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Ankit Jain
California Public Utilities Commission
505 Van Ness Avenue
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Re: **COMMENTS OF SAN DIEGO GAS AND ELECTRIC COMPANY ON CPUC
ELECTRIC COSTS AND RATES EN BANC AND ASSOCIATED WHITEPAPER**

Pursuant to the direction of California Public Utilities Commission (CPUC) staff, San Diego Gas & Electric Company (SDG&E) respectfully submits these comments addressing events at the CPUC's February 24, 2021 *En Banc on Energy Rates and Costs* and the CPUC's white paper entitled "*Utility Costs and Affordability of the Grid of the Future.*" SDG&E appreciates the En Banc's identification of immediate, near-term issues concerning affordable electricity service in California and the juxtaposition of these issues against the States' ongoing battle with climate change. SDG&E believes that the provision of clean, safe, and reliable energy to its customers is paramount and should be accomplished in the most efficient and affordable manner possible. While the En Banc and White Paper identified key drivers to increasing electric rates and bills for customers, both downplay the significance of electric sales (the denominator in determining utility rates) in producing high electric rates that are increasingly less affordable. For SDG&E's residential electric customers, the ongoing decline in electric sales coupled with an antiquated retail rate structure has had devastating effects on energy rates at a time when electrification of transportation and other greenhouse gas (GHG) reduction activities are growing in urgency. Establishing a new retail rate structure for all residential customers – one that prices electricity closer to the marginal cost it takes to provide that electricity – will help unlock a pathway for electrification by ensuring continued affordability, increasing equity, and promoting price efficiency and rate stability. This is meaningful action the CPUC can and should take now.

I. CLEAN, SAFE, AND RELIABLE ELECTRICITY IS A NECESSITY

SDG&E applauds the CPUC for highlighting near-term electric rate and cost issues facing Californians in both its En Banc and the Whitepaper, including the finding that transportation electrification is not expected to contribute to significant rate growth in the near term. Bundled residential rates began to outpace inflation in 2013 and continue to increase due to a mixture of utility investment in transmission and distribution infrastructure (especially wildfire mitigation), CPUC-mandated public purpose programs and technology subsidies, and an overall decline in the volume of electricity sales, largely driven by successful state programs designed to promote energy efficiency and distributed generation. These activities and changing customer behaviors largely reflect the ongoing maturation of renewables, the development of a safer, more reliable, and more intelligent electric grid and, generally, statewide efforts to combat climate change.

SDG&E has been a leader in creating change and supporting the customers and communities we serve, and this change is occurring at a rapid and substantial pace.

- Approximately 16% of SDG&E's residential customers have rooftop solar, the highest among the three large investor-owned utilities (IOUs) in the state.
- Rooftop solar comprises over 33% of SDG&E's peak load, the highest among the three large IOUs in the state.
- SDG&E reached the Renewables Portfolio Standard (RPS) goal of 33% renewable procurement ahead of the other IOUs and approximately six years ahead of schedule.
- SDG&E has become the recognized leader for its wildfire mitigation efforts.

It is also important to recognize that while electric rates are high, on average SDG&E's electric bills are affordable. As highlighted in the White Paper the average electric bill for an SDG&E residential customer remains below average when compared to the largest 200 IOUs nationally, despite higher electric rates. Additionally, the combination of higher-than-average incomes in the San Diego region and lower energy usage results a lower-than-average electricity burden when compared to the California IOUs, one measure for assessing the affordability of utility services.¹

SDG&E is proud of these accomplishments, but the current trajectory of electric rates is unsustainable if we are to make the required progress needed to meet future shared goals. In managing rate and bill impacts in the near term, the CPUC must prioritize the public utilities' primary obligation, i.e., the clean, safe, and reliable provision of electricity to all customers.

