



**California Public Utilities Commission**  
505 Van Ness Ave., San Francisco

**PRESS RELEASE**

**FOR IMMEDIATE RELEASE**

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Media Contact: Terrie Prosper, 415.703.1366, [news@cpuc.ca.gov](mailto:news@cpuc.ca.gov)

**CPUC CONTINUES ENERGY EFFICIENCY LEADERSHIP WITH  
IMPROVEMENTS TO RISK/REWARD INCENTIVE PROGRAM**

SAN FRANCISCO, January 31, 2008 - The California Public Utilities Commission (CPUC), continuing its leadership in the area of energy efficiency, today amended its energy efficiency risk/reward mechanism for the state's Investor Owned Utilities in order to mitigate the risk to ratepayers of earnings overpayment.

"I am proud to support this effort and I hope that our incentive plan can serve as a model for the rest of the country, as it is the first major effort in the United States to give utilities strong financial incentives for energy efficiency," said CPUC President Michael R. Peevey. "Our actions today are consistent with the vision articulated in the state's Energy Action Plan, by putting energy efficiency on equal footing with supply side investments. Today's unanimous decision allows the utilities to earn real money, on an annual basis, for their progress in meeting the state's energy efficiency goals, without having to worry that they'll have to give those monies back. This will significantly strengthen the motivation the utilities have to aggressively pursue energy efficiency."

A CPUC October 2007 decision, D.07-09-043, established a risk/reward incentive mechanism to encourage the utilities to invest in energy efficiency. The mechanism enables the utilities to earn rewards on energy efficiency investments in amounts comparable to what they would otherwise earn on the supply side. That decision established a minimum performance standard for the utilities, under which incentive earnings begin to accrue only if the utility energy efficiency portfolio achieves at



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least 85 percent of the CPUC's goals. The utilities were allowed to receive interim incentive payments based on progress toward achievement of the goals, but these payments were subject to repayment if an after-the-fact review indicated that the minimum performance standards were not attained. The decision also required that 30 percent of incentive payments be held-back until the final, after-the-fact true-up.

Subsequent to the decision, the utilities asked the CPUC to amend the decision to eliminate the risk of having to return all interim payments on the basis of the after the fact review. The risk of having to pay back all of the interim claims greatly diluted their value in motivating utility behavior because, from the financial community's perspective, interim claims could not be recognized as revenue. Today's decision approves the amended petition, with modifications. The CPUC adopted the utilities' requested changes to the true-up provisions to remove the risk of repayment, and thus ensure that utilities can invest in energy efficiency without fear that those investments will be discounted after the fact.

Recognizing that this change increases the risk to ratepayers of overpayment, today's decision also adopts a number of ratepayer protections. First, it reduces the amount that the Investor Owned Utilities can earn on an interim basis from 70 percent of the total interim claim to 65 percent. In addition, today's decision requires the utilities to rely on more up-to-date estimates of efficiency measure performance and customer adoption of energy efficiency, thereby helping ensure that interim claims more accurately reflect what is actually happening in the market. Like the decrease in the interim claim amount, this will significantly reduce the risk to ratepayers of overpayment, while preserving the value of the incentive mechanism in driving utility investments in energy efficiency.

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