

Decision 93120 JUN 2 1981**ORIGINAL**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's)
 own motion into the feasibility)
 of establishing various methods)
 of providing low-interest, long-)
 term financing of solar energy)
 systems for utility customers.)

OII 42
 (Filed April 24, 1979)

(See Decision 92251 for appearances.)

OPINION AFTER PROPOSED REPORT

On March 6, 1981, a Proposed Report of Commissioner Leonard M. Grimes, Jr., was mailed to respondents and interested parties to this proceeding. The report proposed the following modifications of the financial incentives ordered in Decision (D.) 92251 for the installation of solar water heaters in the single-family gas market:

- (1) For sales consummated after April 15, 1981, rebates for qualifying installations would be reduced from \$20 a month for 48 months to \$20 a month for 24 months. Rebates would remain available on a guaranteed basis until April 1, 1982, even if the number of single-family gas installations exceeded the present quotas established for the demonstration program.
- (2) The terms of and interest on loans offered by Pacific Gas and Electric Company (PG&E) and Southern California Gas Company (SoCal Gas) would be changed from 6% per year for 20 years to either 12% per year for 20 years on \$3,000 or 9% per year for 20 years on \$1,500. In the PG&E service area,

customers would be able to obtain a loan for direct sales by contractors, while two sales options, one involving competitive bidding, were proposed for the SoCal Gas service area.

The proposed report required comments on these suggested modifications by March 18, 1981. In that regard, comments or exceptions to the report were submitted by the following parties: PG&E, SoCal Gas, San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (Edison), the California Solar Energy Industry Association (Cal-SEIA), Toward Utility Rate Normalization (TURN), the Public Solar Power Coalition (PSPC), Home Energy Centers, and the Commission staff (staff). Correspondence relating to the report was also received.

Comments and Exceptions

A. Single-Family Gas Rebates

Commissioner Grimes' proposal to reduce the present amount of rebates and extend their availability in the single-family gas market was based on the immediate and already significant consumer response to this financial incentive. The report illustrated this response by reference to the total commitment by SDG&E of its entire three-year allocation of single-family gas rebates in less than four months.

According to the report, the present depletion of available rebates could have several negative consequences. Among them is the increased likelihood of rebates not being offered simultaneously with loans which have not yet become available. Such a circumstance could defeat one of the objectives of the demonstration program: the comparison of consumer response to both loans and rebates. The coincident offering of loans and rebates was ordered not only to gain information from such a comparison, but

also to assure that conventional lenders would remain in the solar water heating market and not be eliminated by utilities' exclusively offering low-interest loans. (See D.92251, p. 29.) The proposed report also reflected Commissioner Grimes' view that the Commission should act on information gained from a demonstration program while an opportunity still existed to make adjustments.

1. Amount of Rebate

The three utilities which could be directly affected by the proposed changes to rebates for solar water heating retrofits in the single-family gas market are SDG&E, PG&E, and SoCal Gas. With respect to the factual basis for Commissioner Grimes' report, SDG&E confirms in its comments that its pending gas applications exceed the 2,500 rebates available to SDG&E in the demonstration program. As a result, SDG&E requests that modification of this incentive not apply to any single-family gas customer in SDG&E's service territory. SDG&E argues that even though some of the applicants have yet to install systems, this circumstance was due to the need of many applicants for a guarantee of the entire rebate amount in order for the customer to afford the system. According to SDG&E, this guarantee had yet to be made only because of such uncertainties as the outcome of an appeal of D.92251 and SDG&E's need to prioritize applicants because of the excess demand for rebates. It is SDG&E's belief that the requirement of consummating a sale on a date certain in order to be entitled to present rebate levels unfairly penalizes customers who have been required to wait for installation because of circumstances beyond their control.

