

It's About Time: Transitioning to Time-of-Use Pricing and Consumer Demand for Electricity

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Abstract

Using high-frequency data from a public utility company, I investigate the impact of switching residential consumers from traditional multi-part electricity tariffs to a time-dependent one. I find evidence of adverse selection out of the program by higher-volume consumers. Consumers that were automatically transitioned to the new plan structure show little evidence of re-optimizing their usage to account for higher prices during peak periods, muting the impact of the program.

1 Intro

2 Previous Literature

3 Data

3.1 Data Acquisition

Data was obtained from Pacific Gas & Electric (PG&E) in California under the state's Energy Data Request Program. The initial dataset was comprised of 300,000 house-years, which amounted to 75,000 households' worth of data for four years, from 2018 through 2021. A random sample was chosen from each zip code in their service area that represented a fixed percentage of their customers in that zip. Zips with fewer than 100 active customers were excluded.

To be eligible, the household must be zoned as a single-family home and must have been an active PG&E customer at that address for the entire four years. I cannot address whether these consumers have different preferences than customers in multifamily homes or who change homes more frequently, though it is easier to compare behavior across homes because many apartment buildings are "master metered," meaning I would not be able to observe an individual customer's behavior. The data are also anonymized to the zip code level, so I cannot observe house characteristics or customer demographics.

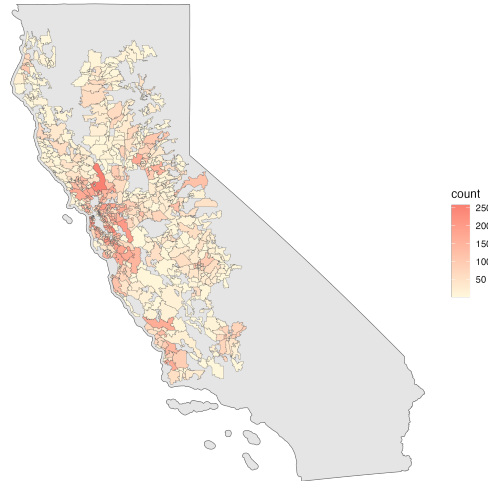


Figure 1: The number of households by zip code, removing alternative plans, solar, EVs, and the top and bottom percentiles of usage.

PG&E provided the data in sets of one-hour increments over the four years. For each customer, I also observe their monthly bill amount and total usage, plus any modifiers to their costs, such as participation in a subsidy program or solar interconnection. Customers have an assortment of plans that they may select during the course of the sample, and I observe any changes in their plan during the sample. Monthly billing data was provided from 2018 through the end of 2022 rather than 2021, leaving an additional year of aggregated bill data to analyze.

3.2 Electric Rate Transition

In PG&E’s service, customers can select from two types of rates- “block” pricing and “time-of-use” (TOU) pricing. Block pricing is the predominant electricity plan type in the United States [CITATION], but utility companies have begun to transition to TOU pricing as the default for their customers as “smart” meters, which allow for measuring real-time consumption, have become more widely available ¹. Under block pricing, consumers face a uniform tariff rate that increases at set usage thresholds. Under TOU pricing, consumers face a constant price during “off-peak” hours, but the price increases at “peak” hours of the day, which typically correspond with times of high aggregate consumption across the utility’s service area. Some of PG&E’s TOU plans eliminate the additional “penalty” for high monthly usage, but others do not.

In the latter half of my sample, PG&E begins to transition nearly all of its customers to TOU pricing from the original block price at the direction of the state. Based on contemporaneous documentation, PG&E had anticipated switching consumers beginning in October of 2020, but this was likely delayed due to Covid ². While a small number of consumers do tran-

¹Note that “smart” meters here pertain to grid-connected devices that allow for the utility company to constantly check real-time consumption, and not “smart” thermostats that allow for consumers to manage their in-home temperature, though the latter can connect to the former.

