APPENDIX A

Application No.: A.99-03-063

Exhibit No.:

Witnesses: S. Logan – ORA
R. Lisbin – SCE

Joint Recommendation Of The ORA And SCE To Terminate The ENVEST Pilot Program

Before the

Public Utilities Commission of the State of California

Rosemead, California

March 6, 2000

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Joint Recommendation Of The ORA And SCE To Terminate The ENVEST Pilot Program

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I.

SUMMARY OF JOINT RECOMMENDATION

On September 13, 1999, the ORA filed its report on the reasonableness of the ratepayer funds used for the ENVEST pilot program. ORA has determined that SCE's use of ratepayer funds for the ENVEST pilot program was reasonable. ORA recommends no disallowances.

ORA and SCE held discussions on how to resolve the remaining ENVEST-related regulatory matters. The remaining matters are:

- The termination of Experimental Schedule GSN - ENVEST Equipment Service ("ENVEST Tariff");
- The disposition of the ENVEST Pilot Program Adjustment Mechanism; and
- The availability of ENVEST-related Measurement & Verification Reports.

In an effort to end further Commission oversight of the ENVEST pilot program, ORA and SCE now jointly recommend that the Commission adopt the following recommendations in its decision in this proceeding:

- The ENVEST Tariff will remain open to existing ENVEST customers until such time as the last ENVEST payment has been billed (currently anticipated to be 2010). Upon billing of the last ENVEST payment, SCE will file an advice letter to terminate the ENVEST Tariff. The ENVEST Tariff will remain closed to new customers.
- SCE will not seek ratepayer funding for program administration costs incurred in excess of the $8 million already provided by ratepayers.
- SCE will immediately refund the $2 million of ratepayer-funded credit-loss reserve, plus applicable interest from the creation of the reserve to the time the refund credit is made. This refund will be reflected as a credit to SCE's Electric Deferred Refund Account.

- SCE's shareholders will assume all future credit risk associated with the ENVEST contracts.
- SCE's shareholders will assume all prospective risk of collections associated with the ENVEST pilot program.
- Part S of SCE's Preliminary Statement, *ENVEST Pilot Program Adjustment Mechanism*, shall be immediately terminated.
- SCE will make available to ORA, upon request, copies of ENVEST-related Measurement & Verification Reports.

ORA and SCE believe that this Joint Recommendation is reasonable and in the public interest. Each will provide separate testimony explaining its own reasons why the Joint Recommendation promotes the public interest. ORA and SCE request that the Commission adopt these recommendations in its decision in this proceeding.

II.

JOINT RECOMMENDATION FOR REMAINING ENVEST PILOT PROGRAM RELATED REGULATORY MATTERS

A. ENVEST Pilot Program Adjustment Mechanism

The ENVEST Pilot Program Adjustment Mechanism (Part S of SCE's Preliminary Statement) was established pursuant to Resolution E-3337, issued on October 6, 1993 ("ENVEST Resolution"). The ENVEST Pilot Program Adjustment Mechanism ("EPPAM") is comprised of the following:

- **ENVEST Pilot Program Adjustment Account ("EPPAA")** - The purpose of the EPPAA is to determine if SCE has earned more than its authorized rate of return on the ENVEST portfolio of projects over the life of the projects and to provide a vehicle for refunding any unused ratepayer provided funds. If the balance in the account is over-collected (i.e., SCE earned more than its authorized rate of return on the portfolio of ENVEST projects) upon payment of the last contract for an ENVEST project (currently anticipated to be 2010), the balance would be refunded to ratepayers through an appropriate adjustment. If the account is under-collected (i.e., if SCE earns less than its authorized rate of return on the portfolio of ENVEST projects), the EPPAA will be terminated in accordance with the authorizing provisions of the EPPAM.
- **The ENVEST Pilot Program Administration Tracking Account** - The purpose of this tracking account is to monitor the $8 million of ratepayer funded program administration costs to determine how much, if any, of the ratepayer funds were unspent and should be refunded to ratepayers with interest.
- **The ENVEST Pilot Program Credit Loss Tracking Account** - The purpose of this tracking account is to monitor the $2 million of ratepayer funded credit loss reserve to determine how much, if any, should be refunded to ratepayers with interest. If a portion, or all, of the $2 million of ratepayer funded credit loss

reserve is not utilized over the life of the ENVEST contracts, then the unused portion, plus interest, will be refunded to ratepayers.

