Decision 08-10-027 October 16, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Approval of its 2009-2011 Energy Efficiency Program Plans and Associated Public Goods Charge (PGC) and Procurement Funding Requests.	Application 08-07-021 (Filed July 21, 2008)
And Related Matters.	Application 08-07-022 Application 08-07-023 Application 08-07-031 (Filed July 21, 2008)

DECISION ADOPTING BRIDGE FUNDING FOR 2009 ENERGY EFFICIENCY PROGRAMS

1. Summary

This decision allows Pacific Gas and Electric Company, Southern California Edison Company, San Diego Gas & Electric Company and Southern California Gas Company, (collectively, the Utilities) to expend funds to continue certain 2008 energy efficiency programs until the Commission adopts a final decision on the Utilities' energy efficiency portfolio applications for 2009-2011. In addition, Southern California Edison is authorized to spend $27 million in pre-2006 unspent, uncommitted energy efficiency funds to prevent the closure of four energy efficiency programs that have exhausted their budgets and would be shut down before the end of 2008 without additional funding.

2. Background

2.1. Energy Efficiency Programs

In Decision (D.) 05-09-043, we approved the Utilities' energy efficiency portfolios for the 2006-2008 program cycle. The Utilities were authorized to spend approximately $2.1 billion in ratepayer funds on a wide variety of energy efficiency programs.

In Rulemaking (R.) 06-04-010 -- our proceeding to examine the Commission's post-2005 energy efficiency policies, programs, evaluation, measurement and verification and related issues D.07-10-032 -- we directed the Utilities to prepare a comprehensive long-term energy efficiency strategic plan. D.07-10-032 also provided specific policy guidance to the Utilities on the development and composition of their 2009-2011 energy efficiency portfolios.[1] In addition, D.07-10-032 declined to revise previously adopted energy savings goals for 2009-2011; D.08-07-047 later clarified that these goals were to be calculated on a gross basis.

2.2. Procedural Background

On July 21, 2008, the Utilities filed the above-captioned applications. In these applications, the Utilities seek approximately $3.7 billion in total for energy efficiency programs and related activities for 2009 through 2011. Because the four applications are related, Administrative Law Judge (ALJ) Gamson consolidated the applications in a Ruling on August 1, 2008. A prehearing conference (PHC) was held on August 11, 2008.

[1] While we use the designation of 2009-2011 portfolio period, D.07-10-032 permits the utilities to propose programs lasting beyond 2011.

In their July 21, 2008 filings, the Utilities each made proposals for bridge funding in order to continue certain energy efficiency programs into 2009 in the event that the Commission does not finalize a decision on 2009-2011 program applications before the end of 2008. At the PHC, among other things, the ALJ indicated that the Commission's final 2009-2011 decision would not be made before the end of 2008 due to a late start to the process,[2] the need to supplement the applications to conform to California Long-Term Energy Efficiency Strategic Plan (Plan)[3] and to ensure that the applications comply with previous Commission direction in D.07-10-032 and subsequent Assigned Commissioner and ALJ rulings in R.06-04-010. At the PHC, the ALJ also stated that more information was needed from the Utilities before the Commission could consider a bridge funding request. The ALJ directed the Utilities to submit a supplemented request by August 18, 2008, that included the following information:

- A statement of interest to seek bridge funding.
- Any exceptions to the energy efficiency policy manual or needed modifications to D.07-10-032 or any other decision that would be required to effectuate a bridge funding decision.
- Information on monthly spending levels for 2006-2008 energy efficiency programs as requested by Energy Division in an August 7 data request.

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2 D.07-10-032 called for the Utilities to file their 2009-2011 energy efficiency program applications on May 15, 2008. This due date was extended to July 21, 2008 by assigned Commissioner/ALJ Rulings on May 5, 2008 and June 2, 2008 to account for new information, including updates to the Database for Energy Efficient Resources (DEER), new avoided costs, and a second scenario for a carbon adder.

3 The Commission is scheduled to consider this matter on September 18, 2008.

- A proposal to continue identified current programs and only those programs into 2009 at current monthly spending levels and with current rates, with current monthly spending level clearly defined.
- A statement recognizing that program funds spent in 2009 would count for 2009 goals.
- Any proposals on use of pre-2009 unspent or unallocated funds to be used in 2009.
- A mechanism to ensure that approved programs continue on for three months at approved spending levels after a final 2009 – 2011 decision is reached.
- Any other information needed to implement the decision.

On August 18, 2008, the Utilities filed a "Joint Utility Request for Funding and Authorization to Continue to Operate 2006-2008 Energy Efficiency Programs in 2009 Pending a Final Decision on Applications for Approval of 2009-2011 Energy Efficiency Programs" (Bridge Funding Request). Parties were given until August 22, 2008 to respond. On August 27, 2008, ALJ Gamson granted the Utilities the opportunity to reply to the responses on August 29, 2008.

