E argues that the statutory language is plain that the rate percentage increase restrictions apply only to per kWh volumetric rates, but not to fixed customer charges. Because a customer charge is not based on the volume of energy usage, PG&E claims the prescribed percentage limits on annual rate increases have no relevance, and that fixed customer charges are excluded from the statutory limits.

PG&E and SCE both also observe that Sec. 739.9(a) omits explicit mention of a customer charge while Sec. 739.9(b) expressly identifies the customer charge. They argue that under rules of statutory construction, where the Legislature "has employed a term or phrase in one place and excluded it in another, it should not be implied where excluded." *Pasadena Police Officers Assn. v. City of Pasadena* (1990) 51 Cal.3d 564, 576. Applying this principle, they argue that the inclusion of the customer charge is not implied in Sec. 739.9(a).

PG&E agrees that the Legislature intended to allow customer charges plus increases in Tier 1 volumetric rates up to 90 percent of the utility system average rate, but argues that the Legislature did not intend to prevent the Commission from authorizing or increasing a fixed customer charge independent of volumetric charges authorized under Sec. 739.9(a). PG&E argues that its proposed customer charge is lawful so long as it can pass the test in Sec. 739.9(b) based on rates including customer charge revenue.

PG&E thus argues that the Commission has authority to approve PG&E's proposed customer charge, apart from any Sec. 739.9(a) rate restrictions. PG&E, with support from SCE, argues that legal standards of statutory construction support its interpretation that fixed customer charges are not included within the rate restrictions specified in Sec. 739.9(a).

TURN argues that PG&E's interpretation is inconsistent with the legislative intent underlying SB 695. TURN claims that it would be inconsistent with the legislative intent to control volumetric rate increases within a narrow annual range but then to ignore increases for ***access*** to the electric system via a customer charge. Allowing both Tier 1 and Tier 2 increases while also introducing a customer charge would not result in the narrow range of increases to the cost of access and the quantity of usage that covers basic needs. TURN argues that without access to the system, there can be no usage.

TURN also argues that PG&E's proposed customer charge contradicts past Commission precedent holding customer charges to be a component of baseline rates. PG&E argues that just because customer charge revenues have been treated as part of baseline for **some** purposes in the past does not mean that customer charges should be treated as part of the baseline rate for all purposes, or for the purpose of the Sect. 739.1(b)(2) and 739.9(a) formulas.

TURN also argues that the customer charge proposal is inconsistent with Sec. 739.7 in that it produces a tier differential below what was previously recognized as sufficient to comply with the statute. TURN believes that the Commission should compare an inverted Tier 1 composite rate with the customer charge against the Tier 2 rate to determine if the rate structure satisfies Sec 739.7's requirement that the Commission maintain an appropriate inverted

rate structure. TURN claims that the differential must be at least 10 percent between Tiers 1 and 2.

PG&E has proposed Tier 1 and 2 rates that differ by 13.7 percent. Therefore, if the addition of the customer charge raises Tier 1 rates by a certain percentage, Tier 2 rates also must be raised in order to keep the tier differential greater than 10 percent. However, in some climate zones (Q, T, and Z) it is not possible to limit Tier 2 increases to no more than 5 percent as required by SB 695 while maintaining a Tier 2 – Tier 1 differential of at least 10 percent.

PG&E responds that the statutory language does not specify what tier or tiers to use to maintain an appropriate inverted tier structure. PG&E argues that the appropriate comparison should be based on all tiers above Tier 1, not just Tier 2, in order to reflect the complete effect of tier inversion. When composite tiers are used, PG&E's proposal meets the 10 percent differential.

Since SCE already has a residential customer charge, TURN's composite "baseline rate" interpretation of Sec. 739.9(a) would allow an increase both in SCE's Tier 1 rate and to the existing customer charge (or some combination of the two) because both components exist as part of the composite "baseline rates" that may be increased by 3-to-5 percent pursuant to Sec. 739.9(a). SCE argues that the rate differential disparity between the upper and lower tiers could be partially mitigated by allowing measured increases in the lower tiers as well as through allowing residential customer charges, provided the requirements of Sec. 739.9(b) are observed.

4.1.2. Discussion

As a threshold matter, we consider whether the proposed increase resulting from instituting a customer charge is legally prohibited under Sec. 739.9(a). Specifically, the dispute involves whether the fixed customer

charges are included within the baseline formula limiting increases in rates under Sec. 739.9(a). If we interpret that the statutory formula in Sec. 739.9(a) *does* include customer charges, we would next consider whether the proposed customer charge for 2011, would exceed statutory percentage limits. If so, the customer charge proposal must be denied. Alternatively, if we interpret Sec. 739.9 to *exclude* fixed customer charges from the limitations on permitted rate increases, we would next consider whether the customer charges would otherwise be justified under other applicable statutes and regulatory principles.

We find no statutory restrictions categorically prohibiting a fixed residential customer charge. Indeed, we acknowledge that SCE currently applies such a residential customer charge. The key legal question here, however, is whether the imposition of a fixed customer charge is included within the Sec. 739.1(b)(2) and 739.9(a) annual rate limitations applicable to electric usage up to 130 percent of baseline. Based on our analysis of the statutory provisions as discussed below, we do interpret Sec. 739.1(b)(2) and 739.9(a) as including fixed customer charges within the limitations on allowable percentage increases in "rates for usage." Thus, we are prohibited by law from approving PG&E's customer charge to the extent the total bill impacts exceed these statutory limitations on baseline rate increases.

In terms of its substantive merits, we likewise conclude that PG&E's proposed customer charge would produce unacceptable rate impacts on those customers least able to afford it. The customer charge also would conflict with price signals that encourage conservation and utilization of alternative resources such as solar. Accordingly, we decline to adopt the customer charge proposal on both legal and policy grounds.

We first address the legal disputes concerning the interpretation of Sec. 739.1(b)(2) and 739.9(a). We interpret these statutes by applying generally accepted principles of statutory construction. Statutory interpretation involves a three-step analysis. The Supreme Court of California has stated that to construe a statute, "we must 'ascertain the intent of the Legislature so as to effectuate the purpose of the law.' The words of the statute are a starting point …. [And] they should be given the meaning they bear in ordinary use. If the language is clear and unambiguous there is no need for construction nor is it necessary to resort to indicia of the intent of the Legislature."[13] If the language is ambiguous or allows more than one reasonable interpretation, courts look to other extrinsic sources, including the ostensible objects to be achieved and the legislative history.[14]

The key words of the statute in dispute involve the meaning of "rates" as used in Sec. 739.9(a). We find that ambiguity in this term does, in fact, exist. PG&E presents arguments interpreting the term "rates" narrowly so as to exclude fixed customer charges in contrast to volumetric-based charges. Yet, this narrow meaning is at odds with long-established Commission usage of the term "baseline rates" as including fixed customer charges. Therefore, we disagree with PG&E that there is no ambiguity in the statutory use of the term "rates."

Where ambiguity, doubt or uncertainty exists, statutory interpretation principles instruct that the next step is to look to the legislative history.[15] In reference to the legislative history of SB 695, the Legislature has stated that "by restricting rate increases to an annual narrow range and

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[13] *Wilcox v. Birtwhistle* (1999) 21Cal. 4th 973, 977 [internal citations omitted].

[14] *Id.*

[15] *Halbert's Lumber v. Lucky Stores* (1992) 6 Cal.App.4th 1233, 1239.

controlling the increase within relatively small parameters, SB 695 is intended to minimize spikes in electricity rates and provide relative stability and predictability."[16] Consistent with this express intent, the limitations in "rate" increases must be interpreted consistent with providing "relative stability and predictability" in customers' rates. Ignoring the effects of a fixed customer charge in assessing permissible statutory rate increases would conflict with this stated intent of SB 695. Otherwise, merely imposing limits on volumetric tiers would have little meaning if a fixed customer charge could be imposed without regard to such limits, and thereby undermine the intended overall rate stability. No customer using only baseline quantities could avoid the customer charge. Thus, it is logical to infer that the Legislature intended that all rate elements relevant to baseline usage be included for purposes of "restricting rate increases." Thus, by examining the legislative intent, we resolve the ambiguity in favor of interpreting customer charges as being included within the intended use of the term "rates" in Sec. 739.1(b)(2) and 739.9(a).

We disagree with PG&E that omission of the phrase "including any customer charges" from Sec. 739.9(a) means that the cap on the "increase [in] the rates" referenced therein applies only to the volumetric rate, but not to fixed customer charges.

Section 739.9(b) imposes a limitation on rate increases that expressly states that "rates charged residential customers for electricity usage up to the baseline quantities, *including any customer charge revenues*, shall not exceed 90 percent of the system average rate prior to January 1, 2019, and may not

[16] Assem. Com. On Appropriations Analysis of SB 695 (2009-10 Reg. Sess.) August 19, 2009, at 2-4 see also Sen. Floor Analysis of SB 695, Sept. 2, 2009.

exceed 92.5 percent after that date." (Emphasis added.) Sec. 739.9(a) has similar language as Sec. 739.9(b), but omits the phrase "including any customer charge revenues."

PG&E argues that the inclusion of language in one section of a statute and its omission in another section is generally regarded as deliberate, especially when both provisions are enacted concurrently. (*Wells*, 39 Cal.4th at 1190.) PG&E thus argues that when two subsections use different terms (i.e. "rates" versus "rates. . . including any customer charge revenues"), applicable limitations are to be construed based on the different elements and "plain language" of the statute. The applicable legal principle is articulated as follows:

> "It is not the proper function of the courts to supply legislative omissions from a statute in an attempt to make it conform to a presumed intention of the legislature not expressed in statutory language. They may not supply gaps in the law under the guise of interpretation, nor may they supply omitted words in order to rule in accordance with the contentions of a litigant. Indeed, if a statute on a particular subject omits a particular provision, inclusion of that provision in another related statute indicates an intent that the provision is not applicable to the statute from which it was omitted."[17]

PG&E and SCE argue that if the phrase "rates for electricity usage" in Sec. 739.9(a) necessarily includes customer charges, there would have been no need for the Legislature to add the phrase "including any customer charge revenues" to "rates for electricity usage" as identified in Sec. 739.9(b). They argue that such an interpretation would render such added words as

[17] 58 Cal. Jur. 3d 494-495, Statutes, Section 97.

"surplusage."[18] PG&E and SCE argue that their interpretation avoids surplusage of words and harmonizes the separate provisions.

The California Supreme Court has noted, however, that statutory construction based upon alleged surplusage of words within a statute which defies common sense, or leads to mischief or absurdity, is to be avoided.[19] Accordingly, inferences regarding alleged surplusage are not to be construed arbitrarily or out of context. In this instance, accepting PG&E's "surplusage" argument would produce an interpretation at odds with the express legislative intent. As noted above, we conclude that the legislative intent of SB 695 was to include fixed customer charges in determining the percentage rate limits under Sec. 739.1(b)(2) and 739.9(a). As such, consistent with accepted statutory construction, we are not persuaded by PG&E's and SCE's argument that the Sec. 739.9(b) phrase "including any customer charge revenues" implies an intent to exclude customer charges in Sec. 739.9(a).

Sec. 739(a) does not explicitly mention "customer charges", but does refer to "rates…for electricity usage up to 130 percent of baseline quantities…" The Commission has repeatedly recognized that baseline rates include any fixed customer charges. For example, in D.91107 (issued in 1979), the Commission stated:" [a]s the customer charge is an integral component of the lifeline charge,

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[18] See SCE Opening Brief at 17, citing the legal principle that every word of a statute should be given meaning to avoid a construction making any word surplusage. (*Arnett v. Dal Cielo* (1996) 14 Cal.4th 4, 22, 56 Cal.Rptr.2d 706, 923 at 2d 1.) *State Office of Inspector General v. Superior Court* (2010) 189 Cal.App.4th 695, 2010 WL 3898237, *9

[19] *California Mfrs. Assn. v. Public Utilities Com* (1979) 24 Cal. 3d 836, 844.

an increase in the customer charge is a disguised form of an increase in the lifeline rates."[20]

In 1980, the Commission stated, "[w]e fail to see how doubling the customer charge produces an inexpensive lifeline rate - since the customer charge is part of the lifeline."[21] In D.00-04-060 for a Southern California Gas Company (SoCalGas) Biennial Cost Allocation Proceeding, the Commission stated that Sec. 739(c) and 739.7:

> "have been consistently interpreted to include the customer charge in determining whether the rate structure is, in fact, inverted. Under this 'composite tier differential' approach, customer charges are considered part of the Tier I, or baseline, rate for the purpose of calculating tier differentials. (D.87-12-039, 26 CPUC2d 213, 270; D.89-01-055; D.97-04-082, at 117-118.)

