PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3244
October 23, 1991

R E S O L U T I O N

RESOLUTION E-3244. SOUTHERN CALIFORNIA EDISON COMPANY SUBMITS PROPOSED MODIFICATIONS IN TARIFF SCHEDULES, PURSUANT TO DECISION 87-12-066, TO REDIRECT UNSPENT BASE RATE FUNDS FOR DEMAND-SIDE MANAGEMENT PROGRAMS.

BY ADVICE LETTER NO. 908-E, FILED ON JUNE 6, 1991.

SUMMARY

1. In this advice letter, Southern California Edison Company (SCE) requests authorization to (1) redirect $13.6 million of unspent base rate funds for Demand-Side Management (DSM) programs which had accumulated up to September 5, 1990, the effective date of Decision (D.) 90-08-068 in the Demand-Side Management Collaborative process (Pre-Collaborative Funds), (2) redirect $3.2 million of currently authorized base rate funds for Expense-Related, Load Management Programs in 1991, and (3) revise the Expenditure and Performance Targets in Part Q of the Preliminary Statement to reflect the redirection of DSM funds.

2. This Resolution approves the utility's request to augment existing programs and implement new measures but does not approve the redirection of funds from the expensed account to the amortization or modified-expensed accounts.

BACKGROUND

1. SCE was authorized approximately $57 million in its 1988 general rate case (GRC) decision (D.87-12-066) to spend on DSM activities. Through 1989 and 1990 attrition, this amount was raised by approximately $3.8 million to $60.8 million. These funds were collected in base rates. SCE has also accrued interest on these funds.

2. The GRC decision specified that SCE must file an advice letter with the Commission when shifting funds of over $2.5 million within DSM program categories or when shifting funds between program categories.

3. As of December, 1990, SCE had accumulated $18.5 million in unspent base rate funds that had been authorized for DSM. This includes $4.9 million authorized by the Collaborative decisions (D. 90-08-068 and D.90-12-071).

4. In April, 1990, SCE submitted Application (A.) 90-04-036 for the DSM Collaborative proceeding in which it requested an additional $30 million in 1990 and $30 million in 1991 for DSM. The application proposed pilot DSM programs that would operate from July, 1990, to December, 1991 (18 months), and would allow certain categories of DSM expenditures to earn a return. The Collaborative decision (D.90-08-068) adopted SCE's proposal but the programs went into effect on September 5, 1990. Because of the delayed effective date, the DSM program goals and budgets were prorated to 16 months, resulting in incremental funding of $49.2 million.

5. In this advice letter, SCE is requesting authorization to redirect the December, 1990 $18.5 million unspent base rate funds as follows:

$4.9 million - carry over to 1991 to meet Expenditure and Performance Targets as set forth in D.90-08-068

$10.8 million - restore Collaborative program goals and budgets to 18-month levels calculated using monthly distribution percentages (MDPs)

$2.3 million - expand Refrigerator Rebate Program by $2.3 million

$0.5 million - supplement Measurement and Evaluation activities

SCE also requests authorization to shift $3.2 million of 1991 authorized Load Management funds as follows:

$2.0 million - implement Residential Conservation Compact Fluorescent Bulb program

$1.2 million - supplement Measurement and Evaluation activities (Measurement and Evaluation or M&E)

6. SCE would redirect the funds by adjusting the DSM Adjustment Account (DSMAC) and revising the DSM Adjustment Clause, Preliminary Statement, Part Q to incorporate the revised Performance and Expenditure Targets. This modification includes the following replacement:

Cal P.U.C. Sheet No.	Title of Sheet	Cal P.U.C. Sheet No. Cancelled
Revised 14039-E	Preliminary Statement, Part Q	Revised 12415-E
Revised 14040-E	Preliminary Statement, Part Q	Revised 12416-E
Revised 14041-E	Table of Contents	Revised 14038-E

7. Finally, SCE proposes to return to ratepayers any funds that remain unspent by December 31, 1991.

NOTICE AND PROTESTS

1. The advice letter was noticed by publication in the Commission Calendar. No protests have been received by the Commission Advisory and Compliance Division (CACD) in this advice letter.