3. Positions of Parties

In their Bridge Funding Request, the Utilities propose to:

1. Fund all "successful" 2006-2008 energy efficiency program operations (as listed in Attachment A of the Bridge Funding Request) until the Commission acts upon their applications.
2. Undertake 2009-2011 program planning activities during the bridge period.
3. Conduct evaluation, measurement and verification (EM&V) related to 2009-2011 planning and activities.
4. Record program planning activities and EM&V expenditures incurred from January 1, 2009 to the effective

date of a final decision on the Utilities' applications in the currently authorized energy efficiency balancing accounts.

5. Allow the annual revenue requirement at the levels shown for each Utility in Attachment C of the Bridge Funding Request to be included in rates effective January 1, 2009, through existing authorized mechanisms for energy efficiency.

6. Count the energy and demand savings achieved through the bridge period toward the 2009 energy efficiency goals adopted by the Commission.

The Natural Resources Defense Council (NRDC) supports bridge funding to maintain continuity in providing energy efficiency services to customers across California. NRDC and City and County of San Francisco (CCSF) recommend that the Commission clarify the end date for local government partnership (LGP) bridge funding, so that LGP programs can be eligible for continued bridge funding beyond the three month transition period requested by the Utilities to avoid disruption of these programs. Silicon Valley Leadership Group (SVLG), National Association of Energy Services Companies (NAESCO), and Quantum Energy Services & Technologies (QuEST) also support the Utilities' Bridge Funding Request.

The Commission's Division of Ratepayer Advocates and The Utility Reform Network (DRA/TURN), filing jointly, oppose aspects of the Utilities' Bridge Funding Request. They argue that the Commission should set bridge funding levels using a single formula calculating the monthly average for the 2006-2008 period, thereby rejecting the different calculations and adders proposed by the utilities. DRA/TURN propose to use the monthly average budgets from the 2006-2008 program period for each month of bridge funding, which would result in monthly budgets of $54.7 million instead of $85.5 million requested in total by the Utilities. DRA/TURN also take issue with the Utilities' request to fund all "successful" 2006-2008 programs in the bridge funding period, because the Utilities have not provided a definition of what constitutes a successful program.

Women's Energy Matters (WEM) finds it inappropriate that the Utilities' Bridge Funding Request is proportionate to the monthly average of 2009-2011 funds instead of the monthly average of their 2006-2008 funds, as the Utilities would use higher funding levels for new third party programs instead of only continuing existing programs. WEM believes using the Utilities' proposed funding level would prejudge the final decision on 2009-2011 programs. However, WEM supports allowing local governments and existing third parties to begin new procedures and program designs. WEM also recommends a maximum of one-year bridge funding. The California Water League (CWL) proposes allowing new programs as well as rollover programs to be approved and to commence and distribute funding.

4. Discussion

The parties agree that bridge funding is needed to ensure that no hiatus occurs when authorization for energy efficiency program funding expires at the end of 2008. It is in the public interest to provide a smooth transition for programs which are likely to continue into 2009 and beyond, in order to maintain contractual agreements, retain skilled workers, complete existing projects, and continue to bring the considerable benefits of energy efficiency programs to businesses and residents of California.

The Commission has adopted bridge funding for utility energy efficiency programs in the past. D.03-01-038, Ordering Paragraph 3 stated:

> To prevent service disruption, we authorize the IOUs whose programs will expire at the end of 2002 to continue those programs through March 31, 2003, using Public Goods Charge

> collections from that period, in the amounts set forth in the body of this decision. The IOUs may only use these funds for their 2002 programs authorized in D.02-03-056 and D.02-05-046. If the Commission issues a decision on 2003 program applications prior to that time, this "bridge funding" shall expire upon issuance of that decision."

Because the Commission did not issue a final decision before March 31, 2003, D.03-03-028 authorized continued bridge funding until the final decision, which was reached in D.03-04-055.

In order to achieve continuity and assure a smooth transition to the 2009-2011 programs, we must adopt a bridge funding decision before the end of 2008. By the nature of the timing and limited scope of this matter, we cannot consider each bridge funding programmatic request and budget item in detail. It is critical that Energy Division's limited staff resources are devoted to evaluation of programs and budgets in the Utilities' 2009-2011 energy efficiency applications in this docket. Also for simplification and timing purposes, it is desirable to adopt common policies and direction across each utility, with as few exceptions as possible.

The Utilities' Bridge Funding Request complies with the ALJ's framework, although with certain additions and differing methodologies. The basic framework is generally unopposed; the concerns expressed by DRA/TURN and WEM reflect additional proposals and details in the Utilities' filing. We will adopt the Utilities' Bridge Funding Request with the modifications discussed below.

4.1. Successful Programs

The Utilities propose to continue implementation during the bridge funding period of certain third-party programs,[4] local government partnership programs, and utility core programs (collectively, Transition Programs).[5] As DRA/TURN points out, the Utilities provide a list of what the Utilities deem as successful programs, but do not provide any definition of what they mean by the term "successful programs." DRA/TURN recommends limiting the attribution of a successful program to the current context of bridge funding, to avoid later claims that a bridge funding decision deemed such programs as "successful" for broader purposes.

