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Decision 89-09-044 September 7, 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion to comply with Senate Bill 987 and realign residential rates, including baseline rates, of California energy utilities.	I.88-07-009 (Filed July 8, 1988)

(See Decision 88-09-027 for appearances.)

Additional Appearances

Messrs. Orrick, Herrington & Sutcliffe, by Robert J. Gloistein and Kathryn Doi, Attorneys at Law, for CP National Corporation; Christopher J. Warner, Attorney at Law, for Pacific Gas and Electric Company; and Mark A. Minick, Attorney at Law, for Southern California Gas Company; respondents.

Joel R. Singer, Attorney at Law, for Toward Utility Rate Normalization, interested party.

Judith Allen, Attorney at Law, for the Division of Ratepayer Advocates.

FINAL OPINION

I. Introduction

Summary

This concludes the Commission's proceeding to comply with the requirements of Senate Bill (SB) 987. We authorize a low-income ratepayer assistance (LIRA) program consisting of a 15% discount on rates for ratepayers who qualify under the income criteria for Universal Lifeline Telephone Service (ULTS). The LIRA discount will apply to usage under both Tier 1 and Tier 2 rates as well as to any applicable monthly residential customer charge. The resultant difference in residential revenues will be collected from all other ratepayers, except for those under existing special contracts which state a specific rate, utility electric generation gas customers (UEG), cogeneration gas customers (cogen), wholesale gas and electric customers, and enhanced oil recovery gas customers. By Decision (D.) 89-07-062 issued on July 19, 1989 (the interim opinion), we adopted the ULTS eligibility criteria and authorized balancing account treatment of program costs for ratemaking purposes. A method for reviewing ratepayer eligibility was also approved. The respondents were ordered to file a tariff to provide a low-income program consistent with the interim order so that eligible ratepayers could be placed on the LIRA schedule pending this order. This final opinion establishes the rate for each utility's LIRA schedule.

Positions of the parties on all issues, including those resolved today, were set forth in the interim opinion and will not be repeated here. Comments of the parties on the administrative law judge (ALJ) proposed benefit level and other implementation details are considered in this decision. Some of the comments sought clarification of the Commission's intent; we provide such clarification here. Other comments, which merely reargue the

positions of the parties, are accorded no weight consistent with Rule 77.3.

II. Discussion

A. Benefit Level

1. LIRA Rate

SB 987 charged the Commission with establishing a program of assistance to low-income electric and gas customers. The legislation does not specify the amount or manner by which assistance should be given, nor does it define "low income." This mandate coincided with the grant of greater flexibility in pricing the baseline quantity of service. The utilities have reasonably assumed that a low-income assistance program should offset the effects of baseline realignment, as the increase in Tier 1 rates above 85% of system average rate is called, on low-income ratepayers. While we do not choose to accept the utilities' arguments here, we do recognize that a low-income program would not exist without the need to reform the baseline program. Thus, baseline reform, which the Commission is in the midst of, and the low-income program are inextricably linked.

Relationship Between LIRA and Increase in Tier 1 Rates

While the utilities would limit the amount of assistance to offset exactly the effects of baseline realignment, the legislation does not require such a limit. Some of the utilities refer to the Commission's evolving policy of aligning rates with cost, and object that a rate discount in excess of actual realignment is not cost-based. However, the task of protecting low-income ratepayers from the rate increases that accompany baseline reform requires that those ratepayers be actually insulated from the rate increases. The offer of a rate discount is inadequate if the ratepayers have not signed up for the discount when Tier 1 rates are increased due to realignment. This means

that the discount should be substantial enough to confer a meaningful initial benefit on program participants. The discount should also be easily understood in order to attract participants.

Cost to Non-Participants

To confer a meaningful benefit on program participants at the outset, we commence the LIRA program at a flat fifteen percent discount applied to both the Tier 1 and Tier 2 rates. This results in a small subsidy to participants: in other words, the program benefit exceeds the impact to date of adjusting the Tier 1/Tier 2 differential. Nevertheless, we strongly concur with the utilities and the Division of Ratepayers Advocates (DRA) that the LIRA program, over the long-term, should be designed to produce a benefit that, on average, is commensurate with decreasing the differential between Tier 1 and Tier 2 rates. As a consequence, we put all parties on notice that we will continue to adjust the Tier 1/Tier 2 differential, consistent with this policy, as early as possible in appropriate proceedings for the respective utilities.

Even at the outset, the costs of the LIRA program to non-participants is modest. Toward Utility Rate Normalization (TURN) was the only non-governmental consumer organization which participated at the evidentiary hearing. Mr. Florio testified for TURN that bill impacts of up to 3% increase per month are acceptable for the non-participating customer. TURN does not object to a larger benefit within the range discussed in this proceeding given the rate impacts illustrated in this record.

Southern California Edison (Edison) claims it conducted a survey of ratepayer willingness to fund a low-income program. Nothing of the survey is known, since the survey was not introduced into evidence, nor did Edison's survey-taker testify. Pacific Power and Light Company's (PP&L) prepared testimony described a phone survey conducted in March of 1989 to assess customer support for a surcharge to fund a discount for low-income customers. 58%

of non-qualifying ratepayers said they would pay an extra $.50 on their bill to support the program.

The record of what is a reasonable burden on non-participants is limited but is adequate to conclude that we need not limit the program subsidy only to the amount needed to offset the impacts of realignment which has been authorized thus far.

Specific Proposals

The DRA recommends a minimum discount on the Tier 1 rate equal to the greater of 10% of RAR or a Tier 1 differential based on a current Tier 1 rate calculated as a percentage of RAR. This minimum discount is appealing because it attempts to provide a meaningful benefit to low-income ratepayers. The 10% of RAR discount results in limited benefits, however, since it is available only on consumption within the baseline allowance.

By way of comparison, under Edison's proposal, maximum monthly benefits total 69 cents. Under the DRA's proposal, Edison's maximum is $3.63. The benefit under SoCal's methodology would be $1.32, while under DRA's minimum, it would be $2.22. Because the Commission-ordered realignment of Tier 1/Tier 2 rates was minimal, the LIRA rates of all of the electric companies and the Sierra division of Southwest Gas Company would be based on DRA's 10% minimum discount. The Tier 1 rates of the gas utilities were significantly above 85% of SAR before baseline reform. As a result, the differential between current Tier 1 rates and a price equal to 85% of SAR is already so substantial that it exceeds 10% of RAR. Therefore, the DRA's 10% minimum would not apply in the case of some of the gas utilities when combined with the 85% of SAR rate discount method.

The most significant ratepayer benefit considered in this proceeding consists of a 15% discount off the average residential bill. A 15% discount ensures a meaningful level of benefit to participants. While the DRA recommended a 10% of RAR discount initially, it offered 15% as a reasonable discount if the

Commission believed that a more substantial benefit was needed. For Edison, assuming average summer baseline usage, the monthly benefit would be approximately $6.71. The monthly benefit for SoCal ratepayers would be $4.57.

The ALJ had proposed a method whereby a low-income ratepayer whose usage equals the utility's average baseline quantity would receive a discount equal to 15% of the average residential bill. Since the baseline allowance and actual usage by a particular customer varies from average Tier 1 usage, it would be difficult to predict what the actual discount per month experienced by each customer will be. The ALJ's proposed methodology would have resulted in a monthly discount ranging from 9% to 30% or so, assuming consumption equal to the baseline allowance, which varies depending on climate zone and season.

Application of Discount to Tier 1/ Tier 2

During the evidentiary phase of this proceeding, the parties were unanimous in recommending that a rate discount be available only for baseline quantities of usage, that is, quantities sold under the Tier 1 rate. Implementation of the assistance program through a discount of Tier 1 rates would provide low-income ratepayers benefits commensurate with their baseline benefits. That is, baseline quantities are already adjusted by climate zone and by summer/winter season. A greater baseline allowance is available to all-electric customers. Ratepayers with legislatively identified medical needs are also entitled to greater baseline quantities. Thus, the program of assistance would confer more or less benefits according to an existing residential rate structure that recognizes the energy needs of specific residential customer groups.

Under the DRA and utilities' proposals, the biggest discounts would be available when the baseline allowance is greatest. However, this would not necessarily result in maximum customer satisfaction. Baseline allocations are based on average

historic conditions. There may be periods when the baseline quantity is insufficient to meet actual energy needs. We are concerned that preserving the differential between Tier 1 and Tier 2 rates for low-income ratepayers will perpetuate the high bills when monthly consumption exceeds the baseline quantity. This is the situation which led to ratepayer complaints and necessitated the realignment of Tier 1/Tier 2 rates in the first place. Thus, we believe it necessary to discount Tier 2, as well as the Tier 1 rate.

Adopted LIRA program

We authorize a LIRA program consisting of a 15% discount on both Tier 1 and Tier 2 of the residential energy rate. In the case of utilities which assess a monthly residential customer charge, the discount will apply to the customer charge as well. That is because the customer charge collects revenues that would otherwise be collected through the Tier 1 rate. This discount is substantial enough to provide a meaningful benefit to low-income ratepayers, will further the Commission's goal of maximum participation among qualifying ratepayers, and will target the residential rate subsidy to ratepayers who need it. The LIRA program should facilitate the realignment of Tier 1 and Tier 2 rates at the earliest date, thus providing benefits to non-participant residential ratepayers. It is clear from the enabling legislation that the LIRA program's continued existence depends on the closure of Tier 1 and Tier 2. To ensure that such realignment will be pursued vigorously, the Commission will examine its progress in baseline reform in May of 1991, the 30 month deadline in SB 987. Adjustments to either our progress in baseline reform or the low-income program may be required after such an examination.

This program is simple--simple to understand, simple to explain, simple to compute. Simplicity of understanding and explanation will facilitate outreach and explanation by customer

service departments and result in a quick start to this program. It confers a noticeable bill decrease on participating customers.

LIRA Discount and Baseline Reform

The 15% discount targets a residential rate subsidy to ratepayers who need it. We intend that the LIRA discount replace the baseline subsidy inherent in each utility's existing Tier 1/Tier 2 rate differential. That is, the LIRA discount is provided in anticipation of further increases in Tier 1 revenues. Those increases have a special impact on low-income ratepayers. A greater percentage of low-income customers limit their use to the baseline quantity than for all residential customers. Therefore, Tier 1 increases would have a disproportionate impact on low-income customers. By today's action, we confirm our strong policy to proceed with baseline reform as needed to address the high bill problem caused by the Tier 1/Tier 2 rate differential, and to ensure that in the very near future the level of the LIRA discount and the size of the Tier 1/Tier 2 rate differential are essentially commensurate.

In responding to the direction of SB 987, the Commission had two goals: to reduce high winter energy bills and to avoid excessive bill increases. D.88-09-027 and D.88-10-062, the first two interim opinions in this OII, adopted increases to the Tier 1 rate of less than 1% to 6%, depending on the operational and revenue needs of each utility. No timetable for continued realignment of Tier 1/Tier 2 rates was established. However, the level of the adopted LIRA discount will cause us to accelerate the pace at which further realignment occurs. Utilities and other parties shall address this issue in pending and upcoming rate proceedings.

2. Master Meter Ratepayers and Submetered Customers

The implementation of the LIRA program for master meter ratepayers was addressed in the interim opinion. During the course of the tariff workshop ordered by that decision, the role of the

master meter ratepayer in the tenant certification process was questioned. We provide the following clarification.

Master meter customers with submetered tenants must notify the utility when enrolled tenants move.

Master meter customers are not responsible if a tenant misrepresents his eligibility to the utility. However, if a master meter customer has good reason to suspect that the tenant is not eligible, the master meter customer should, but is not required to, so advise the utility. The utility has the responsibility of confirming the tenant's eligibility.

Finding of Fact 9 on mimeo. page 42 of D.89-07-062 should have stated, "Low-income program rates will not be available to unmetered ratepayers because their energy bills are bundled with their rent and there is no way to enforce a pass through of the program discount to the consumer."

3. Time-of-Use Discount

Pacific Gas and Electric Company (PG&E), Edison, and San Diego Gas & Electric Company (SDG&E) offer optional time-of-use (TOU) metering to residential customers. Within PG&E's service area, TOU meters are being installed roughly at the rate of 10,000 a year. Customers must pay a monthly meter charge of $4.40. Contra Costa County's (County) recommendation that low-income residential TOU ratepayers have the option of either a bill discount or zero meter charge applied only to PG&E.

The E-7 residential time-of-use schedule includes a baseline credit. PG&E states that Schedule E-7 should not include a LIRA rate because this schedule is voluntary and the customers to whom it is available would otherwise obtain a LIRA discount on Schedule E-1. If a low-income ratepayer on E-1 qualifies for E-7 service and believes that the undiscounted TOU rates would be even more beneficial, then that ratepayer may choose to take service under Schedule E-7, according to PG&E.

The proposal has the merit of providing a subsidy to low-income customers at a lower cost to non-participants than would otherwise be the case. It allows low-income customers to benefit substantially in two ways: an equity based waiver of meter charges and a cost based reduction in bills due to usage patterns. In addition, as a rate design principle, a customer's choice should not be titled toward a less cost-based rate schedule.

The Assigned Commissioner's ruling indicated that assistance to low-income ratepayers should consist at a minimum of a rate discount and did not preclude consideration of a program such as the County's. The proposal has the merit of providing a potential benefit that exceeds its cost. The monthly meter charge under the E-7 schedule should be waived for low-income customers. The utility should use reasonable efforts to market this option as an alternative to the low-income rate discount, particularly where the cost of the meter subsidy is less than the rate subsidy. However, PG&E should not divert an excessive amount of its administrative budget to this program. Since the County was the proponent of this program, the County will be expected to use the experience gained during its two-year study to assist in implementing this option. Based on the outcome of this trial, we may consider expansion of the low-income residential TOU option for other electric utilities.

B. Administration

1. Costs and Accounting

The utilities have proposed administrative budgets consisting of these elements: general administration, certification and recertification, verification, outreach, billing, and billing changes. A great disparity in administrative costs was noted in the interim opinion, so a workshop to examine the differences and the reasons for such differences in administrative costs was ordered. The respondent utilities were encouraged to reach consensus on the appropriate level of administrative costs.

substantial deviations from that level of costs were to be justified.

The workshop was held on August 15, 1989. It was chaired by the Commission Advisory and Compliance Division (CACD) staff. CACD circulated its draft findings and recommendations to the respondent utilities on August 18, 1989. Comments on CACD's draft and proposed administrative cost budgets, revised to conform with workshop results, were received from the utilities and DRA on August 23. CACD filed its recommendations concerning the appropriate level of administrative costs on September 1, 1989 as directed by the Commission.

CACD's primary conclusion is that most differences in administrative costs can be explained. However, the explanation of utility-by-utility differences is insufficient to determine what the appropriate level of administrative costs is. Utilities had not been using a common definition of incremental administrative cost. A common definition of incremental cost should be used, at least until the definition can be refined in the context of a reasonableness review of LIRA administrative costs.

For purposes of booking administrative costs to the LIRA balancing account, incremental costs are defined as costs resulting from performing incremental activities which would not have been incurred absent the LIRA program. These incremental costs must be identifiable in accordance with generally accepted accounting principles and verifiable through generally accepted auditing standards in order to be considered in any reasonableness review. Accordingly, each utility should establish a cost code, subaccount, or other identifier appropriate for its accounting system to segregate and track the incremental administrative costs for the LIRA program. Thus, costs which meet this working definition of incremental cost may be booked to the balancing account, even though we have not finalized the definition itself.

