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

OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) ON ASSIGNED COMMISSIONER'S RULING SOLICITING COMMENTS REGARDING EFFICIENCY SAVINGS AND PERFORMANCE INCENTIVE DESIGN FOR ENERGY EFFICIENCY 2013-2014 PORTFOLIO

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I. INTRODUCTION

Pacific Gas and Electric Company (PG&E) provides comments on the *Assigned Commissioner's Ruling Soliciting Comments Regarding The Efficiency Savings and Performance Incentive Design for Energy Efficiency 2013-2014 Portfolio*, dated April 4, 2013.

PG&E appreciates Commissioner Ferron's continued support of an energy efficiency (EE) incentive mechanism. The mechanism proposed in the ACR would reward the investor-owned utilities (IOUs) for achievements in both energy savings and non-resource programs that promote market transformation. While the proposed mechanism takes positive steps, there are several areas where it can be further improved to be more consistent with Commission goals, and promote greater simplicity and transparency. The Commission should adopt the proposed Energy Savings and Performance Incentive Mechanism (ESPI) for the 2013-2014 Program cycle expeditiously with the following proposed modifications:

- **Eliminate the Proposed *Ex-Post* Evaluation for Resource Programs**. The Commission should adopt a mechanism that only uses *ex-ante* values in order to make the mechanism non-controversial and reward proper execution of the approved portfolios based on the data that is available now. An *ex-post* evaluation would fail to serve the objective of incenting the IOUs to make adjustments during the execution of the portfolios, given that *ex-post* information will not be available until after the close of the 2013-2014 cycle. Most importantly, the *ex-post* mechanism creates a penalty for the successful execution of market transformation programs, contravening the Commission's stated objectives, by measuring market baselines after utility energy efficiency programs have successfully acted upon the market. It is for this reason that other regions, such as the Pacific Northwest, establish baselines looking forward (*ex-ante*), never looking backward, and use evaluation, measurement and verification (EM&V) results to update baselines <u>going forward</u>. If, for example, one observes a 5% penetration of the efficient widget prior to the cycle, and a 25% penetration after utility intervention, is it rational to assume that the "actual" baseline during the entire cycle was 25% penetration, and the utility program had no effect? If the Commission requires an *ex-post* adjustment, parties should have an opportunity to publicly vet the results on the record.

- **Use Gross Rather than Net Savings.** Energy savings should be evaluated on a gross rather than net basis consistent with the way energy efficiency portfolio goals are set, the impact of the savings on the need for generation resources, and the impact of the savings toward achieving the State's AB 32 objectives. Given California's emphasis on energy efficiency and climate change, it is unsurprising that customers have multiple motivations to purchase efficient equipment. Utility programs should be applauded for recognizing these customer motivations in designing programs that move customers from desire to action, and ultimately transform the market. After-the-fact customer surveys showing a high propensity to act may in fact be a recognition of the success of utility programs in "norming" the energy efficient purchase and transforming the market, rather than a signal that the move toward efficiency would have happened anyway. Using <u>gross rather than net savings</u> will best advance the Commission's policy goals of promoting market transformation. It would also remove the embedded negative penalty Net to Gross (NTG) values introduce after successful program implementation.

- **Increase Cap for Resource Programs to 13 Percent to Align with the National Average**. The Commission should increase the earnings potential consistent with the national average by modifying the resource components of the ESPI. This can be accomplished by increasing the ex-ante review (EAR) and lifecycle savings caps from up to 2 percent and 8 percent respectively to 3 percent and 10 percent respectively. The administrative costs should not be removed from the mechanism as these costs are critical to portfolio management. Removing these costs from the calculation of the management fee is inconsistent with other management fee based incentive mechanisms.
- **Streamline ESPI Mechanism to Increase Simplicity and Remove Unintended Consequences**. The proposed ESPI mechanism contains two modifiers that could conflict with other Commission directives. The proposed multiplier to the savings attributable to the total resource cost (TRC) ratio should be eliminated as it functions as an incentive to minimize investment in some of the transformational, but non-cost effective measures and programs, that are at the heart of the Commission's energy efficiency policy to achieve deeper and longer lived savings such as deep residential home retrofits (Energy Upgrade California), HVAC measures, and LED lighting. This contravenes the Commission's goal for the IOUs' 2013-2014 portfolios.[1] Similarly, the ACR "propose[s] that the savings correlation coefficients be calculated using "stretch" portfolio average EUL and

[1] D.12-05-015, p. 10 states "We intend for the 2013-2014 portfolio to represent the beginning of a transition in the utilities' energy efficiency portfolios. This transition will be marked by a trending away from an emphasis on programs that deliver individual measures or types of measures with relatively short design lives to programs and initiatives that encourage utility customers to adopt more comprehensive "suites" of measures that are characterized by deeper, longer-lasting savings."

NTG values that are not representative of recent values and may not be achievable in this portfolio. However, with well designed and implemented resource programs, the utilities should ultimately achieve these stretch values over time." (ACR, p.15.) The 2013-2014 portfolios were already designed and approved based on extensive Commission guidance and review. Increasing the target portfolio average EULs beyond what is achievable in this short portfolio cycle may encourage the IOUs to make changes to their portfolios that are inconsistent with prior Commission direction. The values should be reduced to reflect actual EULs based on the products available in the market.

- **Simplify and align *Ex-Ante* Review Criteria to Focus Limited Resources on Key Measures**. This component of the proposed mechanism is subjective, uses undefined terms and standards and appears to require a great deal of additional administrative oversight. To improve this component of the ESPI, PG&E suggests modifications to the proposed metrics to remove some of the subjectivity and provide more concrete performance criteria. More clearly-defined evaluation criteria will enable a reasonable opportunity for the IOUs to succeed. The Commission should further clarify that the IOUs will be evaluated on this portion of the mechanism on a prospective basis after the criteria are approved.