There is insufficient rationale to ascribe the term "successful" to the Transition Programs; more accurately, these programs can be described as ongoing programs previously approved by the Commission which the Utilities believe should continue. We will adopt the list of Transition Programs proposed by the Utilities, but do not adopt the term "successful" to describe the Utility programs to be funded during the bridge funding period. Our approval of bridge funding for these Transition Programs is not equivalent to approval of the Programs themselves, and shall not be construed as a guarantee of continued funding in the 2009-2011 portfolios or as a judgment on the merits of any individual Transition Program. D.07-10-032 clearly stated our intent to change course in 2009-2011 on the overall approach to energy efficiency and for specific

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[4] Third-party programs are energy efficiency programs approved by the Commission and performed by parties other than the utilities, but paid for by ratepayer funds through the utility.

[5] Core utility programs are Commission-approved energy efficiency programs performed directly by the utility or by direct utility contractors.

cross-cutting areas – *e.g.*, Marketing, Education and Outreach (ME&O), New Construction and Integrated Demand Side Management – and to incorporate the results of the extensive EM&V processes into future program design.

In addition, the Utilities are directed to work with Energy Division to improve Transition Programs during the bridge funding period as warranted, to reflect recommended changes to 2006-2008 programs originating from completed process evaluations such those contained in the 2006-2008 ME&O process evaluation directed by the Commission.

In D.07-10-032, we stated our intent to use early feedback from EM&V to inform program design and authorized the assigned Commissioner to issue further direction to the utilities on ME&O planning, content and processes, consistent with the findings of the EM&V study. The Plan reflects the direction we provided in D.07-10-032 and requires the Commission to oversee ME&O work to complete a "Market Assessment and Energy Efficiency Brand Assessment/Creation." The Utilities are directed to fund this process by reallocating funds from the Transition Period Statewide Marketing & Outreach program budget approved in this Decision, consistent with the findings of the ME&O process evaluation. Finally, in D.07-10-032, we stated our intent to commence work on the Energy Efficiency Web Portal in 2008 and authorized the assigned Commissioner to require the Utilities to provide development funding from existing marketing program budgets. Should this funding source be insufficient, then the Utilities are directed to use EM&V funds for this purpose. The Utilities are directed to continue current work on the Web Portal under the direction of the assigned Commissioner as provided in D.07-10-032. The Utilities shall provide amended Marketing and Outreach budgets in their advice letter filings.

4.2. Transition Period

We recognize, as the Utilities have pointed out, that until the terms of the 2009-2011 programs are finalized by the Commission, the Utilities cannot implement new contracts or programs. The Utilities are concerned that a lengthy bridge funding period will jeopardize their ability to maximize program capacity to meet the Commission's annual goals for energy efficiency. While recognizing the Utilities' concern, on balance we find it in the public interest both to avoid a hiatus in programs through bridge funding and to take the time necessary to ensure there will be well-designed programs within a well thought-out utility portfolio that is consistent with our Strategic Plan. To accomplish integration of the Utilities' portfolios with the Plan will take time; it is better to start later with an excellent portfolio than to rush forward without sufficient deliberation.

To ensure continuity from the bridge funding period to the final adopted 2009-2011 portfolio, bridge funding will not be open-ended. The bridge funding period shall end no later than three months after the effective date of a final decision on 2009-2011 energy efficiency programs in this docket, or on December 31, 2009, whichever comes first.

NRDC and CCSF comment that practical transition issues exist for local governmental programs, such as the time needed to finalize new contracts, and are concerned a three-month transition period may be too short. Neither NRDC nor CCSF provide a specific transition timeframe needed for local governmental programs, nor do they give specific recommendations to implement a different timeframe. Their requests also assume that each of these local government programs will continue in 2009-2011, which we specifically decline to order.

While we appreciate the complexity that may occur in utility/local governmental contractual negotiations, we have not provided exceptions for local governmental programs in the past, and have no specific basis to adopt an exception to the three-month transition period in this Decision.

4.3. Monthly Budgets

DRA/TURN and WEM advocate rejection of the utility monthly funding approach for bridge funding in favor of using average monthly expenditures for the 2006-2008 period. DRA/TURN argue this approach is appropriate because the 2009-2011 portfolios – of which the bridge funding programs are a part – should prioritize long-term planning. DRA/TURN contend that the significantly higher level funding request of the Utilities (the Utilities request over a 50% increase from the 2006-2008 monthly average) is not necessary to achieve the Commission's higher adopted energy efficiency goals. DRA/TURN claim that preserving current monthly spending levels would maximize funds available to achieve the Commission's long-term vision to be implemented starting with to-be-adopted 2009-2011 portfolios; similarly, WEM believes higher monthly spending levels would prejudge the final decision in this proceeding.

Our interest here is to provide continuity for energy efficiency programs, not to make judgments now about the relative value of program proposals for 2009 through 2011. In our final decision on 2009-2011 portfolios, we may determine that some of the programs we approve for continued funding in the bridge funding period should be expanded, and that others should be contracted, modified or eliminated. We certainly expect that there will be new programs approved for 2009-2011 that did not exist in the 2006-2008 period.

