

Application No.: A.02-05-

Exhibit No.: SDG&E-1

Date: \_\_\_\_\_

Witness: Athena Besa

**2002 ANNUAL EARNINGS ASSESSMENT PROCEEDING  
TESTIMONY  
OF  
SAN DIEGO GAS & ELECTRIC COMPANY**

**May 1, 2002  
BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

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1                    **TESTIMONY OF SAN DIEGO GAS & ELECTRIC COMPANY**  
2                    **REGARDING 1997 DEMAND-SIDE MANAGEMENT PROGRAM, 2000**  
3                    **LOW-INCOME PROGRAMS, 2001 ENERGY EFFICIENCY AND LOW-**  
4                    **INCOME PROGRAMS**

5                    **2002 ANNUAL EARNINGS ASSESSMENT PROCEEDING**  
6                    **APPLICATION 02-05 \_\_\_\_**

7                    **I.**

8                    **INTRODUCTION**

9                    The purpose of this testimony is to sponsor San Diego Gas & Electric Company's the  
10                   Program Year ("PY") PY97 third earnings claim for the Demand-Side Management ("DSM")  
11                   programs, the earnings claim for PY 2001 Energy Efficiency programs the first earnings claim  
12                   for the PY 2001 Low Income Energy Efficiency programs and the second earnings claim for the  
13                   PY 2000 Low Income Energy Efficiency programs in the 2002 Annual Earnings Assessment  
14                   Proceeding ("AEAP").

15                   The document "Protocols and Procedures For the Verification of Costs, Benefits, and  
16                   Shareholder Earnings From Demand-Side Management Programs" ("Protocols"),<sup>1</sup> identifies the  
17                   protocols and procedures currently used by the four major California investor-owned utilities to  
18                   document and verify the costs and benefits of DSM program activities. San Diego Gas and  
19                   Electric Company ("SDG&E") has followed the Protocols in the preparation of this year's  
20                   Demand-Side Management Annual Summary and Technical Appendix ("DSM Annual  
21                   Summary"), Energy Efficiency Programs Annual Summary and Technical Appendix ("EE  
22                   Annual Summary"), and Low Income Programs Annual Summary and Technical Appendix  
23                   ("LIEE Annual Summary") which are included with, and made a part of SDG&E's 2002 AEAP  
24                   Application as Exhibits SDG&E-3, SDG&E-4, and SDG&E-5, respectively. Section VIII of the  
25                   DSM Annual Summary addresses SDG&E's shareholder earnings claims related to the

26  
27                   <sup>1/</sup> As adopted by California Public Utilities Commission Decision 93-05-063; revised January 1997 pursuant to  
28                   Decisions 94-05-063, 94-10-059, 94-12-021, 95-12-054, 96-12-079, 99-06-052.

1 performance of SDG&E's 1997 DSM programs. Section VIII was prepared in accordance with  
2 the Sixth Edition of the DSM Reporting Requirements Manual dated December 1996, and the  
3 Protocols.

4 I am sponsoring the following exhibits: (1) 2002 Annual Report of Demand-Side  
5 Management Programs, Program Years 1994-1997; (2) 2002 Energy Efficiency Programs,  
6 Annual Summary and Technical Appendix and (3) 2002 Low Income Energy Efficiency  
7 Programs, Annual Summary and Technical Appendix.

## 8 II.

### 9 SDG&E SHAREHOLDER EARNINGS CLAIM FROM SDG&E'S

#### 10 1997 DSM PROGRAMS

##### 11 A. INTRODUCTION

12 As stated previously, SDG&E has followed the Protocols in preparing this year's DSM  
13 Annual Summary, which is included with, and made a part of SDG&E's 2002 AEAP  
14 Application as Exhibit SDG&E-3. Section VIII of the DSM Annual Summary addresses  
15 SDG&E's shareholder earnings claims related to the performance of SDG&E's 1997 DSM  
16 programs. Section VIII was prepared in accordance with the Sixth Edition of the DSM  
17 Reporting Requirements Manual dated December 1996, and the Protocols.

18 Pursuant to Tables 1, 2, 7, 8A and 10 of the Protocols, the shareholder incentive claim  
19 SDG&E makes in this 2002 AEAP is the third earnings claim for its PY97 DSM programs.

20 SDG&E's PY97 third earnings claim represents the third installment of the updated  
21 projected lifecycle shareholder earnings for its performance of 1997 DSM programs. The  
22 projected lifecycle shareholder earnings for PY97 were updated as a result of the Third/Fourth  
23 Year Retention and Performance Studies performed in compliance with the requirements of the  
24 Protocols Table 8A, and submitted to the Office of Ratepayer Advocates ("ORA") on March 1,  
25 2000.

26 The third earnings claim for SDG&E's 1997 DSM program's performance, as verified by  
27 SDG&E's Third/Fourth Retention and Performance Studies, results in a revised 1997 DSM pro-

1 gram performance projected lifecycle shareholder earnings of \$15,949,919, producing a third  
2 earnings claim of \$3,916,071 (75 percent of \$15,949,919 less the combined first and second  
3 earnings claim for 1997 DSM programs of \$8,046,368.)