Administrative costs varied widely because utilities do not treat overhead expense in a uniform manner, some utilities will contract out for some services, and estimates of customer contact and participation rates ranged widely. As a result, estimates of administrative costs per eligible customer ranged for the large utilities from PG&E's high of $8.15 to SoCal Gas' low of $1.40.

The issue of overhead expenses, which most utilities had not included in their initial showings, was discussed. We find that labor overheads should be included as an incremental cost because they are part of a contractual package of employee compensation which is incurred at an hourly rate. Non-labor overheads should not be so included because they have not been shown to be a mandatory incremental expense.

The utilities are expected to incur both start-up or nonrecurring costs and ongoing or recurring costs during this first year. These costs must be distinguished in order to determine the trend for LIRA administrative costs to be consolidated with general rate case expenses, and to estimate future year administrative costs. An appropriate way to incorporate administrative costs into base rate revenue requirement in the general rate case is to trend low-income costs less start-up costs. However, at the workshop, the utilities characterized the difference between startup and ongoing costs as somewhat arbitrary.

CACD anticipated that administrative budgets, revised in accordance with the above definition of incremental costs, would nonetheless vary. It proposed several options for resolving this matter. We find the most efficient alternative to be the establishment of a single DRA audit team to perform reasonableness reviews for all utilities. This review should be ongoing during the first year in order to establish fairly uniform practices among utilities for costs to be booked as LIRA costs. The audit team should present its recommendations in the annual LIRA revision

proceeding. This would also assist the utilities to distinguish non-recurring from recurring costs.

CACD has found that a full review of administrative costs and underlying assumptions is not possible at this time. Under these circumstances, it is not possible to estimate a reasonable administrative budget for the LIRA for each utility. Administrative budgets cannot be guaranteed rate recovery until they are found to be reasonable. Thus, the utilities should book their administrative expenses to the LIRA balancing account established in the interim opinion. However, unlike the residential rate shortfall, administrative costs must be reviewed for reasonableness before they may be recovered in rates. Booked costs will be reviewed to ascertain whether they are indeed incremental or had been provided for in the utility's base rates.

2. Outreach and Application Process

We have previously addressed the issue of LIRA outreach. However, we indicated that more precise requirements for customer notice would be provided in this decision. Indeed, many questions concerning outreach were raised at the both the workshop on administrative costs and the August 14, 1989 workshop on LIRA tariff uniformity, also chaired by CACD. This opinion resolves those issues.

All respondent utilities shall make the availability of the LIRA program known with each request for utility service, as SoCal Gas, SDG&E, and PG&E have proposed to do. This is a cost-effective way to notify ratepayers. Many of these ratepayers will be new to the utility's service territory, and will not have received any notice of the program via the bill insert.

The interim opinion had required the bill notice to include a form "...which could be returned with bill payment to apply for the program..." This enables the ratepayer to apply for the LIRA rate at the same time as he pays his utility bill. Our intent was to make it convenient to apply for the LIRA rate. If

the utility provided an application in the form of a postage paid self-mailer with the monthly bill, that application would be as convenient as the application returned with payment. A utility may offer this alternative if it is less costly than the former means of collecting application forms.

It was noted that the utilities' initial bill notices are in English only. Notices were not ordered in other languages because it was assumed that the utilities are aware of the language needs of their own ratepayers, and that multilingual bill notices would be printed. We agree with workshop participants that multilingual notices should be issued during the billing cycle which begins immediately after December 1, 1989. Thereafter, LIRA bill notices shall be multilingual.

As part of the monitoring program ordered by the interim opinion, the utilities are to show how minority and non-English speaking ratepayers are appropriately represented among LIRA participants. Some of the utilities proposed at the workshop that the LIRA application request optional age and racial information. This is unacceptable to the Commission. A request for racial information on an application for benefits conferred on the basis of income, whether optional or not, is irrelevant to the issue of eligibility at best. At worse, it intimidates applicants, is a deterrent and is an invasion of privacy. The same can be said for age information. The Commission should not condone this practice. Moreover, no reliable conclusion can be drawn from data culled from optional responses, particularly since during the course of the evidentiary hearings, the utilities repeated that demographic information on their ratepayers was not available. The better way to collect information responsive to the Commission's expressed concern is for the utilities to conduct a demographic survey of their entire ratepayer population, and to collate data on LIRA participants out of that pool of responses. However, we are not ordering such a comprehensive survey at this time.

It was proposed at the workshop that ratepayers be required to provide their social security numbers on their LIRA application form. The interim opinion authorized utilities to draft application forms substantially similar to the one Edison introduced in its testimony. It does not request a social security number. Provision of one's social security number is not a prerequisite for utility service. The requirement that LIRA applicants provide their social security numbers was never mentioned on the record. Utilities are to conform with the interim order.

The following miscellaneous observations clarify our intent on issues raised at the CACD-chaired workshop, or are necessitated by today's adoption of benefit levels:

We note that only PG&E and PP&L, if PP&L has concluded an agreement with Department of Economic Opportunity (DEO), are authorized to use a two-step application process.

The interim opinion had authorized the expenditure of $1.00 per eligible customer for certification by DEO. PG&E currently estimates $1.67 maximum average unit cost for processing applications beyond the first two months of the LIRA program. This revision is incorporated in the utilities' proposed administrative budgets, listed in Appendix A.

C. Implementation of LIRA Rate

1. LIRA Tariff

The LIRA rate shall be 85% of the respondent utilities' residential rates in effect on November 1, 1989, becoming effective on November 1, 1989. The LIRA rate will be revised each time the main residential energy rate of a respondent utility is changed so that the LIRA rate is maintained at 85% of the main residential rate. That rate includes Tier 1 and Tier 2 rates as well as any applicable monthly customer charge.

The discounted LIRA rate can be calculated today. However, the LIRA rate is subject to change as residential rates

change as a result of pending Energy Clause Adjustment Clause (ECAC) and Annual Cost Allocation Proceeding (ACAP) decisions.

A separate LIRA tariff schedule with special conditions of service will make LIRA eligibility criteria clear and aid in enforcement; expedite revisions to the LIRA program and the LIRA rate; and help each utility track the number of its ratepayers on the LIRA schedule.

We detail the terms of the advice letter filing ordered in the interim opinion as follows: Each of the respondent utilities will file by advice letter, effective September 17, 1989, tariff sheets setting forth the LIRA rate and conditions of service under a separate LIRA schedule in a form similar to that proposed by Edison. Revised pages will be drafted for the submeter schedules, PG&E's E-7 schedule, and in the appropriate tariff to provide the LIRA rate to baseline medical allowances. Each utility will also prepare an application form and a list of detailed procedures to be used by the utility in soliciting and processing ratepayer applications for the LIRA rate. These will be submitted to the CACD staff for review and approval. The proposed form of ratepayer notice will likewise be submitted to the Commission's Public Advisor.

A low-income allowance will be made for qualified ratepayers on PG&E's TOU schedule. The monthly meter service charge, currently $4.40, will be waived. These revenues will be recovered along with other LIRA program costs. Contra Costa County was the proponent of this form of low-income assistance. Its recommendation was based on a study where customer education was largely handled by the County. PG&E will not be required to publicize the availability of TOU meters and the waiver of the monthly meter charge in its LIRA customer information. That would most likely create customer confusion and a greater administrative burden than necessary to get otherwise qualified ratepayers on the LIRA program. However, the LIRA waiver of monthly meter charge

must be disclosed to all applicants for residential TOU service. The participation rate in the LIRA TOU option will be reviewed in the LIRA revision proceeding, and improvements in customer notice will be ordered if necessary.

2. <u>Calculation and Collection of LIRA Surcharge</u>

The respondent utilities are authorized to collect LIRA costs through a surcharge. LIRA program costs include the rate discount, administrative costs, and an allowance for franchise fees and uncollectibles on administrative costs. Due to the incremental nature of the LIRA program at this time, LIRA administrative costs increase revenue requirement. An allowance for franchise fees and uncollectibles should be included in the LIRA surcharge to recover this incremental increase in revenue requirement.

The actual surcharge to collect forecasted LIRA costs will be calculated in the utilities' upcoming rate change proceedings. The necessary billing determinants and changes in the residential rate will be adopted in those proceedings. Appendix A to this decision lists LIRA rates, forecasted sales, administrative budgets, proceedings with which to coordinate, and other factors to be used in calculating the LIRA surcharge. Appendix A includes the utilities' estimates of first year administrative expenses plus other elements of the surcharge which appear in the record. Also, Appendix A lists the proceedings which will yield each utility's rate changes.

Following calculation of the LIRA surcharge in the rate change proceedings listed in Appendix A, each respondent utility should file by advice letter a tariff establishing a LIRA surcharge to recover the cost of the LIRA program, consistent with the terms of this order.

The LIRA surcharge is the forecast of LIRA costs divided by the forecast volume of non-exempt sales of electricity, or the forecast volume of non-exempt transported gas, as discussed below. The surcharge shall be collected on all non-exempt sales of

electricity and all non-exempt transportation of natural gas commencing with the next utility rate decision for which notice has been provided ratepayers pursuant to Public Utilities (PU) Code § 454. Revenues from the surcharge shall be booked to the LIRA balancing account, which was authorized in the interim opinion, to offset LIRA costs.

The LIRA surcharge shall be included in non-exempt rates. Our experience has shown that energy ratepayers are frequently confused or irritated with the itemization of surcharges which excessively complicate the bill and lead to additional and costly inquiries to customer service representatives. However, we believe that there is a need in this program to inform non-participating ratepayers what they are contributing to this program. Thus, we request the utilities and DRA, in workshops chaired by CACD, to discuss methods for informing non-participants of the cost of this program.

3. Revisions to LIRA Rate and Surcharge

Revisions to the LIRA rate and surcharge will occur annually in the preceeding wherein the utility's residential rate is revised. In the case of the large energy utilities, this would be the ECAC or ACAP proceeding. In the case of the smaller utilities, this would be the attrition or other cost offset proceeding.

Revision of the LIRA surcharge will take into account changes in ratepayer participation levels, residential rates, baseline allowances, average Tier 1 and Tier 2 usage, numbers of eligible households, sales forecasts and other factors. We note that the ULTS eligibility criteria are revised in February of each year, when the federal price index is revised. LIRA eligibility criteria should also change each February to maintain consistency with the ULTS criteria. Any difference between surcharge revenues and actual LIRA program costs will be reconciled in the annual LIRA revision proceeding.

D. Cost Recovery

The interim opinion authorized balancing account recovery for all LIRA benefits and administrative costs. Respondent utilities were authorized to book actual program expenses and actual revenues received under the LIRA program. The balance in the LIRA account will be amortized in the LIRA surcharge as part of the LIRA rate revision. Because we have provided for balancing account treatment no revenue requirement is adopted in this decision.

Since we cannot find that the utilities' proposed administrative budgets are reasonable, the utilities are not guaranteed recovery of all booked administrative expenses. Estimates of administrative cost incorporated in the surcharge pursuant to Appendix A are nonetheless subject to reasonableness review. Once the reasonable level of recurring LIRA administrative costs has been established in a LIRA revision proceeding, those costs should be trended and incorporated in the utility's base rates. Coincident with each utility's general rate case cycle, the utility should propose to include the cost of administering the LIRA program in its administrative and general expense.

LIRA costs will be collected on a volumetric rather than on a flat-customer charge basis. This method was favored by DRA, TURN, and all utilities except SoCal. A volumetric charge is more consistent with SB 987, which required that program costs not be borne by a single ratepayer class.

It is possible to collect the LIRA surcharge for gas utilities on volumes of either gas sold or gas transported by the utilities. While PG&E favored a charge based on throughput, SDG&E would impose the charge only on gas sold. There are good arguments to support both positions. A transport-based rate would affect non-core transportation customers who are not already exempt because of their UEG, cogen, or wholesale status. It was mentioned that this incremental surcharge could lead to bypass of the utility

system by transportation customers. However, a sales based surcharge would be higher than one based on transportation volumes. If this higher rate were imposed on all utility sales, non-core customers may react by procuring their own gas supplies. This sales bypass would result in the core customers shouldering most, if not all, of the LIRA program costs. We have decided against this scenario. Moreover, consistent with our decisions restructuring the gas industry, PG&E's core and non-core portfolio rates reflect only the costs of gas supplies. Therefore, LIRA surcharges for the gas utilities should be assessed on transported volumes of gas.

The following customer classes will be exempted from the LIRA surcharge: existing special contracts which state a specific rate, utility electric generation (UEG) gas customers, cogeneration gas customers, wholesale gas and electric customers, and enhanced oil recovery (EOR) gas customers. These customers are exempted from funding the LIRA program because of special circumstances, such as contractual obligations of the utility, the potential for double paying, or statutory requirements. Low-income sales will also be exempt because the LIRA program will discount such usage. Street lighting will also be exempt because such service is ultimately paid for by taxpayers, who will already contribute to the LIRA program as ratepayers.

The interim opinion provided that LIRA administrative costs will be allocated between gas and electric operations in the same proportion as gas and electric program discounts, but did not specify where that allocation should occur. Allocation should occur in the ECAC proceedings of the combined utilities. An allowance for franchise fees and uncollectibles will be made after the allocation of administrative costs occurs.

Most of the parties recommend allocation of electric LIRA program costs on a cents per-kWh basis. SDG&E advocated allocation based on Equal Percentage of Marginal Cost (EPMC). The EPMC

methodology is not appropriate because it assumes that every cost has a functionality that allows its incurrence to be attributed to a class of ratepayers. Moreover, allocation on a per kWh basis is more consistent with the goal of minimizing the burden on any one class of ratepayers. Therefore, costs of the electric LIRA program should be collected on an equal cents per-kWh basis.

E. Monitoring

The interim opinion requires the respondent utilities to cooperate with CACD in its annual monitoring of the LIRA program. Given the results of the workshop ordered by the interim opinion, CACD's monitoring role should include evaluation of administrative cost expenditures and the reasonableness of utility effort in view of the ratepayer participation rates achieved. CACD should also evaluate the possibility of joint outreach with telephone utilities.

Findings of Fact

1. Assistance to low-income energy ratepayers is best provided through a 15% discount to both the Tier 1 and Tier 2 rates, as well as any applicable monthly residential customer charge, within the residential rate schedule because this will confer a meaningful level of benefits to the class of ratepayers which has been targeted for rate subsidy, will encourage participation by eligible ratepayers, and will enable realignment of Tier 1/Tier 2 rates to proceed in an equitable manner, and at an accelerated pace.

2. Tier 2, as well as Tier 1, rates should be discounted by 15% in order to avoid the disparity between these two rates which led to the high-bill problems necessitating baseline reform in the first place.

3. A LIRA program should be available to qualifying low-income energy ratepayers.

4. The 15% discount on residential rates is the most reasonable way of providing assistance to low-income ratepayers at

this time because it targets a substantial portion of baseline benefits to low-income customers, provides a significant, rather than symbolic, level of benefits, and is cost-effective in minimizing administrative overhead.

5. The DRA's RAR method is the most reasonable means of calculating the impact of baseline reform on low-income ratepayers because it best isolates and quantifies the difference in Tier 1 rates which result from the flattening the Tier 1/Tier 2 differential.

6. LIRA rates will not be available to unmetered consumers because their energy bills are bundled with their rent and there is no way to enforce a pass through of the LIRA discount to the consumer.

7. Contra Costa County's proposal to exempt qualifying low-income ratepayers from the monthly meter charge for residential TOU rates is a reasonable way of leveraging costs to non-participants to provide greater potential benefits to low-income ratepayers and should be adopted for PG&E.

8. Eligibility criteria for the LIRA program will change at the same time as revisions to ULTS criteria are ordered by the Commission.

