

JUL 11 1988

Decision 88 07 023 JUL 8 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SAN DIEGO GAS & ELECTRIC COMPANY)
for Authority to Decrease its)
Rates and Charges for Electric,)
and to Increase its Rates and)
Charges for Gas and Steam Service.)
(U 902-M))

Application 87-12-003
(Filed December 1, 1987)

Order Instituting Investigation)
into the rates, charges, and)
practices of the San Diego Gas &)
Electric Company.)

I.88-01-006
(Filed January 13, 1988)

(Appearances are listed in Appendix A.)

INTERIM OPINION

Summary

This decision repeals the \$4.80 customer charge established in Decision (D.) 87-12-069 for residential electric customers and re-establishes the \$5.00 minimum charge which existed prior to January 1, 1988. To replace the lost revenues from the elimination of the customer charge, electric baseline rates are increased from \$0.06498 per kilowatt-hour to \$0.08230 per kilowatt-hour. San Diego Gas & Electric Company's (SDG&E) request to reduce residential electric rates by \$30 million will be considered in a subsequent decision in which revenue allocation for all customer classes will be addressed.

Background

D.87-12-069, dated December 22, 1987, replaced a \$5.00 monthly minimum bill for residential electric customers with a \$4.80 monthly customer charge. Since that change residential customers have voiced considerable displeasure over the payment of

a customer charge. We have received many telephone calls, letters, and petitions from SDG&E's customers in opposition to the residential electric customer charge. Additionally, an estimated 700 customers attended the general rate case public hearings held in San Diego on March 14 and 15, 1988. Nearly all of the 85 customers who spoke at these hearings were vehemently opposed to the customer charge.

In response to customer concerns, elimination of the residential customer charge prior to January 1, 1989 was addressed in hearings during the week of May 2, 1988. On May 4, 1988 oral arguments on this issue were made before Commissioner Ohanian and Administrative Law Judge Ferraro.

At the May 2, 1988 hearing SDG&E requested the elimination of the residential electric customer charge stating customer lack of understanding and unacceptability of the charge as its reasons. SDG&E also requested that residential electric rates be decreased by \$30 million annually to minimize customer bill impacts from the elimination of the customer charge, which generates approximately \$54 million in annual revenues based on SDG&E's test year 1989 sales forecast.

Utility Consumers Action Network (UCAN), the City of San Diego, Rate Watchers, and Western Mobilehome Association (WMA) support SDG&E's request. Federal Executive Agencies (FEA) is not opposed to SDG&E's request if other customer classes are not impacted. The Center for Public Interest Law (CPIL) also opposes the residential customer charge, when applied to customers for a period during which their service was disconnected. Division of Ratepayer Advocates (DRA) opposes the elimination of the residential customer charge and recommends that any interim decrease be borne by the shareholders.

Discussion

Before discussing the merits of this issue it is important to reaffirm our commitment to cost-based rates and equal

percent of marginal cost (EPMC) revenue allocation. During the last two years we have made considerable movement toward cost-based rates and full implementation of EPMC. As stated in Southern California Edison Company's (Edison) general rate case decision:

"Our need to rely on marginal costs for ratemaking has become more acute in recent years as the Commission seeks to ensure the financial integrity of the utility system and in turn the utility's ability to discharge its obligation to provide and maintain adequate and reasonable service. It has been the Commission's long-held view that by using marginal costs in ratesetting each customer will be provided the most accurate price signals regarding his consumption. Not only will this promote conservation and the efficient use of resources, but equity will be achieved by the utility recovering the costs of providing service to each customer in proportion to the costs that customer imposes on the utility system. By providing such cost-related rates, it is additionally our hope that the uneconomic bypass of the utility system by customers with the capability of self-generation will be averted." (D.87-12-006, at pp. 164-165.)

We are still committed to the unbundling of rates into fixed and variable charges when it furthers the goals of marginal cost pricing. Unbundling aligns individual customer rate components with the costs they impose on the utility system. This provides customers with a direct link between their actions as utility customers and the bills they receive. We believe that customer charges are an accurate way to identify certain fixed costs associated with a customer being connected to the utility's system.

However, unbundling is not our only objective in rate design. Customer acceptance and understandability are also important. Obviously, if both are not achieved, it is unlikely that the price signals intended through rate design will be

received. Because it is often difficult to anticipate customer reaction, these two goals may not always be given appropriate weight. Clearly, D.87-12-069 did not anticipate the lack of understanding and acceptance of the residential customer charge by SDG&E's customers that we have observed. SDG&E's residential customers have spoken loudly and clearly through letters, telephone calls, and especially through their attendance at the public hearings in March 1988. The message they have conveyed is that residential customers do not:

1. Understand the need for a customer charge to unbundle rates. Although there was a rate reduction in January 1988, residential customers uniformly stated that the establishment of a customer charge resulted in an increase in their bills.
2. Accept the explanation that certain fixed costs which are recovered through a customer charge would not otherwise be recovered in commodity rates.
3. Believe customer charges are fair and reasonable.

