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Decision 11-12-036 December 15, 2011

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Approval of its 2009 Energy Efficiency Incentive and Funding Requests.	Application 11-06-027 (Filed June 27, 2011)
And Related Matters.	Application 11-06-028 Application 11-06-031 Application 11-06-032

DECISION ADOPTING 2009 INCENTIVE EARNINGS AWARDS

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DECISION ADOPTING 2009 INCENTIVE EARNINGS AWARDS

1. Summary

In this decision, we award a total of $60,011,998 to Southern California Edison Company, Pacific Gas and Electric Company, and San Diego Gas & Electric Company and Southern California Gas Company) (collectively, the utilities or the applicants) for savings achieved in their calendar year 2009 energy efficiency programs.

2. Introduction

The Commission originally adopted the Risk/Reward Incentive Mechanism (RRIM) in Decision (D.) 07-09-043 as means of promoting a strong utility commitment to achieving energy efficiency goals by offering incentives for significant energy efficiency achievements (or penalties for sub-standard performance). The magnitude of rewards (or penalties) is based on a share of the resource cost savings that energy efficiency measures are deemed to provide.

Through a series of decisions in Rulemaking (R.) 09-01-019, we authorized RRIM earnings for the 2006-2008 program cycle. In D.08-10-027, the Commission previously authorized the utilities to extend their authorized 2006-2008 energy efficiency programs into 2009 as a bridge year pending approval of an updated portfolio of new programs for the subsequent cycle. In D.10-12-049, we authorized the utilities to apply for energy efficiency incentive awards for 2009 program activity using the formulas and framework generally used for the 2006-2008 RRIM true-up.

For the 2009 bridge year, the utilities collectively seek approval of incentive awards totaling approximately $77,164,045. Table 1 of Appendix 1 of this decision summarizes the derivation of the utilities' incentive earnings claims

for 2009. As discussed below, we reduce the requested claims to correct for an overstatement in the calculation of energy efficiency savings due to compact florescent light installations, as explained below. The resulting adjusted total of 2009 savings yields incentive awards of $60,011,998. In all other respects, we conclude that the adjusted 2009 incentive claims have been calculated in accordance with the RRIM formula and Commission guidance prescribed in D.10-12-049. Accordingly, we approve 2009 incentive earnings awards of $60,011,998. The utilities' claims and Commission approval for 2009 incentive awards are set forth below:

Utility	Requested	Awarded
PG&E	$32,446,184	$26,168,746
SCE	$27,572,109	$18,075,141
SDG&E	$15,108,031	$13,730,390
SoCalGas	$2,037,721	$2,037,721
	$77,164,045	$60,011,998

We authorize these adjusted awards in recognition of Commission commitments set forth in D.10-12-049 regarding the treatment of 2009 RRIM award claims. By authorizing these awards, however, we do not create a precedent or basis for how the Commission may design incentives for the current 2010-2012 energy efficiency program cycle or subsequent years' activities. We defer that issue to a separate decision. These applications are closed.

3. Procedural Background

In D.07-09-043, the Commission instituted the RRIM to provide both shareholder earnings and a return on ratepayers' investment in energy

efficiency. RRIM awards for the 2006-2008 cycle were concluded in D.10-12-049 for each of the above-referenced utilities. The Commission also made provision in D.10-12-049 for the utilities each to request an incentive earnings award for achievements in energy efficiency for 2009 program activity.

The Commission directed the utilities to submit their respective applications for award of calendar-year 2009 RRIM earnings by June 30, 2011, to allow for consideration and disposition by December 31, 2011.[1]

On June 27, 2011, Southern California Edison Company (SCE) and Pacific Gas and Electric Company (PG&E) each filed applications for approval of 2009 Energy Efficiency Incentive Funding Requests. On June 30, 2011, San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) filed similar applications for approval of their incentive claims.

By Chief Administrative Law Judge's (ALJ) Ruling dated July 12, 2011, the four applications were consolidated since they raise similar issues. The Chief ALJ preliminarily categorized the applications as ratesetting as defined in Rule 1.3(e) of the Commission's Rules of Practice and Procedure, with hearings necessary. No party disagreed with the categorization, which is hereby confirmed. The Commission's Division of Ratepayer Advocates (DRA) filed the only protest to the consolidated applications on August 5, 2011. The applicants filed a consolidated response to DRA on August 15, 2011. No other responses to the protest were filed.

In the scoping memo dated September 12, 2011, the assigned Commissioner directed the Energy Division to review the calculation of 2009

[1] See D.10-12-049, Ordering Paragraph 4.

incentive award claims proposed in the applications to ascertain that the awards are calculated in compliance with D.10 12 049 and to submit a report.

In response to this directive, Energy Division filed a compliance report on September 30, 2011. The joint utilities subsequently requested the detailed and technical documentation and work products, including Evaluation Reporting Template (ERT), and RRIM worksheets, that the Energy Division used to support its findings. The Energy Division response was provided on October 3, 2011. Energy Division hosted a conference call on October 13, 2011 to answer clarifying questions on the compact fluorescent light (CFL) component of its report. Comments in response to the Energy Division compliance report were filed on October 14, 2011, by the applicants, DRA, and Natural Resources Defense Council (NRDC).

The utilities and Energy Division participated in multiple conference calls and discussions regarding the calculation of the 2009 claim. The 2009 claims are using the Energy Division's 2009 ERT software tool using *ex ante* input assumptions adjusted by *ex post* installation rates.

Although Energy Division held informal meetings to confer with parties regarding the incentive calculations, no formal evidentiary hearings were conducted in this proceeding.[2] The assigned ALJ issued a ruling on November 2, 2011, admitting into evidence the supporting testimony of applicant witnesses. Accordingly, this decision is based upon the written record of the consolidated

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[2] No party requested hearings to cross-examine utility witnesses. DRA states in its protest to the applications that: "… hearings may not be fruitful given DRA's fundamental disagreement with awarding incentives for energy efficiency portfolios, especially based solely on utility-reported savings for portfolios whose true cost-effectiveness is unknown." (DRA Protest at page 8).

applications and testimony in support of the 2009 claims, the DRA protest and responses thereto, and the Energy Division compliance report and responses thereto.

4. Framework for Review of 2009 Energy Efficiency Incentive Award Claims

As a threshold matter, we identify the framework and scope of inquiry that applies in reviewing applicants' 2009 incentive claims. For purposes of evaluating the 2009 incentive claims, our focus is on whether the utilities have properly applied the adopted RRIM formulas consistent with the guidance in D.10-12-049.

D.07-09-043 adopted the initial framework to calculate incentive earnings awards or penalties based on a comparison of achieved efficiency savings relative to the adopted energy efficiency goals. Incentive rewards are calculated as a percentage of the "Performance Earnings Basis" which represents deemed resource savings from deployment of specified energy efficiency measures. As originally designed, if utility programs realized savings greater than 85%-- but less than 100%-- of energy efficiency goals, the utility earned incentives of 9% of total savings. If a utility realized savings greater than 100% of the energy efficiency goals, a 12% shared savings rate applied.[3] For the 2006-2008 true-up claim, as well as for the 2009 bridge year, to reflect the reduced investor risk associated with certain modifications in the calculation of deemed savings, the Commission reduced the shared savings rate to 7%.

