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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the
Commission's Energy Efficiency Risk/Reward Incentive
Mechanism

Rulemaking 09-01-019
(Filed January 29, 2009)

**REPLY COMMENTS OF THE CALIFORNIA ENERGY EFFICIENCY INDUSTRY
COUNCIL (EFFICIENCY COUNCIL) ON THE ASSIGNED COMMISSIONER'S
RULING TO REFRESH THE RECORD ON OUTSTANDING ISSUES REGARDING THE
RISK/REWARD INCENTIVE MECHANISM**

October 7, 2011

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I. Introduction and Summary

The California Energy Efficiency Industry Council (Efficiency Council) respectfully submits this reply to comments submitted September 23, 2011 by parties in this proceeding in response to the “Assigned Commissioner’s Ruling to Refresh the Record on Outstanding Issues,” (ACR) issued August 30, 2011, with regards to the Risk/Reward Incentive Mechanism (RRIM) for the 2010-2012 cycle and beyond for the qualified Investor-Owned Utilities (IOUs). These reply comments are submitted in accordance with Rules 1.9 and 1.10 of the California Public Utilities Commission’s (CPUC or Commission) Rules of Practice and Procedure.¹

The Efficiency Council is a statewide trade association of non-utility companies that provide energy efficiency services and products in California.² Our member businesses, now numbering over 50, employ over 4,000 Californians throughout the state. They include energy service companies, engineering and architecture firms, contractors, implementation and evaluation experts, financing experts, workforce training entities, and manufacturers of energy efficiency products and equipment. The Efficiency Council’s mission is to support appropriate

¹ The Efficiency Council is concurrently filing a Motion to Become a Party in this proceeding in accordance with Rule 1.4.

² More information about the Efficiency Council, including information about the organization’s current membership, Board of Directors, and antitrust guidelines and code of ethics for its members, can be found at www.energycouncil.org. The views expressed by the Efficiency Council are not necessarily those of its individual members.

energy efficiency policies, programs, and technologies that create sustainable jobs and foster long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvement.

The Efficiency Council appreciates the opportunity to provide these reply comments. Although the ACR calls for comments on a number of specific and technical questions, our comments focus on high-level policy concerns surrounding the RRIM. The primary role of the Commission in energy efficiency is to set a clear policy framework within which all parties can operate. The fact that we are this far into the current program cycle without a clear RRIM policy represents a major shortcoming that needs to be fixed as soon as possible. Our comments are focused on supporting a timely resolution of this policy issue, and on avoiding the distractions associated with delays in such a resolution.

Our reply comments are summarized as follows:

- The Efficiency Council supports the majority of other parties in recommending that the Commission should resolve the outstanding issues regarding the risk-reward incentive mechanism (RRIM). We further urge the Commission to quickly resolve the continuation or dissolution of a modified RRIM, one way or the other, as soon as possible to ensure an integrated and cohesive efficiency policy framework going forward.
- Although we agree with other parties that EM&V and cost-effectiveness issues are relevant to this proceeding, the Efficiency Council urges the Commission to instead resolve these issues in R.09-11-014 as previously intended. Placing too much emphasis on EM&V and cost-effectiveness issues in the RRIM proceeding risks giving too much weight to the RRIM as the sole driver for robust EM&V and cost-effectiveness policies, which are key components of effective energy efficiency policy irrespective of the RRIM.

II. Discussion

The Efficiency Council supports the majority of parties in recommending that the Commission should resolve the outstanding issues regarding the risk-reward incentive mechanism (RRIM). We further urge the Commission to quickly resolve the continuation or dissolution of a modified RRIM, one way or the other, as soon as possible to ensure an integrated and cohesive efficiency policy framework going forward.

The Efficiency Council supports the majority consensus among the parties filing September 23, 2011 opening comments on that the Commission should resolve outstanding issues regarding the RRIM. While the Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN) advocate for significant reevaluation of the RRIM concept and Natural Resource Defense Council (NRDC), Local Government Sustainable Energy Coalition (LGSEC), Pacific Gas and Electric (PG&E), San Diego Gas and Electric (SDG&E), and Southern California Edison (SCE) support continued modified incentive mechanisms, we agree with all of these parties in supporting the Commission's assessment and/or adjustment of the RRIM to improve the implementation of cost-effective energy efficiency programs in the state.