- **The Ratepayer Investment Tracking Account** - The purpose of this tracking account is to monitor the $13 million of ratepayer co-investment to determine how much, if any, was unspent and should be refunded to ratepayers. In March 1996, SCE refunded to ratepayers $50,000 of ratepayer funded co-investment, plus applicable interest. In addition, SCE is refunding, through its 1999 RAP an additional $357,811 of ratepayer co-investment, plus applicable interest, that was not allocated to projects.[1]

It is currently anticipated that absent any further Commission action, the ENVEST Pilot Program Adjustment Mechanism would remain in place until 2010. At that time any unspent ratepayer-funded credit loss reserve and any over-collection in the EPPAA would be refunded to ratepayers.

B. Remaining ENVEST Pilot Program Related Regulatory Matters

ORA has found no ENVEST expenditure by SCE which ORA contends was unreasonable. With the completion of the ORA reasonableness review of the ENVEST pilot program, there are three remaining ENVEST-related regulatory matters which ORA and SCE recommend that the Commission address in its decision. These matters are:

- The termination of Experimental Schedule GSN - ENVEST Equipment Service;
- The disposition of the ENVEST Pilot Program Adjustment Mechanism; and,
- The availability of ENVEST-related Measurement & Verification Reports.

As discussed in further detail below, the ENVEST Tariff must remain effective until the last ENVEST-related payment is billed. SCE currently anticipates that this will occur sometime in 2010. Based upon the original design of the ENVEST Pilot Program

1 See A.99-08-022, Exhibit SCE-1, Table II-1. Line 24 of Table II-1 shows a refund of $487,000 for ENVEST. This reflects the $357,811 of unspent co-investment plus applicable interest.

Adjustment Mechanism adopted in the ENVEST Resolution, it too would remain in place until the last ENVEST-related payment is billed. At that time any unused ratepayer-funded credit loss reserve (plus applicable interest) and any over-collection in the ENVEST Pilot Program Adjustment Account would be refunded to ratepayers. Any under-collection in the EPPAA would not be recovered from ratepayers. Upon disposition of any funds to be refunded to ratepayers, the ENVEST Pilot Program Adjustment Mechanism would be terminated.

ORA has also raised a concern about the availability of the ENVEST-related Measurement & Verification Reports in the future. In its review of the ENVEST project files, ORA identified that the ENVEST Measurement & Verification Reports prepared for each project provide energy efficiency related information that might be useful in the future. With the disbanding of the ENVEST organization and the completion of the reasonableness review, ORA was concerned that these reports might not be readily accessible to ORA in the future.

C. Joint Recommendation For Remaining ENVEST Pilot Program Related Regulatory Matters

ORA and SCE recommend termination of Commission oversight of the ENVEST Pilot Program. ENVEST oversight can be terminated with no adverse impact to ratepayers. Administrative efficiency will be increased by avoiding a Commission review after 2010 of events which occurred well before then. Based on this and the rationale set forth in its individual testimony supporting this Joint Recommendation, ORA and SCE recommend that the Commission adopt the following recommendations.

1. The ENVEST Tariff Should Remain Open To Existing ENVEST Customers Until The Last Payment Has Been Billed

The ENVEST Tariff sets forth the terms and conditions under which SCE will construct and finance ENVEST projects. The ENVEST Tariff was established in October 1993 pursuant to the ENVEST Resolution. In December 1995, the ENVEST

Tariff was closed to new customers. However, in order to continue billing customers for their ENVEST projects, the ENVEST Tariff must remain open for existing ENVEST customers until all payments under remaining ENVEST contracts have been billed. It is currently anticipated that the last payments for ENVEST projects will be billed to customers in 2010.[2] Thus, the ENVEST Tariff can not be terminated until that time.

