COM/LYN/kth **Mailed 2/5/2001**

Decision 01-01-060 January 31, 2001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of Year 2001 Energy Efficiency Programs, in Compliance with Ordering Paragraph 93 of Decision 00-07-017 (U 39 M).	Application 00-11-037 (Filed November 15, 2000)
Application of SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) for Approval of Program Year 2001 Energy Efficiency Program Plans, Budgets, and Performance Award Mechanism.	Application 00-11-043 (Filed November 15, 2000)
Compliance Application of Southern California Gas Company (U 904-G) for Approval of 2001 Energy Efficiency Programs.	Application 00-11-044 (Filed November 15, 2000)
Application of San Diego Gas & Electric Company (U 902-M) for Approval of 2001 Energy Efficiency Programs.	Application 00-11-045 (Filed November 15, 2000)

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OPINION

Summary

In this Opinion, we approve the utilities' Program Year (PY) 2001 energy efficiency programs and the proposed budgets, with modification. In the sprit of getting these programs off the ground and effective immediately we are authorizing the utilities proposed energy efficiency programs with minor modifications. The most substantial change regards a focus on bottom line energy savings targets. The utilities' incentives are directly tied to achieving the specified energy savings targets. Because we want the utilities to have the ability to succeed in achieving real energy savings we have provided for flexibility in administering these programs. In addition, we have purposefully eliminated any bureaucratic process that could hinder the timely and effective implementation of energy saving measures. It is based on this reasoning that we are issuing a final decision in this matter rather than opting for further proceedings. We do this in the interest of fostering action and continuity in program implementation and also with the knowledge that there has been extensive public participation.

In making our determination to approve the proposed PY 2001 programs and budgets, with modifications, it is foremost in our thinking that it is our duty to provide Californian's with every opportunity to control energy usage and reduce consumption. Indeed, that is exactly the purpose of the public goods charge. Given the energy supply shortage and high prices for both electricity and gas, we are confident that the utilities will make every effort to make the program changes required and implement these programs in a manner that serves the interest of enabling consumers to cope with energy prices by reducing consumption.

Background

Current energy efficiency program funding is authorized as a separate component of utility rates and is administered by the utilities under the Commission's direction. Public Utilities Code §381(a)[1] provides for the collection of a separate rate component as a nonbypassable element of local electric distribution service, to fund, in part, energy efficiency programs. The utilities are directed to collect and spend these funds on "cost effective energy efficiency and conservation activities" at minimum funding levels, which for PY 2001 are: for SDG&E—$32 million; Edison—$50 million;[2] PG&E—$106 million. (§381(c)(1).) PG&E's, SDG&E's and SoCalGas' natural gas energy efficiency programs are funded through rates set in the utilities' general rate cases.

Southern California Edison Company (Edison), Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SoCalGas) (collectively, the utilities) filed their Program Year (PY) 2001 applications on November 15, 2000, as required by Decision (D.) 00-07-017 (Ordering Paragraph (OP) 93) and in accordance with the Administrative Law Judge's Ruling of August 15, 2000 in A.99-09-049 et. al.[3] Following an extensive public input process, the utilities' presented their PY 2001 program plans during the week of October 23, 2000.

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[1] All statutory references are to the Public Utilities Code unless otherwise stated.

[2] Edison's minimum funding level is reduced, by statute, from $90 million for PY 2001 only.

[3] A.99-09-049 et al. is the docket in which the utilities filed PY 2000 and 2001 energy efficiency applications. As described further below, we decided in D.00-07-017 to conduct the planning process for PY 2001 applications under this docket.

By ruling issued on November 20, 2000, the Chief Administrative Law Judge shortened the time for protests and comments and scheduled a prehearing conference (PHC). The ruling required the parties to file PHC statements. A PHC was held on December 5, 2000. On December 18, 2000, parties filed formal protests to the PY 2001 applications.

PY 2001 Applications

The utilities seek approval of a statewide estimated budget of $321.825 million for PY 2001. The utilities' proposed budgets include $259.207 million in electric funds and $62.618 million in gas Demand Side Management (DSM) funds. Of the $259.207 million proposed electric budget, $188 million comes from 2001 Public Goods Charge (PGC) funding pursuant to §381(a). The remainder ($71.207 million) represents projected carry-over of previously unspent funds and balancing account interest.[4]

Decision D.00-07-017 and D.99-08-021 provided the utilities with programmatic and budgetary direction for their PY 2001 proposals. In addition, the Assigned Commissioners' Ruling issued on October 17, 2000 provided further direction for PY 2001 programs. In the ACR, we established our objective of achieving peak demand savings, through energy efficiency programs. We stated:

> "while we do not set any target percentages for programs that target peak load reduction, we expect that the programs will balance peak and energy demand reductions, equity and targeting of underserved

[4] This amount comes primarily from projected unspent funds from PY 2000 programs plus balancing account interest since the carry-over funds from PY 1998 and 1999 were expended on the Summer 2000 Energy Efficiency Initiative (Summer Initiative) authorized in D.00-07-017. (OP 86.)

> markets, and sustainable long-term energy savings, which is consistent with and furthers the objectives set forth in § 399.15." (*Id.*)

Protests to the Applications

Protests to the utilities' PY 2001 applications were filed by the CEC, TURN, the Residential Energy Efficiency Clearing House, Inc. (REECH), NAESCO, RESCUE/SESCO, Primis, and Robert Mowris and Associates (Mowris). Comments were filed by the Sierra Club and Appliance Recycling Centers of America, Inc. (ARCA).

In their protests, intervenors and protestants raise issues primarily relating to the proposed overall program portfolio and budget allocations as well as to individual program design and budgets. Intervenors and protestants argue that the utilities' program portfolios do not comply with the directives set forth in D.00-07-017 and the mandate of AB 970 and fail to produce maximum energy and demand savings. They raise issues with respect to individual programs, making suggestions for improved program design, proposing new programs and energy efficiency measures, different financial measures, and changed incentive levels, and seeking the elimination of programs that they believe are not successful. They disagree over program priorities, budget allocations, and funding levels and challenge the reasonableness of the utilities' proposed shareholder incentives and milestones. ORA also seeks a return to the pre-1998 recorded net benefits mechanism for calculating shareholder incentives that requires *ex post* savings measurement over time and the institutionalization of protocols and standards for review and verification. ORA also seeks to prohibit commercial customers who have an electric load in excess of 500 kw from obtaining any financial assistance under these programs. TURN and REECH object to the inclusion of carry-over funds and balancing account interest in PY 2001 budgets. REECH also seeks better information about program administration and administrative costs, management structure, and budgets to evaluate whether the utility administrators are properly using PGC funds.

Program and Budget Approval

We agree with the majority of parties that PY 2001 programs and overall budgets should be instituted immediately. Therefore, we authorize the utilities to implement their proposed PY 2001 programs effective January 1, 2001, with the modifications and directions as set forth below.