Neither SoCal Gas nor PG&E support a modification of the present rebate amount. SoCal Gas notes in its comments that of its combined goal of 22,800 rebates and loans for single-family

residences, as of March 5, 1981, only 2,036 solar systems had been inspected and accepted as qualifying for rebates. Additionally, these installations needed to meet only the less restrictive tax credit requirements of the California Energy Commission, rather than the more stringent standards established by the Commission for systems installed after March 1, 1981. SoCal Gas believes that the imposition of the Commission's standards, the costs of which will be passed on to solar customers, could in fact cause the rate of solar installations to decrease. SoCal Gas also conjectures that SDG&E's total commitment of its rebate allocation may have been due to an underestimation of the number of single-family gas installations likely to qualify for its incentives and may not be an indication that its incentives were higher than necessary. SoCal Gas concludes its comments by stating that "there is no indication that the incentives are too high in SoCal's service area."

In its comments, PG&E asserts that there is no basis in the record for a change from current incentives to the one proposed in Commissioner Grimes' report or one at any other level. PG&E, along with SoCal Gas, argues that any modification of the rebates will add to the confusion already existing in the program. In particular, PG&E claims that "[t]he proposed changes will cause substantial disruption to the administrative procedures, informational systems, and communications with customers already established concerning the program." PG&E also envisions a "stampede effect" among customers trying to obtain the higher benefits prior to an identified cutoff date. The proposed report originally set that date as April 15, 1981.

2. Number of Rebates

While many parties separately commented on the proposed modifications of the dollar amount as well as the permissible number of rebates, the exceptions of other parties were based on the combined impact of those two changes. TURN, for example, supported reduction in the dollar amount of each presently available single-family gas rebate and even advocated "a further reduction to the zero level." This position, aimed at providing ratepayer savings, was premised, however, on the number of rebates remaining the same. TURN strongly opposed the effect of both reducing the amount of rebate and making those rebates available in an unlimited number until April 1, 1982, the date proposed in Commissioner Grimes' report. TURN claims that this modification will further reduce the cost-effectiveness of single-family gas rebates, which TURN believes is questionable even under present Commission orders.

At page 6 of the proposed report, Commissioner Grimes states:

" . . . A preliminary analysis by our staff indicates that savings [created by reducing the amount of each rebate] will be at least \$13 million and could reach \$20 million. Thus, it appears that 10,000 to 15,000 additional credits could be made available in the single family gas market while still producing a substantial reduction in program costs to ratepayers."

TURN, along with PG&E and PSPC, question this conclusion. Each asserts that, rather than reducing the costs of the program, the elimination of a ceiling on participants will considerably increase those costs. Based on figures derived from the record in this proceeding and its own calculations, TURN argues that even if the

amount of each single-family gas rebate allotted by the Commission were reduced as proposed in Commissioner Grimes' report, the savings would only be \$7 million. Yet even this figure is derived under hypothetical circumstances which can no longer occur under present facts. TURN states at pages 3-4 of its exceptions to the proposed report:

"All of SDG&E's and substantial numbers of PG&E's and SoCal Gas' single family gas rebates have already been and will continue until April 30, 1981, to be committed at the unreduced level. Few unreduced rebates will be left to result in 'savings,' but each additional reduced rebate, in proposed unlimited numbers, will add net costs to the program, by the Commission's own reckoning." (Emphasis original.)

PG&E expresses a similar view at pages 4-5 of its

exceptions:

"Aggressive marketing of an unlimited number of rebates by the solar industry during the one year period, coupled with price breaks on solar systems it may offer, could result in a total number of participants vastly in excess of the 9,000 current limit. For example, assuming that most, if not all, of the original 9,000 quota at the \$960 incentive level is reached by the April 15 deadline and that an additional 20,000 or 30,000, or more participants could be added at the \$480 incentive level, costs involved include not only the millions of additional dollars required in incentive payments alone, but also the vastly increased administrative costs to process each one of these participants. In 1981 dollars, such costs for PG&E, including the

inspection required of every qualifying solar system, will approach \$75 per participant. Thus, if the solar industry should be able to enroll an additional 30,000 participants during the unlimited one year phase of the program, this would result in an additional \$2,250,000 in administrative expense alone."

PG&E also asserts that allowing an unlimited number of rebates would change the program from a demonstration program, as espoused by the Commission, to a full-fledged program of utility financing for solar energy systems.

