Supplemental Filing of SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) For Phase 2 Interim Changes.

Rulemaking 12-06-013 Phase 2

PREPARED REBUTTAL TESTIMONY OF

CYNTHIA FANG

CHAPTER 1

ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

March 12, 2014

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PREPARED REBUTTAL TESTIMONY OF

CYNTHIA FANG

(CHAPTER 1)

I. OVERVIEW AND PURPOSE

The purpose of my rebuttal testimony is to respond to the direct testimony submitted by intervening parties in Phase 2 of the Rulemaking ("R.") 12-06-013, *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* ("RROIR") on San Diego Gas & Electric's ("SDG&E's") proposal in this proceeding. Specifically, I will respond to the issues raised by the following parties ("Parties") regarding SDG&E's proposal:

- Office of Ratepayer Advocates ("ORA"): witnesses Lee-Whei Tan and Dan Willis
- The Utility Reform Network ("TURN"): witness William B. Marcus
- Utility Consumers' Action Network ("UCAN"): witness David Croyle
- San Diego Consumer Advocate Network ("SDCAN"): witness Michael Shames
- Center for Accessible Technology ("CforAT") and Greenlining Institute ("CforAt/Greenlining"): witnesses Enrique Gallardo and Henry J. Contreras

My testimony is organized as the following:

- Section II: Reference Point Dates;
- Section III: Revenue Requirements;
- Section IV: System Average Rate ("SAR") or Residential Class Average Rate ("RAR");
- Section V: Tiered Rate Structure;

- Section VI: Southern California Edison Company ("SCE") and Pacific Gas and Electric Company ("PG&E") Proposals and Settlements, and Other Parties Proposals in this Proceeding;
- Section VII: 40 cent/kWh Upper Tier Threshold;
- Section VIII: Conservation Signal;
- Section IX: California Alternate Rates for Energy ("CARE"); and
- Section X: Summary and Conclusion.

II. REFERENCE POINT DATES

ORA and UCAN raised issues with the reference point date used in SDG&E's rate and bill comparisons. More specifically, ORA criticized SDG&E for using February 1, 2014, rates instead of November 2013 rates[1]and UCAN argued for the use of January 1, 2014 rates instead of February 1, 2014 rates.[2] SDG&E is confused by ORA's and UCAN's criticism because as explained below SDG&E complied with the October 25, 2013 ACR and the Energy Division's ("ED") January 22, 2014 request by providing comparisons based on multiple versions of rates, including November 2013 and January 1, 2014 rates.

At the time of SDG&E's Phase 2 filing in this proceeding, the current rates in effect were rates effective January 1, 2014. On December 31, 2013, the ED approved Advice Letter ("AL") 2542-E granting SDG&E authority to implement a 3% increase in Tier 1 and 2 residential rates (for electricity usage up to 130% of baseline quantities) for non-CARE and CARE residential customers, as permitted under California Public Utilities ("PU") Code Sections 739.9(a) and 739.1(b). The Tier 1 AL 2568-E implementing this approval was filed on January 15, 2014 for rates effective February 1, 2014. SDG&E used February 1, 2014, rates to provide greater transparency regarding the rate and bill impacts customers would expect to see resulting from

[1] ORA Prepared Testimony, p. 3, lines 14-17.
[2] UCAN Prepared Testimony, pp. 8-9.

SDG&E's proposal. SDG&E's presentation is consistent with the direction provided by the *Assigned Commission's Ruling Inviting Utilities to Submit Interim Rate Change Applications* ("ACR"), issued on October 25, 2013,which states:

> If another application related to residential rates is currently pending, the utility shall include multiple versions of rate impacts: a version showing rate impacts excluding other pending rate changes and additional versions showing rate impacts combined with other pending rate change applications. *Pending residential rate changes include: (a) for all three utilities, any SB 695 rate change request made (or expected to be made) for 2014 rates,* (b) for PG&E, Application (A.) 12-02-020, and (c) for SDG&E, A.11-10-002.[3]

Additionally, in response to the ED's January 22, 2014 email that provided rate impact and bill impact templates and noted that "(t)he utilities are requested to use these attached templates to show comparisons between proposed and existing rates in a standardized format which includes comparisons of proposed rates to rates in affect in November, 2013, as well as rates in effect in early 2014",[4] SDG&E provided Attachments A.1, B, C.1, D, and E.1 consistent with the requested scenarios in the ED bill impact template. SDG&E added scenarios, reflected in Attachments A.2, C.2, and E.2, to provide comparisons with February 1, 2014 effective rates. These tables are presented again in Attachments A-F, enclosed hereto reflecting further formatting updates requested by ED.

The Attachments provided are as follows:

- Attachment A.1 – RROIR Illustrative Bill Impact Presentation - No Residential Revenue Change from Summer Compared to January 1, 2014 Rates;
- Attachment A.2 – RROIR Illustrative Bill Impact Presentation - No Residential Revenue Change from Summer Compared to February 1, 2014 Rates;
- Attachment B – RROIR Illustrative Bill Impact Presentation - Full Revenue Increases from Pending Cases for 2014 Compared to November 1, 2013 Rates;

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[3] ACR, issued on October 25, 2013 in R.12-06-013, at pp. 5-6, emphasis added.
[4] E-mail from Gabriel Petlin of Energy Division to the service list of R.12-06-013, sent on January 22, 2014.

