

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

Order Instituting Rulemaking to Reform the
Commission's Energy Efficiency Risk/Reward
Incentive Mechanism.

Rulemaking 12-01-005
(Filed January 12, 2012)

**POST-WORKSHOP COMMENTS OF
PACIFIC GAS AND ELECTRIC COMPANY (U 39 M)**

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Pacific Gas and Electric Company (PG&E) files these comments in response to the *Administrative Law Judge's Ruling Setting Schedule for Post-Workshop Comments*, dated September 5, 2012 (ALJ Ruling). The ALJ Ruling requests post-workshop comments and complete proposals regarding the design and implementation of a shareholder incentive mechanism applicable to the investor-owned utilities' (IOUs') energy efficiency resource programs for the 2013 – 2014 program cycle. The ALJ Ruling directed parties to file comments by October 1, 2012. In addition, PG&E provides the relevant calculations and supporting assumptions applicable to the calculation of the incentive mechanism proposal for the 2013-2014 cycle based on the data provided in A.12-07-001 *et al*, the 2013-2014 Energy Efficiency (EE) application proceeding.

I. INTRODUCTION

PG&E would like to thank the Commission for hosting the August 20, 2012 workshop, which provided an opportunity for all parties to discuss innovative reforms to the Energy Efficiency Incentive Mechanism for the 2013 – 2014 program cycle. The workshop attendees included Energy Division, The Utility Reform Network (TURN), Division of Ratepayer Advocates (DRA), Natural Resource Defense Council (NRDC), Southern California Edison (SCE), San Diego Gas and Electric (SDG&E), Southern

California Gas (SCG) and PG&E, among others. At the workshop, the parties discussed overarching elements required for a risk/reward incentive mechanism (RRIM) to be effective, transparent and simple to execute. Parties generally supported reforms to the incentive mechanism that would reward the IOUs for successfully achieving customer benefits and meeting the Commission and State policy objectives of increased long-term energy savings in the Long Term Energy Efficiency Strategic Plan and Decision 12-05-015.

Parties identified sufficient common ground in the workshop and agreed to continue settlement discussions. While a global settlement was not reached, the parties engaged in several productive discussions regarding an appropriate mechanism based on the goals discussed in the workshop, and many parties expressed appreciation and acknowledged that they had gained a better understanding of the other parties' positions.

Below, PG&E proposes a new incentive mechanism for the Commission's consideration. PG&E's proposal would recognize the Commission's policy goal of achieving deeper and longer lasting savings by focusing on lifecycle savings and address the need for greater transparency and simplicity of the incentive mechanism by reducing the number of calculations. This design concept was originally offered by NRDC¹ and a fully developed version is provided in these comments. Parties determined they had sufficient agreement such that many of the features of the proposed incentive mechanism are consistent among the IOUs and NRDC, *i.e.*, the general structure of the mechanism and cost effectiveness guarantee. Lastly, this mechanism incorporates an aspect of TURN's proposal in its comments dated July 16, 2012 by including a management fee mechanism for non-resource programs to encourage the IOUs to focus on non-resource programs designed to promote market transformation.

¹ NRDC Comments (Jul. 16, 2012), p. 2.

II. PG&E'S PROPOSED SHAREHOLDER INCENTIVE FOR THE 2013 – 2014 PROGRAM CYCLE

PG&E proposes the Commission adopt a lifecycle energy savings approach, similar to NRDC's proposal in its July 16 comments, to drive customer benefits and reward the IOUs for delivering energy savings from resource programs and a separate management fee for non-resource programs. PG&E's proposed incentive mechanism incorporates the following elements:

- (1) Incentives per unit of energy savings (kW, kWh, Therms);
- (2) Cost-effectiveness guarantee;
- (3) A Earnings cap on incentive payments; and
- (4) A modest management fee for non-resource programs.

