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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3295
January 8, 1993

RESOLUTION

RESOLUTION E-3295. SOUTHERN CALIFORNIA EDISON COMPANY SUBMITS A PROPOSAL FOR THE TREATMENT OF UNSPENT DEMAND-SIDE MANAGEMENT FUNDS.

BY ADVICE LETTER NO. 962-E AND 962-E-A, FILED ON SEPTEMBER 1, 1992 AND DECEMBER 10, 1992.

SUMMARY

1. In Advice Letter 962-E Southern California Edison Company (Edison) submits a proposal for the use of $4,898,000 in unspent Demand-Side Management (DSM) funds. Edison proposes to use these funds as follows:

1) Allocate $300,000 for development of Unit Energy Savings estimates in the utility's New Book of Standards (NBOS).

2) Allocate $1,800,000 to the Customer Technology application Center (CTAC).

3) Allocate $600,000 to the Major Account DSM program.

4) Return $2,198,000 to ratepayers.

2. Supplemental Advice Letter No 962-E-A was filed to replace Advice Letter No 962-E. This supplemental advice letter is similar to the original advice letter except that it does not request DSM funds for CTAC funding for 1992, but instead increases the proposed ratepayer refund by $1.8 million.

3. This Resolution rejects Edison's supplemental advice letter, but approves Advice Letter 962-E in part. The Resolution approves the allocation of $900,000 in past year funds to the NBOS and Major Account program as proposed. This Resolution does not approve the allocation of $1.8 million to CTAC. Instead, to provide the necessary CTAC funding, Edison is instructed to transfer $1.8 million from its RD&D budget to its DSM budget. Edison is instructed to return the remaining $3.998 million of unspent funds to Edison ratepayers.

BACKGROUND

1. Edison 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. Edison has also accrued interest on these funds.

2. The GRC decision specified that Edison 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. In April, 1990, Edison 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 shareholder incentives. The Collaborative decision (D.90-08-068) adopted Edison'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.

4. As of December, 1990, Edison had accumulated $18.5 million in unspent base rate funds that had been authorized for DSM.

5. On June 6, 1991 Edison filed Advice Letter 908-E requesting Commission authorization to redirect the $18.5 million in unspent DSM funds. Resolution E-3244 approved the suggested redirections, but also clarified that these redirected funds would not be eligible for shareholder incentives. The resolution did, however, authorize Edison to use these expensed funds to meet goals established for programs that were eligible for shareholder incentives. The resolution further instructed Edison to file additional advice letters in August of 1992 and 1993 to propose treatment of unspent DSM funds and the corresponding accrued interest.

6. In D.91-12-076 the Commission rejected Edison's amortization incentive mechanism and created a new incentive mechanism called the S-curve mechanism. This decision continued the fund shifting guidelines established in D.87-12-066 by removing the cap of $100,000-per-account in Edison's Major Account Program. The decision also addressed Edison's CTAC program, stating that "...we will authorize the requested $1.600 million for CTAC" and indicates that showcasing expenses should be removed from RD&D.

7. In compliance with Resolution E-3244, Edison filed Advice Letter No. 962-E on September 1, 1992. This advice letter proposes treatment of $4,898,000 in unspent DSM funds from the 1988 GRC and 1990 Collaborative decisions and funds from

cancelled contracts and accrued interest in 1990. Edison proposes to:

1) Allocate $300,000 for development of Unit Energy Savings estimates in its NBOS.

2) Allocate $1,800,000 to CTAC.

3) Allocate $600,000 to the Major Account DSM program.

4) Return $2,198,000 to ratepayers.

8. Edison filed Supplemental Advice Letter No 962-E-A on December 10, 1992. The supplemental advice letter differs from the original in that it proposes to use the RD&D funds allocated to CTAC under D.91-12-076 to cover CTAC spending in 1992 rather than requesting DSM funds for this purpose. The supplemental advice letter proposes to use DSM funds to finance CTAC functions as they are transferred to DSM beginning in 1993.

