STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
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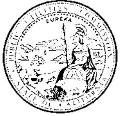

March 15, 2004

Agenda ID #3340
Ratesetting

TO: PARTIES OF RECORD IN APPLICATION 03-03-029

This is the proposed decision of Administrative Law Judge (ALJ) McVicar, previously designated as the principal hearing officer in this proceeding. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. This matter was categorized as ratesetting and is subject to Pub. Util. Code § 1701.3(c). Pursuant to Resolution ALJ-180, a Ratesetting Deliberative Meeting to consider this matter may be held upon the request of any Commissioner. If that occurs, the Commission will prepare and mail an agenda for the Ratesetting Deliberative Meeting 10 days beforehand, and will advise the parties of this fact, and of the related ex parte communications prohibition period.

The Commission may act at the regular meeting, or it may postpone action until later. If action is postponed, the Commission will announce whether and when there will be a further prohibition on ex parte communications.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 19 of the Commission's "Rules of Practice and Procedure." These rules are accessible on the Commission's website at http://www.cpuc.ca.gov. Pursuant to Rule 77.3 opening comments shall not exceed 15 pages. Finally, comments must be served separately on the ALJ and the assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious method of service.

/s/ ANGELA K. MINKIN
Angela K. Minkin, Chief
Administrative Law Judge

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Decision **PROPOSED DECISION OF ALJ MCVICAR (Mailed 3/15/2004)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Diego Gas & Electric Company for Authority to Make Various Electric Rate Design Changes, Close Certain Rates, and Revise Cost Allocation Among Customer Classes Effective, January 1, 2004. (U 902-E)	Application 03-03-029 (Filed March 17, 2003)

Vicki L. Thompson, Attorney at Law, for San Diego Gas & Electric Company, applicant.
Gregory Heiden, Attorney at Law, for the Commission's Office of Ratepayer Advocates, protestant.
Douglas K. Kerner, Attorney at Law, for Duke Energy North America; Brian Cragg, Attorney at Law, for West Coast Power; Norman J. Furuta, Attorney at Law, for Federal Executive Agencies; Beth C. Tenney, Attorney at Law, for California City-County Streetlight Association; Peter Hanschen, Attorney at Law, for Agricultural Energy Consumers Association; and Ron Liebert, Attorney at Law, for California Farm Bureau Federation, interested parties.

OPINION APPROVING RATE DESIGN SETTLEMENT

Summary

This decision approves a contested settlement agreement resolving most of the disputed issues among San Diego Gas & Electric Company (SDG&E) and all but one of the other active parties in SDG&E's 2003 Rate Design Window proceeding. When a decision is issued in its Test Year 2004 Cost of Service proceeding, SDG&E is directed to allocate its 2004 electric distribution revenue requirement based on an equal percentage of marginal cost methodology, using caps and floors designed to moderate increases that would otherwise disproportionately impact residential and street lighting customers. SDG&E must accommodate the provisions of Assembly Bill 1X by applying the residential class revenue requirement allocation in a manner consistent with the Commission's determination in Decision 04-02-057, its Final Opinion on Phase 2 Issues in Order Instituting Rulemaking 01-05-047.

Background

This is one of two proceedings by which the Commission establishes SDG&E's electric distribution rates for Test Year 2004 (TY2004). The other is SDG&E's Application (A.) 02-12-028 [1] to determine its TY2004 gas and electric revenue requirement (cost of service, or COS). Today's decision on marginal costs and rate design is itself the culmination of a two-step filing process by SDG&E. The first step was SDG&E's February 3, 2003 marginal cost update filing in support of this Rate Design Window (RDW) application, and the second was the RDW application filed March 17, 2003.[2] This decision establishes

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[1] Now consolidated with A.02-12-027, affiliate Southern California Gas Company's 2004 gas revenue requirement and base rates.

[2] The requirement and timing for these filings result from a series of decisions dating back to Decision (D.) 89-01-040 that adopted comprehensive modifications to the Commission's plan

Footnote continued on next page

updated marginal electric distribution costs, rate design criteria, and certain tariff modifications that will form the basis for revised electric distribution rates and tariffs to be ordered when SDG&E's 2004 electric revenue requirement is determined in our forthcoming COS decision.

