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Decision 08-01-006 January 10, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Promote Consistency in Methodology and Input Assumptions in Commission Applications of Short-Run And Long-Run Avoided Costs, Including Pricing for Qualifying Facilities.	Rulemaking 04-04-025 (Filed April 22, 2004)

INTERIM OPINION DENYING JOINT PETITION FOR MODIFICATION OF DECISION 06-06-063

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1. Introduction and Summary[1]

By Decision (D.) 05-04-024 in Rulemaking (R.) 04-04-025, the Commission adopted an avoided cost methodology for the purpose of evaluating the 2006-2008 energy efficiency portfolio plans of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas), collectively referred to as "the utilities."[2] In D.06-06-063, the Commission refined those avoided costs and addressed other issues related to the calculation of energy efficiency cost-effectiveness.

In particular, the Commission addressed certain anomalies in the "E3 calculators" used by the utilities to calculate program and portfolio cost-effectiveness for their energy efficiency activities.[3] One of those anomalies related to the manner in which the E3 calculators treated costs in the calculation of the Standard Practice Manual (SPM) tests of cost-effectiveness. The SPM contains the Commission's methodology for evaluating energy efficiency

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[1] Attachment 1 describes the abbreviations and acronyms used in this decision.

[2] Avoided costs refers to the incremental costs avoided by the investor-owned utility when it purchases power from qualifying facilities, implements demand-side management, such as energy efficiency or demand-response programs, or otherwise defers or avoids generation from existing/new utility supply-side investments or energy purchases in the market. Avoided costs also encompass the deferral or avoidance of transmission and distribution-related costs.

[3] The E3 calculator is a model developed by Energy and Environmental Economics (or "E3") for use by the utilities to map Commission-adopted avoided costs to energy efficiency programs for cost-effectiveness calculations.

investments. Under the policy rules for energy efficiency adopted by D.05-04-051, the utility program administrators and all program implementers are required to perform cost-effectiveness analysis with the indicators and methodologies included in the SPM, unless we direct otherwise.

In D.06-06-063, the Commission recognized that proper inputting of costs and benefits in the SPM tests of cost-effectiveness is critical to program planning and evaluation. In addition, the Commission noted that the SPM tests of cost-effectiveness would form the basis for calculating earnings under the risk/reward shareholder incentive mechanism developed in R.06-04-010. Therefore, the Commission explored the SPM test anomalies observed in the E3 calculator in some detail in D.06-06-063, and provided direction on how to correct them.

The utilities jointly filed a Petition for Modification of D.06-06-063 on May 31, 2007 (Joint Petition) requesting substantive modifications to the treatment of energy efficiency costs addressed in that decision. As we explain in today's decision, adopting the modifications requested by the utilities would effectively hide real program costs from the calculation of portfolio net benefits, thereby overstating those benefits for particular program strategies. Instead, we affirm the direction we have provided in previous decisions to ensure that all the costs (both to the utility and to the participating customers) are properly reflected when we evaluate the total resource costs and benefits associated with energy efficiency programs.

2. Procedural Background

Ordering Paragraph 17 of D.06-06-063 required the utilities (and their contractors) to present the revised E3 calculators, including all inputs, to their program advisory and peer review groups for review in joint statewide public meetings and to submit final E3 calculator and input revisions in compliance with D.06-06-063 by September 8, 2006. Ordering Paragraph 17 also provided parties to this proceeding the opportunity to comment on the utilities' compliance submittals by September 22, 2006, with reply comments due by September 29, 2006. Finally, Ordering Paragraph 17 directed the following:

> "After considering written comments, and in consultation with Joint Staff, the assigned ALJ in R.06-04-010 shall address the compliance submittal by ruling, or take other steps as necessary to ensure compliance with today's decision."

The Division of Ratepayer Advocates and The Utility Reform Network (DRA/TURN) filed joint comments on the utilities' compliance submittals, and PG&E and SCE filed reply comments.[4] Energy Division subsequently met with each of the utilities individually to discuss the SPM-related issues raised in the advisory group meetings and written comments.

On December 21, 2006, after considering written comments and in consultation with staff, the assigned Administrative Law Judge (ALJ) issued a ruling addressing the utilities' compliance submittals (Compliance Ruling).[5] The assigned ALJ found that the utilities' E3 calculators still did not fully comply with the directives in D.06-06-063 with respect to the treatment of costs in the SPM tests of cost-effectiveness, and directed the utilities to make changes to the

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[4] We incorporate the DRA/TURN and SCE comments into the record in this proceeding, by reference, noting that they were inadvertently filed in related energy efficiency proceedings and accepted for filing by the Docket Office at the assigned ALJ's direction.

[5] *ALJ's Ruling Addressing Compliance Filings Pursuant to D.06-06-063*, in R.06-04-010, December 21, 2006. This ruling was also served on the service list in R.04-04-025.

way in which they were inputting costs into the E3 calculators to comply with that decision.

On March 16, 2007, the utilities jointly wrote to the ALJ asking that that the Compliance Ruling be suspended pending the submission of a more formal pleading. On May 31, 2007, the utilities appended that letter to the Joint Petition, and served the Joint Petition on the service lists in this proceeding and in R.06-04-010. DRA, Natural Resources Defense Council (NRDC) and Ecology Action filed responses to the Joint Petition on July 3, 2007. With the permission of the assigned ALJ, the utilities jointly filed a reply on July 12, 2007 (Joint Reply).

In their Joint Reply, the utilities recommend that the Commission hold a workshop to address the concerns in the Joint Petition and the criticisms in DRA's response, and urge that such a workshop be held as soon as possible. NRDC also suggests that the Commission hold a workshop as soon as possible, in order to try to develop a consensus position among the parties.

Neither the Compliance Ruling nor our orders in D.06-06-063 have been suspended. However, subsequent to the filing of the Joint Petition, we addressed the treatment of costs associated with "free riders" that was also discussed in the utilities' March 16, 2007 letter and Joint Petition.[6] This specific cost-effectiveness issue was identified for resolution in Phase 1 of R.06-04-010 in the Assigned Commissioner's scoping memo, and all interested parties had an opportunity to present their views and recommendations during Phase 1 workshops and written filings in that phase of the proceeding. Our resolution of

[6] "Free riders" refer to program participants who would have purchased the energy efficiency measure without the utility program.

how to treat the costs associated with free riders is presented in D.07-09-043; therefore, we do not address the parties' positions on this issue any further in today's decision.

In consultation with the assigned ALJ, Energy Division staff and the assigned Commissioner, we have considered the request for further workshops. We conclude that they are not necessary for the purpose of addressing the remaining issues raised in the Joint Petition or in parties' responses. However, as discussed in Section 5, the utilities in coordination with Energy Division and its E3 calculator consultants should jointly hold workshops to respond to the types of practical implementation questions raised by Ecology Action in order to educate program implementers on the proper classification and reporting of program costs consistent with our determinations.[7]

We consider the Joint Petition in the context of SPM definitions for the various components of the "Total Resource Cost" (or "TRC") test of cost-effectiveness and the overall intent of this test. Excerpts from D.06-06-063, the Compliance Ruling and D.07-09-043 on these issues are presented in Attachments 2 and 3.

