PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

October 26, 2001

Item-2
11/8/2001

TO: PARTIES OF RECORD IN RULEMAKING 01-08-028

This is the draft decision of Administrative Law Judge (ALJ) Thomas. It will be on the Commission's agenda at the meeting on November 8, 2001. The Commission may act then, or it may postpone action until later.

When the Commission acts on the draft decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Section 311(g)(1) of the Pub. Util. Code provides that this decision must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Pursuant to Pub. Util. Code § 311(g)(3), and Commission Rule 81(h), we reduce the 30-day period for comment on this draft decision due to public necessity. It is necessary to put 2002 energy efficiency programs in place with a minimum of program disruption. Therefore, we reduce the comment period to allow the Commission time to adopt rules, parties to file program proposals, and the Commission to select programs early in 2002.

Parties may comment on the energy efficiency policy rules on or before November 5, 2001. Parties shall submit their 2002-03 energy efficiency proposals so that they are received at the Commission no later than December 7, 2001. Detailed instructions for how and where to submit proposals appear in the draft decision which parties should read and adhere to carefully. Parties may comment on the 2002-03 proposals submitted no later than December 20, 2001, but shall direct their comments to pointing out calculation and other objective errors in others' proposals, rather than comparing others' proposals to their own.

Parties shall e-mail their proposals and comments to the service list using the Electronic Service Protocols that accompanied the OIR, which we reproduce with the draft decision as Attachment 2.

/s/ LYNN T. CAREW
Lynn T. Carew, Chief
Administrative Law Judge

LTC:k47
Attachment

Decision **DRAFT DECISION OF ALJ THOMAS** **(Mailed 10/26/2001)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the Commission's Future Energy Efficiency Policies, Administration and Programs.	Rulemaking 01-08-028 (Filed August 23, 2001)

INTERIM OPINION ADOPTING ENERGY EFFICIENCY POLICY RULES

TABLE OF CONTENTS

Title **Page**

INTERIM OPINION ADOPTING
ENERGY EFFICIENCY POLICY RULES 1
I. Summary 2
II. Background 2
III. Discussion 3
A. Introduction 3
B. Overview of Criteria and Policy Rules 3
1. Long-Term Annual Energy (Gas and Electric) Savings 4
2. Addressing Market Failures or Barriers 5
3. Equity Considerations 5
4. Cost Effectiveness 6
5. Electric Peak Demand Savings 6
6. Innovation 6
7. Synergies and Coordination With Programs Run by Other Entities 6
C. Expected 2002-03 Program Mix/Categories 7
1. Statewide Programs 8
a. Statewide Residential Programs 9
(1) Statewide Residential Retrofit 9
(a) Downstream Appliance, Lighting & HVAC Rebates 10
(b) Comprehensive Residential Retrofits 10
(c) Appliance Retirement and Recycling 10
(2) Statewide Residential New Construction 12
b. Statewide Nonresidential Programs 12
(1) Statewide Nonresidential Retrofit 12
(a) Large and Medium Nonresidential Customized Program 13
(b) Small Business Rebates 13
(c) Building Operator Certification and Training 14
(2) Statewide Nonresidential New Construction 14
c. Statewide Cross-Cutting Programs 14
(1) Statewide Information Campaign 15
(2) Upstream Appliance, Lighting & HVAC Rebates 15
2. Local Programs 15
a. Local Residential Programs 16
b. Local Nonresidential Programs 17

c. Local Cross-Cutting Programs 17
(1) Education/Training/Outreach 17
(2) Building Codes and Standards Support 19
3. Identifying New Energy Efficiency Strategies 19
a. Evaluation, Measurement & Verification Master Contract 20
b. Statewide Energy Efficiency Potential and Current Saturation Study 20
c. Best Practices Analysis for All Sectors 21
d. Development of Deemed Savings Values 22
e. Update of Avoided Cost Inputs 23
D. Process for Submission and Selection of Proposals 24
1. Proposal Preparation and Submission 24
2. Proposal Selection 26
E. Process Once Proposals Are Selected 28
IV. Comments on Draft Decision 30
Findings of Fact 31
Conclusions of Law 31
ORDER 31

Attachment 1 - Energy Efficiency Policy Manual
Attachment 2 - Electronic Service Protocol

I. Summary

This interim decision adopts new energy efficiency policy rules and sets forth the criteria parties should use in applying for energy efficiency funding for the 2002-03 period. We expect to fund a number of programs for the entire two-year period 2002-03, while other programs will receive one-year's worth of funding with the possibility of extending funding into a second year. The new rules we adopt here will be in place beyond 2002-03, but parties should follow these rules in submitting their 2002-03 funding proposals. Applications for 2002-03 funding are due at the Commission no later than December 7, 2001.

II. Background

On August 23, 2001, we instituted this rulemaking (OIR) to examine the Commission's future energy efficiency policies, administration and programs. At that time, we set forth four goals for this proceeding, the first two of which we deal with in this interim decision. First, we stated we would establish criteria for utilities and non-utilities to use in proposing new energy efficiency programs for 2002 and beyond. Second, we planned to devise a revised set of policy goals and objectives governing the Commission's oversight of energy efficiency programs.[1]

Rather than issue 2002 criteria and policy rules in a two-step process, we have opted to accomplish this task in one decision. In this way, parties seeking 2002-03 funding will be apprised not only of specific criteria applicable to that

[1] We do not address the third and fourth goals of the OIR – relating to future program administration and past program evaluation – in this decision, but will do so in subsequent decisions.

period, but of the Commission's overall energy efficiency policy goals. Thus, this decision does not distinguish between the 2002-03 criteria and overall policy.