The Commission preliminarily categorized this as a ratesetting proceeding expected to require hearing. The first prehearing conference was held May 21, 2003, followed by the Assigned Commissioner's June 5, 2003 scoping ruling confirming the category and need for hearing and determining the schedule and issues to be addressed. At a second prehearing conference on October 29, the participants announced they were hopeful of reaching a settlement agreement that would include most parties and issues. The first evidentiary hearing was convened on November 3 and by prior arrangement immediately continued to November 12. On November 12, all active parties[3] but the Federal Executive Agencies (FEA) filed their settlement agreement resolving all issues among them except one that they had agreed to address through briefs, and presented a panel of witnesses to testify in support. The proceeding was submitted effective December 16, 2003, the day concurrent briefs were due, by the Administrative Law Judge's December 19 written ruling.

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for processing general rate cases and energy offset proceedings. See D.02-10-039 for a chronology and the Commission's order establishing SDG&E's 2003 RDW filing dates.

[3] The settling parties were SDG&E, Office of Ratepayer Advocates (ORA), Duke Energy North America, West Coast Power, California City-County Streetlight Association, and California Farm Bureau Federation. The inactive party, Agricultural Energy Consumers Association, entered an appearance by proxy at the first prehearing conference and thereafter did not attend or participate in the proceeding.

Settlement Terms

The settlement is Appendix A to this decision. A 51-page Street Lighting Cost of Service Model attached to and filed with the settlement has been omitted from Appendix A for brevity, but is part of the settlement and is in the proceeding record.[4]

The settlement resolves all of the disputed issues among the settling parties, save one: Whether Assembly Bill 1X (AB1X) precludes increases in total rates for residential usage up to 130% of baseline. The parties have agreed to brief that issue, and we address it in a section to follow. FEA, the sole active, non-settling party, contests only settlement Section 2.

In settlement Section 1, the settling parties agree for the purpose of revenue allocation in this proceeding to use marginal customer costs that are an average of the rental and new customer only methodologies; and marginal demand costs that are developed using the regression method ORA recommended, including 10 years of historical data and five years of forecast data. SDG&E agrees to file marginal energy costs in its next RDW application if it considers them meaningful, and to present its reasoning if it does not.

In settlement Section 2, the settling parties agree to allocate SDG&E's TY2004 COS revenue requirement to customer classes in one of three ways, depending on the system average percentage change (SAPC) in revenue requirement determined in the COS proceeding. If the needed change is a 9% increase or less, the revenue requirement would be allocated on an equal percentage of marginal cost (EPMC) basis with a cap of 3% above the SAPC, and a floor 9% below SAPC. If the needed change in revenue requirement is a 12% or

[4] Exhibit S-8.

greater increase, revenues would be allocated to the customer classes such that each class received the SAPC. For revenue requirement increases between 9% and 12%, the cap and floor would be phased out in a step-linear fashion. FEA contested only this settlement Section 2, arguing instead for a revenue allocation with no caps or floors and based entirely on EPMC.

Sections 3 and 4 address how to implement an RDW decision if it should become effective on a different date than the COS decision. Section 4 also accepts SDG&E's proposal to change the way its FF&U (franchise fees and uncollectibles) revenue requirement is included in rates. Currently, distribution rates include FF&U associated with these components: distribution, Public Purpose Programs (PPP), Nuclear Decommissioning (ND), Trust Transfer Account (TTA), and Competition Transition Charges (CTC). While the distribution component FF&U is included in the COS proceeding, the others are not. Under settlement Section 4, SDG&E would adjust ND and CTC rates by the FF&U factor adopted in the COS proceeding, and adjust distribution rates to recover its FF&U on the PPP and TTA components.

In Section 5, the parties agree to modify the current requirement that SDG&E serve its preliminary marginal cost study update on interested parties well in advance of filing its RDW application, and instead allow the update in future years to be filed concurrently with the application.

The settling parties address residential rate changes in Section 6. They agree that each fixed rate component should be modified by a single factor derived from the percentage change in the residential class' 2004 COS allocated revenue requirement amount (determined as summarized in Section 2 above). Variable distribution rates would be adjusted in one of two ways. If the Commission decides that AB1X precludes increases in total rates for residential

usage up to 130% of baseline, then the first 130% of baseline distribution rates would not be permitted to increase and the revenue shortfall would be made up from within the residential class on a uniform percentage basis from those tiers over 130% of baseline. If, however, the Commission decides that it is permissible under AB1X to do so, then rates for all residential distribution tiers would be changed on a uniform percentage basis.

