

ORIGINAL

Decision No. 88272 DEC 20 1977

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Amended Application of Pacific Gas and Electric Company for Authority, among other things, to increase rates for Electric and Gas Service to Offset the Costs of Supplemental Conservation Programs.

Application No. 56845 (Filed November 4, 1976; amended February 25, 1977)

(Electric and Gas)

Malcolm H. Furbush, Robert Ohlbach, and Kermit R. Kubitz, Attorneys at Law, for Pacific Gas and Electric Company, applicant.  
John Chandley, Attorney at Law, for California Energy Commission (ERCDC), intervenor.  
Brobeck, Phleger & Harrison, by Gordon E. Davis and William H. Booth, Attorneys at Law, for California Manufacturers Association; John Paul Fischer, Attorney at Law, and Edward Mrizek, for City of Palo Alto; Rollin E. Woodbury, Robert J. Cahall, William E. Marx, Robert H. Barnes, and Richard K. Durant, Attorneys at Law, for Southern California Edison Company; Gordon Pearce and Vincent P. Master, Jr., Attorneys at Law, for San Diego Gas & Electric Company; Robert Spertus, Attorney at Law, and Sylvia M. Siegel, for TURN, Consumer Federation of California, San Francisco Consumer Action, Consumers Coop of Berkeley, and Residential Consumers; Clara R. Redwine, for Bakke Engineering; Roy Alper, Attorney at Law, and John Geesman, for California Citizen Action Group; and Arthur C. Schwartz, for Schwartz & Curtis/Engineers and California Society of Professional Engineers; interested parties.  
Peter Arth, Jr. and Mary Carlos, Attorneys at Law, Walter J. Cavagnaro, K. K. Chew, H. Sipe, and George Amaroli, for the Commission staff.

Interim Opinion  
Establishing Balancing Account

In an interim opinion in this matter, (Decision No. 86940 dated February 8, 1977) the Commission denied PG&E's request to include a conservation program adjustment clause in its tariffs; however, it authorized PG&E to establish balancing accounts for gas and electric conservation program costs. The Commission concluded that PG&E should expedite commencement of expanded conservation programs and that it should file an amended application to obtain offset relief therefor.

In Decision No. 86940, the Commission stated:

- "(1) immediate efforts by utilities toward promotion of conservation of energy is necessary and in the public interest, (2) expenditure of substantial funds by PG&E will be required for the development and implementation of conservation programs in order that optimum results may be achieved, particularly so during the initial stages of the promotional efforts, (3) expenditures for cost-effective conservation programs constitute legitimate public utility expense for which the utility is legally entitled to be compensated from its rates for utility services, and (4) utility general rate cases ordinarily involve a multitude of issues requiring careful consideration and proceedings in those cases usually require considerable time to final determination. Those facts establish the necessity of time if any substantial conservation programs are to be undertaken by utilities without delay."

The Commission further stated in Decision No. 86940 that the proper procedure to be followed by PG&E in the matter of conservation programs is:

- "1. Each year to file an application setting forth supplemental conservation programs for the coming calendar year and the expense thereof

which are not included in the then current rates or considered in a pending general rate increase proceeding and for which it requires offset rate relief.

- "2. Subsequent to that application, and during that calendar year, if PG&E desires to undertake additional programs which would require significant funding as to require immediate offset rate relief, or if the balances in the account are so uneven that immediate rate adjustment is indicated, it should file an application.
- "3. Until determined otherwise by the Commission any program which involves capitalization of expenditures and would have an effect upon rate base, and from which PG&E desires to recover depreciation expense or a return upon its capital invested in the program in the form of an offset in rates, should be included in an application.
- "4. Commence the hiring and training of new employees now and implementation of new programs as soon as possible. Establish the necessary accounting procedures for supplemental programs and a balancing account for related conservation expenditures and revenues."

Supplemental Interim Opinion

On February 23, 1977, the Commission issued in this matter a supplemental interim opinion, Decision No. 87010, which stated:

"This supplemental interim opinion is intended to further emphasize the Commission's views with respect to the utilities' conservation efforts and the procedures whereby conservation programs will be reviewed in this and subsequent proceedings.

