**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)

AMENDED OPENING COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 M) ON PROPOSED DECISION ADOPTING EFFICIENCY SAVINGS AND PERFORMANCE INCENTIVE MECHANISM

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August 19, 2013

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I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Pacific Gas and Electric Company (PG&E) submits these amended opening comments on the Proposed *Decision Adopting Efficiency Savings and Performance Incentive Mechanism* of Administrative Law Judge Pulsifer dated July 26, 2013 (PD) which was previously filed on July 15, 2013. An error was found and corrected in the first table labeled, "Cap as a % of Budget."

PG&E appreciates that the PD continues to signal the Commission's strong endorsement of energy efficiency as the first resource in the loading order and supports long-standing state policy to provide the Investor-Owned Utilities (IOUs) with a shareholder incentive to encourage energy efficiency investments.

PG&E proposes modifications to the resource portion of the mechanism and to the *ex-ante* review (EAR) incentive mechanism to increase simplicity, transparency and provide earnings that are commensurate with national averages for utility energy efficiency portfolio earnings.[1/] PG&E recommends the final decision:

- Increase the earnings potential to be more consistent with the national average;
- Utilize the Commission's established *ex ante* processes and procedures to calculate earnings, rather than require *ex-post* adjustments;
- Utilize gross rather than net savings to avoid penalizing successful market

1/ PG&E proposes no changes to the portions of the Energy Savings and Performance Mechanism (ESPI) mechanism applicable to incentives for Codes and Standards advocacy and non-resource programs.

transformation initiatives;

- Apply the average existing useful life (EUL) factors approved for the IOUs' portfolios rather than the values the PD acknowledges may not be achievable;
- Amend the proposed *ex-ante* performance metrics to ensure additional clarity and more objectivity; and
- Clarify the timing of the incentive payments and the schedule for filing incentive claims.

II. DISCUSSION

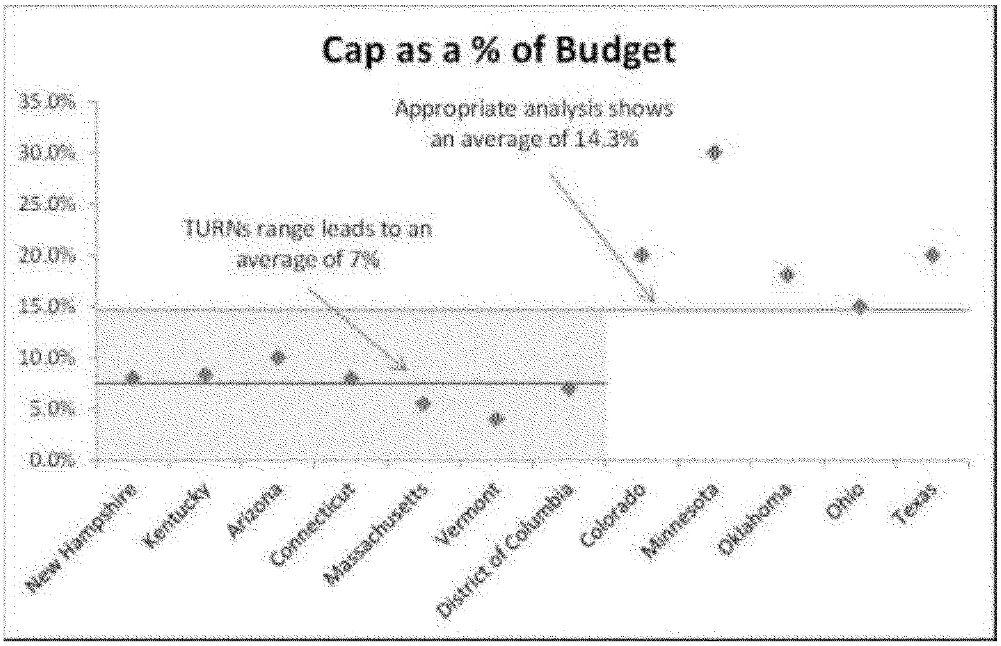
A. The Maximum Earnings Potential Should Be Increased To Be Consistent With The National Average.

The PD would adopt the Utility Reform Network's (TURN's) conclusion that the nationwide cap on earnings across energy efficiency portfolios is 7 percent of budget rather than the American Council for an Energy Efficient Economy's (ACEEE's) conclusion in its report that the average cap is 12-13 percent.[2/] TURN's analysis is flawed and result driven. TURN inappropriately removed states with the highest earnings as "outliers" and left in states with the lowest earnings, artificially reducing the "average" cap. While PG&E agrees with the PD that the amount of the earnings cap is a judgment call, such judgment should be based on a transparent and unbiased analysis of national averages. The PD should be revised to use the national average cap as determined in the comprehensive ACEEE study of 12-13 percent, rather than TURN's proposed revision to that study.

The charts below showcase the national average as calculated by TURN and a more appropriate calculation of a national average using the ACEEE report. The ACEEE report states the national average for incentives is 12-13 percent of budget. If the value were recalculated to use only data for mechanisms that compare incentives to budget levels, the average would be

2/ PD, p. 26 "Therefore, we believe a cap of 7% of EE budgets for California IOUs, as calculated by TURN, offers the most accurate measure of comparison with other states."

