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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3305
FEBRUARY 17, 1993

R E S O L U T I O N

RESOLUTION E-3305. SAN DIEGO GAS AND ELECTRIC COMPANY REQUESTS COMMISSION AUTHORIZATION TO MAKE CERTAIN MODIFICATIONS TO THE REFRIGERATOR COMPONENT OF ITS APPLIANCE EFFICIENCY INCENTIVES DEMAND-SIDE MANAGEMENT PROGRAM.

BY ADVICE LETTER 860-E, FILED ON NOVEMBER 13, 1992.

SUMMARY

1. In Advice Letter 860-E San Diego Gas and Electric Company (SDG&E) requests permission to modify the refrigerator component of its Appliance Efficiency Incentives (AEI) Demand-Side Management (DSM) program to adapt it to new federal refrigerator efficiency standards.

2. This Resolution approves the utility's request.

BACKGROUND

1. The DSM Collaborative Decision (D.) 90-08-068, authorized SDG&E to spend $4,156,150 on its 1991 AEI program, $2,706,249 of which was for the refrigerator component of this program. SDG&E was authorized $4,941,111 for its 1992 AEI program, $2,727,357 of which was allocated to the refrigerator component. The decision also authorized SDG&E to earn shareholder incentives on this program. In 1991 and 1992 SDG&E was eligible to earn 13.5% of net benefits of this program, though the total amount of incentives available was limited by funding limits and a $9 million cap on total DSM related shareholder earnings, established in D.91-12-074.

2. In August of 1991 the Commission issued an Order Instituting Investigation (OII)/Order Instituting Rulemaking (OIR) to explore issues associated with utility DSM programs. Among the issues to be addressed by this OII/OIR is the establishment of bidding pilots. The order instructed utilities to identify DSM programs to be put up for bid on a pilot basis. SDG&E identified its AEI program as that to be put to bid, and on March 17, 1992 filed a motion with the Commission requesting that SDG&E's application for approval of this program be moved from its 1993 general rate case (GRC) to the bidding hearings.

The Commission approved SDG&E's request with an administrative law judge's ruling issued April 2, 1992.

3. The decision addressing DSM bidding pilots, D.92-09-080, authorized SDG&E's proposal to put the AEI program to bid, and established funding levels, rules and program specific measurement and evaluation plans and associated funding. The decision authorized $6,565,834 annually for the AEI program as a whole, authorized SDG&E to continue to conduct the program until bids became effective, and authorized utilities to carry forward any associated unspent funds.

4. SDG&E's 1993 GRC decision, D.92-12-019, established performance adder and shared savings shareholder incentive mechanisms for application to SDG&E's DSM programs. The shared savings mechanism resembles the S-curve mechanism established for Edison in D.91-12-076. The 1993 GRC also continued the $9 million cap on shareholder incentives established in D.91-12-074.

5. The GRC decision also changed the discount rate used in avoided cost calculations from 11.60% to 9.94%. SDG&E was ordered to file new avoided cost calculations, along with all data necessary to utilize the S-curve, by February 4, 1993. The initial workpapers accompanying Advice Letter No. 860-E used the original discount rate of 11.60%. On January 19, 1993 SDG&E provided revised workpapers to this Advice Letter that were modified to reflect the 9.94% discount rate ordered in the GRC decision. The revised workpapers were filed to be consistent with the compliance filing ordered in the GRC decision, and replace the original work papers.

6. The refrigerator component of the AEI program provides customers incentives to purchase refrigerators that exceed federal minimum efficiency standards established by the Federal Department of Energy (DOE). SDG&E has filed this advice letter to change the program to reflect new minimum standards adopted by the DOE and effective on January 1, 1993.

NOTICE

This advice letter was noticed in accordance with Section III of General Order 96-A by publication in the Commission Calendar and service to the SDG&E advisory group and parties on SDG&E's advice filing mailing list.

PROTESTS

The Commission Advisory and Compliance Division has not received protests to this advice letter.

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. Among other things, the

Commission encourages DSM programs ". . . because the marketplace for energy efficiency in California--including regulatory influences--is obstructed from free operation, and the prices of demand-side alternatives to supply are not eliciting efficient market responses" (D.91-12-076, p. 155).