For different reasons, the staff also advocates that the amount and number of rebates remain unchanged until all existing rebates are used. This position is summarized at page 1 of the staff's exceptions to the proposed report:

". . . In that this is a demonstration program, we are interested in determining the rate at which the various incentives will be claimed by solar device customers. We are also concerned that the benefits of this program are not concentrated in one market. It is evident that incentives will most quickly be absorbed by single family gas water heater customers. If more rebates are offered to that market, there is no reason to think that this pattern will not continue. Perhaps, as rebates available to those customers disappear, efforts to develop multi-family and single family electric water heater program participants will accelerate. We should give the industry a chance to demonstrate its ability to serve these markets."

Support for extending single-family gas rebates was indicated, however, by SoCal Gas, Cal-SEIA, and Home Energy Centers. SoCal Gas believes that the establishment of a definite date through which rebates would be guaranteed would provide "certainty and reliability in the program". Home Energy Centers emphasizes the need to give the contractor and the public "exact direction" upon which to base a decision and to allow comparison between rebates and loans. Cal-SEIA's comments include only a general statement of approval of this portion of the proposed report.

An additional issue addressed by both Edison and TURN is the meaning of a statement which followed the proposal to make rebates in the single-family gas market available until April 1, 1982:

". . . All other rebates should remain available for the entire three years of the demonstration or until the Commission announces termination or modification of a specific rebate as warranted by the data. There should be at least three months notice of any termination."

Edison asks that this statement be clarified by confirming that it applies only to gas-solar installations and not to electric-solar installations. Edison recites its intent to offer its rebates during the three-year demonstration period only until its goal of 26,000 solar installations is met. Edison does not intend to give any notice of termination to customers or the Commission prior to reaching this goal.

TURN interprets the preceding statement in even a more limited manner. TURN assumes that Commissioner Grimes' statement refers only to single-family gas rebates other than those offered by PG&E and SoCal Gas, i.e., SDG&E single-family gas rebates. TURN opposes this statement, however, if it means that all other rebates, including multi-family gas, single-family electric, as well as SDG&E single-family gas, should remain available for three years. TURN bases this opposition on the following grounds: (1) the addition

of net costs to the program which will further burden ratepayers and (2) the absence of any need to extend multi-family gas or single-family electric quotas. TURN supports this latter conclusion on the Commission's statement in D.92769 that penetration in these markets has not yet reached a desirable level.

B. Single-Family Gas Loans

1. Loan Terms

Exceptions to the proposed changes in loan terms for single-family gas solar retrofits were taken on several grounds. The comments of both SoCal Gas and the staff center on the impact of such changes on a customer's "incentive" to purchase a solar water heater. In particular, SoCal Gas argues that there is no evidence in this proceeding from which the Commission can determine either the present cost of money or the level of loan cost comparable, in today's market, with the adopted rebate level. SoCal Gas notes that there has been no opportunity to evaluate the impact of a 6% loan. Further, SoCal Gas asserts that to the extent any incentive is reduced, its attractiveness will also be reduced causing a decline in the number of people choosing to participate in the program.

This view is supported to a certain extent by correspondence from one potential program participant in PG&E's service area. This customer complained that "at an interest rate of 12%, few people, who could not have already done it without the program will have the incentive or the ability to install a solar water-heating system." The customer also stated that she had chosen not to take advantage of a rebate, which may no longer be available, in the good faith belief that a low-interest loan at the level originally announced by the Commission would be available.

The staff believes, like SoCal Gas, that common sense suggests the greater attraction of a 6% as opposed to a 12% loan. Under these circumstances, the staff suggests that if loan terms are to be

changed, the length of the loan period, as opposed to the interest rate or principal, be modified. The staff therefore recommends that the Commission approve the offering of 6% loans for repayment over five years commencing July 1 of the year following installation of the solar water heater. By deferring the loan payments until the middle of the year following installation, the customer will have received the benefits of the tax credit before making the first payment. The staff believes that this circumstance should help remove any first-cost barriers to solar purchases. While its proposal will cost more than a 20-year loan at 12% interest, the staff states that its suggestion will still overcome the impact of higher interest rates and will result in utility costs lower than those anticipated when the loans were first established.

In addition to these exceptions, several parties asserted that two other issues result from Commissioner Grimes' proposed loan modifications. These issues include: (1) whether the customer is intended to have the option of choosing between a 9% loan on \$1,500 or a 12% loan on \$3,000 and (2) whether the utilities (PG&E and SoCal Gas) will be responsible for financing the balance of a customer's purchase that exceeds either the \$1,500 or \$3,000 level.

