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OCT 27 1988

Decision 88-10-055 October 26, 1988

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SOUTHERN CALIFORNIA GAS COMPANY )  
(U904 G) for authority to decrease ) Application 87-10-021  
the Conservation Cost Adjustment ) (Filed October 16, 1987)  
(CCA) component of its rates. )  
\_\_\_\_\_)

Peter N. Osborn, Attorney at Law, for  
Southern California Gas Company,  
applicant.

Dina Hunter, for Southern California Edison  
Company, James Hodges and William B.  
Marcus, for California/Nevada Community  
Action Association, The East Los Angeles  
Community Action Association, and The  
Association of Southern California  
Energy Programs; Joseph J. Honick, for  
Insulation Contractors Association; and  
Edward Duncan, for himself; interested  
parties.

James Rood, Attorney at Law, and Donald  
Schultz, for the Division of Ratepayer  
Advocates.

O P I N I O N

Southern California Gas Company (SoCal) seeks authority to decrease the Conservation Cost Adjustment (CCA) component in its rates by \$12.993 million annually. SoCal also requests the following:

1. Authorization for specific programs, all of which are designed to assist low and moderate income customers to use natural gas efficiently thereby reducing their energy costs;
2. Authorization to recover in rates the revenue deficiency resulting from the sale of its solar loans;

3. Authorization to combine its conservation balancing accounts into a single consolidated balancing account and
4. A Commission finding that SoCal's 1987 CCA expenditures were reasonable.

A prehearing conference was held before Administrative Law Judge (ALJ) O'Leary at Los Angeles on March 2, 1988. At the prehearing conference, SoCal and the Division of Ratepayer Advocates (DRA) announced that it was likely that a settlement could be reached. As a result, a settlement workshop was scheduled and subsequently held on April 5, 1988 in San Francisco. Represented at the workshop were SoCal, DRA, Insulation Contractors Association (ICA), the California Nevada Community Action Association, the East Los Angeles Community Union and the Association of California Energy Programs (Cal-Neva et al.). SoCal, DRA, and ICA were able to reach agreement; however, the other parties to the workshop were unable to reach agreement with the three agreeing parties.

Public hearing on the application was held before Administrative Law Judge (ALJ) O'Leary at Los Angeles on April 27 and 28, 1988. The matter was submitted subject to the filing of concurrent opening and reply briefs on June 1, and 15, 1988, respectively. Opening briefs were filed by all parties except Mr. Duncan. Reply briefs were filed by all parties except Mr. Duncan and DRA.

The agreement reached between the SoCal, DRA, and ICA was reduced to writing, signed by the agreeing parties and received in evidence as Exhibit 1. A copy of Exhibit 1 in its entirety is attached hereto as Appendix A. The terms of the stipulation and agreement can be summarized as follows:

1.01 Program Expense Requirement

CCA expense requirement for 1988 shall be  
\$35,757,551 and for 1989 shall be  
\$20,800,806;

2.00 Community Involvement Energy Programs (CIEP)

SoCal will continue its CIEP through 1989. Commencing with 1990 funding for CIEP will be sought in general rate case applications.

2.01 1988 CIEP Direct Weatherization

The goal for 1988 shall be 40,000 dwelling units. The Furnace Repair and Replacement Program shall continue with a goal of 286 units. The 1988 expense requirement shall be \$24,765,776.

2.02 1989 CIEP Direct Weatherization and Efficient Energy Utilization Program

SoCal shall continue its direct weatherization program and shall implement the Efficient Energy Utilization (EEU) Program which offers low-flow showerheads and water heater blankets to low-income customers. To qualify for direct weatherization in 1989, it will be required that the dwelling be eligible for attic insulation and that attic insulation be installed. In the case of multi-family dwellings if the structure qualifies for installation of attic insulation, all dwellings within the structure shall be eligible for direct weatherization. The expense requirement for direct weatherization shall be \$10.4 million and for EEU shall be \$8.2 million. The goals for 1989 shall be 10,000 dwellings for direct weatherization and 88,000 for EEU. SoCal shall continue its Furnace Repair and Replacement Program with a goal of 286 units. SoCal will have discretion to shift funds among its Direct Weatherization and EEU activities to achieve an optimum level funding within the \$18.6 million budget. Should actual expenditures exceed \$18.6 million, SoCal shall either seek additional funding through an Advice Letter filing or

accumulate an undercollection in its CCA balancing account.

2.03 Attic Square Footage Requirement

The minimum square footage requirement for installation of attic insulation shall be reduced to 300 square feet from 600 square feet. In 1989 a tiered structure of compensation shall be utilized to reimburse contractors for installation of attic insulation.

2.04 Block Weatherization

SoCal shall continue to investigate Block Weatherization as a means to qualify dwellings for its Direct Weatherization Program. Block Weatherization shall be continued in 1989 if it is determined to be feasible and cost effective. SoCal shall consider the recommendations of each CBO and CAA or other entities with respect to the institution of block weatherization.

2.05 Prime Contractor

SoCal shall be authorized to utilize a prime contractor to carry out EEU and Direct Weatherization activities. A prime contractor will be authorized to engage sub-contractors.

3.00 Weatherization Financing and Credits Program (WFCP) Incentives

This activity will continue for 1988 and 1989. The expense requirement shall be as follows:

	<u>1988</u>	<u>1989</u>
WFCP Loans	\$ 220,580	\$121,840
WFCP Maintenance	1,108,030	636,190
Direct Sales Program	(896,348)	0

3.01 Direct Sales Program

SoCal requests that it be authorized to use the remaining balance of \$896,348 to offset 1988 CCA expenses.

4.00 Solar Loan Sale

SoCal shall include in its 1988 revenue requirement the \$7,449,823 revenue deficiency associated with the sale of its solar loans approved in D.86-12-058.

5.00 CIEP Affordable Housing Program

Encourages the use of natural gas in low to moderate income dwellings for space heating, water heating, cooking, and clothes drying. The program goal will be 10,000 units annually.

6.00 Reasonableness of 1987 CCA Program Expenses

SoCal's 1987 CCA expenditures were reasonable and should be recovered through the CCA balancing account.

7.00 Consolidation of Balancing Accounts

The WFCP, RCS, and Solar balancing accounts and rate components shall be consolidated into a CCA balancing account and CCA rate component, respectively.

8.00 Cost Effectiveness Analysis

Based upon the "Standard Practice Manual for Economic Analysis of Demand Side Management Programs" dated December 1987.

9.00 Reporting Requirements

SoCal shall adhere to reporting requirements as set forth in the CPUC's Demand Side Management Reporting Requirements Manual (February 1988). SoCal shall be relieved of previously ordered quarterly reports associated with its CCA programs.

Cal-Neva et al. urge that the stipulation be rejected. They argue that many low-income ratepayers will be deprived of needed conservation measures should the stipulation be approved. The executive summary portion of their brief sets forth their position as follows:

"The proposed stipulation between Southern California Gas Company (SoCal or SoCal Gas), the Commission's Division of Ratepayer Advocates (DRA), and the Insulation Contractor's Association (ICA) represents a radical departure from past Commission policy concerning low income ratepayers which, if implemented, would be detrimental to low income ratepayers.

"The proposed stipulation would alter SoCal's existing low income weatherization program, reducing the goal to 10,000 units weatherized (as we and the Commission currently use the term 'weatherized'), down from 42,000 units weatherized in 1987 and would turn its back on the 60,000 weatherized units goal set by the Commission for 1988.

"The proposed stipulation would approve the creation of a gas marketing program disguised as a low income program which cynically claims to assist in solving the very real and very serious problem of 'Affordable Housing,' while in fact providing little, if any benefit, toward the housing or energy needs of low income ratepayers. It instead serves the market retention efforts of the Company.

"Major policy changes of the nature proposed by SoCal and DRA should not be considered in a Conservation Cost Adjustment proceeding such as the extant proceeding, but should only be considered in a General Rate Case where the ramifications of major policy shifts may be thoroughly examined.