It is thus, reasonable to read the expression "rates for usage" as used in Sec. 739.9(a) in a manner consistent with how that term has been used in prior Commission decisions. Thus, we conclude that the Commission's longstanding definition of baseline rates is implicit in Sec. 739.9(a). There is no reasonable basis to conclude that the statutory references to "rates" in Sec. 739(b)(2) and 739.9(a) were intended to contradict the Commission's longstanding recognition that customer charges are an integral component of baseline rates.

As noted above, the Commission has previously recognized fixed customer charges as being inseparable from the Tier 1 usage-based rate for purposes of calculating and measuring bill impacts of tier differentials. In this context, although a fixed customer charge is not applied on a per-unit volumetric

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[20] D.91107, mimeo, at 143-144, 2 CPUC2d 596.

[21] 4 CPUC 2d 725, 824 (1980).

usage basis for billing purposes, the Commission has still recognized fixed customer charges in calculating customer-related bill impacts for usage within baseline quantities. Accordingly, even though the customer charge is not a volume-based billing determinant, the customer charge is still relevant in calculating the "rate for usage" in the context of identifying impacts on customers usage in Tier 1 (i.e., baseline quantities) or Tier 2 (up to 130 percent of baseline usage). Irrespective of whether rate design is configured to recover customer-related costs as a fixed amount or through a per-unit consumption rate, the customer impact is the same. The customer charge is thus included within the "rates… for electricity usage up to 130 percent of baseline usage…" as referenced in Sec. 739.1(b)(2) and 739.9 9(a).

In contrast to Sec. 739.9(a), the phrase "including customer charges" expressly appears in Sec. 739.9(b). At the same time, the rate limitation in Sec. 739.9(b) also excludes rates for second-tier usage (which were included in Sec. 739.9(a). Sec. 739.9(b) also prescribes a different formula for rate increases as a percentage of the "system average rate." Given the changing elements involved in the formulas compared between Sec. 739.9(a) and (b), the express mention of "customer charges" is useful. The explicit reference to "including any customer charges" conveys that customer charge revenues are a necessary element to calculate the percentage change relative to "the electric corporation's total revenue requirements for bundled service customers." We find no legislative intent to apply mutually inconsistent understandings of baseline rate elements between these adjacent statutory sections.

We find it noteworthy that the phrase "any customer charges" in Sec. 739.9(b) is defined as being *"included* in" rather than as being "in *addition to"* rates for usage. If the legislative intent was to *exclude* customer charges from

"rates for usage," the phrase - "in addition to" - would have been a more logical choice. It is a principle of statutory construction that the terms "includes" and "including" are words of enlargement and not of limitation. The term "including" thus expands the definition of "rates" rather than limiting it to exclude customer charges.

We recognize that the prohibition on imposing residential charges that are "independent of consumption" set forth in Sec. 739(d)(3) expired on December 31, 2003. SCE argues that if Sec. 739.9(a) is interpreted to include fixed customer charges, it would logically imply an amendment or repeal of Sec. 739(d). Yet, the courts have found a basis for an implied repeal "only when there is no rational basis for harmonizing the two potentially conflicting statutes [citation] and the statutes are 'irreconcilable, clearly repugnant, and so inconsistent that the two cannot have concurrent operation." (*Garcia v. McCutchen* (1997) 16 Cal.4th 469, 476-477, 66 Cal Rptr.2d 319, 940 at 2d 906.)

We disagree with SCE that interpreting Sec. 739(a) to include fixed customer charges necessarily implies repeal of Sec. 739(d)(3). These statutory provisions, taken together, merely indicate that Sec. 739(d)(3) does not categorically prohibit a fixed customer charge after December 31, 2003. At the same time, the extent to which a customer charge can be accommodated depends upon whether other statutory constraints come into play.

We disagree, however, with TURN's interpretation that the differential between PG&E's proposed Tier 1 and 2 rates, including any customer charge in Tier 1, must be at least 10 percent in order to comply with Sec. 739.7. We interpret Sec. 739.7 merely as requiring that an inverted rate structure be maintained. TURN relies largely on D.93-06-087 as the basis for its focus on a 10 percent tier differential. In that decision, the Commission concluded that a

10 percent differential between baseline and non-baseline rates was inadequate to provide a meaningful inverted rate structure and conservation signal. Yet, D.93-06-087 applied to a different rate structure than exists today. We agree with SCE that compliance with the inverted rate structure requirement of Sec. 739.7 is a comparison of the baseline rate (Tier 1) to the average of all non-baseline rates. Based on this comparison, the differential between PG&E's baseline and nonbaseline rates, both current and proposed, significantly exceeds the 10 percent differential cited in D.93-06-087.

Having concluded that customer charges must be included in calculating the limits prescribed in Sec. 739(a), we further find that the sum of the proposed customer charge, when added to Tier 1 and 2 rate increases already authorized for 2011 would exceed authorized statutory limits. Accordingly, the fixed customer charge cannot be approved.

Even if were we to conclude that Sec. 739.9(a) did not prohibit the Commission from considering approval of a fixed customer charge in addition to Tier 1 rate limits, the Commission would still exercise discretion to consider whether PG&E's customer charge proposal conforms to other relevant statutes and regulatory policy. Any adopted outcome must produces just and reasonable rates in accordance with Sec. 451.

We recognize that setting a customer charge to recover costs on a fixed basis has appeal in terms of the principle of cost-based ratemaking. We have previously approved a fixed residential customer charge for SCE. A fixed customer charge would more closely reflect cost causation and would more closely align PG&E's retail rates with costs, increasing bills for low-usage customers and decreasing bills for high-usage customers. PG&E estimates residential marginal customer costs at approximately $93 per year, covering

functions that do not vary with usage, such as connecting a customer, maintaining the connection and servicing the account. These costs exist whether the customer uses electricity or not. Thus, customers with greater usage subsidize customers with lower usage.

PG&E has 4.575 million residential accounts and thus the $93 per-customer cost translates into roughly $425 million of fixed, unavoidable customer-related costs each year. The $425 million adds about 6.5 cents to the level of the non-CARE Tier 3 and 4 rates thereby contributing significantly to the level of the CARE discount and the CARE subsidy. CLECA/CMTA calculates that if those 6.5 cents were instead collected through a fully-compensating customer charge, the CARE subsidy would fall by more than $120 million.

We also consider, however, the potential adverse bill impacts of a customer charge, particularly on low-income households. Aside from any legal restrictions the fact remains that a fixed customer charge would be an unavoidable component of the bill of every residential customer, including those whose usage remained within baseline. Because a fixed customer charge cannot be avoided by a customer's reducing usage or being more energy efficient, the customer charge offers no conservation price signal. PG&E witness Faruqui performed no independent analysis of the impact of the customer charge on usage conservation.

Thus, recognizing the customer charge as an unavoidable element of baseline usage, we evaluate PG&E's proposal in terms of rate impacts on customers that utilize only baseline quantities. In this regard, a CARE customer using only 100 percent of the baseline amount in climate zone T would see an increase greater than 10 percent in their monthly bill as a result of PG&E's $2.40 customer charge. A non-CARE customer using only 100 percent of baseline

in climate zone T would see an increase of almost 10 percent as a result of PG&E's $3.00 customer charge. Given the potential for the fixed customer charge to produce rate increases of up to 10 percent for those customers with the lowest usage and that are least able to afford it, we conclude that the customer charge proposal should also be denied on policy grounds. Even though PG&E represents the dollar amount of the customer charge as a modest amount, for low-income customers struggling to pay their bills in a difficult economy, a 10 percent bill impact could have unduly adverse effects.

At the same time, high-end energy users would see significant savings as a result of the customer charge proposal. Tier 5 customers (with usage above 300 percent of baseline) would experience savings from $13 to $23, with the greatest savings in Central Valley climate zones.[22]

TURN witness Marcus calculated that PG&E's proposed customer charge would produce expected revenue decreases from non-CARE customers ($25.3 million) that are almost offset by the increase for CARE customers ($21.0 million). The impact on CARE customers is uniform across baseline zones, with 100 percent receiving higher bills. The customer charge does not result in any material shifting of revenues between baseline territories.

In Kern County, the adoption of a customer charge would cause a 0.3 percent reduction in aggregate residential bills. However, all CARE customers and 46 percent of non-CARE customers would face higher rates. Among customers facing lower bills, almost 14 percent of the benefits would flow to only 0.8 percent of residential customers. Almost the entire remaining

[22] See Aguilar Testimony, Ex. 14 at 10, footnote 20.

benefit would accrue to non-CARE customers, those with significant usage above 300 percent of baseline.

In summary, we deny PG&E's customer charge proposal on both legal and policy grounds, as explained above.

4.2. CARE Tier 3 Rate

4.2.1. Parties' Positions

PG&E seeks to implement a Tier 3 rate applicable to CARE usage above 130 percent of baseline. The 2011 CARE Tier 3 rate would be set equal to 150 percent of the CARE Tier 1 rate, increasing rates for usage above 130 percent of baseline by 2.9 cents per kWh for a total of 12.5 cents/kWh. PG&E further proposes that the CARE Tier 3 rate increase automatically by 1.5 cents/kWh in 2012 and 2013, respectively. By 2013, the Tier 3 CARE rate would be 15.5 cents, or 187 percent of the Tier 1 rate. PG&E's proposal would bring its CARE rate structure closer to that of SCE and SDG&E, both of whom already charge CARE Tier 3 rates. PG&E's proposed CARE Tiers 1, 2, and 3 rates will be lower than SCE and SDG&E's (see Quadrini testimony, Exhibit 2, at 3-15, Table 3-7; Figure 3-2, from Exhibit 2, at 3-19; and Table 3-1 and Table 3-3 in Quadrini rebuttal testimony. (*See also* PG&E/Faruqui, Ex. 2, at 3-16, Table 3-1 and at 3-17, Table 3-3; PG&E/Keane, Tr. at 262, lines 17 to 21.)

TURN does not oppose creation of a CARE Tier 3 rate set at 150 percent of the Tier 1 CARE rate, but does oppose additional annual increases in the Tier 3 rate prior to PG&E's next GRC. DRA conditionally accepts PG&E's CARE Tier 3 proposal only if the Commission concurrently rejects proposals to institute a customer charge and to change baseline allowances. Greenlining and DisabRA categorically oppose creation of a CARE Tier 3 rate.

Implementing the CARE Tier 3 rate will mean an increase of 30 percent for the first year for usage above 130 percent of baseline, with additional increases of more than 10 percent each for the next two years under PG&E's proposal.[23] The CARE Tier 3 rate would thus increase by 50 percent over the next three years. DRA believes that a 50 percent Tier 3 rate increase over three years is too fast and will cause rate shock to the impacted customers. In their view, avoiding the associated bill impacts would require major lifestyle changes and home improvement, which would be difficult for customers to implement in a short time period in DRA's opinion. The CARE Tier 3 rates for SCE and SDG&E increased more gradually over a number of years.

Greenlining and DisabRA also oppose the CARE Tier 3 proposal, pointing to its effects on higher utility bills for low-income households already struggling with existing bills. They express concerns that a CARE Tier 3 rate will increase the risk that low-income customers may be unable to pay their bills and thus face service disconnection. PG&E has not conducted any studies to see how their new CARE rate proposal may impact the disconnection rate for CARE customers.[24]

Although progress has been made in reducing disconnection rates, the IOUs still disconnect at a much greater rate for low income customers than for non-CARE customers.[25] PG&E and SCE's disconnection rates are higher than

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[23] Exhibit 1, at 3-13:9-14, PG&E intends CARE tier 3 rates become $0.125 in 2011, then add another $0.015/kWh in 2012 and 2013, respectively.

[24] R.T. 895:1-4/PG&E Quadrini.

[25] The Commission has noted: "While this disconnection discrepancy has decreased, we are concerned that low income customers continue to experience higher rates of disconnection as compared to non-CARE customers." (D.10-07-048, at 9.)

those of SDG&E and SoCalGas. The Commission opened R.10-02-005 to stem the increasing trend of utility service disconnections in the face of California's current economic problems. The Commission noted that it would investigate, in the next phase of the disconnections proceeding, the causes of the discrepancies between CARE and non-CARE disconnection rates as well as between PG&E, SCE and Sempra Utilities.[26] PG&E has not conducted any studies to see how their new CARE rate proposal may impact the disconnection rate for CARE customers.[27]

PG&E's proposal would allow CARE rates to rise for the first time in many years, permitting PG&E to further escalate the Tier 3 rate prior to a full review in the next GRC. TURN opposes any increases to the Tier 3 rate prior to PG&E's next GRC. TURN opposes these automatic increases on legal and policy grounds. DRA likewise opposes any interim increases prior to the next GRC.

