

ORIGINAL

Decision No. 87397 June 1, 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of SOUTHERN CALIFORNIA EDISON COMPANY for authority to make effective an offset rate adjustment to cover expenses associated with supplemental conservation programs and to establish a Conservation Adjustment Account in which to accumulate differences between revenues and expenses associated with supplemental conservation programs.

Application No. 57111  
(Filed February 24, 1977)

INTERIM OPINION

By this application, Southern California Edison Company (Edison) seeks Commission approval to make an offset rate adjustment to recover expenses associated with supplemental conservation programs; Edison also seeks to establish a conservation adjustment account (CAA) in which to accumulate the differences between expenses associated with supplemental conservation programs and the revenues recovered by offset adjustments to rates.

Although Section 792.5 of the Public Utilities Code<sup>1/</sup> provides that a balancing account must be established whenever

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<sup>1/</sup> "792.5. Whenever the commission authorizes any change in rates reflecting and passing through to customers specific changes in costs, except rates set for common carriers, the commission shall require as a condition of such order that the public utility establish and maintain a reserve account reflecting the balance, whether positive or negative, between the related costs and revenues, and the commission shall take into account by appropriate adjustment or other action any positive or negative balance remaining in any such reserve account at the time of any subsequent rate adjustment."

specific changes in expense levels are passed on to ratepayers, we are reluctant, as a matter of general policy, to allow offset-balancing account ratemaking. Offset rate relief has been allowed for utilities which have experienced sudden and significant increases in operating expenses (e.g., for purchased gas, fuel, and purchased power). However, as a matter of diligent ratemaking practice it is most desirable to examine a utility's total results of operations before increasing rates.

Although we express the above reservations concerning offset rate adjustments, we are also vitally concerned that utilities immediately implement conservation programs that will aid in maintaining for California an adequate energy supply. Conservation measures, aside from being a means of preventing an energy shortfall, also tend to slow the need to expand generating capacity that would otherwise be needed to accommodate ever-increasing demands for energy. Continued expansion of generating capacity means only higher rates to Californians per unit of energy consumed. Today's high costs for new generating plant construction must necessarily be reflected in the rates of tomorrow. If measures to diminish or eliminate wasteful and inefficient use of electricity are successful, a great savings will accrue to the state's overall economy.

In balancing our reservations about offset or piecemeal ratemaking with the critical need for conservation efforts we conclude that it is in the public interest to allow the establishment of CAAs in order to stimulate the development of conservation programs by utilities. By Decision No. 86940 dated February 8, 1977 in

Application No. 56845, we authorized the Pacific Gas and Electric Company to establish a CAA.<sup>2/</sup> We are, by this order, authorizing Edison to establish a similar CAA.

No protests to Edison's application have been received, and we find it is not necessary to hold a public hearing.

The Need for a CAA

We have recognized for the past several years that conservation is one of the means by which both utilities and consumers can do something about the dramatically increasing energy costs that result from continual escalation of generating plant construction necessary to accommodate peak-period energy demands. California's energy utilities have been directed to vigorously expand policies, programs, and efforts directed toward conservation.<sup>3/</sup>

Edison indicates it has developed conservation programs that it desires to implement if we approve them, and that the additional incremental expenditure for those supplemental programs is estimated to be some \$10.5 million; that amount was not included as an expense item when we last determined Edison's revenue requirement and authorized present rates.

The relatively recent emphasis on conservation means that time will show that utilities and consumers are in the early learning

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<sup>2/</sup> Decision No. 87010 in that proceeding, dated February 23, 1977, contains an elaboration of our views with respect to the utilities' conservation efforts and the procedures whereby conservation programs will be reviewed.

<sup>3/</sup> By a letter to all energy utilities from the Commission President, dated December 19, 1975, it was expressed that we "...will expect utilities to develop a sophisticated analytic capability to evaluate conservation measures which may go beyond the conventional scope of utility activities, to make aggressive use of their marketing capabilities to educate the public in conservation and, where reliable and cost-effective, to promote energy-saving design and technological changes."

stages with respect to conservation. Programs and measures developed by utilities to promote conservation will in many instances be new and experimental. The effectiveness of such programs cannot be assured. And while utilities are gaining experience in developing and refining effective programs and measures, we anticipate that expenditures for such activities may rise steeply for several years at a rate disproportionate to increases for other operating expenses. However, when a maximum reasonable conservation of energy is achieved, we expect that the CAA we establish by this order will no longer be necessary; for utilities such as Edison will have gained sufficient experience with respect to implementing conservation programs so that the expense for such activity will not grow out of proportion to other elements of overall operating expenses (which eliminates the need for offset balancing-account procedures).

Edison's Proposed  
Supplemental Conservation Program

Edison contemplates spending an estimated \$10.5 million for supplemental conservation measures in 1977. Those expenditures are in expense categories of payroll costs, materials, and equipment which are ordinarily not capitalized. Each supplemental conservation program that Edison proposes to implement need not be approved by us in advance. We have stated our views in Decision No. 87010 dated February 23, 1977 in Application No. 56845 with respect to the standards and procedures, we shall apply hereafter in reviewing expense for conservation programs:

- "(1) The conservation programs should be started now.
- "(2) Utility management has full discretion in implementing conservation programs. It is recognized that some new innovative conservation measures are experimental in nature and not all will prove cost

effective.<sup>4/</sup> It is not our intention to later disallow operating expenses for such programs unless we determine that management has not acted prudently.

