STATE OF CALIFORNIA GRAY DAVIS, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

Via E-Mail

November 22, 2002

Frank Spasaro (FSpasaro@semprautilities.com)
Joy Yamagata (JYamagata@semprautilities.com)
SoCalGas/Sempra Utilities

RE: October 30, 2002 Motion to Shift PY2002 Funds

Joy and Frank:

I have been assigned to make a recommendation to ALJ Thomas on the Motion to Shift PY2002 Funds submitted by SoCalGas on October 30, 2002. As the three of us discussed yesterday, in its current form and after reviewing the third quarter reports filed in November for the affected programs, I will not be able to recommend approval to the ALJ for the requested shift of funds from Savings by Design to Express Efficiency. Although the Express Efficiency program has been subscribed beyond the initially approved budget, the energy savings that have been secured are only 15% of projected electricity savings and 75% of projected gas savings. While the Savings by Design program is not meeting its goals either, it is unclear that a shifting of funds from one program that is lagging far behind in meeting its goals, while also behind in expenditures, to another program that is over-budget and also falling short of its goals is a prudent use of ratepayer dollars.

In order to reconsider my recommendation, I will need SoCalGas to develop a plan to expend any shifted funds in a manner that will get it closer to achieving the goals that the Commission and SoCalGas established at the outset of the program year. Please let me know by Tuesday of next week if SoCalGas would like to provide further support for its motion to shift funds or if I should make my recommendation to the ALJ with the information I have at hand currently.

Best regards,

Ariana Merlino
Energy Efficiency – Energy Division

Cc: Craig Tyler (craigtyler@attbi.com)

(END OF APPENDIX A)

APPENDIX B

SDGE Southern California Gas Company

Sempra Energy utilities

Joy C. Yamagata
Regulatory Manager
Southern California Gas Company
8315 Century Park Court
San Diego, CA 92123

November 27, 2002

R. 01-08-028

Ms. Ariana Merlino
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Re: SoCalGas Response to Energy Division Inquiry Regarding Proposed Motion to Shift 2002 Funds to Express Efficiency Program

Dear Ms. Merlino:

Per your letter dated, November 22, 2002, Southern California Gas Company (SoCalGas) provides the following response to your inquiry regarding the proposal to shift 2002 funds from the Savings By Design program to the Express Efficiency program.

SoCalGas believes that its request to shift $700,000 in funds from its program year (PY) 2002 Savings By Design (SBD) budget to the Express Efficiency program is fully supportive of the Commission's key policy objectives and urges you to support this request. The proposed fund shift would allow SoCalGas to capture energy savings that would otherwise not be realized and it would enhance funding for small and very small customers well beyond what would occur without the fund shift.

The filed budget for SoCalGas' PY2002 Statewide Express Efficiency program was $2,433,000, consistent with the Commission's program budget allocation for PY2002. Of this $2,433,000 budget, $1,150,000 was allocated to customer incentives. Closed and committed applications, plus customer reservations, currently total $2,035,000 in incentive payments, which represents a fund shortfall of $885,000 ($2,035,000 minus $1,150,000)

In order to maintain customer interest in energy efficiency, it is important to be responsive to their needs. Typically, the customers participating in SoCalGas' Express Efficiency program have more difficulty obtaining adequate financing because they are smaller customers. In the absence of incentives, these customers may opt not to install energy efficiency equipment resulting in lost opportunities. These issues are of even more importance to hard-to-reach customers, which represents a significant focus of the PY2002 program. Nonetheless, the customer response to SoCalGas' Express Efficiency program has been unprecedented and very surprising.

In planning the PY2002 program SoCalGas had recognized the Commission's desire to see increased participation by small nonresidential customers. This prompted the inclusion of a number of measures geared toward small customers (e.g., commercial horizontal axis clothes washers, various types of cooking equipment). The desire to attract small customers required that SoCalGas maintain incentives at reasonably high levels for key measures such as boilers and water heaters. The incentives were structured to be attractive to small customers who typically have smaller appliances/equipment. The Express Efficiency program has an incentive cap for larger customer projects that helps ensure monies are more widely available.

SoCalGas expected this program design to attract an increased number of smaller customers, but still maintain a high level of overall savings through continued high response to the process boiler measure. A large portion of the planned savings for the program were expected to accrue from process boiler replacements – a measure that historically generated more savings per incentive dollar than virtually any other measure in SoCalGas' portfolio.