With respect to a customer's ability to choose between two sets of loan terms, it is Cal-SEIA's position that no such option should be made available and that a 9% loan on \$1,500, assuming utility financing of the remainder of any purchase, be adopted. Cal-SEIA believes that the existence of a choice to be exercised by the customer promotes confusion and that "simplicity is a key to the success of the demonstration program." A ceiling of \$1,500 is recommended by Cal-SEIA in order to avoid the appearance that the utility is indicating, by offering loans to \$3,000, a proper price for a solar water heating system.

PG&E asks two questions relating to the possible loan term option: (1) If the choice between loan terms is not at the customer's option, is it to be exercised by the utility or the Commission? (2) If by the utility, what criteria would be applied?

The issue of the availability of "second level" utility loans to finance the balance of the purchase price basically stems from previous decisions in this proceeding. In Finding 26 of D.92251, we found that the amount of the utility loan available for solar retrofits by single-family gas customers should be limited either "by requiring the customer to obtain three bids with either of the two lowest bids being eligible for financing or by limiting the amount financed by the utility at low interest while permitting the utility to offer additional financing at an interest rate equal to its cost of money."

PG&E specifically seeks to be relieved of the obligation of providing "second level" loans above either the \$1,500 or \$3,000 principal limits proposed in Commissioner Grimes' report. PG&E's primary argument in favor of this position is based on its claim that the interest rate to be charged for such additional loans when combined with the proposed higher interest rates on the basic loan could be usurious. As stated by PG&E at page 10 of its exceptions to the proposed report, "[i]n such circumstances, if the utility nonetheless had to offer the combined loans but could only charge the legal limit in interest, it is obvious that it would be subsidizing that customer, an inequity both to the utility itself and to all other loan customers who did not receive such a subsidy." SoCal Gas objects to the utilities' providing additional financing on the grounds that it would increase the costs of the program and would therefore be inconsistent with Commissioner Grimes' goal of reducing ratepayer costs.

In contrast, Cal-SEIA advocates complete utility financing. Cal-SEIA argues that if such financing were not approved, a solar purchase would become too cumbersome since a participant would be required to procure two loans, one from the utility and one from a commercial lender. Cal-SEIA believes, however, that the interest rate on these "second level" loans should be at the market rate for home improvement loans, rather than at the utility's cost of capital. According to Cal-SEIA, this "mark-up" will ensure that the administrative and risk costs of the solar loans are more likely to be borne by the borrowers, rather than by nonparticipating ratepayers.

2. Loan Availability

In the proposed report, Commissioner Grimes concluded that because no competitive bidding is required in the PG&E service area, utility loans should be made available for direct sales by contractors. In order to provide a comparison of price trends between PG&E's and SoCal Gas' service areas, Commissioner Grimes offered two proposals for SoCal Gas' service area, in which competitive bidding had been approved: (1) Three bids would be required for all loans with either of the two lower bids eligible for financing. (2) Bids would not be required to obtain a loan where the sale was made directly by a contractor without referral by the utility. Under this latter option, sale prices would be monitored and bidding could be required if prices of direct sales substantially exceeded those of sales resulting from referrals and bids.

Cal-SEIA, continuing its opposition to competitive bidding, strongly supports the second option. Cal-SEIA concludes that by establishing a ceiling on the dollar amount eligible for the program loans, the primary justification for the three-bid requirement, limiting costs to the utility and nonparticipating ratepayers, no longer exists. Further, Cal-SEIA names the following

problems with such bidding: damage to the ability of solar businesses to advertise and sell their products; a decrease in the incentive for solar businesses to maintain a high level of workmanship in order to receive referrals; and an increase in the incentive to use cheaper materials and labor, to default on warranties and service work, and to create a "fly-by-night" industry.

