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Decision 90-12-022 December 6, 1990

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFICORP, dba Pacific Power & Light Company, (U 901 E) under Commission Order D.89-01-040, Docket R.87-11-012 and Sections 702 and 216 of the Public Utilities Code of the State of California for authority to decrease rates for electric service.	ORIGINAL Application 90-01-055 (Filed January 26, 1990)
Order Instituting Investigation of Pacific Power and Light Company electric rates and charges for electric service.	I.90-05-033 (Filed May 22, 1990)

Messrs. Stoel, Rives, Boley, Jones & Grey by James C. Paine, Attorney at Law, for Pacific Power & Light Company, applicant and respondent.
Ira A. Kalinsky, Attorney at Law, and Gregory A. Wilson, for the Division of Ratepayer Advocates.

O P I N I O N

Summary of Decision

This decision grants PacifiCorp, doing business as Pacific Power & Light Company (PP&L), authority to decrease rates resulting in an annual revenue decrease of $2.0 million for test year 1991, pursuant to an agreement between PP&L and the Division of Ratepayer Advocates (DRA). The agreement also provides that no Attrition Rate Adjustment (ARA) will be sought in 1992 and that the $3.3 million overcollection in the Electric Revenue Adjustment Mechanism (ERAM) balancing account will be amortized over the two-year period of 1992 and 1993 as an offset to any ARA and that ARA may be sought in 1993 only if such an increase after the ERAM offset exceeds 1% of PP&L's 1993 California allocated revenues prior to the requested revenue change.

Background

By Decision (D.) 88-04-062 (28 CPUC 2d 92 1988), the Commission approved a merger between PacifiCorp Maine and Utah Power. The new merged company was called PacifiCorp Oregon, or more simply, PacifiCorp. PacifiCorp does business in California, Oregon, Washington, Idaho, Montana, and Wyoming under the name PP&L. PacifiCorp does business in Utah, Idaho, and Wyoming under the name Utah Power & Light Company (UP&L).

In California PP&L provides electric utility service in the counties of Del Norte, Modoc, Shasta, and Siskiyou.

As of December 31, 1988, applicant owned and operated 725 miles of transmission line in the State of California, consisting of 500, 230, 115, and 69 kilovolt lines, 2,366 miles of overhead distribution line, 338 miles of underground distribution line, 24.5 miles of street lighting line, and 23 miles of signal and communications lines. As of said date, applicant owned and operated four hydroelectric plants in California with total rated capacity of 67 megawatts. Applicant's California transmission system is interconnected with its own system and systems of other electric utilities in California, Oregon, Washington, Montana, Wyoming, Idaho, and Utah.

PP&L requests authority to decrease rates for its electric service. The application as originally filed alleges that the proposed decrease principally reflects applicant's price stability commitment and cost savings applicant expects to generate as a result of the merger with UP&L. The application further alleges applicant's revenue requirement incorporating adjustments to revenues, expenses, and rate base for ratemaking purposes would support an annual increase in revenue requirement of $555,000, but applicant does not seek to increase its California prices in this filing.

Order Instituting Investigation 90-05-033 was instituted and consolidated with the application for hearing so that we would have a procedural forum in place to act fully on recommendations of related aspects of PP&L's operations which may have been beyond the scope of the relief sought in Application (A.) 90-01-055.

Subsequent to the filing of the application, DRA conducted an examination of PP&L's operations which included the following:

1. Review of PP&L's results of operations for test year 1991. This review did not encompass recommended rates of return and return on equity as that will be decided in this year's generic annual cost of capital case.

2. An audit of PP&L's accounting and financial records.

3. An analysis of PP&L's marginal cost of electricity and the use of those costs in revenue allocation and rate design.

4. A review of PP&L's resource planning and demand side management.

The results of DRA's examination, together with its recommendations, were set forth in various exhibits which were transmitted to PP&L on or about July 13, 1990.

A prehearing conference was held at San Francisco on March 7, 1990. Public witness hearings for the receipt of evidence and/or statements were held before Administrative Law Judge (ALJ) O'Leary at Crescent City, Alturas, and Yreka in the afternoons and evenings of July 23, 25, and 26, 1990, respectively. Notice of the public witness hearings was posted in PP&L's offices and was included as an insert with customers' bills. In addition, notice of the public witness hearings was published in the newspapers of general circulation in the above named cities.

Two people appeared at Crescent City. No one appeared at Alturas and one person appeared at Yreka. One person was concerned that baseline would be eliminated. Another was concerned about why rates in Oregon are lower than California and questioned why rates in California cannot be equal to those in Oregon. The other person was a newspaper reporter who complained that neither his newspaper nor other newspapers were given information concerning DRA's position on the application.

Evidentiary hearings were held in San Francisco on August 6, 9, and 17, 1990 before ALJ O'Leary. At the beginning of the hearings PP&L and DRA advised that a stipulation had been reached between them concerning this application. The stipulation was received in evidence as Exhibit 27 and is attached hereto as Attachment A. The underlying exhibits of PP&L were received as Exhibits 1 through 20 and underlying exhibits of DRA were received as Exhibits 21 through 25. Exhibit 26 is a petition to consolidate Advice Letter 228-E with A.90-01-055.

The salient points of the agreement are as follows:

1. <u>Revenue Requirement</u>

   PP&L and DRA agree that an overall reduction of $2.0 million is appropriate. The decrease consists of a reduction of $2.3 million offset by a Low-Income Ratepayer Assistance Program (LIRA) surcharge of $0.3 million.

2. <u>Attrition/(ERAM)</u>

   By D.90-03-078 PP&L was authorized to discontinue its ERAM effective April 27, 1990. As of that date the ERAM balancing account reflected an overcollection of approximately $3.3 million. The agreement provides that the overcollection will be amortized over two years (1992 and 1993). The amortization of the ERAM will be used as an offset to any potential 1992 and 1993 ARA. In 1992 PP&L will not file an ARA adjustment. An ARA adjustment may be filed in 1993 provided the 1993 ARA increase after the ERAM offset exceeds 1% of PP&L's California allocated revenues prior to the requested revenue change. The ERAM balance shall be completely refunded by the end of 1993.

3. U.S. Bureau of Reclamation (USBR) Revenues

PP&L's irrigation customers under the USBR contract receive power at a price significantly lower than that paid by customers not under the USBR contract. In return for the lower prices PP&L is allowed to control the flow of the Klamath River thereby increasing the utilization of its Klamath River hydro facilities. PP&L and DRA agree that the revenue shortfall associated with the difference between prices paid by customers under USBR contract and those not under the contract is a cost allocation which should be resolved with similar system-related issues by the multi-jurisdictional task force. (See #5 below.) This will be brought to the attention of the task force and its recommendations will be set forth in PP&L's next general rate case.

4. Coal Audit

An audit of PP&L's coal procurement practices is being conducted. The results of that audit will not be available in time for consideration in this proceeding. PP&L and DRA agree that no adjustment shall be made during 1991, 1992, or 1993 unless the audit findings disclose annual savings in excess of $30 million annually. The results of the audit will be reported in PP&L's next general rate case filing.

5. Allocation Methodology

A multi-jurisdictional allocation task force, consisting of representatives from the various state regulatory commissions having jurisdiction over the merged company and a representative from the Federal Energy Regulatory Commission, was formed to develop a methodology for allocation of merged company costs to the various jurisdictions. The task force has adopted a method known as the "Consensus" method for this purpose. PP&L requests a finding that the "Consensus" method is reasonable.

