

**PUBLIC UTILITIES COMMISSION**505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298**FILED**10-07-08
02:42 PM

October 7, 2008

Agenda ID #8004
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 07-01-024, et al.

This is the proposed decision of Administrative Law Judge (ALJ) Gamson. It will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on the proposed decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the proposed decision as provided in Article 14 of the Commission's Rules of Practice and Procedure (Rules), accessible on the Commission's website at www.cpuc.ca.gov. Pursuant to Rule 14.3, opening comments shall not exceed 15 pages.

Comments must be filed either electronically pursuant to Resolution ALJ-188 or with the Commission's Docket Office. Comments should be served on parties to this proceeding in accordance with Rules 1.9 and 1.10. Electronic and hard copies of comments should be sent to ALJ Gamson at dmg@cpuc.ca.gov and the assigned Commissioner. The current service list for this proceeding is available on the Commission's website at www.cpuc.ca.gov. The proposed decision is also being served on the service list of A.08-07-021 et al.

/s/ ANGELA K. MINKIN
Angela K. Minkin, Chief
Administrative Law Judge

ANG:jt2

Attachment

Decision **PROPOSED DECISION OF ALJ GAMSON** (Mailed 10/7/2008)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Southern California Edison Company's
Application for Approval of Embedded Energy
Efficiency Pilot Programs for 2007-2008.

Application 07-01-024
(Filed January 16, 2007;
reopened February 19, 2008)

And Related Matters.

Application 07-01-026
Application 07-01-029
Application 07-01-030

**ORDER ADDRESSING PETITIONS FOR MODIFICATION OF
DECISION 07-12-050**

TABLE OF CONTENTS

Title	Page
ORDER ADDRESSING PETITIONS FOR MODIFICATION OF DECISION 07-12-050	2
1. Summary	2
2. CWA Petition	2
2.1. Background	2
2.2. Positions of Parties	5
2.3. Discussion	7
2.3.1. Energy Savings and Cost-effectiveness	9
2.3.2. Operational Efficiencies	12
2.3.3. The Water Action Plan	14
2.3.4. A Scaled-down Proposal	15
2.3.5. Energy Utility Energy Efficiency Program Applications	16
3. SCE/SoCal Gas Petition	17
4. Comments on Proposed Decision	18
5. Assignment of Proceeding	18
Findings of Fact	18
Conclusions of Law	20
ORDER	21

**ORDER ADDRESSING PETITIONS FOR MODIFICATION OF
DECISION 07-12-050****1. Summary**

This decision denies the Petition of the California Water Association (CWA) for Modification of Decision (D.) 07-12-050 (Petition). D.07-12-050 approved pilot water conservation programs within the energy utilities' energy efficiency programs. However, we direct that a subset of the programs shall be considered in the Pacific Gas and Electric Company and Southern California Edison Company (SCE) in the energy utility 2009-2011 energy efficiency program application proceeding, Application 08-07-021 et al., if they do not duplicate existing programs.

This decision also approves the unopposed Petition of SCE to modify D.07-12-050 to cancel a pilot program, the Lake Arrowhead Water Conservation Project.

2. CWA Petition**2.1. Background**

D.07-12-050 approved pilot water conservation programs within the energy utilities' energy efficiency programs, also known as "embedded energy efficiency." D.07-12-050 noted that California must both conserve water and reduce the amount of energy needed to meet water customer demand. The Commission's Water Action Plan¹ commits this agency to strengthen water conservation programs to a level comparable to the energy efficiency achieved by

¹ ftp://ftp.cpuc.ca.gov/PUC/hottopics/3water/water_action_plan_final_12_27_05.pdf

the energy utilities we regulate. The Water Action Plan also emphasizes the importance of reducing the amount of energy needed by water utilities for water pumping, purification systems, and other water processes such as desalination. In addition, the plan supports programs to reduce energy waste by water utilities from causes such as system leaks, poorly maintained equipment, defective meters, unused machines left idling, and improperly operated systems.