To this end, SDG&E submits that its generation, transmission, and distribution costs are essential to fulfilling its public utility obligation. This is especially true in relation to: (1) grid modernization to accommodate distributed energy resources and widespread electrification, (2) replacement of aging infrastructure, and (3) SDG&E's wildfire prevention and mitigation efforts, such as hardening the overhead electric system. As discussed above, over the past decade, SDG&E has established itself as an industry leader in wildfire risk mitigation and plans to continue innovating and utilizing cutting edge technologies to keep our customers and communities safe. Catastrophic wildfires, driven by the change in climate and resulting extreme winds remain an immediate, near-term risk that must be mitigated now.

A key component of funding these essential activities is ensuring that SDG&E maintains the financial health necessary to bear these costs. SDG&E's Wildfire Mitigation Plan and much of the work described above requires California IOUs to continue investing in infrastructure to provide safe and reliable service to customers at just and reasonable rates. To do so SDG&E needs ready access to capital markets and, to attract the necessary capital at reasonable rates, SDG&E must be financially sound. The risk of catastrophic wildfires – combined with the doctrine of inverse condemnation and regulatory uncertainty surrounding the recovery of wildfire costs – have resulted in SDG&E and other California utilities facing significantly higher business, financial and regulatory risks than non-California utilities. Investors require a just and reasonable return on equity (ROE) to compensate for this higher risk profile. Therefore, for SDG&E to attract the necessary private funds to invest in public infrastructure improvements to provide safe, reliable, clean, and cost-effective energy, it must offer potential investors a reasonable (in this instance,

¹ CPUC 2020 Senate Bill 695 Report

higher than average) return on their investment that is equal to the potential returns offered by other investments of comparable risk.²

Financial health isn't just relevant to infrastructure investment. The unprecedented events that occurred in 2020 due to the COVID-19 pandemic demonstrate another reason why SDG&E's financial health is imperative. In March 2020, the CPUC required the California IOUs to implement several emergency customer protections, including suspended service disconnections and waivers of late fees, that are expected to continue through June 2021. As a result, SDG&E's delinquent account balances more than doubled in 2020 as compared to 2019 average levels and are expected to continue to grow. IOUs need to be financially well-positioned to continue to fund the growing undercollection of delinquent account balances during this or future times of emergency.

While SDG&E is under a duty to provide adequate, efficient, and reasonable services to all customers regardless of risk or ability to pay, prudent management of costs is a necessity for both SDG&E and the CPUC. SDG&E continues to seek out operational efficiencies and is committed to ensuring that its costs are just and reasonable. Moreover, SDG&E is subject to after-the-fact reasonableness reviews and the CPUC controls the prices that SDG&E can charge by approving the utility's rates.

Ultimately, in considering high electricity rates and their impact on affordability, the En Banc and Whitepaper's outsized focus on revenue requirements, especially utility transmission and distribution spending, doesn't tell the complete story. Many of these costs are mandated or required to help ensure the delivery of safe, reliable, and clean energy to customers. To maintain the level of investment required to meet these objectives, recovering these investments through shrinking sales volumes will continue to put upward pressure on California's already high electricity rates. Coupled with current rate design, it is likely this will create challenges and inequitable outcomes for technology and electrification adoption.

