

Decision 01-11-066 November 29, 2001

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the
Commission's Future Energy Efficiency Policies,
Administration and Programs.

Rulemaking 01-08-028
(Filed August 23, 2001)

**INTERIM OPINION ADOPTING
ENERGY EFFICIENCY POLICY RULES**

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Attachment 1 - Energy Efficiency Policy Manual
Attachment 2 - Electronic Service Protocol

I. Summary

This interim decision adopts new energy efficiency policy rules and sets forth the criteria parties should use in applying for energy efficiency funding for program year (PY) 2002 and in some cases 2003. In response to the comments on the original draft decision, we opt here for a phased-in approach that has the utilities submitting proposals for all statewide program funding, except statewide marketing/outreach program funding. Marketing/outreach funding will be open to third party proposals on an equal footing. The utilities may also seek up to 35% of the 2002 funding allocated for local energy efficiency programs. The utilities shall submit their PY 2002 program proposals for Commission approval no later than December 14, 2001.

The Commission will set aside \$100 million of the Public Goods Charge (PGC) gas and electric funds available in 2002 and 2003 for non-utility programs. This constitutes approximately 20% of the overall 2002 budget for energy efficiency programs, and approximately 65% of the funding for local programs. In addition, third parties (but not utilities) may apply for a second year of funding – during PY 2003 – for programs they wish to run until December 31, 2003.

Interested non-utility parties may submit proposals for local programs and for statewide marketing/outreach on energy efficiency. The statewide marketing/outreach proposals are due on December 14, 2001, while those involving local programs may be submitted at any time after that date, but no later than January 15, 2002. Funding for the non-utility programs will cover the period 2002 through 2003.

II. Background

On August 23, 2001, we instituted this OIR to examine the Commission's future energy efficiency policies, administration and programs. At that time, we set forth four goals for this proceeding, the first two of which we deal with in this interim decision. First, we stated we would establish criteria for utilities and non-utilities to use in proposing new energy efficiency programs for 2002 and beyond. Second, we planned to devise a revised set of policy goals and objectives governing the Commission's oversight of energy efficiency programs.¹

Rather than issue 2002 criteria and policy rules in a two-step process, we have opted to accomplish this task in one decision. In this way, parties seeking 2002 funding will be apprised not only of specific criteria applicable to that period, but of the Commission's overall energy efficiency policy goals. Thus, this decision does not distinguish between the 2002 criteria and overall policy.

III. Discussion

A. Introduction

In the OIR, we identified a set of principles on which we would rely in developing criteria for programs in 2002 and beyond.² In this decision, we adopt a refined set of policy objectives, based on the principles originally stated in the OIR. These objectives are set forth in the Energy Efficiency Policy Manual, incorporated as Attachment 1, and cover the following topics:

¹ We do not address the third and fourth goals of the OIR – relating to future program administration and past program evaluation – in this decision, but will do so in subsequent decisions. We expect to set forth a procedural schedule for the OIR that will allow us to solicit public input and decide on these issues in time for the PY 2003 planning cycle.

² See R.01-08-028, *mimeo.*, at 4-5, Section II(B).

- Program goals and objectives;
- Preferred program design guidelines and eligibility;
- Standard definitions;
- Cost-effectiveness rules and definitions;
- Budgets and compensation;
- Evaluation, measurement and verification requirements;
- Structure of the Commission's review process.

B. Overview of Criteria and Policy Rules

The goals and objectives of the Commission's energy efficiency programs are listed below, in order of importance. The Commission will select a portfolio of programs consistent with these policy goals and objectives, while ensuring that the portfolio is cost-effective, provides comprehensive market coverage, and falls within specified budget parameters. The Commission will develop this portfolio for PY 2002 by a combination of utility and non-utility programs to be selected according to the process described in this decision. When evaluating program proposals for 2002 and future years, the Commission will determine how well each utility and non-utility program proposal meets these goals and objectives. In doing so, the Commission will use the point values listed beside each objective to rank each proposal. The point values next to each objective represent the maximum possible score for each objective. A perfect score would be 100 points.

Parties seeking 2002 funding should both conform their proposals to the policies and rules set forth in this section (and expanded upon in the accompanying Policy Manual), and ensure that their proposals fall within the mix of desired programs set forth in Section III(C) below. Thus, for example, even if a 2002-03 program proposal for local services scores higher in points than another proposal for local services, such score does not guarantee funding for the former program. The Commission will consider point scores and the extent to

which proposals help it meet its desired mix of programs for 2002-03 in selecting proposals.

1. Long-Term Annual Energy (Gas and Electric) Savings

Points: 25

The most important goal of any Commission energy efficiency program is to create permanent and verifiable energy savings over the life-cycle of the relevant energy efficiency measures. Programs are not required to create immediate short-term energy savings, so long as there is a clear, logical, and verifiable link between program activities and eventual energy savings. In other words, the Commission will strive for sustainability in the consumption behaviors and investment choices its programs are designed to stimulate. In general, long-term energy savings are those that continue over at least a three-year period.

2. Cost Effectiveness

Points: 20

All proposals for energy efficiency programs will be required to provide an estimate of life-cycle benefits and costs from various points of view, using the assumptions detailed in Attachment 1, Chapter 4 (policy manual). The Commission will use this information to compare and rank program proposals designed for similar uses, markets, or customer segments.

3. Addressing Market Failures or Barriers

Points: 17

Any program proposed for Commission approval should include a description of the type of barrier it is designed to address or overcome. The

following examples of barriers are listed in order of importance; programs may also address other barriers not listed below:

- Higher start-up expense for high-efficiency measures relative to standard-efficiency measures
- Lack of consumer information about energy efficiency benefits
- Lack of financing for energy efficiency improvements
- Split incentives (between owners/landlords and tenants)
- Lack of a viable and competitive set of providers of energy efficiency services in the market
- Barriers to the entry of new energy efficiency service providers
- Lack of availability of high-efficiency products

4. Equity Considerations

Points: 15

The Commission will generally prioritize programs that provide access to energy efficiency alternatives for underserved or hard-to-reach markets.