DISCUSSION

1. In 1987, the Commission authorized SCE through its GRC decision (D.87-12-066) to spend approximately $57 million on DSM. The funds were collected from ratepayers through base rates. The GRC decision demonstrated the Commission's determination that DSM provides the State with a valuable resource and, therefore, it is reasonable that ratepayers fund DSM programs. With this understanding, unspent funds should not be returned to ratepayers, but rather invested in DSM to provide the benefit for which these funds were intended.

2. As of December 1990, SCE had $18.5 million in unspent DSM funds, of which $13.6 million were appropriated under the GRC. These funds were primarily from load management programs. SCE proposes to redistribute these funds among those amortized and modified-expensed programs authorized in the Collaborative decisions. To retain the structure of these programs, SCE also proposes to proportionally raise the Performance and Expenditure Targets that correspond to these programs. In addition, SCE is proposing to add a Residential Conservation measure and increase funding for Measurement and Evaluation with $3.2 million from a Collaborative Load Management program that was undersubscribed in 1991.

3. SCE presented the contents of this advice letter to a small group of individuals who represent a variety of interests - Division of Ratepayer Advocates (DRA), Toward Utility Rate Normalization (TURN), California Energy Commission, General Services Administration, and California Large Energy Consumers Association - in DSM and have been key players in shaping the Collaborative. The Commission respects the opinions of the parties to the Collaborative and relies on the wealth of knowledge they bring to the Commission in DSM proceedings and less formal DSM forums. CACD finds it is in the utility's best interest to present proposed modifications to these parties prior to advice filings. CACD should attend such presentations to observe the positions of the various parties for inclusion in the analysis of the advice letter. Although CACD was not at the presentation on this advice filing, CACD acknowledges that SCE has attained support for the proposed modifications from the attending parties.

4. CACD has conducted an independent review of SCE's proposal. The review lead to lengthy discussions between CACD, SCE, and, in part, DRA. CACD relied on the Collaborative decisions and SCE's settlement agreements for guidance, but certain issues were not clear and had to be resolved before CACD could proceed with a resolution. These issues included:

- whether or not the Expenditure Targets established in the Collaborative are actual caps on expenditures for a given measure;

- what flexibility SCE has to shift funding between and within program categories and across accounts;

- how funds should be treated when contracts from rebate programs (i.e., CIA incentives, Appliance Incentives, and New Construction) are cancelled in the future.

CACD has attempted to resolve these issues in a manner that accounts for the differences between SCE's amortization approach to the shareholder incentive mechanism, yet remains consistent with the Collaborative and the guidelines that more generally apply to the other major energy utilities. Our conclusions are outlined below.

5. The Expenditure Targets are not ceilings on expenditures per measure type. CACD believes it is appropriate for SCE to have the flexibility to exceed any given Expenditure Target as long as the utility is not exceeding its authorized budget for amortized and modified-expensed programs. This type of flexibility will both allow SCE to optimize its promotion of DSM and discourage cream-skimming. Performance and Expenditure Targets can still be used as relative measures to assess SCE's effectiveness with a given activity. For example, if the utility were to spend in excess of the Expenditure Target and still not achieve its Performance Target, clearly a penalty would be appropriate.

6. It is useful to construct a maxtrix of accounts and programs to demonstrate funding flexibility and program targets. The vertical axis represents amortized, modified-expensed, and expensed accounts and the horizontal axis shows Residential Conservation, Non-Residential Conservation, and Load Management program categories:

	Res Consvn	Nonres Consvn	Load Mgmt
Amortized			
Mod. Exp.			
Expensed			

SCE has unrestricted flexibility to move funds within each cell; i.e., between measures within the same category and same account. SCE may seek approval via advice letter to move funds laterally across program categories. The 1988 GRC decision states that SCE must file an advice letter only if the amount to be moved is greater than $2.5 million. However, it is not clear if this cut-off was per year, per proposal, or per category. Moreover, the $2.5 million cut-off applied only to expensed funds. With the Collaborative programs, the movement of funds across program categories has very different implications.

Thus, CACD concludes that the GRC decision does not apply to the modified-expensed and amortized accounts. If SCE wishes to move funds between program categories, it should submit an advice letter which CACD will review to determine the impact of the proposal and the appropriateness of the proposed shift in funds.

7. Unrestricted movement of funds within a cell will allow SCE to concentrate funds on programs with low participation rates after it has achieved a level of performance for other measures that will provide a full rate of return for shareholders. Such flexibility is comparable to PG&E's and SDG&E's flexibility within program categories, and will allow shareholders a greater chance at a full rate of return on riskier programs. This is necessary to encourage investment in such programs and to discourage cream-skimming.

