ALJ/BDP/avs **Mailed 12/16/99**

Decision 99-12-046 December 16, 1999

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion to Consider the Line Extension Rules of Electric and Gas Utilities.	Rulemaking 92-03-050 (Filed March 31, 1992)

OPINION ON REMOVAL OF METER COSTS FROM LINE EXTENSION ALLOWANCES

Summary

The Commission declines to adopt a proposal that would require new customers to pay up-front for their meters.

The Commission removes from the line and service extension allowances the credits for meter services, meter reading and billing, and payment services. Removal of the meter ownership credit from the allowance is deferred until the Commission addresses meter policy issues in other pending proceedings.

Procedural Summary

On December 1, 1998, as required by Ordering Paragraph 6 of Decision (D.) 98-09-070, Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), and San Diego Gas & Electric Company (SDG&E), filed proposed changes to their line extension rules. On February 10, 1999, PG&E filed an amended proposal and Edison filed supplemental comments and proposed tariff sheets.

Following a prehearing conference held on January 26, 1999, on March 12, 1999, PHASER Advanced Metering Services (PHASER), and The Utility Reform Network (TURN)[1] filed comments on the utilities' proposals. On March 29, 1999, The California Building Industry Association (CBIA), the Office of Ratepayer Advocates (ORA), PG&E and SDG&E filed reply comments.

A second prehearing conference was held on April 8, 1999. The consensus was that evidentiary hearings would not be necessary.

On May 24, 1999, opening briefs were filed by CBIA, ORA, PG&E, EDISON, SDG&E, and TURN. On June 4, 1999, reply briefs were filed by PG&E, Edison, SDG&E and Southern California Gas Company (jointly SE Utilities) and TURN, and this matter was submitted for decision based on the pleadings filed.

Scope of Proceeding

In D.98-09-070, the Commission directed the utilities to:

> "...propose in R.92-03-050 changes to line extension rules and related ratemaking which would eliminate any competitive advantage the utility may have under existing rules in markets for new meter installation, and which would remove revenues associated with unbundled revenue cycle services from the 'net revenues' used to calculate line and service extension allowances. The proposed changes should (1) exclude the meter costs and associated revenues from the calculation of the allowance and (2) demonstrate how the utility would remove RCS-related revenues from the distribution revenues currently used to calculate the extension allowance, prior to dividing the 'net revenues' by the cost of service factor." (Conclusion of Law 5, p. 28.)

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[1] All references to TURN include Utility Consumer Action Network (UCAN).

Following the first prehearing conference in the proceeding, the assigned administrative law judge (ALJ) issued a ruling defining the scope of this proceeding as follows:

> " 1. The scope of this proceeding shall be narrowly construed and limited to implementation of the matters covered by Conclusion of Law 5, of D.98-09-070, set forth above.
>
> 2. This proceeding shall not address policy matters related to metering and billing in the new competitive environment."
> (ALJ ruling dated February 5, 1999, emphasis in original.)

We affirm the ALJ's ruling and will discuss meter competition issues only to the extent necessary to address implementation of Conclusion of Law 5.

Background

Under existing ratemaking practices, if a new customer takes bundled service from the utility, the customer incurs no additional direct meter cost. If, however, the customer wishes to take advantage of opportunities available through either direct access or the utility's own time-of-use rates for some sort of time-differentiated energy service, then the customer may incur additional meter costs for the interval meter required to obtain such service.[2]

In recent proceedings establishing avoided cost credits for Revenue Cycle Services (RCS), TURN presented testimony that recommended changes to the utilities' line and service extension rules.[3] The changes proposed by TURN related primarily to the calculation of the allowance that utilities provide to

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[2] See comments of SE Utilities below. According to SE Utilities only a small fraction of direct access customers require special metering to participate in the direct access program.

[3] See D.97-05-039.

applicants for line and service extensions and the job costs to which an applicant would be allowed to apply the allowance.

The TURN/PG&E Proposal

According to TURN, the issue in this proceeding is the choice facing a new customer between taking bundled service with a meter provided at no direct cost by the utility, or taking a direct access option that requires the purchase of an interval meter, the direct cost of which would be the customers' responsibility.

To remedy this situation, TURN proposes that all new customers pay for the cost of their meter and installation, even though there would be no change in the utility's ownership of that initial meter.

To offset the up-front payment, TURN proposes that the line extension allowance be calculated in a way that delivers to the new customer the equivalent of the meter ownership credit that existing customers receive when they assume the cost of their own meter. According to TURN, the end result is that the new customer will bear the cost of the meter and its installation, but will also receive an allowance that captures on a one-time basis the removal of costs associated with the embedded meter costs in the utility's distribution rates.

