PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3246
November 6, 1991

RESOLUTION

RESOLUTION E-3246. PACIFIC GAS AND ELECTRIC COMPANY SUBMITS PROPOSED MODIFICATIONS IN TARIFF SCHEDULES TO SHIFT 1992 DEMAND-SIDE MANAGEMENT FUNDS FOR AGRICULTURAL ENERGY MANAGEMENT SERVICES AND HIGH PERFORMANCE WINDOWS TO THESE PROGRAMS IN 1991.

BY ADVICE LETTER NO. 1361-E, FILED ON JUNE 25, 1991.

SUMMARY

1. In this advice letter, Pacific Gas and Electric Company (PG&E) requests permission to shift demand-side management (DSM) funds authorized for 1992 Equity and Service programs for Agricultural Energy Management Services (Ag EM Services) and High-Performance Windows to ensure program continuity in 1991.

2. This Resolution approves the utility's request to shift funds from 1992 to 1991, but limits 1991 shareholder earnings on Equity and Service programs to the maximum amount that could have been earned under the orginally authorized level of funding for Equity and Service programs.

BACKGROUND

1. PG&E was authorized $63.3 million in its 1989 general rate case (GRC) decision (D.) 89-12-057 to spend on DSM activities in Equity and Service programs. Through the Collaborative decisions (D.) 90-08-068 and (D.) 90-12-071 this amount was reduced to $62.3 million. PG&E was authorized to earn a 5 percent cost-plus shareholder incentive on $51,722,000 of the Equity and Service funds in 1991.

2. PG&E states that it has had unexpectedly great success with the Agricultural Energy Management Services and High Performance Windows and expects to exceed 1991 funding levels for these programs before the end of the year. PG&E has already augmented the budgets for these programs by carrying over unspent funds that were authorized for Equity and Service programs in 1990. PG&E also expects to spend the entire amount authorized for the other 1991 Equity and Service programs this year as well.

3. Without approval to carry forward $2.8 million in 1992 funds, PG&E claims that it will have to shut down the programs

before the end of the year, just to restart them in 1992. PG&E claims that the lack of continuity would have an undesirable impact, creating problems with customers, administration and contracts.

4. In April, 1991, PG&E submitted its ECAC application (A.) 91-04-003 in which it requested incremental funding for both programs in 1992.

5. PG&E earns a shareholder incentive of 5 percent of its expenditures in the Service and Equity programs if the minimum performance standards (MPS), established in the Collaborative decision, are met. The MPS are percentages of the performance goals, defined in number of units or measures. PG&E proposes to raise its performance goals in proportion to the shifted funds in 1991 and would leave enough funds available in 1992 to meet the existing 1992 MPS. PG&E claims that the shift would potentially increase shareholder earnings by $130,000 for 1991, and would decrease 1992 earnings by the same amount if additional funding is not approved in the ECAC.

6. Finally, PG&E claims that this filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any other rate schedule or rules.

NOTICE

1. The advice letter was noticed by publication in the Commission Calendar and was served on the parties on PG&E's electric advice letter mailing list, in accordance with Section III of General Order 96-A.

PROTESTS

1. Toward Utility Rate Normalization (TURN) submitted a protest to Advice Letter 1361-E on July 17, 1991.

2. TURN is concerned that shifting funds out of 1992 will predetermine PG&E's request for additional funding in the ECAC, thereby increasing the total authorized funding level for DSM.

3. TURN concludes that PG&E has had other options to maintain continuity in these programs. First, PG&E could have limited participation in a seasonal or monthly manner to stretch the 1991 funds to cover the whole year. Second, PG&E has the flexibility to shift 1991 funds from other Equity and Service programs. Thus, PG&E could use other 1991 funds to bridge these programs to 1992.

4. TURN recommends that the Commission deny Advice Filing 1361-E because of the other options available to PG&E and the precedent that might be set to increase funding mid-year by advice letter.

RESPONSES TO PROTESTS

1. PG&E responded to TURN's protest on July 24, 1991.

2. PG&E asserted that it had not anticipated the level of demand for the Ag EM Services or the High Performance Windows. PG&E states that it did not design the Ag EM Service program to handle the demand resulting from the California drought, which has caused farmers to pay greater attention to costs that could be lowered through DSM. PG&E also claims it can not allocate the budget for High Performance Windows with seasonal restrictions or monthly restriction because lead times for purchase commitments in the construction industry vary greatly from project to project and depend on many different factors. Thus, PG&E could not reasonably predict which months or seasons would have the greatest demand.

3. PG&E clarified in its response to TURN that 1992 funds would only be carried forward to 1991 if all of the 1991 Equity and Service funds were spent. Thus, if other 1991 Equity and Service programs have any funds remaining toward the end of the year, they would be shifted before 1992 funds are used.