6. Cost of Capital

PP&L and DRA agree that the recommended $2.0 million decrease agreed to should not be changed regardless of what decision is reached in A.90-05-009, the annual cost of capital proceeding. Additionally because PP&L has agreed to file for no increases in 1992, DRA and PP&L have agreed to propose that PP&L be excused from participation in the 1992 cost of capital proceeding. In lieu of its nonparticipation in the 1992 cost of capital proceeding it will use the findings from the 1991 annual cost of capital proceeding in demonstrating its 1992 revenue requirement. For the purposes of this proceeding PP&L and DRA have proposed a rate of return of 10.57%.

7. Women Minority Business Enterprises (WMBE)

PP&L's estimate of WMBE costs is adopted as reasonable. The reasonableness of the costs will be addressed by the Commission in a future generic proceeding.

8. LIRA Surcharge

The revenue requirement decrease of $2.3 million is offset by the LIRA surcharge of $0.3 million. PP&L and DRA agree that the LIRA balance will be fully amortized at the end of 1991. No change in the LIRA surcharge will be sought during 1992. PP&L will accumulate the difference between actual LIRA costs and the surcharge in the LIRA balancing account. The amount in the balancing account will be addressed in PP&L's 1993 attrition filing.

9. Demand Side Management

PP&L and DRA agree that the programs set forth in Chapter 3 of the agreement will be implemented and recommend that the motion consolidating Advice Letter 228-E be granted.

PP&L and DRA have agreed to waive the provision of Public Utilities (PU) Code § 311 requiring that the Commission's decision not be issued sooner than 30 days following the filing and service of the proposed decision by the ALJ.

The ALJ's proposed decision was filed and mailed to the parties on November 15, 1990. No comments on the proposed decision have been filed; however, we have amended the proposed decision to correct minor errors and omissions.

Findings of Fact

1. By this application, as originally filed, PP&L requested a decrease in rates because of its commitment to stabilize rates and because of cost savings expected from the merger approved by D.88-04-062.

2. Properly noticed hearings in this application were held at which all interested parties had an opportunity to be heard.

3. PP&L and DRA have entered into the stipulation set forth in Exhibit 27 and attached hereto as Attachment A.

4. The consensus method of allocating costs to the various jurisdictions as described in Attachment A (Exhibit 27, Chapter I, pp. 1-4) is reasonable.

5. The rate design set forth in Attachment A attached hereto is reasonable and should be adopted.

6. The decreases in rates and charges authorized by this decision are justified and are reasonable, and the present rates and charges insofar as they differ from those prescribed by this decision are for the future unjust and unreasonable.

7. The parties agree to waive the 30-day requirement contained in PU Code § 311.

Conclusions of Law

1. PP&L should be authorized to place into effect the decreased rates found to be reasonable in the findings set forth above.

2. Pursuant to the agreement of the parties, the 30-day period otherwise required by PU Code § 311 should be waived.

O R D E R

IT IS ORDERED that:

1. PacifiCorp is authorized and directed to file revised rate schedules reflecting the rates and rate decreases set forth in this decision and concurrently withdraw and cancel its present effective schedules. Such filings shall comply with General Order 96-A and shall be effective 5 days after filing applicable to service rendered on and after the effective date of the tariffs. In no event shall the effective date of the tariff schedules be prior to January 1, 1991.

2. To the extent not granted herein Application 90-01-055 is denied.

3. Pursuant to the agreement of the parties, the 30-day period normally required to lapse between the issuance of the proposed decision and Commission action on the matter is waived.

4. Should PacifiCorp not make a 1993 attrition filing the LIRA surcharge balancing account will be addressed in its next general rate case filing.

This order becomes effective 20 days from today.

Dated December 6, 1990, at San Francisco, California.

G. MITCHELL WILK
President
FREDERICK R. DUDA
STANLEY W. HULETT
JOHN B. OHANIAN
PATRICIA M. ECKERT
Commissioners

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

NEAL J. SHULMAN, Executive Director

PB

Application No. 90-01-055
Exhibit No. 27
August 15, 1990

JOINT COMPANY AND DRA EXHIBIT COMPARING
DRA AND COMPANY ESTIMATED
RESULTS OF OPERATIONS
FOR
PACIFIC POWER & LIGHT COMPANY
TEST YEAR 1991

Before the California Public Utilities Commission

August 1990

CALIFORNIA PUBLIC UTILITIES COMMISSION

Division of Ratepayer Advocates
Pacific Power & Light Company

Joint Exhibit

Table of Contents

CHAPTER I

Introduction/Results of Operations

This chapter was prepared jointly by Mr. Greg Wilson, Project Manager for the Division of Ratepayer Advocates (DRA), and Ms. Anne Eakin, Manager of Economic Regulation for Pacific Power & Light Company (the Company).

Purpose

The purpose of this exhibit is to set forth the terms of an agreement which has been reached between the DRA and the Company concerning the Company's 1991 test year general rate case filing. In January 1990 the Company submitted a filing which it believed justified a $1.4 million price increase, excluding amortization of the ERAM balance, but requested a decrease of $1.6 million on a policy basis. The agreement reached by Company and staff would result in an overall decrease of $2 million. While this agreement resolves all revenue requirement related issues, findings on the Company's 1991 estimated results of operations are needed as a basis for the Company's 1992 and 1993 attrition calculations.

In addition, agreement was reached on all revenue allocation and price design issues as well as on the Company's Demand Side Management (DSM) programs. The requirements for DSM incentives outlined in Decision No. 90-03-078 have been incorporated in this docket. DRA staff and the Company have also reached agreement on that portion of this application.

By sponsoring this joint exhibit, neither Party shall be deemed to have accepted or consented to the facts, principles, methods or theories employed in arriving at such an agreement, nor shall either Party be deemed to have agreed that such an agreement is appropriate for resolving issues in any other proceeding.

The remainder of this chapter will be devoted to the discussion of results of operations items. Revenue allocation and price design items will be addressed in Chapter 2 which was prepared by Mr. Michael McNamara of the DRA and Mr. Fred Keast of the Company. Finally, the Company's Demand Side Management programs and the Company's compliance with Decision 90-03-078 allowing the Company to discontinue its ERAM will be addressed in Chapter 3. Chapter 3 was prepared by Angela Young and Don Schultz of the DRA and Mike O'Bryant of the Company.

1. Revenue Requirement

The Company and DRA staff have agreed that an overall price reduction of $2.0 million is appropriate. The $2 million decrease consists of a $2.3 million decrease which has been partially offset by a LIRA surcharge of $.3 million. The overall price decrease agreed to resolves all revenue requirement related issues.

The DRA staff and the Company have agreed that the 1991 results of operations to be used as the starting point for the 1992 and 1993 attrition rate adjustment (ARA) calculations will be the Company's as filed results of operations reallocated to reflect the "Consensus" allocation method. Those reallocated results have been adjusted to produce the $2.3 million revenue requirement reduction previously discussed. Table 1-1 demonstrates the 1991 results of operations as well as the proposed ARA calculation for 1992 and 1993.

2. Attrition/ERAM

The Company was allowed, in Decision No. 90-03-078, to discontinue its ERAM as of April 27, 1990. As of that date, the Company's ERAM reflected a balance owed customers of approximately $3.3 million. DRA staff and the Company have agreed that the ERAM balance will be amortized back to customers over two years--1992 and 1993. The Company will not seek an Attrition Rate Adjustment (ARA) in 1992 but will consider the amortization of the ERAM balance as an offset to any potential 1992 attrition increase. Therefore, the Company will not file an advice letter in association with its 1992 ARA.

In 1993 the Company will be allowed to file for an ARA related price change. The Company's allowable 1993 ARA related price increase will be determined by offsetting the ARA increase shown on Table 1-1 with the remainder of the ERAM balance owed customers. However, if the amount of the ARA price change, after the ERAM offset, is less than 1 percent of the Company's 1993 California allocated revenues prior to the price change, the Company will not be allowed any ARA related price changes in 1993. After the amortization in 1992 and 1993, the ERAM balance will be zero by the end of 1993.

