COM / CXW / tcg

Mailed 9/20/2001

Decision 01-09-059 September 20, 2001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Gas & Electric Company (U 902-E) for an Order Implementing Assembly Bill 265.	Application 00-10-045 (Filed October 24, 2000)
Application of San Diego Gas & Electric Company (U 902-E) for Authority to Implement an Electric Rate Surcharge to Manage the Balance in the Energy Rate Ceiling Revenue Shortfall Account.	Application 01-01-044 (Filed January 24, 2001)

(See Appendix A for a list of appearances.)

INTERIM OPINION ADOPTING RATE INCREASES TO IMPLEMENT THE DEPARTMENT OF WATER RESOURCES' REVENUE REQUIREMENT

1. Summary

In accordance with Assembly Bill (AB) 1 of the First Extraordinary Session of 2001 (Stats. 2001, Ch. 4; hereinafter referred to as AB 1X), we take the following actions. First, we establish an interim charge of 9.02 cents per kilowatt-hour (kWh), the proceeds of which San Diego Gas & Electric Company (SDG&E) shall disburse to the California Department of Water Resources (DWR) in accordance with the SDG&E/DWR Servicing Agreement that we recently approved in Decision (D.) 01-09-013.

Second, we determine that an interim, system-average, retail rate increase of 1.46 cents per kWh, or 12.1%, is required to implement the DWR revenue requirement for SDG&E's retail end use customers.[1] DWR is currently procuring more than half of the electric power supplied to those customers. Taking into account the relative amounts of energy supplied by DWR and by SDG&E's utility retained generation (URG), and SDG&E's current rate of disbursements to DWR, we determine that the retail rate increase of 1.46 cents per kWh is required to implement the 9.02 cents per kWh DWR charge. This rate increase will take effect on September 30, 2001 and is intended solely to provide additional funds to DWR.

Both the 9.02 cents per kWh DWR charge and 1.46 cents per kWh retail increase are adopted on an interim basis and are subject to possible further

[1] For the purposes of this decision, all references to "SDG&E's customers" and "SDG&E's retail end use customers" indicate those customers who are receiving bundled service from SDG&E.

adjustment after the Commission completes its current comprehensive review of actions needed to implement the DWR revenue requirement. (Application (A.) 00-11-038, et al.) Our adoption of an interim DWR charge is made without prejudice to our deliberations in A.00-11-038, et al. We act today to increase both the DWR charge and SDG&E's retail rates with the intention of mitigating the impact of possible future rate increases, and to establish retail rate structures that will promote conservation by SDG&E's customers.

This decision also meets certain obligations created by recent rate stabilization legislation applicable to SDG&E.[2] Pursuant to Public Utilities Code, Section 332.1(b),[3] as first enacted by AB 265 and as amended by ABX1 43, residential, small commercial, and street lighting customers are subject to a rate ceiling of 6.5 cents per kWh on the energy component of their bills. Pursuant to § 332.1(f), as amended by ABX1 43, customers not subject to subdivision (b), i.e., larger commercial and industrial customers, and all agricultural customers regardless of size or consumption pattern, are subject to a frozen energy rate

[2] SDG&E is the only one of the three major California electric utilities that is no longer subject to the AB 1890 rate freeze. Beginning in 1999, SDG&E's customers paid market-based energy prices, and they were subjected to the extraordinarily high wholesale prices that began to prevail last year. In response, the Legislature has enacted three stabilization measures applicable to SDG&E: AB 265 (Stats. 2000, Ch. 328), Senate Bill (SB) X1 43 (Stats. 2001, Ch. 5), and ABX1 43 (Stats. 2001, Ch. 6). Approved by the Governor on September 6, 2000, AB 265 was enacted to address the "severe economic hardship because of unprecedented bill volatility and extraordinarily high rate levels." (AB 265, Section 1 (a).) SBX1 43 focused on SDG&E's larger customers, among other things establishing a frozen energy rate component. ABX1 43 amended SBX1 43 with respect to DWR procurement. It was approved on April 11, 2001, shortly after SBX1 43 was approved. This decision generally refers to ABX1 43 instead of SBX1 43.

[3] Unless otherwise indicated, future section references will indicate the Public Utilities Code.

component that was initially set at 6.5 cents per kWh but may be adjusted subsequently, as provided in the statute. For purposes of this decision, customers listed in § 332.1(b) are referred to as "small" or "AB 265" customers. Customers subject to § 332.1(f) are referred to as "large" or "ABX1 43" customers.

The energy rate ceiling applicable to small customers and the frozen energy rate applicable to large customers are subject to different statutory requirements that must be considered in this decision. Among other things, we determine that neither the rate ceiling for small customers nor the frozen rate for large customers affects the need to increase rates to implement the DWR revenue requirement. As we respond to our obligations with respect to the DWR revenue requirement and the rate stabilization legislation, we exercise our ratemaking authority in this decision, both in the assignment of revenue responsibility to the various customer classes and in the establishment of specific rates and rate structures.

Based on the revenue allocation principles adopted herein, and the exemptions from rate increases and other mitigation measures that we apply to certain customer categories, the average rate increases by customer class are as shown below.

Average Rates by Customer Class *

Customer Class	Current Cents/kWh	Adopted Cents/kWh	Percent Increase
Residential – usage up to 130% of baseline quantities	12.96	12.96	0
Residential – usage above 130% of baseline quantities	14.80	16.65	12.49
Small commercial	13.98	15.90	13.71
Medium/large commercial **	10.40	12.32	18.43
Street lighting	13.16	15.07	14.56
Large commercial/industrial	10.06	11.97	19.03
Agricultural	13.25	15.16	14.45
System Total	**12.06**	**13.52**	**12.10**

***** Does not reflect subsidies for medical baseline customers
** Certain of SDG&E's "medium/large commercial" customers are classified as "small commercial" customers for purposes of AB 265

For SDG&E's residential customers, we establish a five-tier rate structure that is generally similar to the residential rate structure that we recently adopted in D.01-05-064 for customers of Southern California Edison Company (Edison) and Pacific Gas and Electric Company (PG&E). Rates for customers eligible for the California Alternative Rates for Energy (CARE) program are exempt from the increases adopted by this order.[4] Electric consumption by residential customers falling within 130% of their respective baseline allowances, which is approximately 59% of consumption by non-CARE customers, is exempt from today's rate increases.[5] Finally, we exempt medical baseline customers from the

[4] D.01-03-082 and D.01-06-010 expanded the eligibility criteria for the CARE program by raising the percentage of Federal poverty level threshold, and raised the CARE discount from 15% to 20%.

[5] Under the new tiered residential rate design structure, the applicable baseline allowances take on greater significance for residential customers. On May 24, 2001, we

Footnote continued on next page

adopted increases and direct SDG&E to recalculate rates in order to spread the minor cost of this subsidy among other customers. The current and adopted rates for non-CARE residential customers are shown in the following tables.

Adopted Residential Rate Increases
(Not Applicable to CARE or Medical Baseline; Does Not Reflect Cost of Subsidies to Medical Baseline Customers)

Summer

Tier	Percent of baseline	Current Rate (Cents/kWh)	Adopted Rate (Cents/kWh)	Percent Increase
1	Up to 100%	12.83	12.83	0
2	100-130%	15.28	15.28	0
3	130-200%	15.28	16.20	6.02
4	200-300%	15.28	17.11	11.98
5	Over 300%	15.28	18.69	22.32

Winter

Tier	Percent of baseline	Current Rate (Cents/kWh)	Adopted Rate (Cents/kWh)	Percent Increase
1	Up to 100%	12.83	12.83	0
2	100-130%	14.57	14.57	0
3	130-200%	14.57	15.45	5.97
4	200-300%	14.57	16.32	12.00
5	Over 300%	14.57	18.12	24.43

For a residential customer using 500 kWh per month, these rate increases result in monthly bill increases as shown in the following table. As also shown in the table, a residential customer using 1,000 kWh per month will generally face substantially larger increases. This is due to the tiered rate structure which

---

instituted a rulemaking (R.01-05-047), applicable to all Commission-regulated energy utilities including SDG&E, to determine whether current baseline allowances should be revised, and if so to what new levels.

assigns increasing revenue responsibility to increasingly larger consumption amounts. The bill increases vary by baseline zones, by season, and by whether the customer is an all-electric customer. Baseline Zone 1 covers the western portion of SDG&E's service territory from the Pacific Ocean extending roughly 20 miles inland. Zone 2 is the central part of SDG&E's service territory, and Zone 3 covers the eastern region of its service territory. Most of SDG&E's residential customers reside in Zone 1. Data provided by SDG&E in the rate stabilization proceeding (A.00-11-038, et al.) show that in calendar year 2000 nearly 99% of SDG&E's approximately 1.1 million residential customer accounts were in Zone 1, about 1% were in Zone 2, and about 0.1% were in Zone 3.

Residential Bill Impacts (Not Applicable to CARE or Medical Baseline Customers); Does Not Reflect Cost of Subsidies to Medical Baseline Customers

Basic Allowance

Season	Baseline Zone	Increase ($/Month)		Percent Increase	
		500 kWh/ Month	1000 kWh Month	500 kWh Month	1000 kWh Month
Summer	1	$1.60	$14.51	2.3%	9.9%
	2	$1.01	$10.76	1.5%	7.4%
	3	$0.46	$ 7.87	0.7%	5.5%
Winter	1	$1.51	$ 14.59	2.2%	10.3%
	2	$0.96	$ 10.55	1.4%	7.5%
	3	$1.51	$ 14.59	2.2%	10.3%

All Electric Allowance

Season	Baseline Zone	Increase ($/Month)		Percent Increase	
		500 kWh Month	1000 kWh Month	500 kWh Month	1000 kWh Month
Summer	1	$1.05	$10.99	1.5%	7.6%
	2	$0.00	$4.94	0.0%	3.5%
	3	$0.00	$2.13	0.0%	1.5%
Winter	1	$0.00	$6.01	0.0%	4.4%
	2	$0.00	$0.00	0.0%	0.0%
	3	$0.00	$2.62	0.0%	2.0%

2. Background

In A.00-10-045, SDG&E seeks approval of several proposed measures related to AB 265. These include converting the 6.5 cents per kWh ceiling for AB 265 customers to a frozen rate, establishing guidelines for SDG&E's energy procurement, and related matters. In A.01-01-044, SDG&E requests authority to assess a "Revenue Shortfall Surcharge" (RSS) of 2.3 cents per kWh on electric bills of its residential, small commercial, and street lighting customers in order to amortize balancing account undercollections that resulted from the energy rate ceiling. The applications were consolidated at the prehearing conference (PHC) held in San Diego on February 16, 2001. An Assigned Commissioner's Ruling (ACR) issued on April 30, 2001 scheduled hearings on the RSS and other issues. This decision does not address those issues.[6]

The April 30 ACR determined that this proceeding will consider rate stabilization measures, including consideration of possible rate increases, tiered rates, and other rate adjustments for large customers pursuant to ABX1 43. The ACR established an expedited procedural schedule leading to a Commission decision on June 28, 2001 and implementation of possible rate adjustments for large customers effective July 1, 2001. The April 30 ACR directed SDG&E to provide notice to its large electric customers of possible rate increases, tiered rate

[6] On June 18, 2001, Governor Gray Davis issued a news release announcing that DWR, SDG&E, and SDG&E's parent company, Sempra, had signed a Memorandum of Understanding (MOU) that would, among other things, "erase a $747 million balloon payment facing the utility's three million customers." We will address certain aspects of the MOU in the next phase of this proceeding, but we do not consider the MOU in today's decision. By ruling issued on July 5, 2001, the schedule for consideration of the RSS was suspended to allow for consideration of the MOU.

design, and other actions to implement ABX1 43. SDG&E was also directed to provide affected customers with notice of public participation hearings on large customer issues that were set by the ACR.

By D.01-05-060 dated May 14, 2001, the Commission implemented a portion of ABX1 43 by adopting an "initial frozen rate" of 6.5 cents per kWh for the energy component of bills for electricity supplied by SDG&E to its large customers. Pursuant to § 332.1(f), the initial frozen rate was made effective retroactive to February 7, 2001. D.01-05-060 also authorized SDG&E to establish a memorandum account to record any revenue shortfalls associated with the establishment of the initial frozen rate.

At the PHC held on May 10, 2001, SDG&E proposed expanding the expedited large customer phase in response to the May 2, 2001 determination by DWR of a revenue requirement applicable to SDG&E's customers. Specifically, SDG&E proposed that the hearings and decision on large customer issues be expanded to include possible rate increases and related rate design for small customers with respect to the DWR revenue requirement. There were no objections, and the Administrative Law Judge (ALJ) approved this expansion of the issues to be considered on an expedited basis. A ruling issued on May 25, 2001 set public participation hearings to take comment on the rate increases resulting from implementing DWR's revenue requirement for small customers and on proposals to establish new rate structures for small customers. The May 25 ruling directed SDG&E to provide notice to small customers that such rate changes were being considered by the Commission, as well as notice of the public participation hearings.