Given the urgent need to reduce demand in California, it is critical that there be no delay in implementing the PY 2001 programs. During the last year, electricity demand has exceeded supply and electricity prices have risen to unprecedented heights. Electricity supply shortfall now cause routine Stage II alerts and regularly threatened Stage III alerts. California consumers are now potentially facing continued curtailments and rolling blackouts throughout the year.

To have an impact in 2001, it is important that these programs begin immediately and are implemented in a continuous, uninterrupted manner. Measures to reduce load are the most effective means of ensuring reliability and putting downward pressure on prices in the near term. The PGC was designed to assist customers in reducing their energy use. It is our duty to ensure that programs are quickly implemented to provide consumers with assistance. Further, the Legislature has indicated its continuing and expanded support for energy conservation activities through the passage of AB 970 to meet the challenges of peak demand reduction and Senate Bill (SB) 1194/AB 995 to continue PGC funding post-2001.

Further, a review of the applications indicates that the proposed programs and program portfolios have been improved over the PY 2000 programs. While we believe that there are more improvements to be made to maximize energy and peak demand savings, the utilities have modified programs, measures, and incentives, and have proposed new programs to meet the need for peak load savings and to enhance energy savings.

We recognize that there are legitimate disputes regarding the PY 2001 programs. However, in the spirit of expeditiously getting energy efficiency and conservation programs off the ground and implemented in a continuous, fluid manner we approve the applications. Furthermore, we are confident that the energy savings targets and associated incentives will drive the utilities to make the necessary program improvements. Indeed, we have purposefully provided the utilities with maximum flexibility to accomplish this objective. In short, we believe that given the current state of electric and gas prices, it is in the interest of those implementing energy saving programs and the customers that benefits from them, to have these program in place immediately without the disruption and uncertainty that results from continued litigation.

Program Budgets

We approve 100% of program budgets as proposed with the exception described below. Utility administrators will be given flexibility to shift funds as needed to meet demand and to maximize energy savings.

Program Area	**Budget Authorization ($ million)**
PG&E	
Residential	$50.27

Nonresidential	$62.14
New Construction[5]	$28.10
MA&E[6]	$3.01
Shareholder Incentives[7]	$9.84
Energy Division Budget	**$0.08**
Total PG&E	**$153.44**
SCE	
Residential	$28.96
Nonresidential	$34.93
New Construction	$15.97
MA&E	$1.17
Shareholder Incentives	$5.59
Energy Division Budget	$0.09
Total SCE	**$86.71**
SDG&E	
Residential	$14.78
Nonresidential	$15.72
New Construction	$8.15
MA&E	$0.50
Shareholder Incentives	$2.71
Energy Division Budget	$0.06
Total SDG&E	**$41.92**
SoCalGas	
Residential	$8.99

[5] PG&E and SCE's new construction budgets have been increased from 16% and 19%, respectively, to 20%.

[6] Assumes only statewide MA&E study budgets are approved. CEC and utility-specific budgets are not included.

[7] Assumes shareholder incentives equal to 7% of program funding for all three types of milestones (energy savings, market effects, and performance adders).

Nonresidential	$14.61
New Construction	$6.14
MA&E	$0.10
Shareholder Incentives	$2.08
Energy Division Budget	$0.06
Total SoCalGas	**$31.98**

In approving the utilities' budgets, we recognize that we are approving the use of carry-over funds from prior years as well as balancing account interest. We are disappointed in the utilities' failure to use these funds to procure energy savings in 2000 and earlier, given the current energy supply shortage and rapidly escalating prices and the pressing need to step up efforts at energy conservation. However, in our effort to target energy savings, we believe that these funds are appropriately budgeted for use in PY 2001.

Funding Flexibility

We grant the utility administrators flexibility to shift funds between programs within a program area (e.g., within the residential program area, the nonresidential program area, and the new construction program area) during the course of the year, subject to the principles of equity and targeting underserved markets. We believe that such flexibility is needed for the utilities to expand and accelerate, as necessary, programs that achieve the maximum feasible reductions in uneconomic and peak electricity consumption. We require only that the utilities chronicle the changes in the program emphasis and funding in their April quarterly reports.

We maintain our objective of equity by ensuring that the customers contributing to the PGC, benefit from the programs funded through the PGC. We further state our continued goal of targeting underserved communities. These principles will not hinder the achievement of maximum energy and demand savings. On the contrary, there are substantial untapped conservation opportunities in virtually all customer classes and communities. We make programmatic suggestions below but expect the utilities to design, implement, and fund programs that both meet these guidelines and maximize energy and demand savings.

We will not, however, allow the utilities to shift funds between program areas without prior Commission approval. Further, we disapprove the utilities' proposal to combine the residential new construction budget with the residential program area budget and the nonresidential new construction budget with the nonresidential program area budget for fund-shifting purposes. Programs specifically targeted toward energy efficiency in new construction are an important part of our energy efficiency portfolio and have the potential for providing much needed energy and demand savings. Further, AB 970 specifically requires additional efforts to garner energy savings in new construction. Combining the new construction budgets with the residential and nonresidential budgets for fund-shifting purposes does not further the legislative mandate or energy saving goals. For this same reason, we believe that new construction budgets should be maintained at a minimum of 20% of the utilities' total program budget. Accordingly, we have increased Edison's and PG&E's new construction budgets from 19% and 16%, respectively, to 20%.

Refrigerator Rebates

PG&E and Edison omitted incentives for the purchase of energy efficient refrigerators in the program proposals. However, Edison and PG&E have indicated a willingness to include incentives for qualified Energy Star refrigerators if we determine that SB 1194/AB 995 does not prohibit them.

SB 1194/AB 995 (§399.4 (b)(2)) provides that "the Commission, in evaluating energy efficiency investments under its existing statutory authorities, shall ensure both of the following: . . . (2) that no energy efficiency funds are used to provide incentives for the purchase of new energy efficient refrigerators."

The issue presented is whether this prohibition on funding for refrigerator rebates should be applied to PY 2001 programs or whether it is effective for programs conducted in PY 2002 and beyond. Since the statute is subject to more than one interpretation, we "look to a variety of extrinsic aids, including the ostensible objects to be achieved, the evils to be remedied, the legislative history, public policy, contemporaneous administrative construction, and the statutory scheme of which the statute is a part" (*People v. Woodhead* (1987) 43 Cal.3d 1002, 1008) in order to "ascertain the intent of the Legislature so as to effectuate the purpose of the law." (*People v. Jenkins* (1995) 10 Cal.4th 234, 246; *Select Base Materials, Inc. v. Board of Equalization* (1959) 51 Cal.2d 640, 645.)

SB 1194/AB 995 extends the collection of the nonbypassable system benefit charge to support energy efficiency programs through January 1, 2012 The overriding intent was to extend funding for energy efficiency programs that were scheduled to sunset by the end of 2001 or early in 2002. Thus, we construe the prohibition on funding for refrigerator rebates to apply only to energy efficiency programs funded by this legislation; that is, to programs that are continued and funded by collections made after January 1, 2002. Therefore, we find that the utilities are not prohibited by §399.4(b)(2) from providing incentives for qualified Energy Star refrigerators in their appliance programs for PY 2001.

