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)

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

ANN H. KIM
MARY A. GANDESBERY

Law Department
Pacific Gas and Electric Company
P. O. Box 7442
77 Beale Street, MSB30A
San Francisco, CA 94120
Telephone: (415) 973-0675
Facsimile: (415) 973-5520
E-Mail: MAGq@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

August 20, 2013

I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Pacific Gas and Electric Company (PG&E) replies to parties' opening comments submitted August 15, 2013 on the *Proposed Decision Adopting Efficiency Savings and Performance Incentive Mechanism* dated July 26, 2013 (PD).

PG&E and several other parties recommend changes to align the proposed incentive mechanism with the approved portfolios and reward the investor-owned utilities (IOUs) for superior execution of their approved portfolios, in alignment with the Commission's energy efficiency objectives. PG&E's reply addresses the following subjects:

A. The PD should be corrected to state that the national average cap on earnings is 12 to 13 percent as reported by the American Council for an Energy Efficient Economy (ACEEE) rather than the 7 percent figure calculated by the Utility Reform Network (TURN) and supported by the Division of Ratepayer Advocates (DRA).

B. PG&E agrees with San Diego Gas & Electric Company and Southern California Gas Company (the Joint Utilities), the Natural Resources Defense Council (NRDC) and Southern California Edison (SCE) that *ex-ante* values are appropriate to use to report savings and calculate the incentive awards.

C. If the Commission does not adopt a mechanism based solely on *ex-ante* values, PG&E agrees with SCE and the Joint Utilities that the PD should be revised to provide further clarity around the evaluation criteria to be used for the measures that will be subject to *ex-post* review. Further, as NRDC states, only completed evaluation measurement and verification (EM&V) studies should substitute for *ex-ante* values.

D. PG&E supports a mechanism that promotes successful operation of Commission-approved portfolios. Contrary to the DRA's assertions, the Commission should avoid inserting into the mechanism artificially high net-to-gross (NTG) ratios, stretch goals and cost-effectiveness thresholds that are not reflective of the recently approved energy efficiency portfolios. The mechanism should support superior execution of the approved portfolios, and encourage market transformation.

II. DISCUSSION

A. The PD, TURN and DRA Incorrectly Assert That The National Average Earnings Cap Is 7 Percent Rather Than 12 To 13 Percent.

PG&E agrees with DRA that "other jurisdictions' award caps should be used as a benchmark for setting one in California."[1] However, PG&E strongly disagrees with DRA that a cap of 7 percent of the EE budgets is the most accurate measure of comparison. As NRDC persuasively argues, the PD's proposed level of earnings is, "far below the national average" and relies on an "inaccurate point of comparison to other states."[2] The PD should be revised to correctly state that the national average cap for incentive mechanisms is 12-13 percent of budgets, as concluded in the ACEEE report which correctly uses all data rather than a cherry-picked assortment of data, to determine an average earnings cap.[3] PG&E's analysis in its opening comments calculates the correct average and points out where TURN incorrectly excluded other states with higher average earnings to calculate an arbitrarily-low average earnings cap.

Given the complexities of California's EE market, the diverse set of market participants, and the strong push for California to continue to be an EE industry leader, it is appropriate to have an average level of earnings that is consistent with the national average. A cap that is more consistent with the national average could be derived by increasing the lifecycle savings portion of the mechanism from 8 to 13 percent of budgets, which would result in a 12.2 percent cap.

B. *Ex-Ante* values Are The Most Appropriate To Evaluate the Utilities' Performance And Encourage Superior Performance.

Ex-ante values are the most appropriate values by which to evaluate IOU performance and energy savings. *Ex-ante* values are approved by Energy Division at the start of the current program cycle and reflect input from all available evaluations and studies of past program years. *Ex-ante* values indicate the Commission's perspective on the state of the market when the program cycle starts; *ex-post* values indicate how much the market has changed after IOUs' programs have influenced it. *Ex-post* values should be used to inform future program and portfolio design, not to restate history.

DRA asserts that, "timing concerns with ex post evaluations do not impede the IOUs'

---

[1] DRA, p. 12.
[2] NRDC, pp. 10-12.
[3] ACEEE, *Carrots for Utilities*, p. 10. (Jan. 2011) ("The cap is most frequently based on a percentage of program spending and ranges from 5% to 20% of program spending with an average of 12% to 13%.")

incentive to maximize savings."[4] DRA misses the point that the IOUs act on the market based on *ex-ante* information. The IOUs utilize available data on the current market - *ex-ante* information - to determine what level of incentives, budget and marketing to apply to drive further adoption of a given technology. This is a concept NRDC agrees with as it states, "The CPUC should use *ex-ante* net-to-gross ratios, by deciding up front what it expects would happen in the absence of the programs."[5] As these activities occur, the IOUs test the market to determine if program adjustments should be made, such as changes to measure mix or fund shifts, to maximize savings for customers. Finally, after these activities occur, the EM&V teams assess the market again, creating the *ex-post* information on the given portfolio. If IOU programs are successful, customers will be more aware and market penetration of the efficient technology will improve.

To retroactively apply the *ex-post* data to the beginning of the cycle would penalize IOUs for their market transformation efforts. For these reasons *ex-ante* values are the most appropriate values on which to base IOU performance as they demonstrate the IOU's ability to maximize customer energy savings based on the approved and **sufficiently certain** set of data used at the start of the program cycle.

