

ORIGINAL

Decision No. 92655 JAN 28 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Power & Light Company for Authority to Institute a Home Insulation Assistance and Financing Program.)	Application No. 59309
)	Petition for Modification
)	(Filed September 18, 1980)

George M. Galloway, Attorney at Law, for Pacific Power & Light Company, applicant.
Thomas M. Ducey, for himself, protestant.
Forrest W. Godfrey, for Del Norte Municipal League;
Nicholas R. Tibbetts, for the Office of Assemblyman Douglas H. Bosco; and Edward L. Ackerman, for Chapter 788 American Association of Retired Persons; interested parties.
Brian T. Cragg, Attorney at Law, and George A. Amaroli, for the Commission staff.

O P I N I O N

Decision No. 91497, dated April 2, 1980 in this proceeding, approved Pacific Power & Light Company's (Pacific) proposed zero-interest residential insulation assistance and financing program (ZIP), subject to the conditions and modifications specified in the order.

By its Petition for Modification of Decision No. 91497 filed September 18, 1980, Pacific seeks to revise its ZIP as more specifically set forth below. The petition was served on the parties appearing in the initial phase of this proceeding. At the request of

Thomas M. Ducey (Ducey) public hearing was held before Administrative Law Judge Mallory in Crescent City on December 8, 1980 and the petition for modification was submitted. Evidence was adduced on behalf of Pacific, the Commission staff (staff); Ducey, Del Norte Municipal League (League), and Chapter 788 of the American Association of Retired Persons (AARP).

Pacific's Proposal

1. Pacific's program provides installation financing up to the amount of the lowest bid received on a given insulation and weatherization job. Pacific proposes to allow the customer to select a contractor, and to finance the customer's selection of materials up to 56 mills times the estimated annual kilowatt-hour (kWh) savings associated with the installation.

2. Pacific's ZIP requires it to obtain real property liens from customers who obtain insulation and weatherization loans as a means of ensuring repayment. Pacific proposes to require such security only for loans in excess of \$1,500. For loans of \$1,500 or less, the customer would be required to sign a promissory note.

3. Pacific proposes to expand program eligibility to include multifamily dwellings which are individually heated and individually metered, and permanently situated mobile homes.

Pacific's Evidence

Pacific's witness testified that approximately 250 of its California customers desire to participate in its ZIP program, but that no loans have been processed pending completion of this proceeding.

Pacific's witness further testified that its current proposals are designed to broaden customer choice of materials and contractors, to streamline Pacific's administrative procedures, and to make more of Pacific's customers eligible for the loan program. The witness stated that removing the requirement that only low-bid amounts be financed is designed to increase the attractiveness of the program to customers, to allow customers reasonable freedom of choice of contractors and products, and to eliminate Pacific's administrative costs associated with soliciting and evaluating bids.

Under its current program Pacific acts as general contractor, as it must evaluate the bids, select the low bidder, and make certain that the job is completed satisfactorily.

Pacific was advised that it must obtain a California general contractor's license if it is to operate in the manner prescribed in its approved plan. Pacific does not wish to obtain a license. Pacific's witness testified that the benefits that would be derived from the company's acting as a general contractor in the course of its California zero-interest financing program are minimal. Pacific

believes that it would be better for all concerned if its California customer dealt directly with contractors, subject to Pacific's assuring that quality and cost-effectiveness standards are met. Assertedly, Pacific's involvement as a general contractor inhibits both contractors and customers from participating to the extent they might otherwise. As long as quality control and cost-effectiveness standards are satisfied, Pacific believes that the highest priority for the program should be maximizing customer and contractor participation.

Pacific believes that the financing limit of 56 mills per kilowatt hour of estimated savings will not permit the financing on any job to exceed the limit of 10 percent above the low-bid level. Pacific will offset the higher amount financed with savings in administrative costs.

Pacific's proposal to finance bids over the low-bid level would shift to its customers the responsibility for bid-getting. The plan calls for submission of three bids; however, if the customer cannot get three bids, fewer bids will be accepted. Pacific believes that there may not always be three contractors available to bid on retrofit jobs in the rural areas which it serves in Northern California.

