

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-3921

6/16/05

R E S O L U T I O N

Resolution E-3921. SCE & SDG&E

By Advice Letters SCE 1847-E & SDG&E 1647-E/1494-G filed on
December 15 & 20, 2004, respectively.

SUMMARY

Distribution line and service extension allowances are granted to new applicants for electric and gas service. For residential service these allowances are a fixed dollar amount for all other customers they are based on the anticipated new revenue. The amount of the allowance is placed into ratebase and thus raises distribution rates.

This Resolution approves as modified herein, on an interim basis to June 30, 2006, changes to residential allowances, and also changes to monthly ownership charges for unused capacity of new SDG&E electric and gas line extensions, per Rules 15 and 16. It also requires SCE and SDG&E to clarify and coordinate language in Rules 2, 15, 16 and associated rules, to explain how the monthly cost of ownership charge relates to the Cost of Service (COS) factor used in the calculation of the allowances.

SCE, SDG&E, PG&E and SoCalGas shall file within 90 days Applications to propose revisions to line extension allowance policies and to the methodology of computation of the allowances, which incorporate uniform data sources and distinguish between the presence or absence of competing non-jurisdictional utilities in setting the level of the allowances.

BACKGROUND

SCE's and SDG&E's Rule 15, Distribution Line Extensions, Section C.3, states that the utilities may provide an allowance to new customers installing permanent Distribution Line Extension and/or Service Extensions. Section I.2 of Rule 15

requires that the utility will periodically review the factors used to determine its residential allowances. If the review results in a change of more than five percent, the utility will submit a tariff revision to the California Public Utilities Commission (Commission) for review and approval.

SCE and SDG&E have completed periodic reviews for residential allowances and submitted subject Advice Letters (AL) that would change the allowances and monthly costs of ownership charge as follows:

SCE

	Current	Revised	Percentage change
Electric Allowance	\$ 1,247	\$ 2,179	75
Cost of Ownership	0.34 % per month	0.34 % per month	0

SDG&E

	Current	Revised	Percentage change
Electric Allowance	\$ 1,280	\$ 1,917	50
Cost of Ownership	1.21 % per month	0.68 % per month	-44
Gas Allowance	\$ 1,142	\$ 1,413	24
Cost of Ownership	1.55 % per month	0.55 % per month	-65

NOTICE

Notice of AL 1847-E and AL 1647-E/1494-G was made by publication in the Commission's Daily Calendar. SCE and SDG&E state that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

Advice Letters AL 1847-E and 1647-E/1494-G were protested.

SCE's Advice Letter AL 1847-E was timely protested by the Office of Ratepayer Advocates (ORA) and protested one day late by The Utility Reform Network (TURN).

SDG&E's Advice Letter AL 1647-E was timely protested by ORA and AL 1647-E/1494-G was protested late by TURN, but accepted under the "exception" clause in G.O. 96A.

SCE responded to the protests of ORA on January 10, 2005 and to the protest of TURN on January 12, 2005.

SDG&E responded to the protest of ORA on January 18, 2005 and to the protest of TURN on February 4, 2005.

On February 10, 2005 ORA supplemented its protest to SCE's and SDG&E's ALs in a response to the Energy Division and stated that it provided both utilities with copies of the supplement.

DISCUSSION

The overall issue raised by protestants in this Resolution is whether increasing the line and service extension allowances for new residential customers is net revenue justified and per Commission policy. For example, a line extension allowance given to new customers that is characterized as "too high" means that new customers are paying too little to become part of the system and that existing customers therefore are giving them a subsidy. Likewise, reducing the monthly ownership charge for unused capacity could result in a cost shifting from new customers to ratepayers.

The individual issues protested are each covered in a Protest- IOU response-Discussion format below.

