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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3326
June 23, 1993

R E S O L U T I O N

RESOLUTION E-3326. PACIFIC GAS & ELECTRIC COMPANY REQUESTS AUTHORIZATION TO REFUND UNSPENT DEMAND-SIDE MANAGEMENT AND RESEARCH, DEVELOPMENT AND DEMONSTRATION FUNDS, WITH INTEREST, FROM ITS 1990-1992 GENERAL RATE CASE CYCLE BY CREDITING THE ELECTRIC REVENUE ADJUSTMENT MECHANISM AND THE GAS FIXED COST ACCOUNTS.

BY ADVICE LETTER 1721-G/1410-E AND 1721-G-A/1410-E-A, FILED ON SEPTEMBER 21, 1992 AND MARCH 31, 1993.

SUMMARY

1. By Advice Letter 1721-G-A/1410-E-A, which superseded Advice Letter 1721-G/1410-E, Pacific Gas & Electric Company (PG&E) requests authorization to refund a total of \$45.101 million of unspent Demand-side Management (DSM) and Research, Development and Demonstration (RD&D) funds from its 1990-1992 General Rate Case (GRC) cycle. These amounts include encumbrances, interest as of January 1, 1993, and an allowance for franchise fees and uncollectible accounts expenses. The unspent DSM funds equal \$41.359 million and the unspent RD&D funds equal \$3.742 million. PG&E requests that the refund to ratepayers be made by crediting the Electric Revenue Adjustment Mechanism (ERAM) balancing account and the Core and Noncore Gas Fixed Cost Accounts (GFCA) by \$37.396 million and \$7.705 million, respectively.

2. This Resolution approves Advice Letter 1721-G-A/1410-E-A to refund \$45.101 million to ratepayers.

BACKGROUND

1. In the 1984 GRC decision (D.83-12-068), the Commission directed PG&E to carry forward Conservation, Load Management, Conservation Volt Reduction Program, and 12-21kV conversion funds with interest to the next attrition year. Interest was to be computed on one-half the 1984 end-of-year balance, including encumbered but unspent funds, at the annual average short-term 90-day commercial paper interest rate.

2. Any carryover of unexpended funds during the attrition year was to be accounted for in PG&E's next GRC, in a manner to be decided therein.
3. In Conclusion of Law 14 of D.86-12-095, the Commission stated, "All unspent funds for Demand-side Management Programs should be returned to the ratepayer on completion of this rate case cycle. Interest on the balance at the end of the year will be provided at the short-term paper rate." The specific DSM programs to which the one-way balancing account applies were not identified in the decision. The DSM programs which have been treated in this manner are the Conservation and Load Management programs, which are carried in separate accounts. Such programs as Load Building and Load Retention were not addressed in that rate case decision, nor in D.89-12-057 (the 1990 Test-Year GRC decision).
4. Ordering Paragraph 1 of D.87-07-021, modifying D.86-12-095, stated that PG&E "will, as described in this opinion, implement a one-way balancing account for Research, Development, and Demonstration funding."
5. On September 21, 1992, PG&E filed Advice Letter 1721-G/1410-E in accordance with D.86-12-095 requesting to refund unspent funds which had accrued in its DSM one-way balancing account for the period 1990 through 1992, with accumulated interest.
6. On March 31, 1993, PG&E filed Advice Letter 1721-G-A/1410-E-A which superseded Advice Letter 1721-G/1410-E and trued-up its request to refund DSM and RD&D unspent funds, in compliance with D.86-12-095 and D.87-07-021.

NOTICE

1. Advice Letters 1721-G/1410-E and 1721-G-A/1410-E-A were noticed by publication in the Commission calendar and were served to other utilities, government agencies, and to all interested parties who requested such notification, in accordance with the requirements of General Order 96-A.

PROTESTS

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

DISCUSSION

1. By definition, a balancing account provides a mechanism to track the difference between actual expenses associated with certain programs and revenues collected to cover those expenses over a certain time frame. Differences between revenues and expenses accumulate in the balancing account. If revenues are less than expenses, the account is said to be undercollected.

An undercollection occurs when the utility has overspent the amount it was authorized in rates. On the other hand, if revenues exceed expenses, the account is said to be overcollected. An overcollection occurs when the utility has underspent the amount it was authorized in rates.

2. At some point, rates are adjusted to collect or refund the balance in the balancing account. Ratepayers either receive a refund in the event of an overcollection or must pay more, through a rate increase, in the event of an undercollection. This is the way that a two-way balancing account functions.

3. However, these advice letters refer to a one-way balancing account for DSM and RD&D. This means that ratepayers receive a refund (with accrued interest) in the event of an overcollection, but PG&E is not allowed to finance an undercollection with ratepayer funds.