- Attachment C.1 – RROIR Illustrative Bill Impact Presentation – Full Revenue Increases from Pending Cases for 2014 Compared to January 1, 2014 Rates;
- Attachment C.2 – RROIR Illustrative Bill Impact Presentation – Full Revenue Increases from Pending Cases for 2014 Compared to February 1, 2014 Rates;
- Attachment C.3 – RROIR Illustrative Bill Impact Presentation – Full Revenue Increases from Pending Cases for 2014 Compared to Increase without Rate Design;
- Attachment D – RROIR Illustrative Bill Impact Presentation – 50% Revenue Increases from Pending Cases for 2014 Compared to November 1, 2013 Rates;
- Attachment E.1 – RROIR Illustrative Bill Impact Presentation – 50% Revenue Increases from Pending Cases for 2014 Compared to January 1, 2014 Rates;
- Attachment E.2 – RROIR Illustrative Bill Impact Presentation – 50% Revenue Increases from Pending Cases for 2014 Compared to February 1, 2014 Rates;
- Attachment E.3 – RROIR Illustrative Bill Impact Presentation – 50% Revenue Increases from Pending Cases for 2014 Compared to Increase without Rate Design; and
- Attachment F – Illustrative Rate Impact, which contained the illustrative rates associated with all the bill impact scenarios for Attachments A.1 through E.3.

For the reasons stated above, SDG&E recommends that the California Public Utilities Commission ("Commission") disregard ORA's and TURN's claims that SDG&E did comply with the direction provided by the ACR and ED in the rate and bill comparisons provided.

III. REVENUE REQUIREMENTS

TURN[5] and SDCAN[6] raised issues with regard to the Pending Proceedings identified in SDG&E's Full Revenue Increases from Pending Proceedings scenario. As discussed above, consistent with the direction provided by ED for the presentation of rate and bill impacts, SDG&E provided three scenarios associated with revenue requirement changes: (1) No Residential Revenue Change, (2) Full Revenue Increases from Pending Proceedings, and (3) 50% Revenue Increases from Pending Proceedings.[7]

SDG&E's proposal is based on a reference of System Average Rates ("SAR") which has a direct tie to the level of revenue requirement changes anticipated for 2014. The revenue requirement scenarios while intended to be informative were not intended to be predictive. Proceedings still pending before the Commission will necessarily have some level of uncertainty until a final decision is received. The inclusion of a Full Revenue Increase from the Pending Proceedings scenario and a 50% Revenue Increase from the Pending Proceedings scenario provides the ability to view SDG&E's proposal under alternative revenue requirement scenarios that can provide an upper and lower bound to a range of likely outcomes.

IV. SYSTEM AVERAGE RATE ("SAR") OR RESIDENTIAL CLASS AVERAGE RATE ("RAR")

ORA raised issues with SDG&E's proposal to use SAR as a reference for changes to lower tier and CARE rates. ORA specifically identifies SDG&E's proposal to use SAR as the reference for increases as (1) inconsistent with the ACR[8] and (2) inconsistent with Decision ("D.") 14-01-002.[9]

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[5] TURN Prepared Testimony, p. 5.
[6] SDCAN Prepared Testimony, pp. 10-11.
[7] SDG&E Revised Direct Testimony of Cynthia Fang.
[8] ORA Prepared Testimony, p. 1, lines 16-26.
[9] ORA Prepared Testimony, pp. 7-8.

D.14-01-002 approved the October 5, 2012 Settlement in SDG&E's 2012 General Rate Case Phase 2 ("2012 GRC P2") proceeding, thereby approved revenue allocation related to Distribution, Commodity and Ongoing Competition Transition Charges ("CTC"), and required that SDG&E modify its current allocation of CARE rate subsidies to all non-CARE customers[10] on an equal cents per kilowatt-hour ("kWh") basis consistent with other CARE program costs. The combined results in a reduction in revenues allocated to the residential class going forward upon implementation. ORA misunderstands SDG&E's proposal. SDG&E's proposal in this proceeding does not change revenue allocations to the residential class. Rather, SDG&E's proposal to increase lower tier Non-CARE and CARE rates by SAR results in a 17% increase under the Full Revenue Increases from Pending Proceedings scenario, or RAR + 6%. SDG&E's proposal for Summer 2014 rates to use SAR rather than RAR is intended to better reflect the overall changes in cost of service in the lower tier Non-CARE and CARE rates, rates that were capped pursuant to Assembly Bill ("AB") 1X from 2001 to 2009 and did not reflect changes in cost of service, and from 2010 only reflected 1% + inflationary adjustments while the upper tier rates bore the burden of changes in cost of service for the entire residential class.[11] SDG&E's proposal to use SAR for 2014 does not result in upper tier rates benefitting more from the reduction in residential revenue allocation, as adopted in D.14-01-002. This creates the equivalent result of adding 6% to RAR, which approximates SCE's proposal to increase lower tier and CARE rates by RAR + 5%.