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[3] Savings between 65% and 84% were considered to be in the "deadband" range and a 0% SSR applied. Falling below 65% subjected the Utilities to penalties. Maximum limits on incentive earnings and penalties for all Utilities were capped at $450 million for the 2006-2008 cycle.

For the 2009 program cycle bridge funding period and adopted incentive mechanism, utility performance is measured against the cumulative energy efficiency goals. The cumulative period began in 2006, using the goals adopted by D.04-09-060 and modified in D.09-09-047.

In 2008, the Commission modified the measurement of adopted goals from a net to a gross basis, starting in 2009. As a result, the cumulative performance period was calculated to include goals and impacts for the 2006-2008 program cycle measured in net results and the 2009 program period goals and impacts measured in gross results.

The Commission requires the utilities to provide with their applications the Microsoft Access ERT tool used to modify the 2009 *ex ante* numbers to gross savings in order to facilitate the Commission's review of their incentive claims.

The utilities are required to make up 50% of all savings that expire from measures installed after 2005. The ERT software tool calculates this value and was populated in the Risk Reward Spreadsheet Template)[4] by the Energy Division for use in this claim.

For purposes of measuring minimum performance standard (MPS), the utilities are allowed to count 50% of verified pre-2006 and 100% of post-2005 Codes and Standards (C&S) advocacy work.

DRA differs with the applicants and NRDC as to the appropriate standard for review of 2009 incentive claims. DRA recommends summary denial of the consolidated applications, or in the alternative, holding them in abeyance pending a complete overhaul of what DRA characterizes as "the fundamentally

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[4] See Exhibit SCE-2.

flawed and seriously outdated energy efficiency incentives structure." (See DRA Protest).

For calculating 2009 incentive claims, the assumed energy efficiency savings are based on utility-reported results utilizing *ex ante* assumptions.[5] The *ex ante* assumptions have not been subjected to an independent *ex post* evaluation. DRA argues that (1) utility-reported savings for the 2009 bridge funding year are likely overstated such that (2) true utility savings did not reach the MPS required to qualify for incentive payments. Given the performance of the 2006-2008 programs and the fact that the portfolios essentially stayed the same during 2009, DRA argues that it is unlikely that utilities would have been able to compensate for 2006-2008 underperformance and surpass goals in 2009 if actual savings, as determined by independent evaluations, are considered.

DRA asks the Commission to consider the following issues in addressing the utilities' request for 2009 RRIM awards:

(1) The reasonableness and prudency of awarding incentives based on utility-reported savings that were not independently evaluated, measured, or verified;

(2) The reasonableness and prudency of adding further ratepayer expenses on portfolios for which the true cost-effectiveness is unknown;

(3) The applicability of energy efficiency assumptions derived from 2005 and 1990's field studies to determine 2009 savings; (4) The

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[5] *Ex ante* refers to assumed energy savings associated with a particular energy efficiency measure or equipment prior to installation. Thus, *ex ante* refers to using program metric assumptions based on past program performance. *Ex ante* measurement relies on engineering estimates or the results of *ex post* savings measurement (e.g., load impact studies) from previous program years or other program experience. (See D.05-04-051 at 35.)

reasonableness and prudency of spending ratepayer dollars on a policy which DRA believes is known to fail in function; and

(4) Whether stakeholder, Commission, and Commission staff should spend more time on a 2009, interim year issue within the Commission's Energy Efficiency program.

In response, the utility applicants argue that DRA's protest fails to raise any legal or factual issues that call into question the authority by which the utilities submitted their respective applications for approval of 2009 energy efficiency incentives. The utilities argue that the Commission specifically considered and rejected DRA's recommendation to rely upon the 2006-2008 Energy Efficiency Evaluation Report of *ex post* results as a basis for the 2009 incentive applications.

4.1. Discussion

In D.10-12-049, we decided the methodology and formulas whereby RRIM earnings claims for 2009 are to be reviewed and evaluated. As stated in the assigned Commissioner's Ruling dated September 12, 2011, the scope of issues in this proceeding is to review the 2009 incentive claims, including whether the applications for 2009 incentive earnings have appropriately complied with directives in D.10-12-049. The Commission concluded in D.10-12-049 that "the modifications to the incentive mechanism adopted herein" should apply to the 2009 energy efficiency program year (D.10-12-049, Conclusion of Law 9). The Commission set forth specific directives concerning how incentive earnings for 2009 were to be calculated and submitted. (*Id.*, Ordering Paragraph 4).

Accordingly, while D.10-12-049 recognized that the future design of the incentive mechanism for 2010 and beyond must be subject to subsequent proceedings in R.09-01-019, the methodology for calculating calendar-year 2009 incentive awards has already been prescribed. While DRA might disagree with

the concept of awarding the utilities for achieving energy efficiency savings during the 2009 program year, that issue is beyond the scope of these applications. We will not re-litigate the disputes concerning the manner in which an incentive mechanism should be designed for the limited purposes of resolving these consolidated applications.

The scope of this proceeding thus focuses on whether the incentive claims were determined in accordance with the formulas and directives set forth by the Commission in D.10-12-049. The broadening of the inquiry to delve into disputes over the fundamental design of the RRIM, including the metric to measure the energy efficiency savings as proposed by DRA, is also beyond the scope. We believe that D.10-12-049 was clear with its intent to measure 2009 RRIM earnings claims using *ex ante* metrics. In this proceeding, we will not relitigate the controversy over the merits of using *ex ante* measures in calculating 2009 RRIM awards. By adhering to the treatment of 2009 incentive claims laid out in D.10-12-049, we underscore our commitment to promoting energy efficiency and preserve credibility in the consistency of our regulatory treatment. We do note, however, that the Commission was only prescriptive for the savings achieved during the 2009 program cycle; subsequent RRIM design for the 2010-2012 program cycle or beyond has not been determined by the Commission. That topic is the subject in R.09-01-019 and our actions today should not be considered to extend beyond these applications.

In the interests of accountability and responsible oversight, the assigned Commissioner directed the Energy Division to independently ascertain that the calculations of 2009 incentive earnings were conducted in compliance with the

directives of D.10-12-049.[6] We recognize that this review is limited to confirming compliance with the directives set forth in D.10-12-049. As such, we acknowledge that the utilities' claims of actual energy efficiency savings achieved for 2009 are merely based on *ex ante* assumptions; these *ex ante* assumptions may not reflect actual efficiency savings achieved. Accordingly, we make no findings concerning the actual efficiency savings achieved by the utilities. Our rewarding an incentive for energy savings for activities conducted during the 2009 program year is based on these *ex ante* assumptions, and we make no determinations about how the utilities' performance should impact future program design. Our findings are limited to confirming that the calculations of savings have been correctly based on the application of *ex ante* assumptions as specified in D.10-12-049.