The proposed incentive mechanism for resource programs would reward the IOUs based on "lifecycle energy savings" as opposed to rewarding the IOUs based on "net benefits" as in the 2009 RRIM.² Similar to the previous incentive mechanism, PG&E's proposed mechanism would recognize energy savings achievements. This proposal has the benefit of simplifying the incentive equation by measuring lifecycle savings (annual savings of a measure multiplied by its useful life). As an illustrative example, a measure that saves 5 kWh/year and lasts for 7 years creates 35 kWh of lifecycle savings – 5 kWh multiplied by 7 years. Counting the full lifecycle savings would encourage the IOUs to promote long-lived programs and measures, compared to the current incentive mechanism calculation and aligns the mechanism with Commission goals.

PG&E proposes a management fee of 3% of the non-resource program expenditures for the non-resource portion of the mechanism. The proposed management fee would encourage the IOUs to successfully execute programs that are designed to achieve the Commission's non-resource program goals outlined in the California Long Term Energy Efficiency Strategic Plan. A mechanism consisting of both of these

² Mechanism as modified by the Commission in D. 10-12-049.

elements is the most simple, clear and reasonable method to reward IOUs for aggressive efforts to achieve energy efficiency goals for both resource and non-resource programs.

PG&E also proposes a cost-effectiveness guarantee to ensure the IOUs will not earn an incentive unless the portfolio Program Administrator Cost (PAC) test exceeds 1.0. The IOUs would not be entitled to any shareholder earnings in an amount that would reduce the PAC test result below 1.0. However, the IOUs would not be penalized if the PAC fell below 1.0.

Additionally, PG&E proposes two caps on the incentive mechanism: (1) a two-year cap of \$250 million statewide for resource programs; plus (2) a cap on the proposed management fee of 3% of the approved annual non-resource programs' budgets. The \$250 million cap for resource programs would be awarded if the IOUs achieved 125% of their CPUC goals (target). This combined cap for the incentive mechanism (the cap for the resource programs plus the cap for the non-resource programs) would be in an amount that is consistent with a national average for incentives on energy efficiency programs,³ and would be less than both the IOUs' supply-side equivalent earnings and the previous RRIM annual cap of \$150 million.⁴

PG&E's incentive proposal is comprehensive, reasonable and would reward the IOUs for achievement of the State's energy efficiency goals. While PG&E provides detailed technical analysis in this filing it is important to note that certain values would need updating once final applications are approved. PG&E recommends the Commission lock-down *ex ante* values for use in creating, reporting and evaluating program accomplishments as the Commission determined was appropriate for the mechanism operated from 2006-2009. PG&E details its proposed incentive mechanism in the following sections; technical calculations are included in Appendix 1.

³ "The average cap on incentives was approximately 12-13% of total program spending." *Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency*, ACEEE (Jan. 2011), p. 14.

⁴ See Proposed Earnings Caps comparison graph, p. 8.

A. Incentive per unit of savings for Resource Programs

PG&E proposes that the Commission adopt a “lifecycle savings” monetization methodology. A mechanism that focuses on lifecycle savings better supports the Commission’s policy goals to achieve deeper, lasting energy savings by placing additional value on long-lived measures. The method for determining a \$ / unit valuation is to:

- (a) Set a target for earnings at 100% of Commission-established goals;
- (b) Allocate target earnings among the metrics (kW, kWh, Therms);
- (c) Determine the lifecycle goal savings of those metrics; and
- (d) Divide the target earnings for each metric (b) by the lifecycle savings of each metric (c).

This type of mechanism has multiple benefits. First, it simplifies the mechanism by calculating lifecycle energy savings, removing difficult to determine cost issues such as incremental measure costs, which negatively affects larger, longer lasting installations. Second, this methodology would incorporate the Commission’s gross goals for resource acquisition programs and net goals for Codes and Standards (C&S).⁵ Third, the methodology would utilize approved *ex ante* lock-down values for resource programs and C&S.⁶ Additional detail regarding the calculations and assumptions used in PG&E’s proposal is in Appendix 1. PG&E proposes a resource incentive mechanism based on

⁵ PG&E continues to believe goals should be established on a gross basis for resource programs and C&S, but for the purpose of an incentive mechanism designed to reward achievement of Commission set goals, PG&E proposes to use gross resource program goals and net C&S goals consistent with D. 12-05-015, pp. 89-90.

