

Decision 93272 July 7, 1981

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of PACIFIC GAS AND ELECTRIC COMPANY for authority, among other things, to include a Solar Financing Adjustment Clause in its electric and gas tariffs and for authority to increase its rates thereunder to implement the OII 42 demonstration solar financing program ordered in Decision No. 92251.  
 (Electric and Gas)

Application 60056  
(Filed November 5, 1980)

(See Decision 92906 for appearances.)

Additional Appearances

David J. Gilmore, Attorney at Law, for  
 Southern California Gas Company, intervenor.  
Philip Weismehl, Attorney at Law, for the  
 Commission staff.

OPINION AFTER HEARING ON ORDER TO SHOW CAUSE

Decision (D.) 92251 dated September 16, 1980 in OII 42 ordered Pacific Gas and Electric Company (PG&E) to implement a demonstration solar financing program to reach 158,040 of its water heater customers within 3 years. In this application PG&E sought a rate increase of \$22,358,000 annually (\$19,140,000 and \$3,218,000 for the gas and electric departments) to offset the program costs. In D.92906 dated April 7, 1981, we permitted PG&E to collect additional revenues of \$6.131 million (\$3,764,426 and \$2,366,953 for the gas and electric departments) by increasing electric rates \$.00004/kWh and gas rates \$.001 per therm. We also approved PG&E's proposal to establish a solar financing adjustment balancing account.

PG&E and Toward Utility Rate Normalization (TURN) filed applications for rehearing of D.92906, which we denied in D.93124 dated June 7, 1981. However, because the record in this proceeding raised the question whether we should continue the requirement that PG&E provide low-interest loans to single-family gas water heater customers as part of its demonstration solar water heater financing program, we also ordered (in D.93124) that the parties, both in this proceeding and in OII 42, should appear and show cause why the loan option should not be eliminated from the single-family gas water heater program in favor of rebates. Accordingly, public hearings on the order to show cause were held June 15, 1981, in San Francisco before Administrative Law Judge (ALJ) Robert T. Baer. Testimony was presented by PG&E and one member of the public and the matter was submitted.

The Loan Program as  
Authorized by D.92906

PG&E proposed that the loan principal required to fund the 6% loans to its customers for solar purchases be provided through current rates (expensed) and requested \$7.2 million in revenues in the first year for that purpose. In D.92906 we agreed with the staff that loan funds should be raised in the capital market, and ratepayers should assume only the difference between the cost of the loan principal to PG&E (assumed to be 15%) and the interest charged by PG&E on the loans. Accordingly, we allowed only \$250,000 for first year interest differential costs.

PG&E's Application for  
Rehearing of D.92906

In its application for rehearing of D.92906 PG&E took exception to the Commission's structuring of the loan program. It claimed that several of the Commission's assumptions and conclusions

underlying the loan program were not supported by the record. Among these were our assumptions that:

1. PG&E's cost of money over the next three years would average 15%;
2. PG&E would need to raise \$27,000,000 of loan principal in the next three years, instead of the \$40,000,000 estimated by PG&E;
3. An additional \$27,000,000 of borrowings would increase PG&E's forecasted capital expenditure budget less than 0.5%;
4. The balancing account would assure that neither PG&E's cash-flow nor credit would be adversely affected by the loan program;
5. It was wise to match the cost of the loans with the benefits they will produce and thus to allow the costs of the loan program to be collected from the ratepayer over the 20-year assumed life of the solar water heating systems; and
6. Obtaining loan principal by borrowings would be less costly than expensing through the rate structure.

Upon reconsideration of the record, in light of PG&E's application for rehearing, we concluded that the necessity for the loan program should be reviewed. Thus, in responding to the applications for rehearing in D.93124, we also issued an order to show cause.