14.3%. However, PG&E supports using the ACEEE report average of 12-13% as the best representation of a national average.[3/]



	TURNs Analysis	ACEEE values plus TURNs added values	ACEEE only values
New Hampshire	8.0%	8.0%	8.0%
Kentucky*	7.5%	8.3%	8.3%
Arizona	10.0%	10.0%	10.0%
Connecticut	8.0%	8.0%	8.0%
Massachusetts	5.5%	5.5%	5.5%
Vermont*	4.0%	4.0%	
District of Columbia*	7.0%	7.0%	
Colorado		20.0%	20.0%
Minnesota		30.0%	30.0%
Oklahoma		18.1%	18.1%
Ohio		15.0%	15.0%
Texas		20.0%	20.0%
Average	**7.1%**	**12.8%**	**14.3%**

Moreover, the expected earnings calculated based on the budget for PG&E under the PD would be **8.3** percent not **9.1** percent, as incorrectly calculated in the PD.[4/] This amount is well below the national average.

3/ The District of Columbia and Vermont are not listed in ACEEE's report and the source data cited by TURN is TURN. TURN calculated Kentucky by averaging 10%, 10% and 5% to be 7.5%, it is 8.3%. Oklahoma incentive was fixed at $2.7 M for 2010. $2.7 M out of 2010's program budget of $14.9 M budget is 18.1%.

4/ Using the mechanism structure maximum earnings for PG&E would be $68.6 M out of a budget of $823.9 M. This calculates to 8.3%, not 9.1%.

The PD should be revised to increase the lifecycle cap on earnings from 8 to 13 percent to adopt a mechanism that is more consistent with the national average. (PD, p. 93.) This change would result in a cap for PG&E of 12.2 percent rather than 8.3 percent. A cap that is consistent with the national average is appropriate given the complexities of the California market and the design elements which make it difficult to achieve the maximum earnings with the proposed mechanism's structure.

B. The Incentive Should Solely Be Calculated Using *Ex-Ante* Savings Estimates Rather Than a Mix of *Ex-Ante* and *Ex-Post*.

The PD moves in the right direction to limit the savings that are subject to an *ex-post* analysis, but should be further revised to calculate all savings based on *ex-ante* estimates. The PD would award the IOUs incentives for savings for deemed measures or an IOU-submitted non-DEER workpaper that Energy Division believes are "**sufficiently certain**" on an *ex-ante* basis. (PD, p. 51.) However for all custom projects and for any uncertain parameters in the IOUs' workpapers identified by Energy Division during the portfolio implementation period, the savings would be subject to *ex-post* verification to calculate earnings. (*Id.*) *Ex-ante* savings values represent the best available information Energy Division possesses at the time the portfolios are assembled and approved by the Commission. The *ex-ante* savings values take into account all available information from completed *ex-post* reviews of prior years. While PG&E does not always agree with the adopted *ex-ante* values, PG&E understands that they represent the best judgment of Energy Division based on available data at the time of approval of the portfolios. As the Commission considers these *ex-ante* inputs **sufficiently certain** to approve the energy efficiency budgets and portfolios, they should also consider them **sufficiently certain** to evaluate the results of the portfolio.

Since the 2006-2008 program cycle, the Commission has established processes intended to ensure that *ex-post* information from the prior cycle flows timely into the establishment of *ex-ante* values for the next cycle, including the use of DEER values, approved workpapers and up-front Custom Project savings in D. 09-09-047, D. 11-07-030, and D. 12-05-015. These improvements include timelier DEER releases and workpaper approvals, a set procedure for establishing *ex-ante* savings values for custom projects and a more robust process for mid-cycle workpaper approvals and workpaper updates.

Due to the ongoing emphasis the Commission has placed on timely incorporation of new information into *ex-ante* values, these values which are used to approve the IOUs' portfolios should be considered **sufficiently certain** to be used in evaluating how well the IOUs implemented them.

The PD elects to use both the established *ex-ante* methods as well as *ex-post* true-up, which will not shift the debate to the beginning or end of the portfolio period, as the PD suggests. (PD, p. 55). Instead, examining savings estimates twice would foster debate at the beginning and end of the portfolio cycle. The PD should be revised to instead use the established *ex-ante* practices to lock down the DEER, non-DEER workpaper and Custom Project savings values as established in D.11-07-030[5/] and D. 12-05-015.[6/]

PG&E notes that parties have placed significant emphasis on the development of the Custom Project Review Process since its inception. However, the process is time consuming for IOUs, Energy Division staff, third parties, and customers. If the Commission does not consider the savings values resulting from this process to be sufficiently reliable to calculate the incentive awards, PG&E questions whether the process is worth the investment of time and resources it currently requires.

C. The PD Should Use Gross as Opposed to Net Savings To Promote Market Transformation, a Commission Recognized Goal.

The PD also proposes to calculate the savings on a net rather than gross basis to exclude “free riders.” (PD, p. 37.) The method proposed in the PD is not aligned with the Commission’s goals to promote Market Transformation. PG&E recommends that gross savings be used instead

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5/ Attachment B to D. 11-07-030 is the "Custom Project Review Process. Energy Division Process for Review of Investor Owned Utility Customer Measure Ex Ante Values."