III. Discussion

A. Introduction

In the OIR, we identified a set of principles on which we would rely in developing criteria for programs in 2002 and beyond.[2] In this decision, we adopt a refined set of policy objectives, based on the principles originally stated in the OIR. These objectives are set forth in the Energy Efficiency Policy Manual, incorporated as Attachment 1, and cover the following topics:

- Program goals and objectives;
- Preferred program design guidelines and eligibility;
- Standard definitions;
- Cost-effectiveness rules and definitions;
- Budgets and compensation;
- Evaluation, measurement and verification requirements; and
- Structure of the Commission's review process

B. Overview of Criteria and Policy Rules

The goals and objectives of the Commission's energy efficiency programs are listed below, in order of importance. When evaluating program proposals for 2002-03 and future years, the Commission will determine how well each program proposal meets these goals and objectives. In doing so, the Commission will use the point values listed beside each objective to rank each proposal. The

[2] *See* R.01-08-028, *mimeo.*, at 4-5, Section II(B).

point values next to each objective represent the maximum possible score for each objective. A perfect score would be 100 points.

Parties seeking 2002-03 funding should both conform their proposals to the policies and rules set forth in this section (and expanded upon in the accompanying Policy Manual), and ensure that their proposals fall within the mix of desired programs set forth in Section III(C) below. Thus, for example, even if a 2002-03 program proposal for statewide services scores higher in points than a program for local services, such score does not ensure funding of the former program. The Commission will consider point scores and the extent to which proposals help it meet its desired mix of programs for 2002-03 in selecting 2002-03 proposals.

1. Long-Term Annual Energy (Gas and Electric) Savings

Points: 25

The most important goal of any Commission energy efficiency program is to create permanent and verifiable energy savings over the life-cycle of energy efficiency measures affected by the program. Programs are not required to create immediate short-term energy savings, so long as there is a clear, logical, and verifiable link between program activities and eventual energy savings. In other words, the Commission will strive for sustainability in the consumption behaviors and investment choices its programs are designed to stimulate. In general, long-term energy savings are those that continue over at least a three year period.

2. Addressing Market Failures or Barriers

Points: 20

Any program proposed for Commission approval should include a description of the type of barrier it is designed to address or overcome. The following examples of barriers are listed in order of importance; programs may also address other barriers not listed below:

- Lack of consumer information about energy efficiency benefits
- Higher start-up expense for high-efficiency measures relative to standard-efficiency measures
- Lack of financing for energy efficiency improvements
- Split incentives (between owners/landlords and tenants)
- Lack of a viable and competitive set of providers of energy efficiency services in the market
- Barriers to the entry of new energy efficiency service providers
- Lack of availability of high-efficiency products

3. Equity Considerations

Points: 17

The Commission will generally prioritize programs that provide access to energy efficiency alternatives for underserved or hard-to-reach markets. Although those customers contribute equally to the funds collected to support program activities, in the past, they have had access to fewer program alternatives than other customers. Attachment 1 provides a more detailed definition of underserved and hard-to-reach markets, either from the point of view of customer class (*e.g.*, multifamily building residents, small businesses) or geography (*e.g.*, rural customers).

4. Cost Effectiveness

Points: 15

All proposals for energy efficiency programs will be required to provide an estimate of life-cycle benefits and costs from various points of view, using the assumptions detailed in Attachment 1, Chapter 4. The Commission will use this information to compare and rank program proposals designed for similar uses, markets, or customer segments.

5. Electric Peak Demand Savings

Points: 10

Programs paid for by electric public goods charge (PGC) funds should emphasize long-term and permanent peak demand savings. Such programs may include, for example, installation of permanent measures to reduce peak demand, such as variable-speed drives on motors, but should not include programs that create peak demand savings only through temporary behavioral change, such as air conditioner cycling or programs that encourage consumers to turn off lighting or air conditioning.

6. Innovation

Points: 8

The Commission will prioritize programs that present new ideas, new delivery mechanisms, new providers of energy efficiency services, or new and emerging technologies.

7. Synergies and Coordination With Programs Run by Other Entities

Points: 5

To minimize confusion and overlap for consumers, the Commission desires program proposals that take advantage of synergies or coordination with

other existing programs, including those run by other state agencies, private entities, municipal utilities, or the federal government.

C. Expected 2002-03 Program Mix/Categories

Each year (or longer program period), we suspect we will require a different mix of programs depending on the program mix in the prior year or period. It may be that a prior cycle's programs saturated a particular market segment, but left another segment unserved through program failure, lack of proposals to serve the segment, or some other reason. Altering the mix of programs from period to period will allow us to address such situations. Thus, we specify in this decision the minimum mix of programs we expect to fund in 2002 for a two-year period, but do not include that mix in our policy manual (Attachment 1) since we expect it to vary from period to period.

In 2002-03, we expect to fund activities that fall into the following categories, which we describe in detail below using terms defined in Attachment 1:

- Statewide programs
- Local programs
- Strategic consulting for the Commission

We have not identified a separate category of Third Party Initiative (TPI) programs or budgets for 2002-03. Instead, we expect to select a combination of new and existing programs within each category from a mix of utility and non-utility providers. Among local programs, we expect to fund a number of pilot or experimental programs to be tested in a small geographic area before being extended regionally or statewide.

1. Statewide Programs

Statewide programs will continue to be the backbone of the energy efficiency program for 2002-03. These programs serve the Commission's policy goals and objectives by allocating funding equitably across customer classes and geography, providing consistent and recognizable program reach and securing both short- and long-term energy savings and peak demand reduction. We may fund some statewide programs on a two-year cycle, so proponents should budget and calendar their proposals over both a one and two-year timetable.

All statewide programs should provide consistent terms and requirements throughout the territories of the following investor-owned utilities (IOUs): Pacific Gas & Electric (PG&E), San Diego Gas & Electric (SDG&E), Southern California Edison (SCE), and Southern California Gas Company (SoCalGas). These consistent terms should include identical application procedures, financial incentives (if applicable), and other program implementation details.