8. SCE may not amortize any expenditures greater than the aggregate amount of Expenditure Targets for that category. In this resolution, CACD recommends that SCE be permitted to allocate the carry-over funds as proposed, but that those funds be expensed instead of contributing toward the incentive mechanism. It should be noted, though, that SCE may use these funds to achieve its Performance Targets. This flexibility has the appearance of altering the penalty/reward mechanism, but CACD believes it will contribute toward greater promotion of DSM and therefore increased energy savings. Use of these funds in achieving Peformance Targets will not change the total amount that can be amortized, but they could affect the rate of return. The Commission will monitor this closely.

9. In regard to cancelled contracts, SCE must track the account to which the contracts are booked and deduct the cancelled amount from either the expensed or amortized accounts. SCE is expected only to deduct the rebate or incentive amount, as the administrative costs must be considered sunk costs. The amount that is then available to be carried over to the next year because of cancellations can be used for new DSM projects providing SCE obtains Commission approval. SCE should file an advice letter by coincident with its 1992 and 1993 Demand-Side Management Reports, Semi-Annual Update proposing a use for such funds. The funds may contribute to existing programs if they are expensed, otherwise SCE should propose new programs that also may only be expensed. These advice letters should include a proposal for the use of any unspent carry-over funds, including accrued interest. If no determination has been made on the use of the funds by the end of 1992, they should be booked to SCE's Electric Revenue Adjustment Mechanism (ERAM) as an offset to rates.

10. SCE should file a quarterly report with CACD which lists the number of cancellations, the corresponding energy savings lost and the rebate amounts retained as a result of such cancellations.

11. CACD does not support SCE's proposal to earn a shareholder profit on the incremental expenditure through amortization or

modified expense. The 1988 GRC decision authorized SCE to collect funds from ratepayers for DSM programs. The funds were not shareholder investment and therefore should not now be available to generate a return. Ratepayers have not only lost the benefit of $13.6 million worth of DSM over the past four years, but under SCE's proposal would now be expected to pay the utility an incentive to invest the funds in DSM under the Collaborative incentive mechanism. SCE should not be allowed to profit from its delay and ratepayers should not have to bear any further impact on rates due to the delay by SCE in spending them on DSM activities.

12. The Collaborative Load Management program was authorized as an expensed program. SCE would not have earned a return on TES expenditures and, therefore, should not be allowed to earn an incentive on these funds if they are moved to another program category.

13. Finally, SCE will not be held to the Performance and Expenditure Targets it proposed in the advice filing. Because of the delay in reviewing and approving the redirection of funds, SCE has less than three months to use the $16.8 million. SCE should implement the program augmentations, but must track these funds in the Expense-Related Program Sub-Account. Hence, SCE will be neither penalized nor rewarded for the use of these funds but may spend them as proposed now, and as generally intended originally, on DSM.

Increasing Expensed Programs

14. For programs where there is no shareholder incentive such as Measurement and Evaluation, CACD is concerned whether SCE is using its funding efficiently. In this case, CACD is relying on the Collaborative parties to determine if funds for Measurement and Evaluation are well used. The parties to the Collaborative offer a spectrum of opinions that is greater than CACD's resources. In addition, CACD is aware of the extensive efforts of DRA and other parties who have been working with the utilities to improve Measurement and Evaluation. CACD expects continued efforts in Measurement and Evaluation by all of the Collaborative participants.

Carrying Over Collaborative Funds

15. SCE proposes to move $4.9 million from 1990 to 1991, to meet its Performance and Expenditure Targets. SCE's Collaborative funding was allocated on an annual basis but performance goals were set for the 16-month period. Because these funds were approved for programs goals at the end of 1991, it is not pertinent in this instance in which year they are spent but they must contribute toward the 1991 goals.

Thermal Energy Storage

16. SCE claims it has promoted TES but cannot make the program attractive to customers because the payback is too low. Prior to the 1988 GRC, SCE paid an incentive to customers of $200/KW for off-peak cooling. After the GRC this incentive was reduced to $100/KW. Also, rate changes had reduced the payback on TES

and customers have perceived rate instability. Through the Collaborative decision, SCE revised the incentive by going to a two-tier system in which an incentive of $200/KW is offered with certain conditions. Also, more recent changes have increased on-peak rates. Thus, SCE's TES program will likely be more successful in the future as customer confidence is regained and changing conditions continue to make TES more attractive. This current shift of funds should not be construed to be a rejection of TES as a valid DSM program in the future.

