

**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)

**COMMENTS OF SAN DIEGO GAS & ELECTRIC COMPANY (U 902 M) AND
SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) ON
COMMISSION PRESIDENT PEEVEY'S ALTERNATE PROPOSED DECISION
REGARDING THE RISK/REWARD INCENTIVE MECHANISM EARNINGS TRUE-UP
FOR 2006-2008**

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December 6, 2010

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**I
INTRODUCTION**

Pursuant to the Commission's Rules of Practice and Procedure and the Rulings of the Presiding ALJ and Assigned Commissioner, Southern California Gas Company ("SoCalGas") and San Diego Gas and Electric Company ("SDG&E") (collectively, the "Sempra Utilities") respectfully offer their Comments on the Alternate Proposed Decision regarding the Risk/Reward Incentive Mechanism Earnings True-Up for 2006-2008 of Commission President Michael Peevey (the "Peevey APD") published in the above captioned proceeding and issued on November 16, 2010.

**II
SUMMARY**

The Peevey APD achieves the goals of the Risks/Rewards Incentive Mechanism ("RRIM"), as originally articulated in D.07-09-04, to create "incentives of sufficient level to ensure that utility investors and managers view energy efficiency as a core part of the utility's regulated operations that can generate meaningful earnings for its shareholders" (p.4). The savings upon which incentives are calculated in this proposed alternate decision are real, verified by the Energy Division as installed, and based on *ex ante* planning assumptions and energy efficiency portfolio measures previously approved by the Commission in D.05-09-043. The Peevey APD's use of *ex ante* assumptions to evaluate utility performance is correct because the utilities could not reasonably have adjusted their programs to final 2006-2008 EM&V updates,

and because the application of *ex post* updates constitutes nothing less than an apples-to-oranges mismatch against utility *ex ante* goals and portfolios unadjusted for *ex post* updates. The Peevey APD appropriately lowers the shared savings rate from 9 and 12 percent to 7 percent which further serves to protect ratepayers from all risk of overpayment. The following 2006-2008 true-up earnings are, therefore, earned, based firmly on the record, reasonable, and appropriate for the Sempra Utilities:

	SDG&E	SoCalGas	Total
PerformanceEarningsBasis	\$ 230,997,869	\$ 245,622,959	\$ 476,620,828
EarningsRate	7%	7%	7%
Total Earnings Over 2006-2008 Period	\$ 16,169,851	\$ 17,193,607	\$ 33,363,458
1st Interim Earnings (D.08-12-059)	\$ 10,800,000	\$ 5,200,000	\$ 16,000,000
2nd Interim Earnings (D.09-12-045)	\$ 300,572	\$ 2,111,021	\$ 2,411,593
Total Interim Earnings Received	\$ 11,100,572	\$ 7,311,021	\$ 18,411,593
True-Up Earnings Calim	\$ 5,069,279	\$ 9,882,586	\$ 14,951,865

The Sempra Utilities further agree that the Peevey APD accounts for and renders moot the February 19, 2010, Sempra Utilities’ petition for modification to correct earnings from the second 2009 claim in D.09-12-045 that were based on an erroneous E3 calculator used by the Energy Division to determine earnings.¹

The Sempra Utilities offer two further comments on the Peevey APD:

1. The Peevey APD should be revised to extend its methodology for calculating Program Year (“PY”) 2006-2008 true-up utility savings and incentives to PY 2009 achieved energy savings. This would provide the utilities with an annual opportunity for “meaningful earnings” from successful PY 2009 energy efficiency programs in 2011.

¹ San Diego Gas & Electric Company (U 902 M) and Southern California Gas Company (U 904 G) Petition for Modification of D.09-12-045, February 19, 2010.

2. The Sempra Utilities agree with the Peevey APD with the expectation that the utilities can adjust their programs to *ex post* EM&V updates, in most cases well after the end of the program cycles, is impracticable. The Peevey APD, however, should be revised to also recognize that those EM&V updates are deeply flawed and continue to provide the Commission with inaccurate approximations of actual measure energy savings based on unresolved disputes concerning EM&V methodologies and results. Those disputes must still be resolved prior to use in any future potential studies, goal setting, portfolio design, and long-term procurement resource planning.