As a basis to evaluate the 2009 incentive claims, we apply the following directives in D.10-12-049, Ordering Paragraph (OP) 12, which provides that:

> -- In developing and submitting their respective applications, the utilities shall recalculate their 2009 *ex ante* savings in the ERT tool to reflect gross *ex ante* savings. The utilities may also incorporate estimated net benefits attributable to post 2006 Codes & Standards (C&S) program advocacy efforts.
>
> -- No other modifications can be made to the ERT tool or the ERT input sheets, except SCE is allowed to revert some of the Gross Realization rates and [Net to Gross Ratios] back to the values used in the planning of the 2006 2008 portfolio consistent with the changes identified in Table 5 [in D.10-12-049].

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[6] Assigned Commissioner's Ruling and Scoping Memo, dated September 12, 2011, at 5 and 6.

-- The utilities shall use the risk reward spreadsheet template provided by Energy Division which recognizes the removal of 2004 2005 goals and savings, the inclusion of 2006 2008 net goals and 2009 gross goals, the inclusion of 50% decay from 2006 2008, and the inclusion of verified C&S savings using 50% for pre 2006 and 100% post 2006 as directed in other Commission directives herein. The utilities shall provide the following with their applications in order to facilitate the Commission's review of their incentive claims:

- The Microsoft Access ERT tool the utilities used to modify the 2009 *ex ante* numbers to gross savings.
- For SCE, any ERT Input Sheets that have been modified.
- The Risk Reward Spreadsheet used to calculate the incentive amounts.
- A document that describes the files or tables that were changed, and what specific changes were made.

5. Overview of Utility Incentive Earnings Claims

5.1. Claim Presented by PG&E

PG&E claims eligibility for energy efficiency incentives for 2009 in the amount of $32,446,184, representing $27.2 million for its electric department revenue requirement and $5.2 million for its incremental gas transportation revenue requirement.

For 2009, PG&E claims realized energy savings of 2,031 gigawatthours (GWhs), 327 megawatts (MWs) and 17 Million Therms (MMTs) through PG&E's energy efficiency resource programs. When compared to the Commission's 2009 savings goals, PG&E calculates that its 2009 energy efficiency programs achieved 200%, 142% and 115% of the Commission's 2009 energy goals for GWh, MW and MMTs respectively. The savings resulted in $942 million in net resource benefits. PG&E claims that its cumulative energy savings achieved from its 2006-2009

energy efficiency programs exceeded the MPS as required by D.07-09-043 and D.10-12-049.[7]

In response to the areas of potential uncertainty noted in the Energy Division Report, PG&E provided Attachment 2 to its comments—a memorandum prepared by Heschong Mahone Group that further describes the methodology used and addresses various points noted in the Energy Division Report.

For program years 2006-2009 PG&E calculates that it exceeded the 80% MPS threshold for each individual savings metric, as well as the 85% threshold across the three savings metrics combined.

5.2. Claim Presented by SCE

SCE claims eligibility for 2009 energy efficiency incentives in the amount of $27,572,109.

In order to qualify for incentive earnings, the RRIM requires savings greater than 85% of the Commission's energy efficiency 2006-2009 goals. For 2009, SCE claims achievement of 113% of the Commission's 2006-2009 energy efficiency goals. Because this result exceeds the MPS of 85%, SCE claims eligibility to receive 2009 RRIM earnings of $27,572,109.

SCE claims savings from all CFLs installed in 2009, including those originally incented during the 2006-2008 program cycle. For example, in the Energy Division's evaluation of the 2006-2008 program cycle, they estimated a percentage of CFLs were purchased but not installed during that program cycle.

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[7] See PG&E Prepared Testimony Sec. C.1.a. and App. A thereto.

However, the Energy Division estimated the percentage of those CFLs from 2006-2008 that were installed in 2009.

SCE calculates achieved savings that exceed the MPS under the Commission's adopted mechanism for 2009, making SCE eligible to receive 7% of the total net benefits calculated for calendar year 2009. SCE claims that its methodology to calculate 2009 savings and benefits is appropriate and complies with Commission policy. SCE submitted the ERT software tool, database, and corresponding methodologies in Exhibit SCE-3.

5.3. Claim Presented by SDG&E

SDG&E claims eligibility for approval of incentive earnings of $15,108,031 for calendar year 2009 RRIM achievements based on claimed energy savings of 55.7 GWhs, 118 MWs, and 3.3 MMTs. The claimed savings included the results of point-of-sale rebates for energy efficient appliances marketed through "big box" retail outlets, the "Advanced Home Program" for residential new construction, and the "On-Bill Financing Program" for non-residential customers. SDG&E claimed achievement of up to 160% of Commission MW savings goals and 88% of goals for therm savings.

SDG&E proposes to record $14,654,790 of its 2009 RRIM award in its electric "Rewards and Penalties Balancing Account" (RPBA) and the remaining $453,241 in its gas RPBA, to be recovered as a 12-month amortization in electric and gas rates in connection with SDG&E's annual regulatory account balance update filings effective January 1, 2012.

5.4. Claim Presented by Southern California Gas Company

SoCalGas requests $2,037,721 in earnings claims for calendar year 2009, based on claimed achievement of natural gas efficiency savings of 20.7 MMTs,

representing 109% of the Commission's goals for therm savings. As the basis for achieving these claimed savings, SoCalGas points to its residential programs, including point-of-sale rebates at "big box" retail outlets, its "Advanced Home Program" for residential new construction, and its "Local Business Energy Efficiency Program" which targets all non-residential customers. SoCalGas points to its "On-Bill Financing Program" designed to facilitate the purchase and installation of qualified efficiency measures by customers who might otherwise not be able to afford such measures. SoCalGas reports savings of 171,000 therms per year resulting from this program.

6. Energy Division Review of Utility Claims for 2009

As directed, Energy Division reviewed the utilities calculations of 2009 incentive claims, including the supporting files submitted with each application and the calculation of Net Benefits in the Risk Reward Spreadsheet. To ensure that the values in the risk reward spreadsheet were not altered, the Energy Division compared the Risk Reward Template to the Risk Reward spreadsheets submitted with each utility's application. The comparison test showed that the utility spreadsheet matched the Energy Division template. In its preparation of the report Energy Division, however, was unable to duplicate the 2009 energy savings and net benefit numbers used in each utility's Risk Reward spreadsheets, implying that the ERT was not properly used, as ordered by the Commission in D.10-12-049.

Energy Division found the utilities complied with the general requirements of D.10-12-049 by providing the ERT tool, input sheets, the Risk Reward spreadsheet, and documentation describing any changes made. Energy Division made the following assessments of the utilities' modifications and adjustments:

--PG&E's modifications to the ERT to create *ex ante* savings are appropriate. PG&E's 2009 GWh and MW numbers from the ERT are very close to the Risk Reward numbers, but the therms, Total Resource Cost (TRC) Net Benefits and Program Administrator Cost (PAC) Net Benefits have a variance of more than 15%:

--SCE's modifications to the ERT to properly calculate the *ex ante* savings and to the Residential Lighting input sheet to allow for proper mapping are appropriate. SCE made additional adjustments to their TRC and PAC Net Benefits to properly include additional program costs that SCE believed were missing from the ERT.

