

Decision 93774

NOV 23 1979

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)

INTERIM OPINION

This interim opinion concerns certain loans to be issued by the Southern California Gas Company (SoCal) to its customers for the purchase and installation of solar waterheating systems in their single-family residences pursuant to the Commission's Demonstration Solar Financing Program. SoCal has been ordered by the Commission in a series of decisions to establish a three year demonstration program which would offer owners of dwellings incentives of either rebates or low interest loans to retrofit their dwellings with solar water heaters.^{1/}

In D.92251 (September 16, 1981) SoCal was directed to include in its program of incentives the goal of 9,500 twenty-year loans at six percent annual interest.^{2/} The decision at pages 29-31 contains extended discussion of options considered by the Commission to limit the maximum amount of principal per loan. The options discussed include both price limits and competitive bidding procedures designed to avoid "gold-plating" and to ensure the cost-effectiveness of the financing program.

^{1/} In D.92251 (September 16, 1980) the Commission adopted as a market penetration objective that 165,300 residential units currently using gas water heaters in SoCal's service area be converted to solar systems by the end of the three year program.

^{2/} See D.92251 at p. 13 (Table III). See also D. 92854 (April 1, 1981).

In this decision the Commission decided to adopt two safeguards from the options discussed.^{3/} First, loans would be available only in the case of single family gas water heater retrofits and only for utility referrals; loans would not be available in the case of direct contractor sales. Second, with respect to SoCal's loan program the Commission adopted the requirement that the customer obtain three or more bids and that SoCal's loan be limited to only the amount of either of the lowest two bids.

As was noted in D.92251 the Solar Financing Program is a demonstration program which necessarily involves many unknowns, particularly with regard to market behavior. Accordingly, the Commission has realized the need to monitor closely developments in the program and to make changes as appropriate.

Several changes in SoCal's loan program were adopted by the Commission in D.93120 (June 2, 1981). This decision discusses at length the question of competitive bidding practices, loans for direct contractor sales, and maximum limits for the amount of the loans. In this decision the Commission reaffirmed its commitment to 100 percent utility financing of the purchase and installation cost of a single family solar water heater. The Commission specifically rejected a proposal to place a ceiling on the principal amount of SoCal's individual low interest loans and a proposal which would have directed SoCal to issue higher interest "second level" loans for amounts over a set maximum price.^{4/}

Based upon information and comments submitted as part of this latter proceeding the Commission did adopt one change in SoCal's loan program. The Commission modified D.92251 to permit SoCal to issue loans in cases of direct contractor sales, as well

^{3/} D.92251 at pp. 29-31.

^{4/} D.93120 at pp. 9-12, 17-21.

as utility referrals, and stated that loans in the case of direct contractor sales need not comply with the three-bid requirement applicable to utility referrals. The Commission stated in D.93120 at page 20:

By [continuing to] requir[e] 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. 5/

In a separate prior decision, D.92906 (April 7, 1981), the Commission had adopted maximum limits for low interest loans in Pacific Gas and Electric Company's (PG&E) comparable solar water heating loan program.^{6/} The maximum figures adopted were calculated by PG&E staff as the maximum amount of money that could be spent in a cost-effective manner for a single family solar water heater gas retrofit. This table from D.92906 at page 8 is reproduced below:

5/ See also D.93120 at page 25 ordering paragraph three.

6/ PG&E's loan program was terminated by D.93272, July 7, 1981. In lieu of issuing loans to customers PG&E was ordered to make available an increased number of rebates.

<u>Appliances</u>	<u>Typical Installations</u>		
	<u>2 Bedroom</u>	<u>3 Bedroom</u>	<u>4 Bedroom</u>
No Clothes Washer or Dishwasher	\$2,600	\$3,200	\$3,800
Clothes Washer only	3,000	3,700	4,400
Both Clothes Washer and Dishwasher	3,300	4,100	4,800

From examination of this Table it is apparent that the maximum cost-efficient solar water heating system for a single family residence should cost no more than approximately \$3,300 to \$4,800 depending upon the number of bedrooms and the number of appliances in the dwelling.