D.07-12-050 stated that if the energy utilities can create cost-effective energy savings by encouraging water conservation, then they should add water conservation programs to other more direct energy-saving programs as part of the utilities' energy efficiency portfolio. Ordering Paragraph 1 of D.07-12-050 states: "The Commission is dedicated to allowing utilities to incorporate water conservation strategies in their energy efficiency programs to the extent that the cost-effectiveness of these strategies can be accurately measured." However, as a threshold matter, D.07-12-050 noted that we must address several key questions about the actual energy savings related to reduced water consumption.

In D.07-12-050, we approved one-year pilot programs for SCE and Pacific Gas and Electric Company (PG&E) through which they will develop partnerships with public water agencies, undertake specific water conservation programs, and measure the results. The decision approved approximately \$6.4 million in programs with municipal water agencies in California. We anticipated that the results of this pilot process would inform later decisions about the incorporation of water conservation efforts in the energy efficiency programs for 2009-2011 and beyond.

In comments on the proposed decision leading up to D.07-12-050, CWA – representing a group of regulated water utilities – had sought to have energy utilities pursue energy efficiency opportunities with the regulated water

companies, not just municipal water agencies. However, the record in the proceeding did not provide the Commission with enough information to consider such programs. In D.07-12-050, the Commission directed the energy utilities to contact Class A and B regulated water companies that are their customers and meet with each company, as required, to determine the potential for improving the efficiency of energy use for treatment and delivery of water by that utility. The Commission also directed the energy utilities to “establish a plan and schedule for pursuing those energy efficiency opportunities that can be accomplished within the bounds of existing energy efficiency programs” and to “identify opportunities for efficiency improvements that each water utility can pursue on its own, and those which may require a new or augmented energy utility program offering.” The energy utilities were to accomplish these tasks within 90 days, or by approximately March 20, 2008.

In an April 30, 2008 filing styled as a “Request,” CWA confirmed that PG&E and SCE each filed reports with the Commission on March 19, 2008, describing their respective meetings with one or more of CWA’s water utility members as directed by D.07-12-050. In its Request, CWA sought approval of a number of operational energy efficiency projects between six water companies and either PG&E or SCE.

Administrative Law Judge (ALJ) Gamson issued a Ruling on June 27, 2008 finding that CWA, its water utility members, and the affected energy utilities had followed the Commission’s guidance, and finding value to the public in considering the programs which CWA proposed (while not forming any judgment as to the merits of the programs themselves). While rejecting CWA’s Request as procedurally improper, the Ruling allowed CWA to re-file its request

as a Petition for Modification of D.07-12-050 in order to consider the substance of the matter.

2.2. Positions of Parties

On July 9, 2008, CWA filed a Petition for Modification of D.07-12-050 on behalf of six Commission-regulated water utilities². CWA proposes operational energy efficiency projects to demonstrate potential improvements in wire-to-water operational efficiency when the appropriate combination of induction motors, pumps, variable frequency drives and Supervisory Control and Data Acquisition (SCADA) systems are operated at their optimal efficiency levels. The overall goal is to achieve and document at least a 10% differential optimal energy efficiency.

CWA states that the water utilities strongly believe that the projects they propose will help the energy utilities achieve their energy efficiency goals and mandates. If project goals are met and results are deemed promising, CWA says the results can be applied to other pumping facilities in order to achieve comparable and more comprehensive results.

CWA requests initial funding for the projects of \$1.331 million, spread among the six water utilities. The energy utilities would provide the initial capital for the projects. CWA claims such an arrangement is justified because these test projects may demonstrate energy savings that will, when the program

² The water utilities are Alco Water Systems, San Jose Water Company, California Water Service, Golden State Water Company, Del Oro Water and East Pasadena Water Company. San Jose Water Company, Alco Water Service and Del Oro Water Company are in PG&E service territory, East Pasadena Water Company is in SCE service territory, and Golden State Water Company and California Water Service are in both PG&E and SCE service territory.

ultimately is expanded, benefit all of the energy utilities' ratepayers throughout California. Further, CWA asserts that the water utilities do not have the funding mechanisms available to the energy utilities for such projects because the only funding mechanisms available to the water utilities are the once-in-three-years general rate cases.

PG&E and SCE, filing jointly (Joint Utilities), believe the CWA Petition should be denied because:

- CWA's proposed projects are not designed to conserve energy through conserving water, but to conserve energy regardless of water usage. This result can in large part be accomplished through existing energy efficiency programs;
- CWA's proposals would unjustifiably impose all costs on energy customers; and
- CWA's proposals lack credible estimates of energy savings and cost effectiveness, as required by D.07-12-050.