This customer reaction caused us to question whether the goals of residential rate design were being furthered through SDG&E's residential customer charge. Hearings were scheduled in May 1988 to address the residential customer charge issue, not only for test year 1989, but also for 1988. Although these hearings were originally scheduled to consider rate design changes only for test year 1989, we altered this schedule to resolve the customer charge issue earlier. During these hearings SDG&E withdrew its support for the residential customer charge and requested a return to the \$5 minimum charge and a \$30 million reduction in residential rates. The only party which opposed elimination of the residential customer charge was DRA. DRA's support for the customer charge is centered around the principles we cited previously from Edison's

last general rate case decision; namely, unbundled rates to provide customers with more accurate price signals.

D.87-12-069 was premised upon DRA's arguments for establishing a residential customer charge and today we support those same arguments which DRA uses to justify maintaining the charge. However, we must look at more than just economic principles. In practice, we continuously strive to balance the sometimes competing, always complex goals of sound rate design. We set the priorities, weigh the facts, and select the best features to meet our objectives. We note that residential customers generally do not employ the sophisticated analytical techniques other customer classes use when reviewing their utility bills. This is exemplified by the fact that other customer classes pay customer charges without noticeable concern. Additionally, with the establishment of SDG&E's customer charge, the baseline rate was reduced. Thus, customers who use more than their baseline allowance did not receive an effective price signal from the establishment of a customer charge.

These factors lead us to believe that considerable weight must be given to the ability of residential customers to both understand the principles behind the rates they are charged and accept those principles as reasonable. From our prior discussion there is little doubt that SDG&E's residential electric customer charge has failed on both counts. Therefore, we will eliminate the residential electric customer charge immediately and re-establish the \$5 monthly minimum charge.

In all this, it is clear to us that the goal of customer understandability in rate design is a mark that is easily missed. A key factor in this is the relationship between the utility and the community it serves. Where a climate of distrust or perceived unfairness has been allowed to develop, almost any rate changes are likely to be viewed with suspicion. ✓

Another factor is the skill and care with which rate design changes are implemented. This is an area of ratemaking which is complex and all too often not easily understood by nonexperts. It is axiomatic that when a utility is called upon to implement such rate changes it should use the best effort to ensure that concerned ratepayers have a full and accurate comprehension of the purposes and effects of the changes.

A final factor of concern to us is one for which we share some of the responsibility with utilities. This goes to the purpose for changes in rates. D.87-12-069 was intended as a step in our move toward cost-based rates, and we remain fully committed to that course. But while this program is based on sound economic principles, we must remain sensitive to the practical impacts of theory. In this case it was our intent to separate the customer charge from the residential electric rate in order to send the proper economic pricing signals to customers. This approach to pricing is generally understood to be necessary in order to guide consumers toward making the most efficient use of electric resources. It is vitally important that customers such as large industrial and commercial customers receive proper signals.

From San Diego we have learned that many residential customers believe they cannot respond to customer charges by adjusting their consumption patterns. This is particularly true of those who use very small quantities of electricity and have little ability to use even less. This group is also the most sensitive to perceived increases in their monthly bills. As a result they believe the charge is unfair. Under these circumstances, the public's attention has focused on the customer charge, making it impossible for the pricing policy to have any desired effect. The utility's costs of providing service will be recovered with or without the customer charge, and so we conclude that here, at least, the theoretical efficacy of the charge is simply not worth the confusion it has caused.

Commensurate with the elimination of the residential customer charge, SDG&E requests that residential rates be reduced by \$30 million on an annual basis. SDG&E states that the purpose for the reduction is to minimize the number of customers whose bills would increase by the elimination of the customer charge. While SDG&E's proposal would decrease residential rates by \$30 million, there would be no change in its authorized revenue requirement. Any shortfall in revenues would be recovered through the electric revenue adjustment mechanism (ERAM). Since over- and under-collections in the ERAM balancing account are not identified by customer class, SDG&E's proposal could adversely affect non-residential customers.

