



Energy Efficiency Proposed & Alternate Decisions 2010-2012 Risk/Reward Incentive Mechanism (RRIM)

DRA Position: The Commission should adopt the Proposed Decision and first utilize record evidence to address the CPUC's threshold question of whether a RRIM is necessary before pursuing further reform and awarding shareholder bonuses.

Background

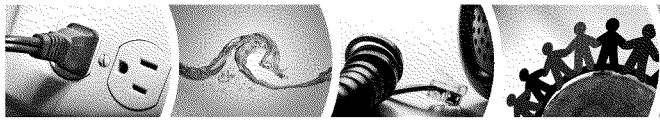
- **Proposed Decision (PD):** Determines that the utilities are not entitled to an incentive for 2010-12 and finds little value in a backward-looking RRIM and/or continuity in earnings. Directs full focus on the development of an effective RRIM for future cycles.
- **Alternate Proposed Decision (APD):** Limits finding to 2010-12 cycle, stating that incentives at this time cannot impact performance but adopts a new mechanism to disburse \$42.2 million for 2010 in light of regulatory certainty.

APD Does Not Address the CPUC's Own Threshold Question as to Whether RRIM is Needed

- **CPUC Aug 30, 2011 Ruling:** Poses a series of questions on the need for an incentive, the financial impact of having a RRIM and other needs for ensuring utilities commit to EE goals.

"Questioning the justification for continuing the RRIM is especially appropriate given the track record during the now completed 2006-2008 RRIM cycle. ...Serious questions have been raised concerning whether the mechanism can realistically do what it was originally designed to do." [p. 4]

- **Proposed Decision:** Acknowledges "Disputes regarding the proper integration of EE programs and resource planning assumptions have not been fully explored for purposes of adopting a 2010-2012 RRIM." [PD, p. 23]
- **Alternate Proposed Decision:** Discussion does not answer the threshold question or rationalize its findings based on the substantive record, stating simply:
 - * A shareholder incentive mechanism is a core part of the state's strategy to successfully deploy Energy Efficiency." [APD p. 2]
 - * "We are persuaded by NRDC that an incentive mechanism is an important tool to promote our state's policy objectives for energy efficiency." [APD p. 23]



The Utilities Have No Basis for a ‘Reasonable Expectation’ for 2010-2012 Incentive Awards, Which are Not Based on a Pre-Established Mechanism

- Uncertainty existed throughout the proceeding’s history as to whether a RRIM would be implemented for 2010-2012.
- The APD’s assertion of ‘regulatory certainty’ is presupposed on utility entitlement and the CPUC’s continuation of the RRIM in the future.

CPUC Direction Regarding Incentives Process 2007 - 2012

DATE	CPUC RULING	CPUC FINDING
9/20/2007	D.07-09-043: Adopts original RRIM; included a risk & reward component and a shared savings rate.	Foundational RRIM decision with a fully fleshed out mechanism that finds that IOU rewards must be based on measurable performance and a win-win proposition for both customers & IOUs. <i>(Within a year CPUC & parties acknowledge that RRIM is not working as intended. Mechanism was modified through a series of decisions through 2010.)</i>
1/29/2009	R.09-01-019: Opened to address RRIM reforms.	4/14/2009 ED White Paper summarized extensive issues with the RRIM to date
12/16/2010	D.10-12-049: Further modifies the mechanism and extends to 2009 bridge year.	"The Commission shall separately address in a subsequent proceeding in this docket <i>whether</i> , or subject to what conditions incentive payments and/or penalties may be due in 2010, and beyond." [OP 5 p. 78]
11/15/2010	PD: Reforms for 2010-12 issued.	Ultimately withdrawn due to unresolved issues over ex-ante values.
12/15/2011	D.11-12-036: Issues 2009 awards.	Declares 2009 bridge year RRIM doesn't extend to 2010-12.
8/30/2011	ACR: Refresh record on RRIM issues; threshold question raised for resolution.	"Questioning the justification for continuing the RRIM is especially appropriate given the track record during the now completed 2006-2008 RRIM cycle." P. 4.
1/12/2012	OIR: Issued to reform the CPUC's Energy Efficiency Risk/Reward Incentive Mechanism	"Also, as part of this review, we consider whether to offer RRIM earnings, or other forms of incentives to the IOUs, at all. We consider whether there may be other, or better, ways to encourage maximum energy efficiency." p. 2.
5/16/2012	Scoping Memo	"The procedural scope will include re-evaluation of the basic question of whether offering monetary earnings to utility shareholders can be an effective and appropriate incentive tool to encourage and promote energy efficiency goals." p. 2.