

ORIGINALDecision No. 88650 APR 4 1978

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)

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Vincent J. MacKenzie, Chief Counsel, and Jonathan Blees, Attorney at Law, for State Energy Resources Conservation and Development Commission; Louis Possner, for City of Long Beach; Robert W. Schempp, for Metropolitan Water District; and Sylvia M. Siegel, for Toward Utility Rate Normalization, interested parties.

Thomas F. Grant, Attorney at Law, for the Commission staff.

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.

These new programs are in addition to Edison's conservation programs already included in the test year 1976 for ratefixing purposes. The new programs were not included as expense items in determining Edison's present rates or revenue requirement. The requested offset would increase revenues by \$10,605,000 or less than one percent. The proposed increase is 0.026 cents per kwh uniformly applied to all sales in excess of lifeline quantities.

Interim Opinion

In an interim opinion in this matter, Decision No. 87397 dated June 1, 1977 the Commission ordered that an electric conservation adjustment account be established in which to accumulate the expenses associated with Edison's supplemental conservation programs. Its request to make effective an offset rate adjustment to cover the expenses of the supplemental programs was to be treated after hearing.

In Decision No. 87397, the Commission stated:

"Edison contemplated 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.^{4/} 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

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- "4/ 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.'

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 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 expenses for conservation programs, and which are also reasonable for Edison follow: See Item 10 above.

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 concurrent rates or considered in a spending general rate increase proceeding, and for which it requests offset rate relief, after having paid variable

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

and said application shall be filed at the earliest possible time during any one active year to receive

13. Any program which involves capitalized expenditures and would have an effect upon rate base, should be proposed in an application.
14. Edison should commence by 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.

A duly noticed public hearing was held in Los Angeles on May 31, June 1, 2, and 3, 1977 and in San Francisco on June 13, 1977 before Administrative Law Judge John J. Doran, and the matter was to be submitted July 22, 1977 upon receipt of briefs. Subsequent to the hearings briefing was extended to July 29, 1977 in response to the request of the State Energy Resources Conservation and Development Commission (ERCDC). The applicant, ERCDC, the city of Long Beach, Metropolitan Water District, Toward Utility Rate Normalization (TURN), and the Commission staff participated in the proceedings.

Edison's Conservation Programs

Edison's present conservation programs included in base rates are estimated to cost \$6.0 million in 1977. These programs consist of six early Level I programs developed prior to Edison's last general rate proceeding and six Level II programs presented in the rate proceeding. Level I programs are estimated to cost \$3.6 million in 1977, Level II programs \$2.4 million, and thirty-three Level III

supplemental programs \$10.5 million.^{1/} Offset rate relief for the Level III supplemental programs is the subject of this application. After allowance for franchise fees and uncollectible expenses of \$105,000, the offset revenue increase request is \$10,605,000.

Edison's Supplemental Conservation Programs

A summary of Edison's 33 new supplemental conservation/load management programs follows:

A. There are six programs totaling \$2,478,000 directed at the residential customer:

1. Conservation centers called "Energy Marts" will help do-it-yourself customers plan and implement energy savings and/or obtain and install conservation hardware. These professionally staffed centers will display hardware devices and self-help conservation materials.
2. "High Efficiency" is an Energy Savings Appliance Program designed to upgrade consumers' purchase decisions of high energy use appliances such as refrigerator/freezers and room air conditioners to equipment meeting the proposed 1979 ERCDC efficiency standards by a customer incentive.
3. Residential Energy Audits called the "Sherlock Homes Program" is a personal energy audit program to assist high energy use residential customers identify their electric usage. Specific methods to achieve energy conservation will be suggested.
4. "Solar Retrofit/Electric Water Heater Program" offers a customer incentive for installation of solar assisted domestic water heating systems where electric water heating applications already exist.

^{1/} Cost for 12 months following authorization.

5. "Summer Comfort" is a customer incentive program to insulate the attic areas of all insulatable residential dwellings that have or plan to install central air conditioning.

6. "Wrap-Up" is an Electric Water Heater Insulation Program offering a customer incentive insulation package which will include material and labor at no charge to existing domestic customers with electric water heaters.

