

Decision 08-02-034 February 28, 2008

**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Application of San Diego Gas & Electric  
Company for Authority to Update  
Marginal Costs, Cost Allocation, and  
Electric Rate Design (U902E).

Application 07-01-047  
(Filed January 31, 2007)

**OPINION ADDRESSING THE APPLICATION AND THE MOTION  
TO ADOPT THE ALL PARTY AND ALL ISSUE SETTLEMENT**

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**OPINION ADDRESSING THE APPLICATION AND THE MOTION  
TO ADOPT THE ALL PARTY AND ALL ISSUE SETTLEMENT**

**1. Summary**

This decision addresses the revenue allocation and rate design issues associated with the electric revenue requirement of San Diego Gas & Electric Company's (SDG&E) general rate case (GRC), as litigated in Application (A.) 06-12-009.<sup>1</sup>

During the course of this proceeding, SDG&E and 12 other active parties entered into a settlement of all of the issues in this proceeding. SDG&E filed its Motion for Adoption of All Party and All Issue Settlement on November 1, 2007. The settlement was attached to the motion as Attachment 1.<sup>2</sup> No one filed any objections to this motion or to the settlement.

SDG&E's application in this proceeding addressed a series of revenue allocation and rate design proposals, including Critical Peak Pricing (CPP) and Peak Time Rebate (PTR) issues.

SDG&E had proposed in its application that there be a gradual phase out of the rate freeze imposed by Assembly Bill 1 of the 1<sup>st</sup> Extraordinary Session of 2001-2002 (AB1X).<sup>3</sup> This phase out proposal, which SDG&E refers to as its "roll off" proposal, was bifurcated from the other rate design issues in a November 5,

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<sup>1</sup> The abbreviations used in this decision are listed in Attachment A of this decision.

<sup>2</sup> A copy of the settlement can be viewed at the following internet location: [http://sdge.com/regulatory/tariff/cpuc\\_openProceedings.shtml](http://sdge.com/regulatory/tariff/cpuc_openProceedings.shtml). A copy of the settlement can also be viewed by linking to the "Docket Card" for this proceeding from the "Proceeding Information" link on the CPUC.ca.gov website.

<sup>3</sup> Statutes of 2001-2002, 1<sup>st</sup> Extraordinary Session, Chapter 4. The rate freeze language is codified in Water Code § 80110.

2007 ruling in this proceeding. The AB1X issues will be addressed in a separate decision.

Today's decision grants SDG&E's motion to adopt the settlement. The settlement was agreed to, or is unopposed, by all of the parties who actively participated in this proceeding. Except for the AB1X issues, the settlement resolves all of the issues in this proceeding. As discussed later in this decision, the settlement represents a series of compromises that the various parties reached on a number of different issues.

Attachment B of the settlement provides illustrative rate impacts on SDG&E's customer classes. The actual rates may change depending on the total revenue requirement that is adopted in A.06-12-009, the outcome of the AB1X issues, and the application of the California Department of Water Resources' (DWR) bond charge and energy charge allocated to SDG&E in Decision (D.) 07-12-030.<sup>4</sup>

## **2. Procedural Background**

This proceeding has been referred to as Phase 2 of SDG&E's GRC. This proceeding addresses the rate design and cost allocation issues for SDG&E's electric revenue requirement.<sup>5</sup> SDG&E's revenue requirement was litigated in A.06-12-009, which has been referred to as Phase 1 of SDG&E's GRC. The time

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<sup>4</sup> In the effort to implement CPP by the summer of 2008, SDG&E customers may experience some volatility in rates as a result of the adoption of this decision until decisions are adopted in A.06-12-009 on SDG&E's electric revenue requirement and in this proceeding on the AB1X issues.

<sup>5</sup> The cost allocation is also referred to as "revenue allocation" in SDG&E's application and in this decision.

period covered by the revenue requirement and the rates are for 2008 through 2010.

SDG&E's rate design and cost allocation application was filed on January 31, 2007. In addition to the rate design and cost allocation proposals, the application addresses dynamic pricing proposals in response to the Administrative Law Judge's (ALJ) July 5, 2006 ruling in A.05-03-015, and the directive in D.06-05-038 that SDG&E propose default CPP tariffs for all eligible customers 200 kilowatts (kW) and above.

A prehearing conference (PHC) was held on March 9, 2007. Following the PHC, a scoping memo and ruling (scoping memo) was issued on April 11, 2007. The scoping memo identified the issues to be addressed in this proceeding and established the procedural schedule for resolving the issues. Evidentiary hearings were scheduled for September and October 2007, and a telephonic PHC in advance of the evidentiary hearings was scheduled for September 14, 2007. Four public participation hearings (PPHs) were also scheduled. In accordance with the schedule in the scoping memo, various parties served their prepared testimony.

SDG&E made three e-mail requests before the September 14, 2007 telephonic PHC was scheduled to be held. The September 12, 2007 ALJ ruling summarized these requests and confirmed the actions that the assigned ALJ took. The first request addressed the AB1X issues, wherein the parties agreed to the following: stipulated to the admission of the direct testimony that had been served on or before August 10, 2007, except for the testimony on the Total Rate Adjustment Component (TRAC); waived rebuttal testimony and cross-examination on the AB1X issues, except for the TRAC related issues; and all of

the AB1X related issues, with the exception of the TRAC related issues, are to be addressed in briefs.

SDG&E's second e-mail request addressed the progress of the settlement discussions and requested a delay in the procedural schedule by two weeks. The ALJ delayed the service of rebuttal testimony to September 24, 2007, and took the evidentiary hearings for September 24 through September 28, and October 1 through October 5, 2007, off calendar. The evidentiary hearings of October 9 through October 12, 2007 were retained, and three additional days of hearing were reserved for October 17 through October 19, 2007.

The third e-mail request of SDG&E asked that the September 14, 2007 telephonic PHC be rescheduled. The ALJ rescheduled the telephonic PHC to September 26, 2007.

On September 26, 2007, a telephonic PHC was held to discuss the status of the settlement talks and to establish the order of witnesses for the October 2007 evidentiary hearings. In addition, the telephonic PHC discussed SDG&E's motion to adopt a partial settlement, which was filed the day before the PHC. An ALJ ruling of September 28, 2007 summarized the telephonic PHC and the actions taken. The ALJ established a schedule for the parties to file comments and reply comments on the motion to adopt the partial settlement. In addition, the evidentiary hearing dates in October 2007 were taken off calendar and rescheduled for November 13 through November 16, and November 26 through November 30, 2007. Another telephonic PHC was scheduled for November 7, 2007.

On November 1, 2007, SDG&E filed its motion to adopt the all party and all issue settlement. The settlement, which is appended to that motion as Attachment 1, is dated October 17, 2007 and is labeled as SDG&E's "TY2008

General Rate Case Phase 2 Settlement.” As a result of that motion, the assigned Commissioner and ALJ issued a November 5, 2007 ruling. The ruling took the November 7 telephonic PHC and the November 2007 evidentiary hearings off calendar. Pursuant to Rule 12.2 of the Commission’s Rules of Practice and Procedure, the ruling allowed interested parties to file comments on the November 1, 2007 motion to adopt the settlement and to file reply comments as needed. In addition, the ruling bifurcated the AB1X rate cap roll off proposal from the other rate design and cost allocation issues in this proceeding and established a separate briefing schedule for the AB1X issues.<sup>6</sup> Due to the filing of the motion to adopt the all party, all issue settlement, the ruling stated that the September 25, 2007 motion to adopt the partial settlement was moot and no further action on the September 25, 2007 motion was needed.