9. Utilities should notify their customers of the LIRA program as approved today in English and in other languages as appropriate to their ratepayer population via bill notice issued in the billing cycle immediately following December 1, 1989. The electric and combined utilities should circulate the multilingual bill notice during the bill cycle commencing two months before the summer peak. All utilities should advise each applicant for utility service of the availability of the LIRA rate, as this will notify those who have not been notified through the bill notice.

10. The interim opinion described an appropriate application form. The utilities should not request information, whether

optional or not, which was not sought by the approved application form.

11. LIRA program costs consist of LIRA benefits, defined as the difference between the main residential rate and the LIRA rate times LIRA rate consumption, LIRA administrative cost, and an allowance for franchise fees and uncollectibles on LIRA-administrative cost.

12. The utilities should forecast a LIRA cost for the first year based on factors shown in Appendix A and using rates resulting from the next rate change decision.

13. A LIRA surcharge shall be authorized in the next utility rate change decision for which notice has been provided to ratepayers pursuant to PU Code § 454. The LIRA surcharge is the forecast of LIRA costs divided by the forecast volume of non-exempt sales of electricity, or the forecast volume of non-exempt transported gas, as the case may be. The surcharge shall be collected on all non-exempt sales of electricity and all non-exempt transportation of natural gas. Revenues from the surcharge shall be booked to the LIRA balancing account to offset LIRA costs. The allocation of LIRA administrative costs between gas and electric customers shall be on the basis of aggregate electric versus gas LIRA rate discounts (LIRA discount x LIRA sales).

14. The following customer classes should be exempt from the LIRA surcharge: existing special contracts which state a specific rate, utility electric generation (UEG) gas customers, cogeneration gas customers, wholesale gas and electric customers, and enhanced oil recovery (EOR) gas customers, street lighting electric customers, and low-income sales.

15. The LIRA rate should be adjusted whenever rates are changed so that the LIRA rate is maintained at 85% of the main residential rate. The discount should apply to Tier 1 and Tier 2 rates as well as to any applicable monthly residential customer charge.

16. The LIRA surcharge should be adjusted annually in the proceeding wherein energy or fuel costs are offset, or in an attrition proceeding, or other proceeding whereby residential rates are revised. Overcollections or undercollections should be amortized prospectively through the updated LIRA surcharge. The surcharge should be based on the determinants established in the relevant revision proceeding. Revisions to the LIRA surcharge should take into account changes in rate changes, ratepayer participation levels, realignment of the Tier 1 and Tier 2 rates, baseline allowances, average usage, numbers of eligible households, and other factors likely to affect the amount of rate subsidy.

17. The cost per non-participant was estimated under various scenarios in the utilities' responses to the ALJ's data request. Given the most liberal assumptions, costs to non-participants do not appear to be unreasonable.

18. Since the impact on non-participant ratepayers cannot be predicted, there is no basis for any cost cap at this time.

19. LIRA surcharges for the gas utilities should be assessed on transported volumes of gas on a cents-per-therm basis.

20. The costs of the electric LIRA program should be collected on an equal cents per-kWh basis.

21. A reasonable level of administrative costs cannot be established at this time. The utilities are authorized to use their proposed administrative budgets to establish the first year's surcharge, but administrative costs booked to the LIRA account are subject to reasonableness review in the LIRA revision proceeding.

22. LIRA administrative costs increase the utility's revenue requirement. An allowance for franchise fees and uncollectibles should be made on this revenue requirement increase.

23. The most effective means of establishing the reasonableness of LIRA administrative budgets is to establish a single DRA audit team, ongoing during the first year, to perform reasonableness reviews for all utilities. This will assist in

establishing an ongoing budget of administrative costs to be included in each utility's base rates, as well.

24. The Commission's progress in reforming the baseline program, and in the adopted low-income program, will be reviewed by the Commission in May of 1991.

Conclusions of Law

1. A rate discount must confer a substantial benefit on ratepayers in order to constitute a program of assistance.

2. The fact that SB 987 both eliminated the 85% of SAR limit on Tier 1 rates and mandated a program of assistance to low-income ratepayers does not limit the level of benefits to that which does no more than mitigate the increase in Tier 1 rates experienced by low-income customers.

3. A 15% discount on the main residential rate is a reasonable benefit to low-income customers. Realignment of the Tier 1/Tier 2 differential should be pursued so that the benefit level of the LIRA discount is commensurate with the impact of such realignment.

4. Protection of low-income ratepayers against increases in Tier 1 rates due to residential rate realignment is consistent with PU Code § 739.

FINAL ORDER

IT IS ORDERED that:

1. Within 10 days of the effective date of this order, the respondent utilities shall amend the tariffs ordered by D.89-07-062, (interim opinion) by advice letter to provide a low-income rate assistance (LIRA) rate consistent with the terms of this order. The LIRA rate shall be 85% of the main residential rate and shall be offered in a tariff separate from the main residential tariff. The LIRA rate shall be effective November 1, 1989.

2. Within 10 days of the effective date of this decision, Pacific Gas and Electric Company (PG&E) shall amend its residential Time-of-Use tariff by advice letter to provide for waiver of the monthly meter charge for qualifying low-income residential customers. The advice letter shall become effective November 1, 1989.

3. Within 30 days of the effective date of this decision, the respondent utilities and DRA shall meet in a workshop to be convened by CACD to explore methods for notifying non-participating ratepayers of their contribution to the low-income program. CACD will report to the Commission on the outcome of the workshop and include a recommendation.

4. The second sentence of Finding of Fact 9 of D.89-07-062 is modified to state:

> ". . . Low-income program rates will not be available to unmetered consumers because their energy bills are bundled with their rent and there is no way to enforce a pass through of the program discount to the consumer."

5. Beginning with the bill notice to be issued during the billing cycle beginning after December 1, 1989, the bill notice ordered in D.89-07-062, Ordering Paragraph 3, and explained or modified in the text of this decision, shall be multilingual in accordance with the language needs of each utility's residential ratepayer population. The bill notices are subject to approval of the Commission's Public Advisor.

6. Pacific Power and Light (PP&L) is authorized to process applications through the Department of Economic Opportunity so long as the utility can place the applicant on the program schedule within one billing cycle from the date of the application.

7. Only PG&E and PP&L are authorized to use a two-step LIRA application process, and their results are subject to the review provided in D.89-07-062, Ordering Paragraph 6.

8. The respondent utilities are authorized to recover the reasonable costs of the LIRA program from all ratepayers, except for the following: LIRA program participants, those special contracts which state a negotiated price and were executed prior to September 7, 1989, specific rate, utility electric generation gas customers, cogeneration gas customers, wholesale gas and electric customers, and enhanced oil recovery customers, and street lighting customers.

9. Following calculation of the LIRA surcharge in the relevant rate change proceedings listed in Appendix A, each respondent utility shall file by advice letter a tariff establishing a LIRA surcharge to recover the cost of the LIRA program, consistent with the terms of this order. The surcharge shall be calculated using the factors contained in Appendix A. It will be established using the determinants resulting from rate change proceedings listed in that Appendix. The surcharge will be included in the rates of ratepayers not exempted by Ordering Paragraph 7, above.

10. Revisions of the LIRA rate, the LIRA surcharge, amortization of the LIRA balancing account, and review of the LIRA program will occur annually in the utility's Energy Cost Adjustment Clause, Annual Cost Adjustment Proceeding, attrition, or other proceeding where residential rates are changed, as indicated in Appendix A. The first LIRA revision and reasonableness review of administrative costs shall occur in the proceedings by which rates effective on January 1, 1991 are determined.

11. LIRA program administrative costs shall be recovered in the utilities' base rates, rather than in the LIRA surcharge, in the general rate case following at least one reasonableness review of LIRA administrative costs in the LIRA revision proceeding.

12. Commission Advisory and Compliance Division monitoring of the LIRA program, ordered in D.89-07-062, shall include a comparison of administrative costs and participation rates among utilities, and a recommendation of any necessary program modifications.

This order is effective today.

Dated September 7, 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I will file a written concurring opinion.

/s/ JOHN B. OHANIAN
Commissioner

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

Wesley Franklin

WESLEY FRANKLIN, Acting Executive Director

I.88-07-009
D.89-09-044

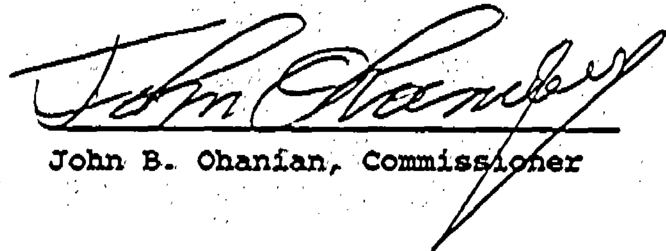
JOHN B. OHANIAN, Commissioner, Concurring:

Although I do not believe that utility ratepayers should be used as "deep pockets" sources of revenue for social welfare programs, I do understand that the Commission must comply with the mandates of Senate Bill 987, and the level of benefits to low-income ratepayers must be meaningful.

In my opinion the initial level of benefits should be 10% of residential bills, rather than 15%. Our own Division of Ratepayer Advocates recommended an initial benefit level based on 10% for most utilities, and the DRA represents the balanced interests of all ratepayers, including businesses and farmers, not only residential or low-income customers.

Inverted residential rates provide conservation signals, and those rates apply to all residential customers, whereas the LIRA program applies to only a few. The mismatch of target groups indicates the need for caution in trading off LIRA and inverted rate benefits.

I am supporting the order because on the whole it complies with legislative requirements. I would have preferred to start with a 10% subsidy to low-income customers, then accumulate solid data on usage patterns and review our residential rate design intentions before committing to either elimination of baseline rates, a higher level of LIRA benefits or more innovative responses such as residential efficiency incentives, seasonal rates, uniform payment incentives, etc.



John B. Ohanian, Commissioner

September 7, 1989
San Francisco, California

APPENDIX A
ADOPTED LOW-INCOME RATE ASSISTANCE PROGRAM ELEMENTS

	DISCOUNT RATES			REVENUE REQUIREMENT AND SURCHARGE ELEMENTS 1/					
UTILITY	CUSTOMER CHARGE 2/ ($/MONTH)	TIER I RATE ($/UNIT)	TIER II RATE ($/UNIT)	ADMIN BUDGET ($)	ESTIMATED # OF ELIGIBLE CUSTOMERS	ADOPTED FIRST YEAR PARTICIPATION RATE	LOW-INCOME DISCOUNT SALES (th/Kwh)	PROCEEDING TO ESTABLISH SURCHARGE	PROCEEDING TO UPDATE SURCHARGE 3/
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Electric utilities									
Pacific Gas & Electric	---	0.06900	0.10828	$4,490,098	711,906	40.0%	1,483,612,104	A.88-12-005	ECAC
Pacific Power & Light	$1.70	0.05563	0.06954	$57,406	6,467	50.0%	33,894,112	GRC	Attrition
San Diego Gas & Electric	---	0.06926	0.10655	$543,961	205,000	30.0%	318,249,371	Next ECAC	ECAC
Sierra Pacific Power Co.	$1.70	0.05856	0.08823	$15,700	4,325	25.0%	9,163,212	Next ECAC	ECAC
Southern California Edison Co.	---	0.07185	0.10950	$1,853,360	700,910	25.0%	1,017,442,379	A.89-05-064	ECAC
Southern California Water Co. (Bear Valley Electric District)	$2.55	0.06203	0.08639	$2,800	1,909	35.0%	3,675,925	Stepped rate filing	Stepped rate filing
Gas utilities									
C.P. National (Needles)	$4.70	0.57926	0.74452	$2,970	402	49.6%	61,079	SAM/PGCA	SAM/PGCA
C.P. National (S. Lake Tahoe)	$4.70	0.38035	0.47558	$27,030	3,184	49.6%	1,163,014	SAM/PGCA	SAM/PGCA
Pacific Gas & Electric	---	0.37554	0.71573	$1,961,332	609,438	40.0%	149,190,422	A.89-08-024	ACAP
San Diego Gas & Electric 4/	---	0.39709	0.71144	$168,039	135,000	30.0%	16,800,734	A.89-05-006	ACAP
Southern California Gas Co. 4/	8.663	0.31174	0.66381	$2,451,355	1,201,373	25.0%	184,835,415	A.89-04-021	ACAP
Southwest Gas Co. (Mojave)	$3.60	0.34005	0.61074	$90,068	10,000	38.3%	2,435,880	Attrition	Attrition
Southwest Gas Co. (Sierra)	$3.60	0.47929	0.52982	$10,131	650	50.0%	257,499	Attrition	Attrition

1/ Revenue requirement equals administrative budget plus franchise fee and uncollectible (FF&U) allowance plus low-income discounts. The administrative budgets shown here do not include a FF&U allowance, and are to be used solely for establishing an initial surcharge. Low-income discounts equal the amount of the discount for rates in columns (a) to (c) multiplied by the respective units of forecast sales.

2/ The 15% discount on the monthly customer charge has been rounded to the nearest five cents. So Cal Gas rate is stated in cents per day.

3/ The surcharge is to be updated on an annual basis. The first surcharge update will occur in the proceedings by which rates effective in January 1991 are determined, although some proceedings may result in rate changes prior to 1991.

4/ Southern California Gas and SDG&E ACAP rates are expected to be effective November 1, 1989. This exactly coincides with establishment of a LIRA rate. Rates shown in this appendix will be updated at that time.

I.88-07-009
D.89-09-044

JOHN B. OHANIAN, Commissioner, Concurring:

Although I do not believe that utility ratepayers should be used as "deep pockets" sources of revenue for social welfare programs, I do understand that the Commission must comply with the mandates of Senate Bill 987, and the level of benefits to low-income ratepayers must be meaningful.

In my opinion the initial level of benefits should be 10% of residential bills, rather than 15%. Our own Division of Ratepayer Advocates recommended an initial benefit level based on 10% for most utilities, and the DRA represents the balanced interests of all ratepayers, including businesses and farmers, not only residential or low-income customers.

Inverted residential rates provide conservation signals, and those rates apply to all residential customers, whereas the LIRA program applies to only a few. The mismatch of target groups indicates the need for caution in trading off LIRA and inverted rate benefits.

I am supporting the order because on the whole it complies with legislative requirements. I would have preferred to start with a 10% subsidy to low-income customers, then accumulate solid data on usage patterns and review our residential rate design intentions before committing to either elimination of baseline rates, a higher level of LIRA benefits or more innovative responses such as residential efficiency incentives, seasonal rates, uniform payment incentives, etc.

/s/ John B. Ohanian
John B. Ohanian, Commissioner

September 7, 1989
San Francisco, California

Decision 89 09 044 OCT 7 1989

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion to comply with Senate Bill 987 and realign residential rates, including baseline rates, of California energy utilities.

I.88-07-009
(Filed July 8, 1988)

ORIGINAL

(See Decision 88-09-027 for appearances.)

Additional Appearances

Messrs. Orrick, Herrington & Sutcliffe, by Robert J. Glostein and Kathryn Doi, Attorneys at Law, for CP National Corporation; Christopher J. Warner, Attorney at Law, for Pacific Gas and Electric Company; and Mark A. Minick, Attorney at Law, for Southern California Gas Company; respondents.
Joel R. Singer, Attorney at Law, for Towards Utility Rate Normalization, interested party.
Judith Allen, Attorney at Law, for the Division of Ratepayer Advocates.

