

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

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

Application 17-12-011

And Related Matters.

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

PREPARED SUPPLEMENTAL 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**

March 29, 2019



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PREPARED SUPPLEMENTAL TESTIMONY OF
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I. INTRODUCTION AND BACKGROUND

This proceeding was initiated by the filing of three separate Rate Design Window (“RDW”) applications by the three investor-owned utilities (“IOUs”) in December of 2017. Subsequently, the applications were consolidated into a single proceeding that was separated into three phases. Phases I and IIA have produced final decisions¹ and Phase IIB is awaiting issuance of a Proposed Decision. Regarding Phase III, its scope and schedule was set forth in the Amended Scoping Memo and Ruling of Assigned Commissioner for Phases II and III of the Proceeding and Joint Ruling with Administrative Law Judges (“Scoping Memo and Ruling”), issued on April 10, 2018. Among other things, the schedule for Phase III sets a date of March 29, 2019 for the service of “Supplemental IOU Testimony on Impact of Federal Tax Legislation on Proposed Rates and Fixed Charges.”²

Pursuant to the Scoping Memo and Ruling, SDG&E is providing supplemental testimony from three witnesses: myself (focusing on policy);³ William G. Saxe (focusing on the cost studies used to calculate a proposed fixed charge); and Jesse B. Emge (focusing on details of the fixed charge and minimum bill proposals and the bill impacts).⁴ Prior to this Supplemental Testimony, SDG&E had served direct prepared testimony with its opening application covering all of the issues that were eventually scoped into the three phases that are part of this now

¹ Decision (“D.”) 18-05-011 (Phase I decision issued on May 17, 2018); and D.18-12-004, (Phase IIA decision issued on December 21, 2018).

² Scoping Memo and Ruling at 13.

³ SDG&E’s prior policy witness was Cynthia Fang. Going forward, I am adopting Ms. Fang’s testimony as my own and serving as SDG&E’s new policy witness in this proceeding.

⁴ SDG&E’s prior rate proposals and bill impacts witness was Jeffrey Shaughnessy. Going forward, Dr. Emge is adopting Mr. Shaughnessy’s testimony as his own and serving as SDG&E’s witness for the rate proposals and bill impacts.

1 consolidated proceeding. Accordingly, for purposes of Phase III, SDG&E will continue to rely
2 on some of its original prepared direct testimony, including some of the prior policy testimony of
3 Ms. Fang (SDG&E Phase IIA Ex. SDGE-1) and the marketing, education and outreach
4 (“ME&O”) testimony of Horace Tantum (SDG&E Phase IIA Ex. SDGE-5).

5 **II. PURPOSE OF PHASE III SUPPLEMENTAL TESTIMONY**

6 The first purpose of this Supplemental Testimony is to reintroduce Phase III issues as
7 they relate to SDG&E. A brief summary of those issues is presented below. The policy
8 justifications related to these Phase III issues, will, in large part, continue to rely on the
9 testimony previously provided by Ms. Fang, which I am adopting as my own. In addition, this
10 Supplemental Testimony will provide policy justifications, following the calculation of the
11 Federal Tax Legislation impacts, for (1) SDG&E’s proposal to set its proposed residential fixed
12 charge at the statutory maximum and (2) other updates related to the minimum bill and higher
13 fixed charge rate options.

14 **III. SUMMARY OF PHASE III PROPOSALS**

15 SDG&E’s Phase III issues include proposals for (1) a fixed charge, (2) a minimum bill
16 and (3) a higher fixed charge optional rate. As noted above, SDG&E has made updates to its
17 proposals to show the impact of federal tax law changes (i.e., the Tax Cuts and Jobs Act
18 [“TCJA”], signed into federal law on December 22, 2017). Updates to reflect these changes
19 include the factors utilized in the different eligible fixed costs calculation methods. However,
20 the minimum bill and higher fixed rate option proposals do not include the total impact from the
21 TCJA, as SDG&E’s 2019 General Rate Case (“GRC”) Phase I Application (“A.”) 17-10-007 is
22 still pending a final decision. The revenue requirements in the GRC Phase 1 fully reflect the
23 impact of the TCJA but cannot be incorporated into SDG&E’s rates until SDG&E receives a

1 final GRC Phase 1 decision. As such, this supplemental testimony shows limited impacts from
2 the TCJA as it relates to the minimum bill and higher fixed rate option proposals.