No one filed any comments to the November 1, 2007 motion to adopt the all party, all issue settlement. Since no comments were filed, no hearings on the settlement are needed. In accordance with the procedure described in the November 5, 2007 ruling, a proposed decision was then prepared for the Commission’s action.

Four PPHs were held in the San Diego area on September 5, 2007 and September 6, 2007. Several school districts raised concerns about SDG&E’s noncoincident demand charge in SDG&E’s non-residential electric rates. The school districts contend that the high demand charge acts as a disincentive to

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<sup>6</sup> The November 5, 2007 ruling also allowed interested parties the opportunity to object to the admission into evidence of the prepared testimony that had been served. No objections were filed. In a January 3, 2008 ruling, the prepared testimony was admitted into evidence in this proceeding.

install solar energy systems (SES), and that the schools are billed for demand charges during the summer months when school is out of session.

Many of the speakers at the PPHs, who represented chambers of commerce or other business interests, spoke in favor of SDG&E's AB1X roll off proposal on the grounds that it would end the rate subsidies to certain residential customers and make them pay their share of the costs.

In addition to the PPHs, we received a number of letters from SDG&E's customers who oppose SDG&E's application. Many of the letters oppose the increase in rates, and point out that those on fixed incomes and who are already conserving energy will be hurt the most. Some of the letters also complain that residential rates will go up under SDG&E's proposals, while the rates of commercial and industrial (C&I) customers decrease.

SDG&E requests that the changes proposed in this proceeding be implemented on January 1, 2008, consistent with SDG&E's GRC implementation proposal in A.06-12-009.

### **3. Description of the Application and the Settlement**

#### **3.1. SDG&E's Application**

##### **3.1.1. Introduction**

SDG&E's application addresses the cost allocation and rate design proposals associated with SDG&E's electric revenue requirement for its 2008 through 2010 GRC. SDG&E proposed increases to its electric distribution and commodity revenue requirements in Phase 1 of its GRC.



In support of its proposals, SDG&E sponsored testimony on its sales forecast,<sup>7</sup> the marginal cost methodology used to derive the allocation of costs, and the rate design for the various customer classes.<sup>8</sup> In addition, SDG&E sponsored testimony in support of its application that addresses dynamic pricing, including CPP rates. The application also proposes a roll off mechanism to gradually move residential rates towards actual costs, instead of continuing the rate freeze structure imposed by AB1X.

SDG&E's application is linked to the goals in the Energy Action Plan (EAP). The EAP was approved by the Commission and by the Energy Commission on May 8, 2003, and the subsequent EAP II was approved on September 21, 2005. One of the goals of the EAP is to "create more transparency in consumer electricity rates," and to "adopt rates based on clear cost-causation principles." (EAP II, p. 9.) The EAP also highlighted the need for capital investments in the electric infrastructure, and encouraged energy efficiency and demand response. (EAP II, p. 7.) The application supports the goals of the EAP by proposing that: the revenue allocations be based on cost causation; and rate mechanisms for customers be linked to usage and costs through dynamic pricing, such as CPP, peak time rebates (PTR), and time of use (TOU) rates.

Advanced Metering Infrastructure (AMI) plays an integral role in the CPP proposals because it allows electricity customers to track their electricity usage on a real time basis and to respond to price signals through the use of automated

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<sup>7</sup> SDG&E's application forecasts a total of 20,652 gigawatt hours (gWh) of electric sales in 2008.

<sup>8</sup> The revenue allocation and rate design for the various customer classes are reflected in the attachments to the prepared testimony of Susan M. Claffey in Exhibit 6, and are described in the various exhibits of the SDG&E witnesses.

technology and meters. We approved the widespread deployment of AMI technology for SDG&E in D.07-04-043.

### **3.1.2. Revenue Allocation Principles**

Revenue allocation is the process whereby the proposed or authorized revenue requirement is allocated among the different rate classes using the marginal costs of those classes. The various marginal costs by customer classes are multiplied by the applicable determinant to calculate the revenue that would be collected were unit marginal costs used as rates. In this proceeding, the revenue allocation is calculated for the distribution function and for the commodity function. The marginal cost revenues by customer class are then reconciled to the authorized revenue requirement to derive the proposed customer class revenue requirements.

The distribution function and the commodity function are two of the ten components which comprise SDG&E's total electric revenue requirements. The allocations for the other eight revenue requirement components are determined in other regulatory proceedings. The distribution function covers the costs of delivering electricity to customers such as poles, lines, substations, customer billing, and accounting. The commodity function covers the costs of the DWR electricity purchases that are assigned to SDG&E, and the costs of utility-retained generation (URG).

SDG&E's application proposes revisions to the distribution and commodity functions. The allocation proposals are based on an Equal Percent of Marginal Cost (EPMC) methodology. The proposed EPMC revenue allocations reflect the use of updated marginal cost of service studies for distribution and generation/commodity, and test-year 2008 sales.

With certain variations, SDG&E's revenue allocation methodology for distribution is consistent with the methodology that it proposed in its most recent Rate Design Window (RDW) proceeding and which was implemented in D.05-12-003.

SDG&E's revenue allocation methodology for generation/commodity is similar to the methodology that it proposed in its most recent RDW proceeding. However, this proposed methodology differs from the methodology that was ultimately adopted in D.05-12-003 as a result of a settlement.

SDG&E's generation/commodity marginal capacity costs are based on the capacity costs of a combustion turbine peaking unit. SDG&E proposes a value of \$76.40 per kW based on a real economic carrying charge (RECC) approach. According to SDG&E, this RECC approach is consistent with its past marginal cost-of-service studies and complies with D.05-12-003. SDG&E proposes that generation capacity costs be allocated to customer classes based on the top 100 hours of system load, using the results for three years of load data.

### **3.1.3. Rate Design Principles**

SDG&E proposes rate design changes to the categories of distribution, generation/commodity, and the Competition Transition Charge (CTC). These proposed changes balance SDG&E's objective of moving toward cost-based rates with the competing objectives of rate simplicity, rate continuity, increased customer understanding of rates, and legislative or Commission-directed mandates.

SDG&E's rate design proposals are not dependent on the deployment of AMI. However, as described later, SDG&E's proposals related to dynamic pricing are dependent on AMI deployment.

The proposed distribution rates for the various customer classes are designed to recover the allocated class revenue requirements. SDG&E proposes that the distribution rates be set at the marginal costs of providing service.

For residential rates, SDG&E is proposing a new residential rate option that would apply to customers who install a SES. The proposed schedule, DR-SES, provides TOU pricing to these customers. The proposed schedule provides increased rate incentives for the installation of a SES for smaller usage residential customers, as compared to the incentives under Schedule DR-TOU which incorporates a baseline tier structure and the AB1X rate cap.

