

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



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Application of SAN DIEGO GAS & ELECTRIC)
COMPANY (U 902 E) For Authority To)
Update Marginal Costs, Cost Allocation,)
And Electric Rate Design.)
_____)

Application No. 11-10-002
(Filed October 3, 2011)

REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) TO PROTESTS

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

In the Matter of the Application of San Diego Gas & Electric Company (U 902 E) for Approval of its Proposals for Dynamic Pricing and Recovery of Incremental Expenditures Required for Implementation.

A.10-07-009
(Filed July 6, 2010)

REPLY OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 E) TO PROTESTS

I. INTRODUCTION

In accordance with Rule 2.6(e) of the Rules of Practice and Procedure of the California Public Utilities Commission (Commission), San Diego Gas & Electric Company (SDG&E) hereby submits the following reply to the issues raised in the protests to SDG&E's *Application for Authority to Update Marginal Costs, Cost Allocation and Electric Rate Design* (Application) in the above-captioned proceeding. Protests to SDG&E's Application were submitted by Californians for Renewable Energy, Inc. (CARE), Center for Accessible Technology (CforAT), City of San Diego, the Division of Ratepayer Advocates (DRA), The Greenlining Institute (Greenlining), San Diego County Public Agencies,¹ San Diego Solar Coalition (SDSC), the Solar Alliance, Utility Consumers' Action Network (UCAN), The Utility Reform Network (TURN), and Vote Solar Initiative (Vote Solar). For the reasons discussed herein, the Commission should adopt issues identified in SDG&E's Application and supporting testimony as a complete list and basis for addressing all of the issues that need to be considered by the Commission in making its

¹ The San Diego County Public Agencies are: Carlsbad Municipal Water District, Fallbrook Public Utility District, Helix Water District, Lemon Grove School District, Padre Dam Municipal Water District, Poway Unified School District, San Diego County Office of Education, San Diego County Water Authority, Vallecitos Water District, and Valley Central Municipal Water. (Protest of San Diego County Public Agencies, p. 1.)

determinations in this proceeding, and reject intervenor requests to expand the scope of the proceeding beyond the issues raised in the Application.²

II. BACKGROUND

SDG&E filed its Application in accordance with the Commission's Rate Case Plan³ as "Phase 2" of SDG&E's 2012 Test Year General Rate Case (GRC). The Phase 2 rate case does not seek additional revenue; rather, Phase 2 determines SDG&E's rate design, and how costs should be fairly allocated and assigned among the customer classes. The Application presented all of the traditional elements of a GRC Phase 2 (electric marginal costs, marginal cost revenue responsibility, revenue allocation and rate design), as well as the following proposals to: (1) replace SDG&E's existing minimum bill with a \$3.00 monthly Basic Service Fee for residential customers; (2) phase in a new Network Use Charge applicable to all customers to better recover costs associated with use of the distribution system on a monthly basis; (3) recover revenues associated with Public Purpose Programs (PPP) on a non-bypassable basis in the same manner as the Network Use Charge and; (4) introduce an optional pilot pre-pay program for customers.

III. ISSUES THAT ARE WITHIN THE SCOPE OF THE PROCEEDING

The parties submitting protests in this proceeding devoted a majority of their efforts to stating positions regarding the various proposals but do not argue they are beyond the scope of this proceeding. In some cases the parties raised issues without taking a position. Some parties raised legal arguments regarding the Network Use Charge, the Basic Service Fee and the Prepay proposal, which are addressed in SDG&E's concurrently filed response to UCAN's October 27, 2011 Motion for a Preliminary Ruling⁴ and are incorporated herein by reference.

² Responses to similar arguments are addressed generally herein; failure to address any specific argument raised in a protest does not signify agreement.

³ The Commission's Rate Case Plan is set forth in D.89-01-040 (*as modified by* D.07-07-004).

⁴ Hereinafter referred to as "SDG&E's Response to Motion."