In Section 7, the settling parties agree that the basic service fees in small commercial rate Schedules A and A-TC should not change. Any change in revenue requirements to the small commercial class should be applied to the distribution energy rates on a uniform percentage basis. To implement SDG&E's COS change, Schedule A energy charges would be adjusted by equal cents per kWh (kilowatt hour). Small commercial's Schedule A seasonal energy rates differential, currently 2.015 cents/kWh, would be reduced by 0.552 cents/kWh, and a rate adder applied for the first 12 months to ensure the same annual revenue recovery as the current seasonal rates.

Settlement Section 8 deals with large commercial and industrial rates. The settling parties agree that the transmission level basic service fee should be increased by 15%. Non-utility generators sought to have their auxiliary loads (also called station loads or station power) at generating plants netted against their generation during the billing month. To address the issue, the settling parties have agreed to establish a new transmission multiple bus basic service fee on Schedule AL-TOU that would be applicable to customers delivering to or being served from one or more than one transmission service level bus on a single premises. For customers selecting that option, SDG&E would subtract generation delivered from loads served before applying retail rates to the net (but not less than zero). The settlement acknowledges the possibility that future

actions by the California Independent System Operator or the Federal Energy Regulatory Commission on this topic might later supersede any conflicting provisions in the settlement. Next, the parties agree that the distribution energy rates for Schedules AL-TOU, AL-TOU-DER, AD, AL-TOU-CP, and A6-TOU should be set at zero, with any resulting shortfall to be recovered by a uniform percentage change to the demand charges on those rate schedules. Any decrease to the average rates for Schedule AY-TOU or PA-T-1 should first be applied to the distribution energy rates and any remaining decrease, or any increase, would be applied on a uniform percentage basis to the distribution demand charges. Lastly, Schedule A-TOU distribution energy rates should receive the same change as those on Schedule A. The settling parties agree that Schedule S-I (Interruptible Service), which currently serves only one customer, should be closed to new customers. Distribution standby rates for transmission, primary substation and secondary substation level service should be set at zero, and for primary and secondary level service should be increased by 15%

The settling parties agree in Section 9 that changes in agricultural Schedule PA should be made only to the distribution energy rates.

In settlement Section 10, the parties accept the Street Lighting Cost of Service Model attached to and filed with the settlement. Inputs to the model that would normally change as a result of changes adopted in the current COS proceeding would instead be reflected in a subsequent proceeding.

Settlement Section 11 proposes various language changes in tariff Schedules S, DA, and AL-TOU-CP, and a Rule 1 definition. Only one — tightening the definition of Maximum Demand in Rule 1 — was opposed in initial testimony, and that concern is resolved by adding a clarifying sentence in

Rule 1 referring to the new transmission multiple bus basic service fee on Schedule AL-TOU described in settlement Section 8.b.

FEA's Opposition

All but one active party joined in the settlement. That party, the Federal Executive Agencies, objects only to the inter-class revenue allocation proposal in settlement Section 2. That allocation includes caps and floors if the COS increase is under 12%, and adopting the COS SAPC for all classes if the SAPC reaches 12% or higher, to moderate the increases residential and street lighting customers could otherwise receive under the EPMC method. FEA expressly takes no exception to any other settlement Section.

FEA argues that the settling parties have failed to present evidence to justify their proposed caps and floors because their panel of four witnesses was made available only for cross-examination on the settlement and presented no direct testimony.[5] FEA believes that no capping is necessary; and if capping is to be done, then the cap should be higher than 3% and the floor set to be symmetric with the cap. The specific cap and floor levels the settlement proposes, FEA maintains, are inconsistent with the body of Commission precedent the settling parties cite for support and inequitable as across the customer classes.

We believe the record is clear and sufficient on the purpose of the proposed caps and floors, the levels of proposed caps and floors, and the effects those caps and floors would have at the various possible SAPC levels.

ORA states the purpose of caps and floors: "The Joint Settlement on caps allows some movement towards marginal costs, but would also provide for rate

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[5] The panel witnesses represented settling parties SDG&E, ORA, California Farm Bureau Federation, and California City-County Streetlight Association.

stability and would minimize bill impacts to residential and streetlight customers."[6] SDG&E's stated purpose is similarly straightforward: "Electric rates have been subject to highly volatile changes in recent years. SDG&E's proposal for allocation caps and floors correctly moves rates in a cost-based direction, while providing rate stability and moderating adverse bill impacts."[7]

Both FEA and SDG&E on brief correctly summarize from the evidentiary record the effects the settlement's proposed caps and floors would have if the COS proceeding were to generate an overall 0% system average change:

