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Decision 92-09-072 September 16, 1992

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

Order Instituting Rulemaking on the Commission's own motion to establish rules and procedures governing utility demand-side management.	R.91-08-003 (Filed August 7, 1991)
Order Instituting Investigation on the Commission's own motion to establish procedures governing demand-side management and the competitive procurement thereof.	I.91-08-002 (Filed August 7, 1992)

INTERIM OPINION
PG&E'S DSM-ONLY BIDDING PILOT
COMPLIANCE FILING

Summary

By this order, we approve the May 21, 1992 compliance filing of Pacific Gas and Electric Company (PG&E) for its demand-side management (DSM) bidding pilot program. PG&E is directed to proceed with its DSM bidding pilot and issue a request for proposals (RFP) within thirty days.

Background

By Decision (D.) 92-03-038, we approved a DSM-only bidding pilot for PG&E, consistent with the mandate of Public Utilities (PU) Code § 747. PG&E filed revised solicitation materials, in compliance with D.92-03-038, on May 21, 1992.[1]

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1 Ordering paragraph 12 of D.92-03-038 required PG&E to file its compliance materials by May 11, 1992. However, at the request of PG&E, we extended that deadline by 10 days to allow PG&E time to consider and incorporate modifications suggested by members of the Bidding Advisory Committee. See PG&E letter dated May 5, 1992 to Administrative Law Judge Meg Gottstein.

Comments on PG&E's compliance filing were submitted by Transphase Systems Inc. (Transphase) and SESCO Inc. (SESCO) on June 18 and 20, 1992, respectively. On July 28, 1992, the assigned Administrative Law Judge (ALJ) requested that PG&E respond to Transphase's and SESCO's comments and provide additional information. PG&E filed its response on August 13, 1992.

Transphase's and SESCO's Comments

Transphase protests the revisions that PG&E has made to its avoided costs, relative to the avoided costs contained in PG&E's filed testimony (Exhibit (Exh.) 7). Transphase states that PG&E's revisions result in a 50-75% reduction in summer on-peak capacity avoided costs, while slightly increasing summer on-peak energy charges. In Transphase's opinion, this degree of change is unreasonable, given the fact that it has only been a year since PG&E submitted its original estimates. Moreover, Transphase argues that it is unfair to use the avoided costs proposed in PG&E's general rate case (GRC), since those numbers are based on a "value of service" methodology that has not been approved by the Commission. Transphase recommends that PG&E be directed to base avoided costs on the values adopted in the Biennial Resource Plan Update (Update) proceeding (I.89-07-004) or, in the alternative, to use the avoided costs proposed in PG&E's Exh. 7.

SESCO notes that PG&E includes in its compliance filing an evaluation approach that was not proposed or discussed during evidentiary hearings. Specifically, PG&E proposes to separate bidders into two "pay-back period" categories for purposes of ranking and scoring bids under the economic attribute. While SESCO does not find this approach unacceptable, SESCO strongly objects to the energy savings assumptions that PG&E intends to use to establish which pay-back group a particular bidder will be assigned. SESCO recommends that PG&E be directed to adjust its residential insulation savings estimates to reflect more accurate figures.

In addition, SESCO argues that PG&E's proposed fees for customer billing histories are excessive. SESCO recommends that PG&E be directed to reduce those fees to be more in line with the fees established by other utilities.

PG&E's Response

In response to Transphase's objections to PG&E's revised avoided costs, PG&E argues that those revisions are in compliance with the directives of D.92-03-038. PG&E also states that its pilot, and associated assumptions, were originally filed in April of 1991, mid-way through the 1990 general rate case (GRC) period. PG&E argues it was appropriate at that time to evaluate all PG&E DSM programs using the adopted 1990 GRC avoided costs. Now, however, PG&E argues that it is appropriate to use avoided costs that will also be used to evaluate PG&E's own 1993-1995 DSM programs.

In its August 13, 1992 filing, PG&E describes its economic scoring system in some detail. According to PG&E, the concept of dividing bidders into two pay-back groups helps PG&E to equitably evaluate bid proposals in different market sectors or measure categories. PG&E argues that this approach is consistent with the evaluation criteria adopted in D.92-03-038. With regard to the technical assumptions presented in its compliance filing, PG&E states that these are to be used as "default" values, and bidders have the option of modifying them with adequate documentation. PG&E argues that the outline for this documentation is consistent with the documentation that PG&E DSM program designers submit to the Commission staff, and apply consistently to all measures offered in either bid programs or PG&E programs. SESCO's claim that this approach "severely penalizes" residential thermal shell measures is unfounded, in PG&E's opinion.

Discussion

We have reviewed PG&E's May 21, 1992 solicitation materials and find them to be in compliance with the directives of

D.92-03-038. Contrary to Transphase's assertions, there is nothing "grossly unfair" about the change in avoided costs between PG&E's original submittal and the avoided costs that will be used for PG&E's RFP. Several factors have contributed toward a downward pressure on PG&E's avoided costs since our 1988-1989 resource planning process, including decreases in the forecasted price of natural gas and increases in Diablo Canyon generation. Avoided costs will change over time. Our objective is to maintain as much consistency as possible in the application of avoided costs to resource decisionmaking, given practical considerations for timely pilot implementation.

