Decision **PROPOSED DECISION OF ALJ GAMSON** **(Mailed 3/9/2010)**

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 November 23, 2009)
And Related Matters.	Application 07-01-026 Application 07-01-029 Application 07-01-030

DECISION ADDRESSING PETITION FOR MODIFICATION OF DECISION 08-11-057

1. Summary

This decision approves the Petition of the California Water Association, Southern California Edison Company (SCE), and Pacific Gas and Electric Company (PG&E) for Modification of Decision 08-11-057, regarding Operational Energy Efficiency Programs (OEEP) for regulated water utilities, with modifications. The decision approves $3.4 million for pilot programs to improve energy efficiency for well pumps and booster pumps. The request to authorize SCE and PG&E to receive energy savings credits for their participation in the OEEP is denied as inconsistent with Commission policy regarding pilot programs. The regulated water utilities are authorized to establish memorandum accounts for their OEEP costs.

2. CWA Petition

The California Water Association (CWA), on behalf of four of its Class A water utility members and two of its Class B water utility members (Water Utilities),[1] Pacific Gas and Electric Company (PG&E), and Southern California Edison Company (SCE)[2] petition the Commission to modify Decision (D.) 08-11-057. This Joint Petition seeks to modify the Decision to:

- adopt the Water Utilities' and Energy Utilities' updated Operational Energy Efficiency Program (OEEP) budget;
- approve the updated OEEP projects described in this Joint Petition and allow the Water Utilities' project sponsors to modify the OEEP projects upon the approval of the Division of Water and Audits (DWA);
- approve an agreed-upon cost sharing between the Energy Utilities and the Water Utilities related to the OEEP projects;
- provide for the funding of an Evaluation, Measurement and Verification (EM&V) program related to the OEEP projects, pursuant to which the Energy Utilities will consult with the Commission's Energy Division and DWA staffs, in collaboration with the Water Utilities, to retain an EM&V consultant, determine the protocol for the EM&V program and obtain and analyze the results from the OEEP;
- provide for reimbursement of OEEP administrative and project support costs incurred by the Energy Utilities and the Water Utilities;

---

[1] The Water Utilities are Alco Water Service Company (Alco), California Water Service Company (CalWater), California-American Water Company (California-American), East Pasadena Water Company (East Pasadena), Golden State Water Company (Golden State), and San Jose Water Company (San Jose).

[2] SCE and PG&E are referred to, collectively, as "Energy Utilities." CWA and the Energy Utilities are referred to, collectively, as "Joint Petitioners."

- change the project implementation and evaluation report dates contained in the Decision to reflect the passage of time and the current OEEP project schedules;
- provide for an OEEP memorandum account for each of the participating Water Utilities to track OEEP project costs and payments from the Energy Utilities;
- authorize the Energy Utilities to receive energy savings credits for their participation in the OEEP; and
- authorize the Energy Utilities to spend available unspent, uncommitted energy efficiency funds for the OEEP.

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 Plan[3] commits this agency to "strengthen water conservation programs to a level comparable to those of energy utilities." 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

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

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 the largest regulated energy utilities 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.

On July 9, 2008, CWA filed a Petition for Modification of D.07-12-050 (First Petition), on behalf of six Commission-regulated water utilities.[4] The First Petition requested an additional $1.33 million for pilot operational energy efficiency programs to be undertaken with Commission-regulated water utilities. CWA proposed operational energy efficiency projects to demonstrate potential improvements in wire-to-water operational efficiency when the appropriate

[4] The water utilities are Alco, San Jose, CalWater, Golden State, Del Oro Water Company (Del Oro), and East Pasadena. San Jose, Alco and Del Oro are in PG&E's service territory, East Pasadena is in SCE's service territory, and Golden State and CalWater are in both PG&E's and SCE's service territories.

combination of induction motors, pumps, variable frequency drives and Supervisory Control and Data Acquisition (SCADA) systems are operated at their optimal efficiency levels.