Moreover, such programs should serve all customers in the IOUs' territories and accrue to the benefit only of those customers. Proposals to reach non-IOU customers will not be considered, since PGC and gas surcharge funds must serve the ratepayers from whom the IOUs collect the charges.

The Commission seeks proposals in the categories listed in the table below. A general description of each program category follows the table, along with examples of the types of programs the Commission would prefer to fund. The budget figures in the tables represent the maximum budget allocation the Commission will make to each statewide program category from energy

efficiency electric PGC funds and gas surcharge funds. The program categories are divided into residential, non-residential, and cross-cutting[3] programs.

Applicants may also propose to utilize bond financing from the California Consumer Power and Conservation Financing Authority (Power Authority) in combination with electric PGC and gas surcharge funding from the Commission. In each program proposal, parties proposing to use funding from Power Authority financing activities should clearly and separately delineate such funding.

Statewide Program Types	**Maximum Budget Allocation**
Residential	
Retrofit Programs (existing buildings)	$ 40,000,000
New Construction	$ 18,000,000
Nonresidential	
Retrofit Programs (existing buildings)	$ 50,000,000
New Construction	$ 22,000,000
Cross-Cutting	
Multiple sectors/technologies	**$ 30,000,000**
Statewide Total	**$160,000,000**

a. Statewide Residential Programs

(1) Statewide Residential Retrofit

Within this program category, the Commission expects to fund programs aimed at securing energy savings in existing single-family and multi-family residential homes. Programs may either include a full range of services, including information, outreach, training, audits, and direct incentives for energy-efficient technologies, or they may target one or more of these areas. We

[3] Cross-cutting programs are activities that target both residential and nonresidential customers or both existing buildings and new construction applications. Cross-cutting programs typically also include multiple energy-efficient technologies or measures.

include sample program approaches for reference below. Parties are free to propose programs not listed, or modify approaches that are listed.

(a) Downstream Appliance, Lighting & HVAC Rebates

The Commission expects to continue to offer downstream rebates directly to consumers. In this area, the Commission desires programs that include the following technologies, individually or in any combination, at a minimum:

- Energy Star furnaces
- Energy Star central air-conditioners
- Energy Star room air-conditioners
- Energy Star Compact Fluorescent Lamps (CFLs)
- Whole house fans
- Energy Star clothes washers
- Energy Star dishwashers
- Energy Star windows
- High-efficiency hot water heaters

(b) Comprehensive Residential Retrofits

The Commission expects to fund initiatives aimed at reducing whole-dwelling energy use through the installation of building shell energy efficiency measures, and other comprehensive treatments, including, but not limited to:

- Insulation
- Windows
- Weather stripping
- Duct sealing
- Reflective roofing

(c) Appliance Retirement and Recycling

Refrigerator, freezer, and room air-conditioner recycling has been offered in various geographic areas within the state through several prior Commission and utility programs. This year, the Commission intends to emphasize programs that reach regions of the state previously unserved by earlier appliance recycling

programs to maximize statewide availability. We encourage entities offering these services in specific geographic areas to partner together in a joint proposal. Any appliance retirement program should offer comprehensive toxic material recycling and disposal in conformance with California environmental laws and regulations and permitting requirements.

(2) Statewide Residential New Construction

To improve energy efficiency, proposals for new statewide residential construction programs should set a benchmark above the current June 2001 Title 24 building code standards.[4] Parties making such proposals should do so in consultation with the California Energy Commission (CEC) so the proposals are consistent with the CEC's goals for code revisions in the 2005 cycle. Parties should also consult with the Energy Star Homes program, as well as major California home-builders. Because Title 24 standards exceed federal standards, the Energy Star Homes label itself may not be appropriate for a California residential new construction program, though the general approach may be. Rather, parties should target a benchmark of 20-30% higher than Title 24 energy use levels.

b. Statewide Nonresidential Programs

(1) Statewide Nonresidential Retrofit

The Commission will continue to support energy efficiency retrofits in the small, medium and large commercial building sectors. We expect to select a mix of programs emphasizing technical support, capacity-building, emerging technology demonstration, and quality assurance. Because of current high energy prices and the lower cost of energy saving devices, incentive payments are less necessary than they once were to encourage energy efficiency, especially in the large commercial sector. Following is a list of programs that address the nonresidential retrofit market. As with the residential retrofit programs, this list

[4] Cal. Code Regs., tit. 24 (2001).

is not exhaustive, but simply indicates the program ideas the Commission hopes to receive.

(a) Large and Medium Nonresidential Customized Program

Potential program approaches to address the needs of the large and medium nonresidential sectors include the Standard Performance Contract (SPC) Program, customized rebates, and demand-side bidding programs. These program approaches offer incentives on the basis of verified energy savings, rather than by prescribing replacement of specific equipment. Thus, such programs offer more flexibility for comprehensive projects to reduce energy consumption overall in a building. The Commission will also emphasize non-lighting measures, or lighting only in combination with other measures, particularly in medium and large customer facilities.

(b) Small Business Rebates

For 2002-03, we hope to see a program similar to the Express Efficiency program offered by the utilities in the past, but limited to the small and very small business segment (average monthly power demand up to 200 kW). Customer rebates could be offered for the following technologies (or others):

- T8 and/or T5 lamps
- Electronic ballasts
- Lighting controls such as photocell controllers and occupancy sensors
- Compact fluorescent lamps (CFLs)
- High-efficiency motors
- Heating, Ventilation, and Air Conditioning (HVAC) measures

The Commission may fund one or more small business rebate programs on a statewide basis.