The average monthly budgets are the most straightforward method to continue existing programs at current levels. However, each utility proposes a different methodology. PG&E's figure reflects "average monthly expenditure for the period July 2007-June 2008 plus 27% to account for the increase in goals." There is also an unspecified amount of additional funds included for certain unspecified new activities.[6] SCE's calculation uses "a combination of the average of 12 highest/projected 12 months of each program during the 2006-2008 program cycle and a simple average of a program's annual 2006-2008 budget, plus an increase to reflect commitments to be paid in 2009, additional inspections, and other incremental program activities." The SDG&E and SoCalGas spending proposals use "the greater of the actual June, 2008 monthly expenditure amount or the average monthly expenditure during the 2006-2008 cycle." Sempra did not escalate their proposed budgets for increased goals for either SDG&E or SoCalGas.

We agree with DRA/TURN that the Utilities should use a single formula for calculating the average monthly budget for the 2006-2008 period to apply to 2009 programs. SCE and SDG&E base their monthly average calculations in part, on the highest months of expenditures in 2006-2008. However, as discussed below, we allow an increase in program budgets to reflect higher 2009-2011 energy savings goals. It is unnecessary to also adopt higher monthly averages based on the highest levels of spending in the past. Therefore,

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[6] Energy Division reports that additional monthly funding is for On Bill Financing required by D.07-10-032, in the amount of $1 million, with an additional funding for a Fluorescent Recycling Program.

we adopt a monthly average of the budgets over the 2006-2008 cycle for all Utilities.

However, we cannot just adopt the 2006-2008 dollar figures for 2009 because this Commission has required the Utilities to meet increased energy savings goals in 2009 as compared to 2008. It is not equitable to provide funding at 2008 levels while increasing energy savings goals, as the Utilities will not have a reasonable opportunity to attain their 2009 goals and earn incentives, even if bridge funding lasts only a few months into 2009. In D.08-07-047, we adopted separate goals for kilowatt-hours, therms and demand for each Utility for 2009 (and onward) from the original goals adopted by D.04-09-060.

DRA/TURN assert that these goals are about 10% higher overall than 2008 goals. This is true for the combined utility electric goals; however, as shown in Table 1, the specific goal levels vary among the Utilities. Therefore, we will allow increases in the monthly average bridge funding levels proportionate to the change in kilowatt-hour and therm goals from 2006-2008 to 2009-2011 as appropriate per Utility:

Table 1
Energy Savings Goal Increases
2006-2008 and 2009-2011[7]

Energy Savings Goals	SCE	PG&E	SoCalGas	SDGE
2006-2008				
Therms, millions		44.9	57.3	9.5
GWh	3,135	2,826		850
2009-2011				
Therms, millions		63.4	85.4	13.5
GWh	3,529	3,168		818.4
Goal Increases				
Therms, millions		18.5	28.1	4
GWh	394	342		-31.6
% Increase				
Therms, millions		41.20%	49.04%	42.11%
GWh	12.57%	12.10%		-3.72%

In comments on the proposed decision, Joint Utilities and others urge the Commission to authorize higher monthly bridge funding levels, by using 2008 monthly averages or proposed 2009-2011 monthly averages. Parties argue that some programs ramped up considerably in 2008 and that using the average monthly spending levels from all of 2006 through 2008 to date (plus an adjustment for higher future goals) would result in decreases from 2008 levels. We acknowledge that reductions could occur in certain cases. However, the purpose of bridge funding is to continue programs for a limited time until we reach a final decision on 2009-2011 programs. We are taking a comprehensive look at programs and budgets and expect ultimately to approve considerable changes to current utility portfolios. Through this review, we may approve higher or lower budget levels for current programs and may shift funds from current programs to new programs. We agree with DRA/TURN's observation

7 These goal calculations are based on the sum of 2006-2008 annual goals versus the sum of 2009-2011 annual goals.

in reply comments to the proposed decision that approving monthly program budgets on an interim basis at higher levels would deplete the funding available for new innovative programs in 2009-2011 portfolios. Therefore, we decline to change the proposed decision on this point.

We do not have sufficient information to assess the value of new energy efficiency programs proposed by PG&E and SCE. While these programs may have merit, we decline to approve additional funding for new programs or expenses that have not received adequate review for consistency with existing rules and policies, program effectiveness, and value for ratepayers. Therefore, we deny all requests for additional funding for new programs and activities.[8]

4.4. Third-Party Implementers

In comments to the proposed decision, Joint Utilities seek revisions to expressly permit continuation of existing activities through contracts with new third-parties who would implement existing, previously approved program activities during the bridge period. As discussed above, we do not provide funding for new programs and activities in the bridge funding period.
Joint Utilities seek a clarification to allow contracts with new third parties who will limit bridge period activity to only those activities previously authorized by the Commission for 2006-2008. We agree, and clarify that utilities are allowed to contract with new third-parties to implement existing approved programs during the bridge funding period.

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[8] Nothing in this Decision alters the funding-shifting rules and policies as set forth in D.07-10-032.

4.5. Evaluation, Measurement and Verification

In their Bridge Funding Request, the Utilities added EM&V funds at eight percent of their monthly program budgets. In D.05-04-051, the Commission found that 8% of program funding would be a reasonable guideline to use in developing an EM&V budget for the 2006-2008 three-year program cycle. This percentage was later adopted in D.05-11-011.