²See <https://www.pge.com/assets/pge/docs/account/billing-and-assistance/TOU-Transition-FAQs.pdf>

sition to the new plans before the end of 2020, in my sample, the first “wave” of consumers do not appear to change plans until April of 2021³. Rollout is done on a county-by-county basis, with the last group switching in April of 2022. Crucially, customers had the option to opt out of the transition and either stay on their original rate or choose one of the alternative TOU rates. Consumers were given the option to notify PG&E up until the month of their county’s transition, and could do so online, where they also had the ability to compare rate plans for their usage history and decide what their optimal rate plan should be. According to available documents, customers received emails up to four months prior to the transition notifying them of the change. Additionally, the company provided “risk-free bill protection” that would reimburse customers on the TOU plan for any additional cost over the block pricing plan for their first 12 months on the TOU plan.

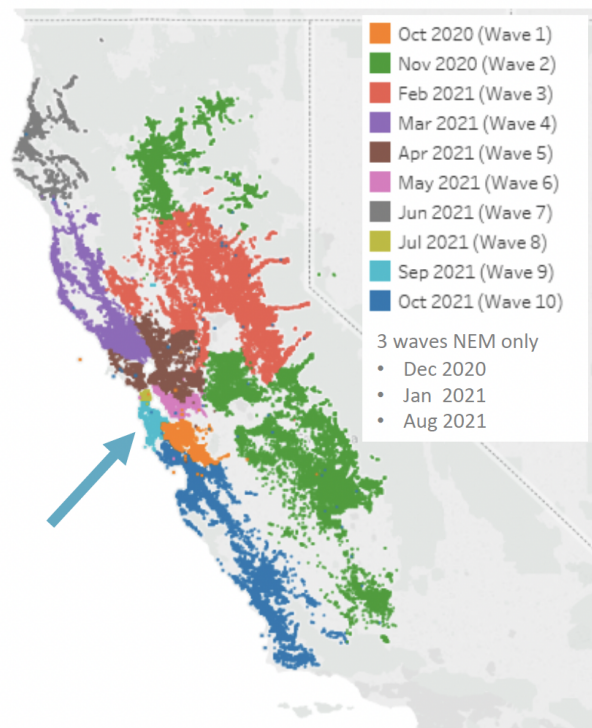


Figure 2: Initial draft of the rollout for PG&E’s TOU-C transition program, per their official documentation. Listed dates are for the original plan and not the actual dates.

Some consumers are on alternative rate plans that they opt into, such as specialized rates for electric vehicles or other TOU plans, but the vast majority are not. The new default, “TOU-C”, features peak pricing periods from 4PM to 9PM every day of the year, including holidays and weekends. As with block pricing, consumers also face increased tariff rates when they exceed their climate zone’s monthly allotment; the penalty is uniform for both the peak and off-peak, so both rates are raised by the same amount. Additionally, there are now rate seasons; peak periods are about 5% higher than off-peak periods during the winter (October-May) but about

³See <https://www.pgecurrents.com/articles/3050-support-statewide-initiatives-pg-e-move-residential-customers-time-use-rate-plan-starting-april> for an announcement of the updated counties and waves.

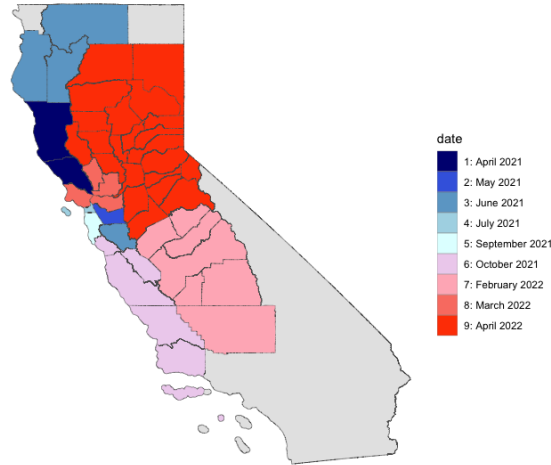


Figure 3: Actual transition dates by county as seen in the data.

Wave	Old Wave Number	Area	Wave Date
1	4	North Coast	Apr-21
2	6	Oakland	May-21
3	7	Far North Coast	Jun-21
4	8	San Francisco	Jul-21
5	9	San Mateo	Sep-21
6	10	Southern Coast	Oct-21
7	3	North Central	Feb-22
8	5	Sonoma Valley	Mar-22
9	2	Central Valley	Apr-22

Table 1: Listed dates based on observed transition month in the sample.

