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December 3, 2010

BY HAND DELIVERY

Darwin Farrar, Administrative Law Judge
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: Rulemaking 09-11-014

Dear ALJ Farrar:

Enclosed is a copy of Pacific Gas and Electric Company's filing on December 3, 2010 in R.09-11-014:

OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) IN RESPONSE TO ASSIGNED COMMISSIONER'S RULING SOLICITING COMMENTS

This filing was submitted to the Docket Office using the e-filing system, and was served electronically on this same date, on all parties listed on the official service lists for R.09-11-014. Thank you.

Very truly yours,

Ann H Kim

Ann Kim

cc: w/enclosures
Commissioner Dian Grueneich

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the Commission's Post-2008 Energy Efficiency Policies, Programs, Evaluation, Measurement, and Verification, and Related Issues.	Rulemaking 09-11-014 (Filed November 20, 2009)

OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) IN RESPONSE TO ASSIGNED COMMISSIONER'S RULING SOLICITING COMMENTS

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December 3, 2010

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

Order Instituting Rulemaking to Examine the Commission's Post-2008 Energy Efficiency Policies, Programs, Evaluation, Measurement, and Verification, and Related Issues.	Rulemaking 09-11-014 (Filed November 20, 2009)

**OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M)
IN RESPONSE TO ASSIGNED COMMISSIONER'S RULING
SOLICITING COMMENTS**

I. INTRODUCTION

Pursuant to the *Assigned Commissioner's Ruling Soliciting Comments* (ACR) issued November 17, 2010, in the above-referenced proceeding, Pacific Gas and Electric Company hereby submits these comments on the questions set forth in the ACR related to the Energy Division White Paper.

As stated in the ACR, the Commission authorized the current 2010-2012 energy efficiency portfolios "with the expectation that planning activities will commence with sufficient time to prepare, review and approve the portfolios for the next cycle (presumably, 2013-2015)." (ACR, p. 2.) Due to a variety of factors, however, the Commission's Energy Division staff "has not yet commenced work to update efficiency goals." (ACR, p. 3.) Therefore, California's investor-owned utilities (IOUs) and other stakeholders in the state's energy efficiency (EE) program are left with two basic options: (1) to adhere to the current expectations for a 2013-2015 EE portfolio, with updated goals and policy guidance based on a cursory review and analysis; or (2) to extend the current 2010-2012 EE cycle by an additional year, with updated goals and policy guidance for the next portfolio cycle beginning in 2014 based on a more comprehensive review and analysis.

PG&E supports the ACR's recommendation to extend the timeframe for updating EE goals prior to the next program cycle. Under the proposal, the Commission would modify plans for a 2013 -2015 EE portfolio cycle and extend the current 2010-2012 cycle by one year so that it would end in 2013. Furthermore, PG&E agrees with the recommendation to shift the energy efficiency program to a four-year portfolio cycle going forward.

With the extension of time, however, PG&E strongly urges the Commission to address the following issues, including the adoption of a formal procedural schedule for key deliverables, so as to avoid further delays and uncertainty in the future:

- The total portfolio budget for 2013 should be established upfront for ratemaking purposes and to allow PG&E and its partners to better plan its program implementation through 2013.
- The allocation of the 2013 budget and other mid-cycle funding adjustments, including amounts allocated for EM&V, may be revised by advice letter, consistent with the existing fund shifting rules adopted in Decision 09-09-047 as needed to reflect program performance, cost effectiveness, and other market, policy or program considerations.
- The savings goals adopted for 2013 should be adjusted consistent with the adjustments applied to PG&E's 2010-2012 goals in Decision 09-09-047.
- The ex ante values that are used for 2010-2012 should be extended to 2013.
- The RRIM adopted for 2010-2012 should be extended to 2013.
- The RRIM for 2014-2017 should be determined in advance of portfolio planning.
- The schedule provided under Option B extends a disproportionate amount of time for updating 2014-2017 goals and should be revised to provide some additional time for IOU portfolio development and other priority activities.
- An overall coordinated schedule should be developed for this proceeding, with stakeholder input, that includes all of the priority activities needed to be completed prior to the development of the 2014-2017 IOU applications. This includes the updates to cost effectiveness, DEER and other ex-ante values, goals, and the Strategic Plan; the schedule for Policy and Planning Division hosted workshops

called for in Decision 10-10-033 that will guide the 2014-2017 EM&V Plan; and process improvement for the application and program implementation plan requirements.

