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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)
Application of Southern California Edison Company (U338E) for Approval of its 2009-2011 Energy Efficiency Program Plans and Associated Public Goods Charge (PGC) and Procurement Funding Requests.	Application 08-07-021 (Filed July 21, 2008)
And Related Matters.	Application 08-07-022 Application 08-07-023 Application 08-07-031

**COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY
(U 39 E) TO ENERGY DIVISION'S WHITE PAPER REGARDING
ENERGY EFFICIENCY RISK/REWARD INCENTIVE
MECHANISMS AND EM&V ACTIVITIES (APRIL 2, 2009)**

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Dated: April 29, 2009

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COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) TO ENERGY DIVISION'S WHITE PAPER REGARDING ENERGY EFFICIENCY RISK/REWARD INCENTIVE MECHANISMS AND EM&V ACTIVITIES (APRIL 1, 2009)

I. INTRODUCTION AND SUMMARY

Pursuant to the Assigned Commissioner/Administrative Law Judge (ALJ) ruling (dated April 14, 2009), Pacific Gas and Electric Company (PG&E) provides the following comments to the Energy Division's White Paper entitled "Proposed Energy Efficiency Risk-Reward Incentive Mechanism and EM&V Activities (April 1, 2009)." The Assigned Commissioner/ALJ ruling set forth the rulemaking's category, scope, and schedule. Specifically, the proceeding schedule requests that interested parties provide comments on the White Paper by April 29, 2009.

A. PG&E welcomes Energy Division's recommendations to streamline and simplify the risk/reward incentive process.

California has made a major commitment in its electric resource loading order, AB32 scoping plan, and public and ratepayer funds to invest in energy efficiency programs and to rely on such programs to create a sustainable, reliable, low-carbon, and cost-effective energy infrastructure. The California Public Utilities Commission's (CPUC or Commission) programs, administered by the investor owned utilities (IOUs), represent a major component of this commitment and investment. PG&E also is and continues to be committed to an aggressive, long-term and market transforming approach to efficiency for California. Yet, the success and aggressiveness of these programs have been partially hampered by the evaluation, measurement, and verification (EM&V) process and, in particular, the debates and uncertainties associated with EM&V assumptions and modeling as they relate to the shareholder incentive mechanism. PG&E, thus, supports the White Paper's proposal for "…a simplified and streamlined earnings process…"[1] in the hope that such a proposal will accelerate, and not delay, a decision on the 2009-2011 Energy Efficiency (EE) portfolio.

B. In addition, PG&E would like to clearly support several of the White Paper's fundamental conclusions.

First, PG&E agrees with the diagnosis of two primary concerns with the current incentive mechanism: "implementation of the incentive mechanism has become a diversion that has consumed too much valuable and limited staff time within the IOUs, other stakeholders, and the CPUC, and second, the incentive mechanism has focused attention on the details of the calculation of incentive amounts rather than on the delivery of exceptional programs that reduce energy consumption and GHG emissions, and contribute to laying the foundation for fundamentally changing the way Californians use energy."[2] The current mechanism, under which the IOUs are subject to ex-post changes in fundamental assumptions and the results of modeling, also results in the IOUs not being able to rely on the incentive mechanism. Thus it fails to encourage aggressive IOU actions. PG&E also emphasizes the need for *aggressively* as well as fundamentally changing the way Californians use energy.

Second, PG&E supports the concept that programs should represent a continuum of

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[1] California Public Utilities Commission, White Paper, Proposed Energy Efficiency Risk-Reward Incentive Mechanism and EM&V Activities (April 1, 2009), p. 3.

[2] Ibid, p. 7.

research and development, emerging technology activities, and pilot programs, and emerging technology activities as well as best-practices resource acquisition and market transformation programs, followed by support for changes in codes and standards. As defined, the current evaluation mechanism focuses on incenting resource acquisition activities. While resource acquisition activities are important for procurement planning and greenhouse gas (GHG) reduction goals, PG&E understands that the current incentive mechanism may not jive with the CPUC's other policy objectives, namely energy efficiency market transformation. Accordingly, as the White Paper states, there may be a need for a "base" and "bonus" earnings incentive mechanism and supporting EM&V that focuses on implementation of an energy efficiency portfolio and achievement of activities supporting market transformation goals.