6/ See D. 12-05-015, pp. 326-332 for a discussion of the workpaper submission process.

of net savings to align with Commission goals. *Ex-post* net-to-gross (NTG) values are established through studies that typically occur at the end of or after the program cycle. The timing of the studies means that people are asked questions about their behavior and motivations after they may have been influenced by the program to change their behavior and after they were exposed to market factors that may have influenced their choices. This result would naturally lead to lower NTG results than would have been obtained had the evaluations been conducted at the start of the program cycle before the customer was exposed to the programs. The fact that NTG values decline when programs are run is actually an indicator of program success, but, in practice, is penalized under this proposed ESPI mechanism. Evaluating results on a net basis would not only fail to properly reward IOUs for market transformational efforts, but would also penalize the IOUs for successfully transforming the market by driving measures towards standardization and eventually into code. PG&E strongly recommends using gross savings values as they align with how the Commission goals are set, on a gross basis, as well as with the broader long-term goals of Market Transformation.

If the Commission decides to utilize NTG in the mechanism, PG&E recommends two critical changes to the way NTG is used. First, the NTG values for all measures should be established ex-ante and not revised ex-post. This would encourage utilities to aggressively pursue market transformation objectives without fear of an after-the-fact elimination of savings due to success in making customers aware of the need for change. Second, the Commission should not use a "stretch" NTG of .8 in the coefficient calculation of the incentive per kwh/kw/therm, but should instead use the NTG values on which the portfolios are based. The Commission approved inclusion in the 2013-2014 cycle of many measures with NTG values lower than .8, apparently intending that these measures be offered. It is inconsistent with the Commission's recent approval of the portfolio to now insert an objective into the ESPI decision which encourages the utilities to remove these measures.

D. The Expected Useful Life Values Should Be Tied To The Realistic and Approved Values in the IOUs' Portfolios.

The PD proposes to use stretch Expected Useful Life (EUL) values in the coefficient calculation of the incentive per kwh/kw/therm rather than the values on which the portfolios are based, even though it acknowledges that these values are unachievable, to "stretch the IOUs' capabilities and efforts in program planning and implementation." (PD, p. 38.) The PD should be revised to instead use EUL values based on those approved with each IOU's respective application as these are the realistically achievable yet aggressive portfolios the IOUs proposed and the Commission approved. The Energy Division's DEER values and approved IOU workpapers show that these stretch goals are unrealistic and unreasonable to attain. The justification for these unrealistic EULs – that they somehow influence the IOUs' program planning and execution – does not support using these EULs for the 2013-2014 period given that: (1) the IOUs were required to file their proposal more than a year before the EULs would be adopted in the decision and are thus too late to influence program planning for this cycle; and (2) only two-thirds of the portfolio cycle will remain once the decision is adopted, leaving little ability to switch to higher EUL measures.

For these reasons, PG&E recommends the Commission further align the incentive mechanism with the approved portfolios by rewarding behavior aligned with superior execution of the approved portfolios, rather than expectations that are detached from the Commission-approved values.

E. The *Ex-Ante* Performance Metrics Should Be Amended To Provide Additional Clarity And More Objectivity.

PG&E is not a proponent of the *ex-ante* behavior ratings mechanism, as stated in previous comments, although it appreciates the benefits of collaboration with Energy Division and other parties to determine the best savings estimates. PG&E appreciates that the number of proposed metrics has been reduced to 24 in the PD. The underlying purpose of the *ex ante* behavior mechanism is to ensure that the appropriate steps are taken when designing savings values. These metrics should be as clear as possible to allow IOUs to be reasonably measured against clear goals and remove any disputes about the *ex-ante* review scores. PG&E suggests further clarification of the proposed metrics in Appendix A to these comments to provide additional objectivity and transparency to the metrics, ensuring alignment of the IOUs' and Energy Division's expectations.

F. The Timing of the Incentive Payments Should Leverage Pre-existing Processes and Be Clearly Laid Out for All Aspects of the Mechanism.

PG&E shares the objective in the PD of making the ESPI process simple and clear. To add clarity around the schedule, better leverage existing processes, and reduce the number of advice letters required to one per year, PG&E proposes some edits to the process and timeline in the attached Appendix B. This modified timing leverages the existing IOU annual report submissions to evaluate both *ex-ante* and *ex-post*[7/] savings, allows time for the annual audit to be completed for the Codes and Standards, non-resource and *ex-ante* review portions of the mechanism, and allows for the performance scoring process to be completed prior to the annual advice letter filing.

G. Minor Clerical Errors in the PD.

Minor clerical updates should be made in the PD. Energy savings should be stated in GWh instead of KWh. (PD, p. 4.) The lifecycle MWs should be adjusted to state MW-yr., as unlike GWh and Therms, MWs are not cumulative. (PD, Attachment 1.)

H. Further PD Clarifications and Updated Calculations.

Appendix C includes PG&E's proposed edits to the Findings of Fact, Conclusions of Law, and Ordering Paragraphs.

7/ PG&E continues to support an *ex ante* only mechanism and this timing could be used to deliver *ex ante* true-up payments following installation rate verification in the PY+2 payment.

III. CONCLUSION

PG&E thanks Commissioner Ferron and ALJ Pulsifer for their support of the IOUs' energy efficiency programs and requests that the Proposed Decision be modified as proposed by PG&E's comments to further align the mechanism with the Commission's goals and directions.