D.08-11-057 denied the First Petition of the CWA on procedural grounds. However, acting on our own motion, we nonetheless authorized the programs contained in the First Petition, finding that the programs had merit, were consistent with our energy efficiency objectives, and were worthwhile to help us understand embedded energy in the use of water. We further found that these programs would significantly move us forward in our goal of determining whether less energy-intensive water measures should be funded with electric utility energy efficiency dollars.[5]

In D.08-11-057,[6] the Commission approved eight water utilities' projects in the PG&E's service area totaling an estimated $847,000.[7] This estimate included two projects with Alco, two with CalWater, two with San Jose, one with Del Oro, and one with Golden State. The Commission also authorized five water utilities' projects in the SCE's service area totaling $484,500.[8] This estimate included two projects with Golden State, two projects with East Pasadena, and one project

---

[5] Separately, D.08-11-057 approved the unopposed Petition of Southern California Edison Company to modify D.07-12-050 to cancel a pilot program, the Lake Arrowhead Water Conservation Project.

[6] D.08-11-057 was modified by D.09-07-052, which also denied an Application for Rehearing filed by Division of Ratepayer Advocates (DRA). Three Findings of Fact and one Conclusion of Law in D.08-11-057 were modified, three Findings of Fact were deleted, and certain discussion was modified consistent with these changes. No Ordering Paragraphs were modified.

[7] D.08-11-057 at Ordering Paragraph 2.

with CalWater. Table 1 shows cost and implementation information for each of the thirteen original projects.

Table 1
Current Commission-Approved
OEEP Budgets by Water Company

Water Utility	Initial Capital Cost—Well Pump	Initial Capital Cost—Booster Pump
Alco Water Service Company (PG&E)	$194,000	$53,000
Del Oro Water Company (PG&E)	N/A	$100,000
California Water Service Company (PG&E)	$110,000	$95,000
Golden State Water Company (PG&E)	N/A	$100,000
San Jose Water Company (PG&E)	$95,000	$100,000
California Water Service Company (SCE)	$110,000	N/A
Golden State Water Company (SCE)	$100,000	$60,000
East Pasadena Water Company (SCE)	$139,500	$75,000
TOTAL	**$748,500**	**$583,000**

2.2. Positions of Parties

The Energy Utilities, the Water Utilities, and CWA filed a Petition for Modification of D.08-11-057 (Joint Petition) on November 23, 2009. The Petitioners propose modifications to the OEEP budget to refine the OEEP projects originally approved and to flesh out some necessary details for a

[8] *Id.*

successful program. The Petitioners claim the OEEP projects authorized in D.08-11-057 and as modified pursuant to this Joint Petition will test and quantify the increase in "wire-to-water" operational energy efficiency obtained through improvements and upgrades involving a combination of software enhancements, induction motors, pumps, variable speed drives (VSD) and upgrades to new and existing SCADA systems.[9]

Since D.08-11-057 was issued, the Water Utilities claim to have obtained new information concerning the OEEP projects, including updated information about the likely cost of the projects.[10] This information has led the Water Utilities to reevaluate several of the proposed projects,[11] to eliminate one of the projects, and to add four new projects.

While the Joint Petitioners request that the Commission approve an updated budget for the OEEP and the revised list of projects in Table 2 (below), the Joint Petitioners also request the flexibility to adjust the specific projects, with DWA's approval. This flexibility will allow the Water Utilities, Energy Utilities, and DWA to respond to new facts and circumstances that may arise.

Furthermore, the Joint Petitioners claim the timing for the implementation of the OEEP projects established in D.08-11-057 must be updated due to various

---

[9] D.08-11-057 at 13 and 14.

[10] The Joint Petitioners acknowledge that the OEEP has progressed slower than originally expected. Since D.08-11-057, the Water Utilities and the Energy Utilities have worked together to enhance the OEEP as specified in this Joint Petition. In order to prevent any further delay, the Water Utilities have engaged the services of an OEEP project coordinator and are now in the process of implementing the authorized projects.

[11] For example, Alco has completed an OEEP beta test project, which has yielded useful information on project vendors and costs.

delays. The Joint Petitioners request that the OEEP implementation date (i.e., the date on which installation of Phase 1A equipment and software has been completed, and operation and monitoring have begun) for the original projects approved in D.08-11-057 be changed from March 1, 2009 to January 31, 2010. Because this date may not be practical for the four new projects, depending upon the timing of a decision on this Joint Petition, an alternative deadline is adopted, as discussed below.