⁶ This includes the following file names:

- a. 2011 DEER database – version 4.01 dated May 16, 2012
- b. Net To Gross tables dated May 23, 2012
- c. HVAC interactive effects tables dated May 23, 2016* (we assume Staff meant 2012)
- d. Load shapes tables dated May 16, 2012
- e. READI tool version 0.99.7 dated May 25, 2012
- f. See Appendix 2

this simplified approach to reward savings on an incentive per unit (kW, kWh, Therm) basis as shown in Table 1 below. Note that these calculations should be updated once, if necessary, to reflect any relevant changes in values adopted in the Commission’s upcoming decision on the 2013-2014 Energy Efficiency Portfolios. Thereafter, the values would be fixed for the duration of the 2013-2014 program cycle.

Table 1
Incentive per metric for resource programs

\$/kW	\$/kWh	\$/Therm
5.58737	0.00304	0.02204

The proposed allocation of the resource incentive to the IOUs is in Table 2 below. The proposed allocation reflects an 85% electric, 15% gas split based on the forecasts of the electric and gas program benefits included in the IOUs’ prepared testimony supporting their 2013-2014 portfolio applications.⁷ The electric split is based on a 75% energy, 25% capacity split of benefits. This electric split is an estimation of the avoided costs from energy and capacity based on discussion in R. 09-11-014.⁸ The IOU percentage split below is calculated by taking the results in step (d) above, multiplying them by the lifecycle goal savings of the IOU’s step (c) and then determining each IOU’s percentage of the total.

Table 2
IOU Resource Incentive Split

IOU	Percentage of Resource Mechanism
PG&E	42%
SCE	40%
SDG&E	10%
SoCalGas	8%

⁷ See Appendix 1, Step 2 for calculation and reference.

⁸ Energy and Environmental Economics, Inc., *Energy Efficiency Avoided Costs 2011 Update* (Dec. 19, 2011), p. A9, Figure 4.

The key assumptions of the resource incentive calculation are included in Appendix 1.