Third Party Initiatives (TPI)

We recognized that TPI programs are a source for innovative energy efficiency ideas, implementation, and design. They take advantage of the unique expertise, relationships with customers, and have the ability to coordinate activities among individual and local governments. Our experience with the Summer 2000 Energy Efficiency Initiative, which was implemented as a general TPI solicitation, also confirms our view that there are many innovative, creative, and successful programs that have the potential of producing both short-term and long-term energy and demand savings.

A review of the utilities' applications shows the following TPI budgets for PY 2001 as compared to PY 2000:

TPI Funding ($ Millions)

Utility	PY 2000 Budget	PY 2000 Projected Spent Yr.-End	PY2001 Proposed Budget	PY2000 Summer Initiative TPI Funding
PG&E	8.700	8.700	2.110	3.500
SCE	2.150	2.249	4.000	1.700
SDG&E	0.508	0.190	1.975	1.000
SCG	3.111	3.163	0.861	-
Total	14.469	14.302	8.946	6.200

These budgets show that PG&E and SoCalGas decreased their proposed budgets for TPI while Edison and SDG&E slightly increased them. By failing to incorporate increased budgets for TPI, the utilities are losing out on a substantial opportunity to effectuate energy and peak demand savings through the use of innovative cost-effective programs. The current energy situation needs the increased private sector involvement and the innovation and cost-effectiveness it can bring.

There is evidence that the utilities have not been able to reach a substantial number of consumers with their energy efficiency programs. Third parties with established community ties, both individuals and government entities, can assist in breaking down those barriers and effectively promote energy efficiency. This is demonstrated by the successful program that PG&E operates with the City of

San Jose. Finally, we note that the utilities have routinely failed to spend a substantial portion of program funds each year.

We direct each utility to reserve a minimum of 8% of their program budgets, across all three program areas, for third party initiatives. The Summer Initiative is a separate program, which has been designed and implemented on a separate track from the PY 2000 and PY 2001 programs. Thus, the Summer Initiative third party initiatives should not be included in the budget reserved for TPIs for PY 2001. The following table contains the minimum level of required TPI funding:

Utility	**Required TPI Reserved Budget ($ million)**
PG&E	$11.24
SCE	$6.39
SDG&E	$3.09
SoCalGas	$2.38[8]
Total	$23.18

The table above may include budgets for existing TPI programs that are being continued. Utilities should also consider converting successful and cost-effective TPI programs into mainstream (non-TPI-designated) energy efficiency programs.

Market Assessment & Evaluation Studies

The utilities propose to fund and conduct various market assessment and evaluation (MA&E) studies during PY 2001. The proposed MA&E studies

[8] We recognize that SoCalGas' minimum TPI funding is less than the TPI funds budgeted in PY 2000. However, this is reasonable since we raised a question regarding the cost-effectiveness of SoCalGas' program portfolio in PY 2000. However, as we state above, this is a minimum amount and we expect SoCalGas, like the other utilities, to continue cost-effective TPI programs from PY 2000.

include both statewide studies, which are managed by individual utilities or the CEC, other studies conducted by the CEC, and utility-specific studies. Some statewide MA&E studies seek information about markets, including developing baseline and other market data, for program planning purposes, while others evaluate current programs. The CEC also manages studies for forecasting energy demand and to monitor the functioning of energy markets. Utility-specific studies generally are undertaken to provide information needed to demonstrate the achievement of milestones for shareholder incentive awards.

We approve the proposed statewide MA&E studies and budgets managed by the utilities. The statewide studies managed by the utilities have been reviewed in a public process conducted by the California Measurement Advisory Council (CALMAC)[9] and, for the most part, consist of continuing studies to support continuing programs. It is important that these studies get under way expeditiously so that we have the appropriate data to evaluate on-going programs and plan future programs. We are, however, concerned that the MA&E studies relate to approved programs for PY 2001. Thus, while we approve the budgets and studies, we expect the utilities to revise the study plans to account for new programs, as well as changing program priorities and

[9] In Phase 1 of the 1999 AEAP the utilities, the CEC, and ORA submitted a joint recommendation for MA&E activities to govern post-1998 activities. The Joint Recommendation provided for the establishment of a new body, the CALMAC, to provide a forum for presentations, discussion, and review of MA&E studies for energy efficiency and low-income programs and to coordinate the development of these studies. In D.00-05-019 we concluded that the parties' recommendation was reasonable, with the understanding that the CALMAC would not be an officially recognized advisory body to the Commission. ORA once again asks us to recognize the CALMAC. We declined to do so in D.00-05-019 and D.00-07-017. ORA gives no reasons why we should reconsider this decision and we decline to do so.

changing market conditions throughout the year. In this regard, we note that the statewide portfolio of studies does not appear to include any studies related to our renewed emphasis on peak demand reduction.

The statewide utility-managed MA&E budgets are approved as follows:

Statewide utility-managed MA&E budgets

Utility	MA&E Budget Authorization ($ million)
PG&E	$3.01
SCE	$1.17
SDG&E	$.50
SoCalGas	$0.10
Total	**$4.78**

We decline, however, to approve the budgets for utility-specific studies, which comprise 47% to 63% of the total MA&E budgets. There is no evidence that the utility-specific budgets have been reviewed by anyone other than the sponsoring utility. Further, it is difficult to discern the scope and purpose of the proposed studies or to evaluate the reasonableness of the studies. We have similar concerns with respect to the funds set aside for the CEC studies.

Thus, we believe that both the proposed utility-specific and CEC budgets and studies should be subject to additional review. Within 60 days of the approval of this decision, the utilities should present their proposed MA&E plans. The presentation should include a full description of the study plans, objectives, and budgets, and a discussion of the rationale and need for these particular studies.

We also affirm that we will rely on the Office of Ratepayer Advocates to be the Commission's primary agent responsible for verification of equipment installations and budget commitments in forthcoming AEAP proceedings.

Shareholder Incentives and Milestones

Background

In D.00-07-017 we indicated our intent to simplify the shareholder incentive structure. We also stated our preference for tying performance incentives to energy savings and cost-effectiveness. (*Id.*, *mimeo* at pp. 194-195.)

Parties agree that incentives should be based on energy and demand savings. The ALJ and Assigned Commissioner have expressed their intention to structure incentives to emphasize programs that reduce peak demand and maximize energy savings.

Utilities' Proposal

The utilities propose a shareholder incentive mechanism that divides milestones into three categories: 1) energy savings; 2) market effects; and 3) a performance adder for information programs. The majority of earnings are based on energy savings.

For programs projected to produce measurable and verifiable energy savings and peak demand reductions, the utilities propose to base earnings on energy savings and peak demand reduction targets at the program portfolio level, and to scale the award based on the *ex ante* net energy savings and peak demand reductions obtained based upon the most recent load impact studies where available and the adopted net-to-gross ratios.[10] The load impact targets are scaled with the awards, allowing immediate award for energy savings.

