



VIA EMAIL

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March 8, 2016

BC HYDRO

2015 RATE DESIGN

EXHIBIT A2-3

Mr. Tom Loski
Chief Regulatory Officer
Regulatory & Rates Group
British Columbia Hydro and Power Authority
16th Floor – 333 Dunsmuir Street
Vancouver, BC V6B 5R3

Dear Mr. Loski:

Re: British Columbia Hydro and Power Authority
Project No. 3698781/Order G-156-15
2015 Rate Design Application Module 1

Commission staff submit the following document for the record in this proceeding:

The California Public Utilities Commission
Decision 15-07-001
Decision on Residential Rate Reform for
Pacific Gas and Electric Company, Southern California Edison Company,
and San Diego Gas & Electric Company, and Transition to Time-Of-Use Rates
July 3, 2015

Yours truly,

Laurel Ross

/nd

Enclosure

cc: registered interveners

ALJ/JMO/JMH/cdl/mal/ar9

Date of Issuance 7/13/2015

Decision 15-07-001 July 3, 2015

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

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

(See Service List for Appearances)

**DECISION ON RESIDENTIAL RATE REFORM
FOR PACIFIC GAS AND ELECTRIC COMPANY,
SOUTHERN CALIFORNIA EDISON COMPANY,
AND SAN DIEGO GAS & ELECTRIC COMPANY
AND TRANSITION TO TIME-OF-USE RATES**

SDG&E's residential sales, and would reduce those incentives to some extent for upper-tier sales."⁵⁵ He admitted, however, that he "had not had an opportunity to review the underlying model in detail."

Each of the IOUs acknowledges that under their proposals residential rates are expected to increase for both non-CARE and CARE residential customers whose usage terminates in Tiers 1 and 2 while decreasing rates for Tier 3 and Tier 4 customers. However, they maintain that those Tier 1 and Tier 2 customers may "seek additional engagement"⁵⁶ or ways to save or manage their energy use using existing EE and/or DR programs while customers whose usage terminates in Tiers 3 and 4 will see bill reductions, and those customers "may have reduced incentives to increase participation in EE or DR over what that participation is today."⁵⁷

4.2.4. Other Estimates of Price Elasticity

Several parties argue that customers in the low usage tiers⁵⁸ should be assumed to have lower price elasticity than customers in the higher usage tiers. For example, TURN asserts that elasticity may be less for small customers, or customers living in apartments or mobile homes.⁵⁹ NRDC and TURN both cite a study of British Columbia Hydro (BC Hydro) residential customers comparing

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⁵⁵ Exh. PG&E-111 at 21.

⁵⁶ SCE OB at 132.

⁵⁷ Exh. UCAN-104 at 24.

⁵⁸ The term "small customers" is sometimes used in this proceeding and in AB 327. This proceeding did not address a definition for "small customers." For purposes of this discussion of elasticity we treat "small" and "low usage" as synonymous.

⁵⁹ Exh. TURN-201 at 39; Exh. TURN-207, Attachment WBM-6 (Michael Li, Ren Orans, Jenya Kahn-Lang & C. K. Woo, ARE RESIDENTIAL CUSTOMERS PRICE-RESPONSIVE TO AN INCLINING BLOCK RATE? EVIDENCE FROM BRITISH COLUMBIA, CANADA, June 2014); accord TURN OB at 6 n.5.

the impact of a newly-introduced two-tiered rate with the existing non-tiered rate.⁶⁰ The study found that, under the tiered rate, consumption by the large customers fell. Specifically, the authors found a price elasticity of between -0.08 and -.13 for large customers (i.e., those customers consuming above the 1350 kWh/bimonthly Tier 1/Tier 2 threshold).⁶¹ However, as shown in the chart below, the study notes that with the introduction of a second tier in fiscal year 2010, customers with consumption below the 1,350 kWh/bimonthly Tier 1/Tier 2 threshold experienced very little rate variation, in real terms, throughout the study period (FY 2005 – FY 2012). Not surprisingly, average consumption of small users also remained virtually unchanged during the study period. Consequently, with little variation in either price or consumption the researchers could not estimate a price elasticity for small customers. The authors acknowledge that their analysis does not consider the effect that suppressing prices for Tier 1 customers may have had on their consumption.⁶² If a flat rate had extended through 2012, small customers would have paid higher rates than they paid under the new tiered rate. Presumably the elasticity of small customers is not zero, and small customers would have consumed less than they actually did in 2010 through 2012. Without an estimate of this effect, it is not possible to conclude that the introduction of tiered rates by BC Hydro reduced consumption overall. However, the study did find that customers living in