4. In D.86-12-095 and D.87-07-021, the Commission required PG&E to implement a one-way balancing account for DSM and RD&D, respectively, so that unexpended funds could be returned to ratepayers, with interest. In establishing the RD&D balancing account, the Commission specified the following provisions:

"The amount authorized in rates will be the ceiling. Funds unexpended at the end of each year will accrue interest at the short-term paper rate. Within a rate case cycle, funds not used in one year may be used in subsequent years. No later than 90 days after the end of each rate case cycle, PG&E will file an Advice Letter rate [sic] if a rate reduction is in order which will credit unexpended funds and interest accrued to its Electric Revenue Adjustment Mechanism (ERAM) account." (pp.4-5)

5. By D.89-12-057 in PG&E's 1990 GRC, the Commission authorized a level of funding for DSM and RD&D for Test Year 1990 and attrition years 1991 and 1992. The Commission authorized additional funding for 1991 and 1992 for DSM programs in D.90-08-068. Pursuant to D.87-07-021, PG&E established the RD&D balancing account and has provided the following information for 1990 through 1992:

RD&D Balancing Account (\$000)			
<u>YEAR</u>	<u>CPUC</u> <u>AUTHORIZED</u>	<u>ACTUAL</u> <u>EXPENSES</u>	<u>BALANCE</u>
1989 carryover ¹			(\$4,999)
1990	\$42,972	\$39,972	(3,000)
1991	46,726	49,794	3,068
1992	47,685	50,107	<u>2,422</u>
Total Over/(Under) Expenditures			(\$2,509)
Interest			(1,200)
FF&U ²			<u>(33)</u>
Revenue Requirement (Reduction)			(\$3,742)

6. PG&E submitted the following information for its DSM one-way balancing account, which consists of Conservation and Load Management sub-accounts. See Attachment 1 for a complete breakdown of funding and expenditures.

DSM Balancing Account (\$000)			
<u>YEAR</u>	<u>CPUC</u> <u>AUTHORIZED</u>	<u>ACTUAL</u> <u>EXPENSES</u>	<u>BALANCE</u>
1989 carryover			(\$16,882)
1990	\$130,232	\$124,556	(5,676)
1991	129,036	111,281	(17,755)
1992	120,913	118,433	(2,480)
Encumbered ³ Expenditures			<u>9,115</u>
Total Over/(Under) Expenditures			(\$33,678)
Interest			(7,319)
FF&U			<u>(362)</u>
Revenue Requirement (Reduction)			(\$41,359)

7. The Commission Advisory and Compliance Division (CACD) has reviewed the account balances submitted by PG&E, and is satisfied that the figures submitted by the company conform with

1 Authorized per Resolution E-3174

2 Franchise Fees and Uncollectibles: Electric @ .008650;
 Gas @ .009638

3 Encumbered expenditures are funds committed to be paid after 12/31/92.

the intent of the decisions. However, such an analysis is in no way a substitute for an audit. CACD believes that an audit of these balancing accounts is long overdue. CACD also recommends that the programs covered by the DSM one-way balancing account be specifically identified in the next relevant Commission decision.

8. PG&E files a DSM Annual Report and RD&D Annual Report on March 31 of each year. In addition, a DSM Technical Appendix is filed on April 15 of each year. It is important that these reports be as accurate and up-to-date as possible, in order to be useful. CACD recommends that the summary tables and relevant Technical Appendix tables be updated to reflect corrected authorized and recorded balances.

FINDINGS

1. Under the terms of the one-way balancing accounts adopted in D.86-12-095 and D.87-07-021, annual underexpenditures, or overcollections, to the annual authorized DSM and RD&D funding level are placed in an interest-bearing account. While undercollections may not be funded by additional ratepayer monies, underexpenditures accrued in the first years of the GRC cycle may be used in subsequent years to offset such undercollections.

2. PG&E proposes to refund \$41.359 million in DSM funds and \$3.742 million in RD&D funds. These amounts include interest through January 1, 1993, encumbrances, and franchise fees and uncollectibles.

3. PG&E should refund these amounts by crediting the ERAM balancing account and the GFCA balancing accounts by \$37.396 million and \$7.705 million, respectively. The total GFCA reduction of \$7.705 million should be divided between the Core and the Noncore GFCA's, using the methodology adopted in D.89-09-094 and the revenue requirement and throughput forecast adopted in D.92-10-051.

4. CACD recommends that an audit be performed on these balancing accounts. In addition, CACD recommends that the specific programs to which the DSM one-way balancing account applies be addressed in the next relevant Commission decision.

5. PG&E should update its DSM and RD&D Annual Reports, and the DSM Technical Appendix to reflect any updated figures adopted in this Resolution. This should be done on an on-going basis.

June 23, 1993

THEREFORE, IT IS ORDERED that:

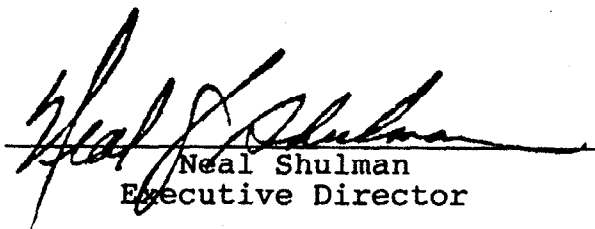
(1) Pacific Gas & Electric Company shall refund to ratepayers \$45.101 million of unspent Demand-side Management and Research Development and Demonstration funds. The Demand-side Management funds to be refunded equals \$41.359. The Research, Development and Demonstration amount to be refunded equals \$3.742 million. The Electric Revenue Adjustment Mechanism balancing account shall be credited by \$37.396 million. The Core and Noncore Gas Fixed Cost Accounts shall be credited by \$4.702 million and \$3.003 million, respectively.

(2) Pacific Gas & Electric Company shall update its Demand-side Management and Research, Development and Demonstration Annual Reports to reflect any updates adopted in this Resolution. This shall be done on an on-going basis.

(3) Advice Letter 1721-G-A/1410-E-A shall be marked to show that it was approved by Commission Resolution E-3326.

(4) This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 23, 1993. The following Commissioners approved it:


Neal Shulman
Executive Director

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