For programs that cannot be tied to energy savings but promote market transformation, the utilities propose select market effects milestones and incentives, designed to represent changes in market actor(s) behavior,

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[10] SoCalGas uses gross energy savings, which produces higher values.

awareness, knowledge, and market share. They propose two levels of earnings, generally an award for 70% attainment and for 100% attainment.[11]

For information programs and energy centers, which support program delivery, but do not produce directly measurable energy savings or market effects results, the utilities propose that incentives be paid as a "performance adder." These incentives are based upon total program budget expenditures on the included programs; the utilities propose achievement for recording 60% of the total programs' budgets associated with these activities, increasing linearly to 95% of the recorded target.

The utilities propose the following award weighting among categories:

[11] PG&E is the exception, proposing different attainment levels for different milestones, some with awards earned upon reaching 1% attainment.

Milestones: Weighting and Amounts

	PG&E		SDG&E		SCE		SCG	
	Mechanism Weighting	Maximum Award	Mechanism Weighting	Maximum Award	Mechanism Weighting	Maximum Award	Mechanism Weighting	Maximum Award
Energy Savings	76.50%	8.278	80%	2.165	80%	4.473	80%	1.665
Market Effects	6.40%	0.688	10%	0.271	10%	0.559	10%	0.208
Performance Adder	17.10%	1.853	10%	0.271	10%	0.559	10%	0.208
Totals	100.00%	10.819	100%	2.706	100.00%	5.591	100.00%	2.081
At 110% of the cap (7.7%)		10.82		2.976		6.15		2.29
7% Cap		9.84		2.706		5.591		2.082
Program Budgets		140.51		38.654		79.869		29.739

Energy Savings and Weightings	PG&E			SDG&E			SCE			SCG		
	Award Weight	Target Award	Energy Savings	Award Weight	Target Award	Energy Savings	Award Weight	Target Award	Energy Savings	Award Weight	Target Award	Energy Savings
MW	22%	$ 1.791	63.9	20%	$ 0.433	18.5	25%	$ 1.118	47.89			
mWh	65%	$ 5.373	210,696	59%	$ 1.277	112,606	75%	$ 3.355	247,566	34%	$ 0.566	13,767
Therms (000s)	13%	$ 1.114	3,864	21%	$ 0.455	2,809				66%	$ 1.099	7,899

Weighting

We believe that the overall structure and weighting provided is reasonable. However, it should be standardized across all utilities. Further, the proposed incentives should add up to 100% of the 7% earnings cap[12] and not 110% as proposed by PG&E. We do not believe that there is any reason to include a 10% performance factor because earnings are based primarily on energy savings and not on individual milestones that may or may not be met.

Incentives for Energy Savings

PG&E's and Edison's estimated electric energy savings for PY 2001 programs are substantially lower than both recorded electric savings in PY 1999 and projected electric savings for PY 2000.[13] Only SDG&E's projected electric savings are greater than savings recorded in 1999 and projected for 2000. Further, SoCalGas' estimated therms saved are substantially lower than recorded therms saved in PY 1998 and PY 1999 and projected therms saved for PY 2000. While there have been some changes in the cost-effectiveness inputs on the benefits side, those changes do not explain the drastically reduced energy savings estimated for PY 2001. This is particularly true since we have encouraged the utilities to increase emphasis on energy savings and peak demand savings in PY 2001 while PY 1999 and PY 2000 programs were based to a greater extent on market tranformation programs, under which it is more difficult to assess short-term energy savings.

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[12] An earnings cap totaling 7% of the total program budget was established in D.00-05-019.

[13] Edison's projected energy savings are also less than recorded energy savings in PY 1998, while PG&E's and SDG&E's are only minimally larger.

Given the above, we have substantial doubts regarding the legitimacy of PG&E's, Edison's, and SoCalGas' estimated energy savings for PY 2001. We also have substantial concerns about the proposed design of the performance award mechanism. While it appropriately is based on energy and peak demand savings, the estimated savings are very low and the mechanism provides for scaled performance awards with the attainment of minimal energy savings. This proposal neither meets our objective of encouraging maximum energy and peak demand savings in PY 2001 programs nor provides a fair balance of risk and reward. Thus, we conclude that this proposal is not appropriate for use with PY 2001 programs.

We believe that the utilities should take every effort to maximize energy savings and peak demand savings for PY 2001 and that energy and peak demand savings should meet or exceed prior years' savings. The utilities' historical experience provides an appropriate starting point for setting milestones based on energy and peak demand savings. Further, to encourage the utilities to maximize savings, we believe that the utilities should meet a threshold before earnings are awarded.

Thus, we will set the energy and demand savings portion of the milestones to absolute savings targets. This mechanism will ensure that each utility has a clear goal and clear metrics for earning shareholder incentives. By adopting the mechanism set forth below, we believe that earnings appropriately will be based on a balance of risk and reward. While we increase the energy savings that must be attained before an award is earned, for all utilities except SDG&E, we also give the utilities discretion to manage their programs and shift program funds as the need arises. Thus, the utilities are provided with both the incentive and the means to earn these awards, while producing increased energy and peak demand savings to their own benefit and the benefit of ratepayers. This mechanism also obviates the need to address TURN's and REECH's objection to providing incentives on budgets based on carry-over funds because it ensures that the utilities have the incentive to maximize energy savings while providing a stretch over the utilities' estimated energy savings.

The table below summarizes the electric energy (kWh), electric peak demand (kW), and gas (therms) savings goals for each utility. The first set of columns represents the minimum or threshold level of savings that each utility is required to meet in order to earn any shareholder incentives. Once the utility has met this threshold, they will automatically be eligible for 50% of the 80% of shareholder incentives allocated to energy or demand savings. If the utility meets the maximum savings targets in the second set of columns, they will be eligible to earn 100% of their 80% of savings-related shareholder incentives. Shareholder incentive awards will be scalable between the minimum and maximum savings levels reflected in the table below, and between 50% and 100% of potential earnings, respectively. Thus, for example, a 1% increase in savings over the minimum threshold level will result in 52% of shareholder earnings awarded, once savings are verified and reported.

Shareholder Earnings Targets

	Minimum/Threshold (50% earnings)			Maximum (100% earnings)		
Program Area	Million kWh	MW	Million therms	Million kWh	MW	Million therms
PG&E						
Residential	116.2	44.2	3.1	145.2	55.3	3.9
Nonresidential	295.9	48.3	3.9	369.9	60.3	4.9
New Construction	35.2	8.9	0.2	44.0	11.2	0.3
Total	**447.3**	**101.4**	**7.3**	**559.1**	**126.7**	**9.1**
SCE						
Residential	83.4	31.7		104.3	39.7	
Nonresidential	185.3	30.2		231.7	37.8	
New Construction	42.1	10.7		52.6	13.4	
Total	**310.9**	**72.7**		**388.6**	**90.8**	
SDG&E						
Residential	17.8	6.8	0.7	22.3	8.5	0.8
Nonresidential	44.8	7.3	0.3	56.0	9.1	0.3
New Construction	18.4	4.7	0.1	23.0	5.8	0.2
Total	**81.0**	**18.8**	**1.1**	**101.2**	**23.4**	**1.3**
SoCalGas						
Residential	4.6	2.4	1.8	5.7	3.1	2.2
Nonresidential	2.3	0.5	4.3	2.9	0.7	5.3
New Construction	10.4	3.7	0.3	13.0	4.6	0.4
Total	**17.4**	**6.7**	**6.4**	**21.7**	**8.4**	**7.9**
Grand Total	**856.5**	**199.5**	**14.7**	**1,070.7**	**249.4**	**18.4**

These targets are based on an analysis of historical effectiveness of utility investment in energy efficiency programs (measured in dollars per kWh or dollars per therm)[14]. We direct the utilities to provide estimations of energy demand savings for the first half of 2001 in their June quarterly reports.

