

ATTACHMENT 4

**EXCERPT FROM D.92-09-080 ON
DUAL-COST ISSUE**

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DSM programs are funded by ratepayers as a whole, through utility revenue requirements (which are reflected in utility rates), and in many cases through out-of-pocket contributions by participating customers (customer contribution). Direct assistance, information and energy audit programs are funded entirely by revenue requirement authorizations. Many DSM “resource” programs, on the other hand, require customer contributions. DSM resource programs are designed to defer or avoid the cost of more expensive supply options. For these types of programs, individual participating customers are motivated to contribute a portion of the resource cost because they realize a direct return from that investment, in the form of bill savings.

Because the utility revenue requirement can be different from the total cost of the DSM program, due to customer contributions, we think of two types of costs when considering DSM program cost-effectiveness: total resource costs and utility costs. Total resource costs represent the total cost of obtaining the DSM program as a utility resource, and include both the program participants’ out-of-pocket costs (i.e., customer contribution) and the utility’s revenue requirement costs (e.g., rebates, administrative expenses). Utility costs reflect the revenue requirement impact of obtaining a DSM resource, excluding any customer contributions.

Total resource costs are considered in the total resource cost (TRC) test of cost-effectiveness, which measures the net impact of a DSM program as a resource option, based on the total costs of the resource. Utility costs are considered in the utility cost (UC) test of cost-effectiveness, which measures the net impact of acquiring a DSM resource, based on the utility costs of the program. For both the TRC and UC tests, the benefit side of the equation reflects the value of the energy and capacity saved (i.e., avoided costs). The results of these tests can be expressed as benefit-cost ratios (benefits divided by costs, in net present value), or as net benefits (benefits minus costs, in net present value). We refer to the net benefits from a TRC perspective as “total resource net benefits” and those from a UC perspective as “utility net benefits.”

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By definition, utility and total resource costs are identical for supply-side resources. This is because the full costs of supply-side resource are recovered through the utility's revenue requirement; i.e., there are no individual customers that pay for a portion of the resource. Therefore, on the supply side, bidders who maximize total resource net benefits are simultaneously striving to minimize utility costs. This is not necessarily the case on the demand side, where a bidder may be able to achieve the same level of total resource net benefits with different levels of utility costs (e.g., different levels of rebates or corresponding customer contributions).

Moreover, since individual customers that participate in DSM resource programs realize direct bill savings, they are generally willing to fund a greater percentage of the investment than non-participating customers. This is not the case for supply-side resources, where all customers are assumed to benefit from the investment equally and, within the same rate class, pay an equal price for the supply-side resource. Hence, unlike on the supply-side, bidders on the demand side may be able to leverage participating customers' private funds to the benefit of all ratepayers. One of the major issues in this phase of the proceeding is how to address this "dual-cost" characteristic and associated leveraging capability of DSM, in evaluating bid proposals.

Source: Decision 92-09-080, 45 CPUC 2d, p. 569.

(END OF ATTACHMENT 4)

ATTACHMENT 5

COMPILED E-TABLES COMPARING *EX ANTE* AND *EX POST* PERFORMANCE BASIS