

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

**RESOLUTION E-3940
July 21, 2005**

R E S O L U T I O N

Resolution E-3940. This Resolution approves Southern California Edison's (SCE) request to expand their Air Conditioning Cycling Program (ACCP) by an estimated 30,000 additional control devices, and grants SCE the authority to use the \$10.319 million in unspent funds which were collected for the Smart Thermostat Pilot Program to cover the ACCP expansion and the 2005 on-going Smart Thermostat Program costs, and to use the remaining balance to off-set the demand response sub-account of the Advance Metering and Demand Response Memorandum Account (AMDRMA).

By SCE Advice Letter (AL) 1875-E/1875-E-A filed on March 8, 2005 and June 7, 2005, respectively.

SUMMARY

This Resolution approves Southern California Edison's request to expand their Air Conditioning Cycling Program (ACCP) by an estimated 30,000 additional control devices, beyond the expansion authorized by Decision (D.) 05-01-056, with a budget of \$7.5 million. Upon completion of the ACCP expansion, SCE should report to Energy Division the total number of control devices it installed with the authorized budget and also provide a detailed report on the ACCP expansion expenditures.

This Resolution grants SCE the authority to use the \$10.319 million in unspent funds collected for the Smart Thermostat Program to cover the ACCP expansion and the 2005 on-going Smart Thermostat Program costs, and to use the remaining balance to off-set the demand response sub-account of the Advance Metering and Demand Response Memorandum Account (AMDRA).

This Resolution also grants SCE the authority to recover the incentive payments for the ACCP expansion, estimated at \$6 million, through their Base Revenue Requirement Balancing Account (BRRBA).

BACKGROUND

D.05-01-056 denied SCE's request to expand its Energy Smart Thermostat Program and approved SCE's proposal to expand its ACCP by an additional 31,000 to 38,000 customers through the summer of 2005 with a budget of \$7.65 million

D.05-01-056 denied SCE's request to expand their Energy Smart Thermostat Program by 5,500 units primarily because SCE had not yet provided any results or analysis of its 2004 program to justify the expansion¹. The Commission however approved the following program modifications: 1) the temperature trigger was replaced with a system reliability trigger, 2) the incentive payment was decreased to \$100 per year, and 3) the incentive deduction for overrides was reduced to \$5 per event. The Commission also authorized a budget of \$1.779 million to cover the 2005 on-going maintenance and operations program costs, including incentives.

D.05-01-056 also approved SCE's request to expand their ACCP by an additional 31,000 to 38,000 customers through the summer of 2005 with a budget of \$7.65 million, excluding incentives.

Via its advice letter filing, SCE again requested authority to expand its Energy Smart Thermostat Program (Smart Thermostat Program) by an additional 5,500 thermostat units using unspent funds authorized in D.01-03-073. SCE withdrew its request in its supplemental Advice Letter filing.

On March 8, 2005, Southern California Edison (SCE) filed Advice Letter (AL) 1875-E requesting authority to expand Smart Thermostat Program by an additional 5,500 thermostat units during the summer 2005 at a cost of \$3.3 million, including incentives and accelerated marketing. SCE proposed to use unspent funds authorized in D.01-03-073 for the Smart Thermostat Program to cover the program expansion.

1. In D.05-01-056, the Commission stated it would consider the program expansion after evaluation became available. SCE in Advice Letter 1875-E submitted its 2004 program impact evaluation report for its Energy Smart Thermostat Program. This report however has not been officially reviewed or vetted by any parties participating in the demand response rulemaking (R.) 02-06-001.

D.01-03-073 authorized the Smart Thermostat Program with an annual funding of \$5.94 million for four years through the end of 2004. SCE reports that it has accumulated \$10.319 million in unspent funds, collected for the Smart Thermostat Program, which it has transferred to its Advanced Metering and Demand Response Memorandum Account (AMDRMA).

SCE amended its filing by requesting authority to expand their ACCP by an estimated 30,000 additional devices and to use the Smart Thermostat Program unspent funds to cover the costs of expanding its ACCP, the 2005 on-going Smart Thermostat Program costs, and use any remaining balance to off-set other demand response related costs recorded in the AMDRMA

On June 7, 2005, SCE supplemented AL 1875-E replacing its original filing in its entirety and withdrawing its proposal to expand the Smart Thermostat Program. SCE instead proposes to expand their ACCP by an estimated 30,000 additional devices during 2005 in addition to the program expansion authorized in D.05-01-056. SCE requests authority to use up to \$7.5 million of the Smart Thermostat Program unspent funds to cover the cost of the ACCP expansion, excluding program incentives. The program incentives, which are estimated at \$6 million, would be recovered through the BRRBA.

SCE also requests authority to use approximately \$2 million of the Smart Thermostat Program unspent funds to cover the 2005 on-going Smart Thermostat Program maintenance, operations, and incentive expenditures and to apply the remaining balance to off-set other demand response related costs recorded in the AMDRMA.