3 In sum, SDG&E's Phase III proposals, summarized below, ensure fair and equitable
4 rates, while promoting customer choice and provide options that give customers better ability to
5 control their electric bills and provide more predictability.

6 **A. Fixed Charge Proposal**

7 SDG&E proposes to implement a residential fixed charge applied to all residential rate
8 schedules (with the exclusion of SDG&E's simpler 2-period default time-of-use ("TOU") opt-
9 out rate and its master-metered rate schedules)⁵ to be effective March 1, 2020 and subject to
10 annual increases based on the Consumer Price Index. Regardless of the amount, SDG&E
11 believes that there are a number of reasonable policy justifications for adoption of a fixed charge.
12 Mr. Saxe's Supplemental Testimony shows that the impact of the Federal Tax Legislation is that
13 SDG&E's eligible fixed costs, previously \$10.02 in SDG&E's prepared direct testimony, is now
14 calculated to be \$8.84 (both calculations are based on the Rental methodology), using cost
15 categories approved in the Commission's most recent fixed charge decision.⁶ However, as I
16 explain below, there are additional justifications in favor of setting SDG&E's fixed charge in
17 excess of what the current methodologies provide. Based on these additional justifications,
18 SDG&E is seeking approval of a fixed charge set at the \$10 non-California Alternate Rates for
19 Energy ("CARE")/\$5 CARE maximums. However, if the Commission disagrees with the
20 justifications for a fixed charge set at the statutory maximum, then SDG&E is requesting that the
21 Commission set the fixed charge at the \$8.84 figure reflected in Mr. Saxe's testimony.

⁵ Excludes residential Schedules TOU-DR2, DM, DS, DT and DT-RV.

⁶ D.17-09-035 at 33.

1 **B. Higher Minimum Bill**

2 SDG&E is also proposing to implement a higher minimum bill in the amount of \$1.28
3 per day (or \$38.40 per bill based on a 30-day billing cycle), to be effective March 1, 2020.
4 Consistent with D.15-07-001, CARE, Family Electric Rate Assistance (“FERA”), and Medical
5 Baseline customers will receive a 50% discount on the minimum bill.⁷ As discussed in the direct
6 testimony of Ms. Fang, a higher minimum bill at this amount is justified and will facilitate rates
7 that are fair and equitable and ensure that all residential customers pay for costs incurred by
8 SDG&E, as the provider of last resort, to provide a minimum level of service.

9 **C. Higher Fixed Charge Rate Option**

10 Finally, SDG&E is proposing a higher fixed charge rate option of \$79.94, to be available
11 after implementation of SDG&E’s new Customer Information System (“CIS”), that recovers the
12 average costs of utility services that do not vary by energy usage, which will have a
13 compensating decrease to the volumetric rate. Such an option is justified because it will provide
14 customers with the choice to elect for a higher fixed charge bill and reduce uncertainty and bill
15 volatility related to higher volumetric rates. It should be noted that in the Prepared Direct
16 Testimony of Ms. Fang (SDG&E Phase IIA Ex. SDGE-1), SDG&E had also requested to modify
17 an optional existing rate schedule (Schedule EV-TOU-5) that currently has a \$16-per-month
18 fixed charge for non-CARE customers by opening it to all customers. Since that time, customer
19 adoption of EV-TOU-5 has increased to 3,150 as of January 2019, and SDG&E has received
20 positive feedback from customers on this rate. Therefore, SDG&E is withdrawing its proposal to
21 modify EV-TOU-5 and open it to all customers and is only proposing the higher fixed charge
22 rate option as a new rate.

⁷ D.15-07-001 at 328, Conclusions of Law (“COL”) 21.