3. The TRC Definitions that are the Basis of the Joint Petition

The TRC test is a measure of energy efficiency program cost-effectiveness to the utility ratepayers to whom the revenue requirements as well as benefits

[7] In particular, Ecology Action raises "how to" questions regarding the reporting expected of them for costs associated with direct install program activities that may include a combination of free and co-pay measures.

accrue. Accordingly, the opening statement of intent in the SPM emphasizes the inclusion of all program costs associated with this activity:

> "The Total Resource Cost Test measures the net costs of a demand-side management program as a resource option based on the total costs of the program, *including both the participants' and the utility's costs*."[8]

This all-inclusive theme on costs continues throughout the SPM TRC formulation and discussion:

> "The costs in this test are the program costs paid by both the utility and the participants plus the increase in supply costs for the periods in which load is increased. Thus all equipment costs, installation, operation and maintenance, cost of removal (less salvage value), and administration costs, no matter who pays for them, are included in this test. Any tax credits are considered a reduction to costs in this test."[9]

In simple formula format, the TRC benefits represent the costs of the supply-side resources avoided or deferred by the program activity, while the TRC costs are defined as:

Program Administrator Costs (PRC) + Participant Costs (PC)[10]

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[8] The latest version of the SPM document is entitled: "Economic Analysis of Demand-Side Management Programs," October 2001 (2001 SPM), and can be viewed on the Commission's website at http://www.cpuc.ca.gov/static/energy/electric/energy+efficiency/em+and+v/std+practice+manual.doc. See 2001 SPM, p. 18, TRC chapter opening statement, emphasis added.

[9] 2001 SPM, p. 18, emphasis added.

[10] The SPM formula also includes a "UIC" term that represents any utility increased supply costs associated with the demand-side activity. To simplify our discussion today we do not include this UIC term in the TRC formulation, but in actual application, the calculation of TRC net benefits increase the cost side of the equation (or decrease the benefit side) by any increased utility supply costs.

There has been a long history of Commission effort to uphold the integrity of the TRC formulation by ensuring a correct accounting of all costs and all benefits.[11] When calculating this summation of costs for various program delivery designs, care must be taken to simultaneously ensure that all costs are counted but that no costs are double counted. This missing or double counting issue can be a problem with any of the terms of this formula.

The Joint Petition proposes that D.06-06-063 be modified to reflect the following rules for defining the cost components of the TRC test:[12]

- "In situations where a direct install program does not bill or collect from the customer for any portion of the costs, then all *the* costs *except those attributable to free-riders* should appear as program administrator costs *and the participant cost should be zero*."
- "If the incentive is to offset a specific participant cost, *as in a midstream/upstream or direct install type incentive*, the full customer cost must be included in the TRC test as a participant cost *excluding costs attributable to free-riders. When dollar benefits do not go directly to the participating customer, the participant cost must be reduced by the incentive attributable to offsetting or paying for the participant cost*."

As discussed below, we examine these proposed changes in the context of our current definitions of TRC cost terms, and examine whether they would act to either double count or exclude some program costs collected from ratepayers

[11] See for example, D.92-09-080, 45 CPUC 2d, p. 569, which is reproduced in Attachment 4 to D.05-04-051: "Total resource costs represents the total cost of obtaining the [demand-side management] program as a utility resource, and include both the program participants' out-of-pocket costs (*i.e.*, customer contribution) and the utility's revenue requirement costs (*e.g.*, rebates, administrative expanse)."

[12] Joint Petition, pp. 1-2. Changes to Ordering Paragraphs in D.06-06-063 are indicated in italics.

and paid to either participants or other market actors. We describe our current definitions of the terms that appear in the TRC formula, including the manner in which we account for free riders pursuant to D.07-09-043.

3.1. TRC Benefits

The TRC test looks at the resource benefits to all ratepayers resulting from the utility program--those that accrue to both program participants and non-participants. More specifically, TRC benefits represent the costs of the supply-side resources avoided or deferred by the program activity.

The SPM defines TRC benefits as "calculated using net program savings, savings net of changes in energy use that would have happened in the absence of the program."[13] In D.05-04-051, the Commission makes clear that net savings, in the context of energy efficiency programs, is defined as savings net of "free riders," that is, net of program participants who would have purchased the energy efficiency measure without the utility program. We sometimes refer to the actions of free riders in a resource planning context as "naturally occurring" energy efficiency. Therefore, to calculate TRC benefits, we apply a net-to-gross (NTG) ratio to the resource savings produced by the program activity. The NTG ratio is defined as the proportion of participants that are *not* free riders, *e.g.*, a NTG ratio of 80% means that 20% of the program participants are free riders. In this way, the TRC formulation only counts the participant savings resulting from program participation, and not any savings that would have occurred anyway including those effects due to free riders.

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[13] 2001 SPM, p. 18.

3.2. Incentives Paid to a Participant (INC Term)

In order to define other TRC terms, it is necessary to describe the "INC" or "incentive" term that is used in the SPM definition of the TRC test. As we discussed in D.06-06-063, the SPM defines the INC term very narrowly as the type of incentive that can be treated as a transfer payment in the SPM TRC formulation. The definition of the INC term, as set forth in the SPM, is restricted to "dollar benefits" such as rebates or rate incentives (monthly bill credits) paid by the sponsoring utility to the customers participating in the program:

> "Some difference of opinion exists as to what should be called an incentive. The term can be interpreted broadly to include almost anything. Direct rebates, interest payment subsidies, and even energy audits can be called incentives. Operationally, it is necessary to restrict the term to include only dollar benefits such as rebates or rate incentives (monthly bill credits). Information and services such as audits are not considered incentives for the purposes of these tests. If the incentive is to offset a specific participant cost, as in a rebate-type incentive, the full customer cost (before the rebate) must be included in the PCt term." [14]

Moreover, the SPM is very clear that the term "participant" refers to the customer participating in the program, and that this transfer incentive (INC) is one that is paid directly to the participating customer.[15] As discussed in the SPM, the INC dollar rebates or rate incentives can intuitively be thought of as cancelling because they appear both as a cost to all ratepayers on the cost side

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[14] 2001 SPM, p. 11, footnote 3.

[15] See 2001 SPM, Chapter 2 opening statement and definitions.

and as a benefit to participating ratepayers on the benefit side of the TRC equation.[16]

In D.06-06-063, we presented a simplified numerical example to illustrate that if non-participants pay these dollar benefits to participants (in the form of cash rebates or rate incentives), the INC term cancels out completely, assuming that there are no free riders participating in the program. This example is reproduced in Attachment 2. In D.07-09-043, we clarified that when there are free riders, the INC term does not completely cancel out in this way. (See Section 3.3. below.)