SDG&E proposes to continue the use of the Rate Design Settlement Component (RDSC), but that it be renamed the TRAC. Continuing the use of the TRAC will mitigate rate fluctuations by continuing the inverted rate structure and the AB1X rate capping that is currently contained in the RDSC rates.<sup>9</sup>

SDG&E also proposes other rate design changes for residential customers.

SDG&E proposes that the current five-tier residential rate be reduced to four tiers. This would be accomplished by pricing all usage in excess of 200% of baseline usage at the same rate. As a result, the current structure of applying slightly higher rates for usage in excess of 300% of baseline allowances (Tier 5) would be eliminated.

For the residential customers under the California Alternate Rates for Energy (CARE) program rate, SDG&E proposes that the discounts for high use CARE customers be brought in line with the discounts for low use CARE

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<sup>9</sup> In section 4.2 of this decision, we clarify that existing direct access customers will continue to be exempt from the RDSC, which under the settlement is renamed the TRAC.

customers through the use of the four-tier rate structure. Net discounts would be reduced for large-use CARE customers with the proposed use of a four-tier inverted rate structure. CARE customers would continue to receive the legislated 20% line item discount on their bills, and the exemption from the CARE surcharge, California Solar Initiative (CSI) charges, and the DWR bond charge.

SDG&E is not proposing any changes to the baseline allowances. SDG&E contends that its study of current baseline allowances still closely match the target usage identified in D.02-04-026, which addressed baseline allowances in the context of AB1X.

For the rate design of medium and large C&I customers, SDG&E proposes that distribution revenue requirements in excess of the basic service fee revenue continue to be recovered primarily through non-coincident demand charges.

SDG&E is proposing a non-bypassable distribution charge, based on a \$ per kilowatt hour (kWh) charge, that would apply to the C&I customers to recover the allocated revenue requirements associated with the: CSI program, Self-Generation Incentive Program (SGIP), hazardous substance cleanup costs, AMI infrastructure costs, and the Advanced Metering and Demand Response Program costs. These cost categories are currently recovered in the distribution rates of large C&I customers through demand charges. Currently, SDG&E's distribution demand charge structure is applicable only to C&I customers served at the primary and secondary service voltages. The new kWh-based distribution rate would enable recovery from all retail C&I customers, including customers at the transmission and substation service voltages.

SDG&E is also proposing to redesign the CTC for medium and large C&I customers from the current demand charge structure to an energy only (\$ per

kWh) charge. This redesign would have the overall effect of slightly reducing CTC rates for residential, small commercial, medium and large C&I, and agricultural classes.

Generation/commodity rates have been designed to more closely reflect SDG&E's marginal cost of providing service. SDG&E proposes that seasonal commodity rate differences be incorporated in Schedule EECC (Electric Energy Commodity Cost) for several rate schedules that are currently non-seasonal. SDG&E proposes that the current seasonal period definitions used for the distribution rate design also apply to the generation/commodity rate design.

SDG&E's current Schedule EECC rates are entirely energy based. SDG&E proposes that a generation demand charge be incorporated into the Schedule EECC rates for the medium and large C&I rate schedules. The demand charge will more closely reflect the costs of providing generation capacity. SDG&E proposes that the demand charge be phased in over the next several rate design proceedings, and that it be designed to recover the marginal generation capacity costs of \$76.40 per kW based on a RECC approach. Due to the significant bill impacts that will result from using a generation demand charge, SDG&E proposes to mitigate the impact on customer bills by setting the rate at 50% of the marginal cost-based level in 2008.

To increase customer understanding of the new demand charge, the structure of the generation demand charge should be dependent on and consistent with the existing demand rate structure of each C&I tariff. For Schedules AL-TOU, AY-TOU and PA-T-1,<sup>10</sup> the demand charge would be based

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<sup>10</sup> Schedule AL-TOU is available to all medium and large C&I customers. Schedule AY-TOU is an optional time-of-use rate that is applicable to medium and large C&I

*Footnote continued on next page*

on monthly summer on-peak demand, with no ratchet provision.<sup>11</sup> For Schedule AD,<sup>12</sup> which does not currently have an on-peak demand structure, the generation demand charge would be based on the customer's monthly maximum demand during each billing period. For Schedule A6-TOU,<sup>13</sup> the demand charge would be based on the monthly system peak demand charge during the summer season.

For agricultural distribution rates, SDG&E proposes a basic service fee increase of 20% for Schedule PA. For the Schedule A commodity rate, SDG&E proposes to implement a seasonal commodity rate consistent with the EECC energy charges.

For street lighting, SDG&E's rate design proposals were developed using the Lighting Rate Design Model that was part of the settlement adopted in D.05-12-003. The model was modified by using updated billing determinants, escalating updated lighting facilities and maintenance costs to 2008 dollars, and escalating the surcharges for series service to 2008 dollars. Street lighting consists of five different schedules, each of which offers a distinct set of services.

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customers whose maximum annual demands do not exceed 500 kW. Schedule AY-TOU was closed to new customers as of September 2, 1999. Schedule PA-T-1 is applicable to agricultural customers with maximum monthly demands expected to exceed 500 kW and who meet other qualifying criteria.

<sup>11</sup> Once advanced capability meters are implemented, determinants will become available to transition the demand charge to a coincident peak demand charge.

<sup>12</sup> Schedule AD is a demand meter rate that has been closed to new customers.

<sup>13</sup> Schedule A6-TOU is an optional time-of-use rate that is applicable to medium and large C&I customers whose maximum annual demand in any time period is 500 kW or greater.

SDG&E's street lighting rate design proposals result in approximately a 13% increase in average rates for the lighting customer class. The primary reason for this increase is due to the increase in the distribution revenue requirement that is allocated to street lighting customers.

#### **3.1.4. Dynamic Pricing**

Dynamic pricing refers to a rate design structure in which electric use is priced according to the time of day and the response of electric customers to those rates.<sup>14</sup> SDG&E refers to these rates as time-differentiated rates or CPP rates. The CPP energy rate is calculated to ensure the recovery of the CPP marginal capacity cost revenues during CPP event hours, in addition to the on-peak marginal energy cost. The intent of these rates is to send customers a price signal to encourage them to curtail usage when a CPP event is triggered. These proposed rates appear in the attachments to the prepared testimony of James R. Magill in Exhibit 10.

CPP rates work in conjunction with SDG&E's AMI deployment plan.<sup>15</sup> With the implementation of AMI, all SDG&E customers will eventually have the advanced metering equipment needed to implement CPP rates. It is expected that all of the AMI meters will be installed by the end of 2010. SDG&E is proposing CPP rates for all customer classes in accordance with its AMI meter deployment schedule as shown in Table EF 9-1 in Exhibit 9. SDG&E requests

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<sup>14</sup> SDG&E's testimony regarding dynamic pricing appears in Exhibits 9 through 14.

<sup>15</sup> Before the AMI program was approved in D.07-04-043, only customers with demands greater than 200 kW had the appropriate interval metering equipment needed to implement CPP rates.



that the proposed CPP rates go into effect in the summer of 2008 for those customers who have AMI meters.

For residential rates, SDG&E proposed a PTR in its AMI proceeding, A.05-03-015. The PTR program provides a monetary incentive to encourage customers to reduce demand during the highest system demand days. In the AMI decision, the Commission adopted a settlement which provided, among other things, that the PTR, CPP, and AMI related dynamic rates are to be decided in this proceeding. (D.07-04-043, p. 14.)

