California Public Utilities Commission

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Press Release

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Media Contact: Terrie Prosper, 415.703.1366, news@cpuc.ca.gov

PUC CREATES INNOVATIVE NEW PLAN FOR ACHIEVING STATE'S GROUNDBREAKING ENERGY EFFICIENCY GOALS

SAN FRANCISCO, September 20, 2007 - The California Public Utilities Commission (PUC) today approved an innovative new framework for achieving and exceeding the state's aggressive and groundbreaking energy efficiency goals. This new plan is critical in California's efforts to fight global warming.

Today's decision establishes a new system of incentives and penalties to drive investor-owned utilities above and beyond California's aggressive energy savings goals. The new program provides incentives of sufficient level to ensure that utility investors and managers view energy efficiency as a core part of the utility's regulated operations that can generate meaningful earnings for its shareholders. At the same time the new framework:

- Protects consumers' financial investment;
- Ensures that program savings are real and verified; and
- Imposes penalties for substandard performance.

Earnings to shareholders accrue only when a utility produces positive net benefits (savings minus costs) for ratepayers. The shareholder "reward" side of the incentive mechanism is balanced by the risk of financial penalties for substandard performance in achieving the PUC's per kilowatt, kilowatt-hour, and therm savings goals.

PUC President Michael R. Peevey said, "The culture of a business is often, if not always, defined by how that business makes money. As a result, in the utility world, energy efficiency has traditionally played second fiddle to the generation and transmission side of the business. Today's decision changes that view. It's my hope that California's innovation serves as a template for other states around the Nation."

"We must adopt aggressive new tools to fight global warming. Today's decision is part of California's commitment to make energy efficiency 'business as usual' in California," said

Commissioner Dian M. Grueneich. "The risk/reward incentive encourages utilities to invest in energy efficiency the same way they would invest in a power plant. Our efforts will reduce global warming by an estimated 3.4 million tons of carbon dioxide by 2008, which is equivalent to taking about 650,000 cars off the road."

"This decision puts energy efficiency on an equal footing with utility generation. It will align utility corporate culture with California's environmental values," said Commissioner Timothy Alan Simon.

Earnings begin to accrue at a 9 percent sharing rate if the utility meets 85 percent of the PUC's savings goals. If performance achieves 100 percent of the goals, the earnings rate increases from 9 percent to 12 percent. Each earnings rate is a "shared-savings" percentage. This means, for example, if the combined utilities achieve 100 percent of the 2006-2008 savings goals and the verified net benefits (resource savings minus total portfolio costs) at that level of performance is $2.7 billion, then $2.4 billion (88 percent) of those net benefits goes to ratepayers and $323 million (12 percent) goes to utility shareholders. If utility portfolio performance falls to 65 percent of the savings goals or lower, then financial penalties begin to accrue.

Today's decision builds upon California's landmark policies to advance clean air and energy, such as the Global Warming Solutions Act (Assembly Bill 32), the Low Carbon Fuel Standard (Executive Order S-01-07) and Emissions Performance Standard (Senate Bill 1368), and follows the direction of the state's Energy Action Plan.

For more information on the PUC, please visit www.cpuc.ca.gov.

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