For the reasons stated above, SDG&E recommends that the Commission disregard the ORA's objection to the use of the SAR in SDG&E rate proposals.

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[10] Excludes Streetlighting customers.
[11] Lower tier CARE rates increased for the first time on February 1, 2014, as filed in SDG&E AL 2568-E.

V. TIERED RATE STRUCTURE

Parties raised issues with the structure of tiered rates resulting from SDG&E's proposal, more specifically, (A) the results are too close to a 2-tiered rate structure, and (B) the proposed increases focus too much on Tier 1 rates.

A. Two-Tiered Rate

UCAN[12], TURN[13], and CforAT/Greenlining[14] incorrectly suggest that SDG&E's proposal is a two-tiered rate structure. While SDG&E is proposing to reduce the Tier 1/Tier 2 and Tier 3/Tier 4 differentials, the rate structure being proposed still reflects a four-tiered structure as required.

The ED Proposal[15] identifies the 2018 end-state residential rate design as a default time-of-use ("TOU") and a two-tiered opt-out rate with a 20% differential. While some still debate whether TOU should be the default rate for residential customers, few object to the reduction of tiers to a two-tiered rate as the end-state, including some of the parties that object to SDG&E's proposal to reduce Tier 1/Tier 2 and Tier 3/Tier 4 differential to move closer to a two-tiered rate. The ED Proposal identifies the transition path as a 3-tiered rate beginning 2015 to a 2-tiered rate beginning 2017, prior to default TOU in 2018 with a 2-tiered opt-out. Proposals focusing on moving more towards a 3-tiered rate structure in 2014 fail to consider rate differentials in examining the transition path to a 2-tiered rate in 2018. They instead focus only on the structure, i.e., moving from 4-tiers to 3-tiers to 2-tiers and fail to consider the year-to-year change in rate differentials that would occur to achieve a two tiered rate with a 20% differential by 2018. As previously stated in direct testimony of Phase 1, SDG&E's current tiered rate structure is

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[12] UCAN Prepared Testimony, p. 5.
[13] TURN Prepared Testimony, p. 1.
[14] CforAT/Greenlining Prepared Testimony of Enrique Gallardo, pp. 4-5.
[15] Staff Proposal for Residential Rate Reform in Compliance with R.12-06-013 and Assembly Bill 327, Energy Division, January 3, 2014.

effectively a 2-tiered rate structure with approximately 80% of the total differential between the lowest and highest tiers represented by the differential between Tier 2/Tier 3 rates. With SDG&E's current tiered rate structure, a 2-tiered rate provides a smoother transition for residential customers to reach a 2018 default TOU.

Table CF-1: Comparison of 2- and 3-Tiered Rate Structure

	Current	*2015 2-tier Structure*	*Change from Current*	*2015 3-tier Structure*	*Change from Current*
Summer (¢/kWh)					
T1	15.4	17.8	15%	15.4	0%
T2	17.8	17.8	0%	25.6	44%
T3	34.9	30.1	-14%	25.6	-27%
T4	36.9	30.1	-18%	35.7	-3%
High/Low ratio	*2.40*	*1.69*		*2.32*	

Current refers to rates effective February 1, 2014 AL 2568-E.
SDG&E's 2-Tier and 3-Tier scenario is revenue neutral with February 1, 2014 effective rates adjusted for the implementation of SDG&E's 2012 GRC P2 (AL-2575) and reflects 2015 RDW Test Year Determinants and current baseline allowances.

Table CF-2: Comparison of 2- and 3-Tiered Rate Structure

		2-tier Structure				*3-tier Structure*			
Summer (¢/kWh)	**Current**	**2015**	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**
T1	15.4	17.8	19.4	20.0	20.7	15.4	17.2	19.5	20.3
T2	17.8	17.8	19.4	20.0	20.7	25.6	25.6	25.3	24.4
T3	34.9	30.1	27.1	26.0	24.8	25.6	25.6	25.3	24.4
T4	36.9	30.1	27.1	26.0	24.8	35.7	30.9	25.3	24.4
High/Low ratio	*2.40*	*1.69*	*1.40*	*1.30*	*1.20*	*2.32*	*1.80*	*1.30*	*1.20*

Current refers to rates effective February 1, 2014 AL 2568-E.
SDG&E's 2-Tier and 3-Tier scenario is revenue neutral with February 1, 2014 effective rates adjusted for the implementation of SDG&E's 2012 GRC P2 (AL-2575) and reflects 2015 RDW Test Year Determinants and current baseline allowances.