9. Funds from cancelled contracts and accrued interest in 1991 will be addressed in an advice letter that Edison must file in August of 1993.

NOTICE

Advice Letter No. 962-E and 962-E-A were noticed in accordance with Section III.G. of General Order 96-A by publication in the Commission Calendar and distribution to Edison's advice filing service list.

PROTESTS

The Commission Advisory and Compliance Division (CACD) has received no protests to Advice Letter 962-E or 962-E-A.

DISCUSSION

1. The Commission authorized Edison to spend approximately $57 million on DSM in D.87-12-066. The 1990 Collaborative decision authorized for Edison an additional $49.2 million for use on DSM in 1990 and 1991. The funds were collected from ratepayers through base rates.

2. In December of 1990, Edison had a total of $18.5 million in unspent DSM funds. Of this $18.5 million $13.6 were DSM funds from Edison's 1988 GRC and $4.9 million were expensed DSM funds authorized in the Collaborative decision. Neither the 1988 GRC funds nor the expensed funds authorized in the Collaborative decision were intended to be eligible for shareholder incentives. This $18.5 million also included funds from cancelled contracts and accrued interest.

3. Edison proposes to allocate $300,000 of carry-over funds to cover a $300,000 overexpenditure on development of its <u>New Book of Standards</u> (NBOS). The NBOS is a book of engineering

calculations used in developing estimates of the energy savings attributable to DSM programs. Edison must update its Book of Standards in order to better reflect newer energy-efficient technologies. The NBOS is crucial for development of incentive-basis forecasts that are required by the S-curve mechanism. The NBOS is also part of Edison's plan to meet the expected shift to ex post energy-savings verification resultant from the ongoing DSM Order Instituting Rulemaking (OIR) R.91-08-003.

4. D.91-12-076 removed the $100,000-per-account funding cap that had previously been in place for Edison's Major Account program. Subsequent to removal of this cap, Edison has experienced increased demand for funds in this program. Edison proposes to enhance its 1992 Major Accounts program funding by $600,000. Allocating funds to enable Edison to pursue all cost-effective energy efficiency opportunities in this program is consistent with the Commission's goals for DSM.

5. Edison proposes to allocate $1.8 million to the Customer Technology Application Center (CTAC). D.91-12-076 authorized $1.6 million (in 1988 dollars) in funding for CTAC and clarified that these kinds of showcasing expenses should be moved from RD&D to DSM. Edison moved CTAC functions but did not transfer the approved CTAC funding. Consequently, GRC funds intended for CTAC have now been exhausted in RD&D and in Advice Letter 962-E Edison seeks to recover CTAC spending by requesting $1.8 million in carried-over DSM funds. The $1.8 million is equivalent to $1.6 million in 1988 dollars escalated to its 1992 value.

6. There is no ambiguity in the D.91-12-076 authorization of CTAC funding: the CTAC funds were intended to be used for CTAC and moved to DSM concurrent with the movement of CTAC functions. This is consistent with the decision's conclusion that, in future proceedings, all showcasing functions and expenditures should be moved from RD&D to DSM. Although this may result in a relative reduction in the RD&D budget, only those funds previously dedicated to showcasing functions will be re-allocated to DSM. Therefore, funding for non-showcasing functions within RD&D will remain unchanged by this rule in the decision, excepting the fact that Edison will no longer be able to move funds allocated to showcasing functions to other RD&D functions, as this would be a transfer from DSM to RD&D.

7. Edison does have some flexibility to move authorized funds within its RD&D category; however, if Edison intended to move and spend the authorized amount on CTAC, the authorized funds should have been transferred with CTAC functions from RD&D into DSM. To authorize Edison's requested $1.8 million for CTAC would, in effect, represent an overexpenditure in RD&D and a transfer of funds from DSM to RD&D.

8. The Commission wishes to avoid "micro-management" of utility DSM and RD&D programs, and builds flexibility into fund-shifting guidelines to this end, as well as to allow utilities to adapt to changes in a dynamic market environment.
Utility actions under this provision for flexibility need to be

evaluated on a case by case basis. In this case, Edison's transfer of CTAC functions to DSM, without a concurrent transfer of the $1.6 million authorized for CTAC appears to be inconsistent with decision language.

