BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking into Transfer of Master-Meter/Submeter Systems at Mobilehome Parks and Manufactured Housing Communities to Electric and Gas Corporations.	R.11-02-018 (Filed February 24, 2011)

MOBILE HOME PARKS AND MANUFACTURED HOUSING COMMUNITIES SERVICE TRANSFER TO ELECTRIC AND GAS CORPORATIONS

R.11-02-018

OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U39-M) AND SOUTHWEST GAS CORPORATION (U905G) ON THE PROPOSED DECISION OF ALJ VIETH

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I. INTRODUCTION

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (CPUC or Commission), Pacific Gas and Electric Company (PG&E) and Southwest Gas Corporation (Southwest Gas) (jointly, Utilities) submit Opening Comments on the Proposed Decision (PD) of Administrative Law Judge (ALJ) Vieth.

The Utilities commend ALJ Vieth and Commissioner Florio on their pursuit of a viable solution for converting master-metered mobile home park (MHP) electric and gas distribution systems to direct utility service, in support of safe and reliable utility service to MHP residents throughout California.

However, the Utilities differ with the PD on three issues:

- The PD improperly and inequitably prohibits utilities from fully recovering reasonable program financing costs;

- The PD introduces a mandatory and unnecessary reasonableness review for to-the-meter expenditures;
- The PD's implementation schedule is overly aggressive and would not allow sufficient time for necessary program preparation and outreach.

The Utilities' proposed modifications to the PD remove obstacles created by the PD's new and unsupported cost recovery procedures, and provide for fair and successful implementation of any MHP conversion program.

II. DISCUSSION

A. The PD Deviates From Commission Precedent and Prohibits Full Recovery of Necessary Financing Costs

The PD's "living pilot" appropriately establishes a new investment approach to address the safety, reliability, and capacity of utility service at MHPs. The "living pilot" should remain focused on safe utility service and not become a laboratory for unsupported and inequitable utility financing approaches that prohibit full recovery of necessary utility financing costs.

1. The PD's Treatment of Beyond-the-Meter Costs is Inconsistent with the Existing Rule 20A Program

The PD appropriately concludes that beyond-the-meter construction is necessary for the new utility distribution system to function and that such costs should be capitalized,[1] consistent with the record and in recognition of the analogous Rule 20A program where utilities capitalize necessary beyond-the-meter costs of panel conversions to allow for the newly undergrounded system to function:

[1] PD at p. 40, Conclusion of Law 12.

> Upon request of the governing body, SCE will pay from the existing allocation of that entity for:
> a. The installation of no more than 100 feet of each customer's underground electric service lateral occasioned by the undergrounding, and/or
> b. <u>The conversion of a customer's meter panel to accept underground service occasioned by the undergrounding</u> [emphasis added]…
>
> *Southern California Edison, Advice Letter 1643-E, Exhibit 23*

> Upon request of the governing body, the Utility will pay from the existing allocation of that entity for:
> a. The installation of no more than 100 feet of each customer's underground electric service lateral occasioned by the undergrounding; and/or
> b. <u>The conversion of a customer's meter panel to accept underground service occasioned by the undergrounding</u> [emphasis added]…
>
> *San Diego Gas and Electric Company, Advice Letter 1428-E, Exhibit 24*

> Upon request of the governing body, PG&E will pay from the existing allocation of that entity for:
> a. The installation of no more than 100 feet of each customer's underground electric service lateral occasioned by the undergrounding.
> b. <u>The conversion of electric service panels to accept underground service</u> [emphasis added]…
>
> *Pacific Gas and Electric Company, Advice Letter 1930-E*

Confusingly, however, the PD deviates from its own Rule 20A program analogy and requires that MHP beyond-the-meter costs be capitalized at a utility's "incremental long-term cost of debt."[2] This treatment differs markedly from the Commission-approved Rule 20A programs where, <u>for more than a decade</u>, utilities have capitalized beyond-the-meter panel conversions[3] at the then-current authorized return on ratebase without issue.[4]

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2 PD at p. 51.