III

THE PEEVEY APD SHOULD BE REVISED TO APPLY ITS METHODOLOGY TO PY 2009 UTILITY ENERGY SAVINGS IN 2011 TO SUPPORT THE COMMISSION'S ANNUAL RRIM OBJECTIVES.

On October 16, 2008, the Commission adopted D.08-10-027, authorizing the utilities to continue existing PY 2006-2008 energy efficiency programs into 2009 to bridge programs until the Commission adopted a final decision on the utilities' energy efficiency portfolio applications for PY 2009-2011. That decision orders: "The bridge funding period shall end three months after the effective date of a final decision on 2009-2011 energy efficiency programs in this docket, or December 31, 2009, whichever comes first." (Ordering Paragraph 5). The Commission, however, did not specifically identify the incentive mechanism treatment for utility-achieved energy efficiency savings from an unexpected Bridge Year 2009.

In the exact same fashion that D.08-10-027 simply extended PY 2006-2008 program cycle to 2009, the Sempra Utilities assert that the Peevey APD should be amended to extend its specific treatment of PY 2006-2008 utility savings to PY 2009 utility savings, particularly since there was no substantive difference between PY 2006-2008 programs and PY 2009 programs. The Sempra Utilities note that this would be administratively expeditious and efficient, and it would allow for a final, comprehensive reform of the RRIM by the Commission.

The Peevey APD, however, addresses PY 2009 savings in the following:

.... we do not address herein what incentives earnings may be awarded for energy efficiency achievements accomplished during 2009, or how incentives earnings may apply for the next program cycle (2010-2012). We defer those matters to a subsequent decision in this proceeding, recognizing the need for timely resolution of such issues. (p.4)

Administrative Law Judge Thomas Pulsifer has proposed a “subsequent decision” in this proceeding that would have the Commission forgo granting incentive awards for PY 2009 utility achieved savings and instead adjudicate PY 2010 utility achieved savings in 2011. While ALJ Pulsifer’s proposal would provide for “regular annual earnings envisioned” when the Commission adopted the incentive mechanism (November 15, 2010, Pulsifer PD, p.19), it would cause an unwarranted omission in the treatment of achieved utility savings. The ALJ’s proposal would create a conspicuous hole in the yearly succession of utility-administered energy efficiency programs. Instead, the Commission should follow the previous procedural RRIM protocol for 2006-2008 savings that would have the Commission process savings for PY 2010-2011 in 2012, for PY 2012 savings in 2013, true-up for installation verification of PY 2010-2012 savings in 2014, leaving PY 2009 savings for adjudication in 2011. Alternatively, the Commission could concurrently process PY 2009 savings under the Peevey APD’s methodology and PY 2010 savings under a new RRIM in 2011, PY 2011 savings in 2012, PY 2012 savings in 2013, and true-up PY 2010-2012 savings in 2014.

R.09-01-019 arose out of a clear need for the Commission to revisit and improve the RRIM. But until the Commission does so, the current incentive mechanism, with the necessary RRIM adjustments made to date and continued in this proposed alternate decision, remains in force and can and should be applied to PY 2009 utility savings achievements. The Commission originally intended in D.07-09-043 to revisit the RRIM in time for the 2012-2014:

As recommended by most parties, we establish today a schedule for revisiting the specific risk/reward mechanism we adopt today, after we have gained experience with its implementation. Specifically, we direct Energy Division to prepare an evaluation report by February 1, 2011, so that we may consider any recommended modifications to today’s adopted risk/reward incentive mechanism in time for the 2012-2014 program cycle. (D.07-09-043, p.169-170)

Therefore, the Commission can and should apply the current RRIM as adjusted by the Peevey APD to PY 2009 savings. This would support the Commission's consistent reaffirmation, in D.08-12-089 and in subsequent proceedings, of the necessity that incentives be processed and, if earned, awarded regularly: "Regular and timely issuance of incentive payments is critical to the ability of the RRIM in creating a meaningful linkage between utility investments in energy efficiency and utility earnings" (D.08-12-089, Finding of Fact 3). Without such regular, annual earned incentive awards, the RRIM fails to "...ensure that utility investors and managers view energy efficiency as a core part of the utility's regulated operations that can generate meaningful earnings for its shareholders." (D.07-09-043, p.4).