--SCE's 2009 GWh and MW numbers from the ERT vary by more than 30% when compared to the Risk Reward spreadsheet, but the TRC Net Benefits and PAC Net Benefits match almost exactly (.5% variance).

--SDG&E's 2009 GWh, MW, Therm, TRC Net Benefits and PAC Net Benefits vary between 22% and 67% when comparing the ERT values to the Risk Reward spreadsheet.

-- SoCalGas' 2009 Therm values from the ERT differ by more than 12% when compared to the Risk Reward spreadsheet while the TRC Net Benefits differ by 61% and the PAC Net Benefits differ by 8%.

For purposes of its compliance report, Energy Division was not able to duplicate all of the 2009 energy savings and net benefits numbers used in each utility's Risk Reward Spreadsheet based on follow up meetings with the utilities and review of utilities' responses to the report, however, Energy Division was able to reconcile these variances and to ensure that the 2009 energy savings and net benefits numbers were properly calculated with the exception of several programs that SoCalGas added to the ERT tool, some potential inconsistencies in the C&S parameters used by the Utilities (the Report noted that there remained some uncertainty in the C&S input parameters used, but that Energy Division did not anticipate that these discrepancies would have a significant impact –

more than a few percent in either direction – on the earnings calculations), and the savings attributable to CFL bulbs, as discussed below.

6.1. Energy Division Review of *Ex Ante* Savings Calculations from CFL Bulb Installations

According to Energy Division's CFL installation model, over 30 million 2006-2008 and 2009 program CFLs were installed by utility customers in 2009. According to the Energy Division's analysis, based on *ex ante* assumptions, those CFLs would be predicted to save customers over $200 million in lower utility bills

According to the Energy Division, in calculating their energy efficiency savings to attribute to 2009 RRIM awards, the utilities counted savings from CFL bulbs that were incented in the 2006-2008 portfolio period, but that were actually installed by customers during 2009. In addition, the utilities increased their 2009 savings total by also counting CFL bulbs that were both incented for the 2009 bridge year and actually installed during that year.

In D.10-12-049, the Commission gave guidance on how to attribute credit for CFLs purchased during the 2006-2008 cycle but not installed until 2009 and stated: "[8]…nothing in this decision precludes the utilities from seeking credit for energy savings based on the installation of CFLs that were procured and rebated over the 2006-2008 cycle but which were not installed in that period, provided an incentive mechanism is adopted on a going forward basis." The Energy Division interprets this language to allow the claims of savings from the inclusion of CFLs purchased in 2006-2008 but installed in 2009, though the Report noted that an alternative, more literal interpretation of the Commission's guidance would be

[8] See page 59 of D.10-12-049.

that a new incentive mechanism (not the 2006-2008 RRIM) would need to be adopted to provide shareholder incentives for the stored bulbs. The Energy Division Report also identified three areas of potential overestimation of 2009 savings that could result from using the CFL bulb installation model, which was not originally designed to address bulbs from prior years coming out of storage:

- The 50% CFL decay might need to be removed or modified such that the CFLs installed from storage or new purchases are not duplicated in order to avoid a double count of this decay offset;
- The 2009 CFL installation rates used need to be updated to utilize the same installation rate model used to calculate the installations from stored CFL to ensure there is no double counting of installed CFLs; and
- The 2006-2008 CFL quantities used to estimate the number of bulbs installed in 2009 needs to be re calculated to ensure they are consistent with the decay and 2009 installation rates mentioned above to ensure there is no double or triple counting due to the three combined interacting components of CFL savings credits.

At the time that the Energy Division Compliance Report was issued, staff had not yet calculated the 2009 RRIM award adjustment necessary to correct for any over counting of CFL bulb installations. (Energy Division has now calculated the adjustment necessary to correct for the second and third errors, but elected not to make any adjustments for the first, as staff believes that no significant double count results from decay assumptions embedded in the model when bulbs coming out of storage are factored in.) If we were to make the proposed adjustments, the resulting impact on the incentives would be as follows:

	Utility Award Claim	Adjusted Award Amount
PG&E	$32,446,184	$26,168,746
SCE	$27,572,109	$18,075,141
SDG&E	$15,108,031	$13,730,390
SoCalGas	$2,037,721	$2,037,721
	$77,164,045	$60,011,998

There are a number of steps in calculating these adjustments. For clarity, a detailed explanation of the calculations supporting the adjusted RRIM awards for 2009 is set forth in the Appendix to this decision with additional explanation in discussing comments to the Proposed Decision in Section 10.

7. Responses to the Energy Division Compliance Report

7.1. Response of PG&E

PG&E states that since Energy Division released its Report, PG&E has worked closely with Energy Division to identify the reasons for the discrepancy between the Energy Division and PG&E savings calculations for the 2009 program year. PG&E states that Energy Division and PG&E identified two inputs to the ERT that were responsible for the discrepancy. PG&E claims that the Energy Division inadvertently included incorrect inputs for these two parameters, which led to the discrepancy.

According to PG&E, the Energy Division inadvertently used *net* savings, as opposed to *gross* savings, in its ERT analysis. When gross savings are applied, PG&E satisfies the MPS such that it qualifies for incentives. Attachment 1 of

PG&E's comments shows that the correct calculation of gross savings for MPS purposes should incorporate the gross savings from lines 7 (gross savings from pass through programs) and 8 (gross savings from evaluated programs). Because this metric only relates to the MPS, and not to the calculation of total net benefits, it has no effect on the actual earnings claim presented in PG&E's application.

Regarding the second discrepancy, PG&E states that the Energy Division inadvertently included additional energy savings and costs that should not have been included in the analysis for 2009. This resulted in an overestimation of total savings and net benefits in Energy Division's analysis. Specifically, in June, 2010, PG&E updated its March 1, 2010 quarterly report to reflect the Commission's updated avoided costs in the E3 calculator. The updated savings in the June report should be used in performing the savings calculations for 2009. However, rather than using these June update savings, Energy Division inadvertently included program savings and costs from the March 1 report in addition to savings from the updated June 1 report and used that combined total for its ERT analysis.

PG&E defends its calculation of CFL-related savings for 2009, stating that the Commission authorized the utilities to include savings from CFLs procured and rebated in 2006-2008 and installed in 2009 (carryover CFLs). PG&E believes that such authority is consistent with Commission policy that the utilities should claim savings beginning in the year a measure is installed. PG&E finds no discussion or other explanation in D.10-12-049 to support the notion that the Commission intended to make a special exception to this policy to apply solely to carryover CFLs at issue in this particular application or to require the utilities

to wait for some unspecified point in time to claim savings from measures which were installed and generated energy savings in 2009.

7.2. Response of SCE

SCE states that it communicated with the Energy Division regarding factual errors contained in the Energy Division Report. SCE documented required corrective actions in its comments. After consulations with SCE, Energy Division agreed with SCE's observations concerning these errors.