PG&E's non-CARE Tier 3 rate is currently 29 cents per kWh. The Tier 3 rate would be 29.7 cents per kWh without PG&E's proposed change in baseline allowances and without the proposed customer charge.[28] DRA estimates that combining the CARE Tier 3 proposal with the baseline proposal would cause about 27 percent of CARE customers to see a 30 percent rate increase for incremental usage in Tier 3. DRA notes that PG&E has recommended capping the revenue allocation increases to streetlight customers

[26] Id., at 27.

[27] R.T. 895:1-4/PG&E Quadrini.

[28] 2 R.T. 400-401/PG&E Quadrini.

at 7.5 percent to prevent the streetlight customer class from facing an undesirable higher revenue allocation increase of 12.6 percent.[29]

DRA thus infers that PG&E considers a revenue allocation increase greater than 7.5 percent to be undesirable. Following the same standard, DRA argues that it likewise would be unacceptable to impose a 14 percent average rate increase on CARE customers. DRA also notes that increased CARE rates will cause greater difficulties to low-income customers in paying their utility bills.

4.2.2. Discussion

We find that, on balance, PG&E's proposal to institute a CARE Tier 3 rate at 150 percent of baseline is reasonable and hereby adopt it. The proposal is consistent with Sec. 739.1(b)(5) which permits an electric corporation to introduce a CARE Tier 3 rate provided that it does not initially exceed 150 percent of the CARE baseline rate.

We recognize that a CARE Tier 3 rate will cause some increase in the overall bill for CARE customers with usage above 130 percent of baseline. We recognize the need to maintain affordable rates for low-income households struggling in difficult economic times. We also remain sensitive to the effects of rising energy costs on risks of increasing nonpayment of bills and service disconnections. We find no inherent conflict, however, between approving the CARE Tier 3 rate and continuing to pursue measures to help low-income customers minimize the risk of service disconnection. The Commission places great emphasis on minimizing service disconnection because energy services are a necessity and losing energy services could cause health and safety hazard concerns.

[29] Exhibit 3, at 1-17:5-12.

The magnitude of the adopted CARE Tier 3 rate, however, is sufficiently modest so as to preserve affordability within reasonable limits. PG&E's proposed CARE Tier 3 rate is still a significant discount from the current non-CARE Tier 3 rate, (i.e. a 57 percent discount [12.5 cents compared to 29.1 cents] and a 56 percent discount [12.5 cents compared to 27.6 cents] from the proposed non-CARE Tier 3 rate). (See Ex. 2, at 2-8.) The sales-weighted overall CARE discount from non-CARE rates will be approximately 41 percent. (Quadrini/PG&E, Ex. 1, at 3-16, lines 6 to 8.) Even with the CARE Tier 3 increase, CARE customers will have significantly discounted rates for their usage.

At the same time, a CARE Tier 3 rate will move in the direction of bringing the rate tiers more into balance with the cost of service. SCE and SDG&E already have CARE Tier 3 rates. PG&E's CARE Tier 3 rate will still be lower than that of SCE and SDG&E. The SCE rate is about 50 percent higher than the level proposed by PG&E.

Raising the number of tiers for CARE customers from two to three will provide incentives to use less energy by a group of customers that account for about 29 percent of PG&E's current residential energy sales. PG&E claims that a higher Tier 3 rate is needed to motivate CARE customers to conserve. PG&E supported its claim with data showing CARE usage. Greenlining notes that that only a small group of CARE customers in four outlier counties with exceptionally high energy usage cause a significant skewing of the overall CARE usage data. For example, only 0.45 percent of the CARE population use more than one-third of total CARE usage in Tier 5. Greenlining thus argues that this small group is not representative of the actual energy usage of CARE customers and should not be treated as such for purposes of rate design. Greenlining

observes that the highly skewed nature of the usage data for this small outlier group leads to the conclusion that many of these customers could be actually using electricity to engage in energy-intensive *commercial* activities. We conclude that additional steps are warranted to investigate this matter further, and to identify customers with unusually high usage receiving CARE discounts that may not actually qualify for the CARE discount. We note that PG&E has presented a proposal for its 2012-2014 CARE budget (in A.11-05-022) to take steps to ensure that the CARE program is being utilized only in a manner consistent with the program's overall statutory objectives. In A.11-05-022, PG&E proposes a new approach to address the top 1 percent of CARE households with extremely high usage that is atypical and inconsistent with usage consumption of typical CARE households. PG&E proposes a process to limit participation of egregious users - those households with greater than 600 percent of baseline.

PG&E also proposes to ensure that extreme users – those households with usage between 400 percent and 600 percent of baseline - demonstrate they are indeed income-qualified by providing standardized income eligibility documentation, and showing a commitment to becoming more energy efficient by agreeing to participate in the Energy Savings Assistance Program as a condition of continued participation in the CARE program. We agree that the problem of inefficient and/or unauthorized CARE usage must be addressed, and we look forward to consideration of PG&E's proposals in A.11-05-022. We agree with Greenlining that the referenced outlier data raises significant questions about the validity of PG&E's conclusions regarding average CARE usage, and we will not rely on such data. Nonetheless, we still believe that the CARE Tier 3 rate provides a useful incentive to encourage more efficient energy usage among CARE customers.

Low-income customers in PG&E's service territory have the potential to save, on average, 160 kWh per year through energy efficiency (Exh. 39, at 6-5, table 6-4; Tr. at 220, lines 19-24.) As long as CARE customer usage does not exceed Tier 2 usage, they will not be impacted by the CARE Tier 3 rate.

Sec. 739.1 (b)(5) limits the initial Tier 3 rate level to no more than 150 percent of the CARE Tier 1 rate, but does not specify any particular time interval for subsequent CARE Tier 3 rate adjustments. Thus, the Commission has discretion to consider subsequent interim increases in the CARE Tier 3 rate prior to PG&E's next GRC.

When combined with the initial CARE Tier 3 rate, the additional interim increases would be a cumulative increase by 50 percent over the next three years. We conclude that a 50 percent rate increase for CARE Tier 3 over three years increases rates is too fast and will risk undue rate shock to impacted customers. Measures to avoid the associated bill impacts would be difficult for customers to implement in a short time period. At the same time, we recognize value in making at least some progress toward cost-based rates during the three-year GRC cycle. Accordingly, we shall approve one additional interim CARE Tier 3 increase of 1.5 cents/kWh, starting in 2013, but we decline to approve the requested interim Tier 3 increase for 2012. Given the continued uncertainties regarding the pace of the current economic recovery, we consider this adopted approach to provide the most balanced result.

4.3. Changes in Tier 4 Rate Differential for Non-CARE Customers

4.3.1. Parties' Positions

PG&E proposes to further flatten tier differentials by collapsing Tiers 3 and 4 to bring the non-CARE upper-tier rate to a lower level. This change

would continue the consolidation of non-CARE tiers that began with D.10-05-051. PG&E's combined upper-tier rate would move into the range of SCE and SDG&E's upper tier rate instead of the current 40 cent rate which is 25-to-30 percent higher. PG&E argues that reducing the number of tiers for non-CARE customers will enhance the understandability of one of the most complex rate designs in the country.

The Tier 4 rate significantly exceeds the cost of service and is higher than the corresponding rates charged by any other California utility. As a result, PG&E residential households with consumption in the upper tiers (particular those in hot climate zones like the Central Valley) experienced extremely high summer bills particularly during 2009. PG&E filed A.10-02-029 seeking to lower the tier differentials as an interim means of lowering Tier 5 rates to provide summer rate relief primarily for customers in the Central Valley during 2010 and reduce month-to-month bill volatility. D.10-05-051 approved a Joint Settlement which consolidated Tiers 4 and 5 into a single Tier 4 and adopted a fixed differential between Tiers 3 and 4 to continue until the Commission issues a decision in this proceeding. PG&E's highest tier rate is still above 40 cents per kWh.

PG&E supports an inverted rate structure as an incentive for customers to conserve energy, but only to the extent that inverted rates are based on marginal costs. PG&E believes that rate design should not be determined based solely on conservation incentives for households with significant consumption in higher tiers. PG&E argues for greater emphasis on what it perceives as fairness of the rate structure and sending accurate price signals reflecting the costs of consumption.

Under PG&E's proposal, the remaining Tier 3 rate differential would be the same for all rate schedules, with two exceptions. The first exception would be for the Family Electric Rate Assistance (FERA) rates. FERA customers currently do not pay the Tier 3 rate for Tier 3 usage, but instead pay the Tier 2 rate. But they currently pay the same Tier 4 rate on their usage exceeding 200 percent of baseline as other non-CARE customers. PG&E proposes that FERA customers pay the proposed Tier 3 rates on all usage exceeding 200 percent of baseline. The second exception would be for Electric Vehicle tariff, E-9, as discussed below in Section 4.6.

PG&E argues that its proposal to collapse Tier 4 will mitigate volatility in bills associated with the current four-tier structure. Using a Kern County household as an example, PG&E calculated that at current rates, a 38 percent increase in consumption results in a 63 percent bill increase. Although this is an improvement over the 75 percent figure in 2009, PG&E's proposal would reduce the volatility further, with just a 50 percent bill increase in response to a 38 percent consumption increase.

Various parties oppose reducing the rate tiers to three, arguing that a four-tiered structure: 1) provides stronger conservation incentives to customers; 2) provides price signals that promote increased distributed renewable generation development among customers; and 3) minimizes potential customer confusion regarding PG&E's fluctuating residential electric rates. Advocates for low-income ratepayers oppose the consolidation of tiers because low-income customers with usage in Tier 3 would see higher rates, thereby making bills less affordable. They also argue that the four tiered structure has only been effective since June 1, 2010, allowing too little time to

reasonably measure related customer impacts prior to implementing subsequent changes.

Some parties argue that PG&E's proposal would harm the solar industry. PG&E's proposed a top rate for Schedule E-1 customers of 27.6 cents per kWh significantly exceeds what is charged in every other state except Hawaii and Arizona, and is only slightly below the top rate charged by SCE and SDG&E (Faruqui, Ex. 2, at 3-18, Figure 3-1). Robust solar industry exists in the SCE and SDG&E service areas. Residential customers in SDG&E's service area have already moved into step 8 of the ten steps of the California Solar Initiative (CSI),[30] only four years into this ten year program. Residential customers in SCE's service area are now in step six. (Tr. at 521, line 1 to Tr. at 523, line 7, Vote Solar/Rose.) In view of these solar program successes in Southern California, PG&E argues that reducing PG&E's top rate tier to the level proposed will not harm the solar program in PG&E's service territory.

DRA favors continuation of a Tier 4 differential, but supports a lowering of the magnitude of the differential from 40 cents to 34.7 cents/kWh. DRA's calculation, however, assumes that its revenue allocation is adopted, which shifts revenues from the residential class to other classes. DRA's recommended Tier 4 rate would still be more than 2.5 times the Tier 2 rate. DRA argues that collapsing non-CARE Tiers 3 and 4 rates would lead to higher non-CARE Tier 3 rates, and put pressure on increasing CARE Tier 3 rates in the future.

[30] The California Solar Initiative is legislatively mandated to provide incentives for installations of solar systems to customers of the state's three investor-owned utilities.

DisabRA notes that medical baseline customers currently do not pay rates higher than Tier 3 rates, and that the proposal to collapse Tiers 3 and 4 to form a new Tier 3 could result in a higher Tier 3 rate, leading to higher bills for medical baseline customers.

TURN opposes PG&E's proposal, arguing that it fails to provide sufficient conservation incentives, and may undercharge customers for the peak costly summertime usage that drives system-wide capacity additions. TURN argues that the elimination of Tier 4 would reduce the marginal price charged to larger residential consumers who are typically higher-income and more likely to have their usage correlated with system-wide peak demand (due to air conditioning). TURN believes that the current 4-tier structure provides effective conservation signals and should be retained.

TURN further argues that eliminating Tier 4 is unnecessary given the expected increases in lower-tiered rates authorized by SB 695 in 2011 and beyond. Moreover, TURN argues that the choice between 3 and 4 tiers makes practically no difference in terms of addressing the perception of inter-regional inequity by some customers in the Central Valley.

Solar Alliance argues that PG&E's proposed Tier 3 rate (which would become its highest tier) is as low as 27 cents per kWh, which would be *below* the marginal cost-based summer on-peak residential Time-of-Use (TOU) rate for Tier 1 usage, which PG&E proposes be set at 28 cents per kWh. Consequently, Solar Alliance argues, PG&E's highest tiered rate would be below, not above, its marginal cost of peak usage. The percentage of residential summer usage which falls into the on-peak TOU period – i.e., 20 percent – is approximately the same as the percentage of residential usage which occurs in the higher tiers.

