

Decision 82 10 021

OCT 6 1982

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
SOUTHERN CALIFORNIA GAS COMPANY for  
authority to increase rates charged  
by it for gas service.

) Application 59316  
) (Filed December 10, 1979)

(Appearances are listed in Decisions 92497 and 82-02-076.)

Additional Appearances

T. D. Clarke and E. R. Island, Attorneys  
at Law, for Southern California Gas  
Company, applicant.

John R. Asmus, Jr., Attorney at Law, for  
San Diego Gas & Electric Company, and  
Gregg Wheatland, Attorney at Law, for  
California Energy Commission, interested  
parties.

Alvin S. Pak, Attorney at Law, and  
Sesto Lucchi, for the Commission staff.

O P I N I O N

In Decisions (D.) 92497 and 92714 in the above-entitled matter, we required Southern California Gas Company (SoCal) to file data demonstrating the efficacy of its various conservation programs during test year 1981. We provided that, depending on the savings achieved through its programs in 1981, SoCal might be subject to a penalty or reward for its conservation failures or achievements. On April 16, 1982, SoCal filed Advice Letter 1310 claiming a reward of \$5 million and proposing the ex parte approval of a rate increase to recover this reward.

The City of San Diego (City), an interested party to this application, filed a protest to the advice letter and in D.82-06-023 we suspended Advice Letter 1310 and set the matter for further hearing to examine the data upon which SoCal based its request to determine whether the data were accurate, pertinent, and objective. In addition, SoCal chose to exempt the ammonia producers and its

resale and steam electric generation customers from paying any portion of the reward. The reasons for the proposed exemptions were also to be explored. Three days of hearing were held in July 1982.

SoCal presented its evidence and testimony through four witnesses, Roy Rawlings, John Peterson, Ronald Rudkin, and Peter Osborne. Their testimony is summarized below.

Testimony of Roy Rawlings

Rawlings sponsored three exhibits, an affidavit containing his direct testimony and two exhibits containing Advice Letter 1310 and the 1981 Energy Efficiency Conservation Report (EECR). Rawlings testified with respect to the basic policies behind the reward. He testified that SoCal's conservation achievement for 1981 was 70.0 billion cubic feet (Bcf) savings. This 70.0 Bcf represents the total savings shown in SoCal's 1981 EECR.

The goal of 59.7-62.5 Bcf for conservation savings set forth in D.92714 was established by projecting from a base of 1978 sales to residential customers and nonresidential P1 and P2A customers. Those figures contained unmeasured components for both nonresidential price effects and residential and commercial mandate effects. The mandates include California Energy Commission (CEC) mandated standards for new construction and appliances. To keep its presentation in this proceeding on a comparable basis, SoCal's savings calculation for 1981 must contain these same components, but by agreement with the ECB staff the effects of these components were held constant at measure 1980 levels to avoid giving SoCal credit in 1981 for incremental increases in these amounts.

To do this, SoCal deducted 1.4 Bcf attributable to the incremental change in 1981 residential and commercial mandates versus 1980 levels. There was no change in the level of nonresidential price effects between 1980 and 1981. SoCal also deducted savings of 0.36 Bcf attributable to the Solar Gas Demonstration Program.

established in OII 42 as required by D.92497. This leaves net savings of 68.2 Bcf for purposes of determining whether a reward is justified. The components of the 68.2 Bcf savings are:

1. Savings attributed to SoCal's 1981 conservation programs	23.4 Bcf
2. Savings attributed to SoCal's prior years' conservation programs	21.8 Bcf
3. 1980 savings attributed to mandates	17.5 Bcf
4. Nonresidential 1980 savings attributed to price	<u>5.5 Bcf</u>
Total	68.2 Bcf

These savings do not include any savings attributable to pronouncements made in 1977, two by this Commission requiring a moratorium on recreational pool heating and decorative gas lighting and a presidential call for thermostat setbacks. There are no savings included due to any residential price effects. The savings of 68.2 Bcf exceeds the 62.5 Bcf required by D.92714 by 5.7 Bcf.

Rawlings noted that SoCal has developed a sophisticated method to measure conservation, using an integrated system of computer models, customer surveys, actual counts of conservation devices, and metered consumption data. He asserts that the system measures and distinguishes savings due not only to SoCal's efforts but also to mandated standards and gas price increases.

The exhibits containing Advice Letter 1310 and the 1981 EECR show details of the annual and total energy savings, the cost per therm saved, and the individual program objective, description, and projected versus actual savings for each component of the individual program.

#### Testimony of Peter Osborne

As with SoCal's other witnesses Osborne's direct testimony was presented as a sworn affidavit, but it was accepted in evidence without cross-examination by agreement of the parties due to his illness. City of San Diego, while agreeing to receipt of Osborne's testimony because of the circumstances, registered a general

objection to the admission of testimony in this fashion. We agree that the procedure should be used sparingly and would expect to see it only under the most compelling of circumstances.

Osborne proposed to have SoCal recover the \$5 million conservation reward, plus related franchise fees and uncollectibles (F&U) as an increase in the Consolidated Adjustment Mechanism (CAM) balancing account prorated over the period August 1 through December 31, 1982 at the rate of \$1,017,275 per month. Osborne used an F&U factor of 1.7275 which is the factor determined in SoCal's last CAM proceeding, D.82-04-116. He proposed recovery through the CAM adjustment process to minimize the number of rate adjustments necessary during the year.

As an alternative to the CAM adjustment process, Osborne prepared a set of rates spread on a uniform cents-per-therm basis to all customers except wholesale, steam electric generation, and ammonia producer customers. Based on a 5-month amortization, this results in a rate increase of 0.233¢/therm and yields the following rates:

<u>Class of Service</u>	<u>Commodity Rates in ¢/Therm</u>		
	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>% Incr.</u>
<u>Residential</u>			
Lifeline	33.949	34.182	0.7
Tier II	51.712	51.945	0.5
Tier III	62.637	62.870	0.4
Total Class			0.5
<u>Commercial Industrial</u>			
GN-1	51.712	51.945	0.5
GN-2	51.712	51.945	0.5
G-COG	51.808	51.808	0.0
GN-32/42	52.637	52.870	0.4
GN-36/46	52.637	52.870	0.4
Ammonia Producers	42.582	42.582	0.0
Total Class			0.4
<u>Utility Electric Generation</u>			
Scattergood Unit 3	51.808	51.808	0.0
GN-5	51.808	51.808	0.0
<u>Wholesale</u>			
G-60	38.455	39.455	0.0
G-61	39.455	39.455	0.0

SoCal relies on D.92854 (Solar Financing and Demonstration Program) and D.82-02-135 (Residential Conservation Service and Weatherization Financing and Credits Programs) as precedent for exempting wholesale and steam electric generation customers from rate adjustments attributable to SoCal's conservation programs on the ground that it would be inequitable to require ratepayers of these customers to pay for conservation programs of their own utilities as well as for those of other utilities. The ammonia producers' rate is fixed by statute.

Testimony of John K. Peterson

Peterson's affidavit and direct testimony addressed SoCal's conservation penetration and goal setting models and measurement of 1981 conservation achievements. The basic approach involved computing total savings by multiplying the number of conservation devices or practices by the savings per device or practice.

SoCal first determined the number of conservation devices and practices in its service territory by using surveys for the residential and high priority commercial and industrial sectors. The residential sector survey consisted of 1,688 in home interviews and 1,575 inspections by SoCal to determine presence of conservation devices such as intermittent ignition devices, duct insulation, or flow restrictors. 586 households kept diaries recording their practices and use of energy. 2,228 telephone surveys were used for the commercial sector, and industrial surveys were performed by the same SoCal personnel who performed company audits.

