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

REPLY 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) replies to comments on the *Assigned Commissioner's Ruling Soliciting Comments Regarding The Efficiency Savings and Performance Incentive Design for Energy Efficiency 2013-2014 Portfolio*, filed on April 26, 2013 by the following parties: the California Energy Efficiency Industry Council (EEIC); the Division of Ratepayer Advocates (DRA);[1/] the Natural Resources Defense Council (NRDC); Marin Energy Authority (MEA); the Utility Reform Network (TURN); Southern California Edison Company (SCE); San Diego Gas & Electric Company (SDG&E) jointly with Southern California Gas Company (SoCalGas); and Women's Energy Matters (WEM).

The opening comments demonstrated common views on certain aspects of the proposed Energy Savings and Performance Incentive Mechanism (ESPI) for the 2013-2014 Energy Efficiency Portfolios.

- Several parties agree that the Commission should eliminate the proposed *ex-post* Evaluation for Resource Programs and should adopt a mechanism that only uses *ex-ante* values to prepare and approve the portfolios. If the *ex-ante* values are not used, the net-to-gross (NTG) and baseline values should be locked down at the

1/ DRA filed opening comments on April 26 and April 29. PG&E's citations to DRA's comments are to the latter-filed comments.

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beginning of the portfolio cycle to avoid penalizing the investor-owned utilities (IOUs) for their efforts to transform the market.

- Parties largely support the management fee for Codes and Standards and non-resource programs.
- Most parties agree that the total resource cost (TRC) multiplier should be eliminated.

Some parties recommend a cost-effectiveness threshold. PG&E is concerned that a cost effectiveness threshold based on the TRC would encourage the IOUs to reduce or eliminate their focus on certain low-TRC programs or measures which have market transformation potential. If a cost-effectiveness multiplier or threshold is adopted, PG&E recommends that the Commission use the program administrator cost (PAC) test rather than the TRC test. Using the PAC test as a threshold encourages efficient spending, whereas using the TRC test encourages elimination of measures or programs that were recently approved by the Commission. With these proposed adjustments and an increase in the overall incentive mechanism cap to be more consistent with the national average, the ESPI mechanism would present a balanced approach to reward both resource and non-resource programs in support of California's energy policies.

II. DISCUSSION

A. California Policy Supports Continuation of an Incentive Mechanism.

PG&E strongly supports Commissioner Ferron's proposal to continue an incentive mechanism for the IOUs. The continuation of a mechanism to reward utility shareholders furthers the state's policy to encourage a focus on energy efficiency to replace the return that would have been achieved from an investment in traditional power production. In the 2008 Energy Action Plan (EAP) Update, the State's energy policy decision makers considered the increased energy efficiency investments required to meet AB 32 goals. The 2008 EAP Update again determined it appropriate to provide an incentive mechanism to encourage the IOUs to meet aggressive energy efficiency goals:

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> To ensure that the investor-owned utilities meet these energy efficiency goals and challenges, the Public Utilities Commission recently authorized a risk/reward mechanism to allow utilities to earn financial rewards for meeting or exceeding their goals and includes penalties for not reaching goals. This regulatory approach should give utilities a strong incentive to go beyond traditional approaches to energy efficiency to achieve even greater savings. *This mechanism will give utilities equal opportunities to earn profit, whether they are investing in energy efficiency or supply resources to create a truly level playing field.*[2/]

The Commission has previously recognized that a shareholder incentive supports the Strategic Plan and is key to maintaining California's historically low per capita electricity consumption.[3/] As the Commission discussed in 2010:

> The purpose of the RRIM is to offer incentives to the IOUs in a manner that will encourage and compel them to meet and exceed Commission goals for energy efficiency savings, and to extend California's commitment to making energy efficiency the highest energy resources priority.[4/]

State Energy Policy, as consistently applied by the Commission, strongly supports a properly-structured energy efficiency incentive mechanism with an award amount that is sufficient to encourage IOU management to focus efforts on energy efficiency investments and exceed Commission goals.

B. The Incentive Should Not Be Reduced.

NRDC's opening comments note that the American Council for an Energy Efficient Economy's (ACEEE's) most recent survey of efficiency incentives in various states found that earnings average 12% to 13%. (NRDC, p. 11, fn. 13.)