- The Commission should confirm that the per annum fund shifting reporting requirement adopted in D.09-09-047 does not restrict IOUs and their program partners from varying statewide and local program spending year over year in the normal course of program implementation. In addition, the Commission should clarify that any unspent 2010-2012 program funds as of December 31, 2012 may be applied for program implementation in 2013.
- The update of cost effectiveness inputs should include an update to the discount rate employed in the cost effectiveness tests to be consistent with current and projected market conditions and to be consistent with inputs used for Demand Response, in line with both the Commission's goal of adopting common methodologies across demand side management programs and utility practices to evaluate capital investments.

II. RESPONSE TO QUESTIONS

1. Are the stated pros and cons associated with Option A accurate and complete? If not, what changes or additions would parties make?

PG&E generally agrees with the pros and cons of Option A identified in Energy Division's White Paper.

2. Are the stated pros and cons associated with Option B accurate and complete? If not, what changes or additions would parties make?

PG&E generally agrees with the pros and cons of Option B identified in Energy Division's White Paper, except Option B extends a disproportionate amount of time for the updating of 2014-2017 goals rather than providing some additional time for IOU portfolio development or considering the resources needed for other key priorities. In addition, PG&E believes Option B has the potential to provide greater program stability relative to Option A, as well as lower transaction costs for IOUs and its partners, including third-party implementers. See also PG&E's response to Question 5 for additional considerations.

3. **Are the estimated timelines associated with Option A and Option B reasonable with regard to the timing of (a) a goals/portfolio guidance decision, (b) preparation of portfolio applications, (c) review/approval of portfolio applications, and (d) implementation of the portfolio decision?**

Even with a one-year extension, the schedule for implementation of Option B is aggressive and would need to be actively managed to achieve success. PG&E recommends that an overall coordinated schedule be developed for this proceeding, with stakeholder input, that includes all of the priority activities needed to be completed prior to the development of the 2014-2017 IOU applications. These include:

- update to goals, cost effectiveness, DEER and other ex-ante values that will apply to the 2014-2017 portfolio;
- update to the Strategic Plan;
- Policy and Planning Division hosted workshops pursuant to Decision 10-10-033 that are intended to guide the development of the 2014-2017 EM&V Plan to be submitted concurrent with the IOU applications; and
- milestones for process improvement in the application and program implementation plan requirements.

A well-thought-out case plan with milestones will help guide the setting of priorities such as the scope and timing for analysis devoted to the goals update in balance with other high priority activities needed to be completed prior the IOUs' preparing their portfolio applications. Such a thoughtful process will help parties plan resources to support the various efforts, allow for the resulting applications to more closely align with CPUC priorities, and provide greater likelihood that the applications can be reviewed and approved within the timeframe suggested by the schedule shown for Option B in the White Paper.

4. **One disadvantage of Option B is that a four-year portfolio cycle could mean longer persistence of programs that are performing poorly in the view of some parties. What, if any, specific procedures (e.g., trigger mechanisms) or review processes (e.g., formal or informal) do parties suggest to mitigate these concerns?**

Program budgets may need to be adjusted to improve portfolio cost effectiveness, support successful program performance, and adjust for other market, policy or program considerations. The fund-shifting rules adopted in Decision 09-09-047 include a provision to file an advice letter to modify program funding levels above a 15% per annum threshold. The current fund-shifting rules and reporting requirement should remain in place through the remainder of the portfolio cycle to provide the flexibility needed to make any adjustments to the allocation of the 2013 budget or to make other mid-cycle funding adjustments,[1/] with the added provision that budget allocated to EM&V may also need to be adjusted for 2013. In addition, the Commission should clarify that any unspent 2010-2012 program funds as of December 31, 2012 may be applied for program implementation in 2013.

