

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

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

Application 17-12-011

And Related Matters.

Application 17-12-012
Application 17-12-013

**PREPARED REBUTTAL TESTIMONY OF
JEFF P. STEIN (PHASE III)
ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY**

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

June 28, 2019



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PREPARED REBUTTAL TESTIMONY OF

JEFF P. STEIN

I. OVERVIEW AND PURPOSE

The purpose of my Rebuttal Testimony is to respond to the prepared direct testimony submitted by intervening parties in San Diego Gas & Electric Company’s (“SDG&E”) 2018 Residential Rate Design Window (“RDW”) Application (“A.”) 17-12-013 (Phase III) on policy issues related to SDG&E’s rate design proposals in this proceeding. My rebuttal testimony will reaffirm policy justifications for: (1) the necessity to adopt SDG&E’s proposed residential fixed charge, (2) SDG&E’s updated minimum bill, and (3) SDG&E’s proposed optional rate with a high fixed charge. Specifically, I will address the recommendations presented by the following parties:

- The Public Advocates Office (“Cal PA”) witnesses Matthew A. Karle (SCE’s Fixed Charge Calculation), Nathan Chau (Policy Recommendations and Response to SDG&E’s Proposals) and Christopher Danforth (Fixed Charge Calculation and Response to PG&E’s Fixed Charge Calculation);¹
- The Utility Reform Network (“TURN”) witness William Perea Marcus;²
- Solar Energy Industries Association (“SEIA”) witness Patrick G. McGuire;³ and
- Sierra Club witness Karl R. Rabago.⁴

My testimony is organized as follows:

¹ Prepared Direct Testimony of The Public Advocates Office on 2018 Residential Rate Design Window Applications, Phase 3 (May 31, 2019) (“Cal PA Direct Testimony [Witness]”).

² Prepared Testimony of William Perea Marcus on behalf of The Utility Reform Network, Customer Cost Quantification for the Three Major Electric Utilities (May 31, 2019) (“TURN Direct Testimony”).

³ Prepared Direct Testimony of Patrick G. McGuire on behalf of the Solar Energy Industries Association (May 31, 2019) (“SEIA Direct Testimony”).

⁴ Prepared Direct Testimony of Karl R. Rabago on behalf of Sierra Club (May 31, 2019) (“Sierra Club Direct Testimony”).

- 1 • Section II – Fixed Charge
- 2 • Section III – Minimum Bill
- 3 • Section IV – Higher Fixed Charge Rate Option

4 Additional rebuttal testimony is provided by SDG&E witnesses Jesse B. Emge (Fixed
5 Charge and Minimum Bill Rate Design) and William G. Saxe (Marginal Distribution Customer
6 Costs Methodologies and Eligible Fixed Costs).

7 **II. KEY TRENDS DRIVING CHANGE IN RATE DESIGN**

8 The electric utility industry in California is in the midst of transformation. This
9 transformation is driven largely by:

- 10 • California’s clean energy goals;
- 11 • technological innovation; and
- 12 • changing customer needs.

13 The Legislature and the Commission have ambitious but achievable goals that seek to
14 increase reliance on renewable generation to reduce greenhouse gas emissions and to promote
15 the adoption of electric vehicles. This challenge will transform California’s economy into one
16 that runs on clean and sustainable technologies and ensure that all Californians have clean air,
17 clean water, and a healthy and safe environment. This bold mandate is the reason California is
18 looked upon as a leader in developing a clean energy economy and promoting green technology.
19 Unfortunately, from a rates perspective, California lags in recognizing the continuing importance
20 of the grid and the need for California’s electric utilities to fairly recover all the costs associated
21 with the grid.

22 The utility’s cost of providing grid services, which are fixed for all customers, consists of at
23 least four components — the typical fixed costs associated with: (1) distribution, (2)
24 transmission, (3) generation capacity and (4) public purpose programs. Significant investments

1 have been incurred since the early 2000s to ensure that the electric grid in California is safe,
2 reliable and supports the State’s clean energy goals. All SDG&E’s customers benefit from these
3 investments. The transition path that SDG&E has proposed, a modest fixed charge for all
4 residential customers, is a critical first step toward an evolving rate design. Indeed, regulators in
5 several states have already taken positive action and approved a fixed charge for residential
6 customers.

7 For the California utilities to continue to evolve to provide the services that the Commission
8 and customers want then all customers who use and benefit from the grid will need to start to
9 share in the cost of building, maintaining and operating it. This will entail moving toward a rate
10 design model that allows for a fixed charge to recover fixed costs from all customers. The
11 antiquated rate design model of recovering fixed costs in volumetric rates is no longer a viable
12 option that can promote fairness to all customers and for the utilities to continue providing the
13 services demanded by its customers today and into the future.