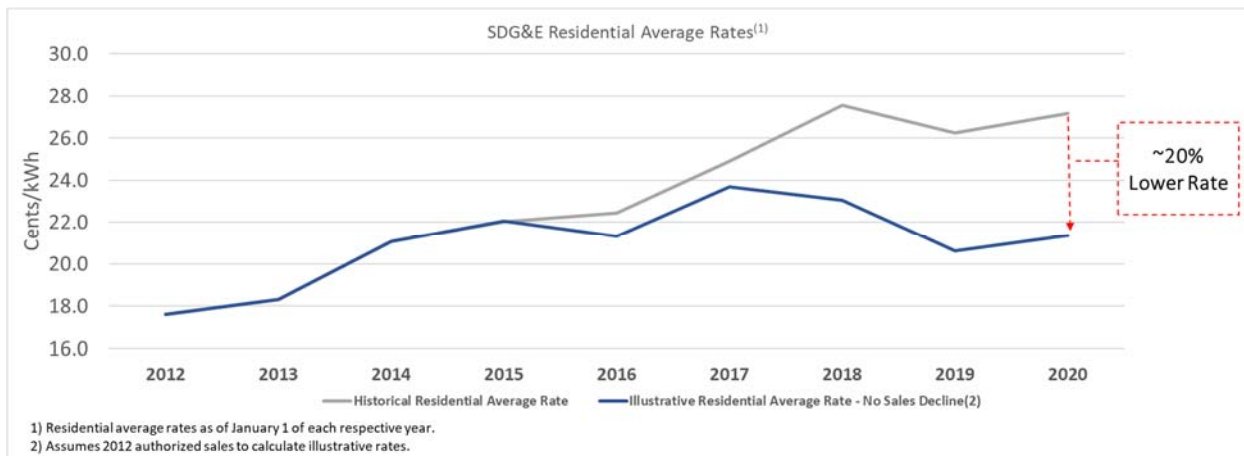
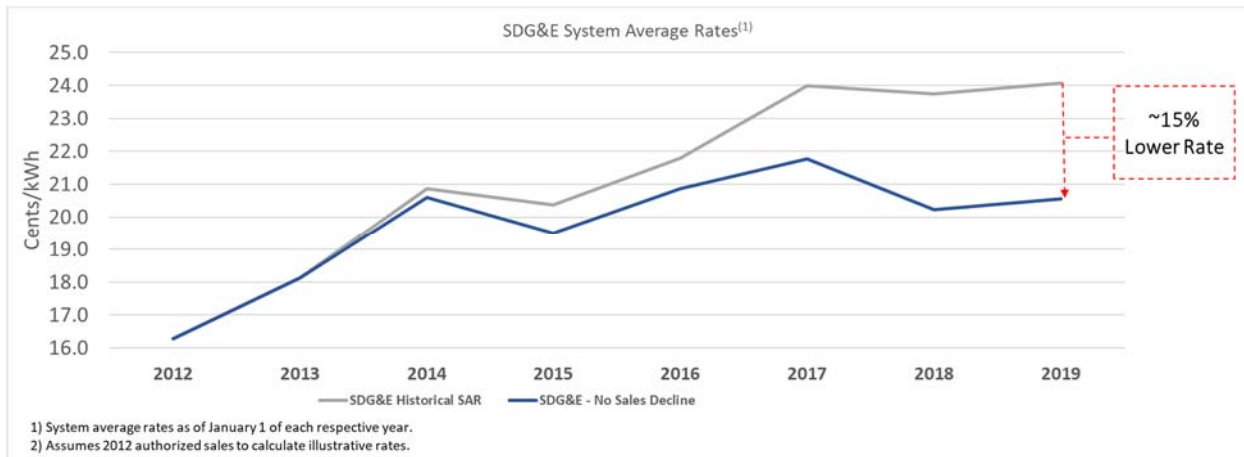
II. DECLINING SALES AND AN ANTIQUATED RATE STRUCTURE CREATE OBSTACLES TO AFFORDABILITY AND A CLEAN ENERGY FUTURE

The energy environment in California continues to change rapidly. While the energy landscape has evolved in recent years the willingness to consider changes to the residential rate structure has lagged creating a system that fails to adequately balance required infrastructure spending, advancing clean energy goals, and helping ensure affordability for customers.

Although the En Banc and Whitepaper successfully identified key drivers for increasing electric rates and cost, both fail to highlight the proportionality between these drivers and the fact that declining electric sales creates a significant impact on rates. For SDG&E, declining electric sales spurred by state programs designed to promote energy efficiency and customer adoption of distributed energy resources has been a key driver of electric rate increases over the last several years.

