**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)

COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) ON ASSIGNED COMMISSIONER'S RULING SOLICITING COMMENTS

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I.
INTRODUCTION

Pursuant to direction provided in the November 17, 2010 *Assigned Commissioner's Ruling Soliciting Comments* ("Ruling"), San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas") (also referred to as the "Joint Utilities") appreciate the opportunity to provide their comments to the questions posed by the Ruling. The Joint Utilities appreciate the Commission's early consideration of the appropriate schedule for the next program cycle. Overall, the Joint Utilities support Option B given that there are significant milestone evaluations and analyses that must be completed prior to the commencement of the next program cycle's planning. Adequate deliberation in building both the policies and technical foundation for the next cycle's planning will provide for a more efficient and effective process that will ensure the timely approval and deployment of the next generation of energy efficiency programs.

II.
THE JOINT UTILITIES RESPONSES TO QUESTIONS POSED BY THE RULING [1]

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

Response: The Joint Utilities do not support Option A for the reasons provided under the "cons" of this option. The Joint Utilities have no additional comments on the Energy Division's analysis of Option A.

[1] Question #6 is specifically not addressed here, as it gives direction to Parties for their Reply Comments.

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

Response: The Joint Utilities support Option B. It provides the Commission, its staff, IOUs and all interested parties adequate time to address foundational issues necessary to plan the next program cycle.

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?

Response: Option B provides a reasonable timeline for completing the required work to prepare for the next program cycle. It is important that the studies to update the energy efficiency savings potential, goals and Strategic Plan be completed within the next two years.

DEER should also be updated accordingly so that the required energy efficiency measure cost effectiveness inputs are readily available. In addition, the Commission must make policy decisions as to the effectiveness of the level of granularity (e.g. by climate zone, by vintage, building type, replace or burn-out versus early replacements) required to be maintained in DEER and its application for recording energy savings. It should account for the cost to acquire information, customer available information, amount of verification, ED's maintenance of complicated databases, etc. A considered policy decision on this matter would ease the timeline constraints to achieve the necessary updates. Rather than requiring specific DEER values for every combination of by climate zone, by vintage, building type, replace or burn-out versus early replacements, it would be simpler and more cost effective to provide weighted averages based on, for example, saturation survey information.

In addition, the work required to update the necessary future program assumptions and updates should be balanced with Staff's current oversight of the current portfolio.

Currently, the associated Risk Reward Incentive Mechanism ("RRIM") for energy efficiency is a different proceeding. However, it is necessary to also establish the appropriate RRIM to be implemented concurrently with the new cycle. It is imperative that the utilities know beforehand all the requirements that will be used to judge their performance during the planning process so that program portfolios are developed accordingly.

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?

Response: It is interesting that the question is predicated on the perception of "some parties." Such perception of possible poor performance is not, in and of itself, necessarily accurate indicators that the programs are not performing according to expectation. The Commission's current oversight and reporting mechanisms are quite adequate. Performance metrics and overall savings results should be used to allow for mid-course changes to or termination of poorly performing programs make this determination.

More importantly, even beyond the existing multiple reporting mechanisms the Commission has in place to monitor performance (e.g., monthly, quarterly and annual reports; fund shifting notification) the Commission must also make effective use of the EM&V process. Priority must be given to process evaluations to provide <u>timely</u> feedback to program implementers so that they can make mid-course corrections to poorly performing programs or if necessary, discontinue such programs, and shift funds for such programs to those which are more successful.

Finally, with accurate updating of DEER prior to submitting the next portfolio, the programs will be designed based on the latest information. It is unlikely that the DEER results will substantially change within a four year cycle and if new measures/technologies are developed they can easily be incorporated into the portfolio mid-cycle. However, the Commission continue its policy of using only ex ante frozen assumptions to monitor program performance so that we can avoid the distracting controversies experienced during the '06-'08 cycle (i.e. "moving of the goal post", unpredictable program results) and we can keep our collective focus on maximizing energy efficiency results. In addition, evaluation and measurement thereof can be reliable.

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.

Response (a &b): Yes, the Joint Utilities support Option B's recommendation to extend the current program cycle to the end of 2013 and, on a forward basis, adopt a four-year program cycle. In order to seamlessly extend the current cycle to 2013, the Joint Utilities recommend that the Commission provide for the following:

(a) Commence an immediate review of the 2013 EE goals. The footnote to Table 2 (at page 45) of D.09-09-047 states that no update to the 2013 goals was made. The same assumption must be applied to these goals, i.e., gross goals.

(b) Provide appropriate funding to support 2013.

(c) Provide approval for the IOUs to make the necessary contract amendments to their local government partnerships and third parties to prevent "stop-starts" of the programs.

(d) Extend the final approved 2010-2012 RRIM to apply to 2013.

The Joint Utilities note that the Commission has stated its desire to synchronize the EE proceedings and program cycles with that of the Low Income Energy Efficiency ("LIEE") and Demand Response programs ("DRP") to further integrate DSM efforts. With the potential extension of the 2010-2012 EE program cycle to 2013 and the current planning process going on for the 2012-2014 LIEE and DRP program cycles, the Joint Utilities recommend that the Commission provide for appropriate continuation funding activities and budgets to allow all these demand-side programs to smoothly continue to make progress towards integration despite planning cycle differences.

