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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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

Rulemaking 12-01-005
(Filed January 12, 2012)

**ADMINISTRATIVE LAW JUDGE'S RULING SOLICITING COMMENTS ON
MODIFIED METHODOLOGY AND USE OF DATA TO DERIVE INCENTIVE
EARNINGS AMOUNTS**

Introduction

This ruling provides notice and opportunity to comment regarding the merits of the Commission's possible use of a new methodology, as described below, for purposes of determining incentive awards for the 2010-2012 program cycle for the investor-owned utilities (IOUs) subject to the updated Risk/Reward Incentive Mechanism.

The Commission is considering several options, including disbursing no incentives or employing the mechanism used to calculate the 2006-2008 true-up and 2009 award, amongst others. Parties do not need to provide additional comments on proposals addressed previously.

This ruling solicits comments on a new methodology to determine incentive amounts for each IOU using a modified management fee methodology that provides performance bonuses to utilities based on their conformance with the ex ante review process the Commission put into place for the 2010-2012 portfolio.

Under this scenario, and as previously described in the Scoping Memo, a Commission decision would be issued before year-end 2012 to (a) adopt a methodology for use in determining incentive payment awards for the entire 2010-2012 cycle, and (b) adopt IOU-specific award amounts covering calendar year 2010 only. The adopted methodology would be used to derive subsequent awards for 2011 and 2012 activities in future Commission Decisions starting in calendar year 2013.¹ The proposed methodology for the 2010-2012 cycle is not intended to prejudge whether the same or a different approach may be adopted as an incentive mechanism for the 2013-2014 cycle.

Specifically, this ruling solicits comments regarding the merits of possible adoption of a 2010-2012 incentive mechanism made up of two components:

- (1) A baseline “management fee” (defined as a payment equal to 2% of each IOU’s portfolio expenditures for each annual period); and
- (2) An additional “performance bonus” payment, as described below, and capped at an additional 3% of annual portfolio expenditures.

Comments on the Proposed Methodology and Supporting Data for Management Fee

Comments are hereby solicited regarding the merits of the methodology and use of supporting data, as described below, for purposes of deriving the “management fee” component of a 2010 incentive payment award. Under this methodology, a management fee would be awarded to each IOU equal to 2% of

¹ The figures that would form the basis for any 2012 payment would likely be extrapolated based on a year-to-date value as of the date of this ruling to avoid encouraging any end-of-cycle gaming behavior.

the IOU's total recorded Energy Efficiency (EE) expenditures for 2010. As the basis for identifying recorded EE expenditures used to calculate the 2% management fee, the Commission would rely on data in the annual reports filed by each of the investor-owned utilities applicable to calendar year 2010 energy efficiency programs. The Commission may also consider the findings in the audit reports conducted by Commission staff on 2010 program activities, as warranted in determining the management fee award amount. The IOU annual status reports and staff audit reports for calendar year 2010 were previously made part of this record by ruling dated August 22, 2012.

Comments on the Proposed Methodology and Supporting Data for Deriving Bonus Performance Payments

Comments are hereby solicited regarding the merits of the methodology and use of supporting data, as described below, for purposes of deriving the "performance bonus" component of a 2010 incentive payment award. Under this methodology, the Commission would adopt (a) a list of performance metrics for which points would be scored; (b) a numerical scoring scale to evaluate and assign a score for each metric and for each IOU; and (c) dollar award amounts (equal to designated percentages of program expenditures) for each point scored.

For purposes of the decision on the 2010-2012 mechanism, the Commission would concurrently make findings regarding the applicable scores to be assigned to each IOU based on how well their performance satisfied each designated metric, commensurate with each IOUs' performance with various ex ante review requirements adopted in applicable Commission decisions. In particular, ex ante review requirements were provided in the decisions adopting the 2010-2012 energy efficiency portfolios (Decision (D.) 09-09-047), outlining the non-Database for Energy Efficiency Resources (DEER) workpaper review process (D.10-04-029),

freezing ex ante values for the 2010-2012 energy efficiency portfolios (D.10-12-054), and adopting final ex ante values for non-DEER measures and the custom project ex ante review process (D.11-07-030).