15% higher than off-peak in the summer (June-September). This is presumably to account for anticipated increases in electricity consumption from air conditioning; more than 90% of the households in my sample have gas heating and thus do not use as much electricity in the winter.

As alluded to above, consumers in California are divided into “climate zones” that dictate their allotment of electricity at the lowest price tier each month. Since PG&E’s service area has a wide variation in climate, customers in areas that face similar weather conditions are grouped, and the region’s “allowance” of consumption at the lowest price is calibrated to match the daily usage of households between the 50th and 60th percentiles ⁴. This allotment is then multiplied by the number of days in the billing cycle to obtain the total billing cycle allotment; for example, a daily allowance of 20 kWh for a 32-day billing cycle yields 640 kWh. This applies to the cumulative consumption during the billing cycle and does not reset at

⁴See <https://www.pge.com/en/account/rate-plans/how-rates-work/baseline-allowance.html>, under “Allowances are determined as follows”.

the beginning of the day. Baseline allowances change in accordance with the winter/summer cycles above, and consumers on both the block and TOU plans face the same allowance within their respective climate zones. Consumers with gas heating have much lower allowances in the winter than consumers with electric heating. The variation across zones can be substantial, and consumers that are quite close geographically can face drastically different climates. For example, the amount of electricity that Boonville consumers in California's mountainous north can use without incurring an increased cost in the summer of 2021 is 10.3 kWh for living in zone X, while those in the beach town of Manchester an hour away can only use 6.8 kWh. In the city of Bakersfield to the far south, where summertime temperatures regularly exceed 100 degrees Fahrenheit, the baseline allotment during this same time period was 20.2 kWh. Figure 4 shows a map of these zones in 1990, and Figure 5 shows a comparison of how baselines change across seasons. The zone borders and allowances are updated infrequently. Borders were adjusted in 2020 but largely stayed the same; allowances are updated every three years but also do not tend to change much in magnitude.

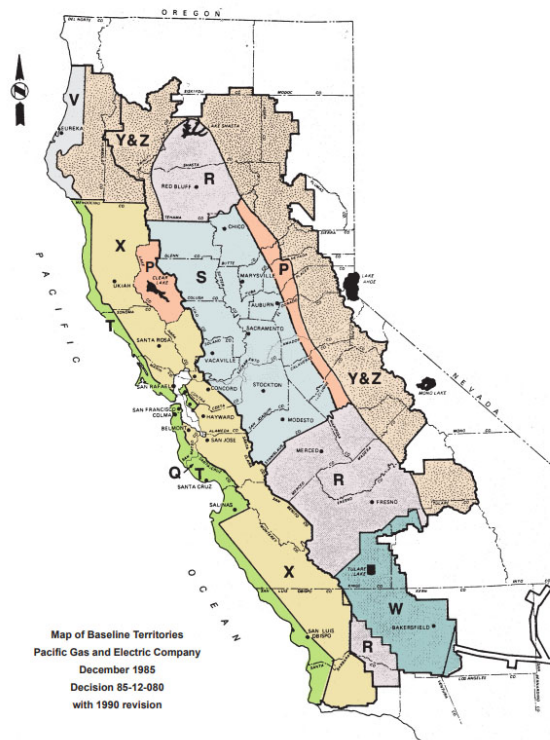


Figure 4: Climate zones for PG&E's service area starting in 1990.

3.3 Prices

Prices during the sample period are relatively stable for the lower tiers of block pricing, but vary widely for both the third block pricing tier and both of the TOU price periods. Figure 6 shows a comparison between the block price and TOU price over the entirety of my sample. The most severe change in price occurs for the highest block price tier in June of 2020; this price

