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Decision 82 08 011 AUG 4 - 1982

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of the SOUTHERN CALIFORNIA EDISON COMPANY for an ex parte order authorizing rates pursuant to its conservation load management adjustment clause (CLMAC), to be made effective for electric service rendered on and after January 1, 1982, to recover solar rebate program expenses.	Application 61035 (Filed November 2, 1981; amended January 11, 1982)

John R. Bury, David N. Barry III, Richard K. Durant, and Clyde E. Hirschfeld, Attorneys at Law, for Southern California Edison Company, applicant.
Carl K. Oshiro, Attorney at Law, and Mahendra Jhala, for the Commission staff.

O P I N I O N

I. Summary

This decision lowers the authorized offset rate for Southern California Edison Company's (Edison) solar rebate program from .004¢/kWh to .001¢/kWh. The decrease is due to lower participation by Edison's electric heating customers than was predicted when the program began in 1981.

We also disallow $111,000 in administrative costs incurred by Edison in 1981. This disallowance is made because Edison exceeded the $222 per unit ceiling set forth in our prior decision and did not demonstrate at hearing the need for all of its incurred administrative expenses.

II. Background

The Commission issued Order Instituting Investigation (OII) 42 on April 6, 1979, to examine "the feasibility of establishing various methods of providing low-interest, long-term financing of solar energy systems for utility customers." Edison and the other major electric and gas utilities later were ordered to develop financing programs for solar water heating equipment. (See Decision (D.) 91272, issued January 29, 1980.)

Edison duly filed four alternative financing plans with the Commission labeled as: (1) Utility Investment Program, (2) Loan Advance Repaid Upon Sale of Home, (3) Subsidized Interest Program, and (4) Rate-Indexed Cash Rebate Program. On September 16, 1980, the Commission in D.92251 ordered Edison to implement a demonstration solar financing program based on the fourth plan.

Edison then filed A.59596 requesting authority to increase its offset rates to cover the cost of its proposed solar rebate program. On April 1, 1981, the Commission issued D.92853, authorizing $2.4 million for first year funding of the program in 1981.

The instant application, A.61035, concerns funding for the second year of the three-year demonstration program, and a review of 1981 expenses recorded in Edison's CLMAC balancing account. In its original filing, Edison requested authority to maintain funding in the second year at the same level as the first year, i.e. $2.4 million. Edison also asked for an ex parte order.

The Commission staff (Staff) reviewed A.61035 and requested a hearing on the application. Staff's request was granted and a hearing was held on June 17, 1982. At hearing, Edison revised its 1982 funding request downward from $2.4 million to $1.8 million. The decrease also changed the requested total offset rate from .004¢/kWh to .001¢/kWh.

Staff also recommends approval of a total offset rate of .001¢/kWh. However, Staff advocates disallowance of some expenditures made by Edison in 1981. Staff further proposes a small reduction in Edison's proposed 1982 budget; the proposed reduction does not alter the requested offset rate of .001¢/kWh. We will discuss both the 1981 Program Expenses and the 1982 Program Budget.

III. 1981 Program Expenses

In 1981, Edison expended $940,000 in implementing the first year of its solar rebate program. Of this amount, $799,000 was due to administrative costs. Edison spent more than $6.30 in administrative costs for every $1 in rebates paid by the utility.

One thousand twenty-eight solar systems were installed and approved by Edison in 1981. Thus, the utility incurred administrative costs of $777 per solar installation approved for rebate in the first year of the program.

Staff recommends that the Commission disallow $154,000 of the 1981 administrative expenses. Staff arrived at this figure after reviewing all of the program expenditures in 1981. Staff submits that some of Edison's expenditures on staff labor, field labor, and monitoring analysis were unnecessary.

Edison asserts that all of its 1981 program expenditures were prudent and reasonable at the time they were made. Edison maintains that the level of its program effort, i.e., the number of employees assigned to the program, was designed to match the Commission's prescribed goal of 26,000 installations over three years.

Edison believed at the time the program was starting up that it would be responsible for marketing the program. However, on April 1, 1981, the Commission's D.92853 clearly placed responsibility for marketing in the hands of the solar industry. Despite this clarification, Edison did hire additional personnel to handle the 6,000-8,000 installations anticipated in 1981. When it became apparent to Edison that far fewer installations would be completed in 1981, Edison reduced its field labor.