IV.

THE PEEVEY APD SHOULD RECOGNIZE THAT ENERGY DIVISION'S 2006-2008 EM&V RESULTS ARE FLAWED AND THAT CONTROVERSIES SURROUNDING THOSE RESULTS REMAIN UNRESOLVED.

The Sempra Utilities fully agree with the Peevey PD that the utilities could not have anticipated voluminous updates to *ex ante* assumptions, could not have reasonably adjusted to those updates (including those finalized after the end of the 2006-2008 program cycle), and should fairly be held responsible only for factors under their administrative control:

Specifically, it is unreasonable to expect the utilities to anticipate the very substantial changes in a number of the key parameters over the three year cycle that drive their energy efficiency program results. Furthermore, given the after-the-fact timing of Energy Division's updates to these parameters we find that the IOUs did not have the opportunity to modify their portfolios on the basis of this updated information in a way that would allow them to avoid the adverse impacts of those updated assumptions on estimated program performance. Irrespective of the accuracy of the updates adopted by Energy Division we find that the incentive mechanism as implemented is unfair to the utilities, in that it bases its results on assumptions the utilities cannot be reasonably expected to anticipate, nor, when those changed assumptions come to light, respond to in a way to avoid adverse impacts on the estimated performance of their programs. (Peevey PD, p. 42-43)

The Sempra Utilities concur with the expectation that the utilities could somehow anticipate *ex ante* updates and adjust programs, mid- to late-stream, in accordance with those updates proved to be impracticable. The Sempra Utilities further note that such an expectation,

if met, would effectively force the utilities, based on still unresolved, controversial Energy Division EM&V results, to unilaterally unwind the Commission's specific approval of program budgets and cost-effective measures in the PY 2006-2008 portfolio approval decision without the expressed permission of the Commission to radically modify those Commission approved portfolios.

The Energy Division released the first of the 2006-2008 evaluation report drafts on November 17, 2009 as shown by a memorandum sent to various interested parties (see Attachment). Final reports were not completed until the first quarter of 2010. Clearly, the PY 2006-2008 cycle and PY 2009 had ended before the release of Energy Division's final reports. It is evident that none of the results of these delayed final reports were available to inform the utilities in time to provide information that would guide any need to update programs for improved performance. The Peevey APD correctly acknowledges this deficiency in the process: "...as a practical matter, the ability of the utilities to reasonably anticipate, much less respond to, these changes is limited" (p. 38).

In light of the Peevey APD's finding that the utilities could not adjust to *ex post* updates (Finding of Fact 18), the Sempra Utilities agree with the Peevey APD that it is wholly proper and reasonable to base utility savings and incentive awards on Scenario 3 of the Energy Division's 2006-2008 Energy Efficiency Evaluation Report. Scenario 3 applies *ex ante* assumptions and Energy Division installation rates to savings calculations to ensure that ratepayer-financed measures were indeed installed. The use of Scenario 3 is further necessary to avoid a wholly inappropriate, inequitable, apples-to-oranges comparison of utility performance against *ex post* EM&V updates that were not part of Commission-approved energy efficiency potential studies, utility goals, and utility portfolios. The Commission's energy efficiency goals and the utility portfolios predicated upon those goals were never adjusted for 2010 *ex post* EM&V updates. To apply those *ex post* updates to *ex ante*-based goals and portfolios, without adjustment, constitutes an inappropriate mismatch of assumptions for purposes of performance evaluation, a mismatch that the utilities have commonly referred to as an unfair and incorrect "moving of the goalposts". The Sempra Utilities agree that a rebalancing of the RRIM is appropriate in light of the elimination of *ex post* evaluation risk and uncertainty and understand the logic behind the 7% shared savings rate put forth by the Peevey APD.