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[14] Peak demand (MW) savings targets were calculated assuming load factors of 30% for the residential sector, 70% for the nonresidential sector, and 45% for new construction. In most cases, the average $/savings figures were averaged over the past three program years (1998-2000) and then adjusted to reflect: 1) Differences in net-to-gross ratio

Footnote continued on next page

For achievement of the savings goals above, each utility will be eligible for the following maximum award levels. The percentage earnings are weighted appropriately for each utility, as shown in the table. The energy and demand savings reflected in the table above have also been revised to take into account comments received on the draft version of this Decision. First, based on comments from PG&E, an increase in the adjustment/uncertainty factor described above, from 10% to 20%, was included to account for the larger effect of the change in net-to-gross ratio assumptions.

The new construction targets for all utilities were also revised on the basis of comments from SCE and several other parties. In particular, the new targets utilize the following methodological changes:

- On the assumption that the utilities' proposed PY2001 energy savings and budgets took into account likely changes to building codes (Title 24) in 2001, as the utilities state in their comments, a statewide projected average $/kWh for PY2001, as included in each utility application, was calculated.
- The statewide average projection was then combined with each utility's three-year historical average $/kWh effectiveness for new construction. This approach balances utility-specific considerations with SCE's concern that it not be held to a higher standard than other utilities based on past performance.

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assumptions for programs from year to year; 2) The likelihood that energy savings become more expensive to achieve over time; 3) The likelihood that some higher program costs may be warranted in 2001 because of the need to "jump start" efficiency activities, through increased marketing or incentive levels, to increase consumer participation.

- This approach also acknowledges that changes to building standards are not likely to begin to affect utility savings calculations until at least the middle of 2001.

In addition, for SoCalGas in particular, the balance between electric and gas savings targets was revised to account programmatic changes SoCalGas has made under the direction of the Commission, as detailed in their comments, to emphasize electric savings over gas savings. Specifically, SoCalGas' electric savings targets were increased by 40%, while their gas savings targets were decreased by 40%.

Shareholder Incentive Maximum Earnings: Energy and Peak Demand Savings

	Maximum Earnings Potential for Energy and Demand Savings ($ million)			
Program Area	**kWh savings**	**Peak MW savings**	**Therm Savings**	**Total, Savings**
PG&E				
Residential	1.69	0.56	0.56	2.82
Nonresidential	2.09	0.70	0.70	3.48
New Construction	0.94	0.31	0.31	1.57
Total	**4.72**	**1.57**	**1.57**	**7.87**
Weighting	*60%*	*20%*	*20%*	
SCE				
Residential	1.22	0.41		1.62
Nonresidential	1.47	0.49		1.96
New Construction	0.67	0.22		0.89
Total	**3.35**	**1.12**		**4.47**
Weighting	*75%*	*25%*		
SDG&E				
Residential	0.50	0.17	0.17	0.83
Nonresidential	0.53	0.18	0.18	0.88
New Construction	0.27	0.09	0.09	0.46
Total	**1.30**	**0.43**	**0.43**	**2.16**
Weighting	*60%*	*20%*	*20%*	
SoCalGas				
Residential	0.10	0.10	0.30	0.50
Nonresidential	0.16	0.16	0.49	0.82
New Construction	0.07	0.07	0.21	0.34
Total	**0.33**	**0.33**	**1.00**	**1.67**
Weighting	*20%*	*20%*	*60%*	
Grand Total	**9.71**	**3.46**	**3.01**	**16.17**

Utilities will be eligible to earn these incentives on a program area basis, and not on a portfolio basis. In order to encourage the utilities to meet all of their targets, however, we will give utilities who meet all of their program area and kWh, MW, and therm savings targets a 5% shareholder incentive bonus. The bonus will be equal to 5% of the 7% of program budgets, and will reduce to 5%

the amount of shareholder incentives available under the performance adder mechanism, as detailed below. Thus, each utility will be eligible for the 5% bonus, as shown in the table below.

Utility	Potential bonus for meeting all program area savings targets ($million)
PG&E	0.49
SCE	0.28
SDG&E	0.14
SoCalGas	0.11
Total	1.02

Shareholder Incentives for Market Effects and Information Programs

We will adopt the market effects and performance adder awards as proposed by the utilities. We will reduce the level of potential earnings through the performance adder mechanism to 5%, as discussed above, to accommodate a potential bonus for meeting all energy and demand savings targets shown above. The shareholder incentive for each utility is described as follows:

Shareholder Incentive Maximum Earnings: Market Effects (10%) and Performance Adders (5%)

Utility	Market Effects Incentives ($million)	Performance Adder Incentives ($million)	Total Potential Earnings ($million)
PG&E	0.98	0.49	9.84
SCE	0.56	0.28	5.59
SDG&E	0.27	0.14	2.71
SoCalGas	0.21	0.11	2.08
Total	2.02	1.0	20.21

We recognize that information programs are an essential part of the utilities' programs. The fundamental issue to be addressed concerns the type of information program and the success of the program in reaching customers. We expect that the utilities will tie the performance adder to targeted outreach of underserved communities and new distribution/marketing methods instead of on spending funds for more bill inserts or other information programs that have not produced results in the past.

No Ex Post Measurement of Net Benefits

We do not adopt ORA's proposal to return to pre-1998 recorded net benefits milestones for calculating shareholder incentives based on *ex post* savings measurement. While there is merit to this approach, we believe that it is best considered with respect to post-PY 2001 program planning.

Program Guidance

While we have provided the utilities with flexibility to administer programs we provide direction for further program enhancement and budget modifications. We expect that the utilities will consider this guidance and report the inclusion of these principles in the June quarterly report.

Compliance with Assembly Bill 970

The utilities proposals can be enhanced to implement the requirements of AB 970. With the exception of SDG&E, the utilities have designed very few new programs. We suggest that the utilities undertake the following activities, related to the specific requirements of AB 970:

Expansion of Weatherization Programs

In order to achieve more residential and commercial weatherization, we recommend the following additional activities, at a minimum:

- Expand the list of eligible measures under the Residential Contractor Program to include at least those measures eligible under their low-income energy efficiency weatherization programs, except door and building envelope repairs.
- Design a program similar to the Summer Initiative Multifamily Hard to Reach program that targets small commercial customers and includes weatherization and other measures applicable to small commercial buildings.

