



State of New Jersey
Board of Public Utilities
Two Gateway Center
Newark, NJ 07102
www.bpu.state.nj.us

ENERGY

IN THE MATTER OF THE 2007/2008 ANNUAL)	UNIVERSAL SERVICE FUND
COMPLIANCE FILINGS FOR THE UNIVERSAL)	
SERVICE FUND PROGRAM FACTOR WITHIN)	ORDER APPROVING
THE SOCIETAL BENEFITS CHARGE RATE)	INTERIM USF RATES AND
PURSUANT TO SECTION 12 OF THE 1999)	LIFELINE RATES
ELECTRIC DISCOUNT AND ENERGY)	
COMPETITION ACT)	DOCKET NO. ER07060503

(SERVICE LIST AND EXHIBIT A ATTACHED)

BY THE BOARD¹

Background

The Electric Discount and Energy Competition Act, N.J.S.A. 48:3-49 et seq. ("EDECA" or "the Act"), provided that the New Jersey Board of Public Utilities ("Board") establish a non-lapsing Universal Service Fund ("USF") to assist low income consumers with the payment of electric and gas bills. This fund was to be established by the Board, pursuant to N.J.S.A. 48:3-60 (b), wherein the Board was to determine the level of funding, the appropriate administration, and the purposes and programs to be funded with monies from the fund. In its July 16, 2003 Order in Docket No. EX00020091, the Board established a permanent statewide program through which funds for the USF program are collected from customers of electric and natural gas public utilities operating in the State on a uniform basis. In that same Order it was established that Lifeline funding was to be generated in the same fashion as USF.

For the first year of the USF program, administrative expenses for USF were in addition to the \$30 million budget and were capped at 10% of the \$30 million for that year. If the program exceeded the \$30 million, any administrative expenses above the 10% or \$3 million, required advance approval by the Board. One-time start-up costs were not to be counted as administrative expenses and were not to be subject to the 10% cap. Those USF rates were approved by the Board on July 16, 2003 and rates became effective on August 1, 2003. In addition, Lifeline rates based upon a \$72 million budget also became effective August 1, 2003. In that same Order, the Board directed the electric and gas utilities to make annual societal

¹ Commissioner Christine V. Bator did not participate in the deliberation of or vote on this matter due to a potential conflict of interest.

benefits charge (“SBC”) rate compliance filings for USF and Lifeline by April 1st each year, including notice and public hearings, with any new tariffs to be effective July 1st each year.

In its June 22, 2005 Order in Docket No. EX00020091, the Board approved the 2005/2006 USF and Lifeline rates, which were designed to recover a USF budget of approximately \$113 million and a Lifeline budget of \$72 million. Additionally, the Board ordered that the annual USF compliance filing date and effective date be changed from April 1st and July 1st, respectively, to July 1st and October 1st, respectively. This new timing was intended to permit the utilities and the other State agencies involved in the administration of the USF Program, the Department of Human Services (“DHS”), the Office of Information Technology (“OIT”) and the Department of Community Affairs (“DCA”), to obtain more actual data and thus facilitate improved forecasting for the next period.

On October 25, 2006, the Board approved the proposed rates set forth in the subsequent 2006/2007 USF compliance filing in Docket No. ER06070525. The proposed rates were established to recover a \$156.4 million USF budget and a \$72 million Lifeline budget. Accordingly, the current rates, including Sales and Use Tax (“SUT”), are:

	Electric	Gas
	\$0.000643/kWh	\$0.023100/therm
Lifeline	\$0.000681/kWh	\$0.004600/therm
Combined USF/Lifeline	\$0.001324/kWh	\$0.027700/therm

On June 29, 2007, Public Service Electric and Gas Company (“PSE&G”), on behalf of itself and all the other utilities, made their filing for the 2007/2008 program year with actual data from October 2006 to April 2007 and five months estimates. In this filing, the utilities proposed that the statewide USF rates be set to recover approximately \$171.5 million. In addition, the utilities asserted that the calculations of the program supported the recovery of \$76.8 million for the State’s Lifeline program. The requested rates, including SUT, are as follows:

	Electric	Gas
	\$0.001282/kWh	\$0.0163/therm
Lifeline	\$0.000674/kWh	\$0.0058/therm
Combined USF/Lifeline	\$0.001956/kWh	\$0.0221/therm

The utilities noted that these calculations are subject to uncertainties due to a number of factors, such as program changes, participation rates and jurisdictional volumes. The rates are also predicated upon an estimated \$17.9 million electric under-recovery and an estimated \$11.6 million gas under-recovery for the 2006-2007 program year.

