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Decision No. 92664 February 4, 1981 ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY for Authority to Include a Conservation & Load Management Programs Adjustment Clause in its Electric Tariffs, a Conservation Programs Adjustment Clause in its Gas Tariffs, and for Authority to Increase its Rates Thereunder to Implement Certain Solar Financing Programs.

Application No. 59724
(Filed June 9, 1980;
amended October 17, 1980)

Leslie R. Kalin, William L. Reed, Stephen A. Edwards and Jeffrey Lee Guttero, Attorneys at Law, for San Diego Gas & Electric Company, applicant.
Douglas Porter, Attorney at Law, for Southern California Gas Company; John W. Witt, City Attorney, by William S. Shaffran, Deputy City Attorney, and Dennis H. Kahlie, for the City of San Diego; and Paul J. Kopcha, for Solar Turbines International; interested parties.
Steven Weissman, Attorney at Law, for the Commission staff.

OPINION

Introduction

In Decision No. 92251, September 16, 1980, San Diego Gas & Electric Company (SDG&E) was ordered to implement a demonstration solar financing program to reach 29,480 of its water heater customers within three years. By this application SDG&E seeks a general rate increase of $1.6 million annually to offset the program costs.

A duly noticed public hearing was held before Administrative Law Judge Orville I. Wright in San Diego on October 27, 28 and 29, 1980, and the matter was submitted for decision.

Approximately 60 SDG&E customers attended on the first hearing day, of whom 21 gave statements which were uniformly opposed to the application, to subsidization of solar systems by ratepayers, and to any rate increases whatsoever. Additionally, more than 400 individual SDG&E ratepayers wrote letters protesting any rate increase.

Evidence was given by Robert W. Ladner and Thomas L. Whelan for SDG&E. Sesto F. Lucchi, Kenneth K. Chew and Joseph L. Fowler, Jr. testified for the Commission staff.

Summary of Decision

SDG&E is granted a general rate increase of $1.6 million for first year costs of its solar demonstration programs. Of the 29,480 customers to be served during the three-year program, it is estimated that 8,880 will be served during the first year.

The authorized rate increase is three tenths of one percent (.3 %) for the gas department and seven one hundredths of one percent (.07%) for the electric department.

Distribution of Solar Installations

SDG&E is required to subsidize 29,480 customers in their acquisition of solar systems during our three-year demonstration program. The number of installations by year, by housing type, and by auxiliary energy type as projected by SDG&E is set forth in Table I.

TABLE I

Solar Water Heating Customers
By Year, By Housing Type, and By
Auxiliary Energy Type

	1st	2nd	3rd	Total
Percentage of Goal	(30%)	(35%)	(35%)	(100%)
Single-Family				
Gas	750	875	875	2,500
Electric	2,340	2,730	2,730	7,800
Low-Income Grants (Gas and Electric)	90	90	-	180
Total	3,180	3,695	3,605	10,480
Multifamily				
Gas and Electric	5,700	6,650	6,650	19,000
Total	5,700	6,650	6,650	19,000
Yearly Total	8,880	10,345	10,255	29,480

Incentive Program Description

There are two components to the program--the incentive program and the consumer protection measures associated with the program.

1. Incentive Program

SDG&E will offer incentives in the form of cash payments and grants. These incentives will be structured as follows:

a. Utility credits shall be available for single-family electric water heater retrofits. These credits shall be $20 per month for 36 months ($720 total) payable quarterly or until sale of the home, whichever occurs first.

b. Utility credits shall be available for single-family gas water heater retrofits. These credits shall be $20 per month for 48 months ($960 total) payable quarterly or until sale of the home, whichever occurs first.

c. Utility credits shall be available for multi-family gas or electric water heater retrofits. These credits shall be $8 per unit served per month for 36 months ($288/unit total) payable quarterly or until sale of the building, whichever occurs first.

d. Installations for low-income families shall be paid for by the utility with no repayment obligation on the part of the recipient. There will be a total of 180 single-family homes included in this program over three years.

