

ALJ/nb

**ORIGINAL**Decision 93740 NOV 13 1981

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 Southern California Gas Company for  
 authorization to implement a Conser-  
 vation Cost Adjustment (CCA)  
 procedure for adjusting its tariffs  
 covering Commission approved conser-  
 vation programs and for authoriza-  
 tion 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 October 6, 1981)

ORDER MODIFYING DECISIONS 92854 AND 93204

History

In Decision (D.) 92251 issued September 16, 1980, in OII 42, the Commission ordered Southern California Gas Company (SoCal) to establish a solar demonstration solar financing program to reach 165,300 of its water heater customers in three years. In Application (A.) 59869 SoCal sought a rate increase of \$9.054 million annually to offset the costs of that program. By D.92854 dated April 1, 1981, the Commission granted a rate increase of \$5.2 million but denied SoCal's proposal to create a solar financing affiliate (SFA) to raise capital for the loan segment of the program.

On May 1, 1981, SoCal filed a petition for modification of D.92854 seeking approval of its original proposal to form an SFA. By D.93204, dated June 16, 1981, the Commission authorized SoCal to establish an SFA, as it originally proposed, and to recover in rates any losses that the SFA might incur due to nonrepayment of solar loans.

By Resolution G-2434, dated July 22, 1981, the Commission approved the SoCal-SFA tariff (cost of service agreement).

Petition

On October 6, 1981, SoCal filed a petition to modify D.92854 and D.93204, alleging that in its negotiations with lenders, they have insisted upon the same assurances from the Commission as were granted to Pacific Gas and Electric Company (PG&E) in its conservation financing proceeding (D.93497, dated September 1, 1981, in A.59537 et al.). In addition the lenders require approval by the Commission of a bifurcated tariff before they will agree to participate in solar financing.

Assurances

Although SoCal's demonstration solar financing program is scheduled to end after three years, the loans provided under this program will have a term of 20 years. SoCal alleges that lenders have advised it that they must receive express assurances that the revenue stream generated by loan customers will not be interrupted during the 20-year life of each loan. SoCal states that the lenders would be satisfied with assurances identical to those found in D.93497, as follows:

"While acknowledging our inability to bind the actions of a future Commission, we nevertheless state that any decision by a future Commission to cut back or discontinue ZIP as no longer in the public interest can properly apply only to prospective financings. To avoid confiscation of funds provided in good faith by lenders, we will not interrupt the revenue stream on which lenders will have relied in making Commission-approved debt commitments."  
(D.93497, mimeo, p.17.)

This request is reasonable and will be adopted.

### Bifurcated Tariff

According to SoCal, the lenders also require a tariff with a two-part rate, whereby debt service is separately paid. Since we have already acknowledged the merit of a bifurcated tariff for PG&E's ZIP program,<sup>1/</sup> SoCal argues that we should also authorize a bifurcated SoCal-SFA tariff. Specifically, the Conservation Cost Adjustment (CCA) rate would be divided into two separate rates: the Debt Service Rate and the Expense Rate. The Debt Service Rate would recoup all debt service costs under all circumstances. SoCal also proposes that we authorize it, as we did PG&E, to adjust the Debt Service Rate by quarterly advice letter, arguing that this would further assure lenders that actual debt costs would be recovered in a timely manner. SoCal states that the Expense Rate should recover all nondebt costs, including administrative and general expenses, return on equity, and income taxes. SoCal argues that this rate would merely reflect the approach already taken in D.92854, where the CCA balancing account included all reasonably incurred solar demonstration program costs (D.92854, mimeo. pp. 12-13).

This proposal is reasonable and should be adopted.

### Findings of Fact

1. It is necessary to have an assured revenue stream large enough to cover, at a minimum, the recoupment of debt service in a timely manner under all circumstances in order to attract lenders to advance the borrowing envisioned for SoCal's solar financing program. In the absence of such security SoCal's solar program cannot be project financed.

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<sup>1/</sup> "Although ZIP does not provide security in the traditional sense of project financing in that it does not provide a pledged assets form of security, PGandE's proposal to create a CFA mechanism with a bifurcated rate provides a reasonable means by which the Commission can guarantee potential lenders recovery of their debt service. Our approval of such a mechanism will entitle lenders to rely on the Commission's commitment to CFA debt service cost recovery." (Decision 93497, mimeo. p. 17.)

2. Debt Service is defined to include principal not recovered from participants in a timely manner, interest whether at a variable or fixed rate, and associated fees.

3. Lenders will advance the debt funds required by SoCal's SFA only if the lenders can rely on the SoCal-SFA tariff and the CCA procedure and balancing account to guarantee debt service revenue stream over the life of the borrowings from the lenders and on the agreement between SoCal and the SFA relating to the assignment of CCA revenues and on the equity investment to provide a "cushion" for the debt service.

4. The public interest requires that the Commission institute a CCA procedure similar to SoCal's GEDA procedure.

5. The CCA procedure will entail periodic financing project letter filings by SoCal describing proposed financings.

6. If the Commission approves a solar financing project letter, it will be with the understanding that as to the solar financing, SoCal will be authorized to recoup through CCA rates the actual debt service cost of such financing over its lifetime.