Evidentiary hearings were held in San Diego on May 22, 23, and 29, 2001, and in San Francisco on June 1 and 4, 2001. Briefs were filed by SDG&E, the

Office of Ratepayer Advocates (ORA), the Department of the Navy on behalf of itself and all Federal Executive Agencies (collectively, FEA), Aglet Consumer Alliance (Aglet), the California Farm Bureau Federation (CFBF), the Alliance for Retail Energy Markets (AReM), and Enron Energy Services, Inc. (Enron). The same parties filed reply briefs. The record was reopened to take evidence pertaining to updated revenue requirement determinations which were communicated to the Commission by DWR on July 23 and August 7, 2001.

3. Public Participation Hearings

Public participation hearings on the potential rate increases and tiered rate design for large customers were held in San Diego and El Cajon on May 22, 2001, and in Oceanside on May 23, 2001. Twenty-seven speakers participated in these hearings, including representatives of local government officials, nonprofit organizations, manufacturers, service businesses, a cold storage warehouse, hotels, restaurants, and agricultural customers. They commented on the impact of electric rate increases on the San Diego area economy generally and employment in particular; the impact of high electric bills on individual businesses, particularly those with competitors located outside of SDG&E's service territory; the adverse consequences of being classified as a large customer under AB 265 and proposals to change SDG&E's tariff rules regarding customer classifications; the difficulties faced by nonprofit organizations in establishing annual budgets in the face of volatile electric prices; the importance of time-of-use rate structures to some customers and the inability of other customers to adjust usage patterns in response to time-of-use rates; the difficulties many customers experience in attempting to achieve further reductions in consumption while maintaining business operations; the inequity of, and lack of justification for, tiered rates for commercial, industrial, and agricultural customers; the

importance of maintaining a fair rate structure; and the importance of solving the underlying problem of the dysfunctional wholesale market and high wholesale prices.

Some speakers observed that SDG&E's customers were the first in the state to face large bill increases last summer, that large customers were left unprotected from high wholesale prices when AB 265 established a ceiling for small customers, that fairness dictates recognition of this contribution by SDG&E's large customers, and that there have already been business failures and layoffs due to high electric bills. One speaker stated that direct access customers have not benefited from the rate stabilization measures that have been enacted by the Legislature.

Public participation hearings on the increase to rates resulting from DWR's revenue requirement and related rate design issues for small customers were held in San Diego and El Cajon on June 11, 2001, and in San Clemente and Escondido on June 12, 2001. There were approximately 700 to 800 attendees in total, and approximately 125 speakers at these hearings. In addition, the Commission's Public Advisor received more than 800 letters and e-mails commenting on the rate increases resulting from DWR's revenue requirement.

Virtually all of the speakers were opposed to rate increases for SDG&E customers. Many of the themes raised at the large customer hearings were repeated. For example, several speakers addressed the adverse impact of additional rate increases on individual customers and the regional economy. Others are concerned that customers on fixed incomes are forced with choosing whether to have food, buy medicine, or pay their energy bills; and that bill assistance programs offered by social service organizations and nonprofit groups such as churches and social organizations have very little money to assist those

who lack money to pay their energy bill. Many are concerned that more rate increases will follow the currently planned rate increases, and are concerned that the quality of life is being adversely affected because of the electric crisis, and that California is becoming a third world country because of these problems.

Several speakers addressed the response of government to the electricity crisis, questioning whether this Commission adequately represents the public, raising concerns about political contributions to legislators, and questioning why this Commission does not provide a check on prices charged by DWR. Some questioned the authority of the Commission to raise rates on behalf of the DWR in view of legislation that caps energy rates at 6.5 cents per kWh. Some speakers suggested that the State should use its eminent domain powers and seize power plants, or that the California Power Authority should build new generating plants. Other proposals to solve the underlying problem include the following: implement a windfall profits tax on the generators; trace the monies that went to the utility parent holding companies and make them pay the increases or recover the monies from them; pursue criminal actions and other proceedings to recover monies from and impose fines against generators; re-regulate power generation as a monopoly service; build more and larger generation plants to provide sufficient capacity; eliminate environmental review to build more plants; prevent new developments and prevent people from coming to California until there is sufficient generation; and promote renewable energy sources.

Several speakers noted that baseline amounts are unrealistic and fail to account for varying household size, home businesses, climate differences from area to area, or homes that are all electric or have to pump water. Some suggested eliminating baseline allowances altogether and having all customers pay the same rate. Others would encourage the use of time of use (TOU) meters

for residential customers, and suggest that more outreach and education about the availability of such a tariff should be done by SDG&E. Others questioned whether there would be a refund mechanism to consumers in case the DWR requirement is less than the $915 million that had been requested. Some addressed the balancing account undercollections associated with the rate stabilization legislation, questioning amounts, and proposing to pay the undercollections now instead of accruing the undercollections. Finally, some want to have a choice of electricity provider, and believe that direct access should be preserved.

Public participation hearings enable decisionmakers to learn firsthand how ratemaking and regulatory proposals will affect the consumers of public utility services. We place great value on this form of public comment in our deliberations. While we accord sworn testimony greater weight than the factual statements made in comments at public participation hearings, these public comments help us to evaluate and balance competing concerns as we consider and resolve the difficult issues before us.

4. The Basis for Rate Increases: The DWR Revenue Requirement

4.1 Implementing The DWR Revenue Requirement

4.1.1 The DWR Request

By letter dated May 2, 2001, DWR informed this Commission that it had determined a total revenue requirement of $9.2 billion, pursuant to Water Code §§ 80110 and 80134, and that $914.9 million of this amount was attributable to electricity to be supplied to SDG&E's customers from July 1, 2001 through June 30, 2002. DWR requested that the Commission establish rates that would include charges payable to DWR for power sold by DWR to retail end use customers.

Based on the May 2nd DWR request, SDG&E proposed rate increases to collect an additional $503 million annually, or 2.77 cents per kWh for small customers and 2.86 cents per kWh for large customers. Other parties disputed an element of this proposal, i.e., SDG&E's proposed assignment of URG to small customers. ORA proposed a 3 cents per kWh surcharge as was done for PG&E and Edison. Except for ORA, the parties did not dispute the company's overall approach to calculating the average increase necessary for the collection of the total DWR revenue requirement.

On July 23, 2001, after the record of this phase of the proceeding was closed, DWR Director Thomas M. Hannigan sent a letter to Commissioner Geoffrey Brown setting forth, among other things, an updated revenue requirement totaling $13.07 billion for the period from January 2001 through December 2002. DWR stated that this revenue requirement calculation replaced and superseded the May 2 letter. On August 7, 2001, DWR further updated the revenue requirement to $12.6 billion for the same period. The ALJ directed SDG&E to update its calculations of the rate increases required to implement the updated DWR revenue requirement.[7]

4.1.2 A.00-11-038, et al.

The Commission is currently reviewing implementation of the DWR revenue requirement request in A.00-11-038, et al. That review includes the allocation of the total DWR revenue requirement among the customers of Edison and PG&E as well as SDG&E. In that proceeding we intend to establish the

[7] SDG&E's August 17, 2001 submittal in response to the ALJ's ruling is received in evidence as Exhibit 38.

means of implementing the DWR revenue requirements applicable to Edison, PG&E, and SDG&E based on the adopted revenue requirement allocations. As explained in the following section, we determine that it is necessary to adopt an interim DWR charge applicable to SDG&E at this time. We further determine that this interim DWR charge should be determined by taking official notice of a draft decision in A.00-11-038, et al. that was mailed on September 4, 2001 (Draft Decision). In order to provide the necessary context and an understanding of our reasons for doing so, we have included an abstract from the Draft Decision as Appendix D to this decision.

4.1.3 Adopted Interim Approach to Implementation of The DWR Request

The record of the public participation hearings in SDG&E's service territory confirms that past electric rate increases and the prospect of more increases are deeply affecting the citizens, businesses, and economy of SDG&E's service territory. We understand that additional rate increases will undoubtedly inflict additional hardship upon the region. We also understand the anger at such increases that was repeatedly expressed at the public participation hearings, and we recognize the virtually unanimous opposition to any rate increase. Bearing this in mind, we intend to approve retail rate increases only to the extent that we find such increases are required for the provision of electric service, i.e., to keep the lights on, and are required as a matter of law.

The underlying problem remains the dysfunctional wholesale electric market and the volatile and extraordinarily high prices that have prevailed since last year. We will continue to pursue actions within our jurisdiction to mitigate the effects of the market breakdown, and to ensure that a reliable electric supply is available to utility customers at the most reasonable retail prices attainable

under the circumstances. In the context of this proceeding, this approach requires that we recognize the current statutory role of DWR in procuring power on behalf of retail end use customers, and that we establish rates for SDG&E that will collect the share of the DWR revenue requirement allocable to SDG&E's customers.

It is undisputed that under Water Code §§ 80110 and 80134, DWR is authorized to procure power. Further, under Water Code Section § 80110, the review of power purchase costs for reasonableness, historically performed by the Public Utilities Commission, is transferred to DWR to conduct a review and determine the reasonableness review of their own procurement costs.[8] Once this occurs, the Commission is required to allow DWR to recover its revenue requirement for power that it sells to retail end use customers served by electrical corporations. No one disputes the fact that DWR is providing power to SDG&E's retail end use customers pursuant to this authority.[9] Clearly, the Legislature intends that we cooperate with DWR to ensure that rates are

[8] SBX2 18 has passed the Legislature. If it becomes law, this legislation would, among other things, direct the Commission to provide an analysis of the DWR revenue requirement comparable to the analysis it would provide for a revenue requirement submitted by a public utility, and to conduct at least one public hearing with an opportunity for public comment on the revenue requirements prior to their adoption.

[9] In this decision, we accept the fact that DWR is currently providing power to SDG&E's retail end use customers. We also accept the fact that DWR is incurring costs that are attributable to those customers, and that such actual current costs are appropriately recovered through SDG&E's retail rate structure. We are not by this decision examining the specific circumstances that led to SDG&E's decision to enter into an agreement with DWR that DWR would supply SDG&E's net short position, and we are not examining the reasonableness of SDG&E's decision.

established by electrical corporations to provide for the collection of the DWR-determined revenue requirement from retail end use customers.

Although in A.00-11-038 et al. we are still considering actions to implement the updated DWR revenue requirement, we believe that we should not wait until that proceeding is completed before we take action to increase SDG&E's rates to provide for the collection of the DWR revenue requirement through an interim DWR charge. The parties' proposals in this proceeding and the various scenarios displayed in Exhibit 38 all assume adoption of the "postage stamp" allocation of the DWR revenue requirement that was proposed by DWR in its original and updated requests to the Commission.

While we expect that a decision in A.00-11-038 et al. will make a DWR revenue requirement allocation to SDG&E's customers, that allocation cannot be determined at this time. Nevertheless, we believe that there is a significant likelihood that regardless of the eventual disposition of the DWR revenue requirement issues in that proceeding, it will be necessary to raise SDG&E's rates, possibly by a significant amount, in order to provide for the collection of the allocated portion of the DWR revenue requirement. We are concerned that any additional delay in raising SDG&E's rates to provide for the DWR revenue requirement could result in a deferred rate increase of a much greater magnitude, which in turn could have a greater likelihood of causing disruptive rate shock. Since it is likely that significant rate increases will ultimately be found to be necessary regardless of the allocation method and other revenue requirement determinations made in A.00-11-038 et al., we prefer to mitigate if not eliminate rate shock by adopting a rate increase now. Simply put, we do not necessarily protect ratepayers by deferring rate increases that may grow significantly in magnitude if deferred. We also note that by raising SDG&E's

rates at this time, we take advantage of an opportunity to restructure SDG&E's rate design employing conservation-based price signals.

The various system average rate increase scenarios portrayed in Exhibit 38 (based on our decision, discussed below, to continue the traditional assignment of SDG&E's URG to all customer classes) range from 2.22 cents per kWh to 3.80 cents per kWh. As noted earlier, these scenarios are based on DWR's allocation proposal. As discussed below, the system average rate increase that results from the revenue allocation to SDG&E's customers that is proposed in

the Draft Decision in A.00-11-038, et al. is 1.46 cents per kWh. Until we determine in A.00-11-038 et al. the DWR revenue requirement amount that should be allocated to SDG&E's customers, the alternative scenarios set forth in Exhibit 38 in this proceeding and the 1.46 cents calculation derived from the Draft Decision represent a range of rate increases that might be adopted for SDG&E. To give effect to our intention to raise SDG&E's rates now in order to prevent or mitigate more disruptive rate increases that might otherwise have to be adopted later, and to further our conservation rate design policies, we believe it is reasonable to adopt an interim system average rate increase at this time that is within this range. We further believe that in view of the uncertainty associated with this issue and our continuing intent to protect ratepayers from any unnecessary rate increases, it is reasonable to adopt the lowest system average increase within this range.

We hereby take official notice of the DWR revenue requirement allocation to SDG&E's customers and the SDG&E-specific DWR charge of 9.02 cents per kWh that were proposed in the Draft Decision. To fulfill our responsibilities under AB1X, it is reasonable to reflect a charge per-kWh that is attributable to sales by DWR. While we establish a separate per-kWh charge for DWR, we do not require SDG&E to show this charge as a separate line item on customers' bills.