Even if a ceiling on program loans were to be ordered, SoCal Gas would still endorse the three-bid requirement. In SoCal Gas' view, such a requirement assures the solar customer that he is receiving a reliable, properly installed system at a competitive price while assuring the ratepayer that his money is adequately secured. SoCal Gas also recommends that all payments of utility loans be made directly by the utility to the contractor. In this way, solar customers who request a loan to pay for a solar system offered by the second-lowest bidder will not be able to purchase a system from the lowest bidder and "pocket the difference." PG&E strongly urges that contractors making direct sales in its service area be qualified and listed under the RCS state plan.

Discussion

The issuance of Commissioner Grimes' proposed report reflects this Commission's commitment to making the solar demonstration program as viable and wide-reaching as possible. The intent of the report was not only to inform parties of some immediate results of the program's implementation, but also to propose modifications of the program which would be responsive to those developments. The procedural mechanism of a proposed report followed by exceptions has now provided the Commission with valuable comments from respondents, the staff, the solar industry, and other interested parties.

The exceptions reviewed above do not alter, but in certain cases confirm the factual basis for Commissioner Grimes' report. They do, however, point to two significant problems with the program modifications proposed by the report: (1) the absence of any record in this proceeding on which to base the specifically proposed modifications of rebates and loans and (2) the confusion and uncertainty created by continual changes to a demonstration program which has already commenced.

With respect to the proposed rebate modifications, only Cal-SEIA and Home Energy Centers advocate both changing the amount of the rebate and guaranteeing those rebates for one year. As stated previously, the intent of these modifications was to act on the rapid consumer response to the rebates and to extend their availability. It was believed that although SDG&E's rebates had been committed by the time the proposed report was issued, rebates in PG&E's and SoCal Gas' service areas could be extended by reducing their present amount by one-half and thereby increasing the number of remaining rebates. Based on figures supplied by the staff, it appeared that such a step was feasible and cost-effective.

The exceptions to the proposed report as well as further changes which have taken place since the issuance of that report, however, significantly impact the specific modifications proposed by Commissioner Grimes. We have now learned that not only has SDG&E's single-family gas rebate allocation been exhausted, but the same has now occurred in PG&E's service area. Under these circumstances the comments of TURN and PG&E relating to the cost-effectiveness of changing both the amount and number of rebates become even more meaningful.

Given that the unreduced rebates allotted to PG&E and SDG&E have been committed, any decision to guarantee rebates, even at a reduced amount, for one year has the direct effect of adding costs to the program not contemplated in our original decision in this proceeding (D.92251). There is, of course, merit to the observation that reducing an incentive will reduce the attractiveness of participating in the program. However, even a reduced rebate would be some incentive for the purchase of a solar water heater in the single-family gas market especially when combined with potential energy savings. We do not even have to hypothesize "aggressive marketing" by the solar industry, as PG&E does in its comments, to know that extending rebates in either PG&E's or SDG&E's service areas at this time will lead these utilities to exceed both the quotas and costs originally projected for rebates in their two service areas. We do not agree, however, with PG&E's assertion that to extend rebates in an unlimited number for one year could result in the program becoming less a demonstration program and more a program of mandatory utility financing of solar systems. A demonstration program can be limited either by specifying the number of participants or by specifying a certain period of availability.

If it is no longer appropriate to modify SDG&E's and PG&E's rebate program without an additional record on costs and appropriate incentive levels, only SoCal Gas' rebate program remains to be modified as proposed by Commissioner Grimes. According to SoCal Gas, however, in its service area there is no evidence which shows that the present rebate amount is too high or that any more rebates are necessary for SoCal Gas' program to adequately serve all potential participants and remain in effect until April 1, 1982. Based on the present progress of its program, it is therefore SoCal Gas' position that the rebates should remain at their present amount and be guaranteed until April 1, 1982.

Based on SoCal Gas' comments, we conclude that there is no need to adopt the rebate modifications proposed in Commissioner Grimes' report for SoCal Gas' service area. Under the circumstances, the benefit of any change is outweighed by the risk of causing confusion or uncertainty in the program.

We are also of the opinion that with respect to rebates, neither the proposed report nor SoCal Gas' position should be adopted for PG&E or SDG&E. The consequences of such an approach, from a cost-effectiveness standpoint, might be quite adverse. In PG&E's and SDG&E's service areas, we could easily imagine a situation in which a year from now the number of rebates issued by those two utilities could be many times greater than their original allotments.