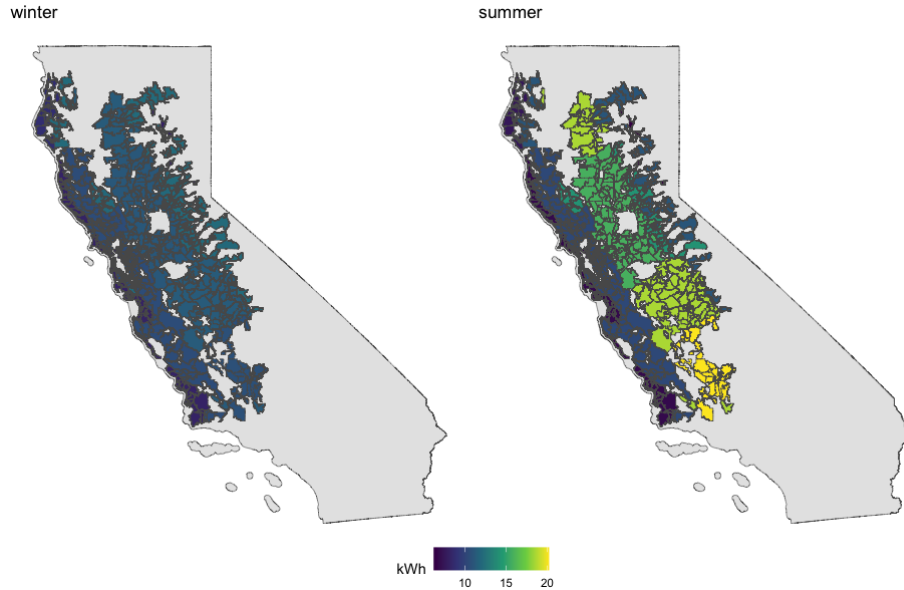


Figure 5: Baselines by season. Scale indicates the estimated average daily consumption for the climate zone.

cut was ordered by governor Gavin Newsom to combat concerns that Californians’ electricity consumption would skyrocket because they were staying inside during the Covid pandemic ⁵. However, I find that in practice, the percentage of households hitting this price tier did not change significantly. The “jumps” in TOU prices reflect price increases during the summer, with rates within the TOU price tiers being significantly higher than their respective tier of block pricing. During the winter periods, however, TOU rate tiers are actually lower than the block tier.

Figures 7 and 8 plot examples of comparisons between the block pricing and new default TOU plan in April and June of 2021 to illustrate how prices changed for consumers. April is the first month of the transition program and June is the third. Prices did not necessarily increase for consumers due to seasonal differentiation in addition to the aforementioned time-of-day differentiation. In the winter months of 2021, prices are better for all consumers relative to the block plan at all tiers of usage, with the most savings for consumers at the high end of consumption. However, during the summer, prices are strictly worse for consumers in the first two tiers; consumers that breach the third usage tier only face higher prices for their peak period consumption.

3.4 Summary Statistics

From the raw dataset, I remove customers that are ever on an electric vehicle plan, subsidy program (CARE and FERA), or have solar. I also remove any customer that ever records an entire month with less than 15 kWh or more than 3600 kWh. Finally, I remove households that switch to TOU-C earlier or later than their county’s wave. This leaves 33,072 households for the analysis.

⁵See Advice Letter 5831E, https://www.pge.com/tariffs/assets/pdf/adviceletter/ELEC_5831-E.pdf