Respectfully submitted,

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August 19, 2013

Appendix A
Suggested Revisions to *Ex Ante* Implementation Scoring Metrics
(Revised from PD Attachment 7)

	Metric	**Weight**	**Custom Project Benchmarks**	**Workpaper Benchmarks**	**Comments**
1a	Timeliness of action in the implementation of ordered ex ante requirements (e.g., A.08-07-021, D.11-07-030, D.12-05-015, etc.) in the pre- submittal/ implementation phase: Timing of disclosure in relation to reporting	5	(1) Percentage of projects in quarterly or annual claims that were reported in the CMPA twice-monthly list submissions; (2) Percentage of projects for which there is a two weeks or less difference between the application date and the date reported in the CMPA; ~~(3) Percentage of tools used for calculations disclosed prior to use~~	(1) Fraction of deemed measures for which workpapers have been submitted to Commission prior to measure being ~~offered~~ claimedin the portfolio; ~~(the IOU might take the risk to launch early, before approval)~~; (2) Fraction of workpapers disclosed prior to or during work commencement and submitted upon completion rather than withheld and submitted in large quantity; (3) Fraction of workpaper development projects for new technologies submitted for collaboration versus total number of workpapers for new technologies submitted	PG&E recommends removing this third bullet as the Calculated Tool Archive is not yet fully up and running. Some tools are trivial, others are commonly accepted. It could be changed to "percentage of projects where tool is provided in submittal"
1b	Timeliness of action in the implementation of ordered ex ante	5	Percentage of projects which experience significant delay due to slow response to requests for readily	Percentage of workpaper reviews which experience significant delay[3] due to slow response	PG&E recommends removing this language as commonly requested by ED reviewer does

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	Metric	Weight	Custom Project Benchmarks	Workpaper Benchmarks	Comments
	requirements (e.g., A.08-07-021, D.11-07-030, D.12-05-015, etc.) in the post-submittal/ implementation phase: Timing of responses to requests for additional information		available ~~(or commonly requested)~~[2] additional information (higher percentage = lower score)	to requests for readily available ~~(or commonly requested)~~[4] additional information (higher percentage = lower score)	not mean the data is readily available. Not all customers can provide all necessary data quickly.
2	Breadth of response of activities that show an intention to operationalize and streamline the ex-ante review process	10	(1) Percentage of custom project submissions that show standardization of custom calculation methods and tools; (2) Development and/or update of comprehensive internal (to IOUs, third parties, and local government partners, as appropriate) process manuals/checklists and QC processes	Percentage of workpapers that address all aspects of the Uniform Workpaper Template (as described in A.08-07-021, or any superseding Commission directive)	PG&E requests the Commission provide a copy of the uniform workpaper template so as to minimize any misunderstandings.
3	Comprehensiveness of submittals (i.e., submittals show that good information exchange and coordination of activities exists, and is maintained, between internal program implementation, engineering, and regulatory staff to ensure common	10	Number of data requests for additional documentation for project information and/or reporting claims that support ex ante review activities (fewer requests = higher score).	(1) ~~Percentage of workpapers that include appropriate program implementation background as well as analysis of how implementation approach influences development of ex ante values;~~[6] (2) Percentage of workpapers which, on initial	PG&E recommends removal of this as this information is included in PIPs, not workpaper submittals. Adding the need for it in workpapers is duplicative and adds additional administrative burden

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	Metric	Weight	Custom Project Benchmarks	Workpaper Benchmarks	Comments
	understanding and execution of ex ante processes)			submission, were found to include all applicable supporting materials or an adequate[7] description of assumptions or calculation methods	
4	Efforts to bring high profile, high impact, or existing (with data gaps) projects and/or measures to Commission staff in the formative stage for collaboration or input	10	Percentage of large high impact projects or measures referred to CPUC early or flagged for review	Percentage of high profile program, or high impact measure, workpapers submitted for collaboration or flagged for review	
5	Quality and appropriateness of Project documentation (e.g., shows incorporation of Commission policy directives)	10	Frequency~~of inappropriate or inferior quality~~ of missing documentation on project eligibility, baseline determination, program influence, use of custom elements in projects, assumptions and data supporting savings, and project costs (higher frequency = lower score)	~~Frequency of inappropriate or inferior quality at the time of initial Commission staff review (higher frequency = lower score)~~Workpaper includes all sections of Uniform Workpaper Template fully completed	PG&E recommends removing this language as ED has not provided IOUs with a way to determine the quality level or appropriateness of data assumptions. Additionally, this has a negative consequence of hindering emerging and advanced technologies from being introduced into the portfolio.
~~**6a**~~	~~Depth of IOU quality control and technical review of ex ante submittals: Third party~~	~~5~~	~~Quality of custom project estimates prepared by customers, third parties, and local government partners~~	~~Quality of workpapers prepared by consultants, third parties, and local government partners~~	

