

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3405
January 24, 1995

R E S O L U T I O N

RESOLUTION E-3405. PACIFIC GAS AND ELECTRIC COMPANY SUBMITS FOR APPROVAL A REDUCTION IN FUNDING WITHIN ITS 1993 THROUGH 1995 AUTHORIZED RESEARCH, DEVELOPMENT, AND DEMONSTRATION PROGRAM.

BY ADVICE LETTER 1488-E, FILED ON NOVEMBER 30, 1994.

SUMMARY

1. By Advice Letter 1488-E, Pacific Gas and Electric Company (PG&E) requests approval for an approximate \$19 million, or 26%, reduction in its authorized funding for the Planning and Business Services program area over the 1993-1995 General Rate Case (GRC) cycle.
2. Protests were filed by the California Energy Commission (CEC) and the University of California (UC) which raise concerns regarding the resolution of issues pending before the Commission in PG&E's Petition for Partial Modification of Decision (D.) 92-12-057 and D.93-05-011. On December 21, 1994, the Commission granted PG&E's Petition in D.94-12-054. Therefore, the protests are moot and are denied.
3. This Resolution approves Advice Letter 1488-E as filed.

BACKGROUND

1. In D.92-12-057, the Commission authorized funding levels for PG&E's Research, Development, and Demonstration (RD&D) program for the 1993 through 1995 General Rate Case (GRC) cycle. In this same decision, the Commission adopted RD&D fund shifting guidelines for PG&E.
2. Pursuant to the fund shifting guidelines, PG&E filed Advice Letter 1456-E on December 22, 1993, requesting authorization to redirect funding within its 1993 through 1995 RD&D program. PG&E requested to reduce substantially funding within a program area, reallocate some of the funding to other program areas, and refund remaining unspent funds of about \$7.5 million to ratepayers at the end of the GRC cycle.
3. In Resolution E-3376, dated April 6, 1994, the Commission approved PG&E's request and adopted specified program area

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funding levels to establish a benchmark for calculating future program area funding shifts.

4. PG&E filed Advice Letter 1488-E on November 30, 1994. By this advice letter, PG&E requests Commission authorization for an approximate \$19 million, or 26%, reduction to its authorized Planning and Business Services program area funding. The majority of the reduction results from PG&E's decision to discontinue its membership contributions to the Electric Power Research Institute (EPRI) and the California Institute of Energy Efficiency (CIEE). PG&E also plans to make slight funding changes in other program areas but none which trigger filing approval according to the fund shifting guidelines. The net result, however, is that PG&E plans to underspend its total RD&D budget by about \$18.9 million over the remaining GRC cycle.¹

5. In a separate filing (PG&E's Petition for Partial Modification of D.92-12-057 and D.93-05-011, filed on September 12, 1994), PG&E requested the Commission to reduce its 1995 authorized RD&D program funding by \$17 million to support its efforts to extend its electric rate freeze through 1995. This \$17 million is part of the \$19 million reduction being sought in Advice Letter 1488-E but was requested in the Petition to enable the reduction to go into effect in 1995.

6. In D.94-12-054, the Commission granted PG&E's Petition.

NOTICE

1. Advice Letter 1488-E was served on other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order 96-A.

PROTESTS

1. The Commission Advisory and Compliance Division (CACD) received timely protests from the CEC and UC.

2. In its protest, the CEC reiterates points made in its Protest and Comments regarding PG&E's related Petition for Modification of D.92-12-057 and D.93-05-011, and asserts that the instant advice filing is premature because the Commission has not yet ruled on the Petition.

3. UC protests Advice Letter 1488-E because of the pendency of the same issues in the Petition and the policy implications of PG&E's request. UC requests that the issues be addressed in the resolution of PG&E's Petition to avoid bifurcating the issues.

¹ This is in addition to the \$7.5 million forecasted in Advice Letter 1456-E.

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4. On December 21, 1994, the Commission granted PG&E's Petition in D.94-12-054. Therefore, the protests by the CEC and UC are now moot and are denied.

DISCUSSION

1. In D. 92-12-057, the Commission established the following RD&D fund shifting guidelines for PG&E:

PG&E is authorized to shift RD&D program funding by 20% without further Commission [authority], 20% to 50% if the Commission grants an advice letter request, and above 50% if the Commission grants a request by application.

2. The purpose of the Commission's fund shifting guidelines is to prevent the utilities from spending substantial portions of their GRC-authorized RD&D funds on RD&D which has not had appropriate review by the Commission. These fund shifting guidelines used in conjunction with the utilities' RD&D one-way balancing accounts, provide utilities with a degree of flexibility while maintaining assurance that RD&D funds are either spent on approved RD&D or returned to ratepayers. Any unspent funds are to be returned to ratepayers at the end of the GRC cycle.