⁶⁰ Exh. TURN-207, Attachment WBM-6 (Michael Li, Ren Orans, Jenya Kahn-Lang & C. K. Woo, ARE RESIDENTIAL CUSTOMERS PRICE-RESPONSIVE TO AN INCLINING BLOCK RATE? EVIDENCE FROM BRITISH COLUMBIA, CANADA, June 2014).

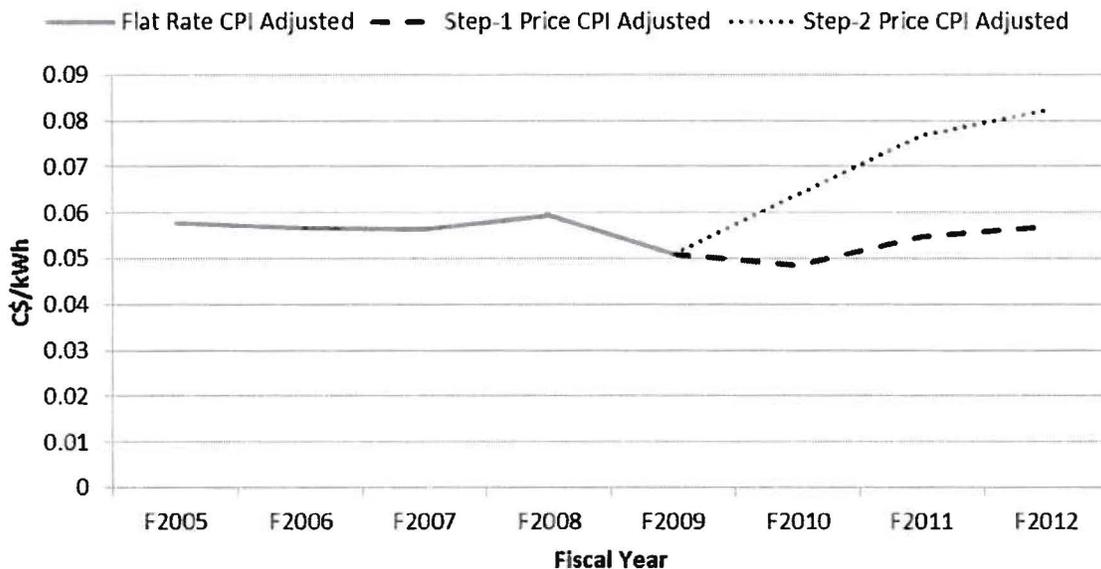
⁶¹ *Id.* at 227.

⁶² *Id.* at 224 – 225.

single-family detached houses have more elasticity than customers in town houses, apartments, or mobile homes.⁶³

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BC Hydro 2 Step Rate



TASC agrees that different elasticity assumptions should be applied to different tiers based on the fact that lower tier usage typically serves necessary energy needs while higher tier usage is more discretionary for most households.⁶⁴ TASC suggests that a more appropriate price elasticity for Tiers 1 and 2 is -0.08, the price elasticity coefficient used in the CEC's California Energy Demand 2014-2024 Final Forecast.⁶⁵ TASC reports that using this revised elasticity value in PG&E's scenario 1 results in significantly less conservation -

⁶³ *Id.* at 14.

⁶⁴ Exh. TASC-105 at 9.

⁶⁵ *Id.* at 10.

Regarding fixed charges, TASC also used PG&E's model to compare the effect of a fixed charge on conservation and found a 1.9 % reduction in usage,⁹⁸ nearly four times that of PG&E's proposal, when TASC assumed no monthly fixed charge.⁹⁹

4.2.12. Discussion

Based on the studies and analysis presented in this proceeding, it is clear that the proposed rate design changes will reduce the structural incentives for conservation present in the existing rates to some degree. The issue we consider here is whether the impacts associated with the proposed rate design changes are unreasonable and whether they unreasonably impair incentives for conservation such that the proposals must be rejected. To make this analysis, we consider first the evidence on price elasticity and methodology, and consider generally whether the rate design proposals in this proceeding are consistent with law and the RDPs.