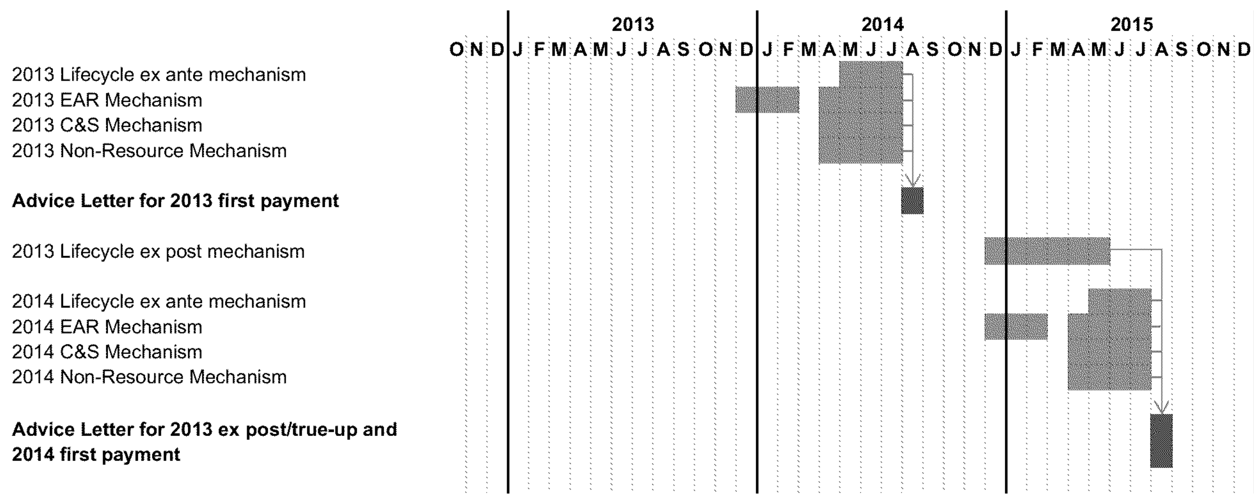
	Metric	Weight	Custom Project Benchmarks	Workpaper Benchmarks	Comments
	~~oversight~~		~~submitted by IOUs~~	~~submitted by IOUs~~	
6b	Depth of IOU quality control and technical review of ex ante submittals: Clarity of submittals and change in savings from IOU-proposed values not related to M&V	5	(1) Percentage of reviews that required over three reviews or data requests; (2) Percentage change from IOU-proposed savings and ED-approved savings[8] (higher percentage = lower score)	(1) Percentage of workpapers which required changes to parameters of more than 10% or required substantial changes to more than two parameters among UES, EUL/RUL, NTG, impact shape, or costs; (2) Percentage change from IOU-proposed values to ED-approved values (higher percentage = lower score)	PG&E recommends this language for 6 and not having a 6a and 6b.
7	Use of recent and relevant data sources that reflect current knowledge on a topic for industry standard practice studies and parameter development that reflects professional care, expertise, and experience	10	Percentage of custom projects that use data sources and methods per ~~standard research and evaluation practices~~ <u>commonly accepted engineering practices.</u>	Percentage of workpapers with analysis of existing data and projects that are applicable to technologies covered by workpaper	PG&E recommends modifying this language as the IOUs must run these projects as a business and research and evaluation on every project seldom is practical and often is cost prohibitive. A more acceptable approach is using common engineering practices for which IOU engineers are California certified.