Although those customers contribute equally to the funds collected to support program activities, in the past, they have had access to fewer program alternatives than other customers. Attachment 1 provides a more detailed definition of underserved and hard-to-reach markets, either from the point of view of customer class (*e.g.*, multifamily building residents, small businesses) or geography (*e.g.*, rural customers).

5. Electric Peak Demand Savings

Points: 10

Programs paid for by electric PGC funds should emphasize long-term and permanent peak demand savings. Such programs may include, for example, installation of permanent measures to reduce peak demand, such as variable-

speed drives on motors, but should not include programs that create peak demand savings only through temporary behavioral change, such as air conditioner cycling or programs that encourage consumers to turn off lighting or air conditioning.

6. Innovation

Points: 8

The Commission will prioritize programs that present new ideas, new delivery mechanisms, new providers of energy efficiency services, or new and emerging technologies to address new program areas, to overcome existing shortcomings, or to improve the effectiveness of existing programs.

7. Synergies and Coordination With Programs Run by Other Entities

Points: 5

To minimize confusion and overlap for consumers, the Commission desires program proposals that take advantage of synergies or coordination with other existing programs, including those run by other state agencies, private entities, municipal utilities, or the federal government.

C. Expected 2002 Program Mix/Categories

Each year (or longer program period), we anticipate we will require a different mix of programs depending on the program mix in the prior year or period. It may be that a prior cycle's programs saturated a particular market segment, but left another segment unserved through program failure, lack of proposals to serve the segment, or some other reason. Altering the mix of programs from period to period will allow us to address such situations. Thus, we specify in this decision the minimum mix of programs we expect to fund in

2002 (and for non-utilities, for 2002-03), but do not include that mix in our policy manual (Attachment 1) since we expect it to vary from period to period.

In 2002, we expect to fund activities that fall into the following categories, which we describe in detail below using terms defined in Attachment 1:

- Statewide programs
- Local programs
- Statewide market assessment and evaluation activities.

1. Statewide Programs

Statewide programs will continue to be the backbone of the energy efficiency approach for 2002. These programs serve the Commission's policy goals and objectives by allocating funding equitably across customer classes and geography, providing consistent and recognizable program reach and securing both short- and long-term energy savings and peak demand reduction. We will allow the investor-owned utilities (IOUs)—Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison (SCE), and Southern California Gas Company (SoCalGas)—to continue offering statewide programs in 2002. However, we will also consider non-utility proposals for statewide marketing / outreach programs on energy efficiency, as described in Section III(C)(1)(c)(1) below, in competition with the utilities' program proposals for 2002. Proposals for all such programs are due December 14, 2001.

Statewide programs must be uniform, with consistent terms and requirements throughout all the utilities' service territories. These consistent terms should include identical application procedures, financial incentives (if applicable), and other program implementation details. If the utilities cannot align their statewide program proposals, the Commission will choose the elements it prefers from those proposed.

The utilities may continue their PY 2001 statewide programs and propose necessary changes to make their programs consistent with the policy goals and objectives articulated in this decision. The utilities should submit their statewide program proposals in accordance with the guidelines and requirements set forth in the attached policy manual, and with the categories listed in the table below. A general description of each program category follows the table, along with examples of the types of programs the Commission would prefer to fund. The budget figures in the tables represent the maximum budget allocation the Commission will make to each statewide program category from energy efficiency PGC funds. The program categories are divided into residential, non-residential, and cross-cutting³ programs.

Utilities may also propose to utilize bond financing from the California Consumer Power and Conservation Financing Authority (Power Authority) in combination with PGC funding from the Commission. In each program proposal, utilities proposing to use funding from Power Authority financing activities should clearly and separately delineate such funding.

Statewide Programs Types	PG&E	SCE	SDG&E	SoCalGas	Total
<i>Residential</i>					
Retrofit (existing buildings)	18,700,000	12,750,000	5,897,000	4,248,000	41,595,000
New Construction	6,520,000	4,000,000	2,058,000	1,484,000	14,062,000
<i>Nonresidential</i>					
Retrofit (existing buildings)	22,615,000	18,900,000	7,134,000	5,133,000	53,782,000
New Construction	8,700,000	6,974,000	2,743,000	1,973,000	20,390,000
<i>Cross-Cutting</i>					
Res / Nonres Retrofit / New Constr.	8,697,000	6,700,000	2,743,000	1,974,000	20,114,000
Statewide Marketing Campaign	4,348,000	3,350,000	1,372,000	987,000	10,057,000

³ Cross-cutting programs are activities that target both residential and nonresidential customers and / or both existing buildings and new construction applications.

Total Statewide ⁴	69,580,000	52,674,000	21,947,000	15,799,000	160,000,000

a. Statewide Residential Programs

(1) Statewide Residential Retrofit

Within this program category, the Commission expects to fund programs aimed at securing energy savings in existing single-family and multi-family residential homes. Programs may either include a full range of services, including information, outreach, training, audits, and direct incentives for energy-efficient technologies, or they may target one or more of these areas. We include sample program approaches for reference below. Utilities may propose programs not listed, or modify approaches that are listed.

(a) Downstream Appliance, Lighting & HVAC Rebates

The Commission expects to continue to offer downstream rebates directly to consumers. In this area, the Commission desires programs that include the following technologies, individually or in any combination, at a minimum:

- Energy Star furnaces
- Energy Star central air-conditioners
- Energy Star room air-conditioners
- Energy Star Compact Fluorescent Lamps (CFLs)
- Whole house fans
- Energy Star clothes washers
- Energy Star dishwashers
- Energy Star windows

⁴ Budgets by territory are based on projected collections by territory. Residential and nonresidential allocations are based on average collections by sector in 2001 in each service territory.