2. The Commission has authorized customer incentives on refrigerator programs for three reasons. First, cost-effective DSM measures provide a stream of benefits to ratepayers that exceeds costs associated with customer incentives, utility rewards, and other costs associated with the program. Second, customer incentives provide a "golden carrot" to appliance manufacturers. The idea behind the so-called golden carrot effect is that manufacturers will perceive the provision for customer incentives as both a product subsidy and government endorsement. The intended effect is market transformation, in which manufacturers increase research and development, production, and retail and wholesale promotion of efficient appliances. Finally, customer incentives invoking the golden carrot effect smooth the implementation of State and Federal minimum efficiency standards by preparing the market for these new standards.

3. The refrigerator component of the AEI program is designed so that customer incentives are larger for purchases of refrigerators that exceed minimum standards by wider margins. Because the DOE established higher standards that took effect on January 1, 1993, SDG&E has filed this advice letter seeking approval for a revised customer incentive structure based on the new efficiency standards. New customer incentive structures have been applied to SDG&E's refrigerator rebate program four times since the program's inception in 1990. This frequent revision of standards reflects the nature of these incentives: that they should continually challenge the market for efficient refrigerators, smooth the transition into higher standards, and be revised periodically given apparent transformations of this market. In this way, the program promotes dispersion of energy-efficient refrigerators, and provides a continuing incentive for manufacturers to develop yet more-efficient refrigerators.

4. The shared savings mechanism established in D.92-12-019 links SDG&E's earnings not only to actual (ex post estimates) program savings, but also to how well actual program accomplishments compare to forecast program accomplishments. This is because a Target Incentive is set for a certain authorized rate of return on costs given expected program accomplishments. If a utility changes program parameters in such a way as to capture increased energy savings without a significant increase in costs, actual program benefits will exceed forecast benefits and the utility can earn a higher rate of return on costs. Although the Commission wishes to encourage utilities under the S-curve mechanism to minimize the costs associated with distribution of energy-efficient technologies, it seeks to keep these earnings within reasonable bounds. The SDG&E S-curve mechanism accomplishes this by rewarding utilities for efficiently managed and successful programs, while at the same time establishing a reasonable expected rate of return for

the program at the program's inception. Under this mechanism, SDG&E is required to provide forecasts of program accomplishments for each year of the GRC.

5. In the case of this advice filing, the program savings potential is being changed by the DOE through implementation of its new efficiency standards, and SDG&E would like program goals to be updated to reflect this change. If SDG&E did not update its tables of program expectations, they would most likely experience an increase in shareholder incentives.

6. D.92-12-019 continues the $9 million cap on shareholder incentives established in D.91-12-074. Changes in program parameters suggested in this advice letter will not relax this ceiling because the $9 million represents a limit on total incentive earnings available to SDG&E.

7. Members of the SDG&E DSM advisory committee expressed support for the utilities proposal to offer the measures on a prescriptive basis as proposed in this advice letter.

FINDINGS

1. SDG&E filed Advice Letter No. 860-E to modify the refrigerator component of its AEI program to reflect new DOE efficiency standards.

2. This update of program parameters, which is necessary because of changing program conditions, is a routine procedure under the S-curve mechanism authorized for SDG&E in D.92-12-019.

3. The proposed changes in program parameters are reasonable, and should be approved.

4. Approval of this advice letter will not relax the $9 million ceiling on shareholder incentives.

5. Approval of the changes proposed in this advice letter will not result in any rate or charge beyond that currently authorized.

THEREFORE, IT IS ORDERED that:

1. The proposal of San Diego Gas and Electric Company to modify the refrigerator component of the appliance efficiency incentives program is approved.

2. There is no change to the earnings cap established in Decision 91-12-074.

4. Advice Letter No. 860-E shall be marked to show that it was approved by Commission Resolution E-3505.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on February 17, 1993. The following Commissioners approved it:

NEAL J. SHULMAN
Executive Director

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

COMMISSIONER P. GREGORY CONLON,
present but not participating.