Decision 09-03-024 March 12, 2009

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Joint Application of San Diego Gas & Electric Company (U902G), Southern California Gas Company (U904G) and Pacific Gas and Electric Company (U39G) to Reallocate the Costs of Natural Gas Public Purpose Programs and Other Mandated Social Programs Among Customer Classes.	Application 07-12-006 (Filed December 11, 2007)

Sempra, by Jonny J. Pong, Attorney at Law, for San Diego Gas & Electric Company and Southern California Gas Company
Robert B. McLennan, Attorney at Law, for Pacific Gas and Electric Company; applicants.

Sutherland Ashill & Brennan, by Keith McCrea, Attorney at Law, for California Manufacturers & Technology Association; Alcantar & Kahl, LLP, by Nora Sheriff, Attorney at Law, for Indicated Producers; The Dolphin Group, by Dan Geis, for the Agricultural Energy Consumers Association; California League of Food Processors, by Rob Neenan, for California League of Food Processors; Nina Suetake, Attorney at Law, for The Utility Reform Network; Enrique Gallardo, for Latino Issues Forum; Alexis K. Wodtke, Attorney at Law, for Consumer Federation of California;

Mary-Lee E. Kimber, for Disability Rights Advocate; interested parties.

Harvey Y. Morris, Attorneys at Law, for the Division of Ratepayer Advocates.

DECISION ON REALLOCATION OF NATURAL GAS PUBLIC PURPOSE PROGRAMS COSTS

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DECISION ON REALLOCATION OF NATURAL GAS PUBLIC PURPOSE PROGRAMS COSTS

1. Summary

This decision denies the joint request of San Diego Gas & Electric Company, Southern California Gas Company and Pacific Gas and Electric Company's, collectively identified as "the utilities," to change the cost allocation methods by which their natural gas customers are charged for the costs of their public purpose programs from the various cost allocation methods currently in use to a single cost allocation method.[1]

2. Background

The utilities currently have six public purpose programs (PP programs) being funded through surcharges on their gas rates. These PP programs are: (1) California Alternate Rates for Energy (CARE), (2) Energy Efficiency (EE), (3) Direct Assistant Program (DAP) at Southern California Gas Company (SoCalGas) and Low Income Energy Efficiency (LIEE), (4) Research, Development, and Demonstration (RD&D), (5) Self Generation Incentive Program (SGIP), and (6) Commission and Board of Equalization administrative costs (BOE). In addition to these established programs, two new public purpose programs (PP programs)were considered being established while this proceeding was open. These new PP programs were(7) the California Institute for Climate Solutions (CICS) program and (8) Solar Water Heating (SWH) program, of which PP policy funding for the CICS program was subsequently

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[1] *See* Appendix B for an alphabetical list of all acronyms.

vacated. A description of each of these PP programs is set forth in Appendix A to this decision.

The utilities recover the costs of their PP programs through various cost allocation methods. However, a majority of their costs are recovered through an equal cent per therm (ECPT) cost allocation method.[2] The other cost allocation methods used by the utilities to recover their PP programs costs are the direct benefit (DB) and equal percent margin contribution (EPMC) method.[3][4] The following tabulation shows the cost allocation methods currently being used by each utility to recover the cost of their individual PP programs.

PP PROGRAMS	SoCalGas	SDG&E	PG&E
CARE	ECPT	ECPT	ECPT
EE	DB	DB	DB
DAP & LIEE	DB	EPMC	DB
RD&D	EPMC	EPMC	ECPT
SGIP	ECPT	EPMC	ECPT
BOE	ECPT	ECPT	ECPT

3. Request

The utilities seek authority to replace the cost allocation methods currently being used to recover their costs of PP programs with a single, unified equal percent of base revenue (EPBR) cost allocation method beginning

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[2] Equal cent per therm allocates program costs to each customer based on transported gas volumes, except customers that are specifically exempt from paying the costs of any given program.

[3] Direct benefit allocates program costs to each customer class in proportion to the amount of program dollars dedicated to programs to serve that customer class.

[4] Equal percent margin contribution allocates program costs based on a utility's marginal cost of certain customer, storage, and distribution costs.

January 1, 2009.[5] The utilities also seek authority to recover their costs of all future PP programs, such as the CICS and SWH programs, through the EPBR cost allocation method.