Third, the White Paper defines several criteria for the incentive mechanisms: transparent, streamlined, and less controversial. PG&E endorses these criteria, but would clarify that "less controversial" includes "stable" and "credible," i.e., the rules do not change during a single program cycle.

Section II of this document first presents specific comments related to key components identified by the White Paper to improve the incentive mechanism. That discussion is followed by comments regarding the role of EM&V in incentive determination.

II. DISCUSSION

A. Comments regarding Key Components for Achieving Improvements to the Incentive Mechanism.

1. Decoupling of Certain EM&V Activities from Earnings.

One of the options presented in the White Paper to improve the Risk/Reward Incentive Mechanism (RRIM) is to decouple EM&V activities from the calculation of earnings. PG&E agrees that impact evaluations that directly affect potential earnings can also affect program implementation. Implementers take fewer risks on new products or innovative processes is a risk that the Energy Division will issue an impact evaluation of a program activity that changes the effectiveness of an activity after program implementation. if there

Decoupling of EM&V activities from earnings will allow increased innovation and new technologies to be implemented and evaluated without the risk of adverse earnings effects.

This clearly would be both an immediate and long term advantage for the programs and all stakeholders.

Impact evaluations are especially valuable if they can provide timely information for the modification of existing programs and the design of future programs. Decoupling EM&V activities from earnings would provide implementers the information and flexibility to design the best programs for all stakeholders, and avoid the time-consuming and controversial process of applying impact evaluations to earnings calculations

2. Base Earnings and Performance Bonuses.

PG&E agrees with the Energy Division's White Paper that if the Commission were to adopt an earnings mechanism that is decoupled from energy savings calculations, it would need to adopt a mechanism that includes both base earnings and performance bonuses. As the IOUs have presented in their 2009-2011 Application, the resource programs and the non-resource programs, including the strategic planning efforts, need to be evaluated differently. PG&E will present its base earnings and performance bonus proposal to the CPUC on May 22 per the CPUC's schedule. It is important that any proposal developed avoid the pitfalls of the past, namely that the proposal should be transparent, non-contentious, and fair.

3. Cost-Effectiveness Requirements should be reexamined as we move toward an incentive mechanism that evaluates non-resource as well as resource program savings

PG&E agrees that the present cost-effectiveness tests should be reexamined, especially as they apply to a new RRIM mechanism. The California Long Term Energy Efficiency Strategic Plan (Strategic Plan) moves well beyond the more limited goals for which the tests were created. While the cost-effectiveness tests are adequate and useful for evaluation of energy procurement costs and benefits, the presently defined tests do not adequately measure market transformation and climate change efforts. To the extent that market transformation and climate change efforts are important to the Strategic Plan, the measurement of these efforts should use appropriate and valid tests or evaluation.

4. Rewarding Desirable Market Transformation Activities.

PG&E commends the Energy Division for considering approaches and alternatives not previously part of the RRIM parameters. As these approaches and alternatives are considered, the guiding criteria established in the White Paper's Executive Summary should also be considered. Especially important for new approaches are the guiding criteria of Timely and Non-Contentious, Simple and Transparent. Without these criteria, Fair and Cost-Efficient as well as Effective and Strategic will be extremely difficult, if not impossible to achieve.

Market transformation activities are a prime example of the need for the Commission's guiding criteria. The White Paper points out that increases in awareness, acceptance and adoption of energy efficient measures are key objectives. However, the White Paper seems to have reversed the process necessary to achieve market transformation. The market saturation studies and market effects studies will be needed prior to program implementation to determine a baseline against which to design program efforts. Only subsequent studies, after the program cycle, can demonstrate whether program efforts were successful. If the reward structure is tied to these much later studies, the reward is neither simple nor timely. If it is included in the bonus earnings, described as using Attachment 7 of D. 07-09-043, then the reward will also be contentious and non-transparent.

