Decision 84 06 090

JUN 6 1984

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of Southern California Gas Company for authority to increase the Conservation Cost Adjustment (CCA) component in its effective rates in order to conduct its Demonstration Solar Financing Program.

Application 83-09-24 (Filed September 12, 1983; amended November 10, 1983)

OPINION

By this application Southern California Gas Company (SoCal) requests authority to increase the Solar Conservation Costs Adjustment (CCA) component in its rates by \$6.351 million to reflect the estimated 1984 costs of its Demonstration Solar Financing Program (Solar Program). SoCal proposes to increase rates to all retail customers, except utility electric generation, cogeneration and ammonia producers, on a uniform .122 cents per therm in accordance with the rate design guidelines adopted in Decision (D.)92854 and D.82-01-097. It requests a findings that (1) the CCA rates based on calendar year 1984 for the Solar program are just and reasonable, and (2) SoCal has attained its goals for the Solar Program. It also requests that the tariffs reflecting the requested changes be ordered filed and made effective January 1, 1984.

SoCal initially requested to recover \$2.386 million for 1984. On November 10, 1983 the application was amended with a request for an additional \$3.965 million or a total of \$6.351 million. SoCal states the additional \$3.965 million is necessary to cover the 1984 solar program costs incurred as a result of the enactment of Assembly Bill (AB) 1492 in 1983 and by Commission D.83-09-076 dated September 3, 1983.

Background

D.91272 dated January 29, 1980 in OII 42 required SoCal and the other three major investor-owned California energy utilities to submit plans for the implementation of a demonstration solar financing program. By D.92251 dated September 16, 1980 in Application (A.)59869, SoCal was ordered to implement a Solar Program. D.82-07-097 dated July 21, 1982 authorized SoCal to increase rates in order to continue its Solar Program and to finance an updated multifamily solar industry support program.

In D.82-07-101 dated July 21, 1982 the definition of multifamily dwellings was expanded to include long-term residential care facilities and college or university dormitories. By D.82-07-102 dated July 21, 1982 SoCal was ordered to provide proportional rebates to owners of multifamily dwellings where it was physically impractical to install enough collectors to meet the sizing requirements for all units in the building.

Except for its proposal to terminate the loan phase of the solar program at the end of 1982, SoCal's 1983 funding request was granted in full by D.82-12-107 dated December 22, 1982. That decision also ordered continuation of the loan program until 9,500 loans had been issued.

Because the amendment was not filed until November 10, 1983, the Commission staff was unable to complete the initial application review delaying the issuance of its report until January 23, 1984. After reviewing the staff report, on February 21, 1984 SoCal filed its response taking exception to many of the staff's recommendations. On March 15, 1984 the staff filed a supplemental report which modified some of its prior recommendations.

Program Goals

The staff report tabulated SoCal's performance for the program as mandated by D.92854 as follows:

	No. of Loans	Single Family Cash Rebates	Low Income Grants	Multifamily Cash Rebates
Established Goals	9,500	9,500	1,620	145,500
Loan/Rebates Approved	9,486	8,948	177	40,125
Percent Achievemen	t 99.9%	94 • 2%	11.0%	27.6%

The record indicates SoCal will have achieved its goal for the single-family loan and cash rebate program by January 13, 1984. The remaining activity for the single-family program will include account maintenance for quarterly payments of cash rebates, monthly loan billings, and collection of payments.

The solar/gas hot water heating installations serving 1,620 multifamily low-income units were completed by December 15, 1983. No further activity in this portion of the program is planned.

By D.83-09-076, dated September 30, 1983, the multifamily phase of the Solar Program was extended until September 15, 1984 for acceptance of applications, and December 15, 1984 for the installations to pass local jurisdiction inspections. As of October 31, 1983 solar/gas hot water heating installations for 51,500 multifamily units had passed inspection and 40,125 multifamily units owners were receiving rebates. SoCal has received enough applications for participation in the cash rebate program to fill its goal of 145,500 multifamily units.