14 SDG&E continues to be a leader in providing the cleanest, safest and most reliable system in
15 America. In addition to this, SDG&E will continue to meet the State’s clean energy goals for the
16 future, provide more individualized customer services, and be a partner in the growth of
17 distributed energy resources (“DER”). In order to fulfill our corporate goals, SDG&E needs and
18 deserves reasonable assurances that recovery of its grid investments will not be bypassed by
19 those who uses very little energy or who have installed DERs.

20 The essential cornerstone of the rate design principles is that rates should be based on
21 marginal cost and cost causation. When rate structures are not reflective of these rate design
22 tenets, customers are able to circumvent paying for the grid investments that were built on their
23 behalf, which results in higher energy bills for some customers who have to pay increased costs

1 to recover this difference. This is an unsustainable model, does not support long-term support of
2 DERs, and leads to an unfair cost burden as fixed utility costs for maintaining a safe and reliable
3 grid are shifted to a shrinking customer base. Parties continue to maintain that status quo is
4 sustainable and to question the magnitude of the cost shift as customers adopt DERs under a
5 flawed rate design. The essence of their arguments, for many parties, is one of self-interest for
6 their own customers. The longer this flawed rate design remains, the longer and more severe the
7 cost shift.

8 In fact, SDG&E's proposal for a \$10 fixed charge is far below SDG&E's cost of providing
9 grid services to even the smallest residential customer's needs, which includes distribution,
10 transmission, generation capacity, and public purpose programs. We believe that educating
11 customers about what they are paying for when they purchase electricity, both grid services and
12 energy, is critically important.

13 **III. STRONG POLICY ARGUMENTS SUPPORT RATES BETTER DESIGNED TO** 14 **RECOVER FIXED COSTS**

15 Fixed costs do not vary based on how much electricity a customer uses. For example,
16 operations and maintenance and investments in fire hardening, transmission lines, poles,
17 substations, transformers and meters are considered fixed costs because those costs tend to not
18 change regardless of how much electricity customers use. SDG&E also has power purchase
19 agreements and contracts for generation capacity that are fixed over the term of the contract.
20 Non-infrastructure costs such as the operation of the customer service centers and billing are also
21 fixed. All these investments ensure safe and reliable energy. SDG&E must incur these costs,
22 regardless of how much power individual customers use.

23 Before the proliferation of today's dynamic energy market, it was not as important
24 whether utility revenue was collected through a fixed charge or variable charge. Now, however,

1 because of the changes in technology and energy markets, it has become an increasingly relevant
2 and important issue that utilities must address. Delivering safe and reliable energy requires
3 large, expensive infrastructure investments, whether customers use a small or large amount of
4 electricity. As noted in the Revised Prepared Direct Testimony of Cynthia Fang in Phase IIA:

5 Under current effective rates, commodity services represent approximately 50%
6 of total recovered costs, while distribution and transmission services represent
7 30% and 10%, respectively. State- and Commission-mandated programs comprise
8 the remaining 10% of recovered costs. When examining the cost drivers behind
9 these different resources, approximately 33% of the total costs recovered in rates
10 are driven by customer energy usage. The remainder of costs are driven by the
11 need to ensure a customer is set-up and ready to receive services (i.e., meter and
12 billing services), infrastructure costs to ensure safe and reliable delivery of energy
13 services, and the costs of public policy programs – which do not vary by energy
14 usage.⁵
15

16 In sum, if the pricing structure doesn't evolve with the changing utility business to
17 accurately reflect costs, then some customers will continue to not pay their fair share of those
18 costs. It is important that customers pay their fair share of costs. As described below, in the
19 Revised Prepared Direct Testimony of Cynthia Fang (which I am adopting) and in my
20 Supplemental Testimony, SDG&E's fixed charge and minimum bill proposals represent
21 reasonable changes that are better aligned with the need to collect fixed costs.

22 **IV. SDG&E'S FIXED CHARGE PROPOSAL IS CONSISTENT WITH THE**
23 **COMMISSION'S RATE DESIGN PRINCIPLES AND WILL NOT IMPEDE**
24 **CONSERVATION**

25 Energy efficiency and self-generation can benefit the grid, customers and utilities.
26 However, without appropriate changes in rate design (i.e., realignment of fixed costs to serve and
27 fixed revenue collection), such benefits are outweighed by the lower fixed costs collection and

⁵ RDW Phase IIA, Exhibit 1, Revised Prepared Direct Testimony of Cynthia Fang (Chapter 1) (December 20, 2017) ("Fang Revised Direct Testimony") at CF-20 (citation omitted); see also Chart 4 (SDG&E Utility Cost of Service) at CF-21.

1 cost shifting between customers due to reduced kilowatt-hour (“kWh”) sales. Separating
2 revenue collection of fixed charges from energy charges will help reduce upward rate pressure
3 by preventing unfair cost shifting.

4 The intervenors are generally opposed to fixed charges, preferring to maintain the status
5 quo: keeping a residential minimum bill at or around \$10, with no fixed charge.