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

Response: The Joint Utilities believe that Option B is workable and that it is not necessary to consider other options. The Joint Utilities urge the Commission to not delay making a final decision to adopt Option B and commence all necessary activities to provide for 2013 (i.e., goals, budgets and RRIM) and planning updates for the next cycle.

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);**

Response: The Joint Utilities agree with Energy Division that it would be prudent to make updates to Energy Efficiency ("EE") avoided cost data inputs and methodologies. Furthermore, these updates should be made prior to initiation of the EE goals analysis and explicitly approved through an Assigned Commissioner ruling or Commission decision.

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

Response: Energy Division staff also proposes to adopt energy market prices that reflect generation capacity cost. The existing EE avoided costs use an average annual market price forecast "shaped" by the hourly market prices that were observed in the California Power Exchange from 1998 to 1999. The Commission's consultant, Energy and Environmental Economics ("E3"), replaced this methodology with a new approach that approximates the current market structure in California, incorporating both wholesale energy market ("MRTU") prices and generation capacity prices from the bilateral resource adequacy market. SDG&E has long favored this approach which was proposed, but not adopted, by the Commission in D.06-06-063. However, SDG&E believes utility-specific top 250 hours analyses should be used to spread capacity value to hours and months. This will provide the Commission more accurate information on Energy Efficiency programs that have significant peak load reductions (e.g., efficient air conditioning and integrated DSM programs).

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

Response: The Energy Division proposes to use an analysis, conducted by E3, of the costs and benefits of net energy metering of solar distributed generation. The study used Commission-approved cost-benefit methodology for evaluation of DG adopted in D.09-08-026, which was based on many of the same elements as the EE avoided cost methodology developed by E3 and adopted in D.05-04-024 and later updated in D.06-06-063. However, the study also added new elements that were contained in neither D.05-04-024 nor D.09-08-026. While the Joint Utilities believe the Commission should be provided with up-to-date data for all changed parameters and methods, they also firmly believe these up-to-date data, values and approaches must first be examined and commented upon by parties and only then, after due consideration, affirmatively approved by the Commission.

Energy Division staff believes it is reasonable for ED relying on its consultant to unilaterally update the EE avoided cost inputs and methodologies to be consistent with the methodologies used in the CPUC's Solar Program Report to the Legislature. However, the Joint Utilities believe that parties should be allowed to comment on each proposed change to the values used in that report where the data are allegedly outdated or incorrect.

Energy Division staff propose to use the data updates in the E3 Solar model which include key inputs such as natural gas prices, electricity prices, and 2008 temperature profiles by climate zone. The Joint Utilities agree with an updating process and observe that temperature profiles from 2008 are probably adequate. However, important elements such as electricity and natural gas prices should reflect the values in the latest available Market Price Referent ("MPR"), not the values in the E3 Solar model. Further, SDG&E should be allowed to change erroneous T&D values adopted in D.05-04-024 and used by E3 in its modeling since 2005.[2]

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

Response: Energy Division staff proposes using an avoided RPS cost adder proposed by E3. This element is not part of D.09-08-026, but a unilateral creation of the consultant. SDG&E objects to this adder as unnecessarily complicating the analysis and creating internal inconsistencies in the model. The E3 model assumes the avoided resource is gas fired generation and GHG savings are calculated from that baseline, similar to the Air Resources Board ("ARB") calculation of GHG savings from measures adopted in its 2008 Scoping Plan. The RPS adder complicates the calculation by now making the assumed GHG reduction only two-thirds of the GHG reduction currently assumed in the model. The new avoided resource is 2/3 gas and 1/3 renewable. This adder also creates a likely contentious debate about the cost of avoided renewable.

Until the ARB changes its avoided emissions calculation, the cost effectiveness should continue to use avoided emissions currently built into the E3 model that based on the assumption that gas generation is the avoided resource.

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[2] E3 proposed to change these values in the DR cost effectiveness method pending before the Commission.

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?**

Response: Prior to any Strategic Plan updates, the Commission must update its cost effectiveness methodologies and subject the Plan to a cost effectiveness analysis. With respect to the Progress Report, due to the various delays in the full implementation of programs, the Joint Utilities do not believe that sufficient progress towards meeting the various Strategic Plan goals will be observed by June 2011. It would be more appropriate to delay the Progress to June 2012. Together with the updated cost effectiveness and progress report, the Strategic Plan update would then allow the Commission to provide well informed policy guidance for the next program cycle.

III.
CONCLUSION

The Joint Utilities appreciate the Commission's early consideration of the necessary planning and updates required to ensure a smooth transition from the current EE program cycle to the next cycle with the necessary updates to goals, polices and RRIM.

Dated: December 3, 2010

Respectfully submitted

By *\/s/ Steven D. Patrick*

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing **COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) ON ASSIGNED COMMISSIONER'S RULING SOLICITING COMMENTS** on all parties of record in **R.09-11-014** 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 Administrative Law Judge D. Farrar and Commissioner D. Grueneich.

Dated at Los Angeles, California, this 3rd day of December, 2010.

/s/ Marivel Munoz
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