4 Therefore, in this Application, SDG&E seeks California Public Utilities Commission's  
5 ("CPUC" or "Commission") approval of SDG&E's request of \$3,916,071 for its third earnings  
6 claim from PY97. SDG&E further requests the accrued interest on this amount beginning July 1,  
7 1997 through the date the Commission issues a final decision in this case (as provided in  
8 Decision (D.) 94-10-059, page 113, entitled "Interim Opinion on DSM Shareholder Incentives:  
9 Implementation Phase"). SDG&E also requests an additional sum for franchise fees and  
10 uncollectibles related to the claim. Accordingly, the total amount requested for SDG&E's PY97  
11 programs in this 2002 AEAP is \$4,988,906 (includes interest from July 1, 1998 to December 31,  
12 2002), franchise fees, and uncollectibles of \$1,072,835).

### 13 **B. SUMMARY OF PY97 PROGRAMS AND PERFORMANCE**

14 D. 94-10-059 adopted the 1997 DSM incentive mechanisms. The requirements of the  
15 mechanisms and the calculation of the shareholder awards pursuant to each mechanism are  
16 described in Section VIII of the DSM Annual Summary. Appendix A of SDG&E's Application  
17 includes PY97 earnings claim summary tables E-1, E-2, and E-3 pertaining to SDG&E's third  
18 earnings claim.

19 In compliance with the requirements of the Protocols Table 8A, SDG&E submitted the  
20 following Third/Fourth Retention/Performance Studies to the ORA on March 1, 2001:

- 21 • 1996 & 1997 Residential Appliance Efficiency Incentives - Refrigerators, Study ID  
22 No. 981;
- 23 • 1996 & 1997 Residential Appliance Efficiency Incentives Program -Compact  
24 Fluorescent Lights, Study ID No. 984;
- 25 • 1996 & 1997 Measure Retention Study Residential Weatherization Retrofit Incentive  
26 Program, Study ID No. 990;
- 27 • 1996 & 1997 Commercial Energy Efficiency Incentives Program, Study ID Nos. 993

1 & 1017;

2 • 1996 & 1997 Industrial Energy Efficiency Incentives Program, Study ID Nos. 996 &  
3 1020;

4 • 1996 & 1997 Agricultural Energy Efficiency Incentives Program, Study ID Nos. 999  
5 & 1023;

6 • 1996 Residential New Construction Program, Study ID No. 1002; and

7 • 1996 & 1997 Nonresidential New Construction Program, Study ID Nos. 1005.

8 In compliance with the requirements of the Measurement and Evaluation (“M&E”)  
9 Protocols Table 8A, SDG&E submitted the following Third/Fourth Retention/Performance  
10 Study to the ORA on March 1, 2002:

11 • 1997 Fuel Substitution Program, Study ID No. 1017.

12 In addition to these retention studies, SDG&E jointly filed with Pacific Gas & Electric  
13 Company (“PG&E”), Southern California Edison Company (“SCE”), and Southern California  
14 Gas Company (“SoCalGas”) Study ID Nos. 2023P, 2027P, 2028P, and 2030P, a set of  
15 performance studies used to adjust the lifecycle benefits of a specific set of measures which were  
16 approved for adjusting technical degradation factors in the 1999 AEAP.

17 SDG&E’s third earnings claim for its 1997 DSM programs represents the third  
18 installment of the projected lifecycle shareholder earnings for those programs as revised, based  
19 upon SDG&E’s third/fourth retention and performance studies which verified measure lives and  
20 technical degradation factors. These studies were provided to the ORA by March 1, 2001, as  
21 specified in Table 1 of the Protocols.

22 The programs for which SDG&E claims shareholder incentive earnings are: Residential  
23 Appliance Efficiency Incentives; Residential New Construction; Commercial/Industrial/  
24 Agricultural Energy Efficiency Incentives; and Nonresidential New Construction.

25 Accordingly, SDG&E’s third earnings claim for the PY97 DSM programs is \$3,916,071  
26 plus interest (from July 1, 1998 through December 2002), franchise fees, and uncollectibles in  
27 the amount of \$1,072,835.

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**III.**

**SDG&E PERFORMANCE INCENTIVE CLAIM FROM SDG&E'S  
2000 AND 2001 LOW-INCOME ENERGY EFFICIENCY PROGRAMS**

**A. PY2000 LOW-INCOME ENERGY EFFICIENCY ("LIEE") PROGRAMS**

The Commission in D.94-10-059 adopted DSM shareholder incentive mechanisms for PG&E, SDG&E, SoCalGas, and SCE beginning in PY 1995. For LIEE (Direct Assistance) programs, the Commission adopted performance adder treatment for non-mandatory programs.

The utilities filed their PY2000 LIEE program applications in July 1999. The shareholder incentive mechanisms within these applications were based on the mechanism adopted for PY 1995, and continued each year through PY 1999, which provided a 5 percent incentive on the non-mandatory measure costs. The Commission subsequently moved consideration of the PY 2000 shareholder incentive mechanisms to the 1999 Annual Earnings Assessment Proceeding (AEAP). The Governor signed Assembly Bill (AB) 1395 in October 1999, which modified Public Utilities ("PU") Code 2790. AB 1395 removed both the distinction between mandatory and non-mandatory measures, and the basis for the PY 1995 mechanism and its fund shifting restrictions from mandatory to non-mandatory programs.