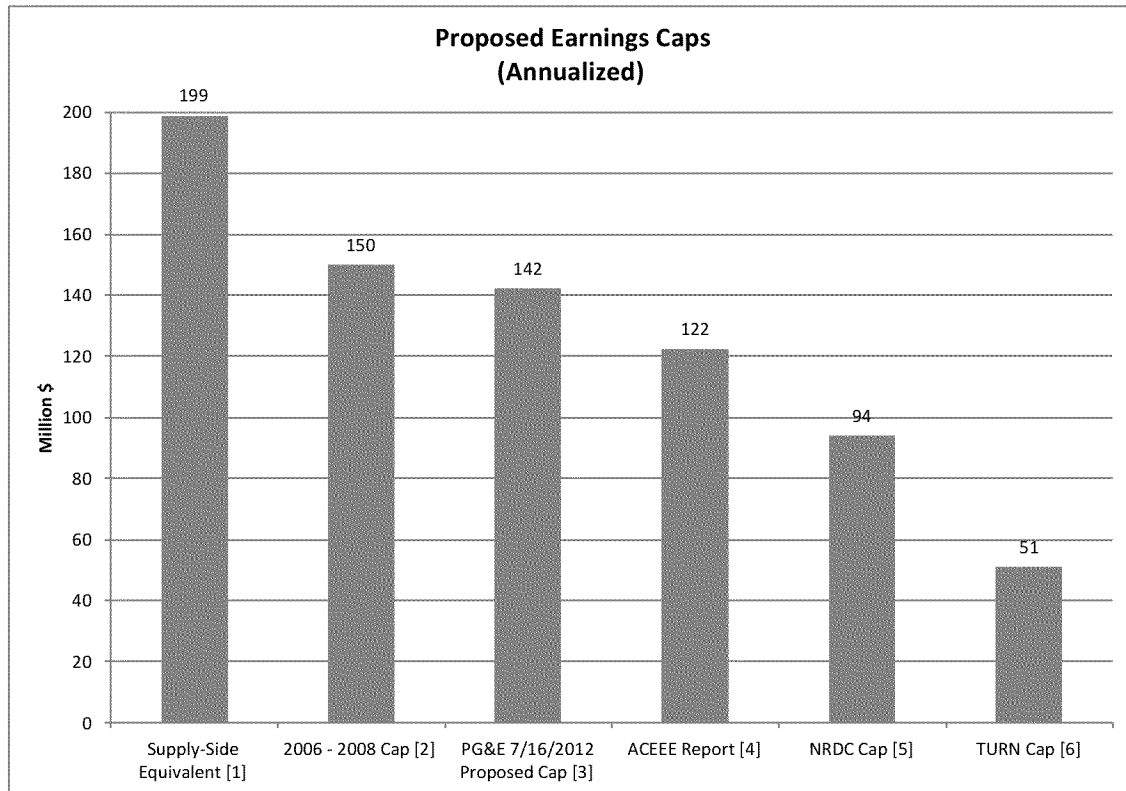
B. Cost Effectiveness Guarantee

A cost-effectiveness guarantee ensures that the IOUs are rewarded only if they achieve customer benefits. PG&E recommends using a cost-effectiveness guarantee to ensure a win-win outcome for customers and IOU shareholders. The following elements would best promote this win-win alignment towards lifecycle savings.

- Use of the PAC test for cost-effectiveness. A PAC test is the appropriate cost-effectiveness calculation for portfolios targeting deeper, lasting savings because it appropriately excludes the high incremental measure costs typically associated with longer lasting measures. A PAC test also values energy efficiency measure costs on equal footing with other supply-side investments.
- This proposal would only result in an incentive award if individual IOU portfolios exceed a 1.0 PAC.
- Incentives, up to the earned amount, are paid to IOUs if the PAC test result is above 1.0, including the incentive award. If earnings reduce the PAC to below 1.0, the award would be reduced to an amount that allows a result equal to 1.0.

C. Total Program Cap for Resource Programs

PG&E supports an earnings cap as recommended by a number of parties, and proposes an annual statewide resource program cap of \$125M or total of \$250M over the two-year program cycle. This cap is based on a national average and would reasonably share the resulting benefits with customers. (See Proposed Earnings Caps Figure below for comparison of the parties' filings.)



[1] IOU 2013 - 2014 RRIM Comments.

[2] Decision 07-09-043 (2006 - 2008 RRIM).

[3] PG&E July 16, 2012 proposal with cap at 1.5 x PEB with PEB based on 100% of PAC test and separate mechanism for resource vs. non-resource programs.

[4] ACEE Report, Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency. Page 14 of the report states "Caps generally range from 5% to 20% of efficiency program spending. The average cap on incentives was approximately 12 - 13% of total program spending." 12% was used for this analysis.

[5] NRDC 2013 - 2014 RRIM comments, page 28.

[6] TURN 2013 - 2014 RRIM comments, page 21.

PG&E proposes that the incentive mechanism be calculated and settled annually, but with a cumulative limit of \$250 million over the two year program cycle. If an IOU earns less than the full annual cap in 2013, it would be authorized to earn more than the annual limit in 2014, subject to the total cumulative cap. This proposal reflects that there is typically a ramp up period resulting from program adjustments and cycle start up. PG&E also proposes a "sub-cap" of \$20 million annually (or \$40 million cumulatively) for Codes and Standards (C&S) to ensure a balance of earnings between C&S and other resource acquisition programs.

Since the incentive per metric is derived based on lifecycle energy efficiency and codes and standards goals, the calculation to determine the IOU incentive payment should be based on the full lifecycle gross energy savings for energy efficiency resource programs and net energy savings for codes and standards accomplishments.²

D. Management Fee for Non-Resource Programs

PG&E proposes a management fee of 3% for non-resource spending. PG&E proposes an annual cap on this fee that is based on 3% of approved non-resource budgets.¹⁰ The cap would be equal to \$7.2 million annually based on the non-resource program budget proposals in the IOUs’ 2013-2014 applications. The management fee would be separate from the resource program incentive. A management fee for non-resource programs would encourage greater focus on achievement of non-resource program goals while removing the disincentive from the previous mechanism to shift funds and resources away from non-resource programs. Table 3 below shows earnings based on 3% of non-resource budgets included in the IOUs’ 2013-2014 applications in A.12-07-001. These values would need to be updated to be consistent with the final decision in A.12-07-001.