B. There are five programs totaling \$438,000 aimed at the commercial and industrial customer:

1. A "Commercial and Industrial New Customer Kit" program is designed to provide every commercial and industrial customer requesting service an energy conservation kit describing methods to reduce energy usage.
2. "Fresh and Free" is a promotional campaign to install economy cycles on existing commercial and industrial air-conditioning systems.
3. "Lumen Lesser" is a commercial and industrial conservation program consisting of a series of lighting campaigns aimed at architects, engineers, and consumers to improve the efficiency of existing and new lighting installations.
4. The "Specifier/New Construction and Multiple Account Contact" program has been developed for architects and multiple account operations to encourage the application of conservation/load management hardware in new and existing buildings.
5. The "Watt Stopper" program is a Time Clock Control campaign to encourage installation of time clocks on existing air-conditioning and lighting systems in commercial and industrial facilities.

C. One \$60,000 program is included for agricultural customers: "Operation Egg Plant," an agricultural lighting energy audit program devised to aid chicken egg ranchers, plant propagators, and other similar agricultural operations to reduce lighting and energy demand.

D. There are seven programs totaling \$1,717,000 proposed to stimulate public awareness of the conservation and load management ethic, techniques, and needs. These programs will be used as a vehicle to expose the public to all existing and proposed conservation/load management programs. Components include:

1. A conservation services group responsible for planning events and implementing activities, conducting field surveys and interviews, coordinating meetings, forums and seminars, and assisting other departments in individual base load performance communicating information about renewable alternative energy sources.
2. An educational support services group responsible for providing energy management educational materials to teachers and students.
3. Exhibits and displays for energy fair/trade shows, community energy programs, shopping center exhibits, and other events that provide an audience for energy conservation information.
4. Public and employees communications for the media, employees, and individual customers. Information to be disseminated as pertinent and/or in response to specific requests.
5. A Speakers Bureau of 30 people prepared to effectively communicate on the conservation and load management ethic.
6. Speech and education material for public contact personnel to include brochures, slides, and other communication aides.
7. Workshops, seminars, and forums for the following groups:
Architects, engineers, and design consultants, community leaders, appliance dealers and contractors, electrical maintenance personnel, plant engineers, and Plumbing Industry Progress and Education Institute industry members.

E. Three test programs totaling \$186,000 are included:

1. A Residential Appliance "Time-of-Use" Survey Research Program involving periodic telephone surveys to determine the number and type of appliances being operated during peak generation periods.
2. A Residential Appliance Retrofit Research Program to investigate the feasibility of retrofitting hardware applications and modifications for existing residential appliances.
3. A Time-of-Use Rate Research Program involving the contact of a sample group of customers to obtain agreements for participation in Time-of-Use rate experiments.

F. There are eight Load Management programs totaling \$4,854,000 which include:

1. A waste heat/co-generation program that provides funds for engineering feasibility studies on potential applications.
2. A Distribution Circuit Management Program to reduce energy and capacity losses by rearranging 4,000-volt distribution configurations.
3. A Commercial Load Control Program to identify the types and magnitude of loads and customer acceptance of permanent control either by customer or utility imposed.
4. An Energy Use Deferment Program, "Give your appliances the Afternoon Off," a promotional campaign to encourage major residential appliance use at times other than afternoon.
5. A Residential Load Management Program involving the installation of a utility actuated control system to cycle electric water heating and/or air-conditioning loads during peak periods.
6. A Sensible Cooling Demonstration Program to demonstrate the energy and demand reduction potential available through the installation of sensible cooling equipment.

7. A Swimming Pool Pump Load Management Program calling for the installation of an extra pair of trippers on pool time clocks to turn off pools during specific peak time periods by offering a customer incentive.
 8. A Leveling of System Electric Demand Program to eliminate system demand fluctuation caused by very large customers by applying a floating demand interval billing procedure.
- G. Three other programs totaling \$435,000 which include:
1. A Conservation/Load Management System Program to create methodologies acceptable to the Commission and ERCDC staff and Edison, capable of measuring individual conservation/load management programs as well as total energy and demand reductions exclusive of the effects of such variables as: weather, economic, price, and new loads.
 2. A Conservation/Load Management Program to resale customers to encourage the municipalities to implement conservation and load management programs with their consumers.
 3. A Training Program for customer contact personnel to improve communications skills, methods, and techniques.

H. There is \$366,000 of management overhead not included in the individual program detail.

I. Subsequent to the filing of Application No. A.57111, the Commission requested California's major private electric utilities to initiate a program designed to test the water pumps of the water utilities in their respective service territories. In response to this request Edison proposes an additional program to conduct hydraulic tests on 1,600 private water utility pumps. It will provide tests and analyses to the water utilities for their follow-up action. The \$124,000 cost of this program has not been included in the request for offset rate relief. However, Edison does propose to recover the costs through the CAA.