SCE claims that the ERT software tool only contains ex post savings estimates for CFLs which SCE claims does not adhere to Commission policy for 2009 RRIM earnings. SCE modified the ERT software tool (see Section V-F and Exhibit SCE-6) for the purpose of calculating *ex ante* assumptions associated with the CFLs.

Similar to Energy Division's evaluation of the 2006-2008 Residential Lighting Program, SCE determined the average wattage of the 2006-2008 CFLs, and applied this average wattage to the 2009 *ex ante* input parameters, based on the Database of Energy Efficient Resouces for 2008. SCE incorporated these *ex ante* parameters into the ERT software tool to calculate savings and net benefits (see Exhibit SCE-5).

SCE disputes the Energy Division claim that savings from CFL installations are overstated. SCE argues that the Energy Division Report incorrectly interprets Commission policy in questioning the validity of CFLs installed in 2009 and incented as part of the 2006-2008 program cycle. SCE claims that the Commission, in D.10-12-049, explicitly authorized SCE to include such results in its 2009 Earnings Application.

7.3. Response of SDG&E and SoCalGas (The Joint Utilities)

SDG&E and SoCalGas provided Energy Division with supporting documentation of their claims. Due to time considerations, Energy Division did not formally update the Energy Division Report, but generally agreed with the explanations subsequently provided by the two utilities.

The joint utilities state that upon receiving the Energy Division's back-up documentation, they analyzed the results and were able to identify the source of error in Energy Division's ERT runs. According to the joint utilities, this error is identical for both SDG&E and SoCalGas. The Joint Utilities replicated the same results for programs with results that were updated with 2006-2008 Evaluation, Measurement and Verification (EM&V) installation rates. The error was isolated to a group of programs not subjected to the 2006-2008 EM&V results pursuant to D.10-12-049, and thus not adjusted with EM&V results. As a result, the joint utilities assert that the Energy Division's ERT runs were double counting the net benefits of these programs. Since these programs tended to either be non-resource programs (i.e., no savings benefits but with program costs) or resource programs that did not report significant savings, the costs outweighed the benefits. Therefore the Joint Utilities argue that the Energy Division ERT model erroneously reported excess costs, which would result in reduced net benefits and, in turn, earnings.

7.4. Response of NRDC

NRDC generally agrees that discrepancies between Energy Division's calculations and the utility applications should be reconciled prior to resolution by the Commission (the Energy Division Review, at 6-7). However, rather than

attempt to resolve every single issue, NRDC recommends that the Commission focus on resolving material discrepancies to allow for a timely decision.

NRDC agrees that the 2009 earnings claims should include savings from 2006-08 CFLs installed in 2009, consistent with Commission direction that program savings should be accounted for in the program cycle in which measures are installed.[9] Accounting for the savings from these lamps should be straightforward since the costs were accounted for in the 2006-08 RRIM applications and awards and Energy Division has already filed an analysis estimating the total number of CFLs installed in 2009 due to the 2006-2008 programs.[10]

NRDC disagrees with any alternative interpretation of D.10-12-049 that would preclude the utilities from receiving credit for 2009 energy savings based on the installation of CFLs procured and rebated during the 2006-2008 cycle but not installed until 2009.[11] NRDC believes that such an interpretation requires the assumption that the incentive mechanism excludes extension of the 2006-2008 mechanism into 2009, which was in fact what the Commission explicitly decided to do in the same decision.

More generally, NRDC believes that such an interpretation would conflict with basic accounting principles as it would result in the incorporation of program costs associated with CFLs included in the 2006-08 evaluation report

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[9] D.04-09-060, at 33.

[10] KEMA. Energy Efficiency Evaluation Report for 2009 Bridge Funding Period, Appendix R: CFL Memo. January 13, 2011 http://www.cpuc.ca.gov/NR/rdonlyres/21FA8895-A754-4A6F-BEE8-0F776D10D7D7/0/AppendixR_CFLMemo.pdf [hereinafter KEMA CFL Analysis].

[11] D.10-12-049 at 60.

while excluding the corresponding benefits (by not counting savings from these bulbs in 2006-2008 or in 2009).

NRDC disagrees with the Energy Division's claim that 2009 RRIM earnings are overstated due to improper application of the decay rate. NRDC notes that a spreadsheet was distributed by Energy Division to stakeholders for a conference call to discuss this issue, including the calculations needed for an updated analysis.[12] This spreadsheet provided a calculation of total 2009 installations using the same installation rate model previously used to calculate the installations from stored CFLs, and included relevant updated data. NRDC recommends the Commission use this spreadsheet to calculate total 2009 installations.

8. Discussion

The utilities and the Energy Division have reconciled the differences in the Energy Division's Report with respect to the ERT calculation. We conclude that the utilities calculations of 2009 RRIM awards are in conformance with the applicable RRIM formulas, and consistent with the guidance provided in D.10-12-049, with the exception of the overstatement in the calculation of CFL bulb installations. We believe that the incentives attributed to energy savings from the 2009 program cycle to be reasonable and in line with the guidance given to the utilities in D.10-12-049.

We note that because this guidance was given in December 2010, all of the utilities' 2009 program year activities had already been completed. Thus, it can

[12] Spreadsheet titled: "110207 high level installation analyses using 09 pgm recalc.xls" Distributed by e-mail from Peter Lai to the service list of A.11-06-027. Dated: 10/13/11 9:21 A.M.

be argued that these incentives might have been anticipated, and perhaps even expected, but were not certain until after the program cycle was completed. We issued this decision in late 2011; the timeline between action and reward is perhaps too long for the RRIM to result in the utilities' desired behavior. We intend to consider these issues in the Commission's current RRIM proceeding, R.09-01-019. Our granting these applications for the RRIM for the 2009 program year should not be seen as any form of future guidance to the utilities for the 2010-2012 program cycle or beyond.

We now turn to the adjustment of the savings and subsequent incentives earned from CFLs. We agree with NRDC and with the utilities that the energy savings used as the basis for the 2009 RRIM awards should recognize savings attributable to CFLs purchased during the 2006-2008 cycle but not installed until 2009. In this regard, we stated in D.10-12-049:

> Nothing in this decision precludes the utilities from seeking credit for the energy savings associated with compact fluorescent lights that were sold and rebated in the 2006-2008 period but which were not or will not be installed until later, provided the savings from those lights have not already been accounted for.

The timing of our schedule for addressing how to design future years' incentives should not preclude an appropriate recognition of savings from CFL bulbs purchased during the 2006-2008 cycle, but installed during 2009, for purposes of 2009 RRIM awards. Accordingly, we affirm that the 2009 RRIM award should recognize savings attributable to 2006-2008 program CLF bulbs installed during 2009.

However, we find that the utilities' RRIM calculation overstates the energy savings attributable to CFLs for the 2009 program year. The utility claims for bulbs installed in 2009 are approximately 40% greater than the expected 2009

installations. In their comments on Energy Division's Report, the utilities and NRDC frame this issue as a new "policy proposal" that is outside of the scope of this proceeding. We disagree. The error identified by Energy Division was the result of the utilities not adjusting their 2009 first year installation rates to account for 2006-2008 program bulbs coming out of storage, although according to Energy Division this adjusted 2009 installation rate was included in the model it provided to the utilities in early 2009 to address the stored bulbs issue. A correction to the claimed RRIM awards is necessary to avoid an overstatement. We believe that this adjustment is reasonable and appropriate.

