

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

RESOLUTION G-3441

DATE: February 25, 2010

R E S O L U T I O N

Resolution G-3441. Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) request authority to establish a Low Income Energy Efficiency (LIEE) Natural Gas Appliance Testing (NGAT) Memorandum Account.

Proposed Outcome:

SoCalGas' and SDG&E's request for a LIEE related NGAT Memorandum Account is denied.

Estimated Annual Costs: None

By SoCalGas Advice Letter 4004 and SDG&E Advice Letter 1876-G filed on July 24, 2009.

SUMMARY

This Resolution denies SoCalGas' and SDG&E's request to establish a Natural Gas Appliance Testing (NGAT) Memorandum Account (Memo Account) to track incremental costs associated with implementing Decision (D.) 08-11-031, the 2009-2011 Low Income Energy Efficiency (LIEE) and California Alternate Rates for Energy (CARE) Decision. SoCalGas and SDG&E assert that the revenue requirement authorized in the Commission's decision, D.08-07-046, in their latest General Rate Case does not include adequate expenses for NGAT to conduct the amount of testing later ordered by the Commission D.08-11-031. The utilities request authority to establish an NGAT Memo Account to track the incremental costs incurred as a result of implementing D.08-11-031. SoCalGas and SDG&E do not convincingly demonstrate that a specific amount of funding for NGAT was adopted in D.08-07-046, or that their revenue requirement provides inadequate funding to conduct the level of NGAT authorized in D.08-11-031.

BACKGROUND

On July 24, 2009, SoCalGas and SDG&E filed Advice Letters (AL) 4004 and 1876-G respectively for authorization to establish a Natural Gas Appliance Testing (NGAT) Memorandum (Memo) Account to track LIEE-related NGAT costs that are not currently in base rates. SoCalGas and SDG&E assert that these costs should be reviewed by the Commission for recovery through base rates in SoCalGas' and SDG&E's next general rate case.

One of the goals stated in the LIEE decisions is to ensure the safety of low-income customers receiving weatherization services and protect all LIEE program participants from potentially hazardous situations in the home. NGAT is the process of testing the inside of a household for toxins such as carbon monoxide (CO) and other pollutants emitted by natural gas appliances.

The Commission adopted a two-prong NGAT process recommended by the parties in D.03-11-020. The NGAT process consists of a pre-weatherization assessment¹ using visual and olfactory cues (before any infiltration measures² are installed) and an NGAT post-weatherization protocol that utilizes a room ambient CO test in the household with an operational gas appliance.

Under the NGAT process adopted in D.03-11-020, if toxins are found to be present in the environment, utilities do not install energy efficiency measures that would tighten up the air flow in the building and thereby contribute to a

¹ The following items are included in the NGAT pre-assessment: gas leaks; inadequate combustion ventilation air (CVA); inadequate clearance between water heater vent termination and evaporative cooler inlet; other improper flue/vent terminations; inoperable or inaccessible gas appliance; gas clothes dryer in the living space not exhausted outdoors; unvented combustion space heater in the living space; when a whole house fan is in the ceiling, gas water heater or open combustion furnace with standing pilot in the attic; range with space heater/incinerator not vented outdoors; or open combustion water heater located in a sleeping area.

² Infiltration reduction measures are those which seal or tighten the building envelope and reduce natural infiltration. These measures include caulking, door weather-stripping, cover plate gaskets, duct sealing and some items within minor home repair.

health or safety hazard.³ As a result, utilities only provide non-filtration measures to homes failing the NGAT.

On November 6, 2008, the Commission approved D. 08-11-031 which expanded the LIEE program plans and set LIEE goals for its energy-related low income programs for the four major California investor owned utilities for 2009-2011. Further, D.08-11-031 reiterated the Commission's prior clarifications that NGAT is a basic utility service. The decision stated that NGAT is not an appropriate expenditure for LIEE funds since promoting customer safety is a general utility function, and that the utilities should be using funding from general rates to conduct NGAT.

On July 31, 2008 in D.08-07-046, the Commission approved the Settlement Agreement of SoCalGas' and SDG&E's General Rate Case (GRC) for years 2008-2011. According to SoCalGas and SDG&E, the Settlement Agreement based its NGAT expenses on estimates made in the GRC proceeding of the number of homes requiring NGAT, and of the NGAT cost per home. For SoCalGas, NGAT related expenses were estimated based on the assumption that 45,500 of the homes would be treated each year at the estimated unit price of \$35/home. SDG&E claims that its estimates were based on the assumption that 8,400 homes would be treated each year at the estimated unit price of \$35/home.

