

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION E-4391

May 26, 2011

R E S O L U T I O N

Resolution E -4391. Southern California Edison Company (SCE)
Implementation of Residential Rate Changes Pursuant to Decision
(D.)09-12-048.

PROPOSED OUTCOME: Authorizes a 0.97% increase in Tier 1 rates and a 3% increase in Tier 2 rates for non-California Alternate Rates for Energy (CARE) residential customers, with a commensurate decrease in non-CARE Tiers 3 through 5 rates, pursuant to SB 695, and as authorized by Ordering Paragraph (O.P.) 3 in D.09-12-048.

ESTIMATED COST: This is a proposed reallocation of tiered rates within the residential rate class, resulting in a revenue-neutral offset of rates with no net revenue requirement increase for SCE.

By Advice Letter (AL) 2526-E filed on November 16, 2010.

SUMMARY

This resolution approves AL 2526-E with modifications. SCE is authorized effective June 1, 2011 to increase its non-CARE Tier 1 rate by 0.97%, and its Tier 2 rate by 3%, while decreasing non-CARE Tiers 3, 4, and 5 rates commensurately, to result in revenue-neutral rates. SCE will continue to maintain a 3.5 cents/kilowatt hour (kWh) differential between each of non-CARE Tiers 3 through 5.

- SCE did not propose any increases to CARE rates in its advice letter and no increases in CARE rates are approved in this resolution.
- SCE is authorized to increase its non-CARE Tier 1 rate by 0.97% percent over its current Tier 1 rate as requested, so that the sum of SCE's non-CARE Tier 1 rate and the effective rate for its customer charge revenues does not exceed 90% of the system average rate (SAR), as required by SB

695. The rate resulting from the Tier 1 increase must equal no more than 90 percent of the SAR.¹

- SCE is authorized to increase its non-CARE Tier 2 rate by 3 percent over its current non-CARE Tier 2 rate.
- Residential Tiers 3 through 5 rates shall decrease commensurately with the Tier 2 increase, and shall maintain a 3.5 cents/kWh differential between each of non-CARE Tiers 3 through 5, in compliance with O.P. 3 in D.09-12-048, and in accordance with the settlement approved in D.09-08-028.
- After making the rate changes authorized by this resolution, SCE shall not make any further changes to non-CARE Tier 1 and/or Tier 2 rates in 2011, unless further changes are specifically authorized by a separate Commission order or by statute.
- Requests for future annual CARE and non-CARE Tiers 1 and 2 rate changes as authorized by D.09-12-048 shall continue to be administered annually through a Tier 2 advice letter, based on SCE's updated SAR. Such advice letters will be accompanied by detailed and complete work papers showing the utility's residential revenue allocation, the revenue neutral offset between residential tiers, an updated SAR calculation, and rate design calculations underlying the rates for each rate schedule.

¹ Public Utilities Code (P.U.Code) § 739.9, provides, in pertinent part:

(a) The Commission may, subject to the limitation in subdivision (b), increase the rates charged residential customers for electricity usage up to 130 percent of the baseline quantities. . . .

(b) The rates charged residential customers for electricity usage up to the baseline quantities, including any customer charge revenues, shall not exceed 90 percent of the system average rate prior to January 1, 2019, and may not exceed 92.5 percent after that date.

BACKGROUND

Assembly Bill (AB) 1X from the First Extraordinary Session (Ch.4, First Extraordinary Session 2001) (AB1X) was signed into law on February 1, 2001, in response to the energy crisis of 2000-2001.

AB 1X implemented a number of measures to help stabilize California's electricity markets during the energy crisis. These measures included requiring the California Department of Water Resources (DWR) to procure electricity on behalf of SCE, Pacific Gas and Electric Company (PG&E), and San Diego Gas & Electric Company (SDG&E), (investor owned utilities or "IOUs"), and providing some rate stability to residential customers by "capping" rates for usage up to 130 percent of baseline quantities,² at levels in effect on February 1, 2001.³ The rate cap was to continue until the DWR recovered its costs to procure power on behalf of the state's electric consumers.