To be clear, in prior comments, the Sempra Utilities stated that 10% would be an appropriate shared savings under a future *ex ante*-calculated RRIM, although this 10% is variably dependent upon many moving parts, among them the specific savings and earnings potential of the 2010-2012 energy efficiency portfolios (with embedded 2009 DEER assumptions that have made prospective energy savings more difficult and more expensive to achieve) and the incentive treatment of non-resource programs and custom projects.

Also to be clear, the Sempra Utilities have previously supported the Joint Utility Scenario (“JUS”) with the understanding that the Commission intended to apply Energy Division’s *ex post* updates to utility reported savings. The JUS is the only on-the-record scenario that attempts to account for the multiple fundamental flaws in EM&V updates of the 2006-2008 Energy Efficiency Evaluation Report. This rulemaking, however, is not encumbered by the Commission’s original intent to apply *ex post* updates to utility reported savings. The Commission clearly intended “to consider a new framework for the RRIM which may supersede and make moot the efforts under the current framework and schedule” (Order Instituting R.09-01-019, February 4, 2009). The *ex ante* incentive calculation approach of the Peevey APD is completely appropriate within this Rulemaking, as is making unnecessary and moot the attempt to account for the flaws in Energy Division’s EM&V process methodology reflected in its final report.

The Peevey APD, therefore, makes: “the accuracy of the updates adopted by Energy Division” largely irrelevant for purposes of the incentive mechanism. However, these updates, as the Peevey APD states, are not at all irrelevant for purposes of goal and portfolio planning, and their accuracy remains an unresolved issue. The Sempra Utilities do not dispute the Peevey PD’s assertion that Energy Division’s EM&V effort satisfied all the procedural traps for review, followed protocols for stakeholder input and vetting, and was conducted with what is an undefined and vague notion of “professional care” (Peevey APD, p.25). None of the above has any bearing on the credibility, reliability, and accuracy of the Energy Division’s EM&V results per se and the record contains abundant evidence of critical, clearly identified and still outstanding shortcomings in the EM&V process and results. As NRDC notes in its May 2010 comments, these results and their outstanding controversies require resolution by the Commission:

The reports vary widely in methodology, timing, sample size and, even by the conclusions of the evaluators, success at estimating savings and attribution of the efficiency programs. NRDC's own evaluation of the reports indicates that some new estimates are based on reasonable methods and rigorous analysis. But others appear to be based flawed methodologies or little more than an educated guess. The wide variety of levels of certainty in the evaluation reports, combined with the impact of their results on savings estimates from past, current and future efficiency programs merits consideration by the full Commission.²

Those shortcomings led the Commission to approve recent reforms of the EM&V process in R.09-11-014. The radical swings in savings calculations among the scenarios in the 2006-2008 Energy Efficiency Evaluation Report are testament to those same shortcomings and indicate that something has definitely run amuck in the methodologies underlying Energy Division's EM&V results, especially when compared to prior, Commission-approved *ex ante* calculations.

The Sempra Utilities agree with the Peevey APD that the fundamental issue of the fairness of applying *ex post* updates to utility reported savings outweighs "technical disputes regarding the 'right number' for each of the assumptions" in the application of the incentive mechanism (Peevey PD, p.37). The Peevey APD should, however, recognize that the results of the Energy Division's EM&V effort remain dubious, and well-documented methodological and other critical flaws in that effort remain unresolved and are worthy of correction for purposes of goal setting and portfolio planning.

² Comments of the Natural Resources Defense Council (NRDC) on Evaluation Reporting Tool (ERT) Scenarios, May 18, 2010.

Dated this December 6, 2010.

Respectfully submitted

By /s/ Steven D. Patrick
Steven D. Patrick

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ATTACHMENT



Memo on the Report
Review timeline_v11-

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



MEMO

Date: November 3, 2009

To: Interested Parties

From: California Public Utilities Commission, Energy Division Staff

RE: Upcoming 2006-2008 Evaluation Report Review Period

This memo clarifies what will be included in each phase of reporting, and the timeline associated with the final evaluation reports for the 2006-2008 program cycle. The culmination of energy efficiency evaluation for the 2006-2008 cycle will be a final ED staff report which is due in March 2010. This report will be based on the results of the evaluation work of contractors whose methods and findings will be vetted in the fall of 2009.