"The proposed stipulation represents a retreat from this Commission's long-standing commitment to cost-effective low income weatherization. For these and other reasons, the proposed stipulation should be rejected.

"THE PROPOSED STIPULATION WOULD DRASTICALLY REDUCE WEATHERIZATION GOALS, REPLACING WEATHERIZATION WITH PROGRAMS OF LITTLE VALUE

"This drastic cutback to a program goal of only 10,000 weatherized units is proposed even though SoCal is far behind both PG&E and SDG&E in the percentage of low-income units weatherized. PG&E will have weatherized half of its low-income units by 1990. At the 1988 program level, even before SoCal's proposed cuts, SoCal would not reach that level until the year 2000.

"The stipulation would create a new program, called Efficient Energy Utilization (EEU), which proposes a goal of 88,000 units in 1989. EEU would provide a low flow showerhead, a waterheater blanket, and 'energy awareness' information to low income customers. SoCal and DRA would have this Commission believe that 88,000 EEU units is as beneficial to low income ratepayers as 60,000 weatherized low income dwelling units. But the EEU program as proposed would be of little value to low income ratepayers. In fact, as proposed, EEU would have a detrimental effect on SoCal's low income ratepayers by denying them needed weatherization services.

"The majority of low income ratepayers would only be eligible to receive two measures, neither of which serves to stop heat loss or air infiltration in a dwelling, the main structural source of energy waste in a dwelling. In fact, under the proposal of SoCal and DRA, the two EEU measures would only be delivered to customers with absolutely no assurance the measures would even be installed, much less installed correctly.

"In addition to the two measures, SoCal's EEU would provide a pamphlet in an anemic and poorly thought out attempt to provide 'energy awareness.' This 'energy awareness' would tell the low income ratepayers the advantages of purchasing gas appliances they cannot afford and of implementing certain 'energy saving practices' which will be rendered useless and

ineffective because their dwellings will continue to be unweatherized.

"WEATHERIZATION SERVICE IS NEEDED BY LOW INCOME RATEPAYERS

"A fundamental question growing out of this proceeding is the question 'What is weatherization?' SoCal would have this Commission believe that 'weatherization' is anything the Company says it is, that a dwelling can even be weatherized by 'putting a stocking over the house --' (Tr. 35) if it suits the purposes of the Company.

"Weatherization, as defined in previous Commission decisions and directives, as defined in the weatherization training manuals of the participating utility company, and as defined by SoCal's own training manuals and publications, means the installation of measures to prevent heat loss and air infiltration in a dwelling. These measures include, but are not necessarily limited to, ceiling insulation when feasible, caulking, weatherstripping, duct wrap, low flow showerhead, waterheater blanket, and for low income dwellings Building Envelope Repair (BER).

"The first six measures are referred to as The Big Six. The measures caulking, weatherstripping, duct wrap, low flow showerhead and waterheater blanket are collectively referred to as Ground Work measures. Ceiling insulation prevents heat loss through the ceiling, and the Ground Work measures serve to prevent heat and cooling loss through air infiltration.

"The majority of low income homes either do not require ceiling insulation because they have had it installed previously, or the installation of ceiling insulation is not feasible for structural reasons (including flat roofs, no access hole, etc.,) (See Ex. 5, B-6) or due to SoCal's restrictive eligibility criteria. (See Ex. 9, 2-4.) Under the current low income weatherization program guidelines of all the participating utility companies in the



state, those low income dwellings which do not receive ceiling insulation are still eligible for BER and the Ground Work measures to stop heat and cooling loss and to prevent air infiltration. Those homes are called Ground Work Only homes. The majority of low income homes weatherized in the state of California, under all weatherization programs, are Ground Work Only homes.

"What is BER? It is the repair of the 'building envelope' including cracks in walls, repairing door bottoms, glazing and other minor repairs necessary to make the installation of weatherization measures feasible. BER is currently limited to a maximum of \$200 for materials and labor.

"Why is BER important for low income ratepayers? Because most low income dwellings require some BER work in order to make the installation of weatherization measures feasible. Over 87% of the low income units weatherized in SoCal's program in 1987 required BER. If BER were eliminated, most low income homes would simply be found to be structurally ineligible for participation in the Commission's weatherization programs. SoCal's own publicity document, listed in this proceeding as Exhibit 4, says, 'The minor home repairs are a particularly important part of this program because without these repairs, the basic installed weatherization measures would not be effective.' (Ex. 4, 14th unnumbered page, see Tr. 50.)

"Understanding its crucial role in any low income weatherization program, this Commission authorized financing for up to \$200 of BER work on low income dwellings in PG&E ZIP program. (Dec. No. 92653, see discussion p. 39, and Finding of Fact No. 32, p. 79.)

"But the proposed stipulation would deny weatherization services to the majority of low income dwelling by making weatherization available only when the dwelling unit requires and is able to receive ceiling insulation. Ground Work Only units would no longer be done. SoCal's weatherization program would become the

first and only low income weatherization program in the state of California where Ground Work Only is not allowed.

"The assertion of both SoCal and DRA that, for reasons of cost-effectiveness, Ground Work and BER should not be undertaken in the absence of ceiling insulation is not supported by SoCal's own cost-effectiveness data and, in fact, BER has the highest benefit-cost ratio of all individual measures, including ceiling insulation. (Tr. 283)

"As proposed, if a dwelling does not receive ceiling insulation, the unit is referred to EEU where it may receive only a low flow showerhead and a hot waterheater blanket. The unit would not receive BER or other Ground Work measures. Thus, we can look forward to the day when, under SoCal's proposed program, a company representative hands to a low income ratepayer a low flow showerhead, a waterheater blanket, and a pamphlet describing the advantages of replacing the electric wall heater with a \$2000 gas fueled central air heating and cooling system, while the wind whistles through cracked windows and through a two-inch gap underneath the front door. By no stretch of the imagination could a dwelling in need of BER and Ground Work measures be considered weatherized if it receives only a low flow showerhead, a waterheater blanket, and 'energy awareness' material.

"SOCAL'S 'AFFORDABLE HOUSING PROGRAM' IS OF LITTLE VALUE TO LOW INCOME RATEPAYERS

"To add insult to injury, SoCal has cynically decided to claim that a new gas marketing and rebate program, which would give developers of multi-family rental housing units \$100 per unit for installing gas appliances, serves as an adequate substitute for low income weatherization. This claim is made even though SoCal's partner in the stipulation, the DRA, candidly admits the program is not a low-income program at all. While SoCal claims the program will serve 10,000 low to moderate income customers, SoCal's own data show this claim to be a sham. SoCal's program will pay rebates to

developers of 10,000 but will cause less than 1500 units which would have had electric appliances to switch to gas instead. An additional \$458,000 will be spent on image-building advertising to promote the use of gas.

"THE ISSUE OF INCREASING FAILURE RATES  
DEMONSTRATES SOCIAL MANAGEMENT LACK OF KNOWLEDGE  
AND CONCERN

"As described by Witness Shaw, the overall inspection failure rate from 1983 until 1987 was below 10%. In 1987 and 1988 the inspection failure rate went up to about 30%, caused mainly by failures of waterheater blankets. SoCal would have this Commission believe it was not a systemic problem, but rather a sudden simultaneous, coincidental but unrelated failure by the majority of its SoCal trained contractors to install waterheater blankets correctly. When asked to investigate, the company did nothing. When asked to provide some training and assistance, the company did nothing. (Tr. 240-249)

"SoCal's witness was not even aware the company has a system to track the specific cause of a unit's failure (Tr. 141-143) but was prepared to provide a deliberately misleading comparison between the inspection failure rates of SoCal trained contractors and 'Do-It-Yourself' customers designed to put contractors in the worst light. The detailed, complicated, and often changing installation and inspection standards are communicated through the Company's 'Real Deal' publication. This publication is not distributed to SoCal customers. There is no way for a 'Do-It-Yourself' customer to be kept up to date on 'Real Deal' changes in installation and inspection standards. Do-it-yourselfers are not inspected to the same standards. The fault for the increased inspection failure rate lies in SoCal's poor communications and management practices and its refusal to take systemwide remedial action.