It has recently come to the attention of the Commission that the purchase and installation prices of many solar water heaters for which loan applications are pending pursuant to the SoCal loan program are in many cases substantially higher than the maximum cost-effective prices cited above for PG&E. On November 21, 1981, the Commission received SoCal's October 1981 monthly report on its activities pursuant to the Demonstration Solar Financing Program. Analysis of the first 9,500 applications received by SoCal reveals that 54 percent of the applications are for systems priced in excess of \$4,500, and 28 percent are for systems priced in excess of \$5,000. SoCal also stated that "virtually all of the loan applications were initiated by the customer stimulated by contractor sale rather than by the purchaser; therefore, in almost all instances, at least for purposes of the loan application, competitive bids were not required."

The Commission is deeply concerned about the issuance of low interest loans by SoCal for amounts in excess of what can be justified as cost-effective by any reasonable test. The issuance of

such low interest loans for excessive amounts may be an unreasonable utility expense which should not have to be borne by the general ratepayers.

According to information obtained from SoCal on November 20, the firm has already received a total of approximately 14,000 applications, far more than the 9,500 loans it is authorized to make. SoCal has already signed loan contracts with approximately 1,300 customers, and has already submitted formal offers to enter into a loan agreements to another 2,000 applicants. These offers become finalized from SoCal's perspective upon signature by the applicant.^{8/} Barring some new order from the Commission, SoCal has been directed by the prior Commission decisions noted above to process expeditiously the remainder of these applications up to 9,500 and to issue low interest loans to the applicants. The Commission staff has informed us that without an interim order to maintain the status quo, SoCal will have issued the remainder of its loans before the firm or the Commission will have an opportunity to investigate the cause of unanticipated high costs.

In light of the significant cost differentials between many of the applications to SoCal and the estimated maximum cost-effective price of a solar water heater cited above and considering the potential injury to SoCal's ratepayers, the Commission has determined that SoCal should be directed to cease immediately sending any further loan applications to applicants whose proposed solar water heating systems exceed four thousand dollars (\$4,000) until directed otherwise by the Commission. SoCal should also provide notice to all other applicants and to participating solar contractors who will be affected by this opinion and order.

Considering the fact that SoCal is currently subject to orders of this Commission directing it to issue all 9,500 loans

^{8/} This signature however must be notarized.

quickly, and considering the fact that SoCal already has far more than 9,500 loan applications pending before it, the Commission has concluded that it must act immediately in order to protect SoCal's ratepayers. Accordingly, pursuant to the authority granted the Commission by section 701 of the Public Utilities Code, we issue this interim order effective immediately.

Because of the great need for speedy action in this proceeding, the Commission has determined that it must act prior to providing an opportunity to be heard in accordance with P.U. Code 1708. The Commission recognizes that this order may be of concern to some applicants and contractors. The Commission seeks to determine the cause of the unanticipated high costs of proposed retrofits. Therefore, the Commission has determined that a hearing should be held at an early date on these two issues.

Findings of Fact

1. SoCal has received far more applications for low-cost loans under its single-family demonstration solar water heating program than it is authorized to issue.

2. Analysis of the first 9,500 loan applications reveals that many of these loan applications may be for amounts in excess of what is cost-effective.

3. The issuance of loans by SoCal for amounts in excess of those determined to be cost-effective may cause injury to SoCal's ratepayers.

4. Without an emergency order from the Commission, SoCal, acting in accordance with prior Commission decisions, will probably make offers to enter into loan agreements to the remainder of its qualified applicants before the Commission can determine the cause of the unanticipated high loan amounts.

Conclusions of Law

1. SoCal has been directed by D.92251 and D.93120 to issue 20-year loans at six percent annual interest to 9,500 owners of single family residences to cover the cost of retrofitting their houses with solar water heating systems.

2. In D.93120 the Commission ordered SoCal to issue loans in the case of contractor-initiated sales in the full amount of the purchase and installation price without a requirement of multiple bids.

3. The issuance of loans for amounts in excess of the maximum cost-effective price represents an unjust and unreasonable expense by SoCal.

4. SoCal should be directed to cease immediately sending to applicants offers to enter into loan agreements in excess of four thousand dollars (\$4,000).

5. The unanticipated high amounts requested in the loan applications submitted to SoCal and the very large number of applications already received together constitute an unforeseen emergency situation within the meaning of Section 306(b) of the Public Utilities Code.

6. A hearing shall be set at an early date to investigate the cause of the high amounts in the loan applications and to give any party aggrieved by this order an opportunity to be heard.