To the extent possible, Edison states that its energy conservation and load management programs are designed to accomplish three basic objectives: (1) increase the efficiency of electric usage; (2) reduce energy waste to the extent possible; and (3) moderate system peak demands. Basic to these objectives is the optimization of the cost effectiveness of each program. A program is cost-effective when it can be set into motion for less than the cost of providing new supplies.

The proposed supplemental conservation budget at full implementation for a 12-month period is allocated as follows: 32 percent for conservation programs, 47 percent for load management programs, 14 percent for general information/public awareness, and 7 percent for other programs (includes measurements, research, training, and other conservation expenses).

Based upon the proposed rate spread, conservation program expenses are divided among five customer classes as follows: 81 percent for residential, 2 percent for agricultural, and 17 percent for commercial/industrial/public authority. This relates closely to the percentage each customer class represents of the total number of customers served in 1976, which is 89 percent residential, 1 percent agricultural, and 10 percent commercial/industrial/public authority.

The proposed supplemental program efforts are designed to reduce by an estimated 119,500,000 kwh the annual consumption of electricity (defined as the first-year savings accumulated by simultaneous implementation for all 33 programs during a 12-month period). In addition, it is estimated that the water utility pump test programs will reduce annual consumption by 5,330,000 kwh. The estimated savings for the 34 programs are 124,830,000 kwh. Edison's Customer Incentives

Customer incentives are included in five of the 34 supplemental conservation programs as follows:

1. Edison would pay a direct cash allowance of \$400 towards the installation of a solar-assisted electric water heating retrofit system. The customer's water heater will be field-wrapped with insulation to reduce inherent heat losses. Edison would issue a five-year limited warranty on components found to be defective in materials or workmanship. Financing through normal banking sources is available. As a condition of receiving the incentive, a radio-controlled switch for future utility control will also be installed. Edison also requires that the solar system design be submitted to it before being installed by the customer's contractor and that the installation be inspected upon completion. It is estimated that Edison's annual expenditures will be \$700,500 including customer incentives for 1,000 installations under this program.
2. Free installation of insulation for customers with electric water heaters at a cost of approximately \$25/water heater installation. The water heater installation will be installed by prequalified personnel under contract to Edison. It is estimated that Edison's annual expenditures will be \$825,000 including customer incentives for 27,000 units under this program.
3. The installation of devices on swimming pool pump control systems to limit operations during peak periods in the amount of about \$5 per installation plus a one time \$5 credit on customer's bills. It is estimated that Edison's annual expenditures will be \$950,000 including customer incentives for 58,000 units under this program.
4. The distribution of a conservation device having an equivalent cash value of \$5 to each customer who purchases a high efficiency refrigerator/freezer meeting certain designated high efficiency standards. It is estimated that Edison's annual expenditures will be \$320,000 including customer incentives under this program.

5. Financing will be available for residential central air conditioner customers who insulate their attic areas to a minimum level of R-19. For customers who do not pay cash or use bank credit cards, Edison would offer financing up to 36 months. A finance charge of five-sixths of one percent per month or approximately 18 percent per annum will be added to the amount being financed, with the amount which will be financed limited to \$1,000 per residential dwelling unit. It is estimated that Edison's annual expenditures will be \$420,000 including customer incentives for 900 units under this program.

Positions

Parties to the proceeding presented a wide range of views from expanding the programs with offset rate relief to denial of the rate offset.

The Commission has considered the various positions, reconsidered Decision No. 87397 heretofore quoted, and reaffirms its general policy and position in regard to the important role of conservation amid Edison's overall program of operation.

Decision No. 88272

The ordering paragraphs in Decision No. 88272 dated December 20, 1977 in Pacific Gas and Electric Company's (PG&E) Offset Rate Increase for Conservation Application No. 56845 are as follows:

- "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."

In discussing the denial of offset rate relief in Decision No. 88272 the Commission stated:

"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."

(Mimeo. pp. 8 and 9.)

Similarly, Edison has a general rate proceeding before us in Application No. 57602 filed October 7, 1977 which is now in the hearing process. That is the proper forum for Edison to submit its proposed test year expense for conservation programs, and to explain and justify the reasonableness of the proposed efforts.

In discussing the abolishing of the balancing account in Decision No. 88272 the Commission stated:

"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." (Mimeo, p. 9.)

