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ATTACHMENT A

Utility Total Benefit-to-Cost Ratio including All Incentive Payments

Utility	TRC Benefits ($ Millions)	TRC Costs ($ Millions)	TRC B/C Ratio	TRC Costs plus Final RRIM Payments	TRC Total Costs Ratio
PG&E	1253	1069	1.17	1173	1.07
SCE	1169	984	1.19	1058	1.10
SDG&E	281	276	1.02	292	0.96
SoCalGas	184	205	0.90	222	0.83
Statewide Average	2887	2534	1.14	2746	1.05

ATTACHMENT B

Benefit-to-Cost Ratios

Utility	(Excluding Interim RRIM Payments)	(Net of Interim RRIM Payments)	Net of Interim and IOU-Proposed Payments
PG&E	1.17	1.09	1.03
SCE	1.19	1.12	1.09
SDG&E	1.02	0.98	0.96
SoCalGas	0.90	0.86	0.84
Statewide Average	1.14	1.07	1.03

Source: Proposed Decision of ALJ Pulsifer Regarding the Risk/Reward Incentive Mechanism Earnings True-Up for 2006-2008, September 28, 2010, p. 26.

Benefit-to-Cost Ratios

Utility	(Excluding Interim RRIM Payments)	(Net of Interim RRIM Payments)	Net of Interim and IOU-Proposed Payments
PG&E	1.17	1.09	1.03
SCE	1.19	1.12	1.09
SDG&E	1.02	0.981	0.96
SoCalGas	0.90	0.86	0.84
Statewide Average	1.14	1.07	1.03

Source: Proposed Revised Alternate Decision of Commissioner Bohn Regarding the Risk/Reward Incentive Mechanism Earnings True-Up for 2006-2008, October 19, 2010, p. 23.

ATTACHMENT C

Dissent of Commissioner Dian M. Grueneich

Energy Efficiency Risk Reward Incentive Mechanism True-Up for Program Years 2006-2008

December 16, 2010 business meeting, agenda id # 9815 and 9983, items 52 and 52b

Decision 07-09-043 adopted an energy efficiency risk reward incentive mechanism (RRIM), to provide California's investor-owned energy utilities financial incentives and/or penalties as a function of their success in achieving and surpassing adopted energy savings goals. Through Decisions 08-12-059 and 09-12-045 this Commission has awarded utility shareholders interim incentive payments for the 2006-2008 cycle totaling $143.7 million. Today, items 52, a proposed decision from Administrative Law Judge (ALJ) Pulsifer and 52b, an alternate decision from President Peevey, complete the true-up of these interim awards.

Because of the fundamental factual and policy flaws in the alternate decision, I support the ALJ proposed decision.

The ALJ proposed decision determines that the utilities' 2006-2008 energy savings achievements are sufficient to allow the utilities to retain their interim shareholder rewards, but not outstanding enough to qualify for additional incentive payments by ratepayers to utility shareholders. Consistent with Commission policy, the proposed decision bases its determinations on savings accomplishments that have been independently evaluated by the Commission's Energy Division in comparison to adopted savings goals.

In contrast, the alternate decision determines that the utilities' performance warrants $68 million in additional rewards. The alternate decision amends the Commission's adopted incentive mechanism to rely on energy savings assumptions that were in place at the time the Commission approved the utilities' portfolios, rather than independently evaluated energy savings assumptions. In drawing this conclusion, the alternate decision argues that it is unreasonable for the Commission to expect that the utilities would have modified their 2006-2008 portfolios to adapt to evolving energy market trends, especially rising freeridership in lighting markets. In other words, the alternate decision finds that utilities should only be held accountable for the assumptions they made at the beginning of the program cycle, not actual savings or responsiveness to market conditions or expert evaluation feedback occurring during the program cycle. Put another way, all risk of changing conditions shifts from the utilities to ratepayers under the alternate decision.

The factual premise of the alternate decision – that the utilities had no reasonable basis to know their assumptions were not realistic and did not reflect changing market conditions – is untrue. Equally important, the policy component of the alternate decision – to absolve utility program administrators from responding to changing market conditions and expert evaluation feedback – settles for subpar performance.

The Energy Division's independent evaluation process has resulted in considerable disagreement over estimates of energy savings achievements and the resulting incentive payments or penalties. This should come as no surprise: to calculate cost savings associated with energy efficiency measures, it is necessary to develop assumptions as to relevant parameters based on surveys, sampling, and extrapolation of estimates over large datasets. The evaluation of energy savings resulting from these programs necessarily encompasses review of records with considerable technical complexity and detail. But we must not forget that our deep dive into these complex and detailed issues serves a purpose: to determine whether the $2.1 billion of ratepayer money invested in energy efficiency programs between 2006-2008 has provided ratepayers a reasonable return on investment and delivered promised savings.

The proposed decision finds that the 2006-2008 Energy Efficiency Evaluation Report was produced with professional care. The Energy Division adhered to strict timelines and the report has undergone a rigorous public review process. These efforts deserve our applause and the results of their evaluation should be reflected in our decision making here today.

The central questions before us are two. First, did the utilities have sufficient information available during the 2006-2008 program cycle to adjust their portfolios to compensate for rising freeridership in several key program areas, including compact fluorescent lighting and appliance recycling? And, second, is it reasonable to expect utilities to adapt to evolving market conditions between the time programs are authorized and when they are evaluated? The alternate decision concludes that the utilities did not have sufficient information and it is, therefore, not reasonable to expect that utilities would have adjusted to market conditions. These conclusions are factually inaccurate and have significant negative ramifications that are not acknowledged by the alternate decision.

Contrary to the central factual premise of the alternate decision, there is substantial evidence showing the utilities were well aware that some of their most critical 2006-2008 ex ante assumptions were unrealistically high. Anticipating this debate, I issued an Assigned Commissioner Ruling on October 5, 2007 documenting the numerous instances of forewarning on this issue. This ruling is cited in the proposed decision on page 53, footnote 39. The ACR and its Attachment A are attached to this Dissent as Appendix A.

Let me give some examples listed in my 2007 ruling. First, my 2007 ruling references a Joint Case Management Statement (CMS) filed by the utilities on July 21, 2005 in which PG&E acknowledges concerns with its ex ante assumptions and commits to "adjust its 2006 portfolio lighting savings to reflect more realistic and updated assumptions on [net to gross] ratios."

This joint utility filing was made almost six months <u>before</u> the utilities began the programs under review here. The alternate decision does not address or even mention the utilities' 2005 filing.

Let me give other factual information set forth in my 2007 ruling and ignored completely in the alternate decision. Of key importance is D.05-09-043, issued in September, 2005. In that decision, the Commission identified net-to-gross (NTG) as a potential risk and ordered the utilities to manage their portfolios to manage that risk. As the Commission noted in the decision:

> Our decision today on how best to bound the uncertainty associated with this key savings parameter for planning purposes is predicated on the expectation that **NTGs *will* in fact be adjusted (trued-up) on an *ex post* basis when we evaluate actual portfolio performance.** We believe that this is entirely consistent with the resolution of threshold EM&V issues in D.05-04-051.
>
> **So that there is no further confusion on this issue, we clarify today that NTG assumptions should be trued-up in evaluating the performance basis of resource programs.** (pp. 97-98, emphasis added)

The alternate decision deletes footnote 39 of the proposed decision and any mention of the critical facts listed in my October 2007 ruling as well as even the existence of the October 2007 ruling. That is not surprising because the premise of the alternate decision is that the utilities had no notice before 2006 and a 2005 utility filing showing not only utility notice but a promise to change the assumptions to update them and be more realistic, as well as the numerous other facts cited in the 2007 ruling (including D.05-09-043) undermine the basic premise of the alternate decision.

Further evidence that the utilities received sufficient signals to adjust course can be seen in actions of Southern California Edison Company. Again, contrary to the alternate decision's conclusion, Edison recognized rising freeridership in its compact fluorescent lighting programs and adjusted its ex ante assumptions downward. While noteworthy, these corrections were insufficient to correct the course of Edison's portfolio. I am also aware that there were numerous communications by Energy Division staff to utility staff and management that the assumptions in the utility portfolios were unrealistic and significant changes were needed.

Let me turn now to the policy issue before use today – should this Commission and ratepayers accept and pay for performance that does not deliver savings nor adapt to market conditions.

Having spent my thirty- plus year career passionately supporting energy efficiency, I have considered this question in depth and I conclude that effective energy efficiency programs and their administrators must be able to adapt to evolving markets in real-time. This is especially true in California where energy efficiency is first in our loading order and where we spend over one billion dollars annually in this effort.

It is not enough to set programs in motion and revisit them three years later. Program administrators must be prepared to recognize shifts in the market and adapt their efforts accordingly. Otherwise, as we see here today, actual savings may fall alarmingly short. In concluding that it is unreasonable to hold utilities to a standard of adapting programs to changing markets and thus being held accountable for promised savings, the alternate decision adopts a policy that undermines the basic structure of ratepayer-funded energy efficiency.

The larger question, however, is whether this outcome is the only option before the Commission. If utility administrators will not adapt programs to changing market conditions – for fear of losing shareholder profits – then the time has come to examine alternate administrative structures that can adapt to dynamic market conditions, abide by independent savings evaluations, while delivering promised savings and lowering costs. This is a matter that President Peevey raised in 2005 and it is timely to revisit it.

Dated December 16, 2010 in San Francisco, CA.

/s/ DIAN M. Grueneich
Dian M. Grueneich
Commissioner

APPENDIX

A

HTTP://DOCS.CPUC.CA.GOV/EFILE/RULINGS/73591.PDF

HTTP://DOCS.CPUC.CA.GOV/EFILE/RULINGS/73592.PDF