The administrative costs which Pacific would save are difficult to quantify, but would result from a savings of time due to neither having to evaluate bids nor having to check the progress and satisfactory completion of jobs on which it would otherwise have

operated as general contractor.

Pacific believes that the administrative costs associated with the processing and recording of liens for loans of less than \$1,500 exceed the estimated net loss in unsecured notes. Its witness stated that its experience of losses in connection with small weatherization loans in other states indicates that no greater overall program costs will be incurred from loan losses than are incurred from the preparation and filing of the legal documents necessary to record the liens.

The witness testified that about 4,000 customers are eligible for Pacific's existing ZIP program in northern California. Expansion of that program to include individually metered and heated multifamily dwellings and permanently situated mobile homes will make approximately 2,000 more customers eligible for loans.

Pacific is desirous of expanding its ZIP program to reach the greatest possible number of customers. It believes that the installation costs and administrative expenses for the new classes of eligible customers will be similar to those of customers now eligible for loans.

Staff Evidence

The Chief of the Commission's Energy Conservation Branch testified for the staff of the Commission. He stated that the staff fully supports Pacific's proposals, with one exception. The staff-

proposed modification is to permit financing of the customer's choice of materials, up to 10 percent over the lowest bidder, but in no case more than the marginal cost of new electric supply. This recommendation is consistent with the witness' previous testimony in Pacific Gas and Electric Company's (PG&E) Application No. 59537. The bidding procedure proposed by the staff witness is as follows:

BIDDING PROCEDURES

A. Listing of Contractors

The state plan to implement the federally mandated Residential Conservation Service (State RCS Plan) requires that a state agency (yet to be named) develop a "Master List" of contractors and/or installers. That Master List is not expected to be available until early in 1981. For the interim the staff witness recommended that Pacific continue the use of its present method of listing and delisting contractors and maintain a list of contractors/installers that meet Pacific's predetermined quality materials and workmanship standards.

When the Master List of contractors/installers is issued Pacific should immediately discontinue the use of its own lists and instead use the Master List which it may subdivide in accordance with the provisions of the State RCS Plan.

B. Criteria for Bidding and Quality Assurance

The final criteria for creating the Master List of contractors/installers are not likely to include a firm bidding process as a condition for being listed, and since the lists will be prepared on a statewide basis, it is not likely that the contractors'/installers' quality of materials and workmanship will be known or developed to Pacific's standards. In order for Pacific to protect itself and its customers the staff witness recommended that

Pacific undertake the following actions to ensure that only quality materials and workmanship are used and that all work is performed at a fair price:

1. Provide its customers, during the audit, with the names of three contractors selected in random or sequential uniform rotation for each measure found to be cost-effective during the audit.
2. Allow its customers the choice of the following insulation materials:
 - a. Rockwool
 - b. Cellulose
 - c. Fiberglass
3. Allow its customers, in the case of cost-effective double-glazing, the choice of windows up to the medium grade without restriction to the most inexpensive track grade sash.
4. Having been given this information the customer should be advised to seek out three bids for installation of the desired measures. All bids should be broken down for each measure to be installed. Pacific should finance up to 10 percent above the low bidder and no higher. The customer may accept any bid but must directly assume any costs in excess of 10 percent over the lowest bid.
5. Pacific should promptly pay the cost of the weatherization performed when both Pacific and the customer are satisfied that the work was properly done. Pacific will simultaneously complete the financing paperwork with the customer, including recording any necessary liens of the customers' property when such liens are required

6. Pacific should adhere to the State RCS Plan for providing input comments on the listing or delisting of contractors/installers.

WARRANTIES

The State RCS Plan provides for three-year manufacturer warranties on materials and devices, and one-year warranties on contractor labor for repair or replacement of material and devices.

The staff witness recommended that, for maximum consumer protection and some assurance that cost-effectiveness of measures will be realized, all work performed include a three-year free repair or replacement warranty. This should be implemented as follows:

A. Warranties for Materials and Devices

Except for caulking and weatherstripping, only materials and devices possessing a manufacturer's three-year free repair or replacement warranty should be financed under Pacific's Zero-Interest Weatherization Program. This recommendation is consistent with the State RCS Plan.