The issues identified in SDG&E's Application and supporting testimony submitted concurrently provide the Commission with a complete list and basis for addressing all of the issues that need to be considered by the Commission in making its determinations in this proceeding.

A. The Network Use Charge Is Within Scope and Will Accomplish Many Important Goals, Including Benefits to Many Residential Ratepayers.

SDG&E's proposed Network Use Charge offers an innovative solution to a growing rate design problem: ever-increasing cross-subsidies to NEM customers. The proposal addresses flaws in existing utility rate design that are creating an unsustainable future for NEM program growth. Specifically, the Network Use Charge more accurately recovers distribution demand costs on the basis of each customer's actual distribution demand – including NEM customers. Currently, NEM customers do not pay their fair share of costs associated with use of SDG&E's distribution system. They are also able to avoid Public Purpose Program (PPP) charges, contrary to NEM statutory intent and fairness principles. The Network Use Charge is designed to capture these costs, fairly assigned to NEM customers, in a non-discriminatory manner – i.e., based on each customer's use of the electric distribution grid.

Many of the protests take issue with SDG&E's proposed Network Use Charge, but none argue it is out of scope. To be clear, SDG&E supports solar power and other forms of renewable energy and have designed the Network Use Charge with a sustainable future in mind. SDG&E has been recognized on numerous occasions as a national leader in furthering solar and other types of renewable electric generation.⁵ SDG&E recognizes that the Network Use Charge is a new concept that will take time for the parties to analyze and understand through proper discovery. But the newness of this proposal should not deter the Commission from fully

⁵ For example, SDG&E was recently ranked "America's Most Intelligent Utility" for the third year in a row, based in part on its integration of renewable energy: <http://www.prnewswire.com/news-releases/3rd-annual-utility-report-lists-2011s-most-intelligent-utilities-133548883.html>.

examining this proposed means of establishing a sustainable future for the NEM program, as well as striving for many other important policy objectives, such as ensuring fairness and equity among customers and creating clear and accurate price signals to customers for the services they receive, while mitigating customer impacts.⁶

Simply put, the Network Use Charge will charge NEM customers for electric distribution services they are currently able to receive for free. NEM customers are able to use the distribution system to export or import electricity, but are also able to avoid paying for this use through full retail bill credits for their energy exports. Similarly, NEM customers are able to avoid paying for “nonbypassable”⁷ Public Purpose Program (PPP) charges through the same NEM full retail bill crediting system. All other customers must pay these costs. Principles of fairness and reasonableness – as well as statutory intent – dictate that NEM customers should pay these costs, too. The NEM statute contemplates that NEM customers should pay the same monthly charges that non-NEM customers pay.⁸ The Network Use Charge would mitigate this inequity, by moving to a monthly charge of the costs incurred by *each* customer’s use of the distribution system, *including* NEM customers.

Ignoring these growing problems is no solution. SDG&E customers are experiencing and will continue to experience increasing NEM cross-subsidies over time, thus exacerbating these intra-class inequities.⁹ The proposed Network Use Charge is designed to create a sustainable path forward and advance California’s low-carbon goals by mitigating such current rate design

⁶ See Prepared Direct Testimony of Thomas R. Brill, pp. TRB 3-6.

⁷ See Cal. Pub. Util. Code (P.U. Code) § 2827(k) (“Net energy metering and co-energy metering customers shall not be exempt from the public goods charges . . . [T]he Commission shall examine different methods to ensure that the public goods charges remain nonbypassable.”). All statutory citations herein are to the P.U. Code.

⁸ *Id.*; see also § 2827(g) (“[E]ach net energy metering contract or tariff shall be *identical*, with respect to rate structure, all retail rate components, and any monthly charges, to the contract or tariff to which the same customer would be assigned if the customer did not use an eligible solar or wind electrical generating facility”) (emphasis added).

⁹ Prepared Direct Testimony of Thomas R. Brill, pp. TRB-7-10.

inequities among SDG&E's customers and protecting the future of solar initiatives, including the NEM program.