The aim of providing a comparison between rebates and loans is also not a sufficient reason alone to warrant a costly extension of the rebate program. On balance, we do not believe the value of the demonstration program will be significantly enhanced by continuing single-family gas rebates in PG&E's and SDG&E's service areas only for the purpose of comparison with the loan program. As pointed out by the staff, the demonstration program was intended to cover many areas which, with the exception of the single-family gas market, have yet to be reached. We note that only a proportionately small number of the rebates allocated to the single-family electric and multi-family markets has been utilized. These markets, however, constitute the largest segments of the demonstration and continue to provide ample opportunity for conventional lenders to participate in the demonstration.

As noted in our review of the comments, both TURN and Edison expressed concern with the report's statement that "all other rebates" should remain available for the entire three years of the demonstration or until announcement of the termination or modification of a specific rebate. Despite TURN and Edison's concerns, this language was intended to indicate that the modification of rebates

for solar retrofits in the single-family gas market would not affect the other rebates to be offered. This statement did not mean that "all other rebates", other than single-family gas, would be guaranteed to a fixed date, such as April 1, 1982, but rather that the quotas would remain the same and presumably would be available for the three-year period of the demonstration.

We do subscribe, however, to a policy of announcing termination or modification of rebates and loans as a device to alert both solar customers and contractors when any part of the demonstration program is being altered or ended in advance of the three-year period. Home Energy Centers has stated that potential solar customers, as well as solar contractors, have no way of knowing prior to installation whether any more rebates will be available by the time installation is completed. The actions of SDG&E in announcing the expiration of its single-family gas rebate program provide a model for such notice. SDG&E first announced a probable termination date and later announced a specific date after which no application would be accepted.

In PG&E's and SoCal Gas' service areas, a remaining incentive to solar retrofits in the single-family gas market is, of course, the low-interest loan. Unlike the rebates, this incentive has only recently been offered and would appear to lend itself to prospective modification. Yet, as in the case of the rebates, the exceptions to Commissioner Grimes' report have proven very helpful in identifying the limitations of the specific proposals made in that report. One significant problem with the proposed modifications is the lack of any record in this proceeding to indicate what loan terms, other than those presently in effect, would actually reflect present market conditions and would serve as an incentive to the purchase of a solar water heater. While the program has not yet begun, the correspondence

of one potential solar customer reflects a reliance on the 6% interest rate and an indication that the higher interest rate would in fact make the purchase of a solar water heater much less attractive. This latter reaction could be true even of the staff's loan proposal.

Two other areas of concern relate to loan term options and "second level" utility loans. In our opinion, if any option were available, that option should be exercised by the customer, not this Commission or the utility. We agree, however, with Cal-SEIA that even offering the customer that choice may prove confusing and increase the administrative burden on the utilities.

On the issue of "second level" utility loans, as a result of recent rate cases involving PG&E and SoCal Gas, there no longer appears to be a need to set a ceiling on loans as proposed in Commissioner Grimes' report. In D.92251, we adopted a program of 100% financing by these two utilities, but determined that the number of loans should be limited either "by requiring the customer to obtain three bids with either of the two lowest bids being eligible for financing or by limiting the amount financed by the utility at low interest while permitting the utility to offer additional financing at an interest rate equal to its cost of money." (Finding 26, D.92251.) The first of these two alternatives was chosen for SoCal Gas, while the latter was adopted for PG&E. In the case of PG&E, we deferred "to the subsequent rate case our determination of the limit of funds available at low interest and the initial interest rate for funds exceeding the limit." (D.92251, at p. 35.)

Since the proposed report was issued, both PG&E's and SoCal Gas' solar rate decisions have been signed. For PG&E, we set the limit of PG&E's low-interest (6%) loans at the level PG&E found cost-effective assuming there was neither a clothes washer nor dishwasher in the residence. This level was \$2,600 for a two-bedroom

residence, \$3,200 for a three-bedroom residence, and \$3,800 for a four- or more bedroom residence. We further concluded that any sums which PG&E loaned above these amounts would be at an interest rate equal to its cost of debt. (Application (A.) 60056, D.92906, at p. 10.)