Table 1

Revenue Requirement Changes
FEA Position (EPMC) vs. Settlement at 0% COS Increase

Customer Class	FEA Position (EPMC)	Settlement
Residential	9.9%	3.0%
Small Commercial	-12.8%	-6.4%
Commercial/Industrial	-8.0%	-1.4%
Agricultural	-20.7%	-9.0%
Lighting	12.8%	3.0%
System Change	0.0%	0.0%

As the possible increase from the COS proceeding rises from 0% (Table 1) to 9%, the 3% cap and 9% floor would rise with it so that, e.g., when the COS increase reaches 9% the residential and lighting classes would be 3% higher at a 12%

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[6] ORA refers to caps and floors as "plus or minus caps." (Exhibit ORA-1, page 1-2). Where we refer to caps and floors, we include the settling parties' proposal to set ("cap") all allocations at the SAPC if the SAPC is 12% or higher in SDG&E's COS proceeding.

[7] SDG&E's Exhibit S-1, page RWH-2, referring to its initial cap and floor proposal.

increase and agricultural class would be 9% lower at 0%. With COS increases higher than 9%, the cap and floor would phase out until, at and above 12% COS increase, all classes would experience the SAPC.

Both sides cite past Commission decisions approving various cap and floor levels as precedents for their positions. FEA points in particular to two decisions we issued in 2001 at the height of the energy crisis in which we imposed increases on some customer classes that were far above what the proposed 3% cap and 9% floor in today's settlement would have allowed.[8] Those decisions, FEA argues, show that "[T]he Commission has long since abandoned caps in the range of SAPC plus 3.5% to 5% on total revenues (or 8.75% to 12.5% on distribution revenues) in favor of 'letting the chips fall where they may.'" Those, however, were extraordinary orders issued in response to extraordinary circumstances, and we give them no weight as precedent for FEA's position. Our view today aligns closely with that SDG&E expresses:

> From SDG&E's perspective, an almost 10% increase to the residential class [exclusive of any additional increase from the COS proceeding] is inappropriate at this time. Rather, SDG&E supports a gradual movement toward cost-based distribution rates in this proceeding. The derived marginal cost basis used in the revenue allocation process can itself be volatile. The Commission should avoid imposing radical rate swings each time a cost study is produced with potentially differing results from the last adopted marginal cost study.[9]

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[8] FEA cites D.01-05-064 in re: PG&E (71% increase to one class compared to 34% system average increase) and Edison (63% compared to 31%); and D.01-09-059 in re: SDG&E (24% compared to 12.1%).

[9] SDG&E Brief, page 5.

We conclude that FEA's position in favor uncapped EPMC allocations would lead to unreasonable increases and decreases for some classes and should be rejected. The more moderate allocations proposed in the settlement are reasonable.

Settlement Discussion

The settling parties have tendered a "contested settlement" as defined in the Commission's Rules of Practice and Procedure, Rule 51(e), i.e., a "... settlement that is opposed in whole or part, as provided in this article, by any of the parties to the proceeding in which such stipulation or settlement is proposed for adoption by the Commission." Rule 51.1(e) requires that settlement agreements be reasonable in light of the whole record, consistent with law, and in the public interest. This settlement is tendered pursuant to Rule 51, and it is under this standard of review set forth in Rule 51.1(e) that we will evaluate it.

Each of the parties spent considerable time and effort conducting discovery, analyzing the others' showings on marginal cost, revenue allocation and rate design, and examining the technical, policy and legal issues central to this proceeding. Each prepared and served extensive written testimony and exhibits setting forth and supporting its position before evidentiary hearings began. That prepared material was admitted into the record, and it shows that all of the parties to have been vigorous and capable advocates on behalf of their constituencies.

The active parties in the proceeding are representative of the stakeholders in the matter before us, and each has ably and vigorously pursued the interests of its constituencies. The settlement sets forth the parties' initial positions on the important issues, and explains the agreed-upon outcomes in detail sufficient to allow the settlement to be implemented. For the single issue on which the

settling parties still had a difference, interpretation of AB1X, they stated their positions and agreed to abide by the Commission's decision. The Commission subsequently did reach a decision and issue an order in that matter in another proceeding, as explained in the next section. The settling parties presented a panel of expert witnesses to explain and defend their agreed outcome to the one settled issue that was contested by a non-settling party: the proposed inter-class revenue requirement allocations contested by FEA.

The settling parties have developed a record that supports their proposed agreement. We have reviewed the settlement they propose and conclude that it is reasonable in light of the whole record.

