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 (U 902 M) AND SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) REPLY COMMENTS ON PROPOSED DECISION ADOPTING EFFICIENCY SAVINGS AND PERFORMANCE INCENTIVE MECHANISM

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I. INTRODUCTION

San Diego Gas & Electric Company ("SDG&E") and Southern California Gas Company ("SoCalGas") (together referred to as the "Joint Utilities") respectfully submit reply comments on the Proposed Decision ("PD") Adopting Energy Efficiency Savings and Performance Incentive ("ESPI") Mechanism of ALJ Pulsifer in the above captioned proceeding.

II. THE JOINT UTILITIES SUPPORT THE PROPOSED DECISION TO PROVIDE SEPARATE EARNINGS RATE COEFFICIENTS FOR EACH UTILITY

Southern California Edison Company ("SCE") (at page 3) "recommends the ERC formula use eight percent of statewide IOU resource program budgets divided by statewide IOU savings goals in order to set a uniform earnings rate for each savings type." On the other hand, the PD (at pages 34 to 35) states, "We calculate separate earning rates for each IOU, and allocated among the three types of resource savings (i.e., electric usage (kWh), peak electric demand (MW), and natural gas usage (MMTherms). Each IOU will earn savings incentive awards as a function of EE savings realized, calculated by multiplying: (a) the respective earnings rate coefficient by (b) units of energy savings." Providing for individualized utility Earnings Rate Coefficients ("ERCs") is reasonable given that the PD imposes a higher expectation to deliver a portfolio with an average effective useful life of 12 and 15 years (for electric and gas, respectively) and an

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average net-to-gross ratio of 0.80 after the portfolio planning process has concluded. It challenges each utility to refocus its portfolio and resources to meet these requirements. Therefore, the Joint Utilities support the PD's recommendation to provide each utility their own ERCs as it allows each utility to meet its own stretch goals given the constraints of their own budgets. There is no inequity since the ERC's are based on each utility's earnings cap of the Resource Savings element of the ESPI but at the same time, allows the possibility for each utility to achieve its own earnings maximum if they meet the challenge the Commission has provided, that is, to meet their individual stretch lifecycle goals.

III. THE JOINT UTILITIES OPPOSE THE DIVISION OF RATEPAYER ADVOCATES ("DRA") PROPOSAL FOR AN *EX POST* COST-EFFECTIVENESS GUARANTEE

The Joint Utilities oppose DRA's proposal to implement a cost-effectiveness guarantee, measured on an *ex post* basis, as a threshold by which to achieve earnings. Inclusion of an *ex post* cost-effectiveness guarantee would increase complexity, subjectivity, and contentiousness, not decrease it which is an objective of the PD. As a result, the PD does not include this component as part of the ESPI. Should the Commission wish to include a cost-effectiveness guarantee as part of the ESPI, the Joint Utilities re-offer its original proposal that it be implemented on an *ex ante* basis, where the Commission can measure IOU performance relative to the approved plans. Such an approach is straightforward, transparent, and fair, and similar to how the Commission measures the success of the core IOU business. The IOU should be measured how effectively it was able to exceed its plan and not be held to evaluation metrics that are outside of IOU control. Furthermore, the cost-effectiveness guarantee should be measured using the Program Administrator Cost ("PAC") test, which values energy efficiency measure costs on level footing with other supply-side investments from a customer perspective.

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IV. THE JOINT UTILITIES SUPPORT THE ESPI IMPLEMENTATION TIMELINE PROPOSED BY PG&E

The Joint Utilities support the approach laid out in Appendix B of PG&E's Opening Comments as an appropriate means to create a streamlined ESPI process. The Joint Utilities support the PD's objective to establish a regular and reliable earnings process as a means to integrate earnings from energy efficiency activities as a core component of the utility business model that are recognized and valued by the investment community. The process put forth by PG&E would promote this objective as it would create a more clear and transparent timeline that, if followed, should result in an earnings claim and award by year end.

V. THE FINAL DECISION SHOULD CLARIFY WHICH PROGRAMS ARE INCLUDED IN THE RESOURCE AND NON-RESOURCE COMPONENTS OF THE MECHANISM

In SCE's comments (at page 9), they request that "The Final Decision should clarify which programs the CPUC will designate for Resource and Non-Resource programs." The Joint Utilities agree that this approach is the most optimal way to clarify which programs should be included in each of the components of the mechanism. For reference, SoCalGas categorized its programs and included them as Attachment A in the Opening Comments of the Joint Utilities.

Respectfully submitted

By *\/s/ Thomas R. Brill*

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