The Solar Alliance and Vote Solar provided testimony showing how PG&E's proposal to collapse Tiers 3 and 4 could harm residential customers who have installed solar photovoltaic (PV) units. Solar Alliance, Vote Solar, and Sierra Club all argue that high Tier 4 residential rates help make solar PV more cost-effective to customers. (Sierra Club, Ex. 7, at 29 to 53.) Solar Alliance asks for the return of a Tier 5 rate.

Greenlining argues that moderate energy users will see "drastic" increases in their rates under the tier consolidation proposal. (Greenlining brief at 42.) Greenlining believes that tier consolidation could lead to escalating non-CARE Tier 3 rates, and ultimately increase CARE customers' bills if a CARE Tier 3 rate is approved. Greenlining argues that many CARE customers find it difficult to avoid usage between 130 percent and 200 percent of baseline. For example, CARE customers with large households and energy-inefficient homes might unavoidably consume energy up to 200 percent of the baseline amount. Such a customer would see a monthly bill increase ranging from $5.00 to $12.00, depending on their climate zone. Greenlining argues that such bill increases for CARE households struggling to pay their bills are untenable, especially if combined with the proposed customer charge and an additional bill increase from the baseline quantity reduction. Greenlining argues that the most conservationist customers – low-income customers in hot Central Valley climate zones – would be punished the most in order to placate the generally affluent excessive energy consumers in the Central Valley.

PG&E responds that the current Tier 3 rate is 29.0 cents per kWh, and its proposed new rate will be lower, at 27.6 cents per kWh. (PG&E/Quadrini, Ex. 1, at C-1.) While this proposal will result in higher rates

for Tier 3 customers than they would otherwise pay, PG&E does not view the increase as "drastic."

TURN notes that the 27.6 cent per kilowatt hour rate proposed for Tier 3 and 4 usage may not cover the cost of generation in the highest peak hour of the year. (TURN brief at 23.) PG&E responds that the proposed Tier 4 rates far exceed the cost of service, and that TURN only compares this rate with the proposed TOU rate for peak periods. Solar Alliance notes that the proposed Tier 3 rate will be below the TOU peak period rate. (Solar Alliance brief at 14-15, claiming that the top tier TOU rate is PG&E's marginal cost.) The proposed 27.6 cent per kWh price will be charged for all non-TOU Tier 3 and 4 usage every single hour of the year. PG&E questions how a 27.6 cent price applicable at all times during the year will fail to cover costs when the average cost of service for residential customers is near 18 cents per kWh. PG&E claims that there is no cost basis for continuing with four tiers. (PG&E/Quadrini, Ex. 2, at 2-14, lines 8-10.)

4.3.2. Discussion

We decline to adopt PG&E's proposal to consolidate Tiers 3 and 4. Currently there is an 11 cents per kWh differential between PG&E's residential Tiers 3 and 4. We recognize the need for some movement to more closely align Tier 4 with cost of service. We conclude, however, that a complete consolidation of Tiers 3 and 4 goes too far. Accordingly, we reduce the Tier 4 rate somewhat, but require that a Tier 4 differential of at least four cents per kWh be maintained between Tiers 3 and 4. PG&E's Tier 4 rate that results from our adopted rate design measures, as illustrated in Appendix Table A, is still higher than the residential top tier rates approved for SCE and SDG&E. (see PG&E Hearing Ex. 1, Attachment 11A, page 11A-2).

If Tier 4 were entirely eliminated, there would be no rate incentive to conserve for usage beyond 200 percent of baseline. Entirely eliminating Tier 4 could impede progress toward achieving the CSI goal of creating a self-sustaining residential solar PV market. By promoting the market for residential PV, we help to advance the state's loading order and meet AB 32 greenhouse gas emission reduction goals.

We recognize that utility bill savings are the most important driver of a customer's decisions to invest in PV. The amount of time it takes for bill savings to equal the total cost of a PV system is the payback period. The elimination of Tier 4 would cause a significant reduction in a customer's annual bill savings associated with PV installations, and thereby extend the customer's payback period.

We conclude that it is too early to assess the effects of consolidating Tiers 4 and 5, which only took effect on June 1, 2010. Rate design will play a larger role in the success of the CSI program as CSI incentive payments step down. As noted by Vote Solar, the success of the CSI program has led to steep incentives declines into step 8, or $0.35 per Watt, down from $2.50 per watt at the start of the program.

Sierra's Club argues that removing Tier 4 will reduce incentives to conserve. PG&E's witness, Dr. Faruqui, testified that PG&E's proposals, as a whole, have a small pro-conservation effect. Certain of PG&E's proposals which may reduce conservation incentives for some customers offset other elements which increase incentives for other customers.

TURN presented an analysis of revenue impacts on various rate design changes for Kern County. This analysis shows that the customer charge and the elimination of tier 4 have virtually no impact on the total amount of

revenues collected from Kern County residential customers. For example, retaining a 4-tier rate structure would yield a net revenue reduction of $291,402 (or 0.17 percent of the total) for Kern County. Eliminating the customer charge and retaining a 4-tier rate structure would result in a $458,843 (or 0.27 percent) revenue increase relative to PG&E's base proposal.

We decline to adopt Solar Alliance's recommendation that PG&E return to a five-tier residential rate design with fixed and much smaller differentials between the Tiers 3, 4, and 5 rates. Solar Alliance argues that the differential between the Tier 3 and Tier 4 rates should be 3 cents per kWh, with a 7 cents per kWh difference between Tier 4 and Tier 5. The Solar Alliance proposal would reverse the direction that Commission has been pursuing in attempting to bring high-usage tiers more into line with cost of service. For the reasons discussed above, we favor continuing to move forward with narrowing upper tier differentials, not increasing them.

4.4. Proposal to Revise Baseline Quantity Allowances

4.4.1. Parties' Positions

Baseline quantities are the designated daily amounts of electricity and gas considered necessary to supply a significant portion of the reasonable energy needs of the average residential customer. PG&E proposes to reduce the electric baseline quantity allowance from 60 percent to 55 percent of average usage for basic customers, except for all-electric baseline quantities during the winter season, which PG&E proposes to reduce from 70 percent to 65 percent of average usage, per Sec. 739(a)(1). Sec. 739(a)(1) specifies that the baseline percentage must be set between 50 and 60 percent of average residential consumption. PG&E's proposal would set its electric baseline percentage at the middle of the range allowed by law, and would reduce total baseline quantities

by an average of 4.5 percent (CARE) to 5.8 percent (non-CARE). PG&E's proposed reduced baseline percentage moves more usage into the higher tiers. (Tr. at 24, lines 1 to 7, PG&E/Faruqui.) Usage no longer included in baseline would be billed at higher rate tiers.

The percentage change in CARE and non-CARE usage by tier is set forth below:

Impact of Proposed Baseline Quantities on Non-Care Usage

Line No.	Tier	Current Annual GWH	Proposed Annual GWH	Percentage Change
1	Tier 1	13,618	12,834	-5.8%
2	Tier 2	2,441	2,461	0.8%
3	Tier 3	6,588	7,353	11.6%
4	Total	22,648	22,648	

Impact of Proposed Baseline Quantities on Care Usage

Line No.	Tier	Current Annual GWH	Proposed Annual GWH	Percentage Change
1	Tier 1	5,564	5,313	-4.5%
2	Tier 2	875	895	2.3%
3	Tier 3	2,025	2,256	11.4%
4	Total	8,464	8,464	

**Source: PG&E June 30, 2010 Update, page 3-7*

While residential and non-residential gas rate design issues are generally litigated in gas Biennial Cost Adjustment Proceedings, proposed gas target baseline quantities applicable for the 2011 GRC cycle are being addressed in Phase 2 of the 2011 GRC, as ordered in D.89-12-057.

Gas and electric baseline quantities were adjusted in D.02-04-026 in Phase 1 of R.01-05-047. We adopted PG&E's methodology of averaging the most recent four calendar years of baseline quantities, which were set at 60 percent of

average usage, except for all-electric and gas baseline quantities in the winter season, which were set at 70 percent of average usage per Sec. 739(a)(1).

PG&E proposes changing in its baseline quantities by applying the same baseline methodology approved in D.02-04-026, adjusted for seasonal and vacation home usage as required by D.04-02-057 and modified in D.07-09-004, using the most recently available four years of seasonal data (*i.e.*, November 2005 through October 2009).

This change in baseline quantities would reduce kWh usage in Tiers 1, and increase usage in Tier 2 and 3, thereby increasing the upper-tier usage over which any revenue increase can be allocated. Increasing the usage billed in Tier 2 and 3 has the effect of reducing PG&E's proposed non-CARE Tier 3 rate by approximately 2 cents per kWh, which helps reduce the rate disparity between upper and lower tiers.

PG&E's proposal would provide electric baseline quantities largely consistent with both SCE and SDG&E. In contrast, gas baseline quantities would continue to be set at 60 percent of average usage in the summer and 70 percent in the winter. Gas rates utilize only two tiers, Tier 1 and Tier 2, so non-CARE gas customers do not pay significantly higher rates for usage exceeding 130 percent of baseline. As a result, all residential gas customers pay the same rate for usage exceeding 100 percent of baseline.

Except for annual increases for CARE and non-CARE usage in Tiers 1 and 2, all rate increases currently must be absorbed by non-CARE usage greater than Tier 2. If baseline quantities are lowered as PG&E proposes, usage exceeding 130 percent of baseline increases by about 11 percent. Assuming no changes in baseline quantities, PG&E's proposed non-CARE Schedule E-1 Tier 3

rate of 27.6 cents per kWh would increase by roughly 2 cents to 29.6 cents per kWh.

PG&E proposes to implement the proposed gas and electric baseline quantities, together with any revenue neutral rate adjustments, in one step on the first day of the next available season after the effective date of this decision, either April 1 or November 1 for gas and May 1 or November 1 for electric.

PG&E proposes that electric baseline quantities, like gas, incorporate revenue neutral rate adjustments, by applying an equal cents-per kWh change to non-CARE Tier 3 rates for usage in excess of 130 percent of baseline.

TURN does not oppose adjusting baseline quantities to 55 percent for average usage for basic customers and 65 percent for all-electric customers. TURN witness Marcus states that PG&E's proposed changes in baseline quantities "clearly will increase conservation." (TURN/Marcus, Ex. 11, at 79, lines 7 to 8.) No party disputes that lowering the baseline percentage will tend to provide an energy conservation incentive. (SCE/Garwacki, Ex. 18, at 12.)

TURN believes, however, that the Commission should direct PG&E to consider changing the baseline seasons to allow for a shorter summer period (4 months) and a longer winter period (8 months) to more properly reflect higher usage by Central Valley customers during summer months. This is consistent with the practice of SCE. Such a modification would provide for higher baselines allowances during peak summer months and should help to mitigate high bills associated with concentrations of cooling degree days. TURN recommends that PG&E be directed to assess the feasibility of this change, consult with key stakeholders, and propose this modification through a Tier 3 Advice Letter filing during the current General Rate Case cycle.

DRA opposes PG&E's proposed decrease in the baseline percentage, arguing that it would raise bills for customers predominantly consuming in Tier 1, 2 and 3. DRA calculates that a customer consuming the maximum Tier 2 allowance would see a bill increase due to usage that would now be billed at 29 cents per kWh rather than the Tier 2 rate of 13.5 cents per kWh." (DRA/Khoury, Ex. 23, at 6-11, line 26 to at 6-12, line 3.)

DisabRA and Greenlining also oppose PG&E's 55 percent baseline proposal citing adverse impacts on CARE customers and customers whose usage does not exceed Tier 2. With a 55 percent baseline amount, some usage formerly in Tier 1 would now be in Tier 2 and some usage formerly in Tier 2 would now be in Tier 3. DisabRA and Greenlining are concerned that these customers likely could not adjust their usage to avoid the bill impact. (DisabRA brief at 22; Greenlining brief at 39 to 40.)

DisabRA and Greenlining argue that PG&E's proposals would put a greater burden on low-income customers and/or disabled customers. DisabRA relied on unverified survey responses and anecdotes claiming potential harm. (DisabRA, Ex. 19, at 12, Attachments A, B, C and D.) Cross-examination of DisabRA's witness revealed a complete lack of customer usage data to back this up. (Tr. at 634, line 14 to at 635, line 7, and Tr. at 639, lines 18-22/DisabRA/Reyes.)