In its December 1, 1998 proposal, PG&E proposed three changes to implement Conclusion of Law 5. First, to eliminate the competitive advantage the utility may have under existing rules in markets for new meter installations, PG&E made the cost of meters a nonrefundable cost to the applicant, and clarified that the cost is not subject to the line and service extension allowances. Second, PG&E proposed to reduce the allowances by an amount equal to RCS credits in order to have the "net revenue" used to calculate the allowance more accurately reflect the portion of the total rate that supports line and service extension costs. Finally, PG&E set forth the specific calculation used to determine the fixed residential line extension allowance.

Subsequent to the presentation of the December 1, 1998 proposal, PG&E and TURN engaged in a number of discussions to identify and resolve any disagreements the parties might have over the proper way to implement D.98-09-070. Following these discussions, PG&E filed an amended proposal on February 10, 1999. PG&E's amended proposal reflects some changes that the company had agreed to with TURN. One change had the utility use the meter reading and partial Energy Service Provider (ESP) billing credits adopted for its electric-only customers, rather than a weighted average that included its dual-fuel customers, for purposes of removing RCS credits from the "net revenues." Also, as proposed by TURN, PG&E's proposal provides that the extension allowance would be calculated in a way that delivers to the applicants for a line and service extension the equivalent of the meter ownership credit that customers would receive when they assume the cost of their own meter.

TURN agrees that PG&E's amended February 10, 1999 tariff proposal correctly reflects TURN's views. Also, TURN believes that PG&E's proposal is fully consistent with Conclusion of Law 5 and recommends that it be adopted for all utilities.

The Edison Proposal

Edison's December 1, 1998 comments describe in some detail the various policy issues that the utility believes are implicated by the goal of achieving competitive neutrality. Edison contends that the Commission should address ownership and competitive issues before the line extension rules are revised so that the Commission avoids replacing one form of undue competitive advantage with another.

In its February 10, 1999, filing Edison presented two alternative sets of tariffs. The "Attachment A" tariffs are consistent with the tariffs submitted by PG&E in its February 10,1999 filing. However, Edison submitted these tariffs "for discussion purposes." The "Attachment B" tariffs represent Edison's preference should the policy and implementation issues raised in its comments remain unresolved. The difference between the two is that the Attachment B version continues to make the meter cost a refundable cost to the applicant, and that cost would continue to be included in the utilities' rate base.

Position of the SE Utilities

The SE Utilities argue that builders should not be required to pay the meter cost to the utility as a non-refundable, up-front fee not subject to allowances. According to the SE Utilities, the flaw in the proposal to charge the meter cost as an up-front fee is that there is no linkage between charging the builder the cost of a meter and any resulting cost savings to the customer.

The SE Utilities point out that the line extension transaction is between the utility and the builder, not between the utility and the buyer of the building – the future utility customer – except in the relatively few cases where the future utility customer happens to build its own facility. Once the utility has charged the builder the cost of a meter, the builder has incurred this cost, and will attempt to recover it from the buyer of the building as market conditions permit. Once escrow closes on the building, the transaction between the buyer and the builder is complete and the buyer then begins its relationship with the utility as a utility customer.

Further, the SE Utilities point out that if the customer at a new facility decides to become a direct access customer the customer has absolutely no ability at that time to obtain a refund from the builder for the cost incurred by the builder for the utility meter. The meter cost charged to the builder becomes "sunk" to the buyer once the buyer purchases the building. Thus, according to the SE Utilities, in the absence of a linkage between the utility/builder transaction and the decision of a customer to opt for direct access service, making the meter non-refundable to the builder through an up-front fee not subject to revenue-justified allowances, simply increases the costs of builders, and thereby increases costs to home purchasers.[4]

Further, the SE Utilities argue that in the few cases where the builder also intends to be the utility customer, it is questionable whether a builder/customer in this situation will focus on whether it intends to be a direct access customer in sufficient time to avoid payment of an up-front meter fee to be charged by the utility.

Also, the SE Utilities point out that the proper mechanism to promote meter competition is already in place, even in cases where the builder/customer makes the decision to take direct access service before the utility-provided meter is installed, and therefore could theoretically avoid this cost by purchasing a meter from a Meter Service Provider (MSP) instead. If any eligible customer, new or existing, decides to purchase a meter from a MSP, the utility provides the customer with a "meter ownership credit."[5] If the customer can purchase a meter from a MSP at a price less than the utility's avoided cost, it is provided an economic incentive to do so by the subsequent credit it receives from the utility.

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[4] The SE Utilities contend that if one assumes that there are 100,000 new electric meter installations per year in California, and assuming the grossed-up cost of a meter is approximately $137, the Commission would impose costs on builders of $13.7 million per year in the aggregate, notwithstanding the fact that these costs might or might not be amortized over time through a mortgage by the buyer.

[5] D.98-09-070, mimeo., p. 18.

The SE Utilities believe that this existing mechanism by itself has achieved competition in meter markets for customers eligible to purchase a meter from a MSP.[6] According to the SE Utilities, it is therefore unnecessary to impose additional costs on all builders and buyers of new facilities in California when the proper mechanism to ensure competition in meter markets already exists that does not focus on the irrelevant fact of whether a customer is located at an existing facility or a new one.

