

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
ENERGY BRANCH

RESOLUTION G-3159
MAY 24, 1995

R E S O L U T I O N

RESOLUTION G-3159. SOUTHERN CALIFORNIA GAS COMPANY REQUESTS AUTHORITY FOR A NEW TARIFF RULE 39, "POWER GENERAL MARKET DEVELOPMENT INCENTIVE PROGRAM" TO DEMONSTRATE TO CUSTOMERS ENERGY EFFICIENCY AND REDUCED OPERATING COSTS OFFERED THROUGH ON-SITE POWER GENERATION. SOCALGAS ALSO REQUESTS APPROVAL OF A STANDARD FORM CONTRACT, FORM NO. 6621, 8/94, "FEASIBILITY STUDY LETTER AGREEMENT -- SHAREHOLDER FUNDED."

BY ADVICE LETTER 2344, FILED ON AUGUST 17, 1994.

SUMMARY

1. Southern California Gas Company (SoCalGas) requests approval of a new tariff rule, Rule 39, "Power General Market Development Incentive Program" (Incentive Program). The Incentive Program is designed to demonstrate the economic and technical viability of customer on-site power generation systems through utility shareholder co-funding of customer feasibility studies. SoCalGas also requests approval of a standard form contract, Form No. 6621, 8/94, "Feasibility Study Letter Agreement -- Shareholder Funded" (Agreement).
2. A protest was filed on September 6, 1994 by Toward Utility Rate Normalization (TURN) to SoCalGas Advice Letter 2344. SoCalGas filed a reply to TURN's protest on September 12, 1994. Although the protest is denied, TURN's comments are acknowledged and a reporting requirement is set forth to provide an opportunity to evaluate any impact on Edison ratepayers.
3. This Resolution approves SoCalGas' request for a new tariff Rule 39, Power General Market Development Incentive Program and sets forth additional requirements which must be satisfied before implementation of the program.
4. CACD recommends that SoCalGas establish an Incentive Program tracking account to record all costs and repayments associated with this program. In addition, SoCalGas is required to prepare and submit to CACD, annually for three years, cost

and status reports summarizing the expenses, repayment revenues and activities of this program.

BACKGROUND

1. The Incentive Program was developed in response to SoCalGas' most recent rate case decision (D.93-12-043), where the Commission declined to provide ratepayer funding for new major market activities and programs, but allowed SoCalGas the opportunity to utilize shareholder funding for those activities and programs. One of the programs was "Cogeneration Market Development." The following are excerpts from the decision:

"... Whether the activity in question would mitigate uneconomic bypass or promote economic development, our DSM rules place the burden on SoCalGas to show that the benefits to ratepayers will outweigh the costs. Of course, SoCalGas may assess program benefits differently from how we would assess those benefits and in such cases its shareholders may fund marketing efforts accordingly." (emphasis added), p. 135, slip opinion

"SoCalGas fails to demonstrate that the market cannot be relied upon to develop economic projects without SoCalGas' assistance. Moreover, we agree with DRA that SoCalGas' program conflicts with Edison's (ratepayer-funded) efforts to forestall cogeneration development. For these reasons, we decline to fund this program at this time by including associated costs in SoCalGas revenue requirement consistent with our findings in D.93-11-017. SoCalGas may offer these services by way of tariffed charges which reflect costs." (emphasis added), p. 136, slip opinion

2. The purpose of the Incentive Program is to demonstrate, through utility shareholder co-funding of customer power generation feasibility studies, that on-site power generation may provide a customer reduced operating costs and energy efficiency improvements. The Incentive Program is only intended to offset a portion of the cost of the customer feasibility study. The program will be open to all existing core and noncore customers, on a first-come, first-served basis, subject to the availability and limitations described below.

3. FUNDING For 1994-95, SoCalGas has set aside approximately \$200,000 in shareholder funds, which includes administrative costs.

