CPUC ENERGY DIVISION DATA REQUEST
2025 SB 695 REPORT ELECTRIC COST AND RATE DATA (PART 1I) –
IOU RECOMMENDATIONS
SDG&E RESPONSE
REQUEST DATE: February 4, 2025
RESPONSE DATE: February 19, 2025

DATA REQUEST	
Date:	February 4, 2025
Originator:	Bridget Sieren-Smith
Email:	bridget.sieren-smith@cpuc.ca.gov
Due Date:	February 19, 2025
Subject:	**2025 SB 695 Report IOU Recommendations to Limit Cost and Rate - Increases (Electric and Gas IOUs) – Part II**
Priority:	**Time-Sensitive**

Please provide the information as requested below. Please submit your response to this data request directly to the Originator, Bridget Sieren-Smith (bridget.sieren-smith@cpuc.ca.gov). Questions regarding this data request should be immediately directed to the Originator.

This data request is issued regarding proposed recommendations of the electric and gas investor-owned utilities (IOU) to limit cost and rate increases consistent with the state's energy and environmental goals for reducing greenhouse gases, pursuant to Public Utilities Code Section 913.1 which requires the utilities to:

"…study and report to the commission on measures that they recommend be undertaken to limit costs and rate increases."

In preparing your utility's response, the IOU should be as specific as possible in identifying and quantifying specific potential cost savings initiatives.[1]

Electric and gas utilities (PG&E and SDG&E) are to clearly indicate that their response(s) cover gas.

The data provided in the response will be included in its entirety in an appendix to the 2025 SB 695 Report.

SDG&E 2025 Response (Electric):

I. Introduction

San Diego Gas & Electric Company (SDG&E) appreciates the opportunity to respond to the California Public Utilities Commission (CPUC or Commission) Energy Division on compliance with Public Utilities Code Section 913.1, which annually requires that the utilities:

"…study and report to the commission on measures that they recommend be undertaken

[1] Data reflecting rates trends, cost recovery mechanisms, types of cost recovery proceedings, and other data non-specific to studying and reporting on measures recommended to limit cost and rate increases should not be included, except to the extent that such data directly supports the recommendations.

to limit costs and rate increases."[2]

In Section II below, SDG&E reports to the Commission on measures we recommend should be undertaken to limit costs and rate increases.

II. Recommendations to the CPUC and Legislature

A. Opening Comments

California's Energy Landscape is Changing Rapidly

The rapidly changing energy environment in California is driving the need for a comprehensive and holistic renewed focus on the fundamentals surrounding the ratemaking process. The guiding principles needed to meet the state's climate goals require balancing customer choice and economically efficient decisions at all levels, which are critical to providing affordable rates that benefit the grid and all customers. A combination of equity, transparency, and comprehensive customer education are necessary to help ensure all ratepayers have access to safe, reliable, and affordable choices in a sustainable energy market.

Senate Bill (SB) 100 and SB 1020 require 100% of California retail electricity sales to be generated by renewable and zero-carbon resources by 2045. To achieve this aggressive shared goal, it is imperative for California to take advantage of all available economic resources to increase affordability while maintaining a safe and reliable electric grid for all customers. Changes to residential rate design will be critical to support a more equitable structure and help enable our collective environmental goals. Current rate design depends on ratepayers to finance this transition, but primarily ties customer contributions for current and future grid needs to their volumetric kilowatt-hour (kWh) usage, a metric that does not equitably capture costs or address affordability concerns.

Assembly Bill (AB) 205 recognized that the current residential volumetric rate structure is a barrier to electrification and affordability. AB 205 recognized the need for residential rate reform by requiring all investor-owned utilities (IOUs) to change the structure of residential customer bills by shifting the recovery of a portion of fixed costs from volumetric rates to a separate, fixed charge on bills without changing the total costs that utilities may recover from customers. The California Legislature recognized this need to update the existing electricity pricing structure by passing AB 205.

The current volumetric residential rate structure prioritizes overall electricity conservation as an emission reduction strategy through a "tiered" default residential rate structure. In this rate structure, customers pay the same amount for each kWh they consume up to a threshold and then pay a higher rate for any energy consumption above that threshold. However, electrification has increasingly become a central policy priority and strategy for decarbonization. Beneficial electricity consumption from fuel switching/substitution (gas to electric) results in decreased emissions. The transportation and building

[2] Public Utilities Code Section 913.1(b).

(residential and commercial) sectors are a primary example of opportunities for fuel switching/substitution, and together account for over 50%[3] of statewide greenhouse gas (GHG) emissions. Replacing fossil fuel with clean electric end-uses in these sectors will lead to decreased emissions in the near- and long-term as California's retail electricity mix moves towards 100% renewable and zero-carbon generation. In order to make switching to electric technologies more affordable and economic, volumetric electric rates must be thoughtfully reduced. Achieving this requires a significant departure from current residential rate design and reforms to reflect the scale of change California's energy system is currently seeing.

Pursuant to AB 205, the Commission opened the Demand Flexibility Order Instituting Rulemaking (DFOIR), Rulemaking (R.) 22-07-005. Track A of the proceeding is focused on developing the fixed charge for residential rates, as required by AB 205. Commission Decision (D.) 24-05-028 was issued on May 15, 2024, requiring the California IOUs to implement tiered residential fixed charges, with SDG&E required to implement in the 4th Quarter of 2025. The adopted fixed charges that will be implemented are shown in the table below:

Adopted Tiered Residential Fixed Charges		
		Approximate $/Month
Tier 1: California Alternative Rates for Energy (CARE) Program		$6.00
Tier 2: Family Electric Rate Assistance (FERA) Program or Deed-Restricted Affordable Housing		$12.08
Tier 3: All Other Customers		$24.15

Rate reform should not overly burden customers who are unable to take advantage of new technologies to conserve or manage load. For this reason, SDG&E supports the tiered residential fixed charge that the Commission adopted in D.24-05-028. A tiered residential fixed charge should increase affordability for many customers, by lowering volumetric rates and creating a more progressive rate structure. As technology continues to advance, more innovative approaches to rate design (including increased fixed cost recovery through additional fixed charge categories) will be needed to balance the interests of all ratepayers.

SDG&E notes that this first version fixed charge is a step in the right direction. However, the initial fixed charge is capped and only covers a portion of SDG&E's total fixed costs, with the remaining fixed costs continuing to be collected through volumetric rates. Continuing to maintain a largely volumetric rate structure may contribute to increasing affordability concerns while disincentivizing electrification. Because a large share of SDG&E's costs are fixed, SDG&E's current volumetric rates do not reflect cost causation principles and do not send customers the most accurate price signals. Under a volumetric rate structure, higher-usage customers, such as those in non-coastal climate zones with warmer average temperatures, customers with poor or outdated insulation in their homes, or customers that cannot install distributed generation resources, pay a disproportionate share of SDG&E's fixed costs. Whereas

[3] CARB's 2000 – 2022 GHG Emissions Inventory by Economic Sector (2024 Edition).

lower-usage customers, such as coastal customers in more moderate climate zones, and customers who can adopt technology such as distributed generation, pay a smaller share of SDG&E's fixed costs. Utilizing fixed charges to continue lowering volumetric rates closer to their marginal cost can more equitably allocate fixed costs, improve affordability of current energy use as well as increase incentives to electrify.

B. Overall Rate Policy

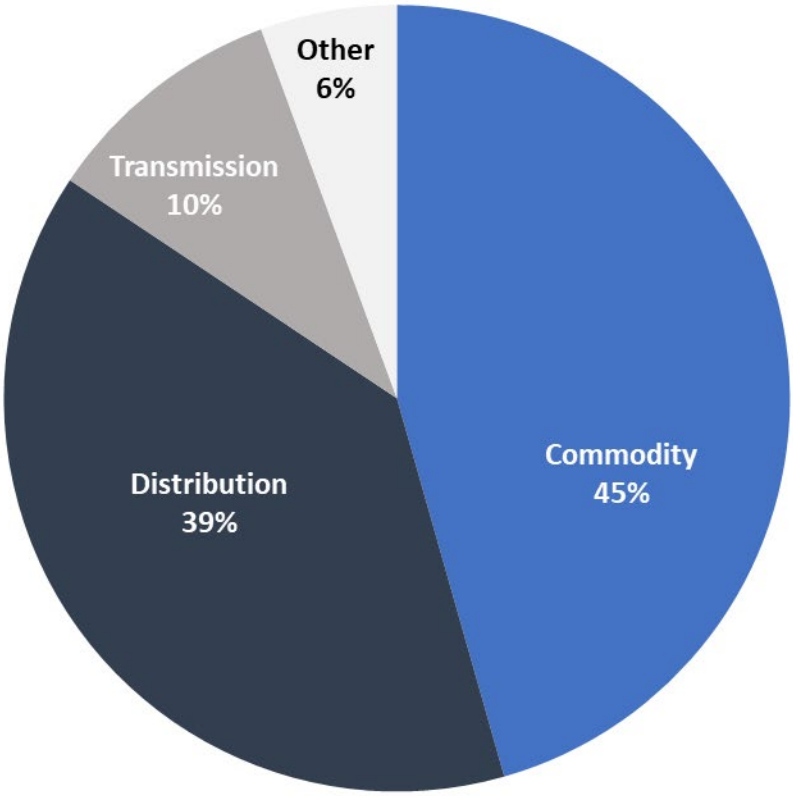
California's electric utilities play an important role in reducing GHG emissions through increased procurement of renewables and providing energy rates that incentivize electric use during times of increased renewable production and lower grid strain. As we evolve from a world where all customers receive "full service" from the utility, to one where there is an abundance of customer choices, including self-generation and commodity services from Community Choice Aggregators (CCA), the need for accurate price signals that truly reflect the cost of services provided is critical.

