Application No.: A.21-09-001
Exhibit No.: SDG&E-04
Witness: Gwendolyn R. Morien

PREPARED REBUTTAL TESTIMONY OF

GWENDOLYN R. MORIEN

ON BEHALF OF

SAN DIEGO GAS & ELECTRIC COMPANY

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

FEBRUARY 11, 2022

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PREPARED REBUTTAL TESTIMONY OF GWENDOLYN R. MORIEN ON BEHALF OF SAN DIEGO GAS & ELECTRIC COMPANY

4

I. INTRODUCTION

5 The purpose of my rebuttal testimony is to address the January 14, 2022, Prepared Direct
6 Testimony of intervenors[1] in San Diego Gas and Electric Company's ("SDG&E") Application to
7 Update Rate Design to Include a Residential Untiered Time-of-Use Rate with a Fixed Charge[2]
8 ("Application"). Specifically, my rebuttal testimony addresses the following contentions made in
9 intervenor testimony:

10 • SDG&E responds to Parties that claim its proposed fixed charges are too high;
11 • SDG&E disagrees with Cal Advocates and Sierra Club that new Time-of-Use
12 ("TOU") periods should be adopted for TOU-ELEC, as it would cause customer
13 confusion and would not be based on the up-to-date marginal cost studies from
14 SDG&E's upcoming 2024 General Rate Case ("GRC") Phase 2;
15 • SDG&E conceptually agrees with CforAT that untiered TOU rates should have an
16 optional line-item medical discount for eligible customers, but believes the issue
17 would be better dealt with in the upcoming 2024 GRC Phase 2;

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1 SDG&E is responding to: the Prepared Direct Testimony of Nathan Chau and Alan M. Siebuhr on Behalf of the California Public Advocates Office ("Cal Advocates"), Prepared Testimony of David Cheng on Behalf of The Utility Reform Network ("TURN"), Opening Testimony of Melissa Kaznitz on Behalf of the Center for Accessible Technology ("CforAT"), Direct Testimony of Melissa Whited on Behalf of Sierra Club, the Direct Testimony of R. Thomas Beach on Behalf of the Solar Energy Industries Association ("SEIA"), the Prepared Direct Testimony of Brian Dickman on Behalf of San Diego Community Power and Clean Energy Alliance ("SDCP-CEA" or "CCA Parties"), and the Direct Testimony of Mark Fulmer on Behalf of the Utility Consumers' Action Network ("UCAN") – ERRATA.

2 SDG&E filed its Application ("A.") 21-09-001 on September 1, 2021, with revised testimony filed on December 1, 2021.

- SDG&E strongly disagrees with SDCP-CEA that the California Public Utilities Commission ("CPUC" or "Commission") should impose an artificial price floor on bundled commodity rates that is determined by Power Charge Indifference Adjustment ("PCIA") rates for departing load customers, as it is not in the best interest of customers;
- SDG&E responds to parties that are attempting to relitigate marginal costs outside a GRC Phase 2 proceeding;
- SDG&E shows that SEIA's proposal would create a rate identical to an existing rate, EV-TOU-5, and therefore is nonsensical and would cause customer confusion and reduce customer choices; and
- SDG&E disagrees that its proposed rate design would unreasonably shift costs to non-participating customers, and therefore, the evaluation requirements proposed by TURN and UCAN are overly prescriptive and burdensome.

SDG&E's failure to address any individual issue in this rebuttal testimony does not imply agreement by SDG&E with any argument, position, or proposal asserted by parties.

II. FIXED CHARGES SHOULD MEANINGFULLY REDUCE VOLUMETRIC RATES

It is important that SDG&E's proposed fixed charges meaningfully reduce its volumetric rates in order to support electrification. High volumetric rates are not attractive to customers who are considering electrifying and can reduce or eliminate the value proposition of adopting a heat pump or an electric vehicle ("EV"). Since rate design is a zero-sum game, higher fixed charges lead to lower volumetric rates. Parties' claims that SDG&E's proposed fixed charges are too

1 high and that they are "punitive"[3] and "excessive,"[4] are simply false. Cal Advocates states that
2 SDG&E's proposed TOU-ELEC fixed charges are "far higher than any residential electrification
3 tariff offered by any Commission-regulated IOU."[5] SEIA shares this concern, stating SDG&E's
4 fixed charges "would result in far higher monthly fixed charges than the electrification rates that
5 the Commission has adopted for the state's other IOUs."[6] While this may be true, Pacific Gas
6 and Electric Company's ("PG&E") and Southern California Edison Company's ("SCE")
7 approved rate designs do not and should not preclude the Commission from adopting higher
8 fixed charges here. Other intervenors also contend that to be cost-based, SDG&E's fixed charge
9 should not be including distribution demand costs, which would lower the amount of fixed
10 charge.[7] However, as discussed in detail in the Rebuttal Testimony of SDG&E witness Hannah
11 Campi, contrary to Cal Advocates' statements, SDG&E's proposed fixed charges *are* cost-
12 based.[8]

13 While other California electric investor-owned utilities ("IOUs") may provide some point
14 of comparison, the Commission should consider SDG&E's proposal independently of PG&E's
15 and SCE's existing electrification rates.[9] SDG&E has proposed an innovative rate design in this
16 proceeding that can incentivize electrification. PG&E's and SCE's comparable "electrification
17 rates" have smaller, flat fixed charges. Intervenor proposals for smaller fixed charges in this
18 proceeding will not have the desired impact on reducing volumetric rates to a point where
19 electrification is attractive, given SDG&E's rate levels. The Rebuttal Testimony of SDG&E

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3 Cal Advocates Amended Direct Testimony, p. 6:19.
4 SEIA Direct Testimony, p. 9:17.
5 Cal Advocates Amended Direct Testimony, p. 6:3-4 (citation omitted).
6 SEIA Direct Testimony, p. 14:7-8.
7 Cal Advocates Amended Direct Testimony, p. 2:8-14.
8 Rebuttal Testimony of Hannah Campi, p. HC-9 – HC-12.
9 SCE's TOU-D "PRIME" rate has a fixed charge of $12, and PG&E's recently approved "E-ELEC" rate has a fixed charge of $15, per D.21-11-016, p. 115.