1 **IV. A FIXED CHARGE IS JUSTIFIED**

2 The policy justifications for a fixed charge are stated in the prior Prepared Direct
3 Testimony of Ms. Fang.⁸ As such, I will not repeat those justifications here. Regarding the level
4 of fixed charge, as discussed below, SDG&E believes it should be set at the statutory maximum.

5 **V. A FIXED CHARGE SET AT THE STATUTORY MAXIMUM IS JUSTIFIED**

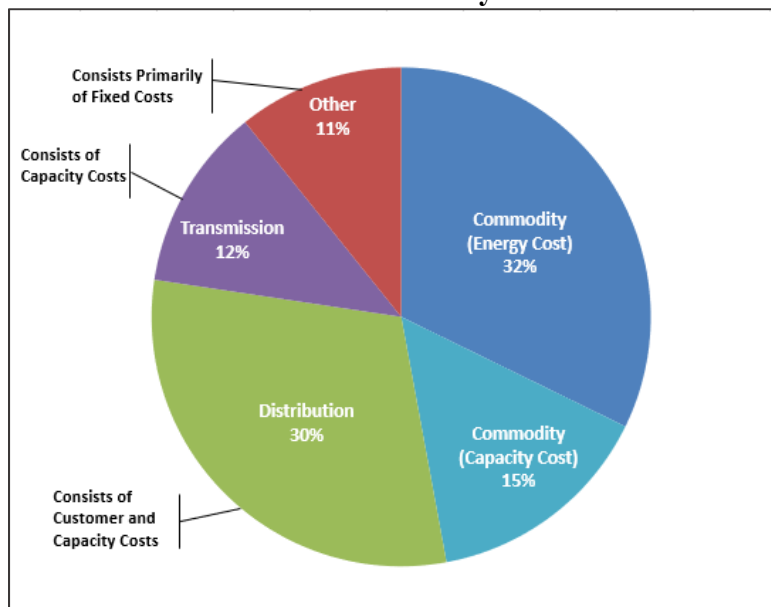
6 The following discussion focuses on the policy justifications for why SDG&E’s proposed
7 residential fixed charge should be set at the statutory maximum (i.e., \$10 for non-CARE and \$5
8 for CARE customers).⁹ Although SDG&E respects the Commission’s decision regarding
9 categories of eligible fixed costs that are specific to individual residential customers, SDG&E
10 maintains that its unique customer makeup and high distributed energy resources (“DER”)
11 penetration rate warrants consideration of establishing its residential fixed charge at the
12 legislative maximum. SDG&E’s non-NEM customers continue to feel the effects of increasing
13 Net Energy Metering (“NEM”) within its service territory, as SDG&E’s fixed costs, currently
14 embedded in volumetric rates, are shifted to non-NEM customers and result in an overall higher
15 volumetric rate. To demonstrate additional need for this proposal, below, SDG&E presents the
16 additional categories of fixed costs that are not specific to individual residential customers but go
17 far beyond the statutory maximum of \$10.

⁸ SDG&E Phase IIA, *Revised Prepared Direct Testimony of Cynthia Fang* (Chapter 1) (December 20, 2017), Ex. SDGE-1 at CF-38.

⁹ It should be noted that these maximums were set in 2015 and accounting for inflation (based on the Consumer Price Index) they would have increased. That said, SDG&E is proposing fixed charges based on the statute’s current language. If the Commission agrees that the statutory maximums should be adjusted to account for inflation, then SDG&E would have to modify its models for new rates and produce updated bill impacts.

1 Under current effective March 1, 2019 rates, only 32% of SDG&E’s system costs are
 2 driven by costs that vary by customer usage – Commodity (energy costs), as displayed in Chart
 3 JS-1, below. The remaining Commodity costs (capacity) represent 15% of total recovered costs,
 4 while Distribution and Transmission services represent 30% and 12%, respectively. State- and
 5 Commission-mandated programs comprise the remaining 11% of recovered costs.¹⁰ These fixed
 6 costs, totaling 68% of SDG&E’s cost of service, are driven by the need to ensure a customer is
 7 set-up and ready to receive services (i.e., meter and billing services), infrastructure costs to
 8 ensure safe and reliable delivery of energy services, and the costs of public policy programs – all
 9 of which do not vary by energy usage.