- 6 • Cal PA requests that the Commission reject SDG&E’s fixed charge proposal,
7 arguing that the composite tier rate methodology precludes the alleged fixed
8 charge benefits and would not resolve the NEM cost shift.⁶
- 9 • SEIA posits that the continued use of the minimum bill is preferable to a fixed
10 charge.⁷
- 11 • Sierra Club also prefers retaining a minimum bill over a fixed charge. Sierra Club
12 states that the Commission should reject requests for a residential fixed charge,
13 claiming that it (1) impedes conservation and deployment of clean resources, (2)
14 encourages increased consumption, (3) disproportionately raises bills for low-
15 income customers, and (4) encourages utilities to increase spending in the cost
16 categories that will be recovered through such charges.⁸

17 These approaches will not improve SDG&E’s residential rate design, fail to account for
18 changing trends in electricity usage, and do not support California’s evolving clean energy goals.

⁶ Cal PA Direct Testimony (Chau) at 1-6 – 1-9.

⁷ SEIA Direct Testimony at 10.

⁸ Sierra Club Direct Testimony at 12-13.

1 **A. The Commission Has Recognized the Need for a Fixed Charge**

2 SDG&E continues to support the Rate Design Principles (“RDP”) adopted by the
3 Commission in Order Instituting Rulemaking (“R.”) 12-06-013.⁹

4 There are four rate design principles that support a fixed charge:

- 5 • RDP-2) Rates should be based on marginal costs,
- 6 • RDP-3) Rates should be based on cost causation principles,
- 7 • RDP-7) Rates should generally avoid cross-subsidies unless the cross-subsidies,
8 appropriately support explicit state policy goals,
- 9 • RDP-9) Rates should encourage economically efficient decision-making.¹⁰

10 SDG&E believes that a fixed charge is consistent with the rate design principles above and will
11 not hinder but advance California’s clean energy goals.

12 Following the issuance of R.12-06-013, the Commission reiterated the need to move
13 towards more cost-based rates, and has suggested a fixed charge as a mechanism to do so:

14 We believe that a fixed charge can play a role in the residential rates in the future
15 -- especially as the electricity market evolves to accommodate more distributed
16 technologies. We expect that in the future, there may be substantial variation in
17 how residential customers procure and conserve electricity for their needs. The
18 role of the utility in this changing world may include services for which
19 volumetric pricing is not appropriate or possible. Therefore, we believe continued
20 consideration of a fixed charge in residential rates is appropriate and we direct the
21 IOUs and stakeholders to follow the process below.¹¹

22 California Public Utilities (“P.U.”) Code §739.9 provided the Commission with authority
23 to approve “new, or expand existing, fixed charges for the purpose of collecting a reasonable

⁹ Decision (“D.”) 14-06-029 at 12.

¹⁰ *Id.*

¹¹ D.15-07-001 at 190.

1 portion of the fixed costs of providing electric service to residential customers.”¹² In D.15-07
2 001, the Commission considered IOU proposals for new or increased fixed charges designed to
3 collect certain fixed costs of providing service to all residential customers.¹³ The Commission
4 unanimously concluded that “[a] well-designed fixed charge representing a portion of the fixed
5 customer-related costs to serve the individual residential customer could be reasonable.”¹⁴

6 Parties to D.15-07-001 generally agreed that the cost to provide service to residential
7 customers has both fixed and variable elements, with the decision going on to state that no
8 parties deny that the utilities have fixed costs and that some of those fixed costs are customer-
9 related.¹⁵ The direct testimony of Sierra Club, Cal PA, and SEIA, provided in response to
10 SDG&E’s RDW Phase 3 application, do not refute the existence of customer-related fixed costs.
11 However, they each argue that a fixed charge is not appropriate.

12 Sierra Club, Cal PA, and SEIA each take the extreme position of arguing for no fixed
13 charge. They fail to provide a reasonable alternative to collect customer-related fixed costs, on a
14 cost causation basis, which they acknowledge exists. SDG&E’s proposal for a fixed charge will
15 realign rates to be more cost-based, reducing subsidies from some low users to all residential
16 customers, while minimally impacting the price signal customers receive. SDG&E’s proposal is
17 not intended as a substitute for net energy metering (“NEM”) reform, to impede conservation, or
18 as a barrier to distributed energy resources (“DER”) adoption, or customer choice.

¹² P.U. Code §739.9(e).

¹³ D.15-07-001 at 189.

¹⁴ Fang Revised Direct Testimony at CF-22, citing D.15-07-001 at 328, Conclusion of Law (“COL”) 16.

¹⁵ D.15-07-001 at 189.

