ACEEE
American Council for an Energy-Efficient Economy
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Re: (R.12-01-005) ACEEE Support for Continuing Utility Efficiency Incentives

December 10, 2012

President Peevey
Commissioner Ferron
Commissioner Florio
Commissioner Sandoval
Commissioner Simon
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear President Peevey and Commissioners,

The American Council for an Energy-Efficient Economy (ACEEE) regularly monitors utility sector energy efficiency policies and programs in the 50 states. We have studied the issue of shareholder incentives for energy efficiency extensively and concluded that they can be very effective at motivating utilities to do a good job delivering energy efficiency programs to customers.

ACEEE urges the CPUC to continue providing incentives for California's utilities to advance energy efficiency. In the current discussions, we would oppose the ALJ proposal to eliminate incentives for the 2010-2012 programs, and note that such a move would be very problematic. It would not only create the perception that the Commission had unfairly abrogated the understanding that incentives would be in place for those years, it would greatly increase the perceived "regulatory risk" around any future incentive proposal. We believe this would send a counter-productive signal to California's utilities - - and given California's stature and visibility, an unsettling example for the utility industry in general.

Of the two proposals, we support Commissioner Ferron's Alternate Proposed Decision (APD), albeit with some reservations. As we noted in our October 5, 2012 letter, we recommend that performance incentives be tied to achieving energy savings goals rather than focusing on less direct accomplishments such as spending money or simply engaging in certain activities.

We understand that a decision on incentives for 2010-12 at this time would not retroactively influence performance, and the APD has opted for an expedient cost-plus approach.

For the future, we strongly recommend that utility performance incentives be tied to achieve energy savings. That is the core principle being successfully used in most states that have utility incentive mechanisms. We are encouraged by the statement on p.30 of the APD: "We agree that achieved savings is an ideal metric to use, and will consider it for future reforms", and urge the Commission to follow that course. Following this thinking, going forward, we recommend eliminating the conformance bonus in the APD, since it focuses on "process" related issues and is not a suitable substitute for an incentive mechanism tied to actual energy savings.

Finally, we would note that the earnings proposed in the APD at 5.6% of expenditures is lower than most states. As we described in our October 5, 2012 letter, our most recent review of efficiency incentives around the country found that caps range from 5% to 20% of program spending, and average 12% to 13%. California's utility energy efficiency programs are universally regarded as among the nation's best. Conceptually, it would seem that having a maximum incentive higher than the proposed level in the APD could be well-justified.

California's leadership on energy efficiency has helped drive progress around the nation over the past decade. We urge the CPUC to continue its leadership on policies that make energy efficiency a top priority, including providing incentives to utilities for strong energy efficiency savings performance.

Thank you for considering our comments.

Sincerely,

Steven Nadel
Executive Director

Martin Kushler
RJ

Martin Kushler, Ph.D.
Senior Fellow

cc: Cliff Rechtschaffen, Senior Advisor to Governor Brown
Jeanne Clinton, Special Advisor to Governor Brown
R.12-01-005 service list