Greenlining likewise argues that the baseline allowance reduction would cause higher bills for low-income customers who currently confine their usage only to Tiers 1 and 2. Such customers would end up in the higher Tier 3 merely due to the lowering of the baseline percentage. Greenlining claims that CARE customers in the Central Valley would be particularly disadvantaged since they have relatively larger baseline quantities. Greenlining further claims

that CARE and other lower income customers are making the greatest efforts to conserve energy and many of these customers would find it difficult to further reduce their use. (Greenlining, Ex. 14, at 3 to 9.) PG&E claims that Greenlining fails to recognize the increasing trend of usage by CARE customers since 2005. (PG&E/Quadrini, Ex. 2, at 2-10, Table 2-4, and at 2-9, lines 8 to 16.)

Solar Alliance also opposes baseline allowance reductions to 55 percent of average residential usage for the applicable climate zone. Solar Alliance believes that its E-1 rate design proposal provides adequate relief to high-usage residential customers so that no baseline percentage reduction is needed. (Solar Alliance brief at 7.) Solar Alliance proposes returning to a Tier 5 rate design with differentials between tiers 3 and 4 of 3 cents per kWh, and between tiers 4 and 5 of 7 cents per kWh. (*Id.,* at 18 to 19.) Solar Alliance defends its proposal as advancing energy efficiency goals, while bringing Tiers 3, 4, and 5 closer together. (*Id.,* at 19 to 21.)

The Tier 5 rate under Solar Alliance's proposal is approximately 41.5 cents per kWh, while the Tier 4 rate would be approximately 34.5 cents per kWh. (Solar Alliance/Beach, Ex. 26, Table 1, column Solar Alliance 5-tier.) PG&E argues that Solar Alliance's E-1 rate design proposal does nothing to protect against future increases that could quickly take the upper tier rates back to the high levels that generated protests in the Central Valley in 2009.

4.4.2. Discussion

We conclude that PG&E's proposed baseline quantity reduction is reasonable and hereby adopt it. The reduction in baseline quantities will contribute to reducing the large disparity between PG&E's upper tier non-CARE rates and lower tier rates. For non-CARE, the Tier 3 usage increases by

11.6 percent, and for CARE usage, Tier 3 usage would increase by 11.4 percent. (PG&E/Quadrini, Ex. 1, at. 3-7, Tables 3-3 and 3-4, and lines 8 to 11.)

Setting 55 percent baseline for PG&E is consistent with the baseline percentages adopted for SCE and SDG&E. (PG&E/Quadrini, Ex. 1, at 3-6, lines 10 to 16.) The proposal thus results in a more consistent treatment of PG&E ratepayers relative to those of SCE and SDG&E, and results in upper versus lower tier differentials more similar to those of SCE and SDG&E ratepayers (see Tables 3-1 and 3-2 in PG&E/Faruqui, Ex. 2, at 3-18 and 3-19).

While the change in baseline quantities will cause some bill increases for customers to the extent that more usage will now be billed at Tier 3 rates, we conclude that the overall effects preserve affordability to a reasonable degree. As noted by PG&E witness Quadrini, with the proposed 55 percent baseline, the percentage of non-CARE Tier 3 usage would only go from 7.4 percent to 11 percent of total usage. For CARE Tier 3 customers, the increase would be to about 10 percent of usage. Table 2-7, Exhibit 2, at 2-25, shows that for CARE customers the monthly impact would be only $0.18 for Tier 2 and $1.61 for Tier 3. For non-CARE customers, the monthly bill impact would be only $0.33 for Tier 2 and $2.35 for Tier 3. (Quadrini/PG&E, Ex. 2, at 2-24, line 8 to at 2-25, line 7.)

We find merit in TURN's recommendation that PG&E consider changing its baseline seasons to a four-month summer period and a longer eight-month winter period. These revised periods would be more consistent with SCE's practice and could help mitigate high bills by resulting in higher baseline allowances during peak summer months. PG&E has agreed to evaluate this proposal further and to present its evaluation in a future proceeding. We direct PG&E to undertake such an evaluation and report its results in its next Rate Design Window.

4.5. Proposal for Flat Generation and Distribution Rates

4.5.1. Parties' Position

PG&E's total bundled residential electric rates have been tiered since Lifeline rates were implemented in California in 1976. The tiering of rates is intended to further certain public policy goals, such as providing an incentive to conserve, and warrants intra-class subsidies. In 1998, when electric rates were unbundled as part of electric industry restructuring, one or more rate components had to remain tiered in order for the total rate to be tiered. Tiering then became effective in the generation and the distribution component of PG&E's rates. In the rate schedule E-l tariff used by most residential customers, approximately 45 percent of the rate differential among tiers is built into distribution rates and 55 percent is in generation rates. PG&E's residential rates thus incorporate tiered generation and distribution rates, while all other rate components are flat (i.e., do not vary by tier).

PG&E seeks authorization to implement flat generation and distribution rate components and to apply inverted tiers via a new Conservation Incentive Adjustment (CIA) rate component. For seasonal and TOU rates, PG&E proposes generation and distribution rates that vary by season and TOU period, but that do not vary from tier to tier. DRA and SCE support this proposal, while MEA, CCSF, and Sierra Club oppose it.

PG&E first presented a proposal to flatten generation rates in a December 17, 2009 Petition for Modification of D.07-09-044 in A.06-03-005. In D.10-06-030, the Commission rejected the petition and ordered that the proposal be addressed in evidentiary hearings in this docket.

PG&E's current per kWh generation and distribution rates vary widely by tier. For Schedule E-1 customers the generation rates vary from

3.5 cents (in Tier 1) to 17.5 cents per kWh (in Tier 4), with an overall average of 8.3 cents per kWh. The distribution rate tiers vary ranging from 3.6 cents (in Tier 1) to 17.8 cents (in Tier 4), with an overall average distribution rate of 6.7 cents per kWh. This demonstrates that lower-tier consuming households pay less than the average cost of generation and distribution service while upper-tier consuming households pay far more.

PG&E argues, however, that rate tiering should not be accomplished via a generation rate component that can be avoided by customers choosing Direct Access (DA) or Community Choice Aggregation (CCA) service. Otherwise, the upper-tier consuming households have an incentive to depart bundled service while the lower-tier consuming households do not. The result is a loss of generation revenue to the utility in excess of the avoided generation cost of service, which in turn requires generation rate increases for PG&E's remaining bundled residential customers. PG&E claims that the current approach leads to inaccurate generation and distribution price signals, which do not properly reflect cost of service. PG&E thus proposes to charge customers a flat generation and distribution rate that does not vary by tier, but that will more accurately track cost of service.

PG&E contends that placing the tiering exclusively into the CIA rates will result in more accurate and transparent price signals for customers. The CIA rate component would be charged to all bundled and DA/CCA customers.

PG&E argues that this adjustment will level the playing field between PG&E and non-utility generation suppliers by ensuring (as it has done for SDG&E and SCE) that generation rates do not vary by tier. By doing so, the Commission will eliminate the situation that exists today, where higher use

bundled customers are artificially made more attractive to DA and CCA providers, and lower use bundled customers are made less attractive. PG&E argues that this change would provide all customers a fair and transparent choice between bundled and non-utility generation service, not distorted by subsidies built into the generation rate to achieve public policy goals. Through this change the Commission will also establish cost-based generation rates, and continue to maintain the conservation incentive for all customers (bundled and DA/CCA alike), through the utility's tiered CIA rate.

The CIA rate component would be similar to SCE's previously approved CIA rate and SDG&E's Total Rate Adjustment Component. After designing flat generation and distribution rates, the CIA rate would be calculated residually for each tier by subtracting all rate components (including generation and distribution) from the total rate by tier. Total rates will remain as designed, but the tiering will be accomplished exclusively via the non-bypassable tiered CIA rate component.

PG&E argues that the conservation incentive embodied in tiered rates could not be avoided by customers departing to DA/CCA service, since neither DA nor CCA providers are required to charge tiered rates.

The resulting tiered CIA rates would generally be negative in Tiers 1 and 2 and positive in Tier 3. The CIA rates are designed to have a net effect of zero on the residential class overall, neither increasing nor decreasing the revenue collected from the residential class. However, to the extent actual sales by tier vary from forecasted levels, the CIA may collect a non-zero amount of revenue—either a positive or negative amount.

PG&E proposes to combine any positive or negative CIA revenues with distribution for revenue accounting purposes. Thus, any CIA

under-collection or over-collection would accrue to the Distribution Revenue Adjustment Mechanism (DRAM) on a monthly basis and be trued-up in PG&E's Annual Electric True-Up process. Appropriate changes will be made by advice letter upon approval and implementation of this proposal.

PG&E proposes to merge the CIA rate with the distribution rate until its billing system can be re-programmed to show the CIA as a separate line item on customer bills. However, the CIA rate will be shown separately on all residential tariffs.

PG&E's proposal to flatten generation and distribution rates does not affect the total rates, and there are no bill impacts to bundled customers. However, the CIA can impact DA/CCA bills. Because the CIA rate will be generally negative in Tiers 1 and 2 and positive in Tier 3, PG&E's proposal will generally reduce the bills of lower-tier consuming DA/CCA households and increase the PG&E bills of upper-tier consuming households. The overall effect on DA/CCA customers' bills (i.e., the combined PG&E and DA/CCA bill paid), though, will depend upon the rates charged by the DA/CCA provider.

DRA supports inclining block residential rates, and believes this can be achieved with PG&E's proposed CIA mechanism. DRA believes that tiered generation rate components made more sense during the energy crisis when the cost of electricity was manipulated and made artificially expensive. DRA is unaware of a need to collect generation costs via tiered generation rate components in the present environment.

MEA and CCSF take issue with PG&E's proposal, arguing that it is anticompetitive by attempting to undermine competitive generation service, particularly by CCAs. Sec. 366.2(c)(9) provides that "All electrical corporations shall cooperate fully with any community choice aggregators that investigate,

pursue, or implement community choice aggregation programs." MEA argues, however, that PG&E's CIA proposal would inflict damage on MEA customers and would impose a barrier to MEA's future progress.

MEA and CCSF claim that the CIA proposal would impose disproportionate and unreasonable cost increases on CCA customers without any proportionate increases or enhancements in core utility services. They argue that incentives to conserve energy should be tied to the customer's consumption of the energy commodity, itself, and thus conveyed by the generation service provider.

CCSF argues that PG&E failed to sustain its burden of proving that generation costs do not vary with usage, or that the CIA proposal is necessary to remedy a problem with its current residential rate design. CCSF contends that PG&E's unit generation costs are likely to increase with usage. CCSF witness Meal testified that:

> power supplies are dispatched in order from lowest cost to highest cost. As load (usage) increases, more expensive supplies are utilized. Conversely, as load decreases, the most expensive resources will be ramped off first. In any given time interval, unit costs will increase as the load increases and unit costs will decrease as the load decreases. Thus, a tiered generation rate reflects cost causation -- prices increase as usage increases. A flat generation rate, where prices do not increase with higher levels of usage, does not reflect generation cost causation. (Ex. 5/CCSF, at 4.)

CCSF claims that PG&E failed to present supporting evidence that its per kWh cost of generation does not vary as customers' usage increases. Even though the Commission ordered the CIA proposal to be evaluated in evidentiary hearings, PG&E did not introduce a cost of service study to support its position.

CCSF asserts that PG&E's cost of supply likely increases as usage increases, and that tiered generation rates are consistent with generation costs that increase with usage. MEA and CCSF dispute the claim that a single flat generation rate would more accurately and equitably reflect cost of service than the current tiered generation rate components for Schedule E-1 which range from 3.5 cents per kWh in Tier 1 to 17.5 cents per kWh in Tier 4.

PG&E denies that there is any cost basis for tiering the generation rate based on monthly consumption. PG&E argues that CCSF skews the record about usage on an instantaneous or daily basis, versus usage on a monthly basis. PG&E's witnesses acknowledged that costs could increase in any given hour as usage increases, but contend that there is no such correlation with monthly usage. (*See* Tr. at 323 lines 1 to 3, at 326, line 26 to 327 line 1, at lines 4-7, PG&E/Keane; Tr. at 275, lines 1 to 3, PG&E/Faruqui, Tr. at 127, lines 7 to 17.)

PG&E witness Keane testified that absent TOU meters and rates, it is unknown whether incremental usage occurs during the on- or off-peak period and there is thus no cost justification for charging anything other than a flat rate. Even for TOU rate schedules, PG&E believes the generation rate component should be flat within each TOU period.

CCSF also argues that PG&E's CIA proposal would be anticompetitive by effectively foreclosing CCAs from building conservation incentives into their rates. CCSF claims that CCAs that attempt to use conservation-promoting tiered rates would be at a severe disadvantage in competing for customers with relatively high usage, precisely the customers that PG&E is most concerned about losing.

