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)

And Related Matters.

Application 17-12-011
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

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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:


⁴ Prepared Direct Testimony of Karl R. Rabago on behalf of Sierra Club (May 31, 2019) (“Sierra Club Direct Testimony”).
Additional rebuttal testimony is provided by SDG&E witnesses Jesse B. Emge (Fixed Charge and Minimum Bill Rate Design) and William G. Saxe (Marginal Distribution Customer Costs Methodologies and Eligible Fixed Costs).

II. KEY TRENDS DRIVING CHANGE IN RATE DESIGN

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

- California’s clean energy goals;
- technological innovation; and
- changing customer needs.

The Legislature and the Commission have ambitious but achievable goals that seek to increase reliance on renewable generation to reduce greenhouse gas emissions and to promote the adoption of electric vehicles. This challenge will transform California’s economy into one that runs on clean and sustainable technologies and ensure that all Californians have clean air, clean water, and a healthy and safe environment. This bold mandate is the reason California is looked upon as a leader in developing a clean energy economy and promoting green technology.

Unfortunately, from a rates perspective, California lags in recognizing the continuing importance of the grid and the need for California’s electric utilities to fairly recover all the costs associated with the grid.

The utility’s cost of providing grid services, which are fixed for all customers, consists of at least four components — the typical fixed costs associated with: (1) distribution, (2) transmission, (3) generation capacity and (4) public purpose programs. Significant investments
have been incurred since the early 2000s to ensure that the electric grid in California is safe, reliable and supports the State’s clean energy goals. All SDG&E’s customers benefit from these investments. The transition path that SDG&E has proposed, a modest fixed charge for all residential customers, is a critical first step toward an evolving rate design. Indeed, regulators in several states have already taken positive action and approved a fixed charge for residential customers.

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

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

The essential cornerstone of the rate design principles is that rates should be based on marginal cost and cost causation. When rate structures are not reflective of these rate design tenets, customers are able to circumvent paying for the grid investments that were built on their behalf, which results in higher energy bills for some customers who have to pay increased costs.
to recover this difference. This is an unsustainable model, does not support long-term support of DERs, and leads to an unfair cost burden as fixed utility costs for maintaining a safe and reliable grid are shifted to a shrinking customer base. Parties continue to maintain that status quo is sustainable and to question the magnitude of the cost shift as customers adopt DERs under a flawed rate design. The essence of their arguments, for many parties, is one of self-interest for their own customers. The longer this flawed rate design remains, the longer and more severe the cost shift.

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

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

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

Before the proliferation of today’s dynamic energy market, it was not as important whether utility revenue was collected through a fixed charge or variable charge. Now, however,
because of the changes in technology and energy markets, it has become an increasingly relevant and important issue that utilities must address. Delivering safe and reliable energy requires large, expensive infrastructure investments, whether customers use a small or large amount of electricity. As noted in the Revised Prepared Direct Testimony of Cynthia Fang in Phase IIA:

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

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

IV. SDG&E’S FIXED CHARGE PROPOSAL IS CONSISTENT WITH THE COMMISSION’S RATE DESIGN PRINCIPLES AND WILL NOT IMPEDE CONSERVATION

Energy efficiency and self-generation can benefit the grid, customers and utilities. However, without appropriate changes in rate design (i.e., realignment of fixed costs to serve and 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.
cost shifting between customers due to reduced kilowatt-hour ("kWh") sales. Separating
revenue collection of fixed charges from energy charges will help reduce upward rate pressure
by preventing unfair cost shifting.

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

- Cal PA requests that the Commission reject SDG&E’s fixed charge proposal,
arguing that the composite tier rate methodology precludes the alleged fixed
charge benefits and would not resolve the NEM cost shift.6

- SEIA posits that the continued use of the minimum bill is preferable to a fixed
charge.7

- Sierra Club also prefers retaining a minimum bill over a fixed charge. Sierra Club
states that the Commission should reject requests for a residential fixed charge,
claiming that it (1) impedes conservation and deployment of clean resources, (2)
encourages increased consumption, (3) disproportionately raises bills for low-
income customers, and (4) encourages utilities to increase spending in the cost
categories that will be recovered through such charges.8

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

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

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

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

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

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

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

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.11

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

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9 Decision (“D.”) 14-06-029 at 12.
10 Id.
11 D.15-07-001 at 190.
portion of the fixed costs of providing electric service to residential customers."\textsuperscript{12} In D.15-07-001, the Commission considered IOU proposals for new or increased fixed charges designed to collect certain fixed costs of providing service to all residential customers.\textsuperscript{13} The Commission unanimously concluded that \textquoteleft\textquoteleft[a] well-designed fixed charge representing a portion of the fixed customer-related costs to serve the individual residential customer could be reasonable.'\textsuperscript{14}

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

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

\textsuperscript{12} P.U. Code §739.9(e).