SoCalGas and SDG&E claim that the new figures adopted in D.08-11-031 would increase SoCalGas' NGAT expenses by \$2.6 million annually and SDG&E's NGAT expenses by \$235,000 annually. Based on the figures from D.08-11-031 and historical averages, SoCalGas forecasts an annual average of 120,000 homes (90% of 133,400) requiring NGAT. SDG&E forecasts an annual average of 15,288 homes (75% of 20,400 homes) requiring NGAT.

SoCalGas and SDG&E request authority to establish an NGAT Memo account that would track the incremental costs, not currently embedded in base rates, incurred as a result of implementing D.08-11-031. The Memo Account would track such costs until they are reviewed by the Commission and authorized for recovery through base rates in the utilities' next GRC or other proceeding.

³ D.03-11-020, Section 4.8.2, p. 47, addresses the issue of what actions to take when a home fails the NGAT testing due to appliance problems.

NOTICE

Notice of Advice Letters 4004 and 1876-G were made by publication in the Commission’s Daily Calendar. SoCalGas and SDG&E state that a copy of the Advice Letter was sent to parties shown on Attachment A of the Advice Letters.

PROTESTS

SoCalGas Advice Letter 4004 and SDG&E Advice Letter 1876-G were not protested.

DISCUSSION

SoCalGas’ and SDG&E’s request to establish an NGAT Memorandum Account to track costs for the Low Income Energy Efficiency Program’s Natural Gas Appliance Testing is denied.

Based on information received from SoCalGas and SDG&E, the following tables show the historical and forecasted trend for the number of LIEE homes requiring NGAT by SoCalGas and SDG&E, as well as the number of homes authorized in D.08-11-031:

SoCalGas	Proposed # of Homes authorized by D.06-12-038 for 2006-2008	Actual # of Homes Requiring NGAT	Total LIEE Homes Treated	Total Annual NGAT Expense (\$)	% of LIEE Homes requiring NGAT	Cost per House
2006	48,000	34,717	36,843	\$1,005,346	94%	\$28.96
2007	44,700	39,755	44,176	\$1,160,667	90%	\$29.20
2008	44,700	48,917	58,800	\$1,428,084	83%	\$29.19
	2009-11 Forecasted Based on Historical Data				Average % of LIEE Homes Requiring NGAT	Average Cost per House
					89%	\$29.12
	Proposed # of Homes authorized by D.08-11-031 for 2009-2011	Forecasted # of Homes Requiring NGAT		Forecasted Annual NGAT Expense (\$)		
2009	110,864	98,822		\$2,877,295		
2010	143,540	127,949		\$3,725,348		
2011	145,874	130,029		\$3,785,923		

SDG&E	Proposed # of Homes authorized by D.06-12-038 for 2006-2008	Actual # of Homes Requiring NGAT	Total LIEE Homes Treated	Total Annual NGAT Expense (\$)	% of LIEE Homes requiring NGAT	Cost per House
2006	12,882	8,200	13,771	\$235,409	60%	\$28.71
2007	10,440	6,829	13,074	\$196,514	52%	\$28.78
2008	10,440	9,771	20,804	\$286,232	47%	\$29.29
	2009-11 Forecasted Based on Historical Data (2006-2008)				Average % of LIEE Homes Requiring NGAT 53%	Average Cost per House \$28.93
	Proposed # of Homes authorized by D.08-11-031 for 2009-2011	Forecasted # of Homes Requiring NGAT		Forecasted NGAT Annual Expense (\$)		
2009	20,384	10,786		\$312,006		
2010	20,384	10,786		\$312,006		
2011	20,384	10,786		\$312,006		

D.06-12-038 is the Commission’s decision adopting utility budgets for LIEE program and California Alternate Rates for Energy for 2006 through 2008.

The utilities argue that they did not anticipate such a substantial increase in the number of LIEE homes proposed for NGAT in D.08-11-031. They also argue that the expenses adopted for NGAT in D.08-07-046 are based on a far lower number of homes. They assert that their NGAT expense incurred in implementing D.08-11-031 will be much larger than the expense adopted in D.08-07-046.