DRA is opposed to a reduction in residential rates without a commensurate reduction in SDG&E's revenue requirement. DRA recommends that any shortfall in revenues be borne by SDG&E's shareholders. In support of its position DRA states that:

- (1) SDG&E's request to reduce residential rates is actually a revenue deferral not a reduction and appears to be made to improve

customer relations, (2) revenues cannot be reallocated among customers absent findings under Public Utilities Code § 728 that existing rates are unjust and unreasonable, and (3) SDG&E's proposal to set rates in 1989 or later, to recover 1988 costs clearly violates the rule against retroactive ratemaking.

FEA is not opposed to a reduction in residential rates if any shortfall in revenues is retained within the residential class. FEA states that SDG&E is not required by regulation or statute to reduce residential rates and is motivated by its concern over adverse customer reaction. Finally, FEA argues that SDG&E's requested decrease is a management decision made to improve its corporate image. Holding the shareholders responsible is just as appropriate as a disallowance for advertising expenses intended to promote company good will.

We share the concerns of DRA and FEA that a reduction in residential rates could impact other customer classes which would result in a reallocation of SDG&E's revenue requirement. SDG&E's revenue allocation was addressed in D.87-12-069 dated December 22, 1987 and is again at issue in this proceeding for test year 1989. Because of the implications SDG&E's proposal could have on present and proposed revenue allocations, we will defer the resolution of this matter until SDG&E's revenue allocation for test year 1989 is addressed.

Consistent with D.85-04-110, electric baseline rates were reduced on January 1, 1988 to offset the increase in revenues from the residential customer charge. With the elimination of the customer charge electric baseline rates will be increased from \$0.06498 per kilowatt-hour to \$0.08230 per kilowatt-hour.

Comments

In accordance with PU Section 311 the proposed decision of Administrative Law Judge Ferraro was mailed on May 24, 1988. Comments on the proposed decision were filed by the following parties: SDG&E, DRA, UCAN, FEA, Rate Watchers, and CPIL.

These comments have been reviewed and carefully considered by the Commission. Any changes required by the comments have been incorporated in the final decision.

Findings of Fact

1. D.87-12-069, dated December 22, 1987, replaced a \$5.00 minimum monthly bill for residential electric customers with a \$4.80 monthly customer charge.
2. SDG&E's residential customers have expressed their opposition to the residential customer charge by writing letters, sending petitions, and telephoning the Commission.
3. Many customers who made statements at the public hearings held in San Diego on March 14 and 15, 1988 were opposed to SDG&E's residential customer charge.
4. Hearings were held during the week of May 2, 1988 to address the elimination of SDG&E's residential electric customer charge prior to January 1, 1989.
5. On May 2, 1988 SDG&E requested the elimination of the residential electric customer charge. SDG&E based its request on the fact that many residential customers do not understand or accept the charge. SDG&E also requested that residential electric rates be decreased by \$30 million annually to minimize customer bill impacts from the elimination of the customer charge, which generates approximately \$54 million annually based on SDG&E's test year 1989 sales forecast.
6. UCAN, the City of San Diego, Rate Watchers, and WMA support SDG&E's request.
7. FEA is not opposed to SDG&E's request if other customer classes are not impacted.
8. CPIL is opposed to the residential customer charge when applied to customers for a period during which their service was disconnected.

9. DRA is opposed to the elimination of the residential customer charge and recommends that any interim decrease be borne by the shareholders. ✓

10. Other customer classes pay customer charges without noticeable concern.

11. Customer acceptance and understandability are important goals of rate design.

12. The electric baseline rate was reduced on January 1, 1988 to offset the increase in revenues from the residential customer charge.

Conclusions of Law

1. SDG&E's residential electric customer charge is not serving a purpose the Commission intended of fostering an understanding among customers of the costs they impose on the utility system by aligning their individual rate components with those costs.

2. SDG&E's customers who use more than their baseline allowances did not receive an effective price signal from the establishment of a customer charge.

3. SDG&E's requested \$30 million reduction in residential electric rates could result in a reallocation of SDG&E's revenue requirement and resolution of this matter should be deferred until revenue allocation is addressed for test year 1989. ✓

4. The residential electric customer charge for the remainder of 1988 and test year 1989 should be replaced with a \$5.00 monthly minimum charge and electric baseline rates should be increased to recover the difference between revenues generated by the customer charge and the minimum charge.

INTERIM ORDER

IT IS ORDERED that San Diego Gas & Electric Company is authorized and directed to file with this Commission on or after the effective date of this order revised tariff schedules which shall replace the existing \$4.80 residential electric customer charge with a \$5.00 monthly minimum charge and increase the electric baseline rate to \$0.08230 per kilowatt-hour. The revised tariff schedules shown as Appendix B shall become effective on or after the effective date of this decision and shall comply with General Order 96-A. The revised schedules shall apply only to service rendered on and after their effective date.

This order is effective today.