PG&E recommends that any goals associated with market transformation be established only on recent and adopted baseline studies. Before phasing out any measures or programs due to market transformation, there will need to be sufficient evidence to show that there has been a transformation in the marketplace. Measuring market transformation will be difficult, and will require carefully-defined metrics. For instance, the most recent potential study indicates that residential lighting has the most significant potential for energy efficiency. However, some may argue that awareness and acceptance of certain residential lighting measures are high and thus, the market is transformed. PG&E questions whether it would be consistent with the policy objectives of the CPUC and State to leave such savings solely for customer behavior and the marketplace to capture. Accordingly, it is important for the CPUC to consider the amount of energy efficiency potential in the creation of market transformation metrics.

5. Rewarding Customer Energy Efficiency Investments.

The suggestion in the White Paper that increased customer investments attributed to the IOU programs be measured as part of the base earnings incentive mechanism (p. 15) is intriguing, but at this time difficult to evaluate. Although it is an approach that may be useful once fully examined, this approach should not be included in any RRIM mechanism in the near future. While it should be explored at least to some degree for possible future use, the difficulties associated with implementation may not be appropriate for the 2009-2011 program cycle. For instance, attribution, which this suggestion relies on, is presently a difficult issue to resolve as the Commission shifts the program focus to market transformation. To be able to state with certainty that customers made investments in energy efficiency due to actions taken by the IOUs is very problematic today. In addition, the Strategic Plan recognizes the importance of workforce education and training. Such training often requires investments by customers in their employees as well as in their facilities. Energy savings can also be achieved through shifts to more efficient practices and controls. These “soft savings” also require expenditures of time and money and continual reinforcement (an ongoing expense). While customer actions and behaviors may have been initiated as the result of energy efficient practices, initial attribution will be difficult (especially in the long term).

6. Continued use of Cumulative Savings Goals

It is unclear how this recommendation (White Paper, p. 15) meets the guiding criteria of simple and transparent, timely and non-contentious, effective and strategic or even feasible.

PG&E agrees that savings goals should be adjusted using the latest adopted EM&V. However, these adjustments should also coincide with program design cycles. Goals should not be adjusted either up or down unless the programs and budgets can also be adjusted to adequately deal with the changes in goals. In addition, the recommendation seems to imply that savings goals should be adjusted, not on the portfolio level as is presently the case, but on the measure level. This would be a significant departure from past and present practice and greatly multiplies the difficulties of goal setting.

7. Consumption Targets.

While reducing total energy consumption is the EE portfolio's ultimate goal, the IOUs recognize the complexity of customer behavior. As the Energy Division notes, establishing and tracking consumption targets can be difficult considering the lack of consistent, available data and varying customer behavior. PG&E agrees with the Energy Division that it may make sense to do a pilot on a consumption target for the bonus earnings. This may prove to be an acceptable metric for the Residential New Construction program PG&E has proposed as it classifies building types by energy intensity.

Measurement and evaluation protocols for verifying consumption variations should be determined and agreed upon prior to any evaluation of IOU programs. PG&E supports the use of econometric analysis and believes that coordination across other customer quantification efforts is essential in this process.

8. Timing and Process of Incentive Payments.

In general, PG&E agrees that dividing the RRIM into base earnings and bonus earnings could be beneficial to accomplishing the Commission's energy efficiency objectives and rewarding the IOU implementers in a timely manner. PG&E also recognizes that unless these separate earnings categories are carefully constructed, the benefits of each could be minimized or negated.

a. Base Earnings Incentive Payments.

This portion of the incentive mechanism has the promise of regular, annual payments. It also places a burden on the Commission staff to conduct the necessary research and issue a report in sufficient time for the IOUs to comment on the report before it is finalized by the Commission prior to the submission of applications for earnings from the IOUs. This amount of work has been done in prior incentive mechanisms to produce annual earnings and may be possible again. PG&E is pleased to see that the staff reports would be part of the public record.