Further, the SE Utilities point out that only a small fraction of direct access customers require special metering to participate in the direct access program. In the case of SDG&E, a scant two percent of direct-access customers require special metering because, for the vast majority of customers, the "load profiling" option offers a cost-effective alternative to special metering and involves a minimum of customer inconvenience. This option is available to all customers under 50 kW. The two percent of customers who require non-standard meters consists of those customers between 50 and 500 kW who do not have the load profiling option. Customers over 500 kW have an "interval meter" installed as the standard meter and therefore do not require any different type of meter to participate in the direct access program. Thus, the SE Utilities argue that even though all direct-access customers are eligible to purchase a meter from a MSP, and thereby receive a credit from the utility for the utility-provided meter, it should come as no surprise that customers do not make the extra effort to investigate their metering options unless they must purchase a non-standard meter in order to participate in the direct access program.

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[6] The SE Utilities point out that in D.98-12-022, the Commission decided, at least for the time being, to permit only direct access customers to purchase meters from MSPs.

Position of CBIA

According to CBIA, there is a mismatch in timing between the removal of meter ownership costs for line extension allowance calculation purposes and the implementation of unbundled electric service rates which exclude meter costs. Therefore, CBIA believes that meter costs cannot be simply removed from the extension allowance calculations while existing bundled rates are set to recover costs of installing meters that will actually never be incurred by the utility.

Further, CBIA argues that the TURN proposal does not represent a fair outcome to the mismatch problem. CBIA points out that TURN proposes to address the ratemaking timing problem by keeping meter costs in the electric distribution rate used to calculate the allowance – despite the express directive in Conclusion of Law 5 that meter costs be removed from allowances. Also, CBIA points out that the TURN proposal requires meter costs be included in the "job costs" in accordance with D.97-12-098 but also requires that meter costs, irrespective of the revenues generated by the job in question, be non-refundable – in violation of the revenue justification principles endorsed by D.97-12-098 in the Line Extension Rulemaking.

CBIA notes that D.97-12-098 authorized the electric utilities to charge applicants for the cost of meters to the extent that the cost of meters was not justified from a revenue generation standpoint. According to CBIA, by including the cost of meters in the "net revenues" calculation, and by reducing allowances generally to reflect only distribution costs, the Commission endorsed a line extension mechanism that guaranteed that new applicants for service would generate sufficient revenues to cover the cost of the installed meter.

CBIA contends that by charging applicants the full cost of the meter installation, and allowing only direct access customers to buy meters from non-utility meter providers, the obvious effect will be to require every new applicant for service who is not already a direct access subscriber to bear the full installed cost of meters, without regard to whether the revenue produced by the installation will offset the meter costs.

Also, CBIA argues that the TURN proposal is not only discriminatory to new applicants for service, but it is anticompetitive as well. Because up to 37% of the Income Tax Component Contribution (ITCC) is applicable to utility charges for service and equipment, CBIA contends that the utility would not be able to price its meters competitively. CBIA amends that the only real competition would be among non-utility meter providers because the utility would be effectively foreclosed from providing a meter at competitive cost. Assuming that non-utility meter providers would choose higher prices, rather than market share, and would price their meters at levels slightly below what the utility must charge (including the tax "gross up"), such non-utility meter providers would be able to reap an unwarranted and potentially significant windfall, according to CBIA.

Position of ORA

ORA urges the Commission to adopt PG&E's proposal and to apply PG&E's approach as the model for Edison and SDG&E. According to ORA, PG&E's proposal reduces the utilities' competitive advantage for new meter installations by making the cost of meters a nonrefundable cost to applicants for new service and not subject to allowances, and by reducing line and service extension allowances by the amount of the RCS credits adopted by D.98-09-070.

Position of PHASER

Although PHASER disagrees with the ALJ's ruling regarding the scope of this proceeding, PHASER believes that the competitive policy issues in the metering market implicated by the line extension rules can be addressed in the newly announced phase of the electric restructuring docket.[7]

PHASER contends that based on the limited scope of this proceeding, the Commission should only approve revisions to each utilities' tariff after satisfying itself that the utilities have properly removed RCS-related revenues from the calculation of line extension allowances.

Discussion

Should applicants for line and service extensions be required to pay up-front for meters?

According to TURN, the goal in this proceeding is not to create competition in the metering market, but rather to address the competition that exists between taking bundled service from the utility and taking some other form of service, whether from the utility or an ESP, that requires some form of interval metering. As stated in the RCS decision, TURN's concern is as follows:

> "...TURN/UCAN observes that the practice of automatically providing a meter as part of the service extension is anti-competitive and harmful to direct access. Currently, the meter does not permit time-of-use calculations, is not charged to the customer and is included in the utility's ratebase. According to TURN/UCAN, ORA, and Enron, this regulatory convention discourages customers from purchasing their own meters, from installing meters which are compatible with direct access, and creates a disadvantage to utility competitors..." (D.98-09-070, p.22.)