5. **Do parties concur with the following Energy Division recommendations associated with Option B?**

   a. **Adopt an extension through the end of 2013 for the 2010-2012 efficiency programs; and**

   b. **Adopt four-year portfolio cycles on a going forward basis, beginning with a 2014-2017 portfolio cycle.**

Yes, PG&E concurs with both of the Energy Division recommendations, subject to the modifications and clarifications proposed in these comments. While PG&E concurs with the recommendations, there are a number of additional considerations that have not been captured in the White Paper that should be considered by the Commission if it adopts Option B. These include:

1/ PG&E also asks that the Commission confirm that the per annum fund-shifting reporting requirement adopted in D.09-09-047 does not restrict IOUs and program implementers from varying statewide and local program spending year over year in the normal course of program implementation.

- The White Paper proposes that the 2013 budget be established using the rolling budget methodology adopted in Decision 09-09-047[2/] where the level for 2013 would be based on the average monthly expenditures for 2012. PG&E has several concerns with this approach: 1) the budget authorized for 2013 under this methodology cannot be determined in time for PG&E to include its authorized 2013 energy efficiency funding in its advice letters requesting rates effective January 1, 2013,[3/] unless the Commission adopts a proxy to be used for ratemaking purposes subject to balancing account adjustment once the actual 2013 budget is determined and adopted; 2) waiting until the end of 2012 to determine the overall 2013 budget level introduces a level of uncertainty that may impact the ability for PG&E and its partners to effectively plan program implementation for 2013; and 3) waiting until the end of 2012 to determine the 2013 portfolio budget does not allow time to file an advice letter requesting any program budget re-allocations that may be needed to adjust for program performance, cost effectiveness, and other market, policy or program considerations, in advance of the start of the 2013 program year. To address these concerns, PG&E proposes that the total portfolio budget for 2013 be established upfront equal to 1/3 of the current three-year portfolio budget and that the Commission clarify that the fund-shifting rules[4/] and the provision that allows IOUs to carry funds from a future cycle to the current cycle[5/] extend through 2013. This will allow the necessary certainty and flexibility needed for ratemaking and program planning purposes.

2/ See D.09-09-047 at p. 312 and Ordering Paragraph 45.

3/ PG&E's Annual Electric True-up advice letter is filed by September 1 and the Gas Public Purpose Program Surcharge advice letter is filed by October 31 for rates effective January 1 of the following year.

4/ See D.09-09-047, pp. 309-311 and Ordering Paragraph 43.

5/ See D.09-09-047, p. 312.

- PG&E proposes that its annual savings goals for 2013 be adjusted in the same manner as its 2012 goals were adjusted from those adopted in D.09-05-037, 6/as shown below:

Adjusted 2013 Annual Goals (update to D.09-09-047, Table 2)

PG&E	2010	2011	2012	2013
Total Annual Electricity Savings (GWH/yr)	964	1,032	1,114	**1,213**
Total Annual Peak Savings (MWs)	218	234	251	**234**
Total Annual Natural Gas Savings (MMTh/yr)	15.6	16.2	17.1	**15.6** 7/

- The Commission should clarify that the ex ante values that are used for 2010-2012 should be extended to 2013.
- The Commission should clarify that the RRIM adopted for 2010-2012 should be extended to 2013. 8/
- The Commission should determine the RRIM for 2014-2017 in advance of portfolio planning. 9/
- Spending caps adopted in D.09-09-047 for programs such as Basic Lighting, should be extended on a pro rata basis through 2013.

6/ See D.09-09-047, Table 2 at p. 45. As described in footnote 29 of that decision, the adopted 2010-2012 goals reflect therm adjustments approved in D.09-05-037 for SDG&E and PG&E extended to 2012, as well as a 5% reduction to Total Annual Electricity Savings (GWH/hr) and 1% reduction applied to Total Annual Peak Savings (MW). The annual goals were adopted through 2012 given the expectation that the EE program cycle would conclude at the end of 2012. Annual goals for 2013 were not updated or adopted. Therefore, the 2013 column in Table 2 of D.09-09-047 reflects none of the aforementioned adjustments. The updated 2013 figure shown in PG&E's table above does reflect these adjustments, consistent with the approach adopted in D.09-09-047 for years 2010-2012.

