BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas & Electric Company to Revise its Electric Marginal Costs, Revenue Allocation, and Rate Design. (U39M.)	Application 19-11-019 (filed November 22, 2019)

REBUTTAL TESTIMONY OF PAUL L. CHERNICK AND JOHN D. WILSON ON BEHALF OF SMALL BUSINESS UTILITY ADVOCATES

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SBUA
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I. Introduction

Q: Are you the same Paul Chernick and John D. Wilson who filed direct testimony in this proceeding?

A: Yes.

Q: Are you filing this Rebuttal Testimony in compliance with the February 22, 2021 Email Ruling granting an extension of time until February 26, 2021?

A: Yes.

Q: What is the scope of your rebuttal testimony?

A: We respond to testimony on marginal costs. In all other respects, we maintain the positions we have expressed in our direct testimony.

Q: How have your conclusions regarding the PG&E proposals changed since you filed your direct testimony in this proceeding?

A: We have reconsidered our position on two marginal cost issues.

- With respect to our recommendations regarding marginal transmission capacity costs (MTCCs), we have reviewed the testimony filed by Mr. R. Thomas Beach on behalf of Solar Energy Industries Association and are supportive of his recommended process for aligning PG&E's FERC-regulated transmission rates with current CPUC rate design practices.
- We continue to support Cal Advocates' recommendations for determining marginal customer access costs (MCACs), including the New Customer Only method and the recovery of meter O&M costs through a lifetime O&M adder for purposes of this GRC. However, we agree with the testimony of Mr. Mark Fulmer on behalf of Direct Access Customer Coalition regarding the desirability of using embedded-cost allocation for customer access costs.

Otherwise, after reviewing the direct testimony of other parties, we do not have any changes to our findings or recommendations as expressed in our direct testimony.

II. Updates to Marginal Cost Testimony

A. Marginal Transmission Capacity Cost (MTCC)

Q: Please summarize Mr. Beach's recommendations regarding re-design of PG&E's FERC transmission rates.

A: Mr. Beach recommends that the Commission should seek at FERC "to re-design FERC transmission rates such that 27% of transmission costs are recovered in peak-related charges, with the remaining costs recovered through flat volumetric rates."[1] Mr. Beach also suggested that PG&E could make commitments "to take certain actions before the FERC on the design of its transmission rates."

Q: What is your updated recommendation?

A: Mr. Beach's explanation of the procedural steps that may be taken to align PG&E's FERC transmission rate design with its Commission-jurisdiction rates are persuasive, and should be acted on by the Commission and PG&E in the appropriate proceedings.[2]

For most utilities, including those that are part of other regional transmission organizations (RTOs), FERC sets the total transmission revenue requirement and wholesale transmission rates, which then determine the transmission revenue requirement for the utility's retail customers. The state utility regulator then establishes the mechanism by which that revenue requirement will be flowed into

[1] R. Thomas Beach, Direct Testimony on behalf of the Solar Energy Industries Association, A.19-11-019 (November 20, 2020), pp. 41-42.

[2] *Id.*, pp. 42-43.

rates (e.g., balancing accounts, riders), determines the allocation of the transmission costs among classes, and establishes the transmission rates (which may include demand charges for some customers, flat energy charges, and TOU differentiation).

In addition to pursuing the approach recommended by Mr. Beach, the Commission should seek to have FERC return to the Commission authority for the transmission cost allocation and rate design for retail customers. The Commission would then be able to align transmission rate designs with cost causation, as it does generation and distribution rate designs.

B. Marginal Customer Access Cost (MCAC).

Q: Please restate your position on MCACs for this GRC.

A: PG&E proposes to use the Real Economic Carrying Charge (RECC) Method to determine Transformer, Service Drop, and Meter (TSM) costs, and activity-based costing methodology to determine Marginal Revenue Cycle Services (RCS). Cal Advocates recommends that the Commission continue to rely on the New Customer Only (NCO) method for PG&E, as it has since 1996.

Cal Advocates also proposes three adjustments to the method as presented by PG&E testimony. Instead of the RCS method, Cal Advocates recommends recovery of meter O&M costs through a lifetime O&M adder. We compare the proposed MCAC from PG&E and Cal Advocates in Table 1**Error! Reference source not found.**.

Table 1: Proposed Small Business MCAC, PG&E vs Cal Advocates ($/month)

Service	PG&E	Cal Advocates
Small Commercial, Single-phase	$34.53	$12.57
Small Commercial, Polyphase	$121.20	$39.33
Medium Commercial, Secondary	$307.43	$98.96

Source: Cal Advocates Testimony, Table 1-1, Ch. 1, p. 3.

We agree with Cal Advocates regarding the reasoning expressed in their testimony for continuing to use the NCO method to determine *marginal* customer access costs, and recommend that the Commission explicitly endorse its method for this proceeding.

Q: Please explain where you agree with Mr. Fulmer's testimony.

A: We agree with Mr. Fulmer that embedded cost is a more appropriate basis for allocating customer access costs than marginal cost. Mr. Fulmer is correct that MCACs "cannot send actionable price signals" to electricity users.[3] Mr. Fulmer also summarizes the strengths and weaknesses of the NCO and RECC methods. His summary demonstrates that neither of these methods provides a sound connection between the choices that customers make and the costs that are caused by those customers, it would be fairer to simply assign those costs to the classes which incurred the costs using conventional embedded cost methods.[4]

In our experience, the results of embedded cost analyses are more transparent and more consistent from one rate case to the next than those using marginal costs. Where customer access charges are based on embedded costs, the major issues involve which accounts to include in the charge. Fortunately, there seems to be little dispute in California on the definition of customer access costs. If the Commission were to definitively establish embedded cost methods for customer access costs, we anticipate that the degree of litigation over this issue would be sharply reduced.

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[3] Mark Fulmer, Direct Testimony on behalf of the Direct Access Customer Coalition, A.19-11-019 (November 20, 2020), p. 9.

[4] *Id.*, p. 12.

We join Mr. Fulmer in recommending "that the Commission direct PG&E to perform an embedded cost study of its customer access costs for its next GRC, and present distribution rates based on embedded costs at that time."[5]

Q: Does this conclude your testimony?

A: Yes.

[5] *Id.*, p. 13.