4. Procedural History

By Resolution ALJ 176-3205, dated December 20, 2007, the Commission preliminarily categorized this application as "ratesetting" with hearing indicated. A Prehearing Conference (PHC) was held on February 28, 2008 to establish issues and a hearing schedule. Following this PHC, on March 4, 2008, Commissioner Simon issued a Scoping Memo and ruling setting a schedule that included public participation hearings (PPH) and an evidentiary hearing. The Scoping Memo and ruling affirmed the categorization of this proceeding and that an evidentiary hearing was necessary.

Five PPHs were held throughout California to receive comments from the utilities' customers on the utilities' proposal to use the EPBR method for allocating costs of the PP programs. The PPHs were held in Compton, San Diego, Oakland, Bakersfield, and Fresno. Of the 52 customers who spoke at these PPHs, 37 were in opposition, 14 in favor, and one was neutral to the utilities EPBR method. In addition, a copy of a computer on-line petition of approximately 8,300 customers opposing the EPBR method was presented by CREDO Mobile Working Assets. Letters and E-Mails received in favor of and in

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[5] Equal percent of base revenue assigns costs to individual customer classes based on the same percentage of base transportation revenue allocated to each customer class. For SoCalGas and SDG&E, EPBR is the sum of customer costs (including service lines and meters), distribution costs, and transmission costs. For PG&E, ECPB is the sum of customer access costs (noncore transmission service connections), distribution costs (including core and noncore service connection), local transmission costs, and backbone transmission costs.

opposition to the EPBR were placed in the correspondence file of this proceeding.

The evidentiary hearing began on July 21, 2008 and continued through July 23, 2008. Briefs were filed on August 21, 2008 and reply briefs on September 2, 2008. A closing oral argument was held before Commissioners Simon and Bohn on August 25, 2008.

5. Discussion

The California Manufacturers and Technology Association, the California League of Food Processors (CLFP), the Agricultural Energy Consumers Association, and the Indicated Producers support the utilities request to use the EPBR cost allocation method for recovering the costs of PP programs from their natural gas customer classes. The Division of Ratepayer Advocates (DRA), The Utility Reform Network (TURN), the Consumer Federation of California, the Disability Rights Advocates, and Latino Issues Forum oppose any change in the cost allocation methods used by the utilities for recovering the costs of their PP programs.

The utilities and their supporters recommend the EPBR method over the current cost allocation methods to rectify what they perceive to be an inequity in the utilities' business customer classes (commercial, industrial, electric generation and wholesale) paying a disproportionate share of the costs of PP programs in relation to residential customers.[6] As an example of this perceived inequity, the utilities explained that a substantial increase in the costs of these programs over the years requires many of their large gas users to pay as much,

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[6] Exhibit 1, pp. 1-13, and Exhibit 3, pp. 11-18.

or more, for the PP programs than for their basic gas transportation service and the surcharges are a significant proportion of the bill for other businesses as well.[7] This is because, on a combined basis, business customers representing only 5% of the utilities total customers (approximately 500,000 business customers in comparison to 10 million residential customers) are paying close to half of the costs of the PP programs.[8]

The costs of the individual PP programs were substantially lower at the time the cost allocation methods were adopted for each program and represented only a small fraction of a customers' total bill for utility gas service.[9] However, these programs have expanded over time, thereby increasing the costs of these programs. For example, CARE costs for the utilities have increased over 350%, from approximately $74 million in 2001 to almost $260 million at present and will likely rise further with higher commodity prices and increased outreach efforts.[10]

Adoption of the utilities' EPBR cost allocation method would shift approximately $90 million of the current costs of the PP programs to residential customers from commercial, industrial, electric generation and wholesale customers.[11] To alleviate the impact of this additional cost on residential customers, the utilities propose to phase in this cost allocation change over three years. Residential customers of SoCalGas would pay an additional 0.8% in

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[7] Exhibit 1, pp. 1-13.

[8] Exhibit 3, p. 19.

[9] *Id.*, p. 6.

[10] Exhibit 1, p 1-6 and Exhibit 3, p. 8.

