STATE OF CALIFORNIA ARNOLD SCHWARZENEGGER, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

March 26, 2010

Ms. Janice Berman, Senior Director
Customer Energy Efficiency
Pacific Gas & Electric Company
245 Market Street, Room 663, Mail Code N6G
San Francisco, CA 94105

Re: PG&E Advice Letters AL 3065-G and 3562-E

Issues Raised by CPUC Energy Division Staff Review of the PG&E November 23, 2009 Energy Efficiency Compliance Filing, per D.09-09-047

Dear Ms. Berman:

I am writing to provide you with a short list of critical concerns raised by our staff analysis of the PG&E Compliance Filing for the 2010-12 Energy Efficiency Portfolio.

The critical issues are:

1: Excessive reduction in the budget for "Strategic Plan" programs and activities that should be augmented with modestly increased budgets.

2: It appears PG&E has no intention to launch On Bill Financing (on or off the bill) for commercial and institutional customers until mid-to-late 2011. This is unacceptable.

3: The percentage of budget for Direct Implementation, Non-Incentive (DINI) should be reduced.

I describe each of these in more detail below.

Issue 1: Excessive reduction in the budget for "Strategic Plan" programs and activities, below the pro rata cuts in other areas to bring your budget into overall compliance. D.09-09-047 specifically directed utilities not to cut Strategic Plan activities by a disproportional amount. Most specifically, we note extreme cuts to both the scope of program activities and thus the associated budgets for Innovator Pilots (the strategic planning portions of Local Government Partnerships), selected components of the Emerging Technologies Program, and Zero Net Energy Buildings. The strategic planning dimensions of Local Government-related programs (Innovator Pilots, Green Communities, and Strategic Plan elements of Local Government Partnerships) together had a July 2009 proposed budget for PG&E of $46 million. This level of PG&E local government budgets for strategic planning activities became the benchmark used in the Decision to set comparable spending levels for SCE (requiring SCE to commit an additional $32 million to this program area, to bring its total to a proportional size with PG&E). Now PG&E proposes to commit just $29 million to this activity area, a 55% decrease, and falling substantially below the benchmark used in the Decision.

Energy Division staff requests that PG&E provide an updated Program Implementation Plans (PIPs) for the following three programs. These PIPs must show compliance with the Decision in which programs were approved "as filed" (meaning as described in the PIPs filed in July 2009). We must see that the scope and quality of the programs to be implemented comply with the Commission's direction. Furthermore, in the table below we suggest a level of funding that would appear to ensure the PIPs can be carried out with the scope and quality proposed in July. Our estimates amount to an additional commitment of up to $26-28 million to be added to these three areas, which could be accommodated by the changes suggested in Issue 3 below. You of course may find ways to accomplish the scope for these areas without increasing your budget to this extent.

Program	Deficiency	Additional Spending Suggested
Emerging Technologies	Scope must be fully performed as approved, per July 2009 PIP, and with sufficient funding to do so. Four program areas that were cut dramatically are critical, consistent with the Strategic Plan, and should receive increased funding: • Scaled Field Placement • Demonstration/Showcasing • Technology Supply Side Efforts • Incubation	$8 million
Zero Net Energy Buildings	Scope must be fully performed as approved, per July 2009 PIP, and with sufficient funding to do so. Staff is concerned by the ZNE Pilot Advice Letter indicating reductions or eliminations of: • Design assistance and technical support agreements • Numbers of near-ZNE pilot homes and commercial case studies • Report on ZNE performance after normal occupancy • Report on lessons learned from field evaluation of 6 high performance buildings • Number of ZNE technology assessment reviews • ZNE forums for design and development professionals	Up to $12 million more, as necessary to fulfill 7/09 PIP
Local Government Innovator Pilots	Scope must be fully performed as approved, per July 2009 PIP, and with sufficient funding to do so. • The pilots were touted as the home for local government Strategic Plan activities. • It appears that PG&E does not propose to fund more than a handful of high-scoring projects. • Cutting out similar projects is not sufficient reason for reduced budgets if there is significant medium-long term energy savings potential to be achieved.	$6-8 million

Issue 2: It appears PG&E has no intention to launch On Bill Financing until mid-to-late 2011. This is unacceptable. The Decision directed programs to start in January 2010 (subject to disposition or resolution of any required advice letters). The information we obtained via intervening data requests suggests that PG&E will not be prepared to make any loans via on-bill or off-bill mechanisms until spring and summer 2011 for institutional and commercial customers, respectively.

Energy Division staff requests that PG&E immediately take appropriate actions to offer no later than July 2010 EE financing on the terms approved by the decision. This should commence through "off-bill" mechanisms until such time as PG&E completes its IT modifications.

Issue 3: The percentage of budget for Direct Implementation, Non-Incentive (DINI) must be reduced. The proposed DINI budget actually has increased in the Compliance Filing to 28% from 21%, rather than decreased toward the Commission decision's soft target of 20% for this expenditure category.

Energy Division staff requests that PG&E reduce its DINI budget by $27 million or 8%, from $332 million to $305 million. We believe this would put PG&E closer to a portfolio budget with 23% expenditures in DINI. Candidate programs with substantial increases in DINI budgets (far in excess of the overall change in each program's budget) between the July and November, 2009 filings are:

- PGE21031 Calculated Incentives (Ag sector), while the program's overall budget was cut 35%
- PGE2182 Boiler EE Program
- PGE 2225 Refinery EE Program, while the program's overall budget was cut 4%
- PGE2227 Cement Production and Distribution EE
- PGE2204 SmartVent for EE Kitchens
- PGE2214 EE Entertainment Centers

I believe the most productive way to take up these issues is to arrange a meeting involving essential personnel from both our organization for these subject matter areas. At the meeting we can present additional analysis performed by our staff from your Compliance Filing and explain our findings.

Once we have a clear understanding of both your intent and our concerns, I would hope that we could gain some clarity on how to best resolve our concerns. If appropriate, the CPUC staff can follow up with a request for supplemental advice letter filing to better inform and hopefully resolve these issues. If we cannot resolve these matters satisfactorily, staff will prepare a Resolution for Commission consideration containing our analysis of these points and recommendations for the Commission's determination for disposition.

I would like to think that we could reach agreements on these matters through productive conversation. I suggest the following dates that could work for us to convene such a meeting. Please let me know if one or more of these dates would be convenient for you.

Monday, March 29th at 3:00 p.m.
Tuesday, March 30th at 9:00 a.m.
Thursday, April 1st at 9:00 or 10:00 a.m.
Friday, April 1st in morning
Monday, April 5th in the afternoon

Sincerely,

Jeanne M. Clinton

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Cc: Julie A. Fitch, CPUC Energy Division Director
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