10 **Chart JS-1: SDG&E Utility Cost of Service***



11 *Based on rates effective March 1, 2019.

12
 13 Table JS-2 below shows SDG&E’s residential costs based on rates effective March 1, 2019.¹¹

¹⁰ Other includes all non-commodity, distribution, and transmission costs.

¹¹ Per Advice Letter (“AL”) 3346-E (rates in effect while pending Commission approval).

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Table JS-2: SDG&E Residential Fixed Costs and Fixed Charges

(A)	(B)	(C)	(D)	(E)	(F)=(C)+(D)+(E)	(G)=(B)-(F)	H	(I)=(C)+(D)+(G)
Residential ¹	Revenue Requirement (\$ million)	Marginal Costs			Total Marginal Cost (\$ million)	Additional Costs		
		Customer-Related (\$ million)	Capacity-Related (\$ million)	Energy-Related (\$ million)		Additional Fixed Costs (\$ million) ⁵	Additional Energy Costs (\$ million)	Total Fixed Costs (\$ million)
Distribution ²	\$638.1	\$341.1	\$288.6	\$0	\$629.7	\$8.4	\$0	\$638.1
Commodity ²	\$664.0	\$0	\$247.2	\$416.6	\$663.8	-\$0.2	\$0	\$247.1
Transmission ³	\$323.6	\$0	\$323.6	\$0	\$323.6	\$0	\$0	\$323.6
PPP	\$120.5	\$0	\$0	\$0	\$0	\$120.5	\$0	\$120.5
ND	-\$0.2	\$0	\$0	\$0	\$0	-\$0.2	\$0	-\$0.2
CTC	\$4.9	\$0	\$0	\$0	\$0	\$4.9	\$0	\$4.9
LGC	\$75.2	\$0	\$0	\$0	\$0	\$75.2	\$0	\$75.2
TRAC	\$60.0	\$0	\$0	\$0	\$0	\$0	\$60.0	\$0
DWR-BC	\$24.1	\$0	\$0	\$0	\$0	\$24.1	\$0	\$24.1
GHG	-\$85.9	\$0	\$0	\$0	\$0	\$0	\$0	\$0.0
Total	\$1,824.3	\$341.1	\$859.4	\$416.6	\$1,617.1	\$232.8	\$60.0	\$1,433.3
\$/cust-mo ⁴	\$116.75	\$21.78	\$54.98	\$26.76	\$103.52	\$14.88	\$3.83	\$91.64

¹Revenues are unadjusted class averages.

²Distribution and Commodity marginal costs are EPMC-adjusted.

³Includes Reliability Services (RS)

⁴\$/cust-mo: Calculated by adding EECC divided by bundled customer-months and all other rate components by system customer-months.

⁵Additional fixed costs in Distribution represent DR costs. Additional fixed costs in Commodity represent the DWR-BC credit.

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3 Given that the calculated average monthly residential fixed cost of service is greater than

4 \$90, SDG&E's proposal for a \$10 fixed charge is fair and justified for the following reasons:

5 • Currently adopted rate structures allow for the recovery of fixed costs through a
6 fixed charge in non-residential customer classes as a dollar-per-month charge,
7 but not in the residential customer class. SDG&E's customer base is
8 disproportionately residential (89%), and as such, SDG&E does not to recover
9 fixed costs from the majority of its customers on the basis that they are incurred.

10 When non-variable costs, as shown in Table JS-2 above, are recovered on a
11 volumetric (\$/kWh) basis, as is the case in SDG&E's current residential rate
12 structure, the result is a volumetric rate that is artificially inflated.

13 • SDG&E continues to be a leader in providing clean, safe, and reliable service to
14 all its customers. SDG&E has made significant capital investment to mitigate

1 wildfire risk given California’s changing environment and as climate becomes
2 more extreme. By definition, fire hardening investments are fixed costs as they
3 do not vary based on the volume of electricity consumption. These fixed costs
4 are not currently included in the categories of eligible fixed costs, but well
5 exceed the statutory limit of \$10. Therefore, SDG&E believes a \$10 fixed
6 charge is justified and fair for all residential customers who are benefiting from
7 SDG&E’s investment in continued safety.