TURN's comments incorrectly report the average incentive for relevant states is approximately 7% "when properly adjusted" citing, as its only authority, prior TURN comments. (TURN, p. 6.) TURN's prior comments were incorrect as TURN selectively used data from

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2/ 2008 EAP Action Plan Update, p. 8 (emphasis added).

3/ D. 10-12-049, p. 4: "The incentive mechanism reinforces our strong commitment to the goal of decreasing overall future per capita electricity consumption in California by the customers of the IOUs. It cannot be disputed that such reductions benefit the IOUs' customers and California society at large."

4/ D.10-12-049, pp. 10-11.

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some states while omitting data from others, rather than include *all* state incentives analyzed by ACEEE. TURN urges the Commission to lower the savings-based award cap used to calculate earnings to six percent rather than eight percent to "provide an incentive that is sufficient to motivate performance but not unreasonable when compared to other similar mechanisms and the reduced utility risk." (TURN, p. 2.) The eight percent cap proposed in the ACR is already four to five percent less than the national average based on the ACEEE survey and should be *increased* rather than reduced. TURN's argument that the fee should be further reduced to six percent is unsupported by the ACEEE analysis on which TURN relies and should be rejected.

TURN also argues the six percent cap is more appropriate as it approximates awards that were paid for 2006 to 2009. (TURN, p. 7.) TURN asserts: "The absolute maximum annual payout under the ESPI should not be significantly higher than the average 2006-2009 RRIM payment of $68 million." (*Id.*) TURN's proposal is based on the payment received, not the cap established for the 2006-2009 portfolio. If the cap is benchmarked against the 2006-2009 portfolio, a more appropriate comparison is the $450M *cap* for the program cycle, or $150M / year, not the awards.[5/]

DRA's argument that the ESPI should be revised to decrease the cap to seven percent is based on a general discussion of the state of the economy and on TURN's flawed analysis of the ACEEE survey discussed above. (DRA, pp. 6-7.) DRA's proposal would provide a low incentive cap compared to the national average and may not sufficiently support the Commission's policies to encourage the IOUs to focus on energy efficiency achievements. The ultimate test of the reasonableness of the incentive award is whether the potential earnings gain is sufficient to drive utility management to achieve or exceed the objectives of the energy efficiency programs. While the amount of the incentive is essentially a judgment call, PG&E believes the Commission should base the amount on national averages as reported by the ACEEE survey.[6/]

[5/] D. 07-09-043, p. 9.

[6/] Table 2 in PG&E's Opening Comments contained a typographical error in that the column labeled

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C. The TRC Multiplier Should Be Removed.

PG&E agrees with other parties that the TRC multiplier is unduly complicated and should be removed from the ESPI mechanism. (NRDC, p. 9; TURN, pp. 3, 14; DRA, pp. 8-9; SCE, p. 9; SCG/SDG&E, p. 20.)

Several parties recommend that the ESPI mechanism include a cost effectiveness threshold instead of a TRC multiplier. (DRA, p.10, TURN, p. 13, NRDC, p. 9.) If the Commission decides to include a cost effectiveness threshold, PG&E agrees with NRDC and SDG&E/SCE that a Program Administrator Cost (PAC) test is more appropriate than the TRC test because it analyzes programs from the perspective of the program administrator.[7/] The PAC test uses the same avoided cost benefits as the TRC test, but the PAC test considers costs paid by the program administrator, including incentives paid to program participants. The TRC includes the incremental cost of the efficient measure, rather than the utility incentives, in the cost side of the equation. As a result, the primary means the utility has of increasing its portfolio TRC test results is to discontinue programs with low TRCs. Low TRC programs are typically associated with high measure costs, and measure costs are established *ex-ante* or *ex-post* by Energy

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"Maximum Payment Cap" should have been labeled "Business as Usual" and the "Business As Usual Column" is PG&E's proposed cap. A corrected version of Table 2 is below:

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

	Business As Usual	Cap
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

7/ SDG&E/SCG, p. 21; NRDC, p. 18.

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Division. Discontinuation of high measure cost programs or measures would be an effective means to increase the TRC. However, high measure costs are generally associated with market transformation efforts or long-lived measures that help to achieve the "deeper" savings the IOUs are trying to promote.