SDG&E proposed in A.05-03-015 that the PTR pay residential customers an incentive, i.e., a rebate, in an amount per kWh for the energy reduced below a customer specific reference level (CRL) during the PTR event hours. The CRL is established through historical usage and adjusted for the specific temperature forecasted for the event day.

SDG&E proposed in A.05-03-015 that small commercial customers with a demand of less than 20 kW, most of whom are on Schedule A,<sup>16</sup> automatically convert to a three period TOU rate (AS-TOU) with a demand charge. The TOU rate would have a seasonal summer and winter component. These small commercial customers would also be eligible for a PTR during PTR events, similar to the PTR for SDG&E's residential customers. SDG&E proposes that Schedule A be phased out and that existing and new customers be converted to the new Schedule AS-TOU at the next billing period following 90 days after AMI is installed.

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<sup>16</sup> Schedule A is a flat rate schedule with a seasonal variation component.

For its medium C&I customers (20 to 200 kW), SDG&E proposed in A.05-03-015 that these customers convert to the default CPP rate similar to that of large C&I customers. For the first 12 months under the default CPP commodity rate, these customers would have bill protection relative to their otherwise applicable rate.<sup>17</sup> These customers would also continue to have the option of choosing various applicable demand response rates or interruptible programs. One such option is for these customers to pay a monthly capacity reservation charge (CRC) in the default CPP commodity rate, which allows the customer to choose a specific capacity level for a 12-month period, which cannot be reduced during CPP events. If the customer's usage does not exceed its capacity reservation, CPP commodity prices would not be applicable during the CPP event. Any usage above the customer's purchased capacity would be subject to the CPP rate.

For its large C&I customers (200 kW or more), SDG&E proposed in A.05-03-015 that these customers be subject to a default CPP rate beginning in 2008. For the first 12 months under the default CPP rate, these customers would have bill protection relative to their otherwise applicable rate. These customers could also choose to pay the CRC.

For agricultural customers, SDG&E proposed in A.05-03-015 that these customers be billed on the default CPP rate no sooner than 90 days after the installation of an AMI meter. Bill protection and the other rate and demand

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<sup>17</sup> The bill protection mechanism provides a guarantee that eligible customers will not be billed more, on an annual basis, for electric commodity service than they would have been billed on their otherwise applicable rate if they had not been placed on the default CPP commodity rate. This mechanism allows customers to gain experience with how their existing operations interact with the default CPP commodity rate without any risk.

response program options, as offered to medium and large C&I customers, would also be available to these agricultural customers.

SDG&E's CPP rate proposals do not impact street lighting customers because their usage usually occurs during the off-peak hours.

SDG&E proposes to conduct measurement and evaluation (M&E) activities for the default CPP rates, the small commercial TOU rate, and the PTR. The objective of this M&E effort is to provide the Commission and other interested parties with an evaluation of SDG&E's demand response implementation activities and the customer response to such activities.

### **3.2. The All Party All Issue Settlement**

#### **3.2.1. Introduction**

The all party, all issue settlement is appended to the November 1, 2007 motion as Attachment 1. The settlement was executed by SDG&E and by 12 of the active parties interested in the settled issues in this proceeding.<sup>18</sup>

The settlement was the result of discussions among the parties concerning the issues in this proceeding. A notice of settlement was sent to the service list, and the first settlement conference was held on August 29, 2007. At least ten additional all party settlement conferences were held, as well as a number of

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<sup>18</sup> In addition to SDG&E, the 12 active parties who signed the settlement are as follows: Building Owners and Managers Association (BOMA), California City-County Street Light Association (CAL-SLA), California Farm Bureau Federation (Farm Bureau), California Large Energy Consumers Association (CLECA), California Manufacturers and Technology Association (CMTA), City of San Diego, Division of Ratepayer Advocates (DRA), Federal Executive Agencies, FuelCell Energy, Inc. (FuelCell Energy), Solar Alliance, Utility Consumers' Action Network (UCAN), and Vote Solar Initiative (Vote Solar). The other active parties, Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), and The Utility Reform Network are interested only in the AB1X roll off issues and do not oppose the settlement.

smaller group conferences. These meetings resulted in the partial settlement among 11 of the active parties, which was the subject of the September 25, 2007 motion for adoption of the partial settlement.

After further discussions, 13 of the active parties agreed to the all party, all issue settlement in mid-October 2007. SDG&E filed its motion on November 1, 2007 requesting that the Commission adopt the all party, all issue settlement.

The settlement resolves all of the issues in this proceeding, which are categorized into the four following areas:

1. Revenue allocation and rate design for all customer classes.
2. CPP for C&I customers.
3. PTR for residential and small C&I customers.
4. A new Distributed Generation-Renewable Tariff (DG-R Tariff).

### **3.2.2. Summary of the Settlement**

The settlement, unless specifically addressed in the settlement, incorporates all of SDG&E's proposals on the issues as submitted in its application and the prepared testimony of the SDG&E witnesses.

On the revenue allocation and rate design issues, the parties have agreed to the following:

- SDG&E will perform and incorporate a number of studies and analyses, as listed in Attachment A to the settlement, in its next RDW application or GRC Phase 2 application.
- The avoided generation capacity is set at \$67 per kW-year.
- SDG&E shall adopt a sub-metering program substantially similar to the program adopted in PG&E's GRC Phase 2 in D.07-09-004. To record the incremental costs related to implementing sub-metering, SDG&E shall establish a Memorandum Account.

- SDG&E will work with the California Farm Bureau Federation to help agricultural customers evaluate potentially better rate options.
- Revenue allocation is to be in accordance with Attachment C of the settlement. The present and proposed rate design as calculated under the settlement appear in Attachment B of the settlement, and the rates for residential customers are calculated assuming that SDG&E prevails in rolling off the AB1X rate caps.<sup>19</sup> The residential rates are subject to adjustment based on the outcome of the decision on the AB1X issues.
- Hearings on the AB1X issues are waived, and the issues are to be addressed in briefs.
- SDG&E withdraws its CARE proposal for residential customers.
- The TRAC is eliminated as a separate line item on the residential customer bill, but will be included as a component within the Public Purpose Program (PPP) charges for billing purposes and will remain a separate line item in SDG&E's tariffs.
- The Tier 4 and Tier 5 residential rates will be consolidated into a single Tier 4 rate, with a differential between Tier 3 and Tier 4 of at least 2 cents per kWh.
- The methodology for inclusion of the CSI costs into residential rates will be similar to that adopted for PG&E in D.07-09-004.<sup>20</sup>
- On an as available basis, SDG&E will, without charge to the customer, install TOU meters that are available in current inventory, or will become available as a result of meter change-outs of residential customers who install a new SES after schedule DR-SES becomes effective. The TOU rate schedules

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<sup>19</sup> The proposed rates shown in Attachment B of the settlement did not use the bond charge and energy charge that we allocated to SDG&E in D.07-12-030. As a result, those charges will affect the illustrative rates shown in Attachment B of the settlement.

<sup>20</sup> In D.07-09-004, residential Tier 1 and Tier 2 rates were increased by the difference between the new CSI rate component and the previously existing component of solar costs embedded in the SGIP costs collected in residential Tier 1 and Tier 2 rates.

