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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY
AND COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3342
December 3, 1993

R E S O L U T I O N

RESOLUTION E-3342. SAN DIEGO GAS AND ELECTRIC COMPANY REQUEST FOR APPROVAL TO ESTABLISH A PILOT ENERGY EFFICIENT EQUIPMENT FINANCING RATE MECHANISM.

BY ADVICE LETTER NO. 890-E, filed on September 27, 1993

SUMMARY

1. In this advice letter, San Diego Gas and Electric Company (SDG&E) requests authority to establish a financing mechanism under which a customer's energy efficient equipment costs may be financed using existing authorized demand-side management (DSM) funds.

2. SDG&E requests certain tariff revisions and additions to allow it to offer the financing mechanism.

3. This resolution authorizes SDG&E to establish a financing mechanism on a pilot basis, with certain modifications, and approves SDG&E's requested tariff changes.

4. Utility Consumers' Action Network (UCAN) filed a timely protest to this Advice Letter. The Division of Ratepayer Advocates (DRA) filed a late protest. The aspect of UCAN's protest regarding the lack of a spending cap for this program is granted through establishment of a spending cap; all other aspects of UCAN's and DRA's protests are denied.

BACKGROUND

1. SDG&E is requesting approval to test a new approach to stimulate energy efficiency in its service territory. This approach, the energy efficient equipment financing mechanism, is proposed to work in conjunction with SDG&E's existing rebate programs. SDG&E will make funds available to finance up to 100% of a participating customer's up front costs for energy efficiency investments. The financed amount will be repaid through a rate surcharge applied to the participant's monthly energy consumption. SDG&E expects that the application of the financing mechanism will allow SDG&E to lower the rebate amounts paid to customers, increase rates of penetration and adoption, and reduce the cost of DSM programs for nonparticipating customers. SDG&E believes that this program will overcome many

of the market barriers associated with traditional rebate programs, allowing more customers to invest in energy efficiency.

2. As proposed, the financing mechanism is a pilot offering of unspecified duration. The financing mechanism will be funded by ratepayers, with an initial 1994 budget of $3.9 million (see Advice Letter 892-E/895-G). All financing related expenses will fall within the levels and funding flexibility guidelines adopted in SDG&E's 1993 General Rate Case (GRC), Decision (D.) 92-12-019. These funds will be used to finance investments in electric energy efficiency equipment with customer repayment through a rate surcharge which appears on regular utility billings. The surcharge will be based on the expected term, estimated annual consumption, and the amount financed by SDG&E, as agreed to by SDG&E and the participating customer in the proposed DSM Program Facility Financing Agreement.

3. In order to qualify for participation in this program, proposed energy efficiency investments must pass all applicable cost-effectiveness standards (i.e., the Total Resource Cost (TRC) test and Utility Cost (UC) test) and satisfy program guidelines associated with SDG&E's nonresidential DSM programs. Funds utilized for this program will be subject to the same reasonableness review as all other ratepayer financed DSM programs.

4. SDG&E would establish a new balancing account, referred to as the DSM Financing Rate (DSMFR) Balancing Account, to receive participating customer repayments under the DSM Program Facility Financing Agreement. The revenue booked to this account, plus accrued interest, will provide future funds for energy efficient financing and to offset uncollectible revenue. Defaults will be reflected in the DSMFR Balancing Account. SDG&E expects that default costs will be minimized through diligent credit review and enforcement tools, such as discontinuance of service for nonpayment. A limit on the amount of revenue retained in the balancing account is established at $10 million above the forecasted requirements for the coming year. If the balance exceeds $10 million plus the forecasted requirements, the excess will be returned to ratepayers in the following manner: a debit will be entered into the DSMFR Balancing Account and a credit entry will be made to the Electric Revenue Adjustment Mechanism (ERAM) balancing account for the same amount.

5. As designed, no direct shareholder earnings opportunities result from the addition of the financing mechanism to SDG&E's DSM offerings. In other words, the funds allocated to the financing mechanism do not earn shareholder incentives or a rate of return. Instead, the financing mechanism will allow SDG&E to reduce rebate levels and increase penetration in their current programs which provides SDG&E's shareholders an indirect

earnings opportunity.[1] SDG&E has submitted revised 1994 shareholder incentive targets in Advice Letter 892-E/895-G which incorporate the financing mechanism.

6. On September 27, 1993, SDG&E filed Advice Letter 890-E.

NOTICE

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

PROTESTS

1. The Commission Advisory and Compliance Division (CACD) received one timely filed protest from UCAN on October 13, 1993. SDG&E responded to UCAN's protest on October 21, 1993. In addition, CACD received a late filed protest from DRA on October 22, 1993 raising a similar issue to one of the issues raised by UCAN. SDG&E responded to DRA's protest on October 29, 1993.

2. The protestants raise two issues: 1) the desire for a cap on the funding available for the financing rate, and 2) the desire to see a contribution by SDG&E's shareholders towards the funding of this program. The protests and SDG&E's responses are discussed in more detail below.

DISCUSSION

1. SDG&E has presented the financing mechanism as a pilot of unspecified duration using existing funds (and therefore causing no rate increase) and not resulting in withdrawal of service. CACD believes that this request can be handled through the Advice Letter forum, but CACD cautions SDG&E, and all utilities interested in presenting new DSM programs to the Commission, to consider carefully the appropriateness of the Advice Letter forum for new programs. CACD recommends that SDG&E be allowed to operate the pilot, as modified below, for a two year period, from January 1, 1994 through December 31, 1995.

2. SDG&E states that its financing mechanism is designed to respond to barriers that have prevented traditional DSM programs from achieving more of the potential for customer investment in cost-effective energy efficiency and services. Through the DSMFR, SDG&E hopes to increase participation by customers who are currently reluctant to commit capital to install energy efficiency equipment. SDG&E expects greater penetration of

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1 Because of the cost minimization feature of SDG&E's current shareholder incentive mechanism, a reduction in rebate costs, all other things being equal, leads to a higher earnings level.

traditional rebate programs operated in conjunction with the financing mechanism. Because the DSMFR is proposed on a pilot basis, many of the program details we would expect in a permanent program proposal are not found in this filing. CACD is willing to overlook these deficiencies on a pilot basis but expects more detail upon any request to move beyond a pilot program. In general, however, CACD believes that the DSMFR, on a pilot basis, provides a new delivery mechanism for energy efficiency which should be explored, and therefore recommends authorization of the the DSMFR pilot as modified below.

3. SDG&E has requested authority to fund the DSMFR from existing funding within the levels authorized by D.92-12-019. Currently, SDG&E has budgeted $3.9 million to the financing mechanism for 1994, but spending flexibility guidelines would allow SDG&E to shift additional funds into the DSMFR if desired. As proposed, SDG&E did not establish a spending cap for funds utilized by the financing mechanism. UCAN has protested the lack of an expenditure ceiling on the pilot. In its October 21, 1993 response to UCAN's protest, SDG&E stated it would be willing to agree to establishment of $10 million as the 1994 cap with the ability to revise the cap in subsequent years. CACD believes that the $10 million cap, in conjunction with other modifications described below, provide a reasonable level of flexibility to SDG&E while reducing the risk to ratepayers.

4. In addition to establishing a limit on the level of spending for this pilot, CACD recommends ratepayer expenditures for the DSMFR pilot be subject to Commission review of reasonableness. A Commission finding of imprudence, a violation of program conditions or guidelines, or other misuse of ratepayer funds in the the DSMFR pilot could lead to discontinuance of the program, disallowance, and/or penalty. CACD fully expects that SDG&E will make its best effort to minimize the use of ratepayer funds for this pilot while maximizing ratepayer benefits.

5. Both DRA and UCAN have expressed their objection to the fact that the proposed program is fully financed by ratepayers. UCAN views this pilot as a test run that, if lucrative, SDG&E will agree to fund (in the future) with shareholder dollars, but if disappointing, will be paid for by the ratepayers. UCAN does not object to the experiment per se, but believes approval should be conditioned upon the Commission's right to order, SDG&E's shareholders, ex post, to contribute to the cost of the pilot. DRA has simply stated that it would prefer to see a shareholder contribution similar to that adopted for Edison's ENvestSCE program (adopted in Commission Resolution E-3337). DRA believes that shareholder support of the pilot will demonstrate SDG&E's willingness to take on the added risk from the incremental investment the advice letter represents.

6. As stated above, CACD is generally supportive of SDG&E's requests in this filing. However, under this pilot as proposed, all funds lent to DSMFR participants are ratepayer funds. If the loans are not repaid to SDG&E, ratepayers bear all of the

risk of losses and defaults. CACD is concerned that ratepayers may be assuming more risk than is desirable under this pilot. DRA has proposed that SDG&E modify its proposal to include direct shareholder funding as a way to mitigate the risk associated with the DSMFR. UCAN has also expressed its concern that ratepayers are fully financing the DSMFR. As SDG&E discusses in its response to the protests, unlike Southern California Edison Company's (Edison) ENvestSCE pilot, the funds associated with SDG&E's DSMFR do not provide shareholders the opportunity to earn the company's authorized rate of return. Instead, SDG&E's opportunity to increase shareholder earnings arises from increased efficiency in the operation of the rebate programs. As structured, CACD believes that shareholders may receive a small earnings opportunity from engaging in the DSMFR pilot[2], but not one which would justify the amount of risk proposed by DRA. If SDG&E had proposed a pilot which utilized ratepayer funds but allowed the shareholders to earn a rate of return on those funds, or a very large shareholder reward, CACD would have likely have found DRA and UCAN's requests for direct shareholder funding more persuasive. However, given the limited earning potential associated with the pilot, CACD does not believe that SDG&E shareholders should be required to provide direct financing for the DSMFR pilot.

7. CACD does believe it is appropriate to limit ratepayer exposure for losses and defaults associated with the pilot. Risk can be mitigated in different manners. CACD believes that the best way to mitigate risk to the ratepayers, while maintaining the integrity of the pilot proposed by SDG&E, is to institute a cap on ratepayer losses under the pilot. CACD proposes that ratepayer losses for this pilot be limited to $1 million per year. Losses beyond $1 million should be borne by the shareholders.[3] A cap on ratepayer losses mitigates CACD's concerns for several reasons: 1) SDG&E's shareholders will be risk for losses associated with financing rate expenditures beyond $1 million per program year, thus encouraging SDG&E to

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2 Advice Letter 892-E/895-G sets forth SDG&E's program goals for 1994 with and without adoption of the financing mechanism. If the financing mechanism is adopted, then, under these targets, if SDG&E achieves 100% of its program goals, it would earn $138,281 more in shareholder earnings than if no financing mechanism was in place. Likewise, if the financing mechanism is adopted and SDG&E achieves 150% of its goals, it would earn $295,708 more than if the financing mechanism is not adopted. Under the scenario in which the financing mechanism is adopted, the program goals are set higher than under the scenario without the financing mechanism.

3 CACD recommends, in other words, that if SDG&E spends $5 million on the DSMFR in 1994 and defaults associated with those loans are $2.5 million, shareholders should be responsible for $1.5 million with ratepayers bearing the loss of $1 million associated with that year of funding.

make prudent decisions to manage that risk; 2) the Financing Agreement between SDG&E and the customer provides more remedies than rebate programs alone in the event of a customer default; and 3) ratepayer funds will be subject to reasonableness review. These factors mitigate the risk to ratepayers and justify their funding of the the DSMFR pilot. In addition, this pilot will allow the Commission to explore a new delivery mechanism for utility DSM programs.

8. CACD recommends approval of SDG&E's proposed addition of the DSMFR Balancing Account, as described in the Advice Letter, to its Preliminary Statement in the tariffs. The Balancing Account should be reviewed annually and excess revenues transferred[4] to the ERAM Balancing Account for return to ratepayers.

9. SDG&E has requested approval of the addition of Section D to Tariff Rule No. 9: Rendering and Payment of Bills to establish the Per kWh Charge associated with repayment of the financed amount. In addition Tariff Rule No. 11: Discontinuance of Service, would be revised. CACD recommends approval of the requested tariff modifications.

10. SDG&E has requested that the DSM Program Facility Financing Agreement, Form 132-6262, be accepted as a form contract to be used by program participants. This agreement establishes the Per kWh Charge, interest rate, credit requirements, assignment provision, etc. CACD recommends approval of the new form contract.

FINDINGS

1. SDG&E filed Advice Letter 890-E on September 27, 1993 to request Commission authorization to establish a financing mechanism under which a customer's energy efficient equipment costs may be financed utilizing existing authorized DSM funds.

2. SDG&E's proposed use of currently authorized DSM funds is intended to improve the utility's ability to capture demand-side resources in its service territory.

3. This request can be addressed through a Commission Resolution because of its pilot nature.

4. Due to the unique nature of this pilot, all ratepayer funds used for the DSMFR pilot activities shall be subject to

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4 Since SDG&E will recover expenditures associated with DSMFR from participating customers over a period of time greater than one year, losses and defaults associated with this pilot must be carefully tracked. SDG&E's balancing account should provide a mechanism for tracking these losses.

Commission review of reasonableness. A Commission finding of imprudence, a violation of program conditions or guidelines, or other misuse of ratepayer funds in the the DSMFR pilot could lead to discontinuance of the pilot, disallowance, and/or penalty.

5. Thorough analysis and evaluation of the use of ratepayer funds is essential before moving beyond a pilot of the DSMFR.

THEREFORE, IT IS ORDERED that:

1. San Diego Gas and Electric Company is authorized to establish and operate a pilot demand-side management financing mechanism from January 1, 1994 through December 31, 1995 as described in Advice Letter 890-E, its Attachments, and modified herein.

2. San Diego Gas and Electric Company is authorized to fund the financing rate pilot from existing funds within existing fund shifting guidelines up to a $10 million expenditure limit in 1994. If San Diego Gas and Electric Company wishes to modify the expenditure limit in 1994, the company should file an advice letter making such request.

3. The $1 million (per program year) limit on ratepayer exposure for losses and defaults associated with the demand-side management financing rate pilot is adopted, and San Diego Gas and Electric Company must track such losses in the Demand-Side Management Financing Rate Balancing Account, as recommended by the Commission Advisory and Compliance Division.

4. San Diego Gas and Electric Company shall file a supplemental Advice Letter within fifteen days consistent with this Resolution if it wishes to proceed with the pilot as modified herein. That Advice Letter and the accompanying tariff sheets shall be marked to show that they were approved by Commission Resolution E-3342, and shall be effective upon filing.

5. The protest of the Division of Ratepayer Advocates is denied in full. Utility Consumer Action Network's protest regarding the need for San Diego Gas and Electric Company to establish a spending cap for this pilot is granted, but all other aspects of its protest are denied.

6. This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities commission at its regular meeting on December 3, 1993. The following Commissioners approved it:

Neal J. Shulman

NEAL J. SHULMAN
Executive Director

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

Commissioner Norman D. Shumway being necessarily absent, did not participate.