\textsuperscript{13} D.15-07-001 at 189.

\textsuperscript{14} Fang Revised Direct Testimony at CF-22, citing D.15-07-001 at 328, Conclusion of Law ("COL") 16.

\textsuperscript{15} D.15-07-001 at 189.
As noted in the prepared direct testimony of Cynthia Fang (Phase 2A), the Commission has found that “[a] fixed charge is not intended to incent specific customer behavior, but is intended to assist the customer in making economically efficient decisions regarding energy usage and investments.” A residential fixed charge allows for the recovery of the costs of utility services to occur through a rate mechanism other than the energy rates. D.15-07-001 concluded that “[a] fixed charge or minimum bill that recovers customer-related costs would result in more equitable rates for low usage customers such as vacation homeowners and some NEM customers,” and that “[a] fixed charge to reflect fixed costs would send a more accurate price signal to customers.” Also, the Commission recognized in D.15-07-001 that there should be a balance between state policies for conservation and cost-based rates, and stated “…we must balance the competing rate design principles” and “we give significant weight to the need to better align rates with cost causation, and provide customers with clear cost signals.”

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

SEIA does not accept and would contest SDG&E’s assertions both as to (1) whether such a cross-shift exists and (2) even if it does, what is its magnitude. Making significant 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.
subsidy would thwart and prejudge the Commission’s upcoming NEM 3.0 review, and potentially arrive at the wrong outcome.\textsuperscript{21}

The commission itself has acknowledged that the NEM rate overlay results in economic cost shifting to non-participant customers\textsuperscript{22} and that this cost shift could be alleviated, in part, through fixed charges and minimum bills.\textsuperscript{23} The Commission has also acknowledged that the implementation of an all-residential fixed charge can and should happen outside of NEM reform.\textsuperscript{24} Contrary to SEIA’s assertions, SDG&E’s residential fixed charge and higher minimum bill proposals are not intended to primarily target solar customers, nor do they prejudge the forthcoming NEM rulemaking. However, fixed cost recovery proposals do have the effect of providing some immediate rate relief for non-solar customers while we await additional NEM reforms.

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

\textsuperscript{21} Id. at 14 (citation omitted).
\textsuperscript{22} D.16-01-044 at 81, n.93.
\textsuperscript{23} D.15-07-001 at 322-323, FOF’s 163 and 177.
\textsuperscript{24} D.16-01-044 at 75 and at 114, COL 10.
\textsuperscript{25} Cal PA Direct Testimony (Chau) at 1-8.
\textsuperscript{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.
charge is not driven by NEM. However, incremental reductions to the NEM cost shift, regardless of how small, is another meaningful benefit resulting from SDG&E’s proposals that underpins the overarching and immediate need for more cost-based residential rate design. I would also posit that the minimal impact of SDG&E’s fixed charge proposals on reducing the NEM cost shift highlights: (1) just how significantly the NEM cost shift has increased since the original NEM tariff was reformed in 2016, (2) how limited SDG&E is in addressing this growing cost shift, because even with a fixed charge and higher minimum bill there is still a significant volumetric rate can be netted and (3) how critical and necessary it is for the Commission to take up further NEM reform efforts via rulemaking as quickly as possible. Until then and because NEM is so well established, SDG&E would argue that the time is right to alleviate this cross-subsidy through more cost-based rate designs, like a fixed charge and a higher minimum bill.

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

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

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

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

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

SDG&E continues to be a leader in clean energy, advancing electric vehicles (“EV”) and developing and operating a low-carbon energy infrastructure while providing safe and reliable 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).
manner, it is critical to continue striving toward rates that reflect accurate prices and incentives or subsidies that are direct and transparent.

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

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.

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

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

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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.
$.25/kWh\textsuperscript{35} to $.20/kWh, while not affecting the Tier 2 rates. Because only the Tier 1 rates are
affected, the price signal to conserve is preserved. In other words, customers will continue to conserve to prevent moving from Tier 1 to Tier 2 rates. It is the price differential, between Tier 1 and Tier 2 rates, that incents customers to conserve, not necessarily the absolute $/kWh. In addition to the Tier 1 to Tier 2 differential, TOU-DR provides another price signal between on/off/and super off-peak rates. The fixed charge does not affect the relatively higher on peak rates, preserving the signal to conserve during on-peak periods. Sierra Club acknowledges this when it states: “An example of an efficient price signal is high on-peak prices, which tell customers that cost of service increases during peak demand period, and induces customers to reduce their on-peak consumption.”\textsuperscript{36} SDG&E does acknowledge that for some low usage Tier 1 customers the signal to conserve may be diminished by lower rates as a result of a fixed cost, but for the reasons stated above the effect is likely minimal.