We shall use this DWR charge for the sole purpose of calculating an interim system average increase that we shall adopt for SDG&E at this time. We emphasize that both the DWR charge and the system average increase are adopted on an interim basis and will be subject to adjustment when we reach a decision on the DWR revenue requirement and allocation thereof in A.00-11-038, et al. We also emphasize that our interim use of the SDG&E-specific DWR

charge proposed in the Draft Decision is without prejudice to our subsequent decision in A.00-11-038, et al.

We are committed to meeting our statutory responsibility to ensure the receipt of the allocated DWR revenue requirement. Therefore, in order to give further effect to the DWR revenue requirement as it applies to SDG&E's customers, we determine that an interim DWR charge of 9.02 cents per kWh should be adopted and that an interim system average retail rate increase of 1.46 cents per kWh is required. We have computed this retail rate increase by taking into account the current rate of SDG&E's disbursements to DWR and the estimated percentage of total bundled retail sales that will be supplied by DWR. As reflected in Exhibits 14, 18, and 38, an estimated 58% of SDG&E's bundled retail sales will be supplied by DWR and the remaining 42% will be supplied by SDG&E's URG. We use this model for calculating the required rate increase, rather than the model used in Exhibits 14, 18, and 38. We do so in order to implement a DWR charge whose calculation is independent from the utility's URG and related costs. However, we accept SDG&E's assumption that DWR will supply 58% of its system needs. The following table shows the calculation of the adopted increase using these assumptions.

Calculation of Adopted System Average Rate Increase

Line No.	Item	Cents/kWh
1	Amount to be disbursed to DWR for each kWh sold by DWR to SDG&E customers (A.00-11-038)	9.02
2	Current amount disbursed to DWR for each kWh sold by DWR (D.01-03-081)	6.50
3	Increase required for each kWh sold by DWR (Line 1 less Line 2)	2.52
4	Increase required for each kWh, total SDG&E retail sales (58% of Line 3)	1.46

Pursuant to Water Code §§ 80016, 80110, and 80134; and our general obligation under the Public Utilities Act[10] to ensure the provision of safe and reliable service by the utilities we regulate, we adopt an interim system average rate increase of 1.46 cents per kWh. We intend that this increase will produce an increase of 2.52 cents for each kWh sold by DWR to SDG&E's bundled retail customers in addition to the 6.5 cents per kWh now being disbursed to DWR, so that a total interim DWR charge of 9.02 cents per will be reflected in SDG&E's rates, and collected by SDG&E and remitted to DWR on a pass-through basis. We intend that this will fulfill DWR's request that we establish charges that are measured as a function of the amount of power sold by DWR and not as a function of the amount of power sold by the utility.

DWR will receive from SDG&E the revenues that the utility collects on behalf of DWR, based on the adopted fixed DWR charge of 9.02 cents per kWh. This per-kWh charge payable to DWR shall remain fixed, even though the actual percentage of SDG&E's system sales supplied by DWR may vary from the forecast of 58% in any month. However, the retail rate applied on each utility customer's bill should not fluctuate from month-to-month merely due to changes in the percentage of sales supplied by DWR each month. This would cause customers undue confusion.

With fixed retail tariff rates, and a fixed per-kWh charge payable to DWR, there is in effect an amount that the utility is entitled to receive for its own account for the kWhs that it supplies to its retail customers. We will call this

[10] Our general obligation to ensure that regulated entities provide safe and reliable service is set forth in §§ 451, 701 and 761.

amount the "imputed utility rate." To the extent that the actual percentage of DWR sales to SDG&E's retail end use customers is either less than or exceeds the 58% forecast percentage of DWR sales to those customers for any month, the customer's bill for that month will not exactly provide the imputed utility rate for the kWhs the utility provides. However, it is not our intent that the utility ultimately recover either more or less than the imputed utility rate for the kWhs it provides. Therefore, in order to ensure that the utility recovers neither more nor less than its imputed utility rate, we shall authorize and direct SDG&E to establish a balancing account mechanism. The mechanism shall take effect concurrently with the effective date of the DWR charge and the system average retail rate increase adopted herein.

As noted above, although the end user's retail rates will not fluctuate to reflect monthly differences in DWR sales, the rate per kWh that is included in the bill for the power that the utility provides (i.e., the "effective utility rate") will vary from month to month. Authorization of the balancing account will ensure that the utility will recover its imputed utility rate per kWh consistent with today's decision. The utility shall book into this balancing account the difference between the imputed utility rate based on today's decision and the effective utility rate it has billed, multiplied by the number of kWhs billed at that effective utility rate. By truing up this balancing account at a later date, we will ensure that the utility bills, and its customers pay, over time, the imputed utility rate for utility-supplied power consistent with the revenue requirements implemented in today's decision.

We adopt a rate increase based on the DWR revenue requirement today without specifically approving the individual components underlying SDG&E's calculations and assumptions for any other purpose, including those with respect

to URG, ISO charges, and sales forecasts.[11] Also, we find no basis for preferring ORA's proposal for a 3 cents per kWh surcharge. In March of this year, the Commission adopted a 3 cents per kWh average rate increase for PG&E and Edison customers. In this order, we adopt an average 1.46 cents per kWh increase for SDG&E customers for similar purposes. The rate increase for SDG&E customers is significantly lower than the rate increases adopted for PG&E and Edison customers because a 3 cent rate increase has not been shown to be necessary at this time to implement the DWR revenue requirement to be allocated to SDG&E's customers in A.00-11-038, et al. ORA's proposal would result in a higher than necessary rate increase for SDG&E customers. Therefore, we deny ORA's proposal.

In comments submitted in this proceeding and in Exhibit 38, SDG&E detailed the constraints of its billing system. In comments on the ALJ's proposed decision, SDG&E requested that it be allowed 10 working days in which to make its compliance advice letter filing. While this decision differs in several respects

---

[11] Exhibits 14 and 18 reflect a total sales forecast of 16,799 gigawatt hours (gWh). The tables in Exhibit 38 reflect varying sales forecasts depending on the assumed recovery period for the updated DWR revenue requirement request. The detailed rate tables attached to Exhibits 9 and 26 reflect a sales forecast of 16,829 gWh. We have designed rates using the latter figure.

In comments on the ALJ's proposed decision, SDG&E noted that the sales forecast associated with the rate template used for Exhibits 9 and 26 differs from the DWR sales forecast used in the Draft Decision in A.00-11-038 et al. The exigencies of this proceeding do not permit a full reconciliation of these forecasts, which among other things reflect different forecast periods. However, to the extent that the actual DWR sales to SDG&E's customers are different from the sales forecast associated with Exhibits 9 and 26, i.e., are less or more than 58% of SDG&E's system sales, then the above-described balancing account mechanism provides the means for such reconciliation.

from the ALJ's proposed decision, it adopts a system average increase of 1.46 cents per kWh as in the proposed decision and it does not make material changes to the rate design relative to those in the proposed decision. The proposed decision was mailed on August 27, 2001, and SDG&E has had since that date to begin preparations for its advice letter filing. We authorize and direct SDG&E to increase its rates pursuant to this decision not later than September 30, 2001, and to make its compliance advice letter filing within seven days from the effective date of this decision.

The rate interim increases ordered by this decision will remain in effect until further Commission order. As stated earlier we intend to issue a decision in A.00-11-038 et al. that addresses the DWR revenue requirement and the allocation of the revenue requirement among the utilities. We will consider adjustments to SDG&E's rates that may be necessary at that time.

4.2 Rate Increases Implementing DWR's Revenue Requirement and Rate Stabilization Legislation

Because of legislation aimed at stabilizing the electric bills paid by SDG&E's customers, it is necessary to determine whether there are any conflicts between the requirement to increase rates on behalf of DWR and legislative intent that the energy component of small customer rates be capped at 6.5 cents per kWh and that the energy component of large customer rates be frozen at 6.5 cents per kWh.

We conclude there is no statutory conflict that impinges on our decision to recognize and implement the DWR request. While the § 332.1(b) ceiling for

SDG&E's small customers may not be adjusted at this time,[12] the ceiling does not prohibit assigning rate increases resulting from DWR's revenue requirement to small customers. Section 332.1(b) specifically provides that the ceiling applies to electricity supplied to small customers *by SDG&E*. Section 332.1(f) similarly provides that the frozen rate applies to electricity supplied to large customers *by SDG&E*. By the terms of these statutes, neither the ceiling nor the frozen rate is applicable to charges for electricity supplied by DWR.

We believe the foregoing interpretation is consistent with the purpose of the statute. The limitation on adjustments in § 332.1(d) is related to this Commission's review of the prudence and reasonableness of SDG&E's procurement. There is no purpose served in applying such a limitation to the DWR-supplied electricity, which the Legislature has already removed from the purview of this Commission's reasonableness review processes.

While we find no statutory impediment to the DWR increases in the rate stabilization legislation, we note that ABX1 43 provides an additional basis for adjusting SDG&E's large customer rates. Section 332.1(f) provides that after having established an initial frozen rate of 6.5 cents per kWh for the energy

[12] Section 332.1(g) requires the Commission to examine the prudence and reasonableness of SDG&E's wholesale energy procurement on behalf of its customers. Section 332.1(d) provides that the Commission may adjust the small customer ceiling and the large customer frozen rate after the prudence and reasonableness examination is completed, if it is in the public interest to do so, and consistent with legislative intent to provide substantial protection to SDG&E's customers. The prudence and reasonableness review is currently underway in A.00-10-008, but it has not been completed. Thus, the adjustments authorized under § 332.1(d) may not be implemented at this time.

component of electric bills for electricity supplied to SDG&E's large customers, the Commission shall:

> "[c]onsider the comparable energy components of rates for comparable customer classes served by the Pacific Gas and Electric Company and the Southern California Edison Company and, if it determines it to be in the public interest, the commission may adjust this frozen rate, and may do so, retroactive to the date that rate increases took effect for customers of Pacific Gas and Electric Company and Southern California Edison Company pursuant to the commission's March 27, 2001, decision."

This language requires that we consider the level and the structure of large customer rates in effect for Edison and PG&E and the relationship of those rates to comparable rates for SDG&E. It also authorizes us to adjust SDG&E's frozen energy rate component for large customer rates, provided it is in the public interest to do so.[13]

The rates of Edison and PG&E were increased by an average of 3 cents per kWh by D.01-03-082, and individual rates were established on the basis of allocation and rate design principles adopted in D.01-05-064. To the extent that SDG&E's large customer rates (including the initial frozen energy rate component of 6.5 cents per kWh) were comparable to large customer rates of Edison and PG&E prior to the implementation of the 3 cents per kWh increase for those utilities, rate adjustments that would maintain inter-utility relationships are permissible under § 332.1(f). Thus, rate increases that might be required to maintain such relationships may be adopted if such increases are in the public

[13] We interpret this requirement to consider comparable rates and the associated authority to adjust large customer frozen rates as separate and distinct from the authority under § 332.1(d) to adjust the large customer frozen rate after completion of the prudence and reasonableness examination required by § 332.1(g).

interest. However, we emphasize that it is the DWR revenue requirement that provides the basis for the specific rate increases adopted by this decision. Elsewhere in this decision we further analyze the statutory requirement to consider inter-utility comparability in establishing rates and rate structures for SDG&E's large customers.

5. Revenue Allocation and Common Rate Design Issues

5.1 Objectives and Principles

The allocation of revenue requirement responsibility to the various customer classes and the establishment of specific rates and rate structures to collect the adopted revenue requirement are the primary objectives of this decision. We consider the extent to which the revenue allocation and rate design principles adopted in D.01-05-064 are appropriately applied in this decision. For example, in setting rates for residential customers, we look first to the five-tier structure adopted for Edison and PG&E, determine whether there are any grounds for adopting a different approach for SDG&E, and approve such approach in the absence of such grounds. Similarly, we consider whether class caps for agricultural customers such as those adopted in D.01-05-064 should be adopted for SDG&E's agricultural customers.

We note that to varying degrees, the parties have generally taken a similar approach in making their recommendations in this proceeding. In D.01-05-064 we "…called upon our institutional expertise and experience as well as our understanding of law and policy to make hard choices based on the law, California energy policy and the record before us." (D.01-05-064, p. 9.) Because we call upon that same expertise and experience here, it is reasonable to expect that we will reach similar conclusions on issues having the same or similar policy and factual contexts.

Our objectives in this decision include the following:

1. Establish rates at this time that will ensure the DWR revenue requirement attributable to SDG&E's ratepayers is collected through SDG&E's retail rates, and at the same time avoid or mitigate future rate shock that might occur if a rate increase continues to be deferred.
2. Observe and give effect to the second sentence of § 332.1(f) by considering the extent to which rates for SDG&E's large customers should be adjusted based on comparisons of the comparable rates for large customers of Edison and PG&E.
3. Observe and promote principles of equity in the allocation of revenue responsibility and rate design. As we stated in D.01-05-064, "…equity transcends the application of simple mathematical formulas. We therefore evaluate rate design proposals considering customers' ability to pay and the hardship that rate increases impose on particularly vulnerable customers." (D.01-05-064, p. 14.)
4. Promote energy conservation in the establishment of rate structures. For example, by assigning more costs at peak usage hours, we may encourage consumption reductions during those hours. This in turn could mitigate the energy crisis by potentially reducing the frequency and duration of rolling blackouts that endanger the public health and safety. To the extent that wholesale market prices are at least somewhat responsive to reductions in demand, this could also mitigate high prices.
5. Observe and recognize legal requirements and practical constraints. For example, Water Code § 80110 prohibits rate increases for residential customers for usage up to 130% of baseline allowances in existence when AB1X was enacted. Also, rate design proposals that might otherwise be meritorious should not be adopted if metering or billing systems cannot accommodate the proposals in relevant time frames. Similarly, in fairness to the parties, the constrained opportunity for full consideration of novel and complex proposals in this expedited proceeding weighs against approving such proposals at this time.