3.3. TRC Participant Cost (PC Term) and Program Administrator Cost (PRC Term)

The TRC test measures all the costs paid by the utility and program participants, with the exception that any costs incurred by free rider participants are excluded. More specifically, the SPM states:

> "The costs in this [TRC] test are the *program costs paid by both the utility and the participants* plus the increase in supply costs for the periods in which load is increased. Thus all equipment costs, installation, operation and maintenance, cost of removal (less salvage value), and administration costs, no matter who pays for them, are included in this test. Any tax credits are considered a reduction to costs in this test. For fuel substitution programs, the costs also include the increase in supply costs for the utility providing the fuel that is chosen as a result of the program.[17]

[16] 2001 SPM, p. 18, fourth paragraph, where the SP notes that "the incentive terms intuitively cancel *(except for the differences in net and gross savings)*." (Emphasis added.)

[17] 2001 SPM, p. 18 (emphasis added).

The SPM defines participant costs (PC term) as those costs paid (or debt incurred) by program participants without consideration of any transfer payment incentive (the INC term, as defined above). These costs account for all labor and materials costs, all tax costs and credits (sales, property and income), any increased or decreased maintenance and operational costs for the life of the measure.[18]

As discussed above, the savings benefits attributed to free riders are removed from the TRC equation. We remove the total costs that free riders actually incur as well, *i.e.*, the measure cost used for all participating ratepayers less any cost for measure installation reimbursed by the program. Accordingly, we apply the NTG ratio to the PC term (removing these costs for free riders), but then add back the INC costs included in that term that are paid to free riders. As a result, any cash rebates or rate incentives paid to free riders remain in the cost side of the TRC test formulation, along with all other program administrator costs. Attachment 3 presents numerical examples of this treatment from D.07-09-043.[19]

In D.06-06-063, we reiterated the SPM definition of Program Administrator Cost (PRC) as any program expense except those program expenses that fit the narrow definition of a transfer payment incentive (INC) defined above. This means that the "non-transfer" incentive payments to midstream/upstream

[18] 2001 SPM, p. 11.

[19] In D.07-09-043, we discussed how to apply the NTG ratio to the cost terms of the TRC equation in order to ensure that all costs paid by the program that become revenue requirements are included in the TRC cost-effectiveness evaluation.

market actors and payments to contractors to deliver or install energy efficiency measures at customer premises are included in the PRC term.

More specifically, under the utility "midstream/upstream programs," the utility pays incentives with program funds to manufacturers and distributors in order to buy down the retail price of energy efficiency measures or to stock efficient appliances. Under "direct-install programs," the utility arranges for measures to be either delivered to a participating customer for their installation or to be installed at the customers' premises. As discussed in D.06-06-063, the definition of PRC includes all utility payments to these entities, *i.e*., to manufacturers, distributors, contractors, builders or energy service companies.

In D.06-06-063 and D.07-09-043, we provided numerical examples to illustrate that inclusion of these non-transfer payments in the PRC term ensures that a direct-install program where the utility or its contractor performs the installation of a measure would not be more cost-effective from a TRC perspective than a rebate program that provides a comparable cash rebate to the customer up to the full cost of installation. We directed the utilities to consistently account for all non-transfer payments in the PRC cost term, and to not treat any direct-install costs or payments to midstream/upstream actors as either participant costs (PC) or transfer incentives (INC) in calculating TRC cost-effectiveness. (See Attachments 2 and 3.)

None of the PRC costs are adjusted downwards by the NTG ratio to account for free riders. As discussed above, we do apply the NTG ratio to the PC term, but only to the *un-reimbursed* portion of participant costs that free riders pay out-of-pocket to produce the savings they receive.

4. Joint Petition and Comments

In the Joint Petition, the utilities contend that modifications to D.06-06-063 are required to ensure that there is no double-counting of costs for midstream/upstream programs or for direct-install programs under the current Commission's formulation of the TRC test.

In particular, the utilities express concern that the Commission's direction to treat direct-install costs as program administration costs (*i.e.*, in the PRC term) does not recognize that participant costs (*i.e.*, the PC term) should commensurately decrease to reflect the participant's lower out-of-pocket costs. They request that the decision language be clarified to indicate that the PC term would now effectively be zero. Alternatively, they recommend that the Commission modify D.06-06-063 to permit inclusion of direct-install costs in the PC term, and then adjust that term by the NTG ratio to exclude the direct-install costs associated with free riders.

The utilities also express concern that making midstream/upstream program costs part of program administrative costs without reducing the participant cost term would double count the costs of the energy-efficient measures involved. At a minimum, they suggest that D.06-06-063 be clarified to recognize that the PC term should be reduced by the amount of the retail price reduction attributable to the midstream/upstream payments.

As an alternative to the above recommendations, the utilities propose (and prefer) that the Commission allow transfer payment treatment for midstream/upstream incentives and direct-install program costs, without any adjustments to the PC term. They urge the Commission to clarify the theoretical basis for treating some incentives as transfer payments, while not others, and whether it wants incentive payments made to free riders included in the TRC calculation or not.

In its comments, Ecology Action and NRDC share the general concerns raised in the Joint Petition. In particular, Ecology Action believes that the Commission's direction in D.06-06-063 and in the Compliance Ruling would give traditional mail-in rebate programs an unwarranted TRC advantage over successful direct-install program.

DRA supports the Commission's directives in D.06-06-063 and the Compliance Ruling on how to calculate the TRC test. In DRA's view, foundational documents, including the SPM and the policy rules, define the correct treatment of program costs for all distribution methods (traditional rebate, direct-install and upstream/midstream programs), and that no one method is either advantaged or disadvantaged by the application of the TRC prescribed in D.06-06-063. However, noting that D.06-06-063 is silent on how to treat "free rider" costs in calculating TRC costs, DRA observes that there could be a disadvantage imposed on non-direct rebate programs, depending on how this issue is resolved.[20] More generally, DRA recommends that specific clarifications to the SPM or policy rules should be made to reflect the proper treatment of program costs, and to develop additional numerical examples for direct rebates, direct-install and upstream/midstream programs in spreadsheet format to facilitate comparisons under various scenarios.

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[20] As discussed above, the comments on the Joint Petition were submitted before we issued D.07-09-043, which addresses how free riders would be accounted for in TRC costs.

5. Discussion

Under our policy rules for post-2005 energy efficiency, the utilities and program implementers are required to perform cost-effectiveness analyses consistent with the indicators and methodologies included in the SPM, unless we direct otherwise.[21] In their Petition, the utilities claim that the SPM and Commission decisions are not clear on the economic principle for treating certain costs as transfers, but not others. They suggest that any transfer of funds made by the program administrator to a market participant (whether it is the customer installing the measure, a manufacturer, distributor or energy service provider under contract) should be treated as a transfer payment in the calculation of TRC cost-effectiveness by subtracting those payments from the cost side of the equation.