B. Original Contractor Warranty Responsibility

Except for caulking and weatherstripping the contractor should provide one year free labor for repair or replacement of any defective materials or devices. This recommendation is consistent with the State Plan, but does not apply to labor on do-it-yourself installations.

C. Pacific Extended Labor Warranty

Except for caulking and weatherstripping, Pacific should provide an extended (two-year) labor warranty at no cost to the customer for repair or replacement of any defective materials or devices by agreeing to pay the net out-of-pocket labor and transportation costs to the original installation contractor during the second and third year of the warranty service. If the original installation contractor refuses to provide this extended

warranty labor at cost to Pacific, Pacific should contract for such warranty maintenance to be performed at lowest bid by other contractors seeking that type of work on a continuing basis. This recommendation does not apply to labor on do-it-yourself installations.

The staff witness testified that his proposed warranty extension exceeds of the requirements of the State RCS Plan. It is likely to impose an added cost of not to exceed \$25 per weatherization job for Pacific. The staff considers it essential to assure Pacific's customers that the weatherization measures implemented at its request will have a long, useful service life. This is especially important for equipment and measures which are only used during the winter heating or summer cooling seasons.

Aside from the bidding procedure and warranty provisions, the staff concurs in Pacific's proposed modifications. The witness stated that the proposal not to require a lien for loans less than \$1,500 is consistent with practices of other California utilities for loans up to \$1,000, the present maximum financing for Southern California Edison Company in the Los Angeles area where the warmer climate affords much less heating energy savings. Pacific's proposal to extend loans to individually heated and metered multifamily units and mobile homes which meet Pacific's permanency criteria is consistent with the Commission staff's desire to reach renters and low-income persons with a very worthwhile conservation program.

The staff witness testified that PG&E's weatherization loan program is still under consideration; therefore, he recommended that the many customers who have received energy audits from Pacific and those who are now seeking audits to carry out effective conservation weatherization measures should receive the benefits of Pacific's current program, and the contractors performing this work should be assured of the basis on which they are to offer their services. However, it is possible that the Commission may choose another bidding procedure and may also authorize different repayment provisions for loans provided under PG&E's program approved in Application No. 59537. The Commission could also determine other matters in that proceeding which might ultimately be of interest to Pacific and its customers; therefore, he recommended that Pacific's weatherization program proceed as soon as possible under the staff-modified terms during 1981. That would allow completion of all pending applications for weatherization by Pacific's customers. However, the witness recommended that Pacific should be directed to file a progress report by July 31, 1981, setting forth the status of applications pending, work (jobs) in progress, and jobs completed as of June 30, 1981. Pacific should also set forth its recommendations for any then required or desired program modifications in that report.

Pacific's Comments on Staff Recommendations

Pacific's witness testified that the staff recommendations were generally consistent with the intent of Pacific's proposed modifications; however, certain staff proposals may present difficulties to Pacific, particularly in view of the unique attributes of Pacific's California service territory. Pacific disagrees that financing should be offered only up to 10 percent over the lowest bid. Pacific would like to maximize customers' freedom of choice of contractors, subject to cost-effectiveness standards. One of the factors which motivated Pacific's modification of its program was the relatively small number of local retrofit weatherization contractors in its California service territory. Pacific asserts that in many instances it will not be possible for a customer to procure three bids. Every reasonable step should be taken to ensure that all contractors in the area participate in the zero-interest program. Pacific shares the staff's concern for minimizing program costs, but believes the staff proposal will not achieve Pacific's goal of maximizing program participation by both customers and contractors.

Pacific also is concerned that the staff's suggested procedure of providing the names of three contractors during audits conducted pursuant to the State RCS Plan may violate prohibitions

against discrimination among contractors found in the National Energy Conservation Policies Act (NECPA). While Pacific stands willing to provide the names of contractors to customers in the course of offering zero-interest financing, it believes that some separation is necessary between activities carried on pursuant to NECPA and its zero-interest financing program.