Dated JUL 8 1988, at San Francisco, California.

STANLEY W. HULETT
President
DONALD VIAL
C. MITCHELL WILK
JOHN B. OHANIAN
Commissioners

Commissioner Frederick R. Duda,
being necessarily absent, did not
participate.

I CERTIFY THAT THIS DECISION
WAS APPROVED BY THE ABOVE
COMMISSIONERS TODAY.

Victor Weisser

Victor Weisser, Executive Director

APPENDIX A

LIST OF APPEARANCES

Applicant: Barton M. Myerson, David R. Clark, Thomas G. Hankley, Jeffrey L. Guttero, Attorneys at Law, and Lee Schavrien, for San Diego Gas & Electric Company.

Interested Parties: Dian Grueneich, Attorney at Law, and Matthew V. Brady, for California State Department of General Services; David R. Branchcomb, for Henwood Energy Services, Inc.; McCracken, Byers & Martin, by David J. Byers, Attorney at Law, and Reed V. Schmidt, for California City-County Street Light Association (CAL-SLA); Muns, Mehalick & Lynn, by James Crosby, Attorney at Law, and Paul A. Weir, for San Diego Mineral Products Industry Coalition; Sam De Frawi, for Naval Facilities Engineering Command; Eric Eisenman, for Enron Corporation/Transwestern Pipeline Company; Dave Follett and Peter N. Osborn, Attorneys at Law, for Southern California Gas Company; Norman J. Fukuta, Attorney at Law, for Federal Executive Agencies; Biddle & Hamilton, by Richard C. Hamilton, Attorney at Law, for Western Mobile Home Association; Jeffrey P. Harris, for California Institute of Energy Efficiency; Carol B. Henningson and James M. Lehrer, Attorneys at Law, and John P. Hughes, for Southern California Edison Company; William Marcus, for JBS Energy; Edward J. Neuner, for himself; John D. Quinley, for Cogeneration Service Bureau; Antonia D. Radillo, Attorney at Law, for California Energy Commission; Donald G. Salow, for Association of California Water Agencies; William S. Shaffran and Leslie J. Girard, Deputy City Attorneys, for City of San Diego; Michael Shames, Attorney at Law, for UCAN; Armour, St. John, Wilcox, Goodin & Schlotz, by James D. Squeri, Attorney at Law, for Kelco Division of Merck and Company; Harry K. Winters, for University of California; Morrison & Foerster, by Jerry R. Bloom, Attorney at Law, for California Cogeneration Council; Michel Florio, Attorney at Law, for Toward Utility Rate Normalization; Steven Geringer, Attorney at Law, for California Farm Bureau Federation; Independent Power Corporation, by Thomas P. Corr, Attorney at Law, for Energy Factors, Inc., EUA Cogenex Corporation, Hawthorne Engine Systems, MicroCogen Systems, Inc., and Teal-Tech, Inc.; Kermit R. Kubitz, Attorney at Law, for Pacific Gas and Electric Company; Robert L. Gnaizda, Attorney at Law, for American G.I. Forum (California), League of United Latin American Citizens (California), and Filipino American Political Association (California); Don Klein, for Rate Watchers; and Julianne B. D'Angelo and James R. Wheaton, Attorneys at Law, for the Center for Public Interest Law.

Division of Ratepayer Advocates: Timothy E. Treacy and Philip Scott Weismehl, Attorneys at Law, and David Fukutome.

(END OF APPENDIX A)

SCHEDULE DR

DOMESTIC SERVICEAPPLICABILITY

Applicable to single-phase domestic service for lighting, heating, cooking, water heating, and power, or combination thereof, in single family dwellings, flats, and apartments, separately metered by the utility; to single-phase service used in common for residential purposes by tenants in multi-family dwellings under Special Condition 7, and to incidental farm service under Special Condition 6.

TERRITORY

Within the entire territory served by the utility.

RATES

Energy Charge:	<u>Per Meter Per Month</u>	
	<u>Baseline</u>	<u>Non-Baseline</u>
Base Rates per kwhr	\$0.07693	\$0.07720
ECAC and AER per kwhr	<u>.00537</u>	<u>.06743</u>
Total per kwhr	\$0.08230	\$0.14463

Minimum Charge:

The minimum charge shall be \$0.164 per day.

Energy Cost Adjustment and Annual Energy Rate (AER):

An Energy Cost Adjustment, as specified in Section 9. of the Preliminary Statement, and an AER, will be included in each bill for service. The Energy Cost Adjustment and AER amount shall be equal to the sum of the products resulting from multiplying the applicable baseline and non-baseline kilowatt-hours by their respective baseline and non-baseline Energy Cost Adjustment and AER rates shown above.

