BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Reform the Commission's Energy Efficiency Risk/Reward Incentive Mechanism	R.12-01-005 (Filed January 12, 2012)

POST-WORKSHOP COMMENTS OF THE UTILITY REFORM NETWORK ON THE ENERGY EFFICIENCY INCENTIVE MECHANISM FOR 2013-2014

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Pursuant to the directions of the September 5, 2012 "Administrative Law Judge's Ruling Setting Schedule for Post-workshop Comments" ("the ALJ Ruling"), the Utility Reform Network ("TURN") respectfully submits these comments concerning a Risk/Reward Incentive Mechanism ("RRIM") for utility energy efficiency activities conducted in 2013-2014. TURN submitted extensive comments and a proposed RRIM v.1 mechanism on July 16, 2012. Those comments included the rationale for TURN's proposal. TURN will not repeat those prior comments in this pleading. The focus of this pleading is to provide a slightly revised TURN RRIM v.2.0 based on the outcome of the August 20, 2012 workshop and subsequent discussions.[1]

1. Introduction and Summary of Recommendations

During the workshop and additional discussions, TURN received useful feedback concerning the metrics proposed in our RRIM v. 1. TURN believes there were four primary concerns raised by the utilities and NRDC: 1) TURN's mechanism relied too much on incentives based purely on spending rather than savings; 2) the cap on earnings was lower than incentive mechanisms adopted in other states; 3) the metrics focused exclusively on residential programs; and 4) the mechanism did not adequately stimulate long-term savings.

In order to address some of these concerns TURN reduced the 'management fee' component based on spending to be 25% of the potential maximum incentive, and has added a

[1] The substantive details of subsequent settlement meetings among parties are confidential pursuant to PUC Rule 12.6.

component related to actual spending through the on-bill financing program. This financing component addresses success in the non-residential sector, since the existing financing programs are targeted towards commercial customers. TURN carefully considered NRDC's suggestions concerning targeting long-term savings. We proposed (at the workshop) using program average EUL's as a proxy metric, but NRDC raised valid criticisms of such a metric. Once again we considered incorporating a metric based on lifecycle savings. However, we concluded that a) the drawbacks of using any savings calculations (even assuming *ex ante* numbers are timely fixed) exceed the benefits of an incentive to promote long-term savings, and b) our two residential metrics both advance measures focused on long-term savings.

TURN reviewed the information concerning incentive caps in other states and determined that our proposal for a 5% cap on incentives is appropriate for California when the data are properly adjusted to exclude outliers and certain states that have very different mechanisms, as explained in detail in the relevant section below.

TURN's revised RRIM v. 2.0 is summarized in Table 1 below and is explained in the following section. RRIM 2.0 is intended to provide a complete mechanism that includes incentives for IOU activities related to the entire portfolio (including resource and non-resource programs).

TURN TABLE 1 TURN EE Shareholder Incentive Mechanism 2013-2014 "HARD CAP" Performance Metrics					
(millions)	PG&E	$CE	$DG&E	$CG	$Total
5% Cap Incentives 2 years	$ 42.98	$ 39.31	$ 11.44	$ 8.98	$ 102.70
MANAGEMENT FEE BASED ON SPENDING: 50% OF HARD CAP 25'% spending 50%/50% incentives and other costs	$ 10.75	$ 9.83	$ 2.86	$ 2.25	$ 25.68
25% for 5:1 leveraging of the IOUs' internal funding for credit enhancements with external private capital in funded/financed EE projects	$ 10.75	$ 9.83	$ 2.86	$ 2.25	$ 25.68
PERFORMANCE METRICS THAT ADVANCE VITAL POLICY GOALS: 50% OF HARD CAP 25% Residential Whole House Retrofits for a 100% increase in total number of projected single family retrofits, with 50% of retrofits in the hotter climate zones	$ 10.75	$ 9.83	$ 2.86	$ 2.25	$ 25.68
25% Residential HVAC (central units) above-code HVAC equipment incentives for 10% of all installed units (2013) and 20% of all installed units (2014) in service territory	$ 10.75	$ 9.83	$ 2.86	$ 2.25	$ 25.68

2. TURN RRIM 2013-2014 PROPOSAL – v. 2

a. HARD CAP ON TOTAL INCENTIVES BASED ON 5% of BUDGETS.

Rationale: The 5% figure provides an outcome that is reasonable and comparable to incentive awards from other performance incentive mechanisms and actual outcomes for the 2006-08 program cycle, as illustrated in TURN Table 2 below (reproduced from TURN's July 16th Incentive comments).