4. PRE-APPROVAL SCREENING CRITERIA To qualify for initial funding consideration, the customer must not be a publicly held or municipal electric utility and additionally must agree to the following special conditions: (a) Customers will use SoCalGas' transportation services as the primary source of fuel for the intended facility for a minimum of five years, and (b) if it is to be interconnected to the electric utility grid, the customer must demonstrate that the contemplated facility can meet the

definition of cogeneration in Public Utilities Code Section 454.4.

5. FINAL APPROVAL The customer meeting the pre-approval screening process requirements should submit a feasibility study bid from an engineering firm or its own estimate of the cost for the study. If approved, an agreement will be prepared for the customer's signature. The customer will be obligated to submit to SoCalGas, upon request, copies of any engineering reports, analyses and designs generated as a result of the project. Two copies of the feasibility study should be submitted as a condition of participation. SoCalGas will co-fund a feasibility study only after it is complete, and SoCalGas is satisfied with the quality and completeness.

6. PUBLICITY Should the project be built, SoCalGas shall have access to equipment operating data as well as reasonable access to equipment for demonstration to other interested parties. SoCalGas will maintain the right to publicize any resultant energy savings and receive advance knowledge of any publicity planned by the customer regarding the project.

7. PROJECT FUNDING LEVEL The funding level to be awarded is subject to the availability of funds, and generally will be lowest of the following: (a) half the total cost of the feasibility study; (b) one and one half years anticipated incremental margin contribution; (c) fifteen thousand dollars; or (d) 10% percent of the projects anticipated total construction cost.

8. REPAYMENT OF INCENTIVE AWARD If the customer builds the intended cogeneration facility or accepts any electric utility cogeneration deferral rate, then the customer will be responsible for repayment of the incentive award to SoCalGas .

NOTICE

1. Notice was provided by SoCalGas to other utilities and interested parties in compliance with Section III, Paragraph G of General Order 96-A. It was published in the Commission Calendar.

PROTESTS

1. On September 6, 1994, TURN filed a protest to SoCalGas' Advice Letter 2344. TURN believes that SoCalGas' proposed rule is likely to result in the incentive awards being indirectly funded by the utilities customers, at least insofar as those customers are also customers of Southern California Edison (Edison).

2. On September 12, 1994, SoCalGas filed a response to TURN's protest.

DISCUSSION

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1. The Incentive Program was developed in response to SoCalGas' most recent rate case decision (D.93-12-043) where the Commission declined to fund new major market programs, but allowed SoCalGas the opportunity to fund them with shareholder money. One such program, Cogeneration Market Development, is the subject of this advice letter filing.

2. The issue in the rate case was whether the program benefits outweighed the costs to the ratepayers. In the rate case decision, it was determined they did not, but the decision allowed SoCalGas to reassess program benefits with shareholder funds. In addition, the decision said that SoCalGas may offer these services by way of tariffed charges which reflect costs.

3. The issues that need to be resolved in this Resolution are whether SoCalGas should be allowed to offer this program and, if approved, under what conditions.

4. TURN opposes the advice letter. Their concern arises primarily out of the impact the incentive award repayment might have upon Edison customers. TURN believes that the proposed rule is likely to result in the incentive awards being indirectly funded by Edison ratepayers. A customer who determines that on-site generation is feasible is most likely to pursue one of two options: build the on-site generation facility or negotiate an electric utility cogeneration deferral rate. According to Section C(4) of the proposed rule, the customer shall be responsible for repayment of the incentive award under either of these options.

5. It is TURN's position that Edison will seek to negotiate cogeneration deferral rates with the customers who are receiving the SoCalGas incentive awards in order to keep them as customers. TURN contends that Edison would have to set rates to cover the incentive award in addition to the potential savings that the customer might achieve through cogeneration.

6. TURN avers that utilities must stop the practice of spreading to other customers the "revenue shortfall" from any rate discount given to retain particular customers that present a bypass threat. TURN states that Edison's shareholders, rather than its ratepayers, should be required to provide the funds to reimburse SoCalGas.

7. TURN recommends that the Commission not approve SoCalGas' proposal until the potential impact upon SCE's customers is mitigated.