EM&V for utility programs will continue in 2009; however, we expect that the amount will be less than 8% of the total program budgets. The EM&V for the Transition Programs is well underway and the majority of the foundational work, such as development of protocols and methodologies and study design, is completed. It is unclear how much additional work (for example, additional sampling data for actual installations) is needed. We also find that it is not a good use of ratepayer dollars or Energy Division resources to require intensive evaluations of programs that may not continue in 2009-2011. As DRA/TURN point out, our focus is on long-term planning and design of new programs to meet our future savings goals.

We do not have sufficient information to determine the correct level of EM&V funding for the Transition Period. Therefore, we authorize the Utilities to include 8% in the Transition Period budgets, and to adjust their total EM&V budgets for the 2009-2011 portfolios to account for EM&V spending in the Transition Period. Long-term planning through the strategic planning process is a part of the EM&V work and funding, and must continue in the Transition Period.

4.6. Calculation of Transition Program Savings

The Commission must have accurate data for forecasting and EM&V purposes. Because we have increased the IOU budgets to take into account the larger 2009 savings goals and because the IOUs do not propose to move forward with all of the 2006-2008 programs, it will be necessary to re-calculate the anticipated savings and the cost-effectiveness of the Transition Programs. Further, the EM&V process for the 2006-2008 programs has revealed discrepancies in the calculation of the savings numbers due to deviations by the IOUs from the 2005 Database of Energy Efficiency Resources (DEER) metrics. It is necessary to take a fresh look at the energy savings estimates and cost effectiveness values of the Transition Programs as we move forward with a multi-million dollar extension of these Programs and to ensure the integrity of our EM&V and forecasting processes.

Therefore, we require the Utilities to re-calculate the savings and cost effectiveness for the Transition Programs using the 2005 DEER values to develop a baseline of savings and the 2008 DEER update values for reporting and evaluating performance, for the Bridge Funding Period. We reiterate our holdings in D.05-04-051, D.06-06-063 and the Energy Efficiency Policy Manual Version 4.0 that the Utilities must use all applicable DEER values to preserve the integrity of our processes. We hereby authorize the assigned Commissioner and the Administrative Law Judge, working with Energy Division, to provide further direction as necessary on content and schedule for the re-calculations, including clarification of the discrepancies in 2006-2008 program savings calculations.

4.7. Bridge Funding Budgets

In Table 2 below, we reduce the Utilities' Bridge Funding requests to an average of their 2006-2008 program budgets for those programs that are continuing during the Transition Period. We then recalculate the results for increases in therm and kilowatt-hour goals for 2009-2011 and, finally, add in the EM&V amounts for the modified program monthly totals. Since SDG&E's

electric goals are subject to a proposed reduction, we do not modify its original request for electric funding,[9] however we do make a proportional adjustment for its gas goals, as we do for PG&E. For PG&E, we calculate a separate ratio of its electric and gas goal increases in proportion to its revenues for electric and gas energy efficiency programs:

Table 2
Monthly Bridge Funding Requests, including EM&V
Adjusted for Goal increases for the 2009-2011 Budget Cycle

	SCE	PGE	SCG	SDGE	Totals
IOU Program Budget Requests	$36,208,000	$ 42,579,296	$6,216,578	$ 6,935,683	$ 91,939,557
Continuing Programs - Average Monthly Budgets for 2006-2008	$18,276,117	$ 22,733,796	$4,474,971	$ 6,706,337	$ 52,191,221
Plus CPUC % increase - Electric	$ 2,297,308	$ 2,283,155		- NA -	$ 4,580,463
Plus CPUC % increase - Gas		$ 5,457,020	$2,194,532	$ 1,143,645	$ 8,795,197
Subtotals	$20,573,425	$ 30,473,972	$6,669,503	$ 7,565,574	$ 65,282,474
Plus EM&V @ 8%	$ 2,517,194	$ 2,437,918	$ 533,560	$ 605,246	$ 6,093,918
Program Monthly Budgets Authorized, with EM&V	$23,090,619	$ 32,911,889	$8,484,183	$ 8,170,820	$ 72,657,512

4.8. Advice Letters

Each Utility is directed to file an Advice Letter. The Advice Letter must include a table showing the allocation of the authorized monthly budgets for each Transition Program. The table shall provide a line item to identify the monthly budget for EM&V at the authorized levels included in Table 2, and a line item for the strategic planning process. Advice Letters must be filed within 10 days of the effective date of this decision. Advice Letters shall be effective on the date filed, subject to Energy Division determining that they are in compliance

[9] SDG&E proposed a reduction in its request for electric bridge funding is based on its 2006-2008 budget. The amount reflected here retains this proposal.

with this Order. The bridge funding period will begin January 1, 2009, regardless of whether the Advice Letters have been determined to be in compliance.

