BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the Commission's Energy Efficiency Risk/Reward Incentive Mechanism	Rulemaking 09-01-019 (Filed January 29, 2009)

REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) ON ADMINISTRATIVE LAW JUDGE PULSIFER'S PROPOSED DECISION REGARDING RISK/REWARD INCENTIVE MECHANISM REFORMS

Steven D. Patrick

Attorney for
SAN DIEGO GAS & ELECTRIC COMPANY and
SOUTHERN CALIFORNIA GAS COMPANY
555 W. Fifth Street, Suite 1400
Los Angeles, CA 90013-1046
Phone: (213) 244-2954
Fax: (213 629-9620
E-Mail: SDPatrick@semprautilities.com

December 13, 2010

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the Commission's Energy Efficiency Risk/Reward Incentive Mechanism	Rulemaking 09-01-019 (Filed January 29, 2009)

REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) ON ADMINISTRATIVE LAW JUDGE PULSIFER'S PROPOSED DECISION REGARDING RISK/REWARD INCENTIVE MECHANISM REFORMS

I. INTRODUCTION

Pursuant to the Commission's Rules of Practice and Procedure, the Southern California Gas Company ("SoCalGas") and the San Diego Gas and Electric Company ("SDG&E") (collectively, the "Sempra Utilities") respectfully offer their Reply Comments on the Proposed Decision ("PD") of Administrative Law Judge Thomas Pulsifer in the above captioned proceeding concerning proposed reforms to the Risk/Reward Incentive Mechanism ("RRIM") for energy efficiency.

II. THE SEMPRA UTIITIES AGREE WITH ALL PARTIES THAT A RRIM BASED ON EX ANTE ASSUMPTIONS WILL CONTRIBUTE TO A MORE STABLE, MORE RELIABLE, STREAMLINED, AND LESS CONTENTIOUS RRIM

The Sempra Utilities agree with NRDC, PG&E, SCE, DRA and TURN that a RRIM based on *ex ante* values would lend certainty and stability to the RRIM, although the Sempra Utilities also agree with OPower that the Commission should make accommodations to support the development of innovative behavior-based programs for which *ex ante* assumptions are currently not available. The Sempra Utilities further agree with NRDC, PG&E, OPower, and SCE that a shared savings approach should be retained, as it offers the best opportunity to maximize energy efficiency savings to ratepayers and the state. Although DRA and TURN's comments make plain that they continue to oppose the Commission's policy of using a RRIM to support energy efficiency as the first resource in California's loading order, DRA and TURN do appear to be amendable to a RRIM based on a shared savings rate.

SB_GT&S_0031632

The Sempra Utilities disagree, however, with DRA and TURN's proposal, adopted in the PD, of a 5.4% shared savings rate and a cap of $189 million. As indicated in the comments of NRDC, PG&E, and SCE, DRA's supporting analysis for the 5.4% shared savings rate and its $189 million proposed cap is fundamentally flawed. DRA's proposal is based on 2006-2008 portfolio net benefits rather than 2010-2012 portfolio estimated net benefits. The two portfolios are not equal, and DRA fails to take into account "the lower energy efficiency savings levels expected from the 2010-2012 portfolio relative to the prior cycle" (PD, p.41) in calculating its proposed sharing rate and cap. For example, the 2010-2012 portfolios have an increased focus on non-resource Strategic Plan initiatives, which do not deliver immediate energy savings. In contrast, there were no Strategic Plan initiatives in the 2006-2008 portfolios. Non-resource, Strategic Plan programs have a significant impact on the net benefits of the 2010-2012 portfolios. Available savings from resource programs are also less in the 2010-2012 portfolios due to the application of 2008 DEER to planning assumptions and, generally, to less available energy efficiency "low hanging fruit."

