MAILED: 06/16/08

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION **RESOLUTION E-4167**
June 12, 2008

R E S O L U T I O N

Resolution E-4167. Southern California Edison Company proposes to modify residential energy rates to recover the California Solar Initiative costs in rates applicable to usage up to 130% of baseline quantities (Tiers 1 and 2). Approved with modifications.

By SCE Advice Letter 2212-E filed on February 1, 2008.

SUMMARY

This Resolution approves with modifications, the request by Southern California Edison Company (SCE) to modify residential energy rates to recover the California Solar Initiative (CSI) costs in rates applicable to usage up to 130% of baseline quantities (Tiers 1 and 2) in accordance with California Senate Bill 1 (2006) and California Public Utilities (PU) Code Section 2851. Currently, SCE recovers CSI costs from only those residential customers whose energy consumption is above 130% of the baseline quantities. Key elements of this Resolution are summarized below:

a. SCE's distribution revenue requirement is allocated among various tiers as an equal cents per kWh charge. SCE proposes to similarly allocate CSI rates as a flat cents per kWh charge over all tiers for applicable residential customers[1]. DRA protested this allocation and requests that the allocation issue be addressed in Phase 2 of SCE's 2009 General Rate Case proceeding.

---

[1] PG&E's and SCE's distribution revenue requirement is allocated such that higher tiers pay a higher distribution rate instead of an equal cents per kWh charge. Following the same distribution allocation ratio, PG&E and SDG&E charge a higher CSI rate to higher tiers.

b. The cost allocation issue of CSI program cost charges is being litigated in SCE's 2009 GRC Phase 2 application A.08-03-002. Consequently, we approve the rates proposed by SCE in AL 2212-E on an interim basis.

BACKGROUND

The CSI provides $3.3 billion over 11 years to facilitate the installation of photovoltaic systems statewide, of which $147 million will be allocated to SCE's customers in 2008.

As part of the Governor's $3.3 billion Solar Roofs Program inaugurated in 2006, California set a goal to create approximately 3,000 MWs of new solar-producing electricity by 2017, with the goal of moving the state of California toward a cleaner, renewable energy future and helping to lower the cost of solar systems for consumers. Through its California Solar Initiative program, the California Public Utilities Commission (CPUC or Commission) will be providing incentives over the next decade for existing residential homes, and existing and new commercial, industrial, and agricultural properties.

Currently, SCE recovers CSI program costs from applicable residential customers only if their energy usage is above 130% of the baseline. Accordingly, SCE ratepayers whose usage falls only within Tiers 1 and 2 do not pay the CSI charge. SB1 requires that CSI costs be recovered from all residential customers including those with usage in Tiers 1 and 2 except for those participating in the CARE or FERA programs.

Residential energy charges for usage up to 130% of baseline quantities (Tiers 1 and 2) are currently set at the maximum allowed under Water Code Section 80110, which were established by provisions in California Assembly Bill (AB) 1X (2001).

SB1 that created the CSI in August 2006 added Section 2851 to the PU Code. Section 2851(d)(2) states:

"Notwithstanding any other provision of law, any change imposed to fund the program adopted and implemented pursuant to this section shall be imposed upon all customers not participating in the California Alternate Rates for Energy (CARE) or family electric rate assistance (FERA) programs as provided in paragraph (2), including those residential customers subject to the rate cap required by Section 80110 of the Water

Code for existing baseline quantities for usage up to 130 percent of existing baseline quantities of electricity."

In its AL 2212-E, SCE proposes to include the CSI program costs in residential distribution rates on an equal cents per kWh basis, for all non-CARE and non-FERA usage, including usage up to 130% of baseline quantities (Tiers 1 and 2).

Based on its 2008 forecast sales, SCE calculates the CSI charge included in each tier (Tiers 1 through 5) of residential rate Schedule D to be $0.00271 per kWh.

Because CSI costs are currently recovered from residential customers exclusively in upper tier rates (Tiers 3 through 5), SCE's proposed increase in Tiers 1 and 2 energy rates will result in a decrease in rates for Tiers 3, 4, and 5. According to SCE, its proposed rates will result in net increases of approximately 2.4% for Tier 1 usage and 2.0% for Tier 2 usage. Rates would decrease for Tiers 3 through 5, -3.1%, -2.6%, and -2.3% respectively.