With these proposed adjustments, PG&E supports the ESPI mechanism as it would take a balanced approach to reward both resource and non-resource programs to support California's energy policies. This balanced approach properly assigns the largest portion of the incentive to achievement of energy savings and a lesser portion of the incentive to the non-resource programs.

Below PG&E briefly discusses each component of the proposed incentive mechanism with particular focus on the lifecycle savings resource portion, as well as mechanics of the award.

II. MANAGEMENT FEE FOR NON-RESOURCE PROGRAMS

A management fee for the non-resource programs is an appropriate and reasonable way to encourage the IOUs to focus on non-resource programs. This aspect of the proposed mechanism will encourage the IOUs to promote savings acquisition and focus on non-resource program execution, including workforce education and training and other customer educational and outreach activities that are valued by the Commission.

Specific Questions for Comment:

1. *Should non-resource based programs be a component of the ESPI for the 2013-2014 energy efficiency portfolio?*

Yes. PG&E agrees a management fee is appropriate for the non-resource portion of the energy efficiency portfolios. An incentive for non-resource programs will motivate greater performance in the non-resource portion of the portfolio. Rewarding the non-resource programs separately differentiates performance and signals to program administrators the importance the Commission places on these programs. A shared-savings mechanism or a resource program-based incentive should be separated from a non-resource incentive to create an incentive mechanism framework that rewards achievement in both areas without having one negatively affect the other.

2. *Does a management fee, paid as a fixed percentage of expenditures of non-resource programs, adequately incent utilities for successful implementation and investment in quality non-resource programs?*

Yes. PG&E supports a management fee for non-resource programs as it provides an incentive to execute on non-resource programs. This portion recognizes the value placed on non-resource programs that are key to market transformation.

3. *In lieu of a management fee, should the Commission reward utilities for non-resource based programs using specific program performance metrics as a more appropriate measure of non-resource program performance?*

No. PG&E has an array of non-resource programs and attaching metrics to this relatively small portion of the mechanism would further complicate and delay development of a mechanism for the 2013-2014 program cycle. This would also conflict with many parties' recommendations for a simplified mechanism. As non-resource programs are an important aspect of the portfolio, focusing on only certain programs or metrics would not support achievement of the Commission's broader goals.

> 4. *If program performance metrics (e.g., number of whole home retrofit projects in hot climate zones; number of measures adopted into the portfolio from the Emerging Technology Program) are utilized rather than a management fee based on expenditures, which program performance metrics should be utilized? Are there specific programs that should be targeted over others? What level of incentive earnings potential should be offered for specific performance metrics and for non-resource programs in the aggregate?*

If metrics are necessary, they should be limited to non-resource programs, not savings-based programs. PG&E supports the proposed management fee for non-resource programs without the use of metrics. Specific programs should not be targeted as the portfolio was adopted as a whole to serve an array of market transformation efforts and provide long-term benefits. Adopting metrics at this point would delay approval of the mechanism, further complicate the mechanism, and may ultimately delay payment of the incentive.

III. MANAGEMENT FEE FOR CODES AND STANDARDS PROGRAM IMPLEMENTATION

The Codes and Standards (C&S) portion of the mechanism should be modified to reflect the commensurate benefits of C&S. The IOUs devote significant efforts to achieve the C&S benefits in recognition of the significant savings that stem from C&S once they are adopted.

Specific Questions for Comment:

> 5. *Is rewarding codes and standards program activity via a management fee is appropriate?*

Yes. A management fee is appropriate to reward C&S achievements. The proposed 10% fee is less than the national average for earnings and disproportionately low for an aspect of the portfolio that provides such significant benefits. While direct expenditures on the C&S program are modest, the IOUs provide significant effort along the lifecycle of the technology to move it from an emerging technology into resource programs and finally, once quality and costs have achieved reasonable levels, into C&S.

6. *Is the fixed percentage of 10% an appropriate level to set the management fee?*

C&S provide an exceedingly high benefit-to-cost ratio as this program impacts the final stages of the technology lifecycle. The benefits from C&S occur after the lifecycle transformation of a technology and far exceed the costs of the program.[2]

The benefits anticipated from C&S for this program cycle are significantly greater than the $13M budget. These benefits occur because the IOU has shepherded these technologies through emerging technology and pilot programs, moved the technologies into the resource programs where incentives help drive market adoption and reduce costs of the technologies, and then finally moved the measures into C&S once the costs, market adoption rates and product quality make this appropriate. The proposed management fee of 10% seems very modest in comparison with the costs and benefits of the C&S program.

IV. AWARD FOR CONFORMANCE WITH THE *EX-ANTE* REVIEW (EAR) PROCESS

PG&E supports the ACR's focus on linking shareholder incentives to energy savings, and appreciates that *ex-ante* review could have a place in an overall mechanism which is savings-oriented. The proposed *ex-ante* review portion of the mechanism as written is highly subjective. If the *ex-ante* portion is limited as proposed in the ESPI and the metrics by which the IOUs will

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[2] *Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency*, January 2011, American Council for an Energy-Efficient Economy, p. 10 ("The average incentive earned is 10 – 11% of program spending.") Since the IOUs' administrative costs are removed from this portion of the ESPI, the comparable management fee that would be provided under the proposed mechanism is 5.4%, which is significantly less than the national average.

be evaluated are delineated in advance, subjectivity will be reduced. PG&E recommends that the matrix on which the IOUs are evaluated be streamlined and applied only on a prospective basis. The attachment to the ACR includes over 57 new metrics to evaluate IOU performance. This list should be significantly shorter. The evaluation criteria uses vague terms such as "adequate," "acceptable" "appropriate" without providing concrete definitions of how these terms will be used to evaluate the IOUs' performance. Tracking these voluminous metrics will require additional Energy Division and IOU resources to build systems, track performance, and report on the IOUs' progress on the metrics. PG&E recommends reducing the large volume of new metrics to a handful of key metrics which should accomplish the intended purpose without burdening the Commission's or IOUs' limited resources.