Pacific is strongly opposed to offering an independent warranty. Pacific proposes to inspect each job, and these inspections, together with the contractor's one-year warranty required by the State RCS Plan, should provide customers with adequate protection. Pacific believes that an independent warranty from Pacific for the second and third years would prove to be an administrative nightmare and, particularly in view of the size of Pacific's California service territory, cause unreasonable increase in program costs. ✓

Protestant's Evidence

Mr. Ducey, appearing for himself, opposed the modifications proposed by Pacific. Ducey believes that Pacific's and the staff's proposals were made without meaningful justification. Ducey testified that in his view elimination of competitive bidding would increase retrofit weatherization costs; that the programs proposed by Pacific would increase customers' electric bills; that substitution of unsecured notes for property liens would increase the uncollectibles on weatherization loans; and that multifamily dwellings

and mobile homes should not be admitted to the ZIP program because Pacific has no documented performance under its existing program.

Interested Parties' Testimony and Comments

The representative of AARP opposed Pacific's proposals on the grounds that they would increase customer bills and that means should be found to reduce electric bills instead of increasing them for elderly persons. Many of the witness' proposed alternative conservation or rate design methods of decreasing bills are in the process of being implemented.

A representative of the League testified in support of Pacific's proposed modifications to its ZIP program. The witness stated that the small added financing costs involved in financing up to 56 mills per kWh saved is within a tolerable limit considering ever-increasing costs of energy. The reduced administrative cost involved in issuing promissory notes instead of recording liens justifies that proposal. The extension of the program to multifamily dwellings and mobile homes will benefit many low-income people who do not reside in single-family dwellings. The witness recommended expeditious adoption of Pacific's proposals.

Insulation Contractors Association, a party to Application No. 59537, commented on Pacific's proposal in a letter to the Commission as follows:

"We find it encouraging that PP&L has finally realized the need for greater flexibility in its program, and this action may provide some experience from which to draw in the future. Therefore, we would recommend acceptance of their proposal now to finance work above the lowest bid...

"While endorsing this small move on PP&L's part, we remain fixed in our opinion that there should be no limit set on financing in order to encourage the widest possible participation of the best contractors and to provide the consumer the broadest possible selection...

"While we recommend acceptance of PP&L's proposed modifications, we do not recommend extending this approach throughout California. Circumstances peculiar to PP&L's territory in California do not obtain generally."

Discussion

The testimony in support of Pacific's proposals is persuasive, and the reasons advanced for disapproving the plan by Ducey and others are similar to those considered and rejected in the earlier phase of this proceeding. The staff supports the intent of Pacific's revisions. The staff proposals are primarily designed to conform Pacific's ZIP to the ZIP ultimately to be adopted in PG&E's Application No. 59537.

It appears that Pacific has postponed implementation of its ZIP in California because it does not desire nor intend to operate as a general contractor. Relieving Pacific of that requirement will permit it to process promptly the approximately 200 pending applications for zero-interest loans.

The staff proposed two amendments to Pacific's proposals: a change in the ceiling on the amount that may be financed, and a requirement that three-year warranties be provided by Pacific. The staff proposals are designed to parallel the ZIP plan adopted for PG&E. The decision approving PG&E's ZIP plan provides that PG&E is authorized to provide ZIP financing up to a ceiling which is the lowest of the following:

1. PG&E's marginal cost for the energy estimated to be saved as a result of installation of the ZIP program measures, or
2. The lower of two bids or either of the two lower of three bids obtained by the participant for installation of the measures, or
3. \$3,500 per residence.

PG&E's approved ZIP program adopts the approach to warranties taken by the State RCS Plan, providing for a three-year manufacturer's free repair or replacement warranty and a one-year contractor's warranty for free labor, both excepting caulking and weatherstripping. In the PG&E case the staff also proposed a utility-backed two-year labor warranty extension, but that proposal was not adopted.

The ceiling amount to be financed under PG&E's ZIP program appears reasonable for Pacific. The requirement that the lower of two bids or one of the two lowest of three bids, (as an alternate to marginal costs) will permit a selection of contractors and types of weatherization materials by the participant. As only two bids need be secured, this mitigates the situation regarding the limited number of retrofit contractors available in isolated areas. Pacific's marginal cost of electricity is estimated to be 56 mills at this time.

As a utility's marginal costs may change, it is preferable to provide that financing will be provided up to Pacific's marginal costs of energy saved rather than to name a specific amount as the ceiling.