All of the Solar Program goals will be achieved by the end of 1984. The only activity relating to this program for the subsequent years will be in the area of account maintenance for quarterly payment of cash rebates, monthly loan billings, and collection of payments. Since the total monthly payments for rebates and related expenses for the Solar Program are expected to gradually decline after 1984, there is no need to continue requesting annual rate relief by separate filings. In view of this, the staff recommends that the annual CCA filings be discontinued and any subsequent requests incorporated in general rate relief proceedings. Staff also suggests that continuation of the CCA for solar financing and the solar financing balancing account should be decided in a future rate proceeding.

Revenue Request for 1984

Socal's total revenue request for 1984 program funding is \$18.029 million, an increase of \$6.351 million over present rates. It alleges the increase is necessary to provide the funds to carry out the multifamily portion of the program as mandated by the legislature and the Commission. The derivation of the additional \$6.351 million attached to the application is as follows:

DEMONSTRATION SOLAR FINANCING PROGRAM CONSERVATION COST ADJUSTMENT ESTIMATED YEAR 1984

Revenue Requirement (\$000)

	Expenses	
<pre>Item</pre>	Debt: Service	Program
Incentives		
Loan (Capital Costs):		<u> </u>
Interest Differential	1,198*	,
Bad Debt & Arrears Return on Equity	346*	584
Income Taxes	_	571 626
Utility Credits (single)	_	2,183
Utility Credits (multi)		_8,453
Subtotal	1,544	11,833
Other Costs		
Account Administration		389
Installation Inspections Monitoring Activity		381
Monitoring Hardware		117 283
Operating Costs		
Subtotal	•	539 1,709
Total Costs:	1,544	13,542
Balancing Account 12/31/83		4 4 6 4
Subtotal		4,191 17,733
Franchise Fees &		119122
Uncollectible Expense		_
♥ 1.668% Total Revenue Requirement		296
Less Revenue at Present Rate		<u>18,029</u> (11,678)
Additional Revenue Requirement		6.351
COA DAMO		,
CCA RATES		
		Per Therm
Incremental Increase:		
\$6,351M - 5,207,665MTherms = Present Rate		0.122
Proposed Rate		<u>0.224</u> 0.346

^{*}These expenses are not included in Revenue Requirement, but are shown for information purposes. This procedure was approved by D.93740 issued November 30, 1981.

1983 Expenses

The staff report states that SoCal's expenditures for 1983 were reasonable with the exception of the Monitoring Site Inspection vexpense. For this item the staff recommends an allowance of only \$115,890 versus the \$256,000 requested and the \$89,000 authorized by D.82-12-107.

The staff states that in 1982 a consulting firm was selected to develop and coordinate a monitoring and evaluation activity relating to the three-year solar water heater demonstration programs undertaken by the four major energy utilities. The monitoring program as set up required SoCal to randomly select and install approximately 480 meters to monitor the solar hot water systems. (Approximately 380 were for single-family installations and 100 at multifamily installations).

In the first nine months of 1983 SoCal spent \$199,750 to inspect and install these meters and estimates that an additional \$55,906 is needed to complete the site inspection process by the end of 1983. SoCal's requested \$255,656 (\$199,750 plus \$55,906) is based on five full time employees plus 75 percent of one training support employee.

For monitoring site inspections, the staff estimates no more than 650 site inspections (500 single-family and 150 multifamily) should be needed to achieve the necessary 480 site monitoring locations. This number makes allowance for rejection of a site by both the utility and customer. The staff estimates the cost to select a suitable monitoring site at \$393 per inspection. To arrive at this figure the staff estimates three field service employees and 50 percent of one trainee allowing four hours per inspection for 650 inspections, or \$178 per site.

In its February 15, 1984 filing, SoCal questioned the staff estimates. SoCal stated it needed to inspect 618 single-family and 110 multifamily sites to select 363 and 93 sites respectively. For a variety of reasons 272 sites were rejected. SoCal followed the selection process as expected by both staff and BBW. 1

SoCal estimated expenses reflect pre-inspection costs as well as post-installation inspection and repair of malfunctioning monitoring equipment. To carry out this additional inspection and repair required the training of personnel amounting to the equivalent of one full-time employee.

