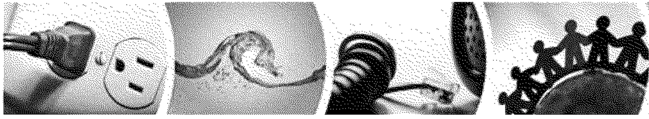
Exhibit 1



DRA
DIVISION OF RATEPAYER ADVOCATES

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Commission Action: Expected Sep 5, 2013 Agenda

Proposed Decision 2013-2014 Energy Efficiency Portfolios
Efficiency Savings and Performance Incentive Mechanism (ESPI)

DRA Position: The Commission should adopt the Proposed Decision (PD) with modifications to base Energy Efficiency incentive earnings solely from ex post evaluation results and reduce total award cap from 9.1% to 7% of EE budgets.

Summary of PD's Proposed Incentive Mechanism

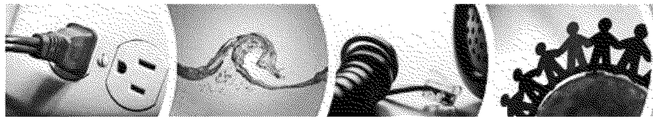
Total Magnitude: 9.1% of EE budget or $150 million

- **EE Lifecycle Resource Savings:** Awards up to 8% of resource program expenditures for achieving energy efficiency savings up to 110% of the established portfolio savings goals.
  - Actual savings are determined by a combination of ex post evaluation results and ex ante lock down values with CPUC staff to determine final split:
    - Ex Post: Sufficiently uncertain and custom measures
    - Ex Ante: Remaining measures
- **Ex-Ante Review (EAR) Process Performance:** Rewards up to 2% of all resource program expenditures based on conformance with CPUC's review of ex ante parameters.
- **Codes and Standards:** Management fee of 10% of C&S program expenditures.
- **Non-Resource Programs:** Management fee of 3% of non-resource program expenditures.

Modify PD to Use Only Ex Post Verification

- Use of ex post evaluation assures that ratepayers only fund incentives for energy savings that actually occur.
- Use of ex ante will not avoid contention as observed in the ex ante lockdown process in the 2010-2012 cycle.
  - The process for determining which measures receive ex ante / ex post is also likely to cause increased contention.
- The utilization of ex ante values creates a perverse incentive for the IOUs to inflate energy savings estimates over accuracy, in order to increase award amount.
- As stated in the PD, any uncertainty created by ex post will be beneficial in motivating the utilities to ensure implementation of successful EE programs.
- Ex post evaluation will relieve the need for retroactive adjustments via 'true-up' for installation rates, which would be controversial and difficult to enforce.
  - Earnings should only be awarded when results are known.

(over)



Modify PD's Total Award Cap from 9.1% to 7% by Reducing Resource Savings Component

- DRA agrees with the PD that 7% is an appropriate benchmark as it is the average of *comparable* jurisdictions' award caps.
  - It is appropriate to omit jurisdictions from the analysis that differ substantially from California (e.g., both Texas and Colorado do not have full revenue decoupling).
- Award cap must be limited in order to protect ratepayers from funding excessive incentive earnings.
- The PD modified the original proposed mechanism in the ACR from ex post to use some ex ante values, but did not commensurately reduce the award cap to compensate for the decreased risk.

Stretch Net-to-Gross Values for Resource Savings Should Not be Modified as PG&E Proposes

- Incentive mechanism should not use gross savings because it is critical that incentive earnings only be awarded for energy savings attributable to utility programs.
- Use of Net-to-Gross (NTG) values does not penalize market transformation, but instead promotes it.
  - Encourages utilities to pursue programs with low freeridership (high NTG ratios), which are those with the most market transformation opportunity.
- NTG values should be evaluated ex post as program attribution can only be meaningfully measured *after* the program cycle has ended.
  - Encourages utilities to better track market adjustments mid-cycle.
- 'Stretch' NTG (and EUL – Expected Useful Life) values encourage utilities to exceed goals, rather than focusing on award earnings for expected performance.