For SoCal Gas, we concluded in D.92854 (A.59869) at page 4:

" . . . Utility loans will be offered to single-family homeowners at 6 percent interest to be repaid with monthly payments over 20 years or upon sale of the residence, whichever comes first. SoCal will cease making loans when one-half of the targeted number of single-family participants have received a utility loans."

If we are to continue 100% utility financing of solar installations as advocated by Cal-SEIA, yet place limits on those loans as proposed by Commissioner Grimes, we would necessarily have to require "second level" loans from SoCal Gas as well as PG&E. This approach, however, not only alters programs which have been established in this proceeding and the utilities' individual rate cases, but adopts proposed interest rates and principal limits which have resulted from no record related to any of these proceedings. While we are uncertain of the merits of PG&E's assertion that Commissioner Grimes' proposal in combination with "second level" utility loans may exceed the legal interest limit, we have not undertaken any analysis or review which would allow us to reach an informed conclusion on this issue.

It appears, however, that the market for the low interest loans could be substantially broadened if the loans could be offered in direct sales by contractors. Comments on this item in the Proposed Report provided no significant evidence to the contrary.

In D.92251, loans were limited to customers who first called the utility for referral to contractors. We expressed concern that to require three bids in direct sales situations could distort the solar sales market. We also concluded that three bids were necessary to protect the ratepayers in the absence of a loan ceiling. We remain convinced of the merits of these conclusions. However, we now believe that utility loans can be offered in direct sales by contractors while still protecting both the ratepayers and the solar market.

By requiring three bids where there is a utility referral, we can develop reliable data on prices obtained through a bidding procedure. By not requiring three bids where there is a direct sale by a contractor, we can develop reliable data on prices prevailing in a more open market. If prices in the direct sales market are significantly higher than when bids are required, we can take remedial action. If prices in both situations appear comparable, the need for a three bid requirement could be reevaluated.

Therefore, we conclude SoCal should make its low interest loans available for direct sales by contractors as well as for sales following a utility referral. No competitive bids shall be required in direct sales situations. SoCal should maintain precise records of sales prices in all loan transactions and report to the Commission any significant price patterns. As recommended by PG&E, contractors making direct sales in both PG&E's and SoCal Gas' service area must be qualified and listed under the RCS state plan.

Keeping in mind the information we have now received as a result of the proposed report and the early stages of the demonstration program, we are convinced that without a further record in this proceeding we are unable to modify the rebate and loan incentives as proposed in Commissioner Grimes' report. We are also not persuaded that those specific changes would prove beneficial either in terms of improving the cost-effectiveness of the program or reducing any additional confusion caused by changes to the program.

We still believe, however, in the policies which led to the issuance of the proposed report. Further, since the proposed report was mailed and the exceptions were received, two significant events impacting PG&E's and SoCal Gas' low-interest loan programs have occurred. On April 30, 1981, PG&E filed an Application for Rehearing and/or Modification of D.92906, the decision in its solar rate application. Additionally, on May 1, 1981, SoCal Gas filed a Petition for Reconsideration or Modification of D.92854, its solar rate order. PG&E's application stresses the difficult financial position of the company and asks for additional rate relief or abandonment of the loan program. SoCal Gas' petition requests that its loan program be abandoned unless it is authorized to establish a subsidiary to raise the capital necessary for the loans. Action on these two requests will be taken by separate orders in the utilities' respective rate applications. However, because our decisions on the petitions could directly affect the demonstration program, copies of those decisions will be served on all parties in OII 42.

Finally, we address the proposal of Cal-SEIA that we authorize each utility to form an Industry-Utility Solar Demonstration Program Implementation Committee comprised of representatives of the utility and the solar industry. This committee would resolve questions which, like the issues addressed in Commissioner Grimes' proposed report, might arise during the course of the demonstration program. The committee's recommendations on these issues would be forwarded to Commissioner Grimes who would present them in the form of a proposed report.

Although we appreciate Cal-SEIA's suggestion, neither this Commission nor parties to this proceeding have had an opportunity to evaluate this proposal. We therefore conclude that any such authorization is inappropriate at this time and may in fact be an improper delegation of our statutory responsibilities. While we would also like to avoid the necessity of "lengthy and expensive hearings, filings of briefs and/or comments, and/or PUC staff review" such actions may be required, depending on the modifications, as a matter of law. (See, e.g., Public Utilities (PU) Code Section 1708.)