SoCal then determined the savings for residential devices and practices using a conditional demand analysis supplemented by engineering estimates. To obtain total savings, the estimates of savings per device or practice from either the conditional demand analysis or engineering estimates were multiplied by the number of devices or practices from the surveys. SoCal stated that its measurement models adjust for the interactions among multiple conservation devices and practices and for interactions with price.

To determine total savings in the commercial and industrial sectors, Peterson testified that the number of devices or practices was multiplied by a saving per device or per collection of devices on a particular piece of equipment based on engineering estimates showing how much a collection of devices installed on a particular piece of equipment would save over the consumption of that piece of equipment without any devices. Interactions among devices were considered in the same manner as in the residential sector.

To correctly account for savings due to mandated standards, such as increased insulation in new construction and intermittent ignition devices in new appliances, the number of devices attributable to mandates is determined by counting the number of homes built since the standards went into effect and the number of efficient appliances installed, both in newly constructed homes and through normal replacement of appliances.

Testimony of Ronald D. Rudkin

Rudkin's prepared testimony, in affidavit form, explained how conservation savings due to gas price increases were developed for use in the 1981 BECR. To measure savings due to price increases, SoCal developed end-use models which reflect the effect of price increases on gas consumption. Rudkin testified that these models measure and separate savings due to price, mandated standards, and SoCal's conservation programs. Extensive cross-examination explored the basis for Rudkin's testimony, including an in-depth examination of his use of and assumptions concerning several equations embodied in the models.

Rudkin testified that extreme care had been taken to avoid overstating savings due to price. SoCal developed two scenarios, one using real price for 1977 which was chosen as a base because the effect of price was believed minimal before that time, and one using recorded real price since 1977. The second scenario was subtracted from the first to determine savings due to price. Additionally, Rudkin testified that the "rebound" effect of installation of more efficient appliances and retrofit conservation will have on appliance

use was taken into consideration to avoid overstating savings due to price, and that the effect of the mandated standards of the CEC on the long-run responses associated with price increases was also taken into account in determining savings due to price.

The Commission staff presented its testimony and recommendations through three witnesses from the Energy Conservation Branch (ECB), George Amaroli, Sesto Lucchi, and Charles Hubbell.

Testimony of George Amaroli

Amaroli, chief of the ECB, testified that SoCal had since late 1980 demonstrated a very positive attitude toward the advancement of effective energy conservation programs and had cooperated very effectively with the ECB staff in developing new programs and eliminating ineffective ones. He felt this was in marked contrast to SoCal's prior conservation activities which he noted as being slow in development or disappointing in results.

Amaroli added that any surcharge for reward or reduction should not be applied to the rates charged to SoCal's resale customers such as San Diego Gas & Electric Company (SDG&E). He noted that the surcharge requested is a one-time expense item, but the energy savings resulting from SoCal's efforts will continue to be significant for years to come. Since the SoCal customers will be the primary beneficiaries of these future savings, Amaroli believes they should bear the one-time costs of any surcharge for the reward.

Testimony of Charles Hubbell

Hubbell's testimony addressed the general model equations used by SoCal developing the step-by-step process using hot water heater and flow restrictions for showers as examples. He testified that he had had initial difficulty in tracking the computations made by SoCal's model and so to cross-check the model and present the results so that they could be understood without an extensive mathematical background he began developing a primer on how the model worked. He testified on cross-examination that he was quite satisfied with the integrity of the model but termed the software being used as overly complex and as "archaic" and noted that it did not permit stopping the model at any intermediate point to obtain data output.

Hubbell's written testimony also analyzed the method used by SoCal to estimate conservation due to price effects, to estimate conservation due to CEC mandates, and to estimate the magnitude of conservation savings that can be attributed to pre-1981 programs which still produce conservation during 1981.

After investigating the model input, the market survey data sources, and the output savings, he concluded that the 1981 savings method represents a legitimate process to capture gas savings which resulted from SoCal's conservation programs.