B. The Basic Service Fee Is Sound Policy

SDG&E proposes a Basic Service Fee to recover fixed costs that do not vary with a customer's energy usage or output. SDG&E's proposal to introduce a modest \$3 basic service fee and eliminate its current minimum bill of \$0.17/day moves rates toward a more accurate reflection of costs SDG&E must incur to serve each customer. The proposal moves toward more accurate price signals while avoiding significant bill impacts.

As more fully explained in SDG&E's Response to Motion, the Basic Service Fee complies with the Section 739.9 rate cap (as recently interpreted by the Commission), by recovering basic service fee revenue from Tier 1 usage while maintaining the same effective rate.¹⁰ Intervenors arguing that Tier 1 and Tier 2 "rates" may not change fail to recognize that the Senate Bill (SB) 695 amendment to Assembly Bill (AB) 1X changed the way that Tiers 1 and 2 rates are calculated.¹¹ SDG&E's proposed Basic Service Fee recovery is entirely consistent with Section 739.9's cap on Tier 1 rates, as it is currently calculated, and would further important policy goals.

C. The Prepay Program Would Provide a Beneficial Option for Customers.

As also explained in SDG&E's Response to Motion, the Commission has authority to approve SDG&E's proposed, optional Prepay Program, and to do so would provide a valuable benefit to customers under various circumstances. The Commission allows customers to elect an option outside of statutory strictures, so long as that option is purely voluntary and the customer

¹⁰ Prepared Direct Testimony of Chris Yunker, p. CY-16.

¹¹ See Section 739.9(a), (b). This issue is described further in SDG&E's Response to Motion.

is fully informed.¹² SDG&E understands the concerns expressed by various parties regarding the importance of statutory protections regarding notification and disconnection procedures.¹³ However, SDG&E's Prepay Program would be an optional program, the benefits of which a customer would be free to choose or not, entirely at the customer's discretion.¹⁴

D. Undergrounding

SDG&E agrees that examination of its proposed Rule 20, Section D is within the scope of the proceeding.¹⁵ However, the scope of the proposal concerns converting overhead power lines to underground for fire safety purposes. The scope should not be expanded to address underground conversions for aesthetics or other purposes or other Tariff Rule 20 issues.

E. Other Miscellaneous Proposals

Certain intervenors stated intentions to examine various aspects of SDG&E's proposed rate design schedules and determinants, which is appropriate and within the scope of the proceeding. Examples include: (i) the City of San Diego's intention to review SDG&E Schedules DG-R and PA;¹⁶ (ii) UCAN's intention to review marginal costs, revenue allocations, and various rate design proposals;¹⁷ (iii) Vote Solar's plans to assess SDG&E's proposal to combine Tiers 3 and 4 rates;¹⁸ (iv) TURN's planned participation regarding SDG&E's marginal

¹² See D.06-07-027, 2006 Cal. PUC LEXIS 274. This decision held that "individual **customers** can **waive** the protections afforded by this provision of AB 1X". *Id.* at p. 35.

¹³ See, e.g., Protest of the Greenlining Institute, pp. 4-5.

¹⁴ See Prepared Direct Testimony of David W. Cheng (Chapter 11).

¹⁵ See, e.g., City of San Diego Protest, p. 6. A pending Proposed Decision in R.08-11-005 states that "GRCs are a superior regulatory mechanism for selecting and funding fire-prevention measures compared to the ad hoc allocation of ratepayer funds for fire-prevention projects under Tariff Rule 20." *Id.*, Proposed Decision of Commissioner Simon (June 10, 2011) p. 155.

¹⁶ City of San Diego Protest, p. 5.

¹⁷ UCAN Protest, pp. 2-3.

¹⁸ Vote Solar Protest, p. 5.

cost, revenue allocation and other rate design proposals;¹⁹ and (v) DRA's planned analysis of SDG&E's proposed marginal costs, revenue allocation, and other rate design issues.²⁰

III. ISSUES OUTSIDE THE SCOPE OF THE PROCEEDING

A. Only those Issues Necessary to Make a Full and Fair Determination of the Relief Requested by SDG&E's Application Should be Within the Scope of the Proceeding.