The methodology used in deriving the Company's 1992 and 1993 ARA price changes will be that which was used by the Company in its January 26, 1990 application and which was adopted for the Company in the Generic Attrition proceeding Decision No. 85-12-076 and reflected in the Company's last General Rate Case, Decision No. 86-03-021.

3. <u>USBR Revenues</u>

The Company's irrigation customers receiving power under the USBR contract receive power at a price which is significantly lower than that paid by the Company's PA-20 Irrigation Schedule customers. In return for these lower prices, the Company is allowed to control the water flow on the Klamath River and thereby increase the utilization of its hydro facilities on that river. In its 1991 General Rate Case filing, the Company imputed additional revenues to its USBR customers in compliance with prior Commission decisions. However, those imputed revenues do not account for the entire revenue shortfall. DRA believes that the control of the water flow in the Klamath River results in a system-wide benefit whose costs (i.e., revenue shortfall) should not be borne by California customers alone.

The Company and the DRA believe the responsibility for the revenue shortfall associated with the difference between the prices paid by customers under the USBR contract and those paid by other irrigation customers is a cost allocation issue and should be addressed by the multi-jurisdictional task force which has been assembled to address merged Company allocation issues. The Company and Commission representatives will bring this issue to the attention of that task force and will report the task force's recommendations in the Company's next general rate case.

The Company and DRA staff recognize this issue is a system issue and should be dealt with, along with similar system related issues in the Company's other jurisdictions, by the multi-jurisdictional task force.

4. <u>Coal Audit Findings</u>

At the recommendation of the multi-jurisdictional task force the Company has hired a consultant, Energy Ventures Inc., to perform an audit of the Company's coal practices. The results of that audit are expected to be available by the end of 1990 and therefore will not be available for incorporation into the proposed December decision in this proceeding. Staff has proposed a price change in the first quarter of 1991 to reflect the findings from that audit. The DRA staff and the Company have agreed that no such price change will be made in 1991, 1992, or 1993 unless the audit findings indicate annual savings, in any of these years, on a prospective basis, greater than $30 million on a total Company basis. DRA staff and the Company will work jointly to incorporate such changes at an appropriate time, if necessary. The full results of the coal audit will be reported in the Company's next general rate case filing.

5. Allocation Methodology

After the merger of Pacific Power & Light and Utah Power & Light, an inter-jurisdictional allocation task force, consisting of representatives of the various state regulatory commissions having jurisdiction over the merged Company as well as FERC, was formed for the purpose of developing an allocation methodology to be used to allocate merged Company costs to the various jurisdictions served by the Company. In June 1989 the task force reached agreement on an allocation method known as the "Interim" method. The Company's initial results of operations demonstration in this case reflected the "Interim" method. However, subsequent to the Company's filing the task force adopted another allocation method known as the "Consensus" method. The impact of the "Consensus" method has been incorporated in the results of operation shown in the column 2 of Table 1-1.

The Company and DRA staff agree that the "Consensus" allocation method provides a reasonable basis for allocating the Company's costs to its various jurisdictions and have adopted the "Consensus" method for purposes of results of operations determination in this filing. Therefore, we request the Commission issue a finding on the reasonableness of this allocation method.

6. Cost of Capital

The Company is currently participating in the 1991 Annual Cost of Capital Proceeding, Application No. A90-05-029. The Company and DRA staff agree that the recommended $2.0 million overall decrease agreed to for 1991 should not be changed regardless of decisions on the cost of capital components resulting from that proceeding. Additionally, because the Company has agreed to file for no overall price change in 1992, the Company and DRA have agreed to propose, in the 1991 Annual Cost of Capital proceeding, that the Company be excused from participation in the 1992 Annual Cost of Capital proceeding. Because the Company will not be participating in the 1992 Annual Cost of Capital proceeding, the Company will use the findings from the 1991 Annual Cost of Capital proceeding in demonstrating its 1992 ARA revenue requirement.

7. WMBE

The DRA staff adopted the Company's 1989 estimate of WMBE costs as a reasonable estimate of 1991 test year WMBE costs and indicated that the Commission would address the reasonableness of WMBE costs in a generic proceeding. The Company believes the staff's estimate represents a reasonable test year level of WMBE costs and does not wish to institute a price change to reflect the Commission's decision in the generic WMBE proceeding.

8. <u>LIRA Surcharge</u>

The revenue requirement decrease shown on Table 1-1 reflects a decrease of $2.3 million. That decrease will be offset by a LIRA surcharge of $0.3 million, reflecting the estimated 1990 LIRA balance, resulting in an overall price decrease to customers of $2.0 million. The Company and DRA staff agree that the 1990 LIRA balance will be fully amortized at the end of 1991 as a result of the $.3 million surcharge.

The Company will not request any change in its LIRA surcharge during 1992 but will accumulate the difference between its actual LIRA costs and the amount recovered under the LIRA surcharge in a balancing account. The amount in the balancing account will be considered in the context of the Company's 1993 attrition filing.

A.90-01-055, I.90-05-033

ATTACHMENT A
Page 8

Table 1-1

PACIFIC POWER & LIGHT
CALIFORNIA
ATTRITION SUMMARY
1992 & 1993
(THOUSANDS OF DOLLARS)

Line No.	Description	1991 Proposed Consensus	Changes 1992	1992 Present Rates	Increase to 10.57%	(3) Offset ARA With ERAM	1992 Balance	Changes 1993	1993 Present Rates	Increase to 10.57%	(3) ERAM Offset	Net 1993 ARA Increase	1993 Balance
(1)		(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1	REVENUE (1)	58,911	807	59,718	2,160	(2,160)	59,718	941	60,659	3,833	(2,157)	1,676	62,335
	EXPENSES												
2	Coal	8,517	190	8,707			8,707	510	9,217				9,217
3	Purchased Power	5,560	1,052	6,612			6,612	319	6,931				6,931
4	Wheeling	998	46	1,044			1,044	12	1,056				1,056
5	Labor	5,761	324	6,085			6,085	366	6,451				6,451
6	Non-Labor	7,305	481	7,786			7,786	417	8,203				8,203
7	Uncollectibles	350	3	353	14	(14)	353	6	359	25	(14)	11	370
		-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------
8	Total O&M	28,491	2,096	30,587	14	(14)	30,587	1,630	32,217	25	(14)	11	32,228
9	Depreciation & Amort	6,427	323	6,750			6,750	341	7,091				7,091
10	Property Tax	1,535	85	1,620			1,620	90	1,710				1,710
11	Taxes Other	77	0	77			77	0	77				77
12	Franchise Tax	472	4	476	20	(20)	476	6	482	35	(20)	15	497
13	State Income Tax	1,522	(138)	1,384	190	(190)	1,384	(98)	1,286	351	(198)	153	1,439
14	Federal Income Tax	5,701	(457)	5,244	656	(656)	5,244	(323)	4,921	1,104	(655)	509	5,430
		-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------	-------
15	Total Deductions	44,225	1,913	46,138	880	(880)	46,138	1,646	47,784	1,515	(887)	688	48,472
16	NET INCOME	14,686	(1,106)	13,580	1,280	(1,280)	13,580	(705)	12,875	2,258	(1,270)	988	13,863
17	RATE BASE (2)	138,229	2,292	140,521			140,521	2,657	143,178				143,178
18	RETURN ON RATE BASE	10.57%		9.66%			9.66%		8.93%				9.68%

(1) Revenues reduced by $2.3 Million to reflect proposed net decrease of $2 million ($2.3 less ECAC surcharge -0.3)
(2) Utilized an average of Company and Staff 1993 Rate Base ((133,700 + 142,758)/2 = 138,229) and removed Local Transmission additions from 1992 and 1993 plant additions.
(3) The Company will amortize $1,080 of the ERAM balance owed customers as an offset to its 1992 ARA increase. The difference between the amount amortized ($1,080) and the Company's justifiable 1992 ARA will be the responsibility of Company shareholders. The 1992 ERAM amortization represents one-half of the balance owed customers at mid-year 1992. The Company will use the remaining balance owed customers in mid-year 1993 as an offset to the ARA price change as shown in column 11.