1 witness Hannah Campi discusses the impacts of intervenor proposals on the average $/kWh
2 rate.[10]

3 Historically, California regulators have been hesitant to adopt residential fixed charges
4 for IOU customers. In 2013, Assembly Bill ("AB") 327 capped default residential fixed charges
5 at $10 for non-CARE customers.[11] In Rulemaking ("R.") 12-06-013, SDG&E and the other
6 electric IOUs proposed default residential fixed charges, but at the time, the Commission found
7 that no default residential fixed charge should be implemented until customers have been
8 defaulted to TOU rates.[12] In D.15-07-001, the Commission ordered the IOUs to file a 2018
9 Residential Rate Design Window proposing default TOU rates for residential customers, with the
10 option to propose a default residential fixed charge.[13] The IOUs filed 2018 Residential Rate
11 Design Window Applications in December 2017.[14] However, the Commission again rejected
12 proposed default residential fixed charges, stating that the IOUs' marketing, education, and
13 outreach plans were deficient[15] and that the risk of a negative customer reaction to residential
14 fixed charges was of great concern to the Commission.[16]

15 Clearly, there are constraints for default residential fixed charges that the Commission
16 will need to consider in the near future to ensure that its electrification goals are not
17 compromised. A $10 default residential fixed charge will not significantly lower SDG&E's
18 average volumetric rates. However, SDG&E's proposed rate design here is for an *optional* rate.

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10 Rebuttal Testimony of Hannah Campi, pp. HC-10 – HC-11.
11 Public Utilities ("Pub. Util.") Code Section 739.9(f).
12 Decision ("D.")15-07-001, Conclusions of Law 17 and 18, p. 328.
13 *Id*., p. 217.
14 A.17-12-013, Application of San Diego Gas & Electric Company (U902E) for Authority to Update Electric Rate Design Regarding Residential Default Time-Of-Use Rates and Fixed Charges (December 20, 2017). [Proceedings A.17-12-011, A.17-12-012, and A.17-12-013 are consolidated by Ruling of January 25, 2018.].
15 D.20-03-003, Findings of Fact ("FOF") 1, p. 45.
16 *Id*., FOF 3, p. 46.

1 SDG&E will not be defaulting customers to this rate. Residential customers who *opt in* to this
2 rate will know that they will be billed a higher fixed charge.

3 There are policy reasons to adopt a higher fixed charge that recovers more than customer-
4 specific costs. Recent academic work has explored the idea of increasing fixed charges as one
5 way to lower volumetric rates and bring volumetric rates closer to marginal cost, thus
6 incentivizing electrification. A 2021 paper by Next 10 and Haas Energy Institute at the
7 University of California, Berkeley found that "[p]ricing reform that aligns the volumetric price of
8 energy with marginal cost would dramatically reduce prices, which has the potential to spur
9 electrification of other sectors of the economy."[17] SDG&E's proposed fixed charges do just that:
10 bring volumetric rates closer to marginal cost within existing residential rate design constraints.
11 SEIA appears to agree with this sentiment, stating, "[a]verage residential electric rates
12 for…SDG&E already may be too high to provide EV charging customer with consistent savings
13 compared to gasoline prices."[18] Because rate design is a zero-sum game, the higher the fixed
14 charge, the lower the average volumetric rate. Given the level of SDG&E's rates today,[19] a small
15 fixed charge is unlikely to lower volumetric rates in a way that will incentivize customers to
16 adopt the technologies the Commission hopes this rate will target.

17 The following illustration (Figure 1) shows electricity price ($/kWh) parity with natural
18 gas ($/therm). The figure shows two scenarios, the first where the electric technology adopted
19 has 2x the efficiency of the gas technology, and the second where the electric technology
20 adopted has 3x the efficiency of the gas technology being replaced. It is not uncommon for

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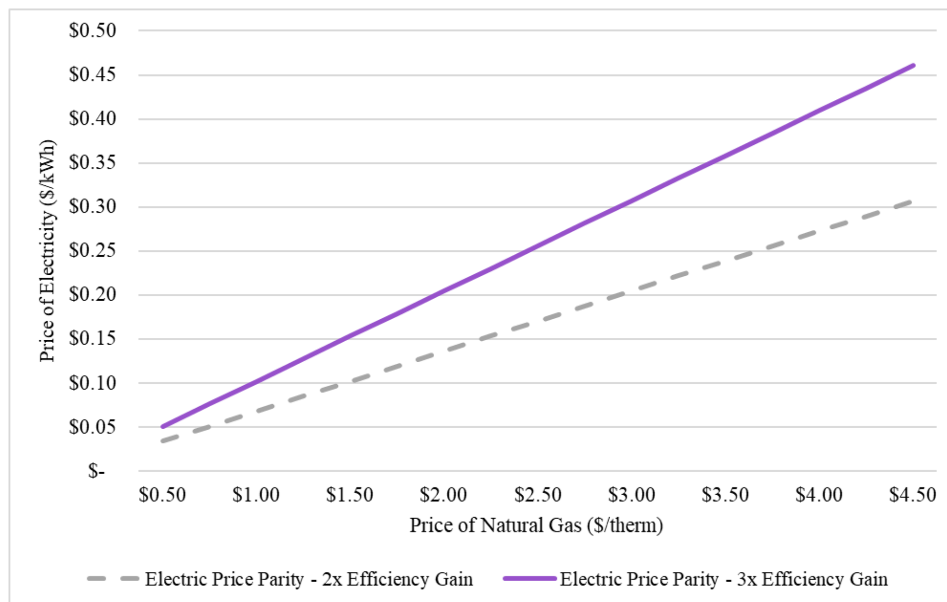
[17] Next 10 and The Energy Institute of Berkeley Haas, *Designing Electricity Rates for An Equitable Energy Transition* (2021),, p.5, available at https://www.next10.org/sites/default/files/2021-02/Next10-electricity-rates-v2.pdf.