D.08-11-057 requires DWA to "develop an Evaluation Program to collect both efficiency and cost-effectiveness data for these pilot programs" and to "report back the results to the Commission by April 1, 2010."[12] Due to the changes to the project implementation described previously, the Joint Petitioners request that the collection of data for the Evaluation Program commence 90 days after the Phase 1A implementation date for each project.

The Joint Petitioners also seek to enhance other features of the OEEP. For example, D.08-11-057 did not provide funding for EM&V related to the OEEP. That Decision also did not provide for reimbursement of administrative and project support costs incurred by the Energy Utilities and the Water Utilities. The Joint Petition seeks funding not to exceed $275,000 for EM&V implementation and evaluation program oversight, $275,000 for the administrative and project support costs of the Energy Utilities and $250,000 for the administrative and project support costs of the Water Utilities.[13]

---

[12] D.08-11-057, Ordering Paragraph 2, sub-paragraph 3.

[13] *See* Declaration of Jack Hawks in Appendix C of the Joint Petition.

D.08-11-057 also did not address various issues related to the mechanics of funding for the OEEP projects, including funding if the actual costs incurred by the Water Utilities in connection with a given OEEP project exceed the amount specified to be funded by the Energy Utilities. Recognizing that the specific projects are in the nature of Research, Development and Demonstration (RD&D) and the costs associated with these projects are uncertain at this time, this Joint Petition requests that each of the Water Utilities be authorized to implement an OEEP RD&D project memorandum account to track the actual costs for each project and to submit an appropriate request to recover such project costs to the extent not covered by the Energy Utilities.

D.08-11-057 presumed that the Energy Utilities would pay all OEEP costs. Subsequently, the Joint Petitioners have agreed on a cost-sharing approach for this revised OEEP RD&D proposal: the Energy Utilities will be responsible for most of the costs that are directly related to Phase 1A OEEP-energy efficiency measures, while the Water Utilities will be responsible for investments in water system efficiency improvement costs.

The updated OEEP project budget requested in this Joint Petition reflects various modifications and additions to the OEEP projects. First, the Joint Petitioners have modified the projects to remove the Del Oro project, originally estimated to cost $100,000, in PG&E's service area.[14] The Joint Petitioners have also added two California-American projects in PG&E's service area and two California-American projects in SCE's service area. The Joint Petitioners claim the four projects for California-American will demonstrate application of

[14] Del Oro Water Company, in a letter dated July 27, 2009 to the DWA, requested withdrawal from the OEEP.

concepts not covered in the OEEP projects. For example, they claim the California-American projects will demonstrate OEEP applications with much larger pumps and motors (e.g., 300 to 450 horsepower pumps) than the already authorized projects, and will demonstrate effects within an entire water system because these projects include multiple pumps operating as one system.

The Joint Petitioners propose that the Water Utilities be responsible for water system equipment costs, including VSDs, new pumps and new motors, and the incremental operating and maintenance costs. The Energy Utilities will be responsible for OEEP Phase 1A hardware (except VSDs) and software, additional information technology equipment and system integration consulting costs, as funded through this proceeding.[15]

Table 2 below sets forth the revised OEEP projects and projected cost estimates, which may be subject to modification with the Commission's DWA's approval. The key changes reflected are:

1. Updated cost information based on new bids from potential equipment vendors;
2. New allocation of costs between Energy Utilities and Water Utilities;
3. Change in location and scope for a San Jose project and a Golden State project;
4. Removal of the Del Oro project;
5. Four new projects for California-American, two in each of PG&E's and SCE's service areas;

[15] The allocation will be applicable to all six participating water utilities. However, PG&E has already paid for the Alco projects' VSDs; hence Alco's equipment cost responsibility will be only for pumps and motors.