Order to Show Cause

The relevant parts of D.93124 as it relates to the order to show cause are as follows:

"However, the record in this proceeding brings into question the merits of continuing the requirement that PG&E provide low interest loans to single-family gas water heating customers as part of its demonstration solar water heating financing program. This Commission may wish to

consider modification of Decision No. 92906 by, in part, eliminating the low-interest loan portion of PG&E's program. Therefore,

"IT IS HEREBY ORDERED that:

- "1. Respondent and interested parties to this proceeding and OII-42 must appear at the time and place stated below if they wish to show cause as to why the loan option should not be eliminated from the single-family gas water heater portion of PG&E's demonstration financing program and why single-family gas rebates should not be extended to those whose names appear on PG&E lists as seeking loans under this program (as of the effective date of this order).
- "2. PG&E will present evidence at that time explaining the manner in which names have been accumulated for its demonstration program loan list, the number of names currently on that list, and the Company's best estimate of the portion of those listed who would be likely to seek rebates, if they were offered in the alternate."

PG&E Evidence

PG&E sponsored evidence through two witnesses, its supervisor of Residential Conservation Services, John Schaefer, and a rate analyst in its Rate Department, Donald G. Esse. Schaefer testified that customers who responded to PG&E's questionnaire have shown a clear preference for cash rebates over loans. He said that on April 4, 1981, PG&E had to stop accepting further requests for rebates because the number of requests exceeded by about 2,000 the single-family gas credit goal of 9,000 units. By that time only 4,347 loan requests had been received. As of June 3, 1981, when PG&E stopped accepting

loan requests, the number had increased to 5,973. PG&E estimates that about 50% of those interested in loans would accept rebates in place of loans. The witness recommended that the Commission authorize PG&E to extend rebates to an additional 9,000 customers in place of the 9,000 loans. He cited several reasons to support his recommendation:

1. PG&E's questionnaires have shown a strong customer preference for rebates;
2. The extension of rebates would further the Commission's purpose to improve consumer information about and confidence in the installation and operation of solar water heaters.
3. The extension of rebates will allow all who have expressed interest in rebates or loans to receive rebates.
4. The extension of rebates will allow the installation of a sufficient representation of systems that comply with the stricter design and performance standards which went into effect March 1, 1981. Many of the systems installed to date meet only the less stringent interim standards.
5. Substituting rebates for loans will minimize the cost of the demonstration program and will relieve the financial pressure on PG&E, which is currently capital-constrained. ✓

If the Commission approves the extension of rebates to an additional 9,000 single-family gas customers, Schaefer estimated that program penetration through 1981 would total 14,716 (4,346 through May, 1,370 for June, and 1,500 per month from July through December.)

PG&E's second witness testified about the costs of the solar financing programs for 1981, assuming: (1) that no single-family gas loans would be offered, but instead single-family gas credits would be increased by a like number of participants; and (2) that 1981 estimated total penetration levels are revised to reflect current penetration estimates, which include actual data for March, April, and May. ✓

The following table shows how PG&E has revised its penetration estimates:

Program Penetration through End of 1981

	Original Estimate (D.92906)	Estimated Through* 12-31-81
Single-family gas 6% loan	1,800	-
Single-family gas Credit	2,600	14,716
Multifamily gas Credit	20,420	3,185
Single-family electric Credits	8,228	4,908
Low Income Systems	160	160
	<u>33,208</u>	<u>22,969</u>

\* Exhibit 13

PG&E recalculated its revenue requirement<sup>1/</sup> based upon its revised estimates of program penetration and concluded that in 1981 it would experience a \$300,000 undercollection at the current solar financing adjustment (SFA) rates of \$.00004/kwh and \$.001/therm. Therefore, PG&E recommended that its SFA rates be adjusted to \$.00002/kwh and \$.00142/therm to avoid any undercollection.

<sup>1/</sup> D.92906 authorized \$6,131,000 in additional revenue. Exhibit 14 shows a revised revenue requirement of \$5,406,00. According to PG&E's witness this does not mean that PG&E will overcollect, because the \$6,131,000 figure is based on a 12-month period (\$510,000/mo.) while the \$5,406,000 figure relates to program costs for a 10-month period starting in March (\$540,000/mo.), resulting in net undercollections of \$30,000/mo or \$300,000 for 1981.