"THE COMMISSION SHOULD MAINTAIN ITS LONG STANDING COMMITMENT TO ASSIST LOW INCOME RATEPAYERS AND ADOPT THE RECOMMENDATIONS OF THE AGENCIES

"Low income ratepayers need weatherization services, not an EEU program which would do little to reduce energy bills, gas marketing programs which are of little value to low income ratepayers, institutional advertising and public relations expenses, and poor program management.

"The Agencies participating in this case prepared a sound alternative budget that would weatherize 52,000 units at the same cost as SoCal's 1988 40,000 unit program by cutting administrative fat. This budget should be adopted.

"This Commission has a long standing commitment to cost-effective low income weatherization for reasons which have been clearly and repeated stated in a succession of Commission decisions beginning with Pacific Gas and Electric ZIP Decision 92653. SoCal's previous CCA Decision 87-05-074 reinforces this history of support, saying weatherization is needed 'because with more of the burden of rate increases falling on the residential classes to keep marginal users on the system, the low income customer bears a heavy load.' (p. 11)

"The Commission reasserted this general position concerning low income ratepayers in the last Southern California Edison General Rate Case Decision, saying '[W]e share Cal-Neva's desire to continue providing adequate funding for residential conservation programs which are cost-effective and will aid residential customers in coping with increased rates. We consider the Energy Assistance Program to be an important means to this end for that group of customers who are least able to absorb rate increases--low income residents.' (Dec. No. 87-12-068, p. 126.)

"The proposed stipulation would retreat from this Commitment. The stipulation should be

rejected and the recommendations of the Agencies adopted."

### Discussion

Probably the major objection of Cal-Neva et al. to the stipulation is the provision to making attic insulation a requirement for direct weatherization in 1989. The requirement that attic insulation be installed would eliminate ground work and building envelope repairs to residences that do not qualify for attic insulation. SoCal's figures show that attic insulation is the most energy saving conservation measure that can be installed, although ground work and building envelope repairs are also cost-effective under the all-ratepayers test.

However, we also recognize that SoCal's programs will be reviewed in its test year 1990 general rate case. Thus, we are reluctant to make attic insulation a requirement for direct weatherization at this late date and without the more thorough program review which will take place in that case. We will therefore not adopt the condition that attic insulation be a requirement for direct weatherization at this time, pending further evaluation of this issue in SoCal's upcoming general rate case.

The SoCal-DRA stipulation also provides for an EEU program in 1989 with a goal of 88,000 units. The EEU program is proposed as a supplement to SoCal's direct weatherization program because of the proposal to make attic insulation a requirement for direct weatherization. Because we do not adopt the attic insulation requirement, we will not at this time approve the EEU program. We believe that the major program changes proposed in the stipulation are more appropriately considered in SoCal's upcoming general rate case. The attic insulation requirement along with any other supplemental program, such as EEU, will be considered in that proceeding. Finally, should SoCal and/or the DRA decide in the general rate case to propose again an EEU-type program, we expect them to consider carefully and to address explicitly the

differences between the proposed program and PG&E's existing, Commission-approved "Low Cost" weatherization program. As Cal-Neva notes, the design of the EEU program appears to offer fewer services, have higher administrative costs, and be less coordinated with other weatherization services, than the existing PG&E program.

Rather than approve the EEU program, we will direct SoCal to use the funds requested for the EEU program to increase its goals for direct weatherization. Shifting these funds from EEU to direct weatherization will allow SoCal Gas to continue to include in its program houses which qualify only for ground work and BER measures. We recognize that SoCal's figures show ground work measures to be almost as cost-effective as ceiling insulation.

In addition, we also reject at this time the Affordable Housing Program. This new program appears to be primarily an effort to market gas appliances, rather than a low income program. Cal-Neva has raised legitimate questions about whether this program is adequately targeted to low income ratepayers. At this time we prefer to use the money budgeted for this program for the existing, cost-effective weatherization programs which directly benefit low income ratepayers. SoCal will have the opportunity in its upcoming general rate case to propose new marketing programs.

This shift in funding will increase SoCal's total direct weatherization goal to at least 40,000 units in 1989, at a funding level of at least \$20.1 million. Additional funds above this level will be available from the 1988 budgets of the rejected EEU and Affordable Housing programs, and will allow both the 1989 unit goal and funding level to increase above 40,000 units and \$20.1 million. Within this overall goal, if the agencies locate fewer than 10,000 units qualifying for attic insulation, the additional money allocated to attic insulation should be made available for ground work only units. As provided in the stipulation, if the community agencies are able to locate more than 10,000 dwellings in need of

ceiling insulation, then SoCal will exceed this goal either by shifting funds from ground work only funding or other programs, or by accumulating an undercollection in its CCA balancing account.

The SoCal-DRA stipulation also provides for a number of program modifications that are associated with the attic insulation requirement. We will adopt some of these modifications in order to help increase the number of houses qualifying for attic insulation. For example, Cal-Neva, SoCal and the DRA propose to reduce the minimum square footage requirement for the installation of attic insulation from 600 to 300 square feet. We will adopt this proposal as it will help ensure that the maximum number of households will receive attic insulation. The SoCal-DRA stipulation also proposes to remove the three measure minimum requirement for direct weatherization. We will adopt this proposal for residences that are eligible for the installation of attic insulation; however, we will retain the three measure requirement for residences that receive only ground work. We will also direct that door thresholds will be recategorized from a building envelope repair measure and instead incorporated into the weather stripping measure under the category of ground work. Finally, we will adopt Cal-Neva's suggestion that SoCal be required to use PG&E's practice of paying community agencies per square foot of insulation installed, in order to assure that adequate incentives exist to weatherize groups of homes that are consistently larger than the estimated average size.

Cal-Neva also made a number of proposals to reduce the administrative costs of SoCal's weatherization programs. A significant contributor to the high administrative costs of SoCal's program appears to be SoCal's policy of 100% inspection of all weatherization projects, including ground work only units. For ceiling insulation jobs, this policy was established several years ago by our Commission Advisory and Compliance Division, due to safety concerns with the installation of ceiling insulation near

furnaces or flues. However, a 100% inspection policy does not appear necessary for ground work only units. For example, PG&E inspects only 20% of ground work jobs. SoCal defends its policy for ground work only inspections based on its alleged high rate of failures for water heater blanket installations. We believe that SoCal could reduce both this failure rate and its administrative costs, by agreeing to a lower ground work only inspection rate, provided that a community agency reduces its water heater blanket failure rate to below a target level. Both SoCal and Cal-Neva should work together to establish the details of such an incentive plan. Reduced administrative expenses from this plan should be made available to the agencies to weatherize additional units.

Findings of Fact

1. SoCal, DRA and Insulation Contractors Association have entered into a stipulation for the purposes of settling all matters in this proceeding.

2. Cal-Neva et al. urges that the stipulation be rejected.

3. Ground work and building envelope repairs alone are almost as cost-effective as attic insulation.

4. The SoCal, DRA, Insulation Contractors Association stipulation provides a reasonable basis for SoCal's weatherization activities through 1989, if it is modified as follows:

A) Attic insulation shall not be a requirement for direct weatherization;

B) SoCal's weatherization goal for 1989 shall be at least 40,000 units, with an expense requirement of at least \$20.1 million. Money budgeted for 1988 for the rejected EEU and Affordable Housing programs shall be redirected to increase 1989 weatherization funding above \$20.1 million. SoCal's advice letter filing implementing this order shall specify the increase in the 1989 expense requirement due to these carryover funds, and shall indicate the number of additional units which can be weatherized with the carryover funds. Within this total program goal, funding may



be shifted from attic insulation to ground work only, if the community agencies are unable to locate 10,000 units qualifying for attic insulation.