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

Hearings on the Amended Application

Public hearings on PG&E's amended application were held in San Francisco before Administrative Law Judge James F. Haley on April 25 through 28, 1977 and on May 6, 1977. The matter was taken under submission upon receipt of briefs on May 23, 1977. In addition to applicant, the following parties participated in the hearings: the California Energy Resources Conservation and Development Commission staff (ERCDC), the city of Palo Alto, Bakke Engineering, the California Citizen Action Group, Schwartz & Curtis/Engineers, California Society of Professional Engineers, Toward Utility Rate Normalization (TURN), and the Commission staff.

PG&E's 1977 Supplemental Program

PG&E's proposed 1977 supplemental program package extends to six major conservation areas: (1) home insulation; (2) efficient appliance design and operation; (3) energy conservation homes; (4) commercial, industrial, and agricultural conservation equipment, processes, operations, and construction (CIA); (5) solar energy; and (6) general.

In addition to the above program areas, PG&E is participating in the development and introduction of conservation oriented rate designs. Included in the amounts which PG&E is proposing to recover in this offset rate proceeding are the costs of certain conservation rate research programs which have been ordered by this Commission in various cases but which have not been included in expense estimates for the test year 1976 in Applications Nos. 55509 and 55510. These rate design programs include: (1) time-of-use rates; (2) marginal costs; (3) load deferral rates; and (4) alternative rate designs (inverted rates, penalty rates, lifeline rates, etc.).

PG&E's total 1977 supplemental conservation program is estimated to cost \$21.4 million. This is in addition to PG&E's projected baseline program for 1977 of approximately \$8 million.

Proposed Report of  
the Administrative Law Judge

On September 29, 1977, a proposed report was issued, with exceptions to be filed with the Commission not later than October 19, 1977. Persons not wishing to file exceptions to the report were invited to file comments, which they were not required to serve upon other parties.

Exceptions to the proposed report were filed by PG&E and TURN, and comments were filed by the city of Davis and the city of Walnut.<sup>1/</sup> Replies to exceptions were filed by PG&E and the city of Palo Alto.

The Commission has considered the above exceptions and the replies thereto, as well as the above comments. In addition, the Commission has reconsidered Decisions Nos. 86940 and 87010 quoted from above and herein reaffirms its general policy and position in regard to the important role of conservation amid PG&E's overall program of operation.

However, we have determined that our prior orders establishing both a conservation balancing account and a procedure for prior Commission approval of specific conservation programs do not constitute the best regulatory procedures for promoting a sound and effective conservation program for review within the totally integrated operations of PG&E.

DISCUSSION

The Balancing  
Account-Offset Procedures

There have been objections and concerns expressed by various parties in this proceeding on our separate conservation cost offset balancing account approach. We have considered the evidence, positions,

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<sup>1/</sup> Exceptions were tendered for filing by the Commission staff on November 1, 1977, and comments were received from ERCDC on October 24, 1977.

and arguments of all parties. This opinion orders the balancing account established by Decision No. 86940 abolished. There are several reasons for this decision.

First, we are reluctant as a matter of policy to employ offsets. (See p. 5 supra.) Traditionally, offset applications have been entertained to grant rate relief because of sudden significant increases in utility costs which had great impact on utility operations. We could not afford to wait for a general rate case decision to grant relief because of the possible devastating effect on the utility. Absent such special circumstances, the sound regulatory procedure is to consider all utility expense components in a general revenue requirement proceeding. This best assures that excessive revenue increases are not authorized as a result of allowing twice--or duplicating--expenses. Such is particularly the case involving expenses for conservation programs, for the utility employee force may be involved with conservation activities as well as the usual utility operational functions. Offset ratemaking is a fragmentary, piecemeal approach that can have pitfalls, and should not be employed except in unusual circumstances.