We have historically applied cost-based principles when assigning revenue responsibility to customer classes and designing individual rate structures, but

we are severely limited in our ability to do so here. We have had insufficient opportunity to obtain and analyze evidence concerning the cost components underlying the rate increases that we adopt today. The development, analysis, and application of marginal cost data are typically time-consuming and highly contested undertakings in revenue allocation and rate design proceedings. The fast pace of this abbreviated proceeding suggests that we should view with great caution proposals for customer class allocations that rely on detailed cost analyses.

5.2 Assignment of Utility-Retained Generation (URG)

SDG&E proposes that separate average rate increases be established for small and large customers based on an assumption that URG is assigned solely to small customers. With respect to the August 7, 2001 DWR revenue requirement update, SDG&E proposes that the average rate increase for small customers be set at 2.64 cents per kWh and that the average rate increase for large customers be set at 3.16 cents per kWh. In connection with this proposal, SDG&E also proposes that large customers be exempt from ongoing Competition Transition Cost (CTC) charges on the basis that CTC charges are associated with URG. If the CTC rate were not removed from the rate increases that result from implementing the DWR revenue requirement, the average large customer rate increase would be 3.82 cents per kWh.

Other parties oppose SDG&E's proposed treatment of URG, finding no practical or legal justification for it. Because SDG&E's proposal is complex and given the expedited nature of this phase of the proceeding, we are not able to fully consider the proposal at this time. Thus, we will not address this proposal

in this phase of the proceeding and will continue with our usual ratemaking practice and allocate URG to all customer classes.

5.3 Revenue Allocation

SDG&E proposes to use an equal cents per kWh allocation of the DWR increase. Except for FEA, the parties that take a position on revenue allocation support SDG&E's approach. FEA on the other hand proposes to allocate revenue responsibility based on loss adjustments, assumptions regarding demand and energy splits in generation, a "market adjusted allocation ratio" method for incorporating peak and off-peak prices into the allocation of DWR energy, and a "top 100 hours" allocation of the demand-related portion of URG.

For Edison and PG&E, we adopted an equal cents per kWh revenue allocation approach to revenue allocation in D.01-05-064. We have considered whether this approach should be carried forward in this proceeding, and conclude that it should be. FEA's methodology is complex, has not been adequately examined in this expedited proceeding, and requires acceptance of assumptions about underlying generation costs that we are not prepared to accept on the basis of this record.

Accordingly, we adopt SDG&E's proposal for an equal cents per kWh allocation of revenue responsibility (before allocations of revenue shortfalls are taken into account). While we generally believe that it is appropriate to allocate revenue responsibility among customer classes on the basis of cost causation principles, FEA's proposals rely on too many unproven assumptions to justify application of those principles here.

5.4 Limiters, Rate Caps, and other Exclusions

ORA proposes that we adopt "bill limiters" or "average rate limiters" as a safeguard against the possibility of individual customers within a class or

category facing extremely high bill increases. According to ORA, average rate limiters would act as a general safety net to protect against such increases. ORA's proposal is to limit each customer's rate to a multiple of the average rate for each rate schedule: 300% for industrial rates and 250% for agricultural rates. SDG&E opposes average rate limiters as unjustified cross-subsidies that are inefficient and inconsistent with the need to send strong conservation signals to customers. Rather than adopt this broad safety-net approach to deal with unforeseen problems, which could unnecessarily blunt conservation pricing signals, we prefer to address any such problems that might arise on a case-by-case basis. We recently reconsidered and rejected the use of average rate limiters in D.01-06-040.

CFBF requests that we cap rate agricultural rates increases at 15% for TOU rates and 5% for non-TOU rates as proposed by Governor Gray Davis. (*State of California: Meeting the Energy Challenge*, Governor Gray Davis, April 5, 2001.) Alternatively, CFBF proposes capping agricultural rate increases at the 20% TOU/15% non-TOU rate levels adopted in D.01-05-064.

SDG&E faults the CFBF proposal as being an unwarranted subsidy, but the company fails to articulate sufficient reason why we should adopt a different approach for agricultural rate subsidies in the SDG&E service territory than we approved for agricultural customers in the Edison and PG&E service territories. We believe that with the language in § 332.1(f) with respect to inter-utility rate comparability, the legislature encourages the commission to consider adopting the same approach in the absence of evidence to the contrary. Also, any claim that an agricultural rate cap is inappropriate simply because it shields customers from market prices ignores the fact that all SDG&E customer rates now are capped at 6.5 cents, and the fact that CARE-eligible customers and residential

customers using less than 130% of baseline are exempt from rate surcharges, further masking the full market price. We have also recognized that exposing customers to full market prices could have a "significant negative impact on business and the California economy." (D.01-05-064, p. 27.) The agricultural customer class makes up less than 1% of SDG&E sales and revenues, and the impact of implementing a cap on agricultural rates will be minimal. We therefore will approve caps on increases for agricultural rates of 20% for TOU rates and 15% for non-TOU rates.

Water Code § 80110 provides that residential customer usage up to 130% of baseline quantities is exempt from increases in electricity charges. We give effect to this requirement in structuring a tiered residential rate structure. SDG&E supports the exemption of CARE-eligible customers as well as the exemption of medical baseline customers. No party contests these residential customer exemptions, which we hereby adopt.

5.5 Allocation of Revenue Shortfalls

The caps and exemptions adopted in the previous section create revenue shortfalls that must be assigned to other customers (or consumption levels) in order to meet our objective of setting rates sufficient to collect the DWR revenue requirement.

Proposals to allocate the shortfalls from the CARE-eligible customer and medical baseline customer exemptions to all other customers (but not to residential consumption below 130% of baseline) on an equal cents per kWh basis are uncontested. These proposals are generally consistent with our

allocation of shortfalls in D.01-06-064, and we extend their use to SDG&E.[14] Similarly, while SDG&E opposes caps on agricultural rate increases, it does not oppose an equal cents per kWh allocation of any revenue shortfall to all other customers, other than to CARE-eligible and medical baseline customers, and other than residential consumption within 130% of baseline. We therefore intend that agricultural shortfalls be allocated on this basis. As noted above, the adopted agricultural caps are not invoked with the system average increase implemented in this decision.

SDG&E and FEA propose to allocate the shortfall from the 130 % of baseline exemption within the residential class, but not to CARE-eligible customers and medical baseline customers. Aglet and ORA propose that this shortfall be allocated to all customers, other than CARE-eligible and medical baseline customers, as was done in D.01-05-064.

We first note that parties in this proceeding are in agreement that the 1/3 residential; 1/3 commercial; 1/3 industrial allocation method adopted in Decision 01-05-064 does not work for SDG&E. SDG&E has a combined commercial/industrial classification and a much different mix of customer classes (e.g., far fewer commercial/industrial customers as compared to residential) than either PG&E or Edison.

[14] However, in D.01-05-064, the revenue shortfalls resulting from medical baseline customers were reallocated to all three major customer classes – 1/3 residential; 1/3 commercial; 1/3 industrial. As discussed below, we do not adopt the "1/3-1/3-1/3" allocation methodology for SDG&E. Also, in D.01-05-064 and in this decision, and unlike previous practice, the CARE-eligible customer safe harbor and resulting revenue shortfall is allocated to street lighting.

In D.01-05-064 we allocated the shortfall from the 130% of baseline exemption to all other non-exempt consumption, including consumption by commercial and industrial customers. We did so out of concern that allocating the entire revenue requirement shortfall within the residential class would create rate spikes that are too severe. (D.01-05-064, p. 26.) Also, we noted the importance of establishing rates that send appropriate conservation signals to all customer classes, and noted that shifting costs to non-exempt residential consumption would undermine that objective because such consumption represents only 11% of total consumption for Edison and PG&E combined.[15] (*Id.*, p. 22.)

We find that similar concerns are applicable here. Allocating the 130% of baseline shortfall only within the residential class would require far greater increases for non-exempt residential consumption. For example, we have calculated that for the fifth residential tier that we establish today, the current rate would have to be increased by more than 50%. We do not believe that increases of that magnitude should be necessary to promote conservation, even for heavy residential users. At the same time, recognizing that SDG&E has a different customer base than either Edison or PG&E, our preferred approach does not create undue consequences for the other customer classes that will assume a share of the shortfall, as shown in the following table.

Comparison of Average Rate Increase Percent by Customer Class

[15] As shown in Exhibit 26, the forecast sales for non-CARE-eligible residential consumption in excess of 130% of baseline is 2,452.2 gWh. (524 + 369.9 + 483.7 + 341.4 + 341.4 + 0.8 + 0.5 + 0.5 + 8.3 + 5.9 + 5.9.) This represents 14.6% of total forecast sales of 16,829 gWh.

(Does Not Reflect Subsidies for Medical Baseline Customers)

Customer Class	130% of baseline shortfall	
	Allocated to residential only	Allocated to all customers
Residential *	23.63%	12.49%
Small commercial	14.96%	13.71%
Medium / large commercial	14.55%	18.43%
Street lighting	11.50%	14.56%
Large commercial / industrial	15.04%	19.01%
Agricultural	11.42%	14.45%

* Does not include usage up to 130% of baseline quantities

Allocating the 130% of baseline shortfall to all other non-exempt consumption, on an equal cents per kWh basis, produces an equitable overall allocation and appropriate conservation pricing signals. We therefore adopt this approach.

5.6 Tiered Rate Design - Non-Residential

The concept of applying tiered rate design to non-residential rates was raised in the Edison / PG&E rate stabilization proceeding (A.00-11-038, et al.) An ACR issued on March 29, 2001 in this proceeding set a prehearing conference in this case to be heard on a common record with the prehearing conference on rate design in the rate stabilization docket. After that prehearing conference, it was determined that rate design issues for SDG&E should be heard on a separate schedule. However, the April 30 ACR in this proceeding noted that pursuant to § 332.1(f), consideration of tiered rate design for large customers is within the scope of this proceeding.

On this issue, the statements from the public participation hearings, the evidence in this case, and our decision on rate design for Edison and PG&E converge. Simply put, there is no support for this approach, and the record

shows that adopting it could be inequitable. In particular, the evidence shows that the level of usage by non-residential customers does not reflect or demonstrate a customer's efficient use of electricity. We conclude that there is no basis for adopting tiered rate design structures for non-residential rates at this time and on this evidentiary record.

5.7 Non-Residential TOU Rate Design

In D.01-05-064, we adopted an approach for designing non-residential TOU rates which spreads the rate increase over all hours, with a slight differential increase on summer on-peak usage (D.01-05-064, Section VI.C). In designing these rates we set the summer on-peak energy rate approximately 5 cents/kWh higher than the average rate increase for that schedule, and allocated the remaining increase to the semi- and off-peak periods (see for example Appendix C of D.01-05-064 for Edison's TOU-8 rates).

We apply a consistent approach here. However, in this case if the summer on-peak rate were set at 5 cents/kWh above the average increase for the schedule, a negligible increase would result for the semi- and off-peak periods. This would not provide the appropriate incentive to conserve during these time periods. Therefore, to provide the appropriate incentive to conserve during all hours, we have designed non-residential TOU rates by setting the summer and winter on-peak rates 2 cents/kWh higher than the average increase for the schedule.

In comments on the proposed decision, SDG&E notes that certain semi- and off-peak TOU rates adopted in the proposed decision may not reflect cost-justified rate differentials and may be confusing to customers, and in some cases are higher for transmission level service than for secondary service. To address

these discrepancies, we have combined the billing determinants for the semi- and off-peak commodity rates by rate schedule.

6. Small Customer Rate Design

6.1 Residential Rate Tiers

Pursuant to § 739 and Water Code § 80110, we must establish a minimum of three residential rate tiers: up to baseline, baseline to 130% of baseline, and above 130% of baseline. SDG&E proposes adoption of the 5-tier rate design that was adopted in D.01-05-064 for PG&E and Edison. Because of the mandatory capping of prices in the first two tiers, i.e., all usage up to 130% of the baseline is capped at 6.5 cents per kWh, increases to the residential rate are limited to the upper three tiers, i.e., Tiers 3, 4 and 5. ORA believes that a four-tier structure provides sufficient flexibility in providing conservation incentives, but it does not oppose a fifth tier if the fifth-tier rate is not set too high. Similarly Aglet favors a four-tier structure but does not object to a fifth tier.

The record discloses no basis for adoption of a different structure than the five-tier structure that we adopted for Edison and PG&E in D.01-05-064. As we indicated in that decision, tiered residential rates are appropriate because of their conservation effects and the statutory exemption of consumption up to 130% of baseline quantities. We therefore adopt for SDG&E the five-tier structure that we established for Edison and PG&E. We turn to the establishment of rates for the uncapped tiers, i.e., Tiers 3, 4, and 5.