8. It is SoCalGas's contention that TURN's proposed policy actually relates to Edison's rate structure, not to SoCalGas' proposed Incentive Program. The appropriate forum for TURN to advance its policy is in a proceeding involving Edison's rates, not in a proceeding such as this, where Edison is not a party, where Edison's rates are not at issue, and where there is no possibility of the Commission granting the relief that TURN requests. SoCalGas claims that TURN's protest would in effect hold SoCalGas's advice letter hostage to TURN's effort to

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persuade the Commission to incorporate its proposed policy into Edison's rate structure.

9. It is SoCalGas' position that TURN's concern that Edison's ratepayers might bear the cost of repaying any incentive awards to SoCalGas is based on pure speculation. If a self-generation feasibility study demonstrates that such a project is economically feasible, the project itself would save the customer many times the cost of the study in the form of reduced energy bills. And if the customer chose to accept a bypass deferral rate from Edison rather than pursuing the cogeneration project, the reduced Edison rate would have to save the customer nearly as much as the cogeneration project, or the customer would be unlikely to accept the rate in lieu of the project.

10. SoCalGas points out that under either alternative, the customer would save enough to repay SoCalGas for its contribution to the feasibility study. Knowing that either the customer's energy savings or the reduced electric rate would already more than cover the incentive award, Edison would have little reason to lower its rate even more to cover the incentive award once again.

11. SoCalGas goes on to articulate that even if Edison were to lower its rate to include the incentive award, this cost would not be borne by Edison's ratepayers without express Commission approval, nor without an opportunity for TURN to protest. TURN will have an opportunity to argue in the next Edison proceeding, when the bypass deferral rate is considered, that the rate should be structured so as to exclude any costs related to such incentives. In no case would such costs be passed through to Edison's ratepayers without TURN having an opportunity to protest.

12. CACD concurs with SoCalGas analysis and agrees that the advice letter and resolution process is not the appropriate vehicle for a discussion of TURN's protest. TURN's protest would be better addressed in an Edison proceeding that deals with bypass deferral rates. TURN will have an opportunity to argue that those rates should be structured to exclude any costs related to incentive awards. In no case would such costs be passed through to Edison's ratepayers without TURN having an opportunity to protest. Accordingly, CACD recommends that TURN's protest be denied without prejudice. TURN may raise the issue of the Incentive Program's affects on Edison's ratepayers in an appropriate Edison proceeding.

13. TURN's concerns regarding mitigation are worth considering, short of rejecting the advice letter. In order to more thoroughly evaluate the concerns of TURN and still not delay approval of the advice letter, CACD recommends that SoCalGas submit a report 30 days after December 31, 1995, and annually thereafter for a total of three years, citing the costs, repayment revenues and program activities. The report will include information on program activities such as the customers contacted, feasibility studies proposed and/or conducted, feasibility reports submitted, incentive awards granted,

projects built, repayments received, customers seeking discount rates from Edison, and customers receiving discount rates from Edison. This will provide the Commission with an opportunity to evaluate the program, and see if there are any impacts on Edison.

14. CACD recommends that SoCalGas establish a separate tracking account to record all costs and repayment revenues associated with the Incentive Program on a fully allocated cost basis. An activity-based costing system will be implemented with separate accounts to record existing utility employees' time spent in the marketing of this program. The accounts will be monitored closely by SoCalGas to ensure that all program related charges are included, and that shareholders bear all the costs of this program. All expenses incurred to promote, supervise, and implement this program will be accrued in separate expense accounts and charged directly to this program. These will be recorded in the "Incentive Program" tracking account. As used in this resolution, tracking accounts record utility costs and revenues for informational purposes only. Tracking account balances are not amortized in current or future rates.

15. SoCalGas shall submit, subject to approval by CACD, a program to implement the above cost assignment system for SoCalGas to charge the Incentive Program for use of SoCalGas' utility assets and personnel.

