

ORIGINAL

Decision No. 92109 AUG 19 1980

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of H.A.R.T. PROPERTIES) to resell electricity on a metered) basis in a commercial development.)	Application No. 57177 (Filed March 29, 1977)
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Application of SunValley, a Califor-) nia Partnership, and H.A.R.T.) PROPERTIES, a California Partnership,) to resell electricity on a metered) basis in a commercial development.)	Application No. 57919 (Filed March 7, 1978)
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William F. McCabe, Attorney at Law, for
applicants.
Fred Sarkowsky, (for himself, Oba Alan Bennett Ltd),
and Joseph Kennedy, for The Plum Tree,
protestants. SS

Harry W. Long, Attorney at Law, for Pacific Gas and
Electric Company, interested party.

Robert Cagen, Attorney at Law, and Vladislav A. Bevc, P.E.,
for the Commission staff. ✓

O P I N I O N

SunValley, a California partnership, and H.A.R.T. Properties (H.A.R.T.), a California partnership, request authority to deviate from Pacific Gas and Electric Company's (PG&E) Electric Rule 18 so that they as lessors may submeter and resell electricity to their tenants at the same rates PG&E would directly charge the tenants.

Public hearings were held before Administrative Law Judge Thomas E. Daly in San Francisco on various dates and the matters were submitted on receipt of briefs filed April 21, 1980. ✓

Applicant's Showing

SunValley owns the Sun Valley Shopping Center (Valley), in Concord, California and H.A.R.T. owns the Eastridge Shopping Center (Eastridge) in San Jose, California. Each requests authority to deviate from the provisions of Rule 18 by submetering and reselling electricity to their tenants pursuant to subsection C.2.d. of that rule.^{1/} The rates to be charged for the electricity actually used by the tenants would be in accordance with the applicable tariff of PG&E.

1/ Rule 18 provides that separate premises will not be supplied through the same meter with certain exceptions. One of the exceptions is Subsection C.2.d, which applies to nonresidential service and reads as follows:

"Where the Commission has authorized the Utility to supply electric service through a single meter and to furnish service to nonresidential tenants on the same basis as in l.b.(2) above."

Subsection l.b.(2) of Rule 18 applies to Residential service and reads as follows:

"The customer submeters and furnishes electricity to residential tenants at the same rates and charges that would be applicable if the user were purchasing such electricity directly from the Utility."

Each center was constructed with a series of master meters to measure electricity consumed by the entire center. Valley has 115 tenants and is equipped with one "house meter", which measures electricity consumed in the common area and four "tenant meters", which measure the electricity distributed to and consumed by the tenants in the center. Eastridge has 151 tenants and is equipped with four meters each of which measures electricity used for both tenant space and common area.

Applicants presently purchase electricity from PG&E at a reduced rate for master meters and the charge to the tenants for the energy used is absorbed in the rental charge.^{2/} Prior to July 21, 1972, the minimum rent included an increase in the value of the premises resulting from the supplying of additional service to the premises, including electricity. Stock paragraph 17 of the leases provided for an adjustment upward or downward based upon the tenants' consumption of electricity as estimated by an electrical engineer. By Decision No. 80379 dated August 15, 1972, in Cases Nos. 9186, 9187, 9206, and 9217 the Commission held that the adjustments violated the provisions of Rule 18 and required the leases to be modified. As a result paragraph 17 was deleted from the leases and provision was made for an annual rental increase that was fixed at a predetermined rate and did not vary with energy consumption.

^{2/} Applicants purchase electricity from PG&E pursuant to the rates set forth in Schedules Nos. A-12 and A-13 in effect on October 3, 1978.

Applicants contend that under the present arrangement there is no economic incentive on the part of the tenants to conserve energy. According to applicants there is no difference between residential and commercial units and the Commission has found that greater energy conservation would result if all units in new multi-unit residential complexes are individually metered (Decision No. 88651 dated April 4, 1978, in Case No. 9988).

Because of conservation measures employed by Valley the house meter for the common area showed a 33.3 percent decrease over a five-year period. The meters serving the tenants showed only a 16.1 percent decrease despite a letter dated April 29, 1977, requesting the tenants to conserve. A similar comparison was not possible at Eastridge because separate meters had never been installed to measure common area usage, but the total overall decrease was only 17.2 percent. Applicants believe that the tenants did not reduce at the same rate as common area usage because there was no economic incentive to reduce, which assertedly would exist if the tenants were individually metered.

Applicants propose to employ the service of Electric Metering Company (EMC) to supervise the installation of the sub-meters, to service and read the submeters, and to submit bills to the tenants on behalf of the applicants. EMC has been in operation since 1930 and presently operates in Connecticut, California, Illinois, Maryland, Michigan, Nevada, New York, Virginia, and Wisconsin. It performs such service as electric metering, central metering, tenant electrical cost estimates, and economic feasibility studies. In 1977 it had an average of 5,612 meters in service and an average of 4,385 monthly billing accounts.