Later in this decision we examine the conservation of effects of fixed charges and tiered rates in more detail. Finally, in Section 11 below, we look at each IOU's specific proposal and determine whether, when taken as a whole, the proposal is consistent with law and the RDP.

Our approach balances the principles of rates based on marginal cost (RDP 2) cost causation (RDP 3), and economically efficient decision-making, with the our concerns regarding conservation (RDP 4), gradualism (RDP 6) and customer acceptance (RDP 10).

⁹⁸ TASC OB at 12-14.

⁹⁹ Exh. TASC-105 at 12.

The analyses used to determine the conservation impacts rely on varying assumptions about how customers respond to electricity prices. However, considered as a whole, the various analyses presented show relatively small percentage increases or decreases in conservation. Because the utilities have made no efforts to compare the conservation impacts of their own proposals with those put forward by the other parties, it is not possible to compare parties' proposals against each other and find that one method produces significantly better conservation results than the other methods.

With the exception of ORA, most parties, including TURN, maintain that the joint PG&E/SCE tier-specific methodology is based on unrealistic assumptions regarding consumer behavior and should not be relied upon. We agree. The PG&E model is also based on the PG&E Bill Impact Calculator and suffers from the same flaw. Even if customers know the rates associated with each of the tiers they face, they are unlikely to know at any given time in a month which tier they are in. PG&E's witness Keane acknowledged that few customers actually know what usage tier they are in at any point during the billing cycle and that instead "customers notice and respond to significant changes in bills triggered by usage billed at high marginal tier prices."¹⁰⁰ ¹⁰¹

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Reviewing the results of the joint PG&E/SCE marginal price methodology, PG&E and SCE find increases in consumption (reductions in conservation) of 1.2% and 1.8%, respectively. As with the other methods, this average increase in consumption is a result of assumed decreases in conservation by high users and assumed increases in conservation by lower usage customers. Of the total

¹⁰⁰ RT Vol. 10 at 1056-1058, PG&E/Keane.

¹⁰¹ Exh. TURN-201 at 37.

estimated increase in consumption, the most significant percentage is related to the collapsing to two tiers, with the fixed charge contributing a slightly lower percentage increase. According to Dr. Faruqui, the marginal price methodology is best represented by customers who “study their bill carefully and understand specifically their marginal tier and the price of that tier.”¹⁰²

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However, we can see from the results of the Hiner study that at least half of the utilities’ customers do not know that their rates are tiered or how a tier structure works. Many other customers do not know what tier they are in, or which tier they would likely end up in during a given billing cycle.¹⁰³ These findings are inconsistent with the assumption that customers study their bill carefully and understand the price of their marginal tier.

The Hiner study findings are consistent with the average price methodology. The average price approach is also supported by Dr. Ito’s findings, albeit based on older data that preceded the investments in advanced metering and smart grid.¹⁰⁴

TURN concludes that customers will either respond to average bills, or to the highest marginal tier price, and theorizes that customers react to a combination of average and marginal tier rates. TURN was only able to analyze the effect of conservation on PG&E’s proposed rate design in detail due to the limitation of the utilities’ bill calculator models and the fact that the utilities declined to assist TURN in preparing additional scenarios. However, TURN’s conclusions make intuitive sense. A customer is most likely to notice changes in

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¹⁰² Exh. PG&E-111 at 6.

¹⁰³ Exh. PG&E-109 at 1-24.

¹⁰⁴ ORA OB at 58.

their bill from one period to the next. That same customer, to the extent they were concerned about high bills, would then be expected to notice the price of the next unit of output to evaluate whether they should or could conserve energy and reduce their bills.

Based on the analyses provided, we cannot find that one methodology alone accurately approximates how customers respond to tiered rate changes. Of the methodologies proposed, we believe the average price methodology is the closest approximation of how most customer will respond. The average price methodologies presented by the joint PG&E/SCE analysis, and TURN's analysis of PG&E's proposal, result in estimated impacts on consumption of -1.2 % and 1.44, respectively, indicating that the rate design proposals may result in either a slight decrease or increase in conservation.¹⁰⁵ We also find that there is a sub-group of customers who respond to their marginal (highest tier) rate.