[18] SEIA Direct Testimony, pp. 4:22-23 – 5:1.

[19] As of January 1, 2022, SDG&E's average residential rate is 34.5 cents/kWh. *See* Advice Letter 3928-E/E-A, approved January 7, 2022 and effective January 1, 2022.

customers to see significant efficiency gains when switching from a gas heater or water heater to an electric heat pump for climate control or an electric heat pump water heater ("HPWH").[20] Assuming natural gas prices of $2.00/therm[21] and gaining 2x efficiency when converting from gas technology to electric technology, electricity prices must be $0.14/kWh to achieve price parity. In the same scenario but gaining 3x efficiency, electricity prices must be $0.20/kWh to be competitive with natural gas. If natural gas prices are lower, then electricity must be priced even lower to be cost competitive.

Figure 1 – Electricity and Natural Gas Price Parity



SDG&E's average residential volumetric rates with no fixed charges are higher than $0.20/kWh. However, because SDG&E's proposed TOU-ELEC fixed charges are higher than

[20] The Rebuttal Testimony of Hannah Campi includes a study SDG&E conducted examining the value proposition of switching from a gas water heater to a HPWH. Efficiencies for HPWHs are significantly higher than gas water heaters. *See* Rebuttal Testimony of Hannah Campi, p. HC-15, and Attachment A.

[21] SDG&E's current effective natural gas prices are approximately $2.00/therm. *See* SDG&E, Schedule GR, Residential Natural Gas Service, available at https://tariff.sdge.com/tm2/pdf/GAS_GAS-SCHEDS_GR.pdf.

1 proposed by any intervenor, SDG&E is able to offer correspondingly lower electric rates. As
2 displayed below in Table 1, the Off-Peak and Super Off-Peak period pricing ranges from
3 approximately $0.18/kWh to $0.22/kWh. It is worth noting that achieving price parity may not
4 be enough incentive for a customer to give up their traditional technology. A customer may need
5 to *save* money for conversion to become widespread.

6 **Table 1 – Proposed Illustrative TOU-ELEC**

Charge	Unit	TOU-ELEC Illustrative Total Rate
Fixed Customer Charge	$/month	
0-4 kW	$/month	28.53
4-8 kW	$/month	51.28
8-10 kW	$/month	68.35
>10 kW	$/month	85.41
Energy Charges:		
Summer:		
On-Peak	$/kWh	0.45211
Off-Peak	$/kWh	0.22010
Super Off-Peak	$/kWh	0.18959
Winter:		
On-Peak	$/kWh	0.29970
Off-Peak	$/kWh	0.21180
Super Off-Peak	$/kWh	0.18406

7

8 The Commission has an opportunity in the instant proceeding to observe the impacts of a
9 more experimental rate design that could help lay the groundwork for overall future residential
10 rate reform. Because SDG&E has proposed to cap the number of customers that may take service
11 on this rate, impacts to other customers will be limited. Additionally, SDG&E has proposed a
12 review of the rate design to determine if revenue shifting has occurred.[22] Although their
13 proposals are burdensome and overly prescriptive, as discussed in Section VIII, several parties
14 agree with SDG&E's proposal for a rate evaluation. The Commission will be able to observe the

22 Revised Prepared Direct Testimony of Gwendolyn Morien, p. GM-15.

impacts of SDG&E's proposed rate design at that point and decide whether adjustments should be made going forward. Therefore, SDG&E respectfully requests the Commission adopt the fixed charges proposed in its direct testimony, with the goal of furthering electrification in California, in support of the state's climate goals.

III. CFORAT'S PROPOSAL FOR A MEDICAL DISCOUNT HAS MERIT BUT SHOULD BE DEALT WITH IN THE UPCOMING 2024 GRC PHASE 2

SDG&E is open to a medical discount option for qualifying customers, as proposed by CforAT.[23] The Commission has made clear that it supports extending the medical baseline program to rates without a baseline allowance.[24] However, SDG&E believes this issue would be more appropriately addressed in its upcoming 2024 GRC Phase 2, where a medical discount for *all* untiered TOU rates could be considered, instead of a one-off in the instant proceeding. A 25% medical discount is significantly higher than the PG&E and SCE medical discounts CforAT references,[25] and therefore, for a statewide program, further analysis may be needed to create statewide equivalency. SDG&E agrees conceptually with CforAT that medical discount customers could also qualify for programs like California Alternate Rates for Energy ("CARE") and Family Electric Rate Assistance ("FERA").[26] However, SDG&E strongly disagrees with CforAT's assertion that any medical line-item discount should be applied in a multiplicative fashion. This would conflict with SDG&E's current practice and violate Pub. Util. Code Section 739.1.

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[23] CforAT Opening Testimony, p. 6.
[24] CforAT Opening Testimony, p. 3, (citing Scoping Memo issued in A.20-10-006 on December 15, 2020 at p. 2.).
[25] CforAT Opening Testimony, pp. 4-5. PG&E's settled medical discount is 12%, SCE's is 11%. *Id.,* p. 7.
[26] CforAT Opening Testimony, p. 7.