The Sempra Utilities assert that a new shared savings rate and earnings cap should be correctly gauged to the estimated net benefits of the 2010-2012 portfolios, taking into account those portfolios' "lower energy efficiency savings levels….relative to the prior cycle." DRA's flawed analysis leads to a nonsensical scenario, as explained in the Sempra Utilities' comments, whereby the utilities' actual potential to earn is nowhere near, and effectively renders moot, the proposed $189 million cap. The net effect of DRA's flawed analysis, as SCE's comments correctly put it, is to put forth a shared savings rate and cap that grossly undervalue the aggressive pursuit of more difficult-to-achieve energy efficiency savings in the 2010-2012 portfolios (p.5).

Although the proposed shared savings rates and earnings caps of PG&E and SCE are more reasonable, the Sempra Utilities nevertheless believe that the resolution of incentive treatment for non-resource and custom measure savings as elements of a unitary Performance Earnings Basis is imperative before an appropriate shared savings rate and earnings cap can be established. SCE and PG&E's proposed 12% shared savings rate may in fact still be too low in light of these contingencies. The Sempra Utilities believe that NRDC's analysis of an appropriate shared savings rate between 12% and 15% percent may indeed be more indicative of the actual energy savings opportunity in the 2010-2012 portfolios. However, the Sempra

SB_GT&S_0031633

Utilities agree with PG&E and SCE that a 22% reduction in the cap to $350 million cap is a more reasonable compromise between risk and reward than NRDC's proposed $300 million cap.

The Sempra Utilities further agree with the comments of several parties that a cost-effectiveness guarantee, requiring the utilities to pay any negative net benefits to ratepayers and making the need for a penalty under the RRIM unnecessary, is in order.

III.
THE SEMPRA UTIITIES AGREE WITH COMMENTS SUPPORTING APPLICATION OF THE FINAL INCENTIVE TREATMENT OF 2006-2008 SAVINGS TO 2009 SAVINGS BUT BELIEVE THAT A 2011 APPLICATION IS UNNECESSARY

The Sempra Utilities agree with PG&E, SCE, and NRDC that the PD should bridge the final 2006-2008 true-up methodology to the 2009 program year (PY) incentives in 2011, potentially applying Scenario 3 installation rates only to utility-reported PY 2009 *ex ante* calculated savings. Both these variables are known, and processing of a 2011 earnings claim for PY 2009 savings, per the alternate proposed 2006-2008 incentive methodology, is a non-controversial, indisputable, mechanical application of (1) Scenario 3 installation rates already published in Energy Division's 2010 Energy Efficiency Evaluation Report and (2) utility 2009 *ex ante* savings already reported to the Commission in each utility's March 1, 2010, 4th Quarter Report.

Accordingly, the PD should specifically order the Energy Division to modify the November 10, 2010, Energy Efficiency Evaluation Report of 2009 Bridge Year Period ("Report") to include a "Scenario 3" calculation of utility performance from the 2010 Energy Efficiency Evaluation Report, for PY 2009 savings. This 2011 "Scenario 3" would apply the final 2006-2008 true-up methodology to PY 2009 savings. The PD should require Energy Division to reissue a modified Report no later than March 1, 2011, with public comments due on March 15, 2011, and with Energy Division's reply to public comments due on March 31, 2011. The Sempra Utilities propose that each utility be ordered to file a Tier 2 advice letter with the Energy Division by May 1, 2011, for a required timely resolution by the Commission in 2011 of each utility's 2011 incentive claim for PY 2009 savings based upon the final 2006-2008 true-up methodology. This would provide administrative efficiency, a non-controversial earnings year, and timely continuance of earnings from utility achieved savings that can be booked annually in furtherance of the Commission's RRIM and the State Energy Action Plan II.