Attachment A to PG&E's comments provides recommendations for evaluating the EAR component of the ESPI. With these proposed modifications, PG&E could support the proposed EAR mechanism, and recommends the Commission increase the incentive from 2 percent to 3 percent. When coupled with an increase to the lifecycle savings component from 8 to 10 percent, the combined percentage for a resource based incentive mechanism would be a reasonable incentive earnings cap that is more closely aligned with the national average.[3]

Specific Questions for Comment:

> 7. *Are the ex-ante metrics included in the Appendix adequately designed to provide objective assessment of utilities' ex ante review performance? Are there other benchmarks that should be utilized to objectively measure utilities' ex-ante review performance?*

No. The proposed *ex-ante* metrics are subjective and many are not clearly defined. The proposed metrics are not easily located or referenced by the IOUs. Both the processes associated

[3] *Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency*, January 2011, American Council for an Energy-Efficient Economy, p. 16 ("There should be a cap on the incentive. Most often the cap is based on a percentage of program spending and ranges from 5% to 20% of program spending with an average of 12% to 13%.").

with the EAR and the EAR matrix need additional clarity. Many of the issues arise as a result of policy or process uncertainties. However, these gaps could be filled with additional guidance developed collaboratively by Energy Division and the IOUs. In contrast, PG&E proposes a handful of key metrics that would focus limited resources in achieving the desired result as noted in in PG&E's Attachment A.

> 8. *Parties have expressed concern over rewarding utilities for process conformance since it is not results (i.e., energy savings) oriented and other Commission processes are not, and historically have not been, assessed under any incentive mechanism. Which Commission energy efficiency policy goals would be compromised or unattainable in the event that an incentive is based on process conformance?*

PG&E proposed some modifications to streamline and clarify the objectives of this portion of the mechanism. With these changes PG&E supports this element of the mechanism. The ESPI mechanism should be designed to reward the IOUs for achieving the Commission's goals, which include energy savings and market transformation. While this portion of the mechanism does not significantly compromise Commission goals, it requires the IOUs and Energy Division to divert limited resources to supporting a currently opaque component. However, if the metrics are streamlined, and earnings from this process are a small portion of the overall mechanism, it may be reasonable to retain with the proposed improvements.

V. INCENTIVE EARNINGS FOR ENERGY SAVINGS AND DEMAND REDUCTION ACHIEVEMENTS

PG&E supports characteristics of the lifecycle savings mechanism as it encourages the IOUs to aggressively achieve the Commission's deeper energy savings goals. The proposed mechanism has several shortfalls to address, including: (1) the *ex post* adjustment including baseline and Net to Gross (NTG) updates; (2) the TRC multiplier; and (3) the proposed EULs. Revising the proposed mechanism in these three areas will better promote the Commission's goals of achieving deep, lasting savings and promote efficient and balanced operations of the IOUs' portfolios.

The biggest problem with the lifecycle savings mechanism is the *ex-post* true-up that would update values such as baselines and net to gross ratios after the conclusion of the cycle. This structure contravenes the Commission's objectives to promote market transformation by penalizing rather than applauding successful market transformation efforts. Using backward looking *ex-post* assumptions to measure market baselines after utility energy efficiency programs have been successfully enacted will inevitably attribute success to naturally occurring market evolution rather than the existence of the programs. It is for this reason that other regions, such as the Pacific Northwest, establish baselines looking forward (*ex-ante*), never looking backward. Similarly, *ex-post* adjustments to net to gross ratios also penalize rather than recognize the impact of programs on the market. Given California's emphasis on energy efficiency and climate change, it is unsurprising that customers have multiple motivations for desiring to purchase efficient equipment. Utility programs should be applauded for recognizing these customer motivations in designing programs that move customers from desire to action, and ultimately transform the market. After-the-fact customer surveys showing a high propensity to act may in fact be a recognition of the success of utility programs in "norming" the energy efficient purchase and transforming the market, rather than a signal that the move toward efficiency would have happened anyway.

The Commission should adopt a mechanism that only uses *ex-ante* values in order to make the mechanism non-controversial and reward proper execution of the approved portfolios based on the data that is available now. An incentive mechanism that is based on *ex-post* evaluations does not allow for timely awards. It also fails to serve the objective of incenting the utilities to make adjustments during the execution of the portfolios, given that no *ex-post* information will be available until after the close of the 2013-2014 cycle. In addition, energy savings should be evaluated on a gross, not net, basis, as this is consistent with the way energy efficiency portfolio goals are set, the impact of the savings on the need for generation resources, and the impact of the savings toward achieving the State's AB 32 objectives. PG&E proposes the Commission measure savings on an ex-ante gross basis and use the impact evaluation results to inform future program planning. If the Commission requires an *ex-post* adjustment, parties should have an opportunity to publicly vet the results on the record.