PG&E recommends that the IOUs file advice letters rather than applications to submit their claim, as is the current process. Advice letters allow time for further protest or discussion of issues not resolved on the record as part of the initial staff reports. Advice letters would also allow more rapid conclusion of the process in instances where disputes are minor or easily resolved.

PG&E looks forward to the discussions with the Commission and other parties to determine the details of this portion of the RRIM.

b. Bonus Earnings Incentive Payments.

This component of a future RRIM is far more problematic, and many details would have to be carefully developed. As presently described in the White Paper, it may only offer all the disadvantages (per Energy Division's criteria on page 10) that the Commission seeks to avoid in the present RRIM.

(1) A Process Relying on D.07-09-043 (Attachment 7) to Produce the Final Staff Report on Bonus Earnings is likely to be Contentious.

PG&E is pleased that the final staff report would be submitted for the record in the appropriate proceeding. However, the process leading to that final report could be very contentious. The White Paper proposes to use the process described in Attachment 7 of D.07-09-043. This is the very process that generated much of the disputes and dissatisfaction of the present RRIM. While PG&E recognizes the value of workshops and informal discussions as venues for parties to hear and examine other positions, as practiced in the present RRIM, the "public vetting" could be more accurately characterized as input to the Energy Division which they could choose to ignore or use. Since the final report would then be part of the record, all of the dissatisfaction with the development of the report as well as all the partially resolved issues would become part of the application process.

A far less contentious process needs to be established than is included in Attachment 7. It should also include a dispute resolution process. A dispute resolution process has been used in previous RRIM mechanisms. A new process needs to ensure that all parties with concerns have the opportunity to air and discuss their concerns with other parties, especially those with differing positions (via workshops). The process also needs to provide all parties the opportunity to provide written input for the record that can be used by all parties to develop reasonable and fair resolutions to differences. Finally, the process needs a clear and available dispute resolution process to resolve any issues that can't otherwise be resolved.

(2) The Recommended Bonus Earnings Determination Process is Not Timely

By proposing a three year payment almost two years after the end of a program cycle, the bonus component does not provide timely payment for recent achievements. In addition, any insights that the Energy Division's evaluation research might provide will be unavailable for implementation within the program cycle. Nor would it be useful for the next cycle's program design. For example: if this bonus incentive had been available for the 2006-2008 program cycle, the report would be available in 2009 ("…the year after that final year of each program cycle") and payments made before the fourth quarter of 2010. It's unclear how useful the evaluation research might be for program design for the 2012-2014 cycle in this rapidly changing industry.

(3) The Recommended Bonus Earnings Component is not reliable and would result in disputes

The Commission seeks a mechanism that will "provide reasonable opportunity for awards to utilities for successful management while protecting against unreasonable costs and poorly managed programs."[3] Unfortunately, the bonus component, as described in the White Paper, may not accomplish either of these objectives. This bonus will only be available after the completion of an entire program cycle. All parties have experienced the degree of changes in the marketplace as well as the economy over an entire program cycle. The future promises even more change from the initiatives of the Commission's Strategic Plan to the as-yet-unclear effects of the Federal stimulus package. A program that successfully achieves its design parameters in the first year of a program cycle may need to change so significantly by the end of the program cycle to meet additional requirements that any evaluation of success over the entire three year cycle could be both difficult and inappropriate.

(4) Cost-Effectiveness

A number of parties have expressed concern over the cost-effectiveness of various components of the proposed 2009-2011 Energy Efficiency portfolio. A portion of these costs will always be for the submission of the earnings claim and for the resolution of all issues and concerns that arise from those claims. The present bonus earnings component as described in the White Paper could be highly contentious and very expensive. PG&E anticipates that the costs will be similar to or greater than the costs presently being incurred for the current RRIM.

[3] White Paper, p. 4.

(5) PG&E Recommends Against Relying on D.07-09-043 (Attachment 7) to Design a Bonus Incentive Payment.