On the other hand, Joint Utilities comment that, should the Commission decide to grant the Petition, the proposal should be modified so that energy utilities receive credit for any energy efficiency that results from the proposed projects, and CWA should demonstrate that its projects will result in meaningful energy savings, subject to Commission evaluation, measurement and verification. Further, the Joint Utilities would limit the number of projects, reduce their costs, and have the Commission identify a funding source for any approved projects.

The Commission's Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN), filing jointly (DRA/TURN), advocate that the Commission should deny the CWA Petition. DRA/TURN contend that CWA fails to explain why the proposed projects should be funded by energy

ratepayers as part of the pilot programs adopted in D.07-12-050. Further, DRA/TURN believe CWA's proposal does not provide accountability for energy ratepayer's dollars, because the water utilities have already been funded through their general rate cases to make the capital improvements they now request energy ratepayers subsidize.

However, DRA/TURN do recommend partial approval of the Petition. DRA/TURN would limit participation in the pilot to those water companies and districts where the resulting impacts to their ratepayers are minimal in terms of costs and water supply issues. DRA/TURN argue this would minimize the capital costs involved while the operational and maintenance costs and water supply impacts could easily be absorbed with a minimal effect on water ratepayers. Further, DRA/TURN would have any energy ratepayer funds that subsidize water company capital improvements be managed by the affected energy utilities, while evaluation, measurement and verification of any pilot program managed by the Commission's Energy Division. Finally, DRA/TURN argue that the water utilities should conduct a cost-benefit analysis at the conclusion of any approved projects to determine the impact of water ratepayers.

2.3. Discussion

D.07-12-050 provided that regulated water utilities could work with regulated electric utilities to propose pilot projects to save energy and water, but did not guarantee Commission approval for any such approval. The decision approved a variety of embedded energy programs for municipal water companies, thereby providing guidance for acceptable programs involving regulated water utilities.

As discussed above, according to D.07-12-050, the energy utilities met with representatives of certain regulated water companies and filed reports on their

discussions. CWA reports that these parties have continued to meet to discuss the projects proposed in the Petition. We find that our directive to the energy utilities to meet with certain regulated water utilities has been fulfilled. We appreciate the efforts of CWA, its member companies, and the energy utilities to engage in discussions and to pursue possible energy efficiency projects together.

D.07-12-050 set forth the following objectives for considering the merits of approving pilot programs, and applied these criteria in making that assessment:

1. Reduce energy consumption related to water use in a manner that should prove to be cost-effective for all of the customers of the sponsoring energy utilities;
2. Create a methodology for calculating cost-effectiveness and evaluating water-derived energy efficiency programs;
3. Determine if, in fact, it is cost-effective to save energy through programs that focus on cold water;
4. Better understand how energy is used in the California water system;
5. Test a diverse set of water energy programs and measures, with particular emphasis on new technologies and low-income customers;
6. Better understand what programs and measures are likely to save water and energy;
7. Provide the basis for meaningful ex-post project assessment;
8. Stimulate new partnerships; and
9. Better understand the potential benefits of pursuing each of the strategies identified in the October 16, 2006 ruling in A.07-01-024, et al.:
 - a. Conserving water;
 - b. Switching to less energy-intensive water sources; and
 - c. Increasing the energy efficiency of current water delivery.

The same criteria we approved in D.07-12-050 continue to be applicable here. CWA acknowledges that its Petition does not conform to principles of D.07-12-050. CWA claims that the Petition nevertheless is consistent with that decision because CWA and the energy utilities followed the Commission's direction to meet, and discuss possible energy efficiency programs. Following the direction to meet and discuss possible programs was a necessary condition for the filing of this Petition, but is not sufficient to approve the Petition. CWA has provided no record basis to consider the Petition in regards to the Commission's criteria. By contrast, Joint Utilities and DRA/TURN provide evidence that CWA's Petition is not consistent with the D.07-12-050 criteria; most importantly, the Petition does not satisfy the requirement that energy savings be related to water savings. This requirement is the underpinning of each of the nine criteria in D.07-12-050. Failure to satisfy the Commission's criteria could be sufficient basis to deny the Petition. Yet, CWA seeks to justify its request on other bases. We will consider CWA's alternative rationales for its proposal.