In addition, the 2006-2008 CFL quantities used to estimate the number of bulbs installed in 2009 must also be recalculated to be consistent with the 2009 installation rates mentioned above and ensure there is no overcounting due to the combined interacting components of the CFL savings model.

We thus adjust the 2009 RRIM awards for deemed efficiency savings from CFLs claimed by the utilities for 2009. The adjusted 2009 RRIM incentives are presented below (a more detailed explanation of the supporting calculations underlying the correction of the CFL calculation of savings and resulting adjustments to the RRIM awards is set forth in Appendix 1 of this decision):

	Utility Award Claim	(Adjustment)	Adjusted Award Amount
PG&E	$32,446,184	$6,277,438	$26,186,146
SCE	$27,572,109	$9,496,968	$18,075,141
SDG&E	$15,108,031	$1,377,641	$13,730,390
SoCalGas	$2,037,721		$2,037,721
	$77,164,045	$17,152,047	$60,011,998

We recognize that these adjustments to the savings and subsequent RRIM incentives were not anticipated by the utilities at the time of the application filing nor upon initial release of the Energy Division report. However, we make these adjustments because preventing an overstatement of the savings from CFLs is in the ratepayers' interest. It is our intent to ensure going forward that the rationale we outline today will flow through to future reviews of energy efficiency savings from CFLs. We also recognize that the adjustment in savings from this one issue of stored CFLs creates an adjustment of almost 20% from claimed incentives to what we reward today; this indicates a potential over-reliance on one measure for total savings achieved in a program year. This suggests an area for future deliberation as we consider the future of the RRIM.

9. Assignment of Proceeding

Mark J. Ferron is the assigned Commissioner, and Thomas R. Pulsifer is the assigned ALJ for this proceeding.

10. Comments on Proposed Decision

The proposed decision of ALJ Pulsifer in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and

Procedure. Comments were filed on December 5, 2011 and reply comments were filed on December 12, 2011.

We have reviewed the comments to the proposed decision (PD), and based on that review, have made additional revisions to the incentive awards in finalizing this decision. We have adjusted the 2009 incentive awards from $61,998,682 to $60,011,998. As discussed below, this downward adjustment corrects for certain errors in the calculations relied on in the PD. Except for these additional adjustments, we find no basis to adjust the incentive earnings awards in response to comments on the PD.

We find no merit to the claims that the Energy Division calculations were not vetted. Energy Division developed both the 2006-08 results and corrected previous mistakes in the application of those results. No new results or interpretation of those results were developed and used in calculating 2009 incentives. The adjustments to RRIM claims calculated by Energy Division are based upon the correction of mistakes in utilizing the 2006-2008 EM&V results for installation and storage rates for CFLs which we are now allowing credit.

SCE claims that the PD alters the *ex ante* market segment allocation of SCE's Residential Lighting Program from 90% residential and 10% nonresidential to a revised split of 94%/6%, respectively. PG&E makes a similar claim that the Energy Division model uses an *ex post* 94%/6% split for CFLs, rather than the *ex ante* 90%/10% *ex ante* split in violation of the Commission's order in D.10-12-049 that the 2009 earnings claims will be based on *ex ante* assumptions.

We conclude that applying a 94%/6% split is appropriate by applying the definition of *ex-post* installation rate to include where the bulbs are installed (i.e., whether in a residence or a commercial location), not just how many are

installed. By accounting for the location of the CFL installation, the Energy Division calculation of a 94%/6% split thus makes an appropriate adjustment for this inclusive definition of the installation rate. In reviewing this issue in response to comments, Energy Division discovered that despite raising it in the PD, the quantity values Energy Division used in its calculations in support of the PD estimates actually perpetuated the IOU residential/nonresidential splits of 90%/10% for PG&E and SCE, and 100%/0% for SDG&E. The incentive values provided in this decision correct that error.

SCE utilizes a misinterpretation of the values in the Energy Division consultant memos in the Attachment A to its comments. Those memos addressed only installations of IOU 2006-2009 claimed CFLs from storage and new purchases for residential CFLs only (not non-residential CFLs). However, the total number of both residential and nonresidential bulbs was incorrectly used as an input to the models rather than reducing that value to the number of residential bulbs only. Thus, when the models produced a number for residential bulbs, the value was overestimated by the number of nonresidential bulbs. This had the effect of including the nonresidential bulb count in these residential-only results (with the effect of incorrectly double-counting non-residential bulbs). The result was to therefore inaccurately inflate the total number of CFLs claimed by the IOUs for both residential and non-residential use. The Energy Division calculations in the PD corrected for this error.

In D.10-12-049, the Commission allowed the utilities to submit their 2009 claim for earnings as well as to seek credit for the CFLs bulbs for energy savings based on the installation of CFLs that were procured and rebated over the 2006-2008 cycle but which were not installed in that period. The Commission did not specify a definitive policy in D.10-12-049, however, on how to award

credit for these bulbs for 2009. Accordingly, the calculation of energy savings from CFL installations was not predetermined in D.10-12-049, but open for resolution through the application process. Energy Division identified the utilities' claims for CFL credit as a potential issue to be resolved. We thus find the Energy Division resolution reasonable and thus adopt it.

SCE claims that the methodology in the PD appears to "double-adjust" SCE's CFL installation rates. SCE's reported *ex ante* energy savings, net benefits, and requested earnings claim already include an installation rate to adjust for CFLs that go into storage or never get installed. However, the PD errs by applying an additional installation rate on top of the one already imbedded in SCE's claim. SCE calculates that correcting for this error would increase SCE's award by approximately $849,000.00 under the construct of the PD.

We acknowledge that Energy Division did neglect to remove the IOUs' installation rate assumption built into the IOU energy savings values for CFLs before applying their own installation rate adjustments in the PD tables. We have corrected that error as reflected in the final values for 2009 RRIM earnings adopted herein. However, in the process of making these adjustments, Energy Division discovered that SCE appears to have selectively applied CFL Interactive Effect (IE) adjustments to their claim, such that they included the benefits of positive IEs associated with the reduced heat emitted by CFLs relative to incandescent bulbs lowering the air conditioning load, but did not include the negative impacts associated with greater heating need in the winter (PG&E included both positive and negative IEs in their claim, and SDG&E included some but not all). Consequently, Energy Division revised the claim to correct the IE impacts for SCE and SDG&E.

SCE claims that the PD methodology uses an *ex post* effective useful life (EUL) instead of the *ex ante* EUL required by the Commission for use in this earnings claim. We conclude that all the adjustments ED performed for CFLs utilize benefits calculated using the EUL values as submitted by the IOUs in their *ex ante* claims. Energy Division made no adjustments to those EUL values in any calculations it performed.