FINAL OPINION

I. Introduction

A. Summary

This opinion concludes the Commission's proceeding to comply with the requirements of Senate Bill (SB) 987, which amended Public Utilities (PU) Code § 739. PU Code § 739 mandates that a baseline quantity of energy be priced below the price of other residential energy consumption. The origin and evolution of the energy baseline program was summarized in interim opinion Decision (D.) 88-10-062. The Commission had realigned the rates applicable to baseline volumes, the "Tier 1 rate," and the rates applicable to volumes in excess of the baseline quantity, the "Tier 2 rate," of the energy utilities last year. This was done in order to reduce rates charged for usage over baseline quantities by the statutory deadline of November 1, 1988.[1] By this order, the Commission further complies with SB 987 by establishing a program of assistance to low-income electric and gas customers. This program is in addition to direct assistance programs such as REACH and SAFE. Those programs address serious low-income ratepayer needs, and utilities are encouraged to continue direct assistance programs.

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1 Realignment was ordered in D.88-09-027 (Stipulation re: rates of Southern California Edison (Edison) approved) and D.88-10-062 (Realignment of Rates Ordered for Pacific Gas and Electric Company (PG&E), Pacific Power and Light Company (PP&L), Sierra Pacific Power Company (Sierra Pacific), CP National, Southern California Gas Company (SoCal), San Diego Gas & Electric (SDG&E), and Southwest Gas Company) (SW Gas). The rates of Southern California Water Company (Bear Valley Electric) were addressed in that company's general rate case.

FINAL OPINION

I. Introduction

Summary

This concludes the Commission's proceeding to comply with the requirements of Senate Bill (SB) 987. We authorize a low-income ratepayer assistance (LIRA) program consisting of a 15% discount on rates for ratepayers who qualify under the income criteria for Universal Lifeline Telephone Service (ULTS). The LIRA discount will apply to usage under both Tier 1 and Tier 2 rates as well as to any applicable monthly residential customer charge. The resultant difference in residential revenues will be collected from all other ratepayers, except for those under existing special contracts which state a specific rate, utility electric generation gas customers (UEG), cogeneration gas customers (cogen), wholesale gas and electric customers, and enhanced oil recovery gas customers. By Decision (D.) 89-07-062 issued on July 19, 1989 (the interim opinion), we adopted the ULTS eligibility criteria and authorized balancing account treatment of program costs for ratemaking purposes. A method for reviewing ratepayer eligibility was also approved. The respondents were ordered to file a tariff to provide a low-income program consistent with the interim order so that eligible ratepayers could be placed on the LIRA schedule pending this order. This final opinion establishes the rate for each utility's LIRA schedule.

Positions of the parties on all issues, including those resolved today, were set forth in the interim opinion and will not be repeated here. Comments of the parties on the administrative law judge (ALJ) proposed benefit level and other implementation details are considered in this decision. Some of the comments sought clarification of the Commission's intent; we provide such clarification here. Other comments, which merely reargue the

The Commission's Low Income Baseline Rate Assistance (LIBRA) program will consist of a discount on the Tier 1 rate (baseline quantity) paid by low-income customers. The initial program is designed to confer a 15% discount off the customer's total bill, assuming the customer uses average baseline and total quantities. Many low-income customers use less than average and will receive greater than a 15% discount. Low-income customers who use considerably more than average will receive less than 15%, but will also receive the benefits of rate realignment. In addition, the baseline discount provides a discount greater than 15% off higher winter gas bills, and less than 15% off lower summer gas bills.

Since the discount is applied to the baseline rate, the vast majority of low-income customers who use less than baseline allowances will receive a discount greater than 15%. In addition to conferring a significant and meaningful benefit on low-income customers, this discount is designed to protect low-use, low-income customers from the ongoing impact of rate realignment. All parties to this proceeding recommended that assistance be through the baseline rate, in recognition of the impacts of rate realignment. Low-use customers would clearly be the ones most adversely affected by increases in the baseline rate that result from realignment.

Some high-use, low-income customers would receive less than a 15% discount on their bill, since the discount only applies to baseline rates. Although we are concerned about customer perception, our concern is mitigated by two factors. All high-use customers will receive the benefit of rate realignment on the Tier 2 rates they pay. Furthermore, this program allows utilities to identify high-use, low-income customers to give those customers an opportunity to participate in weatherization programs. Such customers can then effect permanent reductions in their bills.

Average electric bills tend to be stable on a seasonal basis. Winter average gas bills are about double those during the

positions of the parties, are accorded no weight consistent with Rule 77.3.

II. Discussion

A. Benefit Level

1. LIRA Rate

SB 987 charged the Commission with establishing a program of assistance to low-income electric and gas customers. The legislation does not specify the amount or manner by which assistance should be given, nor does it define "low income." This mandate coincided with the grant of greater flexibility in pricing the baseline quantity of service. The utilities have reasonably assumed that a low-income assistance program should offset the effects of baseline realignment, as the increase in Tier 1 rates above 85% of system average rate is called, on low-income ratepayers. While we do not choose to accept the utilities' arguments here, we do recognize that a low-income program would not exist without the need to reform the baseline program. Thus, baseline reform, which the Commission is in the midst of, and the low-income program are inextricably linked.

Relationship Between LIRA and Increase in Tier 1 Rates

While the utilities would limit the amount of assistance to offset exactly the effects of baseline realignment, the legislation does not require such a limit. Some of the utilities refer to the Commission's evolving policy of aligning rates with cost, and object that a rate discount in excess of actual realignment is not cost-based. However, the task of protecting low-income ratepayers from the rate increases that accompany baseline reform requires that those ratepayers be actually insulated from the rate increases. The offer of a rate discount is inadequate if the ratepayers have not signed up for the discount when Tier 1 rates are increased due to realignment. This means

summer. The baseline discount provides a higher discount in dollar and percentage terms during the winter for gas customers. A discount that reduces higher bills is likely to provide assistance when low-income customers need it more. Although this departs from a straight discount, the outcome is desirable.

Our initial program is based on the 15% of average bill method. To provide longer term protection from substantial realignment, the benefit from the Division of Ratepayer Advocates (DRA) Residential Average Rate (RAR) method will be used when it confers a higher benefit level.

Because of further realignment, we belive it is necessary to implement low-income assistance through the baseline rate at this time. Utilities and other parties are encouraged to propose innovative programs that reflect the extent of realignment and the experience gained as a result of this program for the Commission's overall review of the LIBRA program in three years. Proposals made by parties to this proceeding were generally narrow in scope, apparently reflecting the belief that rate realignment was the dominant issue with respect to low-income customers. In the Commission's review proceeding, broader proposals which provide assistance when heat or cold leads to high bills or otherwise address what are likely to be low-income customers' concerns would be welcomed.

The LIBRA rate would be offered in a new low-income residential rate tariff. A customer who meets the eligibility criteria of the Commission's Universal Lifeline Telephone Service (ULTS) would qualify for the LIBRA rate.

Pursuant to this order the Commission establishes two methods in order to ensure that low-income ratepayers are indifferent to rate realignment. Initially all rates are based on the 15% of average bill method. In the event there is significant realignment the RAR method may provide a higher benefit for some

that the discount should be substantial enough to confer a meaningful initial benefit on program participants. The discount should also be easily understood in order to attract participants.

Cost to Non-Participants

To confer a meaningful benefit on program participants at the outset, we commence the LIRA program at a flat fifteen percent discount applied to both the Tier 1 and Tier 2 rates. This results in a small subsidy to participants: in other words, the program benefit exceeds the impact to date of adjusting the Tier 1/Tier 2 differential. Nevertheless, we strongly concur with the utilities and the Division of Ratepayers Advocates (DRA) that the LIRA program, over the long-term, should be designed to produce a benefit that, on average, is commensurate with decreasing the differential between Tier 1 and Tier 2 rates. As a consequence, we put all parties on notice that we will continue to adjust the Tier 1/Tier 2 differential, consistent with this policy, as early as possible in appropriate proceedings for the respective utilities.

Even at the outset, the costs of the LIRA program to non-participants is modest. Towards Utility Rate Normalization (TURN) was the only non-governmental consumer organization which participated at the evidentiary hearing. Mr. Florio testified for TURN that bill impacts of up to 3% increase per month are acceptable for the non-participating customer. TURN does not object to a larger benefit within the range discussed in this proceeding given the rate impacts illustrated in this record.

Southern California Edison (Edison) claims it conducted a survey of ratepayer willingness to fund a low-income program. Nothing of the survey is known, since the survey was not introduced into evidence, nor did Edison's survey-taker testify. Pacific Power and Light Company's (PP&L) prepared testimony described a phone survey conducted in March of 1989 to assess customer support for a surcharge to fund a discount for low-income customers. 58%

utilities' ratepayers, and the method yielding a higher benefit would be used.

The utilities will publicize the low-income rate in the monthly billing, among other means, and will solicit applications from their ratepayers. Review of the applications and determination of eligibility will be done by the utilities. An exception is made for PG&E and Edison, if they finalize agreements with the State Department of Economic Opportunity (DEO) for that agency to determine eligibility in time for eligible ratepayers to be billed at the LIBRA rate beginning on November 1, 1989.

B. Procedural History

A prehearing conference in this phase of the OII was held on December 28, 1988 during which dates for the service of testimony and for evidentiary hearings were set. Parties were directed to exchange summaries of their concept of a low-income assistance program. They were encouraged to attend an informal workshop chaired by the Commission Advisory and Compliance Division (CACD) on January 27, 1989 to discuss their ideas. Subsequently, the Assigned Commissioner issued a ruling outlining the issues and suggesting a rate discount as the means for assistance. In that February 9, 1989 ruling, the parties were required to propose a rate discount or differential as a minimum, to project the amount of continuing rate assistance, to allocate costs of the program on all but certain specified sales, and to estimate the potential number of participants. The resultant costs to non-participants under various eligibility criteria and assuming as a maximum benefit the differential between pre-existing Tier 1 and the residential rate at full realignment (i.e. no difference between Tier 1 and Tier 2 rates except for customer charge) were to be estimated. While the ruling stressed the need for consistency with the Commission's energy conservation goals, the amendment of any

of non-qualifying ratepayers said they would pay an extra $.50 on their bill to support the program.

The record of what is a reasonable burden on non-participants is limited but is adequate to conclude that we need not limit the program subsidy only to the amount needed to offset the impacts of realignment which has been authorized thus far.

Specific Proposals

The DRA recommends a minimum discount on the Tier 1 rate equal to the greater of 10% of RAR or a Tier 1 differential based on a current Tier 1 rate calculated as a percentage of RAR. This minimum discount is appealing because it attempts to provide a meaningful benefit to low-income ratepayers. The 10% of RAR discount results in limited benefits, however, since it is available only on consumption within the baseline allowance.

By way of comparison, under Edison's proposal, maximum monthly benefits total 69 cents. Under the DRA's proposal, Edison's maximum is $3.63. The benefit under SoCal's methodology would be $1.32, while under DRA's minimum, it would be $2.22. Because the Commission-ordered realignment of Tier 1/Tier 2 rates was minimal, the LIRA rates of all of the electric companies and the Sierra division of Southwest Gas Company would be based on DRA's 10% minimum discount. The Tier 1 rates of the gas utilities were significantly above 85% of SAR before baseline reform. As a result, the differential between current Tier 1 rates and a price equal to 85% of SAR is already so substantial that it exceeds 10% of RAR. Therefore, the DRA's 10% minimum would not apply in the case of some of the gas utilities when combined with the 85% of SAR rate discount method.

The most significant ratepayer benefit considered in this proceeding consists of a 15% discount off the average residential bill. A 15% discount ensures a meaningful level of benefit to participants. While the DRA recommended a 10% of RAR discount initially, it offered 15% as a reasonable discount if the

Commission-approved demand side management program or other non-rate type of customer assistance program was excluded from this proceeding.

Testimony was served by the respondent utilities on February 22, 1989, by the Commission's Division of Ratepayer Advocates (DRA) on March 15, and by interested parties on March 31. Review of the testimony showed that additional information was needed to accurately determine the rate effects of any low-income assistance program. On April 10, the assigned administrative law judge (ALJ) issued a data request which required substantial research and calculation by the utilities. The data responses were sponsored by utility witnesses and are part of the record. Four days of evidentiary hearing were held beginning on May 15, 1989 in San Francisco. Of the respondent utilities, PG&E, SoCal, SDG&E, Edison, SW Gas, CP National, and PP&L presented testimony. Southern California Water Company (SoCal Water) and Sierra Pacific did not actively participate in the evidentiary hearings and are to take appropriate steps to comply with this decision.

C. Comments on ALJ's Proposed Decision

The ALJ's Proposed Decision was mailed to the parties on June 23, 1989. As noted in the ALJ's Ruling of June 12, 1989, the parties stipulated to a shortening of the 30-day Section 311 review period, provided they were allowed 20 days within which to file comments on the Proposed Decision. Pursuant to Rule 77.1 et seq. of the Commission's Rules of Practice and Procedure, the following parties filed written comments: PG&E, Edison, SDG&E, SoCal, PP&L, CP National, Southwest Gas, WMA, the City of Long Beach, TURN, and DRA.

We have carefully considered these comments, and have corrected certain technical and numerical errors, as more fully reflected in revised Appendices A and B, attached to this decision. There are other minor typographical and editorial changes (including in some cases clarifications of parties' positions)

Commission believed that a more substantial benefit was needed. For Edison, assuming average summer baseline usage, the monthly benefit would be approximately $6.71. The monthly benefit for SoCal ratepayers would be $4.57.

The ALJ had proposed a method whereby a low-income ratepayer whose usage equals the utility's average baseline quantity would receive a discount equal to 15% of the average residential bill. Since the baseline allowance and actual usage by a particular customer varies from average Tier 1 usage, it would be difficult to predict what the actual discount per month experienced by each customer will be. The ALJ's proposed methodology would have resulted in a monthly discount ranging from 9% to 30% or so, assuming consumption equal to the baseline allowance, which varies depending on climate zone and season.

Application of Discount to Tier 1/ Tier 2

During the evidentiary phase of this proceeding, the parties were unanimous in recommending that a rate discount be available only for baseline quantities of usage, that is, quantities sold under the Tier 1 rate. Implementation of the assistance program through a discount of Tier 1 rates would provide low-income ratepayers benefits commensurate with their baseline benefits. That is, baseline quantities are already adjusted by climate zone and by summer/winter season. A greater baseline allowance is available to all-electric customers. Ratepayers with legislatively identified medical needs are also entitled to greater baseline quantities. Thus, the program of assistance would confer more or less benefits according to an existing residential rate structure that recognizes the energy needs of specific residential customer groups.

Under the DRA and utilities' proposals, the biggest discounts would be available when the baseline allowance is greatest. However, this would not necessarily result in maximum customer satisfaction. Baseline allocations are based on average

throughout the text, which will be obvious to those familiar with the issues raised in the written comments. However, many of the comments contained extensive reargument of the parties positions, and in accordance with Rule 77.3, we have accorded such comments no weight. The more significant revisions are summarized below.

In response to several parties' comments we have deleted certain dicta appearing at page 33 of the ALJ's Proposed Decision regarding "an unwarranted diversity windfall." We have added additional text at page 38, clarifying the manner in which LIBRA benefits are to be passed on to qualifying submetered customers.

In response to WMA's concerns, we have clarified that the submetered customer applying for the LIBRA rate is to have direct contact with the utility during the application process, rather than relying on the landlord as a conduit. In response to concerns raised by SDG&E, we specify that qualifying submetered tenants of master metered customers must reestablish their eligibility for the LIBRA rate every year, since they are not customers of the utility, and the latter will not be aware of tenant relocations. The ALJ's recommended three-year re-certification for all other customers is retained.

In response to SDG&E's comments, we also clarify that a customer applying for the LIBRA rate may be required to acknowledge that the utility may verify customer eligibility either randomly or where there is reason to believe that a false declaration has been made. The application form may state that the utility may request the customer to provide proof of eligibility.

