

ALJ/MEG/wav

Decision 98-06-063 June 18, 1998

Mailed 6/18/98

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Residential Energy Service
Companies' Rehearing of Resolution E-3515.

Application 98-02-023
(Filed February 13, 1998)

Petition of Pacific Gas and Electric Company
(U 39 M) for Modification of Resolution E-3515.

Application 98-03-003
(Filed March 3, 1998)

ORDER MODIFYING RESOLUTION E-3515

Summary

By today's order, we make certain modifications to Resolution (Res.) E-3515 in response to a Petition for Modification of Res. E-3515 filed by Pacific Gas and Electric Company (PG&E) and an Application for Rehearing of Res. E-3515 filed by Residential Energy Service Companies' United Effort (RESCUE).¹

Specifically, we find that existing shareholder incentive mechanisms, rather than those recently adopted for 1998 energy efficiency programs, should continue to apply to 1998 low-income programs. In addition, we clarify that funding for these incentives is not to come from the levels authorized for 1998 low-income programs.

¹ Because RESCUE's Application for Rehearing does not raise any points of legal error, and the pleading requests clarification of the Commission's position, we are treating it as a Petition for Modification. (See the Commission's Rules of Practice and Procedure, Rules 47, 86.1.)

We also clarify that PG&E may implement changes to its existing carbon monoxide testing procedures during 1998. However, consistent with the discussion in Res. E-3515, PG&E should carefully consider alternatives and interested parties' concerns in developing and implementing new procedures, particularly those applying to 1998 low-income weatherization activities. Moreover, any new approach that PG&E implements in 1998 should be treated as a pilot program, to be monitored for effectiveness and evaluated carefully before continuing beyond 1998. In any event, PG&E may not use low-income program funds for carbon monoxide testing purposes. The cost of carbon monoxide testing has already been authorized in rates as part of PG&E's base rate operating revenues.

Finally, we correct minor typographical errors and omissions in Res. E-3515.

Procedural Background

On December 16, 1997, the Commission issued Res. E-3515, approving with certain modifications the 1998 low-income program plans of PG&E, San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (SCE) and Southern California Gas Company (SoCal).

On February 13, 1998, RESCUE filed an Application for Rehearing of Res. E-3515. PG&E and SoCal responded to RESCUE's Application for Rehearing on March 2, 1998.

On March 3, 1998, PG&E filed a Petition for Modification of Res. E-3515. RESCUE and the Insulation Contractors Association of California (ICA) jointly filed a response to PG&E's Petition for Modification on April 3, 1998. PG&E replied to those responses on April 13, 1998.

Positions of the Parties

PG&E's Petition for Modification and RESCUE's Application for Rehearing raise two issues for our consideration. First, parties raise the issue of whether the Commission should distinguish the evaluation, calculation and recovery of shareholder incentives for 1998 low-income programs from those adopted for 1998 energy efficiency programs. Second, parties request clarification of the Commission's intent with regard to carbon monoxide testing under PG&E's direct assistance program.

With regard to shareholder incentives, both PG&E and RESCUE recommend that the Commission reaffirm its existing policies and approaches to shareholder incentives for low-income programs. In particular, they request clarification that funding for those incentives would come from utility "headroom" (the difference between revenues collected at current, frozen rates and authorized revenue requirements) and not from funds made available through the public goods charge.

On the issue of carbon monoxide testing, RESCUE argues that Res. E-3515 orders PG&E not to perform the specific carbon monoxide testing program PG&E had proposed in Advice Letter 2039-G/1696-E (Advice Letter) for the low-income weatherization program. PG&E, on the other hand, interprets Res. E-3515 as authorizing PG&E to implement its proposed carbon monoxide testing program, but not authorizing funding out of low-income program funds. In its Petition and Reply, PG&E argues that its proposed carbon monoxide testing program is more extensive than the activities budgeted under current rates, and requests that \$1.8 million be authorized out of 1998 low-income program funds to cover the incremental cost of contract personnel.

