E9

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3315
March 24, 1993

RESOLUTION

RESOLUTION E-3315. PACIFIC POWER AND LIGHT REQUESTS AUTHORITY TO MODIFY ITS RESIDENTIAL RETROFIT WEATHERIZATION PROGRAM KNOWN AS THE HOME COMFORT PROGRAM.

BY ADVICE LETTER NO. 251-E FILED ON DECEMBER 22, 1992.

SUMMARY

1. In this Advice Letter, Pacific Power and Light (PP&L) requests permission to modify the Home Comfort program by eliminating certain customer charges associated with home energy audits and with the distribution to audit recipients of a standard package of energy efficiency measures (EEMs) known as Instant Savings Measures.

2. This Resolution approves the request, with the condition that PP&L conduct an evaluation to assess the relationship between customer incentives and program participation and to identify the lowest effective levels of customer incentives.

BACKGROUND

1. PP&L's 1990 General Rate Case (GRC) decision (D.) 90-12-022 adopted a stipulation between the utility and the Division of Ratepayer Advocates (DRA) which addressed PP&L's Demand-Side Management (DSM) programs. The decision also adopted a DSM shareholder incentive mechanism which was proposed by PP&L in Advice Letter 228-E and incorporated by the decision into the utility's GRC application. The stipulation authorized PP&L to spend an average of $344,076 per year over its 3 year GRC cycle on the Home Comfort program.

2. On February 5, 1992, PP&L filed Advice Letter No. 240-E, which submitted tariff sheets associated with the Home Comfort program. Corrections to this advice letter were made and filed in Supplemental Advice Letter 240-E-A. The Commission approved this supplemental advice letter in Resolution E-3261.

3. On December 2, 1992 PP&L filed Application 92-12-006 for its Test Year 1994 GRC.

4. On December 22, 1992, PP&L filed Advice Letter No. 251-E requesting Commission authorization to eliminate certain customer service charges associated with the Residential Retrofit Weatherization program.

NOTICE

1. This advice letter was noticed by publication in the Commission calendar and was served on the parties on PP&L's advice filing mailing list, in accordance with Section III of General Order 96-A.

PROTESTS

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

DISCUSSION

1. The stipulation set forth the details of an agreement between PP&L and DRA which adopted three methods for treating DSM expenditures: (1) a shareholder incentive mechanism allowing rate base treatment of certain resource programs (Amortization-Related programs) (2) recovery of authorized expenditures plus 5% (Modified-Expensed) and (3) expensed programs. The Home Comfort program is both an Amortization-Related and Modified-Expensed program.

2. The Home Comfort program is intended to provide energy efficiency measures for the customer while acquiring cost effective demand side resources for PP&L. This program consists of home energy audits and distribution of a standard package of EEMs. PP&L calls the energy audits "home diagnoses" and the package of EEMs "instant savings measures."

3. To date the Home Comfort program has charged participants for program services as follows: Customers receiving home diagnoses have been charged $29.95. After the home diagnoses, participants have had the option to purchase the Instant Savings Measures for a rate of $40.00. If the customer opted to install through the program all savings measures recommended by the home diagnoses, PP&L would provide the Instant Savings Measures free of charge and waive the $29.95 home diagnoses fee. In the latter case, the utility financed the installed measure(s) and recovered costs and a shareholder incentive from the participant with Energy Service Charges (ESCs), which were collected over the expected useful life of the installed measure(s).

4. In this advice letter PP&L proposes to eliminate the home diagnoses fee and provide the Instant Savings Measures free of charge to households participating in a home diagnoses. In the advice letter and/or discussions the utility has indicated that it seeks the proposed changes in order to experiment with and change program design to capture more cost-effective energy savings opportunities.

5. Customer incentives are intended to stimulate customer involvement with DSM programs. In theory, there is a minimum level of value at which customer incentives will achieve the desired effect. Customer incentives may take the form of low interest rate loans, free products, and rebates. Ratepayer funding of customer incentives is reasonable if the associated program provides system-wide benefits greater than program costs, including the costs of these incentives. The Commission makes this determination through the Total Resource Cost test (TRC) and the Utility Cost test (UC).[1]

6. While the TRC/UC test can indicate if a proposed level of customer incentives is cost-effective, these tests do not provide the utility with the incentive to minimize the costs associated with highly-effective programs, which could result in greater than necessary customer incentives, and therefore, unreasonable subsidization of program participants by all ratepayers. To date the Commission has minimized excessive ratepayer subsidization of DSM programs by designing shareholder incentive mechanisms and levels of funding that reward utilities for minimizing costs and by overseeing program design.

7. The GRC authorized the current Home Comfort incentive mechanism when PP&L imputed on program participants the entire cost of the Instant Savings Measures and some portion of the Home Diagnoses cost. Because of this, the incentive mechanism and program funding allocations may not have been evaluated in light of the need to ensure minimization of ratepayer funding of participant customer incentives.

