

Contact: Cheryl Cox, DRA Policy Advisor - (415) 703-2495 - cxc@cpuc.ca.gov

PROCEEDING NO: R.09-01-019 and A.08-07-021
Commission Agenda: December 16, 2010

December 6, 2010

Energy Efficiency: 2010-12 Shareholder Incentive Mechanism Reform

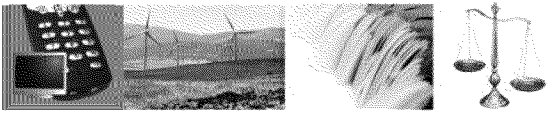
DRA Position: In the absence of Independent Administration, the Commission should adopt the Proposed Decision (PD) to reform the incentive mechanism and the Gamson PD which adopts independently verified ex-ante assumptions.

PD Summary

- DRA does not support continuing Utilities administration of EE programs but the PD makes a step in the right direction by reducing the potential award.
- Reduces the earnings rate from 9-12% to 5.4% to be applied to Net Benefits due to reduced shareholder risk.
- Lowers the bonus cap from \$450 million to \$189 million.
- Freezes ex ante values based upon the best information available for the 2010-2012 cycle to be established in resolution of the petition to modify (PFM) D.09-09-047.
- Establishes a 50% holdback of shareholder bonus to provide ratepayer protection.
- Declines to give an incentive award for 2009 since utilities are eligible for 2010 doesn't want to undertake time and resources to determine 2009 reward.

Reformed Risk Reward Incentive Mechanism Should Utilize Best Available, Independent Ex Ante Values

- The utilities filed a PFM on September 17, 2010 to freeze their own ex ante values that would be pivotal in creating the perception of energy savings achieved from EE programs.
- Two Proposed Decisions address the PFM:
 - **PD:** Adopts Energy Division's process for approval of ex ante values established in non-DEER workpapers and customized projects. Provides a formal process to finalize all non-DEER ex ante values.
 - The intent of the PD will only be realized if the Commission freezes the most up-to-date, best available data as determined by ED
 - The Commission recognized in D.07-09-043 that true-up was essential to prevent the utilities from inflating savings projections.
 - **Alternate PD:** Grants the utility petition to freeze ex ante values in non-DEER high impact measure workpapers submitted to-date for the duration of the program cycle.



- ED evaluation of utility workpapers finds data results in a TRC Cost-Effectiveness ratio of less than 1.0 for each utility based on 2006-2008 EM&V Results and DEER 2.05.

PG&E	0.85
SCE	0.81
SDG&E	0.87
SoCalGas	0.92

DRA Recommendations

- Open a proceeding to investigate other EE administration options that will achieve greater energy saving more cost-effectively, such as third party administration.
- Adopt ALJ Pulsifer's 2010-12 RRIM Reform PD as a short-term measure that mitigates customer risk until an improved EE program can be formulated.
- Adopt the Gamson PD that requires use of best available ex ante values to be used in the Reformed SIM that are determined by Energy Division's independent, non-financially interested process.