As we acknowledged in D.92-03-038, we are in the initial stages of translating Update findings into 20-year projections of avoided costs for the purpose of evaluating DSM programs. (See D.92-03-038, mimeo., p. 50.) It is therefore impractical for PG&E to develop avoided costs for this pilot that are in compliance with the Update findings, without significantly delaying the RFP schedule. Similarly, it is undesirable to delay this solicitation any further by waiting for a final determination on avoided costs in PG&E's GRC. Rather than hold up issuance of PG&E's RFP, in D.92-03-038 we directed PG&E to make sure that the revised avoided costs used for bid evaluation in this pilot are consistent with the avoided costs PG&E proposes to use to evaluate its own DSM resource programs in its test year 1993 GRC. PG&E has complied with this directive.

PG&E has also described to our satisfaction the way it intends to implement the economic scoring system. [2] Consistent with D.92-03-038, PG&E will rank bids based on the total resource cost test of cost-effectiveness, and use the utility cost test as a tie-breaker. Resulting scores can be readily calculated by PG&E

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2 See PG&E's August 13, 1992 filing, Attachment A, Response #7.

and disclosed to bidders. Although not explicitly discussed in its original RFP, PG&E's decision to divide projects into two groups based on pay-back is compatible with the evaluation criteria adopted in D.92-03-038. As part of its evaluation study, the Commission Advisory and Compliance Division will assess the effectiveness of this approach in evaluating the relative cost effectiveness of projects that vary greatly across different markets and measures.

As PG&E explains, the measures and assumptions listed in the RFP appendices are generally those used in the design of PG&E's 1992 DSM programs, with some modifications to account for revised building and equipment standards. The use of these default values is not unique to determining the pay-back group for a specific bid, as SESCO's comments imply. Rather, these values will also be used in calculating the total resource and utility tests of cost effectiveness if the bidder chooses to rely on them. However, PG&E clearly intends to allow all bidders the opportunity to use alternative assumptions with adequate documentation:

> "For example, assume a bidder estimates 10,000 kWh/yr of energy savings for a single customer and identifies only one measure in Table B.1 of the Response Package. Assume that this measure has default savings estimates in Appendix J of 5,000 kWh/yr and that no other measures are identified, either PG&E or non-PG&E.
>
> PG&E evaluators will analyze any documentation of the 10,000 kWh/yr savings estimate. If the documentation is missing or inadequate, PG&E will ask for clarification of either the number of customers, the proposed per-unit energy savings estimate or other relevant assumptions. PG&E will also indicate that if clarification documentation (such as manufacturers' data) is not sufficient, the bidders estimate will be revised to the default 5,000 kWh/yr for purposes of bid evaluation consistent with the RFP appendices. This revision would impact TRC, UC, and pay-back calculations for the bid proposal.

> The bidder may respond with documentation of an assumption that contributes to the 10,000 kWh/yr energy savings estimate that was not one of those used by PG&E evaluators. For example, the customer in the bid may have operating hours for the proposed measure twice the average amount listed in Appendix G. Appendix L contains a template for technical documentation. The template outlines the type of information PG&E will look for in evaluating various assumptions. If the bidder provides adequate documentation that the customer would use the proposed measure twice the average amount of hours, PG&E will accept the bidder's proposed energy savings estimate." (PG&E's August 13, 1992 filing, Attachment A, Response # 5.)

We find this approach to be reasonable and fair to all bidders. SESCO's arguments in favor of alternative assumptions for residential thermal shell measures should be presented and documented as part of its response package to the RFP.

Finally, with regard to PG&E's proposed fees for customer billing histories, we note that PG&E has presented the assumptions underlying those fees in its August 13, 1992 filing. Short-listed bidders that take exception to these assumptions should present PG&E with alternative assumptions (perhaps obtained from other states) and negotiate these fees. Further refinement of administrative cost estimates will be made after we have gained some experience in DSM bidding.

<u>Findings of Fact</u>

1. PG&E's revised RFP incorporates the modifications required by D. 92-03-038.

2. PG&E's revised avoided costs are consistent with the avoided costs PG&E proposes to use to evaluate its own DSM resource programs in the test year 1993 GRC.

3. PG&E's proposed pay-back period grouping is compatible with the evaluation criteria adopted in D.92-03-038.

4. The default values for calculating pay-back, total resource and utility cost tests are consistent with the assumptions used in the design of PG&E's in-house DSM programs.

Conclusions of Law

1. PG&E's use of default values for calculating pay-back, total resource and utility cost tests in instances where the bidder does not provide adequate documentation of alternative assumptions is reasonable.

2. PG&E's May 21, 1992 compliance filing should be approved.

3. PG&E should proceed with its DSM bidding pilot and issue a RFP within thirty days from the effective date of this decision.

4. In order to implement PG&E's adopted pilot as expeditiously as possible, this order should be effective today.

INTERIM ORDER

IT IS ORDERED that:

1. The May 21, 1992 compliance filing of Pacific Gas and Electric Company (PG&E) is approved.

2. PG&E shall proceed with its demand-side management bidding pilot program by issuing the adopted request for proposals within thirty (30) days from the effective date of this order.

This order is effective today.

Dated September 16, 1992, at San Francisco, California.

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

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

Neal J. Shulman

NEAL J. SHULMAN, Executive Director