Pacific Gas and Electric Company®

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Energy Division Tariff Unit
California Public Utilities Commission
505 Van Ness Avenue, 4th Floor
San Francisco, CA 94102

Re: **Pacific Gas and Electric Company's Reply to Protest to Advice Letter 3356-G/4176-E Implementing PG&E's 2013-2014 Energy Efficiency Portfolio Pursuant to D.12-11-015**

Dear Energy Division Tariff Unit:

Pacific Gas and Electric Company (PG&E) responds to the protest of The Utility Reform Network (TURN) filed on February 4, 2013, to PG&E's Compliance Advice Letter (AL) 3356-G/4176-E Implementing PG&E's 2013-2014 Energy Efficiency (EE) Portfolio Pursuant to Decision 12-11-015 (EE Decision). PG&E filed (AL) 3356-G/4176-E on January 14, 2013.

TURN addresses four issues: 1) whether PG&E's portfolio is above the 20 percent target for non-incentive program implementation costs; 2) PG&E's proposed Energy Upgrade California (EUC) program budget; 3) EUC cost-effectiveness; and 4) PG&E's proposed revisions to its Residential Energy Advisor program. TURN's protest should be denied for the reasons discussed below.

Issue 1: TURN states that PG&E's portfolio is above the 20 percent target for non-incentive program implementation costs and supports the California Public Utilities Commission's (Commission) intent to review customer service costs before 2015 EE applications are filed. (Protest, p. 2.)

As discussed below, PG&E's proposed budget significantly decreases non-incentive spending and TURN's calculation of PG&E's ratio of non-incentive budget to its incentive budget is incorrect.

PG&E's AL and 2013-2014 EE Application 12-07-001 affirm PG&E's commitment to achieving operational efficiencies and identifying process improvements to reduce non-incentive costs while still providing a robust and comprehensive EE portfolio for customers. TURN correctly notes that PG&E's AL outlines the significant steps taken thus far to reduce costs for 'implementation-customer services' in its portfolio.[1] TURN also correctly points out that the 20 percent target is just that, a target, and that the utilities were asked to "minimize their non-incentive budgets *as much as possible*" to achieve this target.[2]

PG&E's AL has reduced non-incentive costs by $41.9 million compared to its 2013-2014 EE Application.[3] This is in addition to the $87.5 million reduction in non-incentive costs PG&E proposed in its 2013-2014 EE Application program budget compared to its annual program budgets for the 2010-2012 portfolio cycle.[4]

TURN's protest contains incorrect calculations of PG&E's non-incentive program implementation percentage for the Commission's "Implementation - Customer Services" target as it includes non-resource (target-exempt) programs such as Emerging Technologies and Workforce Education & Training. Decision (D) 09-09-047 directed the Investor-Owned Utilities (IOUs) to exclude non-resource programs from the calculation of this 20 percent target.[5] As a result, PG&E is actually at 30.9 percent in comparison with the 20 percent target when using PG&E's $792 million program budget as the percentage's denominator. This approach is consistent with how the IOUs report to the Commission quarterly in their Caps & Targets Report.

Additionally, TURN also improperly uses 38.7 percent as the percentage of non-incentive program implementation costs when "considering only PG&E's own 'Core' programs" in comparison with the 20 percent target. This percentage uses PG&E's 'Core' Portfolio budget as its denominator rather than PG&E's total program budget. PG&E's true 'Core' percentage is 14.6 percent when calculated as follows: PG&E's Core Resource Programs non-incentive direct implementation budget divided by PG&E's $792 million program budget. This excludes non-resource (target-exempt) programs and all Third Party and Government Partnership implementation costs, which are properly excluded because this percentage considers only PG&E 'Core' programs and should not include non-resource programs given that it is being compared with the 20 percent target, as explained above.

Finally, PG&E agrees with TURN that it would be helpful to the parties if the Commission would further review and provide guidance on the 'implementation-customer services' cost category in advance of the IOUs' preparations of their 2015 portfolio applications.[6]

Issue 2: TURN states that PG&E's proposed EUC budget is inconsistent with the requirements of the EE Decision and asks that the Commission "decline to endorse PG&E's proposed EUC budget or the specific cost-category allocations" and "defer

[1] TURN Protest, p. 2.
[2] D.12-11-015, p. 101.
[3] PG&E's AL, p. 2.
[4] *Id.*, p. 2.
[5] D.09-09-047, p.78.
[6] TURN Protest, p. 2.

resolving these issues until PG&E submits its April 1, 2013, Compliance Advice Letter addressing changes to EUC." (Protest, p. 3.)

PG&E's proposed EUC budget of $25.7 million is adequate to ensure it successfully meets or exceeds the EUC high-participation scenario unit target of 9,800 households, as required by the EE Decision.[7] As PG&E's AL clarified, this household target should include BayREN households, as the high-participation scenario unit target was designed around the entire PG&E service area, and is consistent with the Commission's decision that the IOUs' would count energy savings from the regional energy network (REN) programs towards the IOUs' goals.[8] Given that BayREN covers approximately 50 percent of PG&E's service area, that the EUC enhanced basic path is expected to increase program participation and that BayREN will be independently implementing the program in its area, the overall reduction to the EUC program budget and the reduction to PG&E's incentive budget are reasonable.

However, it is unreasonable to delay approval of PG&E's EUC budget until coordination between PG&E and BayREN implementation activities is finalized and the EUC advice letter is filed, as TURN suggests. PG&E must maintain adequate quality assurance/quality control, rebate processing, and other vital functions to ensure it provides adequate support for contractors and customers. In its role as administrator of its energy efficiency portfolio, PG&E has the flexibility to move dollars from non-incentive to incentive cost categories, and vice versa, and would do so if implementation efficiencies between BayREN and PG&E can be realized and additional incentive budget is needed. Further, PG&E's AL outlines its robust pipeline of 2010-2012 committed projects, including EUC project commitments, and associated incentives, which will be supported by unspent 2010-2012 funds. Once these projects are completed, they will provide additional incentives to customers beyond what is allocated for in PG&E's 2013-2014 EUC budget. TURN's request to delay approval of PG&E's EUC budget should be denied.

Issue 3: TURN states that PG&E's total resource cost (TRC) cost-effectiveness calculation for EUC erroneously includes all labor costs, rather than only incremental labor costs, in contravention of D.12-11-015. (Protest, p. 4.)

TURN has misinterpreted the Commission's direction in the EE Decision with regard to the inclusion of labor costs in cost-effectiveness calculations for EUC. TURN asserts that in the EE Decision the Commission "affirmed that only '*incremental* labor costs' should be included, rather than all labor costs."[9]

However, D.12-11-015, Conclusion of Law 58, clearly states: "It would be incorrect to change the cost-effectiveness methodology for the EUC program to eliminate labor costs. Incremental labor costs may make sense to eliminate, but this proposal should

[7] D.12-11-015, p. 70.
[8] Id., p. 14.
[9] TURN Protest, p. 4.

be evaluated in R.09-11-014 or its successor."[10] Additionally, D.12-11-015, Ordering Paragraph 24, confirms that the IOUs shall not remove labor costs from their cost-effectiveness calculations for EUC. While the Commission clearly indicates a desire to explore this area further, the EE Decision clearly directs the IOUs to include labor costs in the EUC cost-effectiveness analysis.

Issue 4: TURN states that PG&E's Statewide Residential Program budget should increase rather than decrease and questions several proposed revisions to the Residential Energy Advisor program.

TURN incorrectly identified PG&E's Statewide Residential Program budget adopted in the EE Decision, and has incorrectly used the budget proposed in PG&E's 2013-2014 EE Application instead of the budget approved by the Commission in the EE Decision. PG&E's 2013-2014 EE Application proposed an overall Statewide Residential Program budget of $123.6 million. The Commission adopted a total regulatory budget for PG&E's 2013-2014 Statewide Residential Program of $105.1 million, $18.5 million less than PG&E's original request.[11] PG&E's AL proposes to increase its Statewide Residential Program budget by an additional $6.6 million to support ongoing success of behavioral-based initiatives such as Residential Energy Advisor, implement new HVAC regulatory requirements, and support the high-scenario for EUC.[12] Contrary to TURN's statements, PG&E has increased its total Statewide Residential Program budget by over 6 percent, rather than decreased it by 10 percent. PG&E's proposed increase to this budget is consistent with TURN's desire to increase funding to this area of the portfolio.

PG&E's Residential Energy Advisor budget increase is also consistent with Commission guidance to initiate additional behavioral-based program activities in the 2013-2014 cycle.[13] PG&E's 2013-2014 EE Application included a robust Residential Energy Advisor offering for customers and PG&E has expanded the scope of that offering to reach more customers and provide an even greater customer experience. As a result, PG&E's AL expands the Residential Home Energy Report offering to reach more households as well as include new web tool enhancements to further enhance the customer experience and educate customers on the breadth of integrated solutions available for energy management. PG&E's behavioral programs increase customers' awareness and understanding of their energy usage, and as a result, drive verified energy savings.

PG&E has received an interim report documenting the 2010-2012 savings values for Home Energy Reports, which are in line with PG&E's prior expectations. However, since the Home Energy Reports program is still a pilot, PG&E has conservatively estimated the forecasted energy savings, which impacts overall TRC and Program

[10] D.12-11-015, COL 58.
[11] D.12-11-015, p. 103
[12] PG&E's AL, p. 3.
[13] D.12-11-015, pp. 76-77.

Administrator Cost (PAC) test calculations. Therefore, it is likely that this forecast understates actual energy savings.

Additionally, TURN contends that this program fails to meet either the TRC or PAC cost-effectiveness tests.[14] However, portfolio cost-effectiveness is based on the TRC and PAC scores for the entire portfolio, not individual programs.[15]

Finally, TURN contends that PG&E has incorrectly categorized these costs as "incentives or rebates."[16] However, the Energy Efficiency Policy Manual (Policy Manual) defines a Financial Incentive as: "Financial support (e.g., rebates, low interest loans, free technical advice) provided to customers as an attempt to motivate the customers to install energy efficient measures or undertake energy efficiency projects."[17] An audit is in-line with this definition as it is used for both motivating customer participation and providing technical advice. The Policy Manual's definition is clear that technical advice in an attempt to motivate customers is appropriately included in the incentive portion of program costs, and therefore audits and behavioral programs are appropriately included in the incentive portion of program costs.

PG&E appreciates TURN's feedback on PG&E's AL and supports continued collaboration with TURN on EUC and other implementation matters. However, for the reasons discussed above PG&E respectively requests that TURN's protest be denied.

Sincerely,

Brian Cherry /sw

Vice President, Regulatory Relations

cc: Edward Randolph, Director – Energy Division
Hayley Goodson, Staff Attorney – TURN

[14] TURN Protest, p. 5.
[15] D.12-11-015, p. 19.
[16] TURN Protest, p. 5.
[17] Energy Efficiency Policy Manual 4.0, Appendix B, p. 6.