- High-efficiency hot water heaters

(b) Comprehensive Residential Retrofits

The Commission expects to fund initiatives aimed at reducing whole-dwelling energy use through the installation of building shell energy efficiency measures, and other comprehensive treatments, including, but not limited to:

- Insulation
- Windows
- Weather stripping
- Duct sealing
- Reflective roofing

(c) Appliance Retirement and Recycling

Refrigerator, freezer, and room air-conditioner recycling has been offered in various geographic areas within the state through several prior Commission and utility programs. This year, the Commission intends to emphasize programs that reach regions of the state previously unserved by earlier appliance recycling programs to maximize statewide availability. We encourage the utilities to partner with other entities offering these services in specific geographic areas. Any appliance retirement program should offer comprehensive toxic material recycling and disposal in conformance with California environmental laws and regulations and permitting requirements.

(2) Statewide Residential New Construction

To improve energy efficiency, proposals for new statewide residential construction programs should set a benchmark above the current June 2001 Title 24 building code standards.⁵ Utilities making such proposals should do so

⁵ Cal. Code Regs., tit. 24 (2001).

in consultation with the California Energy Commission (CEC) so the proposals are consistent with the CEC's goals for code revisions in the 2005 cycle. Utilities should also consult with the Energy Star Homes program, as well as major California home-builders. Because Title 24 standards exceed federal standards, the Energy Star Homes label itself may not be appropriate for a California residential new construction program, though the general approach may be. Rather, utilities should target a benchmark of 10-30% higher than Title 24 energy use levels.

b. Statewide Nonresidential Programs

(1) Statewide Nonresidential Retrofit

The Commission will continue to support energy efficiency retrofits in the small, medium and large commercial building sectors. We expect to select a mix of programs emphasizing technical support, capacity-building, emerging technology demonstration, and quality assurance. Because of current high energy prices and the lower cost of energy saving devices, incentive payments are less necessary than they once were to encourage energy efficiency, especially in the large commercial sector. Following is a list of programs that address the nonresidential retrofit market. As with the residential retrofit programs, this list is not exhaustive, but simply indicates the program ideas the Commission hopes to receive.

(a) Large and Medium Nonresidential Customized Program

Potential program approaches to address the needs of the large and medium nonresidential sectors include the Standard Performance Contract (SPC) Program, customized rebates, and demand-side bidding programs. These program approaches offer incentives on the basis of verified energy savings,

rather than by prescribing replacement of specific equipment. Thus, such programs offer more flexibility for comprehensive projects to reduce energy consumption overall in a building. The Commission will also emphasize non-lighting measures, or lighting only in combination with other measures, particularly in medium and large customer facilities.

(b) Small Business Rebates

For 2002, we hope to see a program similar to the Express Efficiency program offered by the utilities in the past, but limited to the small and very small business segment (average monthly power demand up to 200 kW).

Customer rebates could be offered for the following technologies (or others):

- T8 and / or T5 lamps
- Electronic ballasts
- Lighting controls such as photocell controllers and occupancy sensors
- Compact fluorescent lamps (CFLs)
- High-efficiency motors
- Heating, Ventilation, and Air Conditioning (HVAC) measures

The Commission may fund one or more small business rebate programs on a statewide basis.

(c) Building Operator Certification and Training

Building operator certification and training programs would educate operators of large and medium commercial buildings, including public buildings, on short- and long-term peak demand and energy savings strategies for their buildings. After participating in training activities, individual building operators could become certified in efficient building operation.

(2) Statewide Nonresidential New Construction

Statewide nonresidential new construction programs should set a new benchmark above the current June 2001 Title 24 building code. The setting of the new benchmark should be undertaken in consultation with the CEC and support CEC goals for further code revisions for the 2005 cycle. Similar to the utilities' past Savings by Design program, we would expect this type of program to de-emphasize prescriptive technological approaches in favor of providing incentives to include efficiency during the design process. The Commission prefers a whole-building design approach.

c. Statewide Cross-Cutting Programs

A cross-cutting program may target both residential and nonresidential consumers as participants. In addition, the programs may simply support other programs. Finally, such programs could include retrofit or new construction markets. The following are examples of the types of programs the Commission prefers. Utilities and other parties are free to propose additional programs and/or modify the approaches described below.

(1) Statewide Marketing and Outreach

Statewide marketing and outreach programs may include information campaigns capitalizing on the success of the state's *Flex Your Power* campaign in the summer of 2001 and the advertising of statewide programs that are offered across the service territories of the IOUs. The proposed programs should continue statewide messages on simple things individual consumers can do to reduce their bills and the risk of rolling blackouts, and/or increase consumer awareness of and participation in the statewide programs available to them. The Commission desires program proposals that maintain a consistent statewide message through a mass-market advertising campaign.

We solicit proposals from both utilities and other interested parties for these types of programs. The utilities should describe their proposals separately from their other statewide program proposals. We shall consider the utilities' statewide marketing and outreach proposals in competition with the proposals received from non-utility proponents. All proposals in this category are due no later than December 14, 2001.

(2) Upstream Appliance, Lighting & HVAC Rebates

The Commission wishes to continue offering upstream programs in 2002. By working with manufacturers and distributors, upstream programs ensure that high-efficiency technologies are available in stores for purchase by residential and business consumers at reasonable prices. Programs could include the following technologies (or others):

- Energy Star furnaces
- Energy Star central air-conditioners
- Energy Star room air-conditioners
- Energy Star CFLs
- Whole house fans
- Energy Star clothes washers
- Energy Star dishwashers
- High-efficiency hot water heaters
- Energy Star windows

The Commission will entertain proposals that address the technologies listed above, and potentially others, individually or in any combination. We would expect to fund a number of separate upstream programs.