7/ This represents a 38% reduction from the adopted therm goal shown in D.09-09-047. A 38% reduction in PG&E's therm goal was endorsed in Commissioner Bohn's Proposed Alternate Decision in R.09-01-019 to adjust for interactive effects that were not reflected in the originally adopted goals. For PG&E, the Commission authorized a 26% adjustment of the annual therm goal for PG&E for the 2010-2012 program cycle.

8/ This clarification is particularly important given ALJ Pulsifer's currently pending Proposed Decision Amending Energy Efficiency Risk/Reward Mechanism in R.09-01-019 (at p. 19), which would provide no incentive earnings for calendar year 2009 EE bridge funding program activities.

9/ This would include any RRIM for custom measures and market transformation activities.

While the foregoing list of issues is substantial, PG&E believes that Option B's one-year extension of the 2010-2012 program cycle may not be successful unless accompanied by resolution of these additional matters.

6. **Are there other options the Commission should consider, other than Options A and B? What are the pros and cons of these options?**

   Please see PG&E's response to Question 5.

7. **Is Energy Division's proposal to update or incorporate each of the following cost-effectiveness data inputs or methodologies, prior to commencing potential and goals studies, reasonable?**

   a. **Data updates including natural gas prices, electricity prices, and temperature profiles by climate zone, per the Commission's March 2010 Report to the Governor and Legislature pursuant to Pub. Util. Code Section 2827(c)(4);7**

   b. **New methodology for generation capacity cost, per the Commission's AB 920 Report;**

   c. **New avoided cost for avoided Renewable Portfolio Standard (RPS) purchases, per the Commission's AB 920 Report; and**

   d. **Update to avoided carbon costs, per the most recent Market Price Referent (MPR).**

PG&E agrees that these proposals seem reasonable, as long as such updates or information do not result in any further delay of the goal setting process, and as long as parties have the opportunity to review and comment on the result of such updates. In addition, the update of cost effectiveness inputs should include an update in the discount rate employed in the cost effectiveness tests to align with demand response programs given the fundamental goal of both energy efficiency and demand response is to avoid the capital investments required to meet capacity requirements and customer demand. Tax benefits associated with financing capital investments are relevant and should be factored into any discount rate utilized and should be applied consistently across programs that reduce the need for capital investments.

8. Energy Division views the Strategic Plan update ordered in D.08-09-040 and the Strategic Action Plan Progress Report called for in June 2011 pursuant to D.09-09-047 as complementary. Will jointly addressing the Commission's orders for a Strategic Plan update and a Strategic Action Plan Progress Report effectively provide stakeholders, including parties to this proceeding, sufficient guidance?

PG&E has no objection to jointly addressing the Commission's orders for a Strategic Plan update and a Strategic Action Plan Progress Report provided that consolidation of these efforts will result in an equally effective result relative to producing the update and report separately. The milestones for accomplishing the Strategic Plan update should also be included in the overall schedule developed for this proceeding as discussed in response to Question 3.

III. CONCLUSION

PG&E appreciates the Assigned Commissioner's consideration of an extension of the current 2010-2012 portfolio cycle and agrees that Option B's proposal for a one-year extension is both reasonable and advisable, so long as such an extension is accompanied by clarification on the key issues identified in these comments, along with adequate time for the IOUs to develop their portfolios once the assumptions underlying the portfolio design are established. Therefore, for the above-stated reasons, PG&E requests that the Commission promptly issue a proposed decision adopting the recommendations set forth in these Opening Comments.

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Respectfully Submitted,

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MICHAEL R. KLOTZ

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Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

Dated: December 3, 2010

CERTIFICATE OF SERVICE BY U.S. MAIL OR ELECTRONIC MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department, PO Box 7442, San Francisco, CA 94120.

On the 3rd **day of December 2010**, I caused to be served true copies of:

OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) IN RESPONSE TO ASSIGNED COMMISSIONER'S RULING SOLICITING COMMENTS

on the official service list for **R.09-11-014** by electronic mail for those who have provided an e-mail address and by U.S. mail for those who have not.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on the **3rd day of December, 2010.**

Patricia A Kokason

Patricia A. Kokason