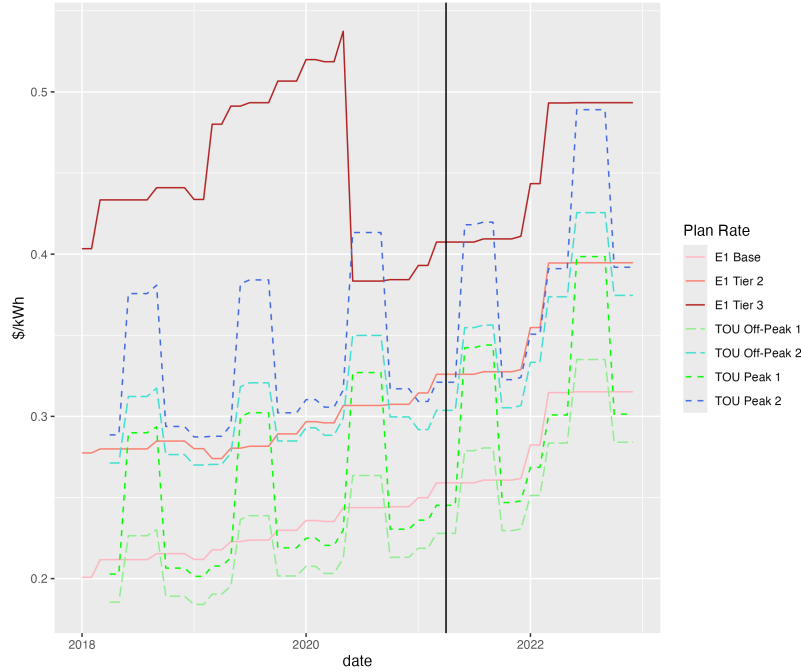


Figure 6: Pricing for TOU and block (E1) plans over time. The black line indicates the first month of the TOU transition rollout.

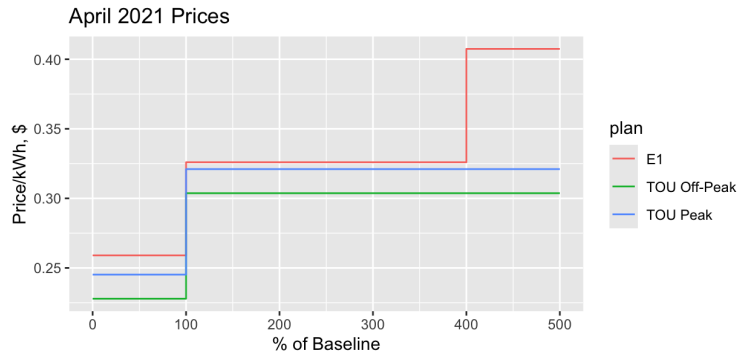


Figure 7: Price comparison, first month of transition (April 2021).

Select summary statistics are presented in table 2 for the first month in the dataset, and the last month in 3. Waves are sub-divided into households that stayed on block pricing or switched to TOU pricing. Across waves, it is apparent that there are stark differences in consumption patterns; these are mostly driven by differences in climate. In comparing the two, it appears that in the pre-transition period, staying households use approximately the same amount of electricity as switching households, with no decisive trend between waves. However, in the post-transition period, switching households used more electricity on average in every wave.

The opt-out rates for seven of the nine waves are well below half. It is worth noting that the two outlier waves were delayed from the revised transition schedule that I have found available

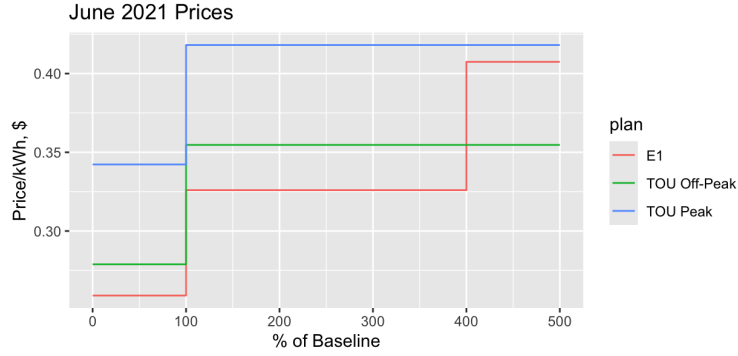


Figure 8: Price comparison, third month of transition (June 2021).

online ⁶ and thus it is plausible that customers had more time to opt out. Nonetheless, most consumers were transitioned to the new rate plans.

Wave	Stay						Switch					
	N	Mean	S.D.	Median	25th	75th	N	Mean	S.D.	Median	25th	75th
1	678	503.1	289.3	447.5	312.0	638.0	1,220	497.8	337.5	421.0	285.5	609.5
2	1,054	442.1	221.1	408.0	295.0	536.0	2,852	443.6	238.2	403.0	281.0	549.0
3	1,339	512.2	268.3	451.0	338.0	625.0	3,014	522.5	297.1	460.0	331.0	636.0
4	356	415.3	252.5	362.5	250.5	530.5	1,115	410.5	242.2	372.0	248.0	522.0
5	634	496.9	289.6	438.0	312.0	601.0	1,803	511.0	297.1	450.0	322.0	619.0
6	1,034	451.7	297.2	397.5	257.0	575.0	2,477	457.2	298.3	394.0	264.0	569.0
7	1,475	528.0	328.0	458.0	316.0	664.0	865	526.6	320.8	479.0	305.0	659.0
8	2,283	518.1	266.1	471.0	339.0	633.0	3,517	531.0	300.1	470.0	330.0	657.0
9	2,718	557.3	337.1	498.0	328.0	700.0	2,459	561.1	366.7	489.0	307.0	719.0

Table 2: Select summary statistics by wave for the month of January, 2018.

