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Decision

**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND  
ELECTRIC COMPANY for authority  
among other things to implement  
a Conservation Financing Program  
and include a procedure for a  
Conservation Financing Adjustment  
of PGandE's electric and gas  
tariffs to provide funds for  
Commission approved conservation  
financing program.

(Electric and Gas)

Application 59537  
(Filed March 25, 1980)

Application of PACIFIC GAS AND  
ELECTRIC COMPANY to increase  
rates for Electric and Gas  
service for the costs of the  
Residential Conservation Service  
(RCS) Program.

(Electric and Gas)

Application 60700  
(Filed July 1, 1981)

Application of PACIFIC GAS AND  
ELECTRIC COMPANY for authority to  
increase its Electric and Gas  
rates and charges effective  
January 1, 1982, in accordance  
with the Conservation Financing  
Adjustment (CFA) authorized in  
Application 59537, for operation  
of a zero-interest program (ZIP)  
of conservation financing.

(Electric and Gas)

Application 60701  
(Filed July 1, 1981)

Application of PACIFIC GAS AND  
ELECTRIC COMPANY for authority to  
revise its gas rates and tariffs,  
effective April 1, 1981, under the  
Gas Adjustment Clause, and to  
modify its Gas Adjustment Clause.

(Gas)

Application 60263  
(Filed February 17, 1981)

ORDER MODIFYING DECISION 93891  
AND DENYING REHEARING

A petition for rehearing of Decision (D.) 93891 has been filed by Toward Utility Rate Normalization (TURN) and petitions for modification have been filed by the California Energy Commission (CEC), the Insulation Contractors Association (ICA), and Southern California Gas Company. We have carefully reviewed each and every allegation in said petitions. We are of the opinion that good cause for granting rehearing has not been shown. However, as discussed more fully below, D.93891 should be modified in certain respects. We also desire to supplement D.93891 with inspection requirements for work completed under ZIP. Also, certain clerical corrections in D.93891 are required.

Cost-Effectiveness of ZIP for Nonparticipants

We affirm as one of the relevant reference points for evaluating the cost-effectiveness of a conservation program such as ZIP, the cost effects of such a program on nonparticipating ratepayers. Our staff concluded that on an overall basis ZIP is cost-effective for the nonparticipating ratepayer.

While we believe that the appropriate basis for determining the impact of ZIP is on an overall basis rather than a measure-by-measure basis,<sup>1/</sup> staff asserts that, considered individually, two weatherization measures appear not to be cost-effective to nonparticipating ratepayers in gas-heated, single-family residences based on the originally proposed incentives. Our staff projected net costs to nonparticipants of approximately eight-tenths of a mill per therm. These two measures are floor insulation and storm or thermal windows or doors. Of course, the Commission adopted incentives smaller than those proposed, to enhance cost-effectiveness. Nevertheless, to ensure the continued cost-effectiveness to ratepayers of financing ZIP, we will require the Pacific Gas and Electric Company (PG&E) to file a report by December 1, 1982, providing data on the cost-effectiveness,

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<sup>1/</sup> Cf. D.82-02-135, p. 73.

under all four relevant tests, of financing the ZIP Phase II authorized weatherization measures. As part of this report, particular attention should be given to the cost-effectiveness of ZIP financing as regards installations of floor insulation and storm or thermal windows or doors in gas or electrically heated, single-family or multi-family residences.

With the above procedure, we believe that the cost-effectiveness of ZIP can be safeguarded not only for participants, the utility and society, but also for nonparticipating customers of PG&E.

Therefore, IT IS ORDERED that D.93891 is modified as follows:

1) The paragraph that begins at the bottom of page 33 is modified to read as follows:

"In requesting revenues to allow systemwide expansion of ZIP, PG&E strongly urges that initial Phase II measures and procedures substantially parallel the Phase I measures and procedures. The evidence of both PG&E and staff indicates that the expansion of ZIP, as proposed by PG&E, will be cost-effective from societal, utility, and participant perspectives. Using the staff's methodology, the program, as proposed, is also cost-effective from the nonparticipant or ratepayer perspective. When estimated using PG&E's methodology, the program, as proposed, is slightly noncost-effective from the nonparticipant, or ratepayer perspective. However, based on current estimates of energy savings and costs, PG&E's ZIP Phase II program is highly cost-effective on an overall basis. Moreover, we will affirm the relevance for Phase II ZIP of determining the cost-effectiveness of the program from the perspective of the nonparticipating ratepayer. While we believe that the appropriate basis for determining the impact of ZIP is on an overall basis rather than on a measure-by-measure basis, staff asserts that, considered individually, two weatherization measures for gas-heated, single-family residences appear, based on the originally proposed incentives, to be significantly noncost-effective to nonparticipating ratepayers. Our staff projected net costs to such ratepayers of approximately eight-tenths of a mill per therm.

