BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Reform the Commission's Energy Efficiency Risk/Reward Incentive Mechanism	R.12-01-005 (Filed January 12, 2012)

REPLY COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED EFFICIENCY SAVINGS AND PERFORMANCE INCENTIVE (ESPI) MECHANISM PROPOSED FOR 2013-2014

Lower bills. Livable planet.

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REPLY COMMENTS OF THE UTILITY REFORM NETWORK ON THE PROPOSED EFFICIENCY SAVINGS AND PERFORMANCE INCENTIVE (ESPI) MECHANISM PROPOSED FOR 2013-2014

Pursuant to the direction and schedule in the "Assigned Commissioner's Ruling Soliciting Comments Regarding Efficiency Savings and Performance Incentive Design for Energy Efficiency 2013-2014 Portfolio" ("ACR"), dated April 4, 2013, the Utility Reform Network ("TURN") respectfully provides the following very limited reply comments concerning the proposed Efficiency Savings and Performance Incentive ("ESPI") mechanism proposed in the ACR.[1]

1. Most Parties Support the General Framework of the ESPI

It appears that most parties support the framework of four incentive components proposed in the ACR. In particular, TURN believes there is significant consensus supporting the use of a savings component for resource programs, a management fee for non-resource programs and C&S, and an award for the ex ante review compliance.

Parties recommended the following modifications:

- Use *ex ante* rather than *ex post* values to calculate savings;[2]
- Increase money for resource program incentives[3]
- Eliminate the TRC multiplier[4]
- Simplify the EAR metrics and make them more objective[5]
- Include administrative costs in management fee[6]
- Include C&S savings in resource incentive[7]
- Increase magnitude of earnings[8]

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[1] Due to competing filing deadlines, TURN is not able to provide comprehensive reply comments on the adopted schedule. Thus, our representation of the positions of other parties' is necessarily incomplete. We apologize for any unintended omissions.
[2] PG&E, p. 10; SCE, p. 4-8; NRDC, p. 3-7.
[3] PG&E.
[4] PG&E, p. 11; SCE, p. 9; SDG&E;
[5] PG&E; SCE, p. 8-9; Sempra, p. 4; SDG&E, p. 14-16.
[6] SDG&E, p. 12.
[7] NRDC, p. 7-9.
[8] NRDC.

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TURN provides limited comments concerning two of these proposed modifications.

2. Change to *ex post* Metrics

The NRDC and several utilities object to using *ex post* parameters. TURN appreciates some of the concerns, as we likewise have reluctantly agreed that, in the context of the prior RRIM, the use of *ex ante* parameters is preferable. However, none of the parties explained why it is inappropriate to use *ex post* values to attribute utility savings given the reduced risks of the proposed ESPI mechanism (no cliffs, no penalties).

TURN notes that *if* an ESPI mechanism is adopted using *ex ante* parameters, it is almost akin to a fee based on program spending, since there is almost minimal performance risk to the utility.[9] Therefore, any such mechanism such provide for *lower* utility incentives than recommended in the ACR. Any earnings coefficients should be based on a maximum earnings cap of 5% of spending, rather than 8%, if there is a shift to *ex ante* values.

Several parties approvingly cite to the mechanism used by the Regional Technical Forum of the Northwest Power and Conservation Council, which apparently sets baselines based on *ex ante* values. TURN does not believe there is sufficient evidence in the record to demonstrate that the RTF process should be a model for an incentive mechanism awarding tens of millions of dollars.[10] The RTF is an advisory body for developing EM&V standards and protocols. It has a total annual budget of approximately $1.5 million.[11] It provides tools for its members to evaluate energy efficiency activities. It does not actually do EM&V evaluations of programs, but rather updates protocols and provides valuable technical support.[12] The work conducted by the RTF is not the full gamut of EM&V activities conducted by individual utilities in the member northwest states. There is no basis for assuming that the RTF process or methodologies should provide a template for California's EM&V, or specifically for an incentive mechanism that results in ratepayer funding of up to $80 million per year.

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[9] If money is spent on a resource program, then almost by definition it will achieve the savings as forecast using *ex ante* numbers. The level of savings will depend on program participation, which is closely related to resource program spending.
[10] TURN was unable to completely search the record in this proceeding, so we cannot ascertain all the information concerning the RTF.
[11] See, RTF 2013-2015 Work Plan, available at http://rtf.nwcouncil.org/workplan/
[12] See, for example, the RTF 2013-2015 Business Plan, available at http://rtf.nwcouncil.org/workplan/Final-2013BusinessPlan_102512.pdf

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3. C&S Savings

NRDC appears to be the only party recommending that C&S savings be counted towards resource savings, rather than incorporated in the management fee structure. NRDC notes that C&S savings are extremely cost effective and a large part of the forecast savings. NRDC claims that if utilities cannot count C&S savings toward the resource program savings component, they will have a perverse incentive to "keep measures in programs, even if it would be more cost-effective and effective to capture savings through C&S."[13]

TURN presumes that NRDC is saying that because C&S improvements raise the bar for program measures, the utilities will not be as diligent or helpful in performing the work that they (and their hired consultants) do to assist the CEC with developing and writing new building and appliance standards.

TURN certainly agrees with the notion that one should guard against perverse incentives. However, we explained in our opening brief why the attribution of C&S savings is extremely uncertain due to the problems estimating compliance rates. It would be fundamentally unfair and unjust to force ratepayers to pay large incentives for such uncertain savings. A management fee provides a reasonable alternative. If the Commission determines that having one entity be in charge of both developing and upgrading standards as well as implementing programs designed to achieve savings above those standards, then we should redirect the $25 million for C&S work to different entities.

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Respectfully submitted,

By: __________/s/_______________

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[13] NRDC, p. 8.

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