2.3.1. Energy Savings and Cost-effectiveness

CWA states that it believes the projects described in the Petition will help the energy utilities achieve their energy efficiency goals and mandates. CWA explains that the test projects proposed may demonstrate energy savings that will, when the program is ultimately expanded, benefit all of the energy utility's ratepayers. To support these points, CWA provides estimates energy savings for each of the proposed projects. For example, for Del Oro Water Company, the proposed project is a variable-frequency drive (VFD) installation at the Pines District No. 2 Booster. A one-line statement asserts that this project is estimated the save 45,000 kilowatt-hours per year, compared to a single speed pump.

Pub. Util. Code § 454.5(b)(9)(C) requires that energy utilities first meet their “unmet resource needs through all available energy efficiency and demand reduction resources that are cost-effective, reliable and feasible.” D.07-12-050, in Ordering Paragraph 6, required each approved program to utilize the Energy Division’s water embedded energy calculator to estimate energy savings and evaluate cost-effectiveness. However, there are no specific calculations in the record in this proceeding to support the calculation of estimated energy savings, or to calculate cost-effectiveness, for the VFD installation project for Del Oro Water Company. Similarly, each of the other proposed projects includes no more information on energy savings estimates than the one-line assertion cited in this example, and no cost-effectiveness calculations for any of the proposed projects. Nor does the Petition provide cost-effectiveness analysis for the proposed projects as a whole.

Even if we are to accept CWA’s unsupported estimates of energy savings per project, there is no evidence that any or all of the projects, or any subset of the projects, proposed in the Petition are cost-effective. CWA itself simply claims the projects “may” demonstrate energy savings, and then only if the set of proposed projects expands in the future to an unspecified level. There is insufficient evidence to approve all or part of the Petition on the basis of energy savings or cost-effectiveness.

Further, CWA proposes that the entire capital cost of the projects be borne by the electric utilities. All of the direct benefits (lower energy costs) of the projects would accrue to the water companies (and potentially their ratepayers, depending on regulatory treatment), and all of the costs of the projects would accrue to the electric utilities (and their ratepayers). If the water utilities achieve

the stated goal in the Petition of 10% energy savings, energy utilities would gain an indirect benefit from decreased demand for electricity.

However, we generally do not approve energy efficiency programs – other than public purpose-based low-income programs – that pay all of the capital costs for any energy efficiency investment by an energy utility customer.³ This is because our policy is to provide only the incremental incentive amounts to the customer needed to stimulate the customer to make energy efficiency investments, and thus achieve maximum benefits to both the customer and the energy utility and its ratepayers. To do otherwise would unreasonably subsidize the customer at the expense of the energy utility and its ratepayers. This is exactly what CWA proposes.

As CWA provides neither cost-effectiveness calculations nor sufficient information to accurately calculate cost-effectiveness in the Petition, there is no way to know for certain if the proposed programs could be cost-effective for electric utilities and their ratepayers. It is possible to conjure a guess using reasonable assumptions. For example, CWA proposes a program for Del Oro Water Company with an estimated savings of 45,000 kilowatt-hours/year, and an estimated project cost of \$100,000. Using the Commission's water embedded energy calculator, the project shows a cost-effectiveness (using the Total Resource Cost test) of about 0.58, well below the 1.0 level minimum level for cost-effectiveness. This number is based on assumption of no customer capital contribution, a net-to-gross ratio of 1.0, an expected useful life of 20 years, and the pump running during PG&E peak hours. The actual number may vary from

³ In every program funded by D.07-12-050, the water utility and energy utility each contributed financially to the project.

this example, but this example shows that it is unlikely that the projects would be cost-effective.