Franchise Fee Differential:

A franchise fee differential of 1.9% will be applied to the monthly billings calculated under this schedule for all customers within the corporate limits of the City of San Diego. Such franchise fee differential shall be so indicated and added as a separate item, to bills rendered to such customers.

The Non-Baseline rates are for energy used in excess of the baseline allowance.

SCHEDULE DM

MULTI-FAMILY SERVICE
(Closed Schedule)APPLICABILITY

This schedule is applicable to service for domestic lighting, heating, cooking, water heating, and power service supplied to multi-family accommodations through one meter on a single premises in accordance with the provisions of Rule 19. This schedule is closed to new installations except for residential hotels.

TERRITORY

Within the entire territory served by the utility.

RATES

Energy Charge:	Per Meter Per Month	
	<u>Baseline</u>	<u>Non-Baseline</u>
Base Rates per kwhr	\$0.07693	\$0.07720
ECAC and AER per kwhr00537	.06743
Total per kwhr	\$0.08230	\$0.14463

Minimum Charge:

The minimum charge shall be \$0.164 per day.

Energy Cost Adjustment and Annual Energy Rate (AER):

An Energy Cost Adjustment, as specified in Section 9. of the Preliminary Statement, and an AER, will be included in each bill for service. The Energy Cost Adjustment and AER amount shall be equal to the sum of the products resulting from multiplying the applicable baseline and non-baseline kilowatt-hours by their respective baseline and non-baseline Energy Cost Adjustment and AER rates shown above.

Franchise Fee Differential:

A franchise fee differential of 1.9% will be applied to the monthly billings calculated under this schedule for all customers within the corporate limits of the City of San Diego. Such franchise fee differential shall be so indicated and added as a separate item to bills rendered to such customers.

The Non-Baseline rates are for energy used in excess of the baseline allowance.

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SCHEDULE DS

SUBMETERED MULTI-FAMILY SERVICE
(Closed Schedule)

APPLICABILITY

This schedule is applicable to service for domestic lighting, heating, cooking, water heating, and power service supplied to multi-family accommodations other than in a mobilehome park through one meter on a single premises and submetered to all individual tenants in accordance with the provisions of Rule 19. This schedule is closed to new installations.

TERRITORY

Within the entire territory served by the utility.

RATES

Energy Charge:	<u>Per Meter Per Month</u>	
	<u>Baseline</u>	<u>Non-Baseline</u>
Base Rates per kwhr	\$0.07693	\$0.07720
ECAC and AER per kwhr	<u>.00537</u>	<u>.06743</u>
Total per kwhr	\$0.08230	\$0.14463

Discount:

The charges as determined using the above Energy Charge will be reduced by \$0.022 per day for each residential dwelling unit utilizing electric service.

Minimum Charge:

The minimum charge shall be \$0.164 per day.

Energy Cost Adjustment and Annual Energy Rate (AER):

An Energy Cost Adjustment, as specified in Section 9. of the Preliminary Statement, and an AER, will be included in each bill for service. The Energy Cost Adjustment and AER amount shall be equal to the sum of the products resulting from multiplying the applicable baseline and non-baseline kilowatt-hours by their respective baseline and non-baseline Energy Cost Adjustment and AER rates shown above.

Franchise Fee Differential:

A franchise fee differential of 1.9% will be applied to the monthly billings calculated under this schedule for all customers within the corporate limits of the City of San Diego. Such franchise fee differential shall be so indicated and added as a separate item to bills rendered to such customers.

The Non-Baseline rates are for energy used in excess of the baseline allowance.

APPENDIX B
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SCHEDULE DT

SUBMETERED MULTI-FAMILY SERVICE - MOBILEHOME PARKAPPLICABILITY

This schedule is applicable to service for domestic lighting, heating, cooking, water heating, and power service supplied to multi-family accommodations in a mobilehome park through one meter on a single premises and submetered to all individual tenants in accordance with the provisions of Rule 19.

TERRITORY

Within the entire territory served by the utility.

RATES

Energy Charge:	Per Meter Per Month	
	<u>Baseline</u>	<u>Non-Baseline</u>
Base Rates per kwhr	\$0.07693	\$0.07720
ECAC and AER per kwhr	<u>.00537</u>	<u>.06743</u>
Total per kwhr	\$0.08230	\$0.14463

Discount:

The charges as determined using the above Energy Charge will be reduced by \$0.240 per day for each mobilehome space utilizing electric service.

Minimum Charge:

The minimum charge shall be the \$0.164 per day.