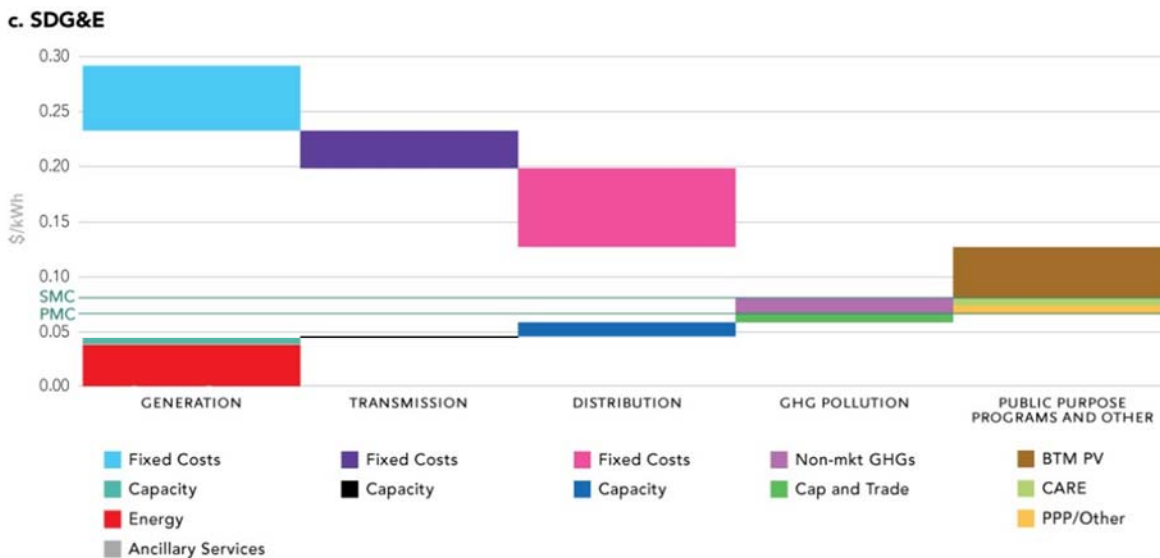
² By contrast, if the ROE is set below the level required by investors, this weakens the financial health of the IOU and it becomes difficult for an IOU to access capital. This forces a utility to rely more on debt financing, making the company more financially leveraged and reducing the company's credit rating, which could lead to credit downgrades and higher borrowing costs which are passed to ratepayers.

In fact, if SDG&E’s sales were held constant at 2012 authorized levels, SDG&E’s 2020 system average rate would have been an estimated 15% lower. The results for residential rates are even more dramatic. If SDG&E’s sales were held constant at 2012 authorized levels, SDG&E’s 2020 average residential rate would have been 20% lower.



For residential customers, the fact that electric sales volumes can create such a significant increase in electric rates is due in large part to current rate design. The CPUC requires SDG&E to recover substantial fixed and sunk costs through increased per-kilowatt hour (volumetric) prices, meaning that the retail price customers pay for electricity is two to three times what it actually costs to provide that extra electricity. High volumetric electricity prices discourage energy consumption, even though greater electrification will reduce pollution and greenhouse gas emissions. The table below from the En Banc presentation of Severin Borenstein (Haas School of Business and Energy Institute at Haas) illustrates the substantial portion of the residential electric price (dollar per-kilowatt hour) that falls above the marginal cost of electricity.

Residential Price Decomposition (\$/kWh) for 2019 (Source: Haas)



Notes: Primary marginal cost estimates are weighted by IOU load. Average 2019 residential prices (CARE and non-CARE) are constructed using advice letters and rate schedules PG&E sources: 5366-E-A/B; 5444-E; 5573-E; 5644-E. SCE sources: 67666-E; 67668-E. SDGE: 31811-E; 31501-E. Details on the methodology behind author calculations can be found in the Appendix.

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ENERGY INSTITUTE AT HAAS

SDG&E appreciates the White Paper and En Banc’s discussion around increasing electrification across the state and that electrification of transportation would increase sales and potentially help offset rate pressures. However, this outcome is slowed and even harmed by the state’s current residential rate structure. Electricity prices that are well above marginal cost disincentivize adoption of electric end-use alternatives and limit the potential for increasing system sales. Additionally, in recent years, electrification adoption has generally been supported by technology-specific tariffs. While some of these initiatives have been extremely successful, they often create the unintended consequence of shifting costs from participants to non-participants.