Table 1 below includes a list of PG&E's ten least cost-effective core and third party subprograms. If the ESPI mechanism required a cost-effectiveness threshold based on a portfolio TRC test, the ESPI mechanism would encourage the IOUs to reduce spending in these subprograms with lower TRCs. Programs such as Energy Upgrade California or Multifamily Energy Efficiency Rebate would be positive contributors under a PAC test, whereas they are quite negative under a TRC threshold test. If a cost effectiveness threshold is adopted, using the PAC test as opposed to the TRC will avoid the potential unintended consequence of penalizing the IOUs for pursuing measures which may be transformational or encourage deep savings.

Table 1
PG&E's 10 Least Cost Effectiveness Subprograms in 2013-014 Portfolio

Rank	Sub-Program Name[8/]	Net TRC	Net PAC
1	Industrial Energy Advisor	0.04	0.05
2	Commercial Energy Advisor	0.32	0.39
3	Residential HVAC	0.41	0.46
4	Energy Upgrade California	0.53	1.89
5	Plug Load and Appliances	0.55	0.92
6	Multifamily Energy Efficiency Rebates Program	0.61	1.08
7	Primary Lighting	0.78	2.55
8	Residential Energy Advisor	0.85	0.88
9	Residential New Construction	0.97	1.01
10	Monitoring-Based Commissioning	1.02	1.44

8/ Values taken from PG&E Advice Letter 3376-G/4207-E, Appendix C.2 (Apr. 23, 2013).

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D. TURN's Proposal For An Additional Incentive To Reduce Non-Incentive Costs Should Be Denied As It Would Negatively Impact Programs That Further Commission Policies.

TURN's proposed adder based on decreased non-incentive spending[9/] is an interesting concept and is well-intended. However, the proposed adder could encourage the closure of or decreased spending in programs that are important to the Commission. The IOUs' portfolios are constructed with a wide breadth of programs that include resource programs designed to pay rebates to promote adoption of energy saving technologies and "market transformation" based programs that are designed to move technologies into that pipeline, ensure they are properly understood and installed, and ultimately retired. Without these non-incentive programs, the portfolio's focus would be near-sighted and fail to address longer term opportunities. The majority of these 'non-incentive' costs include Workforce Education and Training, Finance Marketing and Implementation, Codes and Standards, Emerging Technology, Third Party and Government Program implementation costs and Audit programs. All of the aforementioned programs are vital to an integrated EE Portfolio. Implementing a mechanism that would decrease focus on these programs seems counterintuitive to the goal of a mechanism – to promote excellence in performing the Commission-approved portfolios.

E. The Parties Generally Agree That ESPI Should Include a 3% Incentive Without Metrics For Non-Resource Programs.

An incentive to reward the IOUs for non-resource program achievements will motivate greater performance in the non-resource portions of the portfolio. A management fee for the non-resource programs is an appropriate and reasonable way to encourage the IOUs to continue to focus their efforts 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 valued by the Commission. DRA agrees, given the timing, that a

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9/ TURN, p. 4.

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management fee without metrics "may be the best approach for the current 2013-2014 cycle." (DRA, p. 11; see also TURN, p. 13.)

F. The Parties Support A Management Fee For Codes And Standards.

The Codes and Standards (C&S) portion of the mechanism is supported by many of the parties and should be included in the final mechanism. DRA supports a separate incentive component for C&S. (DRA, p. 4.) TURN also agrees that the rationale in the ACR for including a C&S management fee in the ESPI is sound. (TURN, p. 9.) PG&E believes that while C&S provides a significant benefit beyond that which would be rewarded by the proposed ESPI mechanism, the simplified incentive mechanism is reasonable for this program cycle.

G. The ESPI Should Not Include Unrealistic EULs.

PG&E disagrees with DRA that the ESPI should include a "stretch" portfolio EUL because, as the ACR correctly notes, the proposal is not achievable during the 2013-2014 timeframe. (DRA, p. 4.) The EUL values used in the target scenario should be the average EULs in the IOUs' compliance advice letters, which are based on data from the most recent DEER update and are largely aligned with Commission approved workpapers and savings assumptions. If the Commission 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 reflect what is available and reasonable today. (SCG/SDG&E, p. 18.)

NRDC requests the Commission clarify that the EUL targets in the ACR "would not be used as thresholds and, instead solely used to calculate 'correlation coefficients.'" (NRDC, p. 18.) While PG&E disagrees with the use of these unachievable values for goal setting as they are not consistent with what is approved or realistic, PG&E agrees with NRDC's proposal to use values at the start of the cycle to determine correlation coefficients instead of establishing thresholds. It also suggests lifting the EUL cap on Energy Upgrade California (EUC) as a pilot. (NRDC, p. 18.) PG&E agrees with NRDC's approach to lift caps on EUL for EUC – and for the entire portfolio – beyond the 20 year limitation. If the Commission aspires to promote long-lived

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measures, then it should remove the arbitrary cap of 20 years on measure life, especially considering that many measures replaced by the IOUs through their program efforts are operating well past this subjective 20 year EUL cap.

H. The *Ex Post* True Up Should Be Excluded.

Successful portfolio implementation and administration requires the use of predictable *ex-ante* values up front to ensure consistency of focus and rewards. Diverging from such an approach undermines the Commission's desire for creation of a self-sustaining energy efficiency infrastructure in California.

The Commission has previously recognized the reasonableness of identifying *ex-ante* savings values.[10/] PG&E sees the following benefits of using the *ex-ante* values:

- *Ex-ante* values represent the appropriate portfolio starting point and is based on evaluation studies;
- Updating *ex-ante* values prior to each cycle informs program planning and creates a fair mechanism for introducing new innovative products mid-cycle;
- Using *ex-ante* values allows the IOUs to measure their performance against known and fixed parameters; and
- Using *ex-ante* values establishes clear performance metrics, improves the predictability of achieving goals, and is the most similar comparison to supply-side earnings.

Several parties agree that the ESPI mechanism should not include an *ex- post* true up. As NRDC explains, many of the problems that have occurred in the past regarding *ex-post* analysis are attributable to the EM&V process, the lack of predictability, and lack of involvement IOUs and others have in the impact evaluations that set the *ex-post* values.[11/] PG&E agrees with NRDC's characterization and also strongly agrees that the ESPI should freeze the NTG and

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10/ See D. 10-12-049, p. 37: "A more reasonable approach and expectation is for the utilities to modify their portfolios based on assumptions available to them at the time they are developing and implementing their portfolios."

11/ NRDC, pp. 3-7.

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baseline values at the beginning of the program cycle and not change the NTG and baseline values later as part of an *ex-post* true-up.[12/] NTG values in California are, in theory, a ratio of how many customers would take action on their own regardless of utility programs. Baseline values indicate the extent to which the more efficient technology is already in use at the start of the program cycle. To measure these values after or while the IOUs' programs are providing rebates, educating customers, training trade professionals and marketing programs eliminates the benefits the IOU is providing to market penetration and therefore market transformation. The practical and reasonable approach would be to compare the NTG and baseline values at the start of the cycle with those at the end of the cycle, or *ex-post*, and assume the change is largely attributable to IOU program influence. These new NTG and baseline values would then inform the forward-looking program design.

I. The *Ex-Ante* Review Criteria Should Be Revised.

PG&E believes that a collaborative model like the Pacific Northwest's Regional Technical Forum[13/] is the best method for moving California forward with the most transparent, well-informed and least contentious process for determining energy savings values. However, for the 2013-2014 program cycle, PG&E agrees with EEIC, SCE and SDG&E/SCG that the metrics to score the IOUs on the *ex-ante* process should be transparent, easily understood and objective.[14/] PG&E's Attachment A to its Opening Comments contains proposed edits to the scoring metrics for the EAR. PG&E's edits to the EAR metrics are largely aligned with the edits provided by SCE and SDG&E/SCG. For the purpose of creating simplicity in Commission review of EAR metric edits, PG&E supports SCE's edits. PG&E also supports SDG&E/SCG's request to include points applicable to each metric for clarity and transparency when the metrics are adopted. If further collaboration is required in finalizing metrics PG&E is willing to collaborate in this process.

12/ NRDC, p. 6; SCE, p. 18; SDG&E/SCG, p. 17.

13/ http://rtf.nwcouncil.org/

14/ CEEIC, p. 3, SCE p. 9, SDG&E/SCG, p. 15.

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III. CONCLUSION

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

Respectfully Submitted,

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