7. This order does not affect loan applications in cases where SoCal has already entered into a contract with the applicant or where SoCal has sent to an applicant a specific offer to enter into a loan agreement. SoCal should continue routinely processing these applications.

INTERIM ORDER

IT IS ORDERED that:

1. SoCal is hereby directed to cease immediately sending out loan applications to any applicants for loans in excess of four thousand dollars (\$4,000) pursuant to the firm's solar water heater demonstration program.

2. SoCal is hereby ordered to provide notice of this opinion and order as set forth in the appendix to this decision to all loan applicants affected by the decision and to participating solar contractors.

3. Within five working days, SoCal shall mail to each potential borrower holding an unexecuted loan agreement a notice that all pending loan offers will expire as of December 31, 1981 if not both signed and by the applicant and received by SoCal Gas by that date.

4. A hearing on this order to investigate the cause of the unanticipated high prices of solar systems described in SoCal's loan applications and to determine any further appropriate action by the Commission shall be held on December 15, 1981 at 9:30 a.m. before Administrative Law Judge Robert T. Baer, in the Commission Court Room, State Building, 107 South Broadway, Los Angeles, California. The Commission intends to issue any further order on this matter by January 5, 1982.

Because of the emergency conditions involved and the need to preserve the status quo to protect SoCal's ratepayers, the Commission declares the existence of an unforeseen emergency situation as contemplated in P.U. Code Section 306(b).

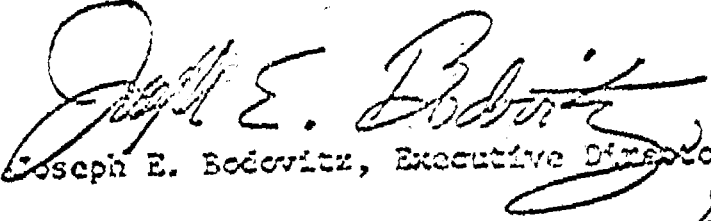
This order is effective today.

Dated November 23, 1981, at San Francisco, California.

JOHN E. BRYSON
President
RICHARD D. GRAVELLE
LEONARD M. GRIMES, JR.
PRISCILLA C. GREW
Commissioners

Commissioner Victor Galvo, being
presumably absent, did not participate
in the disposition of this proceeding.

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


Joseph E. Boedovitz, Executive Director

Appendix

NOTICE

In Decision 93774, dated November 23, 1981, the Public Utilities Commission ordered the Southern California Gas Company (SoCal Gas) to modify the loan component of its demonstration solar financing program. Prior to this decision the SoCal Gas had been authorized by the Commission to make 9,500 twenty-year loans at six percent annual interest in the amount of the full purchase and installation price of solar water heating systems for single family residences. Because of the unanticipated high costs of some of the systems for which loan applications had been received, the Public Utilities Commission ordered in D.93774 that as of November 23, 1981 SoCal Gas stop sending out new offers to enter into low interest loans to applicants whose proposed solar water heating systems cost four thousand dollars (\$4,000) or more.

The Commission decision does not affect instances in which a completed agreement has been signed by SoCal Gas and the applicant, or instances in which SoCal Gas has sent to the applicant a specific offer to enter into a loan agreement dated prior to November 23, 1981. Agreements or proposed agreements in either of these categories continue to be in effect without modification.

However, D.93774 requires that any applicant who as of November 23, 1981, has a pending unexecuted offer from SoCal Gas to enter into a loan agreement must sign and return that offer so that it is received by SoCal Gas prior to December 31, 1981 or the offer will expire.

In D.93774 SoCal Gas was directed to continue sending out and processing loan applications for four thousand dollars (\$4,000) or less for solar water heating systems. Applicants receiving offers from SoCal Gas dated after November 23, 1981 need not meet the December 31, 1981 deadline mentioned above for completing the agreement.

Applicants who currently have applications pending with SoCal Gas for loans for more than four thousand dollars (\$4,000) may attempt to obtain another conditional sales contract for a system costing less than four thousand dollars (\$4,000), may attempt to renegotiate their prior contract, or may reduce the amount of the requested loan to \$4,000, and then reapply to SoCal Gas for a loan.

In order to investigate the cause of the unanticipated high costs for solar water heating systems in past loan applications the Public Utilities Commission has scheduled a public hearing on December 15, 1981, at the Commission courtroom, State Building, 107 South Broadway, Los Angeles, California.