SB_GT&S_0031634

IV.
AN APPLICATION IS UNNECESSARY FOR TREATMENT OF THE FIRST AND SECOND CLAIMS IN THE 2010-2012 RRIM; A 50 PERCENT HOLDBACK IS UNWARRANTED; AND THE PD SHOULD ADDRESS INCENTIVE TREATMENT OF SAVINGS FROM POSSIBLE 2010-2012 PORTFOLIO EXTENSIONS

With respect to the treatment of 2010-2012 savings, the Sempra Utilities disagree with SCE that the application process for all claims in a three-year incentive cycle is necessary. Since the first two claims in the three-year incentive cycle are based on utility *ex ante* claims and a commensurate adjustment to the shared savings rate appropriate to the savings potential of the 2010-2012 portfolios, processing the first two claims should be straight-forward, ministerial, relatively free of controversy (pursuant to the goals of this rulemaking), and not in need of an application.

On the model of the 2006-2008 incentive claim cycle, the Sempra Utilities propose a first advice letter claim in 2012 for PY 2010-2011 savings and a second advice letter claim in 2013 for PY 2012 savings. The first and second claims should be processed through Tier 2 advice letters, which the utilities would be required to file by May 1 of each year. The Tier 2 advice letter process is both appropriate to the first two claims and administratively efficient.

The application process is, however, appropriate for the third true-up claim in 2014 that applies installation rates to the utilities' final PY 2010-2012 savings. Accordingly, the Sempra Utilities propose that the PD specify (1) that the Energy Division issue a report by April 1, 2014, on proposed installation rates and estimated earnings from the application of those rates to utility-reported savings (as in Scenario 3 of the 2010 Energy Efficiency Evaluation Report), (2) that public comment on that report is due April 15, 2014, and (3) that Energy Division's reply to public comment is due on May 1, 2014. The Sempra Utilities propose that each utility be ordered to file an application for the final PY 2010-2012 true-up savings by June 1, 2014, for timely resolution by year's end.

The Sempra Utilities agree with SCE and PG&E that there is simply no justification for a 50% holdback applicable to the first two claims. The risk of overpayment to ratepayers under a RRIM that calculates claims based on Commission-approved, frozen *ex ante* assumptions (pending resolution in A.08-05-021 *et al*), is low and contained by the application of installation rates in the true-up claim. As SCE notes, the historically very high (100%) installation rates of non-upstream programs are indicative of overall risk to ratepayers. There is simply no justification for a 50% holdback of earnings. In light of historical installation rates, a 10%

SB_GT&S_0031635

holdback provides more than enough protection to ratepayers to ensure that measures that were paid for by ratepayers were indeed verified as installed.

The Sempra Utilities do agree with SCE that in order to streamline the mechanism and minimize future controversy, incremental measure costs and in-service rates should be frozen just as any other *ex ante* assumption. The Sempra Utilities also agree with PG&E that the PD should specifically approve the application of the 2010-2012 RRIM methodology to any additional years of savings beyond 2012, should the Commission, for example, choose to extend the 2010-2012 portfolios as it did by extending the 2009-2011 portfolios into bridge year 2009. Those adjustments for subsequent years should include consistent and proportional adjustments to the 2010-2012 earnings cap to provide certainty to the utilities that supports the pursuit of superior energy efficiency performance.

Dated December 13, 2010.

Respectfully submitted

By *Is/ Steven D. Patrick*
Steven D. Patrick

Attorney for:
SAN DIEGO GAS & ELECTRIC COMPANY and
SOUTHERN CALIFORNIA GAS COMPANY
555 W. Fifth Street, Suite 1400
Los Angeles, CA 90013-1011
Telephone: (213) 244-2954
Facsimile: (213) 629-9620
E-mail: SDPatrick@semprautilities.com

SB_GT&S_0031636

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing **REPLY COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) ON ADMINISTRATIVE LAW JUDGE PULSIFER'S PROPOSED DECISION REGARDING RISK/REWARD INCENTIVE MECHANISM REFORMS** on all parties of record in **R.09-01-019** by electronic mail and by U.S. mail to those parties who have not provided an electronic address to the Commission.

Copies were also sent via Federal Express to Commissioner Bohn and Administrative Law Judge Pulsifer.

Dated at Los Angeles, California, this 13th day of December, 2010.