Expansion of HVAC Programs

HVAC efficiency represents a huge opportunity for peak demand savings. A comprehensive program approach to HVAC could include incentives for purchase or installation of high-efficiency HVAC equipment, coupled with incentives for recycling or pick/disposal of the replaced equipment. We recommend the following activities to tap this market potential more fully:

- Extending incentives for high-efficiency HVAC equipment to individual residential consumers, through a program mechanism similar to Express Efficiency for small commercial. Rebates could be made available to individual consumers or their contractors, and should be designed to provide more incentives for higher efficiency units. In other words, rebate levels should increase as SEER and EER levels increase. Rebate levels could be phased or shifted to account for new federal HVAC standards expected soon.

- Maintaining or increasing funding for duct sealing activities (including those that are TPI funded) in both residential and small commercial buildings.

- Direct incentives to residential and small commercial consumers or their contractors for other activities that influence HVAC load, such as windows, insulation, installation of whole house fans, etc.

- Direct incentives for high-efficiency window or wall air conditioner units.

- Direct incentives for evaporative cooling, where geographically appropriate.

- Incentives for pickup, disposal, and/or recycling of replaced window, wall, or central air conditioning units.

- Incentives and/or a separate program for ongoing large commercial building commissioning.

- A building operator training and/or certification program.

Expansion of New Construction Programs

AB 970 recognized the continued growth in electricity demand by specifically emphasizing the need for expanded new construction programs((§399.15(b).) . We recommend that the utilities consider the following activities, at a minimum:

- An Energy Star or other similar high-efficiency new construction homes program, coordinated with the CEC to assist in phasing in the new Title 24 standards expected to become effective beginning in June 2001.
- Additional budget for the Savings by Design program.
- Close coordination between Savings by Design and the new Title 24 standards.
- Emphasis, in all new construction programs, on measures that reduce cooling load, such as high efficiency windows, insulation, duct sealing, etc.
- A program for high-performance manufactured homes, similar to the Northwest Energy Efficiency Alliance program, which provides assistance and incentives to manufacturers of well-insulated and low-energy-consuming manufactured housing.

Compliance with D.00-07-017 Directives

Targeted Outreach and Information

We have stated our goal of increasing creative plans for reaching targeted consumers, including underserved and hard-to-reach customers. We expect the utilities to minimize the use of bill inserts and to expand the use of other delivery methods to reach targeted and underserved communities and specifically to link information programs to available assistance and incentives. We recommend that targeted information include:

- Use of community–based organizations, cultural organizations, minority media, and local government entities, including boards and commissions, such as community development district boards.

- Targeting of home improvement and big box retail stores and local grocery and drugstores.

- The development and expansion of the joint utility website.

The utilities should work with local government entities to obtain information that can be used to design further targeted efforts. For example, city and county planning departments generally maintain lists of neighborhood organizations and other community groups that regularly participate in development issues in their communities. They may also maintain lists of contractors who have pulled building permits over some period of time. Another source of information is the Contractors State Licensing Board.

Local Government Initiatives

The utilities should enhance and increase partnerships with local governments to achieve energy efficiency at the local level. In particular, we recommend that the utilities pursue the following activities:

- Augmenting the Summer Initiative LED program budgets to provide funding to more cities and communities that wish to replace their traffic lights. We believe there are many applicants on the waiting list for this funding with several utilities.

- Translating PG&E's success with the City of San Jose TEEM-UP partnership to other cities and/or expanding efforts with cities with which the utilities already have relationships.

- Replicating the City of Oakland's innovative Summer Initiative program that provides design assistance to all types of construction at the time of local permitting. This program concept has the potential to influence all types of new building construction, as well as remodeling, through targeted intervention. This can also be coordinated with the CEC's updated Title 24 standards.

Other Programs to Maximize Energy and Demand Savings

In addition to the ideas suggested above, we recommend that the utilities explore these some additional activities designed to increase availability of energy efficiency programs to consumers.

Residential remodeling

We are concerned that for several utilities, the RCP program is the primary vehicle for delivering energy efficiency to existing residential consumers. This program, even if successful, is only one strategy that belongs in a portfolio of options for residential customers. While a number of specialist contractors are enthusiastic participants in the RCP, evidence suggests that the program does not reach the bulk of general contractors who typically undertake remodeling and renovation of existing residential buildings.

As described above, we recommend that the utilities make a significantly wider range of end-use rebates available to residential customers directly or to their general contractors responsible for remodeling or renovation. A program for single family residential customers could be modeled after the successful non-residential Express Efficiency program for small commercial customers. Further suggestions include kiosks in home improvement centers, which have been successfully used by SDG&E in its service territory as well as programs with local governmental entities to provide information through local government permitting and planning offices, as discussed further above. Direct rebates for residential customers for appliances would also be beneficial.

Commercial Cooling

We believe there are sufficiently large peak demand and small energy savings benefits to be gained from offering assistance to building owners wishing to install these systems. We therefore recommend that the utilities add thermal energy storage as an eligible cooling measure to the Large SPC program. Inclusion of thermal energy storage as an eligible measure should be on the condition that the system can demonstrate energy as well as peak demand savings.

Other Issues

Edison's Funding Proposal

SB 1194/AB 995 mandates a $90 million funding level for Edison in 2002 and beyond. The ACR Implementing AB 970 directed Edison to submit PY 2001 program plans and budgets totaling $90 million instead of the $50 million PGC minimum funding level set forth in §381(c)(1).

In its application, Edison submits a $90 million budget for PY 2001. The $90 million budget designates funding of $50 million in PGC funds and another $40 million from interest in the energy efficiency balancing account and carry-over funds available after satisfying its PY 2000 Summer Initiative obligations. Edison also proposes to use PY 2002 funds for certain projects if the proposed funding sources fall short. REECH objects to Edison's proposal.

Edison argues that requiring it to submit a 2001 budget that includes more than $50 million in PGC funds would contravene the "clear legislative intent" of §381(a) which requires the CPUC to authorize the utilities to "identify a separate rate component to collect the revenues used to fund these programs" because under current market conditions, Edison has no assurance of cost recovery for any amount above the legislatively established minimum.

While we do not adopt Edison's interpretation of §381, we agree that, under current market conditions and Edison's rate freeze, it would be burdensome to order it to adjust its ratemaking to absorb an additional $40 million in PGC funding over which it has no assurance of cost recovery. We therefore approve Edison's PY 2001 program funding proposal as proposed, with one exception. We do not authorize Edison to use PY 2002 funds to satisfy commitments entered into in 2001 but that do not come due for payment until after 2001. Edison's argument that use of 2002 funds amounts to a simple accounting procedure is strained. As Edison admits, such a finding requires the Commission to "recognize that it presently intends to authorize the 2002 funding necessary to cover such commitments." (Edison Comments, p. 8.)