DR-TOU or DR-SES will be available to SES customers. If no TOU meters are available for new SES customers, the customer may remain on the otherwise applicable tariff, or choose to pay for a new TOU meter to enable a TOU rate.

- The basic service fee for small commercial customers (less than 20 kW) will increase by no more than 5% from the current level, and SDG&E withdraws its proposal to create schedule AS-TOU and its proposal to shift schedule A-TOU customers with demands between 20 kW and 40 kW to schedule AL-TOU.
- The demand/energy rate structure applied to the CTC for C&I customers remains unchanged.
- For C&I customers, a modified rate design approach will be applied to the distribution revenue requirements associated with SGIP, CSI, the Annual Earnings Assessment Proceeding, demand response programs, and electric procurement administration costs.
- Schedule PA winter rates shall remain at existing levels, with all proposed changes applied to summer rates only.
- For street lighting, the Distribution Demand & Customer Cost per kW per year value in SDG&E's original proposal will be replaced by the average of SDG&E's estimate and CAL-SLA's estimate.

On the CPP issues for C&I customers, the settlement provides the following:

- SDG&E's CPP proposal is adopted, except as modified by the settlement, and is to be implemented as the default tariff no later than April 1, 2008.
- Customers may opt out of CPP as provided for in the settlement.
- Customers staying on CPP will have at least one year of Bill Protection.
- CPP customers shall be entitled to reserve an uncapped amount of capacity pursuant to the CRC parameters.

- Every two California Independent System Operator (CAISO) canceled alerts/false alarms shall count as one event toward the CPP annual event cap.
- If the Commission approves Bill Protection for the customers of SCE and PG&E for 2009, SDG&E shall seek Commission approval to extend Bill Protection through 2009.
- CPP imbalances shall be contained within the C&I customer class.
- SDG&E shall analyze the impact of splitting C&I customers into three classes (Class Split Study) of 20 kW to 200 kW, 200 kW to 500 kW, and over 500 kW.
- By November 15, 2008, SDG&E shall file an application that:
  - a) proposes at least one additional split of C&I customer classes;
  - b) includes the Class Split Study as an attachment or exhibit;
  - c) includes, if indicated, an extension of Bill Protection for 2009;
  - and d) incorporates all subsequently ordered Commission changes to SDG&E's CPP tariffs.

For the PTR issues, the settlement provides for the following:

- A two-level PTR incentive with a higher level payment for customers who reduce electric usage below an established CRL with enabling demand response technology, and a lower level payment to customers without such technology. The settlement describes how the CRL is to be calculated for residential and small commercial customers.
- The PTR incentive payment to residential and small commercial customers is designed on a cents per kWh basis that assumes nine event days and an on-peak period from 11:00 am to 6:00 pm. With the agreed avoided generation capacity of \$67 per kW-year, this translates to an effective incentive of approximately 98 cents per kWh for the PTR incentive payment. A weighted average rate of 80 cents per kWh will be used as the basis to compute the higher PTR technology incentive payment and the PTR payment without technology. The reduction from 98 cents per kWh to 80 cents per kWh is intended to reduce the structural benefiter's incentive payout.

- All PTR customer incentive payments are paid in each billing cycle based on the customer's sum total event day CRLs and total event period reductions over the entire bill cycle.
- PTR incentive payments costs are to be recovered from the specific residential class and small commercial class that received such incentive payments via the Energy Resource Recovery Account.
- PTR administration, management, customer communications and education expenses are to be recovered via the cost allocation factors as indicated by the outcome of the general cost allocation and rate design adopted in this proceeding.
- M&E of PTR demand response impacts and benefits are to adhere to the M&E protocols, objectives, principles and methods that are expected to be established in the Demand Response Rulemaking (R.) 07-01-041 in early 2008.
- A PTR evaluation sub-committee will be established that will be comprised of representatives from the utilities (SDG&E, SCE and PG&E), the California Energy Commission, the Commission's Energy Division and DRA, and other interested parties. This subcommittee will operate under the Demand Response Measurement Evaluation Committee (DRMEC) that has been established since 2004.
- The PTR evaluation subcommittee will meet prior to the implementation of SDG&E's PTR program to develop a comprehensive evaluation plan that explicitly defines the M&E objectives. The evaluation plan will be submitted to the DRMEC for review. SDG&E will assume the lead role in the PTR evaluation subcommittee and be responsible for submitting the request for proposal and the selection of the contractor or contractors that will conduct the M&E work.
- SDG&E intends to file its PTR implementation plan, program description, and request for M&E funding in its next Demand



Response program cycle filing (2009-2011), which is expected to be June 1, 2008 per D.06-03-024.<sup>21</sup>

Regarding the DG-R Tariff, the settlement provides for the following:

- SDG&E shall offer a new, voluntary tariff (Schedule DG-R) for customers with loads 2 megawatts (MW) and below, who own operational, distributed generation, and the capacity of that operational, distributed generation is 10% or greater of their peak annual load.
- Customers who qualify for Schedule DG-R may opt to use Schedule DG-R or their otherwise applicable rate as the basis for shadow billing under the CPP bill protection proposal.
- Schedule DG-R shall recover all CTC costs through energy charges. The CTC costs recovered through time-variant demand charges shall be shifted to the CTC component of the energy charges and allocated to TOU periods in the same proportion as CTC energy charges.
- Schedule DG-R commodity costs shall be charged on a volumetric basis; no commodity demand charges shall apply.
- The distribution non-coincident demand charge (D-NCDC) for Schedule DG-R will be established as 50% of the as-settled Schedule AL-TOU D-NCDC of \$5.36 per kW-month.
- No D-NCDC ratchet shall apply to Schedule DG-R.
- The on-peak distribution demand charges for Schedule DG-R will be recovered through a non-time variant distribution kWh-based charge.
- Cost shifts related to Schedule DG-R commodity demand charge exemptions shall be retained in total C&I commodity charges.
- Cost shifts related to Schedule DG-R distribution demand charge exemptions shall be retained in total C&I distribution charges.

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<sup>21</sup> In D.06-03-024 at page 20, the program cycle is described as 2009-2012.

In support of the settlement, SDG&E sponsored the testimony of Steve Rahon which was received into evidence as Exhibit 36.

#### **4. Discussion**

##### **4.1. Introduction**

A proposed settlement is now before us that would resolve all of the issues in this proceeding. The settlement is supported, or is unopposed, by all the parties who actively participated in this proceeding.

In evaluating whether the Commission should adopt or reject a settlement, we rely on the settlement rules set forth in Rules 12.1 to 12.7 of the Commission's Rules. In particular, Rule 12.1(d) provides that: "The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with law, and in the public interest."

##### **4.2. Comparison of the Parties' Original Positions to the Settlement**

In deciding whether the settlement meets the criteria for Commission approval, it is useful to compare the prominent features of the settlement with the original positions of the parties. Such a comparison allows us to gauge the compromises that each party made in reaching the settlement.

The original proposal of SDG&E reflects one possible outcome that could have occurred had it prevailed on all of its issues. The original positions of the other parties reflect other possible outcomes had those parties prevailed.

On the revenue allocation of the distribution and commodity revenue requirements, DRA and UCAN both proposed differing allocations which were premised on marginal cost results that used the "new customer only" methodology, instead of the "rental" or RECC methodology that SDG&E used.

