PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3013
October 6, 1992

# R E S O L U T I O N

RESOLUTION G-3013. Southern California Gas Company requests Commission authorization to make certain changes to its nonresidential Demand-Side Management programs.

BY ADVICE LETTER 2132, FILED ON AUGUST 11, 1992.

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## SUMMARY

1. In this advice letter Southern California Gas Company (SoCal) requests Commission authorization to make certain changes to its nonresidential Demand-side Management (DSM) programs. These changes will create modified programs which the utility will conduct through the remainder of 1992 and in 1993. The changes requested are:

1) Modify its Commercial New Construction and Commercial and Industrial (C/I) Equipment Replacement programs to enable customers who are either directly affected by the Los Angeles (LA) Riots, or who are located within affected enterprise zones to receive increased customer incentives on the installation of energy efficient new construction measures and/or replacement equipment.

2) Fund the increased Commercial New Construction incentives with $400,000 from currently allocated 1992-93 Commercial New Construction funds; $899,000 of unspent 1990-91 Commercial New Construction funds; and a transfer of $1.2 million in unspent funds from three 1990-91 Energy Management Services programs.

3) Fund the increased C/I Equipment Replacement incentives with $2.6 million in 1992-93 Commercial Equipment Replacement funds and $1.6 million in 1992-93 Industrial Equipment Replacement funds.

2. This Resolution approves SoCal's request to implement the programs and transfer funds, but modifies certain aspects of the program and the shareholder incentive level.

3. This Resolution emphasizes that SoCal should not conduct the proposed programs for purposes of building load.

4. Certain provisions in this Resolution make exceptions to conventional Commission policy. This Resolution is not a precedent. In the future, similar utility proposals will continue to be evaluated on a case-by-case basis.

**BACKGROUND**

1. SoCal Gas received Commission authorization for its expanded DSM programs through D.90-08-068, as part of the Collaborative process. This decision also established funding rules and shareholder incentive/penalty mechanisms to be applied to each of the utility's three categories of DSM programs.

2. One incentive mechanism applies to resource programs. Under this mechanism SoCal can earn 14% on program costs providing it meets measure installation goals. SoCal's shareholders must pay the difference between expected and realized costs if realized costs exceed expected costs.

3. For New Construction programs the Commission adopted an incentive mechanism that allows SoCal to earn 10% on program costs provided that 66% of program goals are met.

4. SoCal is authorized to earn 5% on non-mandatory Direct Assistance (DA) program costs if these programs achieve minimum performance requirements. Weatherization programs must achieve 70% of expected accomplishments and all other DA programs must must achieve 66% of expected program accomplishments.

5. The decision approves target spending levels for SoCal programs in all three categories, but adopts a provision by which SoCal may recover resource program costs (plus shareholder incentive) up to 100% in excess of the anticipated costs for these programs if the program exceeds performance expectations. The decision forbids shifting of funds between the three program categories.

6. The decision also establishes a $6.4 million ceiling on the amount of shareholder incentives available to SoCal.

7. On June 3, 1992 the Commission adopted Resolution No. G-2992. Among other things, this Resolution allows SoCal to transfer funds between DSM program categories, subject to the restriction that SoCal is not allowed to earn shareholder incentives on these transferred funds.

8. D.92-02-075 indicates that load building and load retention programs lack resource value, but that these programs may be conducted by utilities provided that the utility demonstrates that the program achieves other policy goals (Adopted Rules and Policy Statements for Demand Side Management Programs, Rule No. 12). D.92-02-075 also states, "We discourage utilities from pursuing fuel substitution programs with a predominantly load building or load retention character." (Adopted Rules and Policy Statements for Demand Side Management Programs, Rule No. 13.)

9. Public Utilities Code 740.4 requires the Commission to authorize public utilities to engage in programs to encourage economic development and allows for geographic rate differentials when they are intended to provide incentives for businesses located within the boundaries of enterprise zones or economic incentive areas. Approval of the proposed programs would be consistent with this mandate.

10. From April 29 to May 2, 1992 certain sections of LA were affected by civil disturbances. 2,226 businesses in the affected areas suffered some form of property damage, with 449 being totally destroyed. The Federal Government declared the civil disturbances a Federal Disaster, making the affected areas eligible for disaster assistance through the Federal Emergency Management Agency (FEMA). In addition, affected areas have been aided by the State Emergency Services Office, Small Business Administration (SBA), Red Cross, LA Municipal agencies and several local volunteer organizations.