Findings of Fact

1. On March 6, 1981, a Proposed Report of Commissioner Grimes was mailed to respondents and interested parties to this proceeding. Exceptions to that report were filed on March 18, 1981.

2. According to the exceptions filed, in the SDG&E service area all rebates allotted to SDG&E for solar water heating installations in the single-family gas market have been committed. A similar commitment of such rebates appears to have resulted in the PG&E service area.

3. Based on the projections of SoCal Gas, the present rebate amount for single-family solar retrofits in that service area is not too high nor are any additional rebates needed to continue that program through April 1, 1982.

4. No record has been developed in this proceeding on which to determine the cost-effectiveness of extending the rebate program for the single-family gas market in PG&E's, SDG&E's or SoCal Gas' service areas. There is also no record establishing appropriate incentive levels for such solar purchases other than those previously ordered in this proceeding.

5. A need exists for noticing utility customers of termination or modification of any of the incentives offered in this Commission's solar demonstration program. The actions of SDG&E in announcing the expiration of its single-family gas rebate program provide a model for such notice.

6. There is no record in this proceeding to indicate what specific loan terms, other than those presently in effect, would actually reflect present market conditions or would serve as an incentive to the purchase of a solar water heater.

7. Adequate limitations on the loans to be offered by PG&E and SoCal Gas for solar retrofits in the single-family gas market have been established in this proceeding as well as the recent rate applications involving the solar programs of these two utilities. (D.92906 (PG&E); D.92854 (SoCal Gas).) Further action on these loan programs, however, may be taken in response to PG&E's petition for rehearing and SoCal Gas petition for modification of their respective rate decisions.

8. Under PG&E's current loan programs, it is appropriate to permit direct sales by contractors in PG&E's service area. It is appropriate for SoCal Gas to provide loans for direct sales by contractors without a requirement of competitive bidding, but to continue the

three-bid requirement when SoCal Gas refers a customer to solar contractors. All contractors making such direct sales in PG&E's and SoCal Gas' service areas must be qualified and listed under the RCS state plan.

9. The proposal of Cal-SEIA to form an Industry-Utility Solar Demonstration Program Implementation Committee has not been evaluated. Such a committee, however, does not appear necessary at this time and may be beyond this Commission's authority to establish.

Conclusions of Law

1. The proposed report of Commissioner Grimes modifying the rebate and loan incentives for the purchase of solar water heaters in the single-family gas market should not be adopted.

2. The amount and number of rebates established for PG&E, SDG&E, and SoCal Gas should not be altered.

3. In the future, based on data received in the demonstration program, notice of termination of any incentive should be made by the utilities to their customers.

4. The loans to be offered by SoCal Gas for solar retrofits in the single-family gas market should not be modified, but should be made available for direct contractor sales.

5. The proposal of Cal-SEIA to establish an Industry-Utility Solar Demonstration Program Implementation Committee should not be adopted.

6. Because the demonstration program is presently in effect, this order should be made effective the date of signature.

ORDER AFTER PROPOSED REPORT

IT IS ORDERED that:

1. The Proposed Report of Commissioner Leonard M. Grimes, Jr., modifying rebate and loan incentives for the purchase of solar water heaters in the single-family gas market shall not be adopted.

2. Pacific Gas and Electric Company (PG&E), Southern California Gas Company (SoCal Gas), San Diego Gas & Electric Company, and Southern California Edison Company shall provide notice by publication of the termination or modification of any incentive associated with the Demonstration Solar Financing Program.

3. Southern California Gas Company shall offer loans for qualified solar installations made pursuant to direct contractor sales, except when SoCal Gas refers a customer to a solar contractor. When SoCal Gas makes such a referral, competitive bidding as provided in D.92251 shall be required. The company shall maintain precise records of prices in all loan transactions and report to the Commission any significant price patterns.

This order is effective today.

Dated JUN 2 1981, at San Francisco, California.

President

Commissioners

Commissioner Priscilla C. Grew, being necessarily absent, did not participate in the disposition of this proceeding.