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Decision 83 12 061 DEC 20 1983**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of)
 SOUTHERN CALIFORNIA GAS COMPANY)
 for authority to include a)
 Conservation Cost Adjustment (CCA))
 component in its effective rates in)
 order to continue its Residential)
 Conservation Service (RCS) Program.)

Application 83-09-23
 (Filed September 12, 1983)

And Related Matters.)
)
)
)

Application 83-09-26
 (Filed September 12, 1983)

Frederick E. John, Thomas D. Clarke, and
Jeffrey E. Jackson, Attorneys at Law,
 for Southern California Gas Company,
 applicant.

Peter W. Hanschen and Merek E. Lipson,
 Attorneys at Law, for Pacific Gas and
 Electric Company; C. Hayden Ames, Attorney
 at Law, for Chickering & Gregory; Edward
Duncan, for himself; John W. Witt and
Steven A. McKinely, Attorneys at Law,
 for City of San Diego; Kenneth Egel, for
 City of Santa Monica; and Skip Daum, for
 Insulation Contractors Association;
 interested parties.

James S. Rood, Attorney at Law, for the
 Commission staff.

O P I N I O N

By these consolidated applications Southern California Gas Company (SoCal) seeks to adjust downward the Conservation Cost Adjustment (CCA) component in its effective rates to fund its 1984 Residential Conservation Services (RCS) program (Application (A.) 83-09-23) and to increase its CCA component to continue its Weatherization Financing and Credits Program (WFCP) (A.83-09-26).

Background

The National Energy Conservation Policy Act (NECPA) sets out the requirements for utilities to carry out the state's Residential Energy Conservation Plan. The United States Department of Energy (DOE) issued rules to establish the state's RCS requirements. The purpose of the RCS program is to encourage the adoption of energy conserving practices and installation of energy conservation measures in existing dwellings by the utilities' residential customers.

The DOE prescribed the contents of the state's RCS plan. The Energy Resources Conservation and Development Commission (CEC) was designated by the Governor as this state's agency for development and implementation of the California RCS State Plan (State Plan). The State Plan was approved by DOE on December 29, 1980 and implemented systemwide by SoCal on July 1, 1981.

Funding for 1981 RCS program was taken from general conservation funds authorized in D.92497 dated December 5, 1980. D.82-02-135 dated February 17, 1982 authorized SoCal \$12 million to fund the 1982 RCS program through a balancing account. D.82-12-106 dated December 22, 1982 authorized an additional \$3.9 million for 1983 RCS operations.

SoCal's WFCP was authorized by D.82-02-135 dated February 17, 1982 with all costs recovered through a CCA mechanism. The WFCP program is scheduled to continue through December 31, 1986 unless amended or rescinded by this Commission. For 1982 SoCal financed 18,176 loans and issued 2,622 rebates expending \$25,805,000. D.82-12-048 dated December 8, 1982 approved a program budget of \$50,564,000 for 1983. SoCal estimates 1983 expenses at \$60,189,000.

A duly noticed hearing was held November 7 and 8, 1983 at Los Angeles. The case was submitted on oral argument. Closing statements were made by SoCal, the staff, and Edward Duncan, an interested party, on his own behalf.

Application 83-09-023

SoCal is requesting authorization to include \$8,029,000 in its rates to cover its 1984 CCA RCS program costs. This amount would be recovered through the CCA and includes an estimated overcollection in the CCA balancing account of \$2,047,000 as of December 31, 1983. SoCal states approval of its request will result in an annual rate decrease of \$7.838 million, a decrease of approximately 0.150 cents per therm for the affected classes.

In addition to the rate adjustment, SoCal requests that (1) the tariff sheets reflecting the requested changes be made effective as of January 1, 1984, (2) a finding be made that it has attained its goals for its RCS program to date, (3) a finding be made that program expenses to date have been reasonable, and (4) approval of its plans to terminate the RCS program after responding to requests for audits generated by a final RCS notice mailed in 1984.

Revenue Requirement

Deliniation of the 1984 revenue requirement attached to the application is as follows:

RCS Program Estimated Year 1984
Revenue Requirement
(\$000)

<u>Item</u>	<u>Expense</u>
Advertising	\$ 500
Marketing & Communication	
Labor, Rent, etc.	1,341
Class B Audits	1,175
Printed Material	926
Research	35
Computer Analysis/Data Processing	719
Audits & Consumer Affairs	2,833
Santa Monica Program	<u>500</u>
Total Costs	\$ 8,029
Balancing Account 12/31/83	(2,047)
Subtotal	5,982
F & U @ 1.668%	<u>100</u>
Total Revenue Requirement	\$ 6,082
Less Revenue @ Present Rates	(\$13,920)
Excess Revenue	(\$7,838)

(Red Figure)

The total revenue requested is \$6.082 million to cover third year RCS costs, including an estimated overcollection in the CCA balancing account of \$2.047 million as of December 31, 1983. The staff concludes that the request is reasonable and recommends it be approved.

Cost Per Audit

The cost estimates for 1984 are based on SoCal's simplified Class A audit, its Class B audit, and the 1984 expenses associated

with the Santa Monica RCS program.^{1/}

SoCal states its simplified Class A audit uses a Core-Optional^{2/} list of measures for the purpose of recommending installation devices. The core measures are evaluated without physical measurements or computer analysis. The optional measures are evaluated through SoCal's Class B audit at the customer's request. The objective of the simplified Class A audit is to reduce the amount of time required to conduct the audit and thus reduce costs.

SoCal began to implement the Class B or do-it-yourself audit in 1983. The Class B audit was certified by the CEC April 19, 1983 and has been offered to all single family customers since May, 1983.

^{1/} In the Santa Monica RCS program, Santa Monica has contracted with SoCal and Southern California Edison to perform audits throughout the City of Santa Monica for a period of 14 months. The City will perform audits and install conservation measures in residences at no cost of the resident. The Santa Monica program was approved by the CEC on June 29, 1983. This Commission approved the contract by D.83-11-064 on November 23, 1983.

^{2/} The core-optional audit was developed by SoCal after D.82-12-106 and the CEC adoption of Phase II amendments in the State Plan. The core measures are caulking, ignition systems, clock thermostats, wall and floor insulation, ceiling and attic insulation, water heater insulation, low-flow showerheads and duct and pipe insulation. Optional measures included are not in all instances cost-effective.

The application states that as of June 1, 1983, SoCal has performed 35,924 Class A audits and projects an additional 40,000 by December 31, 1983. It anticipates 36,000 Class B audits will be performed by December 31, 1983. In its Application 83-09-23, SoCal Gas reported an average cost per audit of \$131 as of June, 1983, but projected a reduction to \$98 by the years end. At this time, we will accept SoCal's projected cost per audit. However, we will require the company to report its actual 1983 cost per audit to our Energy Conservation Branch by January 31, 1984. Any costs in excess of \$100 per audit shall be assigned to shareholders in the next CCA application.

Goals for 1984 are 95,000 simplified Class A, 61,750 Class B and 11,500 Santa Monica audits.

CCA Rates

SoCal proposes to decrease its rates to all retail customers, except electric utility generation and ammonia producers on a uniform 0.150 cent per-therm basis in conformance with the rate design adopted in D.82-02-135. The proposed CCA calculation rate is as follows:

<u>CCA RATE</u>	
<u>Incremental Decrease</u>	<u>Cents Per Therm</u>
M \$7.838 - 5,027,665 M Therms. =	(0.150)
Persent Rate	<u>0.267</u>
Proposed Rate	0.117

Termination of RCS

The application states that NECPA requires final notices about the availability of an RCS audit to be transmitted to customers before January 1, 1985. SoCal states it plans to provide full information on the program and the benefits offered by a mailing to every eligible customer. It plans to terminate the program as soon as responses to the final notice are processed.

Actually, the NECPA regulations are unclear. They require each utility to inform each residential customer of the program every two years before January 1, 1985. It is unclear

whether this is a permissive or mandatory deadline. However, DOE is planning to come out with a more concise interpretation of NECPA regulations, which are anticipated to allow termination of the RCS program.

It appears that by the end of 1984 SoCal's RCS program will have served its purpose. Staff agrees, stating that the WFCP accomplishes most of what RCS is designed to accomplish. Further, many households have been weatherized without participating in the RCS program.