Soon after AB1X implementation, D.01-05-064 and D.01-05-059 adopted a five-tier incremental block rate design for non-CARE residential customers.

With AB1X mandating that all residential electricity use usage up to 130 percent of baseline be capped at levels in effect on February 1, 2001, the Commission developed a rate design methodology so that the IOUs could fully recover their respective residential revenue requirement allocations. In D.01-05-064 (addressing PG&E and SCE) and D.01-09-059 (addressing SDG&E), the Commission adopted a five-tier rate design model for non-CARE residential customers based on an increasing rate per kWh within each successive tier, or

² P.U. Code § 739(1) defines "baseline quantity" as a "quantity of electricity or gas allocated by the Commission for residential customer based on from 50 to 60 percent of average residential consumption of these commodities, except that, for residential gas customers and for all-electric residential customers, the baseline quantity shall be established at from 60 to 70 percent of average residential consumption during the winter heating season."

P.U. Code. § 739(6)(d)(1) "The baseline rates shall apply to the first or lowest block of an increasing block rate structure which shall be the baseline quantity."

³ Statutes of 2001-2002, 1st Extraordinary Session, Chapter 4. The rate cap language was codified in the former language of Water Code § 80110.

“block” of use. Given the restrictions required by AB 1X, all future residential rate increases were allocated to rates in upper tiers.

Each of the five non-CARE tier ranges were set as a percent of the baseline quantity allowance.

In D.01-05-064 and D.01-09-059, the Commission adopted the same residential tier structure for PG&E, SCE, and SDG&E:

- Tier 1: For kWh use up to 100% of baseline
- Tier 2: For kWh use from 100% to 130% of baseline
- Tier 3: For kWh use from 130% to 200% of baseline
- Tier 4: For kWh use from 200% to 300% of baseline
- Tier 5: For kWh use in excess of 300% of baseline⁴

From the 2001 implementation of the five-tier non-CARE residential rate methodology until the Commission issued D.09-12-048, all revenue requirement increases for the residential rate class, with the exception of CSI program costs, were allocated to use within non-CARE Tiers 3, 4, and 5.⁵ Because non-CARE Tier 1 and Tier 2 residential rates remained capped and all residential class revenue requirement increases were therefore allocated to non-CARE Tiers 3, 4 and 5 rates, the disparity between the lower non-CARE Tiers 1 and 2 rates, and the higher non-CARE Tiers 3 through 5 rates increased significantly over time.⁶ Historically, residential use within non-CARE Tiers 3 through 5 accounts for approximately 30 percent of all residential kWh use (D.09-12-048, p.3).

SB 695 (2009) amended Public Utilities Code (P.U. Code) § 739.1, which addressed CARE-eligible rates, and added § 739.9, which addressed non-CARE

⁴ At this time, SDG&E’s and PG&E’s residential rate structure does not include a Tier 5 rate to measure customers’ use, and the Tier 4 rate is the highest which applies to all kWh use over 200% of baseline. See D.08-02-034 and D.10-05-051, respectively.

⁵ SB 1 (2007) established the California Solar Initiative (CSI) program, and allowed CSI program costs to be allocated on a per kWh basis to non-CARE Residential customers’ Tier 1 and Tier 2 use, beginning January 1, 2008. See P.U. Code § 2851(d)(2).

⁶ D.09-12-048, Findings of Fact 4 and 5.

rates, and deleted the rate cap provisions of AB 1X. D.09-12-048 interpreted these provisions.

P.U. Code §§ 739.1 and 739.9 allow the Commission to increase residential rates for Tiers 1 and 2 subject to certain constraints. The Commission adopted D.09-12-048 which interpreted these code sections. The decision authorized annual Tier 1 and Tier 2 rate increases for PG&E, SCE, and SDG&E for both CARE and non-CARE Tier 1 and Tier 2 rates, subject to compliance with the various provisions of the statute. D.09-12-048 allowed increases to non-CARE rates for Tiers 1 and 2 effective January 1, 2010. If a utility wishes to propose annual changes in subsequent years, Ordering Paragraph (O.P.) 5 of D.09-12-048 requires each IOU to file a Tier 2 advice letter as set forth in General Order 96-B no later than forty-five (45) days before the proposed effective date.