4.9. Revenue Requirements

Under this decision we raise the overall revenue requirements for the utilities' energy efficiency programs above the adopted 2006-2008 portfolio budgets on an interim basis effective January 1, 2009. The utilities will file the revenue requirement and associated rate changes for Public Goods Charges (PGC), Procurement surcharges, and Public Purpose Program Surcharges for gas (PPP) in their consolidated rate change filings at the end of the year. Per D.04-08-014, Ordering Paragraph 22, gas utilities will use the most recently adopted PPP budgets for the calculation of their proposed gas surcharge rates in the annual advice letter filing to be made on October 31, 2008.

It is reasonable to anticipate that the final decision may contain higher revenue requirements than what we adopt today, given that the utilities request much more on an average monthly basis than we approve for the bridge funding period. In order to allow for the possibility of making any such increased revenue requirements effective January 1, 2009, we direct the utilities to track in a new memo account the difference between the revenue requirement adopted in this decision and that requested in the applications beginning January 1, 2009. A final decision on the revenue requirement will be adjustment will be made before December 31, 2009.

5. SCE Energy Efficiency Program Funding for the Remainder of 2008

SCE filed a "Request to Use Unspent, Uncommitted Funds from Previous Program Cycles to Meet the Customer Demand for Rebates and Services from Several Existing Energy Efficiency Programs in 2008" in this docket on

September 8, 2008. On September 18, 2008, ALJ Gamson issued a Ruling converting the Request to a Motion, and setting a comment period. On September 22, comments were filed by DRA, TURN and The Joint Committee on Energy and Environmental Policy. SCE filed reply comments on September 26. In addition, in SCE's comments on this proposed decision, SCE requests that the Commission resolve its Motion in this Order.

In its Motion, SCE seeks authority to use $27 million of SCE's estimated $62 million in pre-2006 unspent, uncommitted energy efficiency funds to prevent the closure of four energy efficiency programs that have exhausted their budgets and would be shut down before the end of 2008 without additional funding. The four programs are the Comprehensive HVAC[10] Program, Express Efficiency, Industrial Energy Efficiency and Standard Performance Contract. SCE claims the 2006-2008 budgets for each of these programs have been exhausted but demand for the programs remains high. SCE urges expedited treatment to avoid service disruption, program closures and the loss of valuable program infrastructure between now and the end of the year. SCE states that inclusion of its request as part of the Bridge Funding decision will allow a more expeditious resolution than through a separate decision process. SCE contends that action on its Motion could ensure that the benefits of these programs can continue to inure to ratepayers through the remainder of 2008 and into 2009. SCE attached its response to Energy Division's request for additional information to its filed comments.

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[10] HVAC stands for Heating, Ventilation and Air Conditioning.

SCE provides the following information on these four programs, detailing the amount of additional funds it proposes per program and the projected energy savings associated with each budget enhancement. This information is summarized in Table 3 below.

Table 3
Budget Enhancement Summary

SCE Program	**Additional Funds**	**MW (Incremental Savings)**	**GWH (Incremental Savings)**
Comprehensive HVAC	$10,000,000	12.50	27.50
Industrial Energy Efficiency	5,000,000	1.40	18.70
Standard Performance Contract	3,000,000	1.00	4.57
Express Efficiency	9,000,000	16.24	68.97
Totals	**$27,000,000**	**31.14**	**119.54**

These programs have either an over-committed or a fully committed budget and continuing, high customer demand. All programs have met their energy savings goals for the 2006-2008 period.

5.1. Comprehensive HVAC Program

The Comprehensive HVAC program is a third party program newly funded for the 2006-2008 budget cycle. It relies on a vendor infrastructure to deliver HVAC tune-ups to residential and non-residential customers. Over the last few months the program had experienced considerable acceleration and had doubled its output of cost-effective energy efficiency savings. The program required nearly 18 months to develop the contractor network necessary to maximize the program. Interest in these programs has increased unexpectedly with over 22,000 applications in 2008 versus 6,000 applications in the previous year. Continuation through the end of 2008 will enable SCE to maintain its contractor infrastructure into 2009 and proceed with standard maintenance work activities slated for the Fall shoulder season. Continuation of the Comprehensive

HVAC program efforts is consistent with the recently adopted California Energy Efficiency Strategic Plan. SCE requests $10 million to enhance this program's budget.

5.2. Industrial Energy Efficiency Program

The Industrial Energy Efficiency Program (IEEP) program is the primary, incentive-based program for industrial customers who install and use energy efficient hardware and equipment in their operations, such as motors, pumps, process improvements and controls, and lighting, refrigeration, and HVAC. Customer demand continues to be high, however, the 2006-2008 budget is exhausted and SCE issued a stop-work order to its existing vendors on August 20. There are 95 active 2008 projects in the queue. SCE requests $5 million for IEEP for use in 2008.

5.3. Standard Performance Contract

The Standard Performance Contract (SPC) is a long-standing, statewide program for large commercial and industrial customers, who typically install energy efficient equipment in the last quarter of the year. SPC is expected to exceed its savings goals. SCE forecasts that without additional funding by November, the program may not be able to fund committed projects that could otherwise deliver energy savings in 2008. SCE requests $3 million to meet projects to be completed by the end of 2008.