1 As noted in the prepared direct testimony of Cynthia Fang (Phase 2A), the Commission
2 has found that “[a] fixed charge is not intended to incent specific customer behavior, but is
3 intended to assist the customer in making economically efficient decisions regarding energy
4 usage and investments.”¹⁶ A residential fixed charge allows for the recovery of the costs of
5 utility services to occur through a rate mechanism other than the energy rates. D.15-07-001
6 concluded that “[a] fixed charge or minimum bill that recovers customer-related costs would
7 result in more equitable rates for low usage customers such as vacation homeowners and some
8 NEM customers,”¹⁷ and that “[a] fixed charge to reflect fixed costs would send a more accurate
9 price signal to customers.”¹⁸ Also, the Commission recognized in D.15-07-001 that there should
10 be a balance between state policies for conservation and cost-based rates, and stated “...we must
11 balance the competing rate design principles” and “we give significant weight to the need to
12 better align rates with cost causation, and provide customers with clear cost signals.”¹⁹

13 SEIA argues that residential fixed charges and higher minimum bills would reduce
14 incentives for customers to install DER systems.²⁰ This argument arises from a policy of
15 maximizing DER and particularly rooftop solar penetration with no consideration for cost-based
16 rates and equity for all customers. SEIA’s refusal to acknowledge that *any* customer cross-
17 subsidization occurs under the NEM construct is not reasonable:

18 SEIA does not accept and would contest SDG&E’s assertions both as to (1) whether such
19 a cross-shift exists and (2) even if it does, what is its magnitude. Making significant
20 changes to residential rate design in this case to correct an alleged and unproven cross-

¹⁶ *Id.* at 323, Finding of Fact (“FOF”) 176.

¹⁷ *Id.* at 322, FOF 163.

¹⁸ *Id.* at 323, FOF 175.

¹⁹ *Id.* at 213-214.

²⁰ SEIA Direct Testimony at 15.

1 subsidy would thwart and prejudice the Commission’s upcoming NEM 3.0 review, and
2 potentially arrive at the wrong outcome.²¹

3
4 The commission itself has acknowledged that the NEM rate overlay results in economic
5 cost shifting to non-participant customers²² and that this cost shift could be alleviated, in part,
6 through fixed charges and minimum bills.²³ The Commission has also acknowledged that the
7 implementation of an all-residential fixed charge can and should happen outside of NEM
8 reform.²⁴ Contrary to SEIA’s assertions, SDG&E’s residential fixed charge and higher minimum
9 bill proposals are not intended to primarily target solar customers, nor do they prejudice the
10 forthcoming NEM rulemaking. However, fixed cost recovery proposals do have the effect of
11 providing some immediate rate relief for non-solar customers while we await additional NEM
12 reforms.

13 In this proceeding, Cal PA has identified the IOU’s residential NEM cost shifts as
14 “substantial and growing.”²⁵ SDG&E agrees and appreciates this recognition. SDG&E also
15 agrees with Cal PA’s assessment that SDG&E’s fixed charge and minimum bill proposals result
16 in small reductions to the NEM cost shift.²⁶ However, SDG&E disagrees with Cal PA’s
17 reasoning that just because their impact to reducing the cross-subsidy is small, SDG&E’s
18 proposals should be rejected. As stated above, SDG&E’s primary need for a residential fixed

²¹ *Id.* at 14 (citation omitted).

²² D.16-01-044 at 81, n.93.

²³ D.15-07-001 at 322-323, FOFs 163 and 177.

²⁴ D.16-01-044 at 75 and at 114, COL 10.

²⁵ Cal PA Direct Testimony (Chau) at 1-8.

²⁶ SDG&E’s proposed fixed charge at the maximum statutory level of \$10, coupled with a \$38.40 minimum bill proposal, would only reduce its current total residential NEM subsidy from \$359 million to \$325 million or a 4.4% reduction.

1 charge is not driven by NEM. However, incremental reductions to the NEM cost shift,
2 regardless of how small, is another meaningful benefit resulting from SDG&E’s proposals that
3 underpins the overarching and immediate need for more cost-based residential rate design. I
4 would also posit that the minimal impact of SDG&E’s fixed charge proposals on reducing the
5 NEM cost shift highlights: (1) just how significantly the NEM cost shift has increased since the
6 original NEM tariff was reformed in 2016, (2) how limited SDG&E is in addressing this growing
7 cost shift, because even with a fixed charge and higher minimum bill there is still a significant
8 volumetric rate can be netted and (3) how critical and necessary it is for the Commission to take
9 up further NEM reform efforts via rulemaking as quickly as possible.²⁷ Until then and because
10 NEM is so well established,²⁸ SDG&E would argue that the time is right to alleviate this cross-
11 subsidy through more cost-based rate designs, like a fixed charge and a higher minimum bill.

12 Furthermore, Sierra Club and SEIA argue that a fixed charge adversely effects low
13 income customers more so than higher usage and assumed higher income customers.²⁹ To limit
14 the potential negative impact to some low usage customers SDG&E proposes to exclude its fixed
15 charge from its 2-period default time of use (“TOU”) opt-out rate and its master metered rate
16 schedule. Additionally, as shown in the bill impacts presented in the Supplemental Testimony of
17 Dr. Emge, the potential impact to low-income customers, specifically California Alternative
18 Rates for Energy (“CARE”) customers is small. That is, approximately 12% of CARE
19 customers would see an average bill increase of \$2.53. Conversely, 76% of CARE customers

²⁷ The *Decision Adopting Successor to Net Energy Metering Tariff* had anticipated a reassessment of the NEM successor tariff to begin in 2019. See D.16-01-044 at 48, 60-61.