ORA and SCE recommend that the ENVEST Tariff remain in place until the last payment for ENVEST projects has been billed. Within 60 days after the billing for the last ENVEST payment, SCE will file an advice letter terminating the ENVEST Tariff. The ENVEST Tariff will remain closed to new customers.

2. <u>SCE Will Not Seek Ratepayer Funding For Any ENVEST Pilot Program Administration Costs Incurred In Excess Of The $8 Million Already Provided By Ratepayers</u>

As of January 2000, SCE has incurred approximately $10.5 million in program administration costs associated with the ENVEST pilot program. Of this amount, ratepayers have funded $8 million of the program administration costs. SCE anticipates that it will continue to incur some program administration costs through the end of the ENVEST contracts in 2010. As part of this agreement, SCE will not seek ratepayer funding for the program administration costs incurred in excess of the $8 million. Since SCE has incurred program administration costs in excess of the $8 million funded by ratepayers and ORA has determined that the recorded program administration costs are reasonable, the Program Administration Costs Tracking Account can be terminated.

ORA and SCE agree that SCE will not seek ratepayer funding for the program administration costs incurred in excess of the $8 million already provided by ratepayers.

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[2] This is subject to change if customers either seek modifications to their existing payment terms and conditions or if they buy-out their contracts.

3. SCE Will Immediately Refund $2 Million (Plus Interest) Of Ratepayer Funded Credit Loss Reserve As A Credit To The Electric Deferred Refund Account

To date, SCE has incurred no credit losses associated with the ENVEST pilot program. As a backstop against potential credit losses, the Commission earmarked $2 million of ratepayer funding as a credit loss reserve. The Commission established the Credit Loss Tracking Account to monitor the use of this reserve, through the life of the ENVEST contracts, so that any unspent ratepayer funded credit loss reserve could be refunded to ratepayers. Absent any credit losses and any further Commission action, SCE would refund the $2 million of ratepayer-funded credit loss reserve, plus applicable interest, to ratepayers in 2010. Until 2010, any credit losses in excess of the $2.0 million ratepayer-funded reserve would become a cost of the ENVEST program. As part of an overall proposal to terminate the EPPAM early, SCE is willing to immediately refund the $2 million credit loss reserve to ratepayers, with applicable interest. (As of January 2000, the $2 million has accrued approximately $0.7 million of interest since October 1993.) By refunding the $2 million of ratepayer-funded credit loss reserve, SCE shareholders will assume all future credit risk associated with the ENVEST contracts.

This refund of ratepayer-funded credit loss reserve is not a disallowance or a determination of unreasonableness, nor does it indicate that credit losses of more or less than $2 million will be incurred. It is a refund of the current balance of ratepayer funds that SCE has determined it is willing to flow back to ratepayers now. All future credit risk will shift to SCE's shareholders until the last payment is received from ENVEST customers.

In order to refund the $2 million credit loss reserve directly to ratepayers, SCE will transfer $2 million, plus applicable interest, from the ENVEST Pilot Program

Adjustment Account to its Electric Deferred Refund Account.[3] Once the appropriate adjustments have been made to refund the $2 million of ratepayer-funded credit loss reserve, plus applicable interest, the Credit Loss Tracking Account can be terminated.[4]

ORA and SCE recommend that the $2 million, plus applicable interest, of ratepayer-funded credit loss reserve is refunded to ratepayers immediately instead of in 2010. Upon Commission approval of this recommendation, SCE will transfer $2 million, plus applicable interest, from the ENVEST Pilot Program Adjustment Account to its Electric Deferred Refund Account.

4. SCE's Shareholders Will Assume Future Credit Risk Associated With The ENVEST Pilot Program Contracts

Once SCE refunds the credit loss reserve (as discussed above), shareholders will be fully responsible for any credit losses associated with the ENVEST pilot program. Despite an effort to minimize the risk associated with credit losses through a credit and financial worthiness screening process, there is still a risk, unquantified here, that some ENVEST customers may default on their ENVEST payment obligations. In order to resolve the other outstanding ENVEST-related regulatory matters discussed in this testimony, SCE agrees to assume the future credit risk associated with the ENVEST contracts.