Energy Cost Adjustment and Annual Energy Rate (AER):

An Energy Cost Adjustment, as specified in Section 9. of the Preliminary Statement, and an AER, will be included in each bill for service. The Energy Cost Adjustment and AER amount shall be equal to the sum of the products resulting from multiplying the applicable baseline and non-baseline kilowatt-hours by their respective baseline and non-baseline Energy Cost Adjustment and AER rates shown above.

Franchise Fee Differential:

A franchise fee differential of 1.9% will be applied to the monthly billings calculated under this schedule for all customers within the corporate limits of the City of San Diego. Such franchise fee differential shall be so indicated and added as a separate item, to bills rendered to such customers.

The Non-Baseline rates are for energy used in excess of the baseline allowance.

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Decision _____

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We are still committed to the unbundling of rates into fixed and variable charges when it furthers the goals of marginal cost pricing. Unbundling aligns individual customer rate components with the costs they impose on the utility system. This provides customers with a direct link between their actions as utility customers and the bills they receive. We believe that customer charges are an accurate way to identify certain fixed costs associated with a customer being connected to the utility's system.

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principles. Residential customers generally do not employ the sophisticated analytical techniques other customer classes use when reviewing their utility bills. This is exemplified by the fact that other customer classes pay customer charges without noticeable concern. Additionally, in D.85-04-110 we determined that revenues collected from customer charges should be included in the calculation of the baseline rate. Because of this constraint the establishment of a customer charge reduces the baseline rate. Thus, all customers who use more than their baseline allowance pay the same with or without a customer charge and receive no price signal from the customer charge.

These factors lead us to believe that considerable weight must be given to the ability of residential customers to both understand the principles behind the rates they are charged and accept those principles as reasonable. From our prior discussion there is little doubt that SDG&E's residential electric customer charge has failed on both counts.

However, the most compelling reason for elimination of the residential customer charge is the interaction between that charge and the baseline rate. The customer charge and the baseline rate are not set independently. Based on D.85-04-110 the total revenues collected from both should be no greater than 85% of the revenues that would be attributable to the utility's system average rate. We believe this constraint does not provide residential customers with an accurate price signal. The higher the customer charge the lower the baseline rate, and conversely the lower the customer charge the higher the baseline rate. Since the customer charge is a fixed charge designed to recover fixed costs and the baseline rate is a commodity rate designed to recover variable costs, there is no economic basis for having them related. At best any signal that is carried through these rates is a very imprecise one. To compound this problem lowering the baseline rate by creating a customer charge increases the differential between

last general rate case decision; namely, unbundled rates to provide customers with more accurate price signals.

D.87-12-069 was premised upon DRA's arguments for establishing a residential customer charge and today we support those same arguments which DRA uses to justify maintaining the charge. However, we must look at more than just economic principles. In practice, we continuously strive to balance the sometimes competing, always complex goals of sound rate design. We set the priorities, weigh the facts, and select the best features to meet our objectives. We note that residential customers generally do not employ the sophisticated analytical techniques other customer classes use when reviewing their utility bills. This is exemplified by the fact that other customer classes pay customer charges without noticeable concern. Additionally, with the establishment of SDG&E's customer charge, the baseline rate was reduced. Thus, customers who use more than their baseline allowance did not receive an effective price signal from the establishment of a customer charge.

These factors lead us to believe that considerable weight must be given to the ability of residential customers to both understand the principles behind the rates they are charged and accept those principles as reasonable. From our prior discussion there is little doubt that SDG&E's residential electric customer charge has failed on both counts. Therefore, we will eliminate the residential electric customer charge immediately and re-establish the \$5 monthly minimum charge.

In all this, it is clear to us that the goal of customer understandability in rate design is a mark that is easily missed. A key factor in this is the relationship between the utility and the community it serves. Where a climate of distrust or perceived unfairness has been allowed to develop, almost any rate charges are likely to be viewed with suspicion.

baseline rates and non-baseline rates. This differential sends an incorrect signal to customers that the variable costs associated with usage in excess of baseline are significantly higher than baseline variable costs. While residential customers may be less elastic¹ than other customer classes they still will receive inaccurate price signals which will likely result in uneconomic decisions. This is not a sound economic basis for designing residential rates. Therefore, we will eliminate the residential electric customer charge immediately and re-establish the \$5 monthly minimum charge.

In all this, it is clear to us that the goal of customer understandability in rate design is a mark that is easily missed. A key factor in this is the relationship between the utility and the community it serves. Where a climate of distrust or perceived unfairness has been allowed to develop, almost any rate charges are likely to be viewed with suspicion.