6. Inclusion of incremental operating and maintenance costs; and
7. Inclusion of system integration consulting costs.

Table 2
Updated OEEP Budgets by Water Utility *

Water Utility	Well Pump	Booster Pump	Totals
Alco Water Service Company (PG&E)	$292,000 $135,000 – Alco $157,000 – PG&E	$144,000 $32,000 – Alco $112,000 – PG&E	$436,000 $187,000 – Alco $269,000 – PG&E
Del Oro Water Company (PG&E)	N/A	Zero	
California-American Water Company (PG&E)	$185,000 $107,000 – CAW $78,000 – PG&E	$263,000 $123,000 – CAW $140,000 – PG&E	$448,000 $230,000 – CAW $218,000 – PG&E
California Water Service Company (PG&E)	$107,000 $84,000 – CWS $23,000 – PG&E	$108,000 $92,000 – CWS $16,000 – PG&E	$215,000 $176,000 – CWS $39,000 – PG&E
Golden State Water Company (PG&E)	N/A	$129,000 $39,000 – GSW $90,000 – PG&E	$129,000 $39,000 – GSW $90,000 – PG&E
San Jose Water Company (PG&E)	$349,000 $180,000 – SJW $169,000 – PG&E	$220,000 $98,000 – SJW $122,000 – PG&E	$569,000 $278,000 – SJW $291,000 – PG&E
California-American Water Company (SCE)	N/A	$932,000 (2 projects combined) $530,000 – CAW $402,000 – SCE	$932,000 $530,000 – CAW $402,000 – SCE
California Water Service Company (SCE)	$108,000 $93,000 – CWS $15,000 – SCE	N/A	$108,000 $93,000 – CWS $15,000 – SCE
Golden State Water Company (SCE)	$138,000 $43,000 – GSWC $95,000 – SCE	$162,000 $60,000 – GSWC $102,000 – SCE	$300,000 $103,000 – GSWC $197,000 – SCE
East Pasadena Water Company (SCE)	$243,000 $157,000 – EPW $86,000 – SCE	$55,000 $39,000 – EPW $16,000 – SCE	$298,000 $196,000 – EPW $102,000 – SCE
TOTAL Water Utilities	**$799,000**	**$1,013,000**	**$1,812,000**
TOTAL PG&E	**$427,000**	**$480,000**	**$907,000**
TOTAL SCE	**$196,000**	**520,000**	**$716,000**
GRAND TOTAL	**$1,422,000**	**$2,013,000**	**$3,435,000**

*Totals do not include energy or water utility administrative costs, or EM&V.

*Budget allocations for electric and water utilities should maintain funding flexibility in the event that changes within an Energy Utility service territory are necessary.

DRA responded to the Joint Petition on December 23, 2009. DRA asks that the Commission deny some of the relief sought by the Joint Petition.

Regarding EM&V, DRA argues that the Commission should reject any attempt to place responsibility for measuring the impact of OEEP studies with anyone other than the Commission's Energy Division staff, which has had sole responsibility for nearly the past five years since D.05-01-055 for overseeing energy efficiency impact studies, and that Energy Division should ensure that the EM&V process implemented for the OEEP is consistent with any refinements to the EM&V process that are currently under consideration in Application (A.) 08-07-021 and related cases.[16]

DRA opposes the Joint Petition's proposal to allow the energy utilities to count savings, if any, from the OEEP, arguing that this proposal contravenes Commission directives regarding the attribution of savings for the water/energy pilots. DRA points to D.07-12-050 at 9, which discussed the issues of potential energy savings from projects similar to those proposed by the Joint Petitioners (other than the facts that the participating water companies were not regulated by the Commission, and that they paid their fair share of costs for the projects), stating:

> [T]he assigned Commissioner directed the utilities not to seek credit for these savings as part of any rewards or penalties related to the 2006-2008 period. She stated that the applications should include

[16] A.08-07-021 et al. are the energy utilities' applications for 2010-2012 energy efficiency portfolios. The portfolios were approved in D.09-09-047; an EM&V decision in that proceeding is pending.

proposals for counting the savings for the purpose of understanding program benefits, rather than to affect rewards or penalties.