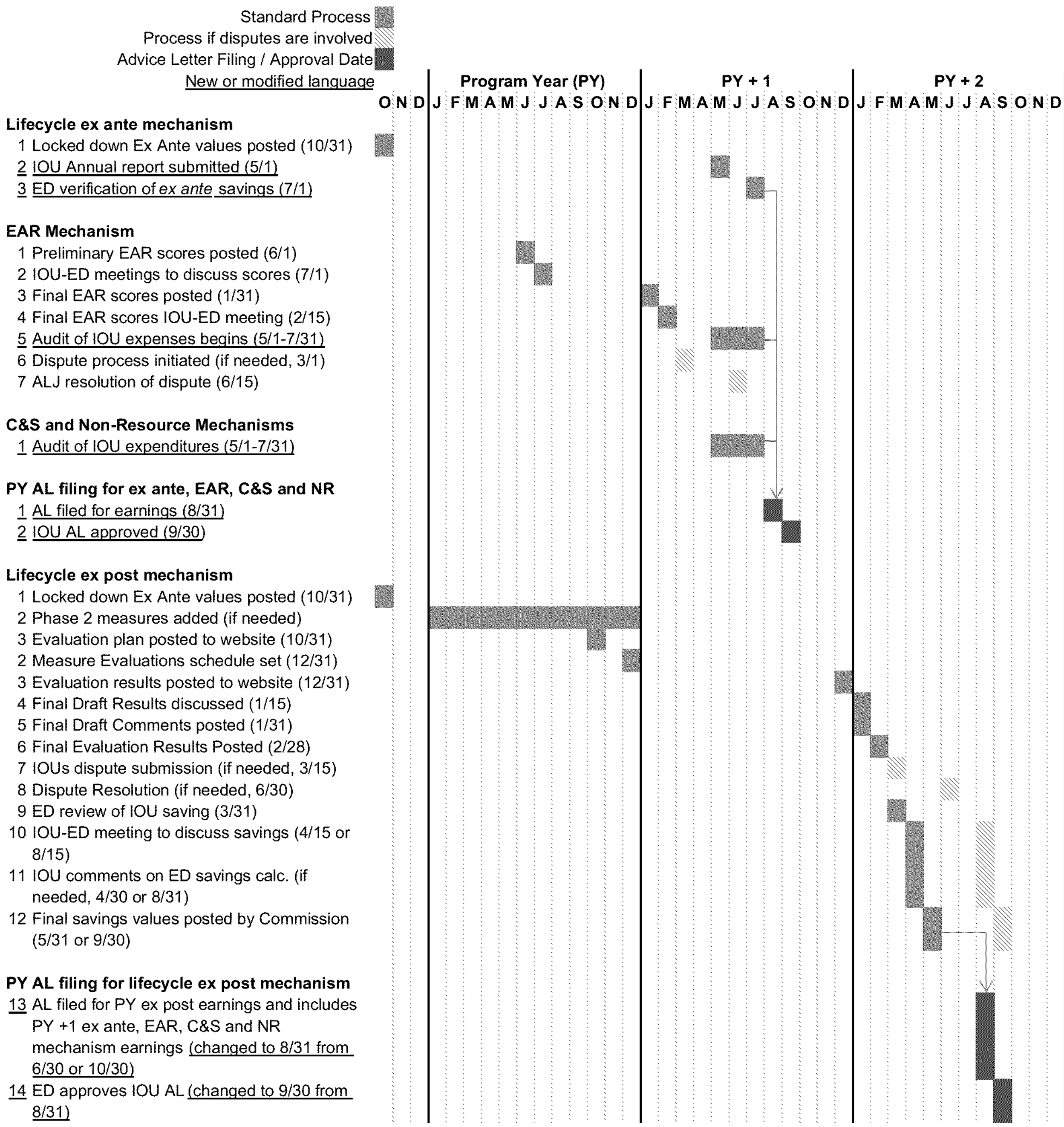
Appendix B

Proposed Revision to the Annual Process for Submission, Review and Resolution of Incentive Award Claims

The timeline below displays how the Advice Letter process could work. It shows the duration expected for each step of the mechanism. With correct alignment of the underlying work, the mechanism can culminate in one August 31 Advice Letter filing by the IOUs, rather than multiple filings each year. The structure proposed utilizes much of the PDs proposed structure, adds some clarifying details, and leverages some of the Commission's already established reporting and processing procedures. The second page of this Appendix is a detailed view of the mechanism that incorporates most of the details from Attachment 6 in the PD, and adds clarifying steps for the lifecycle, C&S and Non-Resource portions of the mechanism.

Summary of Advice Letter Process Flow




Standard Process
Process if disputes are involved
Advice Letter Filing / Approval Date
New or modified language
Program Year (PY)
PY + 1
PY + 2
O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D
Lifecycle ex ante mechanism
1 Locked down Ex Ante values posted (10/31)
2 IOU Annual report submitted (5/1)
3 ED verification of ex ante savings (7/1)
EAR Mechanism
1 Preliminary EAR scores posted (6/1)
2 IOU-ED meetings to discuss scores (7/1)
3 Final EAR scores posted (1/31)
4 Final EAR scores IOU-ED meeting (2/15)
5 Audit of IOU expenses begins (5/1-7/31)
6 Dispute process initiated (if needed, 3/1)
7 ALJ resolution of dispute (6/15)
C&S and Non-Resource Mechanisms
1 Audit of IOU expenditures (5/1-7/31)
PY AL filing for ex ante, EAR, C&S and NR
1 AL filed for earnings (8/31)
2 IOU AL approved (9/30)
Lifecycle ex post mechanism
1 Locked down Ex Ante values posted (10/31)
2 Phase 2 measures added (if needed)
3 Evaluation plan posted to website (10/31)
2 Measure Evaluations schedule set (12/31)
3 Evaluation results posted to website (12/31)
4 Final Draft Results discussed (1/15)
5 Final Draft Comments posted (1/31)
6 Final Evaluation Results Posted (2/28)
7 IOUs dispute submission (if needed, 3/15)
8 Dispute Resolution (if needed, 6/30)
9 ED review of IOU saving (3/31)
10 IOU-ED meeting to discuss savings (4/15 or 8/15)
11 IOU comments on ED savings calc. (if needed, 4/30 or 8/31)
12 Final savings values posted by Commission (5/31 or 9/30)
PY AL filing for lifecycle ex post mechanism
13 AL filed for PY ex post earnings and includes PY +1 ex ante, EAR, C&S and NR mechanism earnings (changed to 8/31 from 6/30 or 10/30)
14 ED approves IOU AL (changed to 9/30 from 8/31)

PROPOSED REVISIONS TO ADVICE LETTER SUBMITTAL PROCESS IN PD
ATTACHMENT 6

Overview

The purpose of this document is to set forth a clear procedure to follow in the annual ESPI Advice Letter submittals.

The annual ESPI Advice letter filing will typically involve payments for the previous two years of program operations. The first ESPI Advice letter filing, however, will not include an ex post portion as that requires EM&V verifications. The advice letter will have 5 sections to it including the ex-ante lifecycle savings, non-resource program expenditures, codes and standards program expenditures, ex ante review and the ex post lifecycle savings. The ex post lifecycle savings will be based on program operations that occurred two years ago while the other aspects will be based on the prior years' program operations.

The resource program savings award component of the ESPI will be calculated based on both ex ante and ex post parameters. Energy and demand savings resulting from the majority of deemed measures will be calculated on an ex ante basis and a preliminary incentive award for these savings will be distributed in the year following program implementation (i.e., PY +1).