16. SoCalGas proposed Tariff Rule 39 depicts the Incentive Program as proposed by the utility. Should SoCalGas choose to implement the Incentive Program as modified, and after consultation with the Commission Advisory and Compliance Division, it shall file a supplemental advice letter with language and tariff sheets, consistent with this resolution within 30 days of the effective date of this resolution.

17. In addition, special condition D.9. of the proposed tariff rule and the Agreement requires that the customer not use the feasibility study or any summary of the results as documentation in any negotiation with the customer's electric utility for a discounted electric rate. Customers who qualify for SoCalGas incentive awards must sign an agreement not to pursue discounted electric rates with the customer's electric utility company.

FINDINGS

1. Southern California Gas Company (SoCalGas) filed Advice Letter 2344 filed on August 17, 1994 requesting authority to demonstrate through customer and utility funded feasibility studies, the economic and technical viability of on-site power generation systems.

2. SoCalGas shareholders, not SoCalGas ratepayers, are at risk for the cost of this program.

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3. The program is only intended to offset a portion of the cost of customer feasibility studies.
4. The program will be open to all existing core and noncore customers on a first-come, first-served basis.
5. SoCalGas has budgeted approximately \$200,000 of shareholder funds for the Incentive Program for 1994-1995, which includes administrative costs.
6. The customers, not the ratepayers, are obligated to pay back SoCalGas if the facilities are built or upon acceptance of any electric utility cogeneration deferral rates.
7. A protest was filed on September 6, 1994 by TURN to SoCalGas Advice Letter 2344. SoCalGas filed a reply to TURN's protest on September 12, 1994.
8. The advice letter and resolution process is not the appropriate procedure for a discussion of TURN's protest. TURN's protest would be better addressed in an Edison proceeding that deals with bypass deferral rates.
9. The proposed tariff rule and Agreement does not allow the customer to use the feasibility study or any summary of the results as documentation in negotiations for discounted rates with the electric utility.
10. The protest is denied, but TURN's comments are acknowledged and a reporting requirement is set forth to provide an opportunity to evaluate any impact on SoCalGas and Edison ratepayers.
11. SoCalGas shall establish an "Incentive Program" tracking account to record all costs and repayments associated with this program on a fully allocated cost basis.
12. SoCalGas shall submit a report 30 days after December 31, 1995, and annually thereafter for a total of three years, citing the costs, repayment revenues and program activities as described herein.
13. The Incentive Program and Agreement are filed pursuant to General Order 96-A, Section X.A and California Public Utilities Code Section 532.
14. SoCalGas Advice Letter 2344, dated August 17, 1994, should be approved as modified.
15. This filing will not increase any rate or charge, cause the withdrawal of any service, nor conflict with any rate schedule or rule, except as described herein.

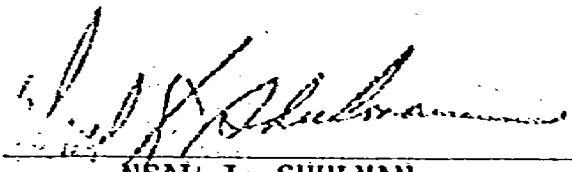
THEREFORE, IT IS ORDERED that:

1. SoCalGas Advice Letter 2344-G is authorized subject to the following modifications:

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- a. SoCalGas shall establish a "Incentive Program" tracking account to record all costs and repayment revenues associated with this program.
 - b. SoCalGas shall expand its activity-based costing system to include all direct and indirect costs related to this program as described herein.
 - c. SoCalGas shall submit cost and status reports to CACD within 30 days after December 31, 1995, and annually thereafter for a total of three years summarizing all results of the program, including expenses, repayment revenues and program activities.
2. Should SoCalGas choose to implement the Incentive Program as modified, and after consultation with the Commission Advisory and Compliance Division, it shall file a supplemental advice letter within 30 days with language and tariff sheets consistent with this resolution. The supplemental letter shall be effective on the date filed.
3. The protest of TURN is denied without prejudice.
4. This Resolution is effective today.

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



NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
JESSIE J. KNIGHT
HENRY M. DUQUE
Commissioners

I abstain.
P. GREGORY CONLON
Commissioner