(c) Building Operator Certification and Training

Building operator certification and training programs would educate operators of large and medium commercial buildings, including public buildings, on short- and long-term peak demand and energy savings strategies for their buildings. After participating in training activities, individual building operators could become certified in efficient building operation.

(2) Statewide Nonresidential New Construction

Statewide nonresidential new construction programs should set a new benchmark above the current June 2001 Title 24 building code. The setting of the new benchmark should be undertaken in consultation with the CEC and support CEC goals for further code revisions for the 2005 cycle. Similar to the utilities' past Savings by Design program, we would expect this type of program to de-emphasize prescriptive technological approaches in favor of providing incentives to include efficiency during the design process. The Commission prefers a whole-building design approach.

c. Statewide Cross-Cutting Programs

A cross-cutting program may target both residential and nonresidential consumers as participants. In addition, the programs may include multiple technologies or simply support other programs. Finally, such programs could include retrofit or new construction markets. The following are examples of the types of programs the Commission prefers. Parties are free to propose additional programs and/or modify the approaches described below.

(1) Statewide Information Campaign

Any new statewide information campaign should capitalize on the success of the state's *Flex Your Power* campaign in the summer of 2001. Thus, proposed programs should continue statewide messages on simple things individual consumers can do to reduce their bills and the risk of rolling blackouts. The Commission desires program proposals that maintain a consistent statewide message through a mass-market advertising campaign.

(2) Upstream Appliance, Lighting & HVAC Rebates

The Commission wishes to continue offering upstream programs in 2002-03. By working with manufacturers and distributors, upstream programs ensure that high-efficiency technologies are available in stores for purchase by residential and business consumers at reasonable prices. Programs could include the following technologies (or others):

- Energy Star furnaces
- Energy Star packaged air-conditioners
- Energy Star room air-conditioners
- Energy Star CFLs
- Whole house fans
- Energy Star horizontal axis clothes washers
- Energy Star dishwashers
- High-efficiency hot water heaters

The Commission will entertain proposals that address the technologies listed above, and potentially others, individually or in any combination. We would expect to fund a number of separate upstream programs.

2. Local Programs

Local program options have the advantage of being able to respond flexibly to energy end-users' needs. Local programs also utilize local

relationships and networks to increase participation and reach. Individual consumers depend heavily on local infrastructure in making energy efficiency decisions. To utilize these advantages, the Commission intends to fund a number of local initiatives in 2002-03, including some that operate in only one jurisdiction and others that may operate in multiple areas. We may fund some local programs for two-year terms, so project proponents should include both one and two-year budgets and calendars with their proposals. The table below lists the broad categories of local programs the Commission intends to fund for 2002-03, along with the maximum budget allocation for each program category, by utility service territory. A general description of each line item follows the table.

Local Program Types	**PG&E**	**SCE**	**SDG&E**	**SoCalGas**
Residential	8,697,542	6,584,169	2,743,404	1,974,885
Nonresidential	15,220,698	11,522,297	4,800,957	3,456,049
Cross-Cutting	6,523,156	4,938,127	2,057,553	1,481,164
Local Total	**$30,441,395**	**$23,044,593**	**$9,601,914**	**$6,912,098**

a. Local Residential Programs

Historically, the single-family and multi-family residential retrofit market segments have been difficult to reach and slow to access the extensive opportunities for energy savings. In an attempt to expand program reach, we expect to fund several initiatives in this program area at the local or regional level. Proposals should offer comprehensive implementation and delivery plans that include face-to-face outreach, financing, technical support, contractor facilitation and outreach, as well as quality assurance. In addition, we expect entities proposing local programs in this area to ensure a comprehensive, whole-dwelling approach, rather than installing only the most cost-effective measures.

b. Local Nonresidential Programs

The Commission expects to focus a number of local programs on the nonresidential sector, particularly on medium- and small-sized businesses. This market has been very difficult to reach and has been extremely hard-hit by rising energy costs and the economic downturn. The Commission believes that one way to overcome many of the barriers in this market is to develop local programs that utilize local relationships and networks. Commission-administered pilot projects testing new forms of program delivery are underway in Berkeley and San Francisco utilizing funds appropriated by the Legislature in Senate Bill 5 from the First Extraordinary Session of 2001 (SBX1 5).

The Commission seeks comprehensive proposals that include technical support, outreach, contractor referral and oversight, bulk procurement, financing, and quality assurance. Eligible energy efficiency measures should include high-efficiency lighting, HVAC, and refrigeration.

The Commission will also accept proposals for programs that expand energy efficiency efforts in the industrial and agricultural sectors of the state. Proposals should emphasize technical support, financing, education and training/capability building, and strong measurement and verification plans.

c. Local Cross-Cutting Programs

Local cross-cutting programs may target multiple sectors and technologies, and both retrofit applications and new construction. Below are some examples of programs the Commission encourages in this area.

(1) Education/Training/Outreach

In 2002-03, the Commission will continue to support education, training/capability-building, and outreach efforts in local communities across the state. We hope to build infrastructure and strengthen institutions in order to

expand the capability for energy efficiency delivery. The Commission will also encourage reliance on community-based organizations, particularly in the residential and small business areas.

(2) Building Codes and Standards Support

The Commission will continue to support local efforts to inform and train builders, developers, building officials, and tradespersons on code and standards revisions.

3. Identifying New Energy Efficiency Strategies

After four years of policy actions and significant spending on energy efficiency, the Commission wishes to focus on identifying new strategies to secure future energy efficiency gains. Therefore, the Commission will fund a set of research projects to assist in future planning. Project proponents will report to and contract with the IOUs and will meet periodically with the Commission and the IOUs to detail their progress. The table below identifies the areas in which the Commission seeks specific proposals, along with a maximum budget available for each area. A more detailed description of each request follows the table. Those making proposals should assume that all contracts will be for a two-year program cycle (2002-03).