At ORA's request during the November 1999 AEAP hearings, parties submitted a joint recommendation for Commission consideration. The joint recommendation proposed replacing the 1995 incentive mechanism for LIEE programs with a mechanism that provides incentives for all measures (as opposed to non-mandatory measures only), consistent with PU Code 2790. The Commission adopted the joint recommendation in D.00-09-038, a copy of which is included in Appendix A.

The trial mechanism will be based on energy savings per measure as set forth in the joint recommendation and will be used for Program Year 2000 only. Since this trial mechanism applies to both mandatory and non-mandatory measures, a minimum performance standard for



1 the mandatory program will not be required for PY 2000.

2 For expenditures on required items that either produce no energy savings (such as  
3 furnace repair and replacement) or where energy savings are difficult to measure (such as energy  
4 education), the utility will continue to earn on a percentage of spending on those tasks. The  
5 utility will calculate the percentage amount so that the resulting forecasted earnings will be  
6 approximately 25 percent of the overall forecasted PY 2000 LIEE earnings.

7 The shareholder incentives will be collected in two installments. Fifty percent of the  
8 earnings claim adopted by the Commission in the AEAP following the PY 2000 program will be  
9 recovered in the first year. The remaining 50 percent of the adopted earnings claim will be  
10 authorized for recovery in the AEAP following completion of the program evaluation. The  
11 utilities will evaluate the program, including but not limited to a load impact billing analysis.  
12 The program evaluation results will not modify the amount of the earnings claim. Rather, the  
13 results will guide future program development.

14 On December 1, 1999, SDG&E, in compliance with D.99-09-038, submitted a late-filed  
15 exhibit that calculated and established the percentage to be earned on the expenditures for the 25  
16 percent "non-savings" portion of the earnings and the dollar incentive per measure for the 75  
17 percent "measure savings" portion of the earnings. The late-filed exhibit also included  
18 workpapers showing the derivation of each calculation. Please see Appendix A.

19 Consistent with the adopted earnings mechanism, a joint utility program evaluation, 2000  
20 Low Income Program Load Impact Evaluation, Volume 1, was submitted on April 1, 2002 to  
21 ORA. Therefore, SDG&E's second earnings claim is \$44,694 (50 percent of \$89,389).  
22 SDG&E's earnings claim for its PY 2000 LIEE programs is \$44,694 plus interest from July 1,  
23 2000 through December 2002, franchise fees and uncollectibles in the amount of \$4,335.

#### 24 **B. PY 2001 LIEE ENERGY EFFICIENCY PROGRAMS**

25 SDG&E filed Application A.00-11-012 on November 6, 2000, requesting approval of its  
26 2001 LIEE program plans, budgets and performance incentive award mechanism as required by  
27 D.00-09-036. D.01-05-033 adopted 2001 program budget levels that included one-time funding  
28

1 augmentations from unspent carryover balances and funds authorized by Senate Bill (“SB”) X1  
2 5.

3 The Assigned Commissioner’s Ruling (ACR) Regarding Post-2001 Program Planning for  
4 Low-Income Assistance Programs, Ordering Paragraph 4, directed utilities to file comparative  
5 information on how the savings for weatherized homes were determined. Subsequently, D. 01-  
6 12-020, Ordering Paragraph 4, ordered utilities to file and serve standardized data on program  
7 lifecycle bill savings and bill savings to cost ratios for program years 1999, 2000 and 2001 in  
8 their AEAP filing on LIEE activities.

9 On April 30, 2002, PG&E filed on behalf of SDG&E, SCE and SoCalGas the “Joint  
10 Utility Low Income Energy Efficiency Program 2001 Costs and Benefit Savings Standardiza-  
11 tion Report,” (“Joint Report”) in the Low Income Rulemaking Proceeding (R. 01-08-027). The  
12 Joint Report provides bill saving information for the years 1999 through 2001 in accordance with  
13 Ordering Paragraph 4 of D. 01-12-020. A measure saving matrix was prepared in response to  
14 Ordering Paragraph 4 of the ACR and is included as Appendix A to the Joint Report.

15 D.01-06-082 adopted a revised shareholder incentive mechanism for PY 2001 that is a  
16 “performance adder” mechanism, based on actual program expenditures and subject to a  
17 minimum performance standard (“MPS”). The MPS is based on the achievement of a pre-  
18 specified threshold level of savings from the “Big Six” measures (although there no longer was  
19 any distinction in the statute between “Big Six” measures and other feasible measures). To  
20 qualify for shareholder incentives under the new mechanism, the utilities must meet the MPS  
21 based on actual achievements in installations of the Big Six measures<sup>2</sup> and their associated first-  
22 year savings. The performance earnings basis (“PEB”) is defined as the total LIEE program  
23 expenditures, not including shareholder incentives. SDG&E’s specified threshold for savings is  
24 150,921 therms and the PEB is \$12,938,532.

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27 <sup>2</sup> The Big Six Measures are: 1) attic insulation, 2) caulking, 3) weather stripping, 4) low flow showerheads, 5) water  
28 heater blankets and 6) door and building envelope repairs that reduce infiltration.