Public Education Outreach Campaign

California is currently experiencing an energy crisis that threatens to adversely impact the economic and environmental well being of the state. We believe that it is imperative that the public becomes fully educated about the magnitude of the energy problem and that individuals and businesses are aware of the measures they can take to reduce their electricity consumption. To achieve these goals, we direct the utilities to immediately spend $10 million on a public education outreach campaign that will be conducted by the Consumer Affairs Agency on matters relating to energy efficiency. We direct the utilities to expend funds for that campaign as follows: SDG&E--$ 1.34 million; Edison--$ 2.77 million; PG&E--$ 4.87 million; and SoCalGas--$ 1.03 million. We derived the allocation of the $10 million among the four utilities based on their proportionate share of the total program budget. Edison will be responsible for paying to the Consumer Affairs Agency the amount of $10 million, and the other utilities will reimburse Edison for their proportionate share of that expense.

Comments on Draft Decision

Rule 77.7 of the Commission's Rules of Practice and Procedure provides for public review and comment for draft decisions subject to Pub. Util. Code § 311(g). Rule 77.7(f) allows the Commission to reduce the period for public review and comment for alternates under various circumstances. Rule 77.7(f)(9) specifically provides for an exemption:

> For a decision where the Commission determines, on the motion of a party or on its own motion, that public necessity requires reduction or waiver of the 30-day period for public review and comment. For purposes of this subsection, "public necessity" refers to circumstances in which the public interest of the Commission adopting a decision before expiration of the 30-day review and comment period clearly outweighs the public interest in having the full 30-day period for review and comment. "Public necessity" includes, without limitation, circumstances where failure to adopt a decision before expiration of the 30-day review and comment period would place the Commission or a Commission regulatee in violation of applicable law, or where such failure would cause significant harm to public health or welfare. When acting pursuant to this subsection, the Commission will provide such reduced period for public review and comment as is consistent with the public necessity requiring reduction or waiver.

Pursuant to Rule 77.7(f)(9), we determine that public necessity requires a reduced period for public review and comment. Given the current electric supply shortages, time is of the essence in implementing these programs. This comment period provides notice and opportunity to be heard regarding the modification of these decisions. We further note that the parties have had the opportunity for both comments and reply comments prior to the issuance of this Order, both in response to ALJ rulings, and during the public planning process that preceded the filing of these applications.

On January 11, 2001, comments were received by Southern California Edison (SCE), Pacifica Gas and Electric (PG&E), San Diego Gas and Electric (SDG&E), SoCal Gas, Primis, National Resources Defense Council (NRDC), Organization of Ratepayer Advocates (ORA), Robert Mowris and Associates, REECH, RESUE and SESCO, INC, TURN, California Energy Commission, Cal-

UCONS, and the Sierra Club. On January 16, 2001, reply comments were received by PG&E, SCE, and SDG&E. In response to comments we modified the demand savings. The new construction targets for all utilities were also revised on the basis of comments from SCE and several other parties.

In addition, we affirm that we will rely on the Office of Ratepayer Advocates to be the Commission's primary agent responsible for verification of equipment installations and budget commitments in forthcoming AEAP proceedings. In response to NRDC, we clarify that thermal energy shortage must be energy efficient as well as peak demand reducing.

Findings of Fact

1. These applications proposing program year 2001 energy efficiency programs were filed on November 15, 2000, as required by D.00-07-017 and pursuant to the direction of the ALJ, after an extensive public planning process.

2. California is experiencing an electric supply shortage, escalating electric prices, routine Stage II alerts, and threatened Stage III alerts, and anticipates further supply shortages in the summer of 2001.

3. Measures to reduce load are the most effective means of ensuring reliability and putting downward pressure on prices in the near term.

4. The proposed programs and program portfolios are improved over PY 2000. The utilities have modified some programs, measures, and incentives, and have proposed new programs to meet the need for peak load savings and to enhance energy savings.

5. The utilities should have the fund-shifting flexibility within program areas to expand and accelerate, as necessary, programs that achieve the maximum feasible reductions in uneconomic and peak electricity consumption.

6. Limiting fund-shifting within program areas will ensure the goals of equity in PGC spending and targeting underserved communities. This limitation will

not hinder utilities' portfolios management since there are substantial untapped conservation opportunities in all customer classes, communities, and program areas.

7. The utilities should chronicle the changes in the program emphasis and funding in their April quarterly reports.

8. Programs specifically targeted toward energy efficiency in new construction are an important part of our energy efficiency portfolio, have the potential to provide much needed energy and demand savings, and are mandated by AB 970.

9. Pub. Util. Code §399.15(b)(2) is ambiguous and subject to more than one interpretation, permitting us to look to a variety of extrinsic aids to ascertain the legislative intent in order to effectuate the purpose of the law.

10. TPI are a source for new, innovative, creative, successful, and cost-effective programs that have the potential of producing both short-term and long-term energy and demand savings. Third parties, with established community ties, can break down barriers and effectively promote energy efficiency programs.

11. The utilities have not followed our prior directives to increase funding for general and targeted TPI.

12. MA&E studies should be related to the programs that are ultimately approved for PY 2001.

13. The utility-managed statewide MA&E studies have been reviewed in a public process and, for the most part, consist of continuing studies to support continuing programs.

14. The description of the utility-specific MA&E studies are not sufficiently detailed to provide for review and evaluation and have not been reviewed in any public process.

15. The descriptions of the studies to be performed by the CEC raise several issues that need to be reviewed prior to approval.

16. The utilities propose a shareholder incentive mechanism that divides milestones into three categories: 1) energy savings; 2) market effects; and 3) performance adders for information programs, with the greatest weight given to energy savings.

17. PG&E's and Edison's estimated electric savings associated with PY 2001 programs are substantially lower than both recorded electric savings in PY 1999 and projected electric savings for PY 2000. SoCalGas' estimated therms saved are substantially lower than recorded therms saved in PY 1998 and 1999 and projected therms saved for PY 2000.

18. We question the legitimacy of PG&E's, Edison's, and SoCalGas' estimated energy savings for PY 2001 programs.

19. Energy and peak demand savings should meet or exceed those savings recorded or projected for prior program year.

20. The utilities should take every effort to maximize energy and peak demand savings for PY 2001.

21. The utilities' historical experience provides an appropriate information to establish energy and peak demand savings targets.

22. The adopted earnings targets and earnings potential, together with the fund-shifting flexibility we adopt, provide the utilities with both the incentive and the means to earn performance awards.

23. The utilities should provide estimations of energy demand savings for the first half of 2001 in their June quarterly reports.

24. The proposed market effects and proposed performance adder incentives are approved as proposed.

25. There are some areas of the utilities' applications that do not comply with our prior directives, with AB 970, and with our goals of maximizing energy and peak demand savings.

26. The ACR Implementing AB 970 directed Edison to submit a budget for PY 2001 programs totaling $90 million instead of the $50 million minimum funding level provided for in §381(c)(1).

27. Edison's budget for PY 2001 programs consists of $50 million in PGC funds, plus $40 million in carry-over funds and balancing account interest. Edison proposes to make up any shortfall by accessing PY 2002 funds for certain programs.