Requirements for EM&V reporting are set forth in various CPUC decisions and rulings issued under Rulemaking (R.) 01-08-028 and R.06-04-010:

- *Annual Verification reports*: verify the number of installations and portfolio and program costs.
- *Interim and Final Performance Basis Reports*: estimates of net performance basis at 18 months and 36 months of 3-year program cycle.
- Energy Division is required to undertake a public process for review and finalization of these EM&V reports.
- These EM&V reports were later linked to the utilities' interim and final claims under the incentive mechanism adopted in D.07-09-043.

These three primary report types and their associated content, purpose and broad timeline are included in Table 1. A graphic presentation is provided in Figure 3.

Table 1. 2006-2008 EM&V Reporting Distinctions

	Annual Verification Report (VR)	Final Evaluation Reports from EM&V Contractors	Energy Division Final Performance Basis Report
Content	<ul style="list-style-type: none"> • Savings estimates by utility adjusted by verified installations and using ex-ante DEER parameters 	<ul style="list-style-type: none"> • Evaluation results on key measures' savings and parameters used to calculate savings. 	<ul style="list-style-type: none"> • Savings estimates by utility and program based on evaluation results • Summary Report • Technical Report
Purpose	<ul style="list-style-type: none"> • Verify the number of installations and portfolio and program costs 	<ul style="list-style-type: none"> • Present evaluation findings from various EM&V projects per Evaluation Protocols 	<ul style="list-style-type: none"> • Final estimates of net performance basis • Program and portfolio accomplishments • Explain methods and process used
Timeline	<ul style="list-style-type: none"> • 2006-2007 VR report finalized February 2009 • 2006-2008 VR adopted in Resolution October 15th. 	<ul style="list-style-type: none"> • Drafts for staff review: - Nov 16th • Drafts for public review: ~ Dec. 2009 (staggered); • Finals: ~end of Jan. 2010 	<ul style="list-style-type: none"> • Draft for public review • March 2010

The foundation of the final performance basis report is the independent evaluator reports for each sector of the portfolio. Over the past three years contractors, with direct oversight of Energy Division staff have been conducting field research to estimate the gross energy savings and the net savings attributable to the utility programs fielded from 2006-2008. The results of this research will be provided to the public in the form of a draft report staggered through the first week of December. Key results will be presented in a webinar, approximately 10 days after the draft is posted. In these public sessions questions can be asked of the evaluation contractors. Comments on the draft reports will be provided to Energy Division staff and contractors roughly 14 days from the webinar, and changes will be made to the reports based on these comments as necessary. A log of the comments and either clarification or action taken to address those comments will be provided in an appendix to the report which will be posted roughly 20 days after the comments are provided. The staggered schedule for the review period is provided in Table 2 and varies by evaluation contract group.

Table 2. Evaluation Contract Group Specific Compliance Timeline (to meet March Draft ED report)

Evaluation Contract group	Report to ED	Posting of Draft	Webinar	Comments Due	Posting of Final & comment responses
Emerging Technologies	Nov. 2	Nov. 17	Nov. 20	Dec.4	Dec. 21
New Construction/ Codes &Standard	Nov. 16	Dec. 2	Dec. 9/Dec.10	Dec. 18	Dec. 30
Residential Retrofit	Nov. 16	Dec. 7	Dec. 15	Jan. 4	Jan. 25
Commercial Retrocommissioning	Nov. 16	Dec. 7	Dec.17	Dec.31	Jan. 21
Local Government Partnerships	Nov. 16	Dec. 8	Dec.18	Jan.5	Jan. 22
Major Commercial	Nov. 16	Dec. 7	Dec.17	Dec.31	Jan. 21
Small Commercial	Nov. 16	Dec. 11	Dec. 21	Jan. 4	Jan. 25
Specialized Commercial	Nov. 16	Dec. 9	Dec.19	Jan. 6	Jan. 23
Commercial Facilities	Nov. 16	Dec. 8	Dec. 16	Jan. 11	Jan. 25
PG&E Agricultural & Food Processing	Nov. 16	Dec. 2	Dec. 10	Dec. 30	Jan. 20
PG&E Fabrication, Process & Manufacturing.	Nov. 16	Dec. 7	Dec. 14	Jan. 11	Jan. 25
SCE Industrial & Agriculture	Nov. 16	Dec. 7	Dec. 14	Jan. 11	Jan. 25