After its review of SoCal's response to its report, the staff concurred in SoCal's 1983 monitoring site inspection cost estimates. We will adopt this estimate as just and reasonable. The following table shows SoCal's and staff's proposed 1983 site monitoring expenses:

BBW is a consulting firm selected in 1982 to develop and coordinate a monitoring and evaluation activity relating to the three-year Solar Hot Water Heating Demonstration Program of the four major California energy utilities.

OII 42
MONITORING SITE INSPECTION EXPENSE
1983

<u> Item</u>	Applicant	Staff (as adjusted)
Customer Services Field		1
Labor	\$147,879	\$147,879
Nonlabor	2,221	2,221
Labor Overheads	44,660	44,660
Automotive Tools	29,728	29,728
Subtotal	224,488	224,488
Training Support Staff	4	
Labor	22,293	22,293
Nonlabor	2,143	2,143
Labor Overheads	6,732	6,732
Subtotal	31,168	31,168
Total	255,656	255,656

1984 Expenses

SoCal's and staff's estimates for 1984 expenses are as follows:

Southern California Gas Co. Conservation Cost Adjustment Expense 1984 Estimated

Incentives (Excluding Debt Serv	App.	<u>Staff</u> (\$000)	App. Exceeds Staff
Return on Equity Income taxes Utility Credits (Single) Utility Credits (Multi) Low Income Grants Subtotal	\$ 571 626 2,183 8,453	\$ 571 626 2,183 8,453 -	
Other Costs			
Account Administration Installation Inspection Monitoring Activities Monitoring Hardward Operating Cost Subtotal Total Incentives	389 381 117 283 539 1,709	319 381 151 177 539 1,567	70 (34) 106

Return on Equity

SoCal requests the same return on equity in this proceeding as that approved in D.82-12-054, its 1983 general rate case. The requested return would be consistent with that authorized for SoCal's solar program in D.82-12-107.

The estimated amount outstanding on solar program loans as of January 1984 is approximately \$36,900,000 which will decrease gradually as the loans are amortized. Based on SoCal's 10% contribution, a 15.75% return on equity would earn approximately \$571,000 for the 1984 investment. The related income taxes would be \$626,000. The request is reasonable and should be approved.

Single Family Rebates

Since all 9,500 installations qualifying for cash rebate were completed in 1983, the only activity in this area is the maintenance of customer accounts for quarterly rebate payments. Socal and the staff agree that approximately \$2,183,000 in rebates will be paid to single-family homeowners in 1984.

MultiFamily Rebates

SoCal estimated that all multifamily installations qualifying for a cash rebate will be installed and inspected by December 1984. After reviewing SoCal's workpapers, staff states that the estimated \$8,453,184 in payment to multifamily unit owners is reasonable.

Other Costs

Account Administration

For this account SoCal's estimate exceeds staff estimate by approximately \$70,000. The staff states that in 1983 SoCal placed the billings and bookkeeping functions on a computer. By this conversion the staff estimates that the work force administrating accounts could be reduced by three employees.

Socal states that its 1984 estimate of \$388,630, contrasted to its 1983 authorized expense of \$625,000, reflects the cost reduction resulting from its computerization of accounting activities. The staff, however, points out that besides computerization of accounting activities, overall inquiry level will decline because the single-family rebate/loan program was concluded on January 13, 1984 resulting in a decline of outstanding loans. Further, customer inquiries as a result of rejection of their solar system and rebate checks are handled by the Santa Fe office rather than the division office. We agree with staff's reasoning and will adopt its recommendation.

Installation Inspection

The staff determined that SoCal's estimated \$381,000 is reasonable and should be adopted.

Monitoring Activity

The staff estimated 34,000 meter readings more than SoCal for this expense. SoCal's estimate of \$116,877 was based on the assumption that monitoring activity would cease at the end of July 1984 and all equipment would be removed. Due to a revised monitoring program requiring continuous readings throughout 1984 rather than six months ending July with removal of equipment, the staff increased SoCal's estimate by \$34,000 to a total of \$151,390. In its calculation the staff estimated the average meter reading at 35 minutes compared to SoCal's estimate of 50 minutes. The staff is more realistic than SoCal. Its estimate should be adopted.