3 Exh. 22, Exh 23, Exh. 24.

4 For simplicity and consistency with the PD language, capitalization at a specific rate is synonymous with recovery of costs at a given rate. For example, "capitalization at the then-current authorized return on ratebase" is synonymous with "recovering the then-current authorized return on ratebase."

Additionally, the Commission has previously recognized that utility financing should not be altered so as to favor one investment over another, especially where customer safety is involved. As noted by Commissioner Florio:

> …it is our judgment at this time that a reduction in the return on equity would send the wrong signal that somehow investment in safety is less important than investments in other aspects of the utilities business.[5]

The PD's discriminatory treatment of beyond-the-meter capitalization will indeed send the wrong message – that MHP resident safety beyond-the-meter is, in fact, of less importance than other utility investments, and one not deserving of the same focus afforded customers in the Rule 20A program.

To avoid such conflicts, the PD should be revised to capitalize the beyond-the-meter costs at a utility's then-current authorized return on ratebase.

2. The PD Contradicts Commission Precedent Mandating Capital Structure and Authorizing Utilities to Recover the Fair Cost of Equity

Cost-of-service utilities necessarily finance investments with a combination of long-term debt and equity, as they are required to maintain a balanced capital structure consistent with the capital structure found reasonable in their cost of capital decisions.[6]However, the PD runs afoul of this requirement by drawing the erroneous conclusion that beyond-the-meter assets should be financed with 100% debt.[7] As a result, this scenario stands to negatively impact utilities' credit metrics, which would adversely impact customers and also deprive utilities of the opportunity to earn authorized rates of return.

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[5] December 20, 2012 Commission Business Meeting commentary by Commissioner Florio regarding the return on equity (ROE) for safety investments proposed in the Pipeline Safety and Enhancement Plan of PG&E (R.11-02-019). The Commission ultimately adopted D.12-12-030, which recognized modifications to the cost of equity would harm "ratepayers in the long run by increasing borrowing costs and potentially diminishing the financial health of the utility." D. 12-12-030, p. 105.

[6] D.12-12-034, *mimeo*, p. 50, Conclusions of Law 3 (PG&E). A Proposed Decision is pending in Southwest Gas' Test Year 2014 General Rate Case Application (A.) 12-12-024.

[7] PD at p. 51.

Under the PD, there are two possible outcomes. If the PD mandates that the beyond-the-meter costs would be financed *entirely* with debt, the utilities capital structures would become over-leveraged. The debt-to-equity ratio would become tilted with too much debt contrary to the Commission's findings in its most recent cost of capital decision[8] and contrary to the requirements of the holding company equity maintenance condition.[9] Such a risky financial treatment undermines the very purpose of maintaining a balanced capital structure – to maintain the financial health of the utility. There has been no analysis as to how such additional debt would impact utility risk, other debt of the utility, or the cost of remaining utility equity. This proceeding also has conducted no analysis whether such a proposed overleveraging would degrade the utility's credit quality and its access to capital.

However, if the PD envisions that utilities *maintain* their overall capital structure, in light of this additional debt, utilities would then be required to issue additional equity to compensate and would request the Commission authorize a higher equity ratio and revenue requirement to offset the excess leverage, resulting in a *higher composite rate of return on the utility's remaining assets* with <u>no</u> ratepayer savings overall.

Furthermore, the PD fails to recognize that the cost of equity, similar to the cost of debt, is a cost of obtaining and using investors' capital for utility system investments. As utilities *must* finance investments with a combination of long-term debt and equity aligned with the authorized capital structure, the PD is improperly mandating that equity holders not be compensated for the use of their capital in the MHP conversion program.

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[8] *D.12-12-034*, *mimeo*, p. 50, Conclusions of Law 3.

[9] PG&E notes that the Commission's affiliate rules require PG&E to maintain a balanced capital structure that has at least 52 percent equity. D.06-12-029, *mimeo*, Appen. A-3 (p. 32), and the PG&E holding company decision, D.96-11-017, 69 CPUC2d 167, 201 [1996 Cal. PUC LEXIS 1141, 73] , require PG&E to maintain a balanced capital structure consistent with that determined to be reasonable by the Commission in its most recent decision on PG&E's capital structure.