SDG&E and Aglet offer somewhat different approaches to setting rates within the top three tiers. Aglet seeks a progression in rate levels that is matched to the progression in the percentages of baseline quantities that define the tiers. In D.01-05-064, the Tier 3 to Tier 4 increase is double the increase from Tier 2 to Tier 3, and Tier 5 is residual to recover the class revenue requirement. SDG&E

believes that Aglet's approach should be rejected because it uses an arbitrary mathematical relationship with no underlying causal basis, and does not adequately balance other ratemaking factors to set the tiers.

As the parties have recognized, the design of rates requires the exercise of judgment, and cannot rely solely on mathematical formulas. We have considered the concerns raised by SDG&E as well as Aglet, and we have also given consideration to the residential rates that we established for Edison and PG&E, as set forth in Table 1 of D.01-05-064 (at p. 36), as a further check on the reasonableness of rates that we establish for SDG&E. Based upon this consideration, we have exercised our institutional judgment and experience in designing a tiered residential rate structure that balances the need to provide conservation signals that increase in strength with increased consumption levels, the need to collect the revenue requirement allocated to the residential class, and the need to mitigate bill impacts. The following table sets forth the adopted residential rates for SDG&E, and also displays the equivalent rates adopted for Edison and PG&E.

Adopted Residential Rates – Cents/kWh
(Not Applicable to CARE-Eligible Customers or Medical Baseline Customers, Does Not Reflect Cost of Subsidies to Medical Baseline Customers)

Tier	SDG&E Summer	SDG&E Winter	Edison	PG&E
1	12.83	12.83	13.01	12.59
2	15.28	14.57	15.16	14.32
3	16.20	15.44	19.66	19.33
4	17.11	16.32	23.66	23.63
5	18.69	18.13	25.94	25.82

In comments on the proposed decision, SDG&E raises the concern that Schedules DR-TOU and DR-TOU-2 do not reflect seasonally differentiated tiered

rates, unlike non-TOU residential schedules. We do not find adequate billing determinant data in this record to address this problem. We may revisit this issue in a Rate Design Window or other appropriate proceeding.

While we are adopting rate increases that are necessary for collection of the DWR revenue requirement, it is not our intent that the five-tier residential rate structure be terminated with termination of the DWR revenue requirement. We intend to preserve this structure until we have had an opportunity to more fully consider SDG&E's rate design in a proceeding dedicated to that purpose.

Common areas in residential multifamily dwellings frequently have a single or few meters to measure a large amount of electricity usage (e.g., for swimming pools, lighting and common area appliances). The baseline quantities applicable to these meters are very low relative to the metered usage for the common area. Thus, the tiered residential rate design we adopt today will result in a significant increase in electricity bills for some common areas in multifamily dwellings. We intend to address this issue in our current baseline rulemaking, R.01-05-047 or another appropriate proceeding

6.2 Medical Baseline Customers

SDG&E stated in its testimony that due to billing system constraints, it may not be able to timely implement the medical baseline rate exemption. If it is unable to do so, SDG&E proposes that this exemption be implemented in two phases: (a) initial implementation of rate exemption in August; and (b) an applicable credit be applied on September bills for the amount previous billed in excess of the capped amount. While we would like to see this exemption implemented as soon as practicable, we recognize that billing system constraints may prevent that from occurring. We will therefore approve SDG&E's proposal to phase in the exemption if necessary.

The rate tables attached to this decision do not reflect an allocation of the revenue shortfall due to the medical baseline allowance, as the billing determinants are not in the record. We direct SDG&E to include such an allocation in its compliance advice letter filing.

6.3 Residential TOU Rates

To implement the 130% of baseline exemption requirement for residential TOU rate schedules, SDG&E recommends that the Commission tier commodity rates only using the same tiered rates applied for the non-TOU residential rate schedules, while leaving the TOU "signals" embedded in the transmission and distribution portion of these residential rates (i.e., DR-TOU). This approach is essentially consistent with the residential TOU rate design adopted for PG&E's residential TOU rate schedules (Schedules E-7 and E-8) in D.01-05-064 (Appendix B, pp. 1-2). If the commodity rates are not tiered consistent with the non-TOU residential rate schedules, customers will have an incentive to switch rate schedules simply to avoid an increase, rather than because the schedule is more suitable to their needs. We agree with SDG&E that such perverse incentives must be avoided, and therefore approve this request.

6.4 Small Commercial Rate Design

SDG&E and ORA recommend designing small commercial non-TOU rates (i.e., Schedule A) by allocating 70% of the revenue increase to the summer season, and 30% to the winter season. This is consistent with the approach that we adopted for non-TOU commercial customers in D.01-05-064, and we therefore adopt it here.

7. Large Customer Issues

7.1 Rate Design

As noted earlier, § 332.1(f) requires that we consider adjustments to the initial frozen rate of 6.5 cents per kWh applicable to large customers based on consideration of comparable energy components of rates for comparable customer classes served by PG&E and Edison. We have done so here, primarily by giving consideration to overall rate levels, and to revenue allocation and rate design principles adopted in D.01-05-064. We have also considered how SDG&E's circumstances differ from those of the other utilities.

Pursuant to § 332.1(f), we are authorized to increase large customer rates retroactive "to the date that rate increases took effect for customers of Pacific Gas and Electric Company and Southern California Edison Company pursuant to the commission's March 27, 2001, decision." Because we are increasing SDG&E's rates to collect the DWR revenue requirement on a going forward basis, we decline to exercise this retroactive authority in this decision.

In response to speakers' comments made at the public participation hearings concerning equitable treatment of large customers, we note that the legislature, by enacting ABX1X 43, which established a frozen energy rate component, recognized the undue burden placed on large customers who were exposed to high wholesale electricity prices. Therefore, we believe that consideration has been accorded to large customers and that the allocation of the DWR revenue requirement that we adopt herein is equitable.

7.2 Accounting Mechanism

Under SDG&E's proposed assignment of URG to small customers and related assumption that DWR will supply the full requirements of large customers, SDG&E assumed there would be no shortfall or undercollections with

respect to large customers. In connection with its URG proposal, SDG&E therefore did not propose any accounting mechanism to track the costs associated with the large customer frozen rate.

SDG&E did propose an accounting mechanism that would be applicable in the event its URG approach is not approved. SDG&E witness Swanson assumes that whenever its commodity costs exceed 6.5 cents per kWh, it would incur a shortfall. These commodity costs include SDG&E's URG and ancillary services and ISO-related costs. SDG&E believes that under these assumptions, it would be necessary to establish an accounting mechanism to record the shortfall and related revenues.

SDG&E currently records the small customer revenue shortfall resulting from the 6.5 cents per kWh cap in the Energy Rate Ceiling Revenue Shortfall Account (ERCRSA). This is a subaccount of the Transition Cost Balancing Account (TCBA). SDG&E proposes to rename the ERCRSA the Energy Revenue Shortfall Account (ERSA) and to record the large customer shortfall in the ERSA. The large customer shortfall will be recorded separately from the small customer shortfall in the ERSA. SDG&E believes this will maintain consistency with current tariffs and facilitate the transfer of any applicable TCBA overcollections to the ERSA to offset the required retroactive credits to February 7, 2001. SDG&E proposes that any large customer revenues received for URG costs and ancillary services and ISO-related costs received under any approved surcharge be recorded in the large customer portion of the ERSA to reduce the shortfall.

Based on the assumption that URG and ancillary services and ISO costs exceed the large customer frozen rate, SDG&E states that it would propose a new rate surcharge to recover the DWR revenue requirement, and its own URG costs and ancillary and ISO related costs. On a monthly basis, the surcharge revenues

related to the URG, ancillary and ISO costs would be recorded to the large customer portion of the ERSA.

No party has stated opposition to SDG&E's proposed accounting mechanisms for large customers. We concur that it is necessary to establish and maintain separate accounting for small and large customers since they are subject to different statutory requirements, and the rate ceiling and rate freeze became effective at different times. We will authorize SDG&E to rename the ERCRSA as the ERSA and to establish separate accounting treatment for small and large customers within the ERSA. We emphasize that the primary purpose of the mechanism is to record SDG&E's costs for URG, ancillary services and ISO costs, and related revenues, refunds, authorized balancing account transfers, and that DWR-related revenues collected by SDG&E on behalf of DWR are to be segregated and held in trust for DWR in accordance with D.01-03-081.

As noted earlier, this decision does not approve URG costs or ISO costs except for the sole purpose of determining rate increases necessary to collect the DWR revenue requirement. While SDG&E has made certain assumptions that undercollections will occur, it has not provided this record with a complete proposal for disposition of overcollections that might occur with a frozen rate for large customers. We intend to revisit the accounting mechanism in the next phase of this proceeding. We note that we will address accounting issues related to small customers at the same time. While it is necessary to maintain separate accounting for large and small customers, it is procedurally efficient to review balances and proposals for amortization of both overcollections and undercollections on a common hearing schedule.

In D.01-05-060, we authorized SDG&E to establish a memorandum account to record the revenues and revenue shortfall associated with the initial

frozen rate established by that decision. We authorize SDG&E to transfer any undercollection or overcollection from the memorandum account to the large customer portion of the ERSA, and to terminate the memorandum account.

7.3 The Voluntary Bill Stabilization Program

Pursuant to former § 332.1(f), as first enacted by AB 265, D.00-12-033 established a voluntary bill stabilization program for large customers. In effect, the program was a bill deferral program that allowed creditworthy customers to elect to have the energy component of their bills set at 6.5 cents per kWh, subject to true-up after a year.

The amendments to § 332.1(f) enacted by ABX1 43 removed the requirement for the voluntary program and replaced it with the initial frozen rate requirement. However, the amendment did not specifically address the disposition of the program. Accordingly, the April 30 ACR asked SDG&E and other parties to offer proposals on whether the voluntary program should be modified or discontinued.

In response, SDG&E offered testimony proposing that the program be terminated as of the effective date of the decision in this proceeding. SDG&E bases its recommendation on the grounds that the provision for the frozen rate makes the voluntary program unnecessary, the program does not work as intended due to DWR procurement of power and SDG&E's inability to true-up accounts to reflect DWR costs, and no customer is currently enrolled in the program.

SDG&E's proposal to eliminate this program is unopposed. It is clear that the implementation of the frozen rate component under ABX1 43 removes the potential benefit of this program, and the fact that no customer is currently

enrolled in it provides confirmation that no customer will be harmed by elimination of the program. SDG&E's proposal is therefore approved.

7.4 Federal Generation Based Tariff

In D.01-05-064, we directed Edison and PG&E to propose tariffs for federal agencies that would reflect wholesale costs. There are currently no proposals before us that would provide for similar tariffs for federal agencies served by SDG&E, and FEA takes the position that such tariffs are discriminatory and should not be adopted. Because of our obligation under § 332.1(f) to consider how SDG&E's large customer rates compare with those of Edison and PG&E, we may give further consideration to this question in the next phase of this proceeding.

8. Direct Access Customers

There is agreement among the parties that the rate increases that SDG&E customers will pay that result from implementing the DWR revenue requirement should not be made applicable to direct access customers. This decision provides for such an exclusion, consistent with D.01-05-064. However, we may further explore whether any services funded by the DWR revenue requirement and other rate stabilization measures provide any benefit to direct access customers. If we find there is any such benefit, we will revisit this issue.

In this phase of this proceeding we are considering the DWR revenue requirement, and we are not at this time considering whether SDG&E should be authorized to assess a surcharge related to any undercollections that might be associated with the small customer rate ceiling or the large customer rate freeze. Accordingly, this decision does not address proposals pertaining to the applicability of any such surcharge to direct access customers.

9. Franchise Fees

City of San Diego (City) noted in its comments on the proposed decision that the proposed decision did not address comments that City filed on August 14, 2001 in A.00-11-038 et al. and in this proceeding. In the August 14 comments, City raises issues pertaining to claims regarding utility and DWR responsibility for franchise fees.

There has been inadequate opportunity for development of this issue in this expedited proceeding. We will not undertake resolution here of an issue that may both involve complex legal determinations and have applicability to other utilities in a proceeding that involves only SDG&E and not those other utilities.

10. Proposed Decision

The ALJ's proposed decision was issued on August 27, 2001. In matters that have gone to hearing, § 311(d) generally requires that the Commission issue its decision not sooner than 30 days after the proposed decision is filed and served. The 30-day period may be reduced or waived by the Commission in an unforeseen emergency situation or by stipulation of all parties to the proceeding.

The schedule adopted by the April 30, 2001 ACR in this proceeding provided for issuance of a proposed decision on June 21, 2001 and issuance of a Commission decision seven days later, on June 28, 2001. No objections to this shortened schedule for issuance of the Commission decision were raised at the May 10, 2001 prehearing conference or on any other occasion. While the scope and the schedule of this phase of the proceeding have been revised since the April 30 ACR was issued, parties have been on notice that we would take expeditious action to decide this matter shortly after the proposed decision is issued. Having received no notice of an objection to the contrary, we will assume

that all parties have stipulated to a reduction of the statutory 30-day period pursuant to § 311(d).