1. ORA protested SCE's AL 1847-E and SDG&E's AL 1647-E/1494-G on both procedural and policy grounds

ORA's protest included SCE's and SDG&E's ALs on policy grounds, because the requested allowance increases are contrary to the original justification of line extension allowances for new customers; namely, that they would provide additional revenues that would help reduce the revenue requirement from existing customers. The ALs are also contrary to that part of decisions D.97-12-098 and D.94-12-026, which states "the capital cost absorbed by utilities has resulted in larger rate base and created upward pressure on rates". ORA states that the request should be handled either by re-opening the line extension

rulemaking R.92-03-050, or by treating the request as “exceptional case” per Rule 15, Section I.3.

ORA further objects to SCE’s and SDG&E’s delays in filing for an allowance change until the changes exceeded the five percent by wide margins (SCE by 75 %, SDG&E by 50% for electric and 24% for gas). The Commission has previously determined that line extension allowances were not “rates”, and therefore the argument that the utility could not have changed the rate (allowance) during the rate freeze period is incorrect (Conclusion of Law 12 in D.97-12-098).

SCE and SDG&E Responses

SCE replies that this is not a rate increase, but only follows decision D.98-03-039 that permits recalculation of the allowance if the Commission issues a decision impacting the factors in the formula. Rule 15, Section I.2 requires that the utilities periodically review the factors for calculating the residential allowance and file for a change if greater than five percent. The “exceptional case” referred to in Rule 15, Section I.3 is reserved for individual line extension applications and has been applied so in the past “when the application or this rule appears impractical or unjust to either party or ratepayers, ...”. Ordering Paragraph 1 of D.97-12-098 was modified, in Subsection (3), to provide for the filing of an advice letter to implement the new mechanism for efficiently recalculating the line and service extension allowances.

SCE states that because of the rate freeze it first had to wait for the receipt of the Energy Division’s approval letter of the Procurement Related Obligation Account (PROACT) rate change on October 28, 2003, and then needed a 12-month data collection period, before it could submit an advice letter to change the allowances.

SCE and SDG&E point out that ORA’s protest is not the appropriate forum to propose an alternate methodology of allowance calculation.

Discussion

Decision D.98-03-039 clearly supports SCE’s and SDG&E’s position that residential line and service extension allowance changes may be filed by advice letters when a Commission decision affects factors in the formula for its calculation, whether or not the allowance is modified by five percent.

Earlier SCE ALs (1095-E-A, 1150-E, 1309-E, 1441-E) for modification of the allowance are a precedent of this procedure.

The fact that D.98-03-039 specifically allows AL filings to request an allowance change greater than five percent dispels ORA's view that the "exceptional case" provision of Rule 15, Section I.3 applies for such an increase.

In its supplemental comments, ORA agrees that both SCE's and SDG&E's AL proposals comply with the procedure that Rule 15 allows.

Therefore we agree that an AL is the correct vehicle to request residential line and service extension allowance changes per Rule 15, no matter how large.

We also agree with ORA that the allowance change was excluded from the electric rate freeze, because the freeze applied only to the bundled rate, but not to the components. We shall not require the utilities at this time to retroactively calculate the residential allowances.

We agree with SCE and SDG&E that the policy issues are clearly outside the scope of this AL. However they have merit because we stated our intent to reduce the subsidy from existing ratepayers. ORA modified its position in their supplemental comments and agrees with SDG&E that the policy issue "...should be addressed in a manner deemed appropriate by the Commission, not within the present filing..."

We therefore require SCE, SDG&E, PG&E and SoCalGas to file within 90 days Applications to propose policy and methodology changes to the allowance determination.

2. ORA protested the methods and calculations in SCE's AL 1847-E

The basic relationship given in Rule 15 is that the Allowance (dollars per new extension) equals the Net Revenue (dollars per customer per year) over the Cost of Service factor.

In order to calculate the change in the allowances, Rule 15 requires SCE to calculate "that portion of the total rate revenue that supports SCE's Distribution Line and Service Extension cost, and excludes such items as energy, transmission, public purpose program, revenue cycle (RCS) revenues, and other revenues that do not support Distribution Line and Service Extension costs". To do this SCE used the TOU-D-1 rate as a proxy for the average residential customer rate. ORA doubts that the TOU-D-1 rate is adequate. ORA proposes to use the contribution to margin from the new customer and a methodology of

allocating the residential average rate in proportion of the total distribution revenue to residential revenue to determine the distribution component and then subtract the costs that do not support the hookup.