- "(3) Improper or imprudent expense charges to the balancing account will not be allowed in ratemaking.
- "(4) The effectiveness of PG&E's conservation programs and the vigor and imagination of its conservation efforts during 1976 are being considered in detail in Phase II of the current general rate proceeding in deciding upon a fair rate of return. The effectiveness of its 1977 and subsequent conservation programs and the vigor and imagination of its current and future efforts will be considered in future general rate proceedings in deciding upon a fair rate of return.
- "(5) Conservation programs which include major customer incentives must be approved in advance by the Commission either in a general rate proceeding or in an offset proceeding. Other programs need not be considered in detail in these offset proceedings. The procedure will deal with establishing a reasonable initial level of offset rates.
- "(6) With respect to the extraordinary procedure of offset relief and the establishment of a balancing account, we wish to reiterate that procedures along the line suggested are temporary measures to provide means for temporary problems. At such time as annual

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<sup>4/</sup> The only guideline we can presently offer concerning "cost effectiveness" is to repeat that which was stated in the Commission President's letter dated December 19, 1975 to chairmen of the boards of the utilities:

"In our view, a conservation activity is worthwhile if it costs less than the full cost - including environmental effects - of supplying the energy which would be saved."

expenditures for conservation efforts are fairly constant in relation to total expenses, the special procedure and balancing account can be discontinued."

The procedures which we have established for PG&E with respect to considering expense for conservation programs, and which are also reasonable for Edison follow:

1. Each year Edison should file an application setting forth supplemental conservation programs for the coming calendar year and the expenses thereof which are not included in the then current rates or considered in a pending general rate increase proceeding, and for which it requests offset rate relief.
2. Subsequent to that application, and during that calendar year, if Edison desires to undertake additional programs which would require significant funding as to require immediate offset rate relief, or if the balances in the balancing account are so uneven that immediate rate adjustment appears justified, it should file an application.
3. Any program which involves capitalized expenditures and would have an effect upon rate base, should be proposed in an application.
4. Edison should commence the necessary hiring and training of new employees now; implement new programs as soon as possible; and establish both the necessary accounting procedures for supplemental programs and a balancing account for tracking related conservation expenditures and offset relief revenues.

The foregoing discussion sets forth in general terms an equitable procedure under which Edison can obtain authority to adjust rates, pending a decision in a general rate application, to offset expenditure of substantial funds on conservation programs initiated pursuant to the Commission's declared conservation policy.

Findings

1. The Commission has directed Edison and other gas and electric utilities to direct efforts toward the promotion of conservation of energy as a primary commitment and obligation of a public utility. The Commission notified Edison that it expects Edison to develop an analytic capability to evaluate conservation measures, to make aggressive use of its marketing capabilities, and to educate the public in conservation and, where reliable and cost-effective, to promote energy-saving design and technological changes.

2. Pursuant to that directive, Edison has considered a number of conservation programs which it believes are cost-effective. Those programs, which are experimental and are supplemental to conservation programs considered in proceedings in Application No. 54946, if implemented will require an expenditure by Edison during 1977 of an estimated \$10.5 million over and above expenditures considered in that application.

3. Edison's request to establish a CAA in which to accumulate differences between revenues recovered and expenses associated with supplemental conservation programs is reasonable.

4. Edison's request to make effective an offset rate adjustment to cover expenses associated with supplemental conservation programs will be treated later after hearing.

5. An offset rate application is an appropriate procedure for the annual consideration of the expense of a utility's conservation program, during the initial period of developing and implementation of conservation programs.

6. Edison should commence its proposed expanded conservation programs.

7. Conservation programs involving major customer incentives will present issues which should only be considered after proper notice and public hearing.

8. A public hearing to establish the electric CAA is not necessary. There are no protests and this decision authorizes no change in rates.

9. A public hearing will be held to consider amounts and terms of financing and major customer incentives.

10. The effective date of this order and the establishing of the balancing account should be the date hereof to encourage the prompt undertaking of the supplemental conservation programs.

INTERIM ORDER

IT IS ORDERED that an electric conservation adjustment account be established on the effective date of this order. Entries shall be made to this account at the end of each month as follows:

- (a) A debit entry equal to, if positive (credit entry, if negative):
  - (1) The recorded operating and maintenance and administrative and general expense for each supplemental Conservation Program, plus
  - (2) Monthly amortization of any materials and supplies amounts remaining from terminated Conservation Programs in 36 equal amounts, less
  - (3) The amount of revenue billed during the month under the Offset Rate (not including the adjustment for franchise and uncollectible accounts expense).
- (b) A credit entry equal to the amount of revenue billed during the month under the Balancing Rate (not including the adjustment for franchise and uncollectible accounts expense) if positive (debit entry, if negative).
- (c) A credit entry equal to the amount of revenue received from the sale of materials or services connected with any authorized Conservation Program.



- (d) An entry equal to 7/12 percent of the average of the balance in the account at the beginning of the month and the balance in the account after entries (a), (b), and (c) above.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 1st day of JUNE, 1977.

Robert Baliga  
President  
William J. ...  
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Commissioners