Also, we have streamlined our procedures for processing general rate cases, and any need for offset relief as a practical consideration in view of regulatory delay is no longer, in our opinion, a reason for entertaining offset applications.

We have before us, in the early stages of hearing, PG&E's general rate proceeding (with a 1978 test year), Applications Nos. 57284 and 57285. That is the proper forum for PG&E to submit its proposed test year expense for conservation programs, and to explain and justify the reasonableness of the proposed efforts. Any incremental revenue increase needed for conservation efforts can be reflected in base rates as we adopt a rate design. We do not expect this process to delay those proceedings.

This opinion should not be taken to mean we think PG&E has already undertaken sufficient measures to effect conservation, or that conservation is of any less importance to this Commission. Conservation is a source of energy supply for California. Through increased conservation, existing gas supplies will last longer and gas will continue to be available to California for both residential and industrial use, which is so vital to the State's economy. Likewise, additional conservation of electricity can delay the costly construction of new generating facilities, resulting in savings to consumers as well as postponing further environmental disruption. A vigorous and effective conservation program is clearly a utility responsibility. We have taken the measures we can to provide utility management, the incentive to give conservation efforts high priority. And as we have previously announced, if we find inadequate efforts to promote conservation, we will not hesitate to make a commensurate downward adjustment to the authorized rate of return. This is yet another reason we will review and evaluate PG&E's conservation efforts in a general rate proceeding. For we are then in a position to evaluate past efforts (and consider whether any rate of return adjustment is appropriate), and at the same time review proposed programs and their estimated expense levels as we set rates for the future.

PG&E may have already placed some incidental expense amounts in the balancing account. That incidental expense should, in view of the abolishment of the balancing account, be appropriately expensed. The expenditures for 1978 will be considered for the 1978 test year expense in the general rate proceeding.

#### Home Insulation Assistance Program

PG&E's home insulation assistance proposal consists of a financing program, an insulation incentives program, an insulation representatives program, and a low-income insulation management program. The home insulation assistance proposal is the most expensive part of



the 1977 supplemental conservation program. It is estimated to cost in excess of \$6.1 million, or more than one quarter of the cost of the total supplemental program.

PG&E has proposed an insulation assistance program which would accomplish by 1981 the retrofit ceiling insulation of 90 percent of all structurally suitable existing owner-occupied, single-family dwelling units in its service area. Insulation would be installed to an R-19 standard, or such other standard as may subsequently be established by ERCDC. The evidence shows that PG&E's home insulation program package would be highly cost-effective.

Insulation Financing - A major component of PG&E's overall home insulation undertaking is financing. Insulation financing up to an \$800 maximum would be made available to those customers desiring to defer payment. Under PG&E's proposal, loans could be prepaid with no interest charges during the first 60 days, or in equal monthly installments at a one percent per month interest rate over the balance of a 36-month period.<sup>2/</sup> According to PG&E, its cost would be \$31.33 per home. The life cycle savings for the insulation financing program is estimated by PG&E at 55 million therms.

The Commission staff recommends that the interest rates on insulation loans be set at seven percent instead of at the twelve percent

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<sup>2/</sup> Insulation financing by utilities is specifically authorized by Sections 2781 through 2788 of the Public Utilities Code of the State of California. Section 2786 contemplates repayment of the balance due on insulation financing during a period of 36 months following completion of work, or at such greater rate of repayment as the customer may elect. PG&E's proposed program with an interest rate of one percent per month after the first 60 days and a 36-month repayment period is consistent with the provisions of the home insulation assistance and financing sections of the Public Utilities Code.

level proposed by PG&E. The staff also recommends that PG&E's insulation financing program be modified to limit the maximum loan at \$500, and that the repayment period be extended to a maximum of 60 months.

ERCDC recommends approval of the home insulation loan program with an interest rate of seven percent or less, and a maximum payment schedule of five years. The justification for these modifications is that marketing surveys show increasing customer appeal with reduced interest expense and that increasing the payback time could reduce monthly payments to a level close to that of the savings realized on the average bill.