SoCal argues that the two issues identified above are inapplicable to SoCal and, therefore, that the Commission should not reconsider its approval of SoCal's

1998 low-income direct assistance programs in response to RESCUE's Application for Rehearing.

Discussion

In Res. E-3515, we referred to a pending proceeding in our discussion of shareholder incentives for low-income programs:

The Commission is addressing shareholder incentives for energy efficiency and demand-side management in Edison's Application (A.) 97-10-002, PG&E's A.97-10-001, SDG&E's A.97-10-012, SoCal's A.97-10-011, R.94-04-031 and I.94-04-032. It is reasonable to apply the methodology adopted there to the low-income energy efficiency programs. (Res. E-3515, p.10.)

We ordered that the shareholder incentive methodology adopted in the above-referenced proceedings be applied to the low-income energy efficiency programs "when evaluating, calculating and recovering the low-income energy efficiency shareholder incentives." (Res. E-3515, Ordering Paragraph 1 (d).)

The Commission addressed shareholder incentives for energy efficiency programs in D.97-12-103, which was issued the same day we issued Res. E-3515. As currently written, Res. E-3515 assumes that the policies and specific shareholder incentive mechanisms adopted in D.97-12-103 are applicable to the utilities' low-income assistance programs. However, they are not.

In particular, D.97-12-103 specifically addressed funding levels and incentive mechanisms for utility energy efficiency programs that were jointly planned among the utilities and the California Board for Energy Efficiency (CBEE). Specific incentives were proposed and adopted for individual programs, with milestones related to market transformation that determine the incentive to be earned. (See D.97-12-103, Attachment 3.) In short, applying the incentive mechanisms adopted in D.97-12-103 to the utility's low-income programs was

never contemplated during the Commission's deliberation process in A.97-10-001 et al., and would not be feasible to implement after the fact.

In addition, the ratemaking treatment adopted in D.97-12-103, which allows electric utilities to fund interim administrator awards out of 1998 program funds, was proposed during a joint planning process between the utilities and CBEE. This process produced changes to existing incentive mechanisms for Public Utilities Code § 381(c)(1) energy efficiency programs that reduced significantly the potential level of incentives. This change was proposed in tandem with an agreement that the incentives would come from the public goods charge and not from utility headroom. (See D.97-12-103, mimeo., pp. 26-28.) Our approval of the joint proposal was limited to the electric energy efficiency activities funded by that decision. Moreover, we specifically directed SoCal and other utilities to recover performance awards associated with gas-side incentives through changes in rates, consistent with current practice, and not from current year or carryover program funding. (*Ibid.*, pp. 29-30.)

In fact, PG&E, SCE and SDG&E agree with RESCUE and other parties that shareholder incentives for 1998 low-income programs should not come from program funds. (See Res. E-3515, pp. 7-8; PG&E's Petition, p. 6.) SoCal's filings are silent on this issue.

In light of the above, we need to correct our determinations in Res. E-3515 regarding shareholder incentives. Accordingly, we modify Res. E-3515 to state that existing shareholder incentive mechanisms will continue to apply to 1998 low-income programs for both gas and electric utilities and that funding for these incentives will not come from the levels authorized for low-income programs. Although gas funding for low-income programs is not collected by a public goods charge, as SoCal notes, SoCal is not excused from adherence to these requirements.

With regard to carbon monoxide testing, we note that during our deliberations over PG&E's Advice Letter, parties disagreed over the appropriate form of carbon monoxide testing for 1998 low-income weatherization activities, and how the testing program should be funded. Currently, PG&E offers carbon monoxide testing at the customer's request and funds that testing out of base rate operating revenues. In its Advice Letter, PG&E proposed a new carbon monoxide testing program for the 1998 low-income weatherization program, modeled after one instituted by the Department of Community Services and Development. Under PG&E's proposal, PG&E would conduct pre-installation inspections of all homes receiving new infiltration treatments in 1998 and make equipment adjustments and repairs for \$250 or under, as needed. If the problem could not be fixed by the gas service representative, then the appliance is shut down and cannot be turned on until the problem is fixed. A post-installation inspection would also be conducted on a sample of approximately 1/3 of the homes. PG&E proposed that the funding for this testing approach come out of 1998 low-income program funds.