Additionally, as more and more self-generating customers move towards net zero energy on an annual basis, the Commission will need to consider what cost recovery mechanisms are appropriate and equitable. Recovering fixed costs in a volumetric manner leads to high volumetric rates which creates an affordability barrier to beneficial electrification.

Utility electric rates recover the costs of services related to distribution resources, transmission resources, the costs of public policy programs (PPP) and mandates, and for bundled customers, the costs of commodity resources. On average, under SDG&E's current system average electric rates for bundled customers[4], commodity services represent approximately 46% of total costs recovered, distribution represents 39%, transmission covers 10%, and the remaining ~5% represents the costs of State and Commission mandated programs. As shown in Chart 1, most of SDG&E's costs are fixed. Only commodity (energy cost), which represent a fraction of the services recovered in electric utility rates, corresponds directly to the kWh energy usage of customers.[5]

[4] Effective rates as of February 1, 2025.
[5] D.24-05-028 adopted the fixed cost categories of marginal customer access costs (MCAC), public purpose program (PPP), nuclear decommissioning (ND), and local generation charges (LGC) to be included in the residential income-graduated fixed charge (Conclusions of Law 22).

Chart 1: Breakout of System Average Rate*



***Based on rates effective February 1, 2025.**

Notably, fixed costs are incurred independent of customer usage (kWh) and are generally driven either by (1) the number of customers, or (2) the capacity needs of customers, on both the system and individual circuits, which result from the maximum load or demand of the customers. SDG&E must incur these transmission and distribution costs on a scale that supports at least the minimum needs of its entire customer base, regardless of a customer's energy consumption. However, current residential electric rate cost recovery is primarily based on kWh usage and therefore misaligned with cost causation. This produces major distortions and inequities in rates.

For SDG&E, a large distortion created by its usage-based rate structure is the Net Energy Metering (NEM) cost shift. For context, NEM customers represent a significant portion of SDG&E's customer base and are approaching approximately 25% of SDG&E's total residential customers. Notably, these NEM customers currently bypass a significant share of fixed costs due to the existing compensation structure,

despite being as reliant on, or potentially even more reliant on, the electricity grid compared to customers without distributed generation resources (DGRs). This is driven by the fact that NEM customers use the utility infrastructure to both export their excess production during the day and import energy from the grid at night when the sun is not shining. Because NEM policy allows for netting of nearly all volumetric rate components, adopters can reduce their bills to nearly nothing and essentially use the grid as a free storage resource.[6] Additionally, this netting effect means these customers avoid paying for state policy mandates and programs – costs that other non-adopting customers end up paying as part of their (now higher) volumetric rates. This leads to equity concerns as non-adopters are typically customers that cannot afford DGR systems (financial hurdles) or cannot install systems due to living in multifamily housing (feasibility hurdles). The recent D. 22-12-056 recognizes the affordability challenges created by the existing NEM structure highlighting that "[a] review of the current net energy metering tariff, referred to as NEM 2.0, found that the tariff negatively impacts non-participating ratepayers, disproportionately harms low-income ratepayers, and is not cost-effective."[7] The decision adopts a Net Billing Tariff that helps reduce the inequity created from new adopting customers but also recognizes that inequity still remains.[8] With growth in technologies and customer choice, similar inequities will continue to be exacerbated if energy rates are not restructured to reflect the fixed nature of utility costs.

Rethinking Rate Design Principles to Facilitate California's Future Energy Landscape

In addition to being the proceeding where residential fixed charges have been adopted, R. 22-07-005 is also the proceeding in which updated Commission Rate Design Principles (RDPs) were adopted.[9] Table 1 below presents the updated RDPs in the four categories established in D.15-07-001: cost of service, affordable electricity, conservation, and customer acceptance.

[6] The original NEM tariff allows for netting of all rate components. The NEM Successor Tariff (NEM 2.0) requires customers to pay non-bypassable charges on all delivered energy. Non-bypassable charges make up approximately $0.02564/kWh of the average residential rate, which is $0.359/kWh as of February 1, 2025. A new tariff for DGR customers was adopted in D.22-12-056, which modifies the export compensation structure for future residential DGR customers. However, under current rate structures the cost shift generated by existing NEM 1.0 and 2.0 customers will continue to grow until all legacy periods end in 2043.
[7] *See* D.22-12-056 at 2.
[8] *See id.* at 48.
[9] *See* D.23-04-040.