5.4. Express Efficiency

Express Efficiency is another long-standing program that offers rebates to non-residential customers for installation of qualifying energy efficiency measures. Customers are offered rebates on a first-come, first-serve basis for installed measures, or may reserve rebate funds in advance of installing measures. The budget for this program is exhausted and SCE has hundreds of applications for rebates and outstanding requests for reservations. Without additional funding, customers who were incented by the program to install qualifying measures will not receive a rebate, and those seeking a reservation will have to be denied. Funds are needed to accommodate customer reservations and to maintain the vendor network. SCE seeks $9 million to fulfill the balance of projects in the pipeline.

5.5. Parties' Comments and Discussion

TURN urges the Commission to grant SCE's Motion expeditiously to ensure the continuity of each of the listed programs through the end of 2008 and into 2009. TURN states, "[w]e believe that the continuity of such programs is essential to both the cost-effectiveness in how programs are managed and for sending consistent signals to the marketplace about the reliability of funding."

DRA argues that SCE had failed to demonstrate a need for additional funding and that the criteria used by SCE to request a grant of additional funding was unclear. In reply comments, SCE provides additional detail about the programs identified and the savings associated with the incremental funding, as summarized above. SCE responds that the criteria used to expand the budgets of these specific programs is based on the Commission and the State's policies,

> that cost-effective energy efficiency is a first loading order resource that should be maximized to the extent reliably achievable before other resources are procured to meet customer's energy needs. Accordingly, if customer demand for certain cost-effective EE programs continues to be high, and SCE has exhausted available funding to meet that demand, then it is entirely consistent with the State's Energy Action Plan and Commission's policies that additional funding be approved to enable those cost-effective EE resources to continue to meet customers' energy needs.

The four programs in question are worthwhile energy efficiency programs which we wish to see continue through 2008. While the reasons for early exhaustion of funds are not totally clear, SCE has demonstrated a need for continued funding for the four energy efficiency programs for the remainder of 2008. We will approve SCE's request.

5.6. Counting Energy Savings for the Augmented Programs

Energy savings are counted towards the Commission's adopted savings goals in the year that the measures are installed. With fund shifting enhancing an adopted budget, savings should be counted towards the Performance Earnings Basis (PEB), but should not be included in achieving the Minimum Performance Standard (MPS). The MPS for 2006-2008 is based on the savings goals adopted by D.04-09-060. (*See* also D.07-09-043 and the policy rules addressing the Shareholder Earnings Mechanism, Rules VIII. 1-3).

SCE shall track the savings associated with the enhancement to its 2006-2008 portfolio budget so that the savings are not added to the MPS. This is readily accomplished because SCE has a tracking system designed to identify actual savings associated with additional funding.

6. Categorization and Assignment of Proceeding

This proceeding is categorized as Ratesetting. The assigned Commissioner is Dian M. Grueneich and the assigned Administrative Law Judge is David M. Gamson.

7. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on October 6, 2008, and reply comments were filed on

October 13, 2008 by Joint Utilities (including SCE), SCE (in separate comments), DRA/TURN (reply only), Trane, City and County of San Francisco, East Bay Energy Watch Partnership, Portland Energy Conservation, Inc., Quantum Energy Services & Technologies, National Association of Energy Service Companies, Lockheed Martin, Enovity Inc., Sonoma County Energy Watch Partnership, and Silicon Valley Leadership Group Partnership. Several of the parties urged the Commission to approve the proposed decision so as to provide bridge funding in a timely manner to ensure continuation of valuable energy efficiency services and programs. Some parties requested changes that would accelerate funding for certain programs, or provide higher levels of funding for some or all programs during the bridge funding period.

In response to comments, the proposed decision has been modified to decide the issues raised by SCE in its Motion regarding unspent, unallocated funds. The proposed decision has also been modified to add language regarding accounting for revenues and costs during the bridge funding period. The proposed decision has also been clarified to allow utility contracts with new third parties for only those activities previously authorized by the Commission for 2006-2008.

Findings of Fact

1. Bridge funding is needed to ensure that no hiatus occurs when authorization for energy efficiency program funding expires at the end of 2008.

2. The Utilities have proposed certain ongoing energy efficiency programs previously approved by the Commission to continue during the bridge funding period.

3. The average monthly budgets for current programs reflect the Utilities' program budgets in 2006-2008.

4. The Utilities, with the exception of SDG&E, had their energy savings goals increased by the Commission for 2009 as compared to 2008.

5. The Commission has previously approved EM&V funds at 8% of Utility monthly program budgets. The EM&V for the Transition Programs is well underway under Energy Division supervision. It is unclear how much additional work is needed for the continuation of these existing programs, but we expect that the amount will be significantly less than 8% of the total program budgets.

6. The Utilities should adjust their proposed EM&V budgets for 2009-2011 to reflect the lower levels of EM&V needed for the Transition Period.

7. It is necessary to re-calculate the anticipated savings and the cost-effectiveness of the Transition Programs. Therefore, it is necessary to take a fresh look at the energy savings estimates and cost effectiveness values of the Transition Programs.

8. SCE's Comprehensive HVAC Program, Express Efficiency, Industrial Energy Efficiency and Standard Performance Contract energy efficiency programs have exhausted their budgets and would be shut down before the end of 2008 without additional funding.