- C) The minimum square footage requirement for direct weatherization shall be reduced to 300 square feet. There shall continue to be a three measure minimum requirement for direct weatherization except where attic insulation is installed. Door thresholds shall be considered a part of the weather stripping measure. SoCal shall pay community agencies per square foot of insulation installed.
- D) SoCal's EEU and Affordable Housing programs shall not be approved at this time because these proposed programs are better addressed in SoCal's upcoming general rate case. If SoCal again proposes these programs in its general rate case, it shall address the concerns which Cal-Neva has raised regarding the structure of the EEU program in comparison with PG&E's approved "Low Cost" program and whether the Affordable Housing program is a marketing or a low-income program.
- E) SoCal and Cal-Neva shall work together on an incentive plan intended to reduce both SoCal's administrative costs for inspections and the failure rate for water heater blankets.

#### Conclusions of Law

1. The stipulation should be rejected, as the major program changes which it proposes are more appropriately reviewed in SoCal's upcoming Test Year 1990 general rate case proceeding.
2. The modifications proposed in Finding of Fact 4 above result in a weatherization program which is acceptable.

3. SoCal should be ordered to continue its CIEP in accordance with the terms of this decision, as specified in Finding of Fact 4, above.

ORDER

IT IS ORDERED that Southern California Gas Company shall place into effect the program as set forth in this order and shall file an advice letter pursuant to General Order 96-A to adjust its rates to reflect the total program expense level of \$56.6 million in 1988 and 1989. The more detailed breakdown of expense categories shown in Appendix A to the ALJ's draft decision shall be revised to incorporate the changes ordered in this decision, and shall be included in the advice filing.

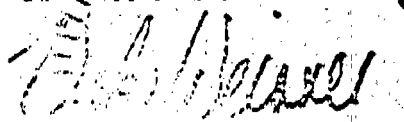
This order becomes effective 30 days from today.

Dated October 26, 1988, at San Francisco, California.

STANLEY W. HULETT  
President  
DONALD VIAL  
FREDERICK R. DUDA  
JOHN B. OHANIAN  
Commissioners

Commissioner G. Mitchell Wilk,  
being necessarily absent, did  
not participate.

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

  
Stanley W. Hulett, Executive Director

BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA

In the Matter of the Joint	)	
Application of SOUTHERN CALIFORNIA	)	Application
GAS COMPANY (U 904 G) for	)	
Authority to Decrease the	)	No. 87-10-021
Conservation Cost Adjustment (CCA)	)	
Component of Its Rates.	)	

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STIPULATION AND AGREEMENT

I

INTRODUCTION

Southern California Gas Company ("SoCalGas"), the Division of Ratepayer Advocates of the Public Utilities Commission of the State of California ("DRA") and the Insulation Contractors Association ("ICA") hereby submit this Stipulation and Agreement for purposes of settling all matters related to Application No. 87-10-021. The Stipulation provides for the program guidelines and revenue requirement under which SoCalGas will operate its Conservation Cost Adjustment ("CCA") Program through December 31, 1989.

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## II

### BACKGROUND

On October 16, 1987 SoCalGas filed Application No. 87-10-021 requesting, inter alia, to decrease the CCA component of its rates by \$12.993 million annually. On March 2, 1988 a prehearing conference was held in Los Angeles before Administrative Law Judge O'Leary. At the prehearing conference SoCalGas and the DRA announced that it was likely that a settlement could be reached between SoCalGas and the DRA. A settlement workshop was scheduled and subsequently held in San Francisco on April 5, 1988. Represented at the workshop were SoCalGas, the DRA, the California Nevada Community Action Association (Cal Neva), Community Based Organizations (CBOs), Community Action Agencies (CAAs) and the ICA.

The parties represented at the workshop discussed potential terms for a settlement. SoCalGas, DRA and the ICA were able to reach agreement. The terms and conditions agreed to by the parties are set forth below.

## III

### SETTLEMENT

SoCalGas, the DRA and the ICA agree as follows:

1.01 Program Expense Requirement: CCA expense requirement for 1988 shall be \$35,757,551 and for 1989 shall be

\$20,800,806. The component parts of SoCalGas' CCA program expenses for 1988 and 1989 are set forth in the attached Appendix A and incorporated herein by this reference. The CCA rate adjustment to reflect revenue requirement changes and the distribution of such changes among customer classes shall be put into effect concurrently with other rate adjustments ordered by the Commission in SoCalGas' annual Cost Allocation Proceedings. Such a procedure will avoid multiple rate changes and will allow the Commission to consider all rate design issues in SoCalGas' annual Cost Allocation Proceedings.

2.00 CIEP: SoCalGas shall continue to operate its Community Involvement Energy Programs ("CIEP") through 1989. For 1990 and subsequent years, SoCalGas shall seek funding for CIEP in SoCalGas' Test Year 1990 general rate case application.

2.01 1988 CIEP Direct Weatherization: For 1988 SoCalGas shall have a goal of 40,000 dwelling units for the Direct Weatherization component of the CIEP. The 1988 CIEP Direct Weatherization shall be carried on pursuant to program guidelines authorized by the Commission. SoCalGas shall be authorized to continue its Furnace Repair and Replacement Program with a goal of 286 units. The expense requirement for 1988 CIEP Direct Weatherization shall be \$24,765,776. (For Demand Side Management (DSM) reporting purposes, CIEP Direct Weatherization is defined as a Direct Assistance Program.)

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2.02 1989 CIEP Direct Weatherization and Efficient Energy Utilization Program: For 1989 SoCalGas shall continue its CIEP Direct Weatherization and shall implement the Efficient Energy Utilization ("EEU") Program. In addition to the energy education component, as discussed in SoCalGas' 1988 CCA application, the EEU will offer low-flow showerheads and water heater blankets to low-income customers. The program description for the EEU Program and Direct Weatherization is attached hereto as Appendix B and incorporated herein by this reference. (The EEU is defined as a Direct Assistance Program for DSM reporting purposes.) To qualify for Direct Weatherization in 1989 it shall be required that a dwelling unit be eligible for installation of attic insulation. If feasible, all other weatherization measures shall also be installed through Direct Weatherization provided attic insulation is also installed. In the case of multifamily dwellings, if the multifamily structure qualifies for the installation of attic insulation, all dwelling units in such multifamily dwelling shall be eligible for all weatherization measures offered under the Direct Weatherization program. The 1989 expense requirement for Direct Weatherization and the EEU Program shall be \$18.6 million, \$8.2 million of which shall be associated with the EEU Program and \$10.4 million for Direct Weatherization. The EEU goal for 1989 shall be 88,000 dwelling

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units and Direct Weatherization shall have a minimum goal of 10,000 dwelling units. In addition, SoCalGas shall continue its Furnace Repair and Replacement Program with a goal of 286 units. EEU and Direct Weatherization goals and budgets will be reviewed semi-annually and are subject to change based upon actual program experience. SoCalGas shall have the discretion to shift funds among its Direct Weatherization and EEU activities to achieve an optimal level of funding within the \$18.6 million annual budget constraint. If actual expenses for Direct Weatherization and EEU activities exceed \$18.6 million in 1989, SoCalGas shall either seek an increase in authorized expenditures by Advice Letter or accumulate an undercollection in its CCA balancing account subject to subsequent reasonableness review.

2.03 Attic Square Footage Requirement: The minimum square footage requirement for the installation of attic insulation under the Direct Weatherization program shall be reduced from 600 to 300 square feet. In 1989 SoCalGas shall utilize a tiered compensation structure to reimburse contractors for the installation of attic insulation. Such tiered compensation structure shall be related to square footage of attic insulation installed.

2.04 Block Weatherization: SoCalGas shall continue to investigate the concept of a Block Weatherization program to

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qualify dwelling units for the weatherization measures under the Direct Weatherization program. SoCalGas will expand the Block Weatherization program systemwide in 1988 and will continue to evaluate the feasibility of block weatherization in 1989. SoCalGas shall continue block weatherization in 1989 if it is determined that such a program is feasible and cost effective. In determining whether to institute block weatherization, SoCalGas shall consider the recommendations of each CBO or CAA or other entity directly affected.