2. Local Programs

Local program options have the advantage of being able to respond flexibly to energy end-users' needs. Local programs also utilize local relationships and networks to increase participation and reach. Individual

consumers depend heavily on local infrastructure in making energy efficiency decisions. To utilize these advantages, the Commission intends to fund a number of local initiatives in 2002-03, including some that operate in only one jurisdiction and others that may operate in multiple areas.

We will allow the utilities to continue offering local programs in 2002, but will also set aside \$50 million of PGC funds for local programs undertaken by other entities. The utilities may continue their PY 2001 local programs and propose necessary changes to make their programs consistent with the policy goals and objectives articulated in this decision. The utilities should submit their local program proposals in accordance with the guidelines and requirements set forth in the attached policy manual, and with the categories listed in the table below.

We may fund local programs implemented by non-utilities for the period 2002 through 2003, so project proponents should include budgets and calendars with their proposals corresponding to the proposed duration of their programs. The table below lists the broad categories of local programs the Commission intends to fund, along with the maximum budget allocation for each program category, by utility service territory. A general description of the types of utility and non-utility programs the Commission seeks follows the table.

Local Program Options – Utilities	PG&E	SCE	SDG&E	SoCalGas	Total
Residential	3,480,000	2,400,000	1,100,000	800,000	7,780,000
Nonresidential	4,3450,000	3,530,000	1,370,000	990,000	10,240,000
Cross-Cutting	3,042,000	2,300,000	959,000	679,000	6,980,000
Sub-Total	10,872,000	8,230,000	3,429,000	2,469,000	25,000,000
Local Program Options – Non-Utilities (through 12/31/03)					
Any Local, Innovative, Third Party Idea	43,488,000	32,920,000	13,718,000	9,874,000	100,000,000

Sub-Total	43,488,000	32,920,000	13,718,000	9,874,000	100,000,000
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a. Local Residential Programs

Historically, the single-family and multi-family residential retrofit market segments have been difficult to reach and slow to access the extensive opportunities for energy savings. In an attempt to expand program reach, we expect to fund several initiatives in this program area at the local or regional level. Proposals should offer comprehensive implementation and delivery plans that include face-to-face outreach, financing, technical support, contractor facilitation and outreach, as well as quality assurance. In addition, we expect entities proposing local programs in this area to ensure a comprehensive, whole-dwelling approach, rather than installing only the most cost-effective measures.

b. Local Nonresidential Programs

The Commission expects to focus a number of local programs on the nonresidential sector, particularly on medium- and small-sized businesses. This market has been very difficult to reach and has been extremely hard-hit by rising energy costs and the economic downturn. The Commission believes that one way to overcome many of the barriers in this market is to develop local programs that utilize local relationships and networks. Commission-administered pilot projects testing new forms of program delivery are underway in Berkeley and San Francisco utilizing funds appropriated by the Legislature in Senate Bill 5 from the First Extraordinary Session of 2001 (SBX1 5).

The Commission seeks comprehensive proposals that include technical support, outreach, contractor referral and oversight, bulk procurement, financing, and quality assurance. Eligible energy efficiency measures should include high-efficiency lighting, HVAC, and refrigeration.

The Commission will also accept proposals for programs that expand energy efficiency efforts in the industrial and agricultural sectors of the state. Proposals should emphasize technical support, financing, education and training / capability building, and strong measurement and verification plans.

c. Local Cross-Cutting Programs

Local cross-cutting programs may target multiple sectors and / or both retrofit applications and new construction. Below are some examples of programs the Commission encourages in this area.

(1) Education/Training/Outreach

In 2002-03, the Commission will continue to support education, training / capability-building, and outreach efforts in local communities across the state. We hope to build infrastructure and strengthen institutions in order to expand the capability for energy efficiency delivery. The Commission will also encourage reliance on community-based organizations, particularly in the residential and small business areas.

(2) Building Codes and Standards Support

The Commission will continue to support local efforts to inform and train builders, developers, building officials, and tradespersons on code and standards revisions. The Commission will also support participation of local representatives in building codes and standards activities at the state level.

3. Statewide Market Assessment and Evaluation Activities

After four years of policy actions and significant spending on energy efficiency, the Commission wishes to focus on identifying new strategies to secure future energy efficiency gains. Therefore, the Commission will require the utilities to fund a set of research projects to assist in future planning. Project

proponents will report to and contract with the IOUs and will meet periodically with the Commission's Energy Division and the IOUs, through the California Measurement Advisory Council (CALMAC),⁶ where appropriate, to detail their progress. Below we identify specific studies which the Commission requires the utilities to undertake. In addition to the studies listed below, we also require the utilities, in their program proposals, to identify specific additional evaluation studies they will undertake, as has been common practice in past years. The studies listed below are required; utilities should also propose additional study and research efforts. In their program plans, utilities should also specify the proposed budget for each study.

The table below gives the budget for each utility for measurement, market assessment, and evaluation efforts.

Utility	Budget
PG&E	\$ 4,566,000
SCE	\$ 3,457,000
SDG&E	\$ 1,440,000
SoCalGas	\$ 1,037,000
Total	\$10,500,000

a. Evaluation, Measurement & Verification Master Contract

The utilities should hire a team of evaluation, measurement and verification experts to coordinate with all utilities and parties on a statewide basis to:

⁶ CALMAC, and its predecessor organization, CADMAC, is an informal group of evaluators from utilities, the Office of Ratepayer Advocates, the CEC, and the CPUC Energy Division, which serves as the technical group coordinating energy efficiency program evaluation efforts. Detailed information on the group's activities is available at <http://www.calmac.org/>.