In their protests to PG&E's Advice Letter, several parties argued that that testing program designed by PG&E would seriously disrupt the weatherization effort without efficiently addressing the safety issue. They recommended that PG&E consider alternative approaches, such as the installation of a household carbon monoxide alarms. In their view, the installation of alarms would cost less and provide greater household safety than two (or more) separate visits to the site by a carbon monoxide testing team.² Parties also objected to the shift of

² See Protest to Pacific Gas and Electric Company Advice Letter 2039-G/1696-E by Insulation Contractors Association (October 21, 1997) and Addendum to Protest by SESCO, Inc., RESCUE and Insulation Contractors Association (December 8, 1997.)

carbon monoxide testing costs from PG&E's base rate operating budget to its low-income weatherization budget.

In considering these divergent positions, we stated the following:

Section 2790 defines weatherization services that may be performed for low-income customers. Carbon monoxide testing is part of the routine service to ratepayers and is already authorized in rates. We agree that there is no justification for billing carbon monoxide testing, a normal part of routine gas service, to PG&E's low-income energy efficiency program. We are also surprised at PG&E's response to ICA's proposal for PG&E to install carbon monoxide alarms that would provide a level of assurance against a dangerous level of carbon monoxide and at the same time reduce inconvenience to customers from repeated PG&E visits. PG&E responded that these alarms are unreliable and produced false alarms. Clearly, a false alarm is a minor inconvenience compared with the dangers of carbon monoxide poisoning. (Res. E-3515, p. 10.)

The costs of carbon monoxide testing for PG&E is already provided for in rates and it is unreasonable to reduce low-income energy efficiency program funds by a similar amount. (*Ibid.*, Finding of Fact 4; p.11.)

The protests are denied, with the exception of...increasing the funds available for the low-income energy efficiency programs by denying PG&E's request to fund its carbon monoxide testing program with low-income energy efficiency program moneys.... (*Ibid.*, Finding of Fact 5; p.11.)

The Advice Letters should be approved with the following modifications:...(d) PG&E should remove the costs of carbon monoxide testing from its direct assistance program, and instead provide carbon monoxide testing as part of its routine service. (*Ibid.*, Finding of Fact 6; pp. 11-12.)

PG&E shall remove the cost of the carbon monoxide testing from its direct assistance program, and instead provide the carbon monoxide testing as part of its routine service. (Res. E-3515, Ordering Paragraph 1, p. 12.)

Apparently, PG&E interprets Res. E-3515 to mean that we authorized PG&E's proposed testing program, but for the ratemaking treatment. However,

the first passage cited above clearly reflects our concern that PG&E may not have adequately considered alternatives or responded to parties' concerns over its proposed testing program. At the same time, we did not direct PG&E to completely abandon the pursuit of new carbon monoxide testing protocols, as RESCUE contends.³ We neither endorsed PG&E's proposed testing program nor the alternatives proposed by other parties.

Consistent with the discussion in Res. E-3515, we will clarify that PG&E may implement changes to its existing carbon monoxide testing during 1998 without seeking Commission review and authorization of program design. However, in making any changes to current testing procedures in 1998, PG&E should carefully consider alternatives and interested parties' concerns. Moreover, PG&E should treat any new approach (or approaches) as a pilot program, to be monitored and evaluated for effectiveness before continuing those testing procedures beyond a pilot stage.