Wave	Stay						Switch					
	N	Mean	S.D.	Median	25th	75th	N	Mean	S.D.	Median	25th	75th
1	629	566.3	358.7	501.0	339.0	719.0	1,105	575.2	414.3	476.0	315.0	727.0
2	946	496.8	262.8	451.0	326.0	613.0	2,554	515.0	300.1	458.0	319.0	649.0
3	1,211	572.0	324.0	501.0	369.0	681.0	2,730	585.2	358.1	506.5	353.0	735.0
4	313	458.3	289.5	420.0	256.0	572.0	998	477.3	297.8	416.0	288.0	601.0
5	576	529.4	289.5	467.5	331.0	676.0	1618.00	573.7	357.0	497.0	343.0	704.0
6	954	508.1	361.6	432.0	282.0	619.0	2,250	518.0	369.7	433.0	287.0	646.0
7	1,336	592.5	393.1	504.5	340.0	745.0	800	600.4	400.4	530.0	321.5	774.5
8	2,089	583.8	333.3	519.0	370.0	708.0	3,217	601.5	347.5	537.0	364.0	753.0
9	2,520	627.8	416.9	539.5	352.0	802.0	2,228	636.9	453.0	537.0	332.0	813.5

Table 3: Select summary statistics by wave for the month of December, 2022.

⁶See <https://www.businesswire.com/news/home/20210125005821/en/>

4 Program Selection

Given that the program is opt-out without any restrictions on the customer, adverse selection is a plausible concern for measuring the impact of the plan change on treated customers. Customers whose consumption typically falls into the first two price tiers potentially face much higher prices in the summers under TOU pricing, while consumers with particularly high consumption may actually benefit. Referring back to Figures 7 and 8, a consumer in the third tier of pricing faces higher prices in the summer for their consumption between 100% and 400% of baseline, but gets a “discount” on their consumption past that due to the elimination of the third price tier under the TOU plan. While this seems to run counter to the idea of using TOU prices to encourage energy conservation, in practice, I estimate that less than 5% of bills in a given month tend to hit the third price tier. Moreover, given that the consumer pays higher prices for all their usage between 100 and 400% of baseline, the amount of electricity required to get total bill “savings” relative to block pricing would be extremely high.

A further complication is the “risk-free bill protection” that PG&E promised as part of the program rollout. As mentioned above, the utility said it would reimburse customers on TOU pricing if their monthly bill was higher on TOU than it would have been on block pricing for the first 12 months of the program. While I was not able to confirm how or when PG&E disbursed these payments, it is plausible that this additional program was enough of an incentive to mollify customers concerned about the change in price structure.

Finally, it is also imperative that I check for selection on other possible criteria. The assumption that consumers may opt out over concerns for their bills hinges on the assumption that consumers even check their monthly bills in the first place. Many consumers likely auto-pay their bill each month or manually pay the amount owed without comparing their costs to previous months. As discussed elsewhere in the literature, such as [Borenstein \(2009\)](#), the delay between consumption and subsequent payment may lead to consumers being largely unaware of how their habits impact their final bill costs.

4.1 Selection on Price

4.2 Selection on Plan Reimbursement

4.3 Selection on Other Factors

5 Empirical Framework

With the above descriptive facts established, I intend to study whether the program led to noticeable changes in consumer behavior in the post-transition period. The desired outcome of the transition as described by the California Public Utilities Commission (CPUC) and PG&E is to promote more consumption during periods when California’s energy production is more renewable. Currently, California has a large excess of renewable energy production relative to demand during daylight hours, but must rely on natural gas to produce its energy in the evenings when renewable production wanes. While this aim is admirable, it relies on consumers responding to the plan switch in the desired manner.

