PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

COMMISSION ADVISORY AND
COMPLIANCE DIVISION
Energy Branch

RESOLUTION G-3171
September 7, 1995

R E S O L U T I O N

RESOLUTION G-3171. REQUEST OF SOUTHERN CALIFORNIA GAS COMPANY (SOCALGAS) FOR APPROVAL TO DEVIATE FROM THE PROVISIONS OF RULE 38 - COMMERCIAL/INDUSTRIAL EQUIPMENT INCENTIVE PROGRAM AND THE RELATED REQUIRED INCENTIVE AGREEMENT.

BY ADVICE LETTER 2426-G, FILED ON JUNE 12, 1995.

SUMMARY

1. Southern California Gas Company (SoCalGas) seeks approval to deviate from Rule 38 - Commercial/Industrial Equipment Incentive Program (Incentive Program) and the required standard contract, Equipment Incentive/Feasibility Study Program Agreement - Shareholder Funded (Incentive Agreement) or Form No. 6700 6/94. SoCalGas' Incentive Program provides monetary incentives to customers for the cost of feasibility studies and/or purchase of state-of-the-art gas technology that they would not otherwise buy if not for the incentive. The program is available to both new and existing small and large nonresidential core and noncore customers in SoCalGas' service territory.

SoCalGas proposes to deviate from Rule 38 and the related standard agreement to enable SoCalGas to fund an equipment incentive request from the County of Los Angeles (County) for its Ranchos Los Amigos Medical Center (Medical Center). The County requests $400,822, which is $325,822 more than the maximum incentive amount of $75,000 allowed under the provisions of Rule 38. Additionally, SoCalGas requests a deviation from the usual payback period of 18 months, to more than seven years, to recoup the incentive award. The Incentive Program is shareholder funded because the Commission denied SoCalGas' ratepayer funding request in its last General Rate Case (GRC) but did encourage shareholder funding of such programs (D.93-12-043, dated December 17, 1993 at page 135).

2. No protests to Advice Letter 2397-G were received.

3. This Resolution approves SoCalGas' request because it is reasonable given the size of the project and its duration.

BACKGROUND

1. On June 20, 1994 SoCalGas requested approval of its Incentive Program and the associated Incentive Agreement by Advice Letter 2316-G. The advice letter became effective August 1, 1994 by regular notice under the provisions of General Order (GO) 96-A Section V-A. The program provides monetary incentives to existing and new nonresidential core and noncore customers, on a first come, first served basis, to promote high-efficiency gas equipment use in various commercial and industrial applications throughout SoCalGas' service territory. The Incentive Program and Incentive Agreement contains the following significant provisions:

> For qualified noncore customers, SoCalGas will co-fund feasibility studies up to 50% of the study cost,to a maximum of $15,000 per study.
> For equipment purchases SoCalGas will co-fund up to 25% of the installed equipment cost, to a maximum of $75,000 per project.
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> For qualified core customers, SoCalGas will co-fund feasibility studies up to 50% of the study cost, to a maximum of $20,000 per study.
> For equipment purchases it will co-fund up to 50% of the installed equipment cost, to a maximum of $100,000 per project or $300 per ton for high-efficiency gas cooling equipment.

Qualifying customers may apply for and receive a shareholder funded equipment incentive per building per year.

2. In 1994 SoCalGas earmarked about $1.2 million in shareholder funds including administrative costs for the program. Of this amount, $1.1 million was allocated to nonresidential core customers and the remainder to noncore customers. For 1995 SoCalGas budgeted $1.3 million for core and $300,000 for noncore. SoCalGas states that the program's budget can be increased or decreased based on SoCalGas' continuing reassessment of its success.

3. In addition, SoCalGas states that shareholder funded incentives will be provided only when they are to ensure that the project will proceed. The customer must demonstrate that the incentive will: (1) mitigate the project's higher than acceptable risk (2) assure that the project will use high-efficiency gas technology, and/or (3) overcome some customers' reluctance to build in SoCalGas' service territory. This information is provided when a SoCalGas representative completes an application for the customer to be reviewed and approved by SoCalGas' "Approval Team." The final evaluation may be whether the shareholder funded incentive will provide the customer with an acceptable payback period.

4. The customer's payback period is determined based on the difference between the purchase and installation costs for the gas technology equipment and the alternative equipment divided

by the difference between the annual operating and maintenance (O&M) costs for the gas technology and that of the alternative equipment. This calculation is different from the payback period required by SoCalGas for the recovery of its incentive amount.

5. SoCalGas payback period is described in the Incentive Agreement which states that noncore customer participating in the equipment incentive program shall repay to SoCalGas the incentive amount through incremental transmission revenue over an 18 month period or no later than 24 months after the commencement date. This is the date the equipment is installed and has produced one hour of continuous operation. For this purpose, SoCalGas establishes "A Minimum Therm Requirement" for the payback period and this is stated in the Incentive Agreement. The payback period may be extended by a mutual agreement between the customer and SoCalGas.