However, our policy is that not every energy efficiency program must be cost-effective, but that the energy efficiency portfolio for each energy utility must be cost-effective. This leaves room for programs which are not cost-effective in the short-term, but will yield lasting savings in future years. For example, we recently issued D.08-09-040, our California Energy Efficiency Strategic Plan (Strategic Plan). This forward-looking document provides a vision for energy efficiency programs through 2020 and beyond, anticipating long-term value for programs which may not immediately be cost-effective. The decision anticipates that certain Strategic Plan programs would be considered and implemented in our current energy efficiency proceeding for 2009-2011. While it is possible to approve non-cost effective programs such as the CWA proposal if there is long-term value, we are reluctant to consider such programs in isolation. Our energy efficiency proceedings are designed to enable this Commission to weigh the costs and benefits of each program, as well as the relative merit of each program in the entire portfolio as a whole based on a solid evidentiary record and consistent with our policy direction. We are currently engaged in this review process for the 2009-2011 energy efficiency portfolios in A.08-07----, and CWA does not provide any rationale for a special exemption from the portfolio approval proceeding that applies to all other energy efficiency program proposals.

2.3.2. Operational Efficiencies

CWA claims the proposed projects in the Petition will demonstrate potential improvements in “wire-to-water operational efficiency” when certain mechanical and computer systems are operated at their optimal efficiency levels. The Petition describes four phases for the proposed projects and proposes to

measure the energy savings achieved. CWA states that if project goals are met and the results are deemed promising, the same procedure can be applied elsewhere to achieve comparable and more comprehensive results.

As DRA/TURN and Joint Utilities point out, each project would involve potential energy savings, but there is no discussion of water savings. The focus of D.07-12-050 was embedded energy; that is, methods to conserve energy through conserving water. Nothing in CWA's Petition indicates the potential to save water.

On the other hand, there is value in seeking to improve operational efficiency for water utilities in order to reduce energy usage, just as there is for any other energy user. If there are specific energy efficiency measures applicable to water companies, there may be value in exploring such options if the projects would otherwise be consistent with our energy efficiency policies.

CWA claims that water utilities have no available funds for energy efficiency capital projects because their investments are already fully subscribed to higher priority projects, and new funds are only available during general rate cases every three years. Therefore, CWA asserts that the only practical alternatives are funding mechanisms associated with energy efficiency program funds or through the proposal in this Petition. Water utilities, like any other energy user, may participate in appropriate energy utility energy efficiency programs.⁴

⁴ Water utilities also may participate in our open proceeding (A.08-07-021, et al.), energy utility energy efficiency programs for 2009-2011; we encourage and would welcome such participation in that proceeding.

Energy utilities and their ratepayers should not fund non-cost-effective energy efficiency programs simply because water utilities may need to wait to raise funds to provide capital for programs for their own benefit.⁵ There would have to be an alternative compelling public interest rationale (such as the equity rationale in funding low-income energy efficiency programs or the long-term value of programs in the Strategic Plan) for us to require energy utilities and their ratepayers to fund non-cost-effective energy efficiency projects. CWA's public interest rationale lies with the goals of the Water Action Plan (discussed below).

We conclude that the potential for water utility operational efficiencies is not a sufficient public interest rationale for approving programs which are not likely to be cost-effective.

2.3.3. The Water Action Plan

CWA claims that its participating members have worked with the Commission's Division of Water and Audits to engage in efforts to reduce energy consumption by 10%, as called for in the Commission's Water Action Plan. As discussed above, the Water Action Plan does emphasize the importance of reducing the amount of energy needed by water utilities for various purposes, as well as reducing energy waste. We continue to support these goals.

Energy conservation and efficiency for water utilities can be achieved in many ways, including efforts by the companies themselves to find cost-effective solutions that save energy, water and money. As mentioned previously, water

⁵ In addition, water utilities may have other sources of funds between rate cases for capital projects, such as debt and equity markets, and may choose to reallocate funds if energy efficiency projects are of higher value.

utilities also have the opportunity to participate in energy utility energy efficiency programs and to work with energy utilities in our current 2009-2011 portfolio application proceeding to improve upon or propose new programs or projects. All of these actions would be consistent with our Water Action Plan.

CWA appears to posit a tension between the Water Action Plan and our overall energy efficiency program: CWA's view appears to be that any energy efficiency program that benefits water utilities should be approved, regardless of consistency with long-established energy efficiency policies, simply because it promotes the Water Action Plan. We do not agree with this interpretation nor do we see this tension. The concept of cost-effective energy efficiency is at the heart of both the Water Action Plan and our broader energy efficiency policy. Moreover, the Water Action Plan calls specifically for energy savings resulting from water conservation measures, which is not a component of CWA's proposal. CWA's proposal is a straightforward energy efficiency program and must be presented and reviewed in that context.

