

A Brief Overview of **Residential**
Electric Ratemaking for IOUs in
California
[PG&E, SCE and SDG&E]

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EAAC Information Needs

- *Extent of electricity cost pass-throughs;*
- *Clarify connections with:*
 - *AB 1X*
 - *CARE Program*
 - *SB 695:* recently enacted compromise legislation that provides for:
 - gradual increases in Tier 1 and 2 residential rates
 - gradual increases in CARE rates
 - gradual expansion of “direct access” program
 - Restrictions on “time-variant pricing” for residential customers

The Old Days—part 1

- In 1975 the California Legislature passed the baseline statute
 - "Baseline quantity" means a quantity of electricity or gas allocated by the commission for residential customers based on from 50 to 60 percent of average residential consumption of these commodities...
 - "In establishing the baseline quantities, the commission shall take into account climatic and seasonal variations in consumption"
- To comply with this statute, the Commission established a 2-tiered "increasing block" rate design
 - "Baseline" rate
 - Above-Baseline rate
- Daily baseline usage amounts are calculated for different "climate zones" throughout each IOU's service territory

The Old Days—part 2:

CARE Rates

- For many years, the Commission provided “Low Income Ratepayer Assistance” through its “LIRA” program. In 1994 the California Legislature formally created a program to assist low-income gas and electric customers: “The commission shall establish a program of assistance to low-income electric and gas customers with annual household incomes that are no greater than 200 percent of the federal poverty guideline levels”
 - CARE = “California Alternate Rates for Energy”
 - Initially, the Commission determined that CARE customers would receive a 15% CARE discount, meaning that CARE rates were set at 85% of the standard residential rates
 - The CARE discount is funded through a rate surcharge paid by all other utility customers.
- During the Energy Crisis, the CPUC increased the CARE discount to 20% and, as directed by AB 1X, exempted CARE customers from all crisis-related rate increases, effectively capping their energy rate at the Tier 2 rate level for all energy consumed above 100% of their baseline allowance
- Tiering: at first, each IOU set CARE rates for just 2 tiers, but following the energy crisis, SCE and SDG&E negotiated creation of a 3rd tier. PG&E just received authority to add a 3rd tier (part of SB 695)