If PG&E chooses to implement changes to carbon monoxide testing for low-income weatherization programs during 1998, PG&E should describe the pilot approach (or approaches) in its October 1, 1998 Advice Letter filing on 1999 program plans and budgets.⁴ In addition, PG&E should 1) discuss the alternatives it considered and the rationale for selection of the approach or approaches implemented under the pilot, 2) describe how the effectiveness of the

³ We inadvertently omitted the word "costs" from the discussion section where we stated that PG&E should remove carbon monoxide testing from its Direct Assistance Program. (Res. E-3515, p. 11.) However, in the findings and ordering paragraphs the reference is clearly to "the costs of" the carbon monoxide testing. We correct the omission on page 11 in today's order.

⁴ Under D.98-05-018, PG&E and other utilities will file those plans on October 1, 1998 as Advice Letters in consultation with the Low-Income Governing Board.

carbon monoxide testing pilot will be measured and evaluated and 3) present a schedule for reporting the results of the pilot to the Commission.

We note that PG&E has been installing weatherization measures for many years prior to the 1998 program year, and has regularly included forecasts of carbon monoxide testing costs in its base rate revenue requirements. The fact that the cost of carbon monoxide testing in 1998 may be higher than what PG&E forecasted in its 1996 general rate case does not warrant adjustments in authorized funding levels. (See PG&E's Petition, pp. 3-4.) Variations between forecasted and actual expenses occur in both directions over a rate case cycle. While PG&E assumes the risk of costs exceeding authorized revenue requirements, it also reaps the benefit when actual costs are less than authorized revenues. This approach to ratemaking creates an incentive for PG&E to operate efficiently. To increase authorized revenue requirements for carbon monoxide monitoring without examining the relationship between authorized revenue requirements and actual costs for all other expense categories would lessen this incentive. We reiterate that PG&E shall not augment funding for carbon monoxide testing in 1998 with funds collected from the public goods charge for electric low-income programs, or authorized in bundled rates for gas low-income programs.

In addition to clarifying Res. E-3515 on the issue of shareholder incentives and carbon monoxide testing, as discussed above, we correct minor errors and omissions brought to our attention by the parties.

Findings of Fact

1. Applying the incentive mechanisms adopted in D.97-12-103 to the utility's low-income programs was never contemplated during the Commission's deliberation process in A.97-10-001 et al., and would not be feasible to implement after the fact.

2. The ratemaking treatment for shareholder incentives adopted in D.97-12-103 was unique to the shareholder incentive proposal for Public Utilities Code § 381(c)(1) electric energy efficiency programs jointly developed by the utilities and CBEE.

3. There is general agreement among the parties that shareholder incentives for low-income programs should not come from 1998 program funds, and no party presented compelling justification for an alternative approach.

4. PG&E currently implements a carbon monoxide testing program, and funds that program out of base rate operating revenues. In Advice Letter 2039-G/1696-E, PG&E proposed modifications to its existing testing program that would increase the level of inspections and costs for homes weatherized under its 1998 low-income weatherization program.

5. RESCUE's interpretation of Res. E-3515 incorrectly assumes that the Commission directed PG&E to completely abandon the pursuit of new carbon monoxide testing protocols in 1998. PG&E's interpretation of Res. E-3515 incorrectly assumes that the Commission endorsed its proposed testing program, but for the ratemaking treatment.

6. Allowing PG&E to increase authorized revenue requirements to capture unforecasted increases under one category of spending would lessen the regulatory incentive for PG&E to seek efficiency improvements in its overall operations.

7. In Res. E-3515, the Commission raised concerns about PG&E's proposed carbon monoxide testing program and did not allow PG&E to fund that program out of low-income program funds.

Conclusions of Law

1. Because RESCUE's Application for Rehearing does not raise any points of legal error, and the pleading requests clarification of the Commission's position,

we are treating it as a Petition for Modification under Rule 47. It should be denied, except for the modifications regarding shareholder incentive mechanisms discussed in this decision.

2. PG&E's Petition for Modification should be denied, except for the modifications regarding shareholder incentive mechanisms discussed in this decision.

3. Res. E-3515 should be modified to state that existing shareholder incentive mechanisms continue to apply to 1998 low-income programs and that funding for these incentives is not to come from the levels authorized for low-income programs. On the electric side, funding for shareholder incentives associated with 1998 low-income programs should come from headroom. On the gas side, funding should come from changes in gas rates, consistent with current practices.

4. Res. E-3515 should be modified to clarify that PG&E may implement alternative carbon monoxide testing procedures in 1998, provided that PG&E 1) carefully considers alternatives and interested parties' concerns in developing new procedures for 1998 and 2) treats any new approach (or approaches) as a pilot program, to be monitored and evaluated for effectiveness before continuing new testing procedures beyond 1998. If PG&E chooses to implement changes to carbon monoxide testing for low-income weatherization programs during 1998, PG&E should describe the pilot approach (or approaches) in its October 1, 1998 Advice Letter filing on 1999 program plans and budgets. In addition, PG&E should 1) discuss the alternatives it considered and the rationale for selection of the approach or approaches implemented under the pilot, 2) describe how the effectiveness of the carbon monoxide testing pilot will be measured and evaluated and 3) present a schedule for reporting the results of the pilot to the Commission.

5. For the reasons articulated in Res. E-3515 and reiterated in this decision, PG&E's request to augment funding for carbon monoxide testing in 1998 with funds authorized for low-income programs should be denied.

6. Minor omissions and errors in Res. E-3515 should be corrected.

7. In order to proceed as expeditiously as possible with the implementation of 1998 programs, this order should be effective today.

IT IS ORDERED that:

1. The Application for Rehearing of Res. [Resolution] E-3515 filed on February 13, 1998 by Residential Energy Service Companies' United Effort is being treated as a Petition for Modification. It is denied, except with respect to the modifications we make in Ordering Paragraphs 3 through 6.

2. The Petition for Modification of Res. E-3515 filed on March 3, 1998 by Pacific Gas and Electric Company is denied, except with respect to the modifications we make in Ordering Paragraphs 3 through 6.

3. Section 7 on page 10 of Res. E-3515 shall be replaced in its entirety with the following:

Existing shareholder incentive mechanisms should continue to apply to 1998 low-income programs for both gas and electric utilities. We agree with SESCO and others that funding for shareholder incentives associated with 1998 low-income programs should not come from the funding authorized for low-income programs, whether collected through the public goods charge (for electric utilities) or through bundled rate components (on the gas side). On the electric side, funding for shareholder incentives associated with 1998 low-income programs should come from headroom. On the gas side, funding should come from changes in gas rates. This approach is consistent with the policies we articulated in D.97-02-014 (Conclusion of Law 7), and no party has presented compelling justification to alter this policy for the 1998 low-income program.

4. Section 9(d) on page 11 of Res. E-3515 shall be replaced in its entirety with the following:

Existing shareholder incentive mechanisms should continue to apply to 1998 low-income programs for both gas and electric utilities and funding for these incentives should not come from funding authorized for low-income programs.

5. Finding 6(c) on page 12 of Res. E-3515 shall be replaced in its entirety with the following:

Existing shareholder incentive mechanisms should continue to apply to 1998 low-income programs for both gas and electric utilities. Funding for shareholder incentives associated with 1998 low-income programs should not come from funding authorized for low-income programs, whether collected through the public goods charge (for electric utilities) or through bundled rate components (on the gas side). On the electric side, funding for shareholder incentives associated with 1998 low-income programs should come from headroom. On the gas side, funding should come from changes in gas rates, consistent with current practice.