SDG&E questions the logic in increasing the Tier 1/Tier 2 and Tier 3/Tier 4 differentials today as proposed by some of the Parties. For instance, ORA proposes increasing SDG&E's Tier 3/Tier 4 differential from 2 cents/kWh to 4 cents/kWh[16], UCAN proposes a wider differential between Tier 3/Tier 4[17], and TURN proposes increasing the Tier 1/Tier 2 differential.[18] It seems counter intuitive to increase the Tier 1/Tier 2 differential and Tier 3/Tier 4 differential if the end-state goal is to move to a two-tier rate structure that better reflects the cost to serve.

B. Tier 1 Increases

Parties argue that SDG&E's proposal places too much of a burden on Tier 1 rates. Both ORA[19] and SDCAN[20] argue that Tier 1 increases will be in the upper 20% for some customers which they argue is rate shock. Other parties also suggest that SDG&E's proposal is increasing Tier 1 rates too quickly, with CforAt/Greenlining arguing that this is a fundamental rate design change.[21]

SDG&E's proposal includes incremental increase to Tier 1 rates above SAR increases proposed to Tier 2 rates and CARE rates. As noted in direct testimony[22], an increase to Tier 1 rates of 1 cent results in a 1.5 cent reduction in Tier 4. While a 1 cent increase in tier 2 results in a 0.2 decrease to Tier 4. SDG&E's proposal for additional incremental increases to Tier 1 rates moves the rate that is furthest from average cost of service closer to cost of service and provides the greatest upper tier relief. In addition, SDCAN argues that the Tier 1 increase that SDG&E proposes is too high compared to annual increases that customers have experienced over the past

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[16] ORA Prepared Testimony, p. 4, lines 10-11.
[17] UCAN Prepared Testimony, p. 17.
[18] TURN Prepared Testimony, p. 8.
[19] ORA Prepared Testimony, p. 1, lines 8-12.
[20] SDCAN Prepared Testimony, pp. 6-7.
[21] CforAt/Greenlining Prepared Testimony of Enrique Gallardo, p. 4.
[22] SDG&E Revised Direct Testimony of Cynthia Fang, pp, 15-16

13 years.[23] SDG&E agrees that because of the AB 1X/Senate Bill (SB) 695 rate cap SDG&E Tier 1 rates have increased very little over the past 13 years averaging about 1.4% annually. However, SDG&E disagrees with SDCAN trying to justify smaller increases to Tier 1 rates today because of the relatively small increases that Tier 1 rates have experience since 2001. The reason we are proposing changes to the tiered rates in this proceeding is due to the capping that occurred to Tier 1 rates that limited the rate increases to Tier 1 rates since 2001.

SDG&E agrees with CfortAt/Greenlining that the changes being proposed in the RROIR proceeding reflect fundamental rate design changes. The current four-tiered rate structure has resulted in a disproportional amount of authorized residential revenue requirements being recovered in upper tiered rates, which is the reason the rate changes proposed by SDG&E, including increasing Tier 1 rates by SAR increases plus 1 cents/kWh, is needed for Summer 2014.[24]

Further, Parties fail to recognize that SDG&E's proposed structure continues to provide the benefits of the lowest rates to lower tier usage up to 130% of baseline with only a minimal rate differential between Tier 1 and Tier 2 rates for 2014, unlike the proposals moving towards a 3-tiered rate structure which maintain that low tier benefit to usage only up to 100% of baseline.

For the reasons stated above, SDG&E recommends that the Commission disregard the issues raised by Parties with the rate structure reflected in SDG&E's proposal.

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[23] On page 6 of its prepared direct testimony, SDCAN states SDG&E customers have not experienced a Tier 1 annual increase in excess of 6.34% since 2001. This increase occurred on October 1, 2004 as a result of the need to roll-off the two month rate decrease that occurred on August 31, 2004 to provide s customers with a one-time reduction to commodity rates. Basically, the 6.34% increase was required to increase residential Tier 1 rates back to the AB 1X capped level.

[24] SDG&E Revised Prepared Direct Testimony of Cynthia Fang, pp. CF-1 and CF-2.

VI. SOUTHERN CALIFORNIA EDISON COMPANY (“SCE”) AND PACIFIC GAS & ELECTRIC COMPANY (“PG&E”) PROPOSALS AND SETTLEMENTS, AND OTHER PARTIES’ PROPOSALS

A. SCE and PG&E Proposal and Settlements

TURN[25] and ORA[26] incorrectly suggests that significant differences exist between SDG&E proposal and the proposals of the other Investor Owned Utilities (“IOUs”), including the settlements of those IOUs. Table CF-3 below provides a comparison between SDG&E’s proposal and the SCE and PG&E settlements pending before the Commission in this proceeding.

Table CF-3: Comparison of IOU Proposals

	SDG&E	*SCE*	*PG&E*
Non-CARE Tier 1	Increase T1 = SAR + 1 cent*	Increase T1 = RAR + 5%	Increase T1 = RAR + 2%
Non-CARE Tier 2	Increase T2 = SAR	Increase T2 = RAR + 5%	Increase T2 = RAR + 4%
Tier 3/Tier 4 differential	Reduce by 1 cent = 1 cent	No change = 3 cents	Increase T3/T4 differential by 2 cents = 6 cents
CARE rates	Increase all tiers = SAR	Change discount to be the same for all tiers	Increase all tiers = RAR

*The 1 cent /kWh increase to Tier 1 results in an approximately 6% increase in addition to the SAR increase.

