California Public Utilities Commission
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CPUC APPROVES INCENTIVE PAYMENTS FOR UTILITY ENERGY EFFICIENCY INVESTMENTS

SAN FRANCISCO, December 18, 2008 - The California Public Utilities Commission (CPUC) today authorized energy efficiency payments for the state's Investor Owned Utilities as California continues to lead the way in energy savings through efficiency.

In 2007, the CPUC adopted a Risk Reward Incentive Mechanism to build on California's leadership in pursuing policies that promote widespread deployment of energy efficiency by holding the utilities accountable for the goals the CPUC adopted. Utilities earn a percent of the total cost savings resulting from the deployment of energy efficiency if they meet at least 85 percent of the goals. However, if a utility's performance falls below 65 percent of goal, they are subject to penalties. Between 85 percent and 65 percent, the utilities are in a "deadband", neither earning rewards nor paying penalties.

The energy efficiency programs are on a three-year cycle and utilities file interim claims each year throughout the cycle. Under the existing framework, these interim claims are subject to verification by the CPUC's Energy Division. Today's decision responds to a Petition for Modification filed by the utilities that asked the CPUC to consider a number of changes to the incentive mechanism.

Due to the delays that have been encountered in the completion of the Energy Division's verification reports, and the adverse impacts these delays have on the effectiveness of the incentive mechanism in motivating the utilities to aggressively pursue energy efficiency, today's decision determined that utility claims can serve as a reasonable basis for authorizing some interim payments immediately. However, the decision recognizes that relying on utility submitted reports that have not been fully vetted by Energy Division increases the risk that incentives provided will exceed what the utilities are in fact owed. To reduce the risk of overpayment, the decision significantly increases the percent of the interim claims that are held-back from 35 percent to 65 percent. This yields interim incentives of $41.5 million, $24.7 million, $10.8 million, and $5.2 million for Pacific gas and Electric Company, Southern California Edison, San Diego Gas and Electric Company, and SoCal Gas respectively. In addition, the decision changes the policy by which the incentive payments are trued-up at the close of the three year cycle. For the 2006-2008 program cycle, the decision eliminates the existing approach whereby the utilities could continue to earn additional incentives even if on review their performance was found to fall in the deadband. As with the increased holdback adopted by today's decision, reinstating the deadband will significantly reduce the risk of overpayment.

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