SCE claims that the PD methodology overestimates CFLs in storage versus CFLs in use. We find no basis for this claim as the methodology utilized is the methodology adopted in D.10-12-049 to calculate the true-up payment for 2006-2008 and now adapted for use in the 2009 award. The methodology previously did not explicitly show how to calculate credit for 2006-2008 CFL installed in 2009 or provide an installation rate for 2009 CFL. Energy Division extended the previous methodology to allow it to be applied to 2009 for both new purchase installations and installation from storage. As was said in D.10-12-049, credit for CFLs installed from storage is the subject of this new RRIM Decision and not at all pre-judged or directed by D.10-12-049.

As explained in more detail below, Energy Division provided the supporting documentation to the utilities that included both the correct 2009 installation rate and a cumulative installation rate.

SCE claims that the PD methodology provides zero credit for replacing decayed CFLs, which violates existing Commission policy, established in D.09-09-047, which allows the IOUs to assume that 50% of savings persist following the expiration of a given measure life. As explained in D.09-05-037, the 50% savings are deemed to persist based on the premise that the program altered a customer's behavior and helped transform the market. PG&E likewise claims the Energy Division model fails to credit those persistent savings to the utilities.

We disagree. The Energy Division did apply the 50% decay credit, but applied it outside of the ERT process in the Risk Reward Template which the utilities used.[13] Thus, the RRIM awards appropriately incorporate the 50% decay rate.

SCE claims that EM&V study relied upon in the PD was limited to the 2006-2008 program cycle and was not designed nor intended to be used to extrapolate installations in 2009. We disagree. OP 4 of D.10-12-049 requires the 2009 award to be based upon similar methods as utilized to calculate the 2006-2008 final true-up award. However, D.10-12-049 defers to a subsequent decision the question of if and how to treat CFL being installed from storage. It is thus appropriate to adopt a method to treat claims for CFLs installed from storage in this decision.

PG&E also filed comments to the PD, denying that it double-counted CFL installations, but claiming that it applied the CFL installation rates from the most recent evaluation studies—67% for residential CFLs and 73% for non-residential CFLs. PG&E claims that over the last year, Energy Division instructed PG&E to use these rates in calculating the amount of 2009 installations for purposes of this application in accordance with D.10-12-049. PG&E claims that Energy Division now recommends an installation rate of only 18% for PG&E.

We conclude that Energy Division used the correct installation rates. The 67% rate is a cumulative installation rate, whereas the 18% installation rate is the correct value for calculating 2009 incentives. Energy Division provided a memo with the CFL counts and in a separate email provided the supporting

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[13] Energy Division applied the 50% decay credit in the RRIM Calculator Template, "RRIM Calculator" tab, cells S24:V26.

documentation behind the memo to the utilities in February 2011. That supporting documentation had both the correct 18% 2009 installation rate and the 67% cumulative installation rate. Energy Division did not specify therein which installation rate to use and did not identify different installation rates as an issue at the time, but the utilities did have the supporting documentation.

PG&E claims that the Energy Division model fails to credit the utilities for persistence of energy savings from CFLs authorized by D.09-09-047, representing an incorrect application of Commission policy, which in no way supports reduction of the 2009 CFL installation rate.

PG&E claims that the Energy Division calculations assume that most purchasers of CFLs in 2009 had leftover bulbs in storage and therefore, concludes that purchasers continued to store new CFLs they purchased in 2009 rather than install them.

We find that the Energy Division used the CFL memo assumptions that were provided to the utilities with the 2009 report. Energy Division did not change any assumptions in that methodology, but believes the method should be improved going forward. The total increase in CFL saturation within residences during 2009 is set at the rates found in the 2006-2008 EM&V results based on home surveys during 2009. Therefore, it is not appropriate for the sum of CFLs taken from storage plus those newly acquired during 2009 to be significantly different from the assumptions found in the KEMA memo. Any increase in installation for 2009 acquired CFLs would result in a decrease in CFL installed from storage. Thus the total IOU CFL installation from any source would remain constant and thus the RRIM award due to CFL installation cannot increase. For this reason, the division of total CFL installation between installs from 2006-2008

CFL from storage versus 2009 newly acquired CFL makes no substantial difference to the total award. It is a zero sum gain.

PG&E claims that the model includes incorrect assumptions which appear to be drawn from the 2006-2008 Upstream Lighting Impact Evaluation and which have not been adopted by the Commission. For example, the model applies a six year residential CFL EUL instead of the correct *ex ante* EUL of 9.4 years. In addition, PG&E claims the model incorrectly applies the EUL. For linear decay the EUL represents the number of years at which 50% of the bulbs installed are ineffective, not 100% as the model shows. When the EUL is corrected to 9.4 years, the correct burnout rate decreases from 1/6 to 1/18.8 bulbs per year. Using the correct EUL value, and applying it correctly, causes dramatic changes in the estimated number of CFLs installed and stored during 2009.

We find that the Energy Division used the same assumption found in the KEMA model. Energy Division acknowledges there could be improvements to the KEMA model but did not make any changes. The KEMA model cites the six year EUL as an "IOU *Ex-Ante*" value. The utilities did not raise this issue for the nine months when they had the full model but only raise it now. These, and all other model assumptions and parameters are the same as those used in D.10-12-049 to calculate the 2006-2008 true-up award.

PG&E argues that the CFL installation analysis model assumes 31.7 million bulbs sold in PG&E's service territory in 2009, the same value as 2008 and in sharp contrast to the rapidly increasing trend in previous years. PG&E claims the PD overestimates the CFL bulbs in storage versus bulbs in use, noting that the Energy Division model shows that bulbs stored per household increase in 2009, whereas CFLs acquired per home decline in 2009. PG&E infers that that

the model may be undercounting bulbs in use and over counting bulbs in storage. In addition, bulbs in storage are likely to decline as a share of total bulbs installed, whereas the model shows a flat ratio of total bulbs in storage to bulbs in use (38%).

We find these methodology assumptions to be unchanged from the 2006-2008 results that were used for the RRIM true-up payment in D.10-12-049. Additionally, these assumptions are supported by more recent information of long term CFL sales trends. All California and national CFL sales data show a very significant spike upwards for CFL sales from late 2006 through 2007 with values being more level in 2008 and later.

PG&E also claims that Energy Division applied the proposed installation rate to the *ex ante* energy savings values, which have already been reduced with an in-service rate (ISR) adjustment, thus double counting the energy savings reduction resulting from the installation rate.

We have corrected this error in the final adjustment values for 2009 RRIM awards. For the final values, Energy Division removed the ISR "built-in" to the IOU energy savings values by dividing the benefits by the ISR values (.92 for non-residential and .9 for residential) before adjusting those benefits to account for the proper residential and non-residential installation rates from the 2006-2008 EM&V results.

Findings of Fact

1. In D.07-09-043, the Commission adopted the RRIM to encourage achievement of Commission-adopted energy efficiency goals, and to extend California's commitment to making energy efficiency the highest energy resource priority.

2. Nothing in D.10-12-049 precludes the utilities from seeking credit for the energy savings associated with compact fluorescent lights that were sold and rebated in the 2006-2008 period but which were not or will not be installed until later, provided the savings from those lights have not already been accounted for.