Points for Future Filings
17. CACD has two concerns surrounding the general issue of shifting funds and expanding program budgets above previously authorized levels. First, the penalty/reward mechanism and Performance and Expenditure Targets for DSM programs were designed using a specific set of assumptions regarding program cost, market penetration, energy savings per measure, etc. Because of these assumptions, the utility bore the risk of a potential penalty because it was unclear how the assumptions would affect the utility's performance at the time the programs were established. If it is clear that a program is successful and the budget is increased, the funding shift allows shareholder earnings to increase without risk to the utility. Second, if the Commission permits the movement of funds between programs, and thereby prevents a penalty assessment, the utility's incentive to efficiently operate and aggressively promote all of its DSM programs would be reduced. Thus, CACD must consider whether the movement of funds potentially increases shareholder earnings or prevents a penalty assessment as it reviews such proposals.

18. CACD objects to the assignment of funds to an incentive mechanism that SCE will likely discontinue in favor of shared savings as a result of the GRC (A.90-12-018). SCE should not augment a dying mechanism. Other options that would expand DSM programs without shareholder incentives should be discussed in any subsequent filings with similar issues.

FINDINGS

1. SCE filed Advice Letter No. 908-E requesting authorization to redirect $13.6 million in unspent base rate funds that had been authorized for DSM activities in SCE's 1988 GRC to DSM programs that had been authorized under the Commission's Collaborative decisions (D.90-08-068 and D.90-12-071). SCE also proposes shifting $3.2 million in 1991 Collaborative funds from Load Management to Residential Conservation and Measurement and Evaluation.

2. SCE has reviewed the proposed modification with key players of the Collaborative (DRA, TURN, California Energy Commission, General Services Administration, and California Large Energy Consumers Association) and has general support from this group on the proposal.

3. The Commission relies in part on the opinions of the Collaborative parties to determine if the utility makes efficient use of its demand-side management funds and if the proposed allocation scheme is reasonable.

4. The expansion of and addition to Collaborative programs under SCE's proposal would increase costs to ratepayers because funds would have to be collected to cover shareholder earnings. Ratepayers have already lost the benefit of $13.6 million worth of DSM over the past four years that SCE was expected to provide and should not have to pay an additional incentive to get SCE to invest the funds.

5. The carry-over funds should be allocated according to SCE's proposal in this Advice Letter filing, but the funds should remain in the Expense-related Sub-Account. These funds may be shifted among measures, as defined in Sections 6, 7, and 8 of the Discussion in this Resolution.

6. SCE should file advice letters by August 15, 1992 and August 15, 1993 which propose treatment of unspent DSM funds from 1991, including the interest accrued on the carry-over funds and funds from cancelled contracts.

7. SCE should file a quarterly report with CACD that tracks any contracts that have been cancelled and will, therefore, cause committed funds to be available.

8. SCE will not be held to its proposed Performance and Expenditure Targets and should not modify its tariff sheets as proposed in this advice filing.

9. SCE should shift the funds that were authorized under the Collaborative for TES to implement the Residential Conservation-Compact Fluorescent Bulb program and expand Measurement and Evaluation. However, the funds should remain in the Expense-Related Program Sub-Account because they were not authorized to generate a return under the Collaborative decision.

10. SCE's proposal to move $4.9 million in Collaborative funds from 1990 to 1991 to meet its Performance and Expenditure Targets is reasonable.

11. SCE has made reasonable efforts to promote Thermal Energy Storage. Conditions beyond the scope of the Load Management program inhibit the full completion of Thermal Energy Storage.

THEREFORE, IT IS ORDERED that:

(1) Southern California Edison Company's proposed redirection of Demand Side Management Funds is approved but there is no change to the incentive-penalty mechanism.

(2) Advice Letter 908-E shall be marked to show that it was approved by Commission Resolution E-3244. The tariff sheets shall not be modified.

(3) This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities commission at its regular meeting on October 23, 1991. The following Commissioners approved it:

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

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