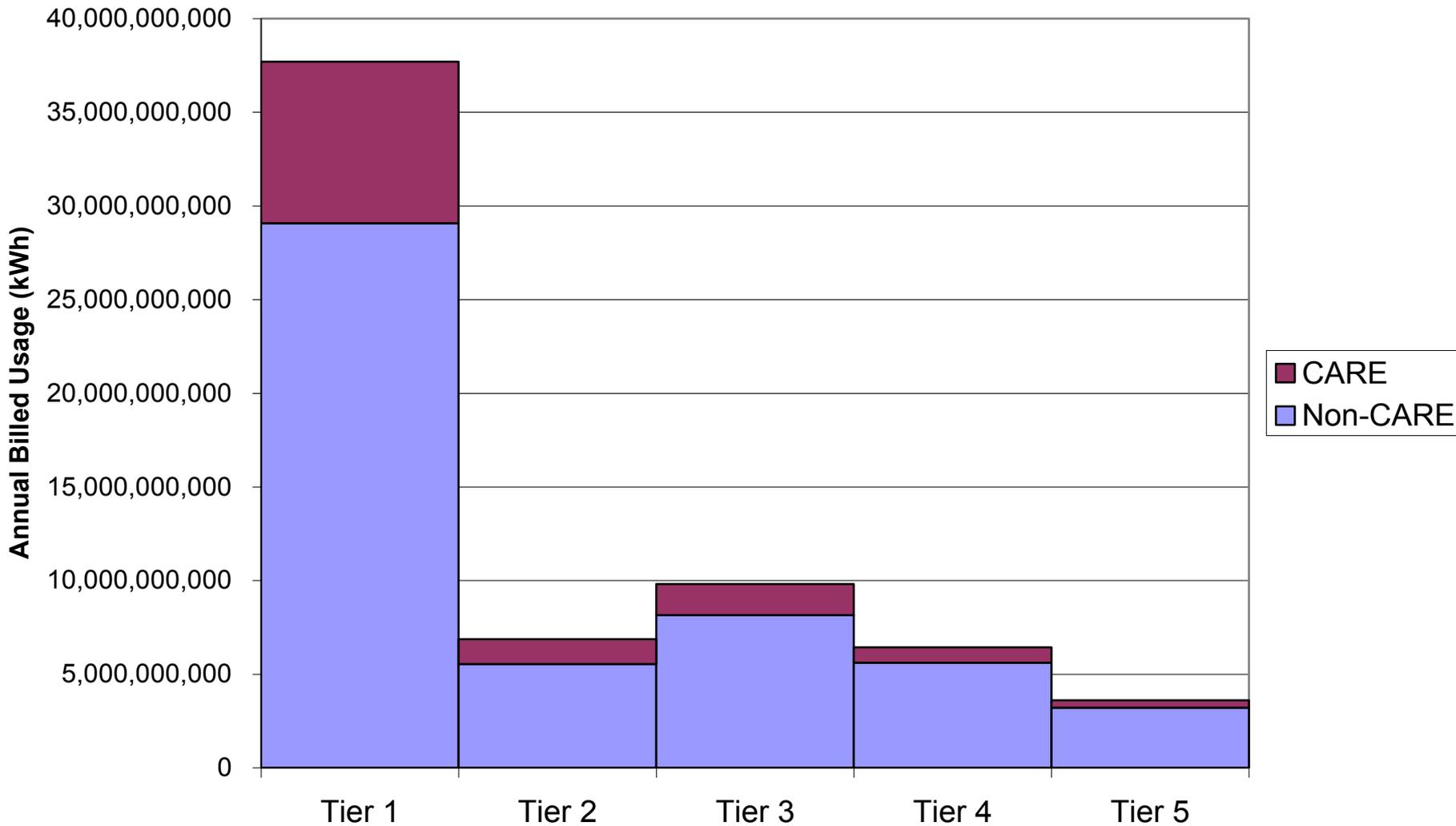
The 2000-2001 Energy Crisis

- Electricity costs skyrocketed, and state funds were used to purchase electricity for IOU ratepayers
- The Legislature passed “AB 1X” to address the crisis in number of ways
- Among other things, AB 1X mandated that rates for usage “up to 130% of baseline” must be frozen until the power costs incurred by the state had been recovered
 - Some of the power crisis costs were financed with bonds that mature in 2022
- In order to collect the “crisis costs” the Commission created a 5-tiered residential rate design