9. SCE has an estimated $62 million in pre-2006 unspent, uncommitted energy efficiency funds.

10. Energy savings are counted towards the savings goals when the measures are installed.

11. The savings from the enhanced funding added to an adopted portfolio budget should be counted towards the PEB, but should not be counted towards achieving the MPS.

12. SCE should track the actual savings associated with enhancing the 2006-2008 budget under its existing tracking system.

Conclusions of Law

1. It is in the public interest to provide a smooth transition for programs which are likely to continue into 2009 and beyond, without interruption, in order to maintain contractual agreements, retain skilled workers, complete existing projects, and continue to bring the considerable benefits of energy efficiency programs to businesses and residents of California.

2. Average monthly budgets for 2006-2008 should be used in the bridge funding period for the Transition Programs, and should be modified to account for adopted 2009 energy savings goals on a Utility-specific basis. EM&V funds should be included in the Utilities' monthly program budgets; however, we do not have sufficient information to determine the appropriate funding levels.

3. There is insufficient rationale to ascribe the term "successful" to the Utilities' proposed energy efficiency programs for the bridge funding period.

4. Our approval of bridge funding for the Utilities' Transition Programs is not equivalent to approval of the Programs themselves, and should not be construed as a guarantee of continued funding in the 2009-2011 portfolios or as a judgment on the merits of any individual Transition Program.

5. We reiterate our holding in D.05-04-051 that the Utilities must use all applicable DEER values to preserve the integrity of our processes.

6. As discussed in this decision, it is reasonable to allow an increased revenue requirement to account for increased energy efficiency savings goals on a utility-specific basis.

7. It is reasonable to allow utility contracts with new third parties who will limit bridge period activity to only those activities previously authorized by the Commission for 2006-2008.

8. SCE has demonstrated a need for continued funding for four energy efficiency programs for the remainder of 2008.

O R D E R

IT IS ORDERED that:

1. The Utilities' Bridge Funding Request is adopted, except that:

   a. The term "successful" is not ascribed to programs authorized in the bridge funding period;

   b. The average monthly budgets for each Utility portfolio shown in Table 2 are adopted;

   c. The Utilities are directed to work with Energy Division to improve existing programs during the bridge funding period as warranted, to reflect recommended changes to 2006-2008 programs originating from completed process evaluations such those contained in the 2006-2008 ME&O process evaluation directed by the Commission; and,

   d. The Utilities are directed to continue current work on the Web Portal under the direction of the assigned Commissioner as provided in D.07-10-032. The Utilities shall provide amended Marketing and Outreach budgets in their advice letter filings. Should this funding source be insufficient, then the Utilities are directed to propose the use of EM&V funds for this purpose in their advice letter.

2. Each utility shall file an Advice Letter within 10 days of the effective date of this decision with 2009 average monthly budgets for each Transition Program, consistent with Ordering Paragraph 1(b) and as described herein. Each Advice Letter shall:

a. list the 2009 Transition Programs with the 2009 average monthly budgets authorized to book into the balancing accounts; and

b. modify the Preliminary Statement to include a memo account called the "Energy Efficiency 2009-11 Memo Account" to track the difference between the revenue requirement adopted for the Bridge Funding period and the revenue requirement requested in 2009-2011 Energy Portfolio applications.

The Advice Letters shall be effective on January 1, 2009 subject to Energy Division determining they are in compliance.

3. We hereby authorize the assigned Commissioner and the Administrative Law Judge, working with Energy Division, to provide further direction as necessary on content and schedule for the Utilities' re-calculation of Transition Program savings, including clarification of the discrepancies in 2006-2008 program savings calculations.

4. The Utilities shall include the program accomplishments achieved during the bridge funding period toward the cumulative goals of their 2009 programs.

5. The bridge funding period shall begin January 1, 2009, regardless of whether the Advice Letters have been determined to be in compliance. The bridge funding period shall end three months after the effective date of a final decision on 2009-2011 energy efficiency programs in this docket, or December 31, 2009, whichever comes first.

6. The Utilities shall adjust their total 2009-2011 EM&V budgets as provided herein.

7. During the bridge funding period, the utilities are authorized to continue to collect revenues from Public Goods Charge rates and procurement surcharges for electricity, and Public Purpose Program surcharges for gas, at revised rates

required to meet the revenue requirements adopted herein effective January 1, 2009 for the purposes set forth in this Order.

8. The utilities may enter into contracts with new third parties during the bridge funding period for only those activities previously authorized by the Commission for 2006-2008.

9. SCE's September 8, 2008 Motion to spend $27 million in pre-2006 unspent, uncommitted energy efficiency funds is approved.

10. SCE shall track the actual energy savings associated with its 2006-2008 program budget enhancements to distinguish between savings to be counted under the PEB and savings not to be counted under the MPS, as described herein.

11. As of December 31, 2008 and the close of all 2008 transactions, the account balance and all other unspent, uncommitted funds from the 2006-2008 budget cycle shall be reported in a supplemental filing to A.08-07-021, *et al*. for final disposition.

This order is effective today.

Dated October 16, 2008, at San Francisco, California.

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