TURN
THE UTILITY REFORM NETWORK
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Honorable John A. Bohn
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

RE: **R.09-01-019: Incentive True-Up for 2006-2008**

Dear Commissioner Bohn:

TURN appreciates that you, as the Assigned Commissioner in this proceeding, and the Assigned Administrative Law Judge have provided parties an opportunity to comment on various issues related to the "true-up" of utility incentive payments for energy efficiency program work conducted in 2006-2008. I am writing to point out one gross misrepresentation by the utilities concerning the origins of the *ex ante* net-to-gross ratio ("NTGR"). The utilities' persistent claim that their *ex ante* number is more accurate and based on the DEER 2005 results is hogwash.

In Decisions 08-12-059 and 09-12-045 the Commission awarded the four energy utilities a total of $143.7 million as the first two interim incentive payments. The final payment was to be based on the results of several impact evaluation studies conducted by independent consultants hired by Energy Division. Energy Division released its Draft Evaluation Report on April 15, 2010. The data show that while energy efficiency programs benefitted California ratepayers, the amount of energy savings from utility programs was substantially less than predicted by the utilities. The utilities would deserve no additional incentive payments for evaluated net energy savings, even at the 12% sharing rate adopted in D.09-12-045.

The utilities and NRDC have strongly objected to the technical conclusions of the load impact evaluation studies that form the basis of the Evaluation Report. One of the primary controversies is the finding that more than 40% of the purchases of residential compact fluorescent light bulbs (CFLs) in California would have occurred irrespective of the utilities' upstream rebate programs.[1] This conclusion reflects greater consumer awareness and interest in CFLs. The conclusion results in a much lower "net-to-gross" ratio, which is a measure of program free ridership.

Since you have ruled that no hearings will be required in this proceeding, there is no sworn testimony or opportunity for cross-examination. TURN understands that the Commission will rely on written comments as the basis for its decision. TURN hopes that the Commission will consult closely with the Assigned Administrative Law Judge and with the Energy Division staff who have been charged with the responsibility of oversight of the significant evaluation efforts that have been conducted to measure program performance in 2006-2008.

Nevertheless, TURN feels it is vital to correct the written record regarding one small, though very significant, point. The utilities have consistently argued that the *ex ante* values for net-to-gross (as well as other parameters), which they used in their original program applications, are more accurate and based on better studies than the numbers resulting from the 2006-2008 evaluation studies. In their latest filing, PG&E and SCE repeat this claim and go one step further:

> The *ex ante* [NTGR] values **were based on the CPUC's 2005 DEER**, which were developed in an open, transparent, and collaborative process by all parties, including TURN and DRA. …. These [2006-2008] EM&V studies provide substantially flawed results that, despite their novelty, are not as reliable as the *ex ante* values used to plan the programs.[2]

TURN has researched extensively the origins of the 0.80 *ex ante* number for net-to-gross used by the utilities.[3] Their claim that this number is "based on the 2005 DEER" [data base for energy efficient resources] database is just plain wrong and misleading. The 2005 DEER website states the following:

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[1] KEMA, Inc., The Cadmus Group, Inc., Itron, Inc., PA Consulting Group, Jai J. Mitchell Analytics; "Final Evaluation Report: Upstream Lighting Program," February 8, 2010. Table 25 shows that the average NTGR for all utilities is 0.54, meaning that 46% of the CFL purchases were "free riders," not a result of utility spending. The actual NTGR are different for each utility, with SCE having significantly lower free-ridership than PG&E or SDG&E. SoCalGas did not sponsor a CFL upstream rebate program.
[2] "Joint Reply Comments of SCE and PG&E Regarding RRIM True-Up Scenario Runs," R.09-01-019, June 11, 2010, p. 9 (emphasis added).
[3] Both PG&E and SDG&E used an NTGR of 0.80, while SCE modified its number to 0.75. See, Section 2 of the Reply Comments of TURN, June 11, 2010.

> NTG Values were not included in DEER 2005, however, older values were available in the CPUC August 2003 Energy Efficiency Policy Manual Version 3 (Table 4.2) issued for use in the 2004-2005 IOU programs.[4]

The first version of the Energy Efficiency Policy Manual (dated October 2001) adopted a default NTGR of 0.80 and stated that this default value should be used "until such time as a new, more appropriate, value is determined in the course of program evaluation." This default value of 0.80 originated in a September 25, 2000 CALMAC Report, prepared as a result of Ordering Paragraph 7 of D.00-07-017.[5] The CALMAC report adopted 0.80 as a default value based on an average of all the studies conducted on 1994-1999 programs. Most of those programs were of the 'downstream rebate' type, where a consumer requests a rebate on a specific purchase. The utilities conducted no "upstream incentive" energy efficiency programs during those years. The 0.80 default was used for the upstream lighting program because the program was not similar enough in design to historical programs so as to use one of the more specific numbers from the 1994-1999 studies.

To claim that the default 0.80 net-to-gross number is based on DEER 2005 is plain misleading. To claim that it is more "accurate" than the 0.54 figure that results from the recent evaluations of the actual 2006-2008 programs is pure fiction. This default number reflects the results of direct rebate programs, which will almost by definition have fewer free riders, since the consumer has to make the effort to request a rebate for their purchase. An upstream rebate program, while certainly a valuable mechanism to lower price for small items, will necessarily capture sales from customers who may be entirely unaware of the rebate. This is the reason why the Commission strongly alerted the utilities to the need to amend the net-to-gross numbers when it authorized their 2006-2008 programs in D.05-09-043.[6]

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[4] See DEER 2005 website at http://www.deeresources.com/index.php?option=com_content&view=category&layout=blog&id=36&Itemid=53

[5] CALMAC Public Workshops on PY 2001 Energy Efficiency Programs, September 25, 2000, p. 6. (hereinafter "CALMAC Workshop Report"). This report can be accessed on the CALMAC searchable database as study "SDG0218.01". (Put study ID number in the search text field.) The Report provides complete detail regarding all prior NTGR studies in Appendix C1.

[6] See, D.05-09-043, p. 53-56, 95-98 ("In considering the concerns about the planning assumptions in this proceeding, we agree in principle with TecMarket Works, TURN, ORA and others that NTG ratios must be refined to reflect the findings from recent evaluation studies and appropriately mapped to the new generation of programs in 2006 and beyond.")

You have expressed an intent to complete the true-up process without necessarily relying on the exact methodologies originally adopted for the incentive mechanism. Irrespective of the outcome chosen by the Commission regarding the incentive calculation, I sincerely hope that you do not condone the utilities' fiction that the *ex ante* net-to-gross number adopted as a default in 2000 in any way represents a more accurate figure for the upstream lighting program results of 2006-2008.

Yours truly,

Marcel Hawiger
Energy Attorney

Cc: Commissioner Michael R. Peevey, President
Commissioner Dian M. Grueneich
Commissioner Timothy Alan Simon
Commissioner Nancy E. Ryan
Service List for R.09-01-019