[11] *Id.*, pp. 3-4 and pp. 4-3.

the first year, San Diego Gas & Electric Company's (SDG&E) residential customers 0.7%, and PG&E's residential customers 0.4%. Business customer classes of Southern California Gas Company (SoCalGas) would receive a 0.6% to 7.9% reduction in the first year with noncore commercial and industrial customers receiving the largest reduction, those of SDG&E a 1.4% to 7.8% reduction with noncore commercial and industrial customers receiving the largest reduction, and those of Pacific Gas and Electric Company (PG&E) a 0.2% increase for its small business customers and a 1.2% reduction for its large business customers.[12]

The following tabulation shows the difference in percentage of total costs each customer class would pay for PP programs between the current (ECPT, DB, and EPMC) cost allocation methods and the utilities proposed ECPM cost allocation method.[13]

Utility	Cost Allocation Method	Residential	Commercial & Industrial	Electric Generation & Wholesale
SoCalGas	Present	50.8%	44.4%	4.8%
	Proposed	78.4%	21.3%	0.3%
SDG&E	Present	57.1%	40.0%	2.9%
	Proposed	83.8%	15.7%	0.5%
PG&E	Present	53.9%	45.0%	1.1%
	Proposed	68.3%	31.4%	0.3%

The utilities recommend the EPBR cost allocation method because of a belief that it (1) supports the California economy and competitiveness of

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12 *Id.*, pp. 3-5 and p. 4-4.

California businesses and, (2) is an equitable and consistent method to distribute PP program costs.

5.1. California Economy and Competitiveness of California Businesses

The utilities and their proponents for the EPBR method testified that, for a variety of reasons, the cost of doing business in California is higher than in most other states and places many businesses at a competitive disadvantage resulting in a growing concern for California businesses. They highlighted the impact of the high cost of doing business in California by noting that between 2001 and 2006 California loss approximately 287,000 manufacturing jobs.[14] This represented a 16.3% loss of manufacturing jobs over a five-year period. However, that loss of manufacturing jobs does not by itself demonstrate that the loss of jobs resulted from the high cost of doing business in California. This is because the United States, as a whole, lost 13.9% of its manufacturing jobs over the same time period.[15]

Nonetheless, the utilities consider energy related costs to be among the many reasons that the cost of doing business in California is high in comparison to other states. They identify a major component of those energy costs to be PP program surcharges. In 2000, the California State Legislature passed AB 1002 making the costs of PP programs a non-bypassable surcharge applicable to all gas customers in California (except municipalities offering their own programs and gas producers using proprietary pipelines), including those taking service

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[13] Application, p. 5.

[14] Exhibit 1, pp. 1-9.

from interstate pipelines. Although this action established a level playing field in California, the utilities complain that the cost of utility PP program surcharges relative to other states was not addressed.[16]

From 1993 to 2007 PG&E's average cost of gas increased 259% and SoCalGas' 200%. During this same time period, the industrial customers of PG&E experienced a 1,518% increase in PP program surcharge costs in contrast to its residential customers 145% increase, and SoCalGas' industrial customers a 1,414% increase in contrast to its residential customers 186% increase.[17]

The utilities provided examples to illustrate that the costs of PP programs have already adversely impacted California businesses and influenced business decisions in California, including finding ways to avoid paying PP program surcharges. These examples include the Guardian Glass proceeding, City of Vernon (Vernon), alternative service providers, and feedback from business customers. To enable California businesses to be more competitive with businesses in other states and to improve the California economy, the utilities and their supporters urge that the current cost allocation methods used to distribute the costs of the PP programs be replaced with their proposed EPBR method.

5.1.1. Guardian Glass

The Guardian Glass proceeding involved Guardian Industries Corporation (Guardian) needing to upgrade its fuel oil facility to use clean-burning natural gas or to relocate its manufacturing operation out of

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15 Exhibit 52, p. 4.

16 Exhibit 1, pp. 1-10.

17 Exhibit 3, p. 15.

California. Decision (D.) 06-04-002 found that it would cost Guardian more to do business at its present location than to relocate outside the state, with a key difference being rates for natural gas service. California gas service rates were found to be higher due to taxes, fees, and PP program surcharges totaling approximately 3.0¢ per therm, of which 60% or 1.8¢ was for gas PP program surcharges, compared to 0.2¢ per therm for its out-of state competitor.[18]

By D.07-09-016, the Commission concluded that it did not have authority to discount the non-bypassable PP program surcharges but did have the authority to discount Guardian's transportation rate, fixed charges, and fees. The Commission approved a discounted transportation rate without reducing the PP program surcharges to keep that business in California.

5.1.2. Vernon

Vernon is a wholesale customer of SoCalGas which built its own gas distribution system. Its customers are primarily commercial and industrial customers. Customers have switched from SoCalGas to Vernon on the basis of transportation rate savings. Those industrial customers that switch to Vernon pay from $10,000 to $20,000 to connect to Vernon's distribution system. That additional cost to the industrial customer is recouped in less than a year through savings from not paying the PP program surcharges, which represents 20% to 30% of the transportation bill for a medium-sized industrial customer.[19]

However, the utilities did not present any evidence to substantiate that those customers, representing a very miniscule portion (less than 0.05%) of SoCalGas' business, switched to Vernon because Vernon was charging lower or

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[18] D.06-04-002, *mimeo.,* p. 2.