There are multiple possible ways in which consumers may have responded to the plan switch. First, they may have reduced their consumption during peak hours, but how consumption during off-peak hours may have changed is unclear. For example, consumers may have

increased their off-peak consumption and thus their total consumption is relatively unchanged. They may also have not substituted towards off-peak consumption at all if they cannot substitute their consumption between the periods due to schedule restrictions. Alternatively, consumers may have kept their peak consumption unchanged and substituted away from off-peak consumption if their elasticity for it is sufficiently low. These possibilities are all dependent on how substitutable the two periods are, and their respective elasticities. To assess these potential outcomes, I estimate several different regression specifications that are commonly employed in the program evaluation literature.

To assess the outcome in each specification, I use variables that are commensurate with the potential consumer response above. This includes total demand, billed amounts, and peak share as a percentage of total demand. For substitution across time periods, I also run a separate set of regressions for consumption in each hour.

5.1 Difference-in-Differences

First, I begin with a traditional difference-in-differences approach. Assuming that selection out of the program is random, “staying” consumers should exhibit similar pre-trends to “switching” consumers in the pre-period, but differ afterwards. Given that staying consumers have no incentive to change their consumption, they should exhibit little post-transition change. Thus, the difference between the two should be identifiable as the effect of the transition. The model estimated will be

$$Y_{ijt} = \beta_0 + \tau post_{jt} + \gamma treated_{ij} + \Delta post_{jt} \times treated_{ij} + \epsilon_{ijt}$$

where Y_{ijt} is the outcome of interest, $post_{jt}$ is an indicator of whether consumer i 's wave j is in the post-transition period t , $treated_{ij}$ an indicator of the consumers in wave j being treated, and $post_{jt} \times treated_{ij}$ the average treatment effect of the program on the consumers that have switched.

5.2 Event Study

Second, I estimate an event study approach that allows for heterogeneous effects in each period, both pre-transition and post. There are multiple reasons why this may be the case. First, there is a strong element of seasonality in electricity demand, and prices also now vary by season, so it is plausible that the effect of the transition program is not the same from one month to the next. Second, it is possible that consumers did not respond immediately to the program. Due to the opt-out nature of the program, many customers may not have been aware of the change, and may not have noticed the adjusted prices until some time later. As with the difference-in-differences above, the estimated equation will also use staying consumers as control:

$$Y_{ijt} = \beta_0 + \sum_{\tau=-12}^{12} \beta_{\tau} \mathbf{1}\{\tau = t\} + \sum_{\tau'=-12}^{12} \beta_{\tau'} \mathbf{1}\{\tau = t\} \times treated + \theta_j + \epsilon_{ijt}$$

where Y_{ijt} is the outcome of interest for household i in wave j during period t , and β_{τ} are period fixed effects relative to the consumer's own transition period. θ

5.3 Staggered Event Study

To address the possibility that the non-treated households are not a comparable control for the treated, I also employ a “staggered” even study design in which the later-treated households are used as control for the earlier-treated. If household i is treated in period t , and j is treated in $t + n$, then j can serve as a control up until period j because we would anticipate that their behavior will not have been altered by the program yet ⁷

5.4 Seasonal Division

Due to the stark differences in pricing across seasonal periods, it is also worth considering that consumers may have heterogeneous responses to the prices they face in the immediate post-rollout period in addition to the aforementioned period-dependent heterogeneity. That is, month t of the program may show a different consumer demand impact if t occurs during the summer versus the winter. Three of the county groups in PG&E’s service area transitioned during summer months, so it is plausible that the lower prices in winter and higher prices in summer, relative to the original block plan, have offsetting effects.

To test this, I use two different forms of event study that incorporate seasonality. First, I incorporate indicators for summer and winter pricing to the conventional event study design:

5.5 Matching Estimator

5.6 Hourly Impact

As a final check, it is worth taking advantage of the high-frequency data to see how consumers may have adjusted their consumption by substituting across hourly periods. Using peak-percentage in the above sections shows whether demand shifted from peak to off-peak, or vice versa, but we can use the hourly data to assess whether these changes were uniform across all sub-periods or if they were more heavily concentrated in some hours over others.