[7] PHASER cites R.94-04-031, Coordinating Commissioner's Ruling, February 26, 1999.

We believe there are complex issues that the TURN proposal raises that must be resolved if we are to implement competitively neutral changes to the line and service extension rules. We will discuss some of these issues.

To implement the TURN proposal, PG&E proposes that the applicant for a line and service extension should: (1) not be allowed to apply the line extension allowance to the capital and labor cost of installing a new meter at a new service location; and, (2) pay up-front for any meter that is provided. The applicant could either obtain a meter from the utility, or supply a utility approved meter and deed it back to the utility.[8]

In evaluating PG&Es' tariff proposal, it should be kept in mind that, in most cases, the applicant under the line extension rule is the builder, not the customer. Any change in line extension allowances has only an indirect impact on the customer, only to the extent that the builder will seek to recover the additional cost from the buyer, who becomes the utility's customer.

If an applicant pays for the capital and labor cost of procuring and installing the meter and then deeds the ownership of the meter over to the utility, the transfer would constitute a taxable contribution that is subject to ITCC. Thus, if both an ESP and the utility are willing to provide a meter to the applicant for a price of $100, the applicant has an artificial incentive to pay for the meter provided by the ESP because the meter provided by the utility will actually cost the applicant $137. This outcome clearly saddles the utility with an unfair competitive disadvantage, and is inconsistent with the Commission's goal of eliminating any potential anti-competitive effects of the current line and service extension rules.

[8] See PG&E's February 10, 1999 tariff proposal.

The argument may be made that the ITCC issue is <u>de minimis</u> to the extent that the price of a meter is small in relation to the price of a house. Such arguments are not persuasive. Typically, a builder who seeks to minimize his/her costs, would compare the cost of meters from various suppliers, the same as for home appliances and building materials. By choosing the lowest priced meter, the builder would tilt the competitive playing field for meter installations in favor of ESPs.

Also, to the extent that the applicant for a line extension is usually a builder or developer, common sense dictates that the applicant/builder should not make the meter selection decision for the customer or final end-user. Obviously, having the builder make the decision on behalf of the buyer of the house does not address the problem of the customer automatically accepting the utilities' bundled service.

One of the features of the TURN/PG&E proposal is that the line extension allowance would be calculated in a way that delivers to the builder the equivalent of the meter ownership credit the customer would receive. The assumption, apparently, is that although the builder would incur an up-front cost for the meter, the builder would not include that cost in the price charged for the house because the builder would receive an offset for the meter cost in the line extension allowance. That argument sounds good in theory but would have little effect in practice because under the TURN/PG&E proposal the builder pays cash for a meter and in exchange receives a token addition to the builder's line extension allowance. Generally, the builder has little need for the additional allowance because the allowance, in most cases, provides the builder with a "free" line and service extension.[9] To the extent that the builder has to pay up-front for the meter, common sense dictates that the builder would likely seek to recover that cost in the price of the house.

As pointed out by the SE Utilities, the TURN proposal could impose a cost of $13.7 million per year on builders which they will attempt to recover from homebuyers. This will result in a corresponding reduction in the utilities' rate base. However, there has to be a good reason to shift this cost from ratepayers to builders regardless of whether the buyer pays for this cost through a 30-year mortgage. Such costs should not be shifted without justification, in our haste to promote direct access.

We agree that TURN's cost causation argument, that customers must pay for costs they cause, and TURN's rate base reduction and stranded investment arguments, provide some justification for its proposal. Unfortunately, the proposal itself has not been carefully thought out. The primary objective here is not rate base reduction or avoidance of stranded investment, however worthy those objectives may be. The objective is to get the customer to focus on direct access.

We believe TURN and the utilities need to address the root cause of the problem which is that the meter is "automatically" provided by the utility.[10] Requiring builders to pay up-front for meters will simply increase the price of houses, but will not focus customer interest on direct access.

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[9] SDG&E points out that D.97-12-098 did not result in the utility providing "free" meters to builders, but simply established that meters are provided at no additional charge to the builder only if they are revenue-justified. If revenue-justified allowances do not cover the costs of meters, builders are required to pay the utility cost of the meter.

[10] See D.98-09-070, p. 22 quoting TURN/UCAN.

Currently, most new homes are sold with a meter installed and the buyer does not get directly involved in the meter installation decision. Getting the buyer involved requires that all new homes be sold without a meter. This would force the buyer to select a meter and service provider, the same as he or she would choose carpeting or appliances for the new home. However, requiring new homes to be sold without meters raises many new issues. Likewise, Edison, SE Utilities and CBIA have raised many issues which should be addressed before the TURN proposal can be implemented. However, this is not the proceeding to address those issues.

In summary, we conclude that the TURN proposal to require new customers to pay up-front for a meter, is an idea which has merit but is not ready for implementation through the line and service extension rules.