TURN TABLE 2 TURN EE Shareholder Incentive Mechanism 2013-2014 "HARD CAP" and Comparison to 2006-2008 RRIM Awards					
(millions)	PG&E	SCE	SDG&E	SCG	Total
2013-2014 Proposed Budgets	$ 859.50	$ 786.20	$ 228.70	$ 179.50	$ 2,053.90
5% Cap Incentives 2 years	$ 42.98	$ 39.31	$ 11.44	$ 8.98	$ 102.70
5% Cap Incentives Annual Average	**$ 21.49**	**$ 19.66**	**$ 5.72**	**$ 4.49**	**$ 51.35**
2006-2008 EE Budgets					$ 2,200.00
RRIM Awards 3 years	$ 104.05	$ 74.44	$ 16.17	$ 17.19	$ 211.85
RRIM Awards Annual Average	**$ 34.68**	**$ 24.81**	**$ 5.39**	**$ 5.73**	**$ 70.62**

TURN appreciates the data provided in the ACEEE Report "Carrots for Utilities" (January 2011) as discussed at the workshop; however, we believe properly excluding certain outliers shows a simple average of 7% as the cap in other states (see TURN Table 3 below). TURN excluded or adjusted from the ACEEE report the following states identified as having shareholder incentive caps as a percentage of EE program costs:

- Kentucky: ACEEE Table 1 lists as a 10% cap of program costs. The ACEEE state by state appendix indicates that the cap is 10% for Duke Energy and Kentucky AEP and 5% for Louisville G&E. TURN Table 3 uses a 7.5% cap for Kentucky.
- Nevada: ACEEE Table 1 lists as a 5% cap of program costs. The ACEEE appendix indicates that the NV incentive mechanism is 5% additional DSM ROE, which was suspended in 2011, with now any EE shareholder incentives determined on a program by program basis. TURN Table 3 does not include Nevada.
- New Hampshire: ACEEE Table 1 lists as a 12% cap of program costs. The ACEEE appendix indicates that the cap was reduced to 8% in 2010. TURN Table 3 uses a 8% cap for New Hampshire.
- Ohio: ACEEE Table 1 lists as a 15% cap of program costs. The ACEEE appendix indicates that the incentive mechanism is a 15% cap on rate of return. TURN Table 3 does not include Ohio.

- Texas, ACEEE Table 1 lists as a 20% cap of program costs. The ACEEE appendix indicates that the TX utilities must contract with independent third parties via Standard Offer Performance (SOP) contracts to implement EE. TURN Table 3 does not include Texas.

TURN TABLE 3
EE Incentive Hard Caps as % of EE Budgets

Source	State	Hard Cap as a % of EE Budget	
ACEEE	AZ	10%	
ACEEE	CT	8%	
ACEEE	KY*	7.5%	
ACEEE	MA	5.5%	
ACEEE	NH*	8%	
TURN	VT	4.0%	
TURN	DC	7.0%	
	TOTAL	50%	
	AV	7.1%	simple average.

Due to a variety of factors which distinguish California's energy efficiency activities and regulatory risk mechanisms (including size of budgets, number of years of operations, and full revenue decoupling), we believe a lower cap of 5% is appropriate for the California utilities.

b. MANAGEMENT FEE - 50% OF HARD CAP

TURN has revised this element from our July 16th proposal to include two components:

a. Spending Component – 25% of hard cap
   i. Metric: actual spending
   ii. Payout: 2.5% of actual spending at all levels (linear)
   iii. Cap: 25% of the hard cap
   iv. Condition: 50% or more of actual spend must be on incentives/rebates/financing.

Rationale: Spending linked to total program savings historically. Condition provides incentive to minimize admin and up-front costs. (See Version 1, TURN July 16th Comments, Section 4.3, pages 22-24).

b. Financing Component – 25% of hard cap
   i. Metric: actual spending through financing mechanism
   ii. Payout: 25% of hard cap; step payment (either achieved or not based on condition)
   iii. Condition: 5:1 leveraging of the IOUs credit enhancement funding with external private capital resulting in funded and financed EE projects. For instance, if $150 M of the approximate $200 M in 2013-2014 EE financing is for credit enhancements, then a 5:1 leveraging would equal $750 M in external private capital in funded and financed projects.[2]

Rationale: Promoting financing of EE measures has been a long-time policy goal that is recently emphasized by Commission decisions and rulings. Financing at zero or low interest rates overcomes one of the primary barriers to EE adoption – the high up front costs - and is more equitable for non-participants than direct rebates. Regardless of the market (residential SF, MF, low-income; non-residential commercial, institutional, municipal, agricultural), in the 2013-2014 program cycle the IOUs need to enhance participation in on-bill financing using private capital. It is not sufficient to have private lenders' commitment to loan funds; rather, private capital must result in funded and financed projects.[3] Because the 2013-2014 financing

[2] The IOUs proposed financing programs and budgets are currently under review by Energy Division and the Commission's California EE Financing Team (consultants). Changes and modifications to the programs and budgets, including the types and funding levels for various credit enhancements, should be used to further refine TURN's proposed financing component metric.