A Scaled-down Proposal

Joint Utilities and DRA/TURN both argue that the costs and number of proposed projects are excessive. Still, both suggest that partial approval of CWA's proposal may be appropriate, with certain safeguards, including oversight of any approved program. Joint Utilities suggest bringing project costs more in line with the costs of the projects approved in D.07-12-050. Joint Utilities argue that the CWA proposal should be treated as one project. Therefore, the costs per project in the Petition would be \$1.3 million, as compared to about \$300,000 per project approved in D.07-12-050.

Joint Utilities argue that a cost reduction could be accomplished in different ways, such as by approving six of the 13 individual projects (one per

each participating water utility), three in PG&E jurisdiction and three in SCE jurisdiction. In order to limit ratepayer exposure, DRA/TURN suggest that participation could be limited to those water utilities or districts which already have a SCADA system and a large customer base, and the water supply infrastructure can spare taking down a well or pump for testing purposes.

Neither the Joint Utilities nor DRA/TURN provide any specific rationale for approving a scaled-down proposal, other than reducing the overall costs. Neither suggests that having fewer or different programs would be beneficial or neutral to energy ratepayers or energy utilities. In its Reply to Responses to its Petition, CWA does not address the suggestions of either Joint Utilities or DRA/TURN to reduce the scale or cost of the CWA proposal. CWA continues to seek full approval of its proposal.

We have found the CWA proposal as a whole does not save water and is unlikely to be cost-effective as proposed. We have also found that there are multiple alternative mechanisms for water utilities to pursue energy efficiency efforts. While a scaled-down version of the proposal may ultimately achieve cost-effective energy savings and fulfill the goals of the Water Action Plan, we do not have sufficient information in this record to determine if these projects add value for ratepayers over and above the value from existing incentive programs that would merit differential treatment.

2.3.4. Energy Utility Energy Efficiency Program Applications

In D.08-09-040, our Strategic Plan decision, we deferred to the assigned ALJ and Commissioner to pursue implementation of the Strategic Plan, including incorporation of appropriate elements into the energy utilities energy efficiency program applications for 2009-2011. Given our intent to further

explore the water/energy nexus, we believe it is appropriate to consider a scaled-down pump programs in the 2009-2011 energy utility energy efficiency program application docket.

When the energy utilities update their 2009-2011 energy efficiency applications to take into account Strategic Plan issues (as provided for in D.08-09-040), they shall consider the water pump projects proposed here, including whether the projects are eligible for existing energy efficiency incentives. The energy utilities and the water utilities should work together to design a program that will conform to the policy goals and rules set forth by this Commission. If the six water pump programs are ultimately approved, the Commission's Energy Division should prepare a report after one year to evaluate the costs and benefits of the programs and recommend whether they should continue.

3. SCE/SoCal Gas Petition

On September 5, 2008, SCE and Southern California Gas Company (SoCalGas) filed a Petition for Modification of D. 07-12-050. The SCE/SoCalGas Petition proposes to cancel the Lake Arrowhead Water Conservation Partnership (LAWCP) portion of the approved Water-Energy Pilot Program (Pilot). SCE/SoCalGas contend the LAWCP is no longer viable because the water partner for this program, the Lake Arrowhead Community Services District (LACSD), no longer supports the program due to staff resource and time constraints. LACSD also recently adopted an ordinance which significantly affects the program by limiting irrigation to three days a week, thus negatively impacting the technology being tested in the Pilot. In addition, the Petition claims that alternatives have been investigated but no viable alternative exists. No responses were filed to this Petition.

It is unfortunate that this project cannot go forward. However, we agree that the circumstances do not allow it to continue. SCE/SoCalGas' proposed changes to D.07-12-050 are reasonable. We will modify D.07-12-050 using SCE/SoCalGas' proposed changes.

4. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on _____ and reply comments were filed on _____ by _____.

5. Assignment of Proceeding

This proceeding was categorized as ratesetting. The assigned Commissioner is Dian M. Grueneich and the assigned ALJ is David M. Gamson.