The PD, therefore, should be revised to authorize the utilities to capitalize the beyond-the-meter costs at each utility's then-current authorized return on ratebase consistent with the capitalization of Rule 20A beyond-the-meter costs.

3. A Utility's Cost of Capital Proceeding is the Appropriate Venue to Decide Utility Financing Matters

Each utility's cost of capital case is the unique venue to most appropriately consider risks a California utility faces in determining the utility's return on ratebase, rather than being casually addressed in "after the fact" determinations in this rulemaking that is otherwise focused on the safety, reliability, and capacity of MHP utility systems.

The Commission has recognized the benefits of consolidating a utility's capital structure issues into one proceeding. By assessing utility risks holistically, the Commission is better positioned to address how debt and equity investors and credit-rating agencies, perceive utility investment risk in California.

Further, the Commission has expressly acknowledged that ratepayers will bear the burden of higher capital financing costs when California is perceived as a risky investment option:

> [The] market for investment capital is global, and extremely competitive, and, like it or not, California has often been perceived as investor unfriendly. Tampering with the return on equity only adds to this impression. And in the extreme could result in a widening of the so-called "California premium," that is the incremental return required by investors in California utilities, relative to comparable utilities in other parts of the US. **This widening could increase the cost of capital for all California utilities and increase costs to all ratepayers in the long run** [emphasis added]… *Former Commissioner Ferron, December 20, 2012 Commission Meeting*

Deviating from the Commission's prior directive and establishing a separate, unsupported, approach that is punitive to equity investors introduces additional uncertainty for such investors and perpetuates the view that California is a riskier investment. Therefore, the Utilities recommend that the PD be revised to appropriately capitalize the beyond-the-meter expenditures at each utility's then-current authorized return on ratebase, as envisioned by the Commission in D.12-12-034.

4. "Beyond-the-Meter" is Not Risk Free

The PD incorrectly concludes that beyond-the-meter work poses no risk to the utilities. There is nothing in the record that supports the finding that "the utility bears no risk associated with the regulatory asset," or the conclusion that earning a reduced return at the "incremental cost" of long term debt would adequately compensate the utilities.[10] Indeed, the PD provides that, as to these "after the meter costs" only "reasonably incurred costs" can be amortized, creating the obvious risk that costs actually incurred could be subject to disallowance.[11]

The Commission always has authority to perform a standard audit of MHP expenditures, including beyond-the-meter, where the utility would be required to demonstrate those beyond-the-meter pass-through expenditures[12] were "reasonably incurred." [13] Thus the utility bears, and the PD erroneously ignores, the risk of any disallowed construction costs.

Given this, the PD's finding of zero risk is unsupported and simply incorrect and must be revised.

5. The PD Unjustifiably Denies the Proposal of All Parties to Recover Costs on a Forecast Basis

The only cost recovery proposal in the record is a unanimously supported two-way balancing account that allows utilities to collect their revenue requirements on a forecast basis, subject to annual true-up that ensures adequate accounting for over or under collections.[14] This undisputed approach is consistent with the Commission's long-

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[10] PD at p. 51.

[11] *Ibid.*

[12] PD at 40.

[13] *Ibid.*

[14] PD at p. 25.

standing practice of allowing utilities to recover costs prospectively.[15] In contrast, the PD creates a one-year deferral of legitimate revenue requirements (i.e., to the year following cut-over to direct utility service),[16] without providing any means for utilities to be adequately compensated for these ongoing deferrals.

First, the PD suggests that since the original cost estimates are "just estimates," and there maybe some uncertainty regarding utilities' construction and administrative costs, only actual costs should be recorded after reasonableness review. However, the PD's proposal to defer recovery until the year following service cut-over is inconsistent and inequitable. All utilities were directed to base its 2015-2017 utility rates using a common exemplar project – San Luis Rey Homes (SLRH) MHP. For all utilities, the new rates show "very minimal, monthly increases."[17] Not surprisingly, then the PD finds utilities' estimates are sufficient to move forward with the "living pilot," for 2015-2017 based on the SLRH estimates. Yet, the same PD finds that these same SLRH estimates cannot be used to support forecasted revenue requirements. These conclusions are inconsistent. The impacts cannot be sufficient to justify the "living pilot" program and, at the same time, insufficient to allow cost recovery on a forecast basis.