On August 17, 2007, the utilities provided the parties with actual information, and supporting documentation through June 30, 2007. This new information reflected a higher USF budget of approximately \$173.5 million, with an increased gas under-recovery of approximately \$13 million, and an electric under-recovery of approximately \$18.7 million. The revised proposed rates, including SUT, are as follows:

	Electric	
USF	\$0.001293/kWh	\$0.0166/therm
Lifeline	\$0.000674/kWh	\$0.0058/therm
Combined USF/Lifeline	\$0.001967/kWh	\$0.0224/therm

On September 20, 2007, the utilities provided additional actual information for the month of July 2007 in response to Board Staff's discovery requests. The new information reflected a higher total USF requirement of \$ 174.4 million. The revised 2007/2008 USF rates, including SUT and reflective of 10 months of actual data and two months of estimated data, are as follows:

	Electric	
USF	\$0.001300/kWh	\$0.0167/therm
Lifeline	\$0.000674/kWh	\$0.0058/therm
Combined USF/Lifeline	\$0.001974/kWh	\$0.0225/therm

These rates would result in a decrease of \$0.64 per month for an average residential gas customer utilizing 100 therms per month and an increase of \$0.43 per month for an average residential electric customer utilizing 650 kWh per month. The combined USF/Lifeline annual bill would be \$42.40 per year for an average customer who uses gas and electricity, a 2.7% decrease from the current level of \$43.57 per year.

In their September 20, 2007 discovery response, the utilities also recommended that the Board consider allowing them to propose a self-implementing adjustment mechanism in the 2008/2009 USF Annual Compliance Filing. The utilities contend that such a mechanism would enable them to adjust USF rates based on actual information, as necessary, and reduce any over or under recovered balances. Additionally, the utilities contend that this mechanism would avoid the need for significant changes in USF rates to adjust for under or over recoveries.

Procedural History

Consistent with the Board's determination made during the last compliance filing to assign a separate docket number for the filings made each year by the utilities, the Board has assigned a unique docket number for the 2007/2008 compliance filing. In addition, members of the public, including members of the USF Working Group, were afforded the opportunity to participate in the public hearings with respect to both the program policies and the rates, as well as submit written comments about these matters. However, to be fully active in this rate proceeding including conference calls, settlement conferences and related procedural matters, a formal motion to intervene had to be filed in this proceeding.

The parties in this filing included the four Electric Distribution Companies ("EDCs") and the four Gas Distribution Companies ("GDCs"),² Staff of the Board of Public Utilities ("Staff") and the Division of the Rate Counsel ("Rate Counsel") (collectively, "the Parties").

² The four GDCs include PSE&G, Elizabethtown Gas Company ("ETG"), New Jersey Natural Gas Company ("NJNG"), and South Jersey Gas Company ("SJG"). The four EDCs include PSE&G, Atlantic City Electric Company ("ACE"), Jersey Central Power & Light Company ("JCP&L") and Rockland Electric Company ("RECO").

In accordance with N.J.S.A. 48:2-32.4 to 32.6, two public hearings were held in each geographic region served by each of the EDCs and GDCs. An attorney on the Board's Staff presided at each of the rate public hearings. The public hearing schedule was as follows:

August 22, 2007 - PSE&G - 3:30 pm and 5:30 pm – Hackensack - Hearing Officer Edward D. Beslow, Esq.

August 23, 2007 – PSE&G – 3:30 pm and 5:30 pm – Mt. Holly - Hearing Officer Peter A. Hilerio, Esq.

August 27, 2007 – SJG & ACE (combined) – 3:30 pm and 5:30 pm - Hammonton - Hearing Officer Peter A. Hilerio, Esq.

August 27, 2007 – ETG - 3:30 pm and 5:30 pm – Flemington - Hearing Officer Samuel Wolfe, Esq.