As we discussed in D.06-06-063 (and summarize above), all versions of the SPM dating back to the 1980s have been very clear on what costs are to be treated as transfers:

> "The only costs that are excluded in the TRC test are those 'incentives' that are to be considered and treated as transfer payments. The SPM specifically directs that such incentives are restricted to include "only dollar benefits such as rebates or rate incentives (monthly bill credits)." [footnote omitted.] The conceptual basis for ignoring transfer payments in the development of the TRC is similar to the basis for ignoring tax credits in the societal version of the test. That is, when some taxpayers receive cash transfers (in the form of a tax credit) as a result of higher taxes paid by others, economic theory suggests that those transfers be excluded when

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[21] Our energy policy rules for post-2005 energy efficiency were adopted on April 25, 2005 by D.05-04-051. They are presented in Attachment 3 of that decision. See Rule IV (Cost-Effectiveness).

calculating the costs and benefits of the investment from the societal perspective."[22]

While the SPM document does not expand on economic theory in defining the INC term, only the narrow definition of transfer payments contained in the SPM preserves the fundamental objective of the TRC test, *i.e.*, to capture the total costs of the program, including both the participants' and the utility's costs."[23] This can be best understood by first examining what would happen if the INC term were not treated as a transfer payment under the TRC test formulation, and then examining what would happen if the INC term were expanded beyond the SPM definition to include the other types of program incentives suggested by the utilities.

If the TRC formulation included the PC term and all utility costs without excluding INC payments, then those dollar rebates or bill credits would be double-counted on the cost side of the equation: They would be included in the PC term (because that term is defined to represent the actual measure installation costs to the participant before any dollar rebates or bill credits) as well as in the PRC term. To avoid this double-counting, it is necessary to treat the INC payment as a "transfer" by excluding the dollar rebates or bill credits from PRC term. In this way, all the utility's costs and all the participants' costs (together

[22] D.06-06-063, p. 66.

[23] 2001 SPM, p. 18, TRC chapter opening statement, emphasis added. We have also reiterated that the TRC test is intended to capture all of the program participant and utility revenue requirement costs in Commission decisions dating back to the early 1990s: "Total resource costs represent the total cost of obtaining the [demand-side management] program as a utility resource, and include both the program participants' out-of-pocket costs (*i.e.*, customer contributions) and the utility revenue requirement costs (*e.g.*, rebates, administrative expenses)." (Excerpt from D.92-09-080 in Attachment 4 to D.05-05-051.)

comprising the total costs of the program) are reflected in the calculation, without double counting.

Now we examine a situation where dollar payments to upstream/mid-stream market actors (*e.g.*, manufacturers or wholesalers) are made with utility program funds. The utilities recommend that these costs be treated as transfer payments by subtracting them from the TRC cost side of the equation, *i.e.*, that the PRC term be defined to exclude any of these program costs. Under the utilities' proposed formulation of TRC costs, an upstream incentive payment to an equipment manufacturer or distributor to, for example, buy down a compact fluorescent lamp (CFL) price, would be omitted from TRC costs and treated the same as a dollar rebate to a participant who supplies a receipt to the program. This treatment would apply even without evidence that the entire $1 paid to the manufacturer resulted in the participant cost being $1 lower (or that the CFL that was bought down ended up in the hands of a customer within the utilities' service area or even within California).

The utilities' proposed definition of transfer payments would effectively ignore utility program costs in the calculation of TRC cost-effectiveness, contrary to the stated purpose of this SPM test. By definition, the PC term does not include the costs of mid-stream or up-stream incentives. Therefore, eliminating these costs from the PRC term does not address any double counting issues—rather it removes these costs from the TRC cost side of the equation entirely. Hence, treating incentives to upstream/mid-stream market actors as transfers would serve to make these programs appear more cost-effective from a TRC perspective than they really are--by understating the total costs to the utility.

In their Joint Petition, the utilities argue that midstream and upstream incentives "provide a cost-effective means to reducing the cost of energy efficiency measures without the additional administrative cost of providing rebates directly to the consumers." They assert that defining transfer payments narrowly to include only dollar rebates or bill credits to participating customers will motivate them to "return to direct utility rebate programs, which are less cost effective…because of higher administrative costs and lower market acceptance."[24] Similarly, the utilities assert that the SPM definition of transfer payments penalizes the utility with a lower TRC if it increases efficiencies through direct-install programs.[25]

There is no support for these assertions given the SPM formulation of the TRC test of cost-effectiveness. As discussed above, the treatment of dollar rebates to participants as a transfer payment does not favor direct rebate programs by ignoring real program costs—it serves to ensure that such costs are not double counted in the context of the SPM definition of participant costs. The TRC test will fully capture any cost-effectiveness advantages of upstream/midstream programs under the current formulation of that test. In particular, if the costs to administer midstream and upstream incentive programs are less than the administrative costs associated with programs that provide rebates directly to the participant, then these cost savings will be fully reflected in the PRC term. If market acceptance of energy efficiency measures is higher under midstream/upstream program strategies than under rebate programs, then the savings associated with this higher level of participation will also be fully reflected in the TRC equation—on the benefits side.

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[24] Joint Petition, Attachment, pp.1-2 of March 16, 2007 Letter to ALJ Gottstein.

[25] *Ibid.*, Attachment, p. 11.

Finally, if the midstream and upstream incentives are successful in reducing the retail price of energy efficiency measures to the end-users, then this benefit will also be reflected in the PC term. As DRA points out in its comments, the TRC formulation defines the participant cost (PC term) as the actual price paid by participating customers for the energy efficiency measures, and thereby includes the effect from the midstream or upstream incentive that may have acted to reduce the retail price including the possibility that the actual price may be reduced by an amount larger than the midstream or upstream incentive.

Therefore, capturing the impact of mid-stream or upstream programs on retail prices does not require any revisions to the SPM definitions or methodology, or to our determinations in D.06-06-063. Rather, it requires that the actual prices paid by these participants are reflected in the PC term, so that we can evaluate the program activity from a cost perspective and calculate a reliable net benefit for the program. Treating midstream and upstream incentives as transfers (as the utilities prefer) implicitly assumes that there is a dollar reduction in the shelf price for every dollar of cash incentive provided to upstream/midstream market actors. However, it is unreasonable to define the TRC test such that is automatically assumes a one-for-one dollar reduction in the shelf price as a result of these incentives without any scrutiny of this assumption in the context of what we can readily observe in the market.

As part of its ongoing evaluation, measurement and verification (EM&V) activities, Energy Division intends to analyze participant costs for certain measure and/or program delivery strategies where actual participant costs are suspected to be significantly different from estimated participant costs. Pursuant to the ALJ ruling on EM&V Protocols in R.01-08-018 dated September 2, 2005, the utilities are also required to track and report actual measure cost data, based on site specific installations, for all customized measures. Moreover, the utilities are authorized EM&V funding for market assessment studies, where they collect market data. Hence, there is no reason why the planning and evaluation of these program strategies from a TRC perspective cannot reflect market observations with respect to the retail shelf prices that result from upstream/midstream incentives.

Similarly, capturing the impact of program efficiencies associated with direct-install programs requires no change to the definition of transfer payments in the SPM. The utilities' assertion that restricting the definition of transfer payments to dollar rebates (or bill credits) to the participant will skew the TRC results in favor of rebate programs is simply incorrect, except in the very limited situation where the dollar rebate actually exceeds the participant's cost of installing the measure. We demonstrated this clearly with numerical examples in both D.06-06-063 and D.07-09-043. (See Attachments 2 and 3.)

