



What rate modernization means for you

California is changing the way utilities bill for electricity so that everyone pays for the actual costs of service. This new, more equitable pricing will help correct problems that grew out of the 2001 energy crisis, such as some prices that have been kept artificially low for some at the expense of others. Here's a brief look at the history and key changes that are underway as a result of rate modernization.

continued on back ▶

Tiered rates, then and now

Two rate tiers

For decades, Californians paid two prices for electricity used at home. You'd get a certain amount of electricity at the lowest (Tier 1) rate to cover basic needs, such as heating and cooling, depending on your climate zone, the season and other factors. The Tier 2 rate would apply to all other electricity use.

Four rate tiers

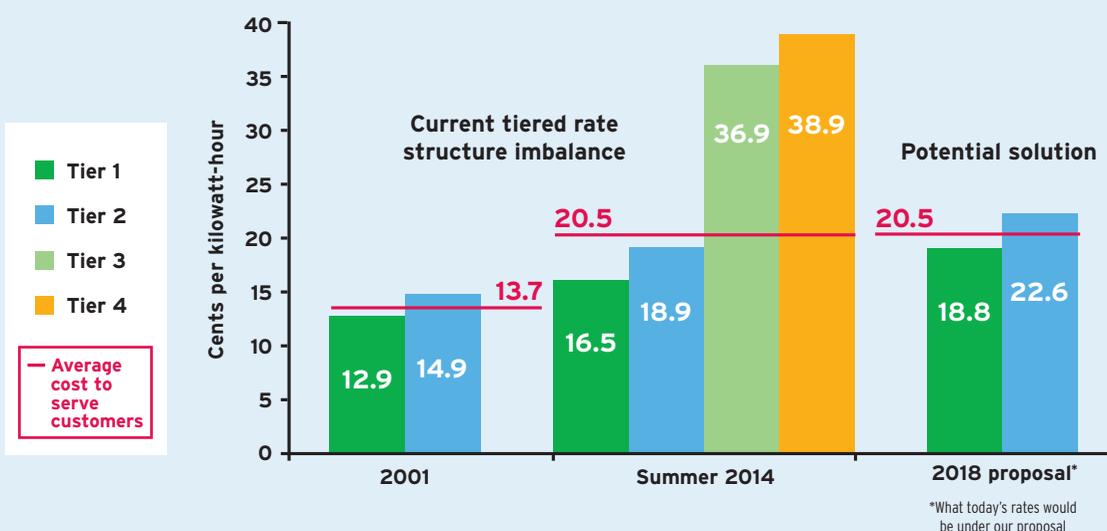
In 2001, the failure of the deregulated wholesale electricity market created a crisis that sent bills soaring. California lawmakers responded by establishing a multi-tier residential electric rate

structure that linked progressively higher prices per kilowatt-hour to increased levels of electricity use.

Major imbalances

The state also froze rates for the lower-use customers in Tiers 1 and 2 for nearly a decade. Although the cap was partially lifted in 2010, this disparity resulted in major price imbalances, as shown in the chart. For over a decade, customers in Tiers 3 and 4 have been paying nearly all rate increases for costs such as modernizing the grid and complying with state mandates, such as renewable power. Our proposal would help correct such imbalances by 2018.

Tiered residential electric rates: 2001, 2014 and 2018*



Current imbalance

- **Tiers 1 and 2**: Today's rates average 15% less than the cost of service for lower-use customers.
- **Tiers 3 and 4**: Today's rates average 75% more than the cost of service for higher-use customers.

Potential solution

- **Proposed Tiers 1 and 2**: Our proposal would reduce the number of tiers back to two and gradually shrink the difference between them by 2018.

» Bringing rates in line with costs

Since the 2001 energy crisis, about one-quarter of California's electricity customers have shouldered nearly all rate increases. That's 14 years! To address such inequities in the current system of tiered rates, a statewide electric rate reform law, Assembly Bill (AB) 327, restored the authority of the California Public Utilities Commission (CPUC) to revamp outdated electric rate structures. This rate modernization process, which began in 2014, is expected to continue through 2018.

Guiding principles

To guide utilities in the development of their rate design proposals, the CPUC set forth core principles:

- All customers should pay for the actual cost to serve them.
- Rates should encourage economically efficient decision-making.
- Incentives should be explicit and transparent.
- Continued support and solutions should be offered to customers who are low income or have special medical needs.
- Rates should be understandable and provide customer choice.
- Robust customer education and outreach should be provided to support the transition to new rate structures.

Our proposal would:

- **Reduce the number of tiers** from four to two.
- **Shrink the difference** between the top and bottom tiered prices from 136% today to 20% by 2018.
- **Reallocate some costs to a monthly service fee** starting at \$5 in 2015 and increasing to the approved cap of \$10 by 2018. (For low-income customers, the fee would be half of those proposed amounts.) **This fee is not an additional charge – it will reduce the tiered pricing.**
- **Gradually transition** the California Alternate Rates for Energy (CARE) discount to the legislatively mandated range of 30% to 35% by 2018.
- **Offer new options**, such as rates based on when you use energy and how much energy you use at once. This can help you save money if you have the ability to shift your energy use.

Get answers, find solutions

The CPUC's decision on our rate modernization proposal is expected in mid-2015. For more information on electricity rate changes and ways you can save energy and money, visit sdge.com/ModernRates.

What you should know about the monthly service fee

The monthly service fee we've proposed is not an additional cost. It's a more transparent way to bill for basic service costs that are currently included in tiered electric rates. It functions much like your monthly water, cable and cell phone bills.

In fact, 70% of electric utilities in California charge monthly service fees ranging from \$1 to \$20 to recover fixed costs.

We've proposed starting the monthly service fee at **\$5 in 2015** and increasing it to **\$10 by 2018**. Low-income customers would be charged half those amounts.

The monthly service fee would include costs currently embedded in electric rates for your home to be connected to the electric grid. Whether you use 1 kilowatt-hour or 1,000

kilowatt-hours of energy, the costs of providing basic services include:

- ▶ The meter, service line and other equipment serving your home.
- ▶ All the customer service support functions, such as the call center.

With these costs allocated to a fixed monthly service fee paid by all residential electric customers, you'll see a **corresponding decrease in tiered prices per kilowatt-hour**.

Where do your electricity dollars go?

On the average residential electric bill:

-  About **50%** pays for the power we supply, with no markup for that cost.
-  About **35%** of every dollar you pay goes to support investments in the local electric grid.
-  About **15%** pays for the state's transmission lines, public purpose programs, energy-efficiency efforts, nuclear decommissioning and other programs.



To view a video on how we make money, visit sdge.com/understanding-rates.