August 27, 2007 - NJNG – 3:30 pm and 5:30 pm - Rockaway - Hearing Officer Suzanne Patnaude, Esq.

August 28, 2007 - PSE&G & ETG (combined) – 3:30 pm and 5:30 pm - Rahway - Hearing Officer Peter A. Hilerio, Esq.

August 28, 2007 – JCP&L – 3:30 pm and 5:30 pm - Morristown - Hearing Officer Suzanne Patnaude, Esq.

August 29, 2007 – JCP&L & NJNG (combined) – 3:30 pm and 5:30 pm - Freehold - Hearing Officer Bethany Rocque-Romaine, Esq.

August 29, 2007 – RECO – 3:30 pm and 5:30 pm – Alpine - Hearing Officer Donna Luhn, Esq.

One person attended both the Mt. Holly and Freehold hearings and provided comments in support of the program. Further, two people submitted written comments in opposition to the rate increase and the Universal Service Fund program.

The parties agreed to a procedural schedule whereby a discovery/settlement conference was convened on August 20, 2007. Comments regarding the compliance filings were filed by Rate Counsel on September 10, 2007, and the EDCs and GDCs filed reply comments on September 17, 2007.

Positions of the Parties

Division of Rate Counsel

Rate Counsel does not oppose the proposed USF and Lifeline rates initially filed on June 29, 2007 but argues that rates should only become effective on an interim basis and subject to refund with interest. Further, Rate Counsel argues that the USF filing should be subject to a formal review process similar to those in effect for other automatic recovery mechanisms. Since the USF and Lifeline programs cover nearly a quarter of a billion dollars in ratepayer funds annually, their associated rates, costs, and recoveries should be subject to discovery and

appropriate reviews and analyses of related issues. Rate Counsel cites as an example of such a related issue, the appropriateness of the projections and calculations underlying the proposed USF rates and the reconciliation of USF costs and recoveries of the prior USF period. According to Rate Counsel, another example of these issues, which was brought about from the information provided in the informal discovery conference, relates to the appearance of inconsistencies in the way the utilities determine the amounts to be remitted to the State Treasurer to fund the USF and Lifeline programs. Rate Counsel believes that a more complete review process and sufficient time are necessary to analyze this issue and other relevant issues. Thus, Rate Counsel maintains that rates can be implemented on an interim basis subject to refund, pending completion of the review process.

Rate Counsel is also concerned about the DCA Administrative Budget and believes that the Board should require sufficient documentation to support any forecasted administrative expenses, as well as require an annual reconciliation of actual to budgeted expenditures. The current filing contains a \$4.7 million cost for DCA program administration, with no documentation to support the almost 60% increase in the budget amount from the \$3 million budget approved for the current program year. Rate Counsel contends that costs that are ultimately paid for by ratepayers are subject to review in order to ensure that they are reasonable and prudent.

With respect to the utility administrative costs, Rate Counsel notes that at least four utilities, PSE&G, JCP&L, ACE and RECO are deferring administrative expenses and that the Board has ordered that recovery of such costs be deferred, according to USF Compliance Orders approved on June 30, 2004, June 22, 2005 and October 25, 2006. However, Rate Counsel argues that to date, there has been no complete assessment of the costs savings that have resulted from the USF program. Further, since four utilities have deferred \$2.4 million in administrative costs through April 2007, the utilities should provide detailed documentation for deferred expenses in their annual compliance filings. Accordingly, further proceedings, which would afford Rate Counsel, Staff and other parties the opportunity for discovery, and if necessary, evidentiary hearings and briefings are required, according to Rate Counsel, in order for the Board to determine which of the costs presently being deferred, should be recovered by the utilities.

With regard to the timing and reconciliation of actual and estimated USF data contained in the compliance filing, Rate Counsel contends that the parties do not have an opportunity to fully verify the estimated data in last year's filing, because the last quarter's actual data for the 2006/2007 program year is not provided as part of the current filing. In order to address this issue, Rate Counsel suggests two possible solutions. The first solution would be to include actual data for the months that were estimated in the compliance filing from the preceding year. Alternatively, the reconciliation period could be defined to end in June of each year. This would ensure that the filing contained actual data for all the months in question, since the utilities were able to provide their actual data through June by the middle of August. Further, Rate Counsel contends that it would be helpful if the utilities would routinely provide both the quarterly totals for amounts received from and transmitted to the USF trust account as maintained by the State of New Jersey, as well as the semi-annual USF Clearinghouse Account³ Activity Reports and associated monthly schedules, which would help expedite the review process.