SoCal's termination proposal appears reasonable and should be adopted. After December 1984, SoCal, through its general conservation program funding, should provide a generic or a do-it-yourself audit, for customers who request an audit.

Staff

With regard to the proposed budget and rates, the staff states SoCal should be authorized to collect the requested amount at the requested rate. Staff supports its position by accepting the projected 1983 cost per audit. Staff also points out that the 1984 cost per audit should be substantially less in 1983 and that the goal of audits to be performed is reasonable.

Application 83-09-26

By this application SoCal requests authority to increase the CCA component in its effective rates by 0.343 cents per-therm to provide increased annual revenues of \$17.873 million^{3/} to cover the third year of its WFCP. All costs of the WFCP are recovered through the CCA mechanism. The requested amount reflects an estimated undercollection in the CCA of \$14.253 million as of December 31, 1983 and results in an increase of less than 1%.

In addition to the revenue increase, SoCal requests (1) that the changes be made effective as of January 1, 1984, (2) a finding that SoCal has attained its WFCP goals, (3) approval of several proposed changes, (4) any approved changes be implemented 90 days after the decision's effective date, and (5) a finding that WFCP expenses to date have been reasonable.

Derivation of the additional \$17.873 million revenue requirement is as follows:

^{3/} The initial application requested \$18.462 million which was reduced at the public hearing to reflect SoCal's reduced 1984 WFCP budget.

Weatherization Financing
and Credits Program
Estimated Year 1984

Revenue Requirement
(\$000)

<u>Item</u>	<u>Expenses</u>	
	<u>Debt Service*</u>	<u>Other</u>
<u>Incentives</u>		
Loans		
Interest Differential	\$1,319	\$ -
Bad Debt	6,001	-
Arrears on Principal	223	-
Return on Equity	-	1,092
Income Taxes	-	1,196
Rebates - Single Family	-	17,333
Multi-Family	-	1,838
Low Income Structural Repairs	-	2,100
Subtotal	\$7,543	\$23,559
<u>Other Costs</u>		
Advertising	-	679
Marketing and Communications	-	8,637
Account Administration & Inspections	-	12,928
Low Income Program Administration	-	3,520
Subtotal	-	\$25,764
Total Costs	\$7,543	\$49,323
Balancing Account - 12/31/83		14,253
Subtotal		\$63,576
Franchise Fees & Uncollectible Expense @ 1.668%		1,060
Total Revenue Requirement		64,636
Less Revenue at Present Rates		(46,763)
Additional Revenue Requirement		\$17,873

CCA Rates

	<u>Cents Per Therm</u>
Incremental Increase:	
M\$17,873 - 5,207,655 Mth	0.343
Present Rate	0.897
Proposed Rate	1.24

* These expenses are not included in Revenue Requirement, but are shown for information purposes. This procedure was approved by D.82-02-135 (2/17/83).

The application states the objective of the WFCP is to encourage SoCal's single and multifamily residential customers to install cost-effective energy conservation measures.

The WFCP offers customers a choice of either low interest financing or cash rebates for installation of 11 weatherization measures. These financial incentives are to motivate customers to install a variety of available energy conservation measures. SoCal states that to date there has been a high level of customer response. From September 1, 1982, through June 30, 1983, 27,452 loans and 55,144 rebates were issued. Prior to September 1, 1982 205,174 LCF loans were made. Currently there are 5,427 loans and 16,098 rebates in process. With the high customer interest to date SoCal expects that the momentum shown during the first year of operation will continue through 1984.

SoCal states that the contractor and Do-It-Yourself (DIY) Retailer involvement in the WFCP also has been very favorable with 1,071 licensed contractors and 735 retailers participating as of June 30, 1983.

The WFCP incentives provided to qualified residential customers are:

Basic Improvements

1. Attic Insulation
2. Weather Stripping
3. Caulking
4. Water Heater Insulation Blankets
5. Low-flow Showerheads
6. Duct Wrap

Supplemental Improvements

1. Wall Insulation
2. Floor Insulation
3. Set-back Thermostat
4. Pipe Insulation
5. Intermittent Ignition Device

The Supplemental Improvements are eligible for incentives only after installation of the Basic Improvements required for qualification for cash rebates or low interest financing.

Proposed Modifications

SoCal proposes the following modifications to its WFCP program in 1984:

First, the elimination of the RCS audit requirement to qualify for rebates or financing for floor insulation, wall insulation, intermittent ignition devices (IIDs), clock thermostats, and pipe insulation. SoCal Gas It alleges that the installation of these measures has been negatively impacted by the RCS audit requirement as evidenced by the WFCP results. It states the requirement of an RCS audit is not always understood by the customer even though it is explained on all WFCP application forms. Approximately one-fifth of the applications requesting rebates for one or more of the supplemental improvements are rejected because an audit recommending the item or items as being cost-effective has not been performed. It alleges that the audit requirement has also hindered contractor activity, interfering with the ability of the contractor to offer customers the necessary incentives to promote the installation of supplemental improvements at the time they make their sales calls.

Elimination of the audit requirement for wall insulation is consistent with AB 2158 (Hayden) which as of 1/1/84 eliminates the audit requirement for all wall insulations and, in electrically

heated homes, floor insulation for tax credit eligibility Exempting the four remaining "supplemental measures" from the RCS audit requirement would result in conflict with the CEC tax credit program for conservation.

The RCS audit requirement should remain to comport with tax rebate requirements. Conflicting eligibility requirements can result in confusion already being experienced by the public, as well as abuses of customers by contractors. Audits will still be required by the CEC for tax rebate eligibility for these measures. Thus, SoCal Gas would have to perform the audit prior to installation as long as current tax rebate eligibility requirements are in place, regardless of the WFCP audit requirements.

In addition, SoCal Gas would be responsible for informing the public of program changes and the differing program eligibility requirements. This would result in increased advertising/media costs.

Finally, the cost effectiveness of these measures is often questionable and therefore should be evaluated on a case-by-case basis. (For example, the cost of set-back thermostats for multi-family devices are twice the marginal cost of natural gas (D.82-02-135, p. 61). In addition, staff is recommending phasing out IID's from the program due to the declining cost-effectiveness of this device. And as previously noted, AB 2158 does not exempt floor insulation in gas heated homes from the RCS audit requirement for tax rebate eligibility since it is not, in all cases, a cost-effective measure.)

Second, SoCal proposes to tighten the credit requirements to qualify for WFCP financing. The current requirement is that the applicant be a customer for 12 months with no shut-offs for 10 months prior to applying for a WFCP loan.

SoCal proposes that to qualify for WFCP financing the following conditions be met:

1. An applicant must have been a SoCal customer at the installation address for a minimum of 12 months.
2. Within the last 12 months, the applicant must not have received two "notices of termination" of gas service or one "urgent" notice. SoCal's experience with WFCP loans has shown that customers who have received these notices are more likely to default on their loans.
3. The applicant must not be in arrears on an existing energy conservation loan from SoCal.
4. For those owners of rental property applying for financing whose residences are all electric or are outside SoCal service territory, an outside credit check will be performed.

SoCal states that implementation of the proposed restrictions would have eliminated approximately 94% of the accounts which have been written off and would have improved program results with lower costs.

The staff recommends adoption of SoCal's proposal stating that it would lessen the burden on ratepayers while not reducing program participation. The staff also recommends that all applicants who are rejected for the financing program for credit reasons be informed that they are eligible for rebates and may be eligible for the low income participation portion of WFCP. No party took a position on this staff proposal.

SoCal also proposes that minimum installation requirements for WFCP measures be established to qualify for program rebates. This modification would result in standards being set for all WFCP measures similar to the minimum square footage requirements which are currently required for attic insulation and would assure the participating customer enough energy savings to make the measures cost-effective. The minimum standards as proposed both by SoCal and the staff are as follows:

<u>Measure</u>	<u>Single Family</u>	<u>Multifamily</u>
Attic Insulation	600 sq.ft.	400 sq.ft.
Wall Insulation	400 sq.ft.	300 sq.ft.
Floor Insulation	600 sq.ft.	400 sq.ft.
Duct Wrap	25 lin.ft.	20 lin.ft.
Caulking/Weather- stripping	20 lin.ft.	20 lin.ft.
Pipe Insulation	5 lin.ft.	5 lin.ft.