1 The shareholder incentive will be collected in two installments. Fifty percent of the  
2 earnings claim adopted by the Commission in the AEAP decision following the PY 2001  
3 program will be recovered in the first year after adoption. The remaining 50 percent of the  
4 adopted earnings claim will be authorized for recovery in the AEAP following completion of the  
5 program evaluation. The utilities will conduct a program evaluation, including but not limited to  
6 a load impact billing analysis. The amount of the earnings claim will not be modified by the  
7 program evaluation results. Rather, those results will guide future program development.

8 D.01-06-082 also specifies that the electric shareholder incentives will be funded with the  
9 electric public goods charge LIEE program budget authorized by this decision, consistent with  
10 the current treatment for the energy efficiency programs. The LIEE incentives will continue to  
11 come out of gas rates using the same regulatory mechanisms as are used for the energy  
12 efficiency and DSM program gas incentives.

13 SDG&E achieved the required threshold savings of 150,921 therms to qualify for  
14 shareholder incentives. SDG&E's shareholder incentive for the 2001 LIEE program is \$214,881  
15 (2 percent times \$10,744,050 in program expenditures<sup>3</sup>). Therefore, SDG&E's earnings claim  
16 for the PY 2001 LIEE program is \$107,441 plus interest (from July 1, 2002 through December  
17 2002), franchise fees, and uncollectibles in the amount of \$2,304.

#### 19 IV.

### 20 SDG&E PERFORMANCE INCENTIVE CLAIM FROM SDG&E'S

### 21 2001 ENERGY EFFICIENCY PROGRAMS

#### 22 A. INTRODUCTION

23 SDG&E filed Application 00-11-045 on November 15, 2000, requesting approval of its  
24 2001 Energy Efficiency program plans, budgets, and performance incentive award mechanism as  
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27 <sup>3</sup> The expenditures for this program include only program implementation expenditures.  
28

1 directed by the August 15, 2000 Administrative Law Judge’s (“ALJ”) Ruling Establishing  
2 Schedule and Process for PY 2001 Energy Efficiency Program Planning, the October 25, 2000  
3 Ruling on Cost Effectiveness Issues for PY 2001 Programs and the ALJ’s Ruling Giving  
4 Direction for Program Year 2001 Planning, dated October 25, 2000. On January 31, 2001 the  
5 Commission issued D.01-01-060 approving the utilities’ PY 2001 energy efficiency programs  
6 and the proposed budgets, with modifications to program design, budgets and performance  
7 incentives, and the statewide Market Assessment and Evaluation (“MA&E”) activities. The  
8 utility-specific and California Energy Commission MA&E activities were approved by D.01-06-  
9 037 on June 14, 2001.

10 D.01-01-060 adopted an incentive mechanism that allowed the utilities to be eligible to  
11 earn shareholder awards based on proven energy savings from absolute savings targets set by the  
12 Commission, with a minimum threshold of a 50 percent award and a maximum threshold of a  
13 100 percent award, scaled between 50 percent and 100 percent. For example, a 1 percent  
14 increase in savings over the minimum threshold level will result in an award equaling 52 percent  
15 of shareholder earnings, once savings are verified and reported. The Commission adopted the  
16 utility-proposed performance adder and market effects award incentive levels.

17 The following table shows the minimum and threshold savings requirements that  
18 SDG&E must meet to earn shareholder incentives.<sup>4</sup>

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26 <sup>4</sup> The incentive amounts reflected in D.01-01-060 are rounded to two decimal places. SDG&E’s actual  
27 achievements are shown as full amounts.

Program Area	Minimum/Threshold (50 percent earnings)			Maximum (100 percent earnings)		
	Million kWh	MW	Million therms	Million kWh	MW	Million therms
Residential	17.8	6.8	0.7	22.3	8.5	0.8
Nonresidential	44.8	7.3	0.3	56.0	9.1	0.3
New Construction	18.4	4.7	0.1	23.0	5.8	0.2
<b>Total</b>	<b>81.0</b>	<b>18.8</b>	<b>1.1</b>	<b>101.2</b>	<b>23.4</b>	<b>1.3</b>

The following table shows the maximum shareholder incentives as savings targets are achieved.

Program Area	Maximum Earnings Potential for Energy and Demand Savings			
	(\$ million)			
	kWh savings	Peak MW savings	Therm Savings	Total, Savings
Residential	0.50	0.17	0.17	0.83
Nonresidential	0.53	0.18	0.18	0.88
New Construction	0.27	0.09	0.09	0.46
<b>Total</b>	<b>1.30</b>	<b>0.43</b>	<b>0.43</b>	<b>2.16</b>
<i>Weighting</i>	<i>60 percent</i>	<i>20 percent</i>	<i>20 percent</i>	

Utilities will be eligible to earn these incentives on a program area basis, not on a portfolio basis. In order to encourage the utilities to meet all of their targets, however, the mechanism provides a 5 percent shareholder incentive bonus to utilities who meet all of their program area kWh, MW, and therm savings targets. The bonus will be equal to 5 percent of the 7 percent of program budgets. This will reduce the amount of shareholder incentives available under the performance adder mechanism to 5 percent. SDG&E's maximum potential bonus is \$140,000. In addition, the determination of the savings achievement is based on the *ex ante* savings for measures and the quantity of measures installed or committed.