Testimony of Sesto Lucchi

Lucchi's prepared testimony addressed the overall results of the staff evaluation of the data presented by SoCal supporting its conservation achievement and concluded that SoCal did qualify for the \$5 million reward requested by Advice Letter 1310. He also analyzed the method used by SoCal to estimate gas savings resulting from the installation of conservation devices and practices adopted due to utility conservation programs in 1981.

His testimony included a table of SoCal's estimates with ECB's estimates of conservation savings. The total savings were the same but ECB showed higher savings due to prior years' programs and a correspondingly lower figure for 1981 programs. The change was made to identify some savings claimed by SoCal in 1981 as being accomplished by prior years' programs according to the econometric model used.

Lucchi supports the rate design proposed by SoCal and agrees that the conservation reward should be authorized by the Commission through an increase in the CAM balancing account for the remainder of 1982. He noted that SoCal's GN-5 (electric generation), and G-60 and G-61 (City of Long Beach and SDG&E) customers administer their own conservation programs and have been exempted from bearing the burden of funding SoCal's conservation programs by previous Commission decisions.

Argument

In its closing argument, City characterizes the savings figures used by both SoCal in its EECR and by the staff in its exhibit in this proceeding as being "soft" and therefore far too suspect to justify giving SoCal a \$5 million reward for its conservation efforts.

City notes that D.92497 is unclear as to how exactly energy savings were to be measured, providing only that "The percent savings shall be determined from recorded data and shall represent the use per customer at the meter divided by the total customers" (D.92497, p. 44). City contends that very few of the figures used by SoCal and staff were determined from recorded data and that use per customer at the meter was barely mentioned.

Staff counsel, speaking for Legal Division, raised similar concerns about SoCal's methods. Staff counsel concluded from his cross-examination of SoCal's witnesses that there was considerable manipulation of the distributed lag models used to determine price effects on gas consumption and in particular he questioned whether the real world was accurately portrayed by the model results or whether these results were determined by raw data fits without reference to the explainable real world phenomena.

Staff counsel pointed out that alternative modeling techniques were not used, and alternative modeling runs were destroyed. Per-meter consumption was used for one class of customer but not for others. Certain results were calibrated when they did not match recorded data. Legal Division recommends that until such time as the staff can examine all these issues more fully, the Commission withhold full endorsement of SoCal's modeling techniques.

Should the Commission adopt a decision which grants SoCal the \$5 million reward, Legal Division recommends that the decision include the following language:

"This decision is limited to the facts and circumstances of this application.

"Our decision shall have no effect on any future matters which may concern proposals for rate of return rewards or penalties to be applied against conservation achievements or failures.

"To this end, this decision should not be cited as precedent by any party to any proceeding in support of the propriety of either the reward-penalty concept or the data and methodologies used by Southern California Gas Company in its showing in this matter."

The recommendation is made for basically three reasons:

1. SoCal's methods, as discussed above, may not produce results which accurately reflect the real world and while admittedly the modeling techniques are innovative and advanced, more extensive evaluation is needed under a variety of alternatives before the methods can be accepted at face value and used as precedent.
2. The propriety of a conservation reward was not discussed on the record in A-59316 and no record was developed as to the justification for a reward. Indeed, SoCal's witness testified that the price and mandate conservation would occur irrespective of SoCal's conservation programs and that the savings attributable to pre-1981 programs would remain the same without regard to whether there was a reward in the test year rate decision. He also testified, according to staff counsel, that savings from 1981 programs would have been at the same level in the absence of the reward. Legal Division questions whether a reward is justifiable under circumstances such as these and recommends that it not be considered precedent for other proceedings where the proper course would be to require the applicant or parties to conservation matters to justify such a reward on the merits.

3. Lastly, staff counsel noted that there are two factors that were not addressed in this proceeding but which should be considered in meting out rate of return rewards for conservation achievements; namely, that a gas utility could well enjoy increased earnings at equal sendout assuming increasing levels of conservation in the high priority customer classes, and that high priority customers may never enjoy the purported rate benefits of conservation. Before a case may be cited as precedent for the propriety of the reward concept these factors should be addressed and fully explored within the scope of that decision proceeding.