SCE’s proposal maintains Tier 1/Tier 2 equal factor relationship and the Tier 3/Tier 4 equal cent relationship. SCE’s summer 2014 rates even, without rate reform, remain below 40 cents. In its revised prepared direct testimony, SCE identifies the potential for summer 2014 Tier 4 rates of 36.3 cents/kWh without rate reform.[27]

PG&E’s proposal increases the Tier 1/Tier 2 differential by an additional 2% and increases the Tier 3/Tier 4 differential by an additional 2 cents/kWh, resulting in a differential of

[25] TURN Prepared Testimony, pp. 1 and 4.
[26] ORA Prepared Testimony, p. 8, lines 13-27.
[27] SCE Revised Prepared Direct Testimony, p. 26, Table VI-6.

6 cents/kWh. In its revised prepared direct testimony, PG&E identifies the potential summer 2014 Tier 4 rates of 35.9 to 37.3 cents/kWh depending on baseline levels without rate reform.[28]

SDG&E provides illustrative rates in the table below under the SCE and PG&E settlements pending before the Commission in this proceeding. These illustrative rates are based on the following assumptions:

- PGE Settlement Replication:
  - Increase Non-CARE Tier 1 by 1.5 cents/kWh
  - Increase all CARE by 1.5 cents/kWh (pre-discount)
  - Non-CARE Tier 3/Tier 4 differential at 6 cents/kWh
  - Increase Non-CARE Tier 2, Tier 3 and Tier 4 by equal cent/kWh to recover remaining revenue after setting Tier 2 at current, Tier 3 at 29 cents/kWh and Tier 4 at 35 cents/kWh.

- SCE Settlement Replication:
  - Increase Non-CARE Tier 1 by RAR
  - Increase Non-CARE Tier 2 by RAR + 5%
  - Non-CARE Tier 3/Tier 4 differential at 4 cents
  - Increase CARE rates such that Tier 1/Tier 2 get ~35% discount and Tier 3 gets ~25% discount

Table CF-4: Comparison of SDG&E's Proposal to SDG&E's Replication of SCE's and PG&E's Settlements

	Current	***SDG&E Proposed***	***SDG&E Proposed***	***SDG&E Rates under SCE Settlement***		***SDG&E Rates under PG&E Settlement***	
	(¢/kWh)	**(¢/kWh)**	**% Change**	**(¢/kWh)**	**% Change**	**(¢/kWh)**	**% Change**
Summer (¢/kWh)							
Tier 1	15.4	19.1	24%	17.0	11%	16.9	10%
Tier 2	17.8	20.8	17%	20.6	16%	23.8	34%
Tier 3	34.9	35.4	1%	36.3	4%	35.1	1%
Tier 4	36.9	36.4	-1%	40.3	9%	41.1	11%

Current refers to rates effective February 1, 2014 AL 2568-E.
SDG&E's Proposal and SCE and PG&E Settlement scenarios presented above reflects February 1, 2014 effective rates adjusted for the implementation of SDG&E's 2012 GRC P2 (AL-2575), and reflects current baseline allowances with revenue changes reflecting the additional impact of

[28] PG&E Revised Prepared Direct Testimony, p. 2-9, Table 2-1.

(1) 2014 ERRA Forecast and (2) assumption of year-end ERRA Trigger balance of $213.3 million and additional 2014 anticipated balance of $80 million.

The most notable difference between SDG&E's proposal and the SCE and PG&E Settlements is the impact to Tier 1 and Tier 4 rates. SDG&E's proposal requests incrementally more increases to Tier 1 rates to provide more upper tier relief due to concerns regarding SDG&E's pending Tier 4 rate increases that would occur otherwise. SCE and PG&E current and anticipated Tier 4 rates are notably lower than that of SDG&E and therefore larger increases to Tier 4 rates may be of less concern.

B. Other Parties' Proposals

ORA, UCAN, SDCAN, and TURN disagree with SDG&E's proposal and submitted their version of SDG&E's rate design. SDCAN and TURN[29] support a movement towards a three tier structure. SDCAN prefers equally differentiated tiers[30], and presented their preferred rate design, which essentially results in a three tiered structure.

UCAN and ORA[31] present rates that result in a Tier 4 that is above 40 cents/kWh. While UCAN also supports ORA's proposal and provided guidance of their own using two sensitivity analyses. UCAN also advocates for a Tier 4 above 40 cents/kWh, increases to Tier 2 over increases imposed on Tier 1, and a wider gap between Tiers 1 and 3.[32]

SDG&E disagrees with the other Parties' proposals. The Parties proposals are focusing on the concept of moving to a three-tiered structure rather than looking at the existing differentials and mitigating the change to rate differentials for a path to the end-state goal of two tiers. SDG&E believes that the Commission should include in its consideration of tier transition

[29] TURN Prepared Testimony, pp. 1, and 6-7.
[30] SDCAN Prepared Direct Testimony, p. 3
[31] ORA Prepared Testimony, p. 11, Table 3
[32] UCAN Prepared Testimony, p. 17.

path the management of the change to rate differentials to reach the end-stated goal of two tiers rather than forcing the concept of moving from a 4-tier to a 3-tier to a 2-tier rate structure.

