

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

ENERGY DIVISION

RESOLUTION G-3402  
July 12, 2007

**R E S O L U T I O N**

**Resolution G-3402. Southern California Gas Company (SCG) requests approval to implement the Palm Desert Partnership Demonstration Project and to increase the overall funding available for the 2006-2008 Competitive Bid.**

**By Advice Letter 3713 Filed on February 14, 2007.**

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**SUMMARY**

This Resolution approves Southern California Gas Company's (SCG) request to implement the Palm Desert Partnership Demonstration Project with a budget of \$2.243 million as part of SCG's 2006-2008 energy efficiency program portfolio, and to increase the utility's overall funding available for the 2006-2008 Competitive Bid by an additional \$448,000. This Resolution does not approve the demonstration project to continue beyond the 2006-2008 program cycle.

**BACKGROUND**

In D. 06-12-013, the Commission granted the request of Southern California Edison Company (SCE) to implement the Palm Desert Pilot Project to save energy in the City of Palm Desert. This same Decision also approved the Advice Letter process for new programs as long as the utility consults with its program advisory and peer review groups in advance of submitting an advice letter. With this advice letter request, SCG proposes to participate in this Pilot Program to bring together the City of Palm Desert and its residents and businesses with SCG and SCE to promote energy efficiency in the City. In Advice Letter 3713, SCG proposes to (1) implement the Palm Desert Partnership Demonstration Project with a budget of \$2.243 million as part of SCG's 2006-2008 energy efficiency program portfolio, (2) commit to a five-year project with the City of Palm Desert, and (3) increase the utility's overall funding available for the 2006-2008

Competitive Bid by an additional \$448,000 to comply with the competitive bidding percentage requirement pursuant to Commission Decision 05-01-055.

## **NOTICE**

Notice of this advice letter was made by publication in the Commission's Daily Calendar. Southern California Gas Company states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

## **PROTESTS**

The Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN) filed a Joint Protest on March 6, 2007 to the Advice Letter citing that the utility has not adequately justified (1) its request to implement the fuel substitution component, (2) its proposed administrative budget, and (3) its request to augment its budget to comply with competitive bidding requirements. Additionally, the Joint Protest stated that the Commission in D.06-12-013 did not authorize Southern California Edison or SCG to count energy efficiency savings from the Palm Desert Demonstration Project toward the savings goals adopted in D.04-09-060.

## **DISCUSSION**

Energy Division Staff reviewed the advice letter, the Joint Protest, and SCG's response to the Joint Protest. In its review, Staff found some discrepancies within SCG's E3 Cost-Effectiveness Calculator. Therefore, Staff suspended the AL on March 30, 2007, and sent a data request to SCG on April 2, 2006. The Staff's data request focused on (1) the DRA/TURN issue on SCG's proposed fuel substitution measures/projects, (2) SCG's submitted E3 Calculator Version SoCalGas 3b2.xls for this program, which was not the latest version, and (3) questionable input measures detail data in the E3 Calculator.

Staff found that the utility has adequately responded to the Joint Protest filed by DRA and TURN, and to Staff's data request.

The first DRA/TURN issue was that SCG failed to justify that its proposed fuel substitution component of the demonstration program funding passes the Three-

Prong Test under the Energy Efficiency Policy Manual Version 3, Rule IV.10. In its data request, Staff requested SCG to provide estimates, based on the utility's proposed fuel substitution measures/projects, to illustrate preliminary analyses and tests that demonstrate that the proposed fuel substitution funding under this Program passes the Three-Prong Test. SCG responded that it "is not asking for any funding in the proposed Advice Letter to do any fuel substitution measures. The apparent confusion is language in the Concept Paper that was intended to simply offer The City of Palm Desert information on measures that SoCalGas has on technologies such as gas air conditioning or water pumping that are part of our regular portfolio (either as gas-for gas measures or emerging technologies). It would then be up to the City as to how that information is used. SoCalGas would not provide any measure incentives for fuel substitution without first going through the required three-prong test requirements." Staff concludes that SCG is not requesting any funding in the advice letter to implement fuel substitution measures in this project. The utility is only providing fuel substitution information to the City.

The second DRA/TURN issue was that the "\$63,000 program budget for The Energy Coalition is excessive, and that SCG should explain why it and the City of Palm Desert could not perform functions without another layer of bureaucratic expense." SCG responded that "D.06-12-013 states that SCE has shown that The Energy Coalition was instrumental in developing this project, has worked with the City on energy efficiency issues, and could bring its expertise to bear on an ongoing basis. The \$63,000 that SCG seeks is consistent on a prorated basis with the final Commission approved allocation for SCE." Staff concludes that the participation of The Energy Coalition and its budget are consistent with SCE's Palm Desert Project as authorized in Commission Decision 06-12-013.