[19] Exhibit 1, pp. 1-11.

no PP program surcharges.[20] Further, the Commission authorized SoCalGas to charge its Vernon customers reduced core commodity rates to mitigate any benefit a business might experience by migrating to Vernon and to enable it to compete with Vernon.[21]

5.1.3. Alternative Service Providers

Some businesses in the State take service from interstate pipelines (alternative service providers), not subject to this Commission's jurisdiction. Customers of these providers are required to pay their share of the costs of PP programs to the Board of Equalization (BOE). The utilities represent that the customers of alternative service providers may not be paying their PP program surcharges because the BOE has not yet forwarded any PP program surcharges that it may have collected since 2004.[22]

The BOE is collecting and processing PP program surcharges from these customers. Therefore, there is no risk that any of SoCalGas' customers will successfully switch to an interstate pipeline to avoid paying PP program surcharges. Customers of the alternative service providers also represent a very miniscule portion (less than 0.05%) of SoCalGas' business.[23]

5.1.4. Business Customers' Feedback

Business customers' feedback came by way of statements at the various pubic participation hearings and formal evidence. For example, CLFP

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[20] Pub. Util. Code § 898 mandates a municipality such as Vernon to collect PP program surcharges from all of its customers unless it offers low-income programs itself.

[21] Reporter's Transcript Vol. 7, pp. 293-294.

[22] Exhibit 1, pp. 1-11.

[23] Exhibit 19, p. 7.

membership, consisting of California processors engaged in the canning, freezing, and drying and dehydrating of fruits and vegetables, are dependent on gas. Their energy use typically accounts for up to 10% of total production costs, and in some cases such as fruit drying can account for as much as 40% of total production costs. As a result, natural gas tariff rates have a direct impact on the economic viability of food processors and their ability to compete in international markets. In the case of California tomato processors, a one cent per therm increase in PP program surcharges will add approximately $1.4 million in total annual costs to the fifteen California tomato processors which collectively handle approximately eleven million tons of tomatoes a year. It requires 13 therms of natural gas to process one ton of raw tomatoes.[24]

5.1.5. Conclusion

There is no dispute that the cost of doing business in California is higher than many other states. This is supported by a California Competitiveness Project study which showed that the costs of doing business in California are 30% higher than in other Western states. The components of this 30% are 16% for employee costs, 6% State regulatory costs, 5% energy, 3% property, and 1% taxes. The study did not identify whether gas costs more in California than the other Western states.[25] However, these additional costs of doing business in California must be weighted against the advantages of doing business in California. These advantages include leadership in innovation,

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[24] Exhibit 47, pp. 5-6.

[25] Exhibit 52, p. 6.

technology, RD&D; connection to the Pacific and World markets; and, a favorable climate and high standard of living.[26]

The utilities, and their supporters asserted that the current methods used to allocate the costs of PP programs are a burden to California businesses and one reason many businesses consider leaving the state.[27] Unable to substantiate this claim, EPBR supporters clarified that they believe such costs are an important factor considered by businesses and do impact the decisions made by business customers.

Other than the Guardian case, a unique situation where a manufacturing company needed to convert a fuel-oil facility to a clean natural gas facility, there is no evidence to substantiate that PP program surcharges may impact business decisions to leave California. PP program surcharges were only one component of California gas service costs that impacted Guardian's business decision to consider leaving California. The other components of California gas service costs cited by Guardian were fixed charges, taxes, and fees.[28]

There is also no dispute that the costs of PP programs have increased over the years. However, there is little, if any, evidence to support the contention that PP program surcharges are a reason that the cost of doing business in California is higher than other states. The Guardian and Vernon cases are unique cases resolved by the Commission, as previously addressed. Although there may be a delay in the forwarding of PP program surcharges to

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[26] *Id*., pp. 7-8.

[27] Exhibit 1, p. ES-1.

[28] D.06-04-002, *mimeo*., pp. 1-2.

the utilities from the customers of alternate service provides, those customers are not avoiding any payment of PP program surcharges.