Another factor is the skill and care with which rate design changes are implemented. This is an area of ratemaking which is complex and all too often not easily understood by nonexperts. It is axiomatic that when a utility is called upon to implement such rate changes it should use the best effort to ensure that concerned ratepayers have a full and accurate comprehension of the purposes and effects of the changes.

A final factor of concern to us is one for which we share some of the responsibility with utilities. This goes to the purpose for changes in rates. D.87-12-069 was intended as a step in our move toward cost and based rates, and we remain fully committed to that course. But while this program is based on sound

1 Elasticity is a measure of how consumption varies with price. Highly elastic customers have a one-to-one relationship while less elastic customers require a greater change in price before modifying their consumption habits.

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A final factor of concern to us is one for which we share some of the responsibility with utilities. This goes to the purpose for changes in rates. D.87-12-069 was intended as a step in our move toward cost-based rates, and we remain fully committed to that course. But while this program is based on sound economic principles, we must remain sensitive to the practical impacts of theory. Our concern in this regard is one of the reasons we repeal the customer charge. ✓

Commensurate with the elimination of the residential customer charge, SDG&E requests that residential rates be reduced by \$30 million on an annual basis. SDG&E states that the purpose for the reduction is to minimize the number of customers whose bills would increase by the elimination of the customer charge. While SDG&E's proposal would decrease residential rates by \$30 million, there would be no change in its authorized revenue requirement. Any shortfall in revenues would be recovered through the electric revenue adjustment mechanism (ERAM). Since over- and under-collections in the ERAM balancing account are not identified by customer class, SDG&E's proposal could adversely affect non-residential customers.

DRA is opposed to a reduction in residential rates without a commensurate reduction in SDG&E's revenue requirement. DRA recommends that any shortfall in revenues be borne by SDG&E's shareholders. In support of its position DRA states that:
(1) SDG&E's request to reduce residential rates is actually a revenue deferral not a reduction and appears to be made to improve

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(1) SDG&E's request to reduce residential rates is actually a revenue deferral not a reduction and appears to be made to improve customer relations, (2) revenues cannot be reallocated among customers absent findings under Public Utilities Code § 728 that existing rates are unjust and unreasonable, and (3) SDG&E's proposal to set rates in 1989 or later, to recover 1988 costs clearly violates the rule against retroactive ratemaking.

FEA is not opposed to a reduction in residential rates if any shortfall in revenues is retained within the residential class. FEA states that SDG&E is not required by regulation or statute to reduce residential rates and is motivated by its concern over adverse customer reaction. Finally, FEA argues that SDG&E's requested decrease is a management decision made to improve its corporate image. Holding the shareholders responsible is just

as appropriate as a disallowance for advertising expenses intended to promote company good will.

We share the concerns of DRA and FEA that a reduction in residential rates could impact other customer classes which would result in a reallocation of SDG&E's revenue requirement. SDG&E's revenue allocation was addressed in D.87-12-069 dated December 22, 1987 and is again at issue in this proceeding for test year 1989. Because of the implications SDG&E's proposal could have on present and proposed revenue allocations, we will defer the resolution of this matter until SDG&E's revenue allocation for test year 1989 is addressed.

Consistent with D.85-04-110, electric baseline rates were reduced on January 1, 1988 to offset the increase in revenues from the residential customer charge. With the elimination of the customer charge electric baseline rates will be increased from \$0.06498 per kilowatt-hour to \$0.08231 per kilowatt-hour.

Findings of Fact

1. D.87-12-069, dated December 22, 1987, replaced a \$5.00 minimum monthly bill for residential electric customers with a \$4.80 monthly customer charge.
2. SDG&E's residential customers have expressed their opposition to the residential customer charge by writing letters, sending petitions, and telephoning the Commission.
3. Many customers who made statements at the public hearings held in San Diego on March 14 and 15, 1988 were opposed to SDG&E's residential customer charge.
4. Hearings were held during the week of May 2, 1988 to address the elimination of SDG&E's residential electric customer charge prior to January 1, 1989.
5. On May 2, 1988 SDG&E requested the elimination of the residential electric customer charge. SDG&E based its request on the fact that many residential customers do not understand or accept the charge. SDG&E also requested that residential electric

rates be decreased by \$30 million annually to minimize customer bill impacts from the elimination of the customer charge, which generates approximately \$54 million annually.

6. UCAN, the City of San Diego, and Rate Watchers support SDG&E's request.

7. FEA is not opposed to SDG&E's request if other customer classes are not impacted.

8. DRA is opposed to the elimination of the residential customer charge and recommends that any interim decrease be borne by the shareholders.

9. D.85-04-110 concluded that revenues collected from customer charges should be included in the calculation of the baseline rate.