3. PG&E invoked the RD&D fund shifting guidelines for the first time with its request in Advice Letter 1456-E and the Commission established revised program area funding levels for the 1993 through 1995 GRC cycle in Resolution E-3376. By Advice Letter 1488-E, PG&E proposes to further revise its RD&D program as follows:

Program Area	1993-1995 Authorized ² Per E-3376 ²	1993-1995 Planned Budget	Variance	% Change
	(nominal \$ x 1,000)			
Generation and Storage ³	23,194	23,893	699	3
Energy Delivery & Control	21,461	20,763	(698)	(3)
Customer Systems	24,844	24,262	(582)	(2)
Environment, Health & Safety	11,970	12,708	738	0
Planning and Business Services ⁴	73,778	54,768	(19,010)	(26)
Total	155,247	136,394	(18,853)	(12)

4. PG&E has interpreted that an advice letter requesting Commission authorization for the 26% change to its Planning and Business Services program area was required in compliance with the fund shifting guidelines. However, PG&E is not requesting to shift funds to other program areas but rather is requesting to reduce its Planning and Business Services program area funding level, with the balance to remain unspent.

2 The Commission adopted these new program area budgets for the purposes of establishing fund shifting baselines. In addition to the total \$155.247 million budgeted, about \$7.5 million of previously authorized RD&D funding was to remain unspent and therefore was not included in any of the program area funding levels. The unspent funds are to be returned to ratepayers at the end of the GRC cycle.

3 In 1993, PG&E reorganized its RD&D department. As part of this reorganization, PG&E merged its Advanced Energy Systems and its Power Plant Systems program areas into a single program area called Generation and Storage. See discussion in Paragraphs 11-13 regarding this change.

4 Formerly called Research, Policy & Planning.

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5. Although CACD appreciates PG&E filing the advice letter informing the Commission of a program area reduction of this magnitude, it does not believe an advice letter requesting pre-approval to underspend is required under existing RD&D policies.
6. As stated earlier, the purpose of the Commission's fund shifting guidelines is to prevent the utilities from spending substantial portions of their authorized RD&D funds on RD&D which has not had appropriate review by the Commission. In this case, PG&E is not planning to spend it on "unapproved" projects but rather is planning to return it to ratepayers.
7. The RD&D one-way balancing account guidelines state that within a rate case cycle, funds not used in one year may be used in subsequent years and if funds remain unexpended at the end of the GRC cycle, PG&E should file an advice letter to credit the unexpended funds plus interest.
8. In this case, instead of waiting until the end of its GRC cycle, PG&E filed a Petition for Partial Modification of D.92-12-057 and D.93-05-011 to credit \$17 million of the forecasted underexpenditures to ratepayers effective January 1995.
9. The Commission granted PG&E's request in D.94-12-054. In this decision, the Commission lowered PG&E's total RD&D authorized funding level to \$37.982 million for 1995 which reduces PG&E's funding to \$145.411 million for the entire 1993-1995 GRC cycle.
10. As shown in the table above, PG&E's planned budget for 1993-1995 is \$136.394 million. This is about \$9 million lower than the newly established funding authorized in D.94-12-054. PG&E must file an advice letter to credit the unspent RD&D funds with interest to its Electric Revenue Adjustment Mechanism (ERAM) account at the end of the GRC cycle. This is per directives given in D.87-17-021. If PG&E allocates the funding to any program area which results in a 20% or greater increase to that program area, PG&E must file an advice letter requesting pre-approval consistent with the fund shifting guidelines.
11. CACD wishes to bring to the Commission's attention an issue which was not raised by PG&E or the protestants. The issue relates to the potential of certain program changes which may undermine the intent of the fund shifting rules. In 1993, PG&E reorganized its RD&D department. As part of this reorganization, PG&E merged its Advanced Energy Systems and Power Plant Systems program areas into a single program area called Generation and Storage.
12. In Resolution E-3376, CACD cautioned PG&E that Commission approval may be required to merge the two existing program areas because of the size of the resultant program. CACD was concerned that the creation of an unusually large program area would undermine the Commission's fund shifting approval process. For example, a large shift of funds in one of the original program areas that would have triggered a Commission filing would no longer trigger a filing in the new, larger combined program area.