Moreover, as we also discussed in D.06-06-063 and in our policy rules, we use the "dual test" of cost-effectiveness to ensure that utilities use program funds cost-efficiently and avoid excessive rebate levels. In particular, we require that the Program Administrator Cost (PAC) test is used in conjunction with the TRC test in evaluating program design options and that the portfolio as a whole must pass both tests to be eligible for funding.[26]

To the extent that direct-install programs increase cost efficiencies and program participation, then such benefits and efficiencies will be reflected in the

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[26] See D.05-04-051, Attachment 3, Rule IV. Under the PAC test, the program benefits are the same as the TRC test, but costs are defined differently to include the costs incurred

Footnote continued on next page

TRC test using the current definitions of TRC cost components. The benefits of increased participation will be reflected in the benefits side of the equation, while the cost efficiencies will be reflected in lower total utility and participant costs. Contrary to the utilities' assertions, there is no "double counting" created when all direct-install program costs are included in the TRC equation. As discussed above, the PC term is defined in the SPM as including only those costs that participating customers incur (prior to any dollar rebates or bill credits) for the energy efficiency measure installations. Therefore, it is not necessary to redefine the PC term to recognize that participant costs under a direct- install program may be significantly lower than under traditional rebate programs.

As DRA points out in its comments, if the direct-install program covers all of the measure and installation costs (and the participant does not have to pay anything for measure installation, including sales tax), then by definition, the PC term will be zero. However, if customer co-payments are required, the PC term will be positive to reflect the participants' share of costs for the installations. The level of the PC term will depend upon the specifics of the direct-install program (*e.g*, the measures involved, the incremental measure cost of those measures and the amount of participant co-payment). Therefore, it is not reasonable to re-define this term as having a "zero" value for all direct-install strategies, as the utilities suggest in their proposed language revisions to D.06-06-063. Instead, the PC term for direct-install programs should continue to reflect the participant's actual costs for the energy efficiency measures installed under the program.

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by the program administrator (including financial incentives or rebates paid to participants), but not the costs incurred by the participating customer.

The utilities also suggest that application of the SPM definitions of PC, PRC and INC terms results in more favorable TRC results if the utility pays the customer (and the customer "pays the vendor") under a direct rebate program, as compared to a direct-install program where the utility "pays the vendor" to install the measure at the customer's premises.[27] However, the numerical examples presented in both D.06-06-063 (without accounting for free riders) and in D.07-09-043 (with free riders accounted for on the benefit and cost side) clearly demonstrate that this would not be the case, if all else is equal. Under either program strategy, all of the utility costs and participant costs would be properly accounted for, and the TRC results would be the same, as long as the financial incentive to the customer (either the cash rebate or the difference between the direct-install cost and what the vendor bills the customer) are equivalent and do not exceed the cost of the measures. This can be seen in the numerical examples in Attachment 2 and 3.

Therefore, we find no merit to the utilities' contention that our interpretation of the TRC calculation "will bias program choice against all programs which are not traditional utility operated customer rebate programs" and "work against all the effort over the last several years to seek the most cost effective and efficient delivery approaches including a broader base of program delivery."[28] To the contrary, our directions to the utilities will ensure that the most cost-effective and efficient approaches are pursued by accounting for all of

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[27] See footnote 11, p. 11 of the Attachment to Joint Petition: "If the [program administrator] pays the vendor, the payment is a cost. If the [program administrator] pays the customer who pays the vendor, it is a rebate excludable from the TRC producing higher TRC results."

[28] *Ibid.*, p. 6.

the costs to participants and the utility, and by not allowing real resource costs to go unaccounted for by inappropriately classifying them as transfer payments.

The Joint Petition also reflects the utilities' position in Phase 1 of R.06-04-010 with respect to the treatment of free riders on the TRC cost side. If we do not treat all direct-install costs and incentives to midstream/upstream market actors as transfer payments, the utilities request that we adjust all of these costs by the NTG ratio. In D.07-09-043, we rejected this position because adjusting these program costs downwards by the NTG ratio would remove real program costs (revenue requirements) from consideration and overstate TRC net benefits. Our discussion of this issue and numerical examples is presented in Attachment 3.

In support of their Joint Petition, the utilities contend that the TRC formulations used in other jurisdictions treat upstream, midstream and direct-install program costs as transfer payments, as they recommend in their Joint Petition. As an example, they refer to the most recent "Total Resource Cost Guide" adopted by the Ontario Energy Board (OEB Guide) for the local distribution companies (LDCs) in that region. However, our examination of this document leads us to conclude that the OEB Guide defines and treats transfer payments (as well as free riders) in TRC cost calculations consistent with our direction in D.06-06-063 and D.07-09-043.

In particular, the definition of "third party rebates" in the OEB Guide is explicitly limited to "any dollar discount or rebates offered to the customer" and as such, they are the only costs that are treated as transfers under the TRC test for any programs including upstream/midstream or direct-install programs.[29] As with the SPM, excluding the dollar discount or rebates offered to the participating customer (irrespective of who offers them) as a TRC cost in OEB Guide avoids double counting these dollar payments in the TRC cost equation. Again, this is because of the manner in which participant costs are defined, namely, as "customer equipment costs" in the OEB Guide, irrespective of who purchases the equipment (the utility or the participating customer).[30]

In sum, just like the SPM, the OEB Guide defines the costs included in the TRC in a manner that removes potential double counting of the dollar rebates or discounts offered to the participating customer—but does not fail to include them altogether. As we discuss above, this approach is fully consistent with the SPM definition of the TRC test, which the OEB Guide adopts as its own:

> "*The TRC test is defined as a test that* "measures the net costs of a demand-side management program as a resource option based on the total costs of the program, including both the participant's and the LDC's costs."[31]

The OEB Guide also addresses direct-install programs. These programs are instructed to treat all measure installations performed by the LDCs as program costs exactly as directed in D.06-06-063 and the Compliance Ruling. In particular, the OEB Guide identifies major categories of "conservation and demand management" (CDM) program costs that "can be expected for programs that electric LDCs in Ontario might be considering, which include:

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[29] OEB TRC Guide updates 2 October 2006, Appendix A, p. iii. See **http://www.oeb.gov.on.ca/documents/cases/RP-2004-0203/cdm_trcguide_021006.pdf**

[30] *Ibid*, p. 9.

[31] *Ibid*., p. 3. Emphasis is in original, with a footnote reference to the 2001 SPM.