The R-value requirements for attic insulation would include installing a minimum of R-11, insulating up to at least R-19, and not exceeding R-26, as follows:

<u>Existing Insulation</u>	<u>Limit on Max. Addition</u>
R0-7	R-19
R8-15	R-11
R-16+	0

Excluding pipe insulation, the minimum standards for single-family residences are consistent with those of Southern California Edison.

Staff states that caulking and weatherstripping should be counted as one measure for purposes of the minimum standards so that any combination of caulking/weatherstripping that is 20 lineal feet or greater would qualify for the rebate.

1983 Goals

SoCal proposes to change its 1983 WFCP goals as follows:

<u>Measure</u>	<u>Goals Filed and Adopted A.82-09-19</u>	<u>Revision</u>
Attic Insulation	91,000	91,000
Weatherstripping/Caulking	20,800	26,802
Water Heater Blanket	55,250	77,892
Low-flow Showerhead	75,940	168,930
Duct Wrap	6,100	5,698
Wall Insulation	1,300	551
Floor Insulation	950	281
Set-back Thermostat	12,100	900
Pipe Insulation	1,150	67
IID	3,800	101

These figures include both single and multifamily installations. The revised goals are based on recorded data through June 1983 and estimated installations through December 1983. SoCal states that the revision to the 1983 goals is based on a market research study made to determine the impact of the so-called "Big Three" requirements contained in D.83-03-039. The staff stated that the 1983 modified goals are reasonable and should be approved.

1984 Goals

For 1984 SoCal has proposed the following WFCP conservation goals:

<u>Measures</u>	<u>Utility Proposed 1984 Goals</u>
Attic Insulation	75,530
Weatherstripping/Caulking	20,800
Water Heater Blankets	55,250
Low-flow Showerheads	75,940
Duct Wrap	5,526
Wall Insulation	637
Floor Insulation	288
Set-back Thermostats	4,840
Pipe Insulation	73
IID	342

1984 Budget

The proposed 1984 WFCP budget is as follows:

<u>1984 WFCP Budget</u>	
(\$000)	
<u>Incentives</u>	
Loans	\$ 2,288
<u>Credits</u>	
Single-family	15,503
Multifamily	1,144
Single-family LIPP	1,830
Multifamily LIPP	694
<u>Structural Repairs</u>	
Single-family	840
Multifamily	<u>1,260</u>
Subtotal	\$23,559
<u>Other Costs</u>	
Advertising	\$ 679
Marketing & Communication	8,637
Acct. Adm. & Inspections	12,928
Low Income Program Adm.	<u>3,520</u>
Subtotal	<u>\$25,764</u>
Total	\$49,323

The staff states that SoCal's proposed 1984 goals are reasonable. SoCal states, and the staff concurs, that the reduction in the attic insulation goal from the 1983 goal is because the attic insulation market is approaching saturation. We will approve SoCal's proposed 1984 goals. We will also adopt SoCal Gas' proposed 1984 budget as reasonable. We will also increase this budget by \$300,000 to cover the cost of the staff proposal for modification of the LIPP program. This will result in a LIPP administrative budget discussed later in this decision of \$3.820 million and a total WFCP budget of \$49.623 million.

Financing Limits

SoCal recommended a uniform financing limit of 64 cents per square foot for attic insulation. It also proposed a total financing limit of \$2,500 for the five supplemental measures and that individual maximum dollar limits be established for each of these measures. The limits proposed for other measures are:

<u>Measure</u>	<u>Maximum Financed Amount (\$)</u>
Wall Insulation	1.00 per sq.ft.
Floor Insulation	0.75 per sq.ft.
Set-back Thermostat	
Heating/Cooling	200.00
Heating only	150.00
Pipe Insulation	2.00 per lin.ft.
IDD	300.00

The staff has recommended the following financing limits:

<u>Measure</u>	<u>Cellulose</u>	<u>All Other Approved Insulation Material</u>
<u>Attic Insulation</u>	(Cents	per sq.ft.)
Thermal Resistance Level		
R-11	40	44
R-19	48	52
Floor Insulation		
R-11 or more	50 (For all approved materials)	
Wall Insulation		
R-11 or more	80 (For all approved materials)	

The staff recommendation for attic insulation is consistent with the limits set for Pacific Gas and Electric Company in D.83-04-015 dated April 6, 1983 and D.83-09-020.

The staff witness testified that it is possible that the proposed financing limits will affect SoCal's ability to achieve its 1984 goals. The staff stated its recommendations are for controlling program costs and were not to indicate or dictate the market price for installed measures. The staff also endorsed the concept of having the Commission adopt a mechanism for adjusting financing

levels if such adjustments are found to be appropriate. We conclude that financing limits should be adopted for the purpose of controlling costs. Because no specific mechanism for adjusting financing levels was introduced, SoCal should submit its recommendation for consideration. The staff recommendation for financing limits for floor and wall insulation and attic insulation is reasonable. SoCal's recommendation for financing limits for set-back thermostats, pipe insulation, and IDD's are also reasonable.

Rebates

Rebate amounts were the only items of controversy consuming most of the hearing time. For rebates, SoCal is proposing the following:

<u>Measure</u>	<u>Single Family</u>	<u>Multifamily</u>
Attic Insulation	\$302	\$136
Weatherstripping/Calking	19	9
Weather Heater Blanket	8	5
Low-flow Showerhead	21	21
Duct Wrap	106	85
Wall Insulation	145	72
Floor Insulation	128	64
Set-back Thermostat	36	18
Pipe Insulation	9	9
IDD	68	68

The staff recommended that the rebate amount for showerheads in multifamily units be changed from \$21 to \$15 or the cost of the measure, whichever is less. The staff recommendation is intended to bring the rebate amount more in line with the cost of the measure and to prevent any abuse of the program which may occur if owners of large multifamily complexes buy large quantities of inexpensive low-flow showerheads, install them, and receive a \$21 rebate and thereby make a profit at the expense of ratepayers.

The City of Santa Monica witness expressed concern over the staff recommendation for a reduction in the rebate amount. The witness stated the proposal would reduce revenues to Santa Monica under its contract with SoCal and Southern California Edison to

provide RCS services by \$63,252 over the life of the contract. The witness requested that Santa Monica be reimbursed the \$63,252 from the RCS program account. SoCal Gas states it would like to see the Santa Monica program proceed without further delay.

We agree. The Santa Monica Plan was 2 years in development and negotiation. The funding agreement between the City, SCE and SoCal Gas was reviewed and approved by the CPUC on an Ex-Parte basis in D.83-11-064, issued November 22, 1983. To avoid adversely impacting the implementation of the Santa Monica RCS program, the rebate amount for showerheads should remain at the \$21 level, which was in effect during the development and negotiation of the program. Any contract negotiated hereafter should be based on the revised rebate amount.

Otherwise, staff's proposal to reduce the rebate amount for showerheads to \$15, or the cost of the measure whichever is less, in multi-family installations is reasonable.

The staff also recommended that rebate amounts for all measures be limited so that rebate applicants will receive the sum of the maximum authorized rebate for the measures installed or the sum of the cost of the measures installed, whichever is less.

This recommendation is intended to prevent possible abuses where customers, contractors, or owners of multi-family buildings could attempt to obtain rebates in excess of the price paid for the measures installed. We believe the staff proposal, though well intentioned, is complicated and would be difficult to implement and explain to customers. The proposal for minimum installation standards should be sufficient to prevent abuses in the program.

Low Income Participation Program

SoCal's existing Low Income Participation Program (LIPP) currently includes eligibility requirements for participation. Staff proposes SoCal's eligibility criteria for LIPP be modified to include:

1. Elderly people - defined as those 60 and older with incomes at 200% or less of federal poverty guidelines.
2. Disabled people with income at 200% or less of federal poverty guidelines.

Staff's proposal is consistent with those guidelines established in D.83-05-015 for Pacific Gas & Electric Company.

Staff has proposed that disability can be verified either by a Center for Independent Living or by a physician. The staff's proposals for qualifying for LIPP are reasonable. Disability should be verified by a physician or a Center for Independent Living as a permanent disability. SoCal should advise the Commission in an advice letter by March 31, 1984 of the standards for disabled people which it will use for inclusion in the LIPP program.