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

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

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

\textsuperscript{35} Based on March 1, 2019 rates.
\textsuperscript{36} Sierra Club Direct Testimony at 24.
\textsuperscript{37} D.15-07-001 at 218.
For example, once a customer’s bill is calculated, which will include the fixed charge, it will be compared to the minimum bill amount. If the customer’s calculated bill is under the minimum bill amount, the customer will pay the minimum bill. If it’s over the minimum bill amount, the customer pays for the calculated bill.

SDG&E is proposing to implement a higher minimum bill in the amount of $1.26 per day (or $38.19 per bill based on a 30-day billing cycle), to be effective March 1, 2020. Consistent with D.15-07-001, CARE, Family Electric Rate Assistance (“FERA”), and Medical Baseline customers will receive a 50% discount on the minimum bill.

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

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

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

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

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

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

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

Thus, the Commission has not found that the statutory limits on fixed charges apply to minimum bills. Rather, the Commission concluded in 2015 that it was reasonable at that time to set a minimum bill amount that is consistent with the statutory cap on fixed charges, while noting that future proposals to change the minimum bill amount would be subject to Commission review.

Here, in this proceeding, SDG&E is acting on the Commission’s invitation to propose a minimum bill that exceeds the statutory limit on fixed charges.

41 TURN Direct Testimony at 35-16.
44 D.15-07-001 at 227.
SDG&E believes that the minimum bill should reflect the residential minimum cost of service, as noted in the testimony of Dr. Emge.\textsuperscript{45} SDG&E does not agree with a $10 per month minimum bill cap suggested by intervenors. As previously presented in my supplemental testimony, approximately 32\% of the costs recovered in rates are driven by customer energy usage, while the remaining 68\% are driven by the need to ensure a customer is set-up and ready to receive services (i.e., meter and billing services), infrastructure costs to ensure safe and reliable delivery of energy services, and the costs of public policy programs – all of which do not vary by energy usage.\textsuperscript{46}

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

\textsuperscript{45} Emge Rebuttal Testimony at Attachment A-1.

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

\textsuperscript{47} Fang Revised Direct Testimony at CF-20, Diagram 2.

\textsuperscript{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”).
costs, transmission,\textsuperscript{49} and State and Commission-mandated programs.\textsuperscript{50} These cost components are presented in the rebuttal testimony of Dr. Emge.

Cal PA and SEIA rightfully indicate that SDG&E’s proposed minimum bill includes costs in addition to distribution costs and “fixed costs” listed in D.17-09-035. D.17-09-035 determined that fixed costs be customer-specific; and adopted what it characterized as a narrow definition of fixed costs to be used in determining the fixed charge. SDG&E includes costs outside of the limited categories eligible for recovery in a fixed charge, namely generation capacity costs, because SDG&E’s infrastructure investment is required to provide all customers with the minimum level of safe and reliable service. Per D.15-07-001, “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.”\textsuperscript{51} This cost recovery definition is aligned with SDG&E’s proposed cost recovery for a minimum threshold of service and would ensure more equitable cost recovery.

\textsuperscript{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.

\textsuperscript{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.

\textsuperscript{51} D.15-07-001 at 217.
B. Intervenors’ Claims Regarding the Impact of a Higher minimum Bill on Conservation Are Overstated

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

In sum, SDG&E believes that a higher minimum bill at $1.26 per day is justified and will facilitate rates that are fair and equitable to ensure that all residential customers pay for costs incurred by SDG&E, as the provider of last resort, to provide a minimum level of service. The minimum bill would ensure that all customers pay for their minimum threshold of service 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.
VI. HIGHER FIXED CHARGE RATE OPTION

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

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

SDG&E acknowledges that there is the potential for high-usage customers to benefit 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.


57 Cal PA Direct Testimony (Chau) at 5-14; TURN Direct Testimony at 36.
proposes to adjust the higher fixed charge rate option by: (1) removing the Public Purchase Program (“PPP”) from the high fixed charge (the result of this adjustment is shown in the rebuttal testimony of Dr. Emge) and (2) proposing to initially cap the number of customers that can adopt this rate at 2,000. This customer cap will limit any potential revenue under-collection/shortfall. The cap will also create the opportunity to monitor this rate’s effect on customer consumption and the potential benefits from this option. Assuming 2,000 of SDG&E’s highest consuming residential customers transition from a residential tiered TOU or non-TOU rate to the higher fixed charge rate, the potential revenue shortfall is $18,260,880 annually, as presented in the rebuttal testimony of Dr. Emge.\(^{58}\)

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

VII.  SUMMARY AND CONCLUSION

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

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

\(^{58}\) Emge Rebuttal Testimony at 4.
• 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.