Staff Counsel noted that the Utilities Division had reviewed the substantive data submitted in support of Advice Letter 1310 and determined that the data support SoCal's level of achievement in conservation and therefore concludes that SoCal is entitled to the full \$5 million reward.

City concurred with the position of the Legal Division.

SoCal responded noting that, since the issuance of the decision in the test year 1981 rate case, 19 months have elapsed and during that period SoCal has lived with both the threat of a penalty and the opportunity to earn a reward. SoCal contends that it worked very hard to earn the reward and believes that the savings achieved are both accurate and significant. SoCal notes that under D.82-06-023 there is no issue of the reward/penalty concept and while there may be some thoughts about considerations not set forth in the original rate case decisions, it is basically unfair to change after the fact the ground rules under which SoCal labored to achieve the reward.

#### Discussion

Since issuance of D.92497 and D.92714 which provided for the operation of a reward/penalty mechanism for SoCal's test year 1981 conservation programs, we have explored the concept of conservation incentives extensively in Application (A.) 60513, relating to Pacific Gas and Electric Company (PG&E). For a number of reasons we declined, in D.82-08-014, to adopt additional conservation incentive programs for PG&E. Several parties to that proceeding expressed some of the same concerns voiced in this proceeding by

Legal Division. Because we are not adopting specific conservation incentive programs for the utilities we regulate at this time, we think that there is merit in Legal Division's suggestion that the effect of our order today be limited to the facts and circumstances of this proceeding and we will adopt the proposed limiting language in our order.

Notwithstanding that limitation for the future we are convinced that use of the reward/penalty concept in this proceeding has had a very salutary effect, both in terms of SoCal's attitude toward conservation and its actual accomplishment in terms of savings. In addition, through the extensive presentations and cross-examinations conducted as part of our examination of SoCal's purported savings, we have a much greater appreciation of the complexities, possibilities, and pitfalls of computer modeling as an analytical tool for measurement of savings and of the absolute necessity for setting goals and other parameters when devising an incentive program. In retrospect, the components of this particular reward/penalty mechanism were insufficiently detailed and perhaps overly simple. Nevertheless, SoCal has had to work with them over the two-year rate life of the decision and the same factors that may now appear to reward SoCal could just as easily have cut the other way had SoCal continued to conduct its conservation activities in the same manner as it had previous to this rate case.

We have carefully reviewed the record in this proceeding and are of the opinion that SoCal has substantiated its conservation savings and is justified in claiming the entire \$5 million reward. While the staff and City both raised pertinent concerns during their extensive cross-examinations, neither succeeded in establishing that SoCal's figures were not correct or that they were outside the ambit of D.92497 and D.92714. Indeed, the ECB staff analyzed SoCal's claimed savings and concluded that they were accurate, making only one change by subtracting 1,689 MMCF from SoCal's residential savings due to its 1981 programs and adding the same amount to the residential savings due to prior years' programs.

In the face of this evidence we conclude that SoCal has substantially exceeded the minimum goal of 59.7 Bcf in conservation savings set forth in D.92714 and has actually achieved 68.2 Bcf savings. This is 5.7 Bcf greater than the upper limit of the range which would produce neither penalty nor reward, and does reflect superior effort on SoCal's part. SoCal is therefore deserving of the full \$5 million reward.

Both staff and SoCal agree on recovery of the reward through the semiannual CAM balancing account to preclude the possibility of over- or undercollections. City objects to the procedure because SoCal's customers will never know that the Commission has raised their rates by \$5 million in order to reward SoCal for the high priority customers using less gas. City feels that this is a deception and that base rates should be raised and the customers notified as to the exact reason for the increase.