P.U. Code § 739.1 (b)(2) gives the Commission authority to increase residential CARE rates for Tiers 1 and 2 by the annual increase in benefits provided under the California Work Opportunity and Responsibility to Kids Act (CalWORKs).

P.U. Code § 739.1 (b)(2) gives the Commission authority to increase residential CARE rates for Tiers 1 and 2 by the annual increase in benefits provided under the California Work Opportunity and Responsibility to Kids Act (CalWORKs) program for the fiscal year in which the rate increase would take effect, but not to exceed three (3) percent per year. However, the cost of living adjustment (COLA) for benefit amounts provided under the CalWORKs program was suspended. D.09-12-048 therefore authorized no increases to CARE rates for Tiers 1 and 2 in 2010.⁷

Pursuant to P.U. Code § 739.9(a), the Commission has the authority to grant increases in rates charged to non-CARE residential customers for non-CARE Tiers 1 and 2 use based on the annual percentage change in the Consumer Price Index (CPI).

⁷ In 2009, Senate Bill (SB) X3 6 (Chapter 13, Statutes of 2009-2010 Third Extraordinary Session) suspended the COLA for benefit amounts provided under the CalWORKs program.

Pursuant to P.U. Code § 739.9(a), the Commission has the authority to grant increases in rates charged to non-CARE residential customers for non-CARE Tiers 1 and 2 use by the annual percentage change in the CPI from the prior year⁸ plus 1 percent, but not less than three (3) percent or more than five (5) percent per year, until January 1, 2019. Increases to non-CARE Tier 1 rates are further subject to the limitations of P.U. Code § 739.9(b) in that non-CARE Tier 1 rates, including any customer charge revenues, may not exceed ninety (90) percent of the utility's SAR.

SCE increased non-CARE residential rates for Tiers 1 and 2 effective January 1, 2010 pursuant to D.09-12-048.

D.09-12-048 determined that a 3 percent increase in residential non-CARE rates for non-CARE Tiers 1 and 2 was justified in 2010 for SCE, PG&E, and SDG&E based on the parameters set forth in P.U. Code § 739.9. On December 29, 2009, SCE submitted AL 2420-E in compliance with O.P. 3 of D.09-12-048 authorizing it to increase these rates by 3 percent while commensurately decreasing non-CARE Tiers 3, 4, and 5 rates. O.P. 3 of D.09-12-048 required that SCE maintain a 3.5 cent/kWh differential between the rates applicable to non-CARE Tiers 3, 4, and 5 in keeping with the settlement adopted in D.09-08-028 in phase 2 of SCE's 2009 general rate case. SCE's AL 2420-E was made effective January 1, 2010 by Energy Division staff disposition.

SCE submitted AL 2526-E proposing to increase residential non-CARE Tier 1 rates by 2 percent and Tier 2 rates by 3 percent effective January 1, 2011.

In accordance with D.09-12-048 SCE filed AL 2526-E on November 16, 2010, proposing to increase non-CARE residential rates for non-CARE Tiers 1 and 2 effective January 1, 2011. SCE explained in its advice letter that it used the Social

⁸ P.U. Code sec. 739.9(a) provides: "the annual percentage change in the Consumer Price Index shall be calculated using the same formula that was used to determine the annual Social Security Cost of Living Adjustment on January 1, 2008." That formula is based on the CPI for Urban Wage Earners and Clerical Workers (CPI-W). This formula reflects the change in the average CPI-W comparing the immediately preceding third quarter and the third quarter for the year before that. The CPI-W is published monthly by the U.S. Department of Labor, Bureau of Labor Statistics: <http://www.bls.gov/cpi/>