NOTICE

Notice of AL 1875-E and 1875-E-A was made by publication in the Commission's Daily Calendar. SCE states that a copy of their AL was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

No protests were filed on AL 1875-E and 1875-E-A.

DISCUSSION

Energy Division recommends authorizing the ACCP expansion by an estimated 30,000 additional control devices, beyond the expansion authorized in D.05-01-056, with a budget of \$7.5 million using the Smart Thermostat Program unspent funds

The ACCP is offered to both residential and small Commercial and Industrial (C&I) customers under tariffs for either Base or Enhanced program. The ACCP currently has approximately 145,375 residential customers participating in program with over 177,000 active cycling devices installed and an estimated load response capability of about 308 MWs. Customers participating in the ACCP agree to have their air conditioning unit(s) turned off or cycled during system emergencies (stage 2) in the summer season. Each customer selects their A/C cycling percentage option and the incentive is based on this selection².

D.05-01-056 authorized a similar ACCP expansion of an additional 31,000 to 38,000 customers for the summer of 2005 and a budget of \$7.65 million, excluding incentives. SCE reports being on pace to install as many as 35,000 A/C control devices by the end of July and as many as 43,000 A/C devices by the end of 2005 using base rate funding obtained through their General Rate Case and the budget authorized in D.05-01-056. SCE has also determined that further expansion of the ACCP is feasible.

SCE estimates that a budget of \$7.5 million will be needed for the additional ACCP expansion (excluding incentives): \$1.6 million for marketing/communications, \$2.1 million for equipment, \$3.4 million for installation, \$300,000 for administration, and \$100,000 for installation premiums and manual billing necessary to get customers on line. Energy Division supports authorizing a budget of \$7.5 million for the proposed ACCP expansion as the cost estimates provided by SCE are consistent with the budget approved for ACCP expansion in D.05-01-056.

Energy Division has reviewed SCE's ACCP expansion proposal and supports it given the characteristics the program has to offer, consistent with the Commission's rationale

2. The base ACCP is limited to 15 cycling events per year and the enhanced program has no limit on the number of events that may be called. Each event is limited to 6 hours and customers receive their incentive payment whether an event is called or not.

for authorizing the initial ACCP expansion in D.05-01-056³: 1) the ACCP is a reliable emergency load reduction program that can be targeted geographically, 2) the marginal cost of installing the controllers is fairly small, 3) the ACCP targets air conditioning which is a major component of peak demand, and 4) the ACCP expansion will provide an additional 42 MWs (average estimate based on the size of the air conditioning units and customers cycling option selection) of load relief. These types of program characteristics are highly desirable in providing load relief during emergency situations, primarily because it targets air conditioning load which is a major component of peak demand. Energy Division therefore recommends approving SCE's proposed incremental ACCP expansion, with the condition that all ACCP devices, estimated at 30,000, be installed, even if the installation runs beyond 2005. Any remaining funds of the \$7.5 million budget that SCE carries over into 2006 for this ACCP expansion is incremental to any other funding authorized by the Commission for 2006 ACCP activities through SCE's General Rate Case or Application(A.)05-06-008.

SCE currently recovers the difference between the forecasted level of ACCP incentive payments included in the current distribution rate levels and actual ACCP incentives payments through their Base Revenue Requirement Balancing Account (BRRBA) and it proposes to continue to use the same cost recovery mechanism for recovering the ACCP expansion incentive payments. Energy Division does not see a reason to change the current cost recovery mechanism therefore recommends granting SCE the authority to recover the incentive payments for the ACCP expansion through their BRRBA.

Energy Division also supports SCE's request to use approximately \$2 million from the unspent funds to cover the 2005 on-going program costs. D.05-01-056 authorized a budget of \$1.779 million for the 2005 Smart Thermostat Program expenditures, which primarily gives SCE the authority to book these costs into their AMDRMA for future rate recovery. SCE also requests authority to use \$200,000 of the unspent funds to cover 2004 incentive payments that are being paid in 2005 because some of the customers did not provide their tax identification. Energy Division supports the idea of applying the unspent funds, which were authorized and collected for the Smart Thermostat Program, towards the program the funds were intended for. Energy Division therefore recommends granting SCE's request.

3. D.05-01-056, pg. 42

SCE also requests authority to use any remaining unspent funds to off-set other demand response related costs in their AMDRMA, which is estimated to be approximately \$840,000. Energy Division does not oppose this request given that it would be off-setting expenditures that are demand response related.

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) (3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period has been reduced in accordance with Rule 77.7(g). In this case, SCE the only party to AL 1875-E and 1875-E-A has agreed to a reduced comment period in order for the Draft Resolution to be considered at the next Commission meeting.

On July 13, 2005, SCE filed comments on the draft resolution.

SCE, overall agrees with the draft resolution, but recommends some minor modifications to clarify that the ACCP expansion should be capped by the authorized funding of \$7.5 million and not by the number of A/C control devices as currently specified by the resolution. SCE indicates that the budget it proposed for the ACCP expansion is based on projected expenditures and that actual expenditures may vary as a result of increased marketing and outreach efforts. SCE also comments that the control device installation requirement could limit the amount it can off-set in demand response related costs in the AMDRMA at the end of 2005. SCE therefore recommends that the ACCP expansion be based on the authorized budget of \$7.5 million and not the number of control device installations.