Evaluation Contract group	ED Contact	Evaluation Contractor Contact
Emerging Technologies	Ayat Osman	Kevin Cooney, Summit Blue
New Construction/ Codes &Standard	Ayat Osman	John Stoops, KEMA
Residential Retrofit	Mikhail Haramati	Scott Dimetrosky, Cadmus
Commercial Retrocommissioning	George Tagnipes	Marc Schuldt, SBW
Local Government Partnerships	George Tagnipes	Floyd Kneipp, Summit Blue
Major Commercial	George Tagnipes	Marc Schuldt, SBW
Small Commercial	George Tagnipes	John Cavalli, Itron
Specialized Commercial	George Tagnipes	John Stoops, KEMA
Commercial Facilities	Kay Hardy	Don Dohrmann, ADM
PG&E Agricultural & Food Processing	Kay Hardy	Fred Coito, KEMA
PG&E Fabrication, Process & Manufacturing.	Kay Hardy	Mike Rufo, Itron
SCE Industrial & Agriculture	Kay Hardy	Kris Bradley, Itron

The following diagram provides the aggregate timeline for the report review period and the aggregation of the results into a final Energy Division report. The last diagram in this memo provides a conceptual flow diagram of the evaluation components and process for the 2006-2008 period. The key driving date is the requirement for the Commission to adopt Energy Division's report via a draft resolution. Given that the Commission only meets once in early March 2010, the next available meeting date is April 8th. To meet the 30 day minimum requirement for review (as well as a seemingly reasonable time to review the report) prior to the meeting, the draft report would have to be posted by Energy division by February 26th, and opening comments would be due on March 19th, with reply comments due on March 26th.

Please contact Zenaida Tapawan-Conway <ph. 415-703-2624; ztc@cpuc.ca.gov> if you have questions.