Removal of Unbundled RCS Revenues from the Net Revenue Calculation Used to Calculate An Applicant's Line and Service Extension Allowance

We will adopt Edison's proposed Attachment B tariff proposal.[11] Under this proposal, the meter ownership cost is allowed to remain a refundable cost to the applicant for a service and line extension. However, meter services, meter reading and billing, and payment services will no longer be a refundable cost in the line extension allowance calculation. Edison's proposed tariff is consistent with the scope of this proceeding and conforms to the requirements of D.98-09-070, Conclusion of Law 5, item (2). It should be adopted pending resolution of meter ownership and competitive issues in other pending

[11] Included in Edison's Supplemental comments dated February 10, 1999.

proceedings. As stated above, Edison's Attachment A tariff proposal is the same as PG&E's amended proposal. Edison provided it for discussion purposes.

We decline to adopt PG&E's tariff proposal for the reason that the TURN proposal should not be implemented until the policy issues have been resolved in other pending proceedings.

Likewise, we decline to adopt SDG&E's tariff proposal which according to the SE Utilities is no different from the PG&E tariff proposal with regard to the meter ownership credit.

Comments on Draft decision

The draft decision of ALJ Bertram Patrick in this matter was mailed on October 14, 1999 to the parties in accordance with Pub. Util. Code § 311(g) and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed jointly by TURN, ORA, California Department of General Services, and Enron Corp. (Joint Parties). Also comments were filed by Edison, PG&E, and Sempra Utilities. Reply comments were filed by Joint Parties, SE Utilities, Edison, PG&E, and CBIA.

The Meter Ownership Credit Should not be Subtracted from the Line Extension Allowances

The draft decision provides that meter costs will continue to be, for the time being, a refundable cost to new line/service extension applicants. This means the utility will continue to provide the meter and incur the meter ownership costs if they are covered by the allowance. The Joint Parties ask that the draft decision be changed in this regard.

The Joint Parties propose that the meter ownership credit, like the other RCS credits, be subtracted from the net revenues used in the calculation of the line/service extension allowances. Since the draft decision requires that the utilities are still responsible for providing a meter to the new line/service extension applicants, it is not appropriate to remove this component of net revenue from the allowance calculation.

We agree with the draft decision that meter costs should continue, for the present, to be a refundable cost to new line/service applicants. Any attempt to reduce the line extension allowance without addressing the broader meter ownership policy issues is premature. Additionally, charging new applicants an up-front fee while electric distribution rates are designed to recover the exact same costs would unfairly charge new customers twice for one meter, and consumers as a group would be worse off. Any change in the line extension rules should serve the best interests of utility customers, not ESPs or MSPs.

SDG&E Should Calculate RCS Credits Using a Weighted Average to Include Dual-Fuel Customers.

SDG&E argues that the draft decision should reflect the fact that SDG&E should not base its RCS credits for line extension allowances upon the mistaken assumption that SDG&E will avoid the costs of reading the meter and the costs of billing its combination gas-and-electric customers.

SDG&E points out that a combination gas-and-electric utility like SDG&E does not avoid meter reading and billing costs for its combination customers who receive service from an ESP, unless the ESP actually reads both the gas meter and the electric meter and transmits both the gas and electric bill. According to SDG&E, for this reason, the Commission in D.98-09-070 agreed with SDG&E that its combination gas-and-electric customers should receive different RCS credits based upon the true costs which are avoided when a customer takes service from an ESP. SDG&E would have the Commission adopt a weighted-average of the credits for electric-only and dual fuel customers, rather than the electric-only figures.

TURN argues that since the RCS credits are presently set on an avoided cost basis, rather than the actual costs of those services (including embedded costs), removing the full credit only achieves a partial removal of the RCS-related costs. Therefore, TURN contends it is appropriate to use the electric-only credit as a proxy, since doing so comes closest to removing the full amount of RCS-related costs from the calculation of "net revenue."

We conclude that, consistent with the RCS decision D.98-09-070, SDG&E should calculate RCS credits using a weighted average to include dual-fuel customers. In D.98-09-070, the Commission specifically adopted SDG&E's proposal to calculate RCS credits differently for its electric-only customers than its combination gas-and-electric customers (see, D.98-09-070, AppendixA). PG&E should do likewise.

Proceeding to Review Proposals to Eliminate the Competitive Advantage to Incumbent Utilities with Regard to New Meter Installations

The record in this proceeding does not support any change in existing practices with regard to new meter installations, notwithstanding that the current practice of the incumbent utilities of providing a meter as part of the service extension is anticompetitive and harmful to direct access. The Commission should address meter ownership and competitive issues before the line and service extension rules are revised so that the Commission avoids replacing one form of undue competitive advantage with another. The line extension proceeding is essentially a proceeding for "flowing-through" into the line extension allowance the effects of policy decisions made in other proceedings. In hindsight, we believe that the line extension proceeding was not the best proceeding to resolve the implications of the TURN proposal.