2. Consumer Protection Measures

In order to facilitate quality installations, special training programs will be held for SDG&E field inspectors, contractors, installers, building inspectors and do-it-yourselfers. SDG&E will inspect each solar system in the incentive program to determine that it meets the qualifying standards. In addition, a back-up warranty will be made available to the customer at a price which will cover SDG&E's costs. This warranty or insurance would be utilized to fulfill all warranty requirements if the installing contractor and manufacturers of the components were unable to do so.

A diagnostic inspection will be conducted at the end of the first year and just prior to the end of the fifth year. These inspections would verify that the system is operating normally.

Balancing Accounts

SDG&E, pursuant to Decision No. 92251 as modified by Decision No. 92305, filed Advice Letters 514-E and 461-G on October 10, 1980, to include in its Electric Department tariffs a Conservation & Load Management Programs Adjustment Clause, and in its Gas Department tariffs a Conservation Programs Adjustment Clause (collectively, "Clauses"). The tariffs contained in the advice letters became effective on October 15, 1980. The Clauses will be utilized not only to account for the solar financing program, but also for the costs and revenues associated with other conservation programs requiring a balancing account, upon specific authorization by the Commission. The Clauses will isolate the solar financing program costs and permit the matching of offsetting revenues. Entries will be made in the Clauses' balancing accounts so that over- or under-collections can be determined. Rate adjustments will be made annually on January 1, to reflect the recorded balances in the balancing accounts and will include an amount necessary to recover expenditures forecasted to occur in the following 12 months. In addition, adjustments can be made at other times to cover the addition or deletion of specific Commission-approved programs.

Any overcollection that might result from the granting of this request, including interest accrued thereon, will be accounted for and reflected in SDG&E's first rate revision filing made pursuant to the filed adjustment clauses.

Solar Program Costs

Table II shows the projected, first-year program costs segregated by program function, which form the basis for SDG&E's revenue increase request of $1.6 million.

SDG&E anticipates that the three-year demonstration program will conclude after seven years as the four-year subsidies for gas retrofits and the quality control inspections will by then have been completed. Table II also shows program costs for each of the seven years, as well as total costs for each category of expenditure.

SDG&E's direct program expenditures for the first year appear reasonable and are adopted as the utility's operating solar budget. Indirect costs are tentatively approved subject to SDG&E's later showing that the charges to the balancing account represent actual dollars of outlay directly attributable to the solar demonstration program. Any program costs which prove to be assignments of existing overhead expenses included in SDG&E's last general rate case will be disallowed.

The purpose of balancing account treatment is to recover expenditures on a dollar-for-dollar basis through the provision that under- or overcollections will be adjusted when accurate data is available. This principle is applicable to SDG&E's proposed overhead labor rate of 78.98 percent and to its allocation of building space and equipment costs to the solar program.

At the hearing it developed that SDG&E proposes to employ nine additional full-time staff personnel, five of which will be hired through employment agencies at a markup of 35 percent over base wages. This practice was defended by the utility as being less expensive than direct hiring because of SDG&E's direct labor overhead rate of 78.98 percent. SDG&E admits that the logical extension of its justification for using employment agency personnel at a 35 percent markup would be to staff the entire company with temporary people to save labor overhead. Of course, this cannot be reasonable. Accordingly, we approve only the number of first-year employments estimated to be required by SDG&E and not the cost. Some employees hired through agencies are to be on the job for three years, for example, without provision for vacation or sick pay. We will allow SDG&E, our staff, and other parties to re-examine this issue as the program progresses.

If low-income subsidies and contract costs of $283,000 are removed from total first-year costs of $1,586,300, the remaining subsidy payments of $631,000 are 48 percent of total first-year costs. Overhead expenses are 52 percent.

For the first three years of the program, overhead is 27 percent. For seven years, overhead is 23 percent overall. The cost of overhead per solar installation for the full seven-year program is $121 per unit.