The Commission again established a similar position in Decision No. 88551 of Case No. 10032 as follows:

"Although there is much to be said for balancing accounts to offset costs including energy conservation programs, it is a poor regulatory practice to authorize such accounts for the purpose of cost recovery of ongoing and anticipated expenses largely within the control of the utility. For such expenses, it is customary to grant relief to the utility in general rate proceedings. In addition, the reduced time needed in processing general rate cases due to improved procedures, has also greatly reduced the need for offset relief. Consistent with these new procedures, the order herein will not authorize the establishment of conservation adjustment accounts for this purpose."

Similarly, Edison's conservation balancing account expenditures should now be appropriately expensed and estimated test year expense will be considered in Application No. 57602.

Home Insulation Assistance Program

Edison's "summer comfort" customer incentive program is to insulate the attic areas of all insulatable residential dwellings with central electric air conditioning. For customers who do not pay cash or use bank credit cards, Edison offered financing up to 36 months at five-sixths of one percent per month or approximately 18 percent per annum with the amount financed limited to \$1,000 per dwelling.

The staff recommended \$500 maximum financing up to five years at an annual interest rate of 7 percent. Further, the staff recommended a limited time offer of a \$50 incentive to customers who insulate.

ERCDC recommended that Edison's program not be approved in its present form. However, it recommended 7 percent financing up to five years for the full cost of insulation and a cash rebate.

Edison estimated its residential attic insulation costs to be \$420,000 for 900 units. Edison plans an aggressive marketing approach to encourage the insulation of attic spaces of these units to a minimum level of R-19. The staff recommended that Edison increase the program cost by \$250,000--enough funding for 5,000 units at \$50 each. The staff estimated that Edison has 350,000 residential air-conditioning customers.

Since Edison is now ordered by Decision No. 88551 to institute a Home Insulation Assistance Program, further discussion of the matter is moot and Edison's program will be expected to comply with that decision.

Other Programs

As to the many other programs proposed in the proceeding, the Commission will reserve judgment until its decision in Edison's ongoing general rate Application No. S7602 (or docket No. 000,203,013).

In Decision No. 86794 dated December 21, 1976 in Edison's last decided general rate proceeding the Commission stated with respect to conservation: "In subsequent proceedings, a more detailed analysis will be undertaken and Edison's rate of return will be adjusted, upward or downward, as the evidence indicates." (Mimeo. p. 53.) Such decision found the fair rate of return to be 8.8 percent and the rate of return on equity to be 12.63 percent. We will evaluate the level and vigor of Edison's conservation efforts with an eye to a possible rate of return adjustment in the present general rate proceeding.

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

Findings

Edison should present its proposed conservation program and the estimated associated expenses in its general rate proceeding.

2. Edison should continue with a vigorous and sustained effort to encourage the conservation of 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.

and the above determinations taken into account, the following remains:
Monocycle calculation of December 1987 would reduce CCR 202 and CCR 0542
by about \$10 million. This would be sufficient to implement one approach of
3. No determination should be made at this time with respect to the
reasonableness of the other conservation programs submitted by Edison and other parties. The propriety of implementing new or continuing Edison's other proposed energy conservation programs and the expenses associated therewith should be considered in Edison's current general rate proceeding.

4. Edison's home insulation assistance program shall be consistent with Ordering Paragraphs 1 through 5 of Decision No. 88551 in Case No. 10032, including the effective dates set forth therein.

Conclusions:
1. The \$10,605,000 of offset relief requested by Edison should be denied.

2. Edison's balancing account established by Decision No. 87397 for conservation program costs should be abolished.

3. Edison is hereby placed on notice to implement an insulation assistance program consistent with the ordering paragraphs including the effective date of Decision No. 88551. In addition, Edison should be directed to include any associated expenses in its test year results of operations showing in Application No. 57602.

O R D E R

IT IS ORDERED that:

1. The request of the Southern California Edison Company (Edison) for \$10,605,000 in offset rate relief is denied.

2. The conservation cost balancing account established by Decision No. 87397 is abolished.

3. Edison is directed to implement the home insulation assistance loan program consistent with the ordering paragraphs and dates set forth in Decision No. 88551.

The effective date of this order is the date hereof.

Dated at San Francisco, California, this 4th
day of APRIL, 1978.

I dissent
William J. Morris Jr.

I dissent
Vernon D. Strugan

Ronald Batmangich
President

Gilbert J. Jaschinski
Clare T. Babbick
Commissioners