An alternative to Attachment 7 is clearly needed to meet the Commission’s needs for a RRIM that is timely, non-contentious, fair and cost-effective. PG&E recommends that unless the bonus component is a very small percentage of the total RRIM award, it should be an annual award as is the base incentive.

PG&E looks forward to working with the Commission and its staff to develop a bonus incentive option that could be incorporated into the RRIM. The details of this portion of a RRIM will be very important. It needs to balance the benefits and down-sides of the size of the bonus incentive. For instance, if the bonus portion is small compared to the base incentive, it may become irrelevant to the IOU implementers, especially if it is a three year payment made two years after the end of the cycle. If the bonus portion is large compared to the base incentive, the degree of contention inherent in the present approach (Attachment 7) may be disproportionate to the advantages it provides by encouraging certain Commission objectives.

9. Additions to Procedural Requirements.

PG&E agrees with the procedural requirements listed in the White Paper and offers two additions: 1) dispute resolution and 2) a public process on the record.

The IOUs emphasized the need for a dispute resolution process when the present RRIM was established.[4] Yet, the White Paper does not mention a much-needed dispute resolution process. Instead, it perpetuates the informal review and input process of Attachment 7 of D.07-09-043. The inadequacies of this informal process are evident in the Verification Report produced by the Energy Division. Far too many of the issues raised by parties to the findings in that report were dismissed without discussion or postponed until later. A process that insured

1 “Comments of Pacific Gas and Electric Company on Proposed Decision of Commissioner Grueneich and Administrative Law Judge Gottstein on Risk/Reward Incentive Mechanism,” August 29, 2007, page 13. Also, “Comments of Pacific Gas and Electric Company on the ‘Assigned Commissioner’s Ruling Soliciting Further Comment on Procedures for Review and Approval of Interim and Final Earnings Claims,’” April 23, 2007, pp. 2-6.

clear, timely, independent dispute resolution will greatly benefit all who work to achieve the Commission's objectives.

PG&E also recommends that a public record be established for all EM&V that will affect the Energy Division evaluation of the IOUs' "performance relative to the performance metrics adopted by the Commission for bonus earnings."[5] The White Paper recommends the "public vetting process described in Attachment 7 of D.07-09-043."[6] This process does not establish a public record which can then be used as the basis of further discussion and ultimate resolution of issues. Workshops and informal discussions are venues for parties to hear and examine other positions, but these venues do not provide the advantage of a public record for future use by the Commission, Energy Division, and parties.

In sum, a public record of input from both the Energy Division and parties will be necessary in order to reduce the time and expense of disputed issues and allow all parties to proceed to resolutions that have been truly publicly vetted.

B. Comments Regarding the Role of EM&V

1. The Commission should balance formative and outcome evaluation.

PG&E believes that there is a need to balance formative and outcome evaluation.[7] Specifically, the most fundamental objective of evaluation is to support best practices, successful energy efficiency implementation and resource program results. Therefore, irrespective of decisions associated with the use of EM&V for determining shareholder incentives, PG&E recommends that formative evaluation activities be fully encouraged and supported, so the evaluation results are readily available to program and portfolio managers who are aggressively meeting EE goals.

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[5] White Paper, p.17.

[6] Ibid.

[7] Formative evaluation being simply defined as helping program design and implementation and outcome evaluation as determining program results also for the purpose of improving programs but also for contractual or regulatory purposes.

2. Limiting energy efficiency because of EM&V constraints Is more harmful to achieving real energy savings than dealing with the uncertainty of EM&V results.

There is a fundamental question in EM&V: "as compared to what?" This relates to two topics: a technical issue of comparing baseline with project/program energy reduction and a more general/policy issue about rigor, i.e., "how good is good enough?" There are no absolute answers to these questions and acknowledging that will help the EM&V discussion – we will never get the perfect answer – there will always be uncertainty.