10. Other customer classes pay customer charges without noticeable concern.

11. Customer acceptance and understandability are important goals of rate design.

12. The electric baseline rate was reduced on January 1, 1988 to offset the increase in revenues from the residential customer charge.

Conclusions of Law

1. SDG&E's residential electric customer charge is not serving its intended purpose of aligning individual customer rate components with the costs they impose on the utility system.

2. Revenues collected from residential customer charges should continue to be included in the calculation of the baseline rate.

3. All customers who use more than their baseline allowances pay the same with or without a customer charge and receive no price signal from the charge.

4. SDG&E's requested \$30 million reduction in residential electric rates could result in a reallocation of SDG&E's revenue requirement and should be deferred until revenue allocation is addressed for test year 1989.

5. Because a residential customer charge increases the differential between baseline and non-baseline rates, it incorrectly signals customers as to the change in variable costs with increased consumption.

6. There is no economic basis for a customer charge which recovers fixed costs to be related to the baseline rate which recovers variable costs.

7. The residential electric customer charge should be replaced with a \$5.00 monthly minimum charge and electric baseline rates should be increased to recover the difference between revenues generated by the customer charge and the minimum charge.

INTERIM ORDER

IT IS ORDERED that San Diego Gas & Electric Company is authorized and directed to file with this Commission on or after the effective date of this order revised tariff schedules which shall replace the existing \$4.80 residential electric customer charge with a \$5.00 monthly minimum charge and increase the electric baseline rate to \$0.08231 per kilowatt-hour. The revised tariff schedules shall become effective on or after the effective date of this decision and shall comply with General Order 96-A.

A.87-12-003, I.88-01-006 ALJ/FSF/rsr

The revised schedules shall apply only to service rendered on and after their effective date.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A

LIST OF APPEARANCES

Applicant: Barton M. Myerson, David R. Clark, Thomas G. Hankley, Jeffrey L. Guttero, Attorneys at Law, and Lee Schavrien, for San Diego Gas & Electric Company.

Interested Parties: Dian Grueneich, Attorney at Law, and Matthew V. Brady, for California State Department of General Services; David R. Branchcomb, for Henwood Energy Services, Inc.; McCracken, Byers & Martin, by David J. Byers, Attorney at Law, and Reed V. Schmidt, for California City-County Street Light Association (CAL-SLA); Muns, Mehalick & Lynn, by James Crosby, Attorney at Law, and Paul A. Weir, for San Diego Mineral Products Industry Coalition; Sam De Frawi, for Naval Facilities Engineering Command; Eric Eisenman, for Enron Corporation/Transwestern Pipeline Company; Dave Follett and Peter N. Osborn, Attorneys at Law, for Southern California Gas Company; Norman J. Furuta, Attorney at Law, for Federal Executive Agencies; Biddle & Hamilton, by Richard C. Hamilton, Attorney at Law, for Western Mobile Home Association; Jeffrey P. Harris, for California Institute of Energy Efficiency; Carol B. Henningson and James M. Lehrer, Attorneys at Law, and John P. Hughes, for Southern California Edison Company; William Marcus, for JBS Energy; Edward J. Neuner, for himself; John D. Quinley, for Cogeneration Service Bureau; Antonia D. Radillo, Attorney at Law, for California Energy Commission; Donald G. Salow, for Association of California Water Agencies; William S. Shaffran and Leslie J. Girard, Deputy City Attorneys, for City of San Diego; Michael Shames, Attorney at Law, for UCAN; Armour, St. John, Wilcox, Goodin & Schlotz, by James D. Squeri, Attorney at Law, for Kelco Division of Merck and Company; Harry K. Winters, for University of California; Morrison & Foerster, by Jerry R. Bloom, Attorney at Law, for California Cogeneration Council; Michel Florio, Attorney at Law, for Toward Utility Rate Normalization; Steven Geringer, Attorney at Law, for California Farm Bureau Federation; Independent Power Corporation, by Thomas P. Cox, Attorney at Law, for Energy Factors, Inc., EUA Cogenex Corporation, Hawthorne Engine Systems, MicroCogen Systems, Inc., and Teal-Tech, Inc.; Kermit R. Kubitz, Attorney at Law, for Pacific Gas and Electric Company; Robert L. Gnaizda, Attorney at Law, for American G.I. Forum (California), League of United Latin American Citizens (California), and Filipino American Political Association (California); Don Klein, for Rate Watchers; and Julianne B. D'Angelo and James R. Wheaton, Attorneys at Law, for the Center for Public Interest Law.

Division of Ratepayer Advocates: Timothy E. Treacy and Philip Scott Weismehl, Attorneys at Law, and David Fukutome.

(END OF APPENDIX A)