Tier Level	Jan.1, 2008 Tier Rate, $ per kWh	SCE Proposed Rates with CSI Applied Equally to all Tiers $ per kWh	% Change
Baseline	0.11808	0.12087	2.4%
101% - 130%	0.13741	0.14020	2.0%
131% - 200%	0.21860	0.21189	-3.1%
201% - 300%	0.25360	0.24689	-2.6%
Over 300%	0.28860	0.28189	-2.3%

AB1X limitations have resulted in rates for energy usage in the lower tiers at about 12 ¢/kWh to 14 ¢/kWh, while the rate for energy usage in the highest tier is about 29 ¢/kWh. According to SCE, the current residential rate structure results in a disproportionate share of CSI program costs to fall on upper tier usage.

SCE states that its proposal in AL 2212-E is consistent with existing laws and regulations by not allocating any CSI costs to residential CARE and FEMA customers.

According to SCE, its advice letter filing AL 2212-E will not cause the withdrawal of service or conflict with any other schedule or rule.

NOTICE

Notice of SCE AL 2212-E was made by publication in the Commission's Daily Calendar. SCE states that copies of the Advice Letter were served in accordance with Section 4 of General Order 96-B.

PROTESTS

DRA recommends that SCE's proposed rate changes be deferred to Phase 2 of its 2009 General Rate Case, or that an interim approach different from SCE's be used to modify rates.

DRA filed a protest to SCE's AL 2212-E on February 21, 2008. DRA points out that PU Code Section 2851 allows residential rates for Tiers 1 and 2 to be increased for CSI costs, but it does not describe how much of these costs should be recovered in rates. DRA notes that a CSI revenue allocation and rate design approach was negotiated by the parties in Pacific Gas and Electric Company's (PG&E) and San Diego Gas & Electric Company's (SDG&E) general rate cases (GRC). DRA recommends that the Commission deny the rate changes that SCE requests in AL 2212-E, and that the issue be deferred to Phase 2 of SCE's 2009 GRC, A.08-03-002.

DRA opposes SCE's use of a flat ¢/kWh CSI rate allocation for all tiers.

DRA states that if the Commission prefers to have an interim rate change now, pending further review in the GRC, then SCE must amend its advice letter to present non-CARE Tier 1 and 2 CSI rate elements more comparable to those of PG&E and SDG&E, which are lower for the lowest tier usage and higher in the upper tiers.

DRA states that PG&E and SDG&E set the CSI rates proportional to the distribution rates for the various tiers of the residential rate schedules. While also allocating by using distribution rates, SCE proposes to use a flat cents per kWh CSI rate. Since PG&E's and SDG&E's distribution rates vary by tier while SCE's distribution rates are uniform by tier, applying the same method results in SCE's having higher Tier 1 and 2 CSI rates than the other two utilities. To achieve results within the residential class closer to those of the other two utilities, DRA recommends that SCE set the CSI rates proportional to the sum of the current distribution and generation rates on an interim basis.

SCE asserts that its proposal is consistent with SB1 and equitable.

SCE replied to DRA's protest on February 28, 2008. SCE asks that the Commission deny the protest of DRA, and approve its advice letter as proposed. According to SCE, SB1 included specific language to ensure that low-usage customers paid their share of CSI costs and were not subject to the current AB1X rate cap provisions. SCE states that DRA's proposal to allocate a much larger charge on upper tier ratepayers and a much lower rate component for Tiers 1 and 2 is inconsistent with the intent of SB1.

SCE states, "DRA's proposal would allocate two and a half times the CSI cost to SCE's uppermost tier rates relative to its lowest tier rate. The legislators that passed SB1 did not likely intend that result, especially when they expressly provided for costs to flow through to the low-usage customers in the first place."

SCE claims that the important factor is that the utilities used similar rate design approaches in the design of the CSI rate component, namely using distribution rates for the allocation model, which SCE believes is consistent with the recovery of similar revenues. SCE points out that its Public Purpose Programs Charge is also a flat cents per kWh rate across all tiers.

In its reply, SCE states that "DRA's proposal completely ignores the inequities of the current rate design which requires existing medium to large-usage residential customers to subsidize the CSI obligations of smaller customers." According to SCE, DRA's proposal actually worsens the current AB1X rate cap inequity.