EM&V thus addresses uncertainty. Levels of acceptable uncertainty are judged based on the amount of implicit and explicit risk and need to be compared with levels of reward or outcomes. Addressing uncertainty for the CPUC programs requires an understanding of the EM&V objectives, as this White Paper begins to define, and the risk and value of getting the answer wrong and right.[8] For California, as compared to the alternatives and associated risks of climate change impacts, higher cost energy resources, energy efficiency is a high reward activity. Therefore, limiting energy efficiency because of EM&V constraints causes more harm to achieving real energy savings than dealing with the uncertainty of EM&V results.

3. There needs to be transparent and public vetting of data and models that support the Database for Energy Efficiency Resources (DEER).

PG&E agrees that DEER will be an important "client" (although not the only client) of the EM&V results. EM&V data should continue to be the primary information source to update DEER values. PG&E has concerns with the statement that EM&V data will be used to "calibrate DEER models that are used to generate estimates of more complex parameters (i.e., kWh, kW, therms)." The EM&V data are vetted and reviewed prior to final adoption. However the DEER "models" were adopted without being released and vetted by the public, independent experts, or

[8] And it needs to be addressed in the context of how much rigor is put into assessments of efficiency versus into other expenditures of ratepayer funds.

the IOUs. The models are just as important to the final energy savings figures as the EM&V reports.

Before adopting and using any particular model for a specific energy efficient measure, the Energy Division should post the model (including the specific assumptions and inputs for each measure) for public comment and discussion. While public vetting in itself does not ensure the "right answer," it increases the level of expert input which can only be beneficial when subjective as well as objective assumptions are included. A great deal of the controversy in the existing mechanism was generated by these modeled values. That could be mitigated with a more transparent and collaborative process for modeling going forward whether the results are used for shareholder incentives and/or formative evaluation activities.

PG&E thus also agrees with the White Paper findings that a new process is needed which is simple, transparent, non-contentious and maintains technical integrity. One area of contention has been the DEER values and underlying model assumptions. The Energy Division uses a public comment approach to "vet" updated DEER values. PG&E feels updated or changed DEER values and the underlying models and assumptions all need to be vetted. However a public comment approach alone does not meet a standard definition of vetting.

The DEER models and values are extremely complicated parameters which in many cases require experts in the field to review and analyze. Since the values are so important to determining the effectiveness of the State's accomplishments and the effectiveness of the portfolio, PG&E feels that an unbiased expert or experts should review any updates, including models and model assumptions, prior to the new value being considered "fully vetted." The Lawrence Berkeley National Laboratories (LBNL) would be in an excellent position to fill this role. For example, if LBNL reviewed the building simulation model and assumptions used to generate residential interactive effects for a particular measure, all parties could be more confident in the final result. This approach would fulfill the White Paper requirements of results which are transparent, non-contentious and maintain technical integrity.

4. Attribution Issues.

Another issue that PG&E would like to raise is defining attribution, particularly for market transformation programs. The issue of attribution in California (and many other markets) is becoming very difficult, if not impossible, to determine given the wide variety of influences on energy consumers. Under the current mechanism, the IOUs actually seem to be penalized for successful market transformation efforts as the CPUC-defined net to gross ratios[9] decline (in part because of the lack of consideration of free drivers[10]). As stated in the White Paper, "Successful market transformation strategies increase free-riders, which results in lower savings impacts attributed to the IOU portfolio."[11]

PG&E is intrigued and generally supportive of the concept raised in the White Paper concerning the importance of total "consumption" as a metric and the implied "top down" evaluation approach. This could lead to IOU involvement in many energy saving, and GHG reducing, program concepts other than those currently encouraged through the existing metrics.[12] However, as the White Paper points out, "How to determine attribution, or the extent to which the IOU portfolios influence changes in consumption, may represent some problems."[13] Therefore, we are interested in further considering this "bottom-line" metric, but are concerned about how it could practically be applied, particularly in a shareholder incentive mechanism

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[9] "Net to Gross Ratio – A ratio or percentage of net program impacts divided by gross or total impacts. Net to gross ratios are used to estimate and describe the free-ridership that may be occurring within energy efficiency programs." Energy Efficiency Policy Manual, Version 4.0, Appendix B, page 10.