28. Under current market conditions and Edison's rate freeze, it would be burdensome to order Edison to adjust its ratemaking to absorb an additional $40 million in PGC funding over which it has no assurance of cost recovery.

29. This docket will remain open for the purposes of evaluating the utility specific MA&E studies.

30. California is currently experiencing an energy crisis that threatens to adversely impact the economic and environmental well being of the state.

31. It is imperative that the public becomes fully educated about the magnitude of the energy problem California is facing.

32. There are measures that individuals and businesses can take to reduce their electricity consumption.

Conclusions of Law

1. In light of the energy supply shortage, rapidly escalating electric prices, routine State II alerts, and threatened Stage III alerts, we should act expeditiously to implement energy and demand savings programs to reduce electric demand and provide consumers with options to reduce their electric bills.

2. Public necessity requires that we reduce the period for public comment pursuant to Rule 77.7(f)(9) so that the proposed PY 2001 energy efficiency programs may be implemented as soon as possible.

3. It is in ratepayer and public interest to authorize the utilities' proposed PY 2001 energy efficiency programs effective January 1, 2001, so that the programs and budgets can proceed without delay.

4. It is reasonable to authorize the utilities' PY 2001 energy efficiency programs effective January 1, 2001.

5. It is reasonable to provide the utilities with flexibility to shift funds within program areas, but not between them, subject to our overarching principles of equity and targeting underserved markets.

6. The utilities should not be allowed to combine the residential new construction budget with the residential program budget or the nonresidential new construction budget with the nonresidential budget for fund-shifting purposes.

7. New construction budgets should be a minimum of 20% of total program budgets.

8. Pub. Util. Code §399.4(b)(2), as enacted in SB 1194/AB 995, does not prohibit the utilities from providing financial incentives to consumers for the purchase of qualified Energy Star refrigerators in PY 2001.

9. We should require the utilities to budget TPI at a minimum of 8% of total program budgets, across all three program areas, excluding funds committed to the Summer Initiative, to continue prior cost-effective TPI.

10. It is reasonable to authorize the utilities' statewide PY 2001 MA&E studies and budgets effective January 1, 2001.

11. We should defer approval of the utility-specific and the CEC's MA&E studies and budgets pending further review.

12. It is reasonable to adopt the utilities' proposed overall milestone structure and the weighting of awards 80% for energy savings, 10% for market effects, and 10% as a performance adder for information programs, to require that the weighting be standardized for all utilities, and to require that incentives total 100% and not 110% of the previously adopted 7% performance award cap.

13. It is reasonable to set the energy and demand savings portion of the milestones to absolute savings targets to ensure that each utility has a clear goal and clear metrics for earning shareholder incentives and so that the incentives will be based on an appropriate balance of risk and reward

14. The utilities' proposed performance adder should be tied to targeted outreach of underserved communities and new distribution/marketing methods.

15. It is reasonable to approve the utilities' proposed PY 2001 performance award and market effects awards.

16. We should not adopt ORA's proposal to return to pre-1998 recorded net benefits milestones for calculating shareholder incentives based on *ex post* savings measurement for PY 2001 but should defer this determination to post-PY 2001 program planning.

17. We should give the utilities guidelines for further program enhancement and budget modifications to ensure that programs are designed to maximize energy and peak demand savings.

18. We should authorize Edison's proposed $90 million funding proposal for PY 2001 consisting of $50 million in PGC funds plus $40 million in carry-over and balancing account interest but should not permit Edison to tap into PY 2002 funds to cover any shortfall.

19. The applicant utilities should fund a public education outreach campaign, conducted by the Consumer Affairs Agency, on matters relating to energy efficiency.

O R D E R

IT IS ORDERED that:

1. The public comments period is reduced so that we may consider this decision at our January 18, 2001 conference.

2. The applications of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (Edison), San Diego Gas & Electric Company (SDG&E), and Southern California Gas Company (SoCalGas) for approval of Program Year 2001 Efficiency Programs are approved, as modified herein.

3. The utilities are authorized to implement their Program Year 2001, effective January 1, 2001, with the following modifications:

   a. The utilities shall be allowed to shift funds only within the three program areas (residential, nonresidential, and new construction), subject to the overarching principles of equity and targeting underserved markets. The new construction market shall remain separate for fund-shifting purposes. The utilities must chronicle the changes in the program emphasis and funding in their April quarterly reports.

   b. The utilities shall budget a minimum of 20% of the total program budget for New Construction.

   c. The utilities shall budget a minimum of 8% for third party initiatives (TPI), excluding funds committed for the Summer Initiative. The utilities' proposed budgets for PY 2001 programs, including carry-over funds and balancing account interest, are authorized.

4. The utilities' proposed statewide Market Assessment and Evaluation (MA&E) studies and budgets for PY 2001 are authorized. CEC and utility-specific MA&E studies and budgets are not adopted at this time but shall be determined, after further review. Within 60 days of the approval of this decision, the utilities

should present their proposed MA&E plan. The presentation should include a full description of the study plans, objectives, and budgets, and a discussion of the rationale and need for these particular studies.

5. The funds collected and earmarked for the Program Year 2001 energy efficiency programs shall be held by the utilities in trust for the benefit of the commission and spent solely in accordance with the budgetary and other requirements set forth herein and shall not be used for any other purpose (s) whatsoever.

6. Edison's, SDG&E's and SoCalGas' proposed overall milestone structure and award weighting of 80% for energy savings, 10% for market effects, and 10% for information programs using a performance adder mechanism is authorized. PG&E shall use this same structure and awards weighting. Shareholder incentives shall not exceed 100% of the previously adopted 7% performance award cap.

7. The utilities shall be eligible to earn shareholder awards on proven energy savings based on absolute savings targets, with a minimum threshold for 50% award and a maximum threshold for 100% award, and scalable between 50% and 100%, based on the adjusted historical effectiveness of utility investment in energy efficiency programs measured in dollars per kWh or dollars per therm. The shareholder earnings targets, maximum earnings potentials, and total budgets are approved as set forth herein.

8. The utilities shall provide estimations of energy demand savings for the first half of 2001 in their June quarterly reports.

9. The utilities' proposed performance adder and market effects award levels are adopted.

10. Edison's $90 million funding proposal consisting of $50 million in PGC funds and $40 million from other sources is authorized. Edison is not authorized to use PY 2002 funds for any purpose.

11. This docket shall remain open for the purpose of receiving the filings specified in Ordering Paragraph 4.

12. The utilities shall immediately spend $10 million on a public education outreach campaign that will be conducted by the Consumer Affairs Agency. The utilities shall expend the following amounts on that campaign: SDG&E--$ 1.34 million; Edison--$ 2.77 million; PG&E--$ 4.87 million; and SoCalGas--$ 1.03 million. Edison shall be responsible for paying to the Consumer Affairs Agency the amount of $10 million, and the other utilities shall reimburse Edison for their proportionate share of that expense.

This order is effective today.

Dated January 31, 2001, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
RICHARD A. BILAS
CARL W. WOOD
GEOFFREY F. BROWN
Commissioners