Staff stated that it was not its intent that this amount be surreptitiously slipped into rates. It would support the identification of the revenue requirements associated with whatever reward is adopted in a manner reasonably calculated to apprise ratepayers of both the increase and the reasons for it.

This is a type of expense which would ordinarily and properly be recovered through adjustment of base rates and not recovered through the CAM balancing account which is concerned with changing fuel costs and with over- or undercollections due to variations between actual sales and adopted sales estimates from the most recent general rate case. While the CAM balancing account would protect the ratepayer and SoCal from the potential of over- or undercollection which exists if the expense is recovered through base rates, we are not persuaded that this potential is sufficiently large to overcome our reluctance to include nonfuel related expenses in the CAM. Such an action today could serve as precedent for the future and should be taken only under compelling circumstances. Those circumstances do not exist for this matter.

Further, while inclusion of the increase in the CAM balancing account would minimize the number of rate increases faced by the ratepayer, there is an alternative method to provide for recovery and achieve the same benefit.

We will authorize SoCal to recover \$5 million plus associated franchise fees and uncollectibles in addition to any increase we authorize in A.61081 for test year 1983. The reward should be amortized over 12 months to preclude overcollection into the attrition year following the test year. To avoid multiple increases we will provide that the increase be effective at the same time as the new rates from A.61081.

We will also exempt SoCal's steam electric generation customers, wholesale customers, and the ammonia producers from bearing any costs associated with this reward. Both the staff and SoCal have proposed this course and we have heard nothing which persuades us to the contrary. The increase will be spread on an equal-cents-per-therm basis to the remainder of SoCal's customers.

If in future proceedings any party proposes a reward/penalty mechanism, we would expect that party to explore the rationale of exempting certain classes of customers from the rate impacts more fully than by simple reliance on past Commission decisions. We would expect to see some analysis of benefits which might accrue to the lower priority gas customers and wholesale customers as a result of additional gas being made available to them through conservation actions by the higher priority gas customers. Do they gain an economic benefit with cheaper fuel being made available to them? Are there other benefits which accrue to these classes of customers? Can these benefits be quantified? Has the average cost of gas to the utility changed as a result of the conservation actions by the higher priority users, thereby providing a benefit to all gas customers? None of these questions was fully addressed in this proceeding, although several were alluded to during cross-examination. We would be very interested in seeing them addressed in future proposals.

Findings of Fact

1. D.92714 provided that an achievement of conservation savings greater than 62.5 Bcf at the end of 1981 would reflect superior effort on SoCal's part and would be deserving of a reward.

2. D.92497, corrected by D.92714, provided that for each 1.1 Bcf conservation savings above 62.5 Bcf a \$1 million reward would be earned to a maximum of \$5 million.

3. SoCal achieved 68.2 Bcf conservation savings in 1981.

4. Recovery of the reward through base rates instead of CAM is appropriate since it is not an expense related to the cost of fuel.

5. D.92497 provided that the reward/penalty procedure was established in response to a specific need and was established for the proceeding in A.59316 only.

6. The ammonia producers, steam electric generation, and wholesale customers have been exempted from bearing the costs of SoCal's conservation programs by D.92854.

7. Ammonia producers' rate is set according to the provisions of Public Utilities Code § 741.

8. Steam electric generation customers and wholesale customers of SoCal have conservation programs of their own, the costs of which are borne by their ratepayers.

9. SoCal proposed to spread the increase to the remaining classes of customers on an equal cents-per-therm basis. Staff has no objection.

Conclusions of Law

1. SoCal should be authorized to recover a \$5 million reward for its superior accomplishments in 1981 conservation savings.

2. The reward should be recovered through base rates.

2.a. To minimize the impact on SoCal's ratepayers and to avoid multiple rate increases, the reward plus associated franchise and uncollectibles should be amortized over 12 months and collected from increases in base rates in effect for test year 1983.

3. Our decision in this matter should be limited to the facts and circumstances of A.59316.

4. Ammonia producers, steam electric generation, and wholesale customers should be exempt from any rate adjustment resulting from costs attributable to SoCal's conservation programs, including the \$5 million reward.