CHAPTER 2

Introduction/Revenue Allocation and Price Design

This exhibit was prepared jointly by Mr. Michael McNamara, Program Manager, Energy Rate Design and Economics Branch for the Division of Ratepayer Advocates (DRA), and Mr. Fred Keast, Manager, Pricing & Regulatory Affairs for Pacific Power & Light Company (PP&L, and the Company).

Purpose

The purpose of this exhibit is to describe a reasonable allocation of revenues among the Company's customer classes, and the design of its prices to be charged to its retail customers.

1. Revenue Allocation

DRA and the Company recommend the allocation of revenues among customer classes as summarized in Table 2-1.

The Company and DRA recommend that revenue allocation should ensure that no class receive a revenue allocation "shock", and that the marginal costs of serving each customer class should be a primary factor in allocating class revenue requirements (Note 1). Revenue reductions of 3% should be allocated to the residential, agricultural, and largest general service customers served through Schedule AT-48. Reductions of 6.7% should be applied to remaining general service customers, served under Schedules A-25, A-32, and A-36 in accordance with Equal Percent of Marginal Cost principles. Lighting classes should be allocated a uniform reduction of 0.317 cents per KWH in their energy prices to reflect the overall system average decrease.

Note 1: DRA's revenue allocation was based on its implementation of a 100% Equal Percent Marginal Cost (EPMC) method. The basis of this allocation was the marginal cost study presented in Chapter 1 of the DRA report on "Marginal Cost, Revenue Allocation and Rate Design for the Pacific Power & Light Company" (Exhibit No. 24). Table 2-2, of this report presents the results of this marginal cost study. This revenue allocation was constrained by the application of caps. The first cap was a ceiling of no class revenue requirement increase, and the second cap was a floor such that no class received a decrease more than 2.5 percentage points greater than the system average decrease.

2. <u>Price Design</u>

The Company and DRA recommend that the prices summarized in Table 2-2 should be charged for service under the Company's tariffs.

PP&L will study the cost/benefit of identifying and separately billing residential non-permanent homes at non-baseline energy rates. This study will be submitted prior to PP&L's next general rate case.

PP&L will include street lighting and outdoor area lighting customers in its marginal cost study filed with its next General Rate Case application.

PP&L will file in its next general rate case application a marginal cost study based on customer demand and energy data current as of no earlier than five years prior to the date of filing. PP&L will describe the methodology through which data were employed in the derivation of load factors used in its marginal cost study.

PP&L and DRA recommend that revenue requirement changes arising from proceedings prior to PP&L's next General Rate Case should be implemented as follows. All customer charges and demand charges altered as a result of such revenue requirement changes will be rounded to the nearest five cents.

Increases: Increases in revenue requirements should be allocated among customer classes on an equal percentage basis. For revenue requirement increases of 2% or less, all rate components should be increased on a System Average Percentage Change basis with customer and demand charges rounded to the nearest 5 cents. For revenue requirement increases exceeding 2%, PP&L and DRA recommend that within each class the percentage increase to customer and demand charges should exceed the percent increases to energy charges by 50%. For example, if energy charges are increased 3%, then the customer

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Note 1: (Continued) The Company's revenue allocation was based on its marginal cost of service study, reported in the Proposed Testimony of Nancy Esteb, Cost of Service (Exhibit No. 13), and Exhibit Accompanying Proposed Testimony of Nancy Esteb, Cost of Service (Exhibit No. 14). Revenue allocation was constrained by the application of a minimum revenue reduction of 3.0% to any customer class except for the lighting schedules, with remaining revenue reductions allocated to other Schedules A-25, A-32, and A-36. The energy charges for the lighting schedules were to be reduced by the system average percentage change expressed on a cents-per-KWH basis.

THE NEXT 2
DOCUMENTS ARE
POOR ORIGINALS.

MICROFILMING SERVICES ARE NOT RESPONSIBLE FOR THE IMAGE QUALITY.

charge/demand charges should increase by 4.5%. Price increases to residential customers should be applied uniformly to baseline and second block energy.

Decreases: Decreases in revenue requirements should be allocated among customer classes on an equal percentage basis. For revenue requirement reductions, all decreases should be applied to energy charges. Decreases to residential energy revenues should be applied such that 1/3 of class revenue reductions should be applied to baseline energy revenues, and 2/3 of class revenue reductions should be applied to second block energy revenues.

PP&L will submit proposed changes to the structure of its PA-20, Agricultural Pumping Service, tariffs during its rate window of 1992. The Company as a part of that submission will provide a study of its PA-20 customers' usage characteristics and the customer impacts of the Company's proposed alterations in price structure on or before January 31, 1992.

3. <u>LIRA Surcharge</u>

The $300,000 LIRA surcharge amount will be applied on a cents/kWh basis to all customers not exempt from the LIRA surcharge in conformance with Decision 89-09-044. The Company will file the LIRA surcharge in November, 1990 to become effective with price changes commencing January 1, 1991. The overall revenue increase due to the LIRA surcharge will be approximately 0.6 percent. The LIRA surcharge is not reflected in Table 2-1 which shows an overall revenue decrease of $2.3 million or 4.2 percent.

A.90-01-055, I.90-05-033

ATTACHMENT A
Page 12

PROPOSED JOINT EXHIBIT Table 2 - 1

ESTIMATED EFFECT OF PROPOSED PRICES ON
REVENUES FROM ELECTRIC SALES TO ULTIMATE CONSUMERS IN CALIFORNIA
DISTRIBUTED BY RATE SCHEDULES
12 MONTHS ENDED DECEMBER 31, 1991