A representative of the EMC testified that the company would provide the necessary personnel and equipment, including meters if requested; maintain all of the equipment whether used by EMC or the shopping center; perform all of the reading of meters; calculate all electric bills and submit them to the tenants on a monthly basis; and prepare and submit the charges for the common area electric usage to the shopping center. According to the witness the bills would provide the same information that is provided in the bills of PG&E and meters would be tested in accordance with the requirements of PG&E and the Commission. He further testified that EMC presently provides similar submetering services for four shopping centers in Michigan and two shopping centers in Wisconsin. In addition, the witness testified that the Federal Energy Administration Office of Energy Conservation recently published the results of a study entitled "Energy Conservation Implications of Master Metering," wherein it found that residential customers used 30 percent more electrical energy under master metering as opposed to individual metering and that with approximately four million master meter customers within the United States the potential energy conservation would approximate 18 million barrels of oil annually.

Another study referred to by the witness related to three shopping centers: (1) Woodfield in Schaumburg, Illinois; (2) Northridge in Milwaukee, Wisconsin; and (3) Southgate in Greendale, Wisconsin. In addition to being designed by the same architect and built by the same contractor all are exposed to the same climatic conditions generally and operate about the same hours. The tenants at the Northridge and Southgate centers are served through submeters whereas the Woodfield center is served

through a master meter. With Woodfield as the norm, or 100 percent, the consumption at Northridge was 81 percent and Southgate was 76.8 percent.

PG&E's Showing

Although two of the Eastridge tenants appeared as protestants they made no presentation; however, PG&E, which appeared as an interested party, opposed the applications on the ground that if the authority sought were granted it would seriously jeopardize the nature and quality of service now available and would result in the need for protracted and costly supervision of applicants' operation by both PG&E and the Commission.

PG&E contends that it would be extremely difficult for EMC to provide a satisfactory service from its headquarters situated thousands of miles from the San Francisco Bay Area. Meter readers and repairpersons would have to be flown to California from Illinois periodically and tenants would have to wait at least two weeks before equipment tests or repairs could be made. With EMC not reasonably available and accessible, billing adjustments and routine inquiries would become major undertakings.

PG&E claims that because of the difficulty in estimating pro rata costs for each tenant and the tendency to waste power it has always recommended that shopping centers be individually metered. PG&E is willing to provide direct metering at both Valley and Eastridge. In addition, it is willing to share in the cost of rewiring the two centers. In the recent conversion of Tanforan Park Shopping Center in San Bruno, California, from master metering to direct metering, PG&E shared approximately \$100,000, or 50 percent, of the bid price for the conversion cost

of approximately 104 stores. With respect to Eastridge and Valley, PG&E is willing to pay up to one-half of the cost, not to exceed twice the estimated increase in revenue realized from individual metering under time-of-use rates, assuming at least a 10 percent reduction in tenant use due to conservation.

Staff's Showing

The Commission staff also opposed the requested deviation. Because applicants propose to pay for the service of EMC out of expected profits derived from submetering, the staff contends, as does PG&E, that there will be no profit under time-of-use rates. With no profit the staff believes that it is quite possible that applicants will dispense with the services of EMC and rely upon the services of inexperienced and untrained personnel, or in the alternative seek relief in the form of a reduced rate.

In determining the economic feasibility of applicants' proposal the staff made an analysis based on data relating to Eastridge, which the staff believes adequately depicts the typical problem areas connected with commercial submetering operations.

Applicants submitted the following estimates in projecting the expected income and costs for Eastridge: (Exhibit 9)

Capital Investment

Original Cost	\$413,600 ⁽¹⁾
Conversion Cost	127,400 ⁽²⁾
Lease Modification Exp.	<u>249,000⁽³⁾</u>
Total Capital Investment	\$790,000

Income and Expense

Income	\$941,200 ⁽⁴⁾
Less Cost of Electricity Purch.	<u>734,100⁽⁵⁾</u>
Gross Income	\$207,100

Other Expenses

Interest	\$69,700 ⁽⁶⁾	
Electric Metering Co. Fee	21,400 ⁽⁷⁾	
Personnel Costs	1,200	
Accounting	200	
Depreciation & Amort.	<u>38,900⁽⁸⁾</u>	
		<u>\$131,400</u>

Net Income Before Federal Income and State Income Taxes	<u>\$ 75,700</u>
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- (1) Estimate of cost to install electrical service to tenant spaces at time of initial installation.
- (2) Estimate of cost to install meters within each tenant's premises.
- (3) Based upon 50 cents per square foot of gross leasable area.
- (4) Estimate based upon current rates and assuming that all tenants agree to lease modification.
- (5) Estimate based upon estimate of tenant consumption data; does not take into account conservation to be achieved.
- (6) Computed at original mortgage rate.
- (7) Based upon agreement re Meadowood Shopping Center, Reno, Nevada.
- (8) Based upon 30-year straight line for original cost and 15-year straight line for conversion costs and lease modification expense.