2.05 Prime Contractor: SoCalGas shall be authorized to utilize a prime contractor to carry out EEU and Direct Weatherization program activities. A prime contractor shall be authorized to utilize the services of sub-contractors, including CBOs, CAAs, and other entities, to carry out EEU and Direct Weatherization program activities.

3.00 WFCP Incentives: Activity attributable to SoCalGas' Weatherization Financing and Credits Program ("WFCP") will continue through 1988 and 1989. (For DSM reporting purposes, the WFCP is defined as a Weatherization Retrofit Incentives program.) The expense associated with such activities for 1988 and 1989 shall be as follows:



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	<u>Expense Requirement</u>	
	1988	1989
WFCP Loans	\$ 220,580	\$ 121,840
WFCP Maintenance	1,108,030	636,190
Direct Sales Program	(896,348)	0

3.01 Direct Sales Program: SoCalGas requests authorization to use the remaining balance of \$896,348 from its Direct Sales Program to offset 1988 CCA expenses. This amount has been included in the revenue requirement accordingly.

4.00 Solar Loan Sale: SoCalGas shall include in its 1988 revenue requirement the \$7,449,823 revenue deficiency associated with the sale of its solar loans approved in Decision No. 86-12-058. Recovery through the CCA balancing account of such deficiency is authorized by Decision No. 86-12-058. (The Solar program is defined as an Appliance Efficiency program for DSM reporting purposes.)

5.00 CIEP Affordable Housing Program: The CIEP Affordable Housing Program is designed to encourage the utilization of natural gas in low to moderate income dwellings for space heating, water heating, cooking and clothes drying. SoCalGas shall have an annual program goal of 10,000 units in 1988 and 1989 with an expense requirement of \$1,458,000 annually. (For DSM reporting purposes, the Affordable Housing Program is defined as a Fuel Substitution program.)

6.00 Reasonableness of 1987 CCA Program Expenses:

The parties hereto stipulate that all of SoCalGas' 1987 CCA Program expenditures were reasonable and should be recovered in rates through the CCA balancing account.

7.00 Consolidation of the WFCP, RCS and Solar

Balancing Accounts: The WFCP, RCS and Solar balancing accounts shall be consolidated into a single CCA balancing account. The Solar, RCS and WFCP components of SoCalGas' rates shall be eliminated and replaced with a CCA rate component reflecting the authorized CCA balancing account component of SoCalGas' rates.

8.00 Cost Effectiveness Analysis: The methodology used to calculate the benefits and costs of SoCalGas' CCA programs was based on the "Standard Practice Manual for Economic Analysis of Demand Side Management Programs," dated December 1987. This document is a joint publication of the California Public Utilities Commission and the California Energy Commission. Cost effectiveness calculations are displayed in attached Appendix C.

9.00 Reporting Requirements: SoCalGas shall adhere to reporting requirements established in the CPUC's Demand Side Management Reporting Requirements Manual, dated February 1988. SoCalGas shall be relieved of previously ordered quarterly reports associated with its CCA programs. SoCalGas shall

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continue to file information as to its CCA activities annually and semi-annually in Demand Side Management reports describing its CCA activities.

IV

APPROVAL OF THE SETTLEMENT  
IS IN THE PUBLIC INTEREST

Approval of this Stipulation and Agreement is in the public interest. Approval will reduce the substantial burden which hearings would impose. Settlement of all issues will contribute to the Commission's goal of reducing administrative burdens. Moreover, this Stipulation and Agreement represents an equitable compromise in a manner which will reduce costs to ratepayers and avoid litigation.

V

RESERVATIONS

If not accepted by the Commission, the terms of this Stipulation and Agreement shall not be admissible in evidence in this or any other proceeding. The Commission's approval of this settlement does not constitute approval of, or precedent regarding, any principle or issue in this proceeding. Nothing contained herein shall be deemed to constitute an admission or an acceptance of any fact, principle, or position contained herein by any participant in this proceeding.

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If the Commission approves this Stipulation and Agreement, but imposes any modifications or conditions thereto, the Stipulation and Agreement shall not become effective unless the parties hereto agree in writing to accept the modifications or conditions.

VI

EFFECTIVENESS

This Stipulation and Agreement shall become effective when a Commission decision approving it becomes final and no longer subject to appeal.

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VII

CONCLUSION

SoCalGas, the DRA and the ICA respectfully request that the Commission expeditiously approve this Stipulation and Agreement without modification as a settlement of the issues discussed herein.

Respectfully submitted,

SOUTHERN CALIFORNIA GAS COMPANY

Dated: April 25, 1988

By Peter N. Osborn  
Peter N. Osborn  
Attorney for Southern California  
Gas Company

DIVISION OF RATEPAYER ADVOCATES  
PUBLIC UTILITIES COMMISSION OF  
THE STATE OF CALIFORNIA

Dated: April \_\_, 1988

By James S. Rood  
James S. Rood, Staff Counsel

INSULATION CONTRACTORS  
ASSOCIATION

Dated: April 25, 1988

By Joseph J. Hogick  
Joseph J. Hogick,  
Executive Director

APPENDIX A

SOUTHERN CALIFORNIA GAS COMPANY

PROGRAM EXPENSE REQUIREMENT

CONSERVATION COST ADJUSTMENT PROGRAMS

## Revision to SoCalGas' Proposed 1988-89 CCA Expenses

DRA Program Categories	SoCalGas 1988 Application	DRA Proposed	SoCalGas Proposed Expenses '88	SoCalGas Proposed Expenses '89
Weatherization Incentives				
WFCP Loans (Existing)	220,580	220,580	220,580	121,840
WFCP Maintenance	1,108,030	1,108,030	1,108,030	636,190
Direct Sales Program	(896,348)	(896,348)	(896,348)	0
Total Weatherization Incentive	432,262	432,262	432,262	758,030
Appliance Efficiency Incentives				
Solar Loan Sale	7,449,823	7,449,823	7,449,823	0
Direct Assistance				
CIEP S/F Rebates	7,328,000	7,328,000	7,328,000	2,893,640
CIEP M/F Rebates	7,003,200	7,003,200	7,003,200	1,848,000
CIEP S/F Structural Repairs	1,088,000	1,088,000	1,088,000	349,440
CIEP M/F Structural Repairs	1,226,400	1,226,400	1,226,400	245,280
CIEP Furnace Repair/Replace	1,812,000	246,532	259,116	259,116
CIEP Administration	7,861,060	7,861,060	7,861,060	4,753,830
CIEP Subtotal	26,318,660	24,753,192	24,765,776	10,349,506
Efficient Energy Utilization	1,651,690	1,651,690	1,651,690	8,235,270
Total Direct Assistance	27,970,350	26,404,882	26,417,466	18,584,776
Fuel Substitution				
CIEP Affordable Housing Incentives	2,100,000	1,000,000	1,000,000	1,000,000
CIEP Affordable Housing Administration	961,040	458,000	458,000	458,000
Total CIEP Affordable Housing	3,061,040	1,458,000	1,458,000	1,458,000
Other				
CIEP Low-Income Neighborhood Revit.	332,200	0	0	0
Total	39,245,675	35,744,967	35,757,551	20,800,806

4/15/88

Decision 88 10 055 OCT 26 1988

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SOUTHERN CALIFORNIA GAS COMPANY )  
(U904 G) for authority to decrease )  
the Conservation Cost Adjustment )  
CCAO component of its rates. )

Application 87-10-021  
(Filed October 16, 1987)

Peter N. Osborn, Attorney at Law, for  
Southern California Gas Company,  
applicant.

Dina Hunter, for Southern California Edison  
Company, James Hodges and William B.  
Marcus, for California/Nevada Community  
Action Association, The East Los Angeles  
Community Action Association, and The  
Association of Southern California  
Energy Programs; Joseph J. Monick, for  
Insulation Contractors Association; and  
Edward Duncan, for himself; interested  
parties.