The metrics used to measure performance, including utility conformance with the ex ante review process, would include the following metrics (and submetrics):

- Metric 1: IOUs' efforts to implement the Commission's ex ante review process within their organizations;
 - A. Timely action to implement the ordered ex ante requirements;
 - B. Breadth of response (e.g. recognition of technical and regulatory requirements in implementing ex ante activities; developing and maintenance of good information exchange and coordination of activities between internal program implementation, engineering, and regulatory staff to ensure common understanding and execution of ex ante processes); and
 - C. Incorporation of Commission-adopted policy and direction (e.g., use of DEER values and methods where applicable, baseline determinations, HVAC interactive effects, calculation of dual baseline for early retirements, incremental projects costs; incorporation of 2006-2008 evaluation recommendations and results; maintenance and use of calculation tool archive).
- Metric 2: The level of due diligence the utilities applied to their ex ante review activities to ensure high quality and accurate ex ante values were produced;
 - A. Depth of quality control and technical review of work products (e.g., ratio of rejected/accepted work papers, changes to initial and final values, initial consideration of technical aspects, non-compliance with policy directives);

- B. Professional care, expertise and experience applied to develop work products (e.g., use of background research to identify best available information that represents current knowledge on a topic, undertaking short/long term specialized research to develop critical parameters when best available information is inadequate for a work product under development); and
 - C. Incorporation of cumulative experience from past activities (including prior Commission staff reviews and recommendations) into current and future work products.
- Metric 3: IOU progress toward ex ante activity that is more self-policing and requires less direct Commission oversight/involvement;
 - A. Bringing new projects to Commission staff in the formative stage to reduce the risk of problems or delays later in the review process;
 - B. Incorporating Commission Staff comments and input into project activities (or explaining why input was not accepted); and
 - C. Developing and executing joint projects with the Commission to fill information gaps.
 - Metric 4: IOUs' efforts to implement Commission adopted policy regarding the use of DEER;
 - A. Timely action to implement all aspects of the adopted DEER; and
 - B. Level of due diligence the utilities apply to their use of DEER.
 - And/or other appropriate metrics as identified by parties.

The above metrics and submetrics would be measured using a simple, clearly differentiated scale to score utility conformance with the ex ante review process against any metrics and/or submetrics, such as those proposed above.

One approach under consideration would utilize a 1-5 scale, with 1 being low and 5 being high, distinguished as follows:

1. Consistent underperformer in meeting the basic Commission expectations;
2. Makes a minimal effort to meet Commission expectations but needs dramatic improvement;
3. Makes effort to meet Commission expectations, however improvement is required;
4. Sometimes exceeds Commission expectations while some improvement is expected; and
5. Consistently exceeds Commission expectations.

Using the above outlined scale, the following maximum achievable scores would be established as follows:

<i>METRIC</i>	<i>Maximum Achievable Score</i>
Metric 1: IOUs’ efforts to implement the Commission’s ex ante review process within their organizations	15 points for non-DEER workpapers and 15 points for Custom Projects (5 points possible for each submetric)
Metric 2: Level of due diligence the IOUs’ applied to their ex ante review activities	15 points for Non-DEER workpapers and 15 points for Custom Projects (5 points possible for each submetric)
Metric 3: Progress toward ex ante activity that is more self-policing	15 points for Non-DEER workpapers and 15 points for Custom Projects (5 points possible for each submetric)
Metric 4: Efforts to implement Commission adopted policy regarding the use of DEER	10 points total (5 points possible for each submetric)
Total	100 points (45 for workpapers, 45 for custom projects, 10 for DEER)

Comments are solicited both on the merits of the metrics proposed to be used to calculate incentives and the rating scale used to score performance under these metrics.

Comments on the 2010 Incentive Results

Based on the metrics and scale described above, the Commission staff and contractors who implemented the ex ante review process assigned numerical scores for each IOU’s 2010 activities. The assignment of numerical scores is based upon their experience working with the IOUs to implement the Commission’s various directives relating to the ex ante review process during the 2010-12 portfolio cycle. This assignment of numerical scores is hereby received as part of the record for this proceeding. Comments are solicited on the actual numerical scores assigned for each metric and IOU, as shown below.