PG&E points out, however, that although MEA's rates to most of its customers have been above PG&E's rates for all but one month of the time it has

been serving customers, MEA has experienced very little attrition in its customer base as a result. (PG&E/Keane, Ex. 2, at 1-26, line 19 to 1-27 line 2.) PG&E argues that there is nothing to stop a CCA from adjusting its own rates, and that the present PG&E rate structure enables a CCA to selectively serve only extremely large customers with high usage, as MEA is currently doing.

CCSF argues that PG&E's CIA would create counter-intuitive and confusing results. For customers who take service from a CCA, it will confusingly appear that PG&E provides its delivery services without charge, and that PG&E even provides a credit against the generation charges imposed by the CCA.

MEA commenced service to customers of its CCA program on May 7, 2010 within PG&E's service territory in consideration of AB 117 and related regulations. MEA claims that PG&E's proposal would impose disproportionate cost increases on MEA customers without any offsetting enhancements in core service. According to MEA, its current customers would experience an average cost increase of 25 percent as a result of CIA implementation.[31] All prospective customers within MEA's member communities would experience an average six percent increase in costs as a result of the CIA. MEA testified that a significant "mid-stream" cost increase would encourage massive customer opt-outs as a result of these cost increases. MEA argues that such significant increases in customer opt-outs could inflict irreparable competitive harm on MEA and impose a barrier to MEA's future progress in furthering statewide environmental goals and objectives, causing

[31] See Exh. 48.

delay in achieving certain of California's key broad-based policy objectives. MEA claims that PG&E's CIA proposal is anti-competitive, and creates cost-based inequities between specific communities (and groups of communities), resulting in discriminatory treatment of CCA customers. MEA has testified that substantial cost impacts would be imposed on its customers as a result of PG&E's CIA proposal, in excess of 30 percent. PG&E's analysis states that MEA's current customers would experience an average cost increase of 25 percent as a result of the CIA rate. PG&E's analysis also states that all prospective residential customers within MEA's member communities would collectively experience an average six percent increase in costs as a result of CIA implementation.

MEA testified that a significant, "mid-stream" cost increase would most certainly encourage massive customer opt-outs as a result of the previously described cost increases. Significant increases in customer opt-outs could inflict irreparable competitive harm to MEA, compromising its financial solvency while frustrating its progress towards the achievement of statewide environmental policy objectives, including the RPS and AB 32 Greenhouse Gas (GHG) emissions reductions targets.

MEA claims that flat generation rates would create a steep tiering of delivery charges such that delivery charges for lower usage customers under certain rate schedules would be significantly negative. For example, delivery charges for Schedule E-7 summer peak baseline usage would be a negative 11.8 cents per kWh, by virtue of the CIA of negative 27.2 cents. Similarly, the delivery charges for Schedule EL-7 (CARE) summer peak, baseline usage would be a negative 14.0 cents, primarily because of the CIA of negative 23.6 cents. For

other rate schedules, delivery charges for baseline usage would also be negative, albeit in smaller amounts.

4.5.2. Discussion

We conclude that PG&E's proposal to implement flat generation and distribution rates is reasonable. Adopting the CIA will maintain a conservation incentive for all customers (bundled and DA/CCA alike) through the utility's tiered non-generation rates. This rate design measure will also increase transparency for customers choosing between bundled and DA/CCA service by facilitating comparisons among generation rates. For customers taking bundled utility service, the effects of this change would not change their overall price levels or incentives to conserve. On the other hand, the adopted change will have effects on customers that take service from a CCA or Electric Service Provider (ESP).

In this regard, we recognize that potential rate disparities between PG&E and certain CCAs could exist, at least in the short-run, from replacing tiered generation rates by flat generation rates with the CIA, using nonbypassable tiered rates.

Under PG&E's existing tiered rates, higher-use residential customers pay a much higher average generation rate than lower use customers. ESPs and CCAs can offer generation rates to DA or CCA customers that are not tiered in the same manner as PG&E's generation rates and without being subject to Commission regulation of rates. They can offer an alternative generation rate that, while higher than the generation rate PG&E currently charges low-use customers, would be attractive to high-use customers. PG&E, by contrast, charge above-cost upper-tier generation rates under the present rate structure. By

adopting flat generation rates for PG&E, we eliminate this potential source of disparity in PG&E's generation rate in relation to CCA rates.

The implementation of the PG&E proposal, however, could potentially impact how a CCA may design its own rates to compete for retail customers. Thus, while we find merit in PG&E's CIA proposal, we conclude that before the CIA rate component implementation takes effect, some period of time should be allotted to allow CCAs an opportunity to adjust their rate structures and billing practices in anticipation of the effects of PG&E's new CIA component on their customers. We therefore shall defer the implementation of the generation and distribution rate flattening for a one-year period in order to provide an adequate transition period for CCAs.

We hereby direct that PG&E file the tariff revisions implementing the flat generation and transmission rates together with the CIA to take effect on July 1, 2012. Establishing a date certain for these tariff changes to take effect will provide for more certainty with respect to preparations and plans for the rate transition. We also direct that within 30 business days of the issuance of this decision, PG&E meet and confer with the Commission's Energy Division staff, together with MEA and CCSF representatives, to agree on a process and schedule to verify that PG&E's billing system can accurately bill the CIA and flat generation and transmission rate components. In particular, PG&E should provide confirmation that its billing system can accurately decouple the generation versus non-generation charges billed to CCA customers. Ensuring verification of the accuracy of PG&E's billing system will help to customer confusion and minimize costs associated with the CIA implementation process.

The flattening of PG&E's generation rates will help level the playing field between PG&E and ESPs/CCAs by ensuring that generation rates do not

vary by tier. With tiered generation rates, higher-use bundled customers are artificially made more attractive to ESPs/CCAs and lower-use bundled customers are made less attractive. By contrast, a flat generation rate is competitively neutral, as the Commission observed in approving such rates for SCE in D.09-08-028.

> D.09-08-028 quotes TURN as follows:
>
> > TURN felt that it was important to have the differential in the distribution rate because if it's in the generation rate, it creates perverse incentives for certain customers to adopt direct access or community choice aggregation solely because of the rate design. So a customer that was high usage – if the tier differential was in the generation rate, they could switch away from bundled service solely to get a lower rate, and at the same time the low-usage customer would never want to leave bundled service because they would get a rate increase just by doing so. So it really makes the rate design competitively neutral to the extent that there are alternatives like CCA out there for residential customers.

We find no evidence that higher monthly customer usage is correlated with increasing costs, even though there are correlations between higher customer usage and generation costs for certain on-peak hours during a given month. Thus, absent time-of-use data linking incremental usage to off-peak versus on-peak periods, we find no basis for PG&E to charge customers anything other than a flat generation rate for monthly usage.

We are unpersuaded by claims that the CIA should be denied because it would create significant customer confusion, require extensive customer education and entail unknown costs. SCE and SDG&E implemented a similar proposal without indication of any significant customer confusion.

PG&E should be able to realize similar results. Although for CCA customers, the bill components in some rate categories will be negative, PG&E has proposed implementing a zero minimum bill. (PG&E/Keane, Ex. 2, at 1-32, lines 5-15.) PG&E also explained that any negative components will generally be offset by positive rate components. PG&E has also explained that providing customer outreach to educate customers about the CIA rate component would be part of its general effort, and not subject to a separate special funding request.

4.6. Schedules E-6 and EL-6 Rate Design

4.6.1. Parties' Position

PG&E proposes to continue its current approach to rate design for Schedules E-6 and EL-6, which are optional TOU schedules open to the residential class. PG&E currently designs its residential TOU rates by using its marginal costs to set the TOU components of the Tier 1 rate. PG&E then calculates the TOU rates for higher usage tiers by adding to all time periods (i.e., peak, partial-peak, off-peak) the same tier differentials used in PG&E's E-1 rates. The E-1 tier differentials are not differentiated by TOU period. In effect, PG&E designs its upper-tier residential TOU rates to recover in each TOU period the *same* amount of costs per kWh above its marginal costs.

Solar Alliance opposes PG&E's approach, and instead proposes increasing the TOU differentials for upper-tier usage under Schedules E-6 and E-7 by increasing on-peak and partial peak prices and lowering them for off-peak rates. The resulting rates would peak at over 70 cents per kWh in E-6 and over 90 cents per kWh in E-7. (Solar Alliance/Beach, Ex.-26, at 32 and following table; Tr. at 951, lines 22 to 27, Solar Alliance/Beach.)

Solar Alliance argues that applying the same flat amount of costs to each TOU period is not reflective of cost causation, which has the greatest

amount of costs being incurred during peak periods. Solar Alliance claims this treatment is a deficiency in PG&E's TOU rates, rendering them noncompliant with the mandates of SB 1.[32] Solar Alliance recommends the use of the equal percentage of marginal cost (EPMC) method to scale Tier 1 rates based on marginal costs up to equal the revenue requirement. Because Tier 1 rates are based on marginal costs, the higher rates for usage in Tiers 2-5 are, by definition, recovering non-marginal costs to serve the residential class. Solar Alliance believes that the use of EPMC best preserves the primary benefit of marginal cost based rates, which is to send an accurate marginal cost signal to encourage the economically efficient use of energy.

[32] SB 1, signed by the Governor in August 2006, set forth requirements for the California Solar Initiative.

PG&E opposes Solar Alliance's proposal, arguing that it misapplies EPMC principles, and that using the Generation EPMC multiplier as proposed would actually require PG&E to ***lower*** the E-6 summer peak rates (Tiers 1, 2 and 3) by up to 4 percent, depending on the tier.

Solar Alliance claims that the Commission has a longstanding practice of using EPMC to scale marginal costs up to recover the additional non-marginal costs included in the revenue requirement. Solar Alliance further claims that PG&E uses exactly the same EPMC method to scale up its marginal generation energy costs in each TOU period to equal the generation revenues allocated to energy charges.

PG&E disputes this claim, stating that there are no additional non-marginal costs, such as non-bypassable charges, included in the generation revenue allocation. The generation revenue requirement is the generation revenue at current rates less non-allocated generation revenues. Once this is calculated, the generation revenue requirement for each rate schedule is adjusted ***upward or downward*** based on each schedule's actual marginal generation (energy and capacity) costs. The result is a small percentage adjustment, ***up or down***. (WP 2-223-June 30, 2010 Update.)

Solar Alliance proposes that, to be consistent with the EPMC approach, the tier differentials in residential TOU rates should begin to move toward being based on an equal percentage of the underlying marginal costs for each time period, rather than on fixed differentials across all TOU periods. In this case, the Solar Alliance recommends setting tier differentials using 50 percent of the fixed E-1 tier differentials and 50 percent of an equal percentage of the Tier 1 rate for each TOU period. Solar Alliance argues that moving toward

the use of EPMC tier differentials for each TOU period will send a stronger signal to TOU customers to minimize peak usage.

4.6.2. Discussion

We adopt PG&E's proposal to continue its current approach to rate design for Schedules E-6 and EL-6. We are unpersuaded by Solar Alliance arguments that PG&E's rate does not provide the maximum incentive to install solar. As noted by PG&E, "the Commission does not agree with the narrow interpretation of SB 1 that a TOU tariff should merely provide the maximum incentives to install solar energy systems." (D.07-06-014, at 8.) Using EPMC allocators to design rates within monthly tier categories would not match marginal costs, would not be revenue neutral between TOU and non-TOU classes, would result in cost shifting.

PG&E's proposed TOU differentials for Schedules E-6 and E-7 are based on estimates of actual marginal costs. Although the residential TOU tariffs are designed to be revenue neutral relative to the residential E-1 tariff, customers who reduce their usage in higher TOU periods (or who produce solar energy during these periods) will receive bill savings based on the marginal cost based differentials reflected in the respective tiers. Artificially increasing these TOU differentials would result in cost shifting, because those who shift their usage would see their bills drop by more than the cost that PG&E avoids. This lost margin would have to be made up by other customers who may be unable to afford solar units for themselves.

Also, similarly situated customers but with usage in different tiers would see different savings from shifting the same amount of kWh from the peak to the off-peak. As witness Quadrini pointed out, two customers side by

side who shift one kWh should receive similar incentives. (Tr. at 884, lines 9 to 22, PG&E/Quadrini.)