Monitoring Hardware

A comparison of SoCal and staff estimates for monitoring hardware is as follows:

1984 Monitoring Hardware Cost Estimates

<u> Item</u>	SoCal	Staff
Maintenance and Repair	\$ 36,710	\$ 36,710
Removal Cost	135,830	-
Research and Service	90,370	140,000
Total	\$282,910	\$176,710

In its first report the staff stated SoCal supplied no supporting workpapers for its maintenance and repair estimate. Staff estimated that only 25% of the metering sites or approximately 125 equivalent monitoring installations would require maintenance or repair. Staff assumed an average repair or maintenance time of 4 hours at \$50 per hour calculating a total expense of \$25,000 for 1984.

Subsequent to filing its report, SoCal submitted the necessary workpapers supporting its estimate. Based on SoCal's workpapers and the equipment failure rate experienced in 1983 the staff supports SoCal's estimate for 1984 of \$36,710 for maintenance and repair. We will accept SoCal's estimate.

Because the monitoring equipment will remain in place and SoCal will not incur any removal cost during 1984, staff recommends disallowance of this item. We agree since the monitoring equipment will not be removed in 1984.

For research and service the staff included an amount to enable continued monitoring beyond the July 1984 termination scheduled by SoCal. The staff's estimates reflect a reasonable approach to this expense item and is adopted.

Operating Costs

As the single-family loan and rebate program is phased out, SoCal's 1984 expense will be limited to selection, inspection and approval of multifamily solar/gas hot water hearing installations. Because of this, expenditures are expected to decline from \$1,038,000 in 1983 to approximately \$539,000 in 1984. The 1984 estimate includes an amount for warranty assumption where the solar contractor is no longer in business. The staff states that SoCal's 1984 operating cost estimate is reasonable. We concur.

Rates

The requested and recommended rates of SoCal and the staff respectively are calculated as follows:

Southern California Gas Company

Revenue F	Applicant Requirement In Thousands)	Staff
Estimated Balancing Account as of 12-31-83 Estimated 1984 Expense Franchise Fee and Uncollectible Total Revenue Requirement Less Revenues at Present Rates Additional Revenue Requirement	\$ 4,191 13,542 296 18,029 (11,678) 6,351	\$ 4,091 13,400 293 17,884 (11,678) 6,206
CCA Rates	- ¢ Per Therm	
Incremental Increase (L.6 + 5,207,665 MTherms) Present Rate Proposed Rate	0-122 0-224 0-346	0-119 0-224 0-343

As can be seen, the staff recommended adjustments would result in an increase of 0.119 cents per therm in the solar rate component of CCA as compared to the 0.122 requested by SoCal, and would produce increased revenues by \$6,206,000 for test year 1984.

Bad Debts

SoCal made no specific request in this application with respect to bad debts. However, since it has received quarterly rate increases by advice letter filing to the extent of \$134,636 as of September 30, 1983 and because its offset needs are expected to exceed \$800,000 for 1984, the staff recommends that SoCal be directed to make a concerted effort to collect all delinquent accounts before being allowed to write off such accounts and that in the future the Commission approve all advice letter filings.

The staff states that D.92251 forbids SoCal from foreclosing on a solar loan for nonpayment, expecting it to recover on the sale or transfer of the property, but that decision provided no guidelines for delinquent loans where there is no sale or transfer. That decision also subordinated the solar loans to all other liens until one day prior to the sale or transfer.

In response to the staff's January 23, 1984 recommendation SoCal stated:

"The ECB Staff's assessment of the situation does not provide a complete picture. Contrary to Staff's implication, SoCalGas does not drop the issue after loans have been written off. SoCalGas still maintains liens on properties where loans have been written off, and continues to monitor loans for possible collection upon sale of property. This procedure is in full compliance with Solar Program Decision 92251, dated September 16, 1980. In addition, it is consistent with the intent and direction of OII-49, Termination of Service Rules.

"The Cost of Service Agreement between the Solar Financing Affiliate and SoCalGas outlines the calculation of debt service which includes bad debt recovery calculated under

the current method. If the Commission wishes to reverse its position on foreclosure of Solar liens, any recoveries could be credited back to the ratepayers without disturbing the present calculation of debt service on which the lenders continue to rely.

"The question of foreclosure procedures certainly needs to be explored as well as the issues of "due on sale" and "assumability". However, this Application does not include debt service issues or expense and these important questions should be considered outside of this proceeding.