Supporting SDG&E's solar program will require $1.6 million the first year, an additional $1.5 million the second year, and an additional $1.2 million the third year. Commencing with the fourth year, rate decreases will occur each year until the eighth year when the last of the rate increases can be rescinded.

We recognize, however, that the costs and revenues required for the solar demonstration programs will be under constant scrutiny by SDG&E and our staff, and substantial changes in the programs may well occur as our experience with solar programs increases.

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OII NO. 42 PROGRAM COSTS

Program Function	Year 1	Year 2	Year 3	Year 4
A. Set-Up	$ 51,200	$ -	$ -	$ -
B. Administration				
Solar Group	88,400	96,800	104,900	8,600
Recordkeeping - Cust. Correspondence	51,200	56,200	60,800	28,100
Low Income	283,000	298,400	-	-
Subsidies	631,000	2,072,000	3,407,600	3,437,300
C. Customer Contact				
Quality Control Inspections	223,400	277,200	425,000	228,800
Energy Advisory Serv.	12,200	13,400	14,300	-
D. Marketing Comm.				
Advertising	96,300	105,500	114,400	-
Marketing Surveys	20,000	10,000	10,000	-
E. Industry Activities				
Workshops	30,000	32,900	35,700	-
F. Primary Program Support				
Data Processing	6,000	18,000	32,200	35,200
Internal Auditing	8,100	8,900	9,600	10,300
Accounting	4,800	16,700	29,600	32,200
Engineering	38,700	42,400	45,800	12,300
G. Misc. Prog. Support				
Bldg. Space & Equipment	37,900	26,300	41,400	13,600
Forms	4,100	6,300	8,500	3,000
Hearings	-	2,000	2,000	2,000
Total	$1,586,300	$3,083,000	$4,341,800	$3,811,400

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TABLE

OII NO. 42 PROGRAM COSTS

Program Function	Year 5	Year 6	Year 7	Total
A. Set-Up	$ –	$ –	$ –	$ 51,200
B. Administration				
Solar Group	9,300	10,000	10,900	328,900
Recordkeeping - Cust. Correspondence	30,200	32,800	35,400	294,700
Low Income	–	–	–	581,400
Subsidies	2,181,400	812,400	86,100	12,627,800
C. Customer Contact				
Quality Control Inspections	246,400	266,100	287,700	1,954,600
Energy Advisory Serv.	–	–	–	39,900
D. Marketing Comm.				
Advertising	–	–	–	316,200
Marketing Surveys	–	–	–	40,000
E. Industry Activities				
Workshops	–	–	–	98,600
F. Primary Program Support				
Data Processing	25,400	11,800	2,000	130,600
Internal Auditing	11,100	12,000	13,000	73,000
Accounting	23,400	10,900	1,800	119,400
Engineering	13,200	14,300	15,500	182,200
G. Misc. Prog. Support				
Bldg. Space & Equipment	14,600	15,800	17,100	166,700
Forms	2,900	3,600	3,800	32,200
Hearings	2,000	2,000	2,000	12,000
Total	$2,559,900	$1,191,700	$ 475,300	$17,049,400

While SDG&E proposes to increase rates on a uniform cents-per-therm basis for gas, the staff suggests that this method is contrary to our policy of using specific criteria for commodity rate determination. Because of the timing of this application, however, and the relatively small rate increase required, the record was not sufficiently developed to permit the staff-recommended method to be utilized. We therefore adopt SDG&E's rate design as appropriate for this proceeding. We note that low priority gas customers will benefit from reduced residential gas consumption in that gas will be available longer for lower priority customers. Since they will have benefits from this program it is reasonable that they also contribute.

The staff gas department witness also disagreed with SDG&E's proposal for rate revisions as of January 1 of each year, suggesting that utilization of the semiannual adjustments for the PGA/SAM filings would minimize tariff revisions. We note, however, that the gas and electric revision dates for commodity balancing account purposes are not coincident. Also, since staff resources are limited, not all balancing account audits and review can be undertaken simultaneously. We also wish to see a more precise development of the apportionment of solar program costs to gas and electric in the same proceeding. Finally, it appears reasonable to believe, given SDG&E's projections contained in Table II, that January 1, 1982 would be the appropriate next revision date. We adopt said date. This January 1 revision date contemplates an additional hearing apart from PGA/SAM and ECAC hearings.