³ The USF Clearinghouse Account is the USF Trust Fund Account, into which the utilities deposit funds equal to their USF billings and those funds are disbursed back to the utilities as reimbursement for USF billing credits issued to eligible households. The USF Trust Fund Account is maintained within the New Jersey State financial accounting system in an OMB designated State special revenue fund account in Treasury.

With respect to the interest calculation, Rate Counsel reiterates the application of uniform interest rates on USF recoveries, if the Board is inclined to revisit the need for this issue. Currently, utilities apply different interest rates, as established by each respective rate-related Board Order. While some utilities use the seven year constant maturity Treasury rate plus 60 basis points, others use the average rate on their own short-term debt borrowings. Rate Counsel recommends an interest rate for over-recoveries different from that for under-recoveries. Rate Counsel submits, that for over-recoveries, the rate should be equal to at least the utility's cost of capital and the rate based on the cost of short-term borrowings can be used for under-recoveries.

EDCs/GDCs

The EDCs and GDCs in their reply comments, assert that Rate Counsel has a misconception about the utilities' role in the administration of USF. They claim that the USF charge is not like the other components of the Societal Benefits Charge subject to a full review of the utilities' prudence in incurring such costs and an evaluation of the reasonableness of those costs. The utilities contend that the costs recovered through the USF charge are not within the utilities' control and their role is simply a funding conduit. The utilities further assert that if the Board required evidentiary hearings regarding the USF program budget, they should not bear the burden of proof regarding such matters since they are not responsible for the structure and implementation of the USF program.

Further, the utilities contend that Rate Counsel's request for the utilities to provide detailed documentation supporting the basis for their deferred expenses in the annual compliance filing is premature and such documentation should only be filed when the utilities request recovery of such deferred expenses.

With regard to the timing of USF reconciliation, the utilities believe that Rate Counsel's two possible approaches are unnecessary because the utilities are required to submit the actual end of year template data pursuant to the USF 2006/2007 Order. In order to expedite the review process, the utilities agree to include in the annual compliance filings the actual quarterly total for amounts received from and transmitted to the State Treasury on a going forward basis.

With respect to the appropriate interest on USF recoveries, the utilities believe that utilizing their respective Board authorized SBC interest rate is the appropriate interest rate to use notwithstanding the fact that utilities have different Board authorized SBC interest rate.

Discussion and Findings

After review of the compliance filings, the Board HEREBY APPROVES the following rates, on an interim basis effective October 3, 2007:

	USF	Lifeline	Total
Gas - including SUT	\$0.016700	\$0.005800	\$0.022500
Electric - including SUT	\$0.01300	\$0.000674	\$0.001974

With regard to Rate Counsel's request that the Board should continue to treat USF rates as "interim" until the proper level of net cost recovery can be determined after the completion of the evaluation of the USF program and including the impact on utility credit and collection expenses, the Board HEREBY FINDS that rates should be interim pending further review of the program by the Board. Accordingly, the Board FURTHER FINDS those rates, on a prospective basis shall remain interim, subject to audit and further review.

With regard to Rate Counsel's request that the Board require DCA to submit sufficient documentation to support any forecasted administrative expenses and require an annual reconciliation of actual to budgeted expenditures, the Board notes that it has already undertaken procedural steps that should satisfy Rate Counsel's concerns. The Board, at its May 8, 2007 agenda meeting, I/M/O DCA State FY 2007 Universal Service Fund Administrative Cost Budget, Docket No. EO07040255, approved DCA's forecasted budget of \$3,647,225 for the 2007 fiscal year, which was supported by documentation submitted by DCA as justification for its FY2007 budget projections. The Board found that DCA's budget projections are appropriate and necessary. According to the Board's Memorandum of Understanding with DCA, DCA will submit to the Board a billing for actual USF administrative and outreach program costs on a quarterly basis. In addition, the budget information which DCA has agreed to submit to the Board can be made available to Rate Counsel upon request. The Board, as has been demonstrated by these procedural steps, is committed to ensuring that the USF program's administrative expenditures are justified and reasonable. Consequently, the Board DIRECTS Staff to continue to work with DCA to ensure that USF administrative expenses are utilized efficiently to administer the program in an effective and cost efficient manner.