Currently there is pending a Direct Access Service Fees and Revenue Cycle Services Cost and Rate Proposals consolidated proceeding for addressing certain metering, billing, and related service ratemaking proposals (A.99-03-033 et al.). We believe that any proposal to eliminate the competitive advantage to incumbent utilities with regard to new meter installations should be reviewed in that proceeding.

Findings of Facts

1. To eliminate any competitive advantage the utilities may have for new meter installations, PG&E and TURN propose that new applicants for line and service extensions pay up-front for their meters and deed the meters back to the utility.

2. Requiring applicants for line and service extensions to bear the cost of meters up front does not address the problem of customers automatically taking bundled service from the utility rather than some other form of service, whether from the utility or an ESP.

3. In most cases, the applicant for a line and service extension is the builder, and is not the homebuyer/customer who makes the choice between bundled utility service or direct access.

4. The TURN/PG&E proposal raises complex issues that must be resolved to implement competitively neutral changes to the line and service extension rules.

5. If, as required by the TURN/PG&E proposal an applicant/builder pays for the cost of procuring and installing a meter and deeds it back to the utility, the transfer would constitute a taxable contribution to the utility that is subject to ITCC payable by the applicant/builder.

6. The applicant/builder is not required to pay ITCC for a meter provided by an ESP; therefore, the applicant/builder would likely choose the lower priced ESP meter.

7. The ITCC requirement tilts the competitive playing field in favor of ESPs.

8. To the extent that the applicant/builder has to pay up-front for a meter, the applicant/builder would seek to recover that cost in the sale price of the house.

9. The TURN/PG&E proposal could shift a cost of $13.7 million per year from ratepayers onto builders.

Conclusions of Law

1. The Commission should await the conclusion of several pending proceedings dealing with meter-related policy issues before deciding whether it is appropriate to change the line and service extension rules to make the meter cost a non-refundable cost to new applicants for a line and service extension.

2. The goals of rate base reduction and avoidance of stranded investment, however worthwhile, have not been sufficiently justified in the record for this proceeding to require the immediate implementation of the TURN/PG&E proposal.

3. None of the tariff proposals offered by the utilities fully address the problem of customers automatically taking bundled service from the utility.

4. The Commission should address meter ownership and competitive issues before the line and service extension rules are revised so that the Commission avoids replacing one form of undue competitive advantage with another.

5. In the interim, Edison's Attachment B tariff proposal should be adopted because it would implement D.98-09-070, Conclusion of Law 5, part (2), by

removing from the line and service extension allowances the RCS credits for meter services, meter reading and billing, and payment services.

6. Removal of the RCS meter ownership credit should be deferred until the Commission addresses meter policy issues in other pending proceedings.

7. For removing RCS meter reading and billing credits from the line extension allowance, SDG&E should use a weighted average of the credits for electric-only and dual fuel customers consistent with D.98-09-070. PG&E should do likewise.

ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company, Southern California Edison Company (Edison), and San Diego Gas & Electric Company shall file revised tariff sheets that reflect changes to their Line and Service Extension Rules as set forth in Edison's Attachment B Proposed Tariff Revisions, attached as Appendix A to this decision.

2. The tariff sheets shall be filed within 90 days of the effective date of this order and shall become effective on the first day of the month which is 120 days after the date of this order, subject to Energy Division's determining that the tariff revisions are compliant with this order.

3. An applicant for a line or service extension shall be treated under the old rules if prior to the effective date of the new rules it had (1) completed written application for service in accordance with the utilities' rules, including those for application for service; (2) received a building permit or has a plan approved by the appropriate jurisdiction; and (3) if within one year from the effective date of the new rules it pays all monies due to the utility and is ready for service.

4. For special cases of customers who have signed agreements under the old rules but have proceeded, they shall have one year from the effective date of the new rules to complete steps 2 and 3.

5. Proposals to eliminate the competitive advantage of incumbent utilities with regard to new meter installations should be reviewed in Application 99-03-033 et al., the pending Direct Access Service Fees and Revenue Cycle Services Cost and Rate Proposals Proceeding.

6. This proceeding shall remain open to address other matters.

This order is effective today.

Dated December 16, 1999, at San Francisco, California.

RICHARD A. BILAS
President
HENRY M. DUQUE
JOSIAH L. NEEPER
JOEL Z. HYATT
CARL W. WOOD
Commissioners

APPENDIX A

SCE's PROPOSED TARIFF REVISIONS

Rule 15
DISTRIBUTION LINE EXTENSIONS
(Continued)

Sheet 4

C. DISTRIBUTION LINE EXTENSION ALLOWANCES

1. GENERAL. SCE will complete a Distribution Line Extension without charge provided SCE's total estimated installed cost does not exceed the allowances from permanent, bona-fide loads to be served by the Distribution Line Extension within a reasonable time, as determined by SCE. The allowance will first be applied to the Service Extension in accordance with Rule 16. Any excess allowance will be applied to the Distribution Line Extension to which the Service Extension is connected.