The staff gas rate design witness recommended that SDG&E have a statement of rates in its preliminary statement. This statement would set forth the effective commodity rates and the components contained therein. We agree and adopt the statement of rates contained in Appendix A.

Rate Design

We adopt SDG&E's proposal to spread the requested increase on a uniform cents-per-therm basis for gas.

For electric service SDG&E proposes a uniform cents-per-kWh spread for all sales except domestic. Within domestic sales, SDG&E proposes unequal increases to lifeline and nonlifeline rates in order to maintain the same percentage relationship between total average lifeline and total average nonlifeline rates. For the following reasons we will not adopt this recommendation but will apply the same uniform cents-per-kWh increase to all domestic sales. The estimated effect of the increase on the various customer classes is shown in Table III.

In Decision No. 92572 dated January 6, 1981, in OII No. 77 we anticipated a need to protect Pacific Gas and Electric Company (PG&E) from a loss of base revenue resulting from increased lifeline allowances. Accordingly, the differential between PG&E's lifeline and nonlifeline base rates was eliminated and the Energy Cost Adjustment Clause (ECAC) rates were revised to maintain the existing differential between total lifeline and nonlifeline rates.

ECAC rates are revised every four months so it will be quite convenient to establish and maintain any desired differential between lifeline and nonlifeline rates solely in the ECAC rates. Accordingly, this solar offset and future solar and conservation offsets for SDG&E and other energy utilities will be spread on a uniform cents-per-kWh basis to all sales including lifeline. The desired differential between lifeline and nonlifeline rates will be reestablished in the next regularly scheduled ECAC application.

Development of the per-unit increase for gas service is shown in Table IV and for electric service in Table V. These tables reflect a division of administrative program costs between gas and electric services based upon the number of units to be installed. For electric, $185,031 administrative costs are added to $480,120 subsidy costs, for a total of $665,151. For gas, $500,269 administrative costs are added to $420,840 subsidy costs, for a total of $921,109. Total first year cost for both departments is $1,586,260.

TABLE III

Effect of Solar Rate Increase On Customer Classes

Electric Department

Class of Service	Revenue Increase 12 Months Commencing October 1, 1980 (Thousands)	Percent Increase
Domestic Service	$289	0.08
General Service - Regular	232	0.07
General Service - Large	166	0.08
General Power	12	0.07
Agricultural Power	11	0.07
Streetlighting	6	0.06
Total	$716	0.07

Gas Department

Class of Service	Revenue Increase 12 Months Commencing October 1, 1980 (Thousands)	Percent Increase
Residential	$669	0.6
Other Retail	241	0.4
Total from Sales to Retail Customers	910	0.5
Other	-	-
Total	$910	0.3

TABLE IV

Determination of Gas Department
Conservation Programs Adjustment Clause (CPAC) Rate

1.	Estimated Expenditures for 12-Month Period Commencing October 1, 1980	M$	921.1
2.	Balance in Conservation Programs Cost Balance Account as of ____________ (Date)	M$	
3.	Net Revenue Requirement (1) + (2)	M$	921.1
4.	Provision for Franchise Fees and Uncollectibles (3) x 2.03%	M$	18.7
5.	Gross Retail Revenue Requirement (3) + (4)	M$	939.8
6.	Total Estimated Residential, GN-1 & GN-2 Sales 1/	457,941	MTherms
7.	Discounted Sales Effect (Schedules GS/GT, G-90)	2,549	MTherms
8.	Adjusted Sales (6) - (7)	455,392	MTherms
9.	CPAC Rate (5) - (8)	0.002	$/Therm

1/ For the 12-month period beginning October 1, 1980.