We are directing PG&E to implement the insulation assistance loan program. However, we are of the opinion that the maximum amount of such loans should be \$500. That amount will insulate attics in most homes to an R-19 standard. The interest rate proposed by PG&E (twelve percent) is in our opinion excessive. The seven percent rate proposed by the staff and ERCDC is too low. We are adopting an eight percent interest rate, which is closer to PG&E's cost of money. The staff's proposal for a 60-month maximum payback period would make the program more acceptable to the public, whose acceptance and participation is the goal, and we will approve such a maximum payback period.

Questions surrounding home insulation programs are also currently before the Commission in Case No. 10032, affecting all energy utilities. Our determination in this order may be modified by our further decisions in that proceeding.

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As to the many other programs proposed in the proceedings, the Commission will reserve judgment until its decision in PG&E's ongoing general rate Applications Nos. 57284 and 57285. While not commenting on most of the specific proposals reviewed in these proceedings, we nevertheless wish to emphasize that the level of effort they represent is generally consistent with what the Commission views as a reasonable conservation program and that there should be no delay whatsoever in implementing such a program. The opportunity to earn a 12.83 percent return on equity being afforded PG&E by Decision No. 88262 issued today in PG&E's rate stabilization Application No. 57556 provides additional revenues more than sufficient to fund a substantial conservation program prior to a final decision in the PG&E general rate proceedings. Nevertheless, it should be emphasized again that, as stated in Decision No. 87010, the breadth and effectiveness of PG&E's overall conservation program during 1976 and 1977 will be considered in making the final determination of a fair rate of return.

Parties to this proceeding raised various issues that were premised on PG&E's obtaining offset rate relief. Such issues are moot because we are denying the offset relief.

#### Findings

1. The balancing account established by Decision No. 86940 for PG&E's gas and electric conservation program costs should be abolished.
2. PG&E should present its proposed conservation program and the estimated associated expenses in its general rate proceeding.
3. PG&E should continue with a vigorous and sustained effort to encourage the conservation of gas and electricity. Such efforts are

an essential element of sound utility management and responsibility in this time of diminishing energy supplies and rapidly escalating construction costs.

4. PG&E's insulation assistance loan program is reasonable, as modified by this order, and PG&E should be directed to proceed with its prompt implementation.

5. PG&E should advise the public of the availability of the home insulation assistance program.

6. No determination should be made at this time with respect to the reasonableness of the other conservation programs submitted by PG&E and other parties. The propriety of implementing new or continuing PG&E's other proposed energy conservation programs and the expenses associated therewith should be considered in PG&E's general rate proceeding.

7. To insure that the home insulation assistance program is implemented at the earliest possible date, this order should be issued effective the date issued.

Conclusions of Law

1. The \$21.4 million of offset relief requested by PG&E should be denied.

2. PG&E should be directed to implement an insulation assistance program, including the associated expense in its 1978 test year results of operations showing in Applications Nos. 57284 and 57285.

O R D E R

IT IS ORDERED that:

1. The request of the Pacific Gas and Electric Company (PG&E) for \$21.4 million in offset rate relief is denied.

2. The conservation cost balancing account established by Decision No. 86940 is abolished.

3. PG&E is directed to implement the home insulation assistance loan program within sixty days from the effective date of this order. That insulation assistance program shall provide a maximum of \$500 at a rate of 8/12 percent interest per month (8 percent per annum), with a maximum payback period of sixty months.

4. PG&E shall forthwith undertake to advise its customers of the availability and terms of the home insulation assistance program with a bill insert. The proposed bill insert should be submitted to the Commission staff for review and approval within twenty days from the effective date of this order.

5. This order may be modified with respect to the terms and conditions of the home insulation assistance loan program as a result of a further order in Case No. 10032.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 20th  
day of DECEMBER, 1977.

Robert B. ...  
President  
William ...  
Veron L. ...  
Michael D. ...

Commissioners

Commissioner Claire T. Dedrick, being necessarily absent, did not participate in the disposition of this proceeding.