To maintain consistency with the ZIP programs of other California utilities, we will direct Pacific to provide for the same repair and maintenance warranties for retrofit weatherization installations financed under its ZIP program as are set forth in the State RCS Plan and in our PG&E ZIP decision. However, we expect our staff and Pacific to continually monitor the performance of installed equipment to determine whether customers are incurring unreasonable repair costs due to the reduced labor warranty provisions. If such proves true, we will reconsider our position.

Pacific's proposals, modified as provided above and to conform with similar portions of PG&E's recently approved ZIP program, will be cost-effective, will be reasonable, and in the public interest, and should be adopted.

Findings of Fact

1. Pacific's proposal to allow its customers to select a contractor in lieu of Pacific's acting as a general contractor:

- a. Will relieve Pacific of a burden it is unwilling to assume and which is not necessary for the effectiveness and success of its ZIP program.
- b. Will speed the processing of some 200 pending applications for ZIP loans.
- c. Will reduce administrative costs of the ZIP program.

2. Adoption of the ceiling level of financing provided in PG&E's recently authorized ZIP program will provide reasonable alternatives to the participant that provide more latitude in the selection of a contractor and of weatherization materials without substantially increasing the cost of the ZIP program. Such financing ceiling will be cost-effective.

3. The substitution of promissory notes for property liens with respect to ZIP loans of \$1,500 or less will reduce Pacific's administrative costs of processing such loans.

4. Pacific's proposal to offer loans to multifamily units which are both individually heated and individually metered and to mobile homes which meet the program's permanency criteria will increase eligibility in Pacific's service areas in

California by about 2,000 customers. The customers proposed for eligibility have the same needs for zero-interest weatherization loans as customers in single-family dwellings.

5. It is in the interest of northern California residential electric customers that Pacific's ZIP should conform in its major aspects to the ZIP approved for PG&E in Application No. 59537.

6. Consistency among the ZIP programs of California utilities and with the State RCS Plan will be assisted and excessive administrative expense to Pacific will be avoided by applying the warranty requirements of the State RCS Plan, rather than utility-backed extended warranty requirement proposed by staff.

7. Pacific's proposals, as modified in the above findings, will be reasonable and in the public interest.

Conclusions of Law

1. The changes in Pacific's ZIP program described in the above findings should be approved.

2. The order herein should become effective on the date of issuance in order that pending ZIP applications may be processed promptly under the revised program authorized herein.

3. Inasmuch as we have conformed Pacific's ZIP program to that of PG&E's, no need appears for the reporting requirements proposed by the staff.

O R D E R

IT IS ORDERED that:

1. Pacific Power & Light Company (Pacific) is authorized to amend its zero-interest residential insulation assistance and financing program (ZIP) approved in Ordering Paragraph 1 of Decision No. 91497 as proposed in its Petition for Modification filed September 18, 1980, except that:

- a. Pacific is authorized to provide ZIP financing up to a ceiling which is the lowest of the following:
- (1) Pacific's marginal cost for the energy estimated to be saved as a result of installation of the ZIP program measures, or
 - (2) The lower of two bids or either of the two lower of three bids obtained by the participant for installation of the measures, or
 - (3) \$3,500 per residence.
- b. All work financed under Pacific's ZIP program, except for caulking and weatherstripping, shall be covered by repair or replacement warranties equaling or exceeding those required by the State RCS Plan, including a three-year manufacturer's warranty for free repair or replacement of materials and devices financed under the ZIP program, but including labor costs only for the first year as provided in the State RCS Plan.


c. Pacific's ZIP plan shall conform to the state RCS plan as finally approved by the U.S. Department of Energy.

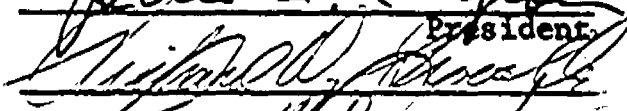
2. In all other respects Decision No. 91497 shall remain in full force and effect.

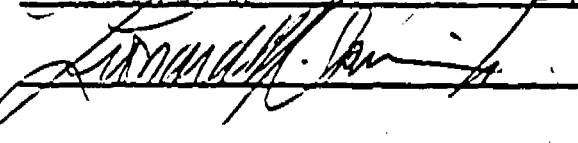
The effective date of this order is the date hereof.

Dated JAN 28 1981, at San Francisco,

California.



President




Commissioners