TABLE V

Determination of Electric Department
Conservation & Load Management Programs Adjustment Clause (CALPAC) Rate

1.	Estimated Expenditures for 12-Month Period Commencing October 1, 1980	M$	665.2
2.	Provision for Franchise Fees and Uncollectibles (Line 1 x 1.16%)	M$	7.7
3.	Gross Revenue Requirement (Line 1 + Line 2)	M$	672.9
4.	Estimated Affected Sales 1/		10,011.05 M^2kWh
5.	Proposed Uniform CALPAC Rate (Line 3 ÷ Line 4)		0.007 ¢/kWh

1/ For the 12-month period beginning October 1, 1980, adjusted to reflect the 10% lifeline discount on Schedule DS and the 25% lifeline discount on Schedule DT.

Findings of Fact

1. SDG&E is entitled to additional revenue as estimated for the year following the effective date of this decision of $1,600,000.

2. The increased revenues will be credited to SDG&E's solar program balancing accounts as established by Advice Letters 514-E and 461-G on October 10, 1980, and as amended in this proceeding.

3. Solar demonstration program expenses shall be charged to the balancing accounts as they are incurred.

4. Interest will be charged or credited on over- or under-collections in accordance with procedures heretofore established.

5. A rate revision date of January 1, 1982 is reasonable.

6. Solar demonstration program expenses, not exceeding $500,000, incurred prior to the effective date of this decision shall be charged to the balancing accounts, subject to review for reasonableness on the first revision date.

7. Since SDG&E is already incurring the costs offset hereby, this order should be effective on the date of signature.

Conclusions of Law

1. The increases in rates and charges authorized herein are reasonable and the present rates and charges, insofar as they differ from those prescribed herein are, for the future, unjust and unreasonable.

2. SDG&E should be authorized to file and place into effect the rates found reasonable by this decision.

O R D E R

IT IS ORDERED that:

1. On or after the effective date of this order San Diego Gas & Electric Company is authorized to file the revised rate schedules attached as Appendix A, to revise its tariffs as provided herein, and to withdraw and cancel its presently

effective schedules. Such filing shall comply with General Order No. 96-A. The effective date of the revised schedules shall be four days after the date of filing. The revised schedules shall apply only to service rendered on and after the effective date thereof.

2. All entries to the balancing account are subject to review and audit for reasonableness in a future proceeding.

The effective date of this order is the date hereof.

Dated FEB 4 1981, at San Francisco, California.

President

Commissioners

APPENDIX A

Gas Rates

Applicant's preliminary statement and commodity rates are changed to the level or extent set forth in this appendix.

PRELIMINARY STATEMENT

Statement of Rates

(a) The rates in all filed Rate Schedules include adjustments listed below:

Type of Service	Unit	Base Commodity Rate	PGA Balancing Account	SAM Balancing Account	CPAC	Effective Commodity Rate
Residential						
Lifeline	¢/therm	30.585	3.855	(2.740)	0.2	31.9
Nonlifeline						
First Block	¢/therm	42.885	3.855	(2.740)	0.2	44.2
Tail Block	¢/therm	63.885	3.855	(2.740)	0.2	65.2
Non-residential						
GN-1	¢/therm	42.885	3.855	(2.740)	0.2	44.2
GN-2	¢/therm	42.885	3.855	(2.740)	0.2	44.2
GN-3, GN-4	¢/therm	40.885	3.855	(2.740)	0	42.0
GN-36, GN-46	¢/therm	37.885	3.855	(2.740)	0	39.0
GN-5	¢/therm	34.561	3.779	(2.740)	0	35.6

Note: The Base Cost Amount included in the Base Commodity Rates is $69,834,900. The Annual Base Weighted Cost of Gas included in the Base Commodity Rates is 28.033¢ per therm excluding franchise fees and uncollectibles.

The PGA and SAM Balancing Account rates were derived from Exhibits Nos. 8 and 9 in SDG&E Application No. 60013.

Electric Rates

All electric rates including lifeline rates are increased uniformly by .007¢/kwh