Security COLA effective on January 1, 2011 which represents the change in the CPI-W from the third quarter of 2009 to the third quarter of 2010. Since the 2011 COLA is 1.5 percent, P.U. Code § 739.9(a), standing alone, would allow an increase in non-CARE Tier 1 and 2 rates by the minimum of 3 percent. However SCE stated that increasing the non-CARE Tier 1 rate by 3 percent would result in a rate—including the effective rate for customer charge revenues—in excess of the 90 percent of SAR limit established by P.U. Code § 739.9(b).⁹ SCE therefore requested authority to implement a non-CARE Tier 1 rate increase of 2 percent rather than 3 percent effective January 1, 2011, since that Tier 1 rate added to the effective rate for customer charge revenues would then equal 90 percent of SCE's SAR. SCE proposed commensurate decreases in non-CARE residential rates for non-CARE Tiers 3 through 5 for revenue neutrality, and to maintain the 3.5 cent/kWh differential between rates in the upper non-CARE tiers as required by D.09-08-028.

In workpaper calculations provided on May 11, 2011 in an addendum to its comments on the draft resolution, SCE indicated that as of June 1, 2011, the maximum Tier 1 rate increase allowed under P.U. Code § 739.9(b) would be 0.97 percent, rather than the two percent increase originally requested in AL 2526-E, because SCE's SAR has decreased as a result of revenue changes ordered in other proceedings.

SCE proposed no changes to CARE Tier 1 or Tier 2 rates since the CALWORKs cost of living adjustment is still suspended. SCE also noted that its existing CARE Tier 3 rate would decrease because it is derived from its non-CARE Tier 3 rate, which would decrease if SCE's non-CARE Tier 1 and 2 rates are increased.

⁹ In AL 2526-E SCE refers to "customer and minimum charge revenues" while P.U. Code § 739.9(b) refers only to customer charge revenues. SCE's residential rate schedules include basic and minimum charges, in addition to charges for kWh usage. SCE's basic and minimum charges are assessed on a \$ per meter per day basis, and represent "customer charge revenues" as defined in § 739.9(b). References to "customer charge revenues" in this resolution include what SCE calls "customer charge and minimum charge revenues" in AL 2526-E.

SCE's AL 2526-E was suspended.

In light of the issues discussed below, SCE's AL 2526-E was suspended on December 8, 2010. The Commission's Energy Division suspended this advice letter upon determining that a Resolution was required to address the advice letter. The first suspension period, of up to 120 days after the initial review period, expired April 15, 2011, during the draft Resolution's 30-day comment period. When the Commission's deliberation on a draft resolution prepared by an Industry Division continues beyond the expiration of the first suspension period, the suspension is automatically continued for a further 180 days.¹⁰ Accordingly, SCE's AL 2526-E is suspended for up to another 180 days during the Commission's deliberation on the Resolution. Because the tariffs attached to the advice letter involve a rate increase, they cannot go into effect without Commission approval.¹¹

NOTICE

Notice of AL 4391-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of the Advice Letter was served in accordance with Section 4 of General Order 96-B and served on parties to R.09-06-018, A.09-10-013, A.09-10-014, and A.09-10-015.

PROTESTS

No parties submitted protests to SCE's AL 2526-E.

DISCUSSION

SCE's AL 2526-E provides CPI data based on guidelines set forth in D.09-12-048.

SCE timely submitted AL 2526-E, no later than 45 days before its requested January 1, 2011 effective date as required by D.09-12-048. D.09-12-048

¹⁰ See General Order 96-B, General Rule 7.5.2.

¹¹ See P.U. Code § 454.

established that, to be consistent with the statute, the CPI percentage change component of the rate change formula should be based on the Social Security COLA from third quarter of the previous year to third quarter of the year immediately prior to the January 1 effective date. In AL 2526-E, SCE used the Social Security COLA representing the change in the CPI -W from third quarter of 2009 to third quarter 2010, in compliance with P.U. Code § 739.9(a) and D.09-12-048.¹² SCE states that the annual percentage change in the CPI for this period (i.e., the 2011 COLA) is 1.5 percent. Energy Division staff's review of the U.S. Department of Labor, Bureau of Labor Statistics CPI-W data confirmed the accuracy of the 1.5 percent figure.

P.U. Code § 739.9(a), and D.09-12-048 permit non-CARE Tier 1 and Tier 2 rate increases of 3 to 5 percent.