4.7. Revising Electric Vehicle Schedules E-9A and E-9B

4.7.1. Parties' Positions

Schedules E-9A and E-9B are voluntary schedules for residential customers who own electric vehicles. Schedule E-9A is for the whole house and Schedule E-9B is for a separately metered electric vehicle (EV). There are 140 customers on E-9A and just 17 on E-9B. PG&E proposes four changes, only one of which is contested. First, PG&E proposes a Tier 3 rate design for Schedule E-9 that is different from the rest of the residential class. Rather than use the same Tier 3 differential as other customers, PG&E has designed a significantly higher Tier 3 differential for Schedule E-9 that makes Schedule E-9 revenue neutral with the total non-CARE class as a whole. Then, to remove the penalty that this significantly higher rate would create for incremental off-peak EV charging on Schedule E-9A, PG&E has lowered the E-9A off-peak rate so that most customers exceeding 130 percent of baseline would pay approximately 11 cents to 14 cents per incremental kWh for recharging their electric vehicles. (PG&E/Quadrini, Ex. 1, at 3-24, line 28 to at 3-25, line 2.) No party opposed this proposal.

Second, because there is no CARE electric vehicle schedule, PG&E proposes to waive the mandatory requirement for CARE customers temporarily. (*Id.*, at 3-25, lines 19 to 22.) No party opposed this proposal. However, this proposal is moot as a result of the Commission's recent approval of PG&E's Advice Letter 3751-E.

Third, as with Schedule E-7, PG&E proposes to roll the baseline credit into Tier 1 rates so that Schedules E-9A and E-9B show the same

Tier 1/Tier 2 rate structure as Schedules E-1 and E-6. (*Id.*, at 3-25, lines 23 to 25.) No party opposed this proposal.

Fourth, PG&E proposes closing Schedule E-9B, the rate for those who separately meter their electric vehicles, because its off-peak rates are so far below PG&E's marginal cost to serve. (*Id.*, at 3-25, line 26 to at 3-26, line 2.)

DRA opposed this proposal, stating that issues relating to electric vehicle rates are being considered in the Plug-in Electric Vehicle (PEV) R.09-08-009. DRA recommends leaving the current schedule E-9B open and examining this issue in the PEV Rulemaking. (DRA/Khoury, Ex. 23, at 6-16, line 25 to at 6-17, line 3.)

PG&E disagrees, arguing that it does not serve other PG&E's customers to put such customers on a rate schedule with such low rates. (PG&E/Quadrini, Ex. 1, at 3-25, lines 26 to 29.) PG&E argues that Schedule E-9B should be closed for now, and the Commission can decide the need for and design of a separately metered EV charging rate in the PEV proceeding. There was no dispute that these off-peak rates are far below PG&E's marginal costs of service.

4.7.2. Discussion

We adopt PG&E's uncontested proposals for the electric vehicle rate schedules. PG&E's rationale for the proposed changes is reasonable and no party opposed them. As to the DRA opposition to PG&E's proposal for closing Schedule E-9B, we agree with DRA that the schedule should remain open for now. We agree with DRA that the PEV rulemaking (R.09-08-009) is a more appropriate place to examine electric vehicle rate design issues, and accordingly we will defer consideration of pending issues relating to Schedule E-9B to that proceeding. The Commission initiated R.09-08-009 to review existing utility electric vehicle

tariffed rates, develop policies to facilitate the use of PEVs in the residential and non-residential setting and ensure that the electric charging of PEVs will not have adverse impacts on the reliability and safety of the state's electric system.

Accordingly, we direct PG&E to leave the current Schedule E-9B open pending further examination and disposition of the relevant issues in R.09-08-009. The need for and design of any separately metered EV charging rate should be taken up in the PEV proceeding.

4.8. Closing Experimental Schedules E-A7 and EL-A7

Schedules E-A7 and EL-A7 are experimental schedules closed to new participants since January 1, 1996. These schedules were created to determine if remote-controlled thermostats could lower peak residential load enough to avoid adding substation capacity in the Antioch distribution area. Only 44 customers remain on these schedules. In addition, these schedules are not cost-based, but are subsidized by others in the residential class. Although this experimental program ended more than a decade ago, AB 1X prohibitions prevented this rate schedule from being eliminated. Now that AB 1X has been superseded by SB 695, PG&E requests that these schedules be eliminated and the affected customers transferred to either E-1/EL-1 or E-6/EL-6. (PG&E/Quadrini, Ex.-1, at 3-23, lines 12 to 23.) No party opposed this request. For the reasons cited by PG&E, we find the proposal reasonable and hereby adopt it.

4.9. Changing Baseline Credit for E-7 and EL-7

Schedules E-7 and EL-7 are TOU schedules that were closed to new customers in 2007 and replaced by cost-based Schedules E-6 and EL-6. PG&E proposes one rate design change. Rather than show Tier 1 rates lower than Tier 2 rates, as is done on Schedules E-1 and E-6, the Schedules E-7 and EL-7 have a

"baseline credit" that produces the same result but in a convoluted and easily misunderstood manner.

In this proceeding, PG&E proposes to roll the baseline credits into Tier 1 rates so that Schedules E-7 and EL-7 show the same Tier 1 vs. Tier 2 relationship as PG&E's other residential rates. No party opposed this proposal. We find the proposal reasonable and hereby adopt it.

4.10. Other Uncontested Proposals

4.10.1. Updating Baseline Quantity Calculations

PG&E proposes updating its baseline quantity calculation for more recent usage data, as required by Pub. Util. Code § 739(a)(1). This proposal is consistent with prior precedent and is unopposed by any party. PG&E requests authorization of updated baseline usage quantities using the same baseline methodology approved in D.02-04-026, adjusted for seasonal and vacation home usage as required by D.04-02-057 and modified in D.07-09-004, using the most recently available four years of seasonal data, which is November 2005 through October 2009. (PG&E/Quadrini, Ex. 1, at 3-6, lines 4 to 9.) There is no dispute about PG&E's four years of average baseline data, adjusted for seasonal vacation homes. We hereby adopt it.

PG&E further proposes that electric baseline quantities incorporate revenue neutral electric rate adjustments. Consistent with the residential rate design guidelines presented in PG&E's overall showing, revenue neutral rate adjustments will be accomplished by an equal cents per kWh change to PG&E's proposed non-CARE rates for usage in excess of 130 percent of baseline. (PG&E/Quadrini, Ex. 1, at 3-8, lines 10 to 14). Therefore, we adopt the proposed target baseline quantities based on 2006 to 2009 usage for individually-and

master-metered customers, as shown in Table 3-6 on page 3-9 of PG&E/Keane, Ex. 1.

4.10.2. CARE Eligibility Requirements

PG&E proposes to change the CARE eligibility requirements for nonprofit group living and qualified agricultural employee housing facilities.[33] PG&E notes that most of the facilities using more than 100,000 kWh per year take service on master-meter schedule EML which provides one baseline allowance for each housing unit in a multi-family residence metered by a single PG&E meter. Approximately 200 nonprofits with usage exceeding 25,000 kWh per year do not take service on Schedule EML, however. Unlike Schedule EML customers, most of their usage exceeds 130 percent of baseline because they are limited to one baseline allowance. As a result, such nonprofits could see significant rate increases under PG&E's proposal for a new CARE Tier 3 rate. If they could migrate to Schedule EML, PG&E calculates that their average bill would drop 2 percent compared with their current bills.

Electric and Gas Rules 19.2 and 19.3 currently prevent these nonprofits from taking service on Schedule EML or GML because each and every household must separately qualify for CARE in order for the entire facility to take service on those schedules. PG&E thus proposes that nonprofit group living facilities be allowed at the customer's option to elect to take service on Schedule EML under regular CARE income guidelines applied to the facility as a whole.

[33] Nonprofit group living facilities provide services such as homeless shelter, transitional housing, nursing home, or group homes for physically or mentally disabled people.

PG&E also proposes to allow these customers to take service on gas Schedule GML even though the savings on the gas side would be significantly smaller.

We find PG&E's proposal reasonable and hereby adopt it. Implementing this change will substantially mitigate the effects of PG&E's CARE Tier 3 proposal that would otherwise occur. Accordingly, we adopt PG&E's proposed changes to gas and electric Rule 19.2, Section B.4 and 19.3, Section B.4.

5. Categorization and Need for Hearing

In Resolution ALJ 176-3251 dated April 8, 2010, the Commission preliminarily categorized this application as ratesetting, and preliminarily determined that hearings were necessary. These preliminary determinations were affirmed by scoping memo dated May 25, 2010.

6. Comments on Proposed Decision

The proposed decision of Administrative Law Judge (ALJ) Pulsifer 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 February 1, 2010 and reply comments were filed on February 8, 2010. We had taken the comments into account in finalizing this decision.

7. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Thomas R. Pulsifer is the assigned ALJ in this proceeding.

Findings of Fact

1. PG&E's current residential rate structure utilizes a four-tier inverted structure based on customer usage.

2. Customers with the lowest consumption (in Tiers 1 and 2) pay the lowest per-kWh rates while customers pay higher per-kWh rates for the additional usage applicable to higher tiers.

3. Over the past decade, the rates charged for upper tier-usage have borne all increases in residential costs, while lower-usage rates remained frozen through 2009. Consequently, over a period of several years, a growing divergence developed in the rates charged for lower-usage versus higher-usage.

4. Residential rate increases are constrained by statutory limitations under the CARE program which provides assistance to low-income electric and gas customers with annual household incomes no greater than 200 percent of the federal poverty guideline levels.

5. Approximately one-quarter of all residential usage (i.e, non-CARE households consuming in Tiers 3, 4, and 5) absorbed all residential rate increases between 2001 and 2009.

6. PG&E's rate design proposals are largely aimed at narrowing the divergence between upper- and lower-tiered rates so that rates align more closely with costs of service.

7. PG&E's package of rate design proposals would cause 40 percent of above-average CARE users to see bill increases of over 14 percent, averaging approximately $11.60 per month.

8. Residential customers in general, and low-income customers in particular, have experienced increasing difficulty in affording utility service in recent years,

as evidenced, for example, by the increasing rates of service disconnections due to non-payment of utility bills.

9. For low-income customers that are struggling to afford payment of utility bills in today's difficult economy, dollar increases in utility bills that may appear relatively minor to more affluent customers may represent a significant financial burden.

10. Although PG&E incurs fixed costs to service each customer account, current residential rate design recovers those fixed costs entirely through volumetric rates based on usage.

11. PG&E's proposal to apply a fixed customer charge would more closely match rate design with costs of service, increasing bills for low-usage customers and decreasing bills for high-usage customers.

12. Shifting revenue recovery from a volumetric rate to a fixed customer charge produces a bill impact that cannot be avoided by changing usage patterns or being more energy efficient. A customer charge thus offers no price signal to be more energy efficient.

13. PG&E's customer charge would have the greatest percentage impact on customers that use the least energy. Imposing a customer charge on CARE rate schedules would raise energy bills for vulnerable customers that are least economically able to afford the increased charge.

14. A CARE customer using only baseline amounts in climate zone T would see an increase greater than 10 percent in their monthly bill as a result of the customer charge. A non-CARE customer using only baseline amounts in climate zone T would see an increase of almost 10 percent as a result of the customer charge.

15. PG&E's proposal to institute a CARE Tier 3 rate would increase CARE rates for usage above 130 percent of baseline by 2.9 cents/kWh in 2011, with additional increases of 1.5 cents/kWh in 2012 and 2013, respectively.

16. PG&E's proposed CARE Tier 3 rate is a 57 percent discount from the current non-CARE Tier 3 rate, 57 percent discount (12.5 cents to 29.1 cents) and a 56 percent discount (12.5 cents to 27.6 cents) from the proposed non-CARE Tier 3 rate.

17. The cumulative three-year increase due to PG&E's proposed CARE Tier 3 rate would be 50 percent, producing undue rate shock.

18. A CARE Tier 3 rate provides an incentive for CARE customers to be more energy efficient for usage that exceeds 130 percent of baseline.

19. PG&E's proposal to collapse Tiers 3 and 4 into a single tier would move closer to a cost-based rate structure since Tier 4 rates exceed the corresponding marginal cost of service.

20. PG&E's proposal to collapse Tiers 3 and 4 would help to mitigate the volatility in bills associated with the current four-tier structure.

21. Consolidating Tier 4 would remove the price incentive to be more energy efficient for usage that exceeds 200 percent of baseline.

22. The continuation of a four-tier rate design will preserve a price signal to encourage customers to install solar photovoltaic facilities and promote progress toward achieving the CSI goal of creating a self-sustaining residential solar photovoltaic market. Promoting the market for residential PV helps advance the state's loading order, meet greenhouse gas emission reduction goals, and achieve RPS compliance

23. PG&E's proposal to reduce baseline quantities from 60 to 55 percent of average usage would reduce total baseline quantities by an average of

4.5 percent (CARE) to 5.8 percent (non-CARE). The reduced baseline percentage moves more usage into the higher-rate Tier 3 rate.

24. Increasing the usage billed as Tier 3 will generate additional revenue from lower-usage customers to be used to lower rates for upper-tier usage customers, thus reducing the disparity between upper and low tier rates.