Line No.	Acct. No.	Description	Schedule No.	Average No. of Customers	KWH (000)	Revenues ($000) Present Prices(a)	Revenues ($000) Proposed Prices	Decrease Amount ($000)	Decrease Percent	Decrease ¢/KWH	Line No.
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8) (7)-(6)	(9) (8)/(6)	(10) (8)/(5)	
	440	Residential Sales									
1		Residential Service	D	30,424	310,869	$23,387	$22,685	($702)	(3.0)%	(0.226)¢	1
2		Multi-Family - Submetered	DS-D	24	1,657	130	127	(3)	(3.0)	(0.185)	2
3		Multi-Family - Master Metered	DM-D	36	613	48	47	(1)	(2.3)	(0.181)	3
4		Total Residential		30,484	321,285	23,525	22,819	(706)	(3.0)	(0.220)	4
	442	Commercial & Industrial									
5		Small General Service - < 20 KW	A-25	5,336	51,235	6,413	5,985	(428)	(6.7)	(0.835)	5
6		Small General Service - 20 KW & Over	A-32/A-36	655	15,257	1,418	1,179	(239)	(6.7)	(0.653)	6
7		Large General Service - 100 KW & Over	A-36/A-32	232	103,575	8,081	7,565	(516)	(6.4)	(0.512)	7
8		Large General Service - 500 KW & Over	AT-40	24	146,058	9,335	9,200	(135)	(1.4)	(0.444)	8
9		Commercial Water Heating	AWH-31	85	1,127	81	79	(2)	(2.5)	(0.111)	9
10		Partial Requirements Service	A-33	0	0	0	0	0	0.0	0.000	10
11		Partial Requirements Service	AT-43	0	0	0	0	0	0.0	0.000	11
12		Outdoor Area Lighting Service	OL-15	1,058	2,530	415	411	(4)	(0.9)	(0.357)	12
13		Airway & Athletic Lighting	OL-42	41	289	31	30	(1)	(3.2)	(0.317)	13
14		Agricultural Pumping Service	PA-20	548	68,858	3,874	3,818	(118)	(3.0)	(0.144)	14
15		Agricultural Pumping Service - USBR	--	316	24,356	438	438	0	0.0	0.000	15
16		Special Contracts	--	2	0	2	2	0	0	0	16
17		Total Commercial & Industrial		8,555	481,335	30,318	28,881	(1,587)	(5.2)	(0.335)	17
	444	Public Street Lighting									
18		Street Lighting Service	LS-51	73	691	137	135	(2)	(1.5)	(0.313)	18
19		Street Lighting Service	LS-52	1	12	3	3	*	(0.3)	(0.317)	19
20		Street Lighting Service	LS-53	71	1,381	103	98	(5)	(0.3)	(0.317)	20
21		Street Lighting Service	LS-57	4	62	8	8	*	(0.3)	(0.313)	21
22		Street Lighting Service	LS-58	14	269	26	25	(1)	(3.2)	(0.317)	22
23		Total Public Street Lighting		163	2,412	277	269	(8)	(2.9)	(0.324)	23
24		Total Sales to Ultimate Consumers		40,232	724,953	54,130	51,828	(2,331)	(4.2)	(0.317)	24
25		Employee Discount				(43)	(42)	1			25
26		Total Sales With Employee Discount				$54,036	$51,817	($2,330)	(4.2)%	(0.317)¢	26

Note. (a) Prices effective November 23, 1988.
* Amounts less than $1,000.

THE NEXT 1
DOCUMENTS ARE
POOR ORIGINALS.

MICROFILMING SERVICES
ARE NOT RESPONSIBLE
FOR THE IMAGE QUALITY.

Description	[illegible]	[illegible]
RESIDENTIAL - Schedule D		
Basic Charge	[illegible]	[illegible] /month
Baseline Energy	[illegible]	[illegible] /kWh
Non-Baseline Energy	[illegible]	[illegible] /kWh
RESIDENTIAL - Schedule [illegible]		
Basic Charge	[illegible]	[illegible] /month
Baseline Energy	[illegible] /kWh	[illegible] /kWh
Non-Baseline Energy	[illegible] /kWh	[illegible] /kWh
COMMERCIAL - Schedule A-25		
Basic Charges:		
Phase 1	[illegible] /month	$[illegible] /month
Phase 3	[illegible] /month	$[illegible] /month
All Energy	[illegible]	[illegible] /kWh
COMMERCIAL - Schedule A-22		
Basic Charges:		
Phase 1	[illegible] /month	$[illegible] /month
Phase 3	[illegible] /month	$[illegible] /month
Distribution Demand	[illegible] /kW	$[illegible] /kW
Generation & Transmission Demand	[illegible] /kW	$[illegible] /kW
All Energy	[illegible]	[illegible] /kWh
COMMERCIAL - Schedule A-36		
Basic Charge	[illegible] /month	$[illegible] /month
Distribution Demand	[illegible] /kW	$[illegible] /kW
Generation & Transmission Demand	[illegible] /kW	$[illegible] /kW
All Energy	[illegible] /kWh	[illegible] /kWh

[illegible] Joint Exhibit
[illegible] Power & Light Company
[illegible]
[illegible] vs. Proposed Prices

[illegible]	Present Prices	Proposed Prices
[illegible]	(2)	[illegible]
INDUSTRIAL - Schedule AT-43		
Basic Charge:		
0-1000 kW	$360.00 /month	$260.00 /month
1001-3000 kW	$560.00 /month	$260.00 /month
> 3000 kW	$810.00 /month	$260.00 /month
Distribution Demand	$2.15 /kW	$2.?0 /kW
Generation & Transmission Demand		
Winter	$2.65 /kW	$3.?? /kW
Summer	$1.77 /kW	$2.?5 /kW
All Energy	4.592 ¢/kWh	4.2?? ¢/kWh
AGRICULTURAL - Schedule PA-20		
Customer Charge		
Phase 1 0-50 kW	$0.00 /annum	$50.00 /annum
Phase 3 0-50 kW	$0.00 /annum	$50.00 /annum
Phase 3 51-300 kW	$100.00 /annum	$100.00 /annum
Phase 3 > 300 kW	$700.00 /annum	$100.00 /annum
Distribution Demand		
Phase 1 0-50 kW	$10.00 /kW	$10.50 /kW
Phase 3 0-50 kW	$10.00 /kW	$10.50 /kW
Phase 3 51-300 kW	$18.00 /kW	$18.00 /kW
Phase 3 > 300 kW	$13.00 /kW	$15.00 /kW
Generation & Transmission Demand	$2.16 /kW *	$3.50 /kW
All Energy		
Winter	7.543 ¢/kWh	4.88? ¢/kWh
Summer	5.254 ¢/kWh	4.88? ¢/kWh

* For Demand registered December through March only.

FN: PROPPRIC

APTER 3

Demand ide Management

This chapter was repared jc tly by Ms. Angela Young and Mr. Con Schu z of the D and Mr. ke O'Bryant of the Company.

Purpose

The urpose of is chapte is to set forth the terms of an agre ent which as been eached between the DRA and PP&L conc ning the Co any's dem d side management (DSM) programs and the ompany's c pliance w h Decision 90-03-078 allowing the Comp y to disc tinue its RAM. It includes: a Stockholder Ince tive Progr , Demand- de Management Accounting, Minimum Perf rmance Requ ements, P ogram Measures and Verification of Savi gs and Repo ing.

1. Stockholder ncentive P ogram

In conforma e with Dec ion No. 90-03-078, in Application No. 88-10-014, e Company filed Advice No. 228-E on June 28, 1990, a pro osal to l k corporate earnings to successful investments n energy fficiency programs. The Company's proposal is o:

- Implemen an innovat e energy efficiency mechanism -- the Energy S vice Charg approach;
- Allow ra base tre tment and recognition in attrition filings energy ef iciency investments;
- Allow sto kholders t retain a portion of the ESC revenues.

On July 19, 1990, the ompany petitioned the Commission to consolidate dvice No. 28-E with Application No. 90-01-055. DRA staff addressed the Company's Proposal Linking Profitabili to Energy fficiency Investment in its Report on Resource Pla ning and De and Side Management for Pacific Power & Light Com ny. The s aff:

- Approved ll progra proposed by the Company, including those wh h employ t e Energy Service Charge, and;
- Proposed a three-ti r accounting treatment for energy efficien program xpenditures, including DSM Assets (deferre and amorti d, earning the Company's allowed rate of retu), Expens d plus 5% return on authorized

expenditures, and Expensed (all described below in Demand Side Management Accounting).

A subsequent meeting with DRA and Company staff has resulted in an agreement which:

* Allows stockholders to retain the first twelve months of ESC revenue from each program participant as an additional incentive for the Company to invest in energy efficiency.

* ESC revenues from subsequent years will be used to offset revenue requirements.

* A tariff to initiate the first such ESC program in California -- Design Advantage -- is included as part of this joint exhibit. DRA staff recommend approval of this tariff. Tariffs for other EsC programs will be submitted to the Commission as they are finalized.