Second, as with any balancing account, entries based on forecast (e.g., energy costs) will include some uncertainty. However, rather than relying on the "best estimate" of revenue requirements, as is the typical approach, the PD posits that because some uncertainty will be involved, utilities should be forced to defer recovery of its revenue requirements for one year. The effect is that, rather than having a traditional balancing account subject to annual true-up, utilities will be perpetually advancing funds (i.e., the deferred revenue requirement) under the assumption that they will always have access to short-term debt to finance any resulting under collections.

[15] PG&E, for example, recovers approximately 98% of its CPUC-jurisdictional revenues on a forecast basis.

[16] PD at p. 50.

[17] PD at p. 36.

To the contrary, utilities have limited access to short-term credit, and must use it to manage daily and seasonal swings in cash requirements, as well as collateral for energy commodity procurement. Using short-term debt to finance permanent assets is not a prudent use of limited credit facilities, and may require the use of long-term debt and equity financing more appropriately reserved for funding permanent assets.

Finally, recovering costs on an actual basis in rates has the potential to induce rate shock as uncertain amounts are incorporated into rates at uncertain times. Such an approach is contrary to the customer-expected moderate rate adjustments that are a result of the typical, annual, true-up processes.

The unanimous proposal of all parties – full cost recovery on a forecast basis is reasonable and consistent with the Commission practice. The PD should therefore be revised to adopt the parties' proposed methodology.

B. The PD's Reasonableness Review Is Unnecessarily Duplicative

Finding of Fact 36 provides that reasonableness review *should* occur in the GRC when "to the meter" costs are put into rate base. As to "beyond-the-meter construction," the PD states the "reasonably incurred construction costs" should be amortized into rates. The PD's reasonableness review, however, is duplicative in light of other PD requirements.

The ratepayer safeguards proposed for this program already exceeds those for other costs placed in rate base, in light of the myriad of reporting requirements applicable to the pilot program. The PD requires utilities to provide the parties not only with project-specific cost accounting information, but also annual reports, that include detailed cost and participation figures, a qualitative discussion of issues encountered, possible future solutions, and an assessment of the "living pilot" period,[18] obviating the need for a second review of "living pilot" program activities or costs.

[18] PD at pp. 52-53.

Furthermore, the parties' unanimously supported proposal for cost recovery on a forecast basis with annual true-up in rates would provide yet another venue for review of program costs. Utilities file annual advice letters[19] to true-up costs and revenues in rates, which may be reviewed by stakeholders and, if warranted, protested. This represents yet another process that allows for further Commission examination.

As a result, the PD should be modified to eliminate the unnecessary and duplicative requirement for reasonableness review in subsequent utility GRCs,[20] and should make clear that any future program examination will not address matters otherwise resolved by this rulemaking (e.g. an evaluation of utility costs and the need for and benefits of a conversion program).

C. The PD's Limitations on Utility Cost Recovery Violate Due Process

The PD contains three elements that limit utility recovery: (1) that utilities receive only the incremental cost of long-term debt on capital committed to beyond-the-meter costs; (2) that recovery of to the meter costs be deferred until the year after projects are placed in service; and (3) that such costs would be subject to reasonableness review in a way that appears more stringent than for other utility distribution capital spending. None of these proposals were raised in the scoping memorandum,[21] at hearings or in briefs, and if adopted now, would effectively punish utilities for pursuing the very priority safety and reliability projects the Commission is seeking to encourage.

As noted in supplemental briefing,[22] all parties to this proceeding have unanimously proposed full cost recovery on a forecast basis (i.e., with no lag in recovery)

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[19] PG&E files its Annual Electric True-Up (AET) and Annual Gas True-Up (AGT) advice letters each year.

[20] Alternatively, the Utilities urge that the PD be revised to clarify that any reasonableness review that occurs in a utility GRC should be akin to the reasonableness review applicable to any other utility distribution plant addition.