Feedback from the utilities business customers does substantiate that PP program surcharges are a measurable amount of the cost of doing business. However, they are not the most significant component. As cited in the California Competitiveness project study, employee costs are the largest component of doing business in California in comparison to other states. The cost of gas is an unpredictable significant component of doing business and can be a major component of doing business. From January to July of 2008, the core procurement cost of gas from a low of .68¢ to a high of $1.22 per therm.[29]

Noticeably absent from evidence is a discussion of whether PP programs benefit California businesses. Although the CARE and LIEE programs were primarily established to assist low income customers with their energy needs, other programs like EE, RD&D, and SGIP were established to reduce energy consumption and costs for all customers by making energy usage more efficient, developing energy science and technology, and promoting clean and efficient self-generation and cogeneration resources.

There is no conclusive evidence that the costs of PP programs adversely impact the California economy or competitiveness of California businesses.

5.2. Equitable and Consistent Distribution of Cost

The utilities and their supporters contend that EPBR method is the best method of equitably spreading the costs of PP programs across all customer

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[29] Exhibit 20.

classes because it departs from a total usage-based cost allocation method to an allocation method that captures usage differences along with differences in the cost to serve the applicable customer class, utility base costs.[30] Applicants undertook a reality check of their proposed EPBR method by correlating their funding method with how the California General Fund derives its revenue.

5.2.1. Applicant's Reality Check

Applicants assert that the PP programs advance desired societal goals similar to the state's use of its General Fund, rather than benefiting one particular customer class. Therefore, the PP programs, if funded by the state, would have been funded through the General Fund.[31]

Given that the revenue source of the General Fund is tax revenues obtained from a variety of sources such as personal income taxes, retail sales and use taxes, and corporate taxes, applicants contend that these same sources of funds should be viewed as a standard by which the fairness of a cost allocation for PP programs can be measured. Their analysis of 2005-2006 General Fund revenues shows that approximately 63% of those revenues came from the residential sector and 37% from the non-residential sector.[32] Hence, the utilities conclude that their EPBR method which will increase SoCalGas' residential customers' share of the PP programs to 78% from 51%, SDG&E's residential customers share to 84% from 57%, and PG&E's residential customer share to 68% from 54% is more in line with the sources of funds for the state's General Fund.

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[30] Exhibit 1, pp. 1-13.

[31] *Id.*, pp. 2-1.

[32] *Id.*, pp. 2-2.

There are two major flaws in applicants' use of the California General Fund for its reality check. The first flaw is the applicant's assumption that if the state funded these PP programs such funding would come from the General Fund. As testified to by TURN, there are many examples of social programs financed from fees or special funds that do not reflect a general tax distribution. For example, the low-income lead poisoning program is financed entirely by fees on paint manufacturers, school construction is often funded by developer fees, and most environmental programs are funded from fees on businesses. The largest social program on the federal level, Social Security, is funded equally between employees and employers.[33]

The second major flaw in their reality check is their conclusion that residential customers provide 63% of the General Fund revenue and businesses 37%. Even applicants acknowledge that the individual percentage they derived is high because some types of businesses such as sole proprietorships and partnerships are not considered corporations and, thus, the taxes that they pay are recorded as the personal income of their owners and appear in the personal income tax category.[34] TURN identified other General Fund revenue sources such as rents and royalties, farm income, capital asset sales, and interest and dividends that cannot be so easily allocated.[35] Under applicants' funding proposal for PP programs, residential customers would bear an even larger cost share of the PP programs than the 63% General Fund individual benchmark

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33 Exhibit 50, p. 4.

34 Exhibit 1, pp. 2-2.

35 Exhibit 50, p. 5.

derived by applicants. Residential customers of SoCalGas would be required to pay 78% to fund the PP programs, SDG&E 84%, and PG&E 68%.

Applicants have not substantiated that the California General Fund should be viewed as a standard by which the fairness of a cost allocation of the PP programs can and should be measured.

5.2.2. Equity of the EPBR

Applicants contend that the EPBR would result in each applicable customer class paying the same percentage mark-up of their transportation cost to fund the PP programs and provide for a more equitable allocation of mandated program costs over time, including cost escalation.[36]

DRA and other parties opposing use of the EPBR method contend that EPBR does not follow basic costing principles because the PP programs do not have any direct relationship to base revenue, as being proposed by applicants. Further, adoption of the EPBR will be detrimental to most ratepayers and to the PP programs. It will be detrimental to most ratepayers in the sense that, when fully phased-in, residential customers will be required to shoulder an additional $90 million cost of the PP programs currently being paid for by business customers, based on current program cost.[37] It will be detrimental to the PP programs in the sense that all of the programs' costs would get reallocated to a smaller group of captive customers, where the rates would become intolerably high, or the programs would be underfunded and eventually collapse.[38]

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[36] Exhibit 1, pp. 1-14.