7. The CCA should be divided into two separately computed rates. The first rate ("Debt Service Rate") will cover the recoupment of debt service and will be subject to the Commission's commitment of full recovery. The second rate ("Expense Rate") will cover all nondebt costs, including administrative and general expenses, the return on equity, and associated income taxes. The Debt Service Rate may be adjusted quarterly by advice letter filings to reflect changes in applicable costs. The Expense Rate also may be adjusted and will be subject to Commission review of the reasonableness of such expenses in SoCal's CCA rate case.

8. The debt service costs collected by SoCal under the Debt Service Rate and Expense Rate are to be accounted for separately and are to be transferred to the SFA immediately. Principal amounts

collected from solar financing participants are to be accounted for separately and will be transferred to SoCal's SFA immediately.

9. CCA revenues (net of SoCal's franchise fee and uncollectible expenses) will be distributed by the SFA so that debt service costs will be satisfied first, and the return on investment in the SFA last.

10. Lenders justifiably will be acting in reliance on the Commission's commitment to CCA debt service cost recovery whenever lenders make loans to SoCal's SFA to fund Commission-approved solar financings.

11. While the Commission has already found that SoCal's demonstration solar financing program is in the public interest and serves the public convenience and necessity, it recognizes that a future Commission could determine that further solar financings no longer would be in the public interest. If this should occur, to avoid confiscation of funds already lent in good faith by lenders, the Commission finds that only prospective financings can be affected and that CCA debt service recovery for previously approved solar financing will not be reduced or impaired in any way.

12. An important component of the CCA procedure will be the CCA balancing account and tariff (cost of service agreement) between SoCal and the SFA relating to the assignment of the CCA revenues to the SFA by SoCal for costs incurred for solar financing. The Commission expects SoCal to submit for approval by advice letter any such agreements and any credit agreements between the SFA and lenders concerning borrowing of solar funds.

13. In negotiations with lenders, SoCal is expected to use best efforts to achieve a highly leveraged debt-to-equity ratio in the SFA, although a higher equity contribution by SoCal may be necessary in order to obtain favorable financing terms.

14. The petition was served on all parties in A.59869 and OII 42. No protests have been received. A public hearing is not necessary.

Conclusions of Law

1. The Commission is authorized by Public Utilities (PU) Code Section 2851 to "investigate the feasibility of alternative methods of providing low-interest, long-term financing of solar energy systems for utility customers, including...direct financing by investor-owned utilities. . . ."

2. SoCal's demonstration solar financing program is intended to provide the Commission with information on the feasibility of providing direct financing by investor-owned utilities under PU Code Section 2851.

3. It is in the ratepayers' interest to project finance solar financing and thereby achieve a lower cost of capital.

4. The details of the project financing structure described in the findings of fact stated above and in D.92854 and 93204 are fair, reasonable, and serve the ratepayers' interest.

5. The Commission has authority to assure complete and timely recovery of solar debt service through CCA rates on all Commission-approved solar financing borrowings under all circumstances over the life of the borrowing. Debt is the financing of an expenditure so that the cost of the expenditure is spread over a number of years, and to the extent solar expenditures and financings are approved by the Commission, debt service costs related to such financings should be assured complete recovery.

6. Failure to immediately approve details of the project financing structure proposed for SoCal's financing program will unnecessarily delay the program and its attendant benefits for ratepayers. Therefore, the following order should be effective today.

IT IS ORDERED that:

1. Southern California Gas Company (SoCal) is authorized to assign the Conservation Cost Adjustment (CCA) tariff revenues to the Solar Financing Affiliate (SFA).

2. The SFA, through SoCal, is authorized to recover 100% of the debt service in a timely manner and under all circumstances through the CCA tariff for all Commission-approved SFA borrowings over the life of the borrowings.

3. For the debt service only, SoCal is authorized to make rate changes through advice letter filings for all Commission-approved SFA borrowings. Once a specific borrowing has been approved by project letter and committed, subsequent hearings will not be initiated by the Commission relating to that specific borrowing.

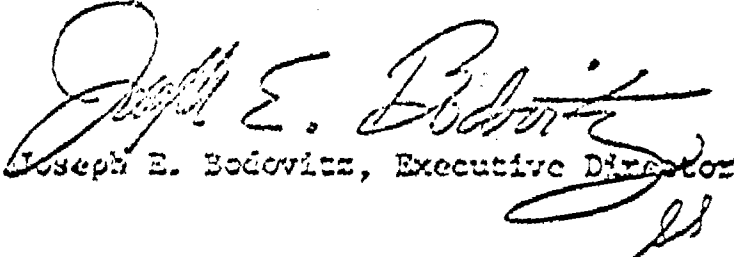
4. The CCA balancing account will not be terminated so long as SFA borrowings remain outstanding.

This order is effective today.

Dated NOV 13 1981, at San Francisco, California.

JOHN E. BRYSON  
*President*  
RICHARD D. GRAVELLE  
LEONARD M. GRIMES, JR.  
VICTOR CALVO  
BRISILLA C. GREW  
*Commissioners*

I CERTIFY THAT THIS DECISION  
WAS APPROVED BY THE ABOVE  
COMMISSIONERS TODAY.

  
Joseph E. Bodovitz, Executive Director