- 8 • SDG&E’s NEM penetration in its residential class is approaching 12% (150,000
9 customers) and growing as customers install distributed solar generation systems.
10 This results in a cost shift to non-generating customers, as NEM customers are
11 able to net out their bills to just the minimum bill charge, even though they are
12 using SDG&E’s distribution and transmission system and benefitting from
13 SDG&E’s infrastructure investments on a daily basis, including SDG&E’s
14 investment in wildfire safety, which benefits all customers.¹² As of February
15 2019, SDG&E’s total annual residential NEM cost shift was \$395 million. A
16 \$10 residential fixed charge has the potential to reduce the annual NEM cost shift
17 by \$18 million, based on current effective rates, and could mitigate some of the
18 effects of the NEM cost shift going forward (i.e., reduce upward rate pressure).

¹² In its “Chief Executive Officer and General Manager’s Report and Recommendations on Rates and Services” dated March 21, 2019, at pages 27-29, the SMUD indicates that it has also observed a similar change in the energy market towards customers installing DER and shifting fixed cost infrastructure items to non-NEM customers. As such, SMUD has implemented a System Infrastructure Fixed Charge (“SIFC”) to all residential customers that recovers the following costs: (1) contact center, (2) customer information, (3) metering, (4) billing, and (5) neighborhood distribution facilities. It is my understanding that the current residential SIFC is \$20.30 per month.

As displayed in Table JS-3 below, the addition of SDG&E’s proposed \$10 fixed charge and minimum bill will result in a compensating decrease in the volumetric rates. This has the potential to decrease customer bill volatility and provide more stability.

Table JS-3: Illustrative Rates with Fixed Charge¹³

3-Period Default TOU Illustrative Rates	
Present Rates	2020 Proposed Rates
Monthly Service Fee	Monthly Service Fee
\$0.00	\$10.00
Minimum Bill	Minimum Bill
\$0.329/day	\$1.284/day
Summer Energy Rates (cents/kWh)	Summer Energy Rates (cents/kWh)
On-Peak: 42.5	On-Peak: 37.5
Off-Peak: 20.6	Off-Peak: 15.4
Super Off-Peak: 15.5	Super Off-Peak: 10.3
Tier 2 Adjustment: 19.0	Tier 2 Adjustment: 24.7
Winter Energy Rates (cents/kWh)	Winter Energy Rates (cents/kWh)
On-Peak: 24.5	On-Peak: 19.7
Off-Peak: 23.5	Off-Peak: 18.7
Super Off-Peak: 22.4	Super Off-Peak: 17.6
Tier 2 Adjustment: 17.6	Tier 2 Adjustment: 22.9

SDG&E believes the benefits to its customers from adopting a fixed charge at the legislative maximum and the resulting impacts on its rates are significant. The specific rates and bill impacts associated with SDG&E’s residential fixed charge and minimum bill proposal are presented in the supplemental testimony of SDG&E witness Dr. Emge.

VI. SDG&E’S MINIMUM BILL PROPOSAL HAS BEEN UPDATED TO ACCOUNT FOR CURRENT EFFECTIVE RATES

SDG&E’s minimum bill proposal has been updated for current effective rates¹⁴ and updated distribution marginal costs found in the Supplemental Testimony of SDG&E witness

¹³ Based on current effective rates, March 1, 2019 (AL 3346-E) and residential schedule TOU-DR1.

¹⁴ Rates Effective March 1, 2019, per AL 3346-E.

1 Mr. Saxe. As stated above, the minimum bill proposal does not include the total tax impact from
2 the TCJA signed into federal law December 22, 2017 as SDG&E's 2019 GRC Phase I
3 Application (A.17-10-007) is still pending a final decision. SDG&E's GRC Phase 1 revenue
4 requirements were updated in April 2018¹⁵ to show the impact from the TCJA pursuant to the
5 Assigned Commissioner's Scoping Memorandum and Ruling issued on January 29, 2018.