With regard to Rate Counsel's suggestion that USF rates should be subject to a formal review process which should include discovery, and, if necessary, hearings and briefs, the Board believes the existing procedures are sufficient. The costs recovered through the USF Charge are not within the utilities' control, and the USF Charge recovers only those costs that the Board has specifically directed to be incurred for the USF program. The USF program funding structure operates on a pass-through system, with funds coming from the utilities through collections from ratepayers. Notwithstanding the fact that the utilities participate in USF Working Group discussions regarding policy and program operation, it is the Board that has oversight authority over USF. Currently, the compliance filing process provides for review of utility over or under-recoveries, including the filing of quarterly reports detailing each utility's recovery positions and annual filings complete with discovery and the opportunity to file written comments. Further, the current process does not foreclose the possibility of a hearing, if necessary. Additionally, the Board recognizes that the utilities' projections of USF funding needs for the 2007/2008 are based on current benefit information provided by DCA and thus is not within the utilities' control. Moreover, utility USF billing, credit issuance, remittance, recovery, interest, Fresh Start and portability are subject to review by Board audit. Finally, expenditures incurred by other State agencies involved in the USF and Lifeline programs are subject to audit by the New Jersey Office of the State Auditor as deemed appropriate by that Office. Accordingly, given the procedural safeguards that are in place, the Board remains confident that the existing review process is sufficient.

With regard to Rate Counsel's request that the Board defer ruling on the recoverability of any deferred administrative costs claimed by the utilities and require the utilities provide detailed documentation concerning the deferred expenses in their annual compliance filings, the Board notes it has consistently held that it is appropriate to defer recovery of such expenses. In fact, the Board in its Order of June 30, 2004, found that until there is an appropriate assessment of whether or not the utilities experience cost savings as a result of a decrease in un-collectibles associated with the existence of USF, it is appropriate to defer recovery of any utility administrative costs associated with USF, with the exception of mailing and postage costs incurred by utilities in mailing the initial enrollment letter. Moreover, the Board reiterated this ruling in its Order of October 23, 2006, Docket No. ER06070525. The Board is aware that additional utility data is required to perform a complete analysis in order to resolve this issue. Therefore, until further review by the Board and the parties, and until a final determination is made, the Board HEREBY DIRECTS the utilities to continue to defer such expenses.

Regarding Rate Counsel's concerns with respect to the timing of the utilities' compliance filing and its request that the Board address the reconciliation of actual and estimated data contained in the compliance filing, the Board believes that the current process is adequate and it is not necessary to implement Rate Counsel's recommendations. Currently, the utilities provide the Board with several updates of actual information throughout the year. On March 1st each year, the utilities provide the Board with end of calendar year information, which is used in the template that is provided to the Board with the annual compliance filing. Furthermore, the parties to the compliance filing routinely ask the utilities for updated actual information as part of the discovery process during the compliance filing. For example, as part of the discovery process of the current compliance filing, the parties asked the utilities for updated actual information for the months of May, June and July, which they subsequently provided. With respect to the request of Rate Counsel for inclusion of the semi-annual USF Clearinghouse Account Report on activity in the USF Trust Fund Account and the associated monthly schedules in the annual compliance filing, the Board HEREBY DIRECTS Staff to add Rate Counsel to the service list utilized by Staff in disseminating the semi-annual reports.

With regard to the appropriate interest rate and methodology of interest rate calculation of USF recoveries, the Board concludes, at this time, that further consideration of certain aspects is needed with regard to consistency of interest rate calculations used by the utilities for USF recovery. Rate Counsel suggests there be uniformity in the interest rate and methodology of interest rate calculation among the utilities. While the Board believes consistency among the utilities is important where appropriate, it does not agree that different interest rates should apply to over and to under recoveries for USF. The Board, in previous electric and gas restructuring orders, approved specific interest rates and methods to be applied on each utility's SBC deferrals. However, the utilities have less direct control over the level of USF costs than other adjustment clause costs since the USF budget is established by the Board and not by the utilities directly, leading the Board to further conclude that the concept of different interest rates for under and over recoveries is not necessary for USF.