In short, Edison submits that its actions and expenditures were responsive both to the Commission's goals for the solar rebate program and to the program's experience in 1981.

In D.92853, we stated on page 10:

> "We further believe that an administrative expense of up to $222 per system is adequate for the first year start-up and operating costs. This cost is somewhat greater than that first estimated by our staff in OII 42 since we recognize the problems of engaging in an operation of this magnitude. Administrative costs will be closely reviewed and audited throughout the program life. During the first annual rate review Edison will be expected to present accurate cost data that demonstrates an increase in operating efficiency."

From the very beginning of the solar rebate program, we have emphasized that administrative costs should be carefully controlled. Staff contends that Edison has not abided by our admonition. Edison asserts that while it did have control over the total administrative expense, it could not influence the number of participants in the program. If the number of installations passing the inspection for rebate in 1981 had been closer to the program goal, the administrative cost per rebate no doubt might have met our $222 ceiling.

We are disappointed that the administrative cost per solar installation approved for rebate in 1981 rose to nearly $800 per rebate despite our cautionary language in D.92853. If we were to strictly apply the $222 limit to Edison's incurred administrative expense, we could allow only $222,000 of the $799,000 expended in 1981. Even Staff does not advocate this outcome, which might unfairly penalize Edison for the program's poor results. For reasons unknown to us, the solar rebate program did not attract many electric water heating customers in Edison's service area. Our program goal of 26,000 installations will not be met unless unexpected improvement takes place.

Staff's recommended disallowances fall in three program expense areas: staff labor, field labor, and monitoring analysis.

We choose to adopt disallowances only for staff labor and monitoring analysis which amount to $111,000 of the $154,000 total staff recommended disallowance.

We decline to adopt Staff's disallowance of $42,000 in field labor expenses because we are persuaded by Witness Bales' testimony that the personnel increase in this area was reasonably caused by the issuance of D.92853 on April 1, 1981, identifying a 26,000 installations goal for Edison. Although the number of installations fell far short of the goal, Edison cannot be faulted for hiring enough field personnel to perform the inspections and other field work that were anticipated at that time. As soon as Edison perceived that the goal would not be met, it reduced its field staff. We find that Edison acted reasonably and prudently in handling its field labor in 1981.

On the other hand, we are not persuaded by Edison's explanation of staff labor and monitoring analysis expenses. Edison admits that some of its staff labor force worked on non-OII 42 activities in 1981. Witness Bales asserted that any work on non-OII 42 matters was charged to other accounts. However, Edison did not document this claim or otherwise show how non-OII 42 work was segregated and allocated to other accounts. We do not know why personnel worked on non-OII 42 matters. Nor have we been told why eight full and/or parttime employees were necessary in 1981. The explanation offered by Edison is vague and insubstantial. We agree with Staff that Edison has not met its burden of proof for 1981 staff labor expenses. Therefore, we adopt Staff's recommended disallowance here of $96,000, fully aware that the figure is an approximation of the salaries for the disallowed personnel time. Staff did the best that it could, in the limited time and with the limited resources available to it, to derive an approximate disallowance. Edison's reliance on alleged flaws in the Staff's methodology for calculating a disallowance is misplaced. We reiterate that the burden is upon Edison to prove the reasonableness of its expenditures. The utility's failure to meet its burden of proof leaves us no choice but to strictly apply the intent of our administrative cost standard set forth in D.92853. Edison has not demonstrated that it controlled its staff labor expenses in a prudent and reasonable manner in 1981. Accordingly, $96,000 is disallowed.

We also adopt Staff's recommended disallowance of a $15,000 monitoring analysis expense. Edison's explanation here is that "some testimony from a staff member that suggested that utilities should consider a brief survey to consider...or determine customer attitudes surrounding solar and the retrofit of solar." (Reporter's Transcript, pg. 70.) This explanation is not persuasive. Monitoring analysis of the OII 42 programs was and is being conducted by an independent consultant. Edison's efforts in this area were duplicative and unnecessary. We will disallow the $15,000 monitoring analysis expense incurred in 1981.