The third DRA/TURN issue was that SCG "has not adequately justified its request to augment its budget to comply with competitive bidding requirements. It is not clear why additional funding is needed to comply with competitive bidding requirements. It might make more sense to simply bid out 20% or more of the requested \$2.243 million SCG seeks. SCG also has not described a process for working with its PRG in discussing competitive bidding issues." SCG responded that the utility "needs to bid out an additional 20% of the \$2.243 million otherwise SCG will be below the minimum 20% requirement because of the added \$2.243 million to the overall portfolio. Additionally, SCG on February 23, 2007 met with its PRG via conference call to discuss to the competitive bidding issues. DRA and TURN did not participate on this call." At the PRG

meeting SCG reported that the full \$2.243 million is all ready committed for the project and is not suitable for competitive bidding. Staff concludes that the utility needs to request an additional \$448,000 to meet the Commission's 20% competitive bidding percentage requirement on a portfolio level.

The fourth DRA/TURN issue was that, "nothing in D.06-12-013 justifies granting the request of SCG to count savings from this project towards its 2006-2008 goals. The Commission's choosing to not clarify that SCE could not count Palm Desert EE savings towards 06-08 goals should not be construed as allowing SCG to count its savings from this project towards its 06-08 goals. If allowed, it will permit shareholders the opportunity to earn additional rewards without additional risk." SCG responded that, "verified savings should be counted towards the 06-08 goals. SCG's proposed costs and energy savings are incremental to its approved 06-08 EE portfolio submitted in its February 1, 2006 AL 3588 and as a result carries the same reward and risks associated with the existing EE portfolio. Furthermore, the savings achieved as part of this project are real and therefore should be counted towards the 06-08 goals." Staff notes that on January 16, 2007 DRA and TURN filed an Application for Rehearing of D.06-12-013. This Application for Rehearing is the venue to resolve this issue. Accordingly, SCG may count energy savings from the Palm Desert Partnership Demonstration Project towards its 2006-2008 energy savings goals only if such a result is consistent with the Commission's resolution of DRA and TURN's Application for Rehearing of D.06-12-013.

In addition to the points raised by DRA and TURN in their Protest, other issues came out of Staff's consideration of this AL. These are addressed below.

Staff's first issue is that SCG requests a 5-year commitment to this program. Since this is a pilot program, its program effectiveness, impacts, and cost-effectiveness should be studied. The utility should review the results of its process evaluation of this program and Energy Division Staff's evaluation, measurement, and verification study of this program in considering whether to include this program in SCG's 2009-2011 program-cycle energy efficiency program portfolio. Additionally, D.06-12-103 authorized the SCE-Palm Desert Partnership Pilot for only 2006-2008 program cycle.

Staff's next issue involves the utility's E3 Cost-Effectiveness Calculator:

- i. The utility submitted its E3 Calculator Version SoCalGas 3b2.xls for this program. A newer version of this Calculator is available, and Staff, in its data request, requested SCG to submit the latest version of the E3 Calculator for this program, Version SoCalGas 3c4.xls.

SCG responded by providing the cost-effectiveness calculations in the latest version of the E3 Calculator. The Total Resource Cost cost-effectiveness ratio for this demonstration program dropped from a 1.29 under the old Calculator to a 1.12 with the latest Calculator, while the Program Administrator Cost ratio increased from 2.09 to 2.13.

- ii. The input measures in the E3 Calculator have no rebate amount or direct install cost associated with the measures, only a Gross Incremental Measure cost. Yet, SCG is claiming energy savings associated with these measures. These are faucet aerators, low flow showerheads, and pre-rinse spray valves early replacement. In its data request, Staff requested that SCG clarify why there are no rebate amounts or direct install costs associated with these measures.

The utility responded that, "In accordance with the "Administrative Law Judge's Ruling Addressing Compliance Filings Pursuant To Decision 06-06-063" (ALJ Ruling), direct install measures are not considered transfer payments and, as such, should be treated as administrator costs. SoCalGas submitted the Palm Desert Partnership Pilot Program, E3 Calculator Version SoCalGas 3b2.xls which did not facilitate treatment of direct install costs in this fashion. These costs were, therefore, added to the administrative cost category in the program budget to ensure compliance with the ALJ Ruling. With the submission of the revised E3 Calculator Version SoCalGas 3c4.xls, SoCalGas has addressed this anomaly and included these costs in the appropriate categories."

- iii. The utility listed instantaneous Water Heaters with a negative Gross Incremental Measure costs in the E3 Calculator. In its data request, Staff requested SCG to clarify the reason a measure would have a negative Gross Incremental Measure cost.