13. Since the individual projects within PG&E's newly established Generation and Storage program area have already been reviewed by the Commission, and because the size of the program area is not unusually large, CACD recommends allowing the changes without further Commission action. However, in the future, CACD believes that PG&E must request Commission approval, by advice letter, to merge, delete or add program areas to its existing RD&D portfolio.

FINDINGS

1. In Advice Letter 1488-E, PG&E requests approval for an approximate \$19 million, or 26%, reduction to its authorized funding for the Planning and Business Services program area over the 1993-1995 GRC cycle.
2. Protests were filed by the CEC and UC which raise concerns regarding the resolution of issues pending before the Commission in PG&E's Petition for Partial Modification of D.92-12-057 and D.93-05-011.
3. On December 21, 1994, the Commission granted PG&E's Petition in D.94-12-054. Therefore, the protests are moot and should be denied.
4. PG&E believes that approval for the 26% reduction was required under Commission fund shifting guidelines.
5. The purpose of the Commission's fund shifting guidelines is to prevent the utilities from spending substantial portions of their authorized RD&D funds on RD&D which has not had appropriate review by the Commission.
6. PG&E is not planning to spend approximately \$19 million of previously authorized funding.
7. The filing of an advice letter requesting pre-approval to underspend authorized levels is not required under existing Commission RD&D policies.
8. PG&E's discretionary request for approval for an approximate \$19 million, or 26%, reduction to its authorized funding for the Planning and Business Services program area over the 1993-1995 GRC cycle should be approved.
9. If PG&E allocates the funding to any program area which results in a 20% or greater increase to that program area, PG&E must file an advice letter requesting pre-approval consistent with the fund shifting guidelines.
10. PG&E's Planning and Business Services program area funding level should be adjusted downward to \$54.768 million for the 1993 through 1995 GRC cycle.
11. We must adopt funding levels for each of the other program areas in order to establish a benchmark for calculating future program area fund shifts. The following unprotested amounts are

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reasonable: \$23,893,000 for Generation and Storage, \$20,763,000 for Energy Delivery & Control, \$24,262,000 for Customer Systems, and \$12,708,000 for Environment, Health & Safety program areas.

12. PG&E must file an advice letter to credit unspent RD&D funds, with interest, to its ERAM account at the end of the GRC cycle.

13. The creation of an unusually large program area could undermine the Commission's fund shifting approval process.

14. PG&E's merging of the Advanced Energy Systems and the Power Plant Systems program areas into the Generation and Storage program area does not undermine the Commission's fund shifting approval process.

15. In the future, PG&E must file an advice letter requesting approval before merging, deleting or adding program areas to its existing RD&D portfolio.

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THEREFORE, IT IS ORDERED that:

(1) Pacific Gas and Electric Company's discretionary request for approval for an approximate \$19 million, or 26 percent, reduction to its authorized funding for the Planning and Business Services program area over the 1993-1995 General Rate Case cycle is approved.

(2) Pacific Gas and Electric Company shall adhere to the Commission's fund shifting guidelines for any redirection of the \$19 million to other program areas.

(3) Pacific Gas and Electric Company shall adopt the following program area funding levels in order to establish a benchmark for calculating future program area funding shifts:

Generation and Storage	\$23,893,000
Energy Delivery & Control	\$20,763,000
Customer Systems	\$24,262,000
Environment, Health & Safety	\$12,708,000
Planning and Business Services	\$54,768,000

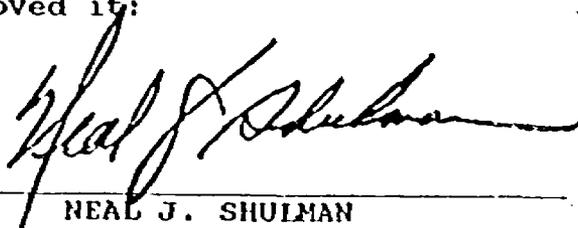
(4) Pacific Gas and Electric Company shall file an advice letter to credit unspent Research, Development, and Demonstration funds with interest, to its Electric Revenue Adjustment Mechanism at the end of the General Rate Case cycle.

(5) Pacific Gas and Electric Company shall file an advice letter requesting approval before merging, deleting, or adding program areas to its existing Research, Development, and Demonstration portfolio.

(6) Protests filed by the California Energy Commission and the University of California which raise concerns regarding issues recently resolved in Decision 94-12-054, are denied.

(7) Advice Letter 1488-E shall be marked to show that it was approved by Commission Resolution E-3405.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on January 24, 1995. The following Commissioners approved it:



NEAL J. SHULMAN
Executive Director

NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, JR.
Commissioners

President Daniel Wm. Fessler,
being necessarily absent, did
not participate.