These two measures are floor insulation and storm or thermal windows or doors. Accordingly, to ensure the continued cost-effectiveness to ratepayers of financing ZIP, we will require PG&E to file a report on December 1, 1982, providing data on the cost-effectiveness, under all four relevant tests, of ZIP financing for Phase II weatherization measure. Particular attention should be given to the cost-effectiveness of installations of floor insulation and storm or thermal windows or doors in gas or electrically heated, single-family or multi-family residences."

- 2) Findings of Fact 6 and 8 are amended to read as follows:

"6. PG&E's proposed ZIP Phase II program is cost-effective to program participants, non-participating ratepayers, the utility, and society."

"8. The program measure specified in D.92653 are appropriate for initial implementation of Phase II of ZIP. It is reasonable for PG&E to report to the Commission on December 1, 1982 on the cost-effectiveness, under all four relevant tests, of financing the ZIP Phase II authorized weatherization measures. Particular attention should be given to the cost-effectiveness of the installation of floor insulation and storm or thermal windows or doors."

- 3) The following ordering paragraph is added to page 61:

"14. On December 1, 1982, PG&E shall file a report providing data on the overall cost-effectiveness, under all four relevant tests, of financing the ZIP Phase II authorized weatherization measures. As part of this report, particular attention shall be given to the cost-effectiveness of ZIP financing as regards installations of floor insulation and storm or thermal windows or doors in gas or electrically heated, single-family or multi-family residences."

Residential Conservation Service Program - We believe that certain of the modifications requested by CEC have merit, including that which seeks to have a balancing account established for funding of the Residential Conservation Service (RCS) program (Items 1, 2, and 3, below). Since, as we point out elsewhere, "ZIP depends upon RCS audits for determining eligibility for financing of certain ZIP measures and for numerous procedures," the creation of an RCS balancing account will assure the dependability of the RCS program as an adjunct of ZIP.

In addition, we will adopt the CEC's proposed change in Finding 53, regarding PG&E's provision of inspections under mandatory retrofit ordinances enacted by local governments. We intend by this change to remove any suggestion that enactment of such ordinances is undesirable. In fact, we believe such ordinances, particularly where they mandate physical improvements rather than just inspections, make a substantial contribution toward improved energy efficiency, particularly in rental housing. We instruct the staff to work with PG&E and other interested parties to seek agreement as to an appropriate role for PG&E in this area.

We note that ZIP itself provides strong support for passage of ordinances compatible with its terms. ZIP loans are of course available to residential ratepayers, including those acting pursuant to local ordinances. The typical ZIP procedure involves installation of at least the "Big 6" measures, certified by a compliance inspection. Local ordinances which may be integrated into the ZIP framework could take advantage of both the free financing and the compliance inspection provided by ZIP.

Finally, we will modify Finding 44 to better reflect our position regarding contracting by PG&E with outside groups to provide services under ZIP or RCS.

Therefore, IT IS HEREBY ORDERED that D.93891 is modified as follows:

1) The first complete paragraph on page 49 is deleted and is replaced by the following:

"The staff has expressed fears that PG&E may unduly benefit if RCS Program costs in 1982 turn out to be less than the revenues authorized for RCS. Our determination to drastically reduce RCS funding to \$12,000,000 renders the staff's concern somewhat academic in nature. Given the bare-bones RCS budget which we authorize today, the likelihood of PG&E receiving revenues in excess of 1982 program costs is indeed slim. We also are aware, however, that there is a close relationship between the RCS program and ZIP, which depends upon RCS audits for determining eligibility for financing of certain ZIP measures and for numerous procedures, and that without a funding mechanism for the RCS program, RCS funds could be depleted inopportunistly. Given these considerations, we will create an RCS balancing account, which will be subject to a review similar to that planned for the ZIP balancing account."