Consulting Area	**Maximum Budget Allocation**
Evaluation, Measurement & Verification Master Contract	$1,500,000
Statewide Energy Efficiency Potential Study	$1,500,000
Best Practices Analysis in All Sectors	$1,000,000
Development of Deemed Savings Values	$1,000,000
Updated Avoided Cost Inputs	$ 500,000
Other (TBD)	$ 500,000
Consulting Total	**$6,000,000**

a. Evaluation, Measurement & Verification Master Contract

The Commission seeks a team of major national evaluation, measurement and verification experts to:

- Evaluate select energy efficiency programs
- Serve as an expert resource for individual program implementers designing evaluation, measurement and verification plans for their programs
- Help develop the next generation framework for Commission evaluation of program activities
- Coordinate with the California Measurement Advisory Committee (CALMAC)[5] to, for example, incorporate new parties and host forums on particular technical and methodological topics
- Recommend methodological changes or updates to cost-effectiveness or other related protocols

b. Statewide Energy Efficiency Potential and Current Saturation Study

The Commission wishes to enhance industry understanding of energy efficiency resources available to the state over the current PGC authorization period, 2002-11. To this end, the Commission seeks a team of consultants to:

- Assess the maximum technical potential for both gas and electric energy efficiency in the state over the next ten years
- Estimate the achievable potential (*i.e.*, maximum estimated achievable saturation rates) for enhancing

[5] CALMAC, and its predecessor organization, CADMAC, is an informal group of evaluators from utilities, the Office of Ratepayer Advocates, and the CEC which serves as the technical group coordinating energy efficiency program evaluation efforts. Detailed information on the group's activities is available at http://www.calmac.org/.

energy savings in each sector, based on historical experience in the state, analysis of current energy efficiency programs and practices, and review of program implementation strategies and practices nationally

- Develop a set of scenarios for sensitivity analysis of various factors influencing the estimation of the energy efficiency potential for California
- Analyze the current status of penetration/saturation of energy efficiency technologies, techniques, and applications in each end-use sector in the state
- Compare current energy efficiency penetration/saturation rates in each sector to the technical and achievable potential for the state.

A number of individual studies already are underway to assess the energy efficiency potential in the state. This project would take advantage of past and current efforts, and augment these where necessary.

A critical part of this analysis will be to update information on saturation rates for various energy efficiency applications. As with the technical potential part of this study, this effort would rely on existing and ongoing efforts, such as the Residential Appliance Saturation Survey (RASS) or the Commercial End Use Survey (CEUS) being conducted by the CEC, and augment these studies where necessary.

The result of this combined technical and current penetration/saturation analysis will be to produce an overall strategic and statewide picture of energy efficiency potential in the state during the next ten years.

c. Best Practices Analysis for All Sectors

The Commission wishes to develop a comprehensive understanding of the state of energy efficiency program design and implementation efforts (for all

sectors) throughout the nation. The Commission intends to establish a Best Practices database and website that can be used by PGC applicants to assist them in designing the most efficient and effective energy efficiency programs possible for the citizens of the state. The focus of this effort will be on developing in-depth Best Practices profiles for the conception, administration, and implementation of energy efficiency programs.

This effort will establish the initial database. The Commission intends to stay abreast of Best Practices and to that end will update its database on an ongoing basis. The Commission seeks a team with the necessary scope and breadth of knowledge about the subject. It will be important for the team to have experience developing methodologies for side-by-side comparisons of program designs in various contexts.

d. Development of Deemed Savings Values

For this area, the Commission seeks expert evaluation of "*ex ante*" (projected) or deemed savings estimates of energy savings associated with a set of reasonably predictable energy efficiency measures. Currently, the CEC's Database for Energy Efficiency Resources (DEER) is the most comprehensive resource for program planners to use when projecting energy savings associated with particular program activities. This database, though updated periodically, is primarily for use by technical experts. In developing a set of deemed savings values for the state, the Commission seeks to simplify the assumptions used to project energy savings into a user-friendly format accessible to a wider audience. The goal of this effort would be to produce an Internet-accessible, searchable tool containing best-available deemed savings values for all regions of the state, grouped by sector, building type, end-use, and climate zone (where applicable).

The Commission is open to exploring the most cost-effective and reasonable approach to creating this program planning tool. We will require rigorous and defensible data to support this tool, but also seek expertise in making the tool easy to use without compromising accuracy.

e. Update of Avoided Cost Inputs

The need for this project originally surfaced in relation to AB 970, signed by the Governor in September 2000, which resulted in the Commission creating a new set of self-generation and demand-responsiveness programs. In the decision implementing those programs, D.01-03-073, the Commission stated the following:

> An appropriate cost-effectiveness method for future, longer-term programs still needs to be developed. Energy Division's proposal to hire an independent consultant to perform such a task, utilizing funds appropriated for implementation of AB 970, is a reasonable approach. The scope of work should encompass the development of methodologies, input assumptions and forecasts for addressing [Public Utilities Code] § 399.15(b)(8) and other cost-effectiveness issues. In particular, we seek to develop a cost-effectiveness methodology that can be used on a common basis to evaluate all programs that will remove electric load from the centralized grid, including energy efficiency, load control/demand-responsiveness programs and self-generation.[6]

We seek proposals to update the avoided cost assumptions included in Attachment 1, Chapter 4 of this Decision. These include avoided costs of electric generation, gas procurement, electric and gas transmission and distribution, and

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[6] *See* D.01-03-073, *mimeo.*, at 36, Section 4.7.

environmental externalities. In addition, we are aware that some utilities have been investigating modifying their definitions for peak and off-peak periods, which would result in a shift of avoided costs for various seasons and time periods. This project would result in a new comprehensive statewide valuation of the benefits (in the form of avoided costs) being produced by the programs we authorize.