For the reasons stated above, SDG&E recommends that the Commission disregard the rate design proposals offered by Parties and adopt SDG&E's proposals.

VII. 40 CENTS/KWH UPPER TIER THRESHOLD

UCAN disagrees with SDG&E's proposal to maintain upper tier rate levels below 40 cents/kWh and points to a lack of economic justification for a 40 cents/kWh threshold being placed on upper tier rates.[33] SDG&E's proposal to maintain upper tier rates below 40 cents/kWh are the result of concerns regarding severe bill impacts to customers with upper tier usage, especially during times of potential high usage due to hot weather.

SDG&E's proposal is consistent with the Commission's guidance regarding the revised proposals in Phase 2 of this Rulemaking. In the Assigned Commissioner's Second Amended Scoping Memo, the utilities were directed to structure the proposals to avoid rate shock to upper tier customers in the summer of 2014:

> "Instead, changes should be limited to increases in the lower tiers commensurate with projected increases in the overall revenue requirement allocated to the residential class, plus no more than a few percentage points, if necessary, to keep the upper tiers within a range that will avoid the potential for significant bill volatility and rate shock in the summer."[34]

SDG&E upper tier rates are at an all-time high since AB 1X capped lower tier rates requiring that all incremental costs allocated to the residential class be recovered only through upper tier rates, which reflects approximately 30% of SDG&E's residential sales. Currently, SDG&E's summer Tier 4 rate has the potential to increase by approximately 19% with a residential class

[33] UCAN Prepared Testimony, pp. 7-8 and 16.
[34] Second Amended Scoping Memo And Ruling Of Assigned Commissioner And Assigned Administrative Law Judge, dated January 24, 2014 at pages 2-3.

average increase of less than 11% in the absence of rate reform. Current effective[35] SDG&E summer Non-CARE upper tier rates reflect an increase of approximately 27% since last summer while Tier 1 and 2 rates have only increased by approximately 4%[36]. This 15% increase to residential class average rates resulted in bill increases to an Inland customer using 1,000 kWh/month of $45 or 20%. Since 2005, the highest tier rates have increased over 88%, while the residential class average rate has increased less than 43% and Tier 1 rates have only increased 20%, which is only 22% of the increase to the highest tier.

Noting that increased rate pressures are a significant concern to utilities on behalf of its customers, on February 26, 2010, PG&E filed an Application (A.10-02-029, adopted in D.10-05-051) for Expedited Authorization to Change Residential Electric Rates Effective June 1, 2010, to Provide Summer 2010 Rate Relief for Households with Upper Tier Consumption. This filing was identified as "part of a comprehensive package designed to help customers by providing critical summer rate relief and easing financial burden of high bills this coming summer for households that consume in the upper tiers, as well as reduce month-to-month volatility in bill amounts." PG&E's Tier 4 and Tier 5 rates effective at the time of the filing were 40.6 and 47.4 cents/kWh, respectively, and anticipated to increase further. At that time, PG&E's upper tier rates were the highest in California. D.10-05-051 approving the settlement in PG&E's A.10-02-029 identified the following Findings of Fact:

> 1. Households with substantial upper tier consumption are experiencing great hardship during hot summer months due to the steeply tiered rate structure currently in place. It is reasonable to provide lower bills for such households, including those in the Central Valley and elsewhere with large summer cooling demands during months with sustained periods of high

[35] Rates effective February 1, 2014 (AL 2568)
[36] Increase above 3% allowed under SB 695 is the result of the return of CSI beginning January 1, 2014.