The growing net energy metering (NEM) cost shift is a primary example of this. NEM 1.0 and 2.0 customers, who are generally higher-income, are able to avoid volumetric electric rates through self-consumption and offset their remaining bills through export credits tied to retail rates, which are multiples higher than the market value of that customer’s generation. Importantly, the costs of providing electric service to NEM customers are not avoided altogether; they are shifted to a shrinking base of customers, many of whom are low-to-middle income customers who cannot install rooftop solar. This inequitable burden continues to grow as NEM penetration increases. This growing cost shift is now estimated to be approximately \$3 billion per year statewide.³ SDG&E is currently participating in the CPUC’s rulemaking to restructure NEM for future customers. However, current NEM customers are locked into volumetric rate structures that allow subsidies to continue to grow.

The underlying issues with volumetric pricing of fixed electricity costs extend beyond SDG&E’s NEM concern; they can and must be addressed holistically by introducing fixed cost recovery in

³ March 15, 2021 Joint IOU Proposal for reform to the net energy metering tariffs, page 42 ([LINK](#))

base residential electric rates. SDG&E supports customer choice with regards to the utilization of solar, storage, and distributed generation technologies. In addition, SDG&E supports the continued electrification of transportation and recognizes the need for lower volumetric energy rates. Residential rate design must be fixed to accommodate the growing and inevitable variabilities in customer energy use, so that one customer's choice doesn't adversely impact the rates paid by another.

III. ELECTRIC RATES CAN AND MUST BE RESTRUCTURED NOW

To improve equity and affordability and to enable widespread electrification and customer choice, the CPUC must take immediate steps to restructure residential rate design to incorporate meaningful fixed cost recovery and reduce the volumetric price of energy to better reflect marginal costs. One example of a progressive fixed charge structure was presented by Severin Borenstein and is discussed in depth in his recent working paper.⁴ Here, a uniform fixed cost (\$70.07 for SDG&E) is stratified and applied progressively as an income-based fixed charge (\$27 to \$169 for SDG&E). Equity is improved by eliminating avoidance of fixed costs and consumers would benefit because they would pay the same system costs but would face lower volumetric rates, increasing overall rate stability and the opportunity to consume more as they electrify their homes. SDG&E intends to explore this as well as other rate options that ensure all customers contribute to maintaining the electric grid, reduce volumetric rates helping encourage electrification adoption without requiring technology-specific tariffs, and help to promote affordability and bill stability for customers.

SDG&E recognizes that the CPUC cannot implement this change alone. Legislative limits on fixed charges would need to be lifted; SDG&E is ready and willing to partner with the CPUC in a push to remove these unnecessary limitations from the CPUC's rate design authority and to restructure outdated residential rates to align with California's ambitious climate goals. Given that the whitepaper will serve as a report to the legislature on utility rates and costs, SDG&E suggests that the impact of declining electric sales and potential fixed cost solutions should be featured much more prominently; it remains one of the biggest drivers in customer's (including low-income customer's) rates.

IV. CONCLUSION

SDG&E appreciates the opportunity to provide these Comments and respectfully requests that the Commission consider updating the Whitepaper to illustrate the impact of and solutions to address declining electricity usage in residential rates.

Sincerely,

/s/ Clay Faber

CLAY FABER
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⁴ <https://haas.berkeley.edu/wp-content/uploads/WP314.pdf>

cc:

Service Lists

R.18-07-006, R.18-12-006, R.19-01-011, A.19-09-014, R.12-06-013, R.20-01-007, R.20-07-013, R.18-07-005, R.19-03-009, R.19-01-006, R.17-06-026, R.19-10-005, A.18-12-009, A.19-08-013, A.17-10-007, A.18-12-001, A.18-04-002, A.17-05-004, A.19-03-002, A.19-11-019, A.20-10-012, A.20-07-004, A.20-07-002, A.20-04-014, A.19-07-007, A.19-08-002, A.20-02-003, R.19-07-017, A.19-07-020, A.19-11-003, A.20-03-014, R.20-08-020, R.14-07-002, R.20-08-022, A.20-09-019, A.20-06-012