2. BASIS OF ALLOWANCES. Allowances shall be granted to an Applicant for Permanent Service, or to an Applicant for a subdivision or development under the following conditions:

   a. SCE is provided evidence that construction will proceed promptly and financing is adequate, and

   b. Applicant has submitted evidence of building permit(s) or fully-executed home purchase contract(s) or lease agreement(s), or

   c. Where there is equivalent evidence of occupancy or electric usage satisfactory to SCE.

   The allowances in Sections C.3 and C.4 are based on a revenue-supported methodology using the following formula:

$$\text{ALLOWANCE} = \frac{\text{NET REVENUE}}{\text{COST OF SERVICE FACTOR}}$$

3. RESIDENTIAL ALLOWANCES. The allowance for Distribution Line Extensions, Service Extensions, or a combination thereof, for Permanent Residential Service is $1247~~$1406~~ per meter or residential dwelling unit. |

4. NON-RESIDENTIAL ALLOWANCES. The allowance for Distribution Line Extensions, Service Extensions, or a combination thereof, for Permanent Non-Residential Service is determined by SCE using the formula in Section C.2.

   Where the Distribution Line Extension will serve a combination of residential and non-residential meters, residential allowances will be added to non-residential allowances.

5. SEASONAL, INTERMITTENT, EMERGENCY AND INSIGNIFICANT LOADS. When an Applicant requests service that requires a Distribution Line Extension to serve loads that are Seasonal or Intermittent, the allowance for such loads shall be determined using the formula in Section C.2. No allowance will be provided where service is used only for emergency purposes, or for Insignificant Loads.

(Continued)

Rule 15 | Sheet 14

DISTRIBUTION LINE EXTENSIONS

(Continued)

J. DEFINITIONS FOR RULE 15 (Continued)

Excavation: All necessary trenching, backfilling, and other digging to install Distribution Line Extension facilities, including furnishing of any imported backfill material and disposal of spoil as required, surface repair and replacement, landscape repair and replacement.

Feeder Conduit: Conduit for such uses as part of a backbone system to provide for future anticipated load growth outside the subdivision involved, to provide for future anticipated load growth in the existing subdivision and the existing subdivisions in close proximity, to balance loads between substations, to interconnect the service to the subdivision with service to subsequent developments outside the subdivision, and to provide the flexibility and versatility of modifying or supplying emergency backup power to the area involved.

Franchise Area: Public streets, roads, highways, and other public ways and places where SCE has a legal right to occupy under franchise agreements with governmental bodies having jurisdiction.

Industrial Development: Two (2) or more enterprises engaged in a process which creates a product or changes material into another form or product and located on a single parcel or on two (2) or more contiguous parcels of land.

Insignificant Loads: Small operating loads such as gate openers, valve controls, clocks, timing devices, fire protection equipment, alarm devices, etc.

Intermittent Loads: Loads which, in the opinion of SCE, are subject to discontinuance for a time or at intervals.

Net Revenue: That portion of the total rate revenues that supports SCE's Distribution Line and Service Extension costs and excludes such items as ~~fuel costs, generation,~~Energy, transmission, Competition Transition Charge (CTC), public purpose programs, revenue cycle services revenues, and other revenues ~~costs~~ that do not support the D~~d~~istribution Line and Service Extension costs.

(Continued)

Rule 16
SERVICE EXTENSIONS
(Continued)

Sheet 3

A. General. (Continued)

11. Access to Applicant's Premises. (Continued)

b. Safe and ready access for SCE personnel free from unrestrained animals,

c. Unobstructed ready access for SCE's vehicles and equipment to install, remove, repair, or maintain its facilities, and

d. Removal of any and all of its property installed on Applicant's Premises after the termination of service.

12. Service Connections. Only personnel duly authorized by SCE are allowed to connect or disconnect service conductors to or from SCE's Distribution Lines, remove meters unless as allowed under Rule 22, Direct Access, remove SCE-owned Sservice Ffacilities, or perform any work upon SCE-owned existing facilities.

B. Metering Facilities

1. General.

a. Meter All Usage. Delivery of all electric power and energy will be metered, unless otherwise provided for by SCE's tariff schedules or by other applicable laws.

b. Meter Location. All meters and associated metering equipment shall be located at some protected location on Applicant's Premises as approved by SCE.

2. Number of Meters. Normally only one meter will be installed for a single-family residence or a single non-residential enterprise on a single Premises, except:

a. When otherwise required or allowed under SCE's tariff schedules;

b. At the option of and as determined by SCE, for its operating convenience, consistent with its engineering design; or

c. When required by law or local ordinance.

d. When additional services are granted by SCE.

(Continued)

Rule 16
SERVICE EXTENSIONS
(Continued)

Sheet 7

D. Responsibilities for New Service Facilities. (Continued)

1. Applicant Responsibility. (Continued)

a. Service Extensions. (Continued)

(3) Conduit and Substructures.

(a) furnishing, installing, owning, and maintaining all Conduits (including pull wires) and Substructures on Applicant's Premises.