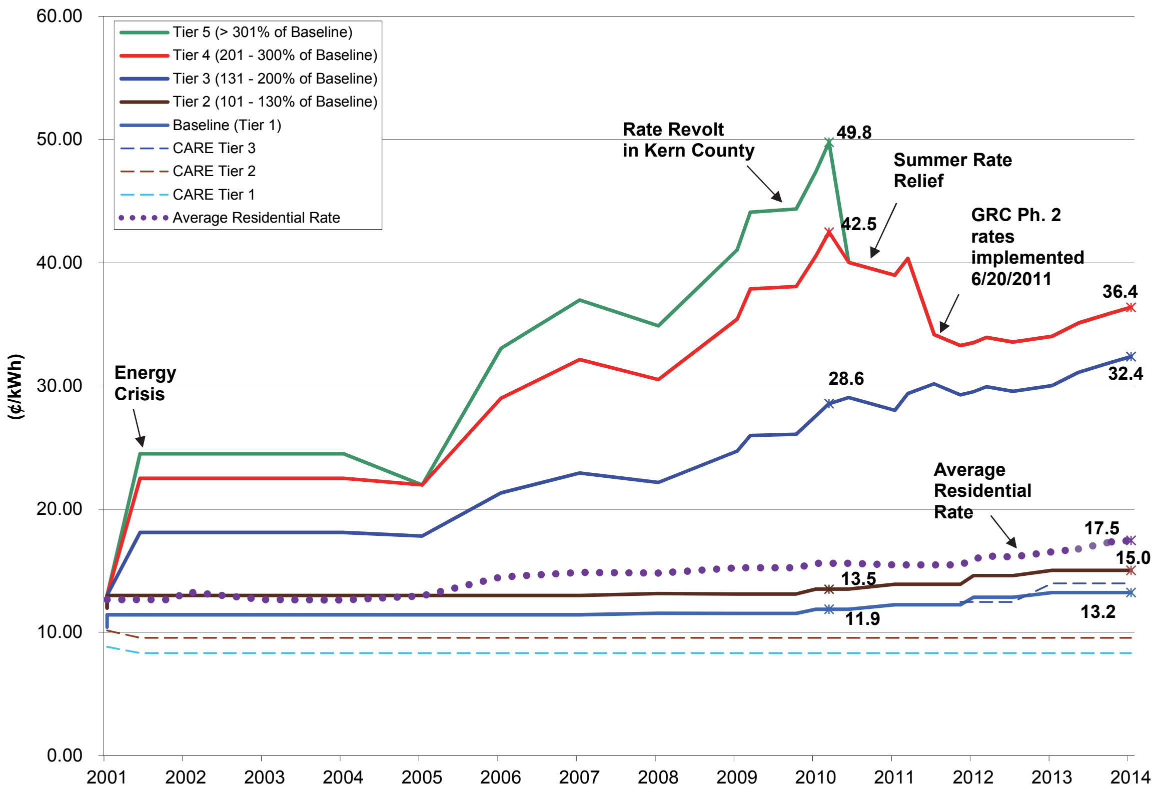
temperatures.

3. Nearly half of PG&E's residential customers experienced no rate increases from 2001 through 2009. Considering the impact of inflation, which has increased by 23 percent since 2001, in real terms these customers enjoyed rate decreases over this period.

4. More than three-quarters of PG&E's residential sales were insulated from every rate increase since 2001 and through 2009. As a result, residential rate increases have been absorbed by less than one-quarter of the sales.

5. Collecting revenues from a relatively small base of sales has resulted in substantial increases from 2001 through 2009 in the non-CARE Tier 3 through 5 rates. During that nine-year period, the Tier 5 rate nearly doubled, increasing from 24.5 cents per kWh at the height of the energy crisis to 44.3 cents per kWh at the end of 2009. Such upper-tier rates can cause very high bills when combined with high usage during a month with extreme temperatures.

Chart CF-1: Pacific Gas and Electric Company Historical PG&E CARE and Non-CARE Rates 2001-2014[37]



This summer, SDG&E's upper tier rates are anticipated to be the highest. For this reason, SDG&E believes it is prudent to maintain a 40 cents/kWh threshold for its upper tiered rates in this proceeding.

VIII. CONSERVATION SIGNAL

SDCAN[38], ORA[39], and UCAN[40] argue that SDG&E's proposal will change the conservation signal provided in SDG&E's current tiered rate structure. As explained below SDG&E agrees that its proposal will modify and provide a more consistent conservation price signal to usage above 130% of baseline usage and improve the conservation signal for usage below 100% of baseline usage, while moving towards a rate structure that will provide less bill

[37] Revised Prepared Testimony of PG&E, p. 1-7, Figure 1-1.
[38] SDCAN Prepared Testimony, pp. 2-3, 6-7, and 8-10
[39] ORA Prepared Testimony, p. 5 lines 22-28
[40] UCAN Prepared Testimony, pp 17-18

volatility, especially for customers with usage that may vary during extreme warm weather. SDCAN specifically raises the issue "SDG&E's 20% tier differential target is inappropriate as it unreasonably impairs incentives for conservation and energy efficiency."[41] Additionally, "SDCAN maintains that multi-tiered pricing at the higher tier usage levels increases conservation incentives for those customers with the opportunity for reducing the greatest amount of load."[42]

SDG&E's proposal in Phase 1 of this proceeding does propose a 20% differential between the highest and lowest tier by 2018. However, SDCAN's objection to SDG&E's Phase 1 proposal is inappropriately addressed in this Phase (Phase 2) of this proceeding.

In addition, SDG&E's Phase 2 proposal for a Tier 3/Tier 4 differential of 1 cent/kWh provides a much more consistent conservation signal for usage above 130% of baseline, unlike the proposal to move more towards a 3-tiered rate structure with a more significant Tier 3/Tier 4 differential of at least 4 cents/kWh, as proposed by ORA.[43] In addition, SDG&E's proposal provides customers with greater price consistency, effectively a lower price for usage 130% of baseline and below with a higher price for usage above 130% of baseline, compared to a rate structure with more tiers, all with greater differentials between each tiers.