**Table 3
IOU Non-Resource
Incentive Allocation**

IOU	Annual Earnings (\$ Millions)
PG&E	\$ 2.19
SCE	\$ 2.31
SDG&E	\$ 1.05
SoCalGas	\$ 1.66

² Refer to Appendix 2 for a description of net energy savings for Codes and Standards.
¹⁰ This portion of the mechanism would include amounts spent on the following programs: financing, evaluation, measurement and verification (EM&V), emerging technologies, and marketing, education and outreach.

E. Timing of Incentive Award

The IOUs' earning claims would be based on the annual energy efficiency reports filed in May for the prior year's savings and should be resolved in the year the annual report is issued in order to provide regulatory certainty regarding the award. For example, the 2013 claim would use the 2013 annual reported submitted May 1, 2014 and would be processed by fourth quarter 2014.

F. Other Incentive Mechanism Proposals

Performance metrics should not be required for a comprehensive and reasonable incentive proposal. However if the Commission wishes to incorporate performance metrics as a portion of a broader mechanism, the metrics should be based on the IOU's approved 2013-2014 applications. Specifically, TURN's proposal suggested some performance metrics not consistent with the Applications filed in response to D. 12-05-015. If the Commission desires to incorporate any of TURN's proposed performance metrics, PG&E suggests certain modifications.

1. TURN's Proposed Metric For the Whole Home Upgrade Program.¹¹

TURN's proposed metric for the Whole Home Upgrade Program (WHUP, now known as the Energy Upgrade California (EUC) program) targets a 10% annual increase over 2010-2012 participation levels in climate zones 11-13 and paying the IOUs 1.25% of their entire portfolio expenditures if this increased participation is achieved.¹² If the Commission ultimately chooses to adopt an incentive for customer participation in the WHUP, the incentive amount should be consistent with the overall program expenditure level and projected goals for 2013-2014. This would ensure that the mechanism reasonably values benefits from programs in the portfolio. This participation should be targeted at the goals included in PG&E's 2013-2014 application, which are significantly higher than the annual average participation for the 2010 – 2012 program cycle, and

¹¹ TURN Comments (Jul. 16, 2012), p. 27.

¹² *Id.*

TURN's proposed goal.¹³ However, the final goals should be commensurate with the actual, authorized budget.

While it may appear reasonable to target this metric to installations in hotter climate zones as TURN proposes, targeting participation in hotter climate zones was only one of many criteria used in designing the program. Successful implementation of this program should not be focused solely on targeting participation in hotter climate zones. Economic conditions and energy usage, as well as other factors indicating the likelihood that a customer will participate in a residential upgrade program should also be considered. While PG&E plans to continue to target WHUP to geographic areas and markets where customer data and segmentation indicate a higher likelihood of customer participation, there is no baseline for determining appropriate penetration by climate zone at this time.

2. TURN's proposed metric for spending on rebates and financing.

TURN proposes to base a performance metric on the IOUs' spending at least 50% of their authorized budgets on rebates and financing.¹⁴ If the Commission adopts a specific metric for spending on rebates, PG&E suggests a percentage consistent with the budget proposals in the IOUs' applications. The final amount should be based on the Commission decision in A.12-07-001.

The 50% amount proposed by TURN is too high for a mature market as California, and is inconsistent with the D. 12-05-015, and should be reduced to 40% to reflect PG&E's application filed in response to the Guidance Decision. TURN's 50% rebate/financing spend metric is based on nationwide energy efficiency programs, many of which are in their infancy and have more cost-effective measures than the more mature California energy efficiency programs. PG&E's application proposes approximately

¹³ PG&E's WHUP goal is 3,200 homes in 2013 and 3,500 homes in 2014. See Residential PIP, WHUP, Table 17 (09/05/2012).

¹⁴ TURN Comments, (Jul. 16, 2012), p. 22.