5. SCE's Shareholders Will Assume All Future Risks Of Collections Associated With The ENVEST Pilot Program

The purpose of the EPPAA is to track all of the costs and revenues associated with the ENVEST pilot program and upon termination of the final ENVEST contract

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[3] SCE's agreement in this proceeding to flow the refund directly back to ratepayers and not to transition costs is part of the give and take that took place in developing the joint recommendations set forth herein. It should not be considered as precedent for the treatment of non-disallowance-related refunds in other proceedings.

[4] In January of each year, SCE files an advice letter setting forth the prior year-end balance in its Electric Deferred Refund Account and proposes rate level changes to refund to ratepayers any balance.

(currently anticipated to be 2010) to determine if SCE has earned more or less than its authorized rate of return on the ENVEST pilot program. Absent any further Commission action, the EPPAA is currently anticipated to remain in place until 2010. If the EPPAA is over-collected upon termination of the final ENVEST contract, SCE will have earned more than its authorized return on the ENVEST pilot program and any over-collection should be refunded to ratepayers. If the account is under-collected, then SCE will not have earned its authorized rate of return on the ENVEST pilot program and SCE's shareholders will be responsible for any under-collection, not ratepayers. Once any over-collection is refunded to ratepayers, the EPPAA would be terminated.

Since all of the ratepayer funds authorized for the ENVEST pilot program have been either determined to be reasonable by ORA, have already refunded to ratepayers, or are proposed to be refunded to ratepayers, the only remaining purpose of the EPPAA is to determine if shareholders have earned more or less than the authorized rate of return on the ENVEST pilot program. SCE and ORA are unable to determine, at this time, if the EPPAA will be over-collected or under-collected when it will terminate in 2010. There are many factors that influence the balance in this account, including, but not limited to interest rates, potential credit losses, program administration costs through the end of the contracts, warranty costs incurred for projects that have not yet completed their warranty period, and potential buy-outs or restructuring of the financing agreements by ENVEST customers. SCE believes that there is an equal likelihood that the balance in this account in 2010 could be either over-collected or under-collected. If the EPPAA is terminated early, SCE's shareholders continue to assume all risk associated with under-collections in the account and may benefit from any over-collections in the account. In order to achieve the other benefits associated with the joint recommendations set forth herein, ORA and SCE agree that the EPPAA can be terminated now, instead of waiting until 2010.

SCE's shareholders will be responsible for and may benefit by, all prospective over-collections or under-collections associated with the ENVEST pilot program.

6. Part S Of SCE's Preliminary Statement, ENVEST Pilot program Adjustment Mechanism, Should Be Terminated

As discussed in Section II.A.3 above, the ENVEST Pilot Program Adjustment Mechanism, Part S of SCE's Preliminary Statement, is comprised of the ENVEST Pilot Program Adjustment Account and three tracking accounts. Below is a brief discussion on each of these accounts and the recommendation to terminate them.

The ENVEST Pilot Program Administration Tracking Account. Since SCE has incurred program administration costs in excess of the $8 million funded by ratepayers and ORA has determined that the recorded program administration costs are reasonable, there is no reason to continue to track recorded program administration costs. There are no refunds of the $8 million of ratepayer funding for program administration costs and the ENVEST Program Administration Cost Tracking Account can be terminated.

The ENVEST Pilot Program Credit Loss Tracking Account. The sole purpose of the ENVEST Pilot Program Credit Loss Tracking Account was to track SCE use of the $2 million of ratepayer credit loss reserve so that any unused portion can be refunded to ratepayers. If the ORA/SCE recommendation regarding the refund of the $2 million ratepayer funded credit loss reserve is adopted, there is no reason to further track credit losses associated with the ENVEST pilot program. Thus the ENVEST Pilot Program Credit Loss Tracking Account can be terminated.