UCAN concluded that SDG&E's allocation of the revenue requirement to the residential class was \$71 million too high. UCAN asserted that SDG&E's calculation of the marginal demand distribution costs was too low, and that SDG&E's calculation of marginal customer costs was too high.

CAL-SLA and the Farm Bureau<sup>22</sup> supported DRA's methodology for calculating the marginal customer costs. According to the Farm Bureau, DRA's methodology results in an estimated marginal cost of \$112.46 compared to SDG&E's methodology which results in an estimate of \$319.07. Other parties, such as California Large Energy Consumers Association (CLECA) and the Federal Executive Agencies, supported SDG&E's methodology for calculating the marginal customer costs.

To avoid hearings on the marginal customer costs, and how the revenue allocation should be carried out, the parties agreed in the settlement to specific and separate allocation factors for the distribution and generation revenue requirements. These allocation factors, as applied to SDG&E's GRC Phase 1 request, are reflected in Attachment C of the settlement.<sup>23</sup> Under the settlement, the revenue allocation to the residential and small commercial customers decreases from what SDG&E had proposed in its application, while the allocation to the medium and large C&I customers increases by approximately \$61 million. In addition, the settlement reduces the allocation to lighting

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<sup>22</sup> The Farm Bureau believes that certain corrections to DRA's methodology need to be made.

<sup>23</sup> The revenue allocation shown in Attachment C of the settlement is based on the revenue requirement that SDG&E had proposed in Phase 1 of its GRC. The actual revenue allocation changes will be different if the revenue requirement adopted in Phase 1 of the GRC is different from SDG&E's request.

customers by \$2.3 million, as compared to SDG&E's original position. For agricultural customers, the settlement reduces the allocation by \$234,000.

In addition to the overall impact on the revenue allocation to each customer class, the settlement resolved many of the rate design differences between the parties with respect to the various customer classes. These differences included, among other issues, the various demand charge and energy charge proposals, and the shifting of the month of October from a winter to a summer rate period.

For residential customers, SDG&E agreed as part of the settlement to withdraw its proposal to limit the discounts and exemptions applicable to CARE customers. The parties agreed in the settlement that the total rate levels applicable to CARE customers will remain unchanged.

The settlement also addressed the TRAC proposal of SDG&E. The parties agreed to the implementation of the TRAC, but the associated credits and charges will not be shown as a separate line item on residential customer bills. Instead, the TRAC charges will be included as a component within the PPP charges for billing purposes and remain a separate line item in SDG&E's tariffs. The TRAC will be the mechanism for capping residential rates and for recovering the associated revenue shortfalls. We clarify that existing direct access customers, which are exempt from paying the RDSC adopted in D.05-12-003, will likewise be exempt from the TRAC.

For the five tier residential rate structure, the parties agreed in the settlement to consolidate the Tier 4 and Tier 5 rates into a single Tier 4 rate. The parties also agreed that the total rate differential between Tier 3 and Tier 4 will be at least 2 cents per kWh until addressed in a future rate design proceeding.

SDG&E had proposed that all residential rates, including the rates applicable to usage up to 130% of baseline, be adjusted to recover the residential allocation of the CSI costs. The parties agreed in the settlement that the methodology for including the CSI costs into residential rates will be similar to what was adopted for PG&E in D.07-09-004. In that decision, the residential Tier 1 and Tier 2 rates were increased by the difference between the new CSI rate component and the previous component of solar costs that was in the SGIP costs collected in residential Tier 1 and Tier 2 rates.

For residential customers who install a SES, the parties agreed in the settlement that SDG&E will, without charge to the customer, install TOU meters that are available in current inventory, or will become available as a result of meter change-outs for residential customers who install a new SES after schedule DR-SES becomes effective. The TOU rate schedules DR-TOU or DR-SES will be available to SES customers. If no TOU meters are available for new SES customers, the customer may remain on the otherwise applicable tariff or choose to pay for a new TOU meter in order to use a TOU rate.

For small commercial customers, SDG&E had proposed to increase all basic service fees by 20% from their current levels to more closely reflect the fixed costs of providing service. DRA had proposed that these customers should not be subjected to an increase in the basic service fees. The parties agreed as part of the settlement that the basic service fees for the small commercial rate schedules will increase by no more than 5% from the current level.

The parties also agreed that current Schedule A for small commercial customers will be retained, instead of requiring these customers to go on a new rate schedule, Schedule AS-TOU, after AMI is implemented. In addition to withdrawing its Schedule AS-TOU, SDG&E agreed as part of the settlement to

withdraw its proposal to shift Schedule A-TOU customers with demands between 20 kW and 40 kW to schedule AL-TOU.

For C&I customers, SDG&E had proposed to redesign the CTC in order to replace the existing CTC demand charges with kWh-based charges. FEA had recommended that shifts in CTC cost recovery be avoided and that the proportionality of the current CTC rates be maintained among the rate schedules. The parties agreed in the settlement that the CTC rate structure will remain unchanged.

SDG&E had proposed to implement a kWh-based charge to recover certain program costs that are currently allocated to the medium and large C&I class. FEA had objected to the recovery of these costs through a kWh-based charge. In the settlement, the parties agreed that a modified rate design approach will be applied to the distribution revenue requirement for these program costs.

For the rate design of the seasonal commodity rates applicable to Schedule PA for agricultural customers, the parties agreed in the settlement that the winter rates should remain at existing levels, and that the proposed charges of SDG&E would be applied to summer rates only.

For the rate design for street lighting, SDG&E had proposed that the rates be adjusted to recover the revenue allocated to the class using an EPMC methodology. CAL-SLA had questioned SDG&E's derivation of the customer costs for street lighting. In the settlement, the parties agreed that the distribution demand and customer cost per kW value in SDG&E's proposal will be replaced by the average of SDG&E's estimate and CAL-SLA's estimate.

For the dynamic pricing issues, the parties reached a number of compromises in the settlement.

SDG&E, DRA, UCAN and CLECA actively participated on the PTR issues. The settlement adopted DRA's proposal for a two-tier PTR credit to address the free rider problem that DRA and UCAN had raised. The two-tier PTR credit will reduce the cents per kWh credit to the free riders. Other PTR issues are addressed in Paragraphs 3 to 13 of the PTR portion of the settlement. The resolution of all the PTR issues in the settlement provides the framework for providing dynamic rates to residential and small commercial customers in the future as AMI meters are deployed.

A number of compromises and concessions were made by the parties regarding the CPP issues. SDG&E had proposed in its application that CPP apply to all C&I customers with demands equal to or greater than 20 kW. A number of the parties questioned various aspects of the CPP proposals. BOMA, the city of San Diego, and the Farm Bureau opposed the mandatory nature of the CPP proposals. BOMA was concerned about the impact of CPP on its members and their tenants. Others were concerned about the potential for cost shifting, and CMTA proposed that the large C&I customers should be divided into two rate groups.

As a result of the settlement discussions about the CPP issues, all of the parties agreed to support SDG&E's CPP proposal, as modified by the settlement. The specific modifications to SDG&E's CPP proposal are described in the settlement and in the testimony in support of the settlement. Some of the highlights of the settlement are summarized below. The CPP rates and bill impacts are shown in Attachments D and E of the settlement.