²⁸ Over 12 percent of SDG&E’s residential population are NEM customers.

²⁹ SEIA Direct Testimony at 12; and Sierra Club Direct Testimony at 12-15.

1 would see a savings of \$2.87. Additionally, NON-CARE, low usage customers (approximately
2 36% of NON-CARE customers) would see an average increase of approximately \$10.10, while
3 63% would see a savings of \$5.61.³⁰

4 **B. A Minimum Bill, by Itself, Does Not Follow Cost Causation Principles**

5 Continuing to utilize a low minimum bill without a fixed charge is not a transparent
6 approach to rate design because residential customers will remain unaware of the utility’s full
7 fixed costs to provide services. SDG&E believes that it is critically important to provide
8 transparency to customers regarding the cost to serve. To recover fixed costs and the costs
9 associated with the minimum level of service, both a minimum bill and a fixed charge are
10 necessary. The fixed charge will collect fixed costs from all customers, resulting in more
11 equitable cost recovery and ultimately leading to lower volumetric rates for all customers. The
12 fixed charge however, does not remove all fixed costs from volumetric rates, meaning that some
13 low usage customers will still not be paying for their minimum threshold of service with a fixed
14 charge alone. Accordingly, SDG&E is also proposing a minimum bill that collects the minimum
15 threshold of service costs from low usage customers. Similar to a fixed charge alone, the
16 minimum bill only applies to a very small subset of low usage customers, and is therefore,
17 unlikely to effectively address pressing fixed-cost recovery problems on its own.

18 **C. The Benefits of a Fixed Charge Outweigh the Minimum Impacts, If Any, On**
19 **Conservation**

20 SDG&E continues to be a leader in clean energy, advancing electric vehicles (“EV”) and
21 developing and operating a low-carbon energy infrastructure while providing safe and reliable
22 service. To ensure the continued pursuit of the State’s clean energy goals in a sustainable

³⁰ These calculations are based on the bill impacts provided the *Prepared Supplemental Testimony of Jesse B. Emge (Chapter 2)* (March 29, 2019).

1 manner, it is critical to continue striving toward rates that reflect accurate prices and incentives
2 or subsidies that are direct and transparent.

3 Cal PA, SEIA, and Sierra Club contend that a fixed charge on its own would impede
4 conservation.³¹ This argument assumes that by reducing the volumetric rates such customers
5 will increase consumption. SDG&E believes that a fixed charge on its own will not
6 unreasonably impair incentives for conservation. This argument was addressed in D.15-07-001:

7 We recognize that a fixed charge, as a rate design element, would not encourage
8 additional conservation. However, we determine that the impact is likely to be small.
9 We acknowledge that a fixed charge would represent a larger percentage of the monthly
10 bill for those customers whose usage is lower but note that, along with a fixed charge,
11 these customers would see lower volumetric rates than would be necessary with a
12 minimum bill.³²

13 Additionally, the parties in D.15-07-001 conducted individual analyses on the impacts of
14 TOU and fixed charges on conservation. The Commission found that "...while we cannot find
15 with certainty that the rate design proposals will decrease (or increase) conservation, we can find
16 that any impacts to conservation from the proposed rate design changes would be relatively small
17 and would not unreasonably impact conservation."³³ The Commission believes, and SDG&E
18 agrees, that "...the optimum conservation levels will be achieved when customers better
19 understand the cost of the energy they consume."³⁴

20 Finally, because of the Composite Tier Methodology, the fixed charge reduces Tier 1
21 volumetric rates for all residential customers. For instance, DR Tier 1 rates move from

³¹ Cal PA Direct Testimony (Danforth), Appendix 2-A, p. 14; SEIA Direct Testimony at 9-10; and Sierra Club Direct Testimony at 8-17.

³² D.15-07-001 at 214.

³³ *Id.* at 61.

³⁴ *Id.*

1 \$.25/kWh³⁵ to \$.20/kWh, while not affecting the Tier 2 rates. Because only the Tier 1 rates are
2 affected, the price signal to conserve is preserved. In other words, customers will continue to
3 conserve to prevent moving from Tier 1 to Tier 2 rates. It is the price differential, between Tier
4 1 and Tier 2 rates, that incents customers to conserve, not necessarily the absolute \$/kWh. In
5 addition to the Tier 1 to Tier 2 differential, TOU-DR provides another price signal between
6 on/off/and super off-peak rates. The fixed charge does not affect the relatively higher on peak
7 rates, preserving the signal to conserve during on-peak periods. Sierra Club acknowledges this
8 when it states: “An example of an efficient price signal is high on-peak prices, which tell
9 customers that cost of service increases during peak demand period, *and* induces customers to
10 reduce their on-peak consumption.”³⁶ SDG&E does acknowledge that for some low usage Tier 1
11 customers the signal to conserve may be diminished by lower rates as a result of a fixed cost, but
12 for the reasons stated above the effect is likely minimal.