The reality of PY2002 customer response to the Express Efficiency program has differed markedly from the original expectation. The economic downturn depressed process boiler replacements making it impossible to reach the expected therm goal with the existing incentive budget. Small customer response to the space heating boiler measure exceeded all reasonable expectations (due in large part to their last minute response to South Coast Air Quality Management Rule 1146.2). While the measure is cost-effective, the savings per incentive dollar is significantly less than that achieved from process boilers and hot water boilers. This, combined with the fact that a very large number of the applications were for small boilers, further reduced SoCalGas' ability to meet therm goals with the existing incentive budget[1]. Ironically, SoCalGas' attempt to serve small customers more aggressively and effectively has impaired its ability to achieve its annual therm goal.

SoCalGas would like to honor all of its customer requests for assistance. To not do so would put a chill into the market that would be difficult to overcome in subsequent years. It has been SoCalGas' experience that failure to honor good faith customer requests undermines customer confidence in subsequent program efforts and reduces their willingness to maintain a vigilant attitude toward energy efficiency in general. Consequently, SoCalGas proposes that the current under-funding of $885,000 be made up by the $700,000 shift in SBD funds plus $185,000 in funds shifted from the administrative and marketing budget of Express Efficiency. The additional costs to process

[1] Incentives for small boilers do not reach the "incentive cap," where saving per incentive dollar increases rapidly as the total customer incentive stays fixed, but savings increase with the size of the unit.

the pending rebates, which are not included in the $885,000 amount, will also be covered by the existing Express Efficiency infrastructure and budget.

Estimated first year net savings from this enhanced incentive budget would cause the PY2002 program net savings to reach 2.4 million therms, an increase of 1.0 million therms over the therm savings achievable with the original incentive budget.[2] This would allow SoCalGas to exceed its PY2002 goal, albeit with a higher level of incentive funding.

SoCalGas believes that allowance of the proposed fund shift is a very prudent use of ratepayer funds due not only to the additional savings to be gained, but also due to the benefits afforded small nonresidential customers. Over 60% of the applications that are pending will come from hard-to-reach customers. SoCalGas expects that this number will increase when the MA&E consultant does its analysis. For example, SoCalGas does not currently know what portion of the participating customers lease their space or use, as their primary language, something other than English, but SoCalGas does have access to customer consumption history and that provides a partial picture as to the type of customers participating in the program and a lower bound estimate of the percentage of hard-to-reach customers impacted.

SoCalGas has determined that over 60% of the applications come from customers using less than 50,000 therms annually (small and very small customers according to the Policy Manual definition for qualifying hard-to-reach customers). Incentive levels, particularly for boilers, were set to induce smaller customers to take advantage of the program. The response of small customers was much greater than expected and acted to reduce savings below anticipated levels given that small boilers save less per incentive dollar than larger units. Schools provided 16% of the applications. Laundries provided another 14%. Lodging establishments, e.g., motels, provided 20% and restaurants another 11%. More often than not these are small operations. The fact that applications have been received from such a large percentage of small firms is a testament to the success of reaching smaller customers and motivating them to invest in energy efficiency technologies. Also, these customers are typically cash and time strapped and if they are lost it is difficult to renew their interest and participation in the program. This will be detrimental to the customer, to the achievement of greater energy savings, and to the future success of the

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[2] Electric savings are tied to a single measure, commercial clothes washers. Prior to 2002 SoCalGas' implementation of this program had not claimed electric savings. Electric savings were included in the PY2002 filing in order to accurately reflect savings from incented measures. The savings goal is very modest, representing savings equal to the annual electric consumption of approximately three residential customers. Electric savings will reach approximately 4,735 kWh, less than the expected amount. This is due to two factors: 1) the economic downturn slowing laundromat purchases of new washers and 2) the fact that cash-strapped laundromat owners used available capital funds for boiler replacements in order to comply with South Coast Air Quality Management (SCAQMD) Rule 1146.2.

Express Efficiency program as well as meeting the Commission's goals to reach the hard-to-reach customer.

The transfer will ensure a smooth transition to the PY2003 Express Efficiency program. Combined with the fact that the SoCalGas SBD program will commit, at most, $450,000 of its $1.2 million incentive budget in 2002 supports the transfer of $700,000 in SBD funds to the Express Efficiency program.[3] SoCalGas expects that the measure mix in 2003 will be considerably different than 2002, given that boiler replacements were amplified by SCAQMD Rule 1146.2, but should return to a more normal replacement level in PY2003. This should cause savings per incentive dollar to increase in PY2003 relative to PY2002.