Per statute, the maximum discount a CARE customer can receive is 35%.[27] Any decision that adopts an additional discount for CARE customers would violate the AB 327 limits on discounts to such customers.[28] Adding additional discounts to the amount CARE customers receive contradicts the efforts from D.15-07-001, which required "[a]ny utility that currently has an average effective discount greater than 35% is instructed to reduce its discount level to between 30 and 35%".[29] SDG&E's current effective CARE discount is 35%;[30] therefore, any additional discounts would increase the discount CARE customers receive beyond the legislative maximum. Therefore, while SDG&E conceptually supports a medical discount for untiered TOU rates, it should be addressed in SDG&E's upcoming 2024 GRC Phase 2 where it can be considered for all untiered TOU rates and not as a one-off. Additionally, any discount would need to be consistent with statutory requirements and should not be provided in a multiplicative fashion as CforAT proposes.

IV. THE COMMISSION SHOULD NOT CREATE AN ARTIFICIAL PRICE "FLOOR" FOR BUNDLED COMMODITY RATES BASED ON THE PCIA

SDCP-CEA's main concern is that SDG&E's proposed TOU-ELEC commodity rates in the super off-peak period *may* fall below certain vintages of PCIA rates, and proposes the Commission set a floor for bundled commodity rates based on the PCIA. The Community Choice Aggregators ("CCAs") posit allowing bundled commodity rates below the most recent PCIA vintage would result in cost shifting to unbundled customers.[31] This concern is misplaced.

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[27] Pub. Util. Code Section 739.1(c)(1).
[28] Pub. Util. Code Section 739.1(c)(1), added by AB 327, states that "[t]he average effective CARE discount shall not be less than 30 percent or more than 35 percent of the revenues that would have been produced for the same billed usage by non-CARE customers."
[29] D.15-07-001, p. 231.
[30] SDG&E, Schedule E-CARE, available at https://tariff.sdge.com/tm2/pdf/ELEC_ELEC-SCHEDS_E-CARE.pdf.
[31] SDCP-CEA Direct Testimony, pp. 6-7.

First, SDG&E's proposed bundled commodity rates are higher than the residential 2022 PCIA vintage, so the CCAs' argument is purely hypothetical. However, even if SDG&E had proposed bundled rates lower than the PCIA, this rate design would not shift costs from bundled to unbundled customers, and creating an artificial price floor would not be in the best interest of all customers. SDG&E's commodity rates, such as those proposed in this application, are cost-based. Creating an artificial floor based on the PCIA would remove the ability of the customer to choose lower rates, as it would ensure that SDG&E could never have lower commodity rates than the CCA. This would be extremely unfair to SDG&E's remaining bundled customers.

SDCP-CEA states "if for any reason the PCIA revenue attributed to bundled customers is not equal to the PCIA rate multiplied by kWh usage, the actual above market costs of SDG&E's generation portfolio would be shifted to unbundled customers"[32] but fails to provide any examples of these "reasons" why PCIA revenue attributed to bundled customers would not be equal to the PCIA rate multiplied by kWh usage. There is no situation in which this cost shifting would occur. SDG&E records bundled Portfolio Allocation Balancing Account ("PABA") revenues by multiplying kWh usage by the most recent PCIA rate, regardless of the commodity rates that differ by TOU period. SDG&E's accounting function does not see granular TOU period pricing to record these revenues; the calculation to record PABA revenues from bundled customers is done by taking kWh usage multiplied by the most recent PCIA vintage rate.

Additionally, D.22-01-023 adopted a policy that allows SDG&E to dispose of year-end Energy Resource Recovery Account ("ERRA") balance by moving it to the corresponding subaccount of the PABA each year within the annual ERRA forecast proceeding.[33] Therefore, even if the revenues recorded to the ERRA account did not equal PCIA multiplied by kWh

[32] SDCP-CEA Direct Testimony, pp. 6-7.
[33] D.22-01-023, pp. 13-14. This decision was adopted by the Commission on January 27, 2022.

usage, which they do, it is irrelevant because the ERRA account will be transferred to the PABA at year-end, at which point cost responsibility will be assigned to the appropriate vintages. This would ensure that previously departed customers are not impacted by this hypothetical shortfall.

By proposing a bundled commodity rate floor based on the PCIA, SDCP-CEA fails to recognize Rate Design Principles ("RDPs") 2 and 3, which state: "Rates should be based on marginal costs" and "Rates should be based on cost-causation principles."[34] The PCIA is set using the Commission-approved Market Price Benchmarks ("MPB").[35] Therefore, the accuracy of the PCIA is dependent on the Energy Division's analysis and final MPBs provided to the IOUs. Generally, a higher MPB results in a higher portfolio value and fewer above-market costs, and thus a lower PCIA rate. A lower MPB would therefore result in a higher PCIA rate, all else equal. PCIA rates are no longer capped,[36] and therefore, could vary significantly from year to year. Ensuring bundled commodity rates are always higher than the PCIA could require annual rate redesign, which would be inappropriate outside of a rate design proceeding and could cause unexpected customer bill volatility. Additionally, this would distort the price signal from SDG&E's bundled commodity rates. If SDG&E was forced to increase the super off-peak rate to be higher than the PCIA, then the On-Peak and Off-Peak rates would have to decrease to compensate, which would result in muted TOU price differentials.

SDCP-CEA also states that setting the bundled commodity charge "below the current PCIA rate … implies that the 'at market' component of the commodity charge is negative."[37] SDG&E does not intentionally set its rates to be above or below the PCIA. SDG&E sets bundled

[34] D.15-07-001, pp. 27-28.
[35] *See*, D.18-10-019 and D.19-10-001.
[36] D.21-05-030, p. 8, removed the PCIA cap and trigger mechanisms. Prior to D.21-05-030, PCIA rates could not increase or decrease more than $0.005/kWh per year.
[37] SDCP-CEA Direct Testimony, p. 7.

commodity rates based on marginal costs and sometimes adjusts for policy choices. Low prices during the super off-peak period reflect low marginal energy costs during those hours. The CCAs are concerned that allowing the bundled commodity rate to fall below the PCIA would send an improper price signal to customers. This does not make logical sense. Consumption during these hours should be encouraged: under a hypothetical where customers received real-time market prices that were indeed negative during these hours, customers would respond to that price signal and increase their consumption, creating additional demand, the way the market is intended to work.