- 2) The following Finding of Fact 59 is added on page 55:  
"59. It is reasonable to establish a balancing account for costs and revenues associated with PG&E's RCS program."
- 3) Ordering Paragraph 4 is amended to read as follows:  
"4. PG&E is authorized to increase CFA balancing account factors for all classes of gas and electric service as noted from \$0.00105 per therm to \$0.0029 per therm and from \$0.00002 per kWh to \$0.00014 per kWh, respectively. For its RCS program PG&E is authorized to increase base rates for all classes of gas and electric service as noted by \$0.0013 per therm and by \$0.0004 per kWh, and these revenues and the costs associated with RCS shall be recorded in an RCS balancing account."
- 4) Findings of Fact 44, 45 and 53 are amended to read as follows:

"44. It is appropriate for PG&E to enter into contracts with outside groups, whether they be government agencies, community groups or private firms, to provide services under the ZIP or RCS. Such contracts are desirable under the circumstances permitted by the CEC's RCS Plan or as otherwise approved by the CEC, but only where they result in no greater expenditure than PG&E would have incurred to achieve the same estimated conservation through its own RCS and ZIP efforts."

"45. It is appropriate that contract services for outreach to target consumer groups be oriented toward ZIP because actual installation of conservation measures will result whenever ZIP financing is provided."

"53. At this time it would be undesirable to require PG&E to provide inspections under mandatory retrofit ordinances enacted by local governments, although it is reasonable for PG&E voluntarily to perform such inspections on an occasional basis as a service to its customers when manpower is available."

Inspection Requirements for Completed Work - We believe that it is advisable to set forth requirements for completed ZIP-financed work that are similar to those mandated in our recent decisions on the conservation financing programs for San Diego Gas and Electric Company (D.93894, p. 38 ff) and Southern California Gas Company (D.82-02-135, p. 85).

Accordingly, IT IS HEREBY ORDERED that D.93891 is amended as follows:

1) On page 43 the discussion of the ZIP program is supplemented with the addition of the following:

"With respect to quality assurance of work financed by ZIP, we believe that PG&E should inspect 100% of customer-installed, do-it-yourself packages. Also we believe that initially all contractor work should be inspected. As a contractor develops a demonstrated record of error-free installation, however, PG&E may reduce inspection toward a limit of no less than 20% of jobs performed. Should errors appear, we expect the utility to raise inspection proportions. PG&E will develop guidelines for inspections consistent with this decision and present them to the Commission."

2) The following finding of fact is added on page 55:

"60. To assure the quality of work financed by ZIP, PG&E should inspect 100% of customer-installed, do-it-yourself packages. Initially all contractor work should be inspected, but as a contractor develops a demonstrated record of error-free installation, PG&E may reduce inspection toward a limit of no less than 20% of jobs performed. Should errors appear, PG&E should raise inspection proportions. PG&E should develop guidelines consistent with this decision and present them to the Commission."

3) The following ordering paragraph is added to page 61:

"14. By May 1, 1982, PG&E shall file with the Commission a set of guidelines or internal procedures governing the inspection of conservation packages installed by contractors for which ZIP financing has been provided."

Clerical Type Corrections

IT IS HEREBY ORDERED that the following clerical type corrections are made in D.93891:

1) The non-"Big 6" ZIP conservation measure set forth as item "e" on page 33 is amended to read as follows:

"e. Storm or thermal windows or doors for the exterior of dwellings, and"

2) The final portion of the last sentence on page 34 is amended to read as follows:

"...in utility provided zero-interest financing for installation of the 'Big 6' measures."

3) The words "revised interest rates" are deleted from the final sentence before the first full paragraph on page 36.

4) The first sentence of the last paragraph on page 36 is amended to read as follows:

"Our concern with the costs borne by ratepayers cannot be overemphasized."

Finally, the petition for modification filed by Southern California Gas Company touches on issues not addressed herein and will be addressed by further order of the Commission.

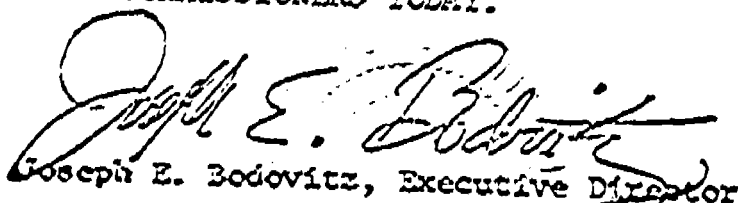
Rehearing of Decision 93891, as modified herein, is denied.

This order is effective today.

Dated MAR 2 1982, at San Francisco, California.

JOHN E. BOYSON  
EDWARD D. GRANELLE  
EDWARD M. GRIMES, JR.  
VICTOR CALVO  
PRISCILLA C. CREW  
Commissioners

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

  
Joseph E. Bodovitz, Executive Director