We appreciate the opportunity to supplement our original filing with additional information for your review. I would like to schedule a conference call to discuss the information that is being provided in this response before a final recommendation is made to the administrative law judge in this proceeding. Please contact me to schedule a call at your convenience.

Sincerely,

Joy C. Yamagata
Regulatory Manager

Cc: F. Spasaro - SoCalGas
V. Thompson – Sempra Energy

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[3] It may be suggested that 2002 SBD funds be carried forward into the 2003 program year, but the proposed 2003 SBD budget is adequate for expected activity in 2003.

(END OF APPENDIX B)

APPENDIX C

PY 2002-2003 Energy Efficiency Quarterly Report Narrative
Pacific Gas and Electric Company

Program Specific Report to September 30, 2002

Program Title: Statewide Residential Appliance Recycling Program

I. Program Overview

The Statewide Residential Appliance Recycling Program (RARP) is a statewide program designed to reduce energy usage by allowing eligible residential customers (single family and multifamily owners/landlords and tenants) to dispose of their working, inefficient primary and secondary refrigerators and freezers in an environmentally safe manner. A recycling incentive of $35 or a five-pack of compact fluorescent lamps (CFLs) is offered to customers for participation. The program covers the service territories of Pacific Gas and Electric (PG&E), Southern California Edison (SCE), and San Diego Gas & Electric (SDG&E).

II. **Program Summary**—as Reported by SCE

1. Total program budget = $1,680,000
   Expenditures (includes program commitments) to date = $1,581,424.

2. Total net demand reduction and energy savings:

	Net kW*	Net kWh*	Units
Projected Goal	2,694	15,705,215	9,105
Actual	2,430	14,940,300	8,634
Committed	384	1,569,050	787
Total Recorded	2,814	16,509,350	9,421

*Note: The projected net energy savings and demand reductions differ from the Commission targets for this program. It appears that an error was made in the development of the Commission savings targets for this program.

3. Total number of customers served:
   Projected: 8,867
   Actual: 8,135

4. Projected and actual number of units:
   Please refer to program activity tables in corresponding program workbook.

5. Total rebate ($) paid = $1,660,399 (includes customer commitments).

PY 2002-2003 Energy Efficiency Quarterly Report Narrative
Pacific Gas and Electric Company

Program Specific Report to September 30, 2002

III. Program Implementation Status

1. Status of program delivery
   In the third quarter ARCA fully committed all the allocated units and requested additional funding from PG&E to cover over commitments.

2. Customer Enrollment
   Enrollment can be found on line at ARCA's Web site.

3. Workbook
   Please refer to the informational tables shown in the corresponding program workbook for details on program expenditures and activities.

4. Training
   The program did not sponsor any training during the quarter.

5. Marketing

List Pieces	Quantity	Method of Delivery	# w/Each Method
Refrigerator/Freezer Recycling cable TV bill insert	6,091,324	Bill insert: Direct mail	Varies
Point-of-sale fliers*	25,000	Appliance retailers	Varies
Press release		Mass market media	PR Newswire
Cable TV ads	33,720	Television	30 second ads

*Point of Sale fliers and the cable TV bill inserts were one in the same collateral material.

Other Activities –

- Efforts were coordinated with the *FlexYourPower* campaign to leverage program offerings; this took place through distributing their advertisement with all refrigerator pick-ups.

6. Hard to Reach
   In the third quarter of 2002, 35 percent of the units collected in PG&E's service area were from hard-to-reach geographic areas defined as rural, moderate income and/or multifamily. The hard-to-reach targets are not the responsibility of PG&E but rather the responsibility of the prime vendor.

PY 2002-2003 Energy Efficiency Quarterly Report Narrative
Pacific Gas and Electric Company

Program Specific Report to September 30, 2002

IV. Program Accomplishments

- In late September funding was requested by ARCA to cover PG&E's program over commitment in the amount of $165,000.
- In order to deplete the inventory of CFL's purchased for the program; customers were offered CFL's only for the last four weeks of the program. This also increased the number of total units recycled by 135 units.

V. Program Challenges

Because the prime vendor over committed units in the SBX1-5 program, they had to utilize fund from the 2002 program to cover customer commitments. This caused the program to shutdown sooner than expected.

VI. Customer Disputes

None.

VII. Compliance Items

None.

(END OF APPENDIX C)