The staff has also recommended that the LIPP program be modified to make available an additional \$200 per unit for furnace air handling modifications. The staff stated that contractors have informed the staff that many furnaces in southern California draw air from outside the building both for circulation and for combustion. Staff states that heating cold outside air only once is a very inefficient way to operate a forced air furnace and that this practice substantially increase gas bills. The staff notes that such a design is contrary to the historical Federal Housing Administration (FHA) standards and quality (energy efficient) construction practices. Staff also points out that FHA requires, and quality construction practices recommend that the air to be heated be drawn from within the building.

Staff proposes that \$300,000 be added to the LIPP structural repair budget to perform these modifications. This will increase the additional 1984 revenue requirement to \$18,173 million. No other parties took a position on this case. Staff's proposal is reasonable. We do not contemplate adding additional measures to this program.

Other Staff Proposals

SoCal provides rebates and loans for intermittent ignition devices (IIDs). Staff has proposed that these rebates and loans be terminated as of July 1985. Staff states that since July 1978, all new furnaces in California have been required to have built-in IIDs. Therefore, as of July, 1985, any furnace not having an IID will be at least seven years old. Staff states that the installation of an IID is very unlikely to be cost-effective in the reduced lifespan of the

furnace. The staff recommendation to terminate rebates and loans for IID's as of July 1985 is reasonable. SoCal will be instructed to remove this measure from WFCP effective July 1, 1985.

The staff recommends that 100% of all do-it-yourself jobs either rebated or financed by SoCal must be inspected. Staff has also recommended that if the measures are contractor-installed and if the contractor achieves a 90% pass rate on inspections then the inspection rate for that contractor can be dropped to 20% of all jobs performed. All assumptions regarding energy savings and cost effectiveness apply only if the measure is in place and is properly installed. The staff proposal is reasonable.

Finally, the staff has recommended that all measures except for wall insulation installed as a result of both the rebate and loan portions of WFCP should continue to have a 3-year product warranty and a 1-year labor warranty as set forth in D.82-02-135. The staff also recommends that a 3-year product and labor warranty be required on the installation of wall insulation. The staff witness stated that this labor warranty on wall insulation is necessary because of the difficulty of the installation and the potential problems that may occur as a result. This recommendation is reasonable.

Discussion

SoCal states that the WFCP has been a success to date. Based on therm savings per measure from its 1980 Residential Conditional Demand Analysis, the annual savings for the measures installed for the period January 1 through June 30, 1983 are 6,568,962 therms. The total measures installed where loan and rebate payments have issued are as follows:

TOTAL CONSERVATION MEASURES INSTALLED

	<u>Sept-Dec*</u> <u>1982</u>	<u>Jan-June</u> <u>1983</u>	<u>Sept, 1982-</u> <u>June, 1983</u>
Attic Insulation	225,262**	39,739	265,001**
Weather stripping			
Caulking	316	6,348	6,664
Water Heater Blanket	1,062	25,903	26,965
Low-flow Showerhead	585	30,316	30,901
Duct Wrap	55	1,704	1,759
Wall Insulation	15	192	207
Floor Insulation	1	52	53
Set-back Thermostat	5	309	314
Pipe Insulation	0	20	20
IID Retrofit	0	48	48
Building Envelope Repair	0	505	505

* Implementation of the multifamily phase in December 1982 necessitated a system change in the method of counting measures installed. The result is an adjustment of previously reported data for 1982

** This includes 205,174 attic insulation measures installed and financed through the LCF Program prior to September 1, 1982.

To maximize further participation SoCal's plans include the following programs:

1. Direct Sales - This is a self-supporting program designed to offer energy conservation products to customers. It includes contractor-installed products and customer-installed products.
2. Low Income Participation Plans (LIPP) - This program is designed to achieve maximum participation by low and fixed income customers. Eligible customers' homes are weatherized free of charge by participating direct weatherization installers. Cash rebates are paid directly to the installers rather than the customers.

3. Independent Contractors - Special promotional support has been developed to aid independent contractors. This includes a special emphasis on the previously difficult multifamily dwelling market.
4. Do-it-yourself Retailers (DIY) - SoCal provides promotional support to DIY retailers in the form of point-of-purchase displays and materials, consumer information literature, special promotions, and cooperative advertising. Special efforts are to be made to involve owners of multifamily units in the DIY aspect of WFCP.
5. Conservation Industry Communications - Industry members engaged in the sale and/or installation of home weatherization improvements are to be made aware of the WFCP and the requirements for participation through mailers, notices in trade publications, group meetings and numerous one-on-one discussions.
6. Advertising Support - Television and newspaper advertising to create an awareness of the WFCP. This includes advertising in various Spanish language media.
7. Consumer Information Support - Consumer information literature that has been developed is to be distributed through SoCal's payment offices, at public presentations made by SoCal personnel, participating contractors, manufacturers, distributors, and retailers. The literature contains information on available conservation measures and the various ways customers can participate in the WFCP.

As noted above, SoCal's RCS program began in 1980 and the WFCP program in 1982. The results to date have been most encouraging. As reported by SoCal the total conservation measures installed where loan and rebate payments have issued, the program is working well.

Based on the information presented in this proceeding and the staff's analysis of the applications, we believe the requested funding for the two programs should be granted. SoCal has well planned support programs for both the RCS and the WFCP. The saving effected should reduce participating ratepayers' bills and also provide long term benefits to society.

The program changes authorized should be implemented without delay. The requested March 31, 1984 implementation date is unusually long considering the fact that the WFCP has been part of SoCal's conservation program for over two years. Accordingly, the changes authorized should be implemented no later than February 15 1984.

Because the rates should go into effect on January 1, 1984, this order will be made effective today.

Findings of Fact

1. The State RCS plan was approved by the United States DOE on December 29, 1980 and implemented systemwide by SoCal on July 1, 1981.
2. RCS funding for 1981 was taken from general conservation funds authorized by D.92497.
3. SoCal was authorized \$12 million for the 1982 RCS program by D.82-02-135 to be recovered through a CCA mechanism.
4. During 1982 SoCal financed 18,176 loans and issued 2,622 rebates expending \$25,805,000 in its WFCP.
5. The WFCP budget for 1983 as approved by D.82-12-048 was \$50,564,000. 1983 expenditures are estimated at \$60,189,000.
6. As of December 31, 1983 the RCS CCA balancing account will have an estimated overcollection of \$2,047,000.
7. SoCal requests authority to include \$6,082,000 in its rates to cover 1984 RCS program costs.
8. SoCal's request results in an annual revenue decrease of \$7.838 million, a decrease of approximately 0.150 cents per therm for the affected classes. The proposed new rate of \$.00117 per therm is necessary to support the 1984 RCS program.

9. The 1984 cost estimates are based on performing simplified Class A and Class B audits and expenses associated with the City of Santa Monica RCS plan.

10. Performance of the simplified Class A and Class B audit will reduce the 1984 estimated audit cost below the \$100 limit established in D.82-12-106, and will be substantially less than the 1983 cost per audit.

11. SoCal proposes to reduce rates of all retail customers except electric utility generation and ammonia producers by a uniform 0.150 cent per-therm.

12. SoCal's RCS program expenses to date are reasonable. SoCal's 1984 proposed expenditures of \$8,029,000 are necessary to continue the RCS program and are reasonable.

14. In 1984 SoCal should submit to the Commission its proposal for terminating the RCS program along with its plans for providing conservation services to residential customers after termination of the RCS program.

15. SoCal requests authority to increase the CCA component in its rates by 0.343 cents per-therm for all customers except electric generation, cogeneration, and ammonia producers to provide increased annual revenues by \$17.873 million to fund its 1984 WFCP.

16. The \$17.873 million should be increased by \$300,000 to cover the cost of the staff proposal for modification of LIPP forced air furnaces for a total increase of \$18.173 million.

17. SoCal should be authorized to eliminate the requirement that a RCS audit be performed in order for a customer to receive financing or a rebate for wall insulation.

18. SoCal should be authorized to modify its WFCP credit requirements as discussed herein. SoCal should inform all applicants rejected for financing due to credit reasons that they may be eligible for participation in other parts of the WFCP program.

19. SoCal's proposed minimum installation requirements for all WFCP measures are reasonable. Minimum installation requirements should apply to both financing and rebates.