40% of the budget for customer rebates and financing. The 40% figure is more reasonable and consistent with the IOUs’ overall budget proposals as it balances resource and non-resource program goals as well as is the upper limit of allowed spending per the IOUs application. This 40% includes all proposed rebates, direct install rebates and labor costs, loan proceeds, and loan support financed as seen in the IOUs’ applications. Given California’s statewide mandate to implement non-resource programs to encourage the implementation of programs with long lasting savings, achieving incentive levels higher than 40% is unreasonable as it would result in an overall portfolio that shifts focus away from non-resource programs. For this reason, it is inappropriate to compare California’s energy efficiency programs with those operating in other states. Lastly, if the Commission determines this is an appropriate metric, the final determined percentage should be tied to the IOUs’ approved portfolios.

**Table 4
Rebate and Finance**

	Forecast Spend (\$ Millions)	% of Budget
Direct Implementation (Incentives and Rebates)¹⁵	\$ 298	36.1%
Financing Programs¹⁶	\$ 32	3.9%
Total	\$ 330	40.0%

In addition to the two metrics above, TURN also proposed a specific metric for a residential HVAC rebate program.¹⁷ A performance metric for a residential HVAC program would not be suitable for PG&E as PG&E does not offer this program due to low cost-effectiveness. PG&E understands that the other IOUs also do not offer such a program.

¹⁵ Table 4.2 IOU Portfolio Budget by E3 Formats (2013-2014 Two-Year) of PG&E’s 2013-2014 Application

¹⁶ \$32M is the portion of the financing program allocated to loans and loan pools of the \$73M that is taken from “Financing Program” two-year total in Table 4.1 – PG&E Portfolio Budget of PG&E’s 2013-2014 Application.

¹⁷ TURN Comments, p. 25.

III. CONCLUSION

PG&E's proposed lifecycle savings incentive mechanism would reward the IOUs for achievement of deeper and longer-lasting energy savings and would best promote achievement of the Commission's goals. PG&E appreciates the Commission's continued support for energy efficiency and looks forward to having a simplified and transparent mechanism in place prior to the start of the 2013-2014 Energy Efficiency Portfolio.

Respectfully submitted,

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APPENDIX 1

PG&E Post Workshop Comments
APPENDIX 1
Calculation of Resource Incentive Values

Step 1: Establish 2013 - 2014 Target Earnings For Resource Programs

Per PG&E Proposal, the Annual Earnings Target is: \$100,000,000
 The 2013 - 2014 Cumulative Earnings Target is: \$200,000,000

Step 2: Allocate target earnings by electric and gas split based on IOUs 2013-2014 Applications E3 Calculators

Source: IOUs July 2, 2012 2013 - 2014 EE Application Filings

PG&E: Appendix E, 2013 - 2014 EE Portfolio Tables, Table 1.7a - Total TRC - Net
 SCE: SCE's Excel Files to SCE's 2013 - 2014 Energy Efficiency Application, Table 1.7a - Total Resource Cost (TRC) - Net
 SDG&E: Chapter III, Prepared Direct Testimony Of Athena M. Besa, Page 5, Table 1-3: Portfolio Cost Effectiveness Results
 SoCalGas: Testimony Of Southern California Gas Company, Page 113, Table 10 - Portfolio Cost-Effectiveness

	Electric and Gas Allocation		
	Electric	Gas	Total
PG&E	1,231	236	1,467
SCE	1,678	0	1,678
SDG&E	353	38	391
SoCalGas	0	309	309
Total	3,262	583	3,845

Electric % (Electric / Total): 85%
 Gas % (Gas / Total): 15%

	Electric	Gas
Target Allocation	\$170,000,000	\$30,000,000

Step 3: Allocate electric target earnings by energy and demand.

Source: Energy and Environmental Economics, Inc., Energy Efficiency Avoided Costs 2011 Update (Dec. 19, 2011), p. A9, Figure 4.