- event study of
- spaghetti plot

6 Results

6.1 Difference-in-Differences

Table 4 displays results for four key variables

⁷This is only the case when we expect that j is not influenced by i . Given that all households in the same county group are treated simultaneously, it seems reasonable to conclude that demand in households from other counties is not pre-emptively impacted by others.

	log(kWh)	log(Bill \$)	Peak %	log(Peak kWh)
Switched x Post	-0.006 (0.003)	-0.013 (0.003)	-0.004 (0.000)	-0.025 (0.005)
Switched	-0.024 (0.001)	0.005 (0.001)	-0.006 (0.000)	-0.154 (0.002)
Post	0.026 (0.003)	0.018 (0.004)	0.005 (0.000)	0.043 (0.005)
Constant	6.033 (0.001)	4.699 (0.001)	0.279 (0.000)	4.863 (0.002)
N	1,326,033	1,325,971	548,336	548,336
R2	0.052	0.084	0.053	0.124
Wave FE	Yes	Yes	Yes	Yes
Yr x Mon FE	Yes	Yes	Yes	Yes

Table 4: Columns 1-2 use true billing numbers; columns 3 and 4 use estimated values from interval data.

6.2 Event Study

6.3 Staggered Event Study

6.4 Matching Estimator

References

S. Borenstein. To what electricity price do consumers respond? residential demand elasticity under increasing-block pricing. *University of California Energy Institute*, Center for the Study of Energy Markets Working Paper 195, September 2009.

7 Appendix

7.1 Covid and Electricity Demand

It bears mentioning that the Covid pandemic straddles the middle section of my data sample. In California, a “stay home” order was officially put in place by the governor on March 19, 2020, and lifted January 25, 2021. During this nearly year-long order, customers are supposed to have stayed in the home, save for designated activities like time outside, purchasing groceries, or work if the consumer was from certain industries. In general, this should have had the effect of increasing households’ electricity consumption beyond what it otherwise would have been. Figure 9 plots the coefficients for each hour in a year-over-year regression in 2019 versus 2020, while 10 shows the same for 2020 to 2021. The shocks to daily consumption in each hour beginning in March of 2020 is rather stark. However, these shocks gradually began to dissipate by the end of the year. Note that in the 2020 to 2021 plot, January and February appear to show an acceleration in usage, but these two months were unaffected by Covid in the previous year, so consumption during work hours is still slightly elevated above normal levels.

Fortunately for the TOU program, the Covid order expired more than two months before the first counties began to transition to the new plan. Given that I can also account for the Covid

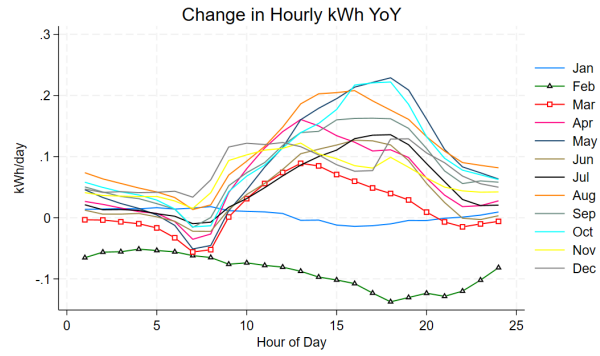


Figure 9: Year-over-Year difference in consumption from 2019 to 2020 by hour.

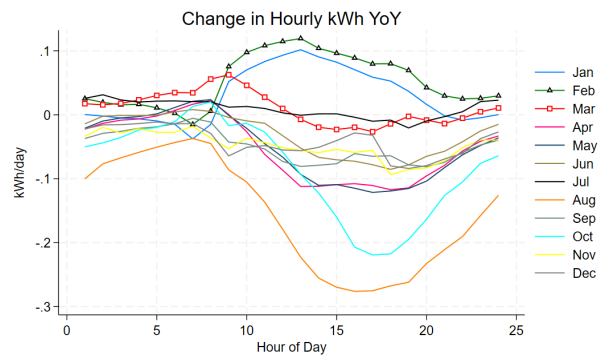


Figure 10: Year-over-Year difference in consumption from 2020 to 2021 by hour.

period by using appropriate fixed effects, I do not consider this a threat to the identification of the program's impact.