SCE reaffirms that SB1 specifically allows Tiers 1 and 2 rate levels to rise above AB1X limitations in order to pay for the CSI program. SB1, which implemented PU Code Section 2851(a)(4), provides that:

"… the commission may exclude customers participating in the tariff from the rate cap for residential customers for existing baseline quantities or usage by those customers of up to 130 percent of existing baseline quantities, as required by Section 80110 of the Water Code …"

SCE asserts that deferring the CSI cost allocation issue to the GRC would not allow it to collect $40 million annually in CSI revenues that should be collected from low-usage customers.

SCE states that deferring this issue to Phase 2 of SCE's 2009 GRC defers the equitable allocation provided by law to Tiers 1 and 2 residential customers for nearly three years, because SCE's 2009 GRC Phase 2 rates will not become effective until October 2009. SCE claims that DRA's proposed deferral would effectively misallocate an additional $60 million of the program's costs (about $40 million annual revenues times the year and a half deferral from now until October 2009), which should be paid by low-usage customers, to all remaining ratepayers.

DISCUSSION

We have reviewed SCE's AL 2212-E, the protest of DRA, and SCE's reply to DRA's protest. Discussion of the relevant facts that lead to the approval of this advice letter, with modifications, follows.

SB1, which implemented PU Code Section 2851, allows residential Tiers 1 and 2 rates to be increased for CSI cost recovery.

The language in PU Code Section 2851(d)(2) clearly states that funding for the CSI program shall be imposed upon all residential customers except those participating in CARE or FERA programs. Additionally, PU Code Section 2851(a)(4) allows for residential Tiers 1 and 2 rates to be increased above any AB1X limitations to pay for recovery of CSI costs. Both SCE and DRA do not dispute these directives.

The Commission has implemented the applicable provisions of PU Code Section 2851, and has authorized PG&E and SDG&E to increase residential customer rates in Tiers 1 and 2 above the AB1X limitation to allow for the CSI rate component. In D.07-09-004 issued on September 7, 2007 we approved a Settlement Agreement in Phase 2 of PG&E's 2007 GRC, which states, "Total bundled rates for usage up to 130 percent of baseline will not be changed so long as the rate restrictions of AB1X are effective, subject only to the increase to total bundled non-CARE rates for usage up to 130 percent of baseline for the California Solar Initiative (CSI) …" (D.07-09-004, Appendix C, Item D.) In D.08-02-034 the Commission adopted a Settlement in Phase 2 of SDG&E's 2008 GRC. That Settlement provided for inclusion of the CSI costs into residential rates similar to that adopted for PG&E in D.07-09-004. (D.08-02-034, Section 3.2.2.)

SCE's proposal in AL 2212-E is an equal cents per kWh charge, which results in charging the same CSI rate to all tiers of usage. For PG&E and SDG&E, the Commission adopted CSI rates that result in charging lower rates for Tiers 1 and 2 and higher rates for usage in the upper tiers.

SCE proposes a flat CSI rate of approximately $0.00271 per kWh for all non-exempt residential customers. The settlements adopted in PG&E's and SDG&E's recent Phase 2 GRCs result in lower CSI rates for Tiers 1 and 2. DRA notes that this is affected by the fact that PG&E's and SDG&E's residential distribution rates increase with higher tiers.

The CSI revenue allocation and rate design issues raised by SCE's AL 2212-E shall be addressed in SCE's 2009 GRC Phase 2 application A. 08-03-002.

SCE proposes in AL 2212-E that we adopt an equal cents per kWh CSI rate for all applicable residential customers across all tiers that is based on a current flat distribution rate component. DRA suggests that calculating rates based on current total distribution and generation rate components for all tiers would be more appropriate. According to SCE, DRA's proposal would allocate two and a half times the CSI cost to SCE's uppermost tier rates relative to its lowest tier rate.

On December 21, 2007, SCE filed a Rate Design Window application A.07-12-020 proposing to flatten the generation rate component across all tiers. On March 26, 2008, the assigned Administrative Law Judge with the approval of the assigned Commissioner consolidated this application with the GRC Phase 2 application A.08-03-002.

Because SCE's AL 2212-E involves revenue allocation and rate design issues, the GRC Phase 2 proceeding A.08-03-002 is the appropriate forum to resolve these issues, as DRA recommended. Accordingly, SCE's proposal filed in AL 2212-E shall be addressed in A.08-03-002.