James Rood, Attorney at Law, and Donald  
Schultz, for the Division of Ratepayer  
Advocates.

### OPINION

Southern California Gas Company (SoCal) seeks authority to decrease the Conservation Cost Adjustment (CCA) component in its rates by \$12.993 million annually. SoCal also requests the following:

1. Authorization for specific programs, all of which are designed to assist low and moderate income customers to use natural gas efficiently thereby reducing their energy costs;
2. Authorization to recover in rates the revenue deficiency resulting from the sale of its solar loans;



3. Authorization to combine its conservation balancing accounts into a single consolidated balancing account and
4. A Commission finding that SoCal's 1987 CCA expenditures were reasonable.

A prehearing conference was held before Administrative Law Judge (ALJ) O'Leary at Los Angeles on March 2, 1988. At the prehearing conference, SoCal and the Division of Ratepayer Advocates (DRA) announced that it was likely that a settlement could be reached. As a result, a settlement workshop was scheduled and subsequently held on April 5, 1988 in San Francisco. Represented at the workshop were SoCal, DRA, Insulation Contractors Association (ICA), the California Nevada Community Action Association, the East Los Angeles Community Union and the Association of California Energy Programs (Cal-Neva et al.). SoCal, DRA, and ICA were able to reach agreement; however, the other parties to the workshop were unable to reach agreement with the three agreeing parties.

Public hearing on the application was held before Administrative Law Judge (ALJ) O'Leary at Los Angeles on April 27 and 28, 1988. The matter was submitted subject to the filing of concurrent opening and reply briefs on June 1, and 15, 1988, respectively. Opening briefs were filed by all parties except Mr. Duncan. Reply briefs were filed by all parties except Mr. Duncan and DRA.

The agreement reached between the SoCal, DRA, and ICA was reduced to writing, signed by the agreeing parties and received in evidence as Exhibit 1. A copy of Exhibit 1 in its entirety is attached hereto as Appendix A. The terms of the stipulation and agreement can be summarized as follows:

1.01 Program Expense Requirement

CCA expense requirement for 1988 shall be \$35,757,551 and for 1989 shall be \$20,800,806;

2.00 Community Involvement Energy Programs  
(CIEP)

SoCal will continue its CIEP through 1989. Commencing with 1990 funding for CIEP will be sought in general rate case applications.

2.01 1988 CIEP Direct Weatherization

The goal for 1988 shall be 40,000 dwelling units. The Furnace Repair and Replacement Program shall continue with a goal of 286 units. The 1988 expense requirement shall be \$24,765,776.

2.02 1989 CIEP Direct Weatherization and  
Efficient Energy Utilization Program

SoCal shall continue its direct weatherization program and shall implement the Efficient Energy Utilization (EEU) Program which offers low-flow showerheads and water heater blankets to low-income customers. To qualify for direct weatherization in 1989, it will be required that the dwelling be eligible for attic insulation and that attic insulation be installed. In the case of multi-family dwellings if the structure qualifies for installation of attic insulation, all dwellings within the structure shall be eligible for direct weatherization. The expense requirement for direct weatherization shall be \$10.4 million and for EEU shall be \$8.2 million. The goals for 1989 shall be 10,000 dwellings for direct weatherization and 88,000 for EEU. SoCal shall continue its Furnace Repair and Replacement Program with a goal of 286 units. SoCal will have discretion to shift funds among its Direct Weatherization and EEU activities to achieve an optimum level funding within the \$18.6 million budget. Should actual expenditures exceed \$18.6 million, SoCal shall either seek additional funding through an Advice Letter filing or

accumulate an undercollection in its CCA balancing account.

2.03 Attic Square Footage Requirement

The minimum square footage requirement for installation of attic insulation shall be reduced to 300 square feet from 600 square feet. In 1989 a tiered structure of compensation shall be utilized to reimburse contractors for installation of attic insulation.

2.04 Block Weatherization

SoCal shall continue to investigate Block Weatherization as a means to qualify dwellings for its Direct Weatherization Program. Block Weatherization shall be continued in 1989 if it is determined to be feasible and cost effective. SoCal shall consider the recommendations of each CBO and CAA or other entities with respect to the institution of block weatherization.

2.05 Prime Contractor

SoCal shall be authorized to utilize a prime contractor to carry out EEU and Direct Weatherization activities. A prime contractor will be authorized to engage sub-contractors.

3.00 Weatherization Financing and Credits Program (WFCP) Incentives

This activity will continue for 1988 and 1989. The expense requirement shall be as follows:

	<u>1988</u>	<u>1989</u>
WFCP Loans	\$ 220,580	\$121,840
WFCP Maintenance	1,108,030	636,190
Direct Sales Program	(896,348)	0

3.01 Direct Sales Program

SoCal requests that it be authorized to use the remaining balance of \$896,348 to offset 1988 CCA expenses.

4.00 Solar Loan Sale

SoCal shall include in its 1988 revenue requirement the \$7,449,823 revenue deficiency associated with the sale of its solar loans approved in D.86-12-058.

5.00 CIEP Affordable Housing Program

Encourages the use of natural gas in low to moderate income dwellings for space heating, water heating, cooking, and clothes drying. The program goal will be 10,000 units annually.

6.00 Reasonableness of 1987 CCA Program Expenses

SoCal's 1987 CCA expenditures were reasonable and should be recovered through the CCA balancing account.

7.00 Consolidation of Balancing Accounts

The WFCP, RCS, and Solar balancing accounts and rate components shall be consolidated into a CCA balancing account and CCA rate component, respectively.

8.00 Cost Effectiveness Analysis

Based upon the "Standard Practice Manual for Economic Analysis of Demand Side Management Programs" dated December 1987.

9.00 Reporting Requirements

SoCal shall adhere to reporting requirements as set forth in the CPUC's Demand Side Management Reporting Requirements Manual (February 1988). SoCal shall be relieved of previously ordered quarterly reports associated with its CCA programs.

Cal-Neva et al. urge that the stipulation be rejected. They argue that many low-income ratepayers will be deprived of needed conservation measures should the stipulation be approved. The executive summary portion of their brief sets forth their position as follows:

"The proposed stipulation between Southern California Gas Company (SoCal or SoCal Gas), the Commission's Division of Ratepayer Advocates (DRA), and the Insulation Contractor's Association (ICA) represents a radical departure from past Commission policy concerning low income ratepayers which, if implemented, would be detrimental to low income ratepayers.

"The proposed stipulation would alter SoCal's existing low income weatherization program, reducing the goal to 10,000 units weatherized (as we and the Commission currently use the term 'weatherized'), down from 42,000 units weatherized in 1987 and would turn its back on the 60,000 weatherized units goal set by the Commission for 1988.

"The proposed stipulation would approve the creation of a gas marketing program disguised as a low income program which cynically claims to assist in solving the very real and very serious problem of 'Affordable Housing,' while in fact providing little, if any benefit, toward the housing or energy needs of low income ratepayers. It instead serves the market retention efforts of the Company.

"Major policy changes of the nature proposed by SoCal and DRA should not be considered in a Conservation Cost Adjustment proceeding such as the extant proceeding, but should only be considered in a General Rate Case where the ramifications of major policy shifts may be thoroughly examined.

"The proposed stipulation represents a retreat from this Commission's long-standing commitment to cost-effective low income weatherization. For these and other reasons, the proposed stipulation should be rejected.

"THE PROPOSED STIPULATION WOULD DRASTICALLY REDUCE WEATHERIZATION GOALS, REPLACING WEATHERIZATION WITH PROGRAMS OF LITTLE VALUE

"This drastic cutback to a program goal of only 10,000 weatherized units is proposed even though SoCal is far behind both PG&E and SDG&E in the percentage of low-income units weatherized. PG&E will have weatherized half of its low-income units by 1990. At the 1988 program level, even before SoCal's proposed cuts, SoCal would not reach that level until the year 2000.