Additionally, all custom projects and a specific subset of deemed measures with parameters identified as highly uncertain will not be locked down during the portfolio cycle and will be subject to ex post review in order to determine the applicable savings award. The award for the portion of resource program savings subject to ex post review and the true-up of the preliminary ex ante savings incentive based on verified measure counts will be distributed two years following the relevant program year (i.e., PY +2). This attachment details the processes and timelines by which the ex-ante and ex post savings claims will be determined and awarded.

Ex Ante Savings Claims

Locked down savings parameters will be used to determine the ex-ante savings claim for deemed measures that are not on the "high uncertainty measure list" at the beginning of each program year (or not added to the list during the program year, in the case of "Phase 2" or "mid-cycle" non-DEER workpapers).[1]

1. By ~~June 30~~ August 31 of the year following the program year (i.e., PY +1), each utility will file an annual ESPI advice letter for Energy Division disposition pursuant to section 7.6.1 of General Order 96-B, addressing the ex-ante savings award claim. In the advice letter, each utility will calculate its ex ante savings claim for the previous PY using the locked down values and their installation rates for each measure (i.e., measure counts).

2. Energy Division will review IOU data submitted May 1st in the annual IOU data submittal and coordinate with IOUs in verifying ex ante energy savings data. The approved values will be given to IOUs by July 1st. ~~the 31 advice letter for the preliminary ex ante savings incentive as practicable as possible thereafter, making any revisions~~

~~to the IOU claim estimate that result from errors identified in the IOUs' ex ante parameter values. If it does not approve the advice letter, Energy Division will take other appropriate action under General Order 96-B.~~

3. IOUs will include the Commission staff approved savings values in their August 31st Advice letter to the Commission. Future adjustments to the s~~taff will adjust the~~ preliminary ex ante values will occur in the following years ESPI Advice Letter. This true-up ~~payment to~~ accounts for any errors in measure count (or ex ante parameter input errors not identified when the preliminary award was approved) in the subsequent year's annual ESPI advice letter, after the ex post evaluation for that PY is completed.

Non-Resource and Codes & Standards Claims

1. IOUs will submit all cost data to Energy Division in their May 1st annual report submittal.
2. Energy Division's auditing group will perform an audit starting May 1st and completing the audit by July 31st
3. IOUs will include the approved expenditures for the calculation of their Non-Resource and Codes & Standards portion of the mechanism in their August 31st ESPI Advice Letter filing.

Ex Ante Review

1. By June 1 of each program year (PY), Commission staff, for their EAR contractors, will post preliminary EAR performance scores to the deeresources.info website. (Note that because the ESPI is being developed during the 2013 PY, this step is delayed for PY2013. Preliminary EAR performance scores for the first half of PY2013 are expected in the fall of 2013.)

2. By July 1 of each PY, Commission staff will hold a meeting (by phone or in person) with each utility to discuss the preliminary EAR scoring results. This meeting is not intended to be a forum for the utilities to dispute their scores, but rather for Commission staff to explain their concerns, and for the IOUs and commission staff to identify any possible factual errors or miscommunications in the use of the metrics and areas where utilities' scores can be improved. (Note that this step is expected in the fall of 2013 for PY2013.)

3. By January 31 of PY +1, Commission staff, or their EAR contractors, will post final EAR performance scores to the deeresources.info website.

4. By February 15 of PY +1, Commission staff will hold a meeting (by phone or in person) with each utility to discuss the final EAR scoring results. This meeting is not intended as a forum for the utilities to dispute their scores, but rather to discuss each utility's EAR performance through the PY and any potential changes in performance since the progress report, as well as to identify any possible factual errors or miscommunications in the use of the metrics.

5. If utilities wish to dispute how the EAR performance scores were calculated, they may initiate the Dispute Resolution process described in D.10-04-029 by submit their concern(s) to the ALJ by March 1 of PY +1.

6. The ALJ will resolve any disputes by June 15 of PY +1.

7. By August 31 of PY +1, each utility will file its annual ESPI advice letter for Energy Division disposition pursuant to section 7.6.1 of General Order 96-B addressing the EAR performance incentive award claim.

8. In the advice letter, each utility will calculate the EAR incentive award claim using their respective EAR performance score as a percentage of the total EAR performance component cap. For instance, if a utility scores 86 out of 100 for EAR performance, their EAR incentive award claim would equal 86% * [2% of resource program expenditures].

Ex Post Savings Claims

PG&E proposes no edits to paragraphs 1-13 of the ex-post savings claim description.

14. IOUs will include the verified Energy Savings values for the ex post portion of the lifecycle mechanism in their annual August 31st ESPI Advice Letter ~~Within 30 days of issuance of the Final Savings Performance Statement (i.e., by June 30 of PY+2, or October 30 if a dispute was addressed), each utility will file an advice letter~~ for Energy Division disposition pursuant to section 7.6.1 of General Order 96-B. ~~The advice letter will address the ex post savings award claim based on the Final Savings Performance Statement.~~

15. Energy Division will approve the advice letter by ~~August 31~~ September 30 of the PY or as practicable as possible thereafter so long as it correctly incorporates the results of the Final Savings Performance Statement. If it does not, Energy Division will take other appropriate action under General Order 96-B.