SCE included in its 2009 GRC Phase 2 application A.08-03-002 a brief description of its CSI rate allocation proposal.

In testimony in A.08-03-002 SCE included a description of its proposal to allocate CSI costs to all tiers of residential customers (Exhibit SCE-3, p. 12). In this description, SCE states that its method is consistent with the method adopted in the recent Phase 2 GRC for PG&E adopted by the Commission in Decision D.07-09-004, and agreed to by the settling parties in SDG&E's rate design proceeding A.07-01-047. SCE references its AL 2212-E for more discussion of its CSI funding allocation proposal.

SCE shall implement its rate modifications proposed in AL 2212-E for recovery of CSI program costs from all applicable residential customers on an interim basis, subject to later adjustment pending resolution of issues in A.08-03-002.

We recognize that the 2009 GRC Phase 2 rates may not become effective until the latter part of 2009. PU Code Section 2851 specifies that all residential customers except for those participating in the CARE and FERA programs pay CSI costs, including those with usage in Tiers 1 and 2. We will not wait until the issues are resolved in A.08-03-002 to permit SCE to collect CSI revenues from applicable residential customers in Tiers 1 and 2 as required by the law. We authorize SCE to implement its method proposed in AL 2212-E on an interim basis, subject to later change pending a decision in A.08-03-002.

At this time we authorize SCE to implement its proposed method for CSI cost recovery filed in AL 2212-E on an interim basis, subject to later modification pursuant to a decision in SCE's 2009 Phase 2 GRC. We rely on SCE's method in the interim because CSI revenue requirements are recovered in the distribution component of rates and SCE's proposed approach is based on distribution rates. SCE makes a valid argument for including the CSI revenue requirement in the distribution rates for all tiers allocated in the same manner as its current distribution rates. For SCE distribution rates are flat across all tiers; hence the flat rate proposed for CSI cost recovery. PG&E and SDG&E also use the distribution component. However, for PG&E and SDG&E the distribution rates increase with higher tiers. While currently for SCE generation rates for residential customers increase with higher tiers, CSI costs are not included in generation rates.

The issues raised by SCE and DRA in the context of AL 2212-E will appropriately be considered in A.08-03-002. SCE's method is approved on an interim basis until the issues are resolved in that formal proceeding.

This Resolution does not prejudge what CSI revenue allocation and rate design may subsequently be authorized pursuant to resolution of issues in A.08-03-002.

This Resolution does not prejudge what revenues and allocation associated with SCE's efforts for recovery of CSI costs from residential customers in rates, which will be determined in SCE's 2009 GRC Phase 2 proceeding A.08-03-002, will be authorized by the Commission.

The CSI cost allocation in rates for SCE's applicable residential customers approved by this Resolution is only on an interim basis until the issues are litigated and resolved in A.08-03-002.

COMMENTS

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. This draft resolution was provided to parties for comment, and will be placed on the Commission's agenda no earlier than 30 days from the date the draft resolution was issued for comment.

Timely comments were submitted by SCE on May 27, 2008.

SCE supports the primary finding of the draft Resolution, which authorizes SCE to implement its proposed CSI cost allocation and rate design proposals on an interim basis until the 2009 GRC Phase 2 proceeding A.08-03-002 is resolved.

SCE stated in its comment letter that it has received DRA's support regarding final resolution of the CSI cost allocation and rate design issues being deferred to SCE's 2009 GRC Phase 2 proceeding A.08-03-002.

With support of DRA, SCE requests elimination of the requirement for tracking CSI revenues by tier during the interim period subject to re-allocation.

SCE requests that the requirement to track the CSI revenues between the time the rates proposed in its advice letter become effective and the effective date of a Commission decision in A.08-03-002, and the possible re-allocation of such revenues be deleted from this resolution.
SCE stated it has DRA's support for the elimination of the CSI revenue tracking requirements from this resolution.

Since DRA and SCE have reached agreement, we revised the resolution in the appropriate sections to delete the requirements for tracking CSI revenues and possible re-allocation.

SCE requests with DRA's support deletion of a sentence in the Discussion Section referring to how the CSI rates are set for PG&E and SDG&E.