PG&E: Total score results 68 out of 100 possible points.

	Workpapers		Custom Projects	
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 1:</i>				
<i>Metric 1A</i>	4	Substantial workpaper development effort through most 3P and LGP workpapers were based on out-of-date DEER versions. Workpapers uploaded by Q1 2010 deadline. Some delays in updating Phase 1 workpapers per D.11-07-030, but updated quickly after notification from staff.	3	PG&E CMPAs in December 2011 but project status was rarely in question. No sampled projects were found to be inadvertently signed. Third part projects were not initially submitted. However core and new construction project lists were being submitted.
<i>Metric 1B</i>	4	Workpapers include consideration of all required ex ante values: UES; cost; NTG; EUL. Coordination between program implementers	3	Internal coordination among the involved staff appeared to be above average. From interactions with the IOU, it seemed that full intent of D.11-07-030 was being

		and workpaper developers needs improvement. Commission staff has commented that savings values and implementation methods are linked, but implementation information is rarely in workpapers.		communicated internally. The IOU initiated baseline research and tool development. However, communication with staff and internal reviewers appeared to evolve slowly.
<i>Metric 1C</i>	2	Generally, workpapers address the need to use DEER values whenever appropriate. 2006-2008 EM&V generally not considered in revisions of ex ante values ... mainly used to drive revisions in program design. 3P and LGP workpapers often refer to out of date values and rarely include dual baseline. These workpapers may support as much as 20% of all non-custom electric claims meaning a large number of total claims are essentially unreviewed.	2	The IOUs understand they need to conduct ISP studies, establish RUL/EUL, quantify the IE effect and support early retirement claim. Project documents mostly do not demonstrate any effort to apply their understanding of these requirements. For example, early retirement claims are made on the grounds that equipment can be repaired indefinitely.
<i>Metric 1 Total (max score of 15)</i>	10		8	
<i>Metric 2:</i>				
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 2A</i>	4	QC on 3P/LGP WPs seems to be lacking, evidenced by most WPs	3	The quality of documentation of large projects at PG&E is

		<p>using out-of-date DEER values or do not appear to be updated from 2006-2008 program cycle</p> <p>PG&E staff continually engaged with contractors who develop workpapers - e.g. TVs (QDI, Energy Solutions), HVAC QM&VRF (PECI).</p> <p>No PG&E WPs rejected, however, PG&E abandoned computer and printer WPs after Commission staff comments.</p> <p>* All other workpapers with Commission review have been updated in an acceptable fashion.</p>		<p>significantly better than the quality of documentation for small projects that do not require M&V. All IOUs do not incorporate dual baseline savings estimated. PG&E appears less inclined to claim all projects as early replacement.</p>
<i>Metric 2B</i>	4	<p>Original research to establish baselines usually requires input from Commission staff, but PG&E is willing to take on the additional work.</p>	3	<p>The utility attempts to conduct research to support assumptions via secondary sources or site-specific M&V.</p>
<i>Metric 2C</i>	3	<p>Sometimes do not seem to respond to previous direction such as the use of DEER methods and values. For example, Commission staff has explained that DEER building types are the only approved building types, however, PG&E submitted several 3P workpapers that proposed new building</p>	4	<p>Implementation appears immediate in project under review, however it is less apparent that review results are quickly fed into all other similar or parallel projects.</p>

		types that would have greater savings than if same measures were applied to DEER building types. W/RT new workpapers, PG&E contractors are often unaware of requirements to use DEER assumptions whenever applicable. This has been a concern on several workpapers including HVAC QM, VRF and High EER package HVAC workpapers.		
<i>Metric 2 Total (max score of 15)</i>	11		10	
<i>Metric 3:</i>				
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 3A</i>	4	Starting with LED street lights and E* TVs, PG&E has always provided early review opportunities for their most significant WPs. Currently, they have provided advanced review opportunities on HVAC QM, VRF and LED WPs.	4	Large and small projects and tools have been brought to Commission staff's attention when in doubt of the application of the CPUC policy.
<i>Metric 3B</i>	3	Generally receptive and responsive to staff comments and direction. Sometimes abandons workpaper or aspect of workpaper when they believe additional work is not justified (e.g.; E* computers & printers; E*	4	Rare disagreements with staff; willing to implement directives as soon as possible.