P.U. Code § 739.9(a) and D.09-12-048 require that non-CARE Tier 1 and 2 rate increases are limited to "the annual percentage change in the Consumer Price Index from the prior year plus 1 percent, but not less than 3 percent and not more than 5 percent per year." This means that if the COLA is less than 2 percent, then the non-CARE Tier 1 and 2 increases automatically default to a 3 percent increase. The 2011 COLA is measured at 1.5 percent. Therefore and in this case, adding 1 percent to the 2011 COLA equals 2.5 percent, which by statute and D.09-12-048, requires a 3 percent increase.

Increasing SCE's non-CARE Tier 1 rate by 3 percent would result in a rate that exceeds 90 percent of its system average rate, which is prohibited by statute.

P.U. Code § 739.9(b)¹³ describes the formula used to establish a utility's SAR, and prohibits a utility's Tier 1 rate for baseline usage, including the effective rate for customer charge revenues, from exceeding 90% of its SAR. Increasing SCE's non-CARE Tier 1 rate by 3 percent would result in a rate that exceeds 90 percent of SCE's June 1, 2011 SAR, which would violate P.U. Code § 739.9(b).

¹² D.09-12-048, Finding of Fact 13, O.P. 6.

¹³ The relevant portion of § 739.9(b) provides "The rates charged residential customers for electricity usage up to the baseline quantities, including any customer charge revenues, shall not exceed 90 percent of the system average rate prior to January 1, 2019, and may not exceed 92.5 percent after that date."

As indicated in SCE's workpaper calculations provided in the addendum to its comments on the draft resolution, SCE requests a 0.97 percent increase to its non-CARE Tier 1 rate, which, including the effective rate of its customer charge revenues, results in a Tier 1 rate equal to 90 percent of its current SAR.

To calculate a non-CARE Tier 1 rate that would meet the 90% of SAR maximum, SCE first calculated its customer charge revenues at 0.260 cents/kWh, as prescribed by § 739.9(b).¹⁴ In AL 2526-E, as amended by SCE's May 11, 2011 addendum to comments on the draft resolution, SCE demonstrates that 90 percent of its current 14.146 cents/kWh SAR equals 12.731 cents/kWh. A 3 percent increase to SCE's non-CARE Tier 1 rate would equal an increase from 12.351 cents/kWh to 12.722 cents/kWh, and when added to customer charge revenues of 0.260 cents/kWh, totals 12.982 cents/kWh. This total rate exceeds the maximum of 90 percent of the SAR.

To arrive at its 0.97 percent non-CARE Tier 1 increase request, SCE subtracted the customer charge component of 0.260 cents/kWh from the 90 percent of SAR maximum, 12.731 cents/kWh, which results in the proposed non-CARE Tier 1 rate of 12.471 cents/kWh. This represents a 0.97 percent increase in the non-CARE Tier 1 rate from 12.351 cents/kWh to 12.471 cents/kWh. Adding the customer charge component, 0.260 cents/kWh, to the new non-CARE Tier 1 rate equals 90 percent of SCE's SAR.

¹⁴ In compliance with P.U. Code § 739.9(b), the residential customer charge cost per kWh is derived by dividing forecasted Non-CARE customer charge revenues by forecasted Non-CARE kWh sales, and then added to the Tier 1 rate to calculate the *total* Tier 1 rate, to determine whether that exceeds 90% of SAR. The relevant portion of § 739.9(b) provides: "For purposes of this subdivision, the system average rate shall be determined by dividing the electrical corporation's total revenue requirements for bundled service customers by the adopted forecast of total bundled service sales."

In its comments addressing the draft Resolution, SCE requests a 0.97 percent increase to its Tier 1 rate. The Commission approves this request.

The issue of allowing a non-CARE Tier 1 rate increase of less than 3%, which is raised by SCE's AL 2526-E, did not arise in any of the proposals addressed by D.09-12-048 which were filed previously by SCE, PG&E, and SDG&E in A.09-10-013, et al.