(b) installing (or paying for) any Conduits and Substructures in SCE's Franchise Area (or rights-of-way, if applicable) as necessary to install Applicant's Service Extension.

(c) conveying ownership to SCE upon its acceptance of those Conduits and Substructures not on Applicant's Premises.

(4) Protective Structures. Furnishing, installing, owning, and maintaining all necessary Protective Structures as specified by SCE for SCE's facilities on Applicant Premises.

b. Applicant's Facility Design and Operation. Applicant shall be solely responsible to plan, design, install, own, maintain, and operate facilities and equipment beyond the Service Delivery Point (except for SCE- owned ~~'s~~ metering facilities) in order to properly receive and utilize the type of electric service available from SCE. Refer to Rule 2 for a description, among other things, of:

(1) Available service delivery voltages and the technical requirements and conditions to qualify for them,
(2) Customer utilization voltages,
(3) Load balancing requirements,
(4) Requirements for installing electrical protective devices,
(5) Loads that may cause service interference to others, and
(6) Motor starting limitations.

(Continued)

SOUTHERN CALIFORNIA EDISON
RULE 15, DISTRIBUTION LINE EXTENSIONS
PROPOSED RCS CREDIT TO NET REVENUE
RESIDENTIAL ALLOWANCE

Customer Group - Domestic
12 months ended December, 1997:

$$\frac{22{,}567\ \text{gWh}}{3{,}635{,}285\ \text{total customers}} = 6208\ \text{kWh/customer/year}^{1}$$

6208 kWh/customer/year x $0.03367kwh = $209 distribution revenue/customer/year[2]

$209 distribution revenue + $12 Basic Charge - $25 RCS Credit/customer/year = $196[3]

$$\frac{\$196}{0.1572} = \textbf{\$1247 allowance per residential unit}$$

Methodology:

[1] Annual residential usage divided by total residential customers = average usage per residential customer per year. Source: SCE's Customer Revenue and Consumption Reporting System, DPB 4272.

[2] Average usage per residential customer per year multiplied by the annualized distribution rate (from Schedule TOU-D-1) = subtotal average distribution revenue per residential customer per year. Source: Schedule TOU-D-1 Energy Charge Distribution Rate Factor from the Rate Components Table - Advice 1245-E-B. Schedule TOU-D-1 is used because the unbundled distribution rate on this schedule represents the Annualized Distribution Rate for domestic customers.

[3] Subtotal average distribution revenue per residential customer per year + $12 Basic Charge per customer per year - Revenue Cycle Services credit per customer per year = total average distribution revenue per residential customer per year. Source: Basic Charge - Single Family Residence $0.03300 per meter, per day x 365 days = $12 per customer per year and Schedule DA-RCSC, Direct Access Revenue Cycle Services monthly credits 12 x [Meter Services Credits + Meter Reading Services Credit + Billing Services Credit] = $25.

[4] Total average distribution revenue per residential customer per year = Net Revenue. Net Revenue divided by Cost of Service Factor = Allowance.

$$\text{Allowance} = \frac{\text{Net Revenue}}{\text{Cost of Service Factor*}}$$

* Source: SCE's Rule 2, Section H.2.3. Monthly Company-Financed Added Facilities rate of 1.31% x 12 (months) = 15.72% or .1572.

Prepared by D. Morgan
Regulatory Policy & Affairs

SOUTHERN CALIFORNIA EDISON
RULE 15, DISTRIBUTION LINE EXTENSIONS
PROPOSED RCS CREDIT TO NET REVENUE
NON-RESIDENTIAL ALLOWANCE

RATE SCHEDULE	ANNUAL RCS CREDIT*
TOU-EV-1	$43.80
TOU-EV-2	$43.80
GS-1	$24.72
GS-2	$35.16
RTP-2	$249.24
RTP-3	$249.24
RTP-3-GS	$52.32
TOU-EV-3	$43.80
TOU-EV-4	$52.32
TOU-GS-1	$43.80
TOU-GS-2	$52.32
TOU-GS-2-SOP	$52.32
TOU-8	$249.24
TOU-8-CR-1	$249.24
TOU-8-RTP	$249.24
TOU-8-SOP	$249.24
TOU-8-SOP-RTP	$249.24
PA-1	$24.72
PA-2	$35.16
PA-RTP	$52.32
TOU-PA	$52.32
TOU-PA-3	$52.32
TOU-PA-4	$52.32
TOU-PA-5	$52.32
TOU-PA-6	$52.32
TOU-PA-7	$52.32
TOU-PA-SOP	$52.32
AL-1	$24.72
AL-2	$24.72
DWL	$16.80
LS-1	$16.80
LS-2	$16.80
LS-3	$24.72
OL-1	$16.80
TC-1	$24.72

* 12 x [Meter Services Credit + Meter Reading Services Credit + Billing Services Credit]
Source: Schedule DA-RCSC, Direct Access - Revenue Cycle Services Monthly Credits, as filed in Advice 1339-E.

(END OF APPENDIX A)