The parties agreed in the settlement that educational outreach begin on the default CPP rate no later than March 1, 2008, and that the CPP tariffs be implemented no later than April 1, 2008. The settlement provides for a 45-day

period after the default CPP is implemented for customers to opt out of the CPP to the otherwise applicable tariff. Those customers who do not opt out of the default CPP will be covered by Bill Protection for the first 12 months of default CPP service. After the first 12 months on the default CPP rate, and on subsequent annual anniversaries, a customer will have a certain period of time in which to opt out of the default CPP.

In addition to the above modifications to SDG&E's default CPP proposal, the parties agreed in the settlement to several other conditions. These conditions include the following. The CPP imbalances are to remain within the C&I customer class, and any over- or under-collection shall be allocated as described in the settlement. SDG&E also agrees to analyze the impact of splitting C&I customers into three classes by performing the Class Split Study. By November 15, 2008, SDG&E agrees to file an application to propose at least one additional split of the C&I customer classes, and that the Class Split Study be attached to the application.

The City of San Diego, FuelCell Energy, the Solar Alliance, and Vote Solar raised concerns about the demand charges that customers would have to pay under SDG&E's initial proposals regarding renewable customer-owned generation. As a result of the settlement discussions regarding SDG&E's proposals, the parties agreed in the settlement that a new voluntary tariff, Schedule DG-R, will be made available. This is a voluntary schedule that will be available to qualifying customers that install solar, fuel cells, and other renewable distributed generation. Schedule DG-R is designed to provide



additional incentives, as compared to the otherwise applicable rate, through the conversion of demand charges into energy rates.<sup>24</sup>

The proposed DG-R rates are shown in Attachment F of the settlement. The Schedule DG-R distribution and commodity rates will be updated once a final decision is adopted in SDG&E's GRC Phase 1. The cost shifts that result from the Schedule DG-R commodity demand charge exemptions will be retained in the total C&I commodity charges. The cost shifts that result from the Schedule DG-R distribution demand charge will be retained in the total C&I distribution charges.

#### **4.3. Adoption of the Settlement**

A review of all of the parties' testimony, and the comparison in the preceding sections, reveal that the parties have made a number of concessions in order to reach the compromises agreed to in the all party, all issue settlement. The parties who participated in this proceeding represent a broad spectrum of customer interests, and the issues raised by the parties and the resolution of those issues in the settlement reflect those interests and concerns.

The revenue allocation agreed to in the settlement balances the competing interests of the various parties. For example, in comparison to the revenue allocation under SDG&E's original proposal, the revenue allocation in the settlement to the medium and large C&I customers increased substantially, while the allocation to the street lighting customers is reduced and the allocation to residential and small commercial customers decreases. A number of cost-of-service and load studies will be undertaken by SDG&E, which may be used to

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<sup>24</sup> The offering of Schedule DG-R resolves a large part of the school districts' concerns with SDG&E's demand charge.

justify future allocations. As described in Section 3.2.2 of this decision, many of the rate design issues of concern to residential customers, small commercial customers, medium and large C&I customers, agricultural customers and street lighting customers were resolved in a manner satisfactory to all of the parties. Had a settlement not been reached, the revenue allocation and rate design outcomes may have been dramatically different.

The compromises that were reached in the settlement regarding the PTR program and the CPP rates will enable dynamic pricing to be implemented in 2008 in conjunction with SDG&E's AMI deployment. While fulfilling the goals of the EAP II to provide for demand response through well designed dynamic pricing, customers will be able to experiment with the CPP rates using Bill Protection for the first year, or customers may choose to remain on their otherwise applicable tariff.

The adoption of the voluntary Schedule DG-R will facilitate the EAP II goal of encouraging the growth of renewable sources of energy in California.

As for the settlement's consistency with the law, there are two areas covered by the settlement which require a brief discussion. These concerns have to do with the provisions of the settlement which pertain to the installation of a SES, and the sub-metering of commercial buildings.

The settlement contains two provisions which pertain to a SES. For residential customers, the settlement addresses how these customers can obtain a TOU meter in order to use schedule DR-TOU or DR-SES. The other provision addresses the new, voluntary DG-R tariff, which qualifying customers with a SES can use.

Pub. Util. Code § 2851(a)(4) states:

- (A) Notwithstanding subdivision (g) of Section 2827, the commission shall require time-variant pricing for all ratepayers with a solar energy system. The commission shall develop a time-variant tariff that creates the maximum incentive for ratepayers to install solar energy systems so that the system's peak electricity production coincides with California's peak electricity demands and that assures that ratepayers receive due value for their contribution to the purchase of solar energy systems and customers with solar energy systems continue to have an incentive to use electricity efficiently. In developing the time-variant tariff, the commission may exclude customers participating in the tariff from the rate cap for residential customers for existing baseline quantities or usage by those customers of up to 130 percent of existing baseline quantities, as required by Section 80110 of the Water Code. Nothing in this paragraph authorizes the commission to require time-variant pricing for ratepayers without a solar energy system.
- (B) The commission may delay implementation of time-variant pricing pursuant to subparagraph (A), until the effective date of the rates subject to the next general rate case of the state's three largest electrical corporations, scheduled to be completed after January 1, 2009.
- (C) If the commission delays implementation of time-variant pricing pursuant to subparagraph (B), ratepayers required to take service under time-variant pricing between January 1, 2007, and January 1, 2008, shall be given the option to take service under flat rate or time-variant pricing and shall be credited any difference between the time-variant rate and the otherwise applicable flat rate, provided there is a flat rate pricing schedule for which the ratepayer would qualify if the ratepayers had not installed the solar energy system.

The provisions in the settlement which pertain to customers with a SES do not conflict with Pub. Util. Code § 2851. The DR-TOU, DR-SES and DG-R schedules all have time-variant pricing. Pursuant to Pub. Util. Code

§ 2851(a)(4)(B), the Commission may, but is not obligated to delay the implementation of time-variant pricing for SDG&E. Since the SES tariffs in the settlement provide an incentive for the installation of such systems, a delay is not needed to implement time-variant pricing for SDG&E's customers.

With respect to the agreement in the settlement that SDG&E will adopt a sub-metering program substantially similar to what was adopted for PG&E in D.07-09-004, that raises the issue of whether this part of the settlement is inconsistent with the prior Commission decisions prohibiting commercial sub-metering. In D.07-09-004, the Commission addressed that concern and found that PG&E's sub-metering agreement was not inconsistent with the law, and that the prior decisions prohibiting commercial sub-metering were no longer applicable. (*See* D.07-09-004, pp. 45-54.) Since the sub-metering program agreed to in the settlement is to be patterned after the sub-metering program adopted in D.07-09-004, we do not see any conflict. Rule 19 of SDG&E's tariffs will need to be revised to reflect the sub-metering program allowed under the settlement.

As part of the settlement on sub-metering, SDG&E is to establish a Memorandum Account for incremental sub-metering costs. We will require SDG&E to file a tier 3 advice letter to recover any incremental sub-metering costs that are recorded to this Memorandum Account. Such a procedure will ensure that the sub-metering costs are indeed incremental, and will provide the parties and the Commission with an opportunity to review the costs recorded to this Memorandum Account.