25. Setting a 55 percent baseline for PG&E is consistent with the baseline percentages adopted for SCE and SDG&E, and thus results in a more consistent treatment of PG&E ratepayers relative to those of SCE and SDG&E.

26. PG&E's proposed baseline reduction would cause customers with usage confined to the current Tier 1 and 2 quantities to see rate increases attributable to the incremental usage to be billed at Tier 3 rates.

27. In 1998, when electric rates were unbundled as part of electric industry restructuring, one or more rate components had to remain tiered in order for the total rate to be tiered. Tiering was put into the generation and the distribution component of PG&E's rate.

28. PG&E proposes to implement flat generation and distribution rate components and to apply inverted tiers via a new CIA rate component.

29. Since PG&E proposes to calculate the CIA component on a residual basis, the proposal to implement flat generation and distribution rate components would have no bill impacts for bundled utility customers.

30. Under the existing tiered rates, higher-use residential customers pay a significantly higher average generation rate than lower use customers. ESP or CCA can offer generation rates to their DA or CCA customers that are not tiered as are PG&E's generation rates.

31. The use of inverted tiers for generation rates makes higher-usage bundled customers artificially attractive to ESPs/CCAs.

32. The flattening of generation rates would help to level the playing field between PG&E and energy service providers/community choice aggregators (ESPs/CCAs) by ensuring that generation rates do not vary by tier.

33. DA and CCA Customers could experience bill impacts with implementation of the CIA rate component. MEA's current customers would experience an average cost increase of 25 percent as a result of having to pay a CIA rate if MEA does not alter its current rates.

34. While per kWh generation costs can increase during certain hours as usage increases, no evidence shows that per kWh generation costs correlate with increases in usage measured on a monthly basis.

35. The generation component of unit rates is billed based on monthly usage data.

36. PG&E designs its upper-tier residential TOU rates to recover in each TOU period the same amount of costs per-kWh above its marginal costs.

37. Solar Alliance has not demonstrated that PG&E's TOU rates provide an insufficient incentive to install solar.

38. Schedule E-6 TOU price differentials are based on actual marginal cost differences.

39. Artificially increasing the TOU differentials would result in cost shifting because TOU customers' changes in usage would produce bill savings that exceed PG&E's avoided cost. Such cost differences would thus be shifted to other customers.

40. Solar Alliance failed to show that the Commission uses EPMC to scale marginal costs up to recover the additional non-marginal costs in the revenue requirement.

41. Using EPMC allocators to design rates within monthly tier categories would not match marginal costs, would not be revenue neutral between TOU and non-TOU classes and would result in cost shifting.

42. PG&E's proposal to roll the baseline credits into Tier 1 rates so that Schedules E-7 and EL-7 show the same Tier 1 vs. Tier 2 relationship as PG&E's other residential rates is reasonable.

Conclusions of Law

1. Residential rate design principles must conform to applicable statutory restrictions and must be applied in a manner consistent with just and reasonable standards under Sec. 451.

2. The determination of rate design principles involves a balancing of countervailing public policy goals and interests. These principles include considerations of equity so that rate levels change in relation to costs of service, while preserving affordability of essential service levels consistent with universal service obligations.

3. PG&E's rate design proposals in this application should be evaluated within the context of economic and regulatory trends affecting residential customer rates over the past decade, as well as expected trends in prospective economic conditions going forward.

4. Recognizing that electricity is a basic necessity, the Commission is responsible for ensuring that low income ratepayers are not jeopardized or overburdened by monthly energy expenditures. In meeting its responsibility to ensure that electric rates do not overly burden PG&E's low income customers, however, the Commission must also ensure that PG&E's overall rates are just and reasonable for all PG&E customers.

5. The Commission's authority to adopt rate design is constrained by applicable statutory restrictions. In particular, Commission authorizations to change rate levels for Tier 1 and 2 usage are constrained by Pub. Util. Code § 739.9(a) and (b).

6. Based on accepted standards of statutory construction, a fixed customer charge is included in baseline rate limitations "for electricity usage up to 130 percent of the baseline quantities" as prescribed in §§ 739.1(b)(2) and 739.9(a).

7. Any ambiguity in statutory language limiting rate increases for baseline usage should be interpreted in a manner consistent with the legislative intent to avoid rate shock and promote rate stability.

8. Consistent with legislative intent, the rate restrictions in §§ 739.1(b)(2) and 739.9(a) should be interpreted as including fixed customer charges as an unavoidable rate element for usage within baseline.

9. Compliance with the inverted rate structure requirement of § 739.7 is accomplished based on a comparison of the baseline rate (Tier 1) to the average of all non-baseline rates.

10. Although the Commission is prohibited under §§ 739.1(b)(2) and 739.9(a) from approving PG&E's residential customer charge proposal, the proposal would also conflict with relevant ratemaking principles intended to protect customers against undue rate shock.

11. PG&E's proposal for a fixed customer charge should be denied on policy grounds in view of the undue risk of rate shock, particularly for low-income and/or low-usage customers.

12. Section 739.1(b)(5) does not preclude the Commission from approving additional interim increases beyond in a CARE Tier 3 rate during 2012 or 2013.

13. Section 739(a)(1) which specifies that the baseline percentage be set between 50-to-60 percent of average residential consumption. PG&E's baseline proposal would set the electric baseline percentage at the middle of this authorized range.

14. Further steps are warranted to identify potential misuse of the CARE discount by excessive energy users, as indicated by the unusually high-usage reported for CARE customers in a limited number of rural regions, and to remove customers from the CARE rate schedule that are not eligible for it. To this end, PG&E's proposals to address the potential misuse of the CARE program as referenced in A.11-05-022 for PG&E's 2012-2014 CARE budget should be investigated further.

15. A four-tier rate structure should continue as a means of promoting a price signal conducive to energy efficiency and a self-sustaining photovoltaic solar market.

16. Sec. 366.2(c)(9) provides that "All electrical corporations shall cooperate fully with any community choice aggregators that investigate, pursue, or implement community choice aggregation programs."

17. PG&E's proposal for a CIA should be implemented in a manner that promotes a fair competitive and cooperative environment among community choice aggregators and the utility and in accordance with the ordering paragraphs below.

18. PG&E's Schedule E-6 and E-7 tariffs are consistent with the provisions of Senate Bill 1, codified as Pub. Util. Code § 2851 (a)(4), regarding the Commission's authority to develop a time-variant tariff that provides the maximum incentives for ratepayers to install solar energy systems.

O R D E R

IT IS ORDERED that:

1. The revised rate schedules for Pacific Gas and Electric Company's electric residential retail service as set forth in Appendix Table A of this decision, illustrating the effects of the rate design measures approved in this order, are hereby adopted.

2. Within 45 days of the date this order is mailed, Pacific Gas and Electric Company shall file a Tier 1 advice letter in compliance with General Order 96-B. The advice letter shall include revised tariff sheets to implement revised residential rate schedules in accordance with Appendix Table A, and consistent with the ordering paragraphs below.

3. The tariff sheets shall be made effective subject to Energy Division determining that they are in compliance with this order. No additional customer notice need be provided pursuant to General Rule 4.2 of General Order 96-B for this advice letter filing.

4. Pacific Gas and Electric Company's request to implement a fixed customer charge is hereby denied.

5. Pacific Gas and Electric Company's (PG&E) proposal to adopt a Conservation Incentive Adjustment (CIA) is approved, subject to a one-year waiting period before the adjustment is to implemented. PG&E shall be authorized to file an advice letter implementing flat generation and distribution rate components and implementing the CIA, all to become effective one year from the issuance date of this decision.

6. Pacific Gas and Electric Company shall file appropriate tariffs to implement the Conservation Incentive Adjustment together with flat generation and transmission rates to take effect on July 1, 2012, as a date certain.

7. Within 30 business days of the issuance of this decision, Pacific Gas and Electric Company (PG&E) shall meet and confer with the Commission's Energy Division staff, together with Marin Energy Authority, City and County of San Francisco representatives, to agree on a process and schedule to verify that PG&E's billing system can accurately bill the Conservation Incentive Adjustment and flat generation and transmission rate components. In particular, PG&E shall verify that its billing system can accurately decouple the generation versus non-generation charges billed to Community Choice Aggregation customers.

8. Pacific Gas and Electric Company is authorized to implement a Tier 3 rate applicable to California Alternate Rates for Energy customers, to be set equal to 150 percent of the Tier 1 rate.

9. Pacific Gas and Electric Company's (PG&E) request to increase the California Alternate Rates for Energy (CARE) Tier 3 rate by additional interim amounts during 2012 is denied. PG&E's request to raise the CARE Tier 3 rate by 1.5 cents per kilowatt-hour in 2013 is approved.

10. Pacific Gas and Electric Company's (PG&E) request is approved to reduce electric baseline quantities from 60 percent to 55 percent of average usage for basic customers, except for all-electric baseline quantities in the winter season, which PG&E proposes to set at 65 percent of average usage for all-electric customers during the winter season per Public Utilities Code Section 739(a)(1).

11. Pacific Gas and Electric Company is directed to evaluate the effects of implementing a four-month summer period and an eight-month winter period for baseline measurement purposes, and to present the results of its evaluation in its 2012 Rate Design Window proceeding.

12. Pacific Gas and Electric Company's request to collapse Tier 4 into Tier 3 is denied. The Tier 3 versus Tier 4 differential shall be reduced, however, consistent with the rate tables set forth in Appendix A.

13. California Alternate Rates for Energy eligibility requirements are hereby revised for nonprofit group living facilities and qualified agricultural employee living facilities to enable them to become eligible to qualify for service under Schedule EML. Pacific Gas and Electric Company's gas and electric Rule 19.2, Section B.4 and 19.3, Section B.4 are hereby modified with the following text replacement. The text is revised as follows:

> The total gross income for all persons residing in each household at a Facility may not exceed the following:
>
> Is replaced with –
>
> The total gross income for all persons residing at a Facility may not exceed the following:

14. Pacific Gas and Electric Company (PG&E) is authorized to update baseline usage quantities using the same methodology approved in Decision (D.) 02-04-026, adjusted for seasonal and vacation home usage as required by D.04-02-057 and modified in D.07-09-004, and using the most recently available four years of seasonal data (which is November 2005 through October 2009). Revenue-neutral rate adjustments will apply an equal cents-per- kilowatt-hour change to PG&E's non-California Alternate Rates for Energy rates for usage in excess of 130 percent of baseline.

15. Pacific Gas and Electric Company's proposed changes are adopted for Schedules E-9A and E-9B which are used by residential customers who own electric vehicles.

16. Pacific Gas and Electric Company's proposal is adopted to continue its current approach to rate design for Schedules E-6 and EL-6.

17. Schedule E-7 and EL-7 baseline credits are eliminated, rolling them into the baseline rates. Experimental Schedules EA-7 and EL-A7 are also eliminated.

18. E-9A and B baseline credits are eliminated by rolling them into existing baseline rates.

19. Pacific Gas and Electric Company shall continue to leave open the current Tariff Schedule E-9B pending further examination and disposition of the relevant issues in Rulemaking 09-08-009.

This order is effective today.

Dated _____, at San Francisco, California.

Appendix Table A

Adopted Rate Design, A.10-03-014

Schedule E-1

1/1/2011 Rate Design				Adopted in Phase 2 GRC, A.10-03-014		
Tiers	Sales Forecast (kWh)	Rate per kWh		Tiers	Sales Forecast (kWh)	Rate per kWh
Tier 1	12,987,910,127	$0.12233		Tier 1	12,269,144,434	$0.12233
Tier 2	2,291,968,697	$0.13907		Tier 2	2,318,560,849	$0.13907
Tier 3	3,220,528,085	$0.28011		Tier 3	3,433,646,639	$0.28547
Tier 4	2,700,992,738	$0.38978		Tier 4	3,198,969,686	$0.32547
					Customer Months	39,139,413
	Customer Charge	$0.00			**Customer Charge**	**$0.00**

Schedule EL-1

1/1/2011 Rate Design				Adopted in Phase 2 GRC, A.10-03-014		
Tiers	Sales Forecast (kWh)	Rate per kWh		Tiers	Sales Forecast (kWh)	Rate per kWh
Tier 1	5,422,734,667	0.08316		Tier 1	5,183,217,041	0.08316
Tier 2	843,742,942	0.09563		Tier 2	864,870,675	0.09563
Tier 3	1,907,833,364	0.09563		Tier 3	2,128,221,336	0.12474
					Customer Months	14,735,005
	Customer Charge	$0.00			**Customer Charge**	**$0.00**

(END OF APPENDIX A)