13 **V. SDG&E’S PROPOSAL TO INCREASE ITS MINIMUM BILL IS CONSISTENT**
14 **WITH THE COMMISSION’S RATE DESIGN PRINCIPLES AND WILL NOT**
15 **IMPEDE CONSERVATION**

16 In combination with a fixed charge, SDG&E is proposing a minimum bill charge that is
17 designed to recover a minimum level of service costs necessary to provide electric service to a
18 residential customer. As stated in D.15-07-001:

19 For customers with no or very low usage, the minimum bill would function like a
20 customer charge and collect a portion of the utilities’ fixed costs, assuring that
21 each customer pays something for the continued ability to take energy from the
22 grid. Customers who use more energy (and whose bills exceed the minimum bill
23 amounts) pay no minimum bill but instead pay for customer access and usage
24 through volumetric rates.³⁷

³⁵ Based on March 1, 2019 rates.

³⁶ Sierra Club Direct Testimony at 24.

³⁷ D.15-07-001 at 218.

1 For example, once a customer’s bill is calculated, which will include the fixed charge, it will be
2 compared to the minimum bill amount. If the customer’s calculated bill is under the minimum
3 bill amount, the customer will pay the minimum bill. If it’s over the minimum bill amount, the
4 customer pays for the calculated bill.

5 SDG&E is proposing to implement a higher minimum bill in the amount of \$1.26 per day
6 (or \$38.19 per bill based on a 30-day billing cycle), to be effective March 1, 2020.³⁸ Consistent
7 with D.15-07-001, CARE, Family Electric Rate Assistance (“FERA”), and Medical Baseline
8 customers will receive a 50% discount on the minimum bill.³⁹

9 Cal PA, Sierra Club, SEIA, and TURN reject SDG&E’s increased minimum bill
10 proposal.

- 11 • Cal PA recommends that the Commission retain the \$10 minimum bill but assess
12 it on the customer’s distribution rate rather than the total rate proposed by
13 SDG&E.⁴⁰
- 14 • Sierra Club also recommends the Commission continue to use a \$10 monthly
15 minimum bill.⁴¹
- 16 • SEIA recommends that the Commission adopt a policy that the minimum bill for
17 standard residential electric customers be the higher of (1) \$10 per month, or (2)
18 the utility’s adopted marginal customer costs.⁴²

³⁸ Stein Supplemental Testimony at JS-4. The daily minimum bill is updated in the *Prepared Rebuttal Testimony of Jesse B. Emge (Phase III)* (June 28, 2019) (“Emge Rebuttal Testimony”) at Attachment A-1.

³⁹ D.15-07-001 at 328, COL 21.

⁴⁰ Cal PA Direct Testimony (Chau) at 1-2 – 1-4.

⁴¹ Sierra Club Direct Testimony at 34-35.

⁴² SEIA Direct Testimony at 18-19.

- 1 • TURN does not explicitly state a dollar amount and recommends that the
2 minimum bill be calculated more deliberately assuring some revenue recovery
3 from customers with very low loads, while not raising the bills for a significant
4 number of customers with below average energy usage.⁴³

5 Like their approach to fixed charges, these intervenor recommendations would retain the
6 status quo and do little to nothing to improve SDG&E’s ability to more fairly collect its fixed
7 costs from all customers who benefit from having a safe and reliable source of energy, regardless
8 of the volume of their usage.

9 **A. The Commission Has Not Imposed a Cap on Minimum Bills**

10 In D.15-07-001, the Commission stated the following:

11 Although we find in the discussion below that the statutory limits on fixed
12 charges do not apply to minimum bills, given the disagreement regarding
13 the appropriate amount of fixed customers costs, it is reasonable to adopt a
14 minimum bill amount for all three utilities that is consistent with the
15 statutory limit for fixed charges. Future proposed minimum bill amounts
16 shall be subject to review by the Commission and parties through the
17 utilities’ GRC Phase 2 applications.⁴⁴

18 Thus, the Commission has not found that the statutory limits on fixed charges apply to minimum
19 bills. Rather, the Commission concluded in 2015 that it was reasonable at that time to set a
20 minimum bill amount that is consistent with the statutory cap on fixed charges, while noting that
21 future proposals to change the minimum bill amount would be subject to Commission review.
22 Here, in this proceeding, SDG&E is acting on the Commission’s invitation to propose a
23 minimum bill that exceeds the statutory limit on fixed charges.

⁴³ TURN Direct Testimony at 35-16.

⁴⁴ D.15-07-001 at 227.