		TVs for commercial applications).		
<i>Metric 3C</i>	4	For compliance with Attachment A, PG&E and Commission staff collaborated on using DEER values (integrated occupancy sensor). On televisions, PG&E engaged consultants for data collection and analysis and collaborated with Commission staff on additional analysis.	3	Appears willing. Has invited Commission staff into related studies involving panels from industry, but has not proposed any joint work.
<i>Metric 3 Total (max score of 15)</i>	11		11	
<i>Metric 4</i>				
<i>Metric 4A</i>	4	Resisted some of D.09-09-047 but moved quickly to remedy after D.11-07-030 and continue to adopt Commission staff recommendation with minimal dispute.		
<i>Metric 4B</i>	3	Generally tries to use past staff direction proactively in new workpapers relating to DEER. Sometimes inappropriate methods and values come through but are dealt with quickly when staff comments are issued. Workpaper consultants/3Ps/DIs are generally not familiar with Commission requirements for use of DEER results, methodologies and assumptions where applicable. It is common for them to develop new building types or alternative results to those in DEER that staff finds inappropriate.		
<i>Metric 4 Total (max score of 10)</i>	7			

SCE: : Total score results 56 out of 100 possible points.

	Workpapers		Custom Projects	
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 1:</i>				
<i>Metric 1A</i>	4	Substantial workpaper development effort for Phase 1 and continuing	2	Submitted CMPAs beginning February 2012. The target agreement

		through program cycle quick to update workpapers pursuant to D.11-07-030.		dates and project status were often inaccurate. Third party and new construction lists were included later.
<i>Metric 1B</i>	4	Workpapers include consideration of all required ex ante values: UES; cost; NTG; EUL. Coordination between program implementers and workpaper developers needs improvement. Commission staff has commented that savings values and implementation methods are linked, but implementation information is rarely in workpapers.	3	Internal coordination among the involved staff appeared to be average. From interactions with the IOU, it seemed that full intent of D.11-07-030 was being communicated internally. The IOU prepared a new saving calculation manual. However, communication with staff appeared to be slow and AEs not fully aware of the CPUC requirements.
<i>Metric 1C</i>	3	Generally, workpapers address the need to use DEER values whenever appropriate. 2006-2008 EM&V generally not considered in revisions of ex ante values ... mainly used to drive revisions in program design.	2	The IOUs understand they need to conduct ISP studies, establish RUL/EUL, quantify the IE effect and support early retirement claim. Project documents mostly do not demonstrate any effort to apply their understanding of these requirements. For example, early retirement claims are made on the grounds that equipment can be repaired indefinitely.
<i>Metric 1 Total</i> <i>(max score of 15)</i>	11		7	

<i>Metric 2:</i>				
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 2A</i>	3	<p>With exception of Commercial HVAC QM, SCE is generally responsive to Commission comments and dispositions. However, the level of technical review and QC on activity is spotty and sometimes it is hard to identify that any took place.</p> <p>In some cases, there appears to be lack of review of work for the inclusion of DEER assumptions and methods and scrutiny of basic technical approaches (e.g. window evaporative cooling).</p>	3	The quality of documentation of large projects at SCE is significantly better than the quality of documentation for small projects that do not require M&V. All IOUs do not incorporate dual baseline savings estimated.
<i>Metric 2B</i>	3	<p>SCE has consulted for and performed internally a lot of background research for workpapers (e.g. window film; central plant efficiency measures such as VFDs). Commission staff has had comments on much of their work and usually provide significant technical redirection.</p>	3	The utility attempts to conduct research to support assumptions via secondary sources or site-specific M&V.
<i>Metric 2C</i>	3	SCE incorporates previous reviews into subsequent workpapers. This is most evident in revisions to lighting and	3	Might implement after a time delay; however it is less apparent that review results are fed into other similar or parallel projects

