

Decision 91-12-010 December 4, 1991

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

1991 Application of Southern California Gas Company Under the Annual Reasonableness Review Procedure: U 904 G

ORIGINAL

Application 91-06-030 (Filed June 14, 1991)

(See Appendix A for appearances.)

INTERIM OPINION

This decision approves the request of Southern California Gas Company (SoCalGas) to recover \$1.28 million in rates for its accomplishments in demand-side management (DSM) programs.

Background

In 1988, we initiated a renewed consideration of the energy efficiency, or "DSM," programs of the state's energy utilities. The process initially involved meetings between utilities, representatives of several state agencies, and intervenor groups to discuss ways to stimulate energy efficiency programs. The group issued a report in January 1990 which recommended that the utilities file applications proposing expanded funding levels for DSM programs and shareholder incentives for reaching energy efficiency goals.

In March 1990, SoCalGas filed Application (A.) 90-04-037 in response to the report, proposing expanded funding for DSM programs and an incentive mechanism. The application also revised and expanded many of SoCalGas' existing DSM programs authorized in SoCalGas' 1990 general rate case. The Commission adopted an expanded DSM program for SoCalGas in Decision (D.) 90-08-068, basing the new program on a settlement filed by several interested parties. D.90-08-068 requires, among other things, that gas

utilities' DSM incentive earnings should be reviewed in their annual reasonableness reviews.

The pending application, which is SoCalGas' 1991 reasonableness review for 1990-1991, seeks a shareholder incentive award of approximately \$1.28 million for DSM efforts. SoCalGas requested expedited treatment of the award in order that the revenue requirement increase could be reflected in rates by January 1, 1992. No party objected to this request. Accordingly, hearings were scheduled to consider the DSM issue in advance of other reasonableness review issues. DRA and SoCalGas submitted testimony which raised no controversy. At the hearing, no party sought to cross-examine any witness and no party wished to file briefs. SoCalGas and DRA essentially stipulated to one another's testimony.

SoCalGas' Application for Recovery of DSM Earnings

SoCalGas' application states that most of its DSM programs were very successful in 1990. Collectively, 1990 DSM programs achieved energy savings of 40 million therms, an amount well exceeding the 1990 goal of 24.8 million therms. SoCalGas states it achieved these savings even though it underspent DSM program funding by 23%. SoCalGas states it carried forward unspent 1990 funds to 1991.

Most of the DSM energy savings, according to SoCalGas, are attributable to the replacement of older gas equipment with high-efficiency equipment and weatherization improvements. SoCalGas states that all commercial and industrial programs exceeded their goals. Its largest residential program, the direct assistance program, which provides direct funding to low-income customers, was also very successful in 1990. The residential new construction program and the residential weatherization incentive programs did not meet efficiency goals. SoCalGas explains the new construction programs were hindered by a slowdown in construction activity and the unavailability of qualifying high-efficiency gas

equipment. SoCalGas suggests the residential weatherization program did not generate much customer interest partly because of the low rebate amounts.

DRA's Position

DRA supports SoCalGas' requested shareholder award. Its testimony reviews Commission decisions and the methodology used by SoCalGas for calculating the award. DRA states that the Commission's review of the methodology in this proceeding is important because this is the first year that SoCalGas is applying for incentive payments and the existing criteria for calculating such awards is only vaguely defined at this time.

DRA believes that SoCalGas has appropriately calculated the incentive award. It explains that "resource programs" are those which qualify for a 14% return, subject to a ceiling for recoverable cost and minimum performance requirements. "Cost-plus" programs are those for which the utility receives a return on cost up to the authorized budget once a minimum goal has been met. Some of the cost-plus programs receive a 5% return and some receive a 10% return. According to DRA, SoCalGas correctly calculated incentive dollars in resource programs based on the number of goals achieved in that program while applying a fixed percentage on the dollars spent in the cost-plus programs.

Although DRA concurs with SoCalGas' approach generally, it makes several recommendations with regard to the methodology to be applied in the future. First, it recommends that the calculation of efficiency gains should be at the program level rather than, for example, at the program element level. (Programs and program elements are explicitly defined for each utility. For example, residential weatherization retrofit is a program. A program element for residential weatherization retrofit might be water heater blanket installations.) DRA believes this will provide the utility with an incentive to make up shortcomings in one program element by exceeding the goal in another program

element. According to DRA, if gains were measured for each program element, the utility would not have an adequate incentive to make up shortcomings. At the other extreme, if gains were measured for DSM programs as a whole, the utility could ignore some groups or major programs in favor of others. In its application, SoCalGas used the methodology proposed by DRA.