[21] May 11, 2011 Assigned Commissioner's Ruling and Scoping Memo; May 17, 2012 Assigned Commissioner's Amended Ruling and Scoping Memo; July 17, 2013 Assigned Commissioner's Second Amended Ruling and Scoping Memo; February 14, 2014 Assigned Commissioner's Third Amended Scoping Memo and Ruling.

[22] Supplemental Opening Brief of Pacific Gas and Electric Company, October 8, 2013, p. 19.

through two-way balancing accounts, with annual true-up in rates.[23] No party proposed that certain capital costs be financed exclusively with 10 year debt. No party proposed that utilities receive anything less than their normal return on their invested capital. Parties also agreed that recovery of the ongoing MHP conversion revenue requirement would be subject to annual true-up and then moved to each utility's next GRC following each MHP conversion without special reasonableness review.[24]

The introduction of such concepts now in a PD, after years of focus on the safety and reliability of MHP utility service and after the record has been submitted, violates due process.[25]

The PD, therefore, should be revised to reflect the unanimous position of parties — cost recovery on both to the meter and beyond-the-meter costs at utilities' then-current authorized return on ratebase; cost recovery on a forecast basis with annual true-up in rates; and recovery of the ongoing MHP conversion revenue requirement without a mandated reasonableness review in each utility's next GRC.

D. Implementation Should be Modified

1. The Proposed July Application Date Should be Modified to Allow for Necessary Planning and Outreach

The PD proposes a 90-day MHP conversion application period for the "living pilot" program commencing July 1, 2014, This allows utilities an overly-optimistic three months to jointly develop a common MHP conversion application, in consultation with SED and the Public Advisor, and file an advice letter file and obtain CPUC approval pursuant to G.O. 96B. In the meantime, utilities must also develop and distribute

[23] Exh. 2 (Joint Parties), p. 15, line 6 to p. 16, line 23. Exh. 3 (PG&E/Hoglund), p. 4-1, line 27 to p. 4-4, line 20. Exh. 3 (SWGas/Congdon), p. 6-2, line 13 to p. 6-3, line 4. See also Exh. 17 (Joint Parties), p. 22, line 15 and p. 23, lines 19-20; Exh. 19 (PG&E/Hoglund), p. 1-3, lines 16-23.

[24] Exh. 3 (PG&E/Hoglund), p. 4-3, lines 30-33. See also Tr. Vol 2., p. 252, lines 12-22, SWGas/Congdon; Tr. Vol. 2, p. 151, lines 1-12, Joint Parties/Lenart; Tr. Vol. 2, p. 155, lines 23-24, Joint Parties/Saxe.

[25] *Camp Meeker Water System, Inc. v. Public Utilities Com*. (1990) 51 Cal.3d 845, 864 [a decision that affects the rights of a party, but has no factual support, would not be one made in the regular pursuit of commission authority and could deny due process].

education materials to inform not only MHP owners of the availability of the conversion program but also inform MHP residents of the implications for each of them.

In Exhibit 3, PG&E had proposed a team of specialists who would meet with MHP owners and tenants to explain the program and answer questions. This means that, in addition to developing and filing the MHP conversion application, PG&E will need to develop materials that anticipate and answers the myriad of questions expected from MHP owners, and to train the specialists to answer these and other questions regarding how the program will work, and what it means for MHP owners and residents. Similarly, since Southwest Gas and other single-commodity utilities must consult with one another as to conversions in their overlapping service territories, it seems that joint outreach to the affected MHPs and their residents might be an appropriate and cost-effective approach. The implementation schedule set forth in the PD may render the necessary consultation and collaboration between utilities difficult or impossible.

MHP owners and residents are expected to make decisions that will fundamentally affect the long-term values of their property. There are approximately 5,000 MHPs in California with more than 400,000 resident owners. All these owners should be afforded a full and fair opportunity to meet with utility representations and carefully deliberate these changes. Therefore, to be fair to all potentially impacted parties, the Utilities recommend the 90-day application period begin on January 1, 2015, instead of July 1, 2014. Due to the Utilities' request to move the implementation date to January 1, the corresponding reporting timeframes would therefore change to January 1, 2015 through December 31, 2015 (Year 1), January 1, 2016 through December 31, 2016 (Year 2) and January 1, 2017 through Decemeber 31, 2017 (Year 3).

