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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 SCHEDULING WORKSHOP AND PROVIDING AGENDA

This ruling provides notice of a workshop set for August 20, 2012, starting at 10:00 a.m., in the Commission Courtroom, State Office Building, 505 Van Ness Avenue, San Francisco California, to address various technical issues in connection with the consideration of appropriate reforms to the Risk/Reward Incentive Mechanism for the 2013-2014 program cycle. A carryover day of August 21, 2012, will also be reserved, as needed, to complete the workshop discussion on the designated topics. In comments filed on July 16, 2012, parties presented a range of proposals in terms of how an incentive mechanism should apply for the 2013-2014 cycle. Certain parties propose only limited incremental changes to the mechanism previously used for the 2006-2008 and 2009 periods. Other parties propose more extensive reforms. Various parties also offered suggestions on possible topics to be discussed in a workshop. This ruling develops a general agenda for the workshop, taking into consideration the parties' suggested topics.

Accordingly, a workshop is hereby scheduled to provide a forum for discussion of the designated topics outlined in the appendix to this ruling. The focus of this workshop will be on incentive reforms directed at resource programs for 2013-2014. A separate ruling will address further steps to develop a record on incentive reforms covering non-resource programs.

The selected workshop topics do not imply any preference for one incentive approach over another among the proposals presented. The goal of the workshop is to get beyond mere repetition of parties' previously filed comments, but to encourage the exchange of new insights, creative solutions, and innovative ideas regarding the possible design and implementation of effective incentives to promote the achievement of the Commission's energy efficiency goals and policies. Based on insights gained from the workshop and enhanced, clarified mutual understanding of others' views and positions, parties will hopefully be better equipped to offer the Commission more specific, better informed, and more complete proposals for incentive reform for resource programs for the 2013-2014 cycle.

The general format of the workshop will provide for an initial time allotment for each workshop participant to present opening remarks on a respective topic area. Following opening remarks, a question-and-answer session will follow, enabling participants to direct specific questions to other workshop participants for response and discussion. The workshop will be facilitated by a representative of the Energy Division. In order to facilitate a free flow of discussion and exchange of ideas, the workshop will not be transcribed.

Following the workshops, parties will be provided the opportunity to file an additional round of comments, expanding on their previous proposals filed on July 16, 2012, and responding to opposing views or proposals of other parties.

IT IS RULED that:

1. A workshop is hereby scheduled for August 20, 2012, starting at 10:00 a.m., in the Commission Courtroom, State Office Building, 505 Van Ness Avenue, San Francisco California. As needed, a carryover workshop session will be reserved for August 21, 2012.

2. The agenda attached as an appendix to this ruling shall serve as the basis for the workshop.

3. Following the workshop, parties will be authorized to file an additional round of comments on their proposals for the 2013-2014 cycle.

Dated July 30, 2012, at San Francisco, California.

/s/ THOMAS R. PULSIFER
Thomas R. Pulsifer
Administrative Law Judge

Appendix to Ruling
Workshop Agenda Topics

Topic 1: Agreement on Principles and Goals of Incentive Reform

Goal: To provide a common framework and guiding principles to inform subsequent discussion of specific issues of possible incentive reform. The ALJ Ruling issued June 15, 2012, summarized the principles and goals of incentive mechanism reform based on prior Commission pronouncements and Energy Division analysis. Do participants believe that this statement of principles and goals should be modified or clarified? If so, explain how and why.

Topic 2: Magnitude of Potential Incentive Earnings/Penalties

Goal: How to determine overall incentive earnings/penalty caps large enough to motivate utility management to view energy efficiency programs as a core part of regulated operations, and to prioritize improvement in this area, but constrained enough to protect ratepayers' interests. Relevant earnings metrics to be determined include: (1) the earnings cap on all programs; (2) earnings per measure and/or program implemented.

What relevant indicators or financial measures could be used to help quantity the incentive earnings levels required to meet such a goal? What limits on incentive earnings should apply, and based on what criteria? Potential issues include:

a. What magnitude of incentive earnings are required to motivate management? Based on what factors? (e.g., foregone earnings from avoided supply-side resources via a shared savings rate.)
b. If a shared savings rate is used, what adjustments would need to be made to reflect reduced risk vis-à-vis supply-side risks? How can risk be reasonably measured and accounted for in incentive formulas?
c. What limits or caps on incentive earnings will ensure that ratepayers are protected in terms of just and reasonable rates?

If earnings from avoided supply side resources are used as a factor in setting the magnitude of incentive earnings levels, how should adjustments:

-- Reflect peak load and energy consumption load impacts separately?

-- Anticipate medium-term need for generation to integrate renewable resources and replace once-through-cooling plants in load pockets, versus resources to meet system-wide peak?

Do other indicators besides calculations of avoided supply side earnings better represent the avoided costs and net benefits of energy efficiency to ratepayers?

Topic 3: Performance Metrics and Formulas for Incentive Earnings

Goal: How to identify appropriate performance metrics to determine whether, or to what extent, incentive earnings are due.

What performance metric(s) should be used to determine the amount of incentive earnings due? (e.g., per-unit demand and energy savings, sharing of monetized net benefits, percentage of savings goals achieved, units or measures installed, program expenditures made, etc.) What are the relative advantages and disadvantages of each?

What are the advantages and disadvantages of incentives based on a management fee model, (i.e., incentive earnings awarded as a percent of actual program expenditures)? The Utility Reform Network (TURN), for example, proposes an incentive payment equal to 2.5% of spending, contingent on at least 50% of recorded spending covering incentives, rebates and financing programs.

Considering the shared savings rates calculated in comments filed July 16, 2012, deemed necessary to yield supply-side equivalent earnings for the 2013-2014 cycle, what conclusions can be drawn regarding the effectiveness of a shared savings incentive model both from investors' and ratepayers' perspectives?

Assuming a shared savings approach to calculate incentives for 2013-2014, how could savings values best be calculated to give greater weight to programs with longer term or deeper future years' savings? (e.g., revise the present value discount rate(s) used to value future years' savings from current measures; use only the Program Administrator Cost but not the Total Resource Cost; remove the expected useful life caps; include 100% of codes and standards program savings?)

Other than verified measure installations and audited administrative costs, what, if any, additional metrics or assumptions should be subject to ex post true up for purposes of assigning incentive earnings values? Why or why not?

Are there any "frozen" ex ante parameters that the Commission should update mid-cycle? If so, what time interval should pass before utility management could adjust its portfolio for the updated ex ante values? Assuming the use of ex ante values for incentive earnings, how should the incentive formula be adjusted for possible ex ante updates adopted after the start of the program cycle?

What should an incentive earnings curve look like (e.g., uniform rate of incentives per unit of measure, or variations based on meeting or exceeding designated thresholds)?

How should the total incentive earnings potential be apportioned among the various portfolio programs and measures eligible for incentives?

> Should higher or lower incentive values per measure (or per unit of deemed energy or demand savings) be allocated among different programs and/or measures? If so, what factors should determine how to allocate the total pool of incentive dollars among the respective programs or measures? (e.g., TURN identifies two metrics, number of Heating, Ventilation and Air Conditioning units incented and participant increase in residential retrofit programs conducted as part of the Energy Upgrade California program.)

(End of Appendix)