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DRA Opposes CPUC Vote to Reward Utilities with \$82 Million Windfall for Unverified Achievements on Energy Efficiency

CPUC makes award based on utilities' self-reported assertions, despite findings of independent report that electricity utilities should receive no rewards

SAN FRANCISCO, December 18, 2008 – The Division of Ratepayer Advocates (DRA), an independent consumer advocacy division of the California Public Utilities Commission (CPUC), advises that the CPUC's 4-1 vote today (dissented by Commissioner Dian M. Grueneich) to cumulatively award the state's four largest privately-owned utilities \$82 million for achievement of unverified energy savings favors expediency over verification in defining successful energy efficiency programs.

The payments in question, funded by ratepayers' bills, stem from a bonus mechanism adopted by the CPUC 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.

"Energy efficiency has the potential to be both the most expedient and most cost-effective weapon in fighting climate change, but only if the energy savings are real and sustainable, and that requires accountability," said Dana Appling, the Director of DRA.

The CPUC had a choice of two proposals regarding whether or not to grant non-refundable payments in response to the request by the four utilities (Pacific Gas and Electric Company, Southern California Edison, San Diego Gas and Electric Company, and Southern California Gas Company) to expedite bonus payments by the end of 2008, in advance of the CPUC's own independent report. DRA supported the original Proposed Decision of the presiding judge which denied the utilities' request to expedite payments and directed that the verification process first be finalized in January 2009.



The alternate decision passed today ignores a draft CPUC staff report that indicates the utilities deserve a net penalty of \$3 million for not meeting the CPUC's goals. The CPUC staff report is consistent with DRA and The Utility Reform Network (TURN) independent analysis, which determined that there was a significant risk that three of the four utilities' performance would not support an incentive reward. The alternate proposal also changes rules to address potential reward payments should other delays occur in the future.

Longstanding CPUC policy requires that energy efficiency incentives be based on independent evaluation to verify utility performance. Accordingly, the CPUC funded the verification process with nearly a \$100 million budget to be managed by its non-financially interested staff to ensure that actual energy savings had been realized.

Given that earlier this year the CPUC granted the utilities' first petition to change the incentive rules, it is particularly important to proceed with the verification of interim bonus awards as originally set forth. In January 2008, the CPUC agreed that any potential overpayments from interim incentive claims that were later determined to fall into the performance deadband would be non-refundable to ratepayers, which DRA advocated against. Despite the alternate decision's assertion that the deadband has been reinstated, without CPUC directive that interim overpayments will be returned to ratepayers, this assertion is nearly meaningless. That is, even if subsequent independent evaluation demonstrates that actual utility energy savings are lower than their self-reported interim claims, immediate refunds are required only if verified performance is lower than 65 percent of goals. In the situation where final verification places the utility performance between 65 percent and 85 percent of goals, any potential overpayments are "booked against positive earnings" in the 2009-2011 energy efficiency program cycle. The adopted decision is silent regarding how ratepayers will recover this \$82 million reward, if the utilities' performance in 2009-2011 is once again not worthy of reward. Accordingly, ratepayers may never see the return of any overpayment they have made to the utilities.

"The only result that ratepayers actually see regarding energy efficiency is that their bills continue to increase during these tough economic times," Appling said. "Ratepayers should be entitled to the certainty that their monthly investment in energy efficiency is producing a clear and tangible return producing real energy savings."



The shareholder incentive mechanism should function only as a means to achieve actual energy savings; it should not be the end goal itself. While a mechanism that is “clear, timely, and predictable” is desirable, its ultimate measure of effectiveness must be that it motivates superior performance to maximize verified energy savings. Such a decision simply serves to guarantee a utility revenue stream, rather than to motivate optimal energy savings through superior utility performance and potentially to sweep poor performance under the rug, according to DRA.

Given this decision, DRA has serious concerns about the continued utility management of energy efficiency programs, especially in light of their unprecedented request for nearly \$4 billion to run the 2009-2011 energy efficiency portfolios.

See more background on this issue at: www.dra.ca.gov/DRA/hot/081204_ee.htm.

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

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