11. Some of the affected areas fall within enterprise zones that were established by the City of Los Angeles Department of Community Development prior to the riots. In Advice Letter 2132 SoCal cites these enterprise zones as the geographic areas in which it will conduct the proposed programs. The majority of riot damage, however, occurred outside these enterprise zones. On September 18, 1992, Governor Pete Wilson signed Legislative Bill No. AB-38X which establishes a more-comprehensive "Revitalization Zone." This legislative bill instructs municipalities in Los Angeles county to identify areas affected by the riots. After these areas receive legislative approval the Revitalization Zone will provide special tax structures in these areas to promote economic development in areas affected by the riots.

## NOTICE

Advice Letter No. 2132 was noticed in accordance with Section III.G. of General Order 96-A by publication in the Commission Calendar and distribution to SoCal's advice filing service list.

## PROTESTS

The Commission Advisory and Compliance Divison (CACD) has received no protests to Advice Letter 2132.

## DISCUSSION

1. DSM programs are an important means by which the Commission is pursuing its long term goal of ensuring least-cost and environmentally-sensitive energy service to customers of California's investor-owned utilities (IOUs).

2. The proposed programs would encourage the installation of energy efficient equipment and construction measures during the rebuilding effort. Because construction materials and commercial/industrial equipment have a long life expectancy, failure to install these construction and equipment efficiency

options during the rebuilding effort would render the potential energy savings from installation of these measures irretrievable or very costly to achieve later.

3. Some DSM programs promote energy efficiency by providing customer incentives on the purchase and installation of energy efficiency measures (EEMs). For SoCal's current Commercial New Construction and C/I Equipment Replacement programs these incentives are in the form of rebates which may be as high as 20% of the customer's cost of installing the EEMs.

4. The efforts of relief organizations working in the Los Angeles area are twofold. First, these organizations seek to assist people directly impacted by the riots. Second, these organizations seek to remove some of the causes of the riots by revitalizing the regional economy with investment, especially in the established trade zones.

5. The proposed programs are intended to contribute to the twofold relief efforts and promote energy efficiency. These programs would encourage the installation of energy efficient equipment and construction measures during the rebuilding effort by increasing the amount of incentive available to customers who install energy efficient equipment and/or construction measures. The rationale behind SoCal's petition to increase customer incentives in the designated areas are:

1. The riots resulted in dramatic and unexpected losses for affected businesses. Those businesses that are attempting to rebuild or replace damaged equipment are short of funds, and interested primarily in up front costs. This focus on initial costs diminishes the perceived value of the stream of future savings associated with energy efficient equipment. Therefore, affected businesses do not consider the incremental costs associated with energy efficiency measures a worthwhile investment.

2. The programs would contribute to efforts to promote economic vitality in the designated areas.

3. There is a concentration of energy efficiency opportunities in the designated areas.

6. Under the proposed programs, the customer incentive will be calculated as the least of 1) the estimated incentive, awarded on a per/therm basis; 2) 100% of the installed cost of energy efficiency measures minus the manufacturer's rebate and any insurance claim; or 3) 50% of the installed cost of the energy efficiency measure. In this specification, the proposed per therm incentives (1) and the proposed incentive ceiling at 50% of installed cost (2) are 2.5 times higher than the same parameters as offered in the standard program.

 

Program Participation

7. SoCal has designated two sets of potential participants in the proposed programs, which correspond to the two aspects of the relief effort in the Los Angeles area. The first set is composed of customers who suffered property damage that resulted from the civil disturbances. SoCal has identified these potential participants with information obtained in police reports, fire reports and insurance claims, and by sharing data with municipal and local volunteer organizations and the Southern California Edison Company. The second set are customers located within the established enterprise zones and those who choose to locate in these enterprise zones.

8. SoCal states that it will ensure that potential participants in the first category have ample opportunity for participation in the proposed programs before allowing designated funds to be exhausted by participants in the second category. SoCal will promote the program in English, Spanish and Korean and will work with local agencies to reach owners of totally destroyed or closed businesses.

9. In many cases, directly impacted participants will be awaiting funds in the form of loans or grants, building permits, and/or other building or re-equipping prerequisites. SoCal proposes to allow time for participants to obtain these building prerequisites by committing program funds to a participant for a period of 90 days. If the participant has not utilized the committed program resources at the end of this period, the utility will contact this participant. If the participant is still interested in the program but needs more time to secure capital, building permits, or other building prerequisites, SoCal will commit the program resources for another 90 days.

10. Remaining funds will be used for the second category of potential participants and are intended to stimulate economic activity by enabling existing businesses to retrofit with energy-efficient equipment or building modifications and to attract new businesses to the designated areas.