In addition to incentives that encourage energy efficiency programs, DRA staff believe that failure to perform as proposed should result in a penalty to the Company. As a result, DRA staff and Company have agreed:

* To set Minimum Performance Standards, outlined in the Minimum Performance Standards section below. Performance will be evaluated at the end of the rate cycle (December 31, 1993), and will be based on unit targets derived from the three year average actual performance. Failure to achieve the minimum performance target in any of the programs shall result in a reduction to the Company's authorized return on the deferred expenditures for that program.

* To set a limit on program costs which would receive the Expense plus 5% return. The limit shall be up to 110% of the Expense +5% category shown in Table B-3 after it has been proportioned to maintain the proposed ratio with DSM assets. Expenditures that exceed this limit shall be expensed and shall not receive the 5% return.

Staff and Company agree that the above conditions satisfy the requirements of D. 90-03-078.

2. Demand Side Management Accounting

The Company has requested $3,543,186 for its energy efficiency programs for this 1991-93 rate cycle. DRA has recommended the adoption of the proposed programs and the budget, but has recommended alternative accounting treatment for the expenditures (as shown in Table B-3 from the Report on Resource Planning and Demand Side Management for Pacific Power

Light, submitted by DRA staff June 30, 1990). ?he alternative treatment includes three levels of accoun ng: Expense-Related, Modified Expense-Related (Expe se +5%) and Amortization-Related (deferred and amort zed with an authorized rate of return). They are furthe: defined as:

* Expense-Related Expenditures

They include all DSM Programs not inclu :d in Modified Expense-Related Expenditures and Amor .zation-Related Expenditures (shown as DSM assets in Table 3-3). Expense-Related Programs are:

Audits
Customer Service Analysis
Conservation Requests
Water Heater Wraps
Training
Conservation Voltage Regulation
Loan Write-offs
Expenditures for Expense-Related Prog: ms shall be recovered in revenues over a one-year per: d.

* Modified Expense-Related Expenditures

They are recovered in revenues over a o :-year period, including a component for a 5% incent /e. Modified Expense-Related Expenditures include sta: labor, field implementation and development for those programs that result in the direct purchase of conserv tion resource. Those programs that include a Modified xpense-Related Expenditure are:

Home Comfort
Super Good Cents Mobile Home
Low Income Weatherization
Design Advantage
Energy Partner
Irrigation

These expenditures are subject to a s ending limit. Incremental expenditures higher than 110% of the budget shown in Table B-3, adjusted to retain th ratio between DSM Assets and Expense +5%, shall be expens 1 and shall not receive the 5% incentive. For example:

Proposed Program Budget = $100,000 DSM As: .ts and $10,000 Expense +5% (10:1 ratio)

Actual Expenditure = $50,000 DSM Asset and 10,000 Expense +5%

Proportioned (maintaining the 10:1 ratio) Expense +5% = $5,000 X 110% (spending limit) = $5,500

Amount accounted in Expense +5% category, but now receiving Direct Expense treatment = $4,500

	DSM Asset	Expense +5%	Expense
Proposed	$100,000	$ 10,000	$ 0
Actual	50,000	5,500	4,500

* Amortization-Related Expenditures

They shall be recovered over the term for which the Energy Service Charge is collected from the participant for ESC-related programs (which shall be 15 years for the Design Advantage program) and over a ten-year period for direct incentive programs (Low Income and Super Good Cents Mobile Home), including a component for the Company's allowed rate of return. These expenditures are for the cost of energy efficiency measures in the following programs:

Home Comfort
Super Good Cents Mobile Home
Low Income Weatherization
Design Advantage
Energy Partner
Irrigation
Each Amortization-Related Program shall have Minimum Performance Standards, which are described below.

3. Minimum Performance Standards

DRA and Company have set Minimum Performance Standards for those programs which result in resource acquisition. For programs that employ the Energy Service Charge, the minimum performance target is set at 33% of the units proposed by the Company in this General Rate Case. These programs are:

* Home Comfort
* Design Advantage
* Energy Partners
* Irrigation

For programs that employ direct incentives, the minimun performance target is set at 75% of the units proposed by the Company. These programs are:

* Super Good Cents Mobile Home
* Low-Income Weatherization

Table 3-1 shows Performance Targets and Minimum Performance Standards for each program.

Failure to meet the Minimum Performance Standard, on a program by program basis, will result in an after the fact .50% reduction to the rate of return on the 1991-1993 expenditures for each program and a corresponding reduction in earnings on these specific expenditures over the remaining life cycle of the program. The life cycle of a program corresponds with the length of time the Energy Service Charge is paid by participants for ESC based programs and 10 years for direct incentive-based programs.

Evaluations shall be completed by the end of this three-year rate cycle (December 31, 1993) for all programs that are subject to Minimum Performance Targets.

Many of the programs, as well as the ESC concept, are experimental. Success will depend on the acceptance of this concept by potential participants. In addition, the programs that target new construction--Super Good Cents Mobile Home and Design Advantage--are based on penetration targets that assume a certain level of building activity. Because of these risks, DRA staff and the Company have agreed that up to $400,000, on a three-year average basis, can be transferred from program to program or into new programs with approval from DRA and Commission Advisory and Compliance Division staff. Staff and Company will set Minimum Performance Standards and will ensure that new programs meet cost-effectiveness tests.

4. <u>Program Measures and Verification of Savings</u>

Eligible measures, as well as the methods the Company proposes to verify savings, are briefly described below for each program. All programs have an evaluation component.

* Home Comfort

Home Comfort targets existing single family dwellings with installed electric heating systems. All weatherization measures, as well as efficient replacements for electric appliances and heating systems, will be considered. Savings will be determined by computerized energy audit based on the Company's experience with 12 years of weatherization programs and the Hood River Conservation Project. The Company will monitor homes on a sample basis for the evaluation.

* Super Good Cents Mobile Homes

The Mobile Home program targets new electrically heated mobile homes that are currently built to HUD code standards and ensures they are built to the Company's Super Good Cents Mobile Home standards. Measures include all weatherization measures. A site verification will be made on each mobile home to ensure proper assembly and to verify the existence of all required measures.

* Low Income Weatherization

The Low Income Weatherization Program retrofits existing low income homes that have installed electric heat. Weatherization and infiltration measures are considered as well as shower heads and water heater wraps. All homes will be inspected to ensure the proper installation of all measures. The Company is in the process of evaluating low income programs at this time.

* Design Advantage

Design Advantage targets new commercial building space. Measures include lighting, day lighting, HVAC systems and controls, refrigeration, small motors and insulation. Initial savings estimates are made with a DOE-2 analysis using code as the base. An ESC amount is calculated with this estimate. After the building is completed, installation and proper operation is verified. Actual usage is measured for three months and the ESc amount is adjusted downwards if the actual usage is more than predicted.

* Energy Partners

Energy Partners targets new and existing industrial customers. Measures will be considered on a case-by-case basis and may include lighting, motors and process-related improvements. Initial energy savings will be estimated on a measure-by-measure basis and an ESC amount calculated prior to installation of the measures. For new industrial customers, the base will be the equipment proposed by the industrial customer's engineers. For existing industrial customers, the base will be the existing equipment. After the measures are installed, installation and proper operation is verified. Actual usage is measured on a measure-by-measure basis and the ESC amount is adjusted downwards if the usage is more than predicted for the sum of the measures.

The Company expects this program to predominantly serve existing industrial customers. However, in the event a new industrial customer approaches the Company to receive the services of this program, the Company will discuss the case with DRA and CACD staff prior to engineering studies. The Company will continue with the program's services only after staff approval. The purpose of this approval process is to assure the Commission staff that the Energy Partners Program does not result in additional load for the Company.