In response to SDG&E's comments we have modified Finding of Fact 25 to discuss alternative methods of applying for the LIBRA rate.

In response to the comments of PG&E and SDG&E, we have revised Finding of Fact 24 to provide that bill notice of the LIBRA program shall commence with billings issued August 20, 1989 or as soon thereafter as reasonably practicable, but in no event later

historic conditions. There may be periods when the baseline quantity is insufficient to meet actual energy needs. We are concerned that preserving the differential between Tier 1 and Tier 2 rates for low-income ratepayers will perpetuate the high bills when monthly consumption exceeds the baseline quantity. This is the situation which led to ratepayer complaints and necessitated the realignment of Tier 1/Tier 2 rates in the first place. Thus, we believe it necessary to discount Tier 2, as well as the Tier 1 rate.

Adopted LIRA program

We authorize a LIRA program consisting of a 15% discount on both Tier 1 and Tier 2 of the residential energy rate. In the case of utilities which assess a monthly residential customer charge, the discount will apply to the customer charge as well. That is because the customer charge collects revenues that would otherwise be collected through the Tier 1 rate. This discount is substantial enough to provide a meaningful benefit to low-income ratepayers, will further the Commission's goal of maximum participation among qualifying ratepayers, and will target the residential rate subsidy to ratepayers who need it. The LIRA program should facilitate the realignment of Tier 1 and Tier 2 rates at the earliest date, thus providing benefits to non-participant residential ratepayers. It is clear from the enabling legislation that the LIRA program's continued existence depends on the closure of Tier 1 and Tier 2. To ensure that such realignment will be pursued vigorously, the Commission will examine its progress in baseline reform in May of 1991, the 30 month deadline in SB 987. Adjustments to either our progress in baseline reform or the low-income program may be required after such an examination.

This program is simple--simple to understand, simple to explain, simple to compute. Simplicity of understanding and explanation will facilitate outreach and explanation by customer service departments and result in a quick start to this program. It confers a noticeable bill decrease on participating customers.

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than September 19, 1989. We have modified Ordering Paragraph 3 accordingly.

In response to SDG&E's comments we have clarifed that the LIBRA balancing account will accrue interest, consistent with existing Commission procedures for balancing accounts.

Finding of Fact 30 is clarified as suggested by PG&E to remove language that would deny respondent utilities recovery of administrative costs incurred prior to the effective date of the decision.

As noted in revised Ordering Paragraph 11, CACD is also charged with the responsibility of comparing administrative costs and participation rates among respondent utilities, and to recommend any necessary program modifications, in the course of its overall monitoring role.

In response to several parties' comments, the reporting due date mandated in Ordering Paragraph 12 is extended to July 1 of each year, and CACD's annual report due date (Ordering Paragraph 11) is extended from June 30 to September 1 of each year.

Ordering Paragraph 1 is revised to require respondent utilities to file their LIBRA tariffs by advice letter on August 29, 1989, the tariff filings to be effective September 1, 1989, and the LIBRA rate to be effective November 1, 1989. CACD is directed to convene and chair a workshop on August 14, 1989, to facilitate the filing of tariffs which contain substantially uniform formats and conditions of service.

Several modifications to Finding of Fact 31 have been made to address the comments of numerous parties pointing to the need to precisely identify those customer classes exempt from the LIBRA surcharge. DRA's suggested revision is incorporated as a new finding (No. 31a). In addition PG&E's suggested revision relative to the allocation of LIBRA administrative costs between electric and gas customers is adopted.

LIRA Discount and Baseline Reform

The 15% discount targets a residential rate subsidy to ratepayers who need it. We intend that the LIRA discount replace the baseline subsidy inherent in each utility's existing Tier 1/Tier 2 rate differential. That is, the LIRA discount is provided in anticipation of further increases in Tier 1 revenues. Those increases have a special impact on low-income ratepayers. A greater percentage of low-income customers limit their use to the baseline quantity than for all residential customers. Therefore, Tier 1 increases would have a disproportionate impact on low-income customers. By today's action, we confirm our strong policy to proceed with baseline reform as needed to address the high bill problem caused by the Tier 1/Tier 2 rate differential, and to ensure that in the very near future the level of the LIRA discount and the size of the Tier 1/Tier 2 rate differential are essentially commensurate.

In responding to the direction of SB 987, the Commission had two goals: to reduce high winter energy bills and to avoid excessive bill increases. D.88-09-027 and D.88-10-062, the first two interim opinions in this OII, adopted increases to the Tier 1 rate of less than 1% to 6%, depending on the operational and revenue needs of each utility. No timetable for continued realignment of Tier 1/Tier 2 rates was established. However, the level of the adopted LIRA discount will cause us to accelerate the pace at which further realignment occurs. Utilities and other parties shall address this issue in pending and upcoming rate proceedings.

2. Master Meter Ratepayers and Submetered Customers

The implementation of the LIRA program for master meter ratepayers was addressed in the interim opinion. During the course of the tariff workshop ordered by that decision, the role of the master meter ratepayer in the tenant certification process was questioned. We provide the following clarification.

II. Positions of the Parties

The parties sought to interpret SB 987 in order to rationalize a program of assistance to low-income energy ratepayers. The fact that the mandate to establish a program of assistance and the elimination of the baseline differential[2] arose concurrently suggested to the parties that the program should exactly mitigate the increase in Tier 1 rates experienced by low-income ratepayers. Other than the fact that these two modifications to PU Code § 739 were made by the same legislation, no reason was advanced for limiting program benefits to the amount by which Tier 1 rates have increased.

The major elements of a program of assistance were identified in the parties' testimony as follows:

1. Size of discount to Tier 1 rates.
2. Maximum benefit or program cost.
3. Definition of "low-income" customer.
4. Application and certification process.
5. Estimated first year participation rate.
6. Administrative costs.
7. Recovery of program costs.

A. PG&E

PG&E proposed a low-income baseline ratepayer assistance (LIBRA) program consisting of a discounted Tier 1 rate. The Tier 1 rate would be discounted by the difference between the Standard

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2 Former § 739 subsection (c) had required:

> "The baseline rates shall apply to the first or lowest block of an increasing block rate structure which shall be the baseline quantity and shall be established for the residential consumption of gas or electricity at a differential of from 15% to 25% below the system average rate." (Emphasis added.)

Master meter customers with submetered tenants must notify the utility when enrolled tenants move.

Master meter customers are not responsible if a tenant misrepresents his eligibility to the utility. However, if a master meter customer has good reason to suspect that the tenant is not eligible, the master meter customer should, but is not required to, so advise the utility. The utility has the responsibility of confirming the tenant's eligibility.

Finding of Fact 9 on mimeo. page 42 of D.89-07-062 should have stated, "Low-income program rates will not be available to unmetered ratepayers because their energy bills are bundled with their rent and there is no way to enforce a pass through of the program discount to the consumer."

3. Time-of-Use Discount

Pacific Gas and Electric Company (PG&E), Edison, and San Diego Gas & Electric Company (SDG&E) offer optional time-of-use (TOU) metering to residential customers. Within PG&E's service area, TOU meters are being installed roughly at the rate of 10,000 a year. Customers must pay a monthly meter charge of $4.40. Contra Costa County's (County) recommendation that low-income residential TOU ratepayers have the option of either a bill discount or zero meter charge applied only to PG&E.

The E-7 residential time-of-use schedule includes a baseline credit. PG&E states that Schedule E-7 should not include a LIRA rate because this schedule is voluntary and the customers to whom it is available would otherwise obtain a LIRA discount on Schedule E-1. If a low-income ratepayer on E-1 qualifies for E-7 service and believes that the undiscounted TOU rates would be even more beneficial, then that ratepayer may choose to take service under Schedule E-7, according to PG&E.

The proposal has the merit of providing a subsidy to low-income customers at a lower cost to non-participants than would otherwise be the case. It allows low-income customers to benefit

Tier 1 rate and 85% of system average rate (SAR).[3] That difference is .621 cents per kWh for electric Tier 1 and 6.941 cents per therm for gas rates. Assuming average usage of baseline quantities, that yields a monthly benefit of $3.32 and $2.28, respectively. 85% of SAR was the maximum Tier 1 rate allowed by PU Code § 739 prior to its amendment by SB 987 although PG&E's Tier 1 gas rate was 110% of SAR before realignment. PG&E's low-income rate proposal would set LIBRA Tier 1 rates at their former statutory relation to SAR. Tier 2 rates for low-income ratepayers would be the same as for other residential ratepayers.

PG&E's objective is to ensure that none of the utility's low-income residential customers' monthly electric and/or gas bills increase as a result of the Commission's realignment of Tier 1 and Tier 2 rates permitted by SB 987. PG&E modified its low-income rate proposal in recognition that three primary methods for computing the LIBRA benefit had been introduced in the record. Those include PG&E's own 85% of SAR methodology, the DRA's residential average rate- (RAR) based method, and the ALJ's 10% or 15% discount of average bill method. PG&E recommends that the Commission adopt one of the three methods for discounting Tier 1 rates.

Increases in the Tier 1 rate as a percentage of SAR appear to be inevitable as a result of realignment. Therefore, the maximum benefit under PG&E's methodology would be equal to the difference between the average residential rate (which would equal the Tier 1 rate at the full realignment) and the former Tier 1 rate (the rate in existence before realignment November 1, 1988). PG&E recommends the Commission assess the low-income rate discount annually in the Energy Cost Adjustment Clause (ECAC) and Annual

3 The gas SAR consists of the sum of the utility's system average procurement rate and the system average transport rate.

substantially in two ways: an equity based waiver of meter charges and a cost based reduction in bills due to usage patterns. In addition, as a rate design principle, a customer's choice should not be titled toward a less cost-based rate schedule.

The Assigned Commissioner's ruling indicated that assistance to low-income ratepayers should consist at a minimum of a rate discount and did not preclude consideration of a program such as the County's. The proposal has the merit of providing a potential benefit that exceeds its cost. The monthly meter charge under the E-7 schedule should be waived for low-income customers. The utility should use reasonable efforts to market this option as an alternative to the low-income rate discount, particularly where the cost of the meter subsidy is less than the rate subsidy. However, PG&E should not divert an excessive amount of its administrative budget to this program. Since the County was the proponent of this program, the County will be expected to use the experience gained during its two-year study to assist in implementing this option. Based on the outcome of this trial, we may consider expansion of the low-income residential TOU option for other electric utilities.

B. Administration

1. Costs and Accounting

The utilities have proposed administrative budgets consisting of these elements: general administration, certification and recertification, verification, outreach, billing, and billing changes. A great disparity in administrative costs was noted in the interim opinion, so a workshop to examine the differences and the reasons for such differences in administrative costs was ordered. The respondent utilities were encouraged to reach consensus on the appropriate level of administrative costs. Substantial deviations from that level of costs were to be justified.

Cost Adjustment Proceeding (ACAP) proceedings, rather than define maximum benefit levels at this time. It points out that PG&E's and the DRA's rate proposals are linked to baseline reform (i.e., the subsidy grows as the Tier 1/Tier 2 rate differential shrinks) while a 15% discount off the average bill is not directly affected by rate realignment.

PG&E proposes that the definition of "low-income" include ratepayers whose income does not exceed 150% of the federal poverty level. This definition is acceptable to PG&E so long as verification of eligibility is handled through the DEO using the Home Energy Assistance Program (HEAP) criteria.[4]

Under the proposed arrangement, DEO would notify all recipients of state-administered public benefit programs who reside in PG&E's service territory of PG&E's low-income rate discount. Existing applications for the annual HEAP grant would be modified to ask the applicants if they wish to be on a low-income rate.

PG&E claims that some verification of eligibility is needed to avoid fraud. DEO would substantiate household income level by reviewing the documents supplied by an applicant for HEAP. The incremental cost to PG&E of verifying the eligibility of a ratepayer who indicates interest in the low-income discount on the application for HEAP assistance would be zero. DEO would charge PG&E $1.00 per application to verify the eligibility of someone who

4 DEO's HEAP program provides yearly direct assistance checks to help low-income customers pay their utility bills. Ratepayers qualify either by virtue of being eligible for public benefits (Aid to Families with Dependent Children (AFDC), Supplemental Security Income/State Supplemental Payment (SSI/SSP), Veterans' and Survivors Pension Benefits, or Food Stamps), or by otherwise demonstrating a total household income of no more than 110% of the federal poverty level. DEO would use the state of California's "Medical Eligibility Data System" (MEDS) to verify whether a ratepayer or someone in the ratepayer's household is a recipient of any of the above-listed benefits.

The workshop was held on August 15, 1989. It was chaired by the Commission Advisory and Compliance Division (CACD) staff. CACD circulated its draft findings and recommendations to the respondent utilities on August 18, 1989. Comments on CACD's draft and proposed administrative cost budgets, revised to conform with workshop results, were received from the utilities and DRA on August 23. CACD filed its recommendations concerning the appropriate level of administrative costs on September 1, 1989 as directed by the Commission.

had not applied for the HEAP program, subject to adjustment as the ratio of HEAP/LIBRA applicants to HEAP-eligible ratepayers changes.

PG&E maintains that certification of eligibility should be done at the start of the program, rather than after a fraud problem has arisen. The reason is the cost of recovering the discount received by ineligible ratepayers would be so excessive that they could not be justified. As a result the inflated costs of the program would never be recovered.

PG&E estimates that about 40% of eligible ratepayers would participate in the LIBRA program during its first year of operation. One-half of LIBRA ratepayers would have requested the rate discount when they applied for the HEAP program. The other one-half would be beneficiaries of the utility's direct weatherization programs and PG&E's own outreach efforts. This participation rate is expected to grow over time.

Based on an assumed participation rate of 40% and eligibility set at 150% of poverty level, PG&E estimates administrative costs of $4,028,381 and 284,762 participants during the first year. This works out to about $14.78 per eligible low-income ratepayer.

Costs of the low-income program would be collected through a surcharge on all energy sales except for sales under the LIBRA rate, sales made pursuant to special contracts which provide a specific price per unit of energy, and gas throughput to utility electric generation (UEG), cogeneration, and wholesale customers. With regard to special contracts for electricity sales, PG&E would exempt all sales with a specific price term that is not indexed to the otherwise applicable tariff rate. As for special contracts for gas sales, PG&E would exempt only those specific-price volumes that are not included in the next ACAP's revenue allocation calculation. The only such volumes are sales to enhanced oil recovery (EOR) customers.

CACD's primary conclusion is that most differences in administrative costs can be explained. However, the explanation of utility-by-utility differences is insufficient to determine what the appropriate level of administrative costs is. Utilities had not been using a common definition of incremental administrative cost. A common definition of incremental cost should be used, at least until the definition can be refined in the context of a reasonableness review of LIRA administrative costs.

For purposes of booking administrative costs to the LIRA balancing account, incremental costs are defined as costs resulting from performing incremental activities which would not have been incurred absent the LIRA program. These incremental costs must be identifiable in accordance with generally accepted accounting principles and verifiable through generally accepted auditing standards in order to be considered in any reasonableness review. Accordingly, each utility should establish a cost code, subaccount, or other identifier appropriate for its accounting system to segregate and track the incremental administrative costs for the LIRA program. Thus, costs which meet this working definition of incremental cost may be booked to the balancing account, even though we have not finalized the definition itself.

Administrative costs varied widely because utilities do not treat overhead expense in a uniform manner, some utilities will contract out for some services, and estimates of customer contact and participation rates ranged widely. As a result, estimates of administrative costs per eligible customer ranged for the large utilities from PG&E's high of $8.15 to SoCal Gas' low of $1.40.