The total potential shareholder incentive is described as follows:

Utility	Market Effects Incentives (\$million)	Performance Adder Incentives (\$million)	Total Potential Earnings (\$million)
SDG&E	0.27	0.14	2.71

**B. PY 2001 ENERGY EFFICIENCY PROGRAM ACHIEVEMENTS**

SDG&E’s total performance incentive award for PY 2001 is \$2,681,202. This incentive award is a result of SDG&E achieving an award for its energy and demand savings, Market Effects milestones, and performance adders from its information programs.

**1. Energy and Peak Demand Savings Achievements**

The following table shows the energy and demand savings achieved through SDG&E’s 2001 Energy Efficiency programs.

SDG&E has exceeded all the electric energy (kWh), electric peak demand (kW) and gas (therms) savings goals in each program area that the Commission set. SDG&E has achieved the maximum award of \$2,164,624 for its documented energy and demand program savings. In addition, because SDG&E exceeded all of its savings goals, SDG&E is eligible for the additional 5 percent (of the seven percent of the program budget) shareholder incentive bonus of \$135,289. Therefore, the total shareholder incentive for this category is \$2,299,913.

Program Area	Energy and Demand Savings Achievements (Target Goal for 100 percent Earnings)			Shareholder Incentives Achievements (Includes the bonus award)			
	MWH Savings	Peak MW Savings	Therm Savings	MWH Savings	Peak MW Savings	Therm Savings	Total
Residential	44.2 (22.3)	10.7 (8.5)	1,445,446 (800,000)	\$528,980	\$183,993	\$183,993	\$896,966
Nonresidential	70.8 (56.0)	12.8 (7.3)	720,308 (300,000)	\$551,979	\$183,993	\$183,993	\$919,965
New Construction	34.8 (23.0)	7.7 (5.8)	746,989 (200,000)	\$298,989	\$91,997	\$91,997	\$482,982
<b>Total</b>	<b>149.8 (101.2)</b>	<b>31.2 (23.4)</b>	<b>2,912,743 (1,300,000)</b>	<b>\$1,379,948</b>	<b>\$459,983</b>	<b>\$459,983</b>	<b>\$2,299,913</b>

**2. Market Effects Milestones**

The first milestone (SDR-1) requires SDG&E to increase by 1 the number of eligible retailers (companies) participating in the Statewide Upstream Residential Lighting program. An eligible

1 retail company for the purpose of this milestone is defined as one with 10 or more stores that  
2 conducts business with the public on a retail basis and sells ENERGY STAR<sup>®</sup> lighting products.  
3 SDG&E modified its program design in order to meet the established energy savings and  
4 demand targets and, accordingly, changed its focus to the immediate delivery of savings. The  
5 baseline for comparing performance against this milestone can be found in SDG&E's PY 2001  
6 Energy Efficiency Program Application. That application states that the baseline for the number  
7 of retailers participating in the co-op program is five. In PY 2001, manufacturers agreed to  
8 various promotional activities at 11 unique retailers covering 263 storefronts.<sup>5</sup> The PY 2001  
9 program exceeded the milestone by increasing the number of participating retailers by a total of  
10 16. Therefore, SDG&E has achieved the Level 1 award of \$100,000 for this milestone.

11 The second milestone (SDR-2) requires SDG&E to sign-up two (2) of the six (6) major  
12 appliance manufacturers that produce ENERGY STAR<sup>®</sup> qualified products (clothes washers,  
13 dishwashers, and refrigerators), to achieve a Level 1 award of \$25,000, or to sign-up one (1)  
14 manufacturer to the 2001 co-op program to achieve a Level 2 award of \$18,000. The appliance  
15 co-op program was designed to sign-up major appliance manufacturers who agree to use the  
16 same energy efficiency appliance promotional materials. In order to address the Commission's  
17 established energy and demand reduction targets, however, SDG&E did not actively pursue its  
18 manufacturer co-op program and redirected program funds to an appliance rebate program that  
19 provided direct incentives to customers who purchased qualifying appliances. This program,  
20 however, contributed to SDG&E's achievement of its residential energy and demand reduction  
21 targets. The Commission permitted this flexibility to revise the program design to allow the  
22 utilities to achieve the targeted levels (D.01-01-060 at page 6.):

23 Furthermore, we are confident that the energy savings targets and associated incentives  
24 will drive the utilities to make the necessary program improvements. Indeed, we have  
25 purposefully provided the utilities with maximum flexibility to accomplish this objective.

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26  
27 <sup>5</sup> See Appendix A of this report for copies of letters of agreement between SDG&E and lighting manufacturers.  
28

1 Therefore, SDG&E's has not achieved this milestone.

2 The third milestone (SDNR-3) requires SDG&E to increase its baseline of non-  
3 residential customers that install or commit to install a high-reflectivity roof (cool roof) over the  
4 PY 2000 baseline. A Level 1 award of \$40,000 requires an increase of three (3) customers and a  
5 Level 2 award of \$28,000 requires an increase of two (2) customers. The baseline for comparing  
6 performance is one customer as documented in SDG&E's PY 2001 Energy Efficiency Program  
7 Application.<sup>6</sup> SDG&E has signed Memoranda of Understanding with three (3) customers to  
8 facilitate their cool roof installations through monitoring of the roof's performance and signed a  
9 contract with one (1) customer under the Standard Performance Contract program to install the  
10 roof for a total of four (4) nonresidential customers. This activity reflects an increase of three (3)  
11 over the baseline. Therefore, SDG&E has achieved a Level 1 award of \$40,000.