/s/ Marivel Munoz
Marivel Munoz

SB_GT&S_0031637

dgilligan@naesco.org; SDPatrick@SempraUtilities.com; larry.cope@sce.com; dil@cpuc.ca.gov; marcel@turn.org; bfinkelstein@turn.org; lhj2@pge.com; M1ke@pge.com; wbooth@booth-law.com; wem@igc.org; dwang@nrdc.org; ABesa@SempraUtilities.com; achang@efficiencycouncil.org; cassandra.sweet@dowjones.com; kmills@cfbf.com; lettenson@nrdc.org; nlong@nrdc.org; PVillegas@SempraUtilities.com; smartinez@nrdc.org; sschiller@efficiencycouncil.org; tam.hunt@gmail.com; mrw@mrwassoc.com; EGrizard@deweysquare.com; mokeefe@efficiencycouncil.org; rachel.murray@kema.com; sephra.ninow@energycenter.org; gandhi.nikhil@verizon.net; matt.mccaffree@opower.com; michael.sachse@opower.com; Scott.Dimetrosky@cadmusgroup.com; Cynthiakmitchell@gmail.com; david@nemtzow.com; darren.hanway@sce.com; don.arambula@sce.com; tory.weber@sce.com; case.admin@sce.com; monica.ghattas@sce.com; jennifer.shigekawa@sce.com; liddell@energyattorney.com; CentralFiles@SempraUtilities.com; JYamagata@SempraUtilities.com; bob.ramirez@itron.com; dmano@enalasys.com; Jeff.Hirsch@DOE2.com; ddavis@cecmail.org; hprince@rsgrp.com; jeanne.sole@sfgov.org; FSmith@sfwater.org; mramirez@sfwater.org; tburke@sfwater.org; jchou@nrdc.org; pmiller@nrdc.org; RegRelCPUCCases@pge.com; efm2@pge.com; yxg4@pge.com; filings@a-klaw.com; nes@a-klaw.com; sls@a-klaw.com; SRRd@pge.com; SRH1@pge.com; bdille@jmpsecurities.com; sdhilton@stoel.com; CPUCCases@pge.com; cem@newsdata.com; CJN3@pge.com; J4LR@pge.com; slda@pge.com; rsridge@comcast.net; ghamilton@gepllc.com; jak@gepllc.com; cadickerson@cadconsulting.biz; Michael.Rufo@itron.com; john.stoops@rlw.com; jskromer@qmail.com; mmyers@vandelaw.com; erik@erikpage.com; sberlin@mccarthylaw.com; brbarkovich@earthlink.net; bill@jbsenergy.com; mjaske@energy.state.ca.us; lmh@eslawfirm.com; grover@portland.econw.com; Allen.Lee@cadmusgroup.com; CBE@cpuc.ca.gov; JL2@cpuc.ca.gov; MWT@cpuc.ca.gov; ppl@cpuc.ca.gov; aeo@cpuc.ca.gov; cf1@cpuc.ca.gov; cxc@cpuc.ca.gov; cln@cpuc.ca.gov; jst@cpuc.ca.gov; jnc@cpuc.ca.gov; kwz@cpuc.ca.gov; keh@cpuc.ca.gov; kmb@cpuc.ca.gov; lp1@cpuc.ca.gov; mmw@cpuc.ca.gov; mkh@cpuc.ca.gov; pcf@cpuc.ca.gov; rhh@cpuc.ca.gov; seb@cpuc.ca.gov; srm@cpuc.ca.gov; tcx@cpuc.ca.gov; trp@cpuc.ca.gov; tcr@cpuc.ca.gov; zap@cpuc.ca.gov; ztc@cpuc.ca.gov; awp@cpuc.ca.gov; mulloa@semprautilities.com; luluw@newsdata.com; centralfiles@semprautilities.com; mmunoz@semprautilities.com

Mike Yim
Summit Blue Consulting
1990 N. California Blvd., Suite 700
Walnut Creek, CA 94596

SB_GT&S_0031638