		package HVAC workpapers where they have expanded the scope of the workpaper to include additional technologies or building types.		
<i>Metric 2 Total</i> (max score of 15)	9		9	
<i>Metric 3:</i>				
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 3A</i>	2	SCE has brought a few workpapers to the Commission in formative stages. While SCE has provided their workpaper development status list, which includes their WPs currently under development, SCE has only provided a few concept documents for advanced review.	2	Only large projects have been brought to Commission staff's attention and not with consistency.
<i>Metric 3B</i>	3	With exception of Commercial HVAC QM workpaper and Window Evaporative Cooling workpaper, SCE has been responsive to Commission staff comments.	3	Moderate disagreements with staff; willing to implement staff directions but requests long lead time.
<i>Metric 3C</i>	2	No significant collaborative work to date. Commission staff direction for additional work on Commercial HVAC QM was averted when SCE went to higher	2	Appears willing but has executed many industry standard practice studies without bringing Commission staff into the formative or execution

		management and achieved a less stringent disposition without requirements for additional research.		phase, just posted results.
<i>Metric 3 Total</i> <i>(max score of 15)</i>	7		7	
<i>Metric 4</i>				
<i>Metric 4A</i>	3	Resisted much of D.09-09-047, but moved quickly to remedy after D.11-07-030 and continue to adopt Commission staff recommendation with minimal dispute.		
<i>Metric 4B</i>	3	Generally acknowledges past staff direction relating to DEER. Inappropriate methods and values come through, but are dealt with quickly when staff comments are issued. However this is still a recurring issue in reviews.		
<i>Metric 4 Total</i> <i>(max score of 10)</i>	6			

SDG&E: Total score results 31 out of 100 possible points.

	Workpapers		Custom Projects	
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 1:</i>				
<i>Metric 1A</i>	2	Phase 1 workpapers uploaded by Q1 2010, however very little effort to update for 2010-2012 cycle. Some workpapers not updated in 3+- years. Compared to PG&E and SCE, SDG&E does not appear to have a robust process or adequate staff in place to develop and keep current workpapers that support their current claims let alone measures they may include later in	2	Submitted CMPA in September 2011, first among all IOUs. The project status was often inaccurate. New construction project lists were not submitted until middle of 2012.

		a cycle or in future cycles.		
<i>Metric 1B</i>	1	SDG&E has submitted only a few workpapers in Phase 2 even though their preliminary accomplishments reported to staff show measures that need workpapers. SDG&E does not appear to have an ongoing workpaper development program. Some workpapers consist of only a single spreadsheet with just a few calculations.	2	Internal coordination among the involved staff appeared to be less than average. From interactions with the IOU, it seemed that full intent of D.11-07-030 was not being communicated internally.
<i>Metric 1C</i>	1	Very little adoption of Commission direction. For example, SDG&E still retrieve whole building savings for many CFL measures from MISer even though direction is that only direct (lighting energy only) impacts can be taken from MISer. These direct impacts must then incorporate interactive effects as directed by D.11-07-030. No observed incorporation of 2006-2008 EM&V results.	1	The IOUs understand they need to conduct ISP studies, establish RUL/EUL, quantify the IE effect and support early retirement claim. Project documents mostly do not demonstrate any effort to apply their understanding of these requirements. For example, early retirement claims are made on the grounds that equipment can be repaired indefinitely.
<i>Metric 1 Total (max score of 15)</i>	4		5	
<i>Metric 2:</i>				
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 2A</i>	1	SDG&E and SCG in the past have shared in	2	All IOUs do not incorporate dual baseline

		workpaper development activities. Workpapers developed by consultants appear to have little utility staff review.		savings estimated. The quality of documentation and review of large projects at SDG&E is below average and inclination to treat all projects as early replacement much higher than others.
<i>Metric 2B</i>	2	Performed some original research for some DHW measures.	2	The utility may attempt to conduct research to support assumptions via secondary sources or site-specific M&V for very large projects. However, most projects are small. Internal review appears weaker than PG&E and SCE.
<i>Metric 2C</i>	1	Since SDG&E has provided only a few phase two workpapers, cannot determine if any cumulative experience has been incorporated.	3	Might implement after a time delay; however it is less apparent that review results are fed into other similar or parallel projects.
<i>Metric 2 Total (max score of 15)</i>	4		7	
<i>Metric 3:</i>				
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 3A</i>	1	SDG&E has not brought projects in formative stage.	2	Only large projects have been brought to ED's attention with the area of doubt ill-defined.
<i>Metric 3B</i>	1	No evidence that SDG&E has initiated an internal process to respond to Commission staff recommendations or directions. Commission staff provided SDG&E	2	Moderate disagreements with staff; unclear how staff directions are implemented. Recurring issues, especially on baseline, with minimal attempts to address over

		with a summary of workpapers missing (based on a review of an advanced claims summary submitted by SDG&E), but SDG&E has still not provided any workpapers in response.		time, instead just continuing disagree with Commission direction.
<i>Metric 3C</i>	1	No joint projects to date	1	SDG&E has not proposed any joint projects to be executed. Staff believes that potential for joint project with SDG&E exists.
<i>Metric 3 Total (max score of 15)</i>	3			
<i>Metric 4</i>				
<i>Metric 4A</i>	1	Even after D.0909047 and D.1107030 utility continues to resist Commission staff recommendations and reinterprets language (saying they are using DEER but are actually not following staff interpretations. (NOTE that this practice is most prevalent on some measures with the most straightforward approaches such as screw-in CFLs)		
<i>Metric 4B</i>	2	Generally acknowledges requirements relating to DEER. However inappropriate methods and values often come through and are slowly dealt with quickly when staff comments are issued. However this is still a recurring issue in reviews.		
<i>Metric 4 Total (max score of 10)</i>	3			

SoCal Gas: Total score results 36 out of 100 possible points.

	Workpapers		Custom Projects	
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
Metric 1:				
<i>Metric 1A</i>	2	Phase 1 workpapers uploaded by Q1 2010, however very little effort to update for 2010-2012 cycle. Some workpapers	2	Submitted CMPA in September 2011, first among all IOUs. The project status was often inaccurate. New

		not updated in 3+- years. Compared to PG&E and SCE, SCG does not appear to have a robust process or adequate staff in place to develop and keep current workpapers that support their current claims let alone measures they may include later in a cycle or in future cycles.		construction project lists were not submitted until middle of 2012.
<i>Metric 1B</i>	1	Very little information exchange between SCG and Commission staff. SCG waited to submit workpapers for many measures until they had a better idea of what their accomplishments would be about two years into program cycle. However, all phase 2 workpapers are now submitted to Commission.	2	Internal coordination among the involved staff appeared to be less than average. From interactions with the IOU, it seemed that full intent of D.11-07-030 was not being communicated internally.
<i>Metric 1C</i>	2	Have incorporated EM&V observed results for metrics such as boiler efficiency, operating water temperatures and steam pressures. Some workpapers appear to deviate from common DEER references. For example, DHW assumptions for laundry detergent workpaper are taken from communications with manufacturer's representative, while DEER uses data from	1	The IOUs understand they need to conduct ISP studies, establish RUL/EUL, quantify the IE effect and support early retirement claim. Project documents mostly do not demonstrate any effort to apply their understanding of these requirements. For example, early retirement claims are made on the grounds that equipment can be repaired indefinitely.

		RASS.		
<i>Metric 1 Total (max score of 15)</i>	5		5	
<i>Metric 2:</i>				
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 2A</i>	2	Several workpapers appear to be developed by consultants who do not have clear understanding of Commission policies, DEER methods nor commonly available references used in DEER and by most utilities. Workpapers are submitted with seemingly little SCG staff review. For example, liquid pool cover and laundry detergent WPs have EULs<1.	2	All IOUs do not incorporate dual baseline savings estimated. The quality of documentation and review of large projects at SCG is below average and inclination to treat all projects as early replacement much higher than others.
<i>Metric 2B</i>	2	There appears to be inconsistent application of care and experience. Workpapers prepared by consultants or vendors are the biggest problem with what looks like very little oversight from SCG staff. Consultants and vendors often use assumptions that are quite different from common assumptions used in DEER or that were directed in the ex ante decision.	1	The utility does not attempt to conduct research to support assumptions via secondary sources or site-specific M&V for very large projects. However, most projects are small. Internal review appears weaker than PG&E and SCE.
<i>Metric 2C</i>	2	SCG seems to have incorporated recommendations from	3	Might implement after a time delay; however it is less apparent that review