The Commission’s 2008 GRC decision does not adopt a particular expense amount for NGAT or the number of homes assumed to be subject to NGAT in the Settlement Agreement. In D.08-07-046, the Commission adopted a settlement of the revenue requirement for 2008 through 2011 for SoCalGas and SDG&E. The only parties agreeing to the Settlement Agreements were the utilities and the Division of Ratepayer Advocates (DRA). The Settlement Agreements itself do not provide any detail with regard to the expense adopted for NGAT. The Joint Settlement Comparison Exhibits in that proceeding, Application (A.) 06-12-009/ A.06-12-010, provide some basic information about

the level of expenses for Customer Services Information Account 908, the account in which NGAT expenses, along with other types of expenses, are recorded. However, the Joint Settlement Comparison Exhibits simply provide the expense amounts for this account proposed by SoCalGas/SDG&E and DRA, as well as the settled amounts. Because the NGAT expenses are embedded in Account 908, we cannot identify the exact expenses associated with NGAT nor the number of homes assumed in the settled amount. Nor can we determine whether the NGAT expense claimed in Account 908 is explicit to the LIEE program or part of the utilities' NGAT safety service for the general ratepayer.

SoCalGas and SDG&E fail to provide adequate justification to conclude that the GRC revenue requirements do not include adequate funding for NGAT.

As explained in DRA's testimony in A.06-12-009/A.06-12-010, DRA's expense amount initially recommended for Account 908 was based on the average of the last two years of available recorded expense, i.e. for 2005 and 2006, or \$13.6 million for SoCalGas and \$8.0 million for SDG&E. SoCalGas had proposed \$20.6 million for this account, while SDG&E had proposed \$13.4 million for this account. As the Joint Settlement Comparison Exhibits show, the settled expense amounts were \$17.5 million for SoCalGas and \$11.1 million for SDG&E. DRA agreed to an expense amount that was \$3.9 million higher than its initial recommendation for SoCalGas and \$3.1 million higher than its initial recommendation for SDG&E. SoCalGas contends that its GRC estimate was based on an assumption that 45,500 homes would be subject to NGAT, while SDG&E contends that it assumed 8400 homes would be tested.⁴ But, we have no information as to why DRA agreed to a higher expense amount than its initial recommendation. Even if SoCalGas' and SDG&E's own estimates of their NGAT expenses were based on a lower number of homes than authorized in D.08-11-031, we cannot determine that the funding for NGAT in the expense amount adopted for Account 908 in D.08-07-046 is inadequate.

We can not conclude that any specific amount of NGAT funding was adopted in the SoCalGas/SDG&E GRC decision or that revenue requirement adopted in the SoCalGas/SDG&E 2008 GRC clearly includes an inadequate amount of

⁴ The citation provided by SoCalGas and SDG&E in its advice letters to support this contention (a paragraph from its respective testimony in the GRC) provides no indication of the amount of homes they expected to be subject to NGAT.

funding to conduct NGAT for the number of homes authorized in D.08-11-031.

The utilities propose to track the amounts in the NGAT Memo that are not already embedded in rates. As we have discussed above, there is no basis to specify the amount adopted in D.08-07-046 for NGAT. Without a specific identified amount, we cannot determine which NGAT costs would be incremental. In addition, we cannot conclude that the amount of NGAT funding embedded in Account 908 was clearly inadequate for the utilities to implement D.08-11-031.

In addition, traditional test-year ratemaking in general rate cases provides utilities an authorized test year revenue requirement with specified formulae and factors to adjust that revenue requirement for years following the test year. If a utility spends less than the adopted amount for a particular expense category, they are not typically required to return the unspent money to ratepayers. And, if a utility spends more than the forecasted amount for an expense category, it may not request an increase in the authorized revenue requirement unless the utilities can make a case that some major unforeseen event had substantially changed their actual expenditures from the forecast used in determining the test year revenue requirement. Neither SDG&E nor SoCal Gas has convincingly made that case.

Therefore, SoCalGas' and SDG&E's request for authorization to establish an NGAT Memo Account is denied.

COMMENTS

Public Utilities Code section 311(g) (1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments on January 26, 1010.

Southern California Gas Company and San Diego Gas & Electric Company filed comments on the draft resolution on February 12, 2010. SoCalGas and SDG&E object to the proposed resolution largely based on arguments they presented in their original requests. The utilities again assert that their own estimates in the

2008 GRC proceeding of NGAT were lower than what the Commission subsequently adopted in D.08-11-031. They argue that it would be unreasonable to conclude that the Settling Parties in the 2008 GRC would have adopted a higher dollar amount than originally filed by the utilities. The utilities acknowledge that the Commission's 2008 GRC Decision 08-07-046 does not adopt a particular expense for NGAT or a specific number of Low Income Energy Efficiency treated homes assumed to be subject to NGAT in the Settlement Agreement reached in the proceeding.