8. The authorized Home Comfort shareholder incentive/penalty mechanism is both Modified-Expensed and Amortization related. This mechanism allows PP&L to earn 5% on expenses with the promotion of DSM measures, which, if adopted, become "DSM assets" on which PP&L may recover measure costs and a profit from the participant in ESCs. Performance for this combination mechanism is measured in terms of DSM assets acquired and the number of homes audited.

9. The associated nonperformance penalty mechanism is two pronged to impact both components of the incentive mechanism. The modified-expensed aspect of the penalty mechanism allows the utility to claim modified-expense treatment on a portion of total expenses that is proportional to the achieved value of DSM assets. Remaining expenses are recovered on an expensed-only basis (ie. without the 5% adder). The amortization aspect of the penalty mechanism is based on meeting a discrete number of installations that result from the home diagnoses. Failure to do so results in a 50% reduction in the Rate of Return on

---

1 D.92-12-075, Adopted Rules, Terms and Definitions for Demand-Side Management Programs, as updated and presented as Attachment One in D.93-02-041.

program expenditures over this GRC cycle and on the earnings streams associated with the ESCs.

9. The expense minimization capability of PP&L's shareholder incentive/penalty mechanism is the cap on authorized expenses and the potential for PP&L to enjoy a larger modified-expense treatment of earnings by maintaining the target ratio of actual expenses to achieved DSM assets. These expense minimization components are less effective, however, if the program performs well and/or if the program budget is generous relative to the market for program services. In any case, the utility may have an incentive to perform a large number of audits at elevated ratepayer expense in order to meet minimum program requirements. While this approach would lower the ratio of DSM assets to program expense, it would not necessarily result in a decrease in shareholder earnings, and could increase these earnings.

10. In decisions for other California Investor Owned Utilities (IOUs) the Commission has authorized modified-expense type treatment for audit costs, allowed utilities to give away ratepayer-funded EEMs as a customer incentive for these audits, and allowed utilities to earn incentives on additional EEMs installed as a result of the audits. Recently, however, the Commission has authorized shared-savings incentive mechanisms for Southern California Edison, Pacific Gas & Electric, and San Diego Gas & Electric[2]. These three mechanisms are alike in that they provide the utility with stronger incentives to minimize program costs, including customer incentives. Early in 1993 the Commission will evaluate its policies regarding shareholder incentives as a part of its ongoing Order Instituting Investigation/Order Instituting Rulemaking (OII/OIR) 91-08-002/91-08-003.

11. The Commission welcomes PP&L's desire to pursue inexpensive DSM resources and acknowledges that the proposed program modifications are similar to treatments authorized for other IOUs operating in California. While we wish to provide utilities flexibility to respond to market conditions, we must at the same time ensure the reasonable use of ratepayer funds. In this instance the PP&L incentive/penalty mechanism is unable to independently insure cost-minimization under the proposed program modifications.

12. It is judicious, therefore, to allow the utility to experiment with program design as proposed and to add provisions to ensure that ratepayer funds are appropriately applied. CACD recommends that the Commission require PP&L to make available an evaluation of the program, modified as proposed and conducted for the remainder of 1993. The evaluation should assess the relationship between customer incentives and program participation and attempt to identify the lowest effective levels of customer incentives. PP&L should present a draft

---

2 See, respectively, D.91-12-076, D.92-12-057 and D.92-12-019.

evaluation design to the DRA and CACD within 40 days and be responsive to modifications suggested by these parties. This document should establish a clear statement of the evaluation's purpose, scope, methodology, and agenda. This evaluation should be considered a necessary component, concurrent with the authorization of the proposed modifications of the Home Comfort program. Any funding associated with this evaluation and in excess of currently authorized evaluation funds should come from authorized Home Comfort program funds. The utility should be allowed to recover these funds in an expensed capacity only, and these expenses should be omitted from the DSM assets/program expense ratio component of the utility's incentive/penalty mechanism.

13. Because the utility is currently in its Test Year 1994 GRC proceeding, which will include a comprehensive evaluation of PP&L's DSM programs, the modifications approved by this Resolution and associated provisions should be effective only through December 31, 1993.

FINDINGS

1. PP&L filed Advice Letter No. 251-E to seek Commission authorization for the elimination of certain participant charges associated with the Home Comfort program.

2. The Commission has authorized programs for other California IOU's that are similar to the Home Comfort program under the modifications requested by PP&L.

3. The requested changes increase ratepayer financing of participant incentives. Therefore, minimization of these customer incentives is an important consideration in authorization of the utility's request.

4. PP&L's shareholder incentive/penalty mechanism was not designed around this type of program as proposed to be by PP&L. The mechanism encourages some cost minimization, but should be supplemented in order to ensure full resource value for every ratepayer DSM dollar. Therefore, PP&L should undertake an evaluation aimed at determining the minimum effective level of customer incentives for this program.

THEREFORE, IT IS ORDERED that:

(1) Modifications proposed for the Home Comfort program by Pacific Power and Light Company in Advice Letter No. 251-E are approved.

(2) Pacific Power and Light Company shall conduct an evaluation of the Home Comfort Program as described in this Resolution.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on March 24 1993. The following Commissioners approved it:

NEAL J. SHULMAN
Executive Director

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