PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE

SAN FRANCISCO, CA 94102-3298

To: All Parties in R.13-11-005 and R.12-01-005

From: Katie Wu, Energy Division

Date: June 9, 2014

Subject: Additional Detail on Implementation of the Efficiency Savings and Performance Incentive (ESPI) Mechanism

To all parties:

Since adoption of the ESPI, Commission staff has begun implementation of the tasks prescribed in D.13-09-023, the decision adopting the ESPI. Staff is coordinating internally to ensure that the deadlines are met and IOUs have the information needed to ultimately file award claims each June. During the course of these activities, staff found that the annual energy efficiency audit performed by the Commission's Audit Branch would not be complete by June of the year following program implementation. In order to conduct a robust audit, the Commission audit team requires at least nine months to complete an audit.

As such, in order to meet the deadlines set in D.13-09-023 and allow adequate time for IOU EE audits to be complete, the incentive distribution process is described in more detail below. In general, incentive awards in the year following program year (i.e., PY +1) will be calculated using utility-reported information and incentive awards in the year two years after program year (i.e., PY +2) will be calculated based on Commission-verified information. The PY+2 incentive payment will include a true-up to reconcile any differences between utility-reported and Commission-verified information. Program years 2013 and 2014 are referenced below for illustrative purposes; the process will be identical each year unless and until the Commission modifies the ESPI.

1. By June 30 of the year following the program year (e.g., 2014 for 2013 program activities), each utility will file a Tier 3 Advice Letter to Energy Division to request energy efficiency incentive award payments for:
    a. Non-resource management fee: Equal to 3% of the utility's <u>reported expenditures</u> on non-resource programs during the previous program year.
    b. Codes and standards management fee: Equal to 12% of the utility's <u>reported expenditures</u> on codes and standards programs during the previous program year.
    c. Ex ante review performance: Equal to 3% of the utility's <u>reported expenditures</u> on resource programs (excluding administrative costs) during the previous program year multiplied by the utility's ex ante review score determined in accordance with Attachment 5 of D.13-09-023.

d. Energy savings with ex ante parameter estimates: Equal to the utility's net lifecycle reported savings and installation rates multiplied by the adopted earnings rates coefficients, determined in accordance with Attachment 1 of D.13-09-023. Only savings from deemed measures not included on the ESPI Uncertain List are included in this calculation.

2. By June 30 two years after the program year (e.g., 2015 for PY 2013), each utility will file a Tier 3 Advice Letter to Energy Division to request:

    a. Incentive awards for energy savings with ex post parameter estimates: Equal to the utility's net lifecycle verified savings and installation rates from two program years ago (e.g., savings subject to ex post verification in 2013 will be awarded in 2015) for deemed measures on the ESPI Uncertain List and custom projects and measures.

    b. A true-up of award payments distributed the previous year for items a-d in Item 1 above for two years prior (e.g., for PY2013 in the 2015 Advice Letter) based on verified expenditures and measure installation rates. The true-up will reconcile any differences between the utility-reported versus Commission-audited expenditures / Commission-verified measure installation rates. Publicly available Commission-led audits and EM&V studies will be used to verify expenditures and installation rates, respectively.

    c. Incentive award payments for items a-d listed above for the previous program year (e.g.,for PY2014 in the 2015 Advice Letter) based on reported expenditures.

This process is summarized in a table in the attached appendix. Commission staff finds that this incentive distribution process will allow utilities to reliably predict energy efficiency incentive awards while protecting ratepayers from potentially overpaying for energy efficiency incentive awards.

If parties have any questions or concerns regarding this incentive distribution process, please contact Katie Wu at katie.wu@cpuc.ca.gov or 415.703.2452.

APPENDIX: Incentive Distribution Process Summary

Program Year + 1 (uses utility-reported data)	Program Year + 2 (uses Commission-verified data)
Non-resource Management Fee	Energy Savings from custom projects and measures
Codes and Standards Management Fee	Deemed Energy Savings with ex post parameters (i.e., savings from the ESPI Uncertain List measures)
Ex Ante Review Performance Award	True-up of all PY+1 payments using Commission audited expenditures and verified installation rates
Deemed Energy Savings with ex ante parameters	