Table 1: Updated Rate Design Principles (RDP)			
Cost of Service RDP	**Affordable Electricity RDP**	**Conservation RDP**	**Customer Acceptance RDP**
(2) Rates should be based on marginal cost. (3) Rates should be based on cost causation. (7) Customers should be able to understand their rates and rate incentives and should have options to manage their bills. (8) Rates should avoid cross-subsidies that do not transparently and appropriately support explicit state policy goals. (9) Rate design should not be technology-specific and should avoid creating unintended cost-shifts.	(1) All residential customers (including low-income customers and those who receive a medical baseline or discount) should have access to enough electricity to ensure that their essential needs are met at an affordable cost	(4) Rates should encourage economically efficient (i) use of energy, (ii) reduction of greenhouse gas emissions, and (iii) electrification. (5) Rates should encourage customer behaviors that improve electric system reliability in an economically efficient manner.	(6) Rates should encourage customer behaviors that optimize the use of existing grid infrastructure to reduce long-term electric system costs. (10) Transitions to new rate structures should (i) include customer education and outreach that enhances customer understanding and acceptance of new rates, and (ii) minimize or appropriately consider the bill impacts associated with such transitions.

For customers to electrify their homes and businesses, they must see a set of clear incentives and a value proposition for conversion. Notably, electrification requires most customers to increase their electricity consumption from current levels – but the current residential volumetric rate structure gives significant weight to conservation, which serves as a disincentive for increasing consumption regardless of whether that usage is displacing fossil fuel consumption. SDG&E submits that conservation and energy efficiency are still important during critical times of the day; however, in transitioning to the new clean electricity future, they should not be prioritized over other principles.

Collecting more fixed costs through fixed charges will help reduce volumetric rates closer to their marginal cost, better reflect the actual cost to serve customers, and help encourage electrification. Adjusting the RDP priorities to recover more fixed costs in fixed charges would also help ensure that customers who choose to adopt technology continue to pay for safety and reliability enhancements, grid investments required to accommodate advanced technology adoption, and state policy mandates without passing those costs on to non-adopters.

Time-of-Use Periods (TOU) in the Future

TOU rate structures should deliver accurate price signals for the commodity component of electric rates. In an effort to strengthen this alignment, SDG&E's currently pending 2024 General Rate Case (GRC) Phase 2 requests a modification to base TOU periods to expand existing midday super-off peak hours of 10am to 2pm to be year round, in order to encourage consumption when renewable generation is more plentiful, simplify rates through TOU period consistency, and create more opportunities for customers to save by using energy at the cheapest times.[10]

However, TOU price signals are driven by commodity price signals which are developed by a customer's commodity provider. In SDG&E's service territory, over 80% of customers are unbundled, meaning they receive their commodity service from a provider other than SDG&E. This number is expected to increase in coming years, and as a result, SDG&E's commodity-driven TOU price signals will apply to an even smaller group of customers.

While the CCAs in SDG&E's service territory currently offer commodity rates that mirror the standard SDG&E TOU periods, they are not required to offer these rates and can define different TOU periods. If CCAs are able to operate independently of the CPUC regulatory process, the state must consider how consistency can be achieved between CCA TOU periods and state goals. If CCAs offer TOU periods that do not coincide with the highest cost and most GHG intensive hours, customers may not be incentivized to shift their consumption to lower-cost and cleaner hours.

Dynamic Pricing Rates

In Track B of R.22-07-005, new demand flexibility rate design principles are being adopted for implementing dynamic pricing rates. Implementing dynamic pricing rates will provide customers with additional rate options that may help customers manage their energy usage and bills, which, if successful, will also help California in meeting its climate goals. The Commission is scheduled to issue a decision in Track B of R.22-07-005 in 2025, which is expected to provide direction to SDG&E for a forthcoming dynamic pricing rate application. Additionally, the California Energy Commission (CEC) has issued Load Management Standards (LMS), which purport to require the IOUs to implement dynamic pricing rates, subject to specific requirements, by January 1, 2027. The LMS further seek IOU compliance with standards that require changes to IOU bills and publication of machine-readable electricity rates into a CEC server system (MIDAS) along with the development of a single statewide tool for authorized rate data access to third parties. IOU compliance with the CEC LMS regulations would impose potentially significant costs on IOUs and is another factor that would contribute to the upward pressure on electric rates.

[10] *See generally* A.23-01-008.