Although the matter is not entirely free from doubt, we think that it is reasonable to read the word "limitation" in section 739.9(a) as meaning not only that the requirements of subdivision (b) must be met, but as also meaning that the otherwise minimum rate increase authorized by subdivision (a) can be reduced (i.e., "limited") in order to comply with subdivision (b). We find this interpretation of section 739.9 to be reasonable, as we understand the Legislature's intent was to allow the Commission authority to raise rates for Tier 1 within the limits set by subdivision (b). Authorizing a Tier 1 increase within the SAR limit contained in subdivision (b) is therefore consistent with the Legislature's intent. Because it is our goal to reduce the substantial rate differential between upper and lower tiers, we will authorize a Tier 1 increase of 0.97 percent, equal to 90 percent of SCE's current SAR. Accordingly, we approve SCE's request for a 0.97 percent increase to its Tier 1 rate, and approve an increase to SCE's Tier 2 rate of 3 percent.

If SCE implements the non-CARE Tier 1 and Tier 2 rate increase and commensurate decreases in non-CARE Tier 3 through 5 rates as authorized, these rates shall become effective on or after June 1, 2011.

SCE shall maintain the 3.5 cent/kWh differential between rates for non-CARE Tiers 3 through 5 as required by D.09-08-028. If SCE implements the non-CARE Tier 1 and Tier 2 rate increases and commensurate non-CARE Tier 3 through 5 rate decreases as authorized, then SCE shall file a supplement to AL 2526-E which shows the rate changes for each residential tier and work papers described in the next paragraph. Work papers will be subject to review, and the resulting rates will be subject to adjustment or correction by Commission Staff, or the full Commission if necessary.

Requests for future rate changes to non-CARE Tiers 1 and 2 to comply with D.09-12-048 shall continue to be administered annually through Tier 2 advice letter, and are subject to Commission review.

Such advice letters will be accompanied by detailed and complete work papers showing the utility's forecasted residential revenue allocation, the revenue neutral offset between non-CARE tiers, an updated SAR calculation, and rate design calculations underlying the rates for each rate schedule. Work papers will be subject to review, and the resulting rates will be subject to adjustment or correction by Commission Staff, or the full Commission if necessary.

O.P. 5 in D.09-12-048 states "Future annual filings to implement proposed changes in residential rates as authorized by Senate Bill 695 (Ch.337, Stats 2009) shall be by Tier 2 advice letter as set forth in General Order 96-B, filed no later than 45 days before the proposed effective date." We therefore conclude that these applicable rate changes to either non-CARE Tier 1 or Tier 2 should be allowed no more than once annually.

After making the rate changes authorized by this resolution, SCE shall not make any further changes to residential rates for Tiers 1 or 2 in 2011, unless a separate Commission order or a statute specifically authorizes further changes.

COMMENTS

Per statutory requirement, a draft resolution was made available for comment.

Public Utilities Code section 311(g)(1) generally requires resolutions to be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Accordingly, the draft resolution was issued for public review and comment at least 30 days prior to a vote of the Commission.

SCE submitted timely comments on May 2, 2011, urging the Commission to modify the draft Resolution and allow SCE to increase the tier 1 residential rate by 2 percent. SCE states that the draft Resolution improperly concludes that it cannot authorize a Tier 1 rate increase of less than three percent. SCE addresses subdivisions (a), (b), and (c) of §739.9, citing the Legislative Counsel's Digest three-step analysis noting two different limits applied to the process of making rate changes under SB 695. SCE concludes that the proposal is a reasonable

interpretation of the statutes and promotes the intent of SB 695 to permit limited increases to Tiers 1 and 2, while reducing non-CARE rates for Tiers 3 and above.

SCE also cites hearings testimony from PG&E's A.10-03-014 Phase 2 general rate case proceeding. During SCE's cross-examination regarding "capping" under §739.9 (b), the TURN witness responded "I agree that it is legally permissible, yes." in response to a question about SCE's 2 percent increase proposed for non-CARE Tier 1 rates.

On May 11, 2011, SCE submitted an Addendum to its earlier comments. This Addendum reflects the 0.97 percent increase in non-CARE Tier 1 rates rather than the 2 percent increase it originally requested.