11. Natural gas load building occurs when a natural gas utility promotes the use of equipment fired by natural gas in order to expand its customer base. Natural gas fuel substitution occurs when a utility promotes the replacement of energy-using equipment dedicated to electricity with equipment that uses natural gas. Currently, load building and fuel substitution programs are not considered energy efficiency programs with resource value, and are not eligible for shareholder incentives.

12. The proposed programs have a potential for load building and fuel substitution. Because program funds will be available on a first-come first-serve basis, program resources may be available to businesses interested in relocation into the designated areas. Also, the proposed programs may have a tendency to promote the replacement of electric appliances and equipment with appliances and equipment that use natural gas, SoCal proposes to avoid load building and fuel substitution by:

1. Offering incentives for energy-efficient natural gas replacement appliances only if the appliance they are replacing was fired by natural gas.

2. Using auditors to determine which mix of energy-efficient gas and electric retrofit or new construction equipment or measures will best suit the participants needs, and then offering incentives only on those natural gas appliances identified by the auditors.

Although the utility has included these features, pursuit of the second category of participants could result in increased load to the extent that new businesses are attracted to the geographic areas designated for implementation of these proposed programs.

13. In order for the proposed programs to accomplish its stated goals, it is essential that customers directly impacted by the riots have ample opportunity for participation before funds are exhausted on the general economic development aspect of the proposed programs. The following modifications will provide this:

1. SoCal should extend the period in which it commits funds to directly impacted customers. The duration of the initial commitment to customers directly impacted by the riots should be 4 months. If at the end of this period, the participant has not utilized these program resources, SoCal should contact the customer. If the participant still intends to participate, SoCal should commit funds for another 4-month period. At the end of the second 4-month period, unused funds may be released.

2. SoCal must demonstrate that customers directly impacted by the riots had ample opportunity for participation in the proposed programs before funds were exhausted in the general economic development aspect of the proposed programs.

3. Funds designated for these programs must not be used for load building and/or fuel substitution. SoCal must demonstrate that their proposed safeguards were effective in preventing these kinds of activities.

Shareholder Incentive

14. SoCal states that because the customer incentive is increased from 20% to 50%, increased earnings are possible. However, SoCal does not want to benefit from the riots; rather, it proposes to earn only the amount of shareholder incentive that it would have earned under current program guidelines. At the same time, by increasing the customer incentive cap, SoCal would be penalized for exceeding "designed cost." SoCal wishes to remain incentive-neutral. SoCal's shareholder incentive mechanism for Resource and New Construction programs is based on cost in two ways:

1. The incentive is a percentage of program costs.

2. The penalty is 100% of the difference between expected, or "designed" costs and actual costs.

Because the increased customer incentives on the proposed programs raise cost, SoCal proposes to keep these programs "incentive-neutral" by keeping two types of records. One set would document actual realized program costs given the increased customer incentives. The other set would be used for calculation of shareholder incentives and would present program costs minus the increased customer incentives.

15. The Commission offers shareholder incentives on cost-effective DSM resource programs because they have resource value and the Commission believes it is important ". . . to help ensure that the utility is motivated to procure the least-cost resources by providing comparable opportunity for earnings from prudent investments in both demand- and supply-side alternatives" (D.92-02-075). Direct Assistance programs are justified by important societal goals and equity concerns, and should not be held to strict cost-effectiveness standard. D.90-08-068 establishes shareholder incentives for SoCal as being 14% and 10% of cost for resource programs and new construction programs, respectively, and 5% of cost for Direct Assistance programs.

16. Because the purpose of the proposed programs is similar to that of programs approved to address equity concerns, it would be consistent with Commission policy to authorize the same incentive mechanism for these programs as that authorized for SoCal's Direct Assistance programs in D.90-08-068.

17. SoCal's proposed programs and Direct Assistance programs are similar in that:

1. Both are not cost effective not because they fail to promote the installation of cost-effective EEMs but because they offer very high customer incentives for the installation of these measures.

2. Commission authorization of Direct Assistance programs is based on equity considerations, and this would be the same motivation for authorizing the proposed programs.

The proposed programs differ from Direct Assistance programs in that Direct Assistance programs target the residential sector.