20. SoCal's modified 1983 goals for WFCP are reasonable.

21. SoCal's WFCP expenses to date are reasonable.

22. SoCal's proposed 1984 goals for WFCP are reasonable.

23. Staff's proposed financing limits of 50 cents per sq.ft. for floor insulation and 80 cents per sq.ft. for wall insulation are reasonable. The staff's proposed financing limit for attic insulation is reasonable.

24. The financing limits for set-back thermostats, pipe insulation and IIDs as discussed here are reasonable. To the extent these financing limits affect SoCal's ability to achieve its stated 1983 goals, SoCal should inform the Commission in its program reports.

25. Staff proposal to reduce the rebate amount for showerheads to \$15 or purchase price, whichever is less in multi-family installations is reasonable. The proposal to limit rebate amounts to the lesser of rebate or actual cost of the measure installed for the remaining WFCP measures is not reasonable.

26. Staff proposal to modify the eligibility requirements for participation in the LIPP program for elderly and disabled people is reasonable.

27. Staff proposal to terminate the rebate and loan programs for IIDs effective July 1, 1985 is reasonable.

28. Staff proposal to require inspection on all do-it-yourself jobs which are either rebated or financed is reasonable. Staff recommendation that if measures are contractor-installed and the contractor achieves a 90% pass rate on inspections, then the inspection rate for that contractor can be reduced to 20% of jobs performed is reasonable.

29. Staff recommendation that all measures except wall insulation should continue to have a three-year product warranty and a one-year labor warranty is reasonable.

30. Staff recommendation that a three-year product and labor warranty be required on wall insulation installations is reasonable.

31. The return on common equity as authorized in SoCal's last general rate case should be applied in the computation of the WFCP revenue requirement consistent with the provisions of D.82-02-135.

32. The changes in rates and charges authorized by this decision are justified and are just and reasonable.

Conclusions of Law

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

2. SoCal should be authorized to make the changes to its RCS and WFCP program as outlined in this decision and under the terms and considerations provided.

3. \$8,029,000 should be authorized as a reasonable level of SoCal's 1984 expenditures for continuation of its RCS program.

4. An adjustment in SoCal's RCS CCA component to its rates from 0.267 cents per therm to 0.117 cents per therm is just and reasonable.

5. \$49,623,000 should be authorized as a reasonable level of SoCal's 1984 expenditures for continuation of its WFCP program with appropriate adjustments to the WFCP CCA rate component.

6. CCA balancing account entries incurred in 1984 will be subject to review by the staff at the next revision date.

7. SoCal bears the burden of proof 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.

8. SoCal should be required to file a report with our Energy Conservation Branch by January 31, 1984 stating its actual 1983 costs per audit. Any costs in excess of \$100 per audit shall be disallowed in the next CCA application.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order Southern California Gas Company is authorized to file revised rate schedules in compliance with this decision and concurrently to cancel presently effective schedules. Such filing shall comply with the provisions of General Order 96-A. The effective date of the revised tariffs shall be 5 days after filing but not before January 1, 1984.

2. The RCS and WFCP programs shall fully comply with the findings of fact set forth above.

3. All Program changes ordered here shall be implemented by February 15, 1984 and reported to the Commission staff by that date.

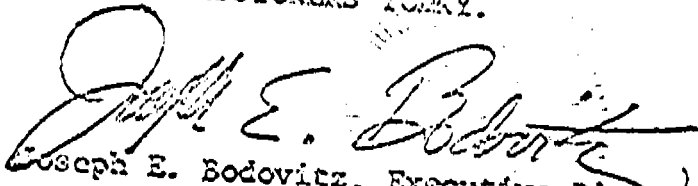
This order is effective today.

Dated December 20, 1983, at San Francisco, California. ✓

LEONARD M. GRIMES, JR.
President

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners

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


Joseph E. Bodovitz, Executive Director

Memorandum

Date : December 19, 1983

To : THE COMMISSION
(Agenda Distribution)

From : Public Utilities Commission — San Francisco -- LEONARD M. GRIMES JR.
President

File No.:

Subject: Alternate Pages for SoCal Gas' Residential Conservation Service
(RCS) and Weatherization Financing and Conservation Program
(WFCP) Offsets (pp. 5-7, 10, 17-18, 23-24, 25)

The attached provides more detailed discussion of policy and position of parties than presented in ALJ Banks' draft decision, and clarifies the Commission's position with regard to the City Santa Monica (D.83-11-064) and the WFCP program (D.82-12-106). Additional language modifies the ALJ's decision to ensure that eligibility requirements for SoCal's WFCP are consistent with those established by the California Energy Commission for the state conservation tax credit.

Attachment

Original

24
Change every pg-
number is incorrect.

Kn

with the Santa Monica RCS program.¹

SoCal states its simplified Class A audit uses a Core-Optional² list of measures for the purpose of recommending installation devices. The core measures are evaluated without physical measurements or computer analysis. The optional measures are evaluated through SoCal's Class B audit at the customer's request. The objective of the simplified Class A audit is to reduce the amount of time required to conduct the audit and thus reduce costs.

SoCal began to implement the Class B or do-it-yourself audit in 1983. The Class B audit was certified by the CEC April 19, 1983 and has been offered to all single family customers since May 1983.

The application states that as of June 1, 1983, SoCal has performed 35,924 Class A audits and projects an additional 40,000 by December 31, 1983. It anticipates 36,000 Class B audits will be performed by December 31, 1983. Goals for 1984 are 95,000 simplified Class A, 61,750 Class B, and 11,500 Santa Monica audits. The average cost per audit for 1983 is estimated at \$97.83 in compliance with the \$100 limit established in D.82-12-106.

¹ In the Santa Monica RCS program, Santa Monica has contracted with SoCal and Southern California Edison to perform audits throughout the City of Santa Monica for a period of 14 months. The City will perform audits and install conservation measures in residences at no cost to the resident. The Santa Monica program was approved by the CEC on June 29, 1983. This Commission approved the contract by D.83-11-064 on November 22, 1983.

² The core-optional audit was developed by SoCal after D.82-12-106 and the CEC adoption of Phase II amendments in the State Plan. The core measures are caulking, ignition systems, clock thermostats, wall and floor insulation, ceiling and attic insulation, water heater insulation, low-flow showerheads and duct and pipe insulation. Optional measures included are not in all instances cost-effective.

CCA Rates

SoCal proposes to decrease its rates to all retail customers, except electric utility generation and ammonia producers on a uniform 0.150 cents per-therm basis in conformance with the rate design adopted in D.82-02-135. The proposed CCA calculation rate is as follows:

<u>CCA RATE</u>	
	<u>Cents Per Therm</u>
<u>Incremental Decrease</u>	
M \$7.838 + 5,207,665 M Therms =	(0.150)
Present Rate	<u>0.267</u>
Proposed Rate	0.117

Termination of RCS

The application states that NECPA requires final notices about the availability of an RCS audit to be transmitted to customers before January 1, 1985. SoCal states it plans to provide full information on the program and the benefits offered by a mailing to every eligible customer. It plans to terminate the programs as soon as responses to the final notice are processed.

It appears that by the end of 1984 SoCal's RCS program will have served its purpose. Staff agrees, stating that the WFCP accomplishes most of what RCS is designed to accomplish. Further, many households have been weatherized without participating in the RCS program and, as pointed out by the staff, federal regulations do not contemplate continuing the program indefinitely.

SoCal's termination proposal appears reasonable and should be adopted. After December 1984, for customers who request an audit, SoCal, through its general conservation program funding, should provide a generic or a do-it-yourself audit.

Staff

With regard to the proposed budget and rates, the staff states SoCal should be authorized to collect the requested amount at the requested rate. Staff supports its position by pointing out that the proposed cost per audit for 1984 is substantially less than in 1983 and that the goal of audits to be performed in 1984 is reasonable.

Application 83-09-26

By this application SoCal requests authority to increase the CCA component in its effective rates by 0.343 cents per therm to provide increased annual revenues of \$17.873 million³ to cover the third year of its WFCP. All costs of the WFCP are recovered through the CCA mechanism. The requested amount reflects an estimated undercollection in the CCA of \$14.253 million as of December 31, 1983 and results in an increase of less than 1%.

In addition to the revenue increase, SoCal requests (1) that the changes be made effective as of January 1, 1984, (2) a finding that SoCal has attained its WFCP goals, (3) approval of several proposed changes, (4) any approved changes be implemented 90 days after the decision's effective date, and (5) a finding that WFCP expenses to date have been reasonable.