The utility responded that, "Instantaneous Water Heater measures in the Palm Desert Demonstration Project are based on measures in SoCalGas' 2006-2008 Express Efficiency Rebate program. The Gross Incremental

Measure Costs (IMC) for these measures were previously updated and are supported by current workpapers. The E3 calculator for both programs does not reflect the updated numbers. The new Gross IMC's are \$1.66/MBtuh and \$4.65/MBtuh for Instantaneous Water Heaters  $\leq$  200 MBtuh and  $\geq$  200 MBtuh, respectively. The E3 Calculator for both the Palm Desert Demonstration Project and SoCalGas' 2006-2008 Express Efficiency Rebate Program will be updated accordingly to reflect these figures."

Staff concludes that the revised TRC and PAC ratios to be reasonable. Staff agrees that the direct install measures costs should be included in administrator costs in accordance with the Administrative Law Judge's Ruling Addressing Compliance Filings Pursuant To Decision 06-06-063 (ALJ Ruling). Lastly, Staff concludes that the Instantaneous Water Heaters Gross IMC's have been updated in SCG's E3 Calculator for the Palm Desert Demonstration Project to reflect the new Gross IMC's which are no longer negative.

Energy Division finds reasonable SCG's request to implement the Palm Desert Partnership Demonstration Project with a budget of \$2.243 million as part of SCG's 2006-2008 energy efficiency program portfolio. The Demonstration Project will utilize the utilities' current portfolio of programs in combination with incremental activities to achieve a level of energy savings higher than could have been realized otherwise. In partnering with Southern California Edison Company in this Project, the two utilities will maximize the value of energy savings to its customers within the City of Palm Desert.

## **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 or reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

On July 6, 2007, DRA provided comments on the draft resolution regarding SCG's counting of energy savings from this project towards its 2006-2008 goals as adopted in D.04-09-060. As this issue is still pending under Application for Rehearing of D.06-12-013, DRA requested that language be included in this resolution to either allow or disallow SCG to count the energy savings from the Palm Desert Demonstration Project pending outcome of the Application for Rehearing. Energy Division Staff accepted DRA's request and incorporated the additional language accordingly.

### **FINDINGS**

1. SCG is not requesting any funding in the advice letter to implement fuel substitution measures in this project. The utility is only providing fuel substitution measures information to the City.
2. The participation of The Energy Coalition and its budget are consistent with SCE's Palm Desert Project as authorized in Commission Decision 06-12-013.
3. The full \$2.243 million is all ready committed for the project and is not suitable for competitive bidding. Therefore, SCG's request to increase the overall funding available for the 2006-2008 Competitive Bid by \$448,000 to meet the Commission's competitive bidding percentage requirement is reasonable.
4. The issue concerning whether SCG may count savings from this demonstration project towards its 2006-2008 energy savings goal should be resolved in Application for Rehearing of D.06-12-013.
5. SCG's revised TRC and PAC ratios in its updated E3 Calculator are reasonable.
6. Direct install measures costs should be included in administrator costs in accordance with the Administrative Law Judge's Ruling Addressing Compliance Filings Pursuant To Decision 06-06-063 (ALJ Ruling).
7. The Instantaneous Water Heaters Gross IMC's have been updated in SCG's E3 Calculator to reflect the new Gross IMC's which are no longer negative.
8. SCG's request to implement the Palm Desert Partnership Demonstration Project with a budget of \$2.243 million as part of SCG's 2006-2008 energy efficiency program portfolio is reasonable.
9. SCG requests this demonstration program to be a 5-year program. Since this is a demonstration program, its program effectiveness, impacts, and cost-effectiveness should be studied prior to inclusion into the utility's 2009-2011 energy efficiency program portfolio. Additionally, D.06-12-103 authorized the SCE-Palm Desert Partnership Pilot for only the 2006-2008 program cycle.

**THEREFORE IT IS ORDERED THAT:**

1. The request of Southern California Gas Company to implement the Palm Desert Partnership Demonstration Project with a budget of \$2.243 million as part of SCG's energy efficiency program portfolio is approved for the 2006-2008 program cycle.
2. The request of Southern California Gas Company to increase the overall funding available for the 2006-2008 Competitive Bid by \$448,000 is approved.
3. Southern California Gas Company shall review the results of its process evaluation of this program and Energy Division Staff's evaluation, measurement, and verification study of the Palm Desert Demonstration Project in considering whether to include the program in the utility's 2009-2011 energy efficiency program portfolio.
4. SCG may count energy savings from the Palm Desert Partnership Demonstration Project towards its 2006-2008 energy savings goals **only** if such a result is consistent with the Commission's resolution of DRA and TURN's Application for Rehearing of D.06-12-013.
5. SCG's Advice Letter 3713 is approved with modification as described in the preceding Ordering Paragraphs.

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 12, 2007; the following Commissioners voting favorably thereon:

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PAUL CLANON  
Executive Director

MICHAEL R. PEEVEY  
PRESIDENT  
DIAN M. GRUENEICH  
JOHN A. BOHN  
RACHELLE B. CHONG

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SCG AL 3713

July 12, 2007

TIMOTHY ALAN SIMON  
Commissioners