DRA contends the Commission should reject the request to treat the projects proposed by the First Petition and the Joint Petition differently than the water/energy projects of water companies that are not regulated by the Commission. DRA argues, instead, that the Commission should use the information obtained from the studies to judge the cost-effectiveness of water conservation programs that might later be included in energy utility energy efficiency portfolios. Otherwise, programs which are eligible to receive energy savings credit need not be pilot programs, and instead should be incorporated into mainstream energy efficiency programs through the appropriate procedural vehicle. Joint Petitioners agree with DRA and foresee including OEEP results in considering whether the Energy Utilities should include such programs in their next portfolios, for 2013 through 2015.

DRA claims the Joint Petition does not contain detailed budgets for each project, nor is it clear how project costs were determined, although the Petition notes that "incremental operating maintenance costs" are included. DRA contends that without detailed project budgets, it is difficult to evaluate the requested budget increases. Joint Petitioners reply that there is additional cost information in the Joint Petition as compared to the First Petition, such as specifying that the Water Utilities would be financially responsible for replacing water pumps and motors, not the Energy Utilities. Joint Petitioners also claim the information in Table 2 (reproduced herein) provides sufficient information on the respective cost estimates for Energy Utilities and Water Utilities.

DRA requests the Commission impose fund-shifting guidelines for the OEEP pilots. Joint Petitioners respond that DWA will provide oversight while allowing funding flexibility.

DRA also claims that there is insufficient information to determine cost-effectiveness. Joint Petitioners point out that the Commission has already approved most of the OEEP projects in the Joint Petition. As for the new or modified projects, Joint Petitioners claim these projects are similar in nature to those already approved by the Commission.

DRA opposes memorandum account treatment for the projects in the Joint Petition. While the Joint Petition asserts that "[b]ecause of the uncertain nature of RD&D projects in general, the OEEP projects are estimates" and therefore "there should be no presumption that costs in excess of the estimates are not reasonable," DRA contends there is no presumption of reasonableness until these projects have been reviewed and analyzed by the Commission. Therefore, DRA believes the projects do not qualify for memorandum account treatment. Joint Petitioners argue that OEEP administration costs have not been included in any general rate case decision and memorandum account treatment is the appropriate method for recovery of these costs.

DRA opposes the use by PG&E of unspent, uncommitted energy efficiency funds for OEEP pilots. DRA believes any such funds instead should be used for 2010—2012 energy efficiency programs. PG&E states that it intends to fund all or most of the incremental cost of the projects from unspent water embedded energy pilot funds, estimated to be $300,000, plus approximately $41,500 from energy efficiency portfolio funds.

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. The decision approved a variety of embedded energy programs for regulated energy utilities to conduct in partnership with mostly municipal water companies, thereby providing guidance for acceptable programs involving regulated water utilities.[17]

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

[17] San Jose Water Company is a regulated water utility participating in a program approved in D.07-12-050.

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.

In D.07-12-050, we set forth a three-prong energy efficiency strategy that we wanted to achieve: (1) conserve water, (2) use less energy-intensive water, and (3) make delivery and treatment systems more efficient. The decision at 33 expressed our disappointment that the energy utilities did not propose any programs for the third category. The overall goal of the proceeding as expressed in the decision was "we want to be in a position to determine whether water conservation and less energy-intensive water measures should be funded with utility energy efficiency dollars."

In D.08-11-057, we determined that the programs advanced by CWA had merit, were consistent with our energy efficiency objectives, and were worthwhile to help us understand embedded energy in the use of water. We determined that these pilot programs moved us significantly forward in our goal of determining whether less energy-intensive water measures should be funded with electric utility energy efficiency dollars. In D.08-11-057, we also stated that the pilot programs proposed by CWA fill a critical void in the third strategic category, improving the efficiency of water delivery and treatment systems. When the pilots are completed, we will be able to evaluate whether less energy-intensive water measures are worthy of energy efficiency dollars.

We approve the Joint Petition, with the modifications discussed below. Overall, the program changes and additions proposed in the Joint Petition are

consistent with those adopted in D.08-11-057. We continue to consider these programs to be pilot programs, intended to demonstrate and determine whether various technologies can improve efficiency for water companies, until such time as the EM&V report becomes available and can inform a decision as to broader incorporation in the energy utilities' Energy Efficiency Portfolios. Because these are pilot programs at this time, we have not taken cost-effectiveness into consideration as would be typical for energy efficiency programs in a utility portfolio. This does not mean we are indifferent to cost-effectiveness; on the contrary, we intend to discontinue authorization for programs which are not, upon evaluation, cost-effective based on appropriate energy efficiency evaluation methodologies. However, we typically give more leeway to pilot programs in order to test new technologies and measures, and do so here as well.

Nor do we wish to be overly restrictive concerning budgetary levels; as requested, we delegate to DWA authority to adjust budgets if necessary based on the understanding that the program costs in the Joint Petition are necessarily estimates. DWA has had ongoing responsibility for review of OEEP projects and has developed valuable expertise regarding energy/water nexus programs. However, we limit DWA's authority to adjust budgets of individual pilot programs to 15 percent above or below the estimates in the Joint Petition, consistent with fund-shifting authority for most energy efficiency programs approved in D.09-09-047.

Our intention is to evaluate the effectiveness of these pilot programs. If OEEP projects prove to be cost-beneficial—as we hope they will be—the energy utilities should incorporate such projects into their energy efficiency portfolios as permanent measures.

The Energy Utilities seek to claim credit for energy savings from the OEEP projects. The Joint Petition cites ambiguity on this point; in fact, none exists. As D.08-11-057 stated, the issue of whether the Energy Utilities are entitled to receive credit for any resulting OEEP energy savings was previously addressed in D.07-12-050. Conclusion of Law #3 in D.07-12-050 stated: "The utilities shall not count embedded energy savings created during the pilot programs towards their goals." This policy is consistent with our determination in D.09-09-047 and in previous energy efficiency decisions that energy savings for pilot programs (such as emerging technologies measures) should not count toward energy savings goals. The OEEP projects continue to be pilots; as such we find no rationale for changing our policy regarding counting of energy savings.

As with all other energy efficiency programs, we agree with DRA that EM&V should be performed under the management of Commission staff. Typically, the lead Commission staff is Energy Division. The specifics of the relationship between the utilities and the Commission staff regarding EM&V will be laid out in a forthcoming decision in A.08-07-021 et al. We will require EM&V for the OEEP pilots to be performed consistent with that decision to the extent that it does not affect the scope, cost and schedule in this decision, except that the Commission staff will be DWA[18] instead of Energy Division because DWA already has experience reviewing the pilots to date. EM&V should be completed as soon as possible, and by September 1, 2011 at the latest, in order to ensure that OEEP results can be considered in the context of Energy Utilities' 2013-2015

[18] DWA may contract out EM&V as appropriate, but will be responsible for oversight of contractors and the ultimate results.

energy efficiency portfolios. To ensure reliable EM&V analysis, OEEP implementation should be well-documented at all points.

As per D.08-11-057, we had expected the OEEP pilots approved in that decision to commence by March 1, 2009. For reasons not fully explained in the Joint Petition, this did not occur. Given the option of either cancelling the projects at this time or extending the date for completion, we will reluctantly extend the implementation (start) deadline to May 1, 2010. We will tolerate no further delay for those pilots, and expect the pilots approved here today will be completed by June 1, 2011. However, we delegate to DWA the responsibility to monitor and approve changes in project sites, start dates and completion dates consistent with the EM&V deadline of September 2011 set forth herein.

Attachment 1 to this decision consists of a response to a Data Request from Energy Division. This document provides useful information and details that supplement the Joint Petition concerning OEEP budgets and timelines. Our approval of the Joint Petition, with modifications, includes the information in Attachment 1.

3. Memorandum Accounts

The Water Utilities request creation of memorandum accounts for each water utility participating in the OEEP pilots. The memorandum accounts would track OEEP costs and payments from the Energy Utilities.

The Water Utilities should be authorized to create Operational Energy Efficiency Program Memorandum Accounts, to track their OEEP project costs and payments from the Energy Utilities. The creation and use of these memorandum accounts will preserve an opportunity for the Water Utilities to seek recovery of the net recorded costs at a later date, while avoiding retroactive ratemaking issues.

