BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the Commission's Energy Efficiency Risk/Reward Incentive Mechanism.	Rulemaking 09-01-019 (Filed January 29, 2009)

**COMMENTS OF THE
LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION
ON RISK/REWARD INCENTIVE MECHANISM**

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For THE LOCAL GOVERNMENT
SUSTAINABLE ENERGY COALITION

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I. INTRODUCTION

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission") and the Assigned Commissioner's Ruling of August 30, 2011 ("Ruling"), the Local Government Sustainable Energy Coalition[1] ("LGSEC") submits these comments on the risk/reward incentive mechanism ("incentives") for investor-owned utility energy efficiency programs. The LGSEC is the only statewide organization that represents the interests of local governments before California's energy regulators. We commend Commissioner Ferron for calling a "time out" to allow the Commission and parties to step back and take a critical look at what has been a fundamental component of California's energy efficiency program for many years.

The Ruling identifies an opportunity to examine the premise "that an annual RRIM shareholder payment is necessary to secure the IOUs' commitment to EE." The Ruling cites concerns about the design and operation of the current incentive. The Ruling poses a number of specific and, in some cases, technical questions about the efficacy of, and continuing need for, the incentives. The LGSEC will keep our comments at this point at a policy level. We reserve the opportunity to offer more specific comments as these deliberations progress.

In brief, our comments address the importance of a long-term perspective and the need to revise current metrics to reflect that long-term view. It is not clear whether utilities will be undertake energy efficiency without an incentive; recent utility comments on this are inconclusive. Finally, the Commission must look at the incentive structure in the context of potential changes to overarching structure of energy efficiency programs in California.

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[1] Across California, cities, counties, associations and councils of government, special districts, and non-profit organizations that support government entities are members of the LGSEC. Each of these organizations may have different views on elements of these comments, which were approved by the LGSEC's Board. For a complete list of LGSEC members, please see our web site: www.lgsec.org.

II. LONG-TERM PERSPECTIVE IS NEEDED TO EFFECT SOCIETAL LEVEL CHANGE

Local governments have for many years helped the Commission and the utilities achieve energy efficiency savings goals. In the past ten years, the number of local governments participating in energy efficiency programs has grown, and there is great potential for even more local governments to be involved. As local governments develop expertise with energy management, and in particular with energy efficiency, it becomes clear that the most cost-effective approach is a whole building approach. Most local governments integrate their municipal energy efficiency programs into broader categories of work for organizational purposes; for example, the energy management function in many local governments is housed in the Public Works or Environmental Services Department.

Generally, local governments operate from a long-term perspective. Everything local governments do are for the long-term: investments in our buildings, developing energy management resources and infrastructure, community programs like Energy Upgrade California, codes and ordinances, outreach and education, financing programs, etc. It is because local governments have an inherent long-term focus that the utilities and the Commission have not valued our contributions under the current, short-term metrics. We suggest this is why the considerable scale and scope of our contributions under the American Recovery and Reinvestment Act are largely ignored by the Commission and the utilities, as well. Local governments are looking at systems and how energy efficiency can help reduce overall operating costs, in conjunction with other measures, practices, and policies. We do not take a short-term approach, and we are better served by energy efficiency policies that align with a long-term vision of investment in California's infrastructure.

III. METRICS MUST BE REVISED TO MEET LONG-TERM GOALS

One of the primary frustrations local governments have faced in developing and implementing energy efficiency programs that are responsive to local priorities is the narrow planning horizon at the State level. For several years, we have suggested that the Commission should look more closely at whether the focus of the incentive structure will encourage the goals of the *Energy Efficiency Strategic Plan*. In 2009, for example, the LGSEC suggested that there is an inherent conflict between the two, as well as "tension with the Total Resource Cost ("TRC") test, which is designed to measure short-term goals and provides no means to account for lost opportunities and penalize cream skimming in programs."[2] It is important to note, given the current interest in financing mechanisms, that providing financing to implement more projects has absolutely no impact on TRC because the TRC is based on the total cost of the projects. Maintaining the TRC means entities that take advantage of financing opportunities will just be implementing more cost-ineffective projects that drag down the utility portfolios, absent a change. The Commission is well-advised to consider whether and how EM&V and incentive mechanisms can be structured toward *Strategic Plan* goals. The Commission should look at how these activities occur in other states and countries.

The LGSEC shares the concern expressed in the Ruling about the time and resources devoted to "process and measurement protocols." From the perspective of program implementers, local governments that participate in utility partnerships are required to prepare several often redundant reports, including monthly, quarterly, and annual reports. In some cases, local governments are further called on for additional reports or administrative activities. The time spent preparing these reports is significant. The Commission must recognize its own role in

[2] *Comments of the Local Government Sustainable Energy Coalition on Proposed Decision Approving 2010 to 2012 Energy Efficiency Portfolios and Budgets*, September 14, 2009, p. 5, in A.08-07-021, *et al.*

the current administrative process and be willing to modify its views on what is required to meet statutory obligations.

From the perspective of participants in the regulatory process, the proceedings on EM&V and incentives are highly technical, detailed, time-intensive and, often, inconclusive. As an organization, the LGSEC does not have the resources to be deeply engaged in this aspect of the Commission's deliberations. Were the process less onerous, we might be able to participate more fully, thereby allowing the Commission to hear from more parties on all aspects of its energy efficiency policies and programs. Revising the process could result in the Commission gaining critical perspective and information from local implementers.

IV. UTILITY MOTIVATIONS TO CONTINUE WITHOUT AN INCENTIVE ARE UNCLEAR

The Ruling asks whether utilities would be motivated to pursue energy efficiency absent the shareholder incentives. This is a question perhaps best answered by the utilities. It may be worth noting that in recent months during debate on reauthorization of the public goods charge, at least one investor-owned utility testified to the Legislature that the loading order in the *Energy Action Plan* was sufficient motivation for that utility to invest in energy efficiency, and reauthorization was not needed. It is not clear if that statement assumed ongoing shareholder incentives.

V. THE COMMISSION SHOULD LOOK AT INCENTIVES IN THE CONTEXT OF BROADER CHANGES TO THE ENERGY EFFICIENCY PROGRAM STRUCTURE

The Ruling also asks whether any changes that might be adopted now should apply to the current energy efficiency cycle. The LGSEC suggests that modifying the incentive structure should be part of a larger discussion about the overall structure of energy efficiency programs moving forward. For example, if the incentives were reduced or eliminated, that pot of money could be re-directed to other purposes and programs. The Commission may find that it desires to revisit other aspects of the energy efficiency program, and that the incentive structure is one piece of that broader examination. Because most or all of the current programs would impact or influence others in the event of sudden change, we propose that unintended consequences may be avoided through an integrated assessment of all programs and their capacity to meet the goals of the *Strategic Plan*.

VI. CONCLUSION

The LGSEC supports the Commission's efforts to examine the incentive and EM&V structures. The Commission should focus its attention and the efforts of the utilities and other entities on long-term, comprehensive energy efficiency policies and programs that will lead to lasting change. This may require the Commission to redefine "cost effective" in a manner that provides greater clarity and resilience, and focuses activity on institutional change on a broad level, across market sectors. When energy efficiency is deeply ingrained in our lifestyle, ratepayers will see the greatest benefits.

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Respectfully submitted,

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