The utilities also note that no protests were filed.

Finally, the utilities provided examples of other proceedings where a memorandum account was authorized. In one instance, a memo account was approved in response to D.05-04-052 to track certain call center costs and subject them to review as part of the GRC process. In the second instance in Rulemaking (R.) 10-02-005, the Commission authorized utilities to file advice letters to establish memo accounts to record new costs related to decreasing the number of disconnections.

The Commission has considered the comments of SoCalGas and SDG&E in response to the proposed resolution and upon review proposes no changes to the document. First, the utilities themselves acknowledge that no particular expense amount was adopted in D.08-07-046 for NGAT. In addition, they fail to mention that the expense amount adopted in the GRC Settlement was significantly higher than DRA's original expense recommendation.

Second, the Commission is not obligated to approve utility requests solely on the basis that no protests were filed. The Commission reviews and analyzes each request based on its own merits.

Third, the two examples of previously authorized memo accounts that the utilities provided are not relevant to the proposed NGAT memo accounts. In the first example, D.05-04-052 allowed SoCalGas and SDG&E to recover call center costs related to the California Alternate Rates for Energy (CARE) program in base rates. These costs were disallowed from the CARE budgets approved by the Commission. Resolution E-3958 approved memo accounts subsequent to D.05-04-052 to record the CARE-related call center costs. In this case, the memo accounts record all incremental expenses of a certain type, i.e. CARE-related call center costs, and do not require an assumption of an unknown amount already

included in rates. With regard to the NGAT advice letters which are the subject of this resolution, in order to record expenses in the NGAT memo account, the utilities must assume a specific amount already included in rates. In the second example, R.10-02-005, the Commission specifically authorized the filing of advice letters to create memo accounts to record new costs related to decreasing the number of disconnections. However, the Commission did not specifically authorize the filing of advice letters to create memo accounts in the NGAT proceeding. Again, the expenses recorded in memo accounts authorized by R.10-02-005 are entirely new costs, unassociated with any previous GRC account. In addition, no disconnection-related advice letters have been approved by the Commission to date.

FINDINGS

1. SoCalGas filed Advice Letter 4004 on July 24, 2009 requesting authority to establish a Memorandum Account for the Low Income Energy Efficiency Natural Gas Appliance Testing costs for 2009-2011.
2. SDG&E filed Advice Letter 1876-G on July 24, 2009 requesting authority to establish a Memorandum Account for the Low Income Energy Efficiency Natural Gas Appliance Testing costs for 2009-2011.
3. On July 31, 2008, the Commission approved the Settlement Agreements of SoCalGas' and SDG&E's GRC for years 2008-2011 in D.08-07-046.
4. On November 6, 2008, the Commission expanded its LIEE program plans and set aggressive LIEE goals in its energy-related low income programs for years 2009-2011 in D.08-11-031.
5. Neither the Settlement Agreements nor the Joint Settlement Comparison Exhibits specify an expense amount for NGAT or the number of homes expected to be subject to NGAT.
6. Neither the Settlement Agreements nor the Joint Settlement Comparison Exhibits specify why DRA agreed to a higher expense amount for Account 908 than its initial recommendation in the 2008 GRC.

7. The Commission can not specify the amount of NGAT expense included in SoCalGas' or SDG&E's authorized revenue requirement in D.08-07-046.
8. The Commission can not conclude that the amount of NGAT expense included in SoCalGas' or SDG&E's authorized revenue requirement is clearly inadequate to conduct the amount of NGAT authorized in D.08-11-031.
9. SoCalGas' and SDG&E's request to establish a NGAT Memo Account should be denied.

THEREFORE IT IS ORDERED THAT:

1. Southern California Gas Company's and San Diego Gas & Electric Company's requests to establish a Natural Gas Appliance Testing Memorandum Account to track excess costs associated with implementing Decision 08-11-031 is denied.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on February 25, 2010, the following Commissioners voting favorably thereon:

/s/ Paul Clanon

Paul Clanon
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
DIAN M. GRUENEICH
JOHN A. BOHN
TIMOTHY ALAN SIMON
NANCY R. RYAN
Commissioners