The issue of overhead expenses, which most utilities had not included in their initial showings, was discussed. We find that labor overheads should be included as an incremental cost because they are part of a contractual package of employee compensation which is incurred at an hourly rate. Non-labor

B. Contra Costa County

Contra Costa County (County) urges the Commission to assist low-income time-of-use (TOU) residential ratepayers by either authorizing a percentage discount on their bill or elimination of the monthly meter charge. The County's recommendation was limited to PG&E, its serving utility. The County refers to the Commission's suggestion that PG&E examine the possibility of offering "fully paid up" TOU meters to low-income customers at no additional cost in PG&E's 1986 reasonableness review. (D.89-01-012, mimeo., p. 26.)

Under PG&E's main residential electric schedule, E-1, and its residential TOU schedule, E-7, a ratepayer is indifferent to the choice of schedule when 20% of electric consumption occurs during the on-peak period. Thus, a customer would realize lower electric bills under TOU rates than under the main residential schedule if on-peak usage were decreased from 20%. Assuming consumption of 750 kWh/month and only 5% of usage occurred on-peak, a customer would save $23.72 on the TOU schedule. The County believes that monthly benefits to low-income customers in excess of the program cost of $4.40 per ratepayer can be attained under its proposal. The County claims that a low-income TOU rate would leverage ratepayer funds by maximizing the potential savings for low-income customers, and would allow low-income customers benefit from TOU rates while reducing the risk of higher bills.

In support of its proposal, the County introduced the results of a 2-year Senior Citizen TOU Demonstration Program it had conducted with PG&E. The 92 program participants fell largely within the definition of "low income," as about 70% of the seniors had yearly incomes between $5,000 and $15,000 per year. Over 80% of the participants used less than 700 kWh and over 40% used less than 400 kWh per month. By the end of the program, about 85% of the participants had altered their consumption patterns to consume

overheads should not be so included because they have not been shown to be a mandatory incremental expense.

The utilities are expected to incur both start-up or nonrecurring costs and ongoing or recurring costs during this first year. These costs must be distinguished in order to determine the trend for LIRA administrative costs to be consolidated with general rate case expenses, and to estimate future year administrative costs. An appropriate way to incorporate administrative costs into base rate revenue requirement in the general rate case is to trend low-income costs less start-up costs. However, at the workshop, the utilities characterized the difference between startup and ongoing costs as somewhat arbitrary.

CACD anticipated that administrative budgets, revised in accordance with the above definition of incremental costs, would nonetheless vary. It proposed several options for resolving this matter. We find the most efficient alternative to be the establishment of a single DRA audit team to perform reasonableness reviews for all utilities. This review should be ongoing during the first year in order to establish fairly uniform practices among utilities for costs to be booked as LIRA costs. The audit team should present its recommendations in the annual LIRA revision proceeding. This would also assist the utilities to distinguish non-recurring from recurring costs.

CACD has found that a full review of administrative costs and underlying assumptions is not possible at this time. Under these circumstances, it is not possible to estimate a reasonable administrative budget for the LIRA for each utility. Administrative budgets cannot be guaranteed rate recovery until they are found to be reasonable. Thus, the utilities should book their administrative expenses to the LIRA balancing account established in the interim opinion. However, unlike the residential rate shortfall, administrative costs must be reviewed for reasonableness before they may be recovered in rates. Booked

less than 20% on peak. This demonstrates that even low-usage customers can benefit from TOU rates, according to the County.

The County stressed that the success of such a program is contingent upon intensive customer education. It suggests that the utilities could market the low-income discount and the low-income TOU rate simultaneously. No budget for a TOU education program was included in the County's proposal.

C. Southern California Gas Company

Like the other major energy utilities, SoCal proposed a monthly bill subsidy designed to ensure that no low-income customer would be adversely affected by the flattening of the residential rate structure authorized by SB 987.[5] The per therm subsidy would increase with additional flattening of the residential rate structure. During 1989, the discount would be 3.262 cents per therm plus any additional reduction in the differential authorized in the ACAP. Assuming full Tier 1 use, the monthly benefit would total $1.32 per month. The maximum possible per therm subsidy that would be provided under the proposal, when SoCal achieves a flat residential rate structure, is 13.648 cents.[6] Based on the current flattening of SoCal's residential rate structure and current rates, the maximum subsidy (i.e. assuming full usage of a customers Tier 1 allowance) to low-income customers in Climate Zone 1 would be $2.02/month during the winter and $0.62/month in the summer. SoCal estimates that if 25% of eligible customers

5 SoCal calculates a subsidy amount equal to the difference between the differential that existed between the RAR and baseline (Tier 1) rate on October 31, 1988 and the differential between the currently effective RAR and Tier 1 rate.

6 SoCal correctly defines a flat residential rate structure as one wherein the difference between the Tier 1 rate and the average residential rate is entirely explained by the fact that residential customer charge revenues are credited against the revenues to be collected from the baseline rate.

costs will be reviewed to ascertain whether they are indeed incremental or had been provided for in the utility's base rates.

2. Outreach and Application Process

We have previously addressed the issue of LIRA outreach. However, we indicated that more precise requirements for customer notice would be provided in this decision. Indeed, many questions concerning outreach were raised at the both the workshop on administrative costs and the August 14, 1989 workshop on LIRA tariff uniformity, also chaired by CACD. This opinion resolves those issues.

All respondent utilities shall make the availability of the LIRA program known with each request for utility service, as SoCal Gas, SDG&E, and PG&E have proposed to do. This is a cost-effective way to notify ratepayers. Many of these ratepayers will be new to the utility's service territory, and will not have received any notice of the program via the bill insert.

The interim opinion had required the bill notice to include a form "...which could be returned with bill payment to apply for the program..." This enables the ratepayer to apply for the LIRA rate at the same time as he pays his utility bill. Our intent was to make it convenient to apply for the LIRA rate. If the utility provided an application in the form of a postage paid self-mailer with the monthly bill, that application would be as convenient as the application returned with payment. A utility may offer this alternative if it is less costly than the former means of collecting application forms.

It was noted that the utilities' initial bill notices are in English only. Notices were not ordered in other languages because it was assumed that the utilities are aware of the language needs of their own ratepayers, and that multilingual bill notices would be printed. We agree with workshop participants that multilingual notices should be issued during the billing cycle

which begins immediately after December 1, 1989. Thereafter, LIRA bill notices shall be multilingual.

As part of the monitoring program ordered by the interim opinion, the utilities are to show how minority and non-English speaking ratepayers are appropriately represented among LIRA participants. Some of the utilities proposed at the workshop that the LIRA application request optional age and racial information. This is unacceptable to the Commission. A request for racial information on an application for benefits conferred on the basis of income, whether optional or not, is irrelevant to the issue of eligibility at best. At worse, it intimidates applicants, is a deterrent and is an invasion of privacy. The same can be said for age information. The Commission should not condone this practice. Moreover, no reliable conclusion can be drawn from data culled from optional responses, particularly since during the course of the evidentiary hearings, the utilities repeated that demographic information on their ratepayers was not available. The better way to collect information responsive to the Commission's expressed concern is for the utilities to conduct a demographic survey of their entire ratepayer population, and to collate data on LIRA participants out of that pool of responses. However, we are not ordering such a comprehensive survey at this time.

It was proposed at the workshop that ratepayers be required to provide their social security numbers on their LIRA application form. The interim opinion authorized utilities to draft application forms substantially similar to the one Edison introduced in its testimony. It does not request a social security number. Provision of one's social security number is not a prerequisite for utility service. The requirement that LIRA applicants provide their social security numbers was never mentioned on the record. Utilities are to conform with the interim order.

The administrative budget for this program was estimated to be approximately $1.65 million. This does not include the cost of verification. By contrast, the administrative cost for Commission-authorized demand side management programs for 1989 are projected to be $13.5 million.

SoCal proposes to recover the costs of this program through a flat monthly surcharge on the account of each non-participating core customer. Currently, the surcharge would range from 8 cents to 40 cents per month, depending on low-income ratepayer participation. SoCal observes that SB 987 prohibits the Commission from imposing the cost of the program on only one class of customers. It believes that programs that exclusively benefit residential customers should be funded exclusively by residential customers. As a compromise, SoCal proposes to levy the surcharge on core customers. Funding of the LIBRA program by non-core customers would violate cost-based rate design principles, according to SoCal. SoCal proposes that the Commission authorize it to establish a balancing account to reconcile expected differences in the timing between program funding and cost incurrence.

D. SDG&E

Pursuant to D.88-10-062 (the interim opinion in this proceeding) SDG&E decreased its Tier 2 electric rates, effective November 1, 1988, with no corresponding increase to the Tier 1 rate. As ordered by D.88-12-085, its Test Year 1989 General Rate Case decision, SDG&E decreased non-baseline electric rates by 13% and baseline rates by 1%, thus achieving substantial realignment of electric rates. Currently, SDG&E's electric Tier 1 rate is 94% of its system average rate, whereas it was 85% prior to baseline reform.

SDG&E proposes to establish a new Tier 1 rate for low-income customers which will keep them economically indifferent to rate realignment. SDG&E proposes that no electric LIBRA tariff be

The following miscellaneous observations clarify our intent on issues raised at the CACD-chaired workshop, or are necessitated by today's adoption of benefit levels:

We note that only PG&E and PP&L, if PP&L has concluded an agreement with Department of Economic Opportunity (DEO), are authorized to use a two-step application process.

The interim opinion had authorized the expenditure of $1.00 per eligible customer for certification by DEO. PG&E currently estimates $1.67 maximum average unit cost for processing applications beyond the first two months of the LIRA program. This revision is incorporated in the utilities' proposed administrative budgets, listed in Appendix A.

C. Implementation of LIRA Rate

1. LIRA Tariff

The LIRA rate shall be 85% of the respondent utilities' residential rates in effect on November 1, 1989, becoming effective on November 1, 1989. The LIRA rate will be revised each time the main residential energy rate of a respondent utility is changed so that the LIRA rate is maintained at 85% of the main residential rate. That rate includes Tier 1 and Tier 2 rates as well as any applicable monthly customer charge.

The discounted LIRA rate can be calculated today. However, the LIRA rate is subject to change as residential rates change as a result of pending Energy Clause Adjustment Clause (ECAC) and Annual Cost Allocation Proceeding (ACAP) decisions.

A separate LIRA tariff schedule with special conditions of service will make LIRA eligibility criteria clear and aid in enforcement; expedite revisions to the LIRA program and the LIRA rate; and help each utility track the number of its ratepayers on the LIRA schedule.

We detail the terms of the advice letter filing ordered in the interim opinion as follows: Each of the respondent utilities will file by advice letter, effective September 17, 1989,

authorized at this time since SDG&E's current Tier 1 electric rates are 1% lower than the Tier 1 rates in effect prior to baseline reform.

SDG&E would implement a rate discount for electric baseline rates at such time as baseline electric rates increase above those in effect before November 1, 1988. SDG&E would establish a "benchmark baseline rate" to assure that low-income customers are indifferent to rate realignment. This would be the higher of either the Tier 1 rate in effect before baseline reform or a Tier 1 rate set at 85% of system average. In the case of gas rates, the benchmark would consist of a Tier 1 rate set at 85% of SAR with the TURN baseline allowance adjustment applied. The monthly gas LIBRA benefit, based on projected average Tier 1 usage, would total $4.12.

SDG&E would define as "low-income" ratepayers whose income does not exceed 130% of the federal poverty guidelines. It cites the HEAP program's reliance on eligibility for AFDC, SSI/SSP, Food Stamps, or in the alternative, annual household income no more than 130% of federally establshed poverty guidelines in support of its position. In order to limit the cost of this program, SDG&E proposes a ceiling funding level based on the maximum amount of rate realignment possible under current rates and the current estimate of qualifying low-income customers. This would amount to 58 cents per month, based on typical residential consumption. SDG&E has no empirical evidence of the tolerance of non-participant ratepayers for LIBRA program costs.

The ceiling includes the rate subsidy, related administrative expenses, and existing authorized low-income

tariff sheets setting forth the LIRA rate and conditions of service under a separate LIRA schedule in a form similar to that proposed by Edison. Revised pages will be drafted for the submeter schedules, PG&E's E-7 schedule, and in the appropriate tariff to provide the LIRA rate to baseline medical allowances. Each utility will also prepare an application form and a list of detailed procedures to be used by the utility in soliciting and processing ratepayer applications for the LIRA rate. These will be submitted to the CACD staff for review and approval. The proposed form of ratepayer notice will likewise be submitted to the Commission's Public Advisor.

A low-income allowance will be made for qualified ratepayers on PG&E's TOU schedule. The monthly meter service charge, currently $4.40, will be waived. These revenues will be recovered along with other LIRA program costs. Contra Costa County was the proponent of this form of low-income assistance. Its recommendation was based on a study where customer education was largely handled by the County. PG&E will not be required to publicize the availability of TOU meters and the waiver of the monthly meter charge in its LIRA customer information. That would most likely create customer confusion and a greater administrative burden than necessary to get otherwise qualified ratepayers on the LIRA program. However, the LIRA waiver of monthly meter charge must be disclosed to all applicants for residential TOU service. The participation rate in the LIRA TOU option will be reviewed in the LIRA revision proceeding, and improvements in customer notice will be ordered if necessary.

2. Calculation and Collection of LIRA Surcharge

The respondent utilities are authorized to collect LIRA costs through a surcharge. LIRA program costs include the rate discount, administrative costs, and an allowance for franchise fees and uncollectibles on administrative costs. Due to the incremental nature of the LIRA program at this time, LIRA administrative costs

programs.[7] Administrative expenses for the low-income rate assistance program are projected at $230,300. To accommodate future changes to general rate levels, this ceiling would be implemented as a percent of retail revenues. This amounts to .7% of retail electric revenues and 1.7% of gas retail revenues, excluding non-core customers. This is based on qualifying criteria set at 130% of federal poverty guidelines, and would amount to 155,000 electric customers and 100,000 gas customers.

SDG&E proposes that its rate subsidy program be funded by all customers covered by balancing accounts. That would include all electric customers under the Electric Revenue Adjustment Mechanism (ERAM) balancing account and all core gas customers. SDG&E proposes that non-core gas customers be excluded. Non-core sales represent 60% of gas department sales. Within the non-core class 95% of the sales are for UEG and cogeneration. SDG&E would also exclude special contract sales under contracts which provide a specific price per unit of energy. Finally, baseline sales to low-income customers would be excluded. SDG&E proposes to allocate the subsidy pursuant to the Equal Percentage of Marginal Cost (EPMC) method for electric program costs, and on a cent per therm basis for gas program costs.

A balancing account would be used to track administrative and other program expenses. Coordination of the subsidy with updates in utility sales forecasts, revenue requirements, revenue allocation, and rate design would best be accomplished if the costs

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7 The low-income programs authorized in SDG&E's 1989 General Rate Case include the Energy Education for Low Income (EELI) and Special Needs at a total annual cost of $550,000. The administrative expenses for SDG&E's Direct Weatherization Assistance, Low-Income Refrigerator Rebate, and EELI programs totaled $541,319. The participation levels in 1988 were as follows: DWA .4%, LIRR .06%. SDG&E's 1989 goal for EELI is 20,000 customers, or roughly 2% of residential customers.

increase revenue requirement. An allowance for franchise fees and uncollectibles should be included in the LIRA surcharge to recover this incremental increase in revenue requirement.

The actual surcharge to collect forecasted LIRA costs will be calculated in the utilities' upcoming rate change proceedings. The necessary billing determinants and changes in the residential rate will be adopted in those proceedings. Appendix A to this decision lists LIRA rates, forecasted sales, administrative budgets, proceedings with which to coordinate, and other factors to be used in calculating the LIRA surcharge. Appendix A includes the utilities' estimates of first year administrative expenses plus other elements of the surcharge which appear in the record. Also, Appendix A lists the proceedings which will yield each utility's rate changes.