FEA charges that the settling parties have failed to support their proposed inter-class revenue allocation, and have therefore failed to sustain the legal burden for adopting a settlement. We disagree. As we described in the previous section, we have a clear and sufficient record as to the purpose, the levels, and the effects of the settlement's proposed allocations. After examining that record, we concluded that the inter-class revenue requirement allocations the settlement produces, including the caps and floors, are reasonable. FEA's charge is without merit.

We have considered all of the settlement's provisions individually and as part of the whole, and we have examined FEA's objection to settlement Section 2 specifically. No provision of the settlement is in violation of any statute or Commission decision or rule.

The public interest will be served by moderate rate changes across customer classes and moving rates toward costs. The revenue allocation and rate design template the settlement provides to implement our forthcoming cost of service determination in SDG&E's A.02-12-028 will accomplish that.

We thus conclude that the settlement meets the requirements of Rule 51.1(e) in that it is reasonable in light of the whole record, consistent with law, and in the public interest. We adopt the outcomes the settling parties have agreed on. Under Rule 51.1(a), those outcomes and the methods the settling parties have used to develop them are not to be considered precedential in future Commission proceedings. We examine the single issue on which they did not agree in the section that follows.

AB1X and Water Code § 80110

The settlement resolves all disputed issues among the settling parties save one: Whether Water Code § 80110 added by Assembly Bill 1X precludes increases in total rates for residential usage up to 130% of baseline. ORA takes the position that Water Code § 80110, added by AB 1X and effective February 1, 2001, precludes increases in total rates for residential usage up to 130% of baseline. In ORA's view, SDG&E's proposal to increase residential distribution rate components in such a way as to increase total residential rates for usage below 130% of baseline without offsetting reductions in other rate elements would be impermissible. SDG&E counters that AB 1X's 130% of baseline protection applies only to the commodity component of its residential rates. SDG&E argues that the intent of the Water Code § 80110 provision of AB 1X was to protect residential usage up to 130% of baseline from rate increases to pay DWR costs. Since DWR costs are commodity costs, SDG&E concludes that the AB 1X protection is limited to only the commodity component of its rates.

In settlement Section 6.b, the settling parties agree that if SDG&E's interpretation of the law is adopted and the Commission decides that it is permissible under AB1X and Water Code § 80110 to do so, then all tiers of the residential distribution rates will be changed on a uniform percentage basis. If

ORA's interpretation is adopted, then the first 130% of baseline distribution rates will not be permitted to increase and the revenue shortfall will be made up from within the residential class on a uniform percentage basis from those tiers over 130% of baseline.

On February 26, 2004, the Commission issued D.04-02-057, its Final Opinion on Phase 2 Issues in Order Instituting Rulemaking (R.) 01-05-047.[10] D.04-02-057 decided the matter in ORA's favor, stating in Conclusions of Law #28 and #29:

> 28. Based on an analysis of the legislative history of AB 1X, the rate protection in Water Code § 80110 should be interpreted to apply to total retail rates for residential electricity usage up to 130% of baseline amounts in effect when AB 1X became effective, for utilities that take power from DWR or are otherwise bound by its provisions.
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> 29. SDG&E's proposal to increase its distribution and CTC rate components for all residential usage without offsetting decreases in other rate components for usage up to 130% of baseline is counter to Water Code § 80110 added by AB 1X.

Under settlement Section 6, SDG&E must apply the Commission's D.04-02-057 determination to spread to SDG&E's residential class its RDW and COS revenue allocation.

Coordination with Cost of Service

As ORA notes in its direct presentation, SDG&E's COS and this RDW proceeding are together equivalent to a general rate case, with COS being equivalent to Phase 1 and this RDW equivalent to Phase 2. With today's

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[10] R.01-05-047, Order Instituting Rulemaking on the Commission's Own Motion to Determine Whether Baseline Allowances for Residential Usage of Gas and Electricity Should Be Revised, filed May 24, 2001.

decision, we will have established all of the updated marginal cost, cost allocation and rate design guidance necessary for SDG&E to complete its electric distribution rate design and prepare and file tariffs once the TY2004 COS revenue requirement is known. Our interim D.03-12-057 in the COS proceeding established memorandum accounts in which SDG&E is tracking the revenue difference between its current rates and the revenue requirement ultimately adopted for TY2004. When we determine the TY2004 revenue requirement in the COS proceeding, our order there will authorize SDG&E to file the appropriate tariffs to begin recovering its TY2004 electric distribution revenue requirement.