We conclude that the settlement is consistent with the law.

The settlement is in the public interest because it resolves all of the issues among the active parties, except for the AB 1X issues. The agreement between all of the active parties on all of the issues in this proceeding helped to minimize

the litigation resources that would have been required had a settlement not been reached. In addition, the settlement is in the public interest because of the compromises that each party made with outcomes that are fair and reasonable to all the parties.

We conclude that the settlement is balanced and reasonable in light of the whole record, consistent with the law, and in the public interest. Based on the above discussion, SDG&E's November 1, 2007 motion to adopt the settlement should be granted, and the terms of the settlement as appended to SDG&E's motion as Attachment 1 should be adopted by the Commission.

SDG&E is directed to file an advice letter with tariffs that conform to the settlement. In order to minimize rate volatility to customers, the effective date of the tariffs shall be May 1, 2008. The rates that are to become effective on May 1, 2008 may change depending on the decisions that are adopted on SDG&E's electric revenue requirement in A.06-12-009 and in this proceeding on the AB1X issues.

## **5. Comments on Proposed Decision**

The proposed decision of ALJ John S. Wong in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code. Four opening comments and two reply comments were filed. We have considered those comments and changes have been made to this decision as deemed appropriate.

## **6. Assignment of Proceeding**

John A. Bohn is the assigned Commissioner and John S. Wong is the assigned ALJ in this proceeding.

### **Findings of Fact**

1. SDG&E filed its motion on November 1, 2007 to adopt the all party and all issue settlement that was attached to the motion as Attachment 1 and labeled as “TY2008 General Rate Case Phase 2 Settlement.”

2. SDG&E’s application in this proceeding addresses the cost allocation and rate design proposals associated with SDG&E’s electric revenue requirement for its 2008 through 2010 GRC.

3. Revenue allocation is the process whereby the proposed or authorized revenue requirement is allocated among the different rate classes.

4. In this proceeding, the revenue allocation is calculated for the distribution function and for the commodity function.

5. The distribution function covers the costs of delivering electricity to customers, while the commodity function covers the costs of DWR’s electricity purchases that are assigned to SDG&E and URG costs.

6. The settlement resolves all of the issues in this proceeding except for the AB1X issues.

7. The settlement is supported, or is unopposed, by all of the parties who actively participated in this proceeding.

8. In deciding whether the settlement meets the criteria for Commission approval, it is useful to compare the prominent features of the settlement to the original positions of the parties.

9. A review of all the parties’ testimony and a comparison of those positions to the settlement, reveal that the parties have made a number of concessions in order to reach the compromises agreed to in the settlement.

10. The parties who participated in this proceeding represent a broad spectrum of customer interests, and the issues raised by the parties and the

resolution of those issues balance those competing interests and the outcomes are fair and reasonable to all the parties.

11. Had a settlement not been reached, the revenue allocation and rate design outcomes may have been dramatically different.

12. The settlement is reasonable in light of the whole record and is in the public interest.

### **Conclusions of Law**

1. Since no one filed any comments on the November 1, 2007 motion to adopt the settlement, no hearings on the settlement are needed.

2. The settlement provisions which pertain to customers with a SES do not conflict with Pub. Util. Code § 2851.

3. Since the sub-metering program agreed to in the settlement is to be patterned after the sub-metering program adopted in D.07-09-004, there is no conflict with prior Commission decisions prohibiting commercial sub-metering.

4. Prior to SDG&E's recovery of any costs recorded to the sub-metering Memorandum Account, SDG&E should be required to file a tier 3 advice letter.

5. The settlement is consistent with the law.

6. SDG&E's November 1, 2007 motion to adopt the settlement should be granted, and the terms of the settlement in Attachment 1 of the motion should be adopted.

7. SDG&E should be directed to file an advice letter with tariffs that conform to the settlement, as clarified herein.

## **O R D E R**

### **IT IS ORDERED** that:

1. The November 1, 2007 motion of San Diego Gas & Electric Company (SDG&E), which requests adoption of the October 17, 2007, "TY2008 General Rate Case Phase 2 Settlement" (settlement) is granted, and the terms of the settlement appended to the motion as Attachment 1 are adopted and shall govern all of the revenue allocation, rate design, and critical peak pricing issues raised in this proceeding.
2. Within 30 days of the date this order is mailed, SDG&E shall file an advice letter in compliance with General Order 96-B. The advice letter shall include revised tariff sheets to implement the revenue allocations and rate designs adopted in this order. The tariff sheets shall become effective on May 1, 2008, subject to Energy Division determining that they are in compliance with this order. No additional customer notice need be provided pursuant to General Rule 4.2 of General Order 96-B for this advice letter filing.
3. SDG&E shall file a Tier 3 advice letter pursuant to General Order 96-B to recover any incremental sub-metering costs recorded to the sub-metering Memorandum Account. SDG&E shall provide justification that the costs it seeks to recover are truly incremental and are not already being recovered in rates.



4. This proceeding remains open to consider the AB1X issues raised in this proceeding, as agreed to in the settlement.

This order is effective today.

Dated February 28, 2008, at San Francisco, California.

MICHAEL R. PEEVEY  
President  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG  
Commissioners

Commissioner Timothy Alan Simon, being  
necessarily absent, did not participate.

## ATTACHMENT A

Abbreviation	Meaning of Abbreviation
A.	Application
AB1X	Assembly Bill 1 of the First Extraordinary Session of 2001-2002
ALJ	Administrative Law Judge
AMI	Advanced Metering Infrastructure
AMR	Advanced Metering and Demand Response Program
BOMA	Building Owners and Managers Associations of San Diego and California
C&I	commercial and industrial
CAISO	California Independent System Operator
CAL-SLA	California City-County Street Light Association
CARE	California Alternate Rates for Energy
CLECA	California Large Energy Consumers Association
CMTA	California Manufacturers & Technology Association
CPP	critical peak pricing
CRC	capacity reservation charge
CRL	customer reference level
CSI	California Solar Initiative
CTC	Competition Transition Charge
DG-R	Schedule Distributed Generation-Renewable
DRA	Division of Ratepayer Advocates
DRMEC	Demand Response Measurement Evaluation Committee
DWR	California Department of Water Resources
EAP	Energy Action Plan
EPMC	Equal Percent of Marginal Cost
Farm Bureau	California Farm Bureau Federation
FuelCell Energy	FuelCell Energy, Inc.
GRC	general rate case
gWh	gigawatt hours
kW	kilowatt
kWh	kilowatt hour
M&E	measurement and evaluation
mw	megawatt
PG&E	Pacific Gas and Electric Company
PHC	prehearing conference

<b>Abbreviation</b>	<b>Meaning of Abbreviation</b>
PPH	public participation hearing
PPP	Public Purpose Program
PTR	Peak Time Rebate
R.	Rulemaking
RDSC	Rate Design Settlement Component
RDW	Rate Design Window
RECC	real economic carrying charge
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
SES	solar energy system
SGIP	Self-Generation Incentive Program
TOU	time of use
TRAC	Total Rate Adjustment Component
UCAN	Utility Consumer Action Network
UDC	utility distribution company
URG	utility retained generation
Vote Solar	Vote Solar Initiative

**(END OF ATTACHMENT A)**