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PRESS ALERT

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DRA SUPPORTS ENERGY EFFICIENCY PROPOSED DECISION

Alternate Decision Rewards Investor Owned Utilities \$108 Million Despite Independent Report on Poor Performance of Energy Efficiency Programs

SAN FRANCISCO, December 3, 2008 – The Division of Ratepayer Advocates (DRA), an independent consumer advocacy division of the California Public Utilities Commission (CPUC), offers a reminder that on December 4, 2008, the CPUC will adopt one of two proposals regarding whether to grant non-refundable payments of \$108 million to the state's four largest privately-owned utilities for their achievements of energy efficiency goals.

The two Proposed Decisions respond to the request by the utilities (Pacific Gas and Electric, Southern California Edison, San Diego Gas and Electric Company, and Southern California Gas Company) for a cumulative bonus payment of \$152 million. The Proposed Decision of the presiding judge rejects the utilities' request and allows the current incentive mechanism to continue unchanged. The Alternate Proposed Decision slightly lowers the reward requested by the utilities to \$108 million, despite a draft staff report that indicates the utilities deserve a net penalty of \$3 million for not meeting the CPUC's goals. The alternate proposal would also change other rules to address potential reward payment delays in the future.

DRA and other ratepayer advocacy groups strongly support the presiding judge's Proposed Decision, which rejects the utilities' request for immediate payment and briefly delays incentive payments until early 2009, when an independent evaluation of utility performance will be finalized. DRA opposes the alternate proposal, which would grant a windfall payment to the utilities for unverified energy savings.



THE ISSUE:

The payments in question stem from a bonus mechanism adopted in 2007 for the purpose of incenting the utilities to strive for “superior” performance in running the state’s \$2.1 billion energy efficiency program from 2006 through 2008. While longstanding CPUC policy requires that energy efficiency incentives be based on independent evaluation to verify utility performance, the delay of a key staff report prompted the utilities to seek rewards in the amount of \$152 million based on their self-reported performance data. The utilities are also seeking to change the rules to allow additional unverified reward payments should there be similar delays in the future.

BACKGROUND:

On August 15, 2008, the four Investor-Owned Utilities petitioned the CPUC for the second time to change rules to the Energy Efficiency Risk-Reward Incentive mechanism to skew the rules in their favor. Earlier this year the utilities unfortunately won a first request to make any potential overpayments in two interim incentive payments non-refundable to ratepayers, which DRA advocated against. The utilities justify these rule changes by claiming that their shareholders demand regular incentive payments, and that the utilities had promised shareholders to produce incentive earnings in 2008. Current CPUC rules require that the utilities achieve 85 percent of their goals based on estimated savings before they can earn interim rewards. Even if subsequent independent evaluation shows that actual savings are lower, and that the utilities were overpaid, refunds can only be made if verified performance is lower than 65 percent of goals.

The delayed CPUC staff report, which uses updated savings and measure installation data to estimate utility performance, was released on November 18, 2008 -- two weeks after the release of the Proposed Decision and the Alternate Proposed Decision. The draft CPUC staff report, which is subject to utility and public comment, shows a majority of the utilities achieved near or below the penalty threshold of 65 percent of energy efficiency goals. Southern California Gas Company is the only utility whose performance justifies a reward, at \$3.6 million.

BOTTOM LINE:

- As validated by CPUC staff’s independent verification, the utilities have shrouded the results of actual poor performance in irrelevant claims of a delayed report and the need for certainty.



- The utilities have provided no evidence that a 2-3 month delay to finalize the draft report in January 2009 would materially harm them. In fact, the findings in the draft report make it clear that it is ratepayers who are likely to be harmed.
- Given the current economic climate, now is not the time to take \$108 million from ratepayers when it is not justified.
- The Alternate Proposed Decision lowers the bar and sets a bad precedent to promote future gaming, compromising the achievement of actual superior performance for energy efficiency programs by severely limiting the value or usefulness of independent verification. The Alternate Proposed Decision would further dilute protection of ratepayer investment in efficiency programs and negatively impact California's objectives to mitigate greenhouse gas emissions.
- DRA strongly supports the Proposed Decision to reject the utilities' claims, with the minor modifications as suggested in [DRA's December 1, 2008 comments](#).

The Presiding Judge's Proposed Decision can be found at <http://docs.cpuc.ca.gov/efile/PD/93260.pdf>.

The Alternate Proposed Decision can be found at <http://docs.cpuc.ca.gov/efile/ALT/93264.pdf>.

DRA's [Opening Comments on the Alternate Proposed Decision](#) are also available.

For more information on DRA, please visit www.dra.ca.gov.

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