[37] Exhibit 65, p. 34.

[38] *Id.*, p. 36.

Concern about program viability are properly addressed as part of the periodic review of individual program goals and budgets. Concern about ratepayer detriment is an issue in this proceeding to the extent that a PP program cost allocation method may not be fair and equitable for all customers.

The currently adopted cost allocation methods for the PP programs were adopted for different reasons at various times, as summarized in the background discussion and in Appendix A of this decision. For example, the direct benefits allocation method was adopted for the EE program so that the program cost would be directly assigned to the customer classes for whom the programs are designed.[39]

Applicants seek to replace these cost allocation methods with a single cost allocation method irrespective of a program's intended purpose and which customer class or classes benefit from the program. Adoption of such a method defies a basic costing principal of assigning costs to those who will benefit, whether direct or indirect.

Cost allocations of the PP programs should be fair and equitable. As such, costs should be allocated to customer classes in a manner that appropriately assigns costs relative to the expected share of program benefits. The EPBR method precludes any consideration of an individual program's purpose and intended benefit.

Applicants have not substantiated that its EPBR method is more reasonable than the cost allocation methods currently being used to recover the costs of PP programs. Therefore, it should not be adopted.

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[39] CPUC2d 63, 414 at 456.

6. Comments on Proposed Decision

The proposed decision of the Administrative Law Judge (ALJ) in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on December 8, 2008, and reply comments were filed on December 15, 2008. These comments resulted in only minor changes in the Findings of Fact.

7. Assignment of Proceeding

Timothy Alan Simon is the assigned Commissioner and Michael J. Galvin is the assigned ALJ in this proceeding.

Findings of Fact

1. The utilities recover the costs of their PP programs through various cost allocation methods.

2. Adoption of the EPBR cost allocation method would shift approximately $90 million of the current costs of the PP programs to residential customers from business customers.

3. California lost approximately 287,000 manufacturing jobs between 2001 and 2006. This amount represented a 16.3% loss of manufacturing jobs over a five-year period. The United States, as a whole, lost 13.9% of its manufacturing jobs over the same time period.

4. The costs of PP programs are a non-bypassable surcharge applicable to all gas customers in California except those exempt under Pub. Util. Code §§ 896 and 898 such as municipalities offering their own programs.

5. In the Guardian case, gas service rates were found to be higher in California than an adjoining state due to taxes, fees, and PP program surcharges.

6. To keep that business in California, the Commission approved a discounted transportation rate for Guardian without reducing the PP program surcharges.

7. SoCalGas was authorized to charge its Vernon core customers reduced core transportation rates to enable it to corporate with Vernon.

8. Customers of alternative service providers who are not exempt are required to pay PP program surcharges.

9. Natural gas costs have a direct impact on the economic viability of food processors and their ability to compete in international markets.

10. The California Competitiveness Project found costs of doing business in California are 30% higher than in other Western states. The components of the 30% are 16% for employee costs, 6% State regulatory costs, 5% energy, 3% property, and 1% taxes.

11. Advantages of doing business in California include California being a leader in innovation, technology, RD&D, connected to the Pacific and world markets, and a favorable climate and high standard of living.

12. The cost of gas is an unpredictable component of doing business and can be a major component of doing business.

13. The EE, RD&D, and SGIP programs were established to reduce energy consumption by making energy usage more efficient, developing energy science and technology, and promoting clean and efficient self-generation and cogeneration resources.

14. There are many examples of social programs financed from fees or special funds that do not reflect a general tax distribution.

15. The largest social program on the federal level, Social Security, is funded equally between employees and employers.

16. Some types of businesses such as sole proprietorships and partnerships are not considered corporations and, thus, the taxes that they pay are recorded as the personal income of their owners and appear in the personal income tax category.

17. The currently adopted cost allocation methods for the PP programs were adopted for different reasons at various times, as summarized in Appendix A of this decision.

18. Applicants seek to replace the PP program cost allocation methods with a single cost allocation method irrespective of a program's intended purpose and which customer class or classes is to benefit from the program.

19. Five PPHs were held throughout California to receive comments from the utilities' customers on the utilities proposal to use the EPBR method for allocation costs of the PP programs. Of the 52 customers who spoke at the PPHs, 37 were in opposition, 14 in favor, and one neutral.

20. A computer on-line petition of approximately 8,300 customers opposing the EPBR method was presented at the Oakland PPH.

