



# Getting it right with time-of-use pricing in California

“I love knowing that we are making a difference. We pride ourselves in our low energy consumption.”

—Holly B. (CA customer)

## TIME-OF-USE PRICING

California’s three big utilities – San Diego Gas & Electric (SDG&E), Pacific Gas & Electric (PG&E), and Southern California Edison (SCE) – are modernizing the way three-quarters of households pay for electricity. The approach – time-of-use (TOU) electricity pricing – makes electricity more expensive during predictable periods of high demand when the electric grid is stressed and electricity is more expensive for utilities to provide. By shifting energy use to times of day when electricity is cleaner and cheaper, TOU helps people save money. It also helps the state achieve its clean energy and climate goals. Before the utilities switch residential customers to TOU rates in 2019, they are finalizing rate options and outreach plans to get it right.

### Benefits of TOU rates

TOU pricing empowers people to take control of their energy bills. Using data from utilities, EDF estimates broad adoption of TOU rates can yield system-wide savings worth hundreds of millions of dollars each year.<sup>1</sup> With TOU rates, utilities are not forced to pay peak prices for electricity and invest in infrastructure expansions—costs they typically pass on to customers. Instead, people save money by shifting their energy use to predictable and convenient times of day when clean energy—like wind and solar—is plentiful, and electricity is cheaper overall.

- **This shift in customer behavior** is expected to lower peak demand for energy over time. As utilities avoid costly expansions, customers can expect to see those savings reflected in their monthly bill.
- **As people learn to take advantage of low-cost electricity** from renewable sources, utilities are able to put more of it to use. Studies have shown TOU rates result in lower energy use at peak times, and that customers like and understand them. TOU rates make our electricity pricing fairer and more affordable for everyone.

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### Next steps in implementation

TOU pricing can be expected to lower bills for the vast majority of customers from day one if it is explained well. Getting the pilots done right means ensuring they gather experience with the educational strategies needed for a successful transition. Even so, some customers may still be better off using a different rate. It's vital that utilities and regulators develop plans for Californians for whom TOU may not be the right choice.

Here is what happens next:

- Over the next two years, utilities will use voluntary pilot programs to pinpoint the best TOU rates. During the third year of piloting, utilities will switch some customers onto a TOU rate automatically.
- Utilities will use their findings to perfect the plans when they expand TOU pricing to all residential customers in 2019.



- Although customers will be able to opt out, experience has shown that most will likely remain with TOU pricing. TOU customers say it helps them understand and manage their energy costs. TOU rates naturally are a great fit for most customers, and EDF is working to ensure there's an appropriate transition plan for everyone.

### CASE STUDIES



#### Oklahoma Gas & Electric

Oklahoma Gas & Electric performed a TOU pricing pilot in 2011. Staff found that providing TOU rates to just 20 percent of households would eliminate the need to build a 210 MW power plant. In 2012, the utility rolled out its SmartHours plan, which allowed customers to view their previous day's energy usage, included free smart thermostats and energy efficiency kits, and featured a one-year risk-free bill guarantee. As a result, the utility is on track to reach a 20 percent adoption goal, with more than 100,000 residential customers on the plan. Last summer, over 99 percent of these customers saved money.



#### Sacramento Municipal Utility District

Sacramento Municipal Utility District performed a series of pilots testing TOU rates from 2011 to 2013 and found significant reduction in peak energy demand, including in low-income households. The pilot revealed that consumers feel TOU rates are fairer and offer a greater opportunity to save money than other rates. With TOU rates, the utility could avoid constructing a proposed 500 MW natural gas power plant. The utility will begin offering an optional TOU rate for all customers in 2017.

<sup>1</sup> EDF's Residential Rate Design Proposal (May 2013)

<sup>2</sup> eMeter Strategic Consulting (Sept. 2010)

PHOTOS: Cover/Germán Poo-Caamaño; Thermostat/Lindalpijn; Saturday Night (Sacramento)/micadew

For more information, please contact James Fine, Director, Energy Research & Senior Economist, Clean Energy 415 293 6060, [jfine@edf.org](mailto:jfine@edf.org)