ORA further points out that the TOU-D-1 proxy rate should not include the baseline credit component of 0 .625 cents per kWh.

ORA also claimed that the correct COS factor should be derived from Rule 2, Section H.2.c (1) for “applicants being served by SCE-financed added facilities shall pay a monthly charge of 1.46% (with replacement in perpetuity) of the cost associated with the added facilities”. The COS factor would then be 0.1752, rather than the 0.162 used by SCE, corresponding to a monthly charge of 1.35% per Rule 2, Section H.2.c (3), which is for facilities financed by SCE without replacement in perpetuity.

SCE stated that it did not respond timely to ORA’s supplemental comments because it did not receive a copy of them until February 15, 2005.

Discussion

SCE explained in response to a data request from the Energy Division that the TOU-D-1 distribution rate is the revenue-neutral averaged (summer/winter) residential distribution rate and excludes all other components after deducting the RCS cost. In Compliance with OP 6 of D.98-09-070 SCE previously used the TOU-D-1 rate as a proxy and applied the same method and sources for calculating the allowance as proposed.

We therefore adopt in the interim this proxy average residential distribution rate, subject to other modifications in this resolution.

Rule 15 and the relevant decisions do not dictate an exact method of calculating the net residential distribution revenue or that the marginal cost of serving a new customers should be used to calculate the allowance. Therefore, a discussion of these issues is deferred to above required Applications.

We agree with ORA that the 0.625 cents per kWh baseline credit shown on schedule TOU-D-1 should also be deducted from the residential distribution rate used in the allowance calculation. However the deduction should be in the same proportion as the ratio of average residential baseline allowance to total kWh consumption per customer, as SCE commented.

We agree with SCE that the correct COS factor is based on the monthly charge of 1.35% for SCE-financed added facilities without replacement in perpetuity. Furthermore, Rules 2, 15, and any other rule referring to a COS factor, should be clarified as to the relationship with the applicable monthly ownership charge for added facilities.

3. TURN protested the inclusion of the sub-transmission system and other costs in SCE's AL 1847-E

TURN would exclude costs from SCE's calculation of the allowance if they do not rise when connecting new customers. These costs are for the sub-transmission system, generation-related administrative and general (A&G) cost, and costs associated with the interruptible programs (both industrial interruptible and residential air-conditioner cycling programs).

SCE Response

SCE agrees to exclude the generation-related A&G costs in the distribution component of the retail rates for the re-calculation of the allowance. SCE then notes that the surcharges associated with interruptible programs (both industrial interruptible programs and residential air conditioner cycling programs) as well as the surcharge associated with the CARE program have already been excluded in the filed allowance, as shown in response to a data request by TURN.

However SCE disagrees with TURN that the sub-transmission system cost should be excluded from the calculation of the line extension allowance, because the sub-transmission system cost is recovered through CPUC-jurisdictional distribution rates. The SCE 69 kV sub-transmission system is primarily a radial configuration, unlike the other utilities' 69 kV networked systems, and serves distribution substations and retail customer circuits.

Discussion

We appreciate SCE's agreement with TURN's request that the generation-related A&G costs should be excluded from the allowance calculation, and SCE's assurance that the surcharges associated with interruptible and CARE programs have already been excluded in the calculation of the filed allowance.

However, TURN's protest to including SCE's sub-transmission costs when calculating distribution rates and line extension allowances is a matter of CPUC policy that cannot be changed in the context of this resolution. Since the issue of

whether sub-transmission costs should be considered distribution costs has far reaching effects on more than the rates and allowances we defer this issue to above required Applications.

4. ORA protested SDG&E's AL 1647-E/1494-G as being only a proposal that requires more backup information

ORA stated that SDG&E's AL should not be treated as a compliance filing but only as a proposal because SDG&E does not have prior authorization to implement it. Moreover ORA requested SDG&E to provide calculations supporting the proposed line extension allowance or annual revenue impacts, as required by General Order (G.O.) 96-A.