- Serve as an expert resource for individual third-party program implementers designing evaluation, measurement and verification plans for their programs
- Help develop the next generation framework for evaluation of program activities
- Coordinate with CALMAC to, for example, incorporate new parties and host forums on particular technical and methodological topics
- Recommend methodological changes or updates to cost-effectiveness or other related protocols

b. Statewide Energy Efficiency Potential and Current Saturation Study

The Commission wishes to enhance industry understanding of energy efficiency resources available to the state over the current PGC authorization period, 2002-11. To this end, the Commission requires the utilities to hire a team of consultants to:

- Assess the maximum technical potential for both gas and electric energy efficiency in the state over the next ten years
- Estimate the achievable potential (*i.e.*, maximum estimated achievable saturation rates) for enhancing energy savings in each sector, based on historical experience in the state, analysis of current energy efficiency programs and practices, and review of program implementation strategies and practices nationally
- Develop a set of scenarios for sensitivity analysis of various factors influencing the estimation of the energy efficiency potential for California
- Analyze the current status of penetration / saturation of energy efficiency technologies, techniques, and applications in each end-use sector in the state

- Compare current energy efficiency penetration / saturation rates in each sector to the technical and achievable potential for the state.

A number of individual studies already are underway to assess the energy efficiency potential in the state. This project would take advantage of past and current efforts, and augment these where necessary.

A critical part of this analysis will be to update information on saturation rates for various energy efficiency applications. As with the technical potential part of this study, this effort would rely on existing and ongoing efforts, such as the Residential Appliance Saturation Survey (RASS) or the Commercial End Use Survey (CEUS) being conducted by the CEC, and augment these studies where necessary.

The result of this combined technical and current penetration / saturation analysis will be to produce an overall strategic and statewide picture of energy efficiency potential in the state during the next ten years.

c. Best Practices Analysis for All Sectors

The Commission wishes to develop a comprehensive understanding of the state of energy efficiency program design and implementation efforts (for all sectors) throughout the nation. The Commission requires the utilities to establish a Best Practices database and website that can be used by PGC applicants to assist them in designing the most efficient and effective energy efficiency programs possible for the citizens of the state. The focus of this effort will be on developing in-depth Best Practices profiles for the conception, administration, and implementation of energy efficiency programs.

This effort will establish the initial database. The Commission intends to stay abreast of Best Practices and to that end will update its database on an

ongoing basis. It will be important for the team to have experience developing methodologies for side-by-side comparisons of program designs in various contexts.

d. Development of Deemed Savings Values

For this area, the Commission requires the utilities to undertake expert evaluation of “*ex ante*” (projected) or deemed savings estimates of energy savings associated with a set of reasonably predictable energy efficiency measures. Currently, the CEC’s Database for Energy Efficiency Resources (DEER) is the most comprehensive resource for program planners to use when projecting energy savings associated with particular program activities. This database, though updated periodically, is primarily for use by technical experts. In developing a set of deemed savings values for the state, the Commission seeks to simplify the assumptions used to project energy savings into a user-friendly format accessible to a wider audience. The goal of this effort would be to produce an Internet-accessible, searchable tool containing best-available deemed savings values for all regions of the state, grouped by sector, building type, end-use, and climate zone (where applicable).

The Commission is open to the utilities exploring the most cost-effective and reasonable approach to creating this program planning tool. We will require rigorous and defensible data to support this tool, but also seek to make the tool easy to use without compromising accuracy.

D. Process for Submission and Selection of Proposals

1. Proposal Preparation and Submission

The Commission will consider all proposals falling into the program categories described in this decision and meeting the foregoing criteria / policy

rules. Proposals should follow the rules set forth in Attachment 1 to this decision, the Energy Efficiency Policy Manual, and any other relevant documents referenced in Attachment 1.

In general, proposals should be submitted on a program-by-program basis and should indicate clearly upfront the type of program, the amount of funding sought, and the source of the funding (*e.g.*, electric PGC, gas surcharge, Power Authority financing). For example, a statewide information campaign application might indicate that it is a statewide cross-cutting program proposal. A non-utility proposal to support building codes and standards in San Jose, for example, would indicate that it is a local cross-cutting program seeking funding in the PG&E territory.

There will be no limit on the number of program proposals or the value of the funding requests submitted by one entity.

In some cases, we will fund third party (non-utility) programs over one year for a period that extends through 2003. Thus, such parties seeking two years of funding shall submit program budgets and calendars projected over the proposed duration of their programs.

All utility program proposals are due at the Commission's offices no later than 5:00 p.m. Pacific Standard Time on December 14, 2001. Non-utility proposals for statewide marketing and outreach programs are also due on December 14, 2001. Interested parties may submit proposals for local programs at any time after December 14, 2001, but no later than January 15, 2002. The Commission may consider local proposals in a "rolling" fashion as they are submitted, so we encourage parties not to wait until the January 15, 2002 deadline to submit proposals. We will not accept late proposals, and parties will not be allowed to supplement their proposals after the due date, absent an order

of this Commission, the assigned Commissioner or the assigned Administrative Law Judge (ALJ).

Parties should file one unbound original and five copies of each program proposal at one of the following addresses:

California Public Utilities Commission
Docket Office
505 Van Ness Avenue, 2nd Floor
San Francisco, CA 94102
(415) 703-2121 (between 10:00 am – 3:00 pm)

California Public Utilities Commission
320 West 4th Street, Ste. 500
Los Angeles, CA 90013
(213) 576-7000

California Public Utilities Commission
1350 Front Street, Room 4006
San Diego, CA 92101-3611
(619) 525-4217

Questions about assembling proposals should be directed to (415) 703-2776 (Energy Efficiency Hotline), and not to the Commission's Docket Office.