Energy Division agrees with SCE's recommendation and has incorporated this change to indicate that the ACCP expansion is based on the authorized budget and not the number of control devices. However, Energy Division recommends that upon completion of the ACCP expansion authorized by this resolution, SCE should report to Energy Division the total number of control devices it installed and also provide a detailed report on the ACCP expansion expenditures.

SCE also recommends updating the ACCP program statistics in the draft resolution. Energy Division accepts this change and has incorporated it into the final resolution.

SCE also recommends modifying the ACCP incentive payment discussion in the resolution to clarify that SCE recovers the difference between the forecasted level of ACCP incentives included in current distribution rates and actual ACCP incentive payments through the BRRBA. Energy Division accepts this change and has incorporated it into the final resolution.

SCE also requests that the resolution be modified to clarify that any authorized funding carried over 2006 is incremental to other funding approved for 2006 ACCP activities. Energy Division accepts the proposed modification, given that this resolution requires SCE to complete the ACCP expansion even if it requires installation of the devices beyond 2005. Energy Division therefore has incorporated this additional clarification.

FINDINGS

1. On March 8, 2005, Southern California Edison (SCE) filed Advice Letter (AL) 1875-E requesting authority to expand Energy Smart Thermostat (Smart Thermostat) Program by an additional 5,500 thermostat units during the summer 2005 at a cost of \$3.3 million.
2. On June 7, 2005, SCE supplemented AL 1875-E replacing its original filing in its entirety and withdrawing its proposal to expand the Smart Thermostat Program.
3. SCE, in its supplemental filing proposes to expand their Air Conditioning Cycling Program (ACCP) by an estimated 30,000 additional control devices during 2005 with an estimated budget of \$7.5 million.
4. SCE requests authority to use the \$10.319 million in unspent funds to cover the 2005 on-going Smart Thermostat Program and the ACCP expansion costs, and to use any remaining balance to off-set other costs recorded in the AMDRMA.
5. SCE's proposed budget of \$7.5 million for the ACCP expansion is consistent with the budget authorized in D.05-01-056 for a similar expansion and should be authorized.
6. The ACCP is a reliable emergency load reduction program that can be targeted geographically with a fairly small marginal cost of installing the controllers.
7. The ACCP expansion will provide an estimated average load reduction of 42 MWs.
8. These types of ACCP characteristics are highly desirable in providing load relief during emergency situations.

9. Energy Division recommends approving SCE's proposed incremental ACCP expansion, with the condition that all ACCP devices, estimated at 30,000 be installed, even if the installation runs beyond 2005.
10. Upon completion of the ACCP expansion authorized by this resolution, SCE should report to Energy Division the total number of control devices it installed with the authorized budget and also provide a detailed report on the ACCP expansion expenditures.
11. Any remaining funds of the \$7.5 million budget that SCE carries over into 2006 for this ACCP expansion is incremental to any other funding authorized by the Commission for 2006 ACCP activities through SCE's General Rate Case or Application(A.)05-06-008.
12. Any difference between ACCP incentives forecasted and recovered in current distribution rate levels and actual incentive payments are recovered through SCE's Base Revenue Requirement Balancing Account (BRRBA); SCE proposes to use the same cost recovery mechanism to recover the ACCP expansion incentive payments.
13. Energy Division supports continuing using the BRRBA to recover the incentive payments for the ACCP expansion and recommends granting SCE's request.
14. SCE requests authority to use approximately \$2 million of the Smart Thermostat unspent funds to cover the \$1.779 million authorized in D.05-01-056 for the 2005 on-going Smart Thermostat program costs plus \$200,000 to pay for 2004 customer incentives being paid in 2005.
15. Energy Division supports granting SCE's request given that the unspent funds were collected for the Smart Thermostat Program.
16. SCE requests authority to use the remaining balance of the unspent fund, approximately \$840,000, to off-set other demand related costs in their AMDRMA. Energy Division does not oppose granting SCE's request.

THEREFORE IT IS ORDERED THAT:

1. SCE is authorized to expand its Air Conditioning Cycling Program (ACCP) by an estimated 30,000 additional devices, beyond program expansion authorized in D.05-01-056, with a budget of \$7.5 million.
2. Upon completion of the ACCP expansion, SCE should report to Energy Division the total number of control devices it installed and provide a detailed report on the ACCP expansion expenditures.
3. SCE is authorized to use the \$10.319 million in unspent funds collected for the Smart Thermostat Program, to cover the ACCP expansion and the 2005 on-going Smart Thermostat Program costs, and to apply the remaining balance to off-set other demand response related costs recorded in the AMDRMA.

4. SCE is authorized to recover the ACCP expansion incentive payments through their Base Revenue Requirement Balancing Account (BRRBA).

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 July 21, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

MICHAEL R. PEEVEY
PRESIDENT
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners