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ORIGINAL

Decision 93204 JUN 16 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
 the Southern California Gas Company )  
 for Authorization to Implement a )  
 Conservation Cost Adjustment (CCA) )  
 procedure for adjusting its Tariffs )  
 covering Commission Approved Conser- )  
 vation Programs and for Authorization )  
 to Implement a financing program for )  
 financing solar water heaters to be )  
 included in the Proposed CCA Procedure )  
 in its tariffs. )

Application 59869  
 (Petition for Modification  
 filed May 1, 1981)

ORDER MODIFYING DECISION 92854

In Decision (D.) 92251 issued September 16, 1980 in OII 42, Southern California Gas Company (SoCal) was ordered to implement a demonstration solar financing program to reach 165,300 of its water heater customers within 3 years. In this proceeding, SoCal seeks a rate increase of \$9.054 million annually to offset the program costs, of which \$5.2 million was granted April 1, 1981 by D.92854. However, SoCal's proposal for creation of a solar financing affiliate (SFA) to raise capital for the loan segment of its program was not approved.

On May 1, 1981 SoCal filed a pleading entitled petition for reconsideration and/or modification of D.92854.<sup>1/</sup> SoCal asks the Commission to:

1. Approve its original proposal to set up a SFA for raising solar loan capital.

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<sup>1/</sup> For internal Commission purposes the pleading was docketed as a petition for modification. However, the document may be considered an application for rehearing under Public Utilities Code § 1731 as well as a petition for modification.

2. Authorize sufficient funds to promote SoCal's single-family loan program.
3. Reverse the Commission's reduction of funding of SoCal's proposed multifamily promotional effort.
4. Authorize the transfer of funds from multifamily credits to single-family credits.

We will now consider each of these points in order.

#### Solar Financing Affiliate

In D.92854 the Commission denied SoCal's proposal to form a SFA as a subsidiary of Pacific Lighting Corporation (PLC) and to fund solar loans from equity and debt capital supplied by PLC in the ratio of 10% equity and 90% debt. The Commission stated that "loan capital costs...should be expensed during the demonstration program." (Mimeo p. 10.) Although D.92854 did not specify the source of the loan capital, we assumed that it would be borrowed<sup>2/</sup> and that the loan segment of the program would only amount to \$9,120,000.

SoCal points out that the open account borrowings from PLC are used for short-term financing and that items carried beyond 12 months are generally transferred from the open account to permanent financing involving both debt and equity. It notes that capital for 9,500 solar loans of \$3,000 each would require borrowings of \$28,500,000,<sup>3/</sup> not the \$9,120,000 assumed by the Commission. SoCal argues that it is already committed to carrying on its books almost \$20 million which it borrowed for Commission-approved insulation loans.

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<sup>2/</sup> The staff recommended that the fund be obtained from PLC on open account.

<sup>3/</sup> If the cost of the systems exceed \$3,000, the required loan capital would exceed \$28,500,000.

The insulation loan program is now growing at the rate of 1,800 loans per week with loans averaging \$500 per loan, a loan capital requirement of \$900,000 per week. Moreover, if the Commission establishes a loan program for weatherization conservation measures, still more debt would be needed.

SoCal contends that these amounts of additional debt would adversely affect SoCal's interest coverage for long-term debt and would severely stretch its ability to finance its normal capital expenditures for gas distribution activities or to raise new capital for other conservation financing programs.

Upon reconsideration of the SFA proposal in light of SoCal's petition we conclude that D.92854 should be modified to authorize SoCal to establish a SFA as it originally proposed. The SFA would enter into a cost of service contract with SoCal to advance funds on the security of the promissory notes and homes of the ratepayer borrowers. SoCal's evidence shows that its incremental cost of equity capital is 20%. The staff recommends that we limit PLC's return on the equity invested in the SFA to SoCal's last authorized return on equity, 14.6% (D.92497). We will adopt the staff recommendation.