On the date they submit their proposals to the Commission, the utilities and other parties shall also serve their proposals by e-mail on the service list for this proceeding in accordance with the Electronic Service Protocols that accompanied the OIR, which we reproduce here as Attachment 2.

Parties shall label all proposals with the proceeding number R.01-08-028 and the words "2002 Energy Efficiency Program Selection."

2. Proposal Selection

The Commission will conduct a workshop to assist non-utility parties wishing to submit 2002-03 energy efficiency proposals on Wednesday, December 19, 2001, at 10:00 a.m. at the following address:

Hiram W. Johnson State Office Building
455 Golden Gate Avenue
Hearing Room 9
San Francisco, CA 94102

Parties may submit comments on the proposals that the utilities and other parties submitted on December 14, 2001 no later than January 7, 2002. Parties may also comment on the non-utility local program proposals submitted during the period December 14, 2001-January 15, 2002, no later than January 31, 2002. Parties shall direct their comments to pointing out calculation and other objective errors in others' proposals, rather than comparing others' proposals to their own. Parties shall e-mail their comments on the program proposals to the service list using the Electronic Service Protocols described above.

The Commission delegates to the Assigned Commissioner, the assigned ALJ, and/or the Commission's Energy Division the task of reviewing all proposals from utilities and non-utilities, and making a recommendation to the Commission of the proposals selected for funding. Each program proposal will be evaluated on an individual basis using the point system described in Section III (B) above and then ranked. After the point scores and ranks are established, the Assigned Commissioner, ALJ, and/or Energy Division staff will assemble recommended proposals into a balanced energy efficiency portfolio for the state for the PY 2002.

The Commission will then vote on the recommended proposals. We will endeavor to approve the utilities' PY 2002 program proposals, and statewide marketing and outreach programs, within the first quarter of 2002. We will endeavor to select non-utility local programs within the second quarter of 2002.

To avoid a program funding gap during the early part of 2002 prior to Commission authorization of new programs for 2002, we authorize IOUs PG&E, SCE, SDG&E and SoCalGas to continue their PY 2001 programs. In particular, each utility is authorized to spend an amount up to that shown in the following table. These amounts are based on the percentages of total dollars the IOUs spent during the first quarter of 2001. The source of these funds will be PGC (electric and gas) collections beginning January 1, 2002. Utilities are authorized to commit and/or spend these funds only until March 31, 2002. Funds uncommitted after March 31, 2002 should be held pending further authorization from the Commission. The IOUs may only use these funds in the program areas specified and may not shift funds among program areas. These funds also may only be spent on existing PY 2001 programs as authorized in D.01-01-060.

First Quarter 2002 Authorized Funding by Program Area

Program Area	PG&E	SCE	SDG&E	SoCalGas	Total
Residential	4,109,000	2,772,000	1,314,000	963,000	9,158,000
Nonresidential	5,402,000	4,428,000	1,686,000	1,196,000	12,712,000
New Construction	2,378,000	1,800,000	750,000	540,000	5,468,000
Total	11,889,000	9,000,000	3,750,000	2,699,000	27,338,000

First Quarter 2002 Authorized Funding by Collection Source

Program Area	PG&E	SCE	SDG&E	SoCalGas	Total
Gas	1,446,000	0	645,000	2,699,000	4,790,000
Electric	10,443,000	9,000,000	3,105,000	0	22,548,000
Total	11,889,000	9,000,000	3,750,000	2,699,000	27,338,000

Utilities may also continue utilizing other funds the Commission authorized for specific energy efficiency purposes in 2001. These include funds that were the subject of advice letters 2334-G / 2147-E (PG&E) and 1570-E (SCE) and leftover funds from prior years. Utilities are also authorized to extend Summer Initiative programs and /or contracts until March 31, 2002, if an extension is mutually agreeable to the utility and contract recipient.

E. Process Once Proposals Are Selected

Once the Commission has made its non-utility program selections, it will direct the major California IOUs to execute standard contracts with those non-IOU providers awarded funding. At a minimum, all contracts shall include standard terms providing for:

- dispute resolution between IOUs and non-IOUs, and between program providers and end user customers;
- withdrawal / withholding of funds and /or program modification in the event of complete or partial program failure, malfeasance and /or bankruptcy;

- conducting financial and performance audits of funded programs for a period of not less than three years after the conclusion of 2002;
- gathering public feedback on program efficacy;
- responding to questions and complaints regarding funded programs;
- periodic reporting during and at the conclusion of the contract period(s)
- payment terms, conditions, process and schedule
- disbursement of funds upon the meeting of certain performance thresholds

We prescribe a process for the parties to meet and confer regarding standard contract terms in Section IV below.

To help facilitate our monitoring and oversight of the expenditure of energy efficiency funds, we direct the large IOUs to report to the Assigned ALJ and the Energy Division on a monthly basis, no later than the 21st day of each month for the previous month, beginning January 21, 2001, the following accounting information:

Electric public purpose funding:

- Collections for the previous month of electric public purpose funds earmarked for energy efficiency, by rate schedule
- Cumulative collections of electric public purpose funds earmarked for energy efficiency, by rate schedule, for the entire calendar year, up to close of previous month
- Payments made in the previous month to providers of energy efficiency programs, by provider

- Cumulative total, calendar year to date, of payments made to energy efficiency program providers, by provider
- Unspent, uncommitted, or unallocated carryover funds collected between 1998 and 2001, inclusive
- Unspent, uncommitted, or unallocated electric DSM funds (collected prior to 1998)

Gas surcharge funding:

- Collections for the previous month of gas surcharge funds earmarked for energy efficiency, by rate schedule
- Cumulative collections of electric public purpose funds earmarked for energy efficiency, by rate schedule, for the entire calendar year to date
- Payments made to the State Board of Equalization for previous month, relating to energy efficiency
- Calendar year to date payments made to the State Board of Equalization, relating to energy efficiency
- Payments received in the previous month from the State Board of Equalization or the Commission, of gas surcharge funds for energy efficiency
- Cumulative summary of payments received in the calendar year from the State Board of Equalization or the Commission, of gas surcharge funds for energy efficiency
- Payments made in the previous month to providers of energy efficiency programs, by provider
- Cumulative total, calendar year to date, of payments made to energy efficiency program providers, by provider
- Unspent, uncommitted, or unallocated carryover funds collected in 2001 and any prior years.