Other Evidence

An Oakland home owner, Gayle Solomon, testified in favor of retaining the solar loan program. She related her experience in preparing to install a solar unit and her frustration that the loan program had not been implemented. She stated that without the loan program she would not be able to acquire a solar unit for her duplex. Even with a rebate she doubted whether she could obtain conventional financing.

Apart from Ms. Solomon, no other person or party offered evidence.

Discussion

We have reconsidered the record in light of PG&E's application for rehearing and the evidence introduced at the June 15 hearings. It is clear that the loan program as originally conceived in D.92906 is unreasonable due to current money market conditions and PG&E's financial position. While the loan program could be revised to allow it to be completely expensed, such a proposal would be much more costly than rebates, as PG&E's uncontroverted evidence showed.

PG&E's witness Esse contrasted the 1981 revenue requirement for a \$3,200 loan issued in July (\$3,085)<sup>2/</sup> with the revenue requirement for the same customer receiving a rebate (\$60). If 1,800 loans were made (the number originally estimated for 1981 in D.92906) the additional 1981 revenue requirement would be \$5,445,000.<sup>3/</sup> If 5,973 customers received loans (the number of customers who have expressed interest in obtaining loans) the additional revenue requirement would increase to \$18,068,000.<sup>4/</sup>

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2/ Loan of \$3,200 less \$115 payments through end of year 1981 equals \$3,085.

3/ The net increase in 1981 revenue requirements would be, at a minimum, (\$3,085 - \$60) x 1,800 loans or \$5,445,000.

4/ These figures do not include loan administrative costs, carrying charges (interest differential), or potential income tax liability which could roughly double the revenue requirement.

Since rebates would impose no burden on PG&E's pool of capital and since they would be much less costly to the ratepayers than would a fully expensed loan program, we conclude that PG&E should be authorized to offer rebates to those customers who have expressed interest in loans. PG&E should extend rebates to those customers who have expressed interest to the company in the loan program prior to the date of this order.

Findings of Fact

1. More customers have expressed interest in the rebate program than in the loan program.
2. A fully expensed loan program would greatly exceed the rebate program in cost for the same number of customers.
3. It is reasonable to eliminate low-interest loan from PG&E's demonstration program and to offer rebates to all customers who have expressed to the company interest in the loan program prior to the date of this order.
4. PG&E's current SFA rates will produce \$300,000 of under-collections in 1981.
5. PG&E's current SFA rates of \$.00004/kWh and \$.001/therm are now and for the future unjust and unreasonable. For the future \$.00002/kWh and \$.00142/therm are the just and reasonable SFA rates.

Conclusions of Law

1. D.92906 should be modified to allow PG&E to abandon the loan program and to offer additional rebates to all customers who have expressed to the company an interest in the loan program prior to the date of this order.
2. PG&E should be authorized to file and place into effect the SFA rates of \$.00002/kWh and \$.00142/therm.



3. This order should be effective immediately to allow PG&E to implement the revised solar demonstration program as soon as possible.

O R D E R

IT IS ORDERED that:

1. Decision 92906 is modified to delete the requirement for Pacific Gas & Electric Company (PG&E) to extend 6% loans to 9,000 of its single-family gas customers.

2. In lieu of the loan program, PG&E shall offer rebates on the same terms as currently authorized to all customers who have expressed to the company an interest in the loan program prior to the date of this order.

3. PG&E shall file new SFA rates of \$.00002/kWh and \$.00142/therm in compliance with General Order 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 or after the effective date of this order.

This order is effective today.

Dated WUL 7 1981, at San Francisco, California.

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

John E. Sawyer  
President

Richard W. Gravelle  
Richard D. Gravelle

Prudence C. Green  
Commissioners