D. Process for Submission and Selection of Proposals

In general, the Commission will evaluate program proposals using a somewhat different process than in prior years. Program proposals from utilities and non-utilities will be considered on an equal basis. Thus, all submissions for funding will be treated simply as proposals, and the utilities are requested not to file their program plans as either advice letters or applications. Instead, both utilities and non-utilities will be required to follow the instructions given below.

1. Proposal Preparation and Submission

The Commission will consider all proposals falling into the program categories described in this decision and meeting the foregoing criteria/policy rules. Proposals should follow the rules set forth in Attachment 1 to this decision, the Energy Efficiency Policy Manual, and any other relevant documents referenced in Attachment 1.

In general, proposals should be submitted on a program-by-program basis and should indicate clearly upfront the type of program, the amount of funding sought, and the source of the funding (*e.g.*, electric PGC, gas surcharge, Power Authority financing). For example, a statewide information campaign application might indicate that it is a statewide cross-cutting program proposal. A proposal to support building codes and standards in San Jose, for example,

would indicate that it is a local cross-cutting program seeking funding in the PG&E territory.

There will be no limit on the number of program proposals or the value of the funding requests submitted by one entity.

In some cases, we will fund programs over a two-year cycle. Thus, proponents should submit program budgets and calendars projected over both a one and a two-year cycle.

Proposals are due at the Commission's offices no later than 5:00 p.m. Pacific Standard Time on December 7, 2001. No late proposals will be accepted, and parties will not be allowed to supplement their proposals after the due date, absent an order of this Commission, the assigned Commissioner or the assigned Administrative Law Judge (ALJ).

Parties should file one unbound original and five copies of each program proposal at one of the following addresses:

California Public Utilities Commission
Docket Office
505 Van Ness Avenue, 2nd Floor
San Francisco, CA 94102
(415) 703-2121 (between 10:00 am – 3:00 pm)

California Public Utilities Commission
320 West 4th Street, Ste. 500
Los Angeles, CA 90013
(213) 576-7000

California Public Utilities Commission
1350 Front Street, Room 4006
San Diego, CA 92101-3611
(619) 525-4217

Questions about assembling proposals should be directed to (415) 703-2776 (Energy Efficiency Hotline), and not to the Commission's Docket Office.

On or before December 7, 2001 at 5:00 p.m., parties shall serve their proposals by e-mail on the service list for this proceeding in accordance with the Electronic Service Protocols that accompanied the OIR, which we reproduce here as Attachment 2.

Parties shall label all proposals with the proceeding number R.01-08-028 and the words "2002-03 Energy Efficiency Program Selection."

2. Proposal Selection

The Commission will conduct a workshop to assist parties wishing to submit 2002-03 energy efficiency proposals on Monday, November 19, 2001, at 10:00 a.m. at the following address:

Hiram W. Johnson State Office Building
455 Golden Gate Avenue
Hearing Room 9
San Francisco, CA 94102

The Commission delegates to the Assigned Commissioner, the assigned ALJ, and/or the Commission's Energy Division the task of reviewing all proposals and making a recommendation to the Commission of the proposals selected for funding. Each program proposal will be evaluated on an individual basis using the point system described in Section III (A)(2) above and then ranked. After the point scores and ranks are established, the Assigned Commissioner, ALJ, and/or Energy Division staff will assemble recommended proposals into a balanced energy efficiency portfolio for the state for the 2002-03 period.

The Commission will then vote on the recommended proposals. We will endeavor to select 2002-03 programs in time to minimize potential disruptions during the transition from program year 2001 programs and the 2002-03 funding cycle.

To avoid a program funding gap during the early part of 2002 prior to Commission authorization of new programs for 2002-03, we authorize IOUs PG&E, SCE, SDG&E and SoCalGas to continue their Plan Year (PY) 2001 programs. In particular, each utility is authorized to spend an amount up to that shown in the following table. The source of these funds will be electric PGC and gas surcharge collections beginning January 1, 2002. Utilities are authorized to commit and/or spend these funds only until March 31, 2002. Funds uncommitted after March 31, 2002 should be held pending further authorization from the Commission. The IOUs may only use these funds in the program areas specified and may not shift funds among program areas. These funds also may only be spent on existing PY2001 programs as authorized in D.01-01-060.

First Quarter 2002 Authorized Funding by Program Area

Program Area	PG&E	SCE	SDG&E	SoCalGas	Total
Residential	4,108,769	2,772,000	1,314,000	963,182	9,157,951
Nonresidential	5,402,271	4,428,000	1,686,000	1,196,418	12,712,689
New Construction	2,377,760	1,800,000	750,000	539,900	5,467,660
Total	**11,888,800**	**9,000,000**	**3,750,000**	**2,699,500**	**27,338,300**

First Quarter 2002 Authorized Funding by Collection Source

Program Area	PG&E	SCE	SDG&E	SoCalGas	Total
Gas	1,445,499	0	644,531	2,699,500	4,789,530
Electric	10,443,301	9,000,000	3,105,469	0	22,548,770
Total	**11,888,800**	**9,000,000**	**3,750,000**	**2,699,500**	**27,338,300**

Utilities may also continue utilizing other funds the Commission authorized for specific energy efficiency purposes in 2001. These include funds that were the subject of advice letters 2334-G/2147-E (PG&E) and 1570-E (SCE). Utilities are also authorized to extend Summer Initiative programs and/or contracts until March 31, 2002, if an extension is mutually agreeable to the utility and contract recipient.