We direct the Energy Division, working with the IOUs, to develop a standard format for reporting of this information no later than January 1, 2002.

We delegate to the Assigned Commissioner, assigned ALJ, and / or the Energy Division responsibility for program monitoring and follow-up once the Commission has selected 2002-03 programs for funding. This follow-up may include, but shall not be limited to, facilitating dispute resolution, making program modifications in the event of problems, gathering public feedback on program efficacy, and responding to questions and complaints regarding funded programs.

IV. Comments on Draft Decision

Section 311(g)(1) of the Pub. Util. Code provides that this decision must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Pursuant to Pub. Util. Code § 311(g)(3), and Commission Rule 81(h), we reduced the 30-day period for comment on this draft decision due to public necessity. It is necessary to put 2002 energy efficiency programs in place with a minimum of program disruption. Therefore, we reduced the comment period to allow the Commission time to adopt rules, parties to file program proposals, and the Commission to select programs early in 2002.

We initially allowed parties to comment on the energy efficiency policy rules on or before November 5, 2001. We later extended this period to November 16, 2001. Approximately 40 parties commented on the draft decision, and we have given the comments due consideration and made several changes throughout the decision to reflect the parties' recommendation.

The key change we make here has to do with the amount of total energy efficiency funds for which third party non-utilities are eligible. We are persuaded by the comments, including those from ratepayer advocacy groups, that a phase-in of our proposed program is a good way to test the feasibility of

our recommendations. Therefore, we will have IOUs submit proposals for statewide and local programs on or before December 14, 2001. Non-IOUs and IOUs may submit proposals for statewide marketing / outreach programs on or before December 14, 2001. Non-IOUs may submit proposals for local programs on or before January 15, 2002. The Commission will consider third party proposals submitted between December 14, 2001 and January 15, 2002 on a “rolling” basis as they come in. Therefore, it is to third parties’ advantage to submit proposals early.

We expect non-IOUs to receive approximately 65% of the 2002 local program funding, plus some or all of the marketing / outreach funding for statewide programs. Third parties also will be eligible to run their programs through the end of 2003. IOUs will receive the remaining funding for the PY 2002, which consists of all statewide funding (except, perhaps, statewide marketing / outreach funds, since competition for those funds is open to all), and approximately 35% of local program funding. In all, this arrangement will give non-IOUs access to approximately 20% of the total 2002 funding, plus whatever amount non-IOUs receive for statewide marketing / outreach programs.

In addition, we order the IOUs to serve proposed standard terms to be included in all third party contracts on the service list and the assigned ALJ no later than December 10, 2001. All interested parties shall then meet and confer about such language, with counsel for the IOUs coordinating the meet and confer session. The session shall take place no later than December 19, 2001. After the session, and no later than December 30, 2001, one IOU, selected by the parties, shall report to the ALJ on the results of the meet and confer session, furnishing a table of agreed-upon contractual provisions and those provisions not agreed

upon. The ALJ will furnish the parties direction thereafter on how to resolve the remaining disputes.

At a minimum, the contract language covered during this process shall include provisions for:

- dispute resolution between IOUs and non-IOUs, and between program providers and end user customers;
- withdrawal/ withholding of funds and/or program modification in the event of complete or partial program failure, malfeasance and/or bankruptcy;
- conducting financial and performance audits of funded programs for a period of not less than three years after the conclusion of 2002;
- gathering public feedback on program efficacy;
- responding to questions and complaints regarding funded programs;
- periodic reporting during and at the conclusion of the contract period(s)
- payment terms, conditions, process and schedule
- disbursement of funds upon the meeting of certain performance thresholds

We clarify that the IOUs will be responsible for day-to-day contract administration for all electric and gas PGC-funded energy efficiency programs. This is an interim solution while we examine a range of energy efficiency administration options during the course of this proceeding. The IOUs shall report periodically to the Commission on program status, as set forth elsewhere in this decision. All funding recipients, including non-IOUs, shall also serve the Commission's Energy Division and the assigned ALJ with periodic reports pertaining to these own programs. The IOUs shall receive no more than 5% of

each contract amount administered for their efforts, subject to reasonableness review and refund if their efforts raise concerns.

We have also changed other dates, as reflected in the table below:

Event	Deadline
Proposed contract language served	December 10, 2001
Workshop for non-utility parties wishing to submit 2002 energy efficiency proposals	December 19, 2001 Hiram W. Johnson State Building 455 Golden Gate Avenue Hearing Room 9 San Francisco, CA 94102
IOU proposals due (statewide, statewide marketing / outreach, and local)	December 14, 2001
Third party proposals due (statewide marketing / outreach only)	December 14, 2001
Third party local proposals due	December 14, 2001 – January 15, 2001
Meet and confer on contract proposals	December 19, 2001 at latest
Report to ALJ on contract proposals	December 30, 2001 at latest
Limited comments on statewide proposals due ⁷	January 7, 2001
Limited comments on local proposals due ⁸	January 31, 2002

Funding amounts specified in this decision are floors, and parties are welcome to request amounts greater than those reflected in this decision. Moreover, if there are insufficient or inadequate third party proposals to merit the full \$100 million set-aside, the Commission reserves its right not to award the total set-aside figure.