Promotion of Single-Family Program

In D.92854 the Commission significantly reduced SoCal's estimated overhead costs by eliminating marketing costs. SoCal projected \$454 per unit overhead in the first year, the staff recommended \$100 per unit overhead in that year, and the Commission virtually eliminated the item. SoCal argues that without these overhead funds it will be unable to promote the single-family program and that the Commission's market penetration goals will not be achieved. SoCal states:

"Early acceptance of solar credits may have been misread by the Commission to mean that this kind of financial incentive would be sufficient to

achieve the single-family residence goals without additional promotion. The present trend in solar water heating installations does not support this conclusion. As of April 24, 1981, 3,729 inspection forms had been received from customers by SoCal. Of that number, 3,412 single-family residence solar systems were installed prior to March 1, 1981. The remaining 317 systems had been installed after March 1, 1981. Prior to March 1, 1981, 2,957 of the 3,412 single-family residence systems had received a positive inspection. Since March 1, 1981, only 6 of the 317 installations have passed the new installation standards. Under these more stringent standards and with no sale promotion activity to support the program, SoCal could fall far short of the Commission's 19,000 single-family residence goal."

SoCal requests that the Commission authorize a minimal promotional effort involving bill inserts which it alleges would not be costly. It also seeks to be relieved from responsibility for achieving the Commission's market penetration goals, as was Pacific Gas & Electric Company (PG&E) in D.92906, dated April 7, 1981 in A.60056 (mimeo. p. 17).

We might have been inclined to consider SoCal's minimal promotional effort if SoCal had estimated the costs involved. But a mere conclusion that such a program of bill inserts would not be costly is insufficient to support the modification SoCal seeks. However, it is only just to make the same statement regarding SoCal's responsibility for achieving the Commission's market penetration goals as we made in D.92906. Therefore, we conclude that the goal, established in D.92241 (OII 42), for SoCal to provide 165,300 dwelling units with solar water heating systems over a three-year period is a maximum market penetration level or ceiling, and it is not the responsibility of SoCal to reach it. The solar industry will benefit greatly from a successful demonstration, and it should work in partnership with SoCal to reach customers and solicit them into the demonstration program.

Funding of SoCal's Multifamily  
Promotional Effort

SoCal originally proposed to spend \$6,894,000 for advertising, public affairs, and marketing/communication. Of that total \$3,195,000 consisted, according to SoCal, of the labor component of the administration of both the promotional and non-promotional portions of the single- and multifamily marketing plans. The figure \$3,195,000 represented the total expense of 66 employees (and their offices, telephones, and cars) at roughly \$48,000 per employee. SoCal states that 12 of those 66 employees were not intended to be involved in promotional activity and therefore will still be necessary for the administration of the program. SoCal identifies these employees as 8 clerical and 4 management employees and estimates the expenses associated with them at \$36,000 per employee or \$432,000. To this figure SoCal adds \$174,000 of expenses incurred for these employees through March 31, 1980 [sic 1981]. The two figures total \$606,000 which SoCal rounds to \$600,000. SoCal claims that of the \$1,000,000 allocated to SoCal for the promotion of multifamily solar units (D.92854, p.9) \$600,000 has and will be spent for necessary, nonpromotional employees, leaving only \$400,000 to support multifamily promotional efforts.

The record, however, does not support SoCal's assertion that the 8 clerical and 4 managerial employees are engaged in solely nonpromotional activities, and SoCal does not state that they are. It merely claims that "these employees were not intended to be involved in promotional activity." (Petition, p. 15.)

Surely, if the 4 managerial persons supervise the 50 marketing representatives and if the 8 clerical people support that same workforce, as SoCal's witness testified (Tr. 185), SoCal

cannot reasonably assert that the 4 managers and 8 clericals are engaged in solely nonpromotional work. We conclude that SoCal's request for an additional \$600,000 of funding for multifamily promotional activities should be denied.

Transfer Funds from Multi- to Single-Family Credits

In D.92854, mimeo p.8, the Commission authorized funding of \$274,000 for single-family and \$505,000 for multifamily gas credits for the first year. SoCal seeks a clarification that unused funds for multifamily credits may be applied to single-family credits. SoCal is now obligated to make credit payments of about \$500,000 during the first year of the program and estimates that it will disburse \$615,000 of single-family gas credits in 1981. In contrast payments for multifamily credits are expected to total only about \$38,000 during the first year.

This proposal is reasonable and will not result in any depletion of total funds available for multifamily credits in the long run, because of the program ceiling on the total number of single-family units entitled to credits. Accordingly, we conclude that SoCal should be authorized to apply funds allocated for multifamily credits to single-family credits.