E. Process Once Proposals Are Selected

Once the Commission has made its 2002-03 program selections, it will direct the major California IOUs to execute standard contracts with those non-IOU providers awarded funding. We will furnish greater detail about these contracts when we announce our 2002-03 program selections, but we expect the contracts to address, at a minimum, the following issues:

- Dispute resolution in the event of disagreements between the IOU and the contractor, or the contractor and its customers
- Program evaluation and monitoring during the contract period, and methods to terminate the contract in the event of program failure or inadequacy
- Periodic reporting during and at the conclusion of the contract period
- Payment terms, conditions, process, and schedule

Parties should refer to Attachment 1, Energy Efficiency Policy Manual, for more details on this arrangement.

During the solicitation process, the Commission will withhold a small portion (approximately 5%) of the available funds for calendar year 2002, in order to allow for some future flexibility. The Commission likely will allocate this funding at some point during 2002 when it has more information about the success or failure of program proposals chosen during the initial selection process.

To help facilitate our monitoring and oversight of the expenditure of energy efficiency funds, we direct the large IOUs to report to the Assigned ALJ and the Energy Division on a monthly basis, no later than the 21st day of each month for the previous month, beginning January 21, 2001, the following accounting information:

Electric public purpose funding:

- Collections for the previous month of electric public purpose funds earmarked for energy efficiency, by rate schedule
- Cumulative collections of electric public purpose funds earmarked for energy efficiency, by rate schedule, for the entire calendar year, up to close of previous month
- Payments made in the previous month to providers of energy efficiency programs, by provider
- Cumulative total, calendar year to date, of payments made to energy efficiency program providers, by provider
- Unspent, uncommitted, or unallocated carryover funds collected between 1998 and 2001, inclusive
- Unspent, uncommitted, or unallocated electric DSM funds (collected prior to 1998)

Gas surcharge funding:

- Collections for the previous month of gas surcharge funds earmarked for energy efficiency, by rate schedule
- Cumulative collections of electric public purpose funds earmarked for energy efficiency, by rate schedule, for the entire calendar year to date
- Payments made to the State Board of Equalization for previous month, relating to energy efficiency
- Calendar year to date payments made to the State Board of Equalization, relating to energy efficiency
- Payments received in the previous month from the State Board of Equalization or the Commission, of gas surcharge funds for energy efficiency
- Cumulative summary of payments received in the calendar year from the State Board of Equalization or the Commission, of gas surcharge funds for energy efficiency

- Payments made in the previous month to providers of energy efficiency programs, by provider
- Cumulative total, calendar year to date, of payments made to energy efficiency program providers, by provider
- Unspent, uncommitted, or unallocated carryover funds collected in 2001 and any prior years.

We direct the Energy Division, working with the IOUs, to develop a standard format for reporting of this information no later than January 1, 2002.

We delegate to the Assigned Commissioner, assigned ALJ, and/or the Energy Division responsibility for program monitoring and follow-up once the Commission has selected 2002-03 programs for funding. This follow-up may include, but shall not be limited to, facilitating dispute resolution, making program modifications in the event of problems, gathering public feedback on program efficacy, and responding to questions and complaints regarding funded programs.

IV. Comments on Draft Decision

Section 311(g)(1) of the Pub. Util. Code provides that this decision must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Pursuant to Pub. Util. Code § 311(g)(3), and Commission Rule 81(h), we reduce the 30-day period for comment on this draft decision due to public necessity. It is necessary to put 2002 energy efficiency programs in place with a minimum of program disruption. Therefore, we reduce the comment period to allow the Commission time to adopt rules, parties to file program proposals, and the Commission to select programs early in 2002.

Parties may comment on the energy efficiency policy rules on or before November 5, 2001. Parties may comment on the 2002-03 proposals submitted no

later than December 20, 2001, but shall direct their comments to pointing out calculation and other objective errors in others' proposals, rather than comparing others' proposals to their own.

Parties shall e-mail their proposals and comments to the service list using the Electronic Service Protocols that accompanied the OIR, which we reproduce here as Attachment 2.

Findings of Fact

1. Rules regarding the Commission's energy efficiency policies will help parties seeking energy efficiency funding tailor their proposals to the Commission's goals.

2. To assist in ensuring continuity of programs from year to year, a two-year program cycle for 2002-03 is appropriate.

3. The mix of programs the Commission funds each program period should vary based on the experience of prior program periods in order to increase access to energy efficiency programs across sectors of the economy.

Conclusions of Law

1. The Commission should adopt rules governing energy efficiency programs funded by charges falling under its jurisdiction.

2. For the 2002-03 period, the proposed mix of programs set forth in the body of this decision is reasonable.

INTERIM ORDER

IT IS ORDERED that:

1. The Commission adopts the energy efficiency policy rules set forth in Attachment 1 to this decision, Energy Efficiency Policy Manual.

2. Parties seeking energy efficiency funds for the period 2002-03 shall tailor their proposals to the rules set forth in the Energy Efficiency Policy Manual and Section III(B) of this decision.

3. Parties seeking energy efficiency funds for the period 2002-03 shall tailor their proposals to the program mix set forth in Section III(C) of this decision.

4. Parties shall deliver their proposals to the Commission's offices no later than 5:00 p.m. Pacific Standard Time on December 7, 2001. No late proposals will be accepted, and parties will not be allowed to supplement their proposals after the due date, absent an order of this Commission, the assigned Commissioner or the assigned Administrative Law Judge (ALJ).

5. Parties shall file one unbound original and five copies of each program proposal at one of the following addresses:

California Public Utilities Commission
Docket Office
505 Van Ness Avenue, 2nd Floor
San Francisco, CA 94102
(415) 703-2121 (between 10:00 am – 3:00 pm)

California Public Utilities Commission
320 West 4th Street, Ste. 500
Los Angeles, CA 90013
(213) 576-7000

California Public Utilities Commission
1350 Front Street, Room 4006
San Diego, CA 92101-3611
(619) 525-4217

Questions about assembling proposals should be directed to (415) 703-2776 (Energy Efficiency Hotline), and not to the Commission's Docket Office.