Following calculation of the LIRA surcharge in the rate change proceedings listed in Appendix A, each respondent utility should file by advice letter a tariff establishing a LIRA surcharge to recover the cost of the LIRA program, consistent with the terms of this order.

The LIRA surcharge is the forecast of LIRA costs divided by the forecast volume of non-exempt sales of electricity, or the forecast volume of non-exempt transported gas, as discussed below. The surcharge shall be collected on all non-exempt sales of electricity and all non-exempt transportation of natural gas commencing with the next utility rate decision for which notice has been provided ratepayers pursuant to Public Utilities (PU) Code § 454. Revenues from the surcharge shall be booked to the LIRA balancing account, which was authorized in the interim opinion, to offset LIRA costs.

The LIRA surcharge shall be included in non-exempt rates. Our experience has shown that energy ratepayers are frequently confused or irritated with the itemization of surcharges which excessively complicate the bill and lead to additional and costly

and benefits of this program were reviewed in the ECAC and ACAP proceedings.

E. Southern California Edison Co.

Southern California Edison (Edison) proposes to discount the Tier 1 rate paid by qualifying customers by the amount needed to reduce the Tier 1 rate to 85% of SAR. The low-income household whose monthly consumption is at or below the applicable baseline allowance would receive a bill equal that which it would have received without the realignment of the Tier 1/Tier 2 rates. If the household exceeded the baseline allocation, the maximum baseline rate discount would apply, plus the already lower Tier 2 rate which has resulted from baseline reform. Under Edison's proposal, full Tier 1 usage in its most populous baseline zone would result in a $0.69 per month decrease to a low-income ratepayer's bill.

Edison proposes to define low-income households as those whose income is no greater than 130% of federal poverty guidelines. This criterion was selected because it is used to establish eligibility for the existing federal/state funded Energy Crisis Intervention Program and Edison Winter Energy Assistance Fund. Edison estimates that about 16% of residential households in its service territory will qualify for the program under its proposal. At a 150% of federal poverty guideline level, about 25% or 850,000 households would qualify, resulting in a revenue impact of about $950,000 under Edison's methodology and administrative costs of $1.75 million during the first 12 months. Costs could grow to as much as $57 million as Edison moves toward full EPMC revenue allocation and a lower baseline/non-baseline rate differential. Edison proposes that sales to customers with competitive alternatives be exempted from bearing any cost of the low-income subsidy program. These include all those on self-generation deferral rates and other special contracts.

inquiries to customer service representatives. However, we believe that there is a need in this program to inform non-participating ratepayers what they are contributing to this program. Thus, we request the utilities and DRA, in workshops chaired by CACD, to discuss methods for informing non-participants of the cost of this program.

3. Revisions to LIRA Rate and Surcharge

Revisions to the LIRA rate and surcharge will occur annually in the preceeding wherein the utility's residential rate is revised. In the case of the large energy utilities, this would be the ECAC or ACAP proceeding. In the case of the smaller utilities, this would be the attrition or other cost offset proceeding.

Revision of the LIRA surcharge will take into account changes in ratepayer participation levels, residential rates, baseline allowances, average Tier 1 and Tier 2 usage, numbers of eligible households, sales forecasts and other factors. We note that the ULTS eligibility criteria are revised in February of each year, when the federal price index is revised. LIRA eligibility criteria should also change each February to maintain consistency with the ULTS criteria. Any difference between surcharge revenues and actual LIRA program costs will be reconciled in the annual LIRA revision proceeding.

D. Cost Recovery

The interim opinion authorized balancing account recovery for all LIRA benefits and administrative costs. Respondent utilities were authorized to book actual program expenses and actual revenues received under the LIRA program. The balance in the LIRA account will be amortized in the LIRA surcharge as part of the LIRA rate revision. Because we have provided for balancing account treatment no revenue requirement is adopted in this decision.

Edison believes that total program costs should be capped at .5% of its present rate revenues. In the event that this limit is reached, Edison would raise the low-income Tier 1 rate to a level to keep the total subsidy from exceeding .5% of present rate revenues. Based on 1989 estimated sales, the program ceiling would be $30.9 million.

Edison would notify all residential customers of this program annually via a bill insert describing this program. Customers would establish their eligibility by returning a signed Application and Declaration (Application) form to Edison. No annual renewal would be required. Customers would be required to notify Edison when they no longer meet eligibility requirements. The Application would authorize verification by the utility at its option and rebilling of accounts where the customer was found not to be eligible. The utility would verify on a random basis when conditions indicate that such random checks are cost-effective.

In the short term, Edison proposes to allow the undercollection in base rate revenue to flow through and to charge administrative costs as negative revenue to the ERAM. This would recover the subsidy from all customers subject to the Electric Revenue Adjustment Billing Factor (ERABF) on an equal-cents-per kWh basis. This would continue at least until Edison's next general rate case proceeding.

F. <u>Pacific Power and Light</u>

Pacific Power & Light (PP&L) originally sought to be exempted from the Commission's implementation of a low-income assistance program. It now concurs that SB 987 mandates the establishment of an assistance program, but points out that the bill has no deadline for compliance. PP&L requests that implementation of a rate discount program of assistance be postponed for its customers. It recommends that the Commission consider this issue in PP&L's general rate case filing, which will

Since we cannot find that the utilities' proposed administrative budgets are reasonable, the utilities are not guaranteed recovery of all booked administrative expenses. Estimates of administrative cost incorporated in the surcharge pursuant to Appendix A are nonetheless subject to reasonableness review. Once the reasonable level of recurring LIRA administrative costs has been established in a LIRA revision proceeding, those costs should be trended and incorporated in the utility's base rates. Coincident with each utility's general rate case cycle, the utility should propose to include the cost of administering the LIRA program in its administrative and general expense.

LIRA costs will be collected on a volumetric rather than on a flat-customer charge basis. This method was favored by DRA, TURN, and all utilities except SoCal. A volumetric charge is more consistent with SB 987, which required that program costs not be borne by a single ratepayer class.

It is possible to collect the LIRA surcharge for gas utilities on volumes of either gas sold or gas transported by the utilities. While PG&E favored a charge based on throughput, SDG&E would impose the charge only on gas sold. There are good arguments to support both positions. A transport-based rate would affect non-core transportation customers who are not already exempt because of their UEG, cogen, or wholesale status. It was mentioned that this incremental surcharge could lead to bypass of the utility system by transportation customers. However, a sales based surcharge would be higher than one based on transportation volumes. If this higher rate were imposed on all utility sales, non-core customers may react by procuring their own gas supplies. This sales bypass would result in the core customers shouldering most, if not all, of the LIRA program costs. We have decided against this scenario. Moreover, consistent with our decisions restructuring the gas industry, PG&E's core and non-core portfolio rates reflect only the costs of gas supplies. Therefore, LIRA

be submitted in December 1989. Thus, PP&L is proposing a monthly benefit of $0.00 at this time.

The grounds for postponement include the inability of PP&L's customers to tolerate rate increases. This has forced the utility to forgo approximately $6.8 million in annual revenues as part of its Rate Stabilization Program, according to PP&L's witness. PP&L claims that by foregoing this rate increase, it is providing low-income ratepayers a subsidy approximately equal to the difference between the current and pre-realignment Tier 1 rate. PP&L will not raise rates although it has experienced about $5 million of unanticipated plant investment that was not considered in its 1986 general rate case. Moreover, the utility is faced with competition from alternate fuels.

PP&L is concerned that the Commission may apply uniform assistance standards to all California jurisdictional utilities. In particular, it would object to the Commission's use of the ULTS criteria. PP&L described the income characteristics of its residential population. Using figures provided by PP&L's witness, it appears that the median 1988 household income in PP&L's service territory was roughly $18,750. The statewide median household income was $29,400. Approximately 30% of PP&L's California ratepayers may qualify for the LIBRA program under an eligibility criteria of 150% of federal poverty guideline. The utility fears that any surcharge to fund a low-income assistance program will have a significant adverse impact on its customers.

PP&L's primary recommendation is that the Commission should consider its Rate Stabilization Program as an assistance program. If this is not acceptable, then PP&L wishes the Commission to adopt a program along its recommended lines, but to postpone implementation of the program until after full consideration of PP&L's financial posture in its December 1989 general rate case (GRC).

surcharges for the gas utilities should be assessed on transported volumes of gas.

The following customer classes will be exempted from the LIRA surcharge: existing special contracts which state a specific rate, utility electric generation (UEG) gas customers, cogeneration gas customers, wholesale gas and electric customers, and enhanced oil recovery (EOR) gas customers. These customers are exempted from funding the LIRA program because of special circumstances, such as contractual obligations of the utility, the potential for double paying, or statutory requirements. Low-income sales will also be exempt because the LIRA program will discount such usage. Street lighting will also be exempt because such service is ultimately paid for by taxpayers, who will already contribute to the LIRA program as ratepayers.

The interim opinion provided that LIRA administrative costs will be allocated between gas and electric operations in the same proportion as gas and electric program discounts, but did not specify where that allocation should occur. Allocation should occur in the ECAC proceedings of the combined utilities. An allowance for franchise fees and uncollectibles will be made after the allocation of administrative costs occurs.

Most of the parties recommend allocation of electric LIRA program costs on a cents per-kWh basis. SDG&E advocated allocation based on Equal Percentage of Marginal Cost (EPMC). The EPMC methodology is not appropriate because it assumes that every cost has a functionality that allows its incurrence to be attributed to a class of ratepayers. Moreover, allocation on a per KWh basis is more consistent with the goal of minimizing the burden on any one class of ratepayers. Therefore, costs of the electric LIRA program should be collected on an equal cents per-kWh basis.

E. Monitoring

The interim opinion requires the respondent utilities to cooperate with CACD in its annual monitoring of the LIRA program.

The low-income assistance program would provide a discount to Tier 1 rates equal to the difference between PP&L's pre-realignment Tier 1 rate from PP&L's current Tier 1 rate. PP&L had no specific recommendations on low-income eligibility criteria. It believes that at least 50% of its eligible low-income population would sign up for the program and that higher-than-average participation will be realized due to the active low-income organizations in the service territory. PP&L proposes that DEO certify eligibility. It estimates that about $50,000 of its $200,000 administrative costs would be used for certification & verification of eligibility.

PP&L has no fuel cost adjustment mechanism, and has requested the Commission to eliminate its ERAM mechanism. It seeks authorization to establish a deferred debit account system that would track program costs. The company's surcharge amounts and subsidy payments would be updated with each year's attrition filing and its general rate case filings. DRA accepts the company's proposal for handling annual updates in its attrition filing and recommends review of the reasonableness of administrative expenses in each GRC.

G. CP National

CP National would utilize DRA's proposal to implement a low-income assistance program with one exception. Instead of a 10% of RAR minimum discount for CP National, the utility recommends a minimum benefit equivalent to 6% of RAR discounted off baseline. This would result in a $1.81 per month benefit. CP National believes its ratepayer base, of which 62% is residential usage justifies this difference. CP National states that application of the 10% RAR minimum would result in a "significantly higher" average surcharge on non-participants than the surcharge on other utilities' non-participant ratepayers.

Based on its use of self-certification to determine the eligibility of its telephone ratepayers for ULTS, CP National

Given the results of the workshop ordered by the interim opinion, CACD's monitoring role should include evaluation of administrative cost expenditures and the reasonableness of utility effort in view of the ratepayer participation rates achieved. CACD should also evaluate the possibility of joint outreach with telephone utilities.

Findings of Fact

1. Assistance to low-income energy ratepayers is best provided through a 15% discount to both the Tier 1 and Tier 2 rates, as well as any applicable monthly residential customer charge, within the residential rate schedule because this will confer a meaningful level of benefits to the class of ratepayers which has been targeted for rate subsidy, will encourage participation by eligible ratepayers, and will enable realignment of Tier 1/Tier 2 rates to proceed in an equitable manner, and at an accelerated pace.

2. Tier 2, as well as Tier 1, rates should be discounted by 15% in order to avoid the disparity between these two rates which led to the high-bill problems necessitating baseline reform in the first place.

3. A LIRA program should be available to qualifying low-income energy ratepayers.

4. The 15% discount on residential rates is the most reasonable way of providing assistance to low-income ratepayers at this time because it targets a substantial portion of baseline benefits to low-income customers, provides a significant, rather than symbolic, level of benefits, and is cost-effective in minimizing administrative overhead.

5. The DRA's RAR method is the most reasonable means of calculating the impact of baseline reform on low-income ratepayers because it best isolates and quantifies the difference in Tier 1 rates which result from the flattening the Tier 1/Tier 2 differential.

recommends either self-certification for LIBRA program applicants or the use of social service agencies to screen applicants.

CP National's primary proposal for recovery of LIBRA program costs would be to add those costs to the base cost amount of CP National's supply adjustment mechanism (SAM) balancing account. It would not object to using a new balancing account for cost recovery with respect to this program. In the absence of a scheduled rate case, CP National recommends use of its response to the ALJ data request to calculate LIBRA program costs. Those costs would be entered in a balancing account, to be reviewed at the next general rate case.

The residential tariff of CP National's Needles District retains a lifeline allowance pursuant to former PU Code § 739. Hence, there were no Tier 1 rates to adjust in D.88-10-062. Since SB 987 requires a program assistance to low-income energy ratepayers, without exception, an appropriate program should be authorized for the Needles District.

H. Southwest Gas

Southwest Gas proposes to set Tier 1 rates at their pre-realignment level. Currently authorized test year billing determinants and primary residential class revenue requirement would be used to calculate a LIA (Low-Income Assistance) rate as 85% of SAR, as was done prior to baseline reform. The LIBRA rate would be recalculated when class revenue requirements change. The revenue shortfall would be booked into a separate, interest-bearing account for future recovery. The balance would be collected on a cents per-therm basis from all non-low-income sales, excluding special contract sales. The LIA Account balance would be adjusted annually along with SW Gas' CFA, PGA, and SAM accounts in normal offset filings. Determination of eligibility should be done by a local community service agency, rather than the utility. The Commission might verify eligibility of high-volume ratepayers. A cap on the amount of subsidy to 0.25%-0.5% of total revenue is

6. LIRA rates will not be available to unmetered consumers because their energy bills are bundled with their rent and there is no way to enforce a pass through of the LIRA discount to the consumer.

7. Contra Costa County's proposal to exempt qualifying low-income ratepayers from the monthly meter charge for residential TOU rates is a reasonable way of leveraging costs to non-participants to provide greater potential benefits to low-income ratepayers and should be adopted for PG&E.

8. Eligibility criteria for the LIRA program will change at the same time as revisions to ULTS criteria are ordered by the Commission.

9. Utilities should notify their customers of the LIRA program as approved today in English and in other languages as appropriate to their ratepayer population via bill notice issued in the billing cycle immediately following December 1, 1989. The electric and combined utilities should circulate the multilingual bill notice during the bill cycle commencing two months before the summer peak. All utilities should advise each applicant for utility service of the availability of the LIRA rate, as this will notify those who have not been notified through the bill notice.

10. The interim opinion described an appropriate application form. The utilities should not request information, whether optional or not, which was not sought by the approved application form.

11. LIRA program costs consist of LIRA benefits, defined as the difference between the main residential rate and the LIRA rate times LIRA rate consumption, LIRA administrative cost, and an allowance for franchise fees and uncollectibles on LIRA-administrative cost.