We also agree that with TURN, TASC, NRDC, CforAT and other parties that customers with low usage (usage that currently does not exceed Tiers 1 and 2), are less likely to have discretionary electricity use that can be adjusted in response to higher rates. However, we did not find that the evidence presented in this proceeding clearly shows a correlation between electricity usage and elasticity. Rather, we believe that in the absence of additional evidence on this subject, the utilities' price elasticities for customers whose usage does not rise above the lowest tiers are unreasonably optimistic. Although parties did not provide definitive evidence that low-usage customers have lower price elasticity, parties did provide compelling evidence that we should not assume that customers who only have usage in the lower tiers are able respond to price

¹⁰⁵ TURN's combined methodology results in a consumption increase of 2.34%.

Strikingly, the record does not indicate that an increase in an inclining block rates will lead to a proportional increase in customer conservation. In other words, the evidence demonstrates that a differential provides a price signal to conserve, but the evidence does not demonstrate that a large rate increase would have a correspondingly large impact on conservation. This leads to the conclusion that a mild differential will be sufficient to maintain a conservation price signal. In addition, a dramatic price signal, such as a high user surcharge for the small group of customers who use the most energy, can be used to effectively target customers with extreme usage.

In sum, we find that although a tiered rate may provide a price signal that encourages customers to conserve, the actual extent of any resulting conservation is not clear. There is evidence in the record that shows that the current steep tier differentials are used by vendors to market EE products and rooftop solar to high-usage customers. A knowledgeable customer who is aware of the price structure and has the wherewithal to track it, might also be incented to use less overall energy. However, aside from these capital investments in EE, there is no evidence that a steep differential will lead to the type of behavioral changes that necessary to sustain a consistent amount of conservation.

The second policy argument, that low-income customers will be disproportionately impacted by increased low-tier rates, is similarly not well supported by the evidence in this proceeding. The correlation between income and usage was argued at length in this proceeding, and as discussed at length in Section 3 below, we are able to conclude (i) that there is only a weak correlation between income and usage, and (ii) that there are low income and middle class customers who currently pay above-cost prices for their electricity. Compared to high income customers, low income and middle class customers with high usage

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IREC and TASC also supports SEIA's proposal.²²⁴ EDF agrees that reforming the current tiered rate structure is necessary, stating that "maintaining status quo tiered rates does not solve the problem of ever growing peak demand."²²⁵ CforAT proposes moving from the current four tiered rate structure to one with three tiers, however CforAT is concerned that "changes in rate design that increase Tier 1 costs and/or shift necessary usage out of Tier 1 risk non-compliance with affordability obligations."²²⁶

5.2. Reasonable Number of Tiers

We find that a residential rate structure with at least two tiers and a moderate differential should be available to residential customers. This rate structure will maintain the price signal that increased usage means increased cost for the customer. There is also significant legislative direction that a tier structure should be maintained. Currently, each IOU has four tiers. The IOUs propose to reduce the number of tiers to two.

The active parties in this proceeding are divided on whether two or three tiers are preferable. In addition to the three utilities, ORA, UCAN, and IREC support two tiers. NRDC, Sierra Club, CALSEIA, CforAT, TURN and SEIA support a three-tier structure. TURN prefers a three-tier structure, but also proposed an alternative two-tier structure.

The two-tier structure has advantages over multi-tier rates. First, as evidenced by the Hiner study, customers prefer simple rate structures. Second, most customers do not understand the current four tier structure. Third, a two-

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²²⁴ Vote Solar OB at 2; TASC OB at 4.

²²⁵ EDF OB at 4-5.

²²⁶ CforAT OB at 53.

tier structure makes it easier to change other components of residential rate design to promote more efficient use of electricity and other state policy goals.

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NRDC and Sierra Club argue that a three-tier structure will incent additional conservation and support a steeper tier structure. NRDC argues that customers respond to the highest tier (not the average bill price), so a high tiered rate will incent more conservation.²²⁷ Sierra Club and NRDC also point out that because high usage customers use large amounts of energy, they are the most likely to have opportunities to reduce usage, but low usage customers have fewer opportunities to save energy.²²⁸ NRDC argues that its three-tier structure, “allows for lower bills for all customers with below-average usage, along with higher average conservation incentives, while still significantly reducing rates in the higher tiers from today’s levels.”²²⁹

TURN argues that a three-tier structure with no customer charge will incent more conservation than a two-tier structure with a fixed charge.²³⁰

A three-tier rate, however, could unfairly penalize large households. As discussed in Section 4.3 above, energy usage tends to increase as the number of household members increases. Under the current multi-tier structure, these households tend to fall into the higher tiers more often than small households, resulting in a higher rate per kWh. Under a three-tier rate structure, with evenly spaced tiers, this asymmetry would continue, but a two-tier system would reduce the amount by which larger households pay in excess of the average rate.