Also on that date, parties shall serve their proposals by e-mail on the service list for this proceeding in accordance with the electronic service protocols that accompanied the OIR, which we reproduce here as Attachment 2.

Parties shall label all proposals with the proceeding number R.01-08-028 and the words "Energy Efficiency Program Selection."

6. The Commission will conduct a workshop to assist parties wishing to submit 2002-03 energy efficiency proposals on Monday, November 19, 2001, at 10:00 a.m. at the following address:

Hiram W. Johnson State Office Building
455 Golden Gate Avenue
Hearing Room 9
San Francisco, CA 94102

7. The Commission delegates to the Assigned Commissioner, the assigned Administrative Law Judge (ALJ), and/or the Commission's Energy Division the task of reviewing all proposals and making a recommendation to the Commission of the proposals selected for funding.

8. To avoid a program funding gap during the early part of 2002 prior to Commission authorization of new programs for 2002-03, investor-owned utilities (IOUs) Pacific Gas & Electric (PG&E), San Diego Gas & Electric (SDG&E), Southern California Edison (SCE), and Southern California Gas Company (SoCalGas) shall continue their Program Year (PY) 2001 programs as set forth in the body of this decision. The IOUs are authorized to commit and/or spend these funds only until March 31, 2002.

9. The foregoing IOUs shall report to the Assigned ALJ and the Energy Division on a monthly basis, no later than the 21st day of each month for the previous month, beginning January 21, 2001, the accounting information set forth in the body of this decision. The IOUs shall work with the Energy Division to

devise a standard format for reporting of this information no later than January 1, 2002.

10. We delegate to the Assigned Commissioner and ALJ, and the Energy Division, responsibility for program monitoring and follow-up once the Commission has selected 2002-03 programs for funding. This follow-up may include, but shall not be limited to, facilitating dispute resolution, making program modifications in the event of problems, gathering public feedback on program efficacy, and responding to questions and complaints regarding funded programs.

This order is effective today.

Dated _____, at San Francisco, California.

Attachment 1
Energy Efficiency Policy Manual

NOTE: See CPUC Formal File for Attachment 1

Attachment 2

ELECTRONIC SERVICE PROTOCOLS
(Page 1)

Party Status in Commission Proceedings

These electronic service protocols are applicable to all "appearances." In accordance with Commission practice, by entering an appearance at a prehearing conference or by other appropriate means, an interested party or protestant gains "party" status. A party to a Commission proceeding has certain rights that non-parties (those in "state service" and "information only" service categories) do not have. For example, a party has the right to participate in evidentiary hearings, file comments on a proposed decision, and appeal a final decision. A party also has the ability to consent to waive or reduce a comment period, and to challenge the assignment of an Administrative Law Judge (ALJ). Non-parties do not have these rights, even though they are included on the service list for the proceeding and receive copies of some or all documents.

Service of Documents by Electronic Mail

For the purposes of this proceeding, all appearances shall serve documents by electronic mail, and in turn, shall accept service by electronic mail.

Usual Commission practice requires appearances to serve documents not only on all other appearances but also on all non-parties in the state service category of the service list. For the purposes of this proceeding, appearances shall serve the information only category as well since electronic service minimizes the financial burden that broader service might otherwise entail.

Notice of Availability

If a document, including attachments, exceeds 75 pages, parties may serve a Notice of Availability in lieu of all or part of the document, in accordance with Rule 2.3(c) of the Commission's Rules of Practice and Procedure.

Attachment 2

ELECTRONIC SERVICE PROTOCOLS
(Page 2)

Filing of Documents

These electronic service protocols govern service of documents only, and do not change the rules regarding the tendering of documents for filing. Documents for filing must be tendered in paper form, as described in Rule 2, *et seq.*, of the Commission's Rules of Practice and Procedure. Moreover, all filings shall be served in hard copy (as well as e-mail) on the assigned ALJ.

Electronic Service Standards

As an aid to review of documents served electronically, appearances should follow these procedures:

- Merge into a single electronic file the entire document to be served (*e.g.* title page, table of contents, text, attachments, service list).

Attach the document file to an electronic note.

In the subject line of the note, identify the proceeding number; the party sending the document; and the abbreviated title of the document.

Within the body of the note, identify the word processing program used to create the document. (Commission experience indicates that most recipients can open readily documents sent in Microsoft Word or PDF formats

If the electronic mail is returned to the sender, or the recipient informs the sender of an inability to open the document, the sender shall immediately arrange for alternative service (paper mail shall be the default, unless another means is mutually agreed upon).

Attachment 2

ELECTRONIC SERVICE PROTOCOLS
(Page 3)

Obtaining Up-to-Date Electronic Mail Addresses

The current service lists for active proceedings are available on the Commission's web page, www.cpuc.ca.gov. To obtain an up-to-date service list of e-mail addresses:

Choose "Proceedings" then "Service Lists."

- Scroll through the "Index of Service Lists" to the number for this proceeding.
- To view and copy the electronic addresses for a service list, download the comma-delimited file, and copy the column containing the electronic addresses.

The Commission's Process Office periodically updates service lists to correct errors or to make changes at the request of parties and non-parties on the list. Appearances should copy the current service list from the web page (or obtain paper copy from the Process Office) before serving a document.

Pagination Discrepancies in Documents Served Electronically

Differences among word-processing software can cause pagination differences between documents served electronically and print outs of the original. (If documents are served electronically in PDF format, these differences do not occur.) For the purposes of reference and/or citation in cross-examination and briefing, all parties should use the pagination found in the original document.

(END OF ATTACHMENT 2)