Public Purpose Programs Continue to Increase Electric Rates

Lastly, legislatively mandated Public Purpose Programs (PPP) are contributing to the upward pressure on electric rates. This rate component helps fund low-income programs such as California Alternate Rates for Energy (CARE), Family Electric Rate Assistance (FERA), Energy Efficiency programs, and other mandated programs designed to create public benefits. The current electric PPP revenue requirement funds 18 different programs and adds up to a total of $418 million, an increase of 64% from a total of $255 million in 2016. Since 2016, the PPP rate component has increased 70% for residential customers and 70% system wide. [11] This trend is continuing as programs recovered through PPP continue to expand. In 2022, four new programs were required to be included in PPP.[12] In 2023, two new programs were added, to collect for programs administered by San Diego Community Power[13] and one additional program was added in 2024.[14] In 2025, two programs were eliminated and three programs were added.[15] One of the programs added was the Diablo Canyon Power Plant, which reflects $60 million in funding for a PG&E power plant. The expansion of PPP funding and the introduction of programs that do not contain SDG&E costs supports transitioning public purpose program funding from electric rates to California's General Fund.[16]

[11] Increase from January 2016 to February 2025.

[12] Programs added to the PPP funding in 2022 are the Residential Uncollectible Balancing Account – Arrearage Management Payment subaccount, the Flex Alert Balancing Account, the Economic Development Rate Balancing Account, and the Wildfire and Natural Disaster Resiliency Rebuild Program; *see* Advice Letter (AL) 3928-E/E-A/E-B for rates effective January 1, 2022.

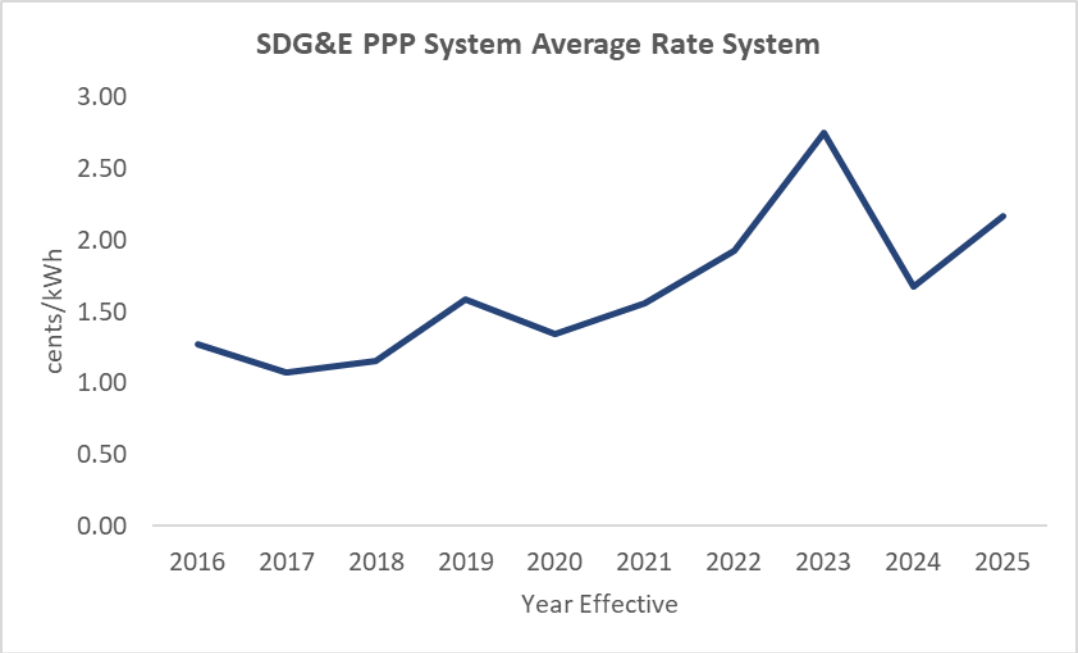
[13] San Diego Community Power's Disadvantaged Communities – Green Tariff (DAC-GT) and Community Solar Green Tariff (CS-GT) programs; *see* AL 4129-E for rates effective January 1, 2023.

[14] SDG&E's percentage of income payment plan (PIPP); *see* AL 4344-E for rates effective January 1, 2024.

[15] The Self-Generation Program Memo Acct. (SGPMA) and School Energy Efficiency Simulus Program Bal. Acct. (SEESPBA) programs were eliminated but the Statewide Energy Efficiency Bal. Acct. (SWEEBA) (*see* AL 4504-E for rates effective February 1, 20025) and the Diablo Canyon Power Plant NBC (*see* AL 4359-E for rates effective February 1, 20025) programs were added.

[16] Diablo Canyon Power Plant and the San Diego Community Power Disadvantages Communities Green Tariff and Community Solar Green Tariff reflect public purpose programs that contain non-SDG&E costs.