SDG&E Response

SDG&E responded that 1) ORA makes an unnecessary distinction, 2) that even an AL sometimes requires more analysis for approval than a straight forward compliance filing and 3) rates would not be affected until SDG&E's next general rate case proceeding, based on its recent COS decision (D.04-12-015)

In response to an Energy Division Data Request SDG&E listed the data source for its line extension allowance calculations. These references are the 2004 COS Settlement, 2004 Rate Design Window Settlement, work papers supporting rates effective 05-01-00, D.99-12-046, AL-1220-E, Sempra Utilities Revenue Requirement Model, and SDG&E's 1999-2003 Form 1 filing to the Federal Energy Regulatory Commission. A further response to another Energy Division Data Request also showed the gas allowance calculation methodology and references.

Discussion

The AL is the correct vehicle to request allowance changes, as we concluded under issue 1 above and it does have prior approval, and it is subject to scrutiny as evidenced by this resolution.

SDG&E is correct that the proposed allowance increases would not have an impact until customer rates change after its next GRC. Therefore, the time required for the above-required Applications to propose alternate methods and data for the allowance calculation will not delay rate changes.

SDG&E provided current data for customer counts and dual fuel RCS credits in response to staff data requests and should use it in the allowance calculation formula, as discussed further in the Comments section.

In responses to the Energy Division's data request, SDG&E provided the electric Total Distribution Revenues allocated to the Residential Class (\$ 327,589,000) from the 2004 COS Settlement, the Average Residential Customer count (1,067,055) from the 2004 Rate Design Window Settlement, the Average RCS Credits (\$8.68) from Work papers supporting rates effective 05-01-00, and the COS factor (15.54%) also from the 2004 COS Settlement.

However staff found that SDG&E posted a different electric residential customer count figure in its Comparative Statistics 99-2003. For 2003 there were 1,149,445, resulting in \$285 revenue per residential customer. Subtracting the same low RCS cost above of \$8.68, and dividing by the COS factor of 15.54%, results in a lower electric allowance of \$1,778. The RCS cost used by SDG&E is only one-fifth of SCE's.

Similarly, in response to Energy Divisions data request for the gas allowance calculation, SDG&E used Average Usage Numbers (474 Therms total per unit) from a 1999 Conditional Demand Study performed by Regional Economic Research, based on results from SDG&E's MIRACLE XIII Residential Survey; Base Margin for Ratemaking (\$156,400,000) for rates effective January 1, 2005 per AL 1496-G; Marginal Cost Allocation (\$91,471,000), Transmission Marginal Cost Percentage (8.47%), and Average Year Deliveries (326,207,000 Therms) from the 1999 BCAP, D. 00-04-060. The COS factor is taken from the 2004 COS Settlement at 14.72%.

However SDG&E's Comparative Statistics 99-2003 shows for 2003 a gas residential customer count of 770,305, resulting in \$203 revenue per residential customer. Dividing by the COS factor of 14.72% yields a lower total gas allowance of \$1379. This is further supported by the 2003 average residential gas use from SDG&E's Comparative Statistics of 424.5 Therms per unit, not the 474 Therms from the 1999 SDG&E survey. Other sources suggest that SDG&E survey data, for average water and space heating uses, are high at 185 and 235 Therms respectively.

Finally, staff estimated SDG&E RCS cost, based on the following data. In D.04-11-033 SCE estimates that 40-48% of the costs on which the master-meter

discount to mobile home park (MHP) owners is based are for operation and maintenance and are estimated by the utilities “on a basis that is not limited to mobile home parks”. The remainder of the costs is therefore for RCS. Applying SDG&E’s master-meter discounts for multi-unit customers, per Schedules DS (\$.13/unit/day) and GS (\$.25493/unit/day), respectively, at 60%, representing RCS costs, would yield even lower allowances (\$1650 for electric, \$747 for gas). While the numbers used in above alternate calculations of the allowances may be challenged, they are newer than the 1999 BCAP numbers. **They also show that absent any clear and consistent rule for the sources of data for the allowance calculation the allowances vary considerably, for a utility and between utilities.**