Second, DRA recommends the formula apply the actual amounts paid to ratepayer participants (which DRA calls "actual participant incentives") rather than base the award on forecasted payments (which DRA calls "design participant incentives"). DRA commends SoCalGas for applying this methodology, believing the result is more equitable than using the forecast amount.

Third, DRA recommends that the measures subject to the incentive payment should be adjusted to account for the timing of the decision which authorized the incentives. This adjustment is required for this first review period only because some programs which qualify for the incentive payment in general were approved prior to the incentive. The incentive payment, according to DRA, should be applied only to program results which occurred after the issuance of D.90-08-068.

Fourth, for new construction programs, DRA recommends that actual projects completed during the review period count toward the shareholder incentive calculation. SoCalGas is currently counting all committed measures toward its incentive payment.

Fifth, DRA recommends that in the future the methodology SoCalGas uses to allocate administrative and general (A&G) costs should be consistent for all programs.

Finally, DRA recommends SoCalGas include in future annual DSM reports a more detailed explanation of the types of costs and cost allocation methodologies used for each program category.

Response of SoCalGas

SoCalGas submitted additional testimony in response to DRA's report. It concurs with DRA's recommendations with one minor modification regarding the calculation of accomplishments in the new construction programs during the transition period. SoCalGas recommends the following language be adopted by the Commission:

"Calendar years 1991 and 1992 should be treated as transition years subject to a special mechanism that allows SoCalGas time to adjust its present counting methods without negatively impacting shareholder earning opportunities. For purposes of reporting accomplishments in the Annual Demand-Side Management (DSM) Report, SoCalGas should report only completed jobs beginning in 1991. However, for shareholder incentives during the 1991 and 1992 transition period that are lower than they would have been if calculated using the method in effect in 1990, the shareholder incentive for those transition years may be calculated using the currently authorized 1990 method. Beginning in 1993, the shareholder incentive will be based completely on the new method recommended by DRA."

Discussion

We applaud SoCalGas for its success in many of its DSM programs. We also concur with SoCalGas' conservative interpretation of the DSM shareholder incentive methodology. SoCalGas appropriately applied the incentive to individual programs rather than program elements or the package of DSM programs. Had it applied the incentive according to gains realized for the package of DSM programs, some customer groups would probably be denied the benefits of the programs in favor of others. Had SoCalGas applied the incentive according to gains realized from program elements, it might have been denied an opportunity to recover shareholder incentives even though an individual program was successful. This would result in a reduced incentive for the utility to promote energy efficiency.

We believe the other recommendations made by DRA, and agreed to by SoCal, are reasonable. Accordingly, in future applications, SoCalGas should calculate its incentive award by using actual rather than forecasted payments to customers.

We concur with DRA that the methodology for allocating A&G costs should be consistent for the various target customer groups. Also at DRA's suggestion, we will direct SoCalGas to include in its DSM Annual Report the information required to fully calculate the shareholder incentive, including detailed information regarding the methodology used for allocating costs for each program category.

With regard to DRA's recommendation for calculating accomplishments in the new construction programs, SoCalGas believes the adjustment would put shareholder earnings at risk unless a transition mechanism is adopted. According to SoCalGas, the change from counting committed jobs to counting completed jobs will prevent SoCalGas from meeting previously authorized minimum performance goals during the transition period. DRA concurs with SoCalGas' proposal to ensure that DRA's recommendation is not punitive. We will adopt DRA's recommendation with the modification proposed by SoCalGas and described previously in this decision.

Finally, we address the transition mechanism to adjust program results during the first review period. The calculation problem occurs because some programs subject to the incentive were adopted prior to the establishment of the incentive. Thus, not all program accomplishments can be subject to the incentive program. DRA suggests weighting both the adopted program goals and the actual number of jobs achieved for the year to account for the time lag. Although SoCalGas proposed a slightly different methodology, it does not object to that proposed by DRA. We agree that DRA's approach is reasonable.