Chart 2: Historical Public Purpose Programs Average Rate



Because PPP costs are collected from customers through volumetric rates, customers that have higher usage, such as bigger households, households in hotter climate zones, households without solar or other distributed energy technology, and households that are electrifying may be paying more than their fair share of PPP costs. If the total PPP revenue requirement was no longer collected through electric rates, SDG&E's residential average rate would decrease by approximately 5.9% and SDG&E's system average rate would decrease by approximately 6.6%. SDG&E currently estimates that this rate decrease would reduce the average residential bill by approximately $101, annually.[17]

Given its primary focus on low-income programs and therefore larger societal benefits, PPP is arguably detached from electricity rates. Additionally, electric rates do not provide the appropriate forum in which to recover these costs, to begin with. This is driven by the fact that electric rates are not progressive – for example, a household with annual income of $1 above the state's established low-income program thresholds could have the same "PPP funding responsibility" as the very wealthy. This highlights potential inequities and cost burdens placed on the lower-middle- and middle-class ratepayers. Income taxes, on the other hand are progressive given marginal tax brackets – so utilizing taxpayer funds to fund PPP would more effectively align cost recovery (of these societal benefits) with ability to pay.

[17] Average SDG&E residential customers pays ~$8.40/month in PPP charges at an average residential PPP rate of 2.1 cents/kWh (as of February 1, 2025) and average usage of 400 kWh per month.

IMPACT FROM REMOVING PPP RATES FROM TOTAL RATES				
	Total Rates Effective 2/1/2025	Total Rates with PPP Removed	Total Rate Decrease	Rate Change
Customer Class	(Cents/kWh)	(Cents/kWh)	(Cents/kWh)	(%)
Residential	35.89	33.79	-2.10	-5.85%
Small Commercial	36.73	34.48	-2.25	-6.13%
Medium/Large Commercial & Industrial	32.53	30.30	-2.22	-6.84%
Agricultural	25.69	23.65	-2.04	-7.94%
Lighting	35.07	34.68	-0.38	-1.10%
System	34.03	31.86	-2.17	-6.37%

C. SDG&E's Policy to Limit Costs and Control Rate Increases for Customers

SDG&E continues to believe that fair and equitable rate design will ensure that all customers pay a reasonable share of the utility infrastructure costs needed to serve them, and that a shrinking pool of customers are not left responsible for grid costs that benefit all customers.

Within California, NEM policy has been wildly successful in incentivizing customers to adopt distributed generation. But these incentives have not sufficiently adapted to increased adoption of distributed generation and increased volumetric rates, resulting in significant costs being shifted to non-adopters and increased volumetric rates for all customers.

In December 2022, the Commission adopted D.22-12-056 which establishes a Net Billing structure to replace the current NEM structure for new customers interconnecting after April 14, 2023. D.22-12-056 recognized the impacts of the current program and adopted changes to help reduce some of the inequity created by the existing tariff. The Decision recognized that inequity remains and considered R. 22-07-005 a more appropriate venue to consider income graduated fixed charges applicable to all customers.[18]

D. List of Policies the Utility is Advocating For

SDG&E continues to recommend the following policies for limiting costs and rate increases while meeting the State's energy and environmental goals for reducing GHG:

1. **Reduced Volumetric Rates:** The residential fixed charge should continue to be applied to all residential rates and reduce remaining volumetric rates to help support affordability and electrification. Going forward, the fixed charge should be enhanced to further reduce volumetric rates and more closely align cost recovery with how costs are incurred.

[18] *See* D.22-12-056 at 4-5.

2. **Accurate price signals:** Providing customers with accurate price signals means that utilities charge for the services they provide, and rates are designed to recover costs on the same basis by which they are incurred. This includes charging a cents/kWh rate more in line with the marginal cost of electricity that will help support conversion from traditional, more carbon-intensive fuels, to low-carbon electric alternatives and a fixed rate more aligned with fixed costs to serve customers.

3. **Transparent incentives:** Incentives or subsidies that have been deemed necessary to further public policy objectives are separately and transparently identified and funded outside of electric rates. Cost-shifting is exacerbated with incentives that are embedded in rates and not transparently identified. Building upon the foundation of accurate price signals, subsidies that advance state policy goals should be transparently identified in utility bills, separate from the charges for services provided to or from the customer. SDG&E believes that legislatively mandated Public Purpose Programs should be funded through California's General Fund going forward. This would lead to more affordable electric rates for all customers, as previously discussed in Section B.