Fund-shifting

18. D.90-08-068 recognizes the three program categories defined by SoCal in its application to this proceeding (A.90-04-037), adopts an incentive mechanism for each category, and forbids the shifting of funds between these categories. The motivation for prohibiting the shifting of funds across categories is to ensure that the utility commits resources to programs on which they

earn a smaller incentive. This is important because a utility's pursuit of only the most-profitable DSM may result in the neglect of cost-effective energy efficiency opportunities and because it raises concerns about the equity in the distribution of the availability of utility resources to customers across the utility's service territory. In Resolution G-2992 the Commission made exception to the fund shifting prohibition out of a recognition of the need for flexibility in adapting to the market for energy efficiency. This exception, however, remains consistent with the Commission's motivations behind fund-shifting restrictions by forbidding SoCal to earn incentives on the transferred funds.

19. The transfer of unused past year EMS funds to the proposed Commercial New Construction program will not frustrate Commission safeguards against utility pursuit of only the most profitable DSM programs if these transferred funds are not eligible for shareholder incentives.

20. Although the Commission authorized past year EMS funds and 1992-93 New Construction and C/I Equipment Replacement funds to allow SoCal to pursue cost-effective DSM resources, use of these funds for the proposed programs is consistent with the Commission's intention for equity-oriented programs and the directive set forth in Public Utilities Code 740.4.

21. Funding for the proposed programs comes from currently authorized DSM funds and unused past year DSM funds. Therefore, approval of these programs will not result in any rate or charge beyond that currently authorized.

22. Approval of the proposed programs will not change the $6.4 million shareholder incentive ceiling established in D.90-08-068.

FINDINGS

1. SoCal filed Advice Letter No. 2132 to request modifications to its Nonresidential New Construction; Commercial Equipment Replacement; and Industrial Equipment Replacement demand-side management programs. The requested modifications are to increase the customer incentives offered by these programs and to carry forward and transfer past year funds and earmark 1992-93 funds to finance these programs. The proposed Commercial New Construction program will be financed with $400,000 from currently allocated 1992-93 Commercial New Construction funds; $899,000 of unspent 1990-91 Commercial New Construction funds; and a transfer of $1.2 million in unspent funds from three 1990-91 Energy Management Services programs. The proposed C/I Equipment Replacement programs will be financed with $2.6 million in 1992-93 Commercial Equipment Replacement funds and $1.6 million in 1992-93 Industrial Equipment Replacement funds.

2. The rationale behind the proposed programs is consistent with the directive established in Public Utilities Code 740.4 and with the intent of Legislative Bill AB-38X, both in its assistance to customers that were directly impacted by the LA

riots and its provisions to foster economic development in designated areas.

3. The enterprise zones established by the LA Department of Community Development do not provide complete coverage of areas impacted by the riots. Therefore, in anticipation of the Revitalization Zones created by Legislative Bill AB-38X, it is reasonable for SoCal to promote the proposed programs in all areas within its service territory directly impacted by the riots.

4. The proposed programs could have load building and fuel substitution impacts which would be inconsistent with the Commission's intentions. Therefore, it is reasonable to direct SoCal to follow the procedures outlined in this Resolution, and to file semi-annual reports with CACD demonstrating adherence to these guidelines.

5. The utilities method of keeping the proposed programs "incentive-neutral" by keeping two sets of records for each of the proposed programs is resonable and should be approved.

6. The proposed programs are similar to Direct Assistance programs in their purpose and in the fact that they are not cost-effective due to high customer incentives. Therefore, it is reasonable to allow the utility to earn a shareholder incentive equivalent to that authorized for its Direct Assistance programs. This authorized incentive is 5% of costs.

7. The use of past year funds and 1992-93 New Construction and C/I Equipment Replacement funds for the proposed programs is consistent with the Commission's intention for equity-oriented programs and the directive set forth in Public Utilities Code 740.4. The use of past year EMS funds for the proposed Commercial New Construction program is consistent with Commission policy because these funds will not be eligible for shareholder incentives.

8. Approval of the proposed programs will not result in any rate or charge beyond that currently authorized.

THEREFORE, IT IS ORDERED that:

(1) Southern California Gas Company shall revise the proposed Commercial New Construction, Commercial Equipment Replacement and Industrial Equipment Replacement programs as outlined in this Resolution.

(2) Southern California Gas Company shall shift unspent 1990-91 funds and earmark 1992-93 funds to finance the proposed programs, as described in this Resolution. Southern California Gas Company may not earn shareholder incentives on the transferred Energy Management Services funds.

(3) Southern California Gas Company shall file a semi-annual report with the Commission Advisory and Compliance Division demonstrating adherence to the modifications outlined in this Resolution.

(4) Advice Letter G-2132 shall be marked to show that it was approved by Resolution G-3013.

(5) This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on October 6, 1992. The following Commissioners approved it:

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
JOHN B. OHANIAN
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
Commissioners