The Ratepayer Investment Tracking Account. The purpose of this tracking account was to track SCE's use of the ratepayer funded co-investment in projects so that any unused ratepayer co-investment can be refunded if not used for ENVEST projects. In March 1996, SCE refunded to ratepayers $50,000, plus applicable interest, of un-allocated ratepayer co-investment. After completing the construction of the ENVEST projects in late 1998, SCE identified that it had an additional $357,811 of ratepayer co-investment that was not allocated to projects. This amount was identified in SCE's reasonableness report in this proceeding and the ratemaking associated with refunding this to ratepayers was included in SCE's 1999 Revenue Adjustment Proceeding (A.99-08-022). With these two adjustments, SCE has used all remaining ratepayer co-investment for ENVEST projects. Since all of the remaining co-investment has been used for projects and ORA has determined that there are no reasonableness issues associated with SCE's application of co-investment to projects, there are no further refunds of ratepayer co-investment. Thus, the Ratepayer Investment Tracking Account can be terminated.

The ENVEST Pilot Program Adjustment Account. As discussed in Section II. B.5, the purpose of this account was to determine if SCE earned more or less than its authorized rate of return on the ENVEST portfolio of projects over their lives and to provide a vehicle for refunding to ratepayers any unused ratepayer provided funds. As part of the overall joint recommendation, this account will be terminated.

As discussed above, each of the four components of the ENVEST Pilot Program Adjustment Mechanism can be terminated if the recommendations set forth in this testimony are adopted by the Commission. Because the components of the EPPAM are terminated under the Joint Recommendation, there is no reason to maintain the ENVEST Pilot Program Adjustment Mechanism, and Part S of SCE's Preliminary Statement can be terminated.

7. <u>SCE Will Make Available To ORA Measurement And Verification Reports Related To The ENVEST Pilot Program</u>

As part of the contractual arrangement between SCE and its ENVEST customers, SCE prepares detailed Measurement and Verification Reports on a periodic basis for up to three years after completion of the construction of an ENVEST project. These detailed reports provide valuable information regarding the operation of various energy efficiency technologies. SCE agrees to make copies of these reports available to ORA upon their request.

III.

THE JOINT RECOMMENDATION IS IN THE PUBLIC INTEREST

ORA and SCE believe the Joint Recommendation is in the public interest. The ENVEST pilot program delivered benefits to participating customers and the general body of ratepayers. What remains of the ENVEST pilot program is the administration of contracts with participating customers who are obligated to repay their loan and Commission oversight of the ENVEST Pilot Program Adjustment Mechanism.

Commission oversight of the remaining contractual obligations and review of the ENVEST Pilot Program Adjustment Mechanism will be avoided if the Joint Recommendation is adopted. Under the Joint Recommendation, SCE agrees to take all risk associated with recovery of future ENVEST customer repayment obligations. SCE's customers will receive an immediate refund of the previously advanced $2 million credit loss reserve, plus applicable interest. SCE will also assume the cost of future ENVEST program administration costs and will forgo recovery from ratepayers of program administration costs exceeding the $8 million funded by ratepayers. These limits on customer risk and assumption of future program administrative costs by SCE's shareholders are significant benefits of the Joint Recommendation and are in the public interest.

With the assumption of the risk of recovering payments under the ENVEST pilot program contracts, there is no need to continue to track recovery of these payments in the ENVEST Pilot Program Adjustment Mechanism. The administrative burden on the Commission, its staff and SCE can be avoided if the Joint Recommendation is adopted. Avoiding this administrative burden is in the public interest.

Finally, information regarding measurement and evaluation studies on the ENVEST pilot program projects will be available to the Commission staff. This information is a benefit of the ENVEST pilot program and making it available to ORA is in the public interest.

IV.

CONCLUSION

For the foregoing reasons, ORA and SCE recommend that the Commission adopt the recommendations set forth herein regarding the remaining ENVEST-related regulatory matters.

(END OF APPENDIX A)