According to SCE, this sentence does not accurately describe what was enacted for PG&E and SDG&E and should be deleted. The resolution has been revised to delete this sentence.

FINDINGS

1. The California Solar Initiative program, inaugurated in August 2006, provides $3 billion over 11 years to facilitate the installation of photovoltaic systems statewide.
2. Approximately $147 million from the CSI program will be allocated to SCE's customers in 2008.
3. Currently, CSI program costs are recovered by SCE from all customer classes through the distribution rate component.
4. For residential customers, CSI costs are recovered by SCE in distribution rates only for energy usage above 130% of baseline quantities (Tiers 3 – 5).
5. SB1 that created the CSI in August 2006 added Section 2851 to the PU Code.

6. PU Code Section 2851 specifies that any charges imposed to fund the CSI program include residential customers not participating in the CARE or FERA programs with usage up to 130% of baseline quantities (Tiers 1 and 2).
7. SCE filed AL 2212-E on February 1, 2008, proposing to include the CSI program costs in residential distribution rates for all residential customer tiers on an equal cents per kWh basis.
8. SCE proposes to apply this rate to all non-exempt residential customers including usage up to 130% of baseline quantities (Tiers 1 and 2).
9. Under this proposal, SCE estimates that rates would increase by approximately 2% for usage up to 130% of baseline quantities in the lower two tiers and decrease approximately 2.5 – 3% in the upper three tiers.
10. SCE's proposal is designed to obligate all applicable residential usage customers to share in the recovery of CSI costs.
11. According to SCE, its proposal in AL 2212-E is consistent with existing laws and regulations.
12. DRA filed a timely protest to AL 2212-E on February 21, 2008.
13. SCE replied to DRA's protest on February 28, 2009.
14. DRA proposes that SCE set the CSI rates proportional to the sum of the current distribution and generation rates.
15. DRA recommends that the CSI revenue allocation and rate design issue be deferred to the 2009 GRC Phase 2.
16. By deferring the CSI cost allocation issue to the GRC, SCE asserts that it would not be collecting the $40 million annually in CSI revenues that should be collected from low-usage customers.
17. Existing PU Code regulations do not specify how the CSI costs should be allocated for recovery in rates.
18. SCE's 2009 GRC Phase 2 proceeding A.08-03-002 is the appropriate forum to resolve the revenue allocation and rate design issues raised by SCE's AL 2112-E.
19. Prior to a decision in A.08-03-002, in the interim SCE should be authorized to collect CSI revenues from all applicable residential customers for energy usage in all tiers as proposed by SCE in its AL 2212-E.
20. This Resolution does not prejudge what CSI revenue allocation and rate design may subsequently be authorized pursuant to resolution of issues and any decisions in A.08-03-002.
21. The CSI cost allocation in rates for SCE's applicable residential customers approved by this Resolution is only on an interim basis, and subject to later modification pending a decision in A.08-03-002.

22. According to SCE, its AL 2212-E filing will not cause the withdrawal of service or conflict with any other schedule or rule.
23. DRA's protest on SCE's AL 2212-E is resolved as specified in this Resolution.

THEREFORE IT IS ORDERED THAT:

SCE AL 2212-E is approved with the modifications as specified in the following Ordering Paragraphs:

1. The CSI revenue allocation and rate design issues raised by SCE's AL 2212-E shall be addressed in Phase 2 of SCE's 2009 GRC proceeding, A.08-03-002.
2. SCE shall recover CSI costs in residential tiers from all applicable residential customers as proposed in its AL 2212-E on an interim basis and subject to later modification pending a decision in A.08-03-002.
3. Within 10 days of today's date, SCE shall file a supplement to AL 2212-E to implement the requirements of this Resolution. The supplemental advice letter shall revise residential rates to be implemented as proposed by SCE in AL 2212-E on an interim basis and subject to later adjustment pending the outcome of A.08-03-002. The supplemental advice letter shall replace AL 2212-E in its entirety, and shall become effective within 30 days of today's date subject to Energy Division's determining that it is in compliance with this Resolution.
4. This Resolution does not prejudge what CSI revenue allocation and rate design may subsequently be authorized in A.08-03-002.

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 June 12, 2008; the following Commissioners voting favorably thereon:

/s/ Paul Clanon
Paul Clanon
Executive Director

MICHAEL R. PEEVEY
PRESIDENT

DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners