

**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)

**SAN DIEGO GAS & ELECTRIC COMPANY (U902M) AND
SOUTHERN CALIFORNIA GAS COMPANY (U904G)
COMMENTS ON ASSIGNED COMMISSIONER'S RULING SOLICITING
COMMENTS REGARDING EFFICIENCY SAVINGS AND PERFORMANCE
INCENTIVE DESIGN FOR ENERGY EFFICIENCY 2013-2014 PORTFOLIO**

Steven D. Patrick

Attorney for
San Diego Gas & Electric Company
Southern California Gas Company
555 W. Fifth Street, #1400
Los Angeles, CA 90013-1046
Phone: (213) 244-2954
Fax: (213) 629-9620
E-Mail: sdpatrick@semprautilities.com

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**I.
INTRODUCTION**

Pursuant to direction provided in the April 4, 2013 Assigned Commissioner's Ruling Soliciting Comments Regarding Efficiency Savings and Performance Incentive Design for Energy Efficiency 2013-2014 ("ACR"), San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas") (also referred to as the "Joint Utilities") respectfully provide their comments and modified proposal regarding the new Efficiency Savings and Performance Incentive ("ESPI") mechanism. In addition, the Joint Utilities provide their responses to the various questions posed in the ACR and propose modifications to the Attachment in the April 5, 2013 Administrative Law Judge's Ruling Providing Attachment Referenced in the Assigned Commissioner's Ruling Regarding A 2013-2014 Incentive Mechanism ("April 5, 2013 Attachment").

The Joint Utilities support reforms to the incentive mechanism that promote the California Public Utilities Commission's ("CPUC", or "Commission") goals that encourage the IOUs to promote a comprehensive portfolio for meeting the Commission's objectives for deeper,

longer-lasting savings as called out in D. 12-05-015¹ and the California Long-Term Energy Efficiency Strategic Plan.

The Joint Utilities appreciate the thoughtful considerations the Assigned Commissioner has undertaken in revising the previous Risk Reward Incentive Mechanism (“RRIM”). The Joint Utilities provide high level considerations for the 2013-2014 ESPI mechanism and reiterate the following principles should continue to guide the development of the ESPI:

- The ESPI must send clear unambiguous signals to the utilities on CPUC expectations.
- The ESPI must drive towards the achievement of the Greenhouse Gas (“GHG”) goals of the state through the delivery of aggressive deeper and longer-lasting energy efficiency savings for California.
- The ESPI process must be timely, simple to calculate, and transparent.

II. EXECUTIVE SUMMARY

A. PROPOSED OVERALL PORTFOLIO RRIM CAP

An incentive mechanism for energy efficiency should be designed to align the goals of utility management and shareholders, with those of customers and regulators by providing an opportunity to earn a return on the benefits that accrue from implementing successful energy efficiency programs. In order to facilitate the most cost effective and successful energy efficiency programs, incentives should be of sufficient size and structured in such a manner to encourage utility management to devote high-performing resources to these programmatic opportunities. The proposed overall 2013-2014 ESPI cap of approximately \$159 million² provides a reasonable balance between sharing the benefits with customers and adequately recognizing management’s efforts in aggressively pursuing long-term cost-effective savings resulting in recognizable GHG reductions from energy efficiency programs. The proposed cap, which would provide incentive opportunities below the return on more traditional capital

¹ Decision Providing Guidance on 2013 – 2014 Energy Efficiency Portfolios and 2012 Marketing, Education and Outreach, issued May 18, 2012.

² See ACR Table 12a, page 27. SoCalGas notes differences in its calculation of non-resource program budget relative to values assumed in the ACR. Please refer to discussion in section II.D below.

investments, should ameliorate concerns about providing excessive earnings to utilities. Consequently, the Joint Utilities recognize the inherent value of the cap in shifting the focus toward difficult-to-measure innovation and market transformation activities and moderating the resources devoted to precisely measuring program results impacted by subjective or speculative factors which has been a historically complex and contentious process.

B. PROPOSED ESPI MECHANISM COMPONENTS

1. Management Fee for Non-Resource Programs

The Joint Utilities support the proposed non-resource cap based on 3% of approved non-resource budgets based on the IOU's 2013-2014 EE Compliance Advice Letters filed on January 14, 2013 (and as supplemented thereafter) rather than the approved 2013-2014 applications. A management fee for non-resource programs would encourage greater focus and continuous efforts to achieve non-resource program goals while removing the disincentive from the previous mechanism to shift funds and resources away from non-resource programs. The actual awards should be based on recorded non-resource program expenditures and verified through annual Commission audit reports.

2. Management Fee for Codes & Standards (“C&S”) Program Implementation

The Joint Utilities agree with the ACR that there are many complications associated with determining the savings attributed to C&S and therefore support the management fee approach based on the reported expenditures less administrative costs of the program. A cap of 10 percent is reasonable.

3. Conformance with the Ex Ante Review Process (“EAR”)

The Joint Utilities appreciate the ACR's modification to the previous 2010-2012 RRIM mechanism to make it more objective with a semi-annual feedback mechanism to allow the utilities to improve performance. The Joint Utilities propose additional modifications to the EAR metrics to further simplify and improve the objectivity of the mechanism. The Joint Utilities propose that benchmarks for performance be established so that there is a basis for determining scores. Specific point allocations for each metric should also be determined. See

the Joint Utilities' Appendix for specific recommendations to the April 5, 2013 "Ex Ante Implementation Scoring Metrics."

4. Incentive Earnings for Energy Savings and Demand Reduction Achievements

The Joint Utilities agree that the most significant portion of the mechanism should be focused on the actual delivery of resource savings, as this drives towards the achievement of the Greenhouse Gas ("GHG") goals of the state through the delivery of aggressive deeper and longer-lasting energy efficiency savings for California. The Joint Utilities appreciate the ACR's recommended solutions to minimize controversies experienced in the past program cycles and provide additional comments on the overall mechanism.

As explained in detail below in response to questions 9 through 15, the Joint Utilities support the use of a savings-based approach as a foundation for establishing an effective incentive mechanism with no ex post adjustment to earnings. The Joint Utilities support the NRDC approach over the traditional PEB shared-savings mechanism as it contains less moving parts, less complexity, and fewer opportunities for controversy, goals which the Commission should support. In adhering to the principles of certainty and simplicity which inform NRDC's approach, the Commission should not adopt ex-post "adders" especially those in any way associated with or derived from Net-to-Gross ("NTG") calculations. Likewise, the Commission should not include any provision for loan repayments from the 2010-2012 On-Bill Finance ("OBF") program to be re-loaned in the 2013-2014 program, since such repayments do not influence the construct of the ESPI and will add unnecessary uncertainty further complicating the development and implementation of the ESPI mechanism.

The ACR (at pages 11 to 12) lays out a number of unintended consequences if future ex ante parameters were relied upon to determine utility performance and incentive earnings for 2013-2014. The Joint Utilities address the ACR's concerns as follows:

- Locking down savings parameters in advance creates an incentive for the utilities to develop ex ante savings estimates that are as large as possible, rather than as accurate as possible.

The ACR (at page 7) already incorporates a mechanism to manage this concern of developing large ex ante estimates through the Ex Ante Review (“EAR”) process described in section IV of the ACR (at page 7), which states, “...they ensure that the utilities are applying sufficient due diligence and engineering rigor in developing ex ante savings estimates.” The Commission already directs the utilities in D.12-05-015 Ordering Paragraph (“OP”) 9 to use the 2011 final DEER. In addition, the Energy Division provided their lock down review of the 2013-2014 ex ante non-DEER estimates on March 1, 2013, which have been incorporated into the utilities portfolios. All future measure workpapers will still be reviewed and approved by ED as described in the Custom Project Review Process and Non-DEER Measure Ex Ante review process.³ With the EAR in place, the Joint Utilities believe that there is sufficient Energy Division oversight to ensure against unwarranted large savings estimates.

- Relying on fixed ex ante estimates provides no opportunity or incentive to update parameter estimates mid-cycle if errors or updated data are identified that determine that certain measures in the portfolio are far less cost-effective than they were originally forecast to be.

For mid-cycle updates to be useful in informing program performance, these updates must be provided in a timely manner such that it can make a difference. For example, in the 2010-2012 program cycle, D.11-07-030 required changes to several savings parameters that would be retroactive to January 1, 2010. In response to this direction, SDG&E filed Advice Letter 2287-E/2059-G on September 12, 2011 to rebalance its portfolio and adjust for measures that were no longer as cost-effective as they were before the Commission-ordered updates. SDG&E’s advice letter was not approved until March 7, 2012, with only nine months remaining in the cycle to implement the changes. Therefore, if the utilities need to be nimble to update their portfolios to accommodate new information, then it is imperative that the changes are provided in a timely manner, more flexibility to update be granted, and changes need to be

³ Please refer to D.11-07-030 Attachment B and November 18, 2009 Assigned Law Judge’s Ruling Regarding Non-DEER Measure Ex Ante Values Attachment.

forward looking for the remainder of the portfolio, not retroactive. Otherwise, the utilities are in the same position as they were back in the 2010 – 2012 program cycle where there was very limited opportunity to adjust the portfolio in a timely manner.

- Use of locked down ex ante estimates does not provide a pathway to provide savings claims for new and innovative measures for which there is insufficient information to set ex ante parameter estimates with any confidence.

The Commission has a process by which to review new measures either through the Custom Project Review Process or Non-DEER Measure Ex Ante review process mentioned above. Therefore this does not pose a disincentive to the utilities to offer new measures.

- Institutionalizing the ex ante approach would require maintaining two sets of savings estimates for energy efficiency portfolio savings that would be used to award IOU shareholder incentives and another set that would be used to determine, among other things, IOU capacity authorizations in the Long Term Procurement proceeding (“LTPP”) that would likely introduce significant confusion into these proceedings.

The Joint Utilities do not believe that this is a significant concern if the Commission clearly defines which savings are to be used in what proceeding. The utilities design their portfolios based on the savings assumptions that are approved by the Commission and its staff during the planning and implementation cycle. The utilities are, in good faith, operating their portfolios in the present based on the best, approved information in order to achieve the Commission’s stated goals which were also based on these assumptions (since goal setting is based on the potential studies using the same planning assumptions). Therefore, it is only fair to recognize utility performance based on these same assumptions.

On the other hand, ex post EM&V study results, which are not available until at least a year after the cycle is over, should be used to determine the next set of goals and planning assumptions, not just for the next EE portfolio but also for the purpose of the LTPP, IEPR4 or any other resource planning proceeding. If these functional distinctions are made clear up front

⁴ IEPR—Integrated Energy Policy Report.

then the confusion regarding which savings values to use in what proceeding should be eliminated.

However, should the Commission decide to pursue the ex post model, then it should eliminate the NTG factor from the equation. The ex post evaluations of NTG throughout the years have continued to be a major source of controversy and contention. These evaluations rely primarily on self-report and are often conducted long after decisions have been made and measures installed (in some cases several years later). Furthermore, a decline in NTG is a strong indicator of the success of previous program years' focus to promote adoption of energy efficiency measures. To minimize continued implementation of measures that have reached greater availability and acceptance in the marketplace, then it is necessary for the NTG studies should be completed in time to inform the next program cycle.

Also, customer risk of achieving a non-cost-effective result from implementing a net savings based plan is minimal. In D.12-11-015, the Commission approved the Joint Utilities' program plan which met the cost-effectiveness requirements. Implementing that plan, together with the expenditure caps and targets, fund shifting rules, and regulatory oversight greatly minimize any risk to ratepayers for the implementation of a non-cost-effective portfolio.

The Joint Utilities also support the Commission's goal to achieve deep energy savings, unfortunately however, the ACR proposal presents an unachievable target. While the ACR establishes a target NTG of 80%, the Commission has previously adopted the Joint Utility portfolio with an NTG of 57%, with only a few measures approved by the Energy Division with an NTG higher than 80%. The Commission should ensure targets actually align with the energy efficiency goals.

The Joint Utilities agree with the ACR's observations (at page 20) that:

As long as savings parameters are relied upon as a metric to calculate incentive earnings, the potential exists for controversy, irrespective of whether the metric is calculated on an ex ante or ex post basis. Nonetheless, the various differences in circumstances and design features between the 2006-2008 cycle and

the 2013-2014 cycle offers the potential for less contention and for a more collaborative and workable approach.

The ACR further observes (at page 20) that a remedy is necessary and desirable and offers the following:

In order to help minimize the potential for controversy regarding ex post evaluations for the 2013-2014 cycle, the incentive proposal would provide for a team of ex-post evaluation staff and contractors to be designated to perform the following functions:

- a. Work with utilities and stakeholders in designing the overall portfolio evaluation plan, draft research plans, and any interim findings produced during the evaluation process;
- b. Provide annual ex post estimates of portfolio savings for each utility (including the 5% spillover assumption for the 2013-2014 portfolio) as advice on the record to the proceeding, subject to due process; and
- c. Be available to explain their findings to decision-makers, but not otherwise advise Commission decision-makers regarding incentive award calculations in this same proceeding.

SDG&E and SoCalGas agree that minimization of controversy is in all parties' best interest, but that the above process elements are simply a statement of the status quo and will, in and of themselves, do nothing more to reduce conflict and increase objectivity. The Joint Utilities recommend that the ex-post evaluation staff and contractors be also available to all stakeholders, not just decision-makers, to explain and provide all relevant documents to address concerns and questions raised with regards to the findings.

Schedule for REporting and Approval of EPSI

The Joint Utilities believe that the mechanism for determining awards should be transparent and simple such that they are easily determinable by any stakeholder, paid promptly pursuant to a payment schedule immediately following the performance year as long delays in payout of earnings after performance, currently three years, erodes the link between the investment community and the Commission's commitment to earnings. To address this, the Joint Utilities suggest the payments for 2011 and 2012 be approved in 2013 as the combined

2011 and 2012 audit report is scheduled to be completed this year. Looking forward, given the approach outlined for the non-resource, Codes & Standards, ex ante review, and resource mechanisms, the Joint Utilities propose that payments be made the year following the performance year. Finally, the Commission should not adopt a true-up mechanism as it would inject another layer of unnecessary complexity and contention. For the purposes of calculating incentives, the cap proposed in the ACR, which limits awards potential below what could be achieved through more traditional capital investments, obviates the need for these hindsight evaluations which are often fraught with subjectivity, speculation and false precision.

C. THE ESPI SHOULD UTILIZE THE PROGRAM PLANS APPROVED BY THE COMMISSION

The ACR relies on the 2013-2014 IOU Applications, filed in July 2012, to illustrate the earnings caps and expected performance associated with the proposed ESPI. The Joint Utilities propose that the Commission use the IOU Compliance Advice Letters filed on January 14, 2013 and the Supplemental Advice Letters filed on April 23, 2013 as the baseline for earnings calculations for the 2013-2014 program cycle. This would provide the most current information. Furthermore, the Joint Utilities request that the Commission work with the IOUs to identify which are the non-resource program versus resource programs for the purposes of the ESPI. This can be done via a data request process or a workshop and should be done at the beginning of the process to ensure effective transparency. To illustrate the potential differences in program definitions, SoCalGas provides revised Table 11a and 11b4 of the ESPI calculations using the resource and non-resource component of its Advice Letters filed on January 14 and April 23, 2013:

Table 11a: SoCalGas 2013-14 Maximum Incentive Payment

	Budgets	Non-resource Management Fee (3% of non-resource budget)	EAR Cap (2% of resource budget)	Savings Cap (8% of resource budget)	C&S Mgmt Fee (10% of C&S budget)	Total
Resource	\$107,917,142		\$2,158,343	\$8,633,371		\$10,791,714

C&S	\$1,511,778				\$151,178	\$151,178
Non-resource	\$39,729,043	\$1,191,871				\$1,191,871
						\$12,134,763

Table 11b4: SoCalGas 2013-14 Maximum Incentive Payment

	Cap	Achievement (out of 100%)	2013-14 Payment
Non-resource Management Fee	\$1,191,871	100%	\$1,191,871
EAR Performance	\$2,158,343	36%	\$777,003
Savings Attainment	\$8,633,371	100% of goals, lower EUL and NTG	\$6,874,323
C&S Management Fee	\$151,178	100%	\$151,178
Total			\$8,994,375

III. RESPONSES TO ACR QUESTIONS

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

The Joint Utilities agree with the approach for non-resource programs put forth in the ACR. Such programs, including workforce education and training are critical components of the IOU suite of programs needed to meet California’s long-term energy efficiency and greenhouse gas reduction goals, and many are mandated by previous CPUC decisions. The Joint Utilities are encouraged by the approach outlined in the ACR, as previous incentive mechanisms were not designed to support investment in non-resource programs. The ACR instead recognizes the value provided by these programs and leverages the non-resource management fee mechanism put forth by the Joint Utilities in October 2012. This is a significant improvement over previous incentive mechanisms.

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?

The Joint Utilities support the use of a management fee approach, paid as a fixed percentage of expenditures, as an effective way to motivate the IOU to implement non-resource programs as a core part of its energy efficiency portfolio. Because the impact of non-resource

programs on increasing energy savings is not easily quantifiable, a management fee is a simple, transparent, and appropriate way to motivate utility investment in non-resource programs. Such a mechanism meets the Commission's desire for simplicity and transparency, and can be implemented to achieve predictable and regular earnings payments, free of the controversy and litigiousness that had embroiled previous mechanisms.

An expenditure-based management fee model can effectively and logically correlate programmatic success relative to the approved program implementation plan ('PIP'). The Commission approves the PIP once it has met a regulatory threshold including assurance that the program design will complement resource program offerings and strive towards long-term and market transformation objectives. Once approved, the IOU implements the program and expends the funds in a manner to effectively achieve the established objectives. As a result, there is a strong correlation between the funds expended and the achievement of the program objectives. Furthermore, because the expenditures are subject to an annual audit, there is sufficient ratepayer protection to ensure the funds are being spent effectively and appropriately. This model is an appropriate and effective one to recognize the positive benefits created by non-resource programs.

However, the Joint Utilities disagree with the ACR's exclusion of administrative costs from the non-resource component of the ESPI model. While the IOUs should be incented to invest in non-resource programs, they should similarly not be penalized for allocating the appropriate personnel resources to effectively meet the program objectives. Non-resource program activities are designed to accomplish the Commission's long-term, market transformation, and strategic planning goals. As a result, they are typically resource intensive and driven primarily by costs classified by the Commission as administration. In fact, non-resource programs typically have higher administrative costs relative to resource programs as they conduct trainings, coordinate seminars, provide educational collateral, etc.

The existence of the Commission's administrative cost cap provides adequate protection against excessive IOU administrative expenses. Such disconnects should be avoided. As a

result, the Commission should include administrative costs as a component of the non-resource program mechanism and rely on its current expenditure caps and targets to monitor and enforce reasonable administrative expenses.

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?

The Joint Utilities support the management fee approach for non-resource programs and oppose the utilization of program performance metrics (“PPMs”) for earnings purposes.

The PPM process is not yet mature enough to be utilized as an effective program evaluation process. As of this date, the IOUs have yet to submit their 2010-2012 program cycle PPM results, which would still need to be assessed. This work would not occur in time to meaningfully influence the development of the 2013-2014 ESPI. Furthermore, reliance on PPMs would add a further layer of subjectivity and complexity into the earnings process. There are currently 94 individual PPMs, many of them are subjective or not easily quantifiable. To assign and monitor earnings targets to each metric would be a monumental task, one which would not develop the simple, transparent, or predictable process sought by the Commission for an effective earnings mechanism. Energy efficiency incentive mechanisms that employed milestone components have not fared well in the past. The California milestone experiences in 1990s were straddled by an overly subjective, complex, and contentious process which resulted in an ineffective system. The Commission is now in a position to learn from this experience and should avoid this type of approach to an incentive mechanism.

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?

The Joint Utilities disagree with the use of program performance metrics as an

appropriate way to measure the successes of non-resource programs. See the Joint Utilities response to Question 3 above.

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

The Joint Utilities agree with the ACR that there are many complications associated with determining the savings attributed to C&S and therefore support the management fee approach based on the reported expenditures less administrative costs of the program.

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

A cap of 10 percent is reasonable.

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?

Please refer to the response in Question 8 below.

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?

The Joint Utilities believe that the ex ante metrics in the Attachment to the ACR could meet the Commission's objectives if they were simplified and could be measured more quantitatively. As proposed, the matrix in the Attachment presents a very complex and subjective process. The Joint Utilities would like to point out the confusing nature of the matrix and the fact that many of the metrics contained in the matrix are in direct conflict with each other. The Joint Utilities, as an alternative to the ACR's EAR metrics, recommend five (5) scoring areas similar to those in the proposed decision that promote the following objectives:

Collaborative Development

Use of Previous and On-going Reviews

Use of CPUC Policies and DEER Methodology

Use of the Most Relevant Studies, Research, and Data. (This area also includes Innovation.)

Professional Excellence

The Joint Utilities have provided these areas with an alternative set of ex ante implementation scoring metrics in Appendix A. Also provided are two scoring check list templates that would be completed prior to submission; one for each workpaper and one for each custom project. These proposed templates are also provided in Appendix A. These templates would be used to help reduce the subjectivity of the EAR process and allow for more transparency during review.

In the past, workpapers were simply the notes and calculations of the engineer/analyst that developed the cost-effectiveness and load impact parameters. Today, workpapers have evolved into reports often very complex in nature. In some cases this level of effort is appropriate; in other cases it is not needed. The Joint Utilities are concerned that valuable resources will be diverted into this process unnecessarily. Therefore, it is also proposed that the IOUs in conjunction with the Energy Division develop a set of uniform guidelines for workpaper development. These guidelines would include rules that dictate the level of comprehensiveness required for various workpaper types. For example, simply documenting a measure's DEER cost-effectiveness and load impact values could be accomplished with a table listing the DEER ID's. On the other hand, high impact measures (HIM) that use no direct DEER load impact values would require more comprehensive documentation. It should be recognized that non-HIM workpapers should not require the same level of effort as those prepared for HIMs (e.g., literature research and/or measurement and verification expenditures). The workpaper guidelines would provide direction regarding the level of required comprehensiveness.

Given the above, it is recommended that less critical workpapers be evaluated using lower weighting than those considered HIMs. The Joint Utilities would recommend a two tier weighting scheme based on anticipated energy savings. A similar approach is recommended for

custom measures/projects. The tiers could be as follows: Tier 1 workpaper ranking would apply to HIMs (1% of the portfolio savings); Tier 2 workpaper ranking would apply to non-HIMs (less than 1% of portfolio savings). Tier 2 workpapers would receive a weight of 50% of Tier 1 workpapers. For custom projects the Tiers could be defined based upon the size of the expected savings and could vary between utilities.

The Joint Utilities believe that simplifying the EAR process with the method described above would greatly reduce the complexity and time requirements for both the Energy Division and the IOUs, will help fulfill a major goal of the incentive mechanism by increasing transparency and allowing the ex ante review process to move forward in a way that will benefit future measurement and evaluation with reduced controversy.

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?

The Joint Utilities support the use of a savings-based approach as a foundation for establishing an effective incentive mechanism. The ACR accomplishes this aim by placing a greater emphasis on resource acquisition while complementing that with other non-resource components of the mechanism. The Joint Utilities prefer the NRDC approach over the traditional PEB shared-savings mechanism as it contains less moving parts, less complexity, and less avenues for controversy. These are all objectives that the Commission should pursue. The ACR moves in this direction; however complicates the process by adding in an ex post component coupled with a cost-effectiveness adder. The ACR should remove these components and align itself with the NRDC approach. Doing so will create a stable mechanism that the Commission can rely upon over the long-term, not just for the 2013-2014 program cycle. This will meet the Commission's objectives for the incentive mechanism by providing the investment community with stability in both the opportunity and magnitude of earnings.

Compared to previous programs cycles in 2006-2008 and 2010-2012, the Commission has now instituted several enhancements to the ex ante process that provide protections to ratepayers. For example, the following processes are in place to continuously evaluate ex ante estimates during the 2013-2014 program cycle:

- The Energy Division conducts a custom review process which evaluates projected results and institutes real-time calculation changes for future projects.
- The Energy Division can review ex ante deemed work papers throughout the cycle and approve adjustments prospectively.
- DEER will be updated mid cycle to account for code changes.

As illustrated above, there are several points in the process that ensure that ex ante estimates are current based on the best available information. The 2013-2014 ex ante process is much more structured than similar processes in the past and can be relied upon as a basis for earnings.

The Joint Utilities believe that there should be an ex post component for the purpose of this mechanism, that focuses on installations should be verified and costs should be audited. By verifying actual installations and costs, the Commission directly evaluates utility performance, incents efficient and effective program design and implementation, and eliminates the evaluation of metrics that are outside of utility or Commission control. Similar to previous mechanisms, these verifications should be done annually, consistent with the schedule outlined in response to Question 16.

However, should the Commission decide to pursue the ex post model, then it should eliminate the NTG factor from the equation. The ex post evaluations of NTG throughout the years have continued to be a major source of controversy and contention. These evaluations rely primarily on self-report and are often conducted long after decisions have been made and measures installed (in some cases several years later). Furthermore, a decline in NTG is a strong indicator of the success of previous program years' focus to promote adoption of energy efficiency measures. To minimize continued implementation of measures that have reached

greater availability and acceptance in the marketplace, NTG studies should be completed in time to inform the next program cycle.

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?

The Joint Utilities support the Commission’s goal to achieve deep energy savings. However, the ACR proposal presents an unachievable target. The ACR establishes a target NTG of 80%; however, the Commission adopted the Joint Utility portfolio with an NTG of 57%. In fact, there are only a handful of measures approved by the Energy Division with an NTG higher than 80%. The targets should align with the energy efficiency goals, as established by the Navigant Potential Study. That study identifies the maximum achievable market potential using NTGs and EULs at a level similar to the IOU portfolios, not the unrealistic targets proposed in this ACR.

Consistent with Commission policy surrounding energy efficiency goals, targets should represent stretch objectives and be used to motivate superior performance, but also should be achievable. The approach in the ACR is unachievable and does not serve to motivate performance. For example, the NTG condition will, generally speaking, encourage emphasis on programs with higher ratios, but the utility cannot impact the NTG values themselves through action taken during the course of the program cycle. Similar to NTG, the EUL is unachievable since they are not typically evaluated on an ex post basis, but instead are developed and frozen through the DEER. Since DEER is frozen for the cycle, there is no opportunity to increase the EULs for established measures. Fund shifting, program design, and regulatory constrictions prohibit the ability to achieve increased averages from a program operations perspective. The Commission should strive to adopt achievable targets, in line with the potential study and the approved program design.

- 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 Joint Utilities believe that this risk is minimal. In D.12-11-015, the Commission approved the Joint Utilities' program plan which met the cost-effectiveness requirements. The implementation of that plan, coupled with the expenditure caps and targets, fund shifting rules, and regulatory oversight greatly minimize any risk to ratepayers for the implementation of a non-cost-effective portfolio. The Commission should maintain an ESPI approach that seeks to incent maximum energy savings.

- 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?**

While the Joint Utilities appreciate the progress that has been made in the ACR proposal, the complexity of the mechanism may lead to similar issues that embroiled the 2006-2008 incentive mechanism. Reverting to an ex post approach may bring back the similar issues that the Commission had changed the mechanism to overcome. The Energy Division prepared a white paper in 2009 where it presented its observations on an effective incentive mechanism.⁵ One such observation was to disconnect the EM&V process from the earnings process. EM&V should be focused its resources on improving program design, not be consumed by validating utility earnings. As stated in the 2009 white paper (at page 12):

⁵ "Proposed Energy Efficiency Risk-Reward Incentive Mechanism and EM&V Activities," prepared by the Energy Division, April 1, 2009.

If the Commission policy is intended to provide IOUs with the opportunity to earn regular and predictable earnings, as the utilities frequently maintain, then the earnings mechanism should not be dominated by a formula that is known to embody a high degree of uncertainty and variability, elements of which are not fully manageable by the utilities. Certainly the utilities should be expected to re-evaluate and update their portfolio strategies and measure mixes in light of changing market and technology parameters on an ongoing basis. However, the incentive mechanism should reward them for those adjustments without penalizing them for imperfect projections of future market and technology changes. Decoupling the measurement of savings and cost-effectiveness from payment of shareholder earnings should remove disincentives to accepting and making productive use of the information flowing from the EM&V work.

As a result, the Joint Utilities advocate the use of an ex ante approach, with ex post verification of installations and cost, as adopted by the Commission previously as a way to streamline the mechanism and reduce controversy. Please see the Joint Utilities response to Question 9.

- 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?**

The Joint Utilities propose that the ESPI not include any additional adders that would increase the complexity of the currently proposed four-part mechanism which already contains numerous moving parts. Instead, the Commission should strive for simplicity and transparency. Including any bonus adders is analogous to the discussion relative to PPMs (see the Joint Utilities response to Question 3 above).

- 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 Joint Utilities do not believe that a cost-effectiveness adder is appropriate for the ESPI as it adds another layer of complexity and uncertainty to the earnings process. The Commission should seek a mechanism with a streamlined, transparent process, however, a cost-

effectiveness adder will work contrary to that aim. This adder sends a conflicting message to program administrators; it would essentially reward planning program portfolios with larger portions of relatively lower cost-effective programs, and then not dedicating resources to implementing that program. This could serve in contrast of Commission goals for programs that are rooted in achieving deeper, longer savings that may be less cost-effective. Furthermore, the ACR would create a situation where administrative costs are removed from the earnings calculation, yet they would be included in the cost-effectiveness adder. Should ex post savings drop and administrative costs stay the same, then the magnitude of the cost-effectiveness impact will be greater. This disconnect can be avoided by removing the adder from the earnings calculation.

However, if the Commission seeks to pursue such an adder, then the Program Administrator Cost (“PAC”) test is more appropriate than the Total Resource Cost (“TRC”) test. The PAC is a better gauge of utility performance as it measures how efficiently and effectively administrators spend their funding. It encourages the utility to spend scarce resources in an efficient manner to minimize ratepayer costs. On the other hand, the TRC includes incremental measure costs, which are subjective estimates, difficult to measure and track, and outside of utility control. When evaluating utility performance, costs incurred by participants are not an effective measure of the success of the utility programs. A better measure of performance is how many benefits are produced relative to spent funds.

The TRC is an important test as a regulatory threshold in order to approve budgets as it looks at energy efficiency from a quasi-societal perspective. However, to determine earnings as an evaluation of performance, the added subjectivity is not appropriate.

- 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?**

While the possibility exists for loan repayments from the 2010-2012 On-Bill Finance (OBF) program to be re-loaned in the 2013-2014 program, the Joint Utilities propose that this not influence the construct of the ESPI. Inclusion of such uncertainty will only further complicate the development and implementation of the mechanism, which should be avoided. While this may be a valid issue worth addressing for a long-term ESPI approach, the potential impact for the Joint Utilities is relatively minor. As a result, this issue should be deferred to future cycles as the Finance program evolves and stakeholders can collaboratively work together on a comprehensive approach.

- 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?**

The Joint Utilities believe that the earnings payment schedule should be as closely aligned to the performance year as possible. The bigger the gap between the performance year and the payment year, the less influential energy efficiency earnings become. There should not be a pause in the earnings year as this erodes the link between the investment community and the Commission's commitment to earnings. Furthermore, management influence for successful energy efficiency programs is better determined when earnings are approved sooner. Currently there is a two to three year lag between performance year and payment year. This is not desirable and should be eliminated; earnings should be paid in the subsequent year to create an ideal alignment.

The Joint Utilities propose a revised approach. Given that the audit report for 2011 and 2012 are combined and scheduled to be completed this year, the payments for both years should be approved in 2013. Given the approach outlined for the non-resource, Codes & Standards, ex ante review, and resource mechanisms, the Joint Utilities propose a schedule whereby payments would be made the year following the performance year, as illustrated below:

Performance Year	Payment Year	Collection Year
2010-2012 Incentive Mechanism		
2011 & 2012	2013	2014
2013 - 2014 Incentive Mechanism		
2013	2014	2015
2014	2015	2016

The Joint Utilities believe that this schedule is feasible. The timelines developed in previous mechanisms, i.e. timely and annual financial audits, verification reports, EAR assessments, should be leveraged to meet this schedule.

The Joint Utility approach for the resource mechanism and the timelines above will result in a smoother, stable, and predictable earnings mechanism that will meet the Commission’s objectives of utility management and investment community focus on energy efficiency. The current approach in the ACR creates a situation where earnings are relatively small in the first year and then jump significantly in the second. This does not send a message of stability to the investment community. The Joint Utility approach resolves this issue.

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?

The Joint Utilities do not support the implementation of a true-up mechanism as it would inject another layer of unnecessary complexity. Instead, the Commission should adopt the annual payment approach put forth by the Joint Utilities in response to Question 16.

Respectfully submitted,

/s/ Steven D. Patrick

Steven D. Patrick

Attorney for
San Diego Gas & Electric Company
Southern California Gas Company
555 W. Fifth Street, #1400
Los Angeles, CA 90013-1046
Phone: (213) 244-2954
Fax: (213) 629-9620
E-Mail: sdpatrick@semprautilities.com

April 26, 2013

Appendix
San Diego Gas & Electric Company
Southern California Gas Company
Proposed Changes to April 5, 2013 Attachment—Ex Ante
Implementation Scoring Metrics

Metrics		Custom Measures and Projects		Workpapers	
		Influencing Factors	Recommended Measure	Influencing Factors	Recommended Measure
			10 points		20 points
A	Collaborative activities	Disclosure of projects known during the pre-application period/ sales leads	1) Pre- project notification (if available) on CMPA List 2) Contact other IOUs to identify similar projects for determination of Industry Standard Practice or if ED a dispositions as has been issued. 3) Work with ED to determine the level of collaboration needed.	Workpaper projects under development presented to ED in calendar year	1) Pre-workpaper development notification on WPA site. 2) Work with other IOUs to jointly develop and submit workpapers when statewide consistency is warranted. 3) IOUs work with ED to refine parameters and required documentation.
			20 points		20 points
B	Use of Previous and On-going ED Reviews	Consideration of previous ED dispositions when developing custom project documentation.	1) Utilization of previous ED reviews for similar projects with the specific IOU. 2) Utilization of previous ED reviews for similar projects for another IOU. If ED provides redacted dispositions upon notification in Metric A above.	Consideration of previous ED dispositions when developing workpaper documentation.	1) Final workpapers shall include relevant content, consistent with the CPUC directives and feedback from previous and ongoing ED reviews. 2) Final workpapers shall incorporate ED collaboration recommendations from Metric A above. 3) Workpapers with a “Pass-through” status shall be

Metrics		Custom Measures and Projects		Workpapers	
		Influencing Factors	Recommended Measure	Influencing Factors	Recommended Measure
					updated and re-submitted to included disposition results from similar reviewed measures.
Metrics		Custom Measures and Projects		Workpapers	
		Influencing Factors	Recommended Measure	Influencing Factors	Recommended Measure
			20 points		20 points
C	Incorporation of Commission-adopted policy and direction including the use of DEER Methodologies.	CPUC-directed guidance, methods and values used in custom project savings calculations.	<p>1) Custom projects shall demonstrate compliance with CPUC directives.</p> <p>2) DEER methodologies shall be utilized when applicable. Whenever a custom project includes measures that can use specific DEER values, those values will be utilized. If a hybrid DEER/ Non-DEER approach is warranted, that approach will be used.</p> <p>3) Non-DEER methodologies will be used when the above are not applicable.</p>	CPUC-directed guidance, methods and values used in workpaper development.	<p>1) Workpapers shall demonstrate compliance with CPUC directives.</p> <p>2) DEER methodologies and parameters shall be utilized when applicable. (e.g., interactive effects, operating hours, EUL/ RUL, etc.)</p>
D	Use of the Most Relevant Studies,	Use of recent and relevant	Custom projects shall demonstrate the use of data sources and methods (including	Use of recent program data, internal	1) Workpapers shall identify the sources used in the analysis and considered the

Metrics		Custom Measures and Projects		Workpapers	
		Influencing Factors	Recommended Measure	Influencing Factors	Recommended Measure
	Research, and Data. (This area also includes Innovation.)	research, studies and data for parameter development	CTA submitted tools) per standard research and evaluation practices. This includes development of baseline and industry standard practice considerations.	research, emerging technology projects and EM&V data on similar measures to supplement engineering calculations	most relevant data by the IOU. 2) IOUs shall identify the most relevant M&V information in the development of workpapers, when applicable.
Metrics		Custom Measures and Projects		Workpapers	
		Influencing Factors	Recommended Measure	Influencing Factors	Recommended Measure
			35 points		30 points
E	Professional Excellence	Promotion of professional care, appropriate detail/ documentation and expertise.	<p>Custom projects shall provide:</p> <ul style="list-style-type: none"> a) detailed project description; b) measure descriptions; c) detailed M&V plans and/ or calculation methodologies; d) all calculations and supporting documentation/ assumptions 	<p>Promotion of professional care, appropriate detail/ documentation and expertise.</p>	<p>Workpapers shall :</p> <ul style="list-style-type: none"> a) Provide a sufficient level of detail as specified in the workpaper guidelines that will be developed prior to implementation of the metrics. b) Workpapers will be

Metrics	Custom Measures and Projects		Workpapers	
	Influencing Factors	Recommended Measure	Influencing Factors	Recommended Measure
		e) measure and project cost as applicable f) working calculators (e.g., spreadsheets or model inputs) g) demonstration of program influence		presented in the common template format approved by ED.

The following templates provide a means to document activities and scoring.

IOU Ex Ante Custom Measure and Project Scoring Checklist

Indicate if project is Tier1 or Tier 2

Tier 1 Tier 2

IOU Descriptive Comment on Tier Selection

Energy Division Descriptive Input

A. Collaborative activities (10 points)

Provide documentation of the following:

1. Pre- project notification (if available) on CMPA List

Yes No

IOU Documentation and Descriptive Comment

Energy Division Descriptive Input

2. IOU contacted other IOUs to identify similar projects for determination of Industry Standard Practice or if an ED dispositions as has been issued.

Yes No Not Required

IOU Descriptive Comment

Energy Division Descriptive Input

3. IOU communicated with ED to determine the level of collaboration required.

Yes No Not Required

IOU Descriptive Input

Energy Division Descriptive Input

Metric A, IOU Self Scoring(1-10):

Points

Metric A, Energy Division Scoring (1-10):

Points

B. Use of Previous and On-going ED Reviews (20 points)

Provide documentation of the following:

1. Utilization of previous ED reviews for similar projects with the specific IOU.

Yes No Not Required

IOU Descriptive Input
Energy Division Descriptive Input

2. Utilization of previous ED reviews for similar projects for another IOU, when ED provides redacted dispositions upon notification in Metric A. 3 above.

Yes No Not Required

IOU Descriptive Input
Energy Division Descriptive Input

Metric B, IOU Self Scoring(1-20):

IOU	Points
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Metric B, Energy Division Scoring (1-20):

ED	Points
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C. Incorporation of Commission- adopted policy and direction including the use of DEER Methodologies (20 points)

Provide documentation of the following:

1. Custom projects shall demonstrate compliance with CPUC directives. Identify specific directives that were included.

Compliance Demonstrated Compliance Not Demonstrated Not Applicable

IOU Descriptive Input
Energy Division Descriptive Input

2. DEER methodologies were utilized (when applicable).

Yes No Not Applicable

IOU Descriptive Input
Energy Division Descriptive Input

3. Whenever a custom project includes measures that can use specific DEER values, those values will be utilized. Provide DEER Measure Id.

Deer Values Used
 Deer Values Not Used
 Not Applicable

IOU Descriptive Input
Energy Division Descriptive Input

4. If a hybrid DEER/Non-DEER approach is warranted, that approach will be used. Provide a description of how the DEER methodology was incorporated into the overall methodology. (e.g., extrapolation)

Hybrid Used
 Hybrid Not Used
 Not Applicable

IOU Descriptive Input
Energy Division Descriptive Input

5. Provide a description of why a DEER methodology was not used.

IOU Descriptive Input
Energy Division Descriptive Input

Metric C, IOU Self Scoring(1-10):

IOU	<i>Points</i>
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Metric C, Energy Division Scoring (1-10):

ED	<i>Points</i>
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D. Use of the Most Relevant Studies, Research, and Data. This area also includes Innovation. (15 points)

Provide documentation of the following:

1. Custom projects demonstrated the use of data sources and methods (including CTA submitted tools) per standard research and evaluation practices. This includes development of baseline and industry standard practice considerations.

Hybrid Used
 Demonstrated
 Not Applicable

IOU Comment
Energy Division Comment

Metric D, IOU Self Scoring(1-10):

IOU	<i>Points</i>
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Metric D, Energy Division Scoring (1-10):

ED	<i>Points</i>
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E. Professional Excellence (35 points)

Provide documentation of the following:

1. Detailed project description;

IOU Descriptive Input
Energy Division Comment

2. Measure descriptions;

IOU Descriptive Input
Energy Division Comment

3. Detailed M&V plans and/or calculation methodologies;

IOU Descriptive Input
Energy Division Comment

4. All calculations and supporting documentation/ assumptions;

IOU Descriptive Input
Energy Division Comment

5. Measure and project cost as applicable (i.e., total project cost, base measure cost and incremental costs);

IOU Descriptive Input
Energy Division Comment

6. Working calculators (e.g., spreadsheets or model inputs)

IOU Descriptive Input
Energy Division Comment

7. Demonstration of program influence. This includes communication between utility and customer or their agent prior to signing a contract, customer or their agent's participation in any workshops/seminars or other documentation of influence.

IOU Descriptive Input
Energy Division Comment

Metric E, IOU Self Scoring(1-35):

IOU

Points

Metric E, Energy Division Scoring (1-35):

ED

Points

TOTAL POINTS:

IOU Self Scoring(1-100):

IOU

Points

Energy Division Scoring (1-100):

ED

Points

IOU Ex Ante Workpaper Scoring Checklist

Indicate if project is a High Impact Measure (HIM) or Non-High Impact

HIM Non-HIM

IOU Descriptive Comment on HIM Workpaper

Energy Division Descriptive Input

F. Collaborative activities (20 points)

Provide documentation of the following:

1. Pre-workpaper development notification on WPA site.

Yes No

IOU Notification Documentation

Energy Division Descriptive Input

2. IOU worked with other IOUs to jointly develop and submit workpapers when statewide consistency is warranted.

Yes No Not Warranted

IOU Joint Development Comments

Energy Division Input

3. IOUs worked with ED to refine parameters and required documentation.

Yes No None Required

IOU Comments, if "None Required" explain reasoning

Energy Division Input

Metric A, IOU Self Scoring(1-20):

Points

Metric A, Energy Division Scoring (1-20):

Points

G. Use of Previous and On-going ED Reviews (20 points)

Provide documentation of the following:

4. Utilization of previous ED reviews for similar projects with the specific IOU.

Previous Review Utilized Previous Review Not Utilized None Issued

IOU Comment and Documentation
Energy Division Input

5. Utilization of previous ED reviews for similar projects for another IOU. If ED provides redacted dispositions upon notification in Metric A above.

Other IOU Considered Other IOU Review Rejected Redacted Review Unavailable

IOU Comment and Documentation
Energy Division Input

Metric B, IOU Self Scoring(1-20):

IOU

Points

Metric B, Energy Division Scoring (1-20):

ED

Points

H. Incorporation of Commission- adopted policy and direction, including the use of DEER Methodologies (20 points)

Provide documentation of the following:

1. Workpapers shall demonstrate compliance with CPUC directives. Identify specific directives that were included.

Directives Applied Directives Not Applied Directives Unavailable

IOU Comment and Documentation
Energy Division Input

2. DEER methodologies and parameters shall be utilized when applicable. (e.g., interactive effects, operating hours, EUL/RUL, etc.) Identify specific methodologies and/or parameters that were utilized.

DEER Methodologies Used DEER Methodologies Not Used Not Applicable

IOU Comment on Methodology
Energy Division Input

Metric C, IOU Self Scoring(1-20):

IOU

Points

Metric C, Energy Division Scoring (1-20):

ED

Points

I. Use of the Most Relevant Studies, Research, and Data. This area also includes Innovation. (10 points)

Provide documentation of the following:

1. Workpapers have identified the sources used in the analysis and how they were considered the most relevant data. Provide a literature review as appropriate.

IOU Comment
Energy Division Input

2. IOUs have identified the most relevant M&V information in the development of workpapers. Provide a literature review as appropriate.

IOU Comment
Energy Division Input

Metric D, IOU Self Scoring(1-20):

IOU	Points
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Metric D, Energy Division Scoring (1-20):

ED	Points
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J. Professional Excellence (30 points)

Provide documentation of the following:

1. Workpapers were presented in the common template format approved by ED.

Yes No

IOU Comment
Energy Division Input

2. Workpapers include all calculations and supporting documentation/assumptions.

Yes No Partial submittal-Not Complete for IOU Review

IOU Comment
Energy Division Input

3. Workpapers include any working calculators (e.g., spreadsheets or model inputs)

Calculators Included Calculators Not Included Not Applicable

IOU Comment

Energy Division Input

4. Workpapers include supporting documentation sufficient to validate parameters. (Such that calculations can be duplicated)

Duplication Possible Duplication Not Possible Irrelevant

IOU Comment

Energy Division Input

Metric E, IOU Self Scoring(1-20):

Points

Metric E, Energy Division Scoring (1-20):

Points

TOTAL POINTS:

IOU Self Scoring(1-100):

Points

Energy Division Scoring (1-100):

Points