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Appendix C

Proposed Changes to Findings of Fact, Conclusion of Law, And Ordering Paragraphs

FINDINGS OF FACTS

6. The ESPI provision to reward performance in complying with the Commission's EAR processes helps to ensure that Commission established processes ~~due diligence and engineering rigor is~~ are applied in developing locked-down ex ante values. ~~Incentive earnings for the EAR component calculated based on the list of performance metrics set forth in Attachment 7 for which points are vetted and scored as prescribed in Attachment 5, offer a meaningful component of an overall incentive mechanism.~~

7. ~~Based on the scoring protocols adopted in Attachment 5, as designed to offer earnings up to 2% of the budget spent for resource savings, the resulting EAR incentive earnings potential, in conjunction with~~ The ~~other~~ ESPI components as prescribed in accordance with Ordering Paragraph 3, offer~~s~~ a reasonable level of incentives.

9. Given the complications involved in measuring savings, incentives paid as a management fee of 10% of expenditures for C&S advocacy provides an alternative ~~a reasonable~~ means of motivating and rewarding utility program accomplishments.

15. The target EUL of 12 years for electric measures and 15 years for natural gas measures and NTG values of 0.8 are not representative of recent experience and may not be achievable in the 2013-2014 portfolio. ~~The use of these target EUL and NTG values is appropriate, however, in calculating net lifecycle goals for ESPI purposes to emphasize the importance of challenging IOUs to stretch their capabilities to reach these higher standards of performance over time.~~

16. The net lifecycle goals set forth in Attachment 1 provide an appropriate basis for calculating incentive earnings formulas, using an earnings cap for resource savings equal to 10~~8~~% of the EE resource budget~~, as prescribed in Attachment 1~~.

19. Correlating incentive earnings potential with ~~up to~~ a cap aligned with the national average ~~of 9.1% of the EE budget~~ offers a reasonable scaling of earnings opportunities, taking into account similar earnings allowances offered in other jurisdictions, associated risks in relation to incentive earnings, and protection of ratepayer from funding unreasonable costs. The national average is approximately 12-13 percent of the budget.

23. ~~Attempting to shift from an ex post to an ex ante focus in determining incentive earnings did not expedite or simplify the determination of incentive payments during the 2010-2012 cycle, but only moved the debate from the back end (with ex post evaluations) to the front end of cycle (where ex ante values are determined).~~ Incentive earnings in the 2010-2012 program cycle did not utilize savings values but were based on Utility expenditures.

31. Providing a preliminary payment ~~for ex ante "deemed" resource savings incentive award,~~ with a true-up payment in the following year when ~~ex post evaluation results are complete, will guard against the potential of overpaying incentive claims resulting from IOU claim errors in~~ measure counts and/or incorrectly applied ex ante parameter values are verified is a reasonable guard against potential overpaying of incentives.

32. The procedures for the submission, review and approval of ESPI earnings claims, set forth in Attachment 6 of this decision are a reasonable starting point for the development of a more complete process.

PROPOSED REVISIONS TO CONCLUSIONS OF LAW

5. Calculations of resource efficiency savings achievements used to determine ESPI earnings awards should be subject to independent verification by Commission Staff ~~and our EM&V contractors, based on adopted EM&V protocols as prescribed in Attachment 2 to this decision~~.

PROPOSED REVISIONS TO ORDERING PARAGRAPHS:

3. The Efficiency Savings and Performance Incentive mechanism shall incorporate opportunities for performance incentives in the following categories.

A. Energy Efficiency Resource Savings:

An incentive is offered to encourage energy efficiency resource savings, paid as a combination of ex ante "locked down" savings results and ex post verified counts.. The methodology for measuring resource savings is modified from previous cycles to focus on net lifecycle savings. Incentives for EE resource savings are capped at 108% of resource program expenditures, minus funding dedicated to administrative activities, codes and standards programs, EM&V, and CCA/RENs.

. . . . .

4. In accordance with the schedule set forth in Attachment 6, an annual Tier 3 advice letter shall be filed for approval of incentive claims in accordance with the schedule adopted in this decision. The first annual advice letter will occur beginning in 2014, and continuing annually thereafter, to claim recovery of Efficiency Savings and Performance Incentive (ESPI) incentive elements in the following sequence:

(a) Claims for ESPI awards covering the first program year (PY) of each cycle shall be made during the first following year (PY +1) for the following ESPI elements:

- Non-Resource program management fee
- Codes and Standards program management fee
- Ex-ante performance award
- Preliminary ~~ex ante locked down deemed measure~~ savings award

(b) Claims covering the first program year of each cycle shall be made in the second following year (PY +2) for the following ESPI elements:

- ~~Custom projects~~
- ~~Ex post verified deemed measure savings~~
- True up of preliminary ex ante lockdown award based on verified counts.

~~8. The schedule for processing, review, and approval of resource savings awards subject to ex post evaluations set forth in Attachment 6 is adopted.~~

13. Earnings rate coefficients shall be calculated as the amount that correlates incentive earnings potential for resource savings with a cap of thirteen percent ~~8%~~ of the approved resource program budget for each investment-owned utilities, excluding funding for administrative activities, Evaluation, Measurement and Verification, codes and standards programs, and the Regional Energy Network/Community Choice Aggregation programs not

administered by the utilities. The coefficients shall be applied in accordance with the procedures and based on the values set forth in Attachment 1.