Derivation of the additional \$17.873 million revenue requirement is as follows:

³ The initial application requested \$18.462 million which was reduced at the public hearing to reflect SoCal's reduced 1984 WFCP budget.

Proposed Modifications

To improve its WFCP program in 1984, SoCal proposes the following modifications:

First, the elimination of the RCS audit requirement to qualify for rebates or financing for floor insulation, wall insulation, intermittent ignition devices (IIDs), clock thermostats, and pipe insulation. It alleges that the installation of these measures has been negatively impacted by the RCS audit requirement as evidenced by the WFCP results. It states the requirement of an RCS audit is not always understood by the customer even though it is explained on all WFCP application forms. Approximately one-fifth of the applications requesting rebates for one or more of the supplemental improvements are rejected because an audit recommending the item or items as being cost-effective has not been performed. It alleges that the audit requirement has also hindered contractor activity, interfering with the ability of the contractor to offer customers the necessary incentives to promote the installation of supplemental improvements at the time they make their sales calls. The lag time created by the need for the RCS audit and the interference that this may cause with closing a sale has led contractors to not incorporate the five supplemental improvements as part of their sales package. SoCal states that in most instances RCS audits are a formality as they relate to these supplemental improvements. For example, in fourth quarter 1982 clock thermostats and IIDs were found to be cost-effective 100% of the time and wall insulation was found to be cost-effective 99.2% of the time. SoCal concludes that the requirement of an RCS audit prior to installation of these measures appears to cause needless expense and delay in performing installations.

The staff supports SoCal's proposal pointing out that its elimination would result in greater market penetration for the items in question. No other party took a position on this proposal.

provide RCS services by \$63,252 over the life of the contract. The witness requested that Santa Monica be reimbursed the \$63,252 from the RCS program account. On cross-examination the witness stated to the effect that the contract provides for reimbursement at the current rate authorized by this Commission at the time the rebate is paid. It is not within the scope of this proceeding to consider the modifications to its contract as requested by Santa Monica. Santa Monica should be paid the rebate established for the WFCP program.

Staff's proposal to reduce the rebate amount for showerheads to \$15 in multi-family installations is reasonable. The proposal to limit rebates to the cost of the measure would appear to introduce unwarranted complexities into the rebate program, since the adopted reduction will solve most problems.

The staff also recommended that rebate amounts for all measures be limited so that rebate applicants will receive the lesser of the sum of the maximum authorized rebate for the measures installed or the sum of the costs of the measures installed, whichever is less. This recommendation is intended to prevent possible abuses where customers, contractors, or owners of multifamily buildings could attempt to obtain rebates in excess of the price paid for the measures installed. We believe the staff proposal, though well intentioned, is complicated and would be difficult to implement and explain to customers. The proposal for minimum installation standards should be sufficient to prevent abuses in the program.

Low Income Participation Program

SoCal's existing low income participation program (LIPP) currently includes eligibility requirements for participation. Staff proposes SoCal's eligibility criteria for LIPP be modified to include:

1. Elderly people - defined as those 60 and older with incomes at 200% or less of federal poverty guidelines.
2. Disabled people with incomes at 200% or less of federal poverty guidelines.

Staff's proposal is consistent with those guidelines established in D-83-04-015 for Pacific Gas & Electric Company.

Staff has proposed that disability can be verified either by a Center for Independent Living or by a physician. The staff's proposals for qualifying for LIPP are reasonable. Disability should be verified by a physician or a Center for Independent Living as a permanent disability. SoCal should advise the Commission in an advice letter by March 31, 1984 of the standards for disabled people which it will use for inclusion in the LIPP program.

The staff has also recommended that the LIPP program be modified to make available an additional \$200 per unit for furnace air handling modifications. The staff stated that contractors have informed the staff that many furnaces in Southern California draw air from outside the building both for circulation and for combustion. Staff states that heating cold outside air only once is a very inefficient way to operate a forced air furnace and that this practice substantially increases gas bills. The staff notes that the Federal Housing Administration (FHA) requires that air to be heated be drawn from within the building. Staff proposes that \$300,000 be added to the LIPP structural repair budget to perform these modifications. This will increase the additional 1984 revenue requirement to \$18.173 million. No other parties took a position on this case. Staff's proposal is reasonable.

Other Staff Proposals

SoCal provides rebates and loans for intermittent IIDs. Staff has proposed that these rebates and loans be terminated as of July 1985. Staff states that since July 1978 all new furnaces in California have been required to have built-in IIDs. Therefore, as of July 1985 any furnace not having an IID will be at least seven years old. Staff states that the installation of an IID is very unlikely to be cost-effective in the reduced lifespan of the

9. The 1984 cost estimates are based on performing simplified Class A and Class B audits and expenses associated with the City of Santa Monica RCS plan.

10. Performance of the simplified Class A and Class B audit will reduce the 1984 estimated audit cost below the \$100 limit established in D.82-12-106, and will be substantially less than the 1983 cost per audit.

11. SoCal proposes to reduce rates of all retail customers except electric utility generation and ammonia producers by a uniform 0.150 cents per therm.

12. SoCal's proposal to terminate the RCS plan in December 1984 is reasonable. The WFCP accomplishes most of what the RCS program intended.

13. SoCal's RCS program expenses to date are reasonable. SoCal's 1984 proposed expenditures of \$8,029,000 are necessary to continue the RCS program and are reasonable.

14. In 1984 SoCal should submit to the Commission its plans for providing conservation services to residential customers after termination of the RCS program.

15. SoCal requests authority to increase the CCA component in its rates by 0.343 cents per therm for all customers except electric generation, cogeneration, and ammonia producers to provide increased annual revenues by \$17.873 million to fund its 1984 WFCP.

16. The \$17.873 million should be increased by \$300,000 to cover the cost of the staff proposal for modification of LIPP forced air furnaces for a total increase of \$18.173 million.

17. SoCal should be authorized to eliminate the requirement that a RCS audit be performed in order for a customer to receive financing or a rebate for floor insulation, wall insulation, IIDs clock thermostats, and pipe insulation.

18. SoCal should be authorized to modify its WFCP credit requirements as discussed herein. SoCal should inform all applicants

rejected for financing due to credit reasons that they may be eligible for participation in other parts of the WFCP program.

19. SoCal's proposed minimum installation requirements for all WFCP measures are reasonable. Minimum installation requirements should apply to both financing and rebates.

20. SoCal's modified 1983 goals for WFCP are reasonable.

21. SoCal's WFCP expenses to date are reasonable.

22. SoCal's proposed 1984 goals for WFCP are reasonable.

23. Staff's proposed financing limits of 50 cents per sq.ft. for floor insulation and 80 cents per sq.ft. for wall insulation are reasonable. The staff's proposed financing limit for attic insulation is reasonable.

24. The financing limits for set-back thermostats, pipe insulation and IIDs as discussed here are reasonable. To the extent these financing limits affect SoCal's ability to achieve its stated 1983 goals, SoCal should inform the Commission in its program reports.

25. Staff proposal to reduce the rebate amount for showerheads to \$15 in multifamily installations is reasonable. The proposal to limit rebate amounts to the cost of the measure installed is not reasonable. With the exception of showerheads in multifamily installation, SoCal's rebate recommendations are reasonable.

26. Staff proposal to modify the eligibility requirements for participation in the LIPP program for elderly and disabled people is reasonable.

27. Staff proposal to terminate the rebate and loan program for IIDs effective July 1, 1985 is reasonable.

28. Staff proposal to require inspection on all do-it-yourself jobs which are either rebated or financed is reasonable. Staff recommendation that if measures are contractor-installed and the contractor achieves a 90% pass rate on inspections, then the inspection rate for that contractor can be reduced to 20% of jobs performed is reasonable.

29. Staff recommendation that all measures except wall insulation should continue to have a three-year product warranty and a one-year labor warranty is reasonable.

30. Staff recommendation that a three-year product and labor warranty be required on wall insulation installations is reasonable.

31. The return on common equity as authorized in SoCal's last general rate case should be applied in the computation of the SFCP revenue requirement consistent with the provisions of D.82-02-135.

32. The changes in rates and charges authorized by this decision are justified and are just and reasonable.

Conclusions of Law

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

2. SoCal should be authorized to make the changes to its RCS and WFCP program as outlined in this decision and under the terms and considerations provided.