C. If *Ex-Post* Adjustments Are Used, The PD Should Be Clarified To Include a Standard By Which Measure Are Deemed "Sufficiently Certain" and Specify Which Values Will Be Reviewed *Ex-Post.*

PG&E, like NRDC and the Joint Utilities, is concerned that the proposed mechanism will create disputes about which measures have "sufficiently certain" *ex-ante* values and will create controversy about the *ex-ante* values used to authorize the portfolios.[6] PG&E agrees with SCE and NRDC that the Commission should clarify criteria for determining what savings are "sufficiently certain."[7] PG&E anticipates that the creation of a collaborative forum to determine these values going forward, preferably one modeled after the Pacific Northwest's Regional Technical Forum, would be effective.[8] PG&E also agrees with SCE about how to determine whether the *ex-ante* values are sufficiently certain and believes that the extensive reviews by the

---

4 DRA, p. 6.
5 NRDC, p. 5.
6 NRDC, p. 4; Joint Utilities, p. 3.
7 SCE, pp. 4-5; NRDC, p. 6.
8 NRDC, p. 6; SCE, p. 5.

Energy Division that are undertaken in current *ex-ante* processes should be sufficient to allow all DEER, workpaper and reviewed custom projects to be deemed "sufficiently certain."

Additionally, as NRDC states, for measures that require an *ex-post* true-up, *ex-ante* values should be used if the Commission's contracted EM&V studies are not available sufficiently in advance of the date claims are due.[9] Energy Division's consultants' or other parties' own estimates should not be used as a substitute for professional EM&V reports.

While PG&E believes the mechanism should be based on *ex-ante* savings as determined in the Commission's current review processes, the options presented by SCE, the Joint Utilities and NRDC are also improvements to the mechanism as they focus on utilizing current processes to determine that *ex-ante* values are sufficiently certain for all or a majority of the portfolio.[10] Utilization of values that have received significant Commission review already are considered "sufficiently certain" to be relied on and used in portfolio planning and execution, and should be used in this mechanism as well. Parties' recommendations to utilize *ex-ante* DEER and non-DEER workpaper values[11] and values for reviewed Custom projects[12] would improve the mechanism.

D. DRA's Proposals For Stretch Goals, High Net-To-Gross Values and a Cost-Effectiveness Guarantee Contradict Approved Portfolio Goals.

DRA asserts that stretch goals for expected useful life (EUL) and net-to-gross (NTG) ratios are appropriate to encourage the IOUs to strive for long-term savings and that a cost-effectiveness threshold would encourage prudent program administration.[13] DRA's preferred goals for the EE portfolio, along with the perspectives of many other stakeholders, were appropriately considered in D.12-11-015 which adopted a balanced portfolio designed to meet many objectives. The IOUs' portfolios include a mix of highly cost-effective and some less cost-effective measures that are included because they support broader policy objectives, would transform the market, or would serve untapped market sectors or customer classes. As PG&E

[9] NRDC, p. 6.
[10] SCE, p. 4; Joint Utilities, p. 2; NRDC, p. 4.
[11] SCE, p. 5; Joint Utilities, p. 6.
[12] SCE, p. 5.
[13] DRA, pp. 5-7.

previously discussed,[14] a cost-effectiveness threshold would discourage the IOUs from operating certain non-cost-effective programs that the Commission required the IOUs to include in their portfolios after considering the input of many parties. Similarly, using 'stretch' EUL values and NTG ratios, as DRA supports, would artificially inflate an IOU's goals and would encourage the IOUs to abandon the pursuit of the balanced and approved portfolio design to achieve unrealistic goals weighted more heavily toward particular measures and customer segments. Additionally, as NRDC discusses, NTG ratios are counterfactual, notoriously difficult to measure, and should change during a portfolio cycle due to the programs' success in influencing the market. Therefore, it is appropriate to establish NTG ratios at the beginning of a program cycle to avoid penalizing the IOUs for successfully transforming the market.[15]

While PG&E continues to recommend the use of gross savings, if the Commission decides to use NTG adjustments, PG&E would support the varying approaches that SCE or NRDC recommend to lock-down NTG ratios for the cycle at reasonable levels.[16] If the Commission does not see these as reasonable approaches it should, at the least, adopt the Joint Utilities' recommendation to use a more appropriate NTG ratio of 0.7 for gas measures as those measures are routinely evaluated at lower NTG.[17] For the above reasons, PG&E recommends the Commission not use "stretch" EUL values and NTG ratios and, instead, use portfolio approved EUL and either gross savings or *ex-ante* NTG ratios which appropriately reward the IOUs for market transformation efforts and excellence in execution of their approved portfolios.

III. CONCLUSION

PG&E respectfully requests that the Proposed Decision be revised consistent with PG&E's recommendations in its opening and reply comments.

///

///

///

---

[14] PG&E reply comments, p. 6 (May 5, 2013).
[15] NRDC, p. 5.
[16] SCE, p. 8; NRDC, p. 5.
[17] Joint Utilities, p. 9.

Respectfully submitted,

ANN H. KIM
MARY A. GANDESBERY

By: /s/
MARY A. GANDESBERY

Law Department

Pacific Gas and Electric Company
P. O. Box 7442
77 Beale Street, MSB30A
San Francisco, CA 94120
Telephone: (415) 973-0675
Facsimile: (415) 973-5520
E-Mail: MAGq@pge.com

Attorneys for
PACIFIC GAS AND ELECTRIC COMPANY

August 20, 2013