Based upon data provided by PG&E relating to the consumption of electricity at Eastridge for the period from October 1977 to September 1978, the staff calculated the proposed operation at the rates set forth in Schedules Nos. A-12 and A-13 in effect on October 3, 1978, as well as charges under time-of-use rates set forth in Schedule No. A-23 and proposed Schedule No. A-22. The results are as follows:

Item	Applicant	PG&E ⁽¹⁾	Staff
Tenants Estimated Usage kWh	18,617,484	-	18,612,000 ⁽²⁾
Applicant's Total Usage kWh		20,079,000	
Total Charges to Tenants	\$ 941,243	\$ -	\$823,404 ⁽³⁾
Total Charges to Applicant	734,053	890,418	754,156 ⁽⁴⁾
Gross Revenue to Applicant	207,190		69,250

(1) Recorded data.

(2) Based on applicant's usage estimates, Exhibit No. 7.

(3) At rates of Schedules Nos. A-1 and A-12 in effect on October 3, 1978.

(4) Based on utility recorded usage at rates on Schedules Nos. A-12 and A-13 in effect on October 3, 1978.

Using the staff's calculations, applicants' cost and income projection as set forth in Exhibit 9 (and shown on page 8) would be modified as follows:

Capital Investment

Original Cost	\$413,600
Conversion Costs	127,400
Lease Modification Expense	<u>249,000</u>
Total Capital Investment	\$790,000

Income and Expense

Income	\$823,404
Less Cost of Electricity Purchased	<u>754,154</u>
Gross Income	\$ 69,250

Other Expenses

Interest (8.8%)	\$ 69,700	
Electric Metering Co. Fee	13,387	
Personnel Costs	1,200	
Accounting	200	
Depreciation (15 years)	<u>38,900</u>	
		<u>\$123,387</u>

Net Loss \$(54,137)

(Red Figure)

According to a witness for applicants the capital investment in the existing electrical system, along with other original costs, is being amortized through the rent paid by the tenants. It therefore represents a sunk cost that should be excluded from the calculation. In addition, the lease modification expense is an administrative cost that cannot be depreciated. With these adjustments applicants' cost and income projection would be further modified to reflect the following:

Capital Investment

Conversion Cost	\$127,400
Lease Modification Expense	<u>249,000</u>
Total Capital Investment	\$376,400

Income and Expense

Income	\$823,404
Less Cost of Electricity Purchased	<u>754,154</u>
Gross Income	\$ 69,250

Other Expenses

Interest (8.8%)	\$33,209	
Electric Metering Co. Fee	13,387	
Personnel	1,200	
Accounting	200	
Depreciation (15 Years)	<u>8,493</u>	
		<u>\$ 56,489</u>

Net Income before taxes	\$ 12,761
Return on Investment	3.4%

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When considered under time-of-use rates the results are as follows:

Capital Investment

Conversion Cost	\$127,400
Lease Modification Expense	249,000
Total Capital Investment	<u>\$376,400</u>

Income and Expense

Income	\$823,404
Less Cost of Electricity Purchased (Schedule No. A-22, Present Level)	<u>798,463</u>
Gross Income	\$ 24,941

Other Expenses

Interest (8.8%)	\$33,209	
Electric Metering Co. Fee	5,988	
Personnel	1,200	
Accounting	200	
Depreciation (15 Years)	<u>8,493</u>	
		<u>\$ 49,090</u>

Net Loss \$(24,149)

(Red Figure)

If applicants could recover only projected expenses by purchasing electric energy at a discount it would result in a shift of utility revenue between certain classes of customers and the staff expressed concern that other ratepayers of PG&E would eventually have to bear the burden of any discount that may be authorized.

Discussion

By Decision No. 63562 dated April 17, 1962, in Application No. 52534 this Commission authorized a change in PG&E's Rule 18 prohibiting the resale of electricity or gas by submetering other than for domestic use or by municipalities or other public utilities purchasing utility service under wholesale schedules designed for resale purposes. At that time PG&E was serving approximately 77 commercial customers through master meters and they, in turn, were reselling that service to their tenants through submeters. Service to these customers was continued by the inclusion of a grandfather provision.

In authorizing that change of Rule 18, we adopted the staff's contention that elimination of nondomestic submetering was in the public interest. This was because the practice of reselling energy through the use of submetering, in effect, placed an unregulated person into the utility business without affording the ultimate consumer any recourse as to rates and conditions of service. At the same time, we found that the restriction against nondomestic submetering and the continued practice of domestic submetering was reasonable and nondiscriminatory.