²²⁷ NRDC OB at 12.

²²⁸ *Id.* at 16.

²²⁹ *Id.* at 17 (citing Exh. NRDC-101 at 32).

²³⁰ TURN OB at 2; *id.* at 6 (finding that PG&E’s proposed 2018 rate, including fixed charge, would increase load by 1.44 under the average price approach and that TURN’s proposed three-tier rate without a fixed charge would decrease load by .24% under the average price approach).

avoid re-litigating issues that could be resolved through the evidence and briefs in this proceeding. Although we agree with the goal of minimizing the need for future litigation, we are persuaded that any implementation of fixed charges must be done through careful, measured steps. Therefore, most aspects of the fixed charge proposals from this proceeding will need to be litigated anew in future proceeding. However, litigation in this proceeding was not without value: the process set forth below is informed by the evidence and arguments presented in this proceeding.

As discussed in full below, we find that a fixed charge linked to costs that do not change as a result of individual customer usage is not appropriate unless certain requirements are met. These requirements include ensuring that the charge reflects appropriate costs, establishing a consistent methodology across utilities, and waiting until each utility has shifted to default TOU rates.

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

The evidence provided by parties in this proceeding focused on the fact that there is no agreement on how to identify and calculate fixed costs. The IOUs failed to articulate a clear and consistent methodology, and other parties asserted that this lack of a consistency was a primary reason for not approving any fixed

charge. The results of the evidence are discussed in detail below, but can be summarized as follows. (C)

There are three categories of costs that were discussed in the proceeding: (1) customer-specific costs that do not vary with electric usage, such as meters, billing services and customer service, (2) marginal customer-specific costs that do vary with demand such as capacity-related costs associated with transmission and distribution assets that are driven by customers' coincident and non-coincident demand, and (3) a broader range of system fixed costs, such as poles. Generally, parties agree that category 1 could be included in calculation of a fixed charge, and that category 3 should be excluded. Parties disagreed strongly on the treatment of category 2. Moreover, within category 1 we do not yet have a clear picture of exactly what costs should be included.

Currently, there is disagreement regarding the appropriate manner to identify fixed costs across utilities and there is not a consistent methodology across utilities for calculating the marginal cost of customer-related services. PG&E has used the NCO method and SCE and SDG&E use the rental (deferral) method. (C)

Fixed costs should be calculated in a manner that truly reflects customer-specific costs and minimizes regressive impacts of this cost collection method. While the record does not allow us to adopt a specific methodology for setting a fixed monthly charge, it does provide us with the evidence necessary to set the next procedural steps for reaching a resolution. Therefore, prior to further consideration of fixed charges, the following four conditions must be met:

- (i) For each IOU, a GRC Phase 2 decision issues that approves a calculation of fixed charges. To accomplish this, each IOU, in its next GRC Phase 2, must provide sufficient evidence to identify and calculate fixed customer costs that

revenue requirement have already been determined. Our review in the instant proceeding is limited to considering the appropriate rate design for the residential class. Historically, in setting electric rates, we have sought to design and set rate structures that are based on marginal cost and that allow each utility to recover its costs of service in a manner that ensures that costs specific to each class of customer are recovered from that same customer class. To the extent possible, and allowing for certain subsidies to promote certain societal goals, we have also sought to ensure that each customer pays for electric service in proportion to their use. Over the past fourteen years, however, this has been challenging due to several limitations imposed on the Commission following the energy crisis of 2000-2001.

Many of the GRCs and cost allocation proceedings in the last decade have been settled. In most recent proceedings in which marginal customer costs have been litigated, including PG&E GRCs D.92-12-057, and D.97-03-017; SDG&E GRC D.96-04-050; SoCalGas/SDG&E Biennial Cost Allocation Proceeding D.00-04-060 the Commission has adopted the new customer only (NCO) method of calculating customer costs. In these decisions, we have consistently found that it is more efficient to charge customers an up-front amount that reflects the cost of the equipment because customer-hookup equipment is not available to other customers at different locations if one customer reduces his or her use of the meter and another customer increases their load. Although customers continue to benefit from the equipment after it is installed, for purposes of establishing marginal costs that simulate pricing in a competitive market, we have found that the relevant unit of output is new customer hookups, as the only time the cost of customer access is marginal is when the customer is deciding to connect to the system.