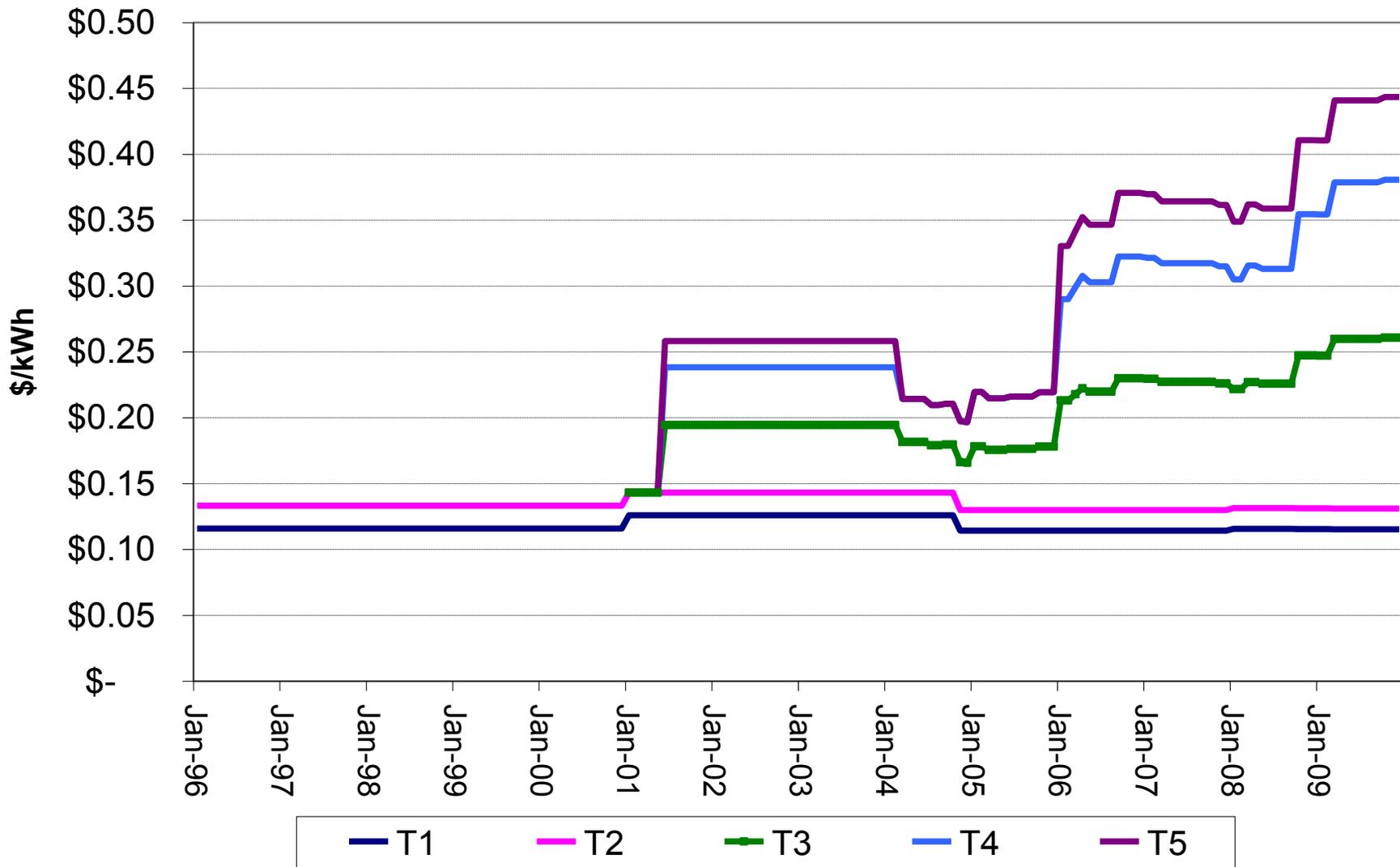
5 Tier Rate Design

- Tier 1: usage up to Baseline quantities
- Tier 2: usage from 100% to 130% of Baseline quantities
- Tier 3: usage from 130% to 200% of Baseline quantities
- Tier 4: usage from 200% to 300% of Baseline quantities
- Tier 5: usage above 300% of Baseline quantities

Residential Tiered Usage--All IOUs (2008 data)