5. TURN protested the inadequate documentation of the allowance calculation and the redefinition of the COS in SDG&E’s AL 1647-E/1494-G

TURN protested this AL for three reasons, the first one being poor documentation to explain the line extension calculation. The second reason is redefining the COS factor “by the utility”, with no reference to Rule 2, Section 2.I or to the origin of the COS factor for gas, or to allowance changes for gas appliances. Finally, the dramatic reduction of the monthly ownership charge would reduce the amount SDG&E would recover for the maintenance of under-utilized line extensions.

SDG&E Response

In its response SDG&E provided the Net Revenue and COS data it used to revise the allowances for gas and electricity. Furthermore, it pointed out that its filing does propose to include the COS and monthly ownership charge in Rule 15; Rule 2, would be revised later. SDG&E responded that his approach would be consistent with earlier Commission approval of SoCalGas’ Rule 20, Main Line Extensions, and would avoid customer confusion. SDG&E’s Response justifies its proposed line extension allowance with the rulings in the recently concluded Line Extension OIR and with D.04-12-015 of SDG&E’s Phase I COS application, which changed the electric rates, affecting net revenue, along with a lower Rate of Return, affecting the COS and the monthly cost of ownership charge.

Discussion

Methods of calculating allowances and sources of data for those methods are complex and should be covered in SDG&E’s supplemental filing. At a minimum the following shall be included:

- The data sources for allowance calculations including gas appliance allowances;
- COS factor references in Rule 15 and their relationship to monthly ownership charges in Rule 2; and
- Source of COS factor for gas.

Approval of SDG&E's AL Requires Only SDG&E's Good Faith Commitment to Complete Its Partial Response to Energy Division's Request for Clarification of Form 106-44140, *Agreement for Extension and Construction of Overhead/Underground Electric and Gas Facilities*

SDG&E's AL contains a revision to the subject Form, in compliance with the commitment made in response to the Energy Division comments in Resolution 3364-G. SDG&E incorporated many of those editorial and clarifying changes in this filing. Because the remaining requested clarifications are not affecting the allowances or are editorial, the approval of SDG&E's AL shall not be subject to incorporating them. SDG&E will continue to work with the Energy Division to resolve the remaining issues with this Form. SDG&E (and all other utilities) are reminded that G.O.96, Section III. E requires that all tariff sheets, including filed forms, to have each change marked with a vertical line in the margin.

COMMENTS

Public Utilities Code section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments.

Comments on the draft resolution were received from PG&E on April 13, from ORA on April 15, from SDG&E on April 18 and from SCE on April 22, 2005.

Replies to comments were received from SCE on April 22 and from ORA and SDG&E on April 25.

Based on SCE's late receipt of ORA's supplemental comments on the draft resolution, it requested and the Energy Division granted an extension of the comment and reply periods to April 18 and 25, respectively.

Following are the summaries of the comments, replies and their discussions:

Compounding of the monthly charge to arrive at the COS factor is not required.

PG&E and SCE commented that the Commission staff proposed compounding of the monthly charge to arrive at the COS factor, rather than multiplying it by 12 would result in an incorrect COS factor. The COS factor has its origin in the respective GRC proceeding. PG&E also cites protection under PUC Section 1708 and that such a decision should only be prospective.

We therefore do not require this change at this time. This resolution has been revised accordingly.

Estimates of revenue impact are not required for interim approval of the proposed line extension allowances

ORA's Comments raised an issue not in its original protest; namely, that SCE and SDG&E have not complied with General Order (G.O.) 96-A because their ALs did not include an estimate of the annual revenue impact by areas, schedule and classes of customers, where practicable.

In reply SDG&E claimed that there is no revenue impact until its next general rate case and that any party could have requested the work papers supporting the AL filing.