"SoCalGas should be allowed to continue its present bad debt recovery procedure pending further direction from the Commission in some other proceeding such as OII-42 which is currently considering the related issue of assumability under the Wellenkamp Decision."

The staff believes that other ratepayers' interest is not well protected. The staff responded to the above in its March 15, 1984 filing stating:

"SoCal's response does not address the issue of who bears the carrying cost of the borrowed funds for a period of time until the outstanding amounts of delinquent loans are collected. According to the utility's present policy and the loan agreements, the utility will never recover interest on the delinquent amounts. With "Due on Sale" clause in the loan agreement, the utility will only collect unpaid principal at the time of sale.

"The utility has recently indicated that it cannot vigorously pursue the collection of delinquent loans any further without having the leverage to foreclose. The utility feels that most of the customers would not let their loans become delinquent if they knew the utility had the ability to foreclose.

"The present procedure of writing off bad debts for properties, which have not been foreclosed by other lien holders is not fair

to SoCal's other rate payers. In view of this, ECB staff recommends that the utility should be authorized to foreclose on defaulted loans and this authority should only be exercised after exhausting all other reasonable means for the collection of defaulted payments."

The staff's approach has merit and will be accepted. SoCal should foreclose on defaulted loans when it has exhausted all other reasonable means for the collection of defaulted payments.

With respect to the issue of bad debts resulting from the transfer of a loan this can be better handled in the decision dealing with SoCal's petition to modify D.92251.

Subsequent CCA Rate Request

For all practical purposes the solar demonstration program will conclude by the end of 1984. The only major activity relating to this program for the subsequent years will be in the area of quarterly payment of rebates, monthly loan billings, and collection of loan payments. However, the utility intends to continue requesting annual solar related CCA for the following reason:

"The CCA procedure was allowed for this Demonstration Solar Program to provide SoCal Gas additional assurance of recovering its costs and there have been no changes which would indicate that SoCal Gas should absorb additional risk."

The staff's March 15, 1984 filing elaborated on several items which supported its recommendation that the subsequent rate adjustment requests for the Solar Program be included in the utility's next general rate proceeding. Some of the items discussed by the staff are:

"Demonstration Solar Program for single family homes and low income grants concluded on January 13, 1984. The multi-family rebate program will conclude on September 15, 1984. So the utility's argument that 'there have been no changes' is moot.

"After 1984, the total number of single and multi-family customers receiving rebates will gradually decline and by the end of 1987 no further rebate payments would be required. The total \$17,884,000 rate increase recommended by the ECB staff includes annual rebate payments of \$10,636,000.

"The ECB staff's recommendation for 1984 includes amortization of approximately \$4,191,000 of undercollection in the balancing account over a period of twelve months. After the amortization period CCA rates will not be revised, until next filing, to reflect the clearing of undercollections in the balancing account. Therefore the utility will have these additional funds available, thus reducing the need for any subsequent rate relief.

"Some of the other major utilities involved in the Demonstration Solar Financing Program have already taken the initiative to include solar related CCA adjustments in their general rate increase proceedings. San Diego Gas and Electric Company's base rates already compensate for OII—42 solar expenses that were recently authorized by the Commission in its Decision 83-12-065 dated December 20, 1983. Southern California Edison Company is also proposing to do so in its next general rate increase request."

After reviewing the utility's and the staff's arguments, we are of the opinion that there is no need for the utility to continue to file annual solar related CCA rate requests. Such requests for the subsequent years should be included in the next general rate proceedings, which would reduce the administrative costs for the utility and the CPUC. However, if for some reason the utility's projected expenditures for the next year exceed or decline below the authorized amount by 10%, we will allow it to file a separate application for a rate adjustment.

Findings of Pact

1. SoCal is in need of and entitled to an increase in revenues to reflect the costs incurred in carrying out its 1984 Solar Program.