The reasons for invoking the restriction against nondomestic submetering appear to be as valid today as they did in 1962. Use of PG&E's trained personnel does assure a uniformity of meter reading, billing, and adjustments. Being headquartered in Illinois would require an employee of EMC to travel to the shopping centers once a month for the purpose of reading meters.

All bills would be prepared in Illinois and mailed to the tenants in California. The usual problems relating to meter reading, the testing and repair of meters, billing, and the processing of disputed bills would be compounded because of the geographical distance between EMC and the tenants.

Even this geographically remote service would be jeopardized if the funds generated by submetering failed to produce a profit. The record is silent on what service would be provided if EMC failed to perform. According to applicants' proposal, EMC's compensation would be determined by a formula based upon a percentage of the profits derived from the resale of electricity. When preparing their revenue and cost estimates, applicants gave no consideration to time-of-use rates, and the record clearly demonstrates that with time-of-use rates there would be no profit. Unless some suitable arrangement could be made between applicants and EMC an alternative service would have to be made available. In either event, there would be no regulatory accountability that would insure consistent maintenance of suitable operating standards and billing practices.

We believe that metering of individual end users has a beneficial effect on the conservation of energy, but these benefits would be greatly offset by a variety of potential problems that could arise if the resale of energy by submetering was authorized for nondomestic customers. We believe that direct metering by PG&E would be the best way to achieve conservation and at the same time assure applicants' tenants of a uniform and reliable standard of service. But, in the absence of a rule change eliminating the provision for master metering where the

charge to tenants is absorbed in the rental of the premises, the only way that this can be accomplished is by way of mutual agreement between applicants and PG&E. We strongly suggest that the parties work toward this end.

Findings of Fact

1. As a deviation from PG&E's Electric Rule 18 applicants, as California partnerships, request authority to submeter and resell electricity to their tenants at the Sun Valley Shopping Center in Concord and the Eastridge Shopping Center in San Jose, respectively, and charge them for the electricity actually used under PG&E's applicable tariffs.
2. If authorized, EMC of Arlington Heights, Illinois, pursuant to an agreement with applicants, would manage all submetering operations, including the installation of submeters, and thereafter read such submeters at each center once a month, answer customer inquiries, test meters and other equipment, compute electrical charges, and do the necessary billing.

3. EMC's compensation would be determined by a formula based upon a percentage of the profits that applicants expect to realize from the resale of electricity, which they would purchase from PG&E at the master meter rates set forth in Schedules Nos. A-12 and A-13 in effect on October 3, 1978.

4. With headquarters in Illinois, EMC could not consistently provide and maintain the same level of service that it could if locally based.

5. In 1962 this Commission adopted and has since followed a policy of restricting the practice of nondomestic submetering because it, in effect, permits an unregulated type of utility service without affording the consumer proper protection in matters of rates and service.

6. Direct metering of applicants' tenants by PG&E would be in the public interest because it would have a beneficial effect in the conservation of energy and it would provide applicants' tenants with an accountable, uniform, and reliable standard of service.

Conclusion of Law

We conclude that the applications should be denied.

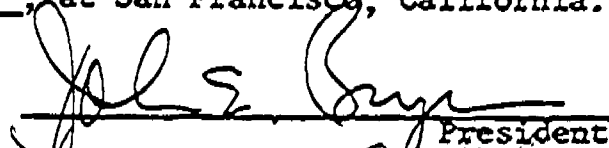
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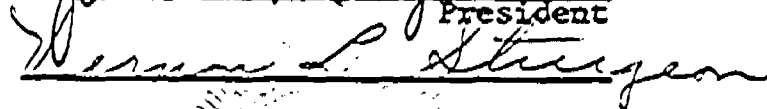
IT IS ORDERED that Applications Nos. 57177
and 57919 are denied.

The effective date of this order shall be thirty
days after the date hereof.

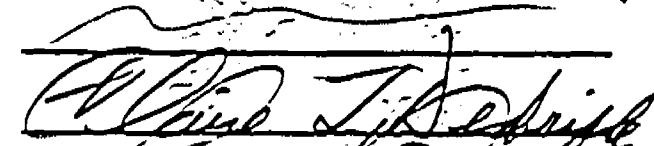
Dated AUG 19 1980 , at San Francisco, California.



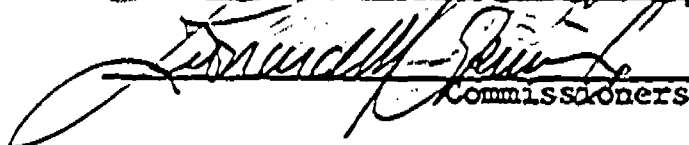
President



Commissioner



Commissioner



Commissioners

Commissioner Richard D. Gravelle, being
necessarily absent, did not participate
in the disposition of this proceeding.