PG&E submitted reply comments on May 9, 2011. The comments emphasized the importance of the Commission making a correct interpretation and application of P.U. Code §739.9. PG&E supports SCE's comments as a reasonable interpretation of the statutes, and asserts that SCE's interpretation promotes the intent of SB 695 to permit limited increases to Tiers 1 and 2 rates, while reducing non-CARE rates for Tiers 3 and above.

FINDINGS AND CONCLUSIONS

1. AB 1X implemented a number of measures during the California energy crisis of 2000-2001, including some rate stabilization for residential customers by "capping" rates for up to 130 percent of baseline quantities at levels in effect on February 1, 2001.
2. After AB1X capped rates for usage up to 130 percent of baseline quantities, the Commission adopted a five-tier non-CARE incremental block rate design, in D.01-05-064 for SCE.
3. D.01-05-064 determined the following parameters for utilities to measure non-CARE tiered use: For Tier 1, use up to 100% of baseline; for Tier 2, use from 100% to 130% of baseline; Tier 3, use from 130% to 200% of baseline; Tier 4, use from 200% to 300% of baseline, and Tier 5, use in excess of 300% of baseline. Accordingly, revenue requirement increases for the residential class were allocated to non-CARE Tiers 3, 4, and 5 rates.
4. D.09-12-048 found that between 2001 and 2009, the Tiers 1 and 2 rate restrictions required by AB1X have caused increasing disparity between non-

- CARE Tiers 1 and 2 rates, and rates paid by higher use customers in the upper non-CARE tiers.
5. SB 695 (2009) added P.U. Code § 739.9, authorizing annual incremental increases to non-CARE residential rates for non-CARE Tiers 1 and 2, subject to certain limitations.
 6. D.09-12-048 authorized PG&E, SCE, and SDG&E to request annual residential rate changes authorized by SB 695 by Tier 2 advice letter.
 7. D.09-12-048 determined that pursuant to P.U. Code § 739.9(a) the Commission has authority to grant increases in non-CARE residential rates for Tiers 1 and 2 by the annual percentage change in the CPI from the prior year plus 1 percent, but not less than 3 percent or more than 5 percent.
 8. P.U. Code § 739.9(b) limits increases in non-CARE residential Tier 1 rates such that the Tier 1 rate, including customer charge revenues, may not be higher than 90 percent of the utility's System Average Rate (SAR).
 9. SCE filed AL 2526-E on November 16, 2010 pursuant to D.09-12-048, proposing to increase non-CARE residential rates for Tiers 1 and 2, by 2% and 3%, respectively, and commensurately decrease rates for non-CARE Tiers 3, 4, and 5, while maintaining a 3.5 cent/kWh differential between the non-CARE upper tier rates as required by D.09-08-028.
 10. AL 2526-E was suspended on December 8, 2010; that first extension expired April 15, 2011. The publication, prior to April 15, 2011, of a draft resolution for comment and deliberation by the Commission automatically continues the extension for a further period of 180 days. Because the tariff sheets appended to AL 2526-E contain a rate increase, they cannot go into effect by operation of law.
 11. P.U. Code § 739.9(a) and D.09-12-048 permit annual rate increases for non-CARE Tiers 1 and 2 of 3 percent to 5 percent.
 12. The annual percentage change in the CPI from the third quarter of 2009 to the third quarter of 2010 plus 1 percent equals 2.5 percent. This would permit an increase of 3 percent in 2011 for non-CARE residential Tier 1 and Tier 2 pursuant to P.U. Code § 739.9(a)
 13. The increase permitted for SCE's non-CARE Tier 1 rate is further subject to the limit mandated by P.U. Code § 739.9(b).
 14. Increasing SCE's non-CARE Tier 1 rate by 3 percent would result in a rate, including the effective rate of customer charge revenues, that would exceed 90 percent of its SAR, which is prohibited by P.U. Code § 739.9(b).
 15. SCE submitted workpaper calculations in the addendum to its comments on the draft resolution, and requested a 0.97 percent increase to its non-CARE Tier 1 rate, which would produce a Tier 1 rate equal to 90 percent of its SAR.