Comments on Proposed Decision

The principal hearing officer's proposed decision was filed with the Commission and served on all parties in accordance with Section 311(d) of the Public Utilities Code and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed by ________.

Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and James McVicar is the assigned ALJ in this proceeding.

Findings of Fact

1. SDG&E, ORA, Duke Energy North America, West Coast Power, California City-County Streetlight Association, and California Farm Bureau Federation have filed a settlement agreement.

2. The settlement resolves all of the disputed issues among the settling parties, except one: Whether Assembly Bill 1X (AB1X) precludes increases in total rates for residential usage up to 130% of baseline. The settling parties have agreed in settlement Section 6 to abide by the Commission's determination on that issue.

3. Agricultural Energy Consumers Association was not an active party in the proceeding, and its views are not known on any issue.

4. FEA is the sole active, non-settling party. FEA contests only the inter-class revenue allocation proposal in settlement Section 2. FEA expressly takes no exception to any other settlement provision.

5. The record is clear and sufficient on the purpose of the proposed caps and floors, the levels of proposed caps and floors, and the inter-class revenue allocation effects those caps and floors would have at the various possible SAPC levels.

6. The past Commission decisions FEA cites to support its opposition to caps and floors were issued in response to extraordinary circumstances and should be given no weight in the context of this decision. The Commission has not abandoned moderate cost allocation caps as FEA contends.

7. Adopting FEA's position in favor uncapped EPMC allocations in this instance would lead to unreasonable increases and decreases for some customer classes and should be rejected.

8. The Commission should avoid imposing radical rate swings each time a marginal cost study is produced with potentially differing results from the last adopted cost study.

9. The caps and floors proposed in settlement Section 2 would produce movement toward cost-based distribution rates while avoiding radical rate swings.

10. The inter-class revenue requirement allocations the settlement produces, including the caps and floors, are reasonable.

11. The active parties in the proceeding are representative of the stakeholders, and each has ably and vigorously pursued the interests of its constituencies.

12. With this order, we will have established all of the updated marginal cost, cost allocation and rate design guidance necessary for SDG&E to complete its electric distribution rate design and prepare and file tariffs once the TY2004 COS revenue requirement is known.

Conclusions of Law

1. The settling parties have tendered a contested settlement as defined in the Commission's Rule 51(e).
2. The settling parties have developed a record that supports the settlement.
3. The settlement meets the requirements of Rule 51.1(e) in that it is reasonable in light of the whole record, consistent with law, and in the public interest.
4. The settlement should be adopted.
5. Under Rule 51.1(a), the outcomes the settling parties have reached, and the methods they have used to develop those outcomes, are not to be considered precedential in future Commission proceedings.
6. The interpretation of Assembly Bill 1X and Water Code Section 80110 set forth in Decision 04-02-057, Final Opinion on Phase 2 Issues in Order Instituting Rulemaking 01-05-047, must be applied under settlement Section 6 to spread to the residential class SDG&E's residential electric distribution revenue allocation.
7. The updated marginal electric distribution costs, rate design criteria, and tariff modifications established in this order should form the basis for revised electric distribution rates and tariffs to be ordered when SDG&E's test year 2004 electric revenue requirement is determined in SDG&E's cost of service proceeding, A.02-12-028.
8. This decision should be made effective immediately in anticipation of our order in SDG&E's TY2004 cost of service proceeding.

O R D E R

IT IS ORDERED that:

1. The Joint Settlement Agreement (settlement), Appendix A to this order, filed by San Diego Gas & Electric Company (SDG&E), Office of Ratepayer Advocates, Duke Energy North America, West Coast Power, California City-County Streetlight Association, and California Farm Bureau Federation is adopted. The Street Lighting Cost of Service Model attached to and filed with the settlement has been omitted from Appendix A for brevity, but is part of the settlement and is in the proceeding record.

2. The updated marginal electric distribution costs, rate design criteria, and tariff modifications established in the settlement and this order shall form the basis for revised electric distribution rates and tariffs to be ordered when SDG&E's test year 2004 electric revenue requirement is determined in SDG&E's cost of service proceeding, Application (A.) 02-12-028.

3. SDG&E's A.03-03-029 is granted as set forth above, and in all other respects is denied.

4. A.03-03-029 is closed.

This order is effective today.

Dated ___________________, at San Francisco, California.

McVicar Comment Dec. Appendix A - Joint Settlement Agreement