PG&E Residential Rates 1996-2009

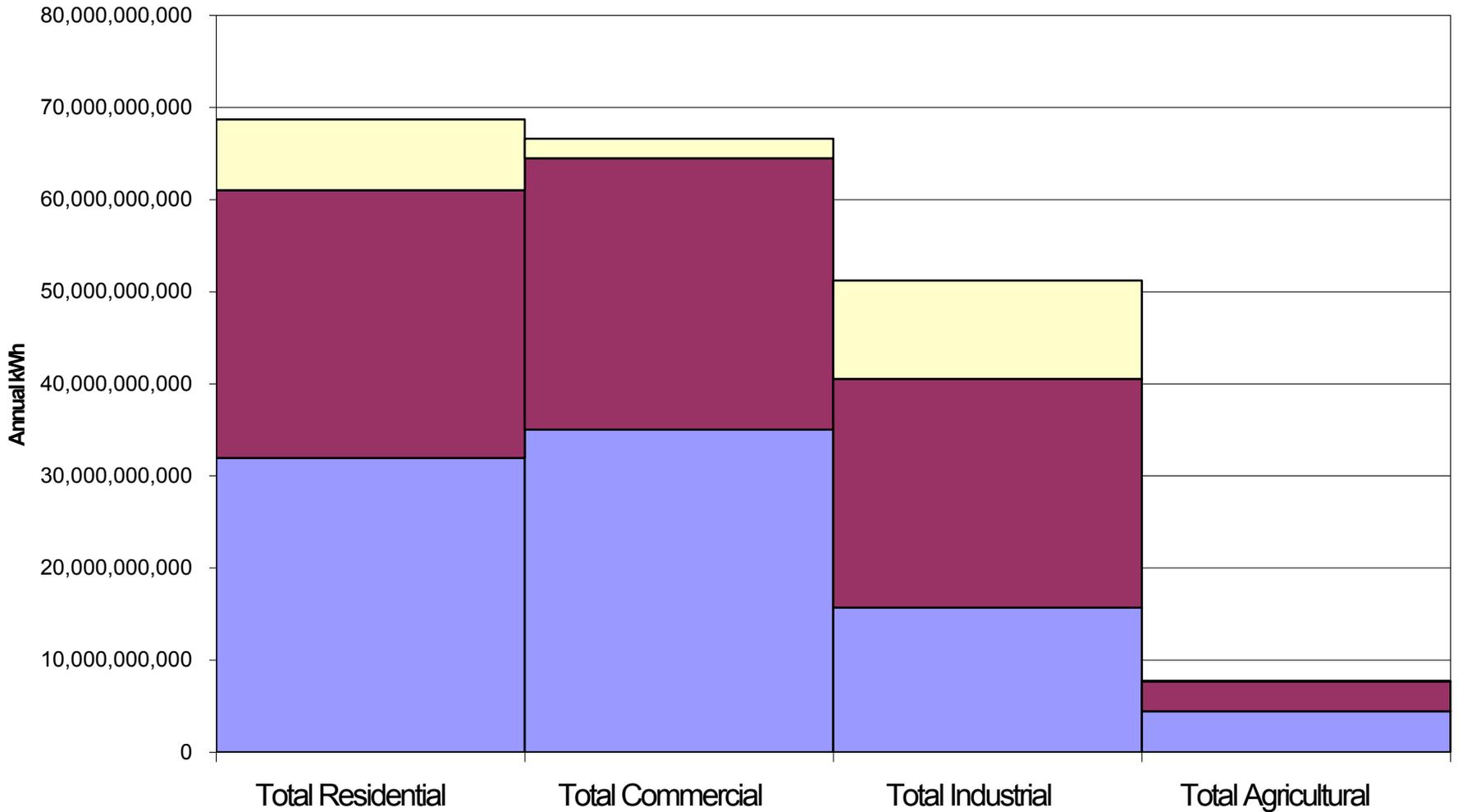


SB 695 Allows Incremental Rate Increases for Non-CARE Tier 1 and Tier 2 Rates, as well as CARE rates

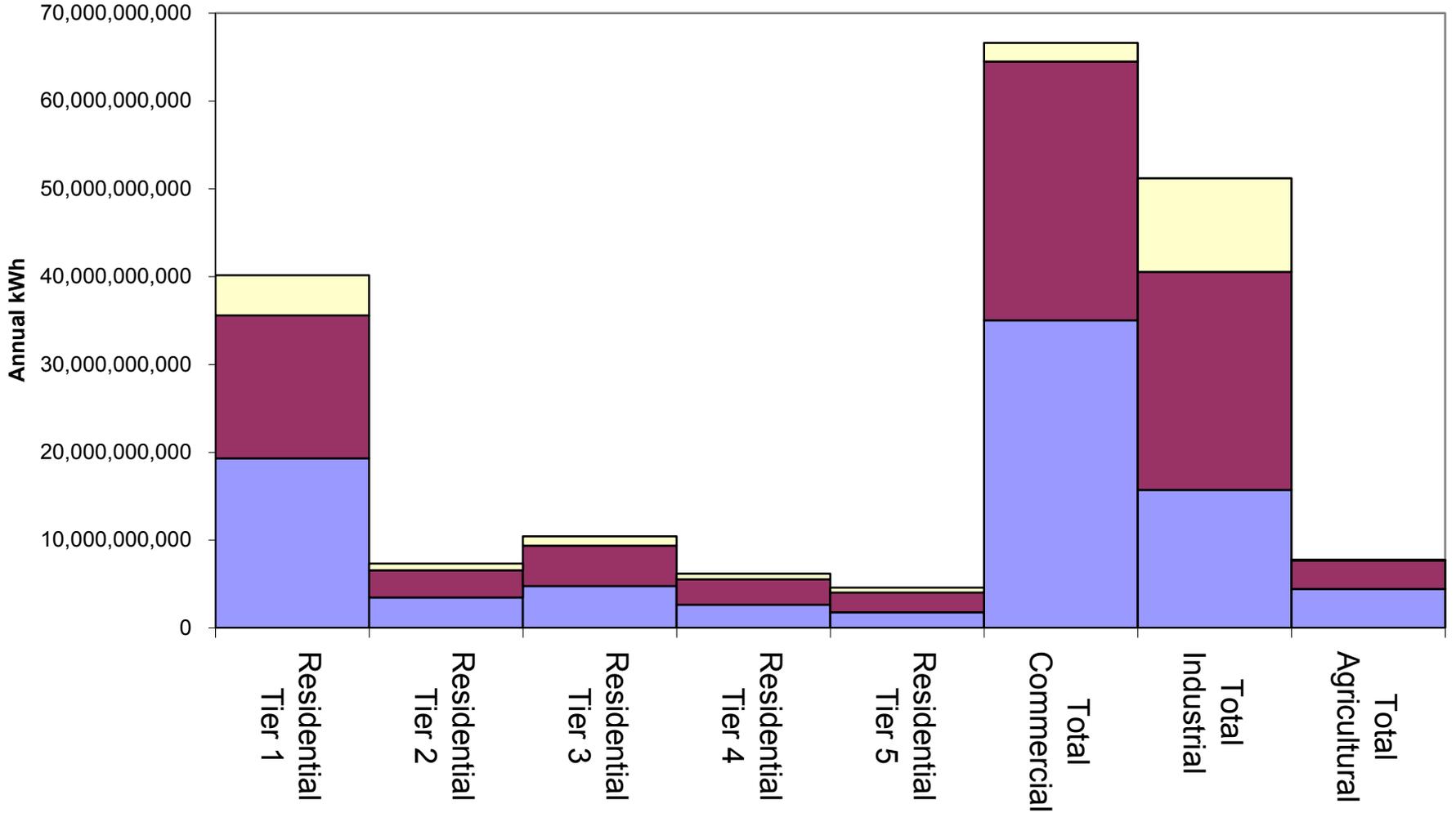
- SB 695 became law in October, 2009
- Tier 1 and 2 rates can be increased by 3-5% per year, until 2020
- The resulting additional revenues are expected to be used to lower rates for usage in Tiers 3, 4 and 5
- CARE rates may be increased by same percentage as the annual CALWORKS benefit increase, but capped at a 3% increase