1 SDG&E believes that the minimum bill should reflect the residential minimum cost of
2 service, as noted in the testimony of Dr. Emge.⁴⁵ SDG&E does not agree with a \$10 per month
3 minimum bill cap suggested by intervenors. As previously presented in my supplemental
4 testimony, approximately 32% of the costs recovered in rates are driven by customer energy
5 usage, while the remaining 68% are driven by the need to ensure a customer is set-up and ready
6 to receive services (i.e., meter and billing services), infrastructure costs to ensure safe and
7 reliable delivery of energy services, and the costs of public policy programs – all of which do not
8 vary by energy usage.⁴⁶

9 As noted above, SDG&E’s infrastructure investment is required to provide all customers
10 with the minimum level of safe and reliable service for the entire length of the grid.⁴⁷ This
11 includes direct customer-based costs, where customers receive electricity from the wires
12 connected to their houses, through the distribution grid as well as transmission resources and
13 generation capacity costs, which are built to meet SDG&E’s system needs in a reliable and safe
14 way. The costs that make up SDG&E’s proposed minimum bill would include customer costs,
15 the customer cost-related equal percent marginal cost (“EPMC”) scalar,⁴⁸ grid-related reliability

⁴⁵ Emge Rebuttal Testimony at Attachment A-1.

⁴⁶ *Prepared Supplemental Testimony of Jeff P. Stein* (Phase III) (March 29, 2019) (“Stein Supplemental Testimony”) at JS-6.

⁴⁷ Fang Revised Direct Testimony at CF-20, Diagram 2.

⁴⁸ The Commission acknowledged that certain portions of the distribution-demand infrastructure were customer-related as they do not vary with a customer’s demand or usage, but did not have a methodology to quantify the split between the two. D.17-09-035 at 12 (“As the electricity market continues to evolve to accommodate new opportunities for how customers procure and conserve electricity to meet their needs, [the Commission] is cognizant of the importance of having a mechanism for collecting these fixed distribution costs”).

1 costs, transmission,⁴⁹ and State and Commission-mandated programs.⁵⁰ These cost components
2 are presented in the rebuttal testimony of Dr. Emge.

3 Cal PA and SEIA rightfully indicate that SDG&E’s proposed minimum bill includes
4 costs in addition to distribution costs and “fixed costs” listed in D.17-09-035. D.17-09-035
5 determined that fixed costs be customer-specific; and adopted what it characterized as a narrow
6 definition of fixed costs to be used in determining the fixed charge. SDG&E includes costs
7 outside of the limited categories eligible for recovery in a fixed charge, namely generation
8 capacity costs, because SDG&E’s infrastructure investment is required to provide all customers
9 with the minimum level of safe and reliable service. Per D.15-07-001, “the minimum bill charge
10 is a mechanism that is designed to recover a minimum level of revenue, recognizing that some
11 costs are still incurred to maintain service even in the event that a customer does not use
12 energy.”⁵¹ This cost recovery definition is aligned with SDG&E’s proposed cost recovery for a
13 minimum threshold of service and would ensure more equitable cost recovery.

⁴⁹ SDG&E’s minimum bill calculation reduces its Transmission and Reliability Services (“RS”) volumetric rate components based on the calculated Commission-approved revenue requirement. This is not a Federal Energy Regulatory Commission (“FERC”)-approved methodology with FERC determinants; SDG&E plans to file an application with the FERC for approval of this change.

⁵⁰ SDG&E proposes that CARE, FERA and Medical Baseline customers will pay 50% of the minimum bill of non-CARE customers. CARE, FERA, and Medical Baseline customers are exempt from certain rate components. Therefore, 50% of the non-CARE minimum bill was scaled over the cost of recoverable rate components. Additionally, for consistency, CARE, FERA, and Medical Baseline customers will all pay the same minimum bill rate components, although they may or may not be exempt from the volumetric portion of the rate component. Medical Baseline customers will not pay the minimum bill for Vehicle-Grid Integration (“VGI”) and California Solar Initiative (“CSI”) components. Department of Water Resources-Bond Charge (“DWR-BC”), GHG and Nuclear Decommissioning (“ND”) will not be included in the calculation of a minimum bill.

⁵¹ D.15-07-001 at 217.

1 **B. Intervenors’ Claims Regarding the Impact of a Higher minimum Bill on**
2 **Conservation Are Overstated**

3 TURN, Cal PA, SEIA, and Sierra Club each discuss the effects of SDG&E’s minimum
4 bill on conservation efforts. Cal PA argues that its proposal for a minimum bill will preserve the
5 price signal necessary to incent conservation. Sierra Club, while opposed to SDG&E’s
6 minimum bill proposal, does state that a minimum bill “maximizes the effectiveness of the basic
7 price signal that consumption drives costs, and so drives the most effective conservation
8 incentive.”⁵² SEIA, while also opposed to SDG&E’s minimum bill, states that a minimum bill,
9 as opposed to a fixed charge does not have as large an impact on conservation and demand
10 reduction.⁵³ SDG&E agrees that a minimum bill is likely to have a marginal impact on
11 conservation. More importantly, however, SDG&E also agrees a higher minimum bill will more
12 accurately collect costs, reduce cross-subsidies, enhance bill stability, and encourage decision
13 making.