12 The fourth milestone (SDRNC-1) requires SDG&E to achieve a 25 percent market share  
13 increase of newly constructed ENERGY STAR® single family homes over the 2000 base year for  
14 a maximum award of \$50,000 and a 17.5 percent market share increase for the minimum award  
15 of \$35,000. This milestone award is scalable between \$50,000 and \$39,200. The baseline for  
16 this milestone is 10 percent. For the year 2001, Regional Economic Research ("RER") has  
17 estimated single-family housing starts in the San Diego area at 9,331.<sup>7</sup> The goal of 12.5 percent  
18 (25 percent increase over the 10 percent baseline) is equal to 1,167 (12.5 percent of 9,331)  
19 ENERGY STAR homes. SDG&E has signed contracts in 2001 for 1,242 ENERGY STAR®  
20 homes, exceeding the goal by 75 units. Therefore, SDG&E has achieved the Level 1 award of  
21 \$50,000.

22 The fifth milestone (SDRNC-2) requires SDG&E to achieve an 8 percent market share  
23 increase of newly constructed high efficiency (i.e., units exceed Title 24 Standards in effect at  
24 the end of 2000 by 15 percent) multi-family homes over the base year 2000 for a maximum  
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26 <sup>6</sup> SDG&E PY2001 Energy Efficiency Program Application, Attachment H, page H-7, November 2000.

27 <sup>7</sup> California Residential Efficiency Market Share Tracking Report, RER.



1 award of \$56,000 and a 5.6 percent increase for the minimum award of \$35,000. This milestone  
2 award is scalable between \$50,000 and \$35,000. The baseline for this milestone is zero percent  
3 since this is a new program in PY 2001.<sup>8</sup> RER has estimated that there were 6,319 multi-family  
4 housing starts in the San Diego area during the year 2001. This means that an 8 percent market  
5 share would be approximately 505 energy efficient multi-family housing starts. For the program  
6 year 2001, SDG&E received 2,400 signed contracts for energy efficient multi-family units. This  
7 achievement exceeds the requirement to have 505 units committed. Therefore, SDG&E has  
8 achieved the Level 1 award of \$56,000.

9 In sum, SDG&E has achieved a total award of \$246,000 for its documented achievements  
10 for these market effects milestones.

### 11 **3. Performance Adder Incentives**

12 SDG&E directed its information programs to several hard-to-reach market segments in  
13 SDG&E's service territory. SDG&E participated in several ethnic community events and  
14 provided energy efficiency information to seniors through its Lighting Turn-in events. Several  
15 efforts were also directed at the smallest nonresidential customers (less than 20 kW) to assist  
16 them in determining energy efficiency potential in their businesses. Several outreach efforts  
17 were done to include affordable housing projects in the residential new construction program.

18 The performance adder incentive is 5 percent of all program expenditures for information  
19 programs not to exceed \$135,289. SDG&E performance adder achievement is \$268,853 (5  
20 percent of \$5,377,060). Therefore SDG&E has achieved a total award of \$135,289 for the  
21 performance adder programs.

22 SDG&E's total shareholder incentives for the 2001 EE program is \$2,681,202.  
23 Therefore, SDG&E's earnings claim for the PY 2001 EE program is \$2,681,202 plus interest  
24 (from July 1, 2002 through December 2002), franchise fees, and uncollectibles in the amount of  
25

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26  
27 <sup>8</sup> *SDG&E PY2001 Energy Efficiency Program Application*, Attachment H, page H-7, November 2000.

1 \$23,350.

2 **V.**

3 **CONCLUSION**

4 In summary, my testimony demonstrates as follows:

- 5 1) Under the DSM shareholder incentive mechanisms in effect for the 1997 pro-  
6 grams, SDG&E's revised projected lifecycle shareholder earnings claim is  
7 \$15,949,919, resulting in a third earnings claim for SDG&E's 1997 DSM  
8 programs of \$4,988,906 including interest from July 1, 1998 through December  
9 31, 2002, franchise fees, and uncollectibles;
- 10 2) Under the 2001 EE incentives mechanism, SDG&E's claim is \$2,704,552  
11 including interest from July 1, 2002 through December 31, 2002, franchise fees  
12 and uncollectibles;
- 13 3) Under the 2000 LIEE incentives mechanism, SDG&E's total lifecycle claim is  
14 \$89,389, with a second earnings claim of \$49,050 including interest from July 1,  
15 2001 through December 31, 2002, franchise fees, and uncollectibles;
- 16 4) Under the 2001 LIEE incentives mechanism, SDG&E's total lifecycle claim is  
17 \$214,881, with a first earnings claim of \$109,745 including interest from July 1,  
18 2002 through December 31, 2002, franchise fees, and uncollectibles;
- 19 5) SDG&E is entitled to recover the PY97, PY 2000 and PY 2001 electric and gas  
20 awards of \$7,852,253 through its electric and gas Rewards and Penalties  
21 Balancing Accounts and to transfer \$2,168,263 of electric revenues from the Post-  
22 1997 Electric Energy Efficiency Balancing Account to the RPBA's for SDG&E's  
23 2001 EE and LIEE programs.