16. The issue of allowing a non-CARE Tier 1 rate increase of less than 3 percent did not previously arise in the proposals addressed by D.09-12-048.
17. Authorizing a Tier 1 increase of 0.97 percent, which is within the SAR limit contained in subdivision (b) of § 739.9, is consistent with the Legislature's intent to authorize rate increases for Tier 1 subject to the limit set by subdivision(b).
18. SCE's proposal to increase its non-CARE residential Tier 1 rate by 0.97% should be authorized.
19. SCE's proposal to increase its non-CARE residential Tier 2 rate by 3 percent should be authorized.
20. SCE should decrease non-CARE residential rates for Tiers 3 through 5 commensurately with the increase to non-CARE Tier 1 and Tier 2 rates authorized by this resolution to maintain revenue neutrality within the residential class.
21. Pursuant to D.09-08-028, a 3.5 cent/kWh differential between rates for non-CARE Tiers 3, 4, and 5 should be maintained in implementing the rate changes authorized by this resolution.
22. The revised non-CARE Tier 1 and Tier 2 rates together with commensurate decreases in the non-CARE Tiers 3 through 5 rates should become effective on or after June 1, 2011.
23. D.09-12-048 requires annual Tier 2 advice letter filings to implement proposed changes in residential rates as authorized by SB 695.
24. Tier 2 advice letter filings to implement proposed changes in residential rates as authorized by SB 695 should be accompanied by detailed and complete work papers showing the utility's forecasted residential revenue allocation, the revenue neutral offset between tiers, an updated SAR calculation, and rate design calculations underlying the rates for each rate schedule. Work papers and resulting rates will be subject to review by Commission Staff, or the full Commission if necessary.
25. O.P. 5 in D.09-12-048 provided for future annual filings implementing non-CARE Tier 1 and 2 rate increases with commensurate decreases to non-CARE Tiers 3 through 5 residential rates by Tier 2 advice letter, to be filed no later than 45 days before the proposed effective date. The decision is clear in its intent to limiting such changes to one yearly request.
26. After making the rate changes authorized by this resolution, SCE should not make any further changes to residential rates for non-CARE Tiers 1 or 2 in 2011, unless a separate Commission order or a statute specifically authorizes further changes.

THEREFORE IT IS ORDERED THAT:

1. Southern California Edison Company (SCE) is authorized to increase its non-California Alternative Rates for Energy (CARE) residential Tier 1 rate by 0.97 percent over its current Tier 1 rate, effective on or after June 1, 2011.
2. SCE is authorized to increase its non-CARE Tier 2 rate by 3 percent over its current Tier 2 rate, effective on or after June 1, 2011.
3. Commensurate with the rate changes authorized in O.P.s 1 and 2, SCE shall decrease non-CARE residential rates for non-CARE Tiers 3 through 5 to maintain revenue neutrality, and to maintain a 3.5 cents/kWh differential between each of non-CARE Tiers 3 through 5, as required by D.09-08-028.
4. If SCE implements the non-CARE Tier 1 and Tier 2 rate increases and commensurate non-CARE Tiers 3 through 5 decreases as authorized, SCE shall supplement Advice Letter (AL) 2526-E. The supplement to AL 2526-E shall replace AL 2526-E in its entirety and shall show the rate changes for each residential tier, accompanied by detailed and complete work papers showing the utility's residential revenue allocation, the revenue neutral offset between non-CARE tiers, and rate design calculations underlying the rates for each rate schedule. If filed on or before June 1, 2011, the rate changes shall go into effect on June 1, 2011. If filed after June 1, 2011, the rate changes shall go into effect on no less than 5 days' notice or on the date filed. In either event, the work papers will remain subject to review and the rates will be subject to adjustment or correction by Commission Staff, or the full Commission if necessary.
5. After making the rate changes authorized in O.P.s 1 and 2, SCE shall not make any further changes in 2011 to residential rates for Tiers 1 or 2, unless specifically authorized to do so by a separate Commission order or by statute.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on May 26, 2011; the following Commissioners voting favorably thereon:

/s/ Paul Clanon

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
TIMOTHY ALAN SIMON
MICHEL PETER FLORIO
CATHERINE J. K. SANDOVAL
MARK J. FERRON
Commissioners