Conclusions of Law

1. There is no conclusive evidence that the costs of PP programs adversely impact the California economy or competitiveness of California businesses.

2. Applicants have not substantiated that the California General Fund should be viewed as a standard by which the fairness of a cost allocation of the PP programs can and should be measured.

3. Adoption of the EPBR method defies a basic costing principal of assigning cost to those who will benefit, whether direct or indirect.

4. Applicants have not substantiated that its EPBR method is more reasonable than the cost allocation methods currently being used to recover the costs of PP programs and should not be adopted.

O R D E R

IT IS ORDERED that:

1. The joint request of San Diego Gas & Electric Company, Southern California Gas Company, and Pacific Gas and Electric Company to change the cost allocation methods by which their natural gas customers are charged for the costs of their public purpose programs to a single Equal Percent of Base Revenue cost allocation method is denied.
2. Application 07-12-006 is closed.

This order is effective ay.

Dated March 12, 2009, at San Francisco, California.

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

APPENDIX A
Public Purpose Programs

1. California Alternate Rates for Energy (CARE)

The CARE program, established in 1989 as the Low Income Rate Assistance program and renamed CARE in 1995, provides rate discounts to qualifying low-income residential customers to reduce their energy costs and to help improve their standard of living.[1] Customers whose household income is less than 200% of the federal poverty level are eligible to participate in this program. Eligible customers participating in this program currently receive a 20% discount on their bill. CARE costs are recovered through an ECPT cost allocation method.[2] Customers exempted from paying the cost of this program are CARE participants, electric generation, wholesale, and enhanced oil recovery customers.

The ECPT cost allocation method was adopted over a per-customer cost allocation method at the time the program was implemented in 1989.[3] This cost allocation method was determined to be more consistent with California legislation which required that program costs not be borne by a single ratepayer class.

2. Energy Efficiency (EE)

The EE program, established prior to 1990, was designed to reduce energy consumption by making energy usage more efficient**.** This program assists

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[1] 58 CPUC2d, 278 at 279.

[2] Equal cent per therm allocates program costs to each customer based on transported gas volumes, except customers that are specifically exempt from paying the costs of any given program.

[3] 32 CPUC2d, 406 at 416.

customers to conserve energy and reduce or eliminate energy waste through the use of monetary incentives and rebates to reduce the cost of installing energy efficient equipment, providing technical advice and support on energy saving strategies, and offering education and outreach. This programs help customers save money on energy costs and reduce the usage of limited, carbon-creating fuel supplies, and help to demonstrate and commercialize energy savings technologies.

Southern California Gas Company (SoCalGas) has used the DB cost allocation method to recover EE program costs since approved in 1993 by D.93-12-043. Prior to 2005, San Diego Gas & Electric Company (SDG&E) used the EPMC cost allocation method to recover its program costs. However, with the adoption of new energy efficiency goals, SDG&E requested and received authorization to switch to the DB cost allocation method from the EPMC cost allocation method.[4] PG&E has used the DB cost allocation method to recover its program costs since being adopted in its 1995 Biennial Cost Allocation Proceeding (BCAP). The DB cost allocation method was adopted so that EE program cost would be directly assigned to the customer classes for whom the EE programs are designed and to make the allocation more consistent with the distribution of program dollars.[5]

3. Direct Assistance Program and Low Income Energy Efficiency (LIEE)

The LIEE program (DAP at SoCalGas and LIEE at SDG&E and PG&E), was established in the 1980's and updated in 2007 to set the stage for the next generation of energy efficiency in California, provides energy efficiency

[4] D.05-09-043, *mimeo.*, p. 184.

measures at low or no cost to low income residential customers. This program was designed to provide an energy resource for California while concurrently providing low-income customers with ways to reduce their bills and improve their quality of life through an emphasis on conservation and energy efficiency measures.[6]

Both SoCalGas and PG&E use the DB cost allocation method to recover LIEE costs from the customer classes for whom the LIEE programs are designed. The DB cost allocation method has been used by SoCalGas since 1993 and PG&E since 1995.[7] SDG&E uses the EPMC cost allocation method, pursuant to a 1993 joint settlement agreement between SDG&E and DRA.[8]

4. Research, Development and Demonstration (RD&D)

The RD&D program, established in 2004, is directed towards developing science and technology, the benefits of which will accrue to California citizens and are not adequately being addressed by competitive or regulated entities.[9] Included in this program are projects that focus on energy efficiency, renewable energy, public benefits, and joint opportunities with other entities.