"The stipulation would create a new program, called Efficient Energy Utilization (EEU), which proposes a goal of 88,000 units in 1989. EEU would provide a low flow showerhead, a waterheater blanket, and 'energy awareness' information to low income customers. SoCal and DRA would have this Commission believe that 88,000 EEU units is as beneficial to low income ratepayers as 60,000 weatherized low income dwelling units. But the EEU program as proposed would be of little value to low income ratepayers. In fact, as proposed, EEU would have a detrimental effect on SoCal's low income ratepayers by denying them needed weatherization services.

"The majority of low income ratepayers would only be eligible to receive two measures, neither of which serves to stop heat loss or air infiltration in a dwelling, the main structural source of energy waste in a dwelling. In fact, under the proposal of SoCal and DRA, the two EEU measures would only be delivered to customers with absolutely no assurance the measures would even be installed, much less installed correctly.

"In addition to the two measures, SoCal's EEU would provide a pamphlet in an anemic and poorly thought out attempt to provide 'energy awareness.' This 'energy awareness' would tell the low income ratepayers the advantages of purchasing gas appliances they cannot afford and of implementing certain 'energy saving practices' which will be rendered useless and

ineffective because their dwellings will continue to be unweatherized.

"WEATHERIZATION SERVICE IS NEEDED BY LOW INCOME RATEPAYERS

"A fundamental question growing out of this proceeding is the question 'What is weatherization?' SoCal would have this Commission believe that 'weatherization' is anything the Company says it is, that a dwelling can even be weatherized by 'putting a stocking over the house --' (Tr. 35) if it suits the purposes of the Company.

"Weatherization, as defined in previous Commission decisions and directives, as defined in the weatherization training manuals of the participating utility company, and as defined by SoCal's own training manuals and publications, means the installation of measures to prevent heat loss and air infiltration in a dwelling. These measures include, but are not necessarily limited to, ceiling insulation when feasible, caulking, weatherstripping, duct wrap, low flow showerhead, waterheater blanket, and for low income dwellings Building Envelope Repair (BER).

"The first six measures are referred to as The Big Six. The measures caulking, weatherstripping, duct wrap, low flow showerhead and waterheater blanket are collectively referred to as Ground Work measures. Ceiling insulation prevents heat loss through the ceiling, and the Ground Work measures serve to prevent heat and cooling loss through air infiltration.

"The majority of low income homes either do not require ceiling insulation because they have had it installed previously, or the installation of ceiling insulation is not feasible for structural reasons (including flat roofs, no access hole, etc.,) (See Ex. 5, B-6) or due to SoCal's restrictive eligibility criteria. (See Ex. 9, 2-4.) Under the current low income weatherization program guidelines of all the participating utility companies in the

state, those low income dwellings which do not receive ceiling insulation are still eligible for BER and the Ground Work measures to stop heat and cooling loss and to prevent air infiltration. Those homes are called Ground Work Only homes. The majority of low income homes weatherized in the state of California, under all weatherization programs, are Ground Work Only homes.

"What is BER? It is the repair of the 'building envelope' including cracks in walls, repairing door bottoms, glazing and other minor repairs necessary to make the installation of weatherization measures feasible. BER is currently limited to a maximum of \$200 for materials and labor.

"Why is BER important for low income ratepayers? Because most low income dwellings require some BER work in order to make the installation of weatherization measures feasible. Over 87% of the low income units weatherized in SoCal's program in 1987 required BER. If BER were eliminated, most low income homes would simply be found to be structurally ineligible for participation in the Commission's weatherization programs. SoCal's own publicity document, listed in this proceeding as Exhibit 4, says, 'The minor home repairs are a particularly important part of this program because without these repairs, the basic installed weatherization measures would not be effective.' (Ex. 4, 14th unnumbered page, see Tr. 50.)

"Understanding its crucial role in any low income weatherization program, this Commission authorized financing for up to \$200 of BER work on low income dwellings in PG&E ZIP program. (Dec. No. 92653, see discussion p. 39, and Finding of Fact No. 32, p. 79.)

"But the proposed stipulation would deny weatherization services to the majority of low income dwelling by making weatherization available only when the dwelling unit requires and is able to receive ceiling insulation. Ground Work Only units would no longer be done. SoCal's weatherization program would become the



first and only low income weatherization program in the state of California where Ground Work Only is not allowed.

"The assertion of both SoCal and DRA that, for reasons of cost-effectiveness, Ground Work and BER should not be undertaken in the absence of ceiling insulation is not supported by SoCal's own cost-effectiveness data and, in fact, BER has the highest benefit-cost ratio of all individual measures, including ceiling insulation. (Tr. 283)

"As proposed, if a dwelling does not receive ceiling insulation, the unit is referred to EEU where it may receive only a low flow showerhead and a hot waterheater blanket. The unit would not receive BER or other Ground Work measures. Thus, we can look forward to the day when, under SoCal's proposed program, a company representative hands to a low income ratepayer a low flow showerhead, a waterheater blanket, and a pamphlet describing the advantages of replacing the electric wall heater with a \$2000 gas fueled central air heating and cooling system, while the wind whistles through cracked windows and through a two-inch gap underneath the front door. By no stretch of the imagination could a dwelling in need of BER and Ground Work measures be considered weatherized if it receives only a low flow showerhead, a waterheater blanket, and 'energy awareness' material.

"SOCAL'S 'AFFORDABLE HOUSING PROGRAM' IS OF LITTLE VALUE TO LOW INCOME RATEPAYERS

"To add insult to injury, SoCal has cynically decided to claim that a new gas marketing and rebate program, which would give developers of multi-family rental housing units \$100 per unit for installing gas appliances, serves as an adequate substitute for low income weatherization. This claim is made even though SoCal's partner in the stipulation, the DRA, candidly admits the program is not a low-income program at all. While SoCal claims the program will serve 10,000 low to moderate income customers, SoCal's own data show this claim to be a sham. SoCal's program will pay rebates to

developers of 10,000 but will cause less than 1500 units which would have had electric appliances to switch to gas instead. An additional \$458,000 will be spent on image-building advertising to promote the use of gas.

"THE ISSUE OF INCREASING FAILURE RATES  
DEMONSTRATES SOCIAL MANAGEMENT LACK OF KNOWLEDGE  
AND CONCERN

"As described by Witness Shaw, the overall inspection failure rate from 1983 until 1987 was below 10%. In 1987 and 1988 the inspection failure rate went up to about 30%, caused mainly by failures of waterheater blankets. SoCal would have this Commission believe it was not a systemic problem, but rather a sudden simultaneous, coincidental but unrelated failure by the majority of its SoCal trained contractors to install waterheater blankets correctly. When asked to investigate, the company did nothing. When asked to provide some training and assistance, the company did nothing. (Tr. 240-249)

"SoCal's witness was not even aware the company has a system to track the specific cause of a unit's failure (Tr. 141-143) but was prepared to provide a deliberately misleading comparison between the inspection failure rates of SoCal trained contractors and 'Do-It-Yourself' customers designed to put contractors in the worst light. The detailed, complicated, and often changing installation and inspection standards are communicated through the Company's 'Real Deal' publication. This publication is not distributed to SoCal customers. There is no way for a 'Do-It-Yourself' customer to be kept up to date on 'Real Deal' changes in installation and inspection standards. Do-it-yourselfers are not inspected to the same standards. The fault for the increased inspection failure rate lies in SoCal's poor communications and management practices and its refusal to take systemwide remedial action.

"THE COMMISSION SHOULD MAINTAIN ITS LONG STANDING COMMITMENT TO ASSIST LOW INCOME RATEPAYERS AND ADOPT THE RECOMMENDATIONS OF THE AGENCIES

"Low income ratepayers need weatherization services, not an EEU program which would do little to reduce energy bills, gas marketing programs which are of little value to low income ratepayers, institutional advertising and public relations expenses, and poor program management.