In addition, we find that an unforeseen emergency situation exists, and that a reduction of the 30-day period is therefore independently justified on these grounds. As described earlier herein, DWR notified this Commission on July 23, 2001 that it had determined a revised revenue requirement that supersedes and replaces the May 2 DWR revenue requirement determination upon which the record of this proceeding was based. DWR further updated the revenue requirement by communication dated August 7, 2001. Following review of comments on the August 7 DWR update which were submitted on August 14, 2001, the ALJ determined in a ruling issued on August 15, 2001 that it was necessary to reopen the record for the purpose of taking evidence on updated calculations reflecting the latest DWR revenue requirement. SDG&E furnished the calculations in response to the ruling on August 17, 2001.

In this decision we are acting to implement rate increases that will provide necessary funding to DWR for its procurement of electricity. Notwithstanding the fact that DWR furnished us with its revenue requirement determination on August 7, 2001, and the fact that this submittal required the additional procedural steps described above, we must act expeditiously so as not to jeopardize the ability of DWR to continue in fulfilling this vital procurement role. We are also acting to implement a portion of ABX1 43, which was designated as an urgency statute "to safeguard economic viability of the communities in the San Diego region." (ABX1 43, Section 4.) Also, we act today to implement rate design principles that are intended to promote demand reduction in order to mitigate the supply and demand imbalance that could otherwise lead to greater frequency and duration of rolling blackouts throughout California. These actions

are an integral part of the state's response to the electric energy crisis, and on January 17, 2001 Governor Gray Davis declared a state of emergency in connection with the crisis. These circumstances constitute an unforeseen emergency, justifying a reduction of the review and comment period with respect to the proposed decision.

Comments on the proposed decision were filed by SDG&E, FEA, City of San Diego, AreM, ORA, CFBF, PG&E, and by DWR as a non-party. Where appropriate, comments are discussed elsewhere in this opinion.

11. Rehearing and Judicial Review

This decision construes, applies, implements, and interprets the provisions of AB1X (Chapter 4 of the Statutes of 2001-02 First Extraordinary Session). Therefore, § 1731(c) (applications for rehearing are due within 10 days after the date of issuance of the order or decision) and § 1768 (procedures applicable to judicial review) are applicable.

Findings of Fact

1. The record of the public participation hearings confirms that past electric rate increases and the prospect of more increases are deeply impacting the citizens, businesses, and economy of SDG&E's service territory, and that additional rate increases will inflict additional hardship upon the region. Accordingly, we intend to approve only those rate increases that are required to maintain system reliability and that are required as a matter of law.

2. DWR is authorized to procure power, and to determine and recover its revenue requirement for power that it sells to retail end use customers served by electrical corporations.

3. DWR is currently procuring and providing power to SDG&E's retail end use customers.

4. The Draft Decision on the DWR revenue requirement in A.00-11-038, et al. proposes that SDG&E be directed to begin disbursements of proceeds to DWR on a monthly basis using a system average charge of 9.02 cents per kWh for each kWh sold by DWR to SDG&E's customers, and this charge results in a system-average rate increase for SDG&E that is at the lower end of a possible range of such increases.

5. Taking into account a DWR charge of 9.02 cents per kWh, the current rate of SDG&E's disbursements to DWR, and the forecast that 58% of SDG&E's total bundled retail sales will be supplied by DWR, a system average rate increase of 1.46 cents per kWh will implement the DWR revenue requirement allocable to SDG&E's customers on an interim basis pending the DWR revenue requirement decision in A.00-11-038, et al.

6. To the extent that the actual percentage of DWR sales to SDG&E's retail end use customers is either less than or exceeds the 58% forecast percentage of DWR sales to those customers for any month, the customer's bill for that month will not exactly provide the imputed utility rate for the kWhs the utility provides.

7. It is not our intent that the utility ultimately recover either more or less than the imputed utility rate for the kWhs it provides.

8. Our objectives in this decision include establishing rates that will ensure that the DWR revenue requirement allocable to SDG&E's ratepayers is collected from such ratepayers while avoiding or mitigating rate shock; observing and giving effect to the second sentence of § 332.1(f); observing and promoting principles of equity in the allocation of revenue responsibility and rate design; promoting energy conservation in the establishment of rate structures; and observing and recognizing legal requirements and practical constraints.

9. The constraints on obtaining and analyzing evidence concerning the underlying cost components limit our ability to apply cost-based principles in assigning revenue responsibility to customer classes and in designing individual rate structures.

10. FEA's cost-based revenue allocation methodology is complex, has not been adequately examined in this expedited proceeding, and requires acceptance of untested assumptions about costs underlying the DWR revenue requirement.

11. Given the unpredictability of the current flawed electric market, it is reasonable to simplify cost allocation methods.

12. Subsidizing agricultural customers by capping average rate increases at 20% for TOU rates and 15% for non-TOU is consistent with our adopted policy in D.01-05-064; there is no record evidence justifying a different policy on agricultural subsidies in this case; and extending such subsidies to SDG&E's customers is consistent with legislative intent in § 332.1(f).

13. Water Code § 80110 provides that residential customer usage up to 130% of baseline quantities is exempt from increases in electricity charges, and proposals to exempt residential CARE and medical baseline customers from rate increases are uncontested.

14. Allocating shortfalls from the CARE and medical baseline exemptions and the agricultural rate caps to all other customers on an equal cents per kWh basis is uncontested and is generally consistent with our allocation of shortfalls in D.01-06-064.

15. The 1/3 residential; 1/3 commercial; 1/3 industrial allocation method adopted in Decision 01-05-064 does not work for SDG&E, which has a combined commercial/industrial classification and a much different mix of customer classes than either PG&E or Edison.

16. Allocating the revenue shortfall from the 130% of baseline exemption only to non-exempt residential consumption would create severe rate spikes, and set an unnecessarily high conservation price signal which would apply to less than 15% of total forecast sales.

17. It is equitable to allocate the shortfall from the 130% of baseline exemption on an equal cents per kWh basis to all non-exempt customers.

18. There is no evidence supporting tiered rate design for non-residential rates.

19. No party opposes SDG&E's proposed adoption of the 5-tier rate design structure that was adopted in D.01-05-064 for PG&E and Edison.

20. Tiered residential rates are appropriate both because of their conservation effects and because of the statutory exemption of consumption up to 130% of baseline quantities.

21. The design of rates requires the exercise of judgment, and cannot rely solely on mathematical formulas. We have exercised our institutional judgment and experience in designing a tiered residential rate structure that balances the need to provide conservation signals, the need to collect the revenue requirement allocated to the residential class, and the need to prevent undue bill impacts.

22. We intend to preserve the five-tier residential rate structure until we have had an opportunity to more fully consider all aspects of SDG&E's rate design in a proceeding dedicated to that purpose.

23. Due to billing system constraints, SDG&E may not be able to implement the medical baseline rate exemption immediately.

24. If the commodity rates for residential TOU rate schedules are not tiered like the non-TOU residential rate schedules, customers will have an incentive to switch rate schedules simply to avoid an increase.

25. The large customer rates adopted today are consistent with the requirement of § 332.1(f) that we consider adjustments to the initial frozen rate of 6.5 cents per kWh based on consideration of comparable energy components of rates for comparable customer classes served by PG&E and Edison.

26. Renaming the ERCRSA as the ERSA, and recording large customer shortfalls and overcollections in the ERSA separately from the small customer shortfall, will maintain consistency with current tariffs and facilitate the transfer of any applicable TCBA overcollections to the ERSA to offset the required retroactive credits to February 7, 2001.

27. The primary purpose of the ERSA mechanism is to record SDG&E's costs for URG, ancillary services and ISO costs, and related revenues, refunds, and authorized balancing account transfers. DWR-related revenues collected by SDG&E on behalf of DWR shall be segregated from SDG&E's revenues.

28. The voluntary program for large customers adopted by D.00-12-033 is unnecessary with implementation of the frozen rate component under ABX1 43, does not work as intended due to SDG&E's inability to true-up accounts to reflect DWR costs, and has no customers currently enrolled.

29. It is of critical importance to implement the DWR increases on a timely basis to provide assurance to DWR that it will receive its identified revenue requirement, thereby maintaining the ability of the State of California to procure power on behalf of retail end use customers.

30. The circumstances leading to our decision today include the following: we must act expeditiously to increase rates in order to implement the DWR revenue requirement to protect the ability of DWR to procure electricity; we are implementing an urgency statute enacted "to safeguard economic viability of the communities in the San Diego region;" we are implementing rate designs to

promote demand reduction in order to mitigate the frequency and duration of rolling blackouts throughout California; and on January 17, 2001 Governor Gray Davis declared a state of emergency in connection with the electric crisis. These circumstances, and the fact that we did not receive the latest revised DWR revenue requirement request until August 7, 2001, constitute an unforeseen emergency.

31. Parties were provided notice of the expedited schedule, and no objections to the reduced comment period were raised. We therefore assume that all parties have stipulated to a reduction of the 30-day periods specified in § 311(d).

32. In this order, we are not approving the individual components underlying SDG&E's calculations, including those with respect to URG, ISO charges, and sales forecasts.

33. There has not been adequate opportunity to consider issues pertaining to franchise fees in this proceeding.

Conclusions of Law

1. In accordance with Water Code §§ 80110 and 80134, and pending a decision in A.00-11-038 et al. regarding the DWR revenue requirement, an interim DWR charge of 9.02 cents per kWh for each kWh sold by DWR to SDG&E's retail end use customers should be included in total electric rates for SDG&E.

2. The Commission is obligated by law to implement the DWR revenue requirement and to establish rates for SDG&E's customers, payable to DWR, that will provide for the collection of the DWR revenue requirement that is attributable to SDG&E's customers.

3. Pursuant to Water Code §§ 80016, 80110, and 80134, and our general obligation, under the Public Utilities Act, to ensure the provision of safe and

reliable service by the utilities we regulate, we should order rate increases necessary for the collection of the allocated DWR revenue requirement.

4. The rate increases adopted herein are intended to provide for the collection of the DWR revenue requirement that is attributable to SDG&E's retail end use customers, as reflected in the interim DWR charge of 9.02 cents per kWh.

5. Allocating responsibility for the total revenue requirement, including the revenue requirement associated with the DWR revenue requirement implemented by this decision, to customer classes and designing rates to collect the revenue requirement is an exercise of the Commission's ratemaking authority.

6. This decision does not approve the individual components underlying SDG&E's calculations and assumptions with respect to URG and ISO costs for any purpose unrelated to this decision, and does not prejudge our deliberations in A.00-11-038, et al. either with respect to URG revenue requirements of the DWR revenue requirements and allocation thereof.

7. SDG&E should be authorized and directed to establish a balancing account mechanism to ensure that the utility recovers neither more nor less than its imputed utility rate.

8. The § 332.1(b) ceiling for SDG&E's small customers does not prohibit assigning rate increases that result from implementing DWR's revenue requirement to small customers, and the Section 332.1(f) requirement for a frozen rate for large customers does not prohibit assigning rate increases that result from implementing DWR's revenue requirement to large customers.

9. In applying our institutional expertise and experience as well as our understanding of law and policy to make hard choices based on the law, California energy policy and the record before us, it is reasonable to expect that

we will reach conclusions similar to those reached in D.01-05-064 on issues having the same or similar policy and factual contexts.

10. While it is generally appropriate to allocate revenue responsibility among customer classes on the basis of cost causation principles, an equal cents per kWh allocation of revenue responsibility is appropriate under the present circumstances, and should therefore be adopted.

11. Consistent with D.01-05-064, we should approve caps on increases for agricultural rates of 20% for TOU rates and 15% for non-TOU rates.

12. Consistent with D.01-05-064, the revenue shortfall from the 130% of baseline exemption should be allocated on an equal cents per kWh basis to all non-exempt customers.

13. Consistent with D.01-05-064, we should adopt a five-tier residential rate structure for SDG&E.

14. SDG&E's proposal to implement the medical baseline exemption in phases should be adopted.

15. SDG&E's proposal to rename the ERCRSA as the ERSA and to record the large customer shortfall in the ERSA should be adopted. Any large customer shortfalls or overcollections should be recorded separately from the small customer shortfall in the ERSA. Any large customer revenues received for URG costs and ancillary services and ISO-related costs should be recorded in the large customer portion of the ERSA.

16. SDG&E should be authorized to transfer any undercollection or overcollection from the memorandum account approved in D.01-05-060 to the large customer portion of the ERSA, and to terminate the memorandum account.

17. The voluntary bill stabilization program for large customers adopted by D.00-12-033 should be terminated.

18. The rate increases that result from implementing the DWR revenue requirement at issue in this decision should not be made applicable to direct access customers at this time.

19. This order should be effective today so that these rate changes may be implemented expeditiously.

20. CARE customers and medical baseline customers should be exempt from the rate increase approved in this order.

21. The revenue shortfall from the exemptions for CARE customers and medical baseline customers should be shared by all other customers on an equal cents per kWh basis.

INTERIM ORDER

IT IS ORDERED that:

1. San Diego Gas & Electric Company (SDG&E) shall establish a California Department of Water Resources (DWR) charge of 9.02 cents per kilowatt-hour (kWh) for energy sold by DWR to SDG&E's retail end use customers, which charge shall be established, implemented, and administered in accordance with Decision (D.) 01-09-013.