(1) development and startup, (2) promotion, (3) *equipment and installation*, (4) monitoring and evaluation and (5) administration". The OEB Guide then goes on to define direct-install measure cost as a program cost:

> "LDC equipment and installation costs include the costs of any LDC devices needed to operate the programs such as specialized software or tools as well *as any CDM measures directly installed by the LDC….*"[32]

Finally, the OEB Guide directs that "all program costs associated with free riders must be included in the analysis," observing that "programs that have high free ridership are self-evident in the marketplace (*i.e.*, they do not rely on a LDC promotion) and therefore are less cost-effective for the LDC to pursue since the program costs are included in the TRC calculation while the benefits are not."[33]

Therefore, contrary to the utilities assertions, we find that the OEB Guide is fully consistent with our definition and treatment of transfer payments for various program delivery strategies, as well as our treatment of free riders on the TRC cost side of the equation. This is particularly apparent from the numerical examples provided in the OEB Guide, which include the equipment costs (adjusted for free riders) and the LDC program costs (not adjusted for free riders) on the cost side of the equation.[34]

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[32] *Ibid,* p. 13, Section 1.3.2, emphasis added.

[33] *Ibid.*, p. 15.

[34] *Ibid.,* pp. 21-24. A distinction between the SPM and the OEB Guide definitions is that the latter moves away from specifying who pays for the measures in the cost terms by re-naming "participant costs" as "measure costs" in the TRC equation. In either case, however, the TRC equation does not treat direct-install costs to the utility as "transfers" by eliminating them from the calculations.

The utilities also refer to a 1994 paper published by the American Council for an Energy-Efficient Economy (ACEEE) in their discussion of "other interpretations" of the SPM, implying that this paper endorses their claim that utility program payments to parties other than the participants can be treated as transfer payments.[35] However, the description and illustration of the "TRC analysis envelope" presented in the ACEEE paper leads one to exactly the opposite conclusion. An illustration of the TRC test presented in that paper is reproduced in Figure 1. Arrows pointing out of the TRC envelope represent costs under the TRC test. One can clearly see that all payments not directly paid to the participants cross out of the TRC envelope, and are therefore treated as TRC costs.

In sum, our efforts to ensure that all utility costs and participant costs are properly accounted for in calculating the TRC test is fully consistent with the "other interpretations" the utilities refer to in the Joint Petition. It is also consistent with the interpretation of the Northwest Power Planning Council (NWPPC), which oversees the energy efficiency activities of utilities that receive power from federal suppliers in the Pacific Northwest under the Northwest Power Act. The NWPPC also uses the TRC test to evaluate the cost-effectiveness

[35] Joint Petition, Attachment footnote 15, p. 14: "Another attempt to explicitly extend the SPM two agent (utility-participant) framework was published in 1994. See Fulmer, Mark and Bruce Biewald, "Misconceptions, Mistakes and Misnomers in DSM Cost Effectiveness Analysis" Proceedings of the ACEEE 1994 Summer Study on Energy Efficiency in Buildings, ACEEE, 1994, pp. 7.73-7.83 especially the sections on TRC starting on p. 7.78."

of energy efficiency measures and, in doing so, requires that all costs be included in the cost-effectiveness calculation:[36]

> "The Council has interpreted the Act's provisions to mean that in order for a conservation measure to be cost-effective the discounted present value of all the measure's benefits should be compared to the discounted present value of *all its costs, regardless of who pays the costs*. This interpretation was adopted in the Council's 1983 Plan and has not been modified. The reason for this interpretation is that we cannot know before hand, how much of the cost of a measure will be paid by the utility system and how much by the customer, or others. So, we look at all the reasonably quantifiable costs and benefits."[37]

For all of the reasons discussed above, we do not modify D.06-06-063 or suspend the Compliance Ruling, as requested in the Joint Petition. Our direction in D.06-06-063, the Compliance Ruling and D.07-09-043 ensures that the total costs associated with utility efficiency programs are captured in the TRC calculation of cost-effectiveness, as intended by the SPM.

These documents, in conjunction with the current SPM, provide clear direction on how to apply the TRC test to energy efficiency program activities. In coordination with Energy Division and its E3 calculator consultants, the utilities should jointly hold workshops to respond to the types of practical

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[36] The NWPPC's focus of evaluation is at the measure level, so they do not address free rider issues.

[37] From "Council Methodology" presentation by Tom Eckman and Charlie Grist (NWPPC), at the I-937 Workshop, February 23, 2007. [Emphasis added.] This statement can also be found in "Regional Policies on Cost-effectiveness of Utility Conservation," May 2005, Attachment B, Summary of Regional Policies on Cost-effectiveness of Utility Conservation. **http://www.nwcouncil.org/news/2005_05/pw_ceissues.pdf.**

implementation questions raised by Ecology Action and to educate all program implementers on the proper classification and reporting of program costs consistent with our determinations. Once scheduled, the utilities should notify the service lists in our energy efficiency rulemaking (R.06-04-010) and the utilities' peer review group members of the workshop dates and locations.

Over the longer term, we believe that all stakeholders would benefit from the development of a fully consolidated, explanatory version of the TRC test with numerical examples for various program delivery strategies. However, we do not agree with DRA's suggestion to provide this level of explanatory detail in the energy efficiency policy rules. Instead, we direct Energy Division to update the 2001 SPM so that this document reflects the direction provided in D.06-06-063, the Compliance Ruling, D.07-09-043 and today's decision, with numerical examples for various program delivery strategies.[38]

For this purpose, Energy Division may utilize authorized 2006-2008 EM&V funding to contract with technical expertise in the development of the SPM update. In preparing this update, Energy Division should consider revisions to the PRC and PC cost terms that will facilitate a more consistent application of free rider adjustments throughout the SPM. For example, defining participant costs as the "customer's contribution" to the measure installation costs, *i.e.*, "net" of the INC term (as well as net of free riders)—and fully reflecting the INC term dollar incentives in the PRC term could achieve this objective without any double counting or omission of TRC costs. Prior to posting the final SPM

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[38] As provided for under our policy rules (Rule XI), Energy Division may revise as needed the reference documents, such as the SPM, using formal or informal procedural vehicles.

revisions to the Commission website, Energy Division should solicit written comments from parties to our energy efficiency rulemaking (R.06-04-010, or its successor proceeding) on its draft revisions, and may also hold workshops on those revisions as it deems necessary.

Recognizing that resources are limited, and that there are other priorities to energy efficiency and related resource procurement proceedings in the coming months, we encourage Energy Division to initiate the SPM update as soon as possible, but do not establish a due date for the final SPM revisions in today's decision. Instead, we delegate to the Assigned Commissioner or ALJ in R.06-04-010 the responsibility of establishing a schedule for this task by subsequent ruling, after further consultation with Energy Division.

6. Assignment of Proceeding

Michael R. Peevey is the assigned Commissioner and Meg Gottstein is the assigned ALJ for this phase of the proceeding.

7. Comments on Proposed Decision

The proposed decision of ALJ Gottstein 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. DRA and EP Incorporated (EPI)[39] filed comments on the proposed decision. DRA supports the proposed decision and recommends its adoption by the Commission. EPI recommends certain language modifications to Findings of Fact #1 and #5 that would qualify the language contained in those findings with

[39] EPI is the manufacturer of air conditioning equipment and is working with other industry groups to propose a direct installation program for the 2009-2011 program cycle.

respect to transfer payments and negative participant costs. We have carefully reviewed EPI's comments and conclude that no changes to the proposed decision are warranted. Although we have made a few minor clerical corrections to the proposed decision, we make no substantive changes in response to comments.