Findings of Fact

1. The Commission's directive in D.07-12-050 to the energy utilities to meet with certain regulated water utilities and file a report has been fulfilled.
2. The CWA Petition does not address the Commission's criterion in D.07-12-050 that energy savings be related to water savings. This requirement is the underpinning of each of the nine criteria in D.07-12-050.
3. The CWA Petition seeks funding for test projects which would save energy, but not water.
4. The CWA Petition provides estimated energy savings each of the proposed projects, but no cost-effectiveness information.
5. CWA's proposed projects do not include any capital contribution from the water companies, thus not minimizing the costs to electric ratepayers.

6. CWA's proposed projects are not likely to be cost-effective.
7. CWA's Petition is solely focused on water pump projects to improve operational efficiency of water utilities.
8. Water utilities may fund their own energy efficiency activities which are cost-effective from their own perspective.
9. Water utilities may participate in existing energy utility energy efficiency programs and may propose new or modified energy efficiency programs in the Commission's 2009-2011 energy efficiency program application proceeding (A.08-07-021, et al.).
10. The Commission's Water Action Plan emphasizes the importance of reducing the amount of energy needed by water utilities for various purposes, as well as reducing energy waste.
11. The energy efficiency goals of the Water Action Plan and the Strategic Plan are consistent.
12. The projects proposed by CWA may be eligible for incentives under existing energy utility energy efficiency programs.
13. CWA did not provide specific wording to carry out all requested modifications to the decision language. It is not clear what changes can be made to D.07-12-050 to effectuate CWA's request, all or in part.
14. The LAWCP is no longer viable because a) the water partner for this program can no longer support the program, b) LACSD recently adopted an ordinance which significantly affects the program, and c) no viable alternative exists.
15. SCE/SoCalGas proposed specific modifications to D.07-12-050.

Conclusions of Law

1. Following the Commission's directive in D.07-12-050 to the energy utilities to meet with certain regulated water utilities and file a report provides insufficient rationale for considering CWA's Petition, in and of itself.
2. The Petition does not meet the Commission's criteria in D.07-12-050 for approval of embedded energy efficiency projects.
3. The Petition does not establish that estimated energy savings would be cost-effective for any or all of the proposed projects.
4. The potential for water utility operational efficiencies is not a sufficient public interest rationale for approving projects which are not likely to be cost-effective.
5. New energy efficiency programs for water utilities should be considered if they are consistent with the Water Action Plan and with the Commission's energy efficiency policies, including the California Energy Efficiency Strategic Plan, and are not duplicative of existing energy efficiency programs.
6. Water utilities can comply with the energy conservation and efficiency goals of the Water Action Plan in many ways. These include efforts by the companies themselves to find cost-effective solutions that save both energy and money, participation in existing energy utility energy efficiency programs, and participating in our current energy efficiency proceeding to improve upon or propose new programs.
7. The appropriate procedural vehicle to consider the six water pump projects is in A.08-07-021, et al., the energy utilities' 2009-2011 energy efficiency program applications.
8. The Lake Arrowhead Water Conservation Partnership should be cancelled.
9. SCE/SoCalGas' proposed modifications to D.07-12-050 are reasonable.

O R D E R**IT IS ORDERED** that:

1. The July 9, 2008 Petition for Modification of Decision (D.) 07-12-050 filed by the California Water Association (CWA) is denied.
2. PG&E and SCE shall consider the CWA proposal in their update of their portfolio applications in A.08-07-021 .
3. If ultimately approved in A.08-07-021, et al., one year from the inception of the six programs, the Energy Division shall report to the Commission on the costs and benefits of the projects and recommend whether they should continue.
4. The September 5, 2008 Petition for Modification of D. 07-12-050 filed by Southern California Edison Company and Southern California Gas Company) is approved. D.07-12-050 is modified as follows:

1. Modify section 6.9.1.2. on page 67 as follows:

"6.9.1.2 Lake Arrowhead Water Conservation – SCE proposes working with Lake Arrowhead to deliver indoor water-conserving devices to year-round residents and outdoor retrofits to the largest residential water consumers.

~~**Delete the following language:** SCE considers Lake Arrowhead to be one of the highest water embedded energy districts in its service area, so this program has the highest likelihood of being cost-effective. This program has the added advantage of having the utility collaborate directly with a retail water provider in a physically constrained area. We approve this program along with a rigorous impact analysis of its effect."~~

Add the following language: *The Commission is canceling this pilot program because of changes in the law, resource constraints of the water partner, and time constraints imposed by the pilot."*

2. Modify section 6.9.2.3. on page 70 as follows:

“Lake Arrowhead/SCE/SoCal Gas Water Conservation – SoCalGas proposes an Indoor/Outdoor Retrofit Program for residential homes in Lake Arrowhead, California with SCE and Lake Arrowhead.

Delete the following language: ~~In the proposed decision, the assigned ALJ found that SoCalGas’ involvement in this program would be duplicative of SCE’s Lake Arrowhead water conservation program, and that it would be unlikely to provide us with further useful information. On this basis, he recommended not approving it. In comments on the proposed decision, SoCalGas, SCE, DRA, and TURN strongly disagreed, arguing that SoCalGas’ involvement is consistent with SCE’s and certainly complementary, but that it is in no way duplicative. Since the approved evaluation process will include measurement of gas savings resulting from this program, we can see merit to allowing the gas utility to participate. Thus, we approve this portion of SoCalGas’ proposed program.”~~

Add the following language: *“The Commission is canceling this pilot because of changes in law ,resource constraints of the water partner, and time constraints imposed by the pilot.”*

3. Modify the text of section 6.9.2.1. Evaluations on page 73 of D.07-12-050 by deleting the paragraph entitled “Residential Indoor/Outdoor for Lake Arrowhead” in its entirety:

~~“Residential Indoor/Outdoor for Lake Arrowhead (SCE). This evaluation study would use billing data to determine if the residential retrofits in this area do result in water savings. For reasons stated earlier, we approve this study.”~~

4. Modify the text of the Findings of Fact section on page 92 of D.07-12-050 by deleting paragraph 20 in its entirety:

~~“20. SCE considers Lake Arrowhead to be one of the highest water embedded energy districts in its service area, so its program has the highest likelihood of being cost-effective.”~~

5. **Modify the text of the Findings of Fact section on page 92 of D.07-12-050 by deleting paragraph 24 in its entirety:**
~~“24. Since SoCalGas’ Lake Arrowhead water conservation proposal complements the SCE Lake Arrowhead water conservation program, it is it is (sic) reasonable to approve it.”~~
6. **Modify the text of the Findings of Fact section on pages 92, 93, and 94 of D.07-12-050 by consecutively renumbering all numbered paragraphs after paragraph 19.**
7. **Modify the text in Table (sic) 1, 6 and 7 on page 5, 58 and 101 respectively in the following manner:**
 - Delete:** Lake Arrowhead Water Conservation \$176,500 on line 3;
 - Change:** the “CPUC Adopted \$” for SCE’s “Water Leakage” program from \$300,000 to \$476,500 on line 4;
 - Delete:** LASCD/SCE/SoCalGas Water Water (sic) Conservation \$150,000 on line 12;
 - Change:** the total “CPUC Adopted \$” from \$3,632,907 to \$3,482,907 on line 13;
 - Delete:** Residential Indoor/Outdoor for Lake Arrowhead (SCE and SCG) \$91,000 on lines 24 and 25;
 - Change:** the total “CPUC Adopted \$” from \$967,000 to \$876,000 on line 29;
 - Change:** the “total evaluation and studies (EM&V)” from \$2,737,300 to \$2,646,300 on line 36; and
 - Change:** the “Total Pilot (Pilot + Evals + Studies)” from \$6,370,207 to \$6,129,207.
8. **Modify the text in Table 8 on page 103 in the following manner:**
 - Change:** SCG “Program Funding” from \$586,407 to \$436,407;
 - Change:** total “All IOUs” “Program Funding” from \$3,632,907 to \$3,482,907;
 - Change:** total “All IOUs” “% of Evaluations and Studies” from \$2,737,300 to \$2,646,300 and adjust the IOUs contributions accordingly; and

Change: "Total IOU \$" for "All IOUs" from ~~\$6,370,207~~ to \$6,129,207 and adjust the IOUs contributions accordingly.

5. The decision shall also be served on the service list of A.08-07-021 et al.
6. Application 07-01-024 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