		the Phase 1 ex ante review in some basic ways such as incorporating Commission staff recommendations for common boiler efficiencies and operating temperatures. However, continues to utilize very old workpapers when staff has continually brought up the need to perform updating which often would require development of new data.		results are fed into other similar or parallel projects.
<i>Metric 2 Total (max score of 15)</i>	6			
<i>Metric 3:</i>				
<i>Metric</i>	<i>Score</i>	<i>Comments</i>	<i>Score</i>	<i>Comments</i>
<i>Metric 3A</i>	1	SCG has not brought projects in formative stage.	2	Only large projects have been brought to ED's attention with the area of doubt ill-defined.
<i>Metric 3B</i>	1	No evidence that SCG has initiated internal process to respond to Commission staff recommendations or directions. SCG has provided all workpapers to support 2010-2012 claims, but most were not provided until late 2011. Commission therefore has had little opportunity to comment on SCG workpapers.	2	Moderate disagreements with staff; unclear how staff directions are implemented. Some recurring issues, especially on baseline, with minimal attempts to address over time rather than disagree with Commission direction.
<i>Metric 3C</i>	1	No joint projects to date	1	SCG has not proposed any joint projects to be

				executed. Staff believes that potential for joint project with SCG exists.
<i>Metric 3 Total (max score of 15)</i>	3		5	
<i>Metric 4</i>				
<i>Metric 4A</i>	3	Resisted some of D.09-09-047 but moved quickly to remedy after D.11-07-030 and continue to adopt Commission staff recommendation with minimal dispute.		
<i>Metric 4B</i>	3	Generally acknowledges past staff direction relating to DEER.		
<i>Metric 4 Total (max score of 10)</i>	6			

Summary Table of Performance Scores

Utility	Performance Score (out of 100 points maximum)
PG&E	68
SCE	56
SDG&E	31
SoCal Gas	36

Comments on the Size of the Caps and Percentages Used for Incentive Payments

Comments are solicited on the merits of adopting the proposed caps on incentive payments, both individually with respect to the separate elements for the management fee, for the performance metrics, and for the incentive payment overall. In expressing either support or opposition to the proposed caps and percentages, parties should defend their positions with relevant factual and policy arguments. In determining the appropriate caps and percentages for awarding incentive payments, relevant considerations would include:

- 1) Amounts to provide a meaningful incentive sufficient to motivate management to meet designated goals and; and
- 2) Limited in amount to preserve ratepayers’ interest in a cost-effective and fair outcome.

The proposed management fee would be 2% of each IOUs' portfolio. The "performance bonus" incentive amount distributed under this modified mechanism would be capped at 3% of each IOUs' portfolio. Overall incentive payments would be capped at 5% of expenditures (approximately \$120 million for the three-year 2010-2012 portfolio cycle).

IT IS RULED that:

1. One round of concurrent opening comments are hereby solicited regarding the merits of the proposed methodology for calculating incentive payments for the 2010-2012 cycle, as set forth in this ruling. These comments shall be due on October 5, 2012.
2. The data included in this ruling regarding numerical scores shown for each metric based on actual utility performance during calendar is hereby received as part of the official record in this proceeding.
3. Although the actual applicable figures for 2011 and 2012 have not yet been made a part of this record, the Commission may determine to use a similar approach to calculate incentive earnings for 2011 and 2012. Parties may comment on the reasonableness in principle of applying a similar approach for 2011 and 2012 activity, as outlined above.

Dated September 25, 2012, at San Francisco, California.

 /s/ MARYAM EBKE for
 Thomas R. Pulsifer
 Administrative Law Judge