3. \$8,029,000 should be authorized as a reasonable level of SoCal's 1984 expenditures for continuation of its RCS program.

4. An adjustment in SoCal's RCS CCA component to its rates from 0.267 cents per therm to 0.117 cents per therm is just and reasonable.

5. \$49,623,000 should be authorized as a reasonable level of SoCal's 1984 expenditures for continuation of its WFCP program with appropriate adjustments to the WFCP CCA rate component.

6. CCA balancing account entries incurred in 1984 will be subject to review by the staff at the next revision date.

7. SoCal bears the burden of proof 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.

with the Santa Monica RCS program.^{1/}

SoCal states its simplified Class A audit uses a Core-Optional^{2/} list of measures for the purpose of recommending installation devices. The core measures are evaluated without physical measurements or computer analysis. The optional measures are evaluated through SoCal's Class B audit at the customer's request. The objective of the simplified Class A audit is to reduce the amount of time required to conduct the audit and thus reduce costs.

SoCal began to implement the Class B or do-it-yourself audit in 1983. The Class B audit was certified by the CEC April 19, 1983 and has been offered to all single family customers since May, 1983.

1/ In the Santa Monica RCS program, Santa Monica has contracted with SoCal and Southern California Edison to perform audits throughout the City of Santa Monica for a period of 14 months. The City will perform audits and install conservation measures in residences at no cost of the resident. The Santa Monica program was approved by the CEC on June 29, 1983. This Commission approved the contract by D.83-11-064 on November 23, 1983.

2/ The core-optional audit was developed by SoCal after D.82-12-106 and the CEC adoption of Phase II amendments in the State Plan. The core measures are caulking, ignition systems, clock thermostats, wall and floor insulation, ceiling and attic insulation, water heater insulation, low-flow showerheads and duct and pipe insulation. Optional measures included are not in all instances cost-effective.

The application states that as of June 1, 1983, SoCal has performed 35,924 Class A audits and projects an additional 40,000 by December 31, 1983. It anticipates 36,000 Class B audits will be performed by December 31, 1983. In its Application 83-09-23, SoCal Gas reported an average cost per audit of \$131 as of June, 1983, but projected a reduction to \$98 by the years end. At this time, we will accept SoCal's projected cost per audit. However, we will require the company to report its actual 1983 cost per audit to our Energy Conservation Branch by January 31, 1984. Any costs in excess of \$100 per audit shall be assigned to shareholders in the next CCA application.

Goals for 1984 are 95,000 simplified Class A, 61,750 Class B and 11,500 Santa Monica audits.

CCA Rates

SoCal proposes to decrease its rates to all retail customers, except electric utility generation and ammonia producers on a uniform 0.150 cent per-therm basis in conformance with the rate design adopted in D.82-02-135. The proposed CCA calculation rate is as follows:

<u>CCA RATE</u>	
<u>Incremental Decrease</u>	<u>Cents Per Therm</u>
M \$7.838 - 5,027,665 M Therms =	(0.150)
Persent Rate	<u>0.267</u>
Proposed Rate	0.117
<u>Termination of RCS</u>	

The application states that NECPA requires final notices about the availability of an RCS audit to be transmitted to customers before January 1, 1985. SoCal states it plans to provide full information on the program and the benefits offered by a mailing to every eligible customer. It plans to terminate the program as soon as responses to the final notice are processed.

Actually, the NECPA regulations are unclear. They require each utility to inform each residential customer of the program every two years before January 1, 1985. It is unclear

whether this is a permissive or mandatory deadline. However, DOE is planning to come out with a more concise interpretation of NECPA regulations, which are anticipated to allow termination of the RCS program.

It appears that by the end of 1984 SoCal's RCS program will have served its purpose. Staff agrees, stating that the WFCP accomplishes most of what RCS is designed to accomplish. Further, many households have been weatherized without participating in the RCS program.

SoCal's termination proposal appears reasonable and should be adopted. After December 1984, SoCal, through its general conservation program funding, should provide a generic or a do-it-yourself audit, for customers who request an audit.

Staff

With regard to the proposed budget and rates, the staff states SoCal should be authorized to collect the requested amount at the requested rate. Staff supports its position by accepting the projected 1983 cost per audit. Staff also points out that the 1984 cost per audit should be substantially less in 1983 and that the goal of audits to be performed is reasonable.

Application 83-09-26

By this application SoCal requests authority to increase the CCA component in its effective rates by 0.343 cents per-therm to provide increased annual revenues of \$17.873 million^{3/} to cover the third year of its WFCP. All costs of the WFCP are recovered through the CCA mechanism. The requested amount reflects an estimated undercollection in the CCA of \$14.253 million as of December 31, 1983 and results in an increase of less than 1%.

In addition to the revenue increase, SoCal requests (1) that the changes be made effective as of January 1, 1984, (2) a finding that SoCal has attained its WFCP goals, (3) approval of several proposed changes, (4) any approved changes be implemented 90 days after the decision's effective date, and (5) a finding that WFCP expenses to date have been reasonable.

Derivation of the additional \$17.873 million revenue requirement is as follows:

^{3/} The initial application requested \$18.462 million which was reduced at the public hearing to reflect SoCal's reduced 1984 WFCP budget.

Proposed Modifications

SoCal proposes the following modifications to its WFCP program in 1984:

First, the elimination of the RCS audit requirement to qualify for rebates or financing for floor insulation, wall insulation, intermittent ignition devices (IIDs), clock thermostats, and pipe insulation. SoCal Gas It alleges that the installation of these measures has been negatively impacted by the RCS audit requirement as evidenced by the WFCP results. It states the requirement of an RCS audit is not always understood by the customer even though it is explained on all WFCP application forms. Approximately one-fifth of the applications requesting rebates for one or more of the supplemental improvements are rejected because an audit recommending the item or items as being cost-effective has not been performed. It alleges that the audit requirement has also hindered contractor activity, interfering with the ability of the contractor to offer customers the necessary incentives to promote the installation of supplemental improvements at the time they make their sales calls.

Elimination of the audit requirement for wall insulation is consistent with AB 2158 (Hayden) which as of 1/1/84 eliminates the audit requirement for all wall insulations and, in electrically

heated homes, floor insulation for tax credit eligibility Exempting the four remaining "supplemental measures" from the RCS audit requirement would result in conflict with the CEC tax credit program for conservation.

The RCS audit requirement should remain to comport with tax rebate requirements. Conflicting eligibility requirements can result in confusion already being experienced by the public, as well as abuses of customers by contractors. Audits will still be required by the CEC for tax rebate eligibility for these measures. Thus, SoCal Gas would have to perform the audit prior to installation as long as current tax rebate eligibility requirements are in place, regardless of the WFCP audit requirements.

In addition, SoCal Gas would be responsible for informing the public of program changes and the differing program eligibility requirements. This would result in increased advertising/media costs.

Finally, the cost effectiveness of these measures is often questionable and therefore should be evaluated on a case-by-case basis. (For example, the cost of set-back thermostats for multi-family devices are twice the marginal cost of natural gas (D.82-02-135, p. 61). In addition, staff is recommending phasing out IID's from the program due to the declining cost-effectiveness of this device. And as previously noted, AB 2158 does not exempt floor insulation in gas heated homes from the RCS audit requirement for tax rebate eligibility since it is not, in all cases, a cost-effective measure.)

provide RCS services by \$63,252 over the life of the contract. The witness requested that Santa Monica be reimbursed the \$63,252 from the RCS program account. SoCal Gas states it would like to see the Santa Monica program proceed without further delay.

We agree. The Santa Monica Plan was 2 years in development and negotiation. The funding agreement between the City, SCE and SoCal Gas was reviewed and approved by the CPUC on an Ex-Parte basis in D.83-11-064, issued November 22, 1983. To avoid adversely impacting the implementation of the Santa Monica RCS program, the rebate amount for showerheads should remain at the \$21 level, which was in effect during the development and negotiation of the program. Any contract negotiated hereafter should be based on the revised rebate amount.

Otherwise, staff's proposal to reduce the rebate amount for showerheads to \$15, or the cost of the measure whichever is less, in multi-family installations is reasonable.