9. In its supplemental advice letter Edison removed requests for 1992 CTAC funding that were not consistent with relevant language in D.91-12-076. The supplemental advice letter indicates, however, that Edison will fund future CTAC functions by drawing on unspent DSM funds. While the movement of CTAC to DSM is consistent with language in the GRC decision, Edison's failure to acknowledge a movement of RD&D funds formerly dedicated to showcasing to DSM concurrent with showcasing functions is not consistent with this decision. Because the supplemental advice letter fails to resolve the issues raised by the original advice letter, replacing the original with the supplement serves no purpose and the supplement should be rejected.

10. While Resolution E-3244 allowed Edison to use carried-over DSM funds as expensed funds to meet performance targets for incentive-eligible programs, this is no longer possible given the S-curve incentive mechanism established by D.91-12-076. Under the S-curve mechanism, the effective incentive rate available to shareholders is continuously linked to program performance. Therefore, use of carry-over expensed funds to contribute to meeting program performance goals would be prohibitively complicated under the S-curve mechanism.

11. Edison has been unable to identify expensed DSM programs in which it can exhaust the remainder of unspent DSM funds, and proposes to refund these unspent funds to ratepayers. Although the Commission is reluctant to deny ratepayers the long-term benefits associated with investment in DSM, it is inappropriate to withhold these funds from ratepayers when Edison's supply of DSM funds greatly exceeds appropriate and available DSM investment opportunities. In addition to the $2.198 million Edison requested to return to ratepayers, this resolution creates an additional $1.8 million in unspent DSM funds by denying Edison's request to use carry-over DSM funds to cover CTAC spending in 1992. Therefore, Edison has a total of $3.998 million of unspent 1988 GRC and Collaborative DSM funds which are available for refund to ratepayers.

FINDINGS

1. Edison filed Advice Letter No. 962-E and 962-E-A to submit a proposal for the use of unspent DSM funds authorized in Edison's 1988 GRC and the Collaborative decisions, D.90-08-068 and D.90-12-071.

2. Issues raised by the original advice letter are not resolved by the supplemental advice letter. Therefore, Supplemental Advice Letter 962-E-A should be rejected.

3. Edison's request to allocate $900,000 in unspent funds to cover $300,000 of overexpenditures associated with its NBOS and $600,000 to meet demand associated with its Major Account program is reasonable and should be approved.

4. D.91-12-076 authorized $1.6 million (in 1988 dollars) to be used in the CTAC program. CACD considers the $1.8 million of CTAC funds which Edison exhausted in RD&D to be an overexpenditure in RD&D. Therefore, Edison should be denied authority to allocate $1.8 million in unspent funds to cover CTAC spending, and instead should be instructed to transfer $1.8 million from its RD&D budget to DSM to cover CTAC spending within DSM.

5. Edison should refund the $1.8 million requested for CTAC to ratepayers. Edison's proposal to return $2.198 million to ratepayers should be approved. The total to be refunded is $3.998 million.

6. The recommendations contained in this resolution will not result in any rate or charge beyond that currently authorized.

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THEREFORE, IT IS ORDERED that:

(1) Southern California Edison Company's proposed allocation of $300,000 to cover 1992 New Book of Standards expenses and $600,000 to their Major Accounts program is approved.

(2) Southern California Edison Company shall transfer $1.8 million from its RD&D budget into its DSM budget to meet 1992 expenses associated with the Customer Technology Applications Center.

(3) Southern California Edison Company shall refund to ratepayers $3.998 million in unused DSM funds from its 1988 GRC and the Collaborative decisions.

(4) Advice Letter 962-E shall be marked to show that it was approved by Commission Resolution E-3295. The tariff sheets shall not be modified.

(5) This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities commission at its regular meeting on January 8, 1993. The following Commissioners approved it:

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

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