In particular, the Efficiency Council urges the Commission to quickly resolve the outstanding issues regarding the RRIM, one way or the other, as soon as possible to ensure an integrated and cohesive efficiency policy framework going forward. The Efficiency Council has not taken and does not at this time take a position on the appropriateness of the RRIM or its specific design. However, we note that discussions and deliberations thus far surrounding the RRIM for post-2005 energy efficiency seem to be continually stretched out without resolution, creating uncertainty and unnecessary distractions for all implementers to successfully pursue energy savings to meet the state's aggressive energy efficiency goals. Uncertainties in the RRIM and any other efficiency policies that trickle down to and affect program implementation must be avoided to provide a stable business climate for the efficiency industry. Stability and lack of certainty are essential to provide a business climate capable of providing customer savings and growing much-needed jobs in the efficiency sector. Strong leadership from the Commission is necessary to ensure that the continuation or dissolution of a modified RRIM is resolved as quickly as possible.

Given that we are already more than halfway through the 2010-2012 program cycle, the Commission's decisions regarding the RRIM could affect the current 2010-2012 program cycle, the potential 2013 extension, and the next program cycle. SCE recommends that the Commission should focus its current RRIM examination on the next cycle since any decision on a 2010-2012 RRIM would provide "at best a weakened incentive signal regarding the construction and execution of the program portfolio." (p. 4) The Efficiency Council agrees with SCE, and we urge that any decisions regarding the RRIM should be made in advance of and apply to the next program cycle.

Providing an integrated and cohesive energy efficiency policy framework, with policies and guidance clearly established, before the start of any program cycle is necessary to best ensure aggressive pursuit of the state's energy efficiency goals and maintain consistency with other Commission proceedings aiming to resolve additional issues for future efficiency portfolios. An expeditious resolution of RRIM issues will also ensure that utilities and other stakeholders will have the upfront information and policy guidance necessary to plan effective efficiency programs for the next program cycle, without mid-cycle disruptions, and maintain momentum toward meeting the State's job development and energy and climate goals.

The Efficiency Council urges the Commission to resolve EM&V and cost-effectiveness issues in R.09-11-014, even though we agree with other parties that these issues are relevant to the RRIM. Placing too much emphasis on these issues in this RRIM proceeding risks giving too much weight to the RRIM as the sole driver for robust EM&V and cost-effectiveness policies, which are key components of effective energy efficiency policy irrespective of the RRIM.

The Efficiency Council agrees with the Commission and other parties that evaluation, measurement and verification (EM&V) practices and cost-effectiveness calculations and methodology are important considerations for the RRIM and are relevant to this proceeding. However, EM&V and cost-effectiveness issues should primarily be addressed as the Commission has intended in R.09-11-014, though closely coordinated with the RRIM and this proceeding.

As PG&E describes, the EM&V process "is not the primary driver in pursuit of cost-effective energy savings" (p. 4-5). Likewise, the RRIM should not be the primary driver of EM&V practices and design. While one of the roles for EM&V can be to evaluate utility performance under the RRIM, effective EM&V has important broader objectives to support the long-term success of efficiency efforts, including savings measurement and verification to provide adequate input for resource planning, program evaluation and improvement, market assessment, policy and planning support, and financial and management audits. As a result, we view EM&V as an important component of policies for, and in the overall ongoing success of,

energy efficiency programs in the state and thus should not be driven solely by the needs of the RRIM.

Similar to EM&V issues, cost-effectiveness issues play a role in the RRIM but also are important in other aspects of energy efficiency policy to ensure that California continues its pursuit of all cost-effective energy savings. While LGSEC indicates that the Commission may need to redefine cost-effectiveness “in a manner that provides greater clarity and resilience, and focuses activity on institutional change on a broad level, across market sectors” (p. 5), the Efficiency Council recommends that the Commission consider such issues in R.09-11-014, which more broadly addresses energy efficiency policy, rather than in this RRIM-focused proceeding. Although these two proceedings must be closely coordinated, decisions about cost-effectiveness should not be primarily driven by the RRIM.

We urge the Commission to continue to address needed improvements to EM&V and cost-effectiveness, which will affect the RRIM, but to not allow the RRIM considerations to unduly drive the process and risk giving too much weight to RRIM as the sole driver in the development of robust EM&V and cost-effectiveness policy decisions.

III. Conclusion

The Efficiency Council appreciates this opportunity to offer this reply to the comments on the ACR regarding the RRIM. The Efficiency Council urges the Commission to quickly resolve outstanding issues regarding the RRIM in a manner that is aligned and coordinated with other elements of the Commission’s efficiency policy framework and that will allow cohesive portfolio planning for future program cycles. The Efficiency Council looks forward to working with the Commission and other stakeholders to ensure effective policies and mechanisms to best meet the State’s energy and job creation goals, Strategic Plan, and AB 32 goals.

Dated: October 7, 2011

Respectfully submitted,

A handwritten signature in black ink that reads "Audrey Chang". The signature is written in a cursive style with a large initial "A" and a long, sweeping underline that extends across the width of the signature.

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