6. Ordering Paragraph 1(d) on page 12 of Res. E-3515 shall be replaced in its entirety with the following:

Existing shareholder incentive mechanisms shall continue to apply to 1998 low-income programs for both gas and electric utilities. Funding for shareholder incentives associated with 1998 low-income programs shall not come from funding authorized for low-income programs, whether collected through the public goods charge (for electric utilities) or through bundled rate components (on the gas side). On the electric side, funding for shareholder incentives associated with 1998 low-income programs shall come from headroom. On the gas side, funding shall come from changes in gas rates, consistent with current practice.

7. The following text shall be added to Section 8 on page 10 of Res. E-3515:

We do not prohibit PG&E from pursuing alternative carbon monoxide procedures in 1998, either for existing residences or for those being weatherized under the 1998 low-income weatherization program. However, in light of the concerns raised in the protests, we direct PG&E to 1) carefully consider alternatives and interested parties' concerns in developing any new procedures for 1998 and 2)

treat any new approach (or approaches) as a pilot program, to be monitored and evaluated for effectiveness before continuing those testing procedures beyond the pilot stage.

Accordingly, if PG&E chooses to implement changes to carbon monoxide testing for low-income weatherization programs during 1998, PG&E should describe the pilot approach (or approaches) in its October 1, 1998 Advice Letter filing on 1999 low-income program plans and budgets. In addition, PG&E should 1) discuss the alternatives it considered and the rationale for selection of the approach or approaches implemented under the pilot, 2) describe how the effectiveness of the carbon monoxide testing pilot will be measured and evaluated and 3) present a schedule for reporting the results of the pilot to the Commission.

8. The words "the cost of" shall be added before "carbon monoxide testing" in Section 9(c) on page 11 of Res. E-3515.

9. The following text shall be inserted at the beginning of Finding 6(d) on page 12 of Res. E-3515:

PG&E may pursue alternative carbon monoxide testing procedures in 1998 provided that PG&E 1) carefully considers alternatives and interested parties' concerns in developing any new procedures for 1998 and 2) treats any new approach (or approaches) as a pilot program, to be monitored and evaluated for effectiveness before continuing those testing procedures beyond 1998.

10. The following text shall be inserted at the beginning of Ordering Paragraph 1(e) on page 12 of Res. E-3515:

PG&E may pursue alternative carbon monoxide testing procedures in 1998 provided that PG&E shall 1) carefully consider alternatives and interested parties' concerns in developing any new procedures for 1998 and 2) treat any new approach (or approaches) as a pilot program, to be monitored and evaluated for effectiveness before continuing those testing procedures beyond the pilot stage.

If PG&E chooses to implement changes to carbon monoxide testing for low-income weatherization programs during 1998, PG&E shall describe the pilot approach (or approaches) in its October 1, 1998 Advice Letter filing on 1999 low-income program plans and budgets.

In addition, PG&E shall 1) discuss the alternatives it considered and the rationale for selection of the approach or approaches implemented under the pilot, 2) describe how the effectiveness of the carbon monoxide testing pilot will be measured and evaluated and 3) present a schedule for reporting the results of the pilot to the Commission.

11. In the first sentence of Section 2, on page 2 of Res. E-3515, "D.97-02-026" shall be changed to "D.97-02-014, as modified by D.97-02-026."

12. Footnote 5 on page 2 of Res. E-3515 shall be deleted in its entirety and replaced with the following:

D.97-02-014, as modified by D.97-02-026, Ordering Paragraph 7.

13. Footnote 6 on page 3 of Res. E-3515 shall be deleted in its entirety and replaced with the following:

D.97-02-014, as modified by D.97-02-026, mimeo. pp. 75-77; see also D.97-06-108.

A.98-02-023, A.98-03-003 ALJ/MEG/wav

14. Application (A.) 98-02-023 and A.98-03-003 are closed.

This order is effective today.

Dated June 18, 1998, at San Francisco, California.

RICHARD A. BILAS
President
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
HENRY M. DUQUE
JOSIAH L. NEEPER
Commissioners