SCE replied that D.98-03-039, OP 1 modified D.97-12-098 to allow for "efficiently" recalculating the line and service extension allowances and that previous filings were accepted without estimates of revenue impact.

In D.97-12-098 the Commission established a procedure to keep allowances automatically in accord with Commission decisions as they are issued. The California Building Industry Association (CBIA) responded at the time that automatic adjustment of the allowances was unlawful because PU Code 783(b)

requires the commission to make findings on the economic effect of line and service extension terms and conditions are changed. In D.98-03-039 the Commission denied CBIA's application for rehearing but required advice letter filings to serve notice of automatic recalculations.

We therefore will not require SCE and SDG&E to submit revenue impact estimates at this time.

We will however direct SCE, SDG&E, PG&E and SoCalGas to file applications that propose criteria for when a revenue impact estimate is required in an allowance change advice letter filing, and for when the Commission must consider the economic effect of line and service extensions, all taking into account PU Code 783 (b), G.O. 96-A, and D.98-03-039.

SCE's partial baseline credit calculation method is approved on an interim basis

The amount of the revised allowance depends on the expected residential distribution revenue including baseline and nonbaseline revenue. , and the calculation of distribution revenue depends on the ratio of baseline to nonbaseline revenues.

In response to ORA's original demand for a full deduction of the 0.625 cents/kWh baseline credit in Schedule TOU-D-1 from the net revenue when calculating the allowance, SCE agreed to a partial deduction. SCE proposed to adjust the baseline credit by the ratio of the average kWh baseline allowance to total usage per residential customer.

ORA acknowledged SCE's offer of a partial credit deduction but is not confident of the accuracy of SCE's proposed method of calculating it, mainly because of the originally questioned representation of Schedule TOU-D-1 for average residential distribution revenue per kWh. ORA mentioned "arcane and technical topics" of the degree to which one rate schedule is representative of rates for the entire residential class and relationships between different rate components for baseline and above-baseline rates. ORA therefore favored now SDG&E's method of calculating the allowances, because of its "transparency and greater accuracy".

Uniform details of sources and methodology of allowance calculations shall be proposed in the Application ordered in this resolution of each named utility.

In the interim we allow SCE to calculate the partial credit as proposed. The resolution has been revised accordingly.

SCE's use of 1.35% to determine the COS factor is approved on an interim basis

SCE commented that in contracts before 1999 the monthly charge for SCE financed added facilities (from which the COS factor is calculated by multiplying by 12) is 1.35% and that therefore the Net Revenue does not include the higher rate of 1.46% for SCE financed added facilities with replacement in perpetuity. ORA pointed to Rules 15 and 16, which do not contain a provision for increasing the monthly charge at the end of the original asset's life.

SCE explained in its reply comments that the 1.46% for "replacement in perpetuity" is "a charge based on full replacement at the end of the asset's life" and "without replacement in perpetuity" means that "the customer pays a (monthly) charge (1.35%) based on the higher cost of replacement (for added facilities) at the end of the asset's life". The differential of .11% is insurance against inflation.

It is important to understand that the unchanged monthly charge of 1.35%¹ is only used to obtain the COS factor in the allowance calculation. The monthly charge of 1.35% is not the monthly ownership charge for unused capacity of line extension facilities. SCE confirmed that the latter remains unchanged at .34%, corresponding to the monthly ownership charge for customer-financed added facilities without replacement in perpetuity, as shown in Rule 2, Section H.2.c. This .34% charge does not include components for ratebased costs (i.e. ROR, income tax, carrying cost of capital and depreciation).

¹For SCE-financed added facilities without replacement in perpetuity per Rule 2, Section H.2.c.

SDG&E's support for its calculations is acceptable on an interim basis

While SDG&E provided references in response to several staff data requests, we agree with ORA's comments that even some of those references are not sufficiently detailed (per page number), easily available (SDG&E's gas appliance survey) or not current.

SDG&E provided the calculation of the weighted average RCS credits for dual fuel utilities using methodology authorized by D.99-12-046. SDG&E's supplemental AL responding to this Resolution should use a total residential customer count of 1,165,857 from the 2004 COS settlement for the ratio of gas and electric to electric-only customers.