4. **Rate Simplification:** Many existing rate features and schedules are overly complex or redundant. While these may have been rooted in good intentions and/or solid rationale, these complexities can make it difficult for customers to choose what rate is best suited for them, and in extreme circumstances, result in a perception that rates are purposefully convoluted and confusing – which could potentially lead to customer distrust and frustration. Consolidating redundant rate structures would reduce administrative costs as well as help customers understand the options available to them. For example, SDG&E currently has 15 different residential rate schedules (excluding additional schedule variations such as low-income or medical baseline rates). These schedules can be separated into tiered-only schedules (Schedules DR, DM, DS, DT, DT-RV), TOU-only schedules (Schedules DR-SES, EV-TOU, EV-TOU-2, EV-TOU-5, EV-TOU-5-P, TOU-ELEC), and tiered-TOU schedules (Schedules TOU-DR, TOU-DR-P, TOU-DR1, TOU-DR2). Currently, all of SDG&E's tiered-only schedules have the exact same volumetric rates, with only two schedules having an additional unit or space discount applied. A second example of rate simplification that SDG&E supports is combining basic and all-electric baselines for tiered rates to create one baseline allowance per climate zone and combining electrification rates with similar designs (TOU-ELEC and EV-TOU-5). SDG&E continues to explore other opportunities to reduce unnecessary complexity in its rates.

    a. **Baseline Allowance Consolidation:** Consolidate the current basic service and all-electric baseline allowances into one baseline that will meet the needs of all customers. SDG&E believes that the current baseline allowance structure is confusing and does not properly capture the needs of all customers, especially as we move towards electrification. Baseline allowances are calculated based on usage among customers in a particular climate zone and who are all-electric or mixed fuel. Many all-electric customers are those in smaller or older apartments, which reduces the baseline allowance for these customers. More details of SDG&E's proposal can be found in comments on Phase 4 of

the Building Decarbonization Proceeding[19]

E. Recommendations for the CPUC and Legislature to Help Minimize Rate Increases in the Future

In 2025, SDG&E makes the following recommendations for minimizing rate increases into the future:

- **Public Purpose Programs Funding in California's General Fund:** SDG&E recommends the Legislature transition the funding for public goods programs from PPP electric rates to the State's General Fund in order to immediately help mitigate the upward pressure on rates. This change would guarantee a reduction in electric rates, leading to more affordable energy for all and enabling customers that adopt electrification technology to see smaller bill increases. Just as importantly, it would appropriately align cost recovery with ability to pay.

- **Adopt Cost-Based Rates to Reduce Cross Subsidies:** SDG&E recommends that the Commission leverage lessons learned from certain programs, including NEM, that include non-transparent rate subsidies compensation structures that cause cost shifts. Looking to the future affordability of electricity, the Commission and state have a responsibility to choose policies that are more cost-effective among those available to meet GHG targets. SDG&E will need to continue to invest in infrastructure to provide clean, safe, and reliable service to all its customers. Additionally, further grid investment and upgrades will be needed to accommodate technology advances and adoption. SDG&E has a key role to play in the state's clean energy future and ensuring the right rate principles are in place will be integral for California to reach its climate goals.

- **Restructure How the California Climate Credit (CCC) is Distributed:** SDG&E recommends re-evaluating how the residential CCC is distributed to customers, including limiting the eligibility to only include some customers (i.e. non-NEM customers), or changing the structure from a flat dollar-per-customer credit to a volumetric dollar-per-kWh credit. Alternatively, adjusting the timing of the current distribution to better align with higher electricity bills (summer) will help to mitigate monthly bill volatility, further strengthening customer bill stability.

- **Tiered Residential Fixed Charge:** SDG&E recommends that the Commission consider expanding the type of fixed costs recovered in the tiered residential fixed charge to include other categories that that have fixed cost components such as distribution demand costs. The implementation of the capped tiered residential fixed charge adopted in D.24-05-028 will allow for the reduction of volumetric rates, but expanding the fixed cost categories to more appropriately reflect cost causation will allow for more meaningful reductions in volumetric rates.

[19] *See* SDG&E response to Energy Division DRs in Phase 3B of R.19-01-11 (Building Decarbonization) related to electric baseline allowances.

- **Consolidate Customer Program Offerings:** SDG&E recommends that the Commission eliminate certain costly customer programs and open a regulatory process to consider how best to consolidate the broad swath of existing customer programs into a more rationalized portfolio of offerings.

- **Cost-Based Rate Structure and Transparent Incentives:** SDG&E recommends that the Commission take this opportunity to continue to move forward with a cost-based rate structure and transparent incentives that allows for customers to accurately assess alternative energy services on a competitive basis. Only with cost-based rate structure and transparent incentives can a clean energy future be supported without artificially inflating customer rates resulting from subsidies buried in rate design.