5. The rate design proposed by SoCal is reasonable.

O R D E R

IT IS ORDERED that:

1. Southern California Gas Company (SoCal) is authorized to file tariffs to recover \$5 million plus associated franchise fees and uncollectibles amortized over 12 months at the same time it files tariffs authorized for test year 1983 in A.61081.

2. The increase in rates authorized by this order shall be spread on an equal-cents-per-therm basis to all classes of customers except steam electric generation customers, wholesale customers, and the ammonia producers.

3. The rates of the ammonia producers, steam electric generation customers, and wholesale customers shall not be increased as a result of this order.

4. The increased rates authorized by this order shall be effective concurrently with any increase authorized in A.61081 and shall apply to service rendered on or after the effective date of any increase in A.61081.

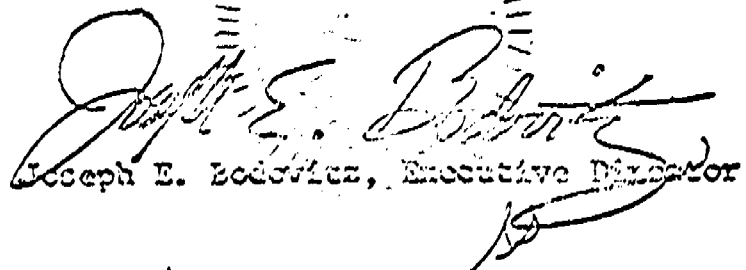
5. This decision is limited to the facts and circumstances of this application. Our decision today shall have no effect on any future matters which may concern proposals for rate of return rewards or penalties to be applied for conservation achievements or failures. This decision should not be cited as precedent by any party to any proceeding in support of the propriety of either the reward/penalty concept or the data and methods used by SoCal in its showing in this matter.

This order becomes effective 30 days from today.

Dated OCT 6 1982, at San Francisco, California.

JOHN E. BRYSON  
President  
RICHARD D. GRAVELLE  
LEONARD M. GRIMES, JR.  
VICTOR CALVO  
PRISCILLA C. GREW  
Commissioners

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

  
Joseph E. Zedovick, Executive Director

Findings of Fact

1. D.92714 provided that an achievement of conservation savings greater than 62.5 Bcf at the end of 1981 would reflect superior effort on SoCal's part and would be deserving of a reward.

2. D.92497, corrected by D.92714, provided that for each 1.1 Bcf conservation savings above 62.5 Bcf a \$1 million reward would be earned to a maximum of \$5 million.

3. SoCal achieved 68.2 Bcf conservation savings in 1981.

4. Recovery of the reward through ~~the CNY balancing account~~ *base rates instead of CNY is appropriate since it is not an expense related to the cost of fuel.*  
~~procedure precludes over- or undercollection~~

5. D.92497 provided that the reward/penalty procedure was established in response to a specific need and was established for the proceeding in A.59316 only.

6. The ammonia producers, steam electric generation, and wholesale customers have been exempted from bearing the costs of SoCal's conservation programs by D.92854.

7. Ammonia producers' rate is set according to the provisions of Public Utilities Code § 741.

8. Steam electric generation customers and wholesale customers of SoCal have conservation programs of their own, the costs of which are borne by their ratepayers.

9. SoCal proposed to spread the increase to the remaining classes of customers on an equal cents-per-therm basis. Staff has no objection.

Conclusions of Law

1. SoCal should be authorized to recover a \$5 million reward for its superior accomplishments in 1981 conservation savings.

2. The reward should be recovered through base rates.

2.a. To minimize the impact on SoCal's ratepayers and to avoid multiple rate increases, the reward plus associated franchise and uncollectibles should be amortized over 12 months and collected from increases in base rates in effect for test year 1983.

3. Our decision in this matter should be limited to the facts and circumstances of A.59316.