Finally, SDCP attempts to reason that the Commission should not allow SDG&E's bundled commodity rate to fall below the PCIA rate because its rates should incent "prudent and efficient consumption of energy."[38] This implies that customers will only be incentivized to use energy economically and efficiently if bundled commodity rates are higher than the PCIA, whereas if the rate was one fraction of a cent lower (lower than the PCIA), they would not. This argument is clearly illogical and should be given no weight. The Commission and SDG&E do not dictate the CCAs' pricing. In principle, the Commission should not constrain bundled commodity rate design so that the CCA rates will always be lower in price; this goes against basic economics, customer choice, and customer interests. SDCP fails to show that the Commission should adopt a policy in which bundled commodity rates cannot fall below PCIA rates; therefore, this proposal should be rejected.

V. TOU PERIODS FOR ALL CUSTOMERS SHOULD BE REVIEWED IN SDG&E'S 2024 GRC PHASE 2

Both Cal Advocates and Sierra Club take issue with applying SDG&E's current TOU periods to TOU-ELEC, as proposed in the Revised Prepared Direct Testimony of SDG&E

[38] SDCP-CEA Direct Testimony, p. 7.

1 witness Hannah Campi.[39] Cal Advocates and Sierra Club believe that the Marginal Energy Costs
2 ("MECs") used to establish the current TOU periods are outdated and that more up to date
3 information demonstrates that the super-off-peak hours have migrated from overnight and early
4 morning to midday hours for all months.[40] Sierra Club believes that SDG&E's current standard
5 TOU periods "fail to provide the most efficient price signals to customers"[41] and Cal Advocates
6 claims that if they are applied to TOU-ELEC, "customers will not be properly incentivized to
7 shift their load to lower cost hours."[42] Both these parties propose new TOU periods for TOU-
8 ELEC that they claim will avoid inaccurate price signals that may result from maintaining the
9 current periods.[43]

10 SDG&E disagrees that new TOU periods specific to one rate schedule should be adopted
11 in this proceeding. D.17-01-006 sets out specific guidance for utilities to propose new TOU
12 periods, and states that SDG&E should propose new Base TOU periods, if warranted, at least
13 every two GRC cycles.[44] SDG&E's current Standard TOU periods were adopted in SDG&E's
14 2016 GRC Phase 2[45] and implemented December 1, 2017.[46] SDG&E did not propose new base
15 TOU periods in its 2019 GRC Phase 2 Application, as evidence and policy considerations at that
16 time did not warrant a change to base TOU periods.[47]

[39] Revised Direct Testimony of Hannah Campi, p. HC-14, Table HC-6.
[40] Cal Advocates Amended Direct Testimony, p. 20 and Sierra Club Direct Testimony, p. 20.
[41] Sierra Club Direct Testimony, p.20.
[42] Cal Advocates Amended Direct Testimony, p. 20.
[43] Cal Advocates Amended Direct Testimony, p. 20, and Sierra Club Direct Testimony , p. 26.
[44] D.17-01-006, Appendix A, p. 1.
[45] D.17-08-030, Ordering Paragraph ("OP") 1, pp. 86-87.
[46] Per Advice Letter 3130-E/A/B/C/D, approved July 5, 2018 and effective December 1, 2017.
[47] A.19-03-002, Revised Prepared Direct Testimony of Benjamin A. Montoya, Chapter 6 (May 2019), pp. BAM-12 and BAM-14, available at https://www.sdge.com/sites/default/files/regulatory/A.19-03-002%202019%20GRC%20Phase%202%20Chapter%206%20Montoya-Commodity%205%208%2019.pdf.

SDG&E is required to review its Base TOU periods in its upcoming 2024 GRC Phase 2 proceeding, scheduled to be filed in August 2022. It would be more appropriate and efficient to review and, if needed, make changes to the base TOU periods for TOU-ELEC along with all other rate schedules in the next GRC Phase 2. If TOU periods specifically for TOU-ELEC were adopted in this proceeding, many customers that elect to take service on this rate might still be getting familiar with its TOU periods by the time the Commission issues a Decision for the 2024 GRC Phase 2, at which point any different TOU periods adopted in the instant proceeding for TOU-ELEC would be outdated. If the Commission did adopt new TOU periods in this proceeding, SDG&E would not recommend updating TOU-ELEC TOU periods in its impending 2024 GRC Phase 2 proceeding because the rate would be very new. A drastic change to TOU-ELEC's TOU periods after such a short amount of time, although they may be outdated, may increase customer confusion or jeopardize the customer experience. The Commission has stated that Base TOU periods should be in place for a minimum of five years, illustrating the importance of maintaining continuity of TOU periods and avoiding customer confusion.[48] SDG&E requests the Commission consider customer understanding in addition to the cost basis when setting TOU periods. This would result in prolonging Cal Advocates' and Sierra Club's concern that the TOU-ELEC TOU periods do not accurately reflect current grid conditions.

In addition, Cal Advocates bases its proposed TOU periods on inappropriate data. Cal Advocates asserts that the MECs provided in SDG&E's 2019 GRC are the most up-to-date available data on grid conditions and bases its proposed TOU periods on this data.[49] Cal Advocates was a party to SDG&E's 2019 GRC Phase 2 proceeding and did not take issue with

[48] D.17-01-006, Appendix A, p. 1.
[49] Cal Advocates Amended Direct Testimony, p. 20.