Background Slides

California Investor-owned Utility Sales to Customers



California Investor-owned Utility Sales to Customers



Residential Usage by Tiers, 2008

| | | Tier 1 | Tier 2 | Tier 3 | Tier 4 | Tier 5 | Total |
|--------------|-----------------|-----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| TOTAL | Non-CARE | 29,079,202,222 | 5,538,462,261 | 8,149,697,213 | 5,614,202,309 | 3,214,202,843 | 51,595,766,848 |
| TOTAL | CARE | 8,614,479,372 | 1,329,742,672 | 1,663,275,550 | 822,488,161 | 383,263,505 | 12,813,249,260 |
| | Total | 37,693,681,594 | 6,868,204,933 | 9,812,972,763 | 6,436,690,471 | 3,597,466,347 | 64,409,016,108 |

| | | Cumulative share | | | | |
|--------------|-----------------|------------------|-------|-------|-------|--------|
| TOTAL | Non-CARE | 56.4% | 67.1% | 82.9% | 93.8% | 100.0% |
| TOTAL | CARE | 67.2% | 77.6% | 90.6% | 97.0% | 100.0% |
| | Total | 58.5% | 69.2% | 84.4% | 94.4% | 100.0% |

| | | | | | | | |
|-----------------|-----------------|-----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| PG&E | Non-CARE | 14,720,347,509 | 2,691,054,258 | 3,823,074,079 | 2,188,483,283 | 1,513,738,718 | 24,936,697,847 |
| PG&E | CARE | 3,995,287,394 | 608,851,518 | 752,500,806 | 354,750,529 | 207,373,622 | 5,918,763,870 |
| | Total | 18,715,634,904 | 3,299,905,776 | 4,575,574,885 | 2,543,233,812 | 1,721,112,340 | 30,855,461,717 |

| | | | | | | | |
|------------|-----------------|-----------------------|----------------------|----------------------|----------------------|----------------------|-----------------------|
| SCE | Non-CARE | 10,883,919,284 | 2,183,662,349 | 3,324,418,599 | 2,141,740,556 | 1,700,464,125 | 20,234,204,912 |
| SCE | CARE | 3,870,687,292 | 620,384,154 | 793,341,379 | 391,194,275 | 175,889,882 | 5,851,496,983 |
| | Total | 14,754,606,576 | 2,804,046,503 | 4,117,759,978 | 2,532,934,832 | 1,876,354,007 | 26,085,701,895 |

| | | | | | | | |
|------------------|-----------------|----------------------|--------------------|----------------------|----------------------|--|----------------------|
| SDG&E | Non-CARE | 3,474,935,429 | 663,745,655 | 1,002,204,535 | 1,283,978,470 | | 6,424,864,089 |
| SDG&E | CARE | 748,504,686 | 100,506,999 | 117,433,365 | 76,543,357 | | 1,042,988,407 |
| | Total | 4,223,440,115 | 764,252,654 | 1,119,637,900 | 1,360,521,827 | | 7,467,852,496 |