Demand %: 25%
 Energy %: 75%

	Demand	Energy
Electric Allocation	\$42,500,000	\$127,500,000

Step 4: Utilize 2013 - 2014 Commission Goals

EE Programs

Source: Guidance on 2013 - 2014 Energy Efficiency Portfolios
 Decision 12-05-015, May 10, 2012, Page 96

C&S Advocacy

Source: Updated Codes and Standards Forecasted Savings Estimates
 Navigant, September 4, 2012, Pages 4 - 6

	2013 - 2014 Commission Goals								
	MW			GWH			MMTherms		
	2013	2014	Total	2013	2014	Total	2013	2014	Total
PG&E									
EE Program	114	100	214	599	593	1,192	21.0	20.3	41.3
C&S	31	32	63	254	239	493	0.1	0.6	0.6
Total	145	132	277	853	832	1,685	21.1	20.9	41.9
SCE									
EE Program	149	144	293	660	678	1,338	0.0	0.0	0.0
C&S	32	33	65	262	246	508	0.0	0.0	0.0
Total	181	177	358	922	924	1,846	0.0	0.0	0.0
SDG&E									
EE Program	36	33	69	162	156	318	2.2	2.1	4.3
C&S	7	8	15	59	56	115	0.0	0.1	0.1
Total	43	41	84	221	212	433	2.2	2.2	4.4
SoCalGas									
EE Program	0	0	0	0	0	0	24.0	22.3	46.3
C&S	0	0	0	0	0	0	0.1	0.9	1.0
Total	0	0	0	0	0	0	24.1	23.2	47.3

Step 5: Weighted Average Measure Life

Source: IOUs Weighted Average Measure Life From 2013 - 2014 Energy Efficiency Application Filing E3 Calculators

	Average Measure Life	
	Electric (Years)	Gas (Years)
PG&E	9.4	11.0
SCE	11	-
SDG&E	11.3	17.6
SoCalGas	-	15
Average EUL	10.6	14.5

Step 6: Determine 2013 - 2014 Lifecycle Goals

Source: 2013 - 2014 IOU Goals in Step 4 Multiplied by the Weighted Average EUL in Step 5

	2013 - 2014 Lifecycle Goals		
	MW	GWH	MMTherms
PG&E	2,930	17,826	609
SCE	3,787	19,529	-
SDG&E	889	4,581	64
SoCalGas	-	-	688
Total	7,606	41,936	1,361

Step 7: Determine incentive per metric for resource programs

Source: Divide the allocated target earnings in Steps 2 & 3 by the lifecycle goals in Step 6.

Allocated target earnings from Step 2 (Gas Allocation) and Step 3 (Demand and Energy allocation)

	Demand	Energy	Gas
Allocated Earnings	\$42,500,000	\$127,500,000	\$30,000,000

Table 1
Incentive per metric for resource programs

	\$/kW	\$/kWh	\$/Therm
	5.58737	0.00304	0.02204

Step 8: 2013 - 2014 Incentive Payments For Resource Programs (multiply incentive per metric by lifecycle accomplishments)

	At Earnings Target (100% of Goal)	At EarningsCap (125% of Goal)
PG&E	\$84,006,482	\$105,008,103
SCE	\$80,536,966	\$100,671,207
SDG&E	\$20,293,090	\$25,366,363
SoCalGas	\$15,163,462	\$18,954,327
Total	\$200,000,000	\$250,000,000