In sum, we will adopt the dollar award recommended by SoCalGas and DRA. We will also adopt on a prospective basis the

Conclusions of Law

1. The Commission should approve SoCalGas' request for a shareholder incentive award of \$1.28 million as M&C to waive non-compliance
2. The Commission should adopt recommendations of DRA (91-08-003) regarding the calculation of the incentive as set forth in this decision.

INTERIM ORDER

IT IS ORDERED that:

1. Southern California Gas Company (SoCalGas) is authorized to collect \$1.28 million for its accomplishments in its demand-side management (DSM) programs. It may recover this amount by incorporating the revenue requirement change into its attrition year rate change, scheduled to become effective January 1, 1992.

2. Unless superseded by Commission decisions in Rulemaking 91-08-003, SoCalGas shall apply the following methods for calculating its DSM shareholder incentive award:

Apply the incentive to accomplishments realized in programs, rather than program elements or the package of DSM programs;

Calculate its incentive award by using actual rather than forecasted payments to ratepayer participants;

Apply completed, rather than committed, jobs in its new construction programs subject to the following transition mechanism:

Calendar years 1991 and 1992 shall be treated as transition years subject to a mechanism that allows SoCalGas time to adjust its present counting methods without affecting shareholder earning opportunities. For purposes of reporting accomplishments in its Annual DSM Report, SoCalGas shall report only completed jobs beginning in 1991. For shareholder incentives during the 1991 and 1992 transition period that are lower than they would have been if calculated using the

method in effect in 1990, the shareholder incentive for those transition years shall be calculated using the currently authorized 1990 method. Beginning in 1993, the shareholder incentive shall be based only on completed programs.

3. SoCalGas shall include in its annual DSM report a detailed description of its cost allocation methodology and other information which would permit a calculation of its annual shareholder incentive award.

4. This proceeding shall remain open to consider outstanding issues in SoCalGas' 1991 reasonableness review.

This order is effective today.

Dated December 4, 1991, at San Francisco, California.

PATRICIA M. ECKERT
President
JOHN B. OHANIAN
DANIEL Wm. FESSLER
NORMAN D. SHUMWAY
Commissioners

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


NEAL J. SHULMAN, Executive Director
PB

APPENDIX A

List of Appearances

Applicant: E. R. Island, David B. Follett, Jeffrey E. Jackson, Attorneys at Law, for Southern California Gas Company.

Interested Parties: C. Hayden Ames, Attorney at Law, for Chickering & Gregory; Patrick J. Bittner, Attorney at Law, for California Energy Commission; Keith W. Melville, Attorney at Law, and Beth A. Bowman, for San Diego Gas & Electric Company; Messrs. Edson & Modisette, by Karen E. Edson; Michel Peter Florio, Attorney at Law, for Toward Utility Rate Normalization (TURN); Dian M. Grueneich, Attorney at Law, for California Department of General Sciences; David T. Helsby, for R.W. Beck & Associates; James Hodges, for The East Los Angeles Community Union; Michael Hopkins, for City of Glendale; Randolph L. Wu, Attorney at Law, and Phyllis Huckabee, for El Paso Natural Gas Company; Bruno Jeider, for City of Burbank; Messrs. Bakarat & Chamberlin, by Melissa H. Metzler, for Messrs. Bakarat & Chamberlin; Leamon W. Murphy, for Imperial Irrigation District; Robert Pettinato, for Department of Water & Power, City of Los Angeles; Patrick J. Power, Attorney at Law, for City of Long Beach; Gene Rodrigues, Attorney at Law, by John Hughes, for Southern California Edison Company; Recon Research Corporation, by Andrew Safir, for Canadian Petroleum Association; James D. Squeri, Attorney at Law, for Exxon Corporation; Alex Szabo, for City of Pasadena; Messrs. Jones, Day, Reavis & Pogue, by Norman A. Pedersen & Catherine C. Wakelyn, Attorneys at Law, for Southern California Utility Power Pool and Imperial Irrigation District; Morse, Richard, Weisenmiller & Associates, Inc., by Dr. Robert B. Weisenmiller, for California Cogeneration Council; and Wright & Talisman, by Mike Day, Attorney at Law, for Enron Gas Marketing.

Division of Ratepayer Advocates: Patrick Gileau, Attorney at Law, and Richard Myers.

(END OF APPENDIX A)