Having considered the submissions in this matter and having reviewed the prior Orders on these issues⁴, as well as the USF Order dated July 16, 2003,⁵ the Board believes that further review of the appropriate interest rate and methodology of interest rate calculation for consistency among the gas and electric utilities in greater detail is needed before any final decision is made on the merits in the next USF Compliance Filing. Discussions should commence among the utilities, Rate Counsel, and Board Staff to consider what the appropriate interest rate for short term debt should be for each utilities' USF recovery. Accordingly, the Board HEREBY DIRECTS Staff to initiate discussions with the parties concerning this issue and the utilities shall continue to utilize the interest rates, which they currently apply to over and under-recoveries, until such time as the Board renders a final decision on this issue in the next USF compliance filings.

With regard to the request of the EDCs/GDCs to allow them to propose a self-implementing adjustment mechanism in the 2008/2009 USF annual compliance filing, the Board HEREBY REJECTS the request. As mentioned in the USF Order of October 25, 2006, the Board is not convinced that there is any reason why an adjustment needs to be self-implementing. If the

⁴ Board Orders dated July 8, 2004, Docket No. ER02080510; dated July 25, 2003, Docket Nos. ER02080506, ER02080507 et al; dated July 9, 2003, Docket Nos. ER02050303, ER02080604, et al; dated April 20, 2004, Docket No. ER02080614, et al; dated March 30, 2001, Docket Nos. GX99030121, GO99030122, GO99030123; dated January 10, 2000, Docket Nos. GX99030121, GO99030125, et al.

⁵ Board Order dated July 16, 2003, Docket No. EX00020091.

utilities believe it necessary to adjust USF rates prior to the annual compliance filing period, they may file the appropriate request with the Board, with a copy to Rate Counsel, and the Board will consider such adjustment.

Conclusion

In summary, the Board HEREBY APPROVES the following:

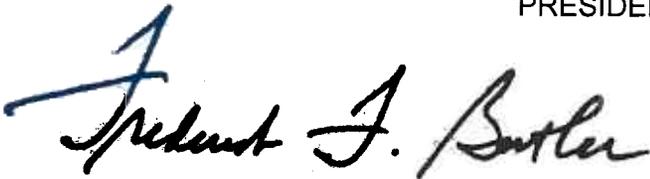
- New USF rates will become effective on an interim basis October 3, 2007;
- USF rates will remain interim rates subject to refund, further review and audit;
- New Lifeline rates will also become effective October 3, 2007; and
- Utility administrative expenses will continue to be deferred;

DATED: 10/4/07

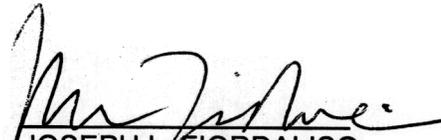
BOARD OF PUBLIC UTILITIES
BY:



JEANNE M. FOX
PRESIDENT



FREDERICK F. BUTLER
COMMISSIONER



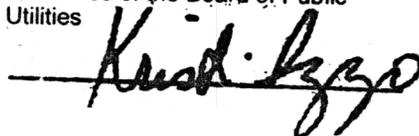
JOSEPH L. FIORDALISO
COMMISSIONER

ATTEST:



KRISTI IZZO
SECRETARY

I HEREBY CERTIFY that the within document is a true copy of the original in the files of the Board of Public Utilities



I/M/O THE 2007/2008 ANNUAL COMPLIANCE
FILINGS FOR THE UNIVERSAL
SERVICE FUND PROGRAM FACTOR WITHIN
THE SOCIETAL BENEFITS CHARGE RATE
PURSUANT TO SECTION 12 OF THE 1999
ELECTRIC DISCOUNT AND ENERGY
COMPETITION ACT

DOCKET NO. ER07060503

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***2007/2008 Annual Compliance Filing For Changes in the Statewide
Electric and Gas Permanent USF Fund Program Within SBC Rates
Docket No. ER07060503***