Miscellaneous Issues

In D.92854 the Commission expressly authorized \$848,000 for inspection, servicing, and diagnostic, subject to the limitation that expenses for diagnostic inspections shall not exceed those necessary to adhere to policies to be established in OII 42.<sup>4/</sup> (Table IV, D.92854, mimeo. p. 9.) Despite this authorization the Commission stated:

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<sup>4/</sup> "The role of diagnostic inspections will be considered in upcoming hearings on consumer protection measures in OII 42. Pending resolution of this issue, funds should not be expended to prepare for or conduct diagnostic inspections." (D.92854, mimeo. p. 12.)

"In order to facilitate quality installations, SoCal proposes special training programs to be held for SoCal field inspectors, contractors, installers, building inspectors, and do-it-yourselfers. SoCal must fund this activity out of the adopted marketing and communications budget [\$1,000,000] set out in Table IV."

We agree that D.92854 is confusing on this point and should be clarified. We conclude that SoCal should fund its field inspector training programs from the \$848,000 we authorize for that purpose, among others, while any other training SoCal wishes to pursue as part of its marketing and communication efforts should be funded from the \$1,000,000 marketing and communications budget.

SoCal's final point is as follows:

"If the Commission approves the SFA, it is of vital importance to expressly allow recovery of the costs associated with any potential liability as a purchase money lender. This authorization is necessary because financial institutions will not rely on the SFA-SoCal tariff for payment unless the Commission provides assurances that any losses from this potential liability will be recovered in rates. In fact, whether or not the SFA is approved, SoCal vigorously urges that the Commission expressly authorize the recovery by either the SFA or SoCal<sup>3/</sup> of the costs associated with the potential liability."

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<sup>3/</sup> Although Decision No. 92854 allows recovery by SoCal of 1.585% for 'Franchise Fees and Uncollectibles,' this does not provide adequate protection because this item typically covers nonpayment of utility bills, not non-repayment of loans. SoCal therefore requires, if ordered to provide solar loans, express authority to recover costs associated with the non-repayment of loans." (Petition, p. 8.)

SoCal's request is reasonable and should be adopted.

Findings of Fact

1. The reasonable cost of equity capital for the SFA is 14.6%.
2. The evidence is insufficient to support SoCal's request for additional funds to promote the single-family program.
3. The record does not support SoCal's request for an additional \$600,000 to promote the multifamily program.
4. With program ceilings on the number of single-family and multifamily solar installations entitled to credits, the use of funds allocated for credits in one program will not in the long run deplete funds available for the other.

Conclusions of Law

1. D.92854 should be modified to authorize SoCal to establish a SFA.
2. SoCal's request for additional funds to promote the single-family program should be denied.
3. It is not SoCal's responsibility to reach the market penetration goals established by the Commission.
4. The request for an additional \$600,000 to promote the multifamily program should be denied.
5. SoCal's proposal to apply funds allocated for multifamily credits to single-family credits is reasonable and should be adopted with the understanding that later surpluses in funds for single-family credits may be used for multifamily credits.
6. SoCal should be authorized to fund its special training programs from the \$848,000 in the inspection, servicing, and diagnostic budget.



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7. The SFA or SoCal should be authorized to recover in rates any losses from non-repayment of solar loans.

8. The following order should be effective immediately to allow SoCal to implement its solar program.

IT IS ORDERED that:

1. Southern California Gas Company may:
  - a. Establish a solar financing affiliate;
  - b. Apply funds allocated for multifamily credits to single-family credits and vice versa; and
  - c. Fund any training program it wishes to pursue as part of its marketing and communication program from the marketing and communication budget but shall fund the training of field inspectors from the inspection, servicing, and diagnostic budget.
2. Southern California Gas Company may recover in rates any losses its affiliate incurs due to non-repayment of solar loans.

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3. In all other respects the petition of Southern California Gas Company for modification or reconsideration of D.92854 is denied.

This order is effective today.

Dated JUN 16 1981, at San Francisco, California.

Jul E. Bryan President  
Richard W. Kopp  
Thomas J. Quinn  
William C. ...  
Francesca C. New Commissioners