**Appendix A**  
**JOINT RECOMMENDATION ON THE PROGRAM YEAR 2000**  
**LOW INCOME ENERGY EFFICIENCY SHAREHOLDER**  
**INCENTIVE MECHANISM**

JOINT RECOMMENDATION ON THE PROGRAM YEAR 2000 LOW INCOME ENERGY  
EFFICIENCY SHAREHOLDER INCENTIVE MECHANISM

For the Program Year 2000 Low Income Energy Efficiency (LIEE) Shareholder Incentive, the parties propose the following:

The mechanism will be based on energy savings per measure. It will be a trial mechanism, to be used for Program Year 2000 only. Since this trial mechanism applies to both mandatory and non-mandatory measures, a minimum performance standard for the mandatory program will not be required for Program Year 2000. For Program Year 2001 and beyond, the parties will work on a longer-term, performance incentive mechanism consistent with the objectives established by the Commission and the Legislature.

The calculation of the Program Year 2000 shareholder incentive mechanism will begin with the forecasted incentive level for each utility in its Program Year 2000 application, which is based on an incentive of 5 percent of the non-mandatory measure costs for the program year.

For expenditures on required items that produce no energy savings (such as furnace repair and replacement) or produce energy savings that are difficult to measure (such as energy education), the utility will continue to earn on a percentage of spending on those items. The utility will perform calculations to establish the percent amount, so that the resulting forecasted earnings will be approximately 25 percent of the overall forecasted Program Year 2000 LIEE earnings. For measures that produce energy savings, the shareholder incentive will be paid on a per measure basis, proportional to the forecasted savings generated by each measure. Each utility will create a table of measures and corresponding incentive amounts using the remaining 75 percent of the forecasted earnings for PY 2000 as a basis to establish table entries. (An illustration of the mechanics of the proposed shareholder incentive mechanism is attached.) To do this, each utility will:

1. Calculate the average energy savings, both gas and electric (as applicable to each utility's service), for each approved measure.
2. Calculate the lifecycle energy savings for each measure.

3. Calculate the forecasted installation frequency for each measure in Program Year 2000.
4. Calculate the total forecasted lifecycle energy savings for each measure for the program year.
5. Calculate the total forecasted energy savings for the program as a whole.
6. Divide the remaining 75 percent of forecasted earnings by the total forecasted energy savings for the whole program to obtain the forecasted earnings per therms saved or the earnings per kwh saved.
7. Calculate an incentive amount for each measure by multiplying the earnings per therm saved or earnings per kwh saved by the lifecycle energy savings for each measure.
8. The earnings claim for the measure portion of the program is the sum (for all the measures) of the dollar incentive amount for each measure multiplied by the actual installation frequency of that measure during Program Year 2000.

Each utility will prepare and submit, by December 1, a late-filed exhibit performing the calculations and establishing the percentage to be earned on expenditures for the 25 percent “non savings” portion of the earnings, and the dollar incentive per measure for the 75 percent “measure savings” portion of the earnings, and workpapers showing the derivation of each calculation. The late-filed exhibit may have to be updated after a decision is issued in the low income program plans proceeding (Application 99-07-002 et al) now pending before ALJ Gottstein, if the measures authorized in that proceeding differ from the measures in each utility’s December 1 exhibit.

Program evaluation, including but not limited to a load impact billing analysis, will be conducted by the utilities. The details of the program evaluation will be determined by the entity the Commission determines has responsibility over proposals for measurement and evaluation issues for the PY 2000 LIEE programs.

The shareholder incentive will be collected in two installments. 50 percent of the earnings claim adopted by the Commission in the Annual Earnings Assessment Proceeding (AEAP) following the PY 2000 program will be recovered in the first year after adoption. The remaining 50 percent of the adopted earnings claim will be authorized for recovery in the AEAP following

completion of the program evaluation. The amount of the earnings claim will not be further modified by the results of the program evaluation. The results of the program evaluation will be used to guide future program development.

**Appendix B**  
**San Diego Gas & Electric Company's**  
**2001 Energy Efficiency Program Milestones and Award Levels**

## SDG&E's 2001 MILESTONES AND AWARD LEVELS

The following section provides a detailed description including the corresponding program goal, performance indicator, and corresponding verification plan for each of the proposed market effects milestones.

<b>Programs:</b>	Residential Lighting
<b>Program Element:</b>	Statewide Upstream Residential Lighting
<b>Performance Award Milestone: (SDR-1)</b>	Increase by 1 the number of eligible retailers (companies) participating in the co-op program. An eligible retail company for the purpose of this milestone is defined as one with 10 or more stores that conduct business with the public on a retail basis which sells ENERGY STAR® lighting products. (Level 2 Performance – none)
<b>Award Levels:</b>	Level 1: \$100,000 Level 2: None
<b>Baseline:</b>	In 2000, the baseline is 5 for SDG&E.
<b>Program Goal:</b>	Increase consumer adoption of energy efficiency lighting technologies by increasing supply and availability.
<b>Program Performance Indicator:</b>	Number of lighting manufacturers and retail companies participating in the co-op program.
<b>Verification Plan:</b>	Identify 2000 baseline and document 2001 co-op retailers (companies) participation commitments based upon the signed co-op agreements.