6. There are other provisions in the Incentive Agreement to ensure that SoCalGas will recover its incentive amount from the customer within a reasonable time period. SoCalGas, however, proposes to deviate from two of the provisions.

7. On June 12, 1995 SoCalGas filed Advice Letter 2426-G, requesting approval of the incentive request of $400,822 from the County and the terms and conditions of the Incentive Agreement with the County dated May 25, 1995. SoCalGas seeks a deviation from the maximum incentive amount of $75,000 allowed under Rule 38 and the maximum payback period of 24 months to recoup the amount under the Incentive Agreement. The Incentive Agreement calls for 86 months to recoup the $400,822.

8. SoCalGas requests these deviations because of the following reasons. SoCalGas states that the $4.2 million Medical Center expansion project is eight times more costly than the typical noncore project costs of $500,000 that SoCalGas used for establishing the provisions in Rule 38. SoCalGas states that it believed at that time that the maximum equipment incentive award of $75,000 would be enough to lower a customer's payback period, encourage the installation of high efficiency gas equipment and for the incentive amount to be repaid within 24 months or less. However, according to SoCalGas, this expansion project is the single largest installation of high efficiency gas absorption chillers in its service territory since 1991 and it has taken almost four years to complete.

NOTICE

1. Public notice of this filing has been made by publication in the Commission's calendar and by mailing copies of the advice letter to interested parties specified by General Order 96-A.

PROTESTS

1. Commission Advisory and Compliance Division (CACD) has received no protests to Advice Letter 2426-G.

DISCUSSION

1. CACD has reviewed Rule 38 and the required Incentive Agreement, Gas versus Electric Payback Analysis and Incentive Request Payback Analysis in order to determine the reasonableness of SoCalGas' request.

2. CACD notes that this project is bigger in magnitude and longer in duration than originally envisioned by SoCalGas for its program. The cost of the project and the maximum incentive amount requested are beyond SoCalGas' original estimates. However, if SoCalGas is allowed to fund the incentive award, the project will promote high-efficiency gas equipment use in SoCalGas' service territory. This will accomplish one of the program's major objectives.

3. SoCalGas also claims that one of its program's objectives is that "the Incentive Program will give participants a broader range of equipment options than SoCalGas and other utilities currently offer" and that this will benefit manufacturers. However, a big incentive award to one large customer may not make the program available to others and may limit the number of prospective participants.

4. One could argue that the requested incentive by the County for its Medical Center is $325,822 in excess of the maximum amount allowed and this excess if approved precludes other participants. Also, the excess is greater than the budgeted amount for all noncore customers for 1995 by $25,822. In addition, the payback periods for both the customer equipment (almost seven years) and the incentive award appear longer than what is generally acceptable. These are reasonable arguments.

5. However, SoCalGas states that it is willing to increase its budget if the program proves successful to increase the number of participants. Also, it appears that the customer has not complained to SoCalGas about a longer payback period for the equipment. In addition, SoCalGas is willing to accept a much longer payback period than 24 months for the recovery of the requested award, which is funded by shareholders. CACD recognizes that funding is at SoCalGas' discretion.

6. SoCalGas' reasons for seeking the deviations are reasonable and as a result, CACD recommends that its requests be approved.

FINDINGS

1. On September 7, 1994 the Commission approved SoCalGas' Incentive Program governed by Rule 38 and its related Incentive Agreement effective August 1, 1994 filed by Advice Letter 2316-G, dated June 20, 1994.

2. SoCalGas filed Advice Letter 2426-G on June 12, 1995, requesting a deviation from Rule 38 and the Incentive Agreement.

3. The proposed deviations will enable SoCalGas to fund an equipment incentive request of $400,822 from the County for its Medical Center.

4. The requested incentive amount from the County is $325,822 greater than the maximum incentive amount of $75,000 allowed by SoCalGas.

5. SoCalGas is willing to recover its incentive award of $400,822 in 86 months instead of the maximum two years required.

6. These requests of SoCalGas will not increase rate or charge, cause the withdrawal of service nor conflict with any schedule or rule.

7. SoCalGas' request to deviate from Rule 38 and the related Incentive Agreement is reasonable.

THEREFORE, IT IS ORDERED that:

1. Southern California Gas Company's request to deviate from Rule 38, Commercial/Industrial Equipment Incentive Program and Equipment Incentive/Feasibility Study Program Agreement - Shareholder Funded (From 6700 6/94) is authorized.

2. Southern California Gas Company shall revise its list of Contracts and Deviations to include the deviations ordered above and shall file such revised tariff sheets with the Commission within 20 days of the effective date of this Resolution.

3. This resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on September 7, 1995. The following Commissioners approved it:

Wesley Franklin

WESLEY M. FRANKLIN
Acting Executive Director

DANIEL Wm. FESSLER
President
P. GREGORY CONLON
JESSIE J. KNIGHT, Jr.
HENRY M. DUQUE
Commissioners