The Commission considers case-specific factors to determine whether expenses should be tracked in memorandum accounts. In this circumstance, the authorization of memorandum accounts to track the Water Utilities' OEEP costs and payments from the Energy Utilities is sound public policy. The OEEP pilot projects are intended to determine if the technologies can improve efficiency and are cost-effective. If they are cost-effective, ratepayers will benefit from these projects and possible expansions of these projects.

Each participating Water Utility may seek recovery of its net recorded OEEP costs in its next general rate case or, if it does not have general rate cases, through a Tier 3 advice letter filing. The authorization of a memorandum account does not, of itself, mean that the Commission has determined that the types of costs to be recorded in the account should be recoverable in addition to rates that have been otherwise authorized, e.g., in a general rate case. Each utility will bear the burden when it requests recovery of the net recorded OEEP costs, to show both that separate recovery of the types of costs recorded in the account is appropriate and that the level of net recorded OEEP costs is reasonable and prudently incurred.

4. Assignment of Proceeding

This proceeding was categorized as ratesetting. The assigned Commissioner is Dian M. Grueneich and the assigned Administrative Law Judge (ALJ) is David M. Gamson.

5. Comments on Proposed Decision

The proposed decision of ALJ Gamson in this matter was mailed to the parties in accordance with Pub. Util. Code § 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure.

Comments were filed by the Joint Petitioners on March 29, 2010, and reply comments were filed by DRA on April 5, 2010.

Findings of Fact

1. The proposed modifications to OEEP pilots approved in D.08-11-057 are consistent with the Commission's energy efficiency objectives, and are worthwhile to help understand embedded energy in the use of water. The proposal is consistent with the Commission's strategic objective of improving the efficiency of water delivery and treatment systems.

2. When the pilots are completed, it will be possible to evaluate whether less energy-intensive water measures should become an ongoing part of energy utilities' energy efficiency portfolios.

3. The Commission has not previously allowed savings from pilot programs to be counted toward energy utilities' energy efficiency savings goals.

4. The Commission rules for the relationship between utilities and Commission staff regarding EM&V for energy efficiency programs will be determined in a decision in A.08-07-021 et al.

5. The Commission approved fund-shifting rules in D.09-09-047 limiting fund-shifting among energy efficiency programs in most cases to 15 percent.

6. The water utilities have not implemented OEEP projects on the time schedule anticipated in D.08-11-057, but are now in the process of implementing the projects. Some projects authorized in D.08-11-057 were started between the date of the Joint Petition and the date of this decision.

7. The additional OEEP pilots in the Joint Petition should be completed by June 1, 2011 in order to allow EM&V to be reported to the Commission by September 1, 2011.

8. The pilot nature of OEEP projects is intended to determine if the projects can improve efficiency and are cost-effective; if they are cost-effective, ratepayers will benefit from these projects and possible expansions of these projects.

Conclusions of Law

1. The proposed modifications to OEEP pilots approved in D.08-11-057 are reasonable, subject to modifications to specific requests in the Joint Petition.

2. Savings from pilot programs should not be counted toward energy utilities' energy efficiency savings goals.

3. The Commission rules for the relationship between utilities and Commission staff regarding EM&V for energy efficiency programs which will be determined in a decision in A.08-07-021 et al. should be applied to OEEP pilots to the extent possible without changes to the scope, cost and schedule of this decision, except that Commission EM&V efforts should be led by DWA.

4. The deadline for implementation of OEEP projects approved in D.08-11-057 should be changed.

5. The Water Utilities should be authorized to file Tier 2 advice letters within 30 days from the effective date of this Decision to establish Operational Energy Efficiency Program Memorandum Accounts.

6. To the extent that the Water Utilities seek recovery of any net costs recorded in their Operational Energy Efficiency Program Memorandum Accounts, the utility is not entitled to a presumption that its OEEP costs are appropriate types of costs to recover in addition to rates that have been otherwise authorized, or that the costs are reasonable or prudently incurred. The utility should bear the burden of proving the prudence and reasonableness of the costs and the appropriateness of separate recovery of these costs.