2. The electric rates charged by SDG&E shall be increased by 1.46 cents per kWh on a system-average basis to provide for collection of the DWR revenue requirement attributable to SDG&E's customers, as such revenue requirement is reflected in the interim DWR charge of 9.02 cents per kWh established pursuant to Ordering Paragraph 1. Such rates shall be set in accordance with the revenue allocation and rate design determinations set forth in the foregoing discussion, findings, and conclusions.

3. Within seven days of the effective date of this decision, SDG&E shall file an advice letter to implement new rates pursuant to Ordering Paragraph 2. The advice letter shall be effective September 30, 2001. The rates filed in the advice letter shall reflect the rates shown in Appendices B and C of this decision, subject to adjustment for the medical baseline allowance. SDG&E shall include with its advice letter detailed and complete work papers showing the revenue allocation and rate design calculations underlying the new rates for each rate schedule. On the same day that SDG&E files its advice letter, it shall serve electronic copies of the workpapers on Energy Division and all active parties in this phase of the proceeding. Specifically, SDG&E shall file tariffs that effect the following principles:

a. Utility Retained Generation shall be assigned to all customer classes. The system average rate increase is 1.46 cents/kWh, and rates shall be set using annual sales to bundled service customers of 16,828,800 Megawatt-hours, consistent with Exhibits 9 and 26. The revenue increase shall be allocated on an equal cents per kWh basis before revenue shortfalls are taken into account.

b. CARE-eligible customers and non-CARE medical baseline customers are exempt from the rate increase adopted in this Order. The revenue shortfall resulting from exempting these customers shall be allocated to all other customers, but not to residential consumption below 130% of baseline, on an equal cents per kWh basis.

c. The rates attached to this Order do not reflect exemption of non-CARE medical baseline customers and non-residential CARE customers from the rate increases adopted herein. In its compliance advice letter, SDG&E shall reflect the exemption of those customers. SDG&E shall show in the workpapers supporting its compliance advice letter how the revenue allocation and rate design was modified to reflect the exemption of these customers.

d. Increases in agricultural rates shall be capped at 20% for TOU rates and 15% for non-TOU rates. Any revenue shortfall created by capping agricultural rates shall be

allocated to all non-exempt customers, but not to residential consumption below 130% of baseline, on an equal cents per kWh basis.

e. The revenue shortfall from exempting residential consumption below 130% of baseline shall be allocated to all non-exempt customer classes.

f. SDG&E shall reflect a 5 tier-rate residential rate design with incremental block tiers with the following tiers:

   a. Tier 1 Up to the baseline amount

   b. Tier 2 From 100% - up to 130% of baseline

   c. Tier 3 From 130% - up to 200% of baseline

   d. Tier 4 From 200% - up to 300% of baseline

   e. Tier 5 In excess of 300% of baseline

g. SDG&E shall design residential rates such that rates for Tiers 3, 4, and 5 closely approximate those shown in Appendix B. The percent difference between the Tier 4 rate as compared to the Tier 2 rate shall be approximately twice the percent difference between the Tier 3 rate as compared to the Tier 2 rate. The Tier 5 rate shall be designed such that it recovers the residual revenue after setting rates for Tiers 3 and 4.

h. Residential TOU rates shall be tiered using the same tiered rates applied for the non-TOU residential schedules, leaving the TOU signals embedded in the transmission and distribution portion of these residential rates.

i. For small commercial customers with seasonal designation (Schedule A), 70% of the revenue increase shall be allocated to the summer period and 30% to the winter period.

j. For non-residential TOU customers and residential electric vehicle TOU schedules, the revenue increase shall be allocated across all time periods. The summer and winter on-peak period rate increases shall be 2 cents per kWh higher than the average rate increase for the tariff schedule, and the remaining revenue increase shall be allocated on an equal cents per kWh to the semi- and off-peak periods.

3. If SDG&E is unable to implement the medical baseline rate exemption on the effective date of the rate increases, SDG&E shall: (a) implement this rate exemption no later than 30 days following the effective date of the rate increases, (b) apply on December 2001 bills a credit to medical baseline customers for any amount previously billed in excess of applicable rates adopted herein, and (c) notify medical baseline customers no later than October 1, 2001 that they will receive a credit for any amount billed in excess of the applicable rates adopted in this decision.

4. SDG&E is authorized and directed to establish a balancing account mechanism and shall book into the balancing account the difference between the imputed utility rate based on today's decision and the effective utility rate it has billed, multiplied by the number of kWhs billed at that effective utility rate. The balancing account shall become effective concurrent with the effective date of the DWR charge and rate increases ordered herein.

5. SDG&E is authorized to rename the Energy Rate Ceiling Revenue Shortfall Account as the Energy Revenue Shortfall Account (ERSA) and to establish separate recording of revenues and expenses for small customers and large customers in accordance with the foregoing discussion. SDG&E is further authorized to transfer any balance in the memorandum account established pursuant to D.01-05-060 to the large customer portion of the ERSA, and to thereafter terminate the memorandum account.

6. The voluntary bill stabilization program established by D.00-12-033 shall be terminated by SDG&E effective with the effective date of the Advice Letter filing made pursuant to this decision.

7. This proceeding shall remain open.

This order is effective today.

Dated September 20, 2001, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners

I dissent.

/s/ RICHARD A. BILAS
Commissioner

APPENDIX A
List of Appearances

Applicant: Thomas Brill and Keith W. Melville, Attorneys at Law, for San Diego Gas & Electric Company.

Interested Parties: Goodin, MacBride, Squeri, Ritchie & Day LLP, by Jeanne M. Bennett, for Enron Energy Services, Inc.; Peter Bray, for the New Power Company; Brubaker & Associates, by Maurice Brubaker, for Brubaker & Associates; Christine Costa, Attorney at Law, for Southern California Edison Company; Sam De Frawi, for Navy Rate Intervention; Arter & Hadden, LLP, by Daniel W. Douglass, Attorney at Law, for Alliance for Retail Energy Markets; Norman J. Furuta, Attorney at Law, for Federal Executive Agencies; Adams, Broadwell, Joseph & Cardozo, by Marc D. Joseph, Attorney at Law, for Coalition of California Utility Employees (CUE); Luce, Forward, Hamilton & Scripps, LLP, by John W. Leslie, Attorney at Law, for Shell Energy Services, LP & The Alliance for Retail Energy Markets; Ronald Liebert, Attorney at Law, for California Farm Bureau Federation; Warren Savage, for Santee Chamber of Commerce; Christopher J. Warner, Attorney at Law, for Pacific Gas and Electric Company; James Weil, for Aglet Consumer Alliance; Bernardo R. Garcia, for Utility Workers Union of America, Bernardo Garcia, et al.; Robert Finkelstein, Attorney at Law, for The Utility Reform Network; Richard J. McCann, for M. Cubed; Anderson & Poole, P.C., by Edward G. Poole, Attorney at Law, for CA Independent Petroleum Association, Independent Oil Producers Agency, Western Manufactured Housing Community Association; Jennifer Tachera, Attorney at Law, for the California Energy Commission; and Darwin Farrar, Attorney at Law, for the Office of Ratepayer Advocates.

Intervenor: Michael Shames, Attorney at Law, for Utility Consumers' Action Network.

Protestants: Harold Ball, for Helix Water District & County Water Authority; Sara Steck Myers, Attorney at Law, for the City of San Diego and Frederick M. Ortlieb, Deputy City Attorney, for the City of San Diego.

(END OF APPENDIX A)

APPENDIX B

http://www.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/9807.htm

APPENDIX C

http://www.cpuc.ca.gov/PUBLISHED/FINAL_DECISION/9808.htm

APPENDIX D
Abstract from September 4, 2001 Draft Decision in A.00-11-038, et al.

DWR's updated (as of August 7, 2001) revenue requirement for all three utilities totals $12.6 billion. DWR clarifies that it seeks to collect $12.6 billion from electric retail customers, and $477 million from sales of DWR surplus contract energy. The revenue requirement of $12.6 billion covers the period from January 17, 2001 through December 31, 2002, and reflects an aggregate amount for all three electric utilities.

DWR prepared its revenue requirement forecast in cooperation with its consultant, Navigant Consulting. The financial model used by Navigant has been reviewed by Montague Derose & Associates (financial advisor to DWR), Public Resources Advisory Group (financial advisor to the State Treasurer's Office), and analysts of JPMorgan (investment bankers for the State Treasurer's Office). In addition, PriceWaterhouseCoopers is in the final stages of completing an independent audit of the mathematical accuracy of the financial model. These reviews pertain principally to the financial results of the models. Navigant is responsible for the forecasts of net short energy requirements and the resources used to meet the forecasts that support the revenue requirements.

In its August 7 update, DWR provides the following support for its determination that its revenue requirements are just and reasonable, including:

- DWR used a competitive solicitation method for obtaining power supply bids.
- Power purchases by DWR are at cost and DWR is a governmental agency that receives neither equity return nor any form of economic return for its energy purchases.
- Projected spot market purchases not obtained via contract are estimated based upon a competitive, marginal cost, market clearing price projection.

- DWR's revenue requirement will be adjusted or trued-up over time to reflect only those costs which are actually incurred by DWR for power supply acquisition and administration.
- Actual and projected costs are below prior cost estimates submitted to the Commission in May 2001 and earlier market projections.

Water Code Section 80100, added by AB1X, provides the relevant considerations for DWR when it undertakes to purchase power, following its consultation with the Commission, utilities and public agency utilities:

(a) The intent of the program described in this division is to achieve an overall portfolio of contracts for energy resulting in reliable service at the lowest possible price per kilowatt hour.

(b) The need to have contract supplies to fit each aspect of the overall energy load profile.

(c) The desire to secure as much low-cost power as possible under contract.

(d) The duration and timing of contracts made available from sellers.

(e) The length of time sellers of electricity offer to sell such electricity.

(f) The desire to secure as much firm and nonfirm renewable energy as possible.

The Draft Decision noted that it would be impossible for the Commission to determine whether each element of Water Code Section 80100 has been appropriately considered by DWR. The Legislature has assigned to DWR, and not to the Commission, the responsibility to consider these factors and to conduct and determine reasonableness of costs under Section 451. The Draft Decision presumed that the considerations urged by DWR satisfy at least elements (a), (c), (d) and (e) of Section 80100. It then proceeded to the quantitative process of

converting the power purchase program into a set of charges that when applied to volumes will produce revenues to pay for DWR AB1X-authorized costs.

DWR computes its revenue requirement in a two-step process. Step 1 involves the aggregate determination of DWR's gross expenditures. In Step 2, DWR applies a portion of its forecast bond proceeds to its gross expenditures and then determines the remaining amount that it needs to collect from utility customers and submits that amount to the Commission as its AB1X-authorized revenue requirement. The difference between total projected expenditures of $21.446 billion and the total revenue requirement of $12.6 billion results from DWR's determination of its estimate of bond proceeds which offset total expenditures. DWR's estimated revenue requirement is broken down on a quarterly basis by each of the six categories specified in Water Code Section 80134, together with certain additional detail:

- Bond related costs, including principal and interest amounts
- Operating expenses, in which DWR has included power purchase, fuel, transmission, scheduling and demand side management
- Reserves
- Pooled money investment rate on general funds advanced
- Repayment of the General Fund
- Administrative costs

DWR incorporated the following adjustments in its August 7th revenue requirement update:

- Minor modifications to load assumptions;
- Modifications to quantities of bilateral contracts held by PG&E and SDG&E that will impact the amount of net short expected to be purchased by DWR;

- Modifications to the level of Qualifying Facility (QF) contract output for SDG&E;
- Modification of total estimated quantity and associated costs of QF output for Edison, which in turn will affect the allowance for costs of ancillary services (since ancillary services are estimated as a percentage of net short purchases and the costs of utility retained generation);
- Revised data on historical net short cost reconciliations; and
- Cash receipt reconciliations.

DWR reports that the cumulative result of these modifications has been to lower the share of the net short energy requirements for SDG&E customers and, to an extent, for Edison customers, and to increase the net short energy requirements for PG&E customers. According to DWR, these changes will result in projected DWR sales of 116,084 GWhs, as compared with 118,920 GWhs in the July 23 submittal, a reduction of 2,836 GWhs. DWR's projected net short for PG&E is now 55,417 GWhs, compared to 48,078 GWhs. DWR's projected net short for Edison is now 42,307 GWhs, compared to 49,083 GWhs. DWR's projected net short for SDG&E is now 18,631 GWhs, compared to 21,769 GWhs. The change in net short energy provided for the customers of the respective utilities reflects a more precise assignment of DWR purchases in the major ISO zones, NP 15 (roughly the area served by PG&E, which is North of Path 15) and SP 15 (roughly the area served by SCE and SDG&E, which is South of Path 15). DWR bases this projection on its new net short energy cost projection changes, and applies a "postage stamp "allocation of the costs to the customers of all three utilities. A postage stamp allocation spreads costs on a uniform cost per kWh basis to all customers.