To summarize, we disallow $111,000 of Edison's 1981 administrative expense. This leaves $688,000 in total administrative cost to be recovered by Edison. Even considering our disallowance, the administrative cost per installation approved for rebate was $669, more than three times greater than our $222 benchmark. We expect Edison to improve its operating efficiency and lower administrative costs in the remaining years of the program as much as possible to achieve our original benchmark.

IV. 1982 Program Budget

Both Edison and Staff propose a new offset rate of .001¢/kWh. Their differences on the budgeted amounts for staff labor, data processing, monitoring analysis, rebates, and low income in total do not affect the calculated rate for 1982.

The reasonableness of 1982 expenditures should be examined by the Staff in Edison's next application for third year funding of the program. Accordingly, we will not discuss each individual budget item at this time. We will simply adopt the recommended rate of .001¢/kWh and review Edison's 1982 expenditures in detail in its next demonstration solar financing program cost offset application.

However, since we have disallowed some of Edison's 1981 program expenses, we expect Edison to be on notice that its 1982 expenditures will be carefully scrutinized. In particular, Edison should be prepared to justify all expenditures criticized by the Staff, expecially those for staff labor and monitoring analysis. We decline to say at this time that any part of Edison's proposed 1982 budget is per se unreasonable. We expect Edison to run the program using its best judgment without the crutch of prior Commission approval or disapproval. The balancing account is in place and gives Edison the proper assurance and incentive to direct its solar rebate program in an efficient and prudent manner.

Findings of Fact

1. In 1981, 1,028 solar installations were approved for rebate in Edison's solar rebate program.

2. Edison expended $799,000 in administrative cost in 1981 equivalent to a per unit cost of $777.

3. The $777 administrative cost per unit exceeds the $222 benchmark set forth in D.92853.

4. Edison has failed to justify the reasonableness of certain staff labor expense and monitoring analysis expense incurred in 1981.

5. $111,000 of staff labor expense and monitoring analysis expense should be disallowed as recommended by the Staff.

6. Apart from the above disallowance, all other 1981 solar rebate program expenditures incurred by Edison were prudent and reasonable.

7. Both Edison and Staff recommend a new offset rate of .001¢/kWh for the remainder of 1982; an offset rate of .001¢/kWh is reasonable and should be adopted.

8. Edison's 1982 solar rebate program expenditures will be reviewed in the next application proceeding.

9. Since Edison's 1982 program is underway, this order should be effective on the date of signature.

10. Staff has not had an opportunity to review Edison's 1980 load management expenses; the report on 1980 load management expenses attached to A.61035 is not in any way ratified or endorsed by the issuance of this order.

Conclusions of Law

1. The decrease in rates and charges authorized by this decision is just and reasonable; the present rates and charges, insofar as they differ from those ordered in this decision, are for the future unjust and unreasonable.

2. Solar rebate program expenses incurred in 1982 shall be subject to review for reasonableness at the next revision date of January 1, 1983. Edison shall file an application showing 1982 expenses and anticipated 1983 program expenses by December 1, 1982.

3. Edison bears the burden of proof in our offset proceedings to explain and show the reasonableness of all incurred expenses; failure to meet this burden of proof will result in disallowance of the unjustified expense.

4. Edison should be permitted to change its Conservation Load Management Adjustment Clause rate as set forth in the following order.

O R D E R

IT IS ORDERED that:

1. $111,000 in 1981 solar rebate program expenses are disallowed and shall not be recovered by Southern California

Edison Company (Edison). The utility shall make an appropriate adjustment or credit to the Conservation Load Management Adjustment Clause balancing account.

2. On or after the effective date of this order, Edison shall file with this Commission, in conformance with the provisions of General Order 96-A, revised tariff schedules, showing a Conservation Load Mangement Adjustment Clause rate of .001¢/kWh.

3. The revised tariff schedules shall be effective not less than five days after filing.

This order is effective today.

Dated AUG 4 1982, at San Francisco, California.

JOHN E. BRYSON
President
LEONARD M. GRIMES, JR.
VICTOR CALVO
PRISCILLA C. GREW
COMMISSIONERS

Commissioner Richard D. Gravelle, being necessarily absent, did not participate in the disposition of this proceeding.

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

Joseph E. Bodovitz

Joseph E. Bodovitz, Executive Director

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