In revising this date, the Commission will allow sufficient time if a final Commission decision is not issued in March, and permit utilities to jointly create the necessary program application and program agreement, as well as develop the necessary outreach materials that will be used to inform MHP owners and residents. Further, the utilities will be able to sufficiently pursue outreach efforts to ensure MHPs are provided a fair opportunity to participate.

2. The PD Should Require a Tier-2 Advice Letter to Enable Program Continuation

To assess the MHP conversion "living pilot," the PD requires annual reporting to the parties of project-specific information and a comprehensive annual cost accounting report.[26] Additionally, to align with this rulemakings safety, reliability, and capacity goals, the PD aims to ensure the "living pilot" can be flexibly extended to permit further, voluntary conversions if warranted.[27]

The PD, however, is silent on the procedural mechanism that will trigger the Commission's determination as to whether the voluntary MHP conversion program is continued or, if appropriate, what modifications should be made, including future participation and revenue levels. The Utilities recommend with changes to program financing the "living pilot" should be continued beyond year three. Therefore, the PD should be modified to require filing a Tier-2 advice letter within 30 days of the second annual report, with a comprehensive cost accounting for both to-the-meter and beyond-the-meter, similar to the PD's requirements for the third report, and any necessary forecast revenue requirement adjustments.

This approach affords interested stakeholders an opportunity to review the provided information and, if desired, bring pertinent issues before the Commission. Should no objections be received or should they be determined to be without basis, this would provide a mechanism to continue for the MHP conversion program without interruption.

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[26] PD at pp. 52-53.

[27] PD at p. 43.

III. CONCLUSION

For the aforementioned reasons, the Commission should modify the PD as proposed in Appendix A.

Respectfully submitted on behalf of PG&E and SWGas,

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Appendix A: Redline of Proposed Changes

I. Proposed Changes to Findings of Fact

24. A "living pilot" with a three-year, initial term is prudent, given the uncertainties about the conditions at master-metered/submetered MHPs and the actual costs of converting them to direct utility service. The filing of a Tier 2 advice letter within 30 days of the second annual report is prudent to enable program continuation.

34. By November 1, 2014, ~~Within 60 days of the effective date of this Order,~~ each utility must file with the Commission's Energy Division a Tier 2 advice letter for approval of new tariffs to establish a pilot MHP conversion program consistent with these Findings and the body of this Order. Energy Division must consult with SED to verify that each utility's advice letter complies with this Order.

35. The parties unanimously agree that program costs should be recovered on a forecast basis, through the use of two-way balancing accounts. As such, each utility should implement a pilot program balancing account as described in the PG&E Proposal. Utilities should be authorized ~~via advice letter to seek annual~~ rate recovery of reasonably forecasted revenue requirements attributable to projected construction costs and other implementation expenses. ~~The numerous uncertainties that underlie the parties' construction cost estimates and the lack of record based specificity on the administrative functions and associated costs necessary to implement a pilot MHP conversion program, makes forecast ratemaking particularly speculative.~~ The balancing account entries shall be subject to true-up annually via advice letter based on ~~Utilities should be authorized to seek annual recovery of~~ reasonably incurred, actual costs and reasonable expenses for incremental program development and administration, not otherwise recovered in rates. ~~should be entered annually in the utility's pilot program balancing account. Reasonable expenditures for actual construction costs should be entered as incurred and recovered via advice letter in the year following cut over of each MHP system converted.~~

36. All reasonable, actual construction costs, both "to the meter" and "beyond the meter," should be capitalized. Because "to the meter" construction will result in used and useful additions to utility plant, recovery should be authorized on a basis of the full cost of service of each rate base addition (return on investment, taxes and depreciation). ~~Review for reasonableness should occur in the GRC where "to the meter" costs are put into ratebase.~~ Because "beyond the meter" construction will create a regulatory asset, the associated, reasonably incurred construction costs should be included in rate base and amortized over ten years. ~~at the utility's long term incremental cost of debt. This reduced return reflects the reality that the utility bears no risk associated with the regulated asset.~~

38. Each utility's advice letter filing shall include creation of a balancing account for recording forecast revenue requirements and to enable annual true-up to actual pilot MHP conversion program costs, consistent with these Findings and discussion in the body of this Order.