6 **VII. SDG&E'S HIGHER FIXED CHARGE RATE OPTION HAS BEEN UPDATED**
7 **TO ACCOUNT FOR FEDERAL TAX LEGISLATION IMPACTS**

8 As noted above, SDG&E has decided to withdraw its proposal to modify its existing EV-
9 TOU-5 rate. However, SDG&E is continuing to propose the creation of a new higher fixed
10 charge optional rate. The policy justifications for this type of optional fixed rate are included in
11 Ms. Fang's Prepared Direct Testimony (SDG&E Phase IIA Ex. SDGE-1), which I am now
12 adopting as my own. Due to the impacts of the Federal Tax Legislation, the higher fixed cost
13 level has been increased from \$67.30 to \$79.94. The development of the fixed charge value is
14 discussed in the Supplemental Testimony of Dr. Emge. As noted above, a final decision in
15 SDG&E's GRC Phase 1, along with the 2019 GRC Phase 2 marginal generation capacity costs,
16 will impact this proposal as well as SDG&E's minimum bill proposal.

17 As shown below in Table JS-4, while this higher fixed charge optional rate may not be
18 the right option for all of SDG&E's residential customers, it is an important option for residential
19 customers that may still be challenged with high volumetric rates after Mass TOU Default. This
20 option will also help ensure that these customers pay for the infrastructure needed to deliver safe
21 and reliable energy service.

¹⁵ SDG&E GRC Phase 1 Revenue Requirement impact from the TCJA can be found in the Second Revised Testimony of SDG&E witness Ragan G. Reeves. See A.17-10-007, *Second Revised SDG&E Direct Testimony of Ragan G. Reeves (Taxes)* (April 6, 2018), Ex. SDG&E-35-2R.

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Table JS-4: 2020 3 Period TOU Proposal versus 2020 High Fixed Charge Option

2020 Proposed Illustrative Rates	
Proposed TOU-DR1	Proposed High Fixed Charge Option
Monthly Service Fee	Monthly Service Fee
\$10.00	\$79.94
Minimum Bill	Minimum Bill
\$1.284/day	\$0.000/day
Summer Energy Rates (cents/kWh)	Summer Energy Rates (cents/kWh)
On-Peak: 37.5 Off-Peak: 15.4 Super Off-Peak: 10.3 Tier 2 Adjustment: 24.7	On-Peak: 34.1 Off-Peak: 10.3 Super Off-Peak: 4.8
Winter Energy Rates (cents/kWh)	Winter Energy Rates (cents/kWh)
On-Peak: 19.7 Off-Peak: 18.7 Super Off-Peak: 17.6 Tier 2 Adjustment: 22.9	On-Peak: 6.7 Off-Peak: 5.8 Super Off-Peak: 4.8

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This concludes my prepared supplemental testimony.

1 **VIII. STATEMENT OF QUALIFICATIONS**

2 My name is Jeff P. Stein and my business address is 8330 Century Park Court, San
3 Diego, California 92123. I am the Manager of Customer Pricing at SDG&E. My primary
4 responsibilities include the development of cost-of-service studies, determination of revenue
5 allocation and electric rate design methods, analysis of ratemaking theories, and preparation of
6 various regulatory filings.

7 I received a Bachelor of Science degree in Business Administration with an emphasis in
8 Accounting from San Diego State University in 2003. I am a Certified Public Accountant in the
9 state of California and I continue to maintain an active status license with practice rights by
10 fulfilling the continuing professional education requirements.

11 Upon receiving my Bachelor's degree, I was employed by a Public Accounting and
12 Advisory services firm. After two years of public accounting, I joined Sempra Energy in 2006
13 and have held various positions of increasing responsibility in Sempra Energy's Internal Audit
14 Department, SDG&E's Business Controls Department, SDG&E's Accounting Operations, and
15 SDG&E's Transmission Revenue Department.

16 I have previously submitted testimony before the Commission and before the Federal
17 Energy Regulatory Commission ("FERC").