A second concern with the mechanism is the TRC multiplier. The TRC multiplier raises several concerns. First, applying *ex post* adjustments will typically reduce the *ex-ante* savings values and will hence reduce the TRC. A TRC multiplier which penalizes utilities for reduced *ex-post* results will effectively double penalties from an *ex-post* savings mechanism. Second, programs that were approved by the Commission but do not provide a high TRC become less desirable for the IOUs to pursue than programs with a high TRC. This new objective to boost TRC by pursuing more cost-effective programs be inconsistent with the portfolios recently approved by the Commission which emphasize the potential transformative benefits of non-cost effectively programs such as deep residential home retrofits (Energy Upgrade California), HVAC and LED lighting. The TRC multiplier should be eliminated from the mechanism.

The final concern with the lifecycle savings mechanism is using unrealistic EUL values. The EUL values proposed to be used in the target scenario are not based on reality. The ACR acknowledges this. (ACR, p. 15.) An instruction to the IOUs to pursue measures with longer lives would have been appropriate when the guidance was originally provided, but is too late to fully implement now that the programs have been approved. The Commission should, instead, use the average EULs in the IOUs' advice letters and, if the Comission includes an *ex-post* adjustment, it should use the modified average EUL at the end of the cycle to adjust the targets. This approach would ensure values are based on the reality of what is available today.

> *9. What are the pros and cons associated with calculating the savings award based on net benefits, using a modified version of the original PEB calculus, versus using NRDC's approach, as modified, which multiplies energy and demand savings by coefficients that would be derived from the adopted savings goals and the predetermined savings component cap?*

It is more appropriate to use gross savings to develop lifecycle savings values - especially if an *ex-post* adjustment is applied. One of the Commission's primary goals for EE is market transformation. An anticipated outcome of market transformation is increased penetration of technologies which, innately, lead to a decrease in the NTG value of that technology because more people purchase the more energy efficient technology as awareness increases and costs decrease. Therefore, calculating savings on a gross basis would remove any penalty for increased market penetration associated with NTG.

Using gross savings, rather than net, removes a portion of the anti-market transformation bias in an ex-post mechanism. However, as explained above, some bias still remains when market baselines are established after utility programs have already impacted the market, and then applied backward to the past cycle. The more successful a program is at moving adoption rates of efficient equipment, the more the program is penalized by the assumption that the market would have moved anyway when the baseline gets re-set after the fact.

> *10. Given the focus on deeper, longer-lived energy savings, is the use of proposed "target" EULs and NTG ratio of 12 years (electric EUL), 15 years (gas EUL), and 0.8 (NTG) appropriate as goals for utilities to achieve in the 2013-14 or future portfolio cycles?*

PG&E agrees with achieving deeper lasting savings and continually incenting more efficient products to drive the market to accept increasingly efficient products. However, basing an incentive mechanism on technologies that have the EULs proposed in the ACR would penalize the IOUs from using other appropriate technologies. Further, as the Potential Study demonstrates, the EULs proposed in the ACR are inconsistent with the programs the Commission approved for 2013-2014. After significant review and deliberation, the Commission adopted a mix of programs and measures for 2013-2014 to ensure appropriate coverage of all customer segments and technologies. This mechanism would act as an incentive to disregard the rational parties had for putting forth this program and measure mix in the first place. Further, as the Potential Study indicates, the EULs proposed in the ACR are not realistic.

Using these unsupported EULs is simply a penalty for executing the carefully planned and approved portfolios.

> 11. *One potential unintended consequence of using the proposed approach is that customers are exposed to some risk that the utilities will make changes to the measure mixes in their adopted portfolios that maximize total savings rather than maximizing total cost-effective savings. What is the magnitude of the risk that implementation of a non-cost effective (i.e., TRC < 1.0) portfolio would result from a net savings-based approach? Does the TRC calculated for the authorized portfolio based on ex ante savings estimates and utility proposed measure mix, in combination with the existing fund-shifting rules, adequately protect against this risk? What other steps could be taken to protect customers from this risk if the Commission adopted a net savings, rather than net benefits, based savings component of the incentive mechanism?*

The EE portfolios are designed to achieve cost-effective energy savings for customers. It is a priority of PG&E to maintain a TRC above 1.0. The approved portfolio combined with fund-shifting rules provide adequate protection to ratepayers.

> 12. *Will the differences identified between the 2006-08 mechanism and the mechanism proposed herein sufficiently reduce the risk of contention associated with an ex post savings basis to warrant using an ex post approach rather than an ex ante approach, which resulted in unintended consequences related to the ex-ante lockdown?*

No. The proposed *ex-post* mechanism has two significant flaws. First, as explained above, the use of *ex-post* baselines and NTGs actually penalizes the successful market transformation programs which resulted in higher levels of adoption of the efficient equipment. It is for this reason that other regions, such as the Pacific Northwest, modify such values looking forward but never backward. Second, the proposed *ex-post* mechanism provides no opportunity to respond to changing views and perspectives as the results of the studies are only available after the programs have been administered or too late in the program cycle to make meaningful changes. Of course, PG&E has no objection whatsoever to verification. It is completely appropriate to ensure that the measures claimed to have been installed were installed.

> 13. *Should the Commission include bonus "adders" for results not captured explicitly by the four proposed components (e.g., Energy Upgrade California projects in hot climate zones, increases in portfolio average Effective Useful Lives, etc.)? If so, which ones, and how should they be calculated?*

No. The primary purpose of an energy efficiency portfolio is to provide cost-effective energy savings for customers and transform the market. Too much complexity in the mechanism may defeat the primary purpose.

> 14. *Should we include a cost-effectiveness adder in the ESPI? If so, is the proposed approach appropriate, or would a different approach be superior? Is there a need for an explicit cap on the potential resource program award to protect ratepayers? If so, how would we best determine a cap on an adder that is rewarding increases in program cost effectiveness? Should the cost-effectiveness adder be symmetric (i.e., increase or reduce resource program savings benefits) or should it only be applied if ex post cost-effectiveness is greater than the ex-ante estimate?*

The ESPI mechanism should not include a cost-effectiveness adder. The approved 2013-2014 portfolios contain a mix of measures and programs, some of which are currently cost-effective, and some of which are not currently cost effective but are intended to achieve longer range objectives or serve specific underserved customer segments. PG&E finds the balancing of objectives embodied in the portfolio appropriate, and would not recommend countermanding it with an incentive mechanism which encourages the IOUs to drop these longer-range objectives or harder-to-serve segments.

> 15. *Is it possible that funds used to establish the On-Bill Financing programs in the 2010-2012 portfolio cycle will be re-loaned in the 2013-2014 cycle, and therefore should be included in the savings cap calculation and in ex post savings estimates? Alternatively, should these issues be deferred to future cycles, when the overall financing program designs are better understood? If the former, how should the portion of 2010-2012 On Bill Financing funds that will be available for loans in the 2013-2014 cycle be calculated for inclusion in the cap and savings calculations?*

All funds spent during the 2013-2014 program cycle should be included in the earnings cap calculations. The purpose of a management fee is to appropriately award IOUs for funds administered by them in direct proportion to the amount of administered funds. The OBF funds should be included in the earnings cap calculations, like other program funds.

Savings values expected from OBF should not be included in this cycle savings cap calculation as the savings in the OBF program are attributed to other programs. Counting OBF savings would be double counting to set target earnings goals, but not double counting when reporting the savings.

VI. FORM AND SCHEDULE FOR SUBMISSION OF CLAIMS, REVIEW AND ADJUDICATION, PROPOSED EARNINGS, AND ISSUANCE OF CPUC DECISION REGARDING AWARD OF INCENTIVE PAYMENTS.

The ACR acknowledges the importance of regular and predictable earnings for the mechanism to be "the most effective and obtain the greatest market value and ratepayer benefit." (ACR p. 27.) The Commission should use a more balanced approach to provide more consistent incentive payments during the cycle. PG&E proposes the Commission authorize all payments for both resource and non-resource programs in 2015 for program year 2013 and authorize payment in 2016 for program year 2014. If the mechanism includes an *ex-post* adjustment, incentive awards should be awarded similarly with a proposed 35% hold-back for the lifecycle resource portion of the mechanism. This change would allow meaningful and predictable annual earnings rather than minimal earnings in some years and more earnings in the years after the studies are completed. For example, 2013 program year accomplishments under the modified

ESPI mechanism (*ex-ante* basis) would ensure regular earnings following the prescribed incentive claim process established for the 2010-2012 program cycle accomplishments. However, if the resource programs are evaluated on an *ex-post* basis, the Commission should allow parties to request evidentiary hearings to allow "adequate vetting of the results with parties." (ACR, p 28.)

Table 1
Summary of ESPI Proposed Modifications
Incentive Claim Process for 2013

ESPI Component	Incentive Clam	Claim Submitted	Earnings Recorded
Non Resource Program	Tier 3 Advice Letter	Q3 2015	Q4 2015
Codes and Standards	Tier 3 Advice letter	Q3 2015	Q4 2015
Ex Ante Review	Tier 3 Advice Letter	Q3 2015	Q4 2015
Resource Programs (*ex post*)	Tier 3 Advice Letter	Q3 2015	Q4 2015 less a 35% holdback to be awarded following final Commission review of EE ex post results submitted for Commission Decision no later than Q4 2016.

16. *As described in Table 13, the payment for the ex post savings component is delayed by an additional year to allow time to complete impact evaluation studies. Does this delay create an unnecessarily complicated payment schedule? Or would it be preferable to delay the full payment by the additional year to provide all four components of each year's incentive in the same year, even if it meant a one-year pause (in 2015) as we transitioned to the reformed mechanism?*

PG&E does not support delaying the payment an additional year. The proposed schedule for the ESPI mechanism is not unduly complicated. The calculation of the incentive for the other portions of the mechanism is simple compared to that associated with the lifecycle savings portion of the mechanism.

17. *The proposed payment approach provides annual payments, obviating the need for an end-of-cycle true-up mechanism. Would the true-up approach be a preferable method to address the resulting staggered payment or one-year pause associated with the annual payment approach?*

PG&E recommends a true-up method to provide more stable and consistent earnings. A hold-back of 35% of earnings for the lifecycle savings portion of the mechanism would both protect ratepayer interests and provide more consistent earnings.

As instructed in the ACR (pp. 29-30), PG&E provides its version of Table 12a – Maximum Payment Cap by Component and Table 12b – Estimated "Business as Usual" Payments by Component using the budget proposed in PG&E's January 14, 2013 Compliance Advice Letter and updated based on PG&E's recommended changes to the proposed ESPI mechanism.

Table 2
PG&E's Summary of
Maximum Earnings Cap and Estimated "Business as Usual" Earnings
by Component for the 2013-2014 EE Program Cycle

	Maximum Payment Cap	**"Business as Usual"**
Non-Resource Program Management Fee	$3,665,569	$3,665,569
Ex-Ante Compliance Performance Award	$13,893,989	$20,432,337
Codes and Standards Management Fee	$1,307,143	$1,307,143
Ex-Post Savings Performance Award	$39,218,903	$64,749,686
2013-2014 Total	$58,085,605	$90,154,735

Once Energy Division has approved PG&E's supplemental compliance advice letter 3356-G-A /4176-E-A submitted on April 23, 2013, PG&E requests the opportunity to update these calculations as may be necessary.

PG&E's proposals to increase the earnings in the ESPI mechanism are consistent with the national average as determined by ACEEE in its January 2011 review of Energy Efficiency Incentive Mechanisms. Increasing the incentives and PG&E's target cap to $90 million would equal approximately 12% of total budget, an amount which is on low end of the National Average for Incentive Mechanisms as noted in footnote 3, above.

VII. CONCLUSION

PG&E respectfully requests that the Commission adopt the ESPI for the 2013-2014 energy efficiency portfolios, with the modifications suggested in these comments and in PG&E's Attachment A.

Respectfully Submitted,

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ATTACHMENT A

ATTACHMENT A

PG&E's Comments on the ACR's Proposed Ex Ante Implementation Scoring Metrics

Metric 1 - Implementation Activities (20 points total – 10 each for custom and workpapers)	**Custom Measures and Projects**		**Workpapers**	
	Influencing Factors	**Recommended Measure**	**Influencing Factors**	**Recommended Measure**
A Timeliness of action in the implementation of the ordered ex ante requirements	Complete reporting of projects in the twice-monthly list submissions	Percentage of stand alone customized projects in quarterly or annual claims that were reported in the CMPA twice-monthly list submissions	Deemed measures included in program offerings in calendar year	Fraction of nonDEER deemed measures for which workpapers have been submitted to Commission prior to measure savings being claimed in the portfolio
	Time taken to report projects in the CMPA for the first time	Percentage of projects for which there is a less than two weeks difference between receipt of the application ~~date~~ and the date reported in the CMPA	Informing CPUC of workpapers under development and submission of workpapers in incremental manner	Fraction of new workpapers disclosed prior to or during work commencement and submitted upon completion rather than withheld and submitted in large quantity. Does not include minor revisions.
	~~Disclosure of projects known during the pre-~~	~~Percentage of projects disclosed in the CMPA~~	Workpaper projects under development presented to Staff in	Fraction of workpaper development projects for new technologies submitted

	~~application period/sales leads~~	~~that were not reported as pre-application or sales leads.~~ **This is not within the IOUs control**	calendar year	for collaboration versus total number of workpapers for new technologies submitted (does not include minor revisions)
	~~Timely response to CPUC request for additional information on project submissions~~	~~Percentage of projects which experience significant delay due to slow response to requests for readily available (or commonly requested) additional information~~ **Too subjective – needs much tighter definitions**	~~Timely response to CPUC request for additional information~~	~~Percentage of workpaper reviews which experience significant delay due to slow response to requests for readily available (or commonly requested) additional information~~ **Too subjective – needs much tighter definitions**
	Timely response to CPUC request for additional information on quarterly and annual tracking data submissions	Percentage of times claims reviews experience significant delay due to slow response to requests for readily available (or commonly requested) additional information		

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		Needs a definition of readily available information.		
	Completeness of the list of custom calculation tools	Percentage of tools used for calculations ~~disclosed~~ posted to the CTA site during or prior to use		
	~~Uploading of custom calculation tools to the CTA~~	~~Percentage of tools used for calculations uploaded to the CTA prior to use~~ (covered above)		
B. Breadth of response (e.g. recognition of technical and regulatory requirement s in implementing ex ante activities; development and maintenance of good information exchange and coordination of activities between internal program implementation, S	~~Standardization of custom project calculation tools and methods to ensure use of approved methods across portfolios~~	~~Number of review custom calculation methods and tools submitted that aid in the standardization across the portfolios~~ **The IOUs have no control of this percentage due to the very nature of**	~~Workpapers developed in context of program implementation~~	~~Percentage of workpapers that include appropriate program Implementation background as well as analysis of how implementation approach influences development of ex ante values~~ **The workpapers are engineering documents**

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tandardization of custom project calculation tools and methods to ensure use of approved methods across portfolios Number of review custom calculation methods and tools submitted that aid in the standardization across the portfolios Workpapers developed in context of program implementation Percentage of workpapers that include appropriate program implementation background as well as analysis of how implementation approach influences development of ex ante values engineering, and regulatory staff to ensure common understanding and execution of ex ante processes)		**customized projects.**		**showing how non-DEER ex ante values are calculated and provide sources of back up documentation. The IOU PIPs, filed with our compliance filings, explain program implementation and analysis. The workpapers are not an appropriate place to house this information.**
	~~Involvement of field, program, and evaluation~~	~~IOU staff facilitate direct communication~~	Involvement of appropriate and knowledgeable field,	~~Percentage of workpapers for which there is~~

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	~~staff in meetings~~	~~with appropriate project staff including third parties (appropriate 3P and LGP personnel), and participation of relevant program and evaluation staff in meetings as needed~~ The IOUs already use our internal staffs for this purpose and there is no easily trackable metric to prove these communications actually occurred.	program, and evaluation staff in review	~~notification to ED Staff of all involved personnel from program, engineering, regulatory and M&V branches of IOU.~~ Percentage of workpapers for which there is evidence of indepth review by relevant personnel, not just immediate workpaper authors The IOUs should not have to provide evidence of our own internal coordination meetings. However we can provide sign-off blocks for each of these groups on the workpaper.
	~~Development or update of process manuals, checklists and QC processes for IOU internal use and use with contractors and implementers~~	~~Number of documents developed and inclusion of content consistent with the CPUC directives and feedback from ongoing reviews~~ The IOUs should manage their own internal	~~Development or update of workpaper guidelines and templates, checklists and QC processes for IOU internal use and use with contractors and implementers~~	~~Number of documents developed and inclusion of relevant content, consistent with the CPUC directives and feedback from ongoing reviews~~ The IOUs should not be

		processes themselves and the CPUC should not score the IOUs on the number of documents they produce.		graded on the volume of paperwork they produce, only on the ultimate success of the process.
	Completeness of the application supporting materials as projects progress to completion	Number of data requests for additional documentation. This metric should only be considered if the Energy Division can better define what documentation should be provided in the first place, otherwise this metric should be dropped.	Completeness of the workpaper supporting materials	Percentage of workpapers which, on initial submission, were found to include adequate supporting materials or an adequate description of assumptions or calculation methods. This metric should only be considered if the Energy Division can better define what documentation should be provided in the first place, otherwise this metric should be dropped.
	~~Completeness of the quarterly and annual tracking claims to allow understanding and review~~	~~Number of data requests for additional information or documentation~~ This metric involves a separate branch of the		