3. In D.08-10-027, the Commission authorized the utilities to continue existing energy efficiency programs from the 2006-2008 period into 2009 pending Commission adoption of a final decision on the utilities energy efficiency portfolio programs for the 2009-2011 period.

4. D.10-12-049 stated that the modifications to the incentive mechanism adopted therein for the 2006-2008 true-up should be applied to the 2009 energy efficiency program year, recognizing the changes in the manner in which goals are stated, and what measure or activities contribute toward the achievement of those goals.

5. D.10-12-049 directed that no later than June 30, 2011, the utilities were to file applications calculating energy efficiency incentives for 2009 pursuant to the RRIM mechanism as modified for the 2006-2008 true-up, to allow for consideration and disposition by December 31, 2011.

6. In developing and submitting their respective applications, the utilities were to recalculate their 2009 *ex ante* savings in the ERT tool to reflect gross *ex ante* savings.

7. The utilities were also allowed to incorporate estimated net benefits attributable to post-2006 C&S program advocacy efforts.

8. The utilities were not allowed to make any other modifications to the ERT tool or the ERT input sheets, except SCE was allowed to revert some of the Gross Realization rates and net-to-gross ratios back to the values used in the planning

of the 2006-2008 portfolio consistent with the changes identified in Table 5 of D.10-12-049.

9. The utilities were directed by D.10-12-049 to use the risk reward spreadsheet template provided by Energy Division which recognizes the removal of 2004-2005 goals and savings, the inclusion of 2006-2008 net goals and 2009 gross goals, the inclusion of 50% decay from 2006-2008, and the inclusion verified Codes and Savings Advocacy using 50% for pre-2006 and 100% post-2006.

10. The utilities were to provide with their applications the tools and documentation set forth in OP 4 of D.10-12-049, in order to facilitate the Commission's review of their incentive claims.

11. PG&E calculated that energy efficiency savings achievements for 2009 qualify it for incentive earnings of $32,446,184.

12. SCE calculated that it earned 2009 energy efficiency incentives in the amount of $27.6 million, which compared to revenues at June 2011 rates, represents an increase of approximately 0.16% for bundled customers and 0.25% for System customers.

13. SDG&E calculated that it earned 2009 energy efficiency incentives in the amount of $15.1 million.

14. SoCalGas calculated that it earned 2009 energy efficiency incentives in the amount of $2.0 million.

15. The Commission has not independently verified claimed energy efficiency savings accomplishments for program year 2009 based on an *ex post* analysis of actual savings achieved.

16. The 2009 incentive earnings claims were subjected to a compliance review conducted by Energy Division and the subsequent follow up review and comments on the Energy Division report.

17. The claims of incentive earnings are based upon *ex ante* assumptions of savings parameters based on the formulas and assumptions specified for 2009 in D.10-12-049.

18. The technical issues and apparent discrepancies identified in the Energy Division report were subsequently reconciled or explained, except for the double counting of installations from CFL bulbs identified by Energy Division staff.

19. The following adjustments in the 2009 RRIM earnings awards are necessary to avoid overstatement in claimed savings as identified by the Energy Division, namely,

a. The 2009 CFL installation rates used need to be updated to account for the installations of stored and unsold 2006-2008 program bulbs to ensure there is no double counting of CFLs installed in 2009;

b. The 2006-2008 CFL quantities used to estimate the number of bulbs installed in 2009 need to be recalculated to ensure they are consistent with the 2009 installation rates mentioned above to ensure there is no overcounting due to the combined interacting components of the CFL savings model; and

c. SCE selectively applied CFL Interactive Effect (IE) adjustments to their claim, such that they received the benefits of positive IEs associated with the reduced heat emitted by CFLs relative to incandescent bulbs lowring the air conditioning load, but did not include the negative impacts associated with greater heating need in the winter. PG&E included both positive and negative Ies in their claim, and SDG&E included some but not all. The awards granted herein correct for these inconsistencies.

20. The necessary corrections in the 2009 RRIM awards to reflect the overstatements identified in Finding of Fact 19, as set forth in the supporting calculations in Appendix 1 of this decision, result in the following adjusted 2009 RRIM awards:

a. PG&E's adjusted awarded is $26,168,746;
b. SCE's adjusted award is $18,075,141;
c. SDG&E's adjusted award is $13,730,390; and
d. SoCalGas's adjusted awarded is $2,037,721.

Conclusions of Law

1. The Commission authorized the utilities to file applications for approval of energy efficiency incentive awards for program year 2009 as set forth in D.10-12-049.

2. The utilities applications were filed in conformance with the Risk Reward Incentive Mechanism formulas as prescribed in the directives in D.10-12-049 applicable to 2009 claims, except for the adjustment to correct an over counting of savings from CFL bulb installations, as calculated in Appendix 1 of this decision.

3. The utilities should be authorized to recover incentive earnings for 2009 program activity in accordance with the amounts in OP 1 below.

4. The issues raised by DRA regarding its fundamental disagreements with the design parameters underlying the calculation of incentive earnings for 2009 go beyond the limited scope of this proceeding.

5. In this decision, the Commission does not prejudge or dispose of any substantive issues regarding how an energy efficiency incentive mechanism should be designed or implemented, or how earnings claims should be developed for the 2010-2012 cycle or beyond.

O R D E R

IT IS ORDERED that:

1. The following incentive awards are hereby adopted for program year 2009:
   a. Pacific Gas and Electric Company is awarded $26,168,746;
   b. Southern California Edison Company is awarded $18,075,141;
   c. San Diego Gas & Electric Company is awarded $13,730,390; and
   d. Southern California Gas Company is awarded $2,037,721.

2. Pacific Gas and Electric Company is authorized to record its 2009 incentive award of $26,168,746 in its electric and gas Customer Energy Efficiency Adjustment Balancing Account, for inclusion in its 2010 Annual Gas and Electric True-Up advice letters for recovery in rates effective January 1, 2012.

3. Southern California Edison Company is authorized to record its 2009 incentive award of $18,075,141 in its distribution sub-account of its Base Revenue Requirement Balancing Account for inclusion of recovery through its Energy Resource Recovery Account proceeding, effective on or shortly after January 1, 2012.

4. San Diego Gas & Electric Company is authorized to record its 2009 incentive award of $13,730,390 for recovery in its applicable annual regulatory account balance update filings effective January 1, 2012.

5. Southern California Gas company is authorized to record its 2009 incentive award of $2,037,721 for recovery in its Rewards and Penalties Balancing Account to be recovered as a 12-month amortization in natural gas rates in connection with the applicable account balance update filings effective January 1, 2012.

6. Application (A.) 11-06-027, A.11-06-028, A.11-06-031, and A.11-06-032 are closed.

This order is effective today.

Dated December 15, 2011, at San Francisco, California.

MICHAEL R. PEEVEY
President
TIMOTHY ALAN SIMON
CATHERINE J.K. SANDOVAL
MARK J. FERRON
Commissioners

I abstain.

/s/ MICHEL PETER FLORIO
Commissioner