The non-DWR parties in A.00-11-038, et al. generally claimed that DWR has not provided adequate documentation and explanation of its revenue

requirement. Parties assert that they have not been permitted a thorough review and analysis of the methodology and assumptions underlying the revenue requirement, and that further proceedings are needed to establish a reasonable estimate of the revenue requirement.

DWR states that its revenue requirement is based on reasonable forecasts and proposes to work with PG&E and Edison to seek a balance between self-provisioning of ancillary services and their respective net short energy and ancillary service costs. DWR agrees that such cost tradeoffs would be reflected in future adjustments of its revenue requirement. Similarly, DWR agrees that any necessary revisions to its natural gas price forecasts that result in a lower revenue requirement will be incorporated prospectively.

The procedural process for the compilation, review, and implementation of the DWR revenue requirement must conform to the governing requirements of the California Water Code pursuant to AB1X. Water Code Section 80110 provides that DWR "shall be entitled to recover, as a revenue requirement, amounts and at the times necessary to enable it comply with Section 80134, and shall advise the commission as the [DWR] determines to be appropriate." The Draft Decision determined that the procedural process employed in A.00-11-038 provided an opportunity for parties to review and comment upon the DWR revenue requirement. This procedural process was intended to facilitate DWR's receiving its revenue requirement "at the time[] necessary."

The Draft Decision did not address parties' contentions regarding the manner in which DWR fulfills the procedural and substantive obligation to "conduct" any reasonableness review under Section 451, and to make a determination that its revenue requirement is reasonable. It determined that the decision about what process DWR must follow in conducting and determining

"any just and reasonable review under Section 451" is not one the Commission should be making, especially as it is a topic of ongoing litigation. It went on to note that the determination of whether DWR's power procurement costs are just and reasonable has been expressly committed to DWR. The Draft Decision noted that the forecasts of certain costs included in DWR's revenue requirement submission are projections of costs which may or may not be incurred; however, as provision is made for subsequent adjustments of the DWR revenue requirements in periodic updates, variances between forecast and actual results can be taken into account in the process of revising DWR charges going forward. The Draft Decision stated that an overcollection in one year will reduce the next year's revenue requirement and the charges needed to recover it, and an intent to continue to cooperate with DWR to facilitate the process of accurately identifying relevant costs and implementing necessary recovery measures as mandated by statute.

AB1X provides that DWR is entitled to recover as a revenue requirement the amounts enumerated in Water Code Section 80134. The Commission's authority under Public Utilities Code Section 451 is made applicable to AB1X costs, except that "any just and reasonable review…shall be conducted and determined by " DWR. As a result, the Draft Decision determined that it is proper for the Commission to implement this revenue requirement, provided it is mathematically correct and reflects only those categories of costs that are authorized in AB1X. The Draft Decision accepted DWR's assurance that the mathematical calculations underlying the DWR revenue requirement are correct, and that the reported costs reflect only those categories authorized by AB1X, with one exception. It found that the costs for load reduction that DWR has included in the revenue requirement are not covered under any of the permissible

categories set forth in the statute. Therefore, in general the Draft Decision excluded these costs as reflected in DWR's submission in implementing the DWR revenue requirement.

AB1X requires that DWR include in its revenue requirement "…amounts necessary to pay for power purchased by it…" (Water Code Section 80134(a)(2).) Amounts in the Electric Power Fund are to be spent on the "…cost of electric power…." (Water Code Section 80200(b)(2).) The term "power" is specifically defined as "electric power and energy, including but not limited to, capacity and output or any of them." (Water Code Section 80010(f).) The Draft Decision concluded that this definition does not include other expenditures unrelated to electric power supply, including costs for load reduction.

The Draft Decision, however, retained in the DWR revenue requirements the DSM costs representing the "California 20/20 Rebate Program" for this year. This particular program has already been authorized by the Commission as a utility-tariffed program. Pursuant to Resolution E-3733, dated May 3, 2001, the Commission ordered the three utilities to file tariffs that implement Executive Orders issued by Governor Gray Davis for a one year rate reward rebate program. As explained in that resolution, Governor Davis has issued Executive Orders charging DWR with responsibility for implementing this program. The term of the Executive Orders is due to expire on December 31, 2001. The Draft Decision therefore included costs of the 20/20 Program in the DWR revenue requirement through December 31, 2001 for the actual period that the program is in effect, but did not include 20/20 Program costs beyond the limited term during 2001 that the tariffs and Executive Orders are in effect.

As explained in the Draft Decision, DWR proposed to separately allocate a portion of the total requirement to each of the three utility service territories.

The changes between DWR's July 23rd version and August 7th version are set forth below, in GWh and in thousands of dollars:

- **Net short volumes (*in GWh*)**

Utility	Revised Net Short (Aug. 7, 2001)	Previous Net Short (July 3, 2001)	Difference	Percent Change
Edison	42,037	49,083	(7,046)	(14.36%)
PG&E	55,417	48,078	7,338	15.26%
SDG&E	18,631	21,769	(3,138)	(14.42%)

- **DWR Revenue Requirement by Utility (*in thousands of dollars*)**

Utility	**Aug. 7, 2001 Version**		**July 23, 2001 Version**		**Difference**	
	2001	2002	2001	2002	2001	2002
Edison	2,087.451	2,516,710	2,171,703	3,631,572	(84,252)	(1,114,862)
PG&E	3,361,933	2,565,851	2,131,312	3,066.374	1,230.621	(500,523)
SDG&E	836,865	1,231,576	827,315	1,243,652	(9,550)	(12,076)
Totals	6,286,249	6,314.137	5,130.330	7,941,598	1,136,819	(1,627,461)

At the workshop held in A.00-11-038, et al., DWR acknowledged that allocation was the Commission's responsibility, and proposed an allocation to facilitate the process. DWR representatives explained the methodology that was used to allocate its revenue requirement among the three utilities. DWR first aggregated its revenue requirement for covering the net short position for all three utilities for the forecast period, and then divided by the total mWh volumes associated with that revenue requirement. DWR thereby derived a uniform cents per mWh cost for DWR-supplied energy. A pro-rata share of the total revenue requirement was then assigned to each of the three utilities by multiplying the derived cost per mWh of DWR-supplied energy by the estimated volumes representing the net short position for each utility.

DWR's inter-utility revenue allocation results in a significant difference on a per-kWh basis. Based on its July 23 filing, the allocations were $108/mWh for PG&E, $118/mWh for Edison, and $95/mWh for SDG&E. As DWR explained in its August 1 data response, the differences in allocation result from applying a disproportionate share of bond proceeds as an offset to costs for SDG&E in comparison to the other utilities. The Draft Decision stated that by allocating a disproportionate share of bond proceeds in this manner, DWR is inconsistent with a cost-of-service allocation approach. DWR's intent was to allocate bond proceeds among the service territories of the three utilities so that DWR's current revenue requirement could be collected from customers within the currently approved rate structures (and the rate structure DWR assumed would be approved for SDG&E). DWR claims that its revenue requirement for the customers of all three utilities can be accommodated within the three cent per kWh rate surcharge applied by the Commission to customers of Edison and PG&E. DWR also projects that its revenue allocation would result in no more than a 2.99 cents per kWh increase for SDG&E customers. The Draft Decision stated that the reference to this DWR projection does not constitute a prejudgment of the any ratemaking or revenue allocation issue pending before the Commission in the instant proceeding.

By allocating a relatively greater share of bond proceeds to SDG&E as compared with the other two utilities, current rate levels for SDG&E customers are correspondingly lower than they would otherwise be. Conversely, by applying more bond proceeds to reduce certain customers' current rate levels, those customer groups would assume responsibility for the repayment of higher debt levels in future years, leading to a correspondingly higher rate level for those customer groups relating to the higher future debt service obligations.

The Draft Decision concluded that the allocation of revenue requirements based upon cost of service provides for an equitable and economically efficient matching of cost responsibility with service rendered. It noted that the allocation methodology applied by DWR is not based on the traditional cost-of-service approach that has long been the standard applied by this Commission in allocating costs to be recovered from utility customers, and that DWR's approach, by contrast, disregards the different geographic regions and customer groups served, and allocates a uniform or "postage-stamp" charge to the customers of each of the utilities. The Draft Decision found the DWR allocation approach is specifically designed to achieve objectives DWR feels are important.

"The primary purpose of the Public Utilities Act . . . is to insure the public adequate service at reasonable rates without discrimination." United States Steel Corp. v. Public Utilities Com., 29 Cal. 3d 603, 610 (1981), quoting Pacific. Tel. & Tel. v. Public Utilities Com. 34 Cal.2d 822, 826 (1950). Although the Commission may justify variances from cost of service in allocating rate responsibility among customers, there must be an adequate rationale for doing so. California Manufacturers Ass'n v. Pub. Utilities Com., 24 Cal.3d 251, 261 (1979). DWR's asserted justifications for departing from traditional cost-based allocation of revenue responsibility – the detrimental consequences of arbitrary or mistaken allocations of spot market purchases or contracted-for power – are uniquely within the power of DWR to avoid. Conversely, the arguments by the other parties, particularly the utilities, articulate a strong rational basis for retaining a cost-based approach for allocating revenue responsibility to the customers of the respective utilities. Toward Utility Rate Normalization v. Public Utilities Com., 22 Cal.3d 529, 543-544 (1978).

The Draft Decision adopted an allocation of the DWR revenue requirement that is based on the cost of service for each of the utilities' service territories, but separately allocated energy procurement on a geographic basis, depending on whether the energy is delivered over facilities in northern California or in southern California. As the geographical dividing point, the Draft Decision used what is commonly known as Transmission Path 15. Energy sources procured north of Path 15 were allocated to PG&E customers. Energy sources procured south of Path 15 were allocated to customers of Edison and SDG&E.

DWR provided summary information in A.00-11-038 et al. that allowed the Commission's Energy Division to calculate the amount of energy costs that were allocated to each utility service area before the DWR combined these costs for its "postage stamp" calculations. These energy costs consist of contract power, residual net short purchases, and ancillary services, and are based on DWR's estimates of the contract volumes and residual net short volumes in each utility service area. The table below shows these original cost allocations, along with the "postage stamp" allocations from DWR's August 7 submittal.

Original DWR Cost-Based Allocation ($000)

	Contract Power	Residual Net Short	Ancillary Services	Total Power Costs
PG&E	$5,176,168	5,183,811	450,689	10,810,668
SCE	3,249,520	3,078,861	465,105	6,793,486
SDG&E	1,279,933	1,174,809	141,065	2,595,807
	$9,705,622	9,437,481	1,056,859	20,199,962

	DWR "Postage Stamp" Allocation ($000)				Difference
	Contract	Residual	Ancillary	Total Power	

	Power	Net Short	Services	Costs	
PG&E	$4,766,813	5,127,008	445,672	10,339,493	-471,175
SCE	3,418,778	3,098,794	414,816	6,932,388	138,902
SDG&E	1,520,031	1,211,679	196,371	2,928,080	332,273
	$9,705,622	9,437,481	1,056,859	20,199,962	

The Draft Decision intrepreted this table as showing that DWR's postage stamp allocation has lowered the amount of total power costs allocated to PG&E by $471 million, and shifted that revenue responsibility to Edison ($138 million) and SDG&E ($332 million).

To the "cost-based" power costs shown in the above table, the Draft Decision added the other DWR revenue requirement components (*e.g.*, administrative and general expenses, uncollectibles, 2001 "20/20" program costs, and financing costs), to produce the total of all costs DWR expects to incur over the period of January 17, 2001 through December 31, 2002: $22.467 billion. Subtraction of $10.38 billion in net bond proceeds yields the amount that must be collected from ratepayers: $12.086 billion.

The Draft Decision used the same "cost-based" allocator to allocate the bond proceeds between the three utilities. Thus, since PG&E, Edison, and SDG&E were allocated 54%, 33% and 13% of total DWR costs, each utility is assigned the same percentage of bond proceeds.

As a result of the cost-based allocation approach used, the following allocation of DWR revenue requirements among the three utilities resulted. The revenue requirement allocations for the period January 17, 2001 through December 31, 2002 were $6,532,650,000 for PG&E, $4,017,786,000 for Edison, and $1,536,351,000 for SDG&E. The Draft Decision stated that the need for any change in rates for SDG&E customers in order to meet DWR's costs of serving SDG&E customers would be addressed in the instant decision.

To implement this cost-based allocation, the Draft Decision calculated DWR charges of 13.99 cents per kWh for PG&E, 10.03 cents per kWh for Edison, and 9.02 cents per kWh for SDG&E. These rates were calculated for PG&E and Edison by taking the allocated revenue requirement, and subtracting the generation revenues that each utility should have collected and disbursed to DWR from January through May of 2001, to obtain the revenue requirement from June 2001 through December 2002. That revenue requirement is then divided by DWR's forecast sales for the same period, to obtain the specific rate that each utility must use to calculate its payments to DWR, from June 1, 2001 onward. For SDG&E, the Draft Decision performed the same calculation by taking the allocated revenue requirement, and subtracting the generation revenues that SDG&E should have collected and disbursed to DWR from January until September 15, 2001, to obtain the revenue requirement from September 15, 2001 through December 2002. That revenue requirement was then divided by DWR's forecast sales for the same period, to obtain the specific rate that SDG&E must use to calculate its payments to DWR.

(END OF APPENDIX D)