SDG&E must provide consistent derivations of monthly cost of ownership charges for electric and gas facilities and must refer to Rule 2 in them

In response to a staff data request SDG&E explained that the proposed monthly cost of ownership charge for unused capacity of line extensions is less than $1/12^{\text{th}}$ of the COS factor, because it does not include all of the cost components used in the COS factor, namely income tax, ROR and carrying cost of capital, including book depreciation, but includes salvage value. The current "monthly charge" for Line Extensions shown in Electric Rule 2, Section I.2 is actually $1/12^{\text{th}}$ of the current COS factor and only used to calculate the allowance. This labeling leads to confusion, because it is not the monthly cost of ownership charge for unused capacity of line extension facilities.

There is no logical reason why customer financed special facilities per Rule 2, Section I.1 and unused capacity of line extension facilities per Rule 15 should incur different monthly cost of ownership charges. The derivation of the proposed monthly cost of ownership charges of 0.68 % for electric and 0.55% for gas, respectively, need to be explained in SDG&E's supplemental AL responding to this Resolution, and referenced to Rule 2, as applicable.

FINDINGS

1. D. 97-12-098 and D.98-02-039 directed SCE and SDG&E to file an Advice Letter to recalculate the fixed residential line extension allowance if the Commission issues a decision impacting the factors in the formula.
2. The AL is the correct vehicle for the allowance change, regardless of the amount. The “Exceptional Case” of Rule 15, Section I.3 does not apply.
3. The allowances are not rates and therefore were not included in the electric rate freeze. The gas line extension allowance change should have been requested before it increased 24%.
4. Relevant Commission decisions and documents do not define uniform sources of data for all utilities and a method of calculating net revenue for use in the line extension allowances.
5. There was no protest to SoCalGas’ AL 3437-G, which proposed a reduction in the allowance for gas main and service extensions, that became effective February 7, 2005 .
6. SCE’s TOU-D-1 distribution rate is an acceptable proxy for the average residential rate supporting line and service extension allowances, after exclusion of the RCS cost, generation-related A&G costs and pro-rated baseline credit component. The ratio to be used for the baseline credit is the average residential baseline to total residential consumption per customer.
7. Rule 15 and the relevant decisions do not dictate that the line extension allowance is calculated from marginal distribution costs. This is a policy issue and should be proposed in the Applications ordered herein.
8. SCE did not change its monthly charge of 1.35% for SCE-Financed Added Facilities Without Replacement in Perpetuity per Rule 2, Section H.2.c (3) represents 1/12th of the COS factor that is used for the calculation of the allowance only.
9. SCE did not change its monthly ownership charge for unused capacity of line extension facilities of 0.34%, corresponding to customer-financed added facilities without replacement in perpetuity.
10. SCE’s and SDG&E’s monthly charge is not compounded to obtain the COS factor.
11. The terms “COS factor” and “ownership charge” in Rule 15, and “monthly charge” in Rule 2, and the relationship among them, is not explained in the rules of SCE and SDG&E.
12. The difference between the monthly charge, which is multiplied by 12 to obtain the COS factor, and the monthly ownership charge, is the exclusion of