[3] The Harcourt, Brown, and Carey EE Financing Report prepared for the CPUC February 2011 discusses the typical leverage amount of 10:1. Given that CA is in the start-up or ramp-up phase of significantly expanded EE financing, TURN believes a 5:1 leveraging ratio is reasonable as long as it results in funded and financed projects.

focus is largely non-residential, this metric will work to increase non-residential EE savings. Increased external financing will increase IOUs' EE savings toward 2013-2014 EE goals.

c. PERFORMANCE METRICS - 50% OF HARD CAP

c. Residential Retrofit Component – 25% of hard cap

i. Metric – Number of retrofits

ii. Condition:

1. 25% hard cap for a 100% increase in total residential retrofits above the numbers projected for 2013-14 in the applications; with a minimum of 50% of the total retrofits located in hotter climate zones

iii. Payout: 25% of hard cap based on meeting targets/conditions

iv. Cap: 25% of hard cap

Rationale: Achieving deep savings through residential retrofit is vital long-term goal. The IOUs' forecast participation levels for Energy Upgrade California single family residential retrofits for 2013-2014 are approximately one-half of the IOUs projected participation 2010-2012 levels. (See TURN Table 4 below). TURN Table 4 shows the IOUs projected total single family participation rates for 2010-2012 (column 1), the forecast participation for 2013-2014 embedded in their applications (column 2), and the TURN proposed annual retrofit target (column 3). Table 4 also provides the IOUs' projected participation in the hotter climate zones (column 4) versus TURN's incentive proposal for participation in the hotter climate zones (column 5).

While 10:1 is the general rule of thumb, private lenders may require higher levels of credit enhancements (via for instance loan loss reserve funds) for some markets such as low-income or hard-to-reach commercial (i.e. economically disadvantaged communities), thus lowering the overall leveraging power of the IOUs' credit enhancement financing dollars.

TURN Table 4 Performance Metric: Residential Retrofits					
	2010-2012 IOUs Projected Annual Average	2013-2014 IOUs Projected Annual Average	2013-2014 TURN Proposed Annual Retrofits	2013-2014 IOUs Projected % Hotter CZs	2013-2014 TURN Proposed 50% Hotter CZs
PG&E	6,617	3,350	6,700	1,943	3,350
SCE	4,717	2,714	5,428	n/a	2,714
SCG	2,950	1,520	3,040	n/a	1,520
SDG&E	1,733	829	1,658	199	829
TOTAL	16,017	8,413	16,826	2,142	8,413

The IOUs' projections run counter to the Commission's intention that 2010-2012 would be the start-up period for EUC residential retrofits, with continued program growth (and success) in subsequent program years.

TURN has recommended in the EE proceedings on the IOUs 2013-2014 EE Applications[4] that the Commission should approve participation rates that anticipate a significant expansion in EUC activities. For the single family component of the IOUs' proposed EUC program, the TURN recommended that Commission approve participation rates at least equal to the annualized participation targets from the IOUs' 2010-2012 portfolios, rather than the lower participation scenarios offered by the IOUs.

In addition, TURN has recommended that the Commission require the IOUs to move the EUC program inland to the hotter climate zones. As TURN explained in our July 16th incentive mechanism and August 3rd EE application protest comments, EUC residential retrofit

[4] PG&E A.12-07-001, SCE A.12-07-002, SCG A.12-07-003, and SDG&E A. 12-07-004.

performance data from 2011 shows a significant increase in claimed savings between the more temperate and hotter climate zones, as documented in Table 5 below.

TURN Table 5 (reproduced from July 16, 2012 Comments Table 6)
Summary 2011 Joint IOU Program Performance Metrics Report

	Energy Upgrade California (EUC) Whole House Residential Retrofits									
	PG&E				SCE		SDG&E			SCG
Participants	959				66		131			66
Climate Zones		Avoid kW	Avg kWh	Therm Savings	Avoid kW	Avg kWh	Avoid kW	Avg kWh	Therm Savings	Therm Savings
2	47	1.1	604	464						
3	256	0.4	547	365						
4	73	0.7	899	317						
5	3	0.2	208	359						
6					0.63	441				140
7							0.83	920	174	
8					**2.01**	**1373**				116
9					**3.59**	**3162**				**182**
10					**2.03**	**2808**	**3.73**	**4531**	**191**	141
11	64	**3.9**	**4374**	241						
12	463	**1.5**	**1392**	288						
13	52	**3.7**	**5573**	217						
14					**2.88**	**680**				**297**
16	1	5.1	7010	0						

These data suggest that moving the EUC program activities inland during the transition period will enable experimentation and data collection on how to improve the cost-effectiveness of whole house retrofits by targeting customers with higher savings potential. TURN's incentive

mechanism is designed to award the utilities in making such a transition to a more cost-effective EUC.

d. Residential HVAC Component – 25% of hard cap
    i. Metric
    ii. Condition:
    iii. Payout: 25% of hard cap based on meeting target/condition 1
    iv. Cap: 25% of hard cap

This component is modified from version 1 (Version 1, Sec. 4.4.1) to provide shareholder incentives for IOU incentive rebates for above-code central HVAC in residential applications. While TURN continues to support consideration of IOU incentives for code-complaint residential central HVAC, TURN believes it is appropriate to limit shareholder incentives to above-code compliant equipment. TURN's propose metric otherwise remains unchanged; providing a linear payment based on rebating above-code central HVAC in residential applications at 10% (2013) and 20% (2014) of the number of residential units replaced annually in each IOU service territory.

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Respectfully submitted,

By: _____/s/_____

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