Table 2
IOU Resource Incentive Split

IOU	% of Resource Incentive
PG&E	42%
SCE	40%
SDG&E	10%
SoCalGas	8%

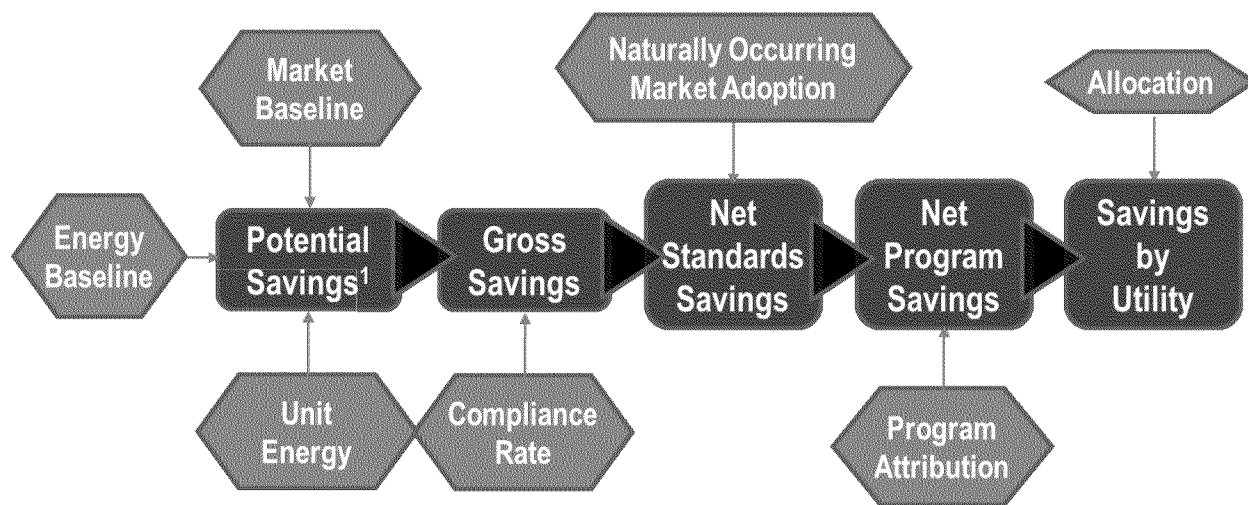
APPENDIX 2

PG&E POST WORKSHOP COMMENTS

APPENDIX 2

Calculations of net energy savings for codes and standards in PG&E's proposed 2013 – 2014 energy efficiency incentive mechanism

The following diagram shows how net energy savings are determined for Codes and Standards (C&S).



Sources: CPUC/CADMUS Evaluation

ftp://ftp.cpuc.ca.gov/puc/energy/electric/energy+efficiency/em+and+v/EvaluatorsProtocols_Final_AdoptedviaRuling_06-19-2006.doc

As shown in hexagons in the diagram, there are seven input variables that go into the calculation of IOU net energy savings for C&S. The energy baseline, market baseline, and unit energy savings goes into the calculation of the potential savings. The compliance rate from the 2010-2012 study would be used to adjust the potential savings to obtain the gross savings. Naturally occurring market adoption adjusts the gross savings into net standards savings. Program attribution from the study would be used to adjust the net standards savings into net program savings. Finally, the net program savings would be allocated to each IOU.

Six of the seven input variables for the 2005 Title 20 (T-20)/Title 24 (T-24) standards have been locked down based on past studies which have been finalized and reviewed. The seventh variable, market baseline, is updated annually and will be updated as part of the 2010 – 2012 C&S EM&V study to be completed by mid-2013.

For the 2006, 2008, and 2009 T-20/T-24 and Federal Standards, all input variables are under evaluation in the 2010 – 2012 C&S EM&V study to be completed by mid-2013.

For the 2013 – 2014 incentive mechanism, PG&E proposes to lock down the 2010 – 2012 C&S EM&V study results as the *ex ante* values for the six variables excluding market baseline. And update to the market baseline data will come from a study to be conducted by the Commission to update market baseline, which should be conducted by mid-2014 to allow a final award processing for 2014. For 2014, PG&E proposes to use the results of the 2013 – 2014 C&S EM&V study, which is scheduled to be completed by mid-2015, in time for the 2014 incentive claim. To the extent that the 2013 – 2014 C&S EM&V study will not be completed by 2015 as scheduled, PG&E proposes to use the 2010 – 2012 C&S EM&V study results with updated market baseline data for 2014.

Summary of proposed *ex ante* values for C&S:

- Pre 2006 T-24 and T-24: Based on pre-determined CEC evaluations
- 2006-2009 T-20 and T-24: 2010 – 2012 C&S EM&V study to be completed by mid-2013

In past incentive mechanisms, pre-2006 C&S advocacy work was included in determining goal achievement but was excluded for the incentive calculations. Since the proposed incentive mechanism is based on Commission goals and those goals include pre-2006 C&S advocacy work, lifecycle energy savings from pre-2006 C&S advocacy work are included in the calculation of the incentives. If the Commission wishes to exclude pre-2006 advocacy work from the incentive mechanism, the values for the proposed incentive mechanism will have to be re-calculated to remove pre-2006 advocacy work from the Commission goals.