⁷ Comments shall be limited to pointing out calculation and other objective errors in others' proposals.

⁸ See previous footnote.

To the extent that this decision does not reflect additional changes suggested by the parties, it is because we have considered and rejected such changes.

Finding of Fact

Rules regarding the Commission's energy efficiency programs will help utilities and other parties seeking energy efficiency funding tailor their proposals to the Commission's policy goals and objectives.

Conclusions of Law

1. The Commission should adopt rules governing energy efficiency programs funded by charges falling under its jurisdiction.
2. For the 2002-03 period, the proposed mix of programs set forth in the body of this decision is reasonable.

INTERIM ORDER

IT IS ORDERED that:

1. The Commission adopts the energy efficiency policy rules set forth in Attachment 1 to this decision, Energy Efficiency Policy Manual.
2. Investor-owned utilities (IOUs or utilities) Pacific Gas and Electric (PG&E), San Diego Gas & Electric (SDG&E), Southern California Edison (SCE), and Southern California Gas Company (SoCalGas) are eligible to submit proposals for statewide programs, including statewide marketing/outreach programs for funding through December 31, 2002. The IOUs may also apply for approximately 35% of the local program funding for the same time period. The IOUs shall deliver their program proposals – including statewide, statewide marketing/outreach, and local program proposals – to the Commission's offices

no later than 5:00 p.m. Pacific Standard Time on December 14, 2001. The Commission will not consider late proposals, and the IOUs will not be allowed to

supplement their proposals after the due date, absent an order of the Commission, the assigned Commissioner or the assigned Administrative Law Judge (ALJ).

3. \$100 million of the PGC funds shall be made available in 2002 and 2003 for non-utility programs selected by the Commission through a competitive solicitation process. Interested parties may submit proposals for statewide marketing and outreach programs on energy efficiency, and for local programs, as described in the body of this decision. Third parties shall submit proposals for statewide marketing and outreach programs to the Commission's offices no later than 5:00 p.m. Pacific Standard Time on December 14, 2001. Third parties may submit proposals for local programs at any time after December 14, 2001, but no later than January 15, 2001. No late proposals will be accepted, and parties will not be allowed to supplement their proposals after the due date, absent an order of this Commission, the assigned Commissioner or the assigned ALJ.

4. IOUs and third parties seeking energy efficiency funds shall tailor their proposals to the rules set forth in the Energy Efficiency Policy Manual and Section III (B) of this decision, and to the program mix set forth in Section III(C) of this decision, whenever applicable.

5. IOUs and third parties shall file one unbound original and five copies of each program proposal at one of the following addresses:

California Public Utilities Commission
Docket Office
505 Van Ness Avenue, 2nd Floor
San Francisco, CA 94102
(415) 703-2121 (between 10:00 am – 3:00 pm)

California Public Utilities Commission
320 West 4th Street, Ste. 500
Los Angeles, CA 90013

(213) 576-7000

California Public Utilities Commission
1350 Front Street, Room 4006
San Diego, CA 92101-3611
(619) 525-4217

Questions about assembling proposals should be directed to (415) 703-2776 (Energy Efficiency Hotline), and not to the Commission's Docket Office.

Parties shall serve their proposals by e-mail on the service list for this proceeding on the date they submit the proposals to the Commission. They shall abide by the Electronic Service Protocols that accompanied the OIR, which we reproduce here as Attachment 2.

Parties shall label all proposals with the proceeding number R.01-08-028 and the words "2002 Energy Efficiency Program Selection."

6. The Commission will conduct a workshop to assist non-utility parties wishing to submit 2002-03 energy efficiency proposals on Wednesday, December 19, 2001, at 10:00 a.m. at the following address:

Hiram W. Johnson State Office Building
455 Golden Gate Avenue
Hearing Room 9
San Francisco, CA 94102

7. The Commission delegates to the Assigned Commissioner, the assigned ALJ, and / or the Commission's Energy Division the task of reviewing all proposals and making a recommendation to the Commission of the proposals selected for funding.

8. The IOUs shall serve proposed standard terms to be included in all third party contracts on the service list and the assigned ALJ no later than December 10, 2001. All interested parties shall then meet and confer about such language, with counsel for the IOUs coordinating the meet and confer session. The session shall take place no later than December 19, 2001. After the session, and no later than December 30, 2001, one IOU, selected by the parties, shall report to the ALJ on the results of the meet and confer session, furnishing a table of agreed-upon contractual provisions and those provisions not agreed upon. The ALJ will furnish the parties direction thereafter on how to resolve the remaining disputes.

9. To avoid a program funding gap during the early part of 2002 prior to Commission authorization of new programs for 2002, the IOUs shall continue their Program Year (PY) 2001 programs as set forth in the body of this decision. The IOUs are authorized to commit and / or spend these funds only until March 31, 2002.

10. The foregoing IOUs shall report to the Assigned ALJ and the Energy Division on a monthly basis, no later than the 21st day of each month for the previous month, beginning January 21, 2001, the accounting information set forth in the body of this decision. The IOUs shall work with the Energy Division to devise a standard format for reporting of this information no later than January 1, 2002.

11. We delegate to the Assigned Commissioner and ALJ, and the Energy Division, responsibility for program monitoring and follow-up once the Commission has selected the programs for funding. This follow-up may include, but shall not be limited to, facilitating dispute resolution, making program modifications consistent with the directions given in this decision by other Commission decisions in the event of problems, gathering public feedback on program efficacy, and responding to questions and complaints regarding funded programs.

This order is effective today.

Dated November 29, 2001, at San Francisco, California.

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

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