14 In sum, SDG&E believes that a higher minimum bill at \$1.26 per day is justified and will
15 facilitate rates that are fair and equitable to ensure that all residential customers pay for costs
16 incurred by SDG&E, as the provider of last resort, to provide a minimum level of service. The
17 minimum bill would ensure that all customers pay for their minimum threshold of service
18 provided by SDG&E, even if they are departing load or DER customers.

⁵² Sierra Club Direct Testimony at 31.

⁵³ SEIA Direct Testimony at 10.

1 **VI. HIGHER FIXED CHARGE RATE OPTION**

2 As previously stated in my supplemental testimony, SDG&E is proposing an optional
3 higher fixed charge rate option of \$72.25, with lower volumetric rates.⁵⁴ This option will allow
4 customers to elect a rate that will help reduce bill volatility. In D.17-08-030, SDG&E received
5 approval to implement an un-tiered TOU option for residential customers with electric vehicles
6 with a \$16 fixed charge and lower volumetric rates.⁵⁵ As of January 2019, adoption of this rate
7 (EV-TOU-5) has increased to 3,150 customers, and SDG&E continues to receive positive
8 feedback from customers on this rate. Unfortunately, residential un-tiered TOU rates are only
9 available for residential customers that have adopted some form of technology, such as an
10 electric vehicle.⁵⁶ SDG&E’s proposal for a higher fixed rate option in this proceeding is
11 intended to offer the benefits of such a rate to a broader subset of residential customers.

12 Cal PA and TURN are concerned that the higher fixed charge rate option for all
13 customers will result in a revenue shortfall and that the rate would heavily favor high-usage
14 customers by allowing them to avoid paying for the baseline credit embedded in standard
15 residential rates.⁵⁷

16 SDG&E acknowledges that there is the potential for high-usage customers to benefit
17 from a move to the higher fixed charge rate option. To help mitigate parties’ concerns, SDG&E

⁵⁴ Stein Supplemental Testimony at JS-4 and JS-10 – JS-11. The higher fixed charge monthly charge is updated in the Emge Rebuttal Testimony at Attachment A-2.

⁵⁵ D.17-08-030 at 32.

⁵⁶ Schedule DR-SES is currently applicable to individually metered residential customers with Solar Energy Systems. Available at http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-SCHEDS_DR-SES.pdf. Schedules EV-TOU, EV-TOU-2, and EV-TOU-5 are currently applicable to customers who require service for charging of a currently registered Motor Vehicle. Available at http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-SCHEDS_EV-TOU.pdf, http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-SCHEDS_EV-TOU-2.pdf, and http://regarchive.sdge.com/tm2/pdf/ELEC_ELEC-SCHEDS_EV-TOU-5.pdf, respectively.

⁵⁷ Cal PA Direct Testimony (Chau) at 5-14; TURN Direct Testimony at 36.

1 proposes to adjust the higher fixed charge rate option by: (1) removing the Public Purchase
2 Program (“PPP”) from the high fixed charge (the result of this adjustment is shown in the
3 rebuttal testimony of Dr. Emge) and (2) proposing to initially cap the number of customers that
4 can adopt this rate at 2,000. This customer cap will limit any potential revenue under-
5 collection/shortfall. The cap will also create the opportunity to monitor this rate’s effect on
6 customer consumption and the potential benefits from this option. Assuming 2,000 of SDG&E’s
7 highest consuming residential customers transition from a residential tiered TOU or non-TOU
8 rate to the higher fixed charge rate, the potential revenue shortfall is \$18,260,880 annually, as
9 presented in the rebuttal testimony of Dr. Emge.⁵⁸

10 While this option may not be the right rate for all of SDG&E’s residential customers, it is
11 an important option for residential customers who may still be challenged with high volumetric
12 rates after mass TOU default and provide them with greater predictability. At the same time, this
13 new rate option will ensure that such customers pay for the infrastructure needed to deliver safe
14 and reliable energy service.

15 **VII. SUMMARY AND CONCLUSION**

16 The following summarizes SDG&E’s recommendations in response to parties’ direct
17 testimony on policy, minimum bill, and fixed charge issues related to SDG&E’s electric rate
18 design proposals:

- 19 • The Commission should approve SDG&E’s proposed residential fixed charge, of the
20 statutory maximum, which would be \$10 for non-CARE and \$5 for CARE and FERA
21 customers.

⁵⁸ Emge Rebuttal Testimony at 4.

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- The Commission should approve SDG&E’s proposed increased minimum bill proposal, of \$1.26 per day (or \$38.19 per bill based on a 30-day billing cycle), to be effective March 1, 2020.
- The Commission should approve SDG&E’s proposed higher fixed charge rate option, of \$72.25 fixed charge with reduced the volumetric rates, with a cap of 2,000 customers.

This concludes my prepared rebuttal testimony.