* Irrigation

This program will target electrically powered pumps in a variety of sizes. It is a pilot program that will be designed to test several measures, including motor housing or motor change-outs, scheduling and changes in the delivery system which enhance efficiency. A pump or pumping system will be analyzed, efficiency measures will be recommended and an ESC amount calculated. After the measures are installed, the pump system will be inspected and a pump test performed to verify savings. A sample of the pumps will be metered for kwh usage and time of use for evaluation purposes.

5. <u>Reporting</u>

The Company shall report Modified Expense and Amortization-Related expenditures and activity consistent with the Demand-Side Management Reporting Requirements Manual (3rd Edition). To meet this requirement, the Company will establish an internal accounting and tracking system for expenditures as well as for the verification of savings and performance of the energy efficiency programs.

TABLE 3-1

PROGRAM PERFORMANCE AND EXPENDITURE TARGETS
1991-93 Performance Period*

Programs	Performance Targets**	Minimum Performance Requirement	Average Annual Expenditure
Residential:			
Home Comfort	134 units	45 units	$ 204,026
Mobile Home	72 units	54 units	$ 144,000
Low-Income	200 units	150 units	$ 179,000
Non-Residential:			
Design Advantage	68,200 sq.ft	22,738 sq.ft.	$ 107,063
Energy Partner	296 MWH	99 MWH	$ 99,219
Irrigation	500 MWH	168 MWH	$ 50,000

* Program performance will be considered at the end of the 1991-1993 performance period and will be based on a three year average of the Amortization-Related Expenditures and unit accomplishments.

** Units identified are for one year, based on a 3-year average and are defined by program:

Home Comfort = existing single family homes.

Mobile Home = new single family mobile homes.

Low Income = existing single or multi-family, or mobile home occupied by a low income family. Low income is defined by an income level at or under 150% of federal poverty guidelines for non-handicapped persons under 60 years of age and 200% for handicapped or persons over 60 years of age.

Design Advantage = square feet of new commercial building space. The square footage is based on a penetration and average size of new building starts.

Energy Partner = Megawatt hours of savings as measured by the Company's verification and commissioning process.

Irrigation = Megawatt hours of savings as measured by pump testing and estimated hours of use.

DRA's Recommendation on Allocation of DSM Expenditures
Table B-3

	Budgeted (3-Yr Avg)	Allocation: DSM-Assets	Allocation: Expense + 5%	Allocation: Expense
Residential Program:				
Audit	$23,630			$23,630
Cust Service Analysis	40,000			40,000
Conservation Requests	20,000			20,000
Water Heater Wraps	2,812			2,812
Home Comfort	344,076	284,026	47,929	12,121
Mobile Home	165,667	144,000	15,000	6,667
Low-Income Weatherization	200,000	179,000	21,000	0
Non-Residential Programs:				
Design Advantage	124,158	107,063	15,410	1,685
Energy Partner	153,616	99,219	30,103	24,295
Irrigation	85,000	50,000	30,000	5,000
Others:				
Training	9,500			9,500
Conservation Voltage Regulation	7,603			7,603
Loan	5,000			5,000
Total	$1,181,063	$863,308	$159,442	$158,313
Percent	100.00%	73.10%	13.50%	13.40%

Pacific Power & Light Company
Portland, Oregon

Revised Cal.P.U.C. Sheet No. 1773-E
Cancelling Revised Cal.P.U.C. Sheet No. 1758-E

TABLE OF CONTENTS

RATE SCHEDULES

(Continued)

(L)

Issued by

Advice Letter No. 228-E   Paul G. Lorenzini   Date Filed

Decision No 90-03-078   Executive Vice President   Effective
Title

TF6 INDEX-1ESC   Resolution No.

(L)

TABLE OF CONTENTS (Continued)

RULES

(L)

Issued by

Advice Letter No. 228-E

Paul G. Lorenzini
Name

Date Filed ____

Decision No 90-03-078

Executive Vice President
Title

Effective ____

Resolution No. ____

TF6 INDEX-3ESC

TABLE OF CONTENTS (Continued)

(L)

RATE SCHEDULES (Continued)

CONTRACTS AND DEVIATIONS

(L)

Issued by

Advice Letter No. 228-E

Paul G. Lorenznini
Name

Date Filed ____________

Decision No. 90-03-078

Executive Vice President
Title

Effective ____________

Resolution No. ____________

TFE INDEX-2ESC

(N)

SCHEDULE A-120
COMMERCIAL ENERGY SERVICES
OPTIONAL FOR QUALIFYING CUSTOMERS

PURPOSE:

Service under this schedule is intended to reduce the energy requirements of new Commercial Buildings by promoting the installation of Demand-Side Resource Measures.

AVAILABILITY:

In all territory served by the Company in the State of California.

APPLICABLE:

This schedule is applicable to the construction of new Commercial Buildings served by Company under its General Service Schedules. Charges under this schedule will be in addition to the electric service charge under the Customer's applicable electric service schedule. **THE OBLIGATIONS UNDER THIS SCHEDULE WILL APPLY TO ALL CUSTOMERS USING ELECTRICITY AT THE REAL PROPERTY SPECIFIED BY AN ENERGY SERVICES CONTRACT.**

DEFINITIONS:

Conservation Payments: Any payments of money made by Company to Owner pursuant to an Energy Services Contract, in exchange for the right of Company to share by means of Energy Service Charges in projected energy savings from Demand-Side Resource Measures acquired and installed by Owner.

Customer: Any party who has applied for, been accepted and receives service at the real property identified in an Energy Services Contract.

Demand-Side Resource Measures: Permanently installed measures specified in an Energy Services Contract, including structurally related building improvements, which can reduce the Customer's electric energy use.

Energy Services Contract: A contract between Owner and the Company providing for Company to furnish or provide conservation payments with respect to Demand-Side Resource Measures pursuant to this tariff schedule.

Owner: The person who has both legal and beneficial title to the real property specified in an Energy Services Contract at the time such contract is executed, or who at such time is the mortgagor under a duly recorded mortgage or the grantor under a duly recorded deed of trust or a purchaser under a duly recorded contract with respect to such real property.

The terms Customer and Owner include the singular and the plural as the context requires.

(N)

(Continued)

SCHEDULE A-120
COMMERCIAL ENERGY SERVICES
OPTIONAL FOR QUALIFYING CUSTOMERS

ENERGY SERVICE CHARGE:

Customer shall pay an Energy Service Charge for Demand-Side Resource Measures furnished by Company or for which Company has made conservation payments pursuant to this tariff. The Energy Service Charge shall commence on the date specified by the applicable Energy Services Contract and shall continue for fifteen (15) years for all service provided to the real property identified in such contract, without regard to changes in ownership or changes of use of such real property, unless the Energy Service Charge is terminated as provided herein.

The Energy Service Charge shall be computed as follows:

Energy Service Charge = ((Monthly kW Savings x Applicable Demand Charge) + (Monthly kWh Savings x Applicable Energy Charge)) x Applicable Savings Share Percentage

The following terms, as used in the Energy Service Charge formula, are separately defined for each program rider attached to this tariff: Applicable Savings Share Percentage, Applicable Demand Charge, Applicable Energy Charge, Monthly kW Savings, Monthly kWh Savings.

ENERGY SERVICE CHARGE OPTIONS:

Option 1: The Applicable Demand Charge and the Applicable Energy Charge shall be computed based on the current tariff schedules in effect from time to time during the period the Energy Service Charge is in effect. The Applicable Savings Share Percentage shall be as specified for Option 1 in the appropriate program rider at the time the Energy Services Contract is executed.

Option 2: The Applicable Demand Charge and the Applicable Energy Charge shall be computed based on the tariff schedules in effect at the time the Energy Services Contract is executed and shall not thereafter be changed. The Applicable Savings Share Percentage shall be as specified for Option 2 in the appropriate program rider at the time the Energy Services Contract is executed.