1 SDG&E's proposal to maintain current standard base TOU periods.[50] In fact, Cal Advocates
2 notes in its 2019 GRC Phase 2 Amended Prepared Testimony that SDG&E's standard base TOU
3 periods "will send the correct price signal to the majority of customers."[51]
4 Cal Advocates cannot simultaneously claim SDG&E's TOU periods are based on
5 outdated information and then use the same data to support their proposal for new TOU periods.
6 D.17-01-006 requires Base TOU periods to be based on utility-specific marginal costs, and
7 therefore, more up-to-date MECs will be proposed in SDG&E's 2024 GRC Phase 2.[52] It would
8 be inefficient to develop new TOU periods in this proceeding based on outdated information
9 when current and forecasted data will be provided in the next GRC Phase 2 application.
10 Furthermore, although Cal Advocates uses SDG&E's 2020 MECs to support their proposed
11 TOU periods, this data is not actually used to develop its proposed TOU periods.
12 Cal Advocates also states that incorrect TOU periods could send inaccurate price signals
13 that lead to greater grid costs,[53] but this claim is purely speculative in the context of SDG&E's
14 proposed TOU-ELEC rate. Cal Advocates provides no evidence for this claim, and SDG&E has
15 proposed this rate be limited to 40,000 residential customers to mitigate the risk of increased grid
16 costs.
17 Additionally, Cal Advocates' and Sierra Club's proposed TOU periods do not consider
18 the load departure to CCAs expected to occur in SDG&E's service territory. SDG&E is
19 expecting a significant load departure in 2022 and 2023, totaling approximately 60% of its load.

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[50] *See* A.19-03-002, Cal Advocates' Amended Prepared Testimony on San Diego Gas & Electric Company's 2019 General Rate Case Phase 2 (Danforth) (April 6, 2020) and Rebuttal Testimony on San Diego Gas & Electric Company's 2019 General Rate Case Phase 2 (Gutierrez) (May 4, 2020).

[51] A.19-03-002, Cal Advocates' Amended Prepared Testimony of Cal Advocates on San Diego Gas & Electric Company's 2019 General Rate Case Phase 2, (Danforth) (April 6, 2020), Chapter 7, pp. 7-23.

[52] D.17-01-006, p .7.

[53] Cal Advocates Amended Direct Testimony, p.16:13-15.

Other entities in SDG&E's service territory have also stated they will be departing SDG&E's service, further increasing the percentage of departed load. Because of this load departure, SDG&E's 2019 GRC Phase 2 marginal costs will reflect outdated customer information that has different usage patterns. The marginal cost studies that will be presented in SDG&E's 2024 GRC Phase 2, on the other hand, will be based on forecast year 2024, after the scheduled migration of customers, and will therefore reflect the significant load departure. Consequently, marginal costs that are more appropriate than those used by Cal Advocates and Sierra Club to develop their proposed TOU periods will be available in SDG&E's 2024 GRC Phase 2.

For these reasons, SDG&E recommends the Commission reject Cal Advocates' and Sierra Club's proposals to adopt new TOU periods for TOU-ELEC. However, if the Commission does feel that SDG&E's TOU periods for TOU-ELEC should be adjusted, Sierra Club's proposal to extend the current super off-peak period hours of 10 am to 2 pm in March and April to all months is a superior option. SDG&E's Standard TOU periods already classify 10 am to 2 pm as Super Off-Peak hours in March and April, so many customers may already be familiar with these hours as Super Off-Peak. Thus, Sierra Club's proposed TOU periods would be an easier adjustment for customers than Cal Advocate's proposal, which introduces drastically different new TOU periods. However, SDG&E believes that adopting new TOU periods for TOU-ELEC would be premature and that the 2024 GRC Phase 2 cycle would be the most appropriate place to change TOU periods for *all* customers.

VI. PARTIES ARE ATTEMPTING TO RELITIGATE MARGINAL COSTS

Attempting to relitigate marginal costs is inappropriate within this proceeding. Marginal costs are developed and argued in a GRC Phase 2 proceeding, not a rate design window that is only dealing with one residential rate. Cal Advocates' Protest of SDG&E's Application for TOU-ELEC requested that the Commission include a "review of the reasonableness of the

1 marginal costs used for the rate design."[54] However, the Commission chose not to include this
2 issue in the Scoping Memo for this proceeding.[55] Furthermore, this proceeding only addresses
3 the rate design for one specific rate, while marginal costs impact the design of all rate schedules,
4 including non-residential rates. To ensure all interested parties and impacted customer groups are
5 appropriately represented, marginal cost issues should be addressed in SDG&E's upcoming 2024
6 GRC Phase 2 application. Arguments that TOU-ELEC rate development should use different
7 marginal cost methodologies should be given no weight.

8 UCAN states that SDG&E's marginal costs are "suspect" and explains that no marginal
9 costs were adopted in SDG&E's GRC Phase 2 proceeding and therefore cannot justify a fixed
10 charge based on SDG&E's proposed marginal costs.[56] While UCAN is correct that no marginal
11 costs were adopted SDG&E's 2019 GRC Phase 2, marginal costs have not been adopted in a
12 SDG&E GRC Phase 2 in decades. However, we still design and implement rates, without
13 adopted marginal costs. As mentioned above, the marginal costs used to develop SDG&E's
14 proposed fixed charge were originally presented in SDG&E's 2019 General Rate Case Phase 2
15 marginal distribution and marginal commodity cost studies.[57] These marginal costs form the rate
16 design basis of SDG&E's current effective rates today. The current effective rate design was
17 approved by the CPUC in D.21-07-010 and implemented per SDG&E Advice Letter 3855-E,
18 accepted and effective November 1, 2021.[58] SDG&E's marginal cost studies, as presented in the
19 2019 GRC Phase 2, are based on subject matter expert testimony of witnesses intimately familiar
20 with SDG&E's marginal costs and are the best estimate of SDG&E's marginal costs. It will not

[54] Protest of the Public Advocates Office (October 4, 2021), p. 6.
[55] Assigned Commissioner's Scoping Memo and Ruling (November 5, 2021), pp. 2-3.
[56] UCAN Direct Testimony, pp.17:17-21 – 18:1-3.
[57] *See* A.19-03-002, Revised Prepared Direct Testimony of William G. Saxe, Chapter 5, (May 2019).
[58] D.21-07-010, OP 8, p. 90.

make sense to use different marginal costs as the basis of a new rate if all other rate designs use a different set of marginal costs. Therefore, the aforementioned marginal costs are appropriate for setting SDG&E's proposed TOU-ELEC rate.

Sierra Club attempts to relitigate marginal distribution customer costs by utilizing the New Customer Only ("NCO") Method to review SDG&E's proposed fixed charge.[59] As stated previously, it is inappropriate to argue the merits of different marginal cost methodologies in this proceeding. In SDG&E's 2019 GRC Phase 2, SDG&E proposed marginal distribution customer costs that were developed using the Real Economic Carrying Cost ("RECC" or "Rental") Method,[60] consistent with SDG&E's previous GRC Phase 2 proceedings. SDG&E presented illustrative SDG&E marginal distribution customer costs based on the NCO Method for comparison purposes but clarified that SDG&E believes that this method sends a less accurate and reasonable price signal of the cost of providing an individual customer access to the electrical system compared to the Rental Method.[61] Although the marginal distribution customer costs based on the NCO Method were only presented for illustrative purposes, Sierra Club is attempting to relitigate marginal distribution costs by using these marginal costs to evaluate SDG&E's proposed TOU-ELEC fixed charge and asserting NCO is a more appropriate methodology.

SEIA is similarly guilty of attempts to relitigate marginal costs in this proceeding. SEIA notes that no marginal customer costs were adopted in SDG&E's last GRC cycle and recommends a 50/50 compromise of the Rental and NCO methods. SEIA cites D.21-11-016, the Decision adopting a modified Rental methodology in PG&E's 2019 GRC Phase 2, as evidence

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[59] Sierra Club Direct Testimony, p. 19.

[60] A.19-03-002, Revised Prepared Direct Testimony of William G. Saxe, Chapter 5, (May 2019), pp. WGS-9 - WGS-10.

[61] *Id.*

that a 50/50 split between the two methods is appropriate.[62] PG&E's recent GRC Phase 2 decision on marginal costs should not have any consideration here. PG&E's marginal costs are not equivalent to SDG&E's marginal costs, and it is inappropriate to propose different marginal costs in the instant proceeding. To clarify, D.21-11-016 ordered PG&E to value new connection equipment using the Rental method and existing equipment "using the 'replacement cost new less depreciation' method."[63] This is not the same as taking a 50/50 split between the Rental and NCO methods as SEIA implies. All parties interested in the development of SDG&E's marginal costs should be given the opportunity to propose alternative methods in an appropriate GRC Phase 2 proceeding. Therefore, SDG&E requests that the Commission reject all parties' attempts to relitigate marginal customer costs in this proceeding.

VII. SEIA'S PROPOSAL IS NONSENSICAL AND WOULD DUPLICATE AN EXISTING RATE

SEIA's proposal undermines SG&E's and other intervenors' good-faith efforts to engage in productive discourse about fixed charges and rate design that encourages electrification. The Commission should not entertain SEIA's proposal, which would duplicate an existing rate, would not increase meaningful customer choice and would deprive the Commission of an opportunity to explore novel rate designs, as it contemplates how best to incentivize electrification. SEIA proposes a $16 fixed charge identical to that of EV-TOU-5 and to modify its commodity rate design to match SDG&E's proposed TOU-ELEC commodity rates.[64] Unprompted, SEIA also proposes to expand the eligibility requirements for EV-TOU-5 to match the eligibility conditions for TOU-ELEC.[65] The Commission's scoping ruling did not

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[62] SEIA Direct Testimony, p. 16, n.23.
[63] D.21-11-016, OP 1, p. 166.
[64] SEIA Direct Testimony, p. 29.
[65] *Id.*, p. 36.

contemplate "other electrification rates"[66] and eligibility and rate design for EV-TOU-5 are not being examined here. Any proposal to change EV-TOU-5 is inappropriate and out of scope.

SEIA's customer impact analysis appears to be almost exclusively concerned with the proposed TOU-ELEC's impacts on customers with EVs.[67] However, EVs are only one of three technologies TOU-ELEC will be available to. Therefore, SDG&E's proposal is more well-balanced. SDG&E did not design the rate solely to cater to EVs, as SDG&E already has three optional residential rates specific to EVs.[68]

SDG&E believes that adopting another rate with similar rate elements and eligibility requirements as the already-existing EV-TOU-5 rate would be duplicative and nonsensical. This duplicative proposal is at odds with the rate design principle that rates should be understandable and provide customer choice (RDP 6). If SEIA's proposal were to be adopted, customers may have a difficult time understanding the differences between TOU-ELEC and EV-TOU-5 and may struggle to determine which rate makes the most sense for their household. Two similar rates with identical eligibility requirements would also limit customer choice as customers who adopt eligible technologies would essentially only have one choice for certain rate design elements, such as the fixed charge. Furthermore, in D. 20-03-003 Ordering Paragraph ("OP") 10, the Commission ordered SDG&E to propose a *new* opt-in, un-tiered residential TOU rate with a fixed charge, not duplicate and propose modifications to an existing rate as SEIA has done. SEIA's proposal to modify the eligibility requirements for EV-TOU-5 is therefore out of scope. For these reasons, SDG&E recommends the Commission reject SEIA's proposal for TOU-ELEC and for expanding the eligibility requirements for EV-TOU-5.

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[66] Assigned Commissioner's Scoping Memo and Ruling (November 5, 2021).
[67] SEIA Direct Testimony, pp. 31-34.
[68] Schedules EV-TOU, EV-TOU-2, and EV-TOU-5.

1 2 ## VIII. TURN'S AND UCAN'S EVALUATION RECOMMENDATIONS ARE OVERLY PRESCRIPTIVE AND BURDENSOME

3 Both TURN and UCAN are concerned about the potential cost shift TOU-ELEC may 4 impose on non-participating customers.[69] In order to mitigate the potential cost shift, both 5 parties propose that SDG&E perform an annual review of the rate, specifically on customer 6 participation and cost shifting, in place of SDG&E's proposal for a review after three years. In 7 addition, TURN recommends a revenue undercollection cap set at $25M that triggers a meet and 8 confer, while UCAN recommends a similar cap set at $5M.[70] Both TURN and UCAN justify 9 these recommendations by referencing the Commission mandates for SCE's TOU-PRIME rate 10 adopted in D.18-11-027.[71]

11 First, TOU-ELEC will not unreasonably shift costs onto non-participating customers. The 12 rate that SDG&E has proposed is cost-based. Therefore, participating customers may create 13 revenue shifts to non-participating customers, but this should not be viewed the same way as a 14 "cost shift", in the same way a program like net energy metering ("NEM") shifts costs. The 15 technologies that customers are required to adopt to be eligible for TOU-ELEC will lead 16 participating customers to increase their energy consumption. For example, a customer that 17 adopts an electric vehicle to take service on TOU-ELEC would increase their electric load 18 significantly to charge their EV. Because SDG&E's system average rate is calculated by dividing 19 the revenue requirement by expected sales, this increase in electric consumption would cause 20 rates to be lower for all customers than they otherwise would be. SDG&E expects that this will 21 offset a significant portion of the rate increase resulting from collecting less revenue from TOU- 22 ELEC customers. However, should TOU-ELEC create an unreasonable revenue shift, SDG&E's

[69] TURN Direct Testimony, p. 3 and UCAN Direct Testimony, p. 27.
[70] TURN Direct Testimony, p. 7 and UCAN Direct Testimony, p. 28.
[71] TURN Direct Testimony, p. 7 and UCAN Direct Testimony, p. 29.

recommendations to evaluate the rate after three years and cap customer participation are sufficient to reduce the bill impacts on non-participating customers, as discussed below.

SDG&E disagrees that a revenue undercollection cap is necessary. Although D.18-11-027 requires a meet and confer process for SCE's TOU-PRIME rate if an annual revenue undercollection of $50M is reached, what was deemed appropriate in SCE's 2018 GRC Phase 2 Settlement Agreement is not necessarily appropriate for SDG&E's TOU-ELEC rate.[72] For example, SDG&E proposes a customer participation cap of 40,000 eligible customers, while no customer participation cap was adopted in D.18-11-027.[73] Caps on customer participation and on TOU-ELEC revenue shortfall would both serve the same purpose – to mitigate the potential for unreasonable revenue shifting onto non-participants. Although UCAN and TURN are concerned the customer participation cap is too large and may allow significant revenue shifting, SEIA believes customer participation should be uncapped to ensure progress toward California's goal to achieve carbon neutrality by 2045.[74] SDG&E's proposed cap of 40,000 customers attempts to balance these two objectives and is a reasonable middle ground supported by Cal Advocates.[75] For these reasons, SDG&E recommends the Commission reject UCAN's and TURN's proposed revenue shortfall caps and instead adopt SDG&E's proposed customer participation cap.

SDG&E also believes that an annual review of TOU-ELEC participation and revenue shifting is overly prescriptive. Like their justification for a revenue shortfall cap, TURN and UCAN cite D.18-11-027 as evidence that SDG&E should be required to review TOU-ELEC annually.[76] As mentioned above, just because an annual review is appropriate for SCE's TOU-

[72] D.18-11-027, p. 43.
[73] Revised Prepared Direct Testimony of Gwendolyn Morien, p. GM-15.
[74] TURN Direct Testimony, p. 3-4, UCAN Direct Testimony, pp. 27-28, SEIA Direct Testimony, p. 37.
[75] Cal Advocates Amended Direct Testimony, p. 32.
[76] TURN Direct Testimony, p. 7 and UCAN Direct Testimony, p. 29.

PRIME does not mean this is also appropriate for TOU-ELEC. In SDG&E's service territory, a year may not be enough time for a sufficient amount of customers to take service on this rate to perform a meaningful review of it, and of the revenue shift it may create. For example, SDG&E's EV-TOU-5 rate was made available to customers on December 1, 2017.[77] Today, a little over four years later, there are approximately 18,000 residential customers taking service on Schedule EV-TOU-5. Because EV-TOU-5 and TOU-ELEC are both rates designed to incentivize electrification of certain technologies, TOU-ELEC may follow the same adoption pattern, likely resulting in a more meaningful assessment after three years rather than in the first couple of years when customers are only beginning to take service on this rate. For this reason, SDG&E believes TURN's and UCAN's recommendation for an annual review is overly prescriptive.

IX. CONCLUSION

SDG&E respectfully asks for the Commission to adopt its TOU-ELEC as proposed in its Revised Direct Testimony, as it is reasonable and consistent with the Commission's Rate Design Principles and complies with the directives of D.20-03-003 and D-21-07-010. TOU-ELEC is a cost-based rate with a fixed charge that sufficiently lowers volumetric rates in order to incent electrification and would not unreasonably shift revenue to other customers. This concludes my prepared rebuttal testimony.

[77] Advice Letter 3130-E/A/B/C/D, approved July 5, 2018 and effective December 1, 2017.