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remain required to provide service or residual access to customers regardless of whether they decide to purchase electricity at any given time.

This residual access carries with it certain costs. Collecting these fixed costs through volumetric energy rates blends the cost of residual access with the capacity and generation costs associated with customer demand. Unbundling customer charges from volumetric energy rates is one way to address the concern that higher-usage customers are paying a disproportionate amount of fixed costs incurred to provide residual access to utility service.

7.5. Discussion

As discussed above, while we have supported fixed charges previously, we have also reduced the amounts requested by the utilities in recognition of certain marginal cost differences identified by ORA.⁴⁴⁸ At that time, we found that it would only be appropriate to include the “marginal cost of billing, accounting, and other ongoing customer-related services.”⁴⁴⁹

In this proceeding, the utilities each have proposed to set fixed charges at the maximum amount permitted by AB 327. TURN and other parties maintain that the IOUs’ estimates of their fixed customer costs are too high. As noted above, in presenting their proposed fixed cost calculations, each of the utilities relied, in part, on their litigation positions from previous Phase 2 GRC proceedings to justify their customer cost amounts.

However, as is noted by TURN and ORA, due to the limitations imposed on the Commission by AB 1X, recent Phase 2 GRC proceedings have focused primarily on marginal customer costs for purposes of revenue allocation rather

⁴⁴⁸ D.96-04-050 at 115.

⁴⁴⁹ *Id.* at 113.

than residential rate design. In addition, many of these proceedings have been resolved through settlements. As a result, the marginal cost figures ultimately approved by this Commission in the GRC decisions have often been reverse engineered from settled revenue allocation outcomes with very little true agreement as to the actual fixed costs of serving residential customers.

Further, our techniques for measuring marginal distribution costs have been limited to date, typically involving a regression analysis of forecasted increases in load versus forecasted distribution plant investments.

More recently, we have expressed concern regarding the potential impacts of a fixed charge on conservation incentives. In D.11-05-047 and D.14-06-007, in particular, we declined to approve proposed fixed charges in part due to concerns that such charges would reduce the incentives for conservation. However, as part of the package of rate reform proposals that we are considering in this proceeding, including tier flattening, and the potential for increased use of TOU rates, we find that fixed charges have the potential to assist in our collection of at least customer-related fixed expenses.

The utilities maintain that their proposed fixed charges would not unreasonably impair conservation in part based on their findings that customers respond primarily to average prices as opposed to specific elements of the individual bills. TURN agrees that there would be limited impacts on conservation with a fixed charge if customers are only affected by their average bills, but TURN suggests that the Commission should not assume that customers cannot be educated.

Our approved structure cannot be fully compliant with all of the principles set forth in the scoping memo, and we must balance the competing rate design

principles. In this area, we give significant weight to the need to better align rates with cost causation, and provide customers with clear cost signals.

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

Despite these findings, however, we agree with parties that the IOUs failed to articulate a clear and consistent methodology to identify and calculate fixed costs. Although we believe that a fixed charge may be appropriate for residential rates in the future, particularly as the electricity market evolves to accommodate increasing opportunities for customers to manage their own electricity needs, fixed costs should be calculated in a manner that truly reflects customer-specific costs and minimizes regressive impacts of this cost collection method.

Furthermore, we remain concerned regarding customer acceptance of a fixed charge. As noted by many parties, the Commission has considered, and rejected, fixed charges in prior proceedings due to its concerns about customer acceptance (see D.89-12-057 and D.93-06-087). In this proceeding, the record demonstrates that customers have expressed their opposition to fixed charges in comments, at PPHs, through customer surveys, and in previous rate proceedings. The findings of the Hiner study commissioned by the utilities to obtain "customer input into alternative electric rate plans as part of the Residential Rates OIR," also demonstrate that customers strongly disfavored rate