While SDG&E does not object to further development and review of those issues raised by the protests that are encompassed by, or consistent with, the issues identified in SDG&E's Application and testimony, the proceeding should not otherwise be expanded to include issues that are beyond the scope of the case presented to the Commission. In that regard, SDG&E agrees that the following issues raised in the protest are consistent with the issues raised by SDG&E's Application and therefore fit within the proper scope of the proceeding: i) City of San Diego and UCAN requests for examination of certain dynamic pricing rate design determinants, as consistent with and contingent upon a final Commission decision regarding the pending Motion for Adoption of Joint Settlement Agreement in A.10-07-009 (filed June 20, 2011);²¹ and ii) CForAT's intention to examine rate design concerns "stemming from the unique characteristics of the group of residential customers with disabilities".²²

All of the remaining issues raised by the protests are outside the scope of the case. If included, such issues would inappropriately expand the scope of the proceeding beyond that which is necessary for a full and fair determination by the Commission. Examples include the

¹⁹ TURN Protest, p. 7.

²⁰ DRA Protest, pp. 2-5.

²¹ City of San Diego protest, p. 5; and UCAN protest, pp. 1-2; *see also* SDG&E's Prepared Direct Testimony of Cynthia Fang, pp CF-20 – CF-24.

²² CforAT Protest, p. 2.

City of San Diego's "plans to review" undergrounding distribution facilities for aesthetic purposes under Tariff Rule 20A.²³

All such issues should be excluded from the proceeding.

B. The Commission Should Adopt a Procedural Schedule Ensuring a January 1, 2013 Implementation Date

With respect to scheduling, SDG&E believes the Commission should reject the intervenors' requests to alter the proposed schedule addressed in SDG&E's Application, to the extent that such modifications would affect SDG&E's ability to begin implementing its new rate design proposals on January 1, 2013. SDG&E's proposed schedule would ensure that all parties have a full and fair opportunity to address the issues within the proceeding. The schedule also allows for a Commission decision that would timely provide the regulatory certainty SDG&E needs to properly roll out its rate design proposals in a reasonable timeframe.

Both DRA and UCAN request more time in the procedural schedule.²⁴ UCAN proposes that intervenor testimony be filed in April with hearings in summer 2012, and a hearing schedule that would last more than five days. DRA's proposed schedule has the issuance of proposed decision in November of 2012.²⁵ SDG&E recognizes the need for additional time in the procedural schedule, including the possibility that more than five days of hearings may be necessary. However, in order to implement a final decision on January 1, 2013, SDG&E recommends a schedule which provides a proposed decision by October of 2012, with issuance of a final decision by November of 2012. Such a schedule accelerates DRA's proposal by only one month, and would allow sufficient time for implementation of a decision in the case.

²³ City of San Diego Protest, p. 6. As explained in testimony, the purpose for undergrounding behind the proposed Tariff Rule 20D is wholly separate and distinct from the Commission-approved and settled Tariff Rule 20A. *See* SDG&E's Prepared Direct Testimony of Rick Gardner (Chapter 10).

²⁴ DRA Protest, p. 10; UCAN Protest, p. 3.

²⁵ UCAN Protest, p. 10.

V. CONCLUSION

For the reasons addressed herein, and in the concurrently filed Response to Motion, SDG&E urges the Commission to issue: i) a ruling denying UCAN's motion; and, ii) a Scoping Memo that adopts:

- A. A scope that includes all of the issues identified in SDG&E's Application and testimony, as well as the following issues addressed in the protests that are consistent with the determination that must be made to address SDG&E's request in this proceeding;
- B. A scope that expressly excludes the remaining issues raised by the protests and UCAN's motion;
- C. A procedural schedule materially similar to that proposed in SDG&E's Application that, at a minimum, provides for a final Commission decision by November 2012.

Respectfully submitted,

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