- costs for ROR, income tax, carrying cost of capital and depreciation, but includes salvage value in the latter.
13. SCE includes its sub-transmission costs in its distribution costs. The effect of excluding sub-transmission from distribution is far-reaching and needs to be discussed in the Application of SCE ordered herein.
 14. SCE excluded the surcharges associated with interruptible programs (both industrial and residential air conditioner cycling) as well as CARE program in the filed allowances.
 15. Residential rates will not be affected by changes to the allowances requested by SDG&E's AL until the next GRC.
 16. ALs are subject to scrutiny and potential further proceedings as evidenced by this resolution, despite ORA's assertion.
 17. SDG&E's average residential customer numbers used for this AL are not consistent with its 99-2003 Comparative Statistics or 2004 COS settlement which show 770,305 gas customers and 1,165,857 electric customers respectively.
 18. The RCS cost credit SDG&E used to calculate the proposed allowance is very low compared to SCE's RCS cost and to its estimated fraction of the master-meter discount in D.04-11-033, because it is a weighted average for a dual fuel utility per D.99-12-046.
 19. SDG&E's weighted average RCS cost credit is not updated with the 2004 customer counts.
 20. Rule 15 cites Rule 2 for the "Cost of Service factor", but this term is not found in Rule 2.
 21. Portions of SDG&E's Rule 2, Section I.2 are not consistent with SDG&E's proposed COS factor.
 22. SDG&E's total average gas use for residential customers from its 1999 survey is higher than the usage shown in its Comparative Statistics 99-2003.
 23. SDG&E's proposed monthly ownership charge for unused capacity of line extension facilities is 0.68% for electric and 0.55% for gas. This is not reflected in the Rule 2 monthly ownership charges for customer financed special distribution facilities.
 24. The Energy Division's comments on SDG&E's Form106-44140, Agreement for Extension and Construction of Overhead/Underground Electric and Gas Facilities do not have a bearing on the issues discussed in this resolution.
 25. In D.98-03-039 the Commission denied an application for rehearing of D.97-12-098 and thereby affirmed that it may establish an automatic procedure to keep the allowances in accord with relevant Commission decisions as they are issued.

THEREFORE IT IS ORDERED THAT:

1. The requests of SCE and SDG&E to change the electric and gas line extension allowances and monthly cost of ownership charges in Advice Letters AL 1847-E and 1647-E/1494-G respectively are approved on an interim basis until June 30, 2006, subject to modifications adopted herein that are to be incorporated in supplemental AL filings made within 30 days.
2. SCE shall recalculate its allowance by a) deleting the baseline credit component of .625 cents/kWh after pro-rating it by the baseline to total average residential consumption; b) excluding the generation-related administration and general (A&G) costs from the proxy TOU-D-1 rate; and c) using its 2003 GRC approved COS factor of 16.2%.
3. SCE's and SDG&E's Rules 2, 15, and any other rule referring to a COS factor, shall be consistent with and clarified as to the relationship with the monthly cost of ownership charge for added (special) facilities.
4. SDG&E shall recalculate its allowances with data from its 2004 COS settlement residential customer counts, and the resulting weighted average RCS cost for dual fuel utilities.
5. SCE and SDG&E must provide derivations of monthly cost of ownership charges for electric and gas facilities in the Rules and must refer to Rule 2 in Rule 15.
6. SDG&E shall work with the Energy Division staff to revise Form 106-44140, Agreement for Extension and Construction of Overhead/Underground Electric and Gas Facilities and include it in the supplemental AL.
7. SCE, SDG&E, PG&E and SoCalGas shall file applications within 90 days that address possible changes in policy, and the methodology for determining both (a) allowances and (b) the monthly cost of ownership charges for unused electric and gas line and service extension capacity.
8. With respect to allowances, the applications shall address all relevant issues including:
 - a. The need for allowances to continue in areas of the IOU's service territory that are adjacent to competing municipal utilities, and the need in nonadjacent areas if different;
 - b. Alternative methods of calculating the net revenue on which future line extension allowances are based, including: average residential distribution rate proxy, averaging the cumulative revenue from each residential schedule, and a marginal versus base cost approach;

- c. Revenue sources to be used when calculating the allowance, including that from substations, primary circuits, and sub-transmission; and
 - d. Sources of data for calculating the allowances including the numbers of customers, distribution rates, average appliance usage, and CRS credit and other credits.
 - e. Criteria for requiring a revenue impact estimate be included in an allowance change advice letter filing.
9. With respect to monthly cost of ownership charges for unused capacity of line extensions, the applications will address all relevant issues including: (a) the cost components to be recovered by the monthly cost of ownership charges, and (b) the relationship of the monthly cost of ownership charges to: (1) monthly charges for O&M of added (special) distribution facilities; and (2) the COS factor as used in Rule 2.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on June 16, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners