

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION E-3455
June 6, 1996

R E S O L U T I O N

RESOLUTION E-3455. PACIFIC GAS AND ELECTRIC COMPANY REQUESTS COMMISSION AUTHORIZATION TO REORGANIZE AND REDIRECT FUNDING WITHIN ITS 1996 THROUGH 1998 RESEARCH, DEVELOPMENT, AND DEMONSTRATION PROGRAM.

BY ADVICE LETTER 1565-E FILED ON FEBRUARY 27, 1996 AND ADVICE LETTER 1565-E-A, FILED ON MAY 14, 1996.

SUMMARY

1. By Advice Letters 1565-E and 1565-E-A, Pacific Gas and Electric Company (PG&E) requests Commission authorization to restructure its Research, Development, and Demonstration (RD&D) portfolio, and to shift funds within its 1996-1998 RD&D budget. Specifically, PG&E requests Commission authorization to reorganize RD&D projects into new program areas to clarify the alignment of its RD&D activities with its current corporate objectives and strategies. PG&E also requests a \$7.8 million funding increase in its Planning and Business Services program area to reinstate limited membership contributions to the Electric Power Research Institute (EPRI) and to comply with Commission orders requiring PG&E to fund the California Institute for Energy Efficiency (CIEE). The total \$7.8 million increase will be offset by specified funding decreases in other program areas.
2. No protests were filed.
3. This Resolution approves Advice Letter 1565-E as supplemented by Advice Letter 1565-E-A.

BACKGROUND

1. In Decision (D.) 92-12-057, the Commission established the following RD&D fund shifting guidelines for PG&E:

PG&E is authorized to shift RD&D program funding by 20% without further Commission [authority], 20% to 50% if the Commission grants an advice letter request, and above 50% if the Commission grants a request by application.

2. The fund shifting guidelines were established to prevent the

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utilities from spending substantial portions of their GRC-authorized RD&D funds on RD&D which had not received appropriate review by the Commission.

3. In Resolution E-3405 dated January 24, 1995, the Commission clarified that PG&E must seek Commission approval, by advice letter, to merge, delete or add program areas to its existing RD&D portfolio.

4. In D.95-12-055, the Commission authorized RD&D funds totalling \$111.3 million (in 1993 dollars) for PG&E's 1996-1998 General Rate Case (GRC) cycle. This total amount was comprised of PG&E's program area requests of: \$20.8 million for Generation and Storage (G&S), \$27.3 million for Energy Delivery and Control (ED&C), \$20.7 million for Customer Systems (CS), \$18.6 million for Environment, Health & Safety (EH&S), and \$24 million for Planning and Business Services (P&BS).

5. PG&E's P&BS program area request did not include funding for EPRI or CIEE because PG&E had decided to discontinue membership contributions as part of its overall cost-saving efforts. Although the Commission adopted PG&E's proposal not to fund EPRI, it directed PG&E to fund CIEE at an annual level of \$1 million. The Commission did not grant PG&E any additional funding to do so.

6. By Advice Letters 1565-E and 1565-E-A, PG&E requests Commission authorization to restructure its RD&D portfolio to reorganize projects into new program areas to clarify the alignment of its RD&D activities with its current corporate objectives and strategies. PG&E also requests Commission authorization to increase funding in its P&BS program area by \$7.8 million to enable it to reinstate limited membership contributions to EPRI and to fund the Commission-ordered CIEE membership contribution. The \$7.8 million increase will be offset by specified funding decreases in its other program areas.

NOTICE

1. Advice Letters 1565-E and 1565-E-A were served on other utilities and 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 were received by the Commission Advisory and Compliance Division (CACD).

DISCUSSION

1. In D.95-12-055, the Commission established an overall 1996-1998 authorization for RD&D comprised of PG&E's requested program area breakdowns. Pursuant to Resolution E-3405, PG&E must

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request Commission approval to merge, delete, or add program areas to its authorized RD&D portfolio.

2. In Advice Letter 1565-E-A, PG&E requests Commission authorization to establish four new program areas by reallocating the 1996-1998 authorized funding (in thousands of 1993 dollars) from the five former GRC program areas as follows:

<u>New Program Areas</u>	<u>Former GRC Authorized Program Areas</u>					<u>Total</u>
	<u>G&S</u>	<u>ED&C</u>	<u>CS</u>	<u>EH&S</u>	<u>P&BS</u>	
Cost Reduction Projects	11,262	10,674	0	18,582	0	40,515
Grid and Merchant Systems	9,348	16,623	0	0	2,400	28,374
Customer Systems	150	0	20,679	0	0	20,829
Planning and Business Services	0	0	0	0	21,600	21,600
Total	20,760	27,297	20,679	18,582	24,000	111,318

3. At the time Resolution E-3405 was issued, the Commission was concerned that the creation of an unusually large program area might undermine the Commission's fund shifting approval process because a much larger shift in program area funds would have to occur before triggering Commission review.

4. Today, the Commission is in the midst of major changes in the manner by which it regulates electric and gas utilities, with performance-based ratemaking (PBR) and electric industry restructuring being two very significant changes in progress. In these related proceedings, certain utilities have requested that the Commission eliminate some of its oversight and reporting requirements related to RD&D. One such suggestion was to remove the fund shifting limitation rules.

5. Although the Commission has not yet relaxed specific requirements related to RD&D, it has begun the process of replacing traditional cost-of-service regulation with PBR regulation. Under PBR, the long and complex GRC process to determine rates is instead replaced by a formula that reflects inflation, the efficiency of the utility in producing and providing service, and other factors affecting utility costs. PBR reduces regulatory interference with utility management decisions and allows utilities more flexibility in their day-to-day operations.

6. CACD recommends that the level review of the utilities' RD&D programs receive should respond to and be consistent with the Commission's new and emerging PBR regulation. CACD recommends that the Commission adopt PG&E's request to establish its four new RD&D program areas even though one of the newly created program areas would be particularly large and would require a

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much larger shift in program area funds before triggering Commission review.

7. In Advice Letter 1565-E, PG&E submits the new program area allocations (in 1996 dollars) for its 1996-1998 GRC cycle along with its revised program area funding levels resulting from its planned redirection of funds to reflect an increase in research membership contributions. Commission approval is required because PG&E is requesting an approximate 30 percent increase in one of its authorized program areas. PG&E requests the following program area funding changes:

Program Area	1996-1998 Authorized	1996-1998 Planned	Difference	% Change
	(1996 \$ million)			
Cost Reduction Projects	42.3	39.3	(3)	(7)
Customer Systems	21.3	20.7	(0.6)	(3)
Grid & Merchant Systems	29.4	26.4	(3)	(10)
Planning and Business Services	22.2	28.8	6.6	30
Total	115.2	115.2	0	0

8. PG&E did not request authorization in its 1996-1998 GRC for membership contributions to EPRI or CIEE but now plans to re-join and fund both organizations in a limited manner. Under EPRI's limited membership option, PG&E will participate in the core Strategic Planning Business Unit and the Commercial Technologies & Service Business Unit for a total of \$4.8 million over the GRC cycle. PG&E will fund CIEE at an annual level of \$1 million per year for a total of \$3 million consistent with Commission directives given in D.95-12-055.

9. Although PG&E did not request authorization in its 1996 GRC for membership contributions to EPRI or CIEE, it states that its decision did not reflect any conclusions regarding the value or benefit of participation in these organizations but rather was related to PG&E's need to cut costs to support its 1995 rate freeze. PG&E believes that its proposed limited funding of EPRI for the remainder of the GRC cycle would benefit its ratepayers.

10. CACD believes the positive value of EPRI membership has been justified to the Commission in the past and PG&E should not be precluded from rejoining EPRI. CACD also recommends that PG&E's request to fund CIEE be granted as the request is in compliance with Commission directives. The only question is whether the research activities PG&E proposes to eliminate to fund these memberships would have greater ratepayer benefits.

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11. PG&E's \$3 million reduction to the Cost Reductions Projects program area is due to its discovery that it can achieve its original goals for a couple of Geysers research projects at less cost with co-funding from other research organizations, and can perform less in-house Electromagnetic Fields (EMF) research than originally anticipated because research in this area is being highly leveraged. PG&E's \$600,000 reduction in the Customer Systems program area is requested because EPRI will be funding these projects. PG&E will reduce funding by \$3 million in the Grid and Merchant Systems program area as a result of a planned decrease in its level of activity in its Substation Applications research project, and will not initiate other activities in its Grid Support for Photovoltaic Development project because it will complete transfer of the PVUSA project to the California Energy Commission. PG&E's \$1.2 million reduction to the Planning and Business Services Program area is the result of increased efficiency and cost reduction in administrative functions.

12. CACD believes PG&E has provided good reasons for its proposed program area reductions and the reductions can be made without losing any ratepayer benefits. Accordingly, CACD recommends that the Commission adopt PG&E's revised program area funding levels. The revised levels are needed to establish a benchmark for evaluating the necessity of advice letter filings or applications for future program area funding shifts.

FINDINGS

1. By Advice Letter 1565-E-A, PG&E requests Commission authorization to reorganize projects from the five former program areas described in PG&E's 1996-1998 GRC into four new program areas to clarify the alignment of its RD&D activities with its current corporate objectives and strategies.

2. PG&E's proposed reorganization should be adopted even though one of the newly created program areas would be particularly large and would require a much larger shift in program area funds before triggering Commission review.

3. This is acceptable because the level of review the utilities' RD&D programs receive should respond to and be consistent with the level of review emerging under the Commission's new PBR regulation.

4. By Advice Letter 1565-E, PG&E requests Commission authorization to increase funding in its P&BS program area by \$7.8 million to enable it to reinstate limited membership contributions to EPRI and to fund the Commission-ordered CIEE membership contribution. PG&E proposes to offset the \$7.8 million increase by specified funding decreases in its other program areas.

5. The positive value of EPRI membership has been justified to the Commission in the past and PG&E should not be precluded from rejoining EPRI.

6. PG&E's request to fund CIEE should be granted as the request is in compliance with Commission directives.

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7. PG&E has provided good reasons for its proposed program area reductions and the reductions can be made without loss of ratepayer benefits.

8. PG&E's revised program area funding levels (in 1996 dollars) should be adopted as follows: \$39.3 million for Cost Reduction Projects, \$20.7 million for Customer Systems, \$26.4 million for Grid & Merchant Systems, and \$28.8 million for Planning and Business Services.

9. Program area levels are needed to establish a benchmark for evaluating the necessity of advice letter filings or applications for future program area funding shifts.

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THEREFORE, IT IS ORDERED that:


1. Pacific Gas and Electric Company is authorized to reorganize and redirect funding within its 1996-1998 Research, Development and Demonstration program as requested in Advice Letters 1565-E and 1565-E-A.

2. Pacific Gas and Electric Company's revised program area funding levels should be adopted as follows in order to establish a benchmark for calculating future program area funding shifts:

Cost Reduction Projects	\$39.3 million
Customer Systems	\$20.7 million
Grid & Merchant Systems	\$26.4 million
Planning and Business Services	\$28.8 million

3. Advice Letter 1565-E, as supplemented by 1565-E-A, shall be marked to show that it was approved by Commission Resolution E-3455.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on June 6, 1996. The following Commissioners approved it:



WESLEY FRANKLIN
Executive Director

P. GREGORY CONLON
President

JESSIE J. KNIGHT, Jr.

HENRY M. DUQUE

JOSIAH L. NEEPER
Commissioners

Commissioner Daniel Wm. Fessler,
being necessarily absent,
did not participate.