40. Given the timing of today's decision, the yearly status reports should be developed and submitted on the following~~, fiscal year schedule~~: Year 1 (~~July 1, 2014~~ January 1, 2015 – ~~June~~

~~30, 2015~~ December 31, 2015; Year 2 (~~July 1, 2015~~ January 1, 2016 – ~~June 30,~~December 31, 2016); and Year 3 (~~July 1, 2016~~ January 1, 2017 – ~~June 30,~~ December 31, 2017). The first report should be due on February 1, 2016 (Year 1), and each subsequent program year thereafter. An original of each report shall verified by an officer of the utility and shall be submitted to the Commission's Executive Director; each utility shall provide a copy of the report to each Commissioner, each party to this rulemaking who requests one, the Chief ALJ and the Directors of Energy Division and SED, and any other person who requests a copy.

II. Proposed Changes to Conclusions of Law

16. Joint Parties have failed to establish that because utilities will not own the new, customer-side infrastructure, "beyond the meter" construction costs must be expensed and cannot be capitalized. "Beyond the meter" construction is necessary for the entire, new distribution system to function. The utility serves as the pass-through for "beyond the meter" construction funds as provided in its conversion agreement with the MHP owner. This pass-through role is based on ratepayers' promise to repay the utility. ~~The ratemaking obligation constitutes a regulatory asset, appropriate for recovery from ratepayers in rates over time.~~

III. Proposed Changes to Order Paragraphs

8. Each electric and/or gas corporation is authorized to fully recover in distribution rates the costs of the conversion program approved in Ordering Paragraph 2.~~, subject to reasonableness review~~ The following ratemaking is approved: actual, prudently incurred program costs shall be entered in a balancing account for recovery on a forecast basis, and will be subject to true-up to actual costs annually via advice letter. ~~in the first year following cut over of service; "to the meter" construction costs must be capitalized based on actual (not forecast) expenditures; "beyond the meter" construction costs must be capitalized based on actual (not forecast) expenditures and consistent with their status as a regulatory asset, these costs must be amortized over ten years at the utility's long term, incremental cost of debt. Review for reasonableness of "to the meter" costs will occur in the general rate case where those costs are put unto rate base.~~

9. Each electric and/or gas corporation must file a Tier 2 advice letter for approval of new tariffs to establish a voluntary, mobilehome park/manufactured housing community conversion program that contains all of the program components referenced in these Ordering Paragraphs and further described in this Order. The advice letter must be filed with the Commission's Energy Division ~~within 60 days of the effective date of this Order~~ by November 1, 2014. The Energy Division shall consult with the Safety and Enforcement Division to ensure that the advice letter complies with this Order.

10. Each electric and/or gas corporation must annually prepare a report for the conversion program approved in Ordering Paragraph 2, as follows: (a) by February 1, 2016, ~~July 1, 2015,~~ a status report that includes a timeline for implementation of the three-year pilot and identifies where the utility is on that timeline; the number of initial applications received; problems experienced with the prioritization process and potential, future solutions; information about each mobilehome park or manufactured housing community selected for conversion, including the general location (city and county), the number of spaces, whether natural gas or electricity or

both will be converted and whether the conversion involves another electric or gas corporation utility or other municipal or public utility provider; (b) by ~~July 1, 2016~~ February 1, 2017, a status report that identifies timeline status and a preliminary quantification of construction costs incurred per space, broken out on both "to the meter" and "beyond the meter" bases, as further described in the body of this Order; and (c) within 30 days of ~~July 1, 2016~~ February 1, 2017, a tier-2 advice letter requesting continuation of the program containing a comprehensive cost accountings for both "to the meter" and "beyond the meter" construction based on project completion, and (d) ~~July 1, 2017~~ February 1, 2018 (or within 30 days of the utility pilot program's final mobilehome park or manufactured housing community cut over, if that date occurs before ~~July 1,~~ December 31, 2017), a comprehensive cost accountings for both "to the meter" and "beyond the meter" construction based on project completion and cut over and if desired, a narrative assessments of the three-year pilot.