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options with fixed charges⁴⁵⁰ and that “a monthly service fee was the most important attribute of rate plans for the participants and that participants had a strong preference for rate designs that did not include a fixed charge.” PG&E witness Pitcock agreed that the Hiner Study revealed that “a monthly service fee was not favorable.”⁴⁵¹

There is also nothing on the record to demonstrate that customers are likely to understand that a new fixed charge would represent only a change in rate design, as opposed to an additional charge. To the contrary, the record demonstrates that customers tend to believe that the fixed charge would be an additional charge. Utility witnesses Pitcock, Garwacki, and Winn each acknowledged customer opposition to fixed charges at the PPHs but claimed that customers were “misinformed” and did not understand fixed charges. Since the majority of customers’ bills will increase as a result of the rate redesign we are undertaking, it is reasonable to conclude that customers would interpret any bill increase to be at least partially related to a fixed charge.

As is reflected in RDP 10, we want to ensure that customers understand and accept residential rate structures, and that rates are stable and understandable. As noted by many parties, in the past, the Commission has rejected rate elements that were otherwise reasonable, when they have resulted in widespread customer hostility. The record in this case demonstrates that customers are concerned about fixed charges. In light of this concern, and in the interest of adopting a roadmap that includes stable and understandable rates, we find that it is reasonable to defer consideration of fixed charges until the IOUs

⁴⁵⁰ Exh. TASC-102 at 18-19 (concerning Hiner study).

⁴⁵¹ RT Vol. 12 at 1458, PG&E/Pitcock.

have completed the tier convergence and tier flattening adopted in this decision and default TOU has been approved.

As many parties have noted, the Commission previously adopted, and then rescinded, a customer charge for SDG&E. As in this decision, the decision to institute a customer charge was based on a "commitment to cost-based rates and equal percent of marginal cost (EPMC) revenue allocation."⁴⁵² An overwhelmingly hostile response to the customer charge motivated the Commission to repeal the charge. In the decision repealing the charge, the Commission determined that "considerable weight must be given to the ability of residential customers to both understand the principles behind the rates they are charged and accept those principles as reasonable."⁴⁵³ Consumer acceptance and understanding is incorporated into the rate design principles in this proceeding, including RDP #6 and RDP#10.

Based on this, we agree that a fixed charge representative of fixed customer-related costs could have an important role in residential rate design. However, when examined with the other rate changes proposed for 2015 and the roadmap period, we believe that it is necessary to approve employing a minimum bill rather than a fixed charge in the immediate future.

Based on the record in this proceeding, it is very clear that customers are unlikely to understand or accept the need for fixed charges without customer education. Combining a new fixed charge with other significant rate design changes would only exacerbate the issue. Certain parties agree, for example, UCAN acknowledges that "introducing a customer charge, though a reasonable

⁴⁵² D.88-07-023 at 2-3.

⁴⁵³ *Id.* at 5.

way to recover customer-related costs, could still be ill-timed when SDG&E's low-usage customers' bills are increasing so rapidly over the next four years...⁴⁵⁴

We find that further movement toward separate collection of fixed costs may be appropriate, but, based on the record in this proceeding it is premature to determine the scope and amount of a fixed charge. As noted above, the IOUs may include a proposal for a fixed charge along with the Residential RDW application requesting default TOU rates, but any approved fixed charge would be implemented subsequent to the implementation of default TOU rates.

We do however, resolve treatment of fixed charge revenues in the event a fixed charge is included in a default tiered rate, or in the alternate tiered rate available once TOU has become the default rate. As UCAN and other parties have argued, revenues should be used to offset Tier 1 rates.

7.6. Minimum Bill

As an alternative to the fixed charge, the minimum bill charge is a mechanism that is designed to recover a minimum level of revenue, recognizing that some costs are still incurred to maintain service even in the event that a customer does not use energy. As noted by several parties, AB 327 authorizes the Commission to consider minimum bills as an alternative to fixed charges.⁴⁵⁵ The majority of parties who opposed the fixed charge proposal generally recommend adoption of a minimum bill instead.⁴⁵⁶

⁴⁵⁴ UCAN RT at 6.

⁴⁵⁵ § 739.9(h) ("The commission may consider whether minimum bills are appropriate as a substitute for any fixed charges.").

⁴⁵⁶ See, e.g., TASC Comments at 4 ("minimum bill is an effective means of ensuring that all customers, including those with no or very little usage, contribute to recovery of fixed costs.")