The staff also recommended that rebate amounts for all measures be limited so that rebate applicants will receive the sum of the maximum authorized rebate for the measures installed or the sum of the cost of the measures installed, whichever is less.

This recommendation is intended to prevent possible abuses where customers, contractors, or owners of multi-family buildings could attempt to obtain rebates in excess of the price paid for the measures installed. We believe the staff proposal, though well intentioned, is complicated and would be difficult to implement and explain to customers. The proposal for minimum installation standards should be sufficient to prevent abuses in the program.

Low Income Participation Program

SoCal's existing Low Income Participation Program (LIPP) currently includes eligibility requirements for participation. Staff proposes SoCal's eligibility criteria for LIPP be modified to include:

1. Elderly people - defined as those 60 and older with incomes at 200% or less of federal poverty guidelines.
2. Disabled people with income at 200% or less of federal poverty guidelines.

Staff's proposal is consistent with those guidelines established in D.83-05-015 for Pacific Gas & Electric Company.

Staff has proposed that disability can be verified either by a Center for Independent Living or by a physician. The staff's proposals for qualifying for LIPP are reasonable. Disability should be verified by a physician or a Center for Independent Living as a permanent disability. SoCal should advise the Commission in an advice letter by March 31, 1984 of the standards for disabled people which it will use for inclusion in the LIPP program.

The staff has also recommended that the LIPP program be modified to make available an additional \$200 per unit for furnace air handling modifications. The staff stated that contractors have informed the staff that many furnaces in southern California draw air from outside the building both for circulation and for combustion. Staff states that heating cold outside air only once is a very inefficient way to operate a forced air furnace and that this practice substantially increase gas bills. The staff notes that such a design is contrary to the historical Federal Housing Administration (FHA) standards and quality (energy efficient) construction practices. Staff also points out that FHA requires, and quality construction practices recommend that the air to be heated be drawn from within the building.

Staff proposes that \$300,000 be added to the LIPP structural repair budget to perform these modifications. This will increase the additional 1984 revenue requirement to \$18,173 million. No other parties took a position on this case. Staff's proposal is reasonable. We do not contemplate adding additional measures to this program.

Other Staff Proposals

SoCal provides rebates and loans for intermittent ignition devices (IIDs). Staff has proposed that these rebates and loans be terminated as of July 1985. Staff states that since July 1978, all new furnaces in California have been required to have built-in IIDs. Therefore, as of July, 1985, any furnace not having an IID will be at least seven years old. Staff states that the installation of an IID is very unlikely to be cost-effective in the reduced lifespan of the

furnace. The staff recommendation to terminate rebates and loans for IID's as of July 1985 is reasonable. SoCal will be instructed to remove this measure from WFCP effective July 1, 1985.

The staff recommends that 100% of all do-it-yourself jobs either rebated or financed by SoCal must be inspected. Staff has also recommended that if the measures are contractor-installed and if the contractor achieves a 90% pass rate on inspections then the inspection rate for that contractor can be dropped to 20% of all jobs performed. All assumptions regarding energy savings and cost effectiveness apply only if the measure is in place and is properly installed. The staff proposal is reasonable.

Finally, the staff has recommended that all measures except for wall insulation installed as a result of both the rebate and loan portions of SFCP should continue to have a 3-year product warranty and a 1-year labor warranty as set forth in D.82-02-135. The staff also recommends that a 3-year product and labor warranty be required on the installation of wall insulation. The staff witness stated that this labor warranty on wall insulation is necessary because of the difficulty of the installation and the potential problems that may occur as a result. This recommendation is reasonable.

Discussion

SoCal states that the WFCP has been a success to date. Based on therm/savings per measure from its 1980 Residential Conditional Demand Analysis, the annual savings for the measures installed for the period January 1 through June 30, 1983 are 6,568,962 therms. The total measures installed where loan and rebate payments have issued are as follows:

9. The 1984 cost estimates are based on performing simplified Class A and Class B audits and expenses associated with the City of Santa Monica RCS plan.

10. Performance of the simplified Class A and Class B audit will reduce the 1984 estimated audit cost below the \$100 limit established in D.82-12-106, and will be substantially less than the 1983 cost per audit.

11. SoCal proposes to reduce rates of all retail customers except electric utility generation and ammonia producers by a uniform 0.150 cent per-therm.

12. SoCal's RCS program expenses to date are reasonable. SoCal's 1984 proposed expenditures of \$8,029,000 are necessary to continue the RCS program and are reasonable.

14. In 1984 SoCal should submit to the Commission its proposal for terminating the RCS program along with its plans for providing conservation services to residential customers after termination of the RCS program.

15. SoCal requests authority to increase the CCA component in its rates by 0.343 cents per-therm for all customers except electric generation, cogeneration, and ammonia producers to provide increased annual revenues by \$17.873 million to fund its 1984 WFCP.

16. The \$17.873 million should be increased by \$300,000 to cover the cost of the staff proposal for modification of LIPP forced air furnaces for a total increase of \$18.173 million.

17. SoCal should be authorized to eliminate the requirement that a RCS audit be performed in order for a customer to receive financing or a rebate for wall insulation.

18. SoCal should be authorized to modify its WFCP credit requirements as discussed herein. SoCal should inform all applicants rejected for financing due to credit reasons that they may be eligible for participation in other parts of the WFCP program.

19. SoCal's proposed minimum installation requirements for all WFCP measures are reasonable. Minimum installation requirements should apply to both financing and rebates.

20. SoCal's modified 1983 goals for WFCP are reasonable.

21. SoCal's WFCP expenses to date are reasonable.

22. SoCal's proposed 1984 goals for WFCP are reasonable.

23. Staff's proposed financing limits of 50 cents per sq.ft. for floor insulation and 80 cents per sq.ft. for wall insulation are reasonable. The staff's proposed financing limit for attic insulation is reasonable.

24. The financing limits for set-back thermostats, pipe insulation and IIDs as discussed here are reasonable. To the extent these financing limits affect SoCal's ability to achieve its stated 1983 goals, SoCal should inform the Commission in its program reports.

25. Staff proposal to reduce the rebate amount for showerheads to \$15 or purchase price, whichever is less in multi-family installations is reasonable. The proposal to limit rebate amounts to the lesser of rebate or actual cost of the measure installed for the remaining WFCP measures is not reasonable.

26. Staff proposal to modify the eligibility requirements for participation in the LIPP program for elderly and disabled people is reasonable.

27. Staff proposal to terminate the rebate and loan programs for IIDs effective July 1, 1985 is reasonable.

28. Staff proposal to require inspection on all do-it-yourself jobs which are either rebated or financed is reasonable. Staff recommendation that if measures are contractor-installed and the contractor achieves a 90% pass rate on inspections, then the inspection rate for that contractor can be reduced to 20% of jobs performed is reasonable.

29. Staff recommendation that all measures except wall insulation should continue to have a three-year product warranty and a one-year labor warranty is reasonable.

30. Staff recommendation that a three-year product and labor warranty be required on wall insulation installations is reasonable.

31. The return on common equity as authorized in SoCal's last general rate case should be applied in the computation of the SFCP revenue requirement consistent with the provisions of D.82-02-135.

32. The changes in rates and charges authorized by this decision are justified and are just and reasonable.

Conclusions of Law

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

2. SoCal should be authorized to make the changes to its RCS and WFCP program as outlined in this decision and under the terms and considerations provided.

3. \$8,029,000 should be authorized as a reasonable level of SoCal's 1984 expenditures for continuation of its RCS program.

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8. SoCal should be required to file a report with our Energy Conservation Branch by January 31, 1984 stating its actual 1983 costs per audit. Any costs in excess of \$100 per audit shall be disallowed in the next CCA application.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order Southern California Gas Company is authorized to file revised rate schedules in compliance with this decision and concurrently to cancel presently effective schedules. Such filing shall comply with the provisions of General Order 96-A. The effective date of the revised tariffs shall be 5 days after filing but not before January 1, 1984.

2. The RCS and WFCP programs shall fully comply with the findings of fact set forth above.

3. All Program changes ordered here shall be implemented by February 15, 1984 and reported to the Commission staff by that date.

This order is effective today.

Dated DEC 20 1983, at San Francisco, California.

LEONARD M. GRIMES, JR.
President

VICTOR CALVO
PRISCILLA C. GREW
DONALD VIAL
WILLIAM T. BAGLEY
Commissioners