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		Energy Division (reporting) and should not be part of the ex ante review scoring.		
C. Incorporation of Commission adopted policy and direction (e.g., use of DEER values and methods where applicable, baseline determinations, HVAC interactive effects, calculation of dual baseline for early retirements, incremen tal project costs; incorporation of 2006-08 evaluation recommenda tions and results; maintenance and use of calculation tool archive)	CPUC-directed guidance, methods and values used in custom project savings calculations.	Percentage of projects that use applicable guidance, methods and values. This metric will only be feasible if the Energy Division can post guidance, methods and values in one, easily locatable place The current problem is that the items listed to the left are spread throughout numerous documents in different places and are not well documented.	Technology and implementation specific policy and direction such as:HVAC interactive effects; code baseline; hours of use; costs; effective useful life / remaining useful life	Percentage of workpapers where disposition addressed shortcomings in technology and implementation specific policy and direction. This metric is to comply with DEER. If the values are not in DEER, or on the DEER website the IOUs should not be held accountable to knowing about them beforehand.
	CPUC-directed directed ex ante processes and policy implementatio n by staff and contractors (including	Percentage of projects that show a clear understanding of directed ex ante processes and policy.	~~Analysis of applicable policies and directions~~	~~Percentage of workpapers including analysis of applicable policies and direction when such issues have a significant impact~~

	third party and local government partner staff and contractors) incorpora ted into all levels of custom project activities	This metric is acceptable only if the ED cites the specific policy or CPUC decision that the IOUs did not comply with.		~~on workpaper content~~ Workpapers are engineering documents and should not include analysis of policy. Policy issues should be taken up by IOU and ED Management only.
Metric 2 - Level of Due Diligence (30 points total – 15 each for custom and workpapers)	**Custom Measures and Projects**		**Workpapers**	
	Influencing Factors	**Recommended Measure**	**Influencing Factors**	**Recommended Measure**
A. Depth of quality control and technical review of work products (e.g., ratio of rejected/accepted work papers, changes to initial and final values, initial consideration of technical aspects, non-compliance with policy directives)	Quality and appropriateness of project documentation at all stages of project implementation	~~Frequency of inappropriate or inferior quality documentation on project eligibility, baseline determination, program influence, use of custom elements in projects, assumptions and data supporting savings, and project costs.~~ The IOUs should not be penalized due to incomplete definition of requirements by the	Quality and appropriateness of workpaper documentation at the time of submission	~~Frequency of inappropriate or inferior quality at the time of initial ED staff review~~ The IOUs should not be penalized due to incomplete definition of requirements by the Energy Division. If the IOUs receive a complete listing of the necessary documentation required by the ED we can comply with this metric.

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		Energy Division. If the IOUs receive a complete listing of the necessary documentation required by the ED we can comply with this metric.		
	~~Depth of IOU quality control of custom projects~~	~~Percentage of reviews that required three or less reviews or data requests~~ The IOUs should not be penalized when ED reviewers do not understand a complex project. If the IOUs receive clear guidance on required documentation beforehand we can comply with this metric.	~~Depth of IOU quality control of workpaper development~~	~~Percentage of workpapers which required changes to parameters of more than 10% or required changes to more than two parameters among UES, EUL/RUL, NTG, impact shape, or costs.~~ The IOUs should not be penalized when ED reviewers do not agree with the method chosen to determine UES for a workpaper. If the IOUs receive clear guidance on required methods during the workpaper collaboration period we can comply with this metric.

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	Change in savings from IOU proposed values not related to M&V	Percentage change from IOU-proposed savings and ED-approved savings not counting NTG or free ridership issues.	Changes required in IOU proposed ex ante values	Percentage change from IOU-proposed values to ED approved values not counting GSIA or NTG issues.
B. Professional care, expertise and experience applied to develop work products (e.g., use of background research to identify best available information that represents current knowledge on a topic, undertaking short/long term specialized research to develop critical parameters when best available information is inadequate for a work product under development)	~~Use of recent and relevant data sources for ISP studies and parameter development~~	~~Percentage of custom projects that use data sources and methods per standard research and evaluation practices~~ The IOUs and the ED must use the standard of "best available information" per commission direction at the time the project is submitted and should not attempt to perform new studies except for informing prospective projects.	Use of recent program data, internal research, emerging technology projects and EM&V data on similar measures to supplement engineering calculations	Percentage of workpapers with analysis of existing data and projects that are applicable to technologies covered by workpaper – The IOUs should not be penalized if the ED reviewer does not agree with the data used. This metric should only track whether recent data was analyzed or not.
	Depth and consistency of review of project estimates submitte d by customers, third	~~Percentage of projects that identified and documented changes from internal reviews~~ The IOU internal review may or may not change the	Depth and consistency of review of consultant workpaper development work	Percentage of workpapers where ED review indicates lack of consultant understanding of ~~applicable research~~, written and posted Commission policies, or clear, DEER

		original values, therefore this metric should be changed to capture whether the review took place, not how much changed.		methods/assumptions which are posted to the DEER website. (applicable research is too vague of a term and not well agreed on)
	~~Appropriate weighing of evidence in cases where there are multiple choices or conflicting data~~	~~Percentage of projects where the range of evidence was appropriately evaluated and considered~~ Too subjective to be a viable metric	~~Appropriate weighing of evidence in cases where there are multiple choices or conflicting data~~	~~Workpapers where range of evidence was appropriately evaluated or considered~~ Too subjective to be a viable metric
C. Incorporation of cumulative experience from past activities (including prior Commission staff reviews and recommendations) into current and future work products	Prospective projects reflect the CPUC's directions	Percentage of projects identified in claims review that were implemented per CPUC directions in previous reviews after an appropriate grace period to allow commitments made to customers in the pipeline to be cleared, typically a few months	~~Inclusion of analysis of previous activities, reviews and direction~~	~~Percentage of workpapers including analysis of previous activities, reviews and direction~~ Same as metrics above.
	Promotion of common	Number of custom	Promotion of common	Number of workpapers

	tools and methods across the portfolios	calculation methods and tools review which we submitted on behalf of multiple IOUs. This metric is too vague. How many tools is enough? How many tools gets a score of 100% or 50%? To be collaborative, all IOUs should get the same score on this metric.	tools and methods across the portfolios	which we submitted on behalf of multiple IOUs This metric is too vague. How many workpapers is enough? How many workpaperss gets a score of 100% or 50%? To be collaborative, all IOUs should get the same score on this metric.
Metric 3 - Ongoing Improvements (30 points total – 15 each for custom and workpapers)	**Custom Measures and Projects**		**Workpapers**	
	Influencing Factors	**Recommended Measure**	**Influencing Factors**	**Recommended Measure**
A. Bringing new projects to Commission staff in the formative stage to reduce the risk of problems or delays later in the review process	Are high impact projects ~~or~~ ~~measures~~ referred early to CPUC	Percentage of large high impact projects ~~or~~ ~~measures~~ referred to CPUC early. The IOUs do not know in advance if a measure will be high impact.	Number of ~~"high profile" program~~ or high impact measure workpaper development projects submitted for collaboration	Ratio of HIM or high profile workpapers submitted for collaboration versus workpapers submitted as complete requiring staff review and disposition without the benefit of collaboration If the ED choses not to collaborate on a workpaper that

				workpaper shall count as if collaborated on.
			Pursuit of additional independent or collaborative research to support values for new or changing technologies	Timely completion of research ~~and incorporation of results into workpapers~~ The research takes too long for incorporation into current workpapers and should be used for future workpapers or updates only.
Developing and executing joint projects with the Commission to fill information gaps	~~Identifying and implementing joint projects~~	~~Number of high-impact joint research projects implemented~~ Research projects should not be in the scope of ex ante calculations.	Identifying areas of joint/collaborative needed to support workpaper ex ante values	Number of joint research projects started. (the timing is such that the results will be used prospectively) Each IOU shall receive the same score for this metric. ~~completed; Number of workpapers influenced by joint research; Portfolio savings influenced by joint research~~
	~~Identifying and~~	~~Number of improved~~		

	~~implementing improved methods and approaches~~	~~methods and approaches developed. The IOUs routinely make internal improvements to our processes.~~ This metric is aimed at changes to the ED process and the IOUs should not be penalized if the CPUC does not wish to implement changes to the process.		
Metric 4 - DEER Implementation (20 points total – 10 each for custom and workpapers)	**Custom Measures and Projects**		**Workpapers**	
	Influencing Factors	**Recommended Measure**	**Influencing Factors**	**Recommended Measure**
A.Actions taken to implement all aspects of the adopted DEER	Is the policy on the use of DEER methods and assumptions in custom calculations being appropriately communicated to consultants, third party and local government partnership contractors	Relevant content of procedure manuals and calculation tools incorporates ~~appropriate~~ DEER methods and assumptions	Is the policy on the use of DEER methods and assumptions in non-DEER ex ante calculations being ~~appropriately~~ communicated to all staff and consultants involved in workpaper development	~~Relevant~~ content of guidance for workpaper development ~~that~~ incorporates ~~appropriate~~ DEER methods and assumptions

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B. Level of due diligence the utilities apply to their use of DEER	Are DEER methods and assumptions being adopted into custom calculations methods and tools	Percentage of projects which have relevant DEER methods and assumptions	Are DEER methods and assumptions being adopted into workpapers ex ante estimation methods	Percentage of workpapers which appropriately utilize relevant DEER methods and assumptions Percentage of workpapers that have listing, discussion and accounting of specific aspects of DEER assumptions and values including methods, dual baseline as needed, EUL and NTG.
	~~Are IOUs project reviewers proactively applying DEER methods and assumption to new technologies and projects types when applications are submitted to the IOU~~	~~Percentage of custom projects including new technologies or project types that appropriately incorporate DEER assumptions and methods~~ This percentage does not make sense. Some measures are not in DEER. The percentage of nonDEER measures that come into our	Are IOUs project reviewers proactively applying DEER methods and assumption to new technologies, measures and implementations covered by workpapers?	Percentage of workpapers covering new technologies, measures or implementations that ~~appropriately~~ incorporate DEER assumptions and methods

		program is beyond our control		
	~~Are IOUs actively proposing collaborative research activities to improve DEER methods and assumptions~~	~~Proportion of collaborative projects to improve DEER initiated by IOUs, relative to other IOUs~~ This hampers IOU collaboration.	~~Are IOUs actively proposing collaborative research activities to improve DEER methods and assumptions~~	~~Proportion of collaborative projects to improve DEER initiated by IOUs, relative to other IOUs~~ This hampers IOU collaboration.