12. The utilities should forecast a LIRA cost for the first year based on factors shown in Appendix A and using rates resulting from the next rate change decision.

advocated. Although SW Gas wishes to extend LIA program benefits to residents of master meter mobilehome parks, it cannot guarantee that a landlord will pass the discount through. It opposes providing LIBRA benefits to non-permanent residents.

I. Western MobileHome Association

Western Mobilehome Association (WMA) supports the concept of a program of assistance to low-income ratepayers. WMA estimated that on a statewide basis, about 19% of all mobile home households have annual incomes at 125% or less of the federal poverty level.

WMA will recommend that all owners of submetered parks cooperate with the utilities' outreach efforts and will help explain the program's revised billing requirements to park owners and to companies that provide submeter billing services. However, WMA is opposed to any requirement that park owners be responsible for soliciting, qualifying, or certifying residents for the program.

J. Division of Ratepayer Advocates

The Commission's Division of Ratepayer Advocates (DRA) recommends that the LIBRA program consist of a rate discount based on the relationship of the baseline rate to the RAR prior to the rate realignment, with a minium benefit of 10% of RAR and no cap on program costs.

DRA recommends the use of RAR over SAR in order to avoid any impact on the level of subsidy resulting from changes in a company's customer base or cost structure that do not otherwise have any effect on the alignment of residential rates. DRA proposes to discount the difference between the current Tier 1 rate (with customer charge) and the rate that would have been in effect based on the pre-realignment ratio of Tier 1 to RAR off the participating customers' baseline rate.

According to DRA, a minimum discount of 10% of RAR is necessary to make the LIBRA program worthwhile administratively and to encourage participation at the outset of the program. The DRA

13. A LIRA surcharge shall be authorized in the next utility rate change decision for which notice has been provided to ratepayers pursuant to PU Code § 454. The LIRA surcharge is the forecast of LIRA costs divided by the forecast volume of non-exempt sales of electricity, or the forecast volume of non-exempt transported gas, as the case may be. The surcharge shall be collected on all non-exempt sales of electricity and all non-exempt transportation of natural gas. Revenues from the surcharge shall be booked to the LIRA balancing account to offset LIRA costs. The allocation of LIRA administrative costs between gas and electric customers shall be on the basis of aggregate electric versus gas LIRA rate discounts (LIRA discount x LIRA sales).

14. The following customer classes should be exempt from the LIRA surcharge: existing special contracts which state a specific rate, utility electric generation (UEG) gas customers, cogeneration gas customers, wholesale gas and electric customers, and enhanced oil recovery (EOR) gas customers, street lighting electric customers, and low-income sales.

15. The LIRA rate should be adjusted whenever rates are changed so that the LIRA rate is maintained at 85% of the main residential rate. The discount should apply to Tier 1 and Tier 2 rates as well as to any applicable monthly residential customer charge.

16. The LIRA surcharge should be adjusted annually in the proceeding wherein energy or fuel costs are offset, or in an attrition proceeding, or other proceeding whereby residential rates are revised. Overcollections or undercollections should be amortized prospectively through the updated LIRA surcharge. The surcharge should be based on the determinants established in the relevant revision proceeding. Revisions to the LIRA surcharge should take into account changes in rate changes, ratepayer participation levels, realignment of the Tier 1 and Tier 2 rates,

has alternatively suggested a 15% minimum discount in the event the Commission believes that a higher level of minimum benefits is appropriate. While DRA does not believe that the low-income program mandated by SB 987 must be strictly linked to realignment, some connection between the rate discount and realignment is necessary to ensure that low-income customers are not worse off than they were prior to the realignment of rates pursuant to SB 987.

The maximum benefit level that automatically results under DRA's methodology with a complete flattening of rates would be an acceptable cap on ratepayer benefits. However, the DRA opposes a cap on program costs. The two most significant program cost factors may well be participation rate and changes in the Tier 1/Tier 2 differential. Since those cannot be predicted, a cap on program costs has little validity, according to DRA. It believes that continual reevaluation of the level of subsidy would accomplish its goal of balancing the needs of low-income customers against the cost imposed on other ratepayers.

DRA state that the LIBRA program should be funded on a cents per unit of energy basis. It reasons that a rate discount for low-income customers which is funded by other ratepayers is a subsidy program and a subsidy program is not by its nature cost-based. Consequently, it is difficult to attribute the costs of an equity program to any single class of customers. Moreover, benefits from this program are not limited to the residential class. A bill assistance program such as this would tend to reduce a utility company's uncollectibles, which benefits both the company and its customers. Therefore, DRA recommends allocation of LIBRA program costs to all gas customer classes with the exception of UEG, cogen, EOR, special contracts where a specific price has been provided, wholesale customers, and low-income Tier 1 sales and street lighting. According to DRA, all electric customers should support the program, except for customers under special contract

baseline allowances, average usage, numbers of eligible households, and other factors likely to affect the amount of rate subsidy.

17. The cost per non-participant was estimated under various scenarios in the utilities' responses to the ALJ's data request. Given the most liberal assumptions, costs to non-participants do not appear to be unreasonable.

18. Since the impact on non-participant ratepayers cannot be predicted, there is no basis for any cost cap at this time.

19. LIRA surcharges for the gas utilities should be assessed on transported volumes of gas on a cents-per-therm basis.

20. The costs of the electric LIRA program should be collected on an equal cents per-kWh basis.

21. A reasonable level of administrative costs cannot be established at this time. The utilities are authorized to use their proposed administrative budgets to establish the first year's surcharge, but administrative costs booked to the LIRA account are subject to reasonableness review in the LIRA revision proceeding.

22. LIRA administrative costs increase the utility's revenue requirement. An allowance for franchise fees and uncollectibles should be made on this revenue requirement increase.

23. The most effective means of establishing the reasonableness of LIRA administrative budgets is to establish a single DRA audit team, ongoing during the first year, to perform reasonableness reviews for all utilities. This will assist in establishing an ongoing budget of administrative costs to be included in each utility's base rates, as well.

24. The Commission's progress in reforming the baseline program, and in the adopted low-income program, will be reviewed by the Commission in May of 1991.

Conclusions of Law

1. A rate discount must confer a substantial benefit on ratepayers in order to constitute a program of assistance.

and low-income Tier 1 sales. Street lighting is listed because those costs are paid by taxpayers. Since these taxpayers are also ratepayers, collection of LIBRA costs from street lighting revenues would "double-charge" ratepayers, according to DRA.

DRA recommends use of the ULTS eligibility criteria and self-certification by applicants. It does not object to the use of the DEO as an agent for certification. The LIBRA discount should be offered to submetered users, but not to master meter customers with unsubmetered tenants. Low-income customers on optional TOU schedules should be extended program benefits through appropriate means.

DRA proposes that a separate balancing account should be set up for the LIBRA program. Only incremental administrative expenses should be booked to the LIBRA balancing account and the balancing account treatment for administrative expenses should cease with each company's next general rate case. DRA recommends a workshop to develop the concept of a monitoring committee to review the LIBRA program.

K. TURN

Towards Utility Rate Normalization (TURN) is a not-for-profit group which represents the interests of residential utility ratepayers. It continues to support an energy baseline program featuring inverted block rates that is generally available to all residential customers regardless of income. However, it recognizes that SB 987 mandates a targeted low-income assistance program and has intervened to provide a residential ratepayer perspective on the issues. TURN supports the positions taken by the DRA on most of the contested issues.

TURN believes that the objectives of offsetting the effects of baseline reform and providing a meaningul benefit to low-income customers can best be achieved through a rate discount that is equal to the greater of 1) 10% to 15% of the average residential bill; or 2) 15% of the SAR. The latter criterion is

2. The fact that SB 987 both eliminated the 85% of SAR limit on Tier 1 rates and mandated a program of assistance to low-income ratepayers does not limit the level of benefits to that which does no more than mitigate the increase in Tier 1 rates experienced by low-income customers.

3. A 15% discount on the main residential rate is a reasonable benefit to low-income customers. Realignment of the Tier 1/Tier 2 differential should be pursued so that the benefit level of the LIRA discount is commensurate with the impact of such realignment.

4. Protection of low-income ratepayers against increases in Tier 1 rates due to residential rate realignment is consistent with PU Code § 739.

FINAL ORDER

IT IS ORDERED that:

1. Within 10 days of the effective date of this order, the respondent utilities shall amend the tariffs ordered by D.89-07-062, (interim opinion) by advice letter to provide a low-income rate assistance (LIRA) rate consistent with the terms of this order. The LIRA rate shall be 85% of the main residential rate and shall be offered in a tariff separate from the main residential tariff. The LIRA rate shall be effective November 1, 1989.

2. Within 10 days of the effective date of this decision, Pacific Gas and Electric Company (PG&E) shall amend its residential Time-of-Use tariff by advice letter to provide for waiver of the monthly meter charge for qualifying low-income residential customers. The advice letter shall become effective November 1, 1989.

3. Within 30 days of the effective date of this decision, the respondent utilities and DRA shall meet in a workshop to

the only one that can assure that no low-income customer ends up worse off as a result of SB 987. The DRA's RAR approach fails to do so, according to TURN.

TURN criticizes SoCal's proposal to collect the LIBRA surcharge from core customers as contrary to the Legislature's clear intent. It recommends collection of the surcharge from all customers, with the exception of wholesale customers and the UEG and cogeneration customers of the gas utilities. Although existing special contracts which include a stated rate must be excluded, future contracts should incorporate the surcharge. That is because to the extent rate discounts are necessary, TURN believes they should come from rate components not protected by a balancing account.

TURN reluctantly acquiesces to balancing account treatment for LIBRA program administrative costs. It stressed the need to limit balancing account entries to incremental administrative costs that have been incurred specifically for the LIBRA program. Such recovery should be subject to strict annual reasonableness reviews to ensure, among other things, that costs being recovered are truly incremental and result from the LIBRA program. Balancing account treatment of administrative costs should be limited to two years, after which time the costs should be forecasted on a test year basis for recovery through general rates.

Revenue losses due to LIBRA benefits should be recorded in a balancing account and amortized annually in the company's ECAC or ACAP proceeding. TURN recommends a separate balancing account, rather than the ERAM, for recovery of LIBRA program costs. No ERAM-type account exists for the gas companies. The LIBRA surcharge should be based upon recorded costs only, with no forecasting of future period accruals at this time.

Finally, TURN recommends that the utilites be required to perform certain monitoring functions in order to allow the

be convened by CACD to explore methods for notifying non-participating ratepayers of their contribution to the low-income program. CACD will report to the Commission on the outcome of the workshop and include a recommendation.

4. The second sentence of Finding of Fact 9 of D.89-07-062 is modified to state:

> ". . . Low-income program rates will not be available to unmetered consumers because their energy bills are bundled with their rent and there is no way to enforce a pass through of the program discount to the consumer."

5. Beginning with the bill notice to be issued during the billing cycle beginning after December 1, 1989, the bill notice ordered in D.89-07-062, Ordering Paragraph 3, and explained or modified in the text of this decision, shall be multilingual in accordance with the language needs of each utility's residential ratepayer population. The bill notices are subject to approval of the Commission's Public Advisor.

6. Pacific Power and Light (PP&L) is authorized to process applications through the Department of Economic Opportunity so long as the utility can place the applicant on the program schedule within one billing cycle from the date of the application.

7. Only PG&E and PP&L are authorized to use a two-step LIRA application process, and their results are subject to the review provided in D.89-07-062, Ordering Paragraph 6.

8. The respondent utilities are authorized to recover the reasonable costs of the LIRA program from all ratepayers, except for the following: LIRA program participants, those special contracts which state a negotiated price and were executed prior to September 7, 1989, specific rate, utility electric generation gas customers, cogeneration gas customers, wholesale gas and electric customers, and enhanced oil recovery customers, and street lighting customers.

Commission to gauge the effectiveness of the LIBRA program and to evaluate its effectiveness in meeting the needs of minority groups and seniors. An update of potential participants within each service area should be submitted within six months of this decision. Eighteen months after implementation of the LIBRA program, the utilities should be required to update their estimates of the number of eligible customers and to report actual participation in detail. The information should include the number of customers participating and demographic information on participants such as household size, race, ethnicity, age, and income. The utility's outreach efforts should be described. These reports should be updated in each succeeding GRC.

Finally, TURN recommends that a LIBRA monitoring committee be established, made up of utility, consumer, and Commission staff representatives. The purpose of the committee would be to evaluate the implementation of the LIBRA program, based on the monitoring reports, and to suggest methods for improvement.

III. Discussion

A. Benefit Level

1. LIBRA Rate

SB 987 charged the Commission with establishing a program of assistance to low-income electric and gas customers. The legislation does not specify the amount or manner by which assistance should be given, nor does it define "low-income." This mandate coincided with the grant of greater flexibility in pricing the baseline quantity of service. The utilities have reasonably assumed that a low-income assistance program should offset the effects of baseline realignment, as the increase in Tier 1 rates above 85% of system average rate is called, on low-income ratepayers.

9. Following calculation of the LIRA surcharge in the relevant rate change proceedings listed in Appendix A, each respondent utility shall file by advice letter a tariff establishing a LIRA surcharge to recover the cost of the LIRA program, consistent with the terms of this order. The surcharge shall be calculated using the factors contained in Appendix A. It will be established using the determinants resulting from rate change proceedings listed in that Appendix. The surcharge will be included in the rates of ratepayers not exempted by Ordering Paragraph 7, above.

10. Revisions of the LIRA rate, the LIRA surcharge, amortization of the LIRA balancing account, and review of the LIRA program will occur annually in the utility's Energy Cost Adjustment Clause, Annual Cost Adjustment Proceeding, attrition, or other proceeding where residential rates are changed, as indicated in Appendix A. The first LIRA revision and reasonableness review of administrative costs shall occur in the proceedings by which rates effective on January 1, 1991 are determined.

11. LIRA program administrative costs shall be recovered in the utilities' base rates, rather than in the LIRA surcharge, in the general rate case following at least one reasonableness review of LIRA administrative costs in the LIRA revision proceeding.

12. Commission Advisory and Compliance Division monitoring of the LIRA program, ordered in D.89-07-062, shall include a comparison of administrative costs and participation rates among utilities, and a recommendation of any necessary program modifications.

This order is effective today.

Dated SEP 7 1989, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

I will file a written concurring opinion.

/s/ JOHN B. OHANIAN
Commissioner

While the utilities would limit the amount of assistance to offset exactly the effects of baseline realignment, they do not cite any legislative authority for such a limit. Instead, reference is made to the Commission's evolving policy of aligning rates with cost. A rate discount in excess of actual realignment is not cost-based, according to the utilities. However, an attempt to design a low-income assistance program on the basis of cost-causation would encounter logical pitfalls. The program of assistance is a subsidy of low-income ratepayers by other ratepayers. As DRA testified, a subsidy program by its very nature is not cost-based.

The parties recognized the quasi-legislative role this Commission must assume in implementing this broad mandate at the December 28, 1988 prehearing conference. It was there suggested that the Commission propose a rule setting forth the program for comment. A rulemaking was not deemed necessary. Clearly, in this decision, the Commission must define its goals and when deciding how it will accomplish those goals, it must balance the interests of all affected parties.

The task of protecting low-income ratepayers from the rate increases that accompany baseline reform requires that those ratepayers be actually insulated from the rate increases. The offer of a rate discount is inadequate if the ratepayers have not signed up for the discount when Tier 1 rates are increased due to realignment. Low-income ratepayers should actually be on the discounted schedule when further realignment is proposed to in fact mitigate the impacts of baseline reform. This means that the discount should be substantial enough to confer a meaningful benefit on program participants. The discount should also be easily understood in order to attract participants.

At the same time, costs to non-participants should be reasonable. The Commission recognized the subsidy currently borne by all ratepayers who consume more than the baseline quantity in