III. Conclusion

SDG&E appreciates the opportunity to provide these comments and respectfully requests that the Commission and Legislature continue to take steps to reform residential electric rates, particularly with regards to volumetric pricing and fixed cost recovery. Doing so would improve equity and affordability while enabling widespread electrification and customer choice.

SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E)

CALIFONIA PUBLIC UTILITIES COMMISSION (CPUC)
ENERGY DIVISION (ED)
(ED DATA REQUEST- 2025 PART II)

2025 SB 695 REPORT IOU RECOMMENDATIONS TO LIMIT COST AND RATE INCREASES (ELECTRIC AND GAS IOUS)

DATE REQUESTED: FEBRUARY 4, 2025
DATE SUBMITTED: FEBRUARY19, 2025

QUESTION:

This data request is issued regarding proposed recommendations of the electric and gas investor-owned utilities (IOU) to limit cost and rate increases consistent with the state's energy and environmental goals for reducing greenhouse gases, pursuant to Public Utilities Code Section 913.1 which requires the utilities to:

> "…study and report to the commission on measures that they recommend be undertaken to limit costs and rate increases."

In preparing your utility's response, the IOU should be as specific as possible in identifying and quantifying specific potential cost savings initiatives.[1]

The data provided in the response will be included in its entirety in an appendix to the 2024 SB 695 Report.

RESPONSE: Please see SDG&E response as it pertains to gas.

1. As stated in prior year's response, SDG&E shares the State's goal of decarbonization and believes that there are several important policy considerations that can support these efforts. Specifically, the Commission should consider policies that can accelerate the development of a broad set of decarbonization solutions that are able to complement each other, including electrification, clean fuels and carbon management, distributed energy resources, and integrated demand-side management (IDSM) programs, among potentially others. These solutions should be thoughtfully considered not only independently, but comprehensively to understand where such pathways will be integrated, especially when assessing their decarbonization value, cost-effectiveness, risk management, equity characteristics, as well as operational attributes for a safe and reliable future energy system for customers at just and reasonable rates. To the extent that the Commission considers tools that may actively increase the rate of decline in natural gas usage, there must be thorough consideration on managing the cost and equity implications of these actions on all customers. The Commission should not prematurely foreclose the potential to assess

[1] Data reflecting rates trends, cost recovery mechanisms, types of cost recovery proceedings, and other data non-specific to studying and reporting on measures recommended to limit cost and rate increases should not be included, except to the extent that such data directly supports the recommendations.

leveraging existing gas system investments to provide essential service to customers while decarbonizing the energy system.

2. Consistent with previous year's response, reductions in natural gas demand will likely result in gas rate and bill pressure for utility gas customers including those residing in our more vulnerable communities. Rather than potentially accelerating an increase in gas rate pressures, the Commission should instead explore opportunities to more broadly, equitably, and sustainably allocate and recover these costs and leverage this existing infrastructure to the extent possible to avoid stranding gas system assets paid for by ratepayers.

3. Importantly, echoing prior year's response, the gas system serves the gas demand of our customers including electric generation, which in turn provides a just-in-time energy resource to support electric system reliability. The reliability and resiliency attributes that the gas system provides to the interconnected energy system is especially critical to support increases in renewable resources. As part of the gas system transition, the Commission should establish a planning process that develops a comprehensive framework to understand the needs of the future energy system and the capabilities for the gas system to meet those needs including impacts on the different customer classes.

   Meeting California's decarbonization goal is forecasted to require significant reductions in fossil natural gas demand in the future, particularly for residential customers. To mitigate rates and bill impacts during this transition, it is imperative that the Commission address residential rate design issues, particularly the appropriate level of residential fixed charges.

   An appropriately considered fixed charge should help to alleviate the inherent cost shift as some customer loads begin to shift away from gas service via fuel substitution (e.g., appliance electrification), and promotes customers who partially electrify to pay a fair share of the fixed costs associated with maintaining their gas service.

   In the past, in considering whether to introduce/increase a residential fixed customer charge, the Commission had focused on immediate bill impacts. Transitions in the gas industry with forthcoming significant residential gas load impacts and customer departure to electrified end-uses require that the Commission proactively address the issue of increasing rates and bill impacts in the distant future and introducing the appropriate level of fixed charges now as a primary step.

SAN DIEGO GAS & ELECTRIC COMPANY (SDG&E)

CALIFONIA PUBLIC UTILITIES COMMISSION (CPUC)
ENERGY DIVISION (ED)
(ED DATA REQUEST- 2025 PART II)

2025 SB 695 REPORT IOU RECOMMENDATIONS TO LIMIT COST AND RATE INCREASES (ELECTRIC AND GAS IOUS)

DATE REQUESTED: FEBRUARY 4, 2025
DATE SUBMITTED: FEBRUARY19, 2025