- 2. Increased revenues of \$6.206 million in the Solar CCA are required to offset 1984 costs of the Solar Financing Program.
- 3. The rates authorized by this decision will provide SoCal with sufficient revenue to continue its Solar Program for 1984.
- 4. SoCal's Solar Program balancing account as of December 31, 1983 showed an overcollection of approximately \$4,191,000.
 - 5. SoCal's current CCA rate is \$.00224 per therm.
- 6. Staff recommends a new rate of \$.00343 per therm to produce increased revenue of \$6,206,000.
- 7. SoCal's current CCA rate is now and for the future unjust and unreasonable. For the future, \$.00343 per therm is just and reasonable.
- 8. A return on common equity as authorized SoCal in D.82-12-054 is reasonable and should be applied to the computation of the Solar Program revenue requirement consistent with the provisions of D.82-12-107.
 - 9. SoCal should continue its Solar Program through 1984.
- 10. The solar program expenses incurred by SoCal in 1983 and charged to the CCA balancing account were reasonable.
- 11. SoCal cannot foreclose on defaulted solar financing loans without Commission authorization.
- 12. SoCal's present policy of writing off bad debts on defaulted loans which have not been foreclosed on by other lien holders without concentrated efforts to collect places the burden of carrying costs on the defaulted loans on other ratepayers.
- 13. The issue of how to handle bad debts should be addressed in the decision dealing with SoCal's petition for modification of D.92251.
- 14. Since SoCal is already incurring the costs addressed in this decision, this order should be effective the date of signature.
 - 15. Solar Demonstration Program will conclude by the end of 1984.
- 16. OII 42 related program expenses were authorized by the Commission in D.83-12-065 for San Diego Gas & Electric Company to reduce administrative costs incurred in filing a separate solar offset application.

Conclusions of Law

- 1. SoCal should be permitted to recover all reasonably incurred expenditures associated with the Solar Program ordered in OII 42 through its CCA rate component.
- 2. The increases in rates and charges authorized herein are just and reasonable.
- 3. SoCal should be permitted to foreclose on defaulted loans after it has exhausted all reasonable means of collection.
- 4. SoCal should be authorized to file and place into effect the rates found reasonable by this decision.
- 5- SoCal should be authorized to file its next solar offset application only if its total request deviates by 10% from the amount last authorized; otherwise, the future requests should be incorporated in its next general rate case filing.

ORDER

IT IS ORDERED that:

- 1. On or after the effective date of this order Southern California Gas Company (SoCal) is authorized to file the CCA rate reflecting the Solar billing factor rate of 0.343 cents per therm and concurrently cancel the presently effective schedules. Such filing shall comply with General Order 96-A. The revised schedules shall be effective upon filing. The revised schedules shall apply only to service rendered on or after the effective date of this order to all retail customers except utility generation, cogeneration, and ammonia producers.
- 2. SoCal shall take immediate action to foreclose on defaulted loans after exhausting all possible means to collect on such defaulted loans. It shall also disclose in detail the amounts and the reason for foreclosure and nonforeclosure of all delinquent accounts in its quarterly advice letter filing.

- 3. SoCal shall not file a separate request for solar related CCA unless the projected expenditures for the given year exceed or decline below the last authorized solar offset amounts by 10%. All other solar related rate adjustment requests shall be included in the general rate case proceedings.
 - 4. This application is granted as set forth above.

 This order is effective today.

 Dated June 6, 1984, at San Francisco, California.

LEONARD M. GRIMES, JR.
President
VICTOR CALVO
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Priscilla C. Grew, being necessarily absent, did not participate.

I CERTIFY THAT THIS DECISION
WE APPROVED BY THE ALL I
MAISSIONERS TODAY.

LOUDD. 2. Bodovitz, Executive Moreon

1983 Expenses

The staff report states that SoCal's expenditures for 1983 were reachable with the exception of the Monitoring Site Inspection expense. For this item the staff recommends an allowance of only \$115,890 versus the \$256,000 requested and the \$89,000 authorized by D.82-12-107.

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3. Socal shall not file a separate request for solar related CCA unless the projected expenditures for the given year exceed or decline below the last authorized solar offset amounts by 10%. All other solar related rate adjustment requests shall be included in the general rate case proceedings..

This order is effective today.

Dated JUN 6 1984 , at San Francisco, California.

LEONARD M. GRIMES. JR. President

VICTOR CALVO
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

Commissioner Priscilla C. Grow, being nocessarily absent, did not participate