Findings of Fact

1. All versions of the SPM dating back to the 1980s have been clear on what incentive costs (the INC term) are to be treated as "transfers" in the TRC test of cost-effectiveness. Specifically, the INC term is limited to dollar rebates or bill credits paid to the participating customer.

2. Only this narrow definition of the INC term, as presented in the SPM, preserves the fundamental intent of the TRC test, namely, to capture the total costs of the program, including the participant and the utility costs.

3. If the TRC formulation included the participant cost (PC) term and all utility program costs without excluding the incentives contained in the INC term, then those dollar rebates or cash credits would be double-counted on the cost side of the equation. They would be included both in the PC term (because of the way that term is defined to represent the actual measure installation costs to the participant before any such dollar incentives) as well as in the program administrator cost (PRC) term. To avoid this double counting, the SPM treats the INC payment as a "transfer" by excluding the dollar rebates or bill credits from the PRC term. In this way, the utility's costs and all the participants' costs (together comprising the total costs of the program) are reflected in the calculation without double counting

4. If the INC term were broadened to include dollar payments to upstream/midstream market actors (*e.g.*, manufacturers or wholesalers) or to utility contractors for direct-install programs, as the utilities propose, real utility

program costs would be ignored in the calculation of TRC cost-effectiveness. As a result, these programs would appear more cost-effective from a TRC perspective than they really are because total costs are understated.

5. The TRC will fully capture any cost-effectiveness advantages of upstream/midstream programs under the current formulation of that test: If the costs to administer midstream and upstream incentive programs are less than the administrative costs associated with programs that provide rebates directly to the participant, then these cost savings will be fully reflected in the PRC term. If market acceptance of energy efficiency measures is higher under midstream/upstream program strategies than under rebate programs, then the savings associated with this higher level of participation will also be fully reflected in the TRC equation—on the benefits side. And if the midstream and upstream incentives are successful in reducing the retail price of energy efficiency measures to end-users, then this benefit will also be reflected in the PC term.

6. Similarly, to the extent that direct-install programs increase cost-efficiencies and program participation, then such benefits and efficiencies will be reflected in the TRC test using the current definitions of TRC cost components. The benefits of increased participation will be reflected in the benefits side of the equation, while the cost efficiencies will be reflected in lower total utility and participant costs.

7. Treating midstream and upstream incentives as transfers (as the utilities prefer) implicitly assumes that there is a dollar reduction in the shelf price for every dollar of cash incentive provided to upstream/midstream market actors. It is unreasonable to define the TRC in this manner without any scrutiny of shelf prices that can be readily observed in the market.

8. Contrary to the utilities' assertions, there is no "double counting" created when all direct-install program costs are included in the TRC equation. It is not necessary to redefine the PC term to recognize that participant costs under a direct install program may be significantly lower than under traditional rebate programs.

9. Defining the PC term as having a "zero" value for all direct-install strategies, as the utilities suggest in their Joint Petition, fails to recognize that the level of the PC term may not always be zero—it will depend upon whether co-payments are required by the participating customer and the level of those co-payments and other costs.

10. Numerical examples with and without free riders clearly demonstrate that restricting the definition of transfer payments to dollar rebates (or bill credits) to the participating customer does not skew the TRC results in favor of rebate programs relative to direct install programs, contrary to the utilities' assertions.

11. The only exception to this result is when dollar rebates or bill credits actually exceed the installed cost of the measure, which as discussed in D.06-06-063 is an unusual and extreme circumstance of excessive incentives to the participating customer. Moreover, we apply the "dual cost" test of cost-effectiveness in evaluating energy efficiency activities to ensure that utilities design rebates that are not excessive and use program funds cost-efficiently. In particular, we require that the Program Administrator Cost (PAC) test is used in conjunction with the TRC test in evaluating program design options and that the portfolio as a whole must pass both tests to be eligible for funding.

12. In D.07-09-043, the Commission rejected the alternative recommendation presented in the Joint Petition (*i.e.*, to adjust all direct-install costs and upstream/midstream incentives by the NTG ratio) because it would remove real

program costs (revenue requirements) from consideration and overstate TRC net benefits.

13. This Commission's efforts to ensure that all utility costs and participant costs are properly accounted for in calculating the TRC test is fully consistent with the "other interpretations" the utilities refer to in the Joint Petition, *i.e.*, the OEB Guide and 1994 ACEEE paper. It is also consistent with the interpretation of the NWPPC in its application of the TRC test for utilities that receive power from federal suppliers in the Pacific Northwest.

14. D.06-06-063, the Compliance Ruling and D.07-09-043, in conjunction with the SPM, provide clear direction on how to apply the TRC test to energy efficiency program activities.

15. Over the longer term, all stakeholders would benefit from the development of a fully consolidated, explanatory version of the TRC test in an updated SPM document.

16. Defining participant costs as the "customer's contribution" to the measure installation costs, *i.e.*, "net" of the INC term (and also of free riders) and fully reflecting the INC term dollar incentives in the PRC term could facilitate a more consistent treatment of free rider adjustments in the SPM formulas without any double counting or omission of TRC costs.

Conclusions of Law

1. The Commission's directions in D.06-06-063, the Compliance Ruling and D.07-09-043 ensure that the most cost effective and efficient energy efficiency delivery approaches are pursued by accounting for all of the costs to participants and the utility in the TRC test without any double-counting.

2. The proposed modifications to D.06-06-063 contained in the Joint Petition would allow real resource costs to go unaccounted for by either

(1) inappropriately classifying program costs as transfer payments or by (2) ignoring the utility costs of providing program incentives (transfer or non-transfer) to free riders. This would overstate the net benefits achieved by the programs.

3. The Joint Petition should be denied.

4. The utilities should proceed without delay to hold joint workshops to educate all program implementers on the proper classification and reporting of program costs consistent with the Commission's determinations.

5. In consultation with Energy Division, the assigned Commissioner or ALJ should establish a schedule for updating the 2001 SPM so that this document fully integrates the direction provided in D.06-06-063, the Compliance Ruling, D.07-09-043 and today's decision with numerical examples of how the TRC test is applied to various program delivery strategies.

6. R.04-04-025 should remain open to address pending applications for rehearing in this proceeding.

INTERIM ORDER

IT IS ORDERED that:

1. The May 31, 2007 Petition for Modification of Decision (D.) 06-06-063 is denied.

2. As soon as practicable, Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company and Southern California Gas Company ("the utilities"), in coordination with the Commission's Energy Division and the utilities' E3 calculator consultants, shall jointly sponsor workshops to educate all program implementers on the proper classification and reporting of program costs consistent with the Commission's determinations.

Once scheduled, the utilities shall notify the service list in Rulemaking (R.) 06-04-010 and the utilities' energy efficiency peer review groups of the workshop dates and locations.