"The Agencies participating in this case prepared a sound alternative budget that would weatherize 52,000 units at the same cost as SoCal's 1988 40,000 unit program by cutting administrative fat. This budget should be adopted.

"This Commission has a long standing commitment to cost-effective low income weatherization for reasons which have been clearly and repeated stated in a succession of Commission decisions beginning with Pacific Gas and Electric ZIP Decision 92653. SoCal's previous CCA Decision 87-05-074 reinforces this history of support, saying weatherization is needed 'because with more of the burden of rate increases falling on the residential classes to keep marginal users on the system, the low income customer bears a heavy load.' (p. 11)

"The Commission reasserted this general position concerning low income ratepayers in the last Southern California Edison General Rate Case Decision, saying '[W]e share Cal-Neva's desire to continue providing adequate funding for residential conservation programs which are cost-effective and will aid residential customers in coping with increased rates. We consider the Energy Assistance Program to be an important means to this end for that group of customers who are least able to absorb rate increases--low income residents.' (Dec. No. 87-12-068, p. 126.)

"The proposed stipulation would retreat from this Commitment. The stipulation should be

rejected and the recommendations of the Agencies adopted."

### Discussion

Probably the major objection of Cal-Neva et al. to the stipulation is the provision to making attic insulation a requirement for direct weatherization in 1989. The requirement that attic insulation be installed would eliminate ground work and building envelope repairs to residences that do not qualify for attic insulation. SoCal's figures show that attic insulation is the most energy saving conservation measure that can be installed, although ground work and building envelope repairs are also cost-effective under the all-ratepayers test.

However, we also recognize that SoCal's programs will be reviewed in its test year 1990 general rate case. Thus, we are reluctant to make attic insulation a requirement for direct weatherization at this late date and without the more thorough program review which will take place in that case. We will therefore not adopt the condition that attic insulation be a requirement for direct weatherization at this time, pending further evaluation of this issue in SoCal's upcoming general rate case.

The SoCal-DRA stipulation also provides for an EEU program in 1989 with a goal of 88,000 units. The EEU program is proposed as a supplement to SoCal's direct weatherization program because of the proposal to make attic insulation a requirement for direct weatherization. Because we do not adopt the attic insulation requirement, we will not at this time approve the EEU program. We believe that the major program changes proposed in the stipulation are more appropriately considered in SoCal's upcoming general rate case. The attic insulation requirement along with any other supplemental program, such as EEU, will be considered in that proceeding. Finally, should SoCal and/or the DRA decide in the general rate case to propose again an EEU-type program, we expect them to consider carefully and to address explicitly the

differences between the proposed program and PG&E's existing, Commission-approved "Low Cost" weatherization program. As Cal-Neva notes, the design of the EEU program appears to offer fewer services, have higher administrative costs, and be less coordinated with other weatherization services, than the existing PG&E program.

Rather than approve the EEU program, we will direct SoCal to use the funds requested for the EEU program to increase its goals for direct weatherization. Shifting these funds from EEU to direct weatherization will allow SoCal Gas to continue to include in its program houses which qualify only for ground work and BER measures. We recognize that SoCal's figures show ground work measures to be almost as cost-effective as ceiling insulation. This shift in funding will increase SoCal's total direct weatherization goal to 30,000 units in 1989, at a total funding level of \$18.6 million. Within this overall goal, if the agencies locate fewer than 10,000 units qualifying for attic insulation, the additional money allocated to attic insulation should be made available for ground work only units. As provided in the stipulation, if the community agencies are able to locate more than 10,000 dwellings in need of ceiling insulation, then SoCal will exceed this goal either by shifting funds from ground work only funding or other programs, or by accumulating an undercollection in its CCA balancing account.

The SoCal-DRA stipulation also provides for a number of program modifications that are associated with the attic insulation requirement. We will adopt some of these modifications in order to help increase the number of houses qualifying for attic insulation. For example, Cal-Neva, SoCal and the DRA propose to reduce the minimum square footage requirement for the installation of attic insulation from 600 to 300 square feet. We will adopt this proposal as it will help ensure that the maximum number of households will receive attic insulation. The SoCal-DRA stipulation also proposes to remove the three measure minimum

requirement for direct weatherization. We will adopt this proposal for residences that are eligible for the installation of attic insulation; however, we will retain the three measure requirement for residences that receive only ground work. We will also direct that door thresholds will be recategorized from a building envelope repair measure and instead incorporated into the weather stripping measure under the category of ground work. Finally, we will adopt Cal-Neva's suggestion that SoCal be required to use PG&E's practice of paying community agencies per square foot of insulation installed, in order to assure that adequate incentives exist to weatherize groups of homes that are consistently larger than the estimated average size.

Cal-Neva also made a number of proposals to reduce the administrative costs of SoCal's weatherization programs. A significant contributor to the high administrative costs of SoCal's program appears to be SoCal's policy of 100% inspection of all weatherization projects, including ground work only units. For ceiling insulation jobs, this policy was established several years ago by our Commission Advisory and Compliance Division, due to safety concerns with the installation of ceiling insulation near furnaces or flues. However, a 100% inspection policy does not appear necessary for ground work only units. For example, PG&E inspects only 20% of ground work jobs. SoCal defends its policy for ground work only inspections based on its alleged high rate of failures for water heater blanket installations. We believe that SoCal could reduce both this failure rate and its administrative costs, by agreeing to a lower ground work only inspection rate, provided that a community agency reduces its water heater blanket failure rate to below a target level. Both SoCal and Cal-Neva should work together to establish the details of such an incentive plan. Reduced administrative expenses from this plan should be made available to the agencies to weatherize additional units.

Finding of Fact

1. SoCal, DRA and Insulation Contractors Association have entered into a stipulation for the purposes of settling all matters in this proceeding.

2. Cal-Neva et al. urges that the stipulation be rejected.

3. Ground work and building envelope repairs alone are almost as cost-effective as attic insulation.

4. The SoCal, DRA, Insulation Contractors Association stipulation provides a reasonable basis for SoCal's weatherization activities through 1989, if it is modified as follows:

- A) Attic insulation shall not be a requirement for direct weatherization;
- B) SoCal's weatherization goal for 1989 shall be 30,000 units, with a total expense requirement of \$18.6 million. Within this goal, funding may be shifted from attic insulation to ground work only, if the community agencies are unable to locate 10,000 units qualifying for attic insulation.
- C) The minimum square footage requirement for direct weatherization shall be reduced to 300 square feet. There shall continue to be a three measure minimum requirement for direct weatherization except where attic insulation is installed. Door thresholds shall be considered a part of the weather stripping measure. SoCal shall pay community agencies per square foot of insulation installed.
- D) SoCal's EEU program shall not be approved at this time because this proposed program is better addressed in SoCal's upcoming general rate case.
- E) SoCal and Cal-Neva shall work together on an incentive plan intended to reduce both SoCal's

administrative costs for inspections and the failure rate for water heater blankets.

Conclusions of Law

1. The stipulation should be rejected, as the major program changes which it proposes are more appropriately reviewed in SoCal's upcoming Test Year 1990 general rate case proceeding.
2. The modifications proposed in Finding of Fact 4 above result in a weatherization program which is acceptable.
3. SoCal should be ordered to continue its CIEP in accordance with the terms of this decision.

O R D E R

IT IS ORDERED that Southern California Gas Company shall place into effect the program as set forth in this order and shall be authorized to file an advice letter pursuant to General Order 96-A to adjust its rates to reflect the total program expense level set forth in Appendix A hereto. The more detailed breakdown of expense categories shown in Appendix A shall be revised to incorporate the changes ordered in this decision.

This order becomes effective 30 days from today.

Dated OCT 26 1988, at San Francisco, California.

STANLEY W. HULETT

President

DONALD VIAL

FREDERICK R. DUDA

JOHN B. OHANIAN

Commissioners

Commissioner G. Mitchell Wilk  
being necessarily absent, did  
not participate.