PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3334
January 19, 1994

RESOLUTION

RESOLUTION E-3334. SOUTHERN CALIFORNIA EDISON COMPANY REQUESTS RATE RECOVERY OF EARNED INCENTIVES FOR 1992 DEMAND-SIDE MANAGEMENT PROGRAMS.

BY ADVICE LETTER NO.s 995-E and 995-E-A, filed on March 31, 1993 and November 5, 1993.

SUMMARY

1. In this advice letter, Southern California Edison Company (Edison) requests rate recovery of $2.052 million in earned incentives for demand-side management (DSM) Shared Savings and Performance Adder programs for the year ending December 31, 1992.

2. This resolution authorizes Edison's request.

BACKGROUND

1. California Public Utilities Commission (Commission) decision (D.) 91-12-076 authorized Edison to earn shareholder incentives on specific DSM programs, and adopted shared savings and performance adder incentive mechanisms. That decision required Edison to submit its program goals and to calculate target shareholder earnings (based on those program goals) in an advice letter. D.91-12-076 required Edison to file its calculation of actual shareholder earnings or penalties on or before March 31 following the year in which the incentive payments are earned, by advice letter. The decision also ordered that shareholder payments or penalties be made by means of entries to the Electric Revenue Adjustment Mechanism (ERAM).

2. On April 10, 1992, Edison filed Advice Letter 934-E-A which set forth the forecast information required to calculate target incentives for the shared savings and performance adder programs for 1992. Advice letter 934-E-A was adopted by Commission Resolution E-3288 on September 16, 1992. Edison submitted Advice Letter 965-E on September 30, 1992 to correct minor mathematical errors. Tables A, B, C, and D from advice letter 965-E contained the corrected forecast data, and were adopted by the Commission on November 8, 1992. Under the ex ante measurement requirements in effect during 1992, this data serves as the underlying assumptions for calculation of both target and actual earnings.

3. Edison filed Advice Letter 995-E on March 31, 1993 to report actual program results for its shared savings and performance adder programs in 1992. Edison's initial calculation of shareholder earnings was $2.297 million. In that advice letter, Edison indicated that a verification audit was underway and that the claimed amount would be revised to reflect the results of the verification audit.

4. The verification audit was performed by Barakat & Chamberlin, Inc. (Barakat). The verification audit had three objectives, according to Edison. First, for each shared savings program, the verification audit was to statisically sample documentation supporting actual Total Resource Benefit (TRB), actual Participant Cost (PC), and actual Utility Incentive Costs (UIC), the key drivers in determining the level of shareholder earnings. Second, the audit was to verify Edison's engineering estimates of first-year energy savings, capacity reductions, and participant costs for customized measures. The final objective was to confirm or adjust the Incentive Basis (IB) calculation for shareholder earnings based on the results of the verification.

5. In Advice Letter 995-E-A, Edison reported that the recommendations contained in the verification report result in a downward adjustment in the earned incentives from the initial calculation of $2.297 million to $1.849 million. Edison agrees with the recommendations made by the verification report in all but four areas. Three of the four issues where Edison disagrees with the verification study adjustments relate to areas where Barakat found errors in the spreadsheets underlying the program forecast adopted with Advice Letter 965-E. The issues are individually discussed in more detail below.

6. The first issue Edison disagrees with is the recommendation that $3.394 million be excluded from the TRB of the Welcome Home program in both the forecast and actual incentive basis calculation. Barakat recommended its removal because there was "no apparent reason for this adder to the TRB for this program." (Barakat report p. J-2) Edison states that removing this amount from the TRB is inconsistent with the adopted program forecast.

7. The second recommendation Edison disagrees with is the adjustment of the summer on-peak capacity load curves for customized rebate measures within the Nonresidential New Construction program. Making this correction would change both the forecast and actual TRB calculations. Again, Edision argues that these adjustments are inconsistent with the adopted program forecast.

8. Third, the verification report calculated the incentive basis for the Direct Assistance Program using a different allocation of PC, UIC, and UAC from that adopted by the Commission. Edison reiterates its belief that it must employ the same methodology as was adopted with Advice Letter 965-E.

9. The final area where Edison disagrees with the verification report recommendations regards the appropriate estimate of customers residing outside of Edison's service territory who purchased bulbs under Edison's Compact Flourescent Bulb (CFB) program. Edison believes that the estimate should be derived using Edison's customer zip code data rather than the customer response data recommended by the verification report.

10. Adjusting the verification results in these four areas, the shareholder earnings would be adjusted to $2.119 million. This is comprised of $1.217 million for Shared Savings programs and $0.902 million for Performance Adder programs. The total of $2.119 million does not include earnings on any measures which were committed in 1992 but not paid for. Edison states that when such measures are paid and recorded, they will be included towards achieving the goals of the subsequent year and incorporated in earnings for that year based on the assumptions in advice letter 965-E.

11. According to Edison, the shareholder earnings amount of $2.119 million, should be further reduced by $0.044 million. This adjustment reflects the determination that Customer Technology Application Center (CTAC) expenditures should be treated as expense programs and not be subject to earnings. The reduction removes the impact of all CTAC expenditures from the incentive calculation for shared savings and performance adder programs. The adjustment reduces earnings to $2.075 million as indicated in Tables 3E and 3F to Advice Letter 995-E-A.

12. During 1992, the Commission authorized Edison to adjust its incentive target forecasts for the Nonresidential New Construction Program and Direct Assistance Program. For both programs, the earnings results were calculated under the original earnings forecast and each adopted forecast. The earnings were then prorated based on the number of days each forecast had been in effect as shown in Tables 3G and 3H to Advice Letter 995-E-A. The effect of this proration is to reduce earnings by $0.023 million to $2.052 million.

13. Edison filed Advice Letter 995-E on March 31, 1993 to report actual program results for its shared savings and performance adder programs in 1992. On November 5, 1993, Edison filed Advice Letter 995-E-A to report verifed program results for its shared savings and performance adder programs in 1992.

NOTICE

The original Advice Letter and Supplement were noticed in accordance with section III of General Order 96-A by publication in the Commission Calendar and distribution to Edison's advice filing service list.

PROTESTS

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

DISCUSSION

1. CACD has reviewed Edison's filing and Barakat's verification report and agrees with Edison's adjustments to the Barakat recommendations. Edison is correct that under ex ante measurement protocols, the methodology used in the forecast phase must also be used in calculating the earnings claim. This requirement supports Edison's first three adjustments to Barkat's findings. The fourth adjustment relates to the use of different methodologies for verifying the eligibility of customers for an Edison rebate. Barakat recommended a different methodology than Edison. CACD is not convinced that Barakat's methodology is superior to Edison's and therefore supports Edison's adjustment.

2. CACD supports Edison's reduction of the shareholder reward by $0.044 million to account for the treatment of CTAC expenditures.

3. CACD agrees with the proration of the earnings claim Edison has performed.

4. The combined effect of the proration, treatment of CTAC expenses, and Edison's recommended adjustments to the verification report is to arrive at earnings of $2.052 million. CACD recommends Edison be authorized to collect $2.052 million in rates.

FINDINGS

1. Edison filed Advice Letters 995-E and 995-E-A to request rate recovery of $2.052 million in shareholder earnings for DSM shared savings and performance adder programs for the year ending December 31, 1992, pursuant to D.91-12-076.

2. Edison's calculation of shareholder incentives is consistent with Commission guidelines for its 1992 programs.

3. The attachments to the advice filing not specifically referenced above are acknowledged.

THEREFORE, IT IS ORDERED that:

1. Southern California Edison Company is authorized to recover $2.052 million in rates through an adjustment to the Electric Revenue Adjustment Mechanism.

2. Advice Letter 995-E-A shall be marked to show that it was approved by Commission Resolution E-3334.

3. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities commission at its regular meeting on January 19, 1994. The following Commissioners approved it:

NEAL J. SHULMAN
Executive Director

DANIEL Wm. FESSLER
President
PATRICIA M. ECKERT
NORMAN D. SHUMWAY
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
Commissioners