3. As discussed in this decision, Energy Division shall update the Standard Practice Manual (SPM) so that this document reflects the direction provided in D.06-06-063, the December 21, 2006 Administrative Law Judge's Compliance Ruling, D.07-09-043 and today's decision, with numerical examples for various program delivery strategies. For this purpose, Energy Division may utilize its 2006-2008 EM&V authorized funding to contract with technical expertise in the development of the Standard Practice Manual update.

4. Prior to posting the final SPM revisions to the Commission website, Energy Division shall solicit written comments from parties to our energy efficiency rulemaking (R.06-04-010, or its successor proceeding) on its draft revisions, and may also hold workshops on those revisions as it deems necessary. Parties' comments shall be filed at the Commission's Docket Office and served on the service list to R.06-04-010 or its successor proceeding.

5. The assigned Commissioner or assigned Administrative Law Judge in R.06-04-010 shall establish a schedule for the Standard Practice Manual update by subsequent ruling, after further consultation with Energy Division.

6. All rulings, notices, comments or other documents required to implement today's decision shall be served electronically, pursuant to Rules 1.9 and 1.10 of the Commission's Rules of Practice and Procedure.

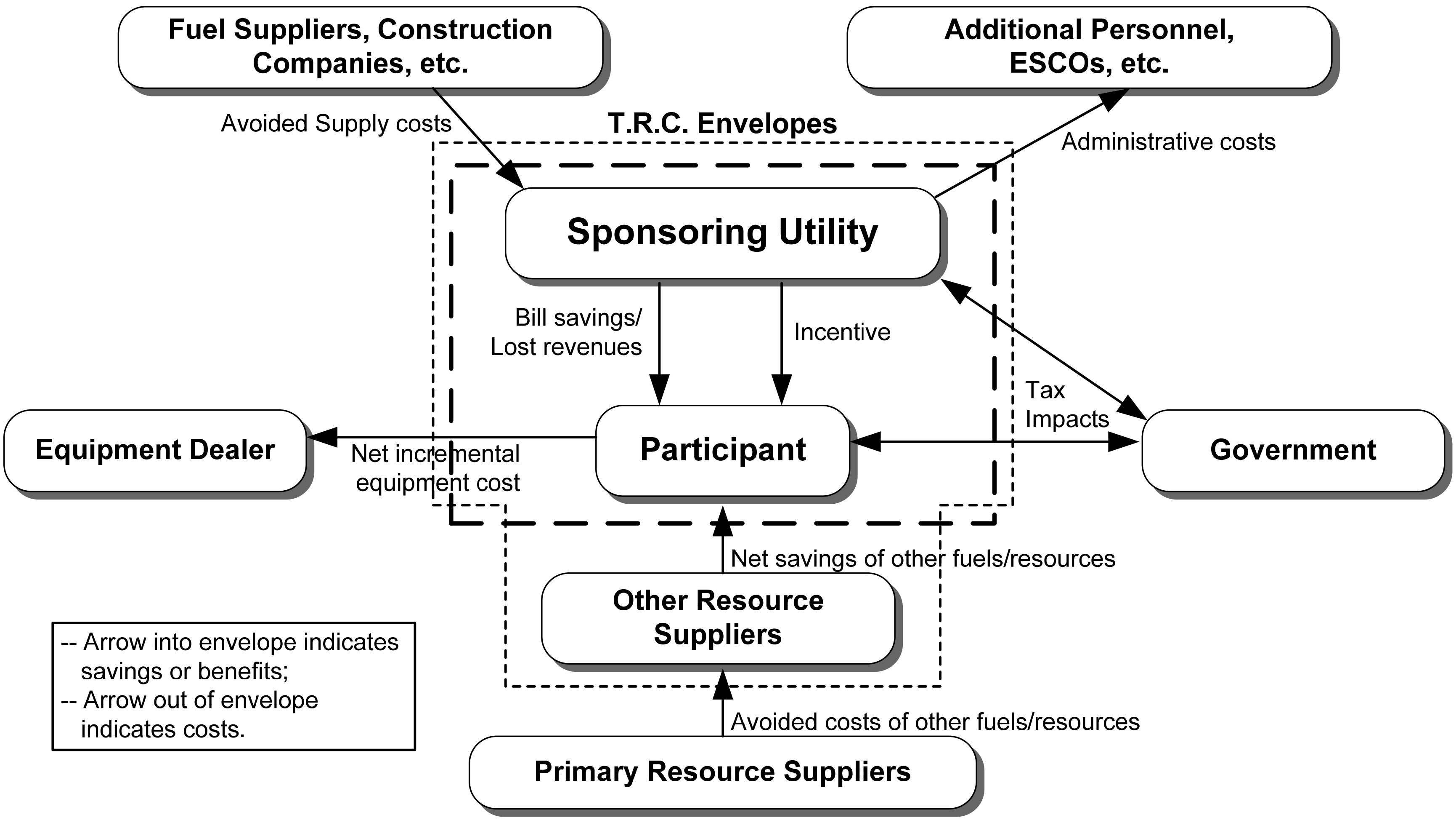
7. This decision is effective today and shall be served on the service lists in this proceeding and in R.06-04-010.

This order is effective today.

Dated January 10, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

FIGURE 1


Fuel Suppliers, Construction Companies, etc.
Additional Personnel, ESCOs, etc.
Avoided Supply costs
T.R.C. Envelopes
Administrative costs
Sponsoring Utility
Bill savings/ Lost revenues
Incentive
Tax Impacts
Equipment Dealer
Net incremental equipment cost
Participant
Government
Net savings of other fuels/resources
Other Resource Suppliers
-- Arrow into envelope indicates savings or benefits;
-- Arrow out of envelope indicates costs.
Avoided costs of other fuels/resources
Primary Resource Suppliers

ATTACHMENT 1

LIST OF ACRONYMS AND ABBREVIATIONS

ACEEE	American Council for an Energy-Efficient Economy
ALJ	Administrative Law Judge
CDM	conservation and demand management
CFL	compact fluorescent lamp
Compliance Ruling	Ruling addressing the utilities' compliance submittals
D.	Decision
DRA	Division of Ratepayer Advocates
"E3"	Energy and Environmental Economics
EM&V	evaluation, measurement and verification
INC Term	incentive term
Joint Petition	The utilities' jointly filed Petition for Modification of D.06-06-063
Joint Reply	The utilities' jointly filed reply on July 12, 2007
LDCs	local distribution companies
NRDC	Natural Resources Defense Council
NTG	net-to-gross
NWPPC	Northwest Power Planning Council
OEB	Ontario Energy Board
OEB Guide	Total Resource Cost Guide adopted by Ontario Energy Board
PAC	Program Administrator Cost
PC	Participant Costs
PG&E	Pacific Gas and Electric Company
PRC	Program Administrator Costs
R.	Rulemaking
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
SoCalGas	Southern California Gas Company
SPM	Standard Practice Manual
"the utilities"	Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company, and Southern California Gas Company, collectively
TRC	Total Resource Cost
TURN	The Utility Reform Network

(END OF ATTACHMENT 1)

D0801006 Attachments 2 and 3