O R D E R

IT IS ORDERED that:

1. The Petition of the California Water Association, Pacific Gas and Electric Company, and Southern California Edison Company for Modification of Decision 08-11-057, as supplemented by the responses to data requests in Attachment 1, regarding Operational Energy Efficiency Programs for regulated water utilities, is approved with the following modifications:

- Pacific Gas and Electric Company and Southern California Edison Company must not count Operational Energy Efficiency Programs pilot energy savings toward energy efficiency savings goals.
- The Commission's Division of Water and Audits is authorized to approve Operational Energy Efficiency Programs pilot budget changes up to 15 percent above or below levels requested by each water utility in the Petition of the California Water Association, Pacific Gas and Electric Company, and Southern California Edison Company for Modification of Decision 08-11-057.
- Evaluation, measurement and verification of Operational Energy Efficiency Programs pilots shall be performed by the Commission's Division of Water and Audits, consistent with Commission direction in decisions in Application 08-07-021 et al.

2. All Operational Energy Efficiency Programs authorized in Decision 08-11-057 or in this Decision (except for the cancelled Del Oro Water Company project authorized in Decision 08-11-057) shall be implemented by May 1, 2010 and shall be completed by June 1, 2011.

3. Evaluation, Measurement and Verification of the Operational Energy Efficiency Programs shall be managed by the Commission's Division of Water and Audits and completed by September 1, 2011.

4. Pacific Gas and Electric Company is authorized to use up to $41,500 from energy efficiency portfolio funds for incremental costs of Operational Energy Efficiency Programs.

5. Alco Water Service Company, California-American Water Company, California Water Service Company, Golden State Water Company, San Jose Water Company, and East Pasadena Water Company are each authorized to establish an Operational Energy Efficiency Program Memorandum Account to track its costs and payments from Southern California Edison Company and Pacific Gas and Electric Company associated with Operational Energy Efficiency Programs approved in this Decision and Decision 08-11-057.

6. Alco Water Service Company, California-American Water Company, California Water Service Company, Golden State Water Company, San Jose Water Company, and East Pasadena Water Company shall each file an advice letter within 30 days from the effective date of this Decision under Tier 2 of General Order 96-B to establish an Operational Energy Efficiency Program Memorandum Account. Any interested party may protest an advice letter filing, as provided for in General Order 96-B. If a substantially similar Memorandum Account has already been authorized by Division of Water and Audits, the advice letter shall request that such Memorandum Account be renamed the Operational Energy Efficiency Program Memorandum Account, and such modification shall not alter the effective date of the renamed Memorandum Account.

7. Each of Alco Water Service Company, California-American Water Company, California Water Service Company, Golden State Water Company, San Jose Water Company, and East Pasadena Water Company, in its Operational Energy Efficiency Program Memorandum Account, may record its Operational

Energy Efficiency Program costs incurred and shall record all Operational Energy Efficiency Program payments received from Southern California Edison Company and Pacific Gas and Electric Company on or after the effective date of this Decision or the effective date of its Operational Energy Efficiency Program Memorandum Account, whichever is earlier.

8. Alco Water Service Company, California-American Water Company, California Water Service Company, Golden State Water Company, San Jose Water Company, and East Pasadena Water Company may each seek recovery of its Operational Energy Efficiency Program Memorandum Account balance in its next general rate case or, if it does not have general rate cases, through a Tier 3 advice letter filing.

9. To the extent that Alco Water Service Company, California-American Water Company, California Water Service Company, Golden State Water Company, San Jose Water Company, or East Pasadena Water Company subsequently seeks recovery of any costs associated with its Operational Energy Efficiency Program Memorandum Account, such utility is not entitled to a presumption that the costs of the Operational Energy Efficiency Program are appropriate types of costs to recover or that they are reasonable or prudently incurred. The utility shall bear the burden of proving the prudence and reasonableness of the costs of the Operational Energy Efficiency Program and the appropriateness of separate recovery of these costs.

10. Application (A.) 07-01-024, A.07-01-026, A.07-01-029, and A.07-01-030 are closed.

This order is effective today.

Dated _____, at San Francisco, California.