USF CALCULATION OF RATES

	<u>TOTAL</u>	<u>GAS</u>	<u>ELECTRIC</u>
<u>PERMANENT PROGRAM PROJECTIONS FOR 2007/2008</u>			
Administrative Costs - DCA (allocated based on benefits percentage)	\$4,723,643	\$2,139,066	\$2,584,577
Admin. Costs - Utility Postage and Handling	\$168,536	\$69,409	\$99,127
Estimate of Benefits for Program Year	\$126,075,630	\$57,092,400	\$68,983,230
Fresh Start Program Cost Estimates	<u>\$10,836,480</u>	<u>\$5,427,600</u>	<u>\$5,408,880</u>
TOTAL	\$141,804,289	\$64,728,475	\$77,075,814
Estimate of Under/(Over) Recovery at 9/30/07	\$32,584,782	\$13,327,531	\$19,257,251
TOTAL PERMANENT PROGRAM PROJECTIONS	<u>\$174,389,071</u>	<u>\$78,056,006</u>	<u>\$96,333,065</u>
ESTIMATES OF BENEFITS PERCENTAGES	<u>100%</u>	<u>45.28%</u>	<u>54.72%</u>
PROJECTED VOLUMES (normalized at 10/01/07)		<u>5,018,163,671</u>	<u>79,273,387,097</u>
PROPOSED PRE-TAX RATE		\$0.0156	\$0.001215
CURRENT PRE-TAX RATE		<u>\$0.0216</u>	<u>\$0.000601</u>
PRE-TAX INCREASE(DECREASE)		(\$0.0060)	\$0.000614
PROPOSED USF RATE INCLUDING TAX (@7%)		<u>\$0.0167</u>	<u>\$0.001300</u>
CURRENT USF RATE INCLUDING TAX (@7%)		<u>\$0.0231</u>	<u>\$0.000643</u>
USF RATE INCREASE/(DECREASE) INCLUDING TAX (@7%)		<u>(\$0.0064)</u>	<u>\$0.000657</u>

***2007/2008 Annual Compliance Filing For Changes in the Statewide
Electric and Gas Permanent USF Fund Program Within SBC Rates
Docket No. ER07060503***

LIFELINE CALCULATION OF RATES

	<u>TOTAL</u>	<u>GAS</u>	<u>ELECTRIC</u>
2006 JURISDICTIONAL OPERATING REVENUES (\$000)	\$12,292,989	\$4,308,998	\$7,983,991
JURISDICTIONAL REVENUE PERCENTAGES	<u>100%</u>	<u>35%</u>	<u>65%</u>
LIFELINE BUDGET	\$76,840,000	\$26,894,000	\$49,946,000
PROJECTED VOLUMES		5,018,163,671	79,273,387,097
PROPOSED PRE-TAX RATE		\$0.0054	\$0.000630
CURRENT PRE-TAX RATE		<u>\$0.0043</u>	<u>\$0.000636</u>
PRE-TAX INCREASE(DECREASE)		\$0.0011	(\$0.000006)
PROPOSED LIFELINE RATE INCLUDING TAX (@7%)		\$0.0058	\$0.000674
CURRENT LIFELINE RATE INCLUDING TAX (@7%)		<u>\$0.0046</u>	<u>\$0.000681</u>
LIFELINE RATE INCREASE/(DECREASE) INCLUDING TAX (@7%)		<u>\$0.0012</u>	<u>(\$0.000007)</u>

COMBINED USF/LIFELINE RATES

	<u>GAS</u>	<u>ELECTRIC</u>
PROPOSED PRE-TAX USF/LIFELINE RATE	\$0.0210	\$0.001845
CURRENT PRE-TAX USF/LIFELINE RATE	<u>\$0.0259</u>	<u>\$0.001237</u>
PRE-TAX INCREASE(DECREASE) TO USF/LIFELINE RATE	(\$0.0049)	\$0.000608
PROPOSED USF/LIFELINE RATE INCLUDING TAX (@7%)	\$0.0225	\$0.001974
CURRENT USF/ LIFELINE RATE INCLUDING TAX (@7%)	<u>\$0.0277</u>	<u>\$0.001324</u>
USF/LIFELINE RATE INCREASE/(DECREASE) INCLUDING TAX (@7%)	(\$0.0052)	\$0.000651