SEPARATELY METERED TENANTS:

The allocation of Monthly kW Savings and Monthly kWh Savings among any Customers who are separately metered tenants benefitting from the installation of the Demand-Side Resource Measures shall be as specified in the Energy Services Contract.

(Continued)

(N)

SCHEDULE A-120
COMMERCIAL ENERGY SERVICES
OPTIONAL FOR QUALIFYING CUSTOMERS

(N)

TERMINATION OF SERVICE:

Customer or Owner may terminate service under this schedule at any time by paying the present value of the Energy Service Charge at the time of termination, calculated using (1) the Option 2 Applicable Savings Share Percentage, Applicable Demand Charge and Applicable Energy Charge in effect at the time the Energy Services Contract was executed, (2) the Company's cost of capital last authorized by the California Public Utilities Commission prior to such termination, and (3) the remaining term of the Energy Service Charge. Such termination charge also will be due at the time electric service is terminated at the real property specified in the applicable Energy Services Contract.

ENERGY EFFICIENCY SERVICES FOR NEW COMMERCIAL BUILDINGS:

APPLICABLE:

This program is applicable to service to Commercial Buildings under General Service schedules A-25, A-32, A-36, and AT-48 in the State of California.

DESCRIPTION:

Service under this program is available to improve the energy efficiency of new Commercial Buildings to be connected to Company's system on or after the effective date of this schedule. The Company will provide the conservation payments for both design assistance and incremental construction which result in the installation of Demand-Side Resource Measures. Upon connection of electric service to new Commercial Buildings having such measures installed under this program, Company will bill the Customers an Energy Service Charge as specified by this schedule.

DEFINITIONS:

Applicable Savings Share Percentage: The percentage of savings paid by the Customer through the Energy Service Charge shall be as follows:

Option 1. 75%
Option 2. 90%

Applicable Demand Charge: Using the Customer's applicable billing schedule for service, the average of the demand charges for the block into which Customer's average monthly kW demand would fall, based on compliance with state commercial building code requirements, but without benefit of the additional savings provided by the Demand-Side Resource Measures, as estimated by Company using engineering analysis.

(Continued)

(N)

Issued by

(N)

SCHEDULE A-120
COMMERCIAL ENERGY SERVICES
OPTIONAL FOR QUALIFYING CUSTOMERS

ENERGY EFFICIENCY SERVICES FOR NEW COMMERCIAL BUILDINGS:
(continued)

DEFINITIONS: (continued)

Applicable Energy Charge: Using the Customer's applicable billing schedule for service, the average of the energy charges for the last usage block into which Customer's average monthly usage would fall, based on compliance with state commercial building code requirements, but without benefit of the additional savings provided by the Demand-Side Resource Measures, as estimated by Company using engineering analysis.

Commercial Building: A structure or addition to a structure that is completed after the date of this tariff and is to be served by the Company's General Service Schedules A-25, A-32, A-36, or AT-48.

Monthly kW Savings: The average monthly kW savings beyond the electric energy demand resulting from compliance with state commercial building code requirements, and resulting from installation of the Demand-Side Resource Measures, as estimated by Company using engineering analysis.

Monthly kWh Savings: One-twelfth of the annual kWh savings beyond the electric energy use resulting from compliance with state commercial building code requirements, and resulting from installation of the Demand-Side Resource Measures, as estimated by Company using engineering analysis.

MEASURE FUNDING LIMIT:

Company will provide conservation payments equal to its estimate of the incremental initial cost of each qualified Demand-side Resource Measure above the cost to comply with current building code requirements. A Demand-Side Resource Measure is qualified for conservation payments if included in an Energy Services Contract and if the incremental cost of the measure does not exceed twice the Measure Funding Limit. However, the amount of the conservation payments by Company for each Demand-Side Resource Measure will not exceed the Measure Funding Limit for that Demand-Side Resource Measure.

The Measure Funding Limit for each Demand-Side Resource Measure provided by Company shall be determined by multiplying the measure's estimated annual kilowatt-hour savings (Monthly kWh Savings x 12), beyond the electric energy

(Continued)

(N)

(N)

SCHEDULE A-120
COMMERCIAL ENERGY SERVICES
OPTIONAL FOR QUALIFYING CUSTOMERS

ENERGY EFFICIENCY SERVICES FOR NEW COMMERCIAL BUILDINGS: (continued)

MEASURE FUNDING LIMIT: (continued)
use resulting from compliance with state commercial building code requirements, by the following appropriate amounts:

$.3171 per kWh for measures with an expected life of 10 years.
$.4392 per kWh for measures with an expected life of 15 years.
$.5382 per kWh for measures with an expected life of 20 years.
$.6860 per kWh for measures with an expected life of 30 years.

PROVISIONS OF SERVICE:

(1) Company shall meet with the Owner and design team to determine what Demand-Side Resource Measures may be appropriate for further design and electric energy savings analysis.

(2) Before funding any design or electric energy saving analysis, Company may require the Owner to sign a letter of intent. The letter shall include, but not be limited to, the requirement that if (i) Company, within the period specified by such letter, presents a proposal to provide conservation payments in connection with the installation of Demand-Side Resource Measures, and (ii) the analysis shows that the recommended measures and payments provide economic benefits to Customer, over and above the costs to Customer, at least as great as specified in the letter over the period of the Energy Service Charge, and (iii) Owner elects not to enter an Energy Services Contract within sixty (60) days after the date of the proposal for Company to provide such conservation payments then Company may charge Owner all costs incurred by Company (including Company's standard labor and overhead costs) in connection with preparation of the proposal, not to exceed the amount specified in the letter.

(3) Company shall provide engineering calculations or computer modeling of the proposed Commercial Building, subject to the terms of the letter of intent.

(4) Company and Owner shall agree in the Energy Services Contract to the specific Demand-Side Resource Measures which Company will furnish or for which Company will provide conservation payments and the best available estimate of the amount of the initial Energy Service Charge.

(Continued)

(N)

SCHEDULE A-120
COMMERCIAL ENERGY SERVICE
OPTIONAL FOR QUALIFYING CUSTOMERS

(N)

ENERGY EFFICIENCY SERVICES FOR NEW COMMERCIAL BUILDINGS:
(continued)

PROVISIONS OF SERVICE: (continued)

(5) Company may inspect any Demand-Side Resource Measure which is funded by this program to ensure that workmanship, materials and insulation levels are consistent with industry standards and the requirements specified in the Energy Services Contract.

(6) Company may conduct a post-installation energy analysis and amend the Energy Service Charge, if and to the extent the Company determines that actual savings materially differ from original estimates in the Energy Services Contract. Company will adjust the original Monthly kW Savings and Monthly kWh Savings used to compute the Energy Service Charge only if the post-installation energy analysis indicates a reduced estimated savings. If the Energy Services Contract estimated the cost of a measure as equal to or less than the Measure Funding Limit, the Company will not, as a result of a post-installation inspection, reclassify the measure as costing more than such limit.

(7) The payments prescribed by this tariff are the obligation of Customer receiving service from time to time during the term of the Energy Services Contract. In addition, Owner or any subsequent Energy Service Charge contract assignee will remain obligated under the Energy Services Contract for any Energy Service Charge that Customer fails to make within the time required, unless such Owner or assignee has furnished Company a copy of the assignment or further assignment of the Energy Services Contract, made to a new owner in connection with an arms-length, bona fide, transfer for value of the real property specified in such Energy Services Contract.

(8) Company may record contracts or related memoranda with respect to this tariff in the applicable real property records as encumbrances against the affected real property.

RULES AND REGULATIONS:

Service under this schedule is subject to the General Rules and Regulations contained in the tariff of which this schedule is a part, and to those prescribed by regulatory authorities. (N)