DISCUSSION

1. PG&E has the potential to earn approximately $2,340,100 in shareholder reward from Equity and Service programs in 1991, given the authorized funding level ($46,802,000 not including Super Efficient Homes or "Big Six" measures) and the 5 percent, cost-plus incentive mechanism. This level of incentive was negotiated through the Collaborative process and approved by the Commission in the Collaborative decision. The decision did not provide a mechanism to increase the overall DSM funding level mid-year, therefore, CACD has determined that it has no authority to increase shareholder rewards beyond the level negotiated and accepted in the Collaborative process.

2. Although CACD does not approve the increase in shareholder reward, it does agree with PG&E that continuity in these programs is valuable. CACD does not agree with TURN that monthly or seasonal restrictions would necessarily make the budget work better. Improperly forcasted demand could also have the result that funds would be left over at the end of the year but that customers were denied service during the year due to the restricted spending. CACD finds this result equally undesirable because it would be lost opportunity for energy efficiency. Also, shifting funds between programs will not alleviate the funding shortfall if all of the Equity and Service programs are receiving high demand. CACD finds that allowing PG&E to carry forward funds will allow for better long-term DSM planning without negative effects on short-term DSM opportunities.

3. The Commission did not approve unlimited reward to shareholders on DSM programs and the limit was determined in the

Collaborative decision. Thus, CACD finds that the shareholder earnings should remain at the levels approved in the Collaborative decision. However, some flexibility in funding can greatly increase the benefits of DSM. CACD concludes that allowing 1992 funds to be carried forward to 1991 will allow PG&E to maximize DSM benefits but the impact to ratepayers can be minimized. Thus, CACD proposes that PG&E be prohibited from earning a shareholder reward after the highest possible reward under the original 1991 Collaborative funding level has been attained.

4. To retain the structure of these programs with the incremental funds, PG&E has proposed to proportionally raise the MPS that correspond to the programs for which it wants to carry forward funding. CACD finds that PG&E should retain its original MPS and earn the 5 percent reward on its original budgets. PG&E should not be held to the higher MPS proposed in the advice letter if the shareholder reward is limited to the orginally authorized funding level of $46,802,000.

5. CACD agrees with TURN that moving the 1992 funds could create a bias in the ECAC to approve additional funds for these programs for 1992, and the result would be upward pressure on rates. CACD also finds that the proposal in this advice letter could set a precedent for requesting funds mid-year and increasing shareholder rewards beyond the authorized level.

6. PG&E should be tied to its claim in response to TURN that 1991 Equity and Service funds would be used before 1992 funds would be shifted. Thus, all 1991 Equity and Service funds should spent if any 1992 funds are used.

7. CACD acknowledges that PG&E has attained support for the proposed increases to Ag EM Services and High Performance Windows from parties to the Collaborative who attended advisory committee meetings in which this proposal was reviewed. CACD accepts the positions of the Collaborative parties as a means to determine that these programs in particular are accomplishing their goals and, therefore, are worth expanding.

FINDINGS

1. PG&E filed Advice Letter No. 1361-E requesting authorization to carry forward to 1991 $2.8 million in 1992 DSM funds that have been authorized for Equity and Service programs in PG&E's general rate case D.89-12-057 and under the Commission's Collaborative decisions D.90-08-068 and D.90-12-071. Equity and Service funds generally earn a 5 percent reward for shareholders on expenditures.

2. Shareholder earning levels were negotiated in the Collaborative process and adopted by the Commission in the Collaborative decision. These levels should not be modified through the advice letter process.

3. PG&E's shareholder earnings on Equity and Service programs should be capped at $2,340,100 in 1991.

4. The proposal to carry forward funds from 1992 to 1991 could bias the ECAC decision to increase funding for Agricultural Energy Management Services and High Performance Windows, which would in turn put upward pressure on rates. The proposal could also set a precedent for increasing shareholder savings mid-year above authorized levels.

5. PG&E should shift the 1992 funds to continue the Equity and Service programs through the end of the year if 1991 funds are depleted. However, PG&E should not earn a shareholder incentive on these incremental funds above the level that is possible on the original 1991 funds. Minimum Performance Standards should remain at their original levels because the 1992 funds may not be eligible for incentives if they are spent in 1991.

6. All 1991 Equity and Service programs should be spent before any 1992 funds are carried forward.

7. PG&E has reviewed the proposed modification with parties to the Collaborative and has general support from this group on the proposal.

8. 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 modifications are reasonable.

THEREFORE, IT IS ORDERED that:

(1) Pacific Gas and Electric Company shall carry forward 1992 Demand Side Management Funds if all 1991 Equity and Service funds are spent, but PG&E shareholder earnings for 1991 on Equity and Service programs are capped at $2,340,100.

(2) Advice Letter 1361-E shall be marked to show that it was approved by Commission Resolution E-3246.

(3) This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities commission at its regular meeting on November 6, 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