Mandatory peak pricing is a misguided fine on energy-conscious consumers

By Steve Colvin

California Public Utilities Commission President Michael Peevey recently ruled that California's utilities can impose what amount to fines in the form of significantly higher electricity rates on businesses that fail to reduce the amount they consume during peak summertime hours. At face value, this judgment might appear reasonable. In actuality, it is a misguided directive that punishes businesses already contributing appreciably to energy conservation.

Peevey has asked his CPUC colleagues to ratify his ruling, known as mandatory critical peak pricing, in an upcoming procedural vote. Accordingly, commercial customers throughout the state who use more than 200 kilowatts of power a day and who fail to reduce consumption during selected peak summer hours — classified as "moderate," (from noon to 3 p.m.) and "high," (from 3-6 p.m.) — would be forced to pay punitively high rates, up to five times the normal charge.

Without concrete evidence that one classification of customer uses more energy than another, Peevey dismisses the concept of rate parity (meaning revenue neutral) among the various classifications of utility customers, evidently believing it's OK for office buildings and business tenants to pay more than others. Adding to the inequity, California's three regulated utilities developed three, discrete pricing plans — each with differing means for classifying customers and penalty rates.

Rather than disproportionately shifting the burden of increased costs to office tenants, the majority of which are small businesses according to the Building Owners and Managers Association (BOMA) International's Experience Exchange Report, it would be better if the CPUC accelerated efforts toward upgrading California's electricity infrastructure and thereby avoided costly electricity supply/demand crises. Barring that, Peevey's ruling should be overturned for two fundamental reasons:

It presumes a nonexistent emergency. The ruling anticipates an electricity supply shortage this summer, but it does not substantiate the assertion with any formal finding. To the contrary, PG&E representatives publicly stated at a customer workshop on Jan. 12 that they do not expect any power outages in Northern California during the summer of 2005. Imposing mandatory critical peak pricing on the pretext of an emergency unnecessarily disrupts local businesses. Furthermore, it distracts the CPUC from the development of a thoughtful energy policy.

It targets the wrong consumers. Office tenants are not the cause of increased energy demand during peak summertime hours. It should come as no surprise that office buildings exhibit higher usage patterns during the business workday (with early afternoon peaks). Nevertheless, usage patterns in commercial buildings remain relatively flat throughout the year, i.e., a study by the Economic Sciences Corporation of Berkeley, CA, shows there's no spike in demand in the summertime. Increased summer demand comes from other utility customers, in the form of increased air conditioner use in homes and residential developments. Indeed, no one, including PG&E, has provided evidence that a mandatory critical peak pricing will reduce 2005 summer peak demand. Consequently, Peevey's directive punishes businesses for no compelling reason, hindering economic growth.

Office buildings serve simply as an "energy conduit" to 21,844 Bay Area businesses and their 713,000 employees. Industry organizations such as the Building Owners and Managers Association have developed programs unique to their members' properties that significantly reduce energy consumption. Yet commercial property owners have virtually exhausted their options for reducing energy consumption.

Boston Properties, which owns and operates San Francisco's Embarcadero Center, reduced peak summertime demand by approximately 30 percent during the past six years. Given the evidence that office-tenant energy use is no greater than other classifications of customer — to say nothing of the achievements by office building owners and tenants in reducing peak demand — why is it the business community must pay more to offset a supply shortage that PG&E officials have publicly stated will not happen?

The disproportionate piling on of additional costs on the nearly 22,000 Bay Area businesses is particularly onerous for its effect on the region's economic recovery. The CPUC should support — not hinder — such a recovery by establishing electric rates based on cost of service and by upgrading the state's antiquated electricity infrastructure.

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