[10] "Free Drivers – A free driver is a non-participant who adopted a particular efficiency measure or practice as a result of a utility program.

Free Riders (Free Ridership) – Program participants who would have installed the program measure or equipment in the absence of the program. " Ibid, p. 6

[11] White Paper, p. 17.

[12] Examples could be programs discussed in the strategic plan such as workforce, education and training; smart growth; net zero energy buildings, etc.

[13] White Paper, p. 22.

when the analysis of total consumption metrics includes different factors than the bottom-up approach currently being used.

5. Other potential EM&V improvements.

PG&E would like to present additional recommendations in parallel to those presented in the White Paper on improving the existing EM&V process. Such improvements include:

- "Rejuvenate" the California Measurement Advisory Council (CALMAC) as a body to collaboratively address EM&V conflicts, identify best practices and new evaluation approaches, and potentially support the Energy Division with its current and proposed substantial EM&V responsibility and work load.
- Provide the IOUs with the ability to conduct quick turn-around research and other related activities, which while well-communicated, does not require going through the CPUC contracting and review/approval processes which have delayed the availability of critical evaluation information.
- Increase coordination between the CPUC's impact evaluators and the program managers to allow for timely feedback for program design and implementation.
- Improve the DEER modeling process as mentioned above.

6. Audit Issues

The White Paper[14] states that the financial audit component of EM&V will need to be brought to the forefront of the EM&V activities if earnings are to be based on any measures involving portfolio administration and/or participant costs.

PG&E agrees with the proposal and recommends working with IOUs and the CPUC Audit branch to develop more detailed definitions of allowable costs for energy efficiency program activities and reporting requirements. PG&E, however, proposes to begin this when the CPUC Audit branch completes its current financial audits of all the IOUs. The IOUs can then

[14] Ibid. p. 24.

review the preliminary findings and incorporate them in the discussion and revision of allowable costs. Once the draft 2008 audit reports are issued, PG&E suggests that a workshop be held to address the administrative cost element of the RRIM.

PG&E wants to highlight that there are differences among the IOUs in how administrative costs are booked for each utility. The IOUs and the CPUC should review these differences, understand them, and then set a consistent policy across the IOUs, recognizing that there are differences in internal systems used to report administrative costs. Such topics should be discussed in the proposed workshop.

The outcome of this analysis should help with establishing consistent policies for the upcoming 2009 – 2011 decision. The workshop should also be used as a forum to discuss reporting requirements going forward.

III. CONCLUSION

PG&E very much appreciates the approach taken by the Energy Division in the White Paper and looks forward to discussing these issues, as well as other proposals, at the upcoming workshops.

Respectfully Submitted,

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Dated: April 29, 2009

Attorney for
PACIFIC GAS AND ELECTRIC COMPANY

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL OR U.S. MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is Pacific Gas and Electric Company, Law Department B30A, 77 Beale Street, San Francisco, CA 94105.

I am readily familiar with the business practice of Pacific Gas and Electric Company for collection and processing of correspondence for mailing with the United States Postal Service. In the ordinary course of business, correspondence is deposited with the United States Postal Service the same day it is submitted for mailing.

On May 1, 2009, I served a true copy of:

COMMENTS OF PACIFIC GAS AND ELECTRIC COMPANY (U 39 E) TO ENERGY DIVISION'S WHITE PAPER REGARDING ENERGY EFFICIENCY RISK/REWARD INCENTIVE MECHANISMS AND EM&V ACTIVITIES (APRIL 1, 2009)

[XX] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for R.09-01-019 and related matters A.08-07-021, A.08-07-022, A.08-07-023, A.08-07-031

[XX] By First-Class Mail, postage prepaid, to each party on the official service list not providing an email address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 1st day of May 2009 at San Francisco, California.

/S/

JENNIFER S. NEWMAN

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