SDCAN further states "higher-usage customers typically have load patterns that are more peaked relative to the load patterns of customers with low usage, and that their loads are concentrated more during the summer hours and during the hour of system coincident peak. As a result, higher-usage customers are likely to be more costly to the system on a per-kWh than are customers with lower usage."[44] SDCAN incorrectly uses this to support its proposal for a 3-tiered rate structure with larger differentials between each tier. A truly cost-based rate would

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[41] SDCAN Prepared Testimony, p. 2.
[42] SDCAN Prepared Testimony, p. 8.
[43] ORA Prepared Testimony, p. 4, lines 10-11 and lines 29-34..
[44] SDCAN Prepared Testimony, p. 8.

reflect the peak and seasonal differences in providing commodity service. A 3-tiered rate structure maintains rate complexity that has the potentially to delay implementation of TOU rates. SDG&E's Phase 1 proposal advocates for the movement to a 2-tiered rate structure to further facilitate the implementation of TOU pricing.

For the reasons stated above, SDG&E recommends that the Commission disregard the arguments raised by Parties that SDG&E proposal should be rejected because it revises the conservation signal that currently exists in its tiered rates.

IX. CALIFORNIA ALTERNATIVE RATES FOR ENERGY ("CARE")

CforAt/Greenlining objects to the rate impacts to CARE rates that would result from SDG&E's proposal to increase CARE rates by SAR. In addition, CforAt/Greenlining state that no change should be enacted "…without consideration of the impact of such changes on affordability…."[45]

Second Amended Scoping Memo and Ruling of Assigned Commission and Assigned Administrative Law Judge, issued on January 24, 2014 provides the following specific scope for the IOUs Phase 2 filings related to CARE, FERA, and medical baseline:

- IOU proposal should not entail any major adjustments to CARE, FERA, or medical baseline.
- If the resulting discounts would be greater than 35%, the utility should propose an adjustment that would put CARE rates on the glide path to 35%.
- The adjustment should avoid rate shock for CARE customers.[46]

SDG&E's proposal is consistent with the direction provided by the ACR. SDG&E's proposal in this phase of the proceeding does not entail major adjustments to CARE, FERA, or

[45] CforAT/Greenlining, Prepared Testimony of Henry J. Contreras, p.8
[46] Second Amended Scoping Memo And Ruling Of Assigned Commissioner And Assigned Administrative Law Judge, dated January 24, 2014, pp. 2-3.

medical baseline programs. SDG&E's proposal maintains the existing CARE subsidies: exemption from CSI, DWR-BC and CARE surcharge, 20% line item bill discount, and additional rate subsidies resulting from current capped CARE rates for all tiers. SDG&E's current effective residential CARE discount level is 39% and anticipated to increase to 43% by mid-summer without rate reform.[47] SDG&E's proposal would have CARE rates increase at the same levels of 2014 changes in cost of service at the system level. This will result in an effective discount of 38%. SDG&E's proposed glide path to reach legislative compliance is presented in SDG&E's Phase 1 proposal.

While SDG&E did not make specific proposals related to FERA as part of this phase of the proceeding, SDG&E supports SCE and PG&E's proposals to move the FERA subsidy out of rates to a line item discount.

The February 13, 2014 ACR to submit Phase 1 Rate Change Proposals stated:

> In order to efficiently and fairly evaluate changes to CARE Program rates, the majority of CARE-related issues are deferred to a later phase of this proceeding. Specifically, the scope of Phase 1 will not include review of issues surrounding the restructuring of CARE Program rates, with one exception. That one exception is our review of any proposed phase-in plan and schedule to reduce the effective CARE discount to 35%.[48]

Consistent with the direction provided in the February 13, 2014 ACR and the January 24, 2014 ACR, SDG&E did not propose any structural changes to CARE and FERA programs in this filing. SDG&E proposed the transition path to move non-CARE MB rates equal to non-CARE rates for all other customers.

SDG&E's Optimal Residential Rate Design is one that meets the following criteria:

- "Utilities charge for the services they provide;
- Rates are designed to recover costs on the same basis as they are incurred; and,

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[47] SDG&E Revised Direct Testimony of Cynthia Fang, Table, CF-9 on p. CF-28..
[48] February 13, 2014 ACR, p. 5.

- Incentives or subsidies that have been deemed necessary to further public policy objectives are separately and transparently identified".[49]

Currently CARE, FERA, and MB subsidies are tied to the current tiered rate structure. Changes to the current tiered rate structure will potentially result in unintended consequences to the subsidies associated with these programs. In Phase 1 of this proceeding, SDG&E recommends the removal of these subsidies from rates to a direct and transparent subsidy. Removing these subsidies from rates to an equivalent line item discount would be a forward movement towards a direct and transparent incentive. However a more direct incentive, such as an income supplement/payment based on a customer's income level, may better achieve the policy intent of these programs as well as increasing economic efficiency.

X. SUMMARY AND CONCLUSION

This concludes my prepared rebuttal testimony.

[49] SDG&E Revised Prepared Direct Testimony of Cynthia Fang, p. CF-3.