<b>Programs:</b>	Residential Appliances
<b>Program Element:</b>	Statewide Upstream Residential Appliances
<b>Performance Award Milestone: (SDR-2)</b>	Of the 6 major appliance manufacturers that produce ENERGY STAR® qualified products (clothes washers, dishwashers, and refrigerators), sign-up 2 of these major manufacturers to the 2001 co-op program. (Level 2 Performance –1 manufacturer)
<b>Award Levels:</b>	Level 1: \$25,000 Level 2: \$18,000
<b>Baseline:</b>	In 2000, there is not a co-op program with the Residential Appliance program element. Therefore, the baseline is 0.
<b>Program Goal:</b>	Increase supply and consumer demand of energy efficient appliances (ENERGY STAR®) while decreasing usage of inefficient appliances.
<b>Program Performance Indicator:</b>	Number of eligible major appliance manufacturers participating in the co-op program.
<b>Verification Plan:</b>	Signed agreements with the manufacturers will be the form of verification.

<b>Programs:</b>	Large Non Residential Comprehensive Retrofit
<b>Program Element:</b>	Emerging Technologies/Demonstration Projects
<b>Performance Award Milestone: (SDNR-1)</b>	During PY2001, increase by 3 customers that install or commit to install a high-reflectivity roof over the PY2000 baseline. (Level 2 Performance – increase by 2 customers)
<b>Award Levels:</b>	Level 1: \$40,000 Level 2: \$28,000
<b>Baseline:</b>	Baseline = 1 in PY2000. NOTE: this is a new program
<b>Program Goal:</b>	Promote the implementation of high-reflectivity roofs retrofits in the non-residential market place.
<b>Program Performance Indicator:</b>	Demonstrate the energy savings potential for reducing the heat gain through a roof.
<b>Verification Plan:</b>	Provide documentation from customer agreements and/or invoices.

<b>Programs:</b>	Residential New Construction
<b>Program Element:</b>	Home Energy Partnership – Single Family
<b>Performance Award Milestone: (SDRNC-1)</b>	Achieve 25 percent market share increase of newly constructed ENERGY STAR® homes over the 2000 base year (12.5 percent market share) - (Level 2 Performance – Scalable where 70 percent = 17.5 percent market share increase)
<b>Award Levels:</b>	Level 1: \$50,000 Level 2: scalable
<b>Baseline:</b>	Baseline = 10 percent in PY2000, based on the first 6 months of 2000: (449 ENERGY STAR® Homes built out of 4592 homes constructed)
<b>Program Goal:</b>	Increase the market share of newly constructed homes that are ENERGY STAR® qualified.
<b>Program Performance Indicator:</b>	Number of builders that offer ENERGY STAR® qualified homes
<b>Verification Plan:</b>	Utilize data from the on-going California Residential Efficiency Market Share Tracking study being performed by Regional Economic Research, Inc. The number of newly constructed homes will come from the RER Market Share Tracking Report; the number of ENERGY STAR® qualified homes will come from Program tracking database.

<b>Programs:</b>	Residential New Construction
<b>Program Element:</b>	Home Energy Partnership - Multi-family
<b>Performance Award Milestone: (SDRNC-2)</b>	Achieve 8 percent market share of newly constructed high efficiency units (i.e., units that exceed Title 24 Standard in place at the end of 2000 by 15 percent) - (Level 2 Performance – Scalable where 70 percent = 5.6 percent market share)
<b>Award Levels:</b>	Level 1: \$56,000 Level 2: scalable
<b>Baseline:</b>	Baseline = 0 in PY2000, since this is a new program for PY2001.
<b>Program Goal:</b>	Increase the market share of high efficiency units and work with the Department of Energy to establish an ENERGY STAR® Multi-family Home.
<b>Program Performance Indicator:</b>	Number of builders that offer energy efficient qualified MF units
<b>Verification Plan:</b>	Utilize data from the on-going California Residential Efficiency Market Share Tracking study being performed by Regional Economic Research, Inc. The number of newly constructed units will come from the RER Market Share Tracking Report; the number of qualified units will come from Program tracking database.

## **QUALIFICATIONS OF ATHENA M. BESA**

My name is Athena M. Besa. My business address is 8330 Century Park Court, Suite 3200, San Diego, California 92123-1593. I am employed by San Diego Gas & Electric Company ("SDG&E") as the Analysis & Support Manager in the Mass Markets Department. In my current position, I am responsible for the measurement and analysis of demand-side management ("DSM") programs and the of Energy Efficiency programs.

I attended the University of the Philippines in Quezon City, Philippines. I graduated with a Bachelor of Science degree in Statistics in 1983, and a Master of Science degree in Statistics in 1986. I have completed coursework at the University of California, Davis, towards a Doctorate degree in Statistics. I was hired by SDG&E in 1990 in the Load Research Section of the Marketing Department. Since that time I have held positions of increasing responsibility in the Department. I have been in my present position for two months. I have previously testified before this Commission in the 1996 AEAP, 1997 AEAP, 1998 AEAP, 1999 AEAP, and PY2000/2001 Energy Efficiency Programs Application Proceeding.