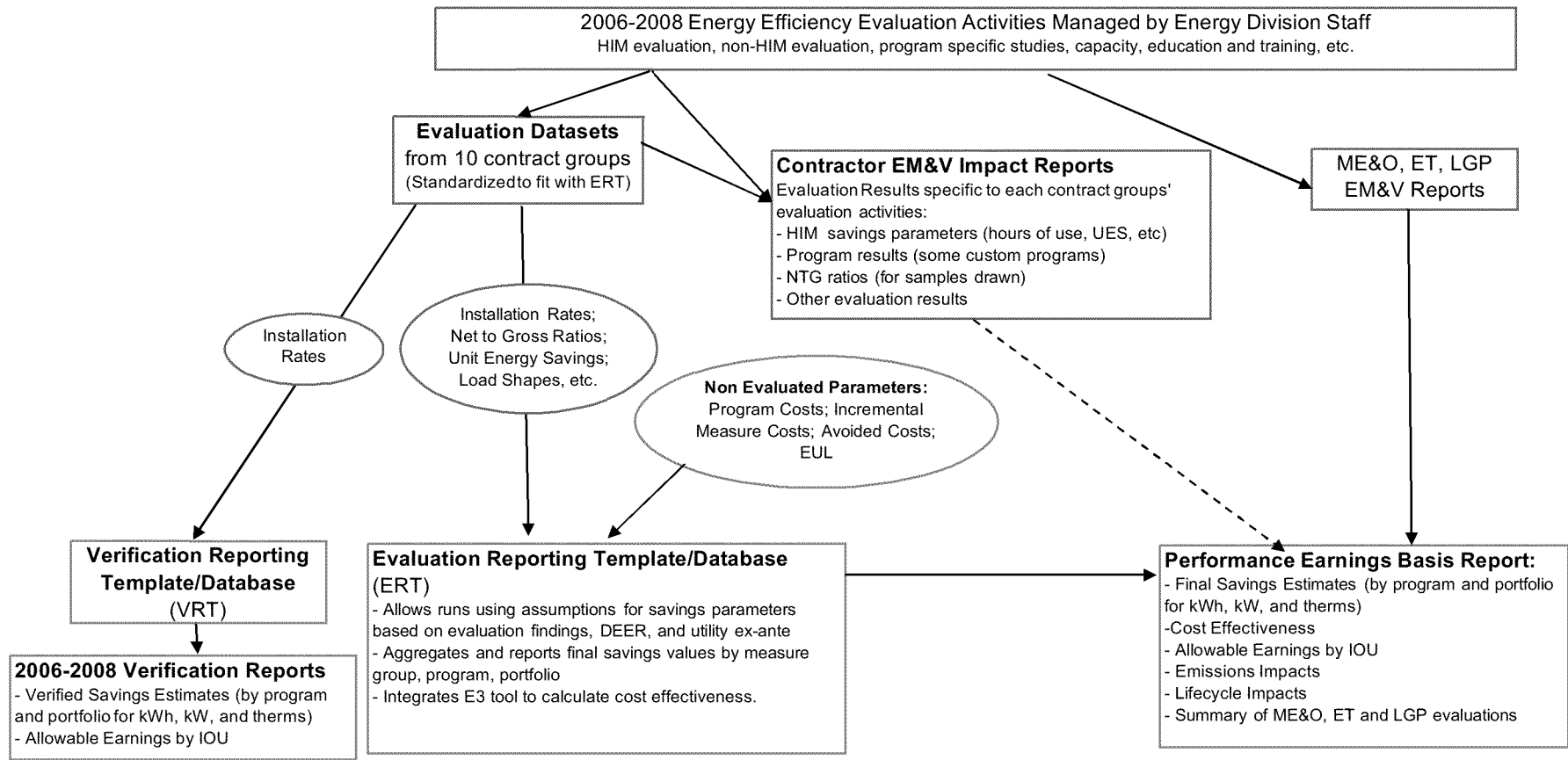
Figure 1: Contractor Evaluation Report Public Process Timeline (to meet Regulatory Requirement of March Final Report)

	October				November				December					Jan '10				Feb '10		
	5	12	19	26	2	9	16	23	30	7	14	21	28	4	11	18	25	1	8	15
Final Contractor EM&V Reports																				
Contractors submit complete draft EM&V reports to ED																				
ED/DMQC /MECT reviews complete draft EM&V reports from contractors																				
Revise and post contractors' draft EM&V reports for parties' comments (last Draft by Dec 15)																				
Parties' comments and webinars (or conferences) re contractors' draft EM&V reports																				
ED gets numbers finalized first (to be fed into the ERT so ERT can start crunching away)																				
Contractors start to revise and finalize EM&V reports based on comments																				
ED and contractors prepare appendices showing disposition of comments																				
ED posts contractors' final EM&V reports on website																				

Figure 2: Performance Basis Final Report and Public Process Timeline

	Jan '10				Feb '10				Mar '10				Apr '10			
	4	11	18	25	1	8	15	22	8	15	22	29	5	12	19	26
ED prepares and posts draft final V/PB report																
Public Workshop on V/PB Report																
Parties' opening comments and conferences re ED's draft Final V/PBR																
Partie's reply comments																
ED revises Final V/PBR and prepares appendix response to comments																
Commission adopts resolution on ED's Final V/PBR																

Figure 3. Flow Diagram of Reporting for 2006-2008 Energy Efficiency Evaluation



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 COMMISSION PRESIDENT PEEVEY'S ALTERNATE PROPOSED DECISION REGARDING THE RISK/REWARD INCENTIVE MECHANISM EARNINGS TRUE-UP FOR 2006-2008** 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 6th day of December, 2010.

/s/ Marivel Munoz

Marivel Munoz

CALIFORNIA PUBLIC UTILITIES COMMISSION
Service Lists: R.09-01-019 - Last changed: November 29, 2010

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