The decision establishing this program provided for the utilities to maintain their existing authorized RD&D cost allocation method. Hence, SoCalGas and SDG&E use the EPMC cost allocation method to recover their costs from this program. PG&E, not having non-PP program RD&D programs at

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5 *See* D.95-12-053, 63 CPUC2d (1995), 414 at 456, and D.05-09-043.

6 D.07-12-051 (2007), *mimeo.,* p. 3.

7 Exhibit 2, p. S-8.

8 *See* D.94-12-052, 58 CPUC2d 306 at 348, 349, and 357.

9 *See* D.04-08-010 *mimeo.,* p. 25.

the time this program was established, was required to allocate its RD&D PP program costs on an ECPT cost allocation method. However, it was authorized to request use of the EPMC cost allocation method in a future BCAP or other ratemaking proceeding.[10]

5. **Self Generation Incentive Program (SGIP)**

The SGIP, established in 2001, is an incentive program to promote the development, installation, and interconnection of clean and efficient self-generation and cogeneration resources to improve system reliability for customers.[11] Self-generation include distributed generation technologies (micro-turbines, small gas turbines, wind turbines, photovoltaics, fuel cells and internal combustion engines) installed on the customer's side of the utility meter that provide electricity for a portion or all of that customer's electric load.

The cost allocation method for recovering program costs was not specifically addressed in the decision that established this program. The decision, instead, provided for the utilities to track all program costs in memorandum accounts and to include program costs in their next BCAP. SoCalGas adopted the ECPT cost allocation method as an interim allocation method and SDG&E the EPMC cost allocation method. Neither of these utilities has had a BCAP proceeding since this program was established. For PG&E, SGIP costs were tracked in a memorandum account until its 2005 BCAP. In that proceeding, PG&E was authorized to use the ECPT cost allocation method, which has consistently been adopted for cost recovery of environmental programs.[12]

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[10] *See* D.04-08-010 *mimeo,* p. 41.

[11] *See* D.01-03-073 and Pub. Util. Code § 399.15(b).

[12] *See* D.05-06-029, *mimeo.,* p. 17, and Conclusion of Law 5, p.26.

6. **Board of Equalization Administrative Expenses (BOE)**

This program, established in 2004, consists of the Commission's and Board of Equalization's costs of administering the PP programs.[13] Program costs are recovered as an overhead cost to the surcharges applicable to the various PP programs. PP program costs are allocated to customer classes on an ECPT method. The ECPT method was adopted without any discussion.[14]

7. The California Institute for Climate Solutions (CICS)

The CICS program considered and vacated in Rulemaking (R.) 07-09-008 would have established an entity to explore solutions to global warming and to reduce greenhouse gas emissions and be based on the ECPT cost allocation method.

8. Solar Water Heating (SWH)

The SWH program is being considered pursuant to the Solar Water and Heating and Efficiency Act of 2007 (Assembly Bill 1470). This program would, among other matters, establish programs to reduce natural gas demand, pollution including greenhouse gases, and create a mainstream market for solar water heating technology. The SWH surcharge would apply to both core and noncore gas customers and be based upon ECPT.

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13 *See* D.04-08-010 and Pub. Util. Code § 895 (b) and (c).

14 *See* D.04-08-010, *mimeo.,* p. 21.

(END OF APPENDIX A)

APPENDIX B

ACRONYMS

ALJ	Administrative Law Judge
BCAP	Biennial Cost Allocation Proceeding
BOE	Board of Equalization
CARE	California Alternate Rates for Energy
CFC	Consumer Federation of California
CICS	California Institute for Climate Solutions
CLFP	California League of Food Processors
Commission	California Public Utilities Commission
DAP	Direct Assistance Program
DB	Defined Benefit
DRA	Division of Ratepayer Advocates
ECPT	Equal Cent Per Therm
EE	Energy Efficiency
EPBR	Equal Percent of Base Revenue
EPMC	Equal Percent Margin Contribution
Guardian	Guardian Industries Corporation
LIEE	Low Income Energy Efficiency
PG&E	Pacific Gas and Electric Company
PHC	Prehearing Conference
PPH	Public Participation Hearing
PP Programs	Public Policy Programs
RD&D	Research Development and Demonstration
SDG&E	San Diego Gas & Electric Company
SGIP	Self Generation Incentive Program
SoCalGas	Southern California Gas Company
SWH	Solar Water Heating
TURN	The Utility Reform Network
Vernon	City of Vernon

(END OF APPENDIX B)