Commissioner Ferron's remarks on D.11-10-014 – DECISION REGARDING PUBLIC PURPOSE PROGRAM FUNDS on Natural Gas PPP shift – October 6, 2001.

Colleagues,

I present for your consideration item 33A, my alternate decision dealing with Senate Bill 87, in which the Legislature took $155 million from gas Energy Efficiency programs to try to close the state's budget gap. I admit to some mixed feelings in introducing my alternate. The only real difference between my alternate and ALJ Farrar's decision, item 33, is in the amount of unspent funding for electricity Efficiency used to backfill the missing gas funds. My decision brings the amount of gas EE spending closer to what it would have been without the Legislature's action by **using whatever funds the utilities have leftover for electric efficiency** , in addition to unspent gas funding and funding for program Evaluation, Measurement and Verification (EM&V).

ALJ Farrar's decision uses the unspent gas and EM&V spending, but **only a percentage of the electric funding.** His reasoning is that the Commission's Energy Efficiency Policy Manual disallows transferring all of the unspent electric funding to gas programs. The Manual states that electric EE funding may not be used for gas programs. Thus, Judge Farrar uses only 18 percent of those electric funds, based on a formula this Commission applied in a prior decision, which recognizes that ratepayers spend approximately 18 percent of EE program dollars on gas measures, and the remainder on electric measures.

I find, in contrast, that the Policy Manual – at least this one provision about electric to gas funding transfers – is but a statement of Commission <u>policy</u>, and not a legal requirement. The Commission indeed has disregarded the Policy Manual in the past and allowed such transfers. I also find that there are reasons why that policy should not apply here:

1. The Legislature took the gas funding **not** because it thought gas EE programs were of lesser value than electric programs, but because the gas funding was held in a Board of Equalization account and thus was accessible to close the gap in the General Fund. By contrast, electric funds were, and are, held by the utilities, so the Legislature could not take them.
2. In many cases – especially where EE programs involve whole house or whole building retrofits – the gas measures are an integral complement to the electric measures. Taking away gas programs only undermines the Commission's Strategic Plan goal of ensuring that all cost-effective EE measures should be in an affected home or business.

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So why am I ambivalent about restoring the maximum amount of EE funding possible? I have spent the past 6 months immersing myself in the details of our regulated utility EE programs. I have talked to many stakeholders, experts and staff as you all did yesterday here in Los Angeles. While I continue to believe that EE is and should be the State's top priority resource and the best way to ameliorate global climate change, I am dissatisfied with several aspects of our current EE programs:

1. It really concerns me that the investor owned utilities have such large unspent balances sitting in EE accounts. Why? Are we giving them too much money? Is their commitment to spending it appropriately less than it should be? Whatever the cause, it troubles me, and I understand that unspent balances from prior funding periods are the rule, not the exception. In these lean times, we cannot afford excess in <u>any</u> program. I plan to examine this issue more closely going forward, and have added an audit to my alternate PD to examine why the balances are there.
2. I am concerned that despite a clear directive prior to issuance of proposed decisions, I was not furnished with a list of EE programs in rank order of their cost effectiveness, and have noted in my alternate that IOU adherence to orders and rulings is a requirement.

3. It is clear to me that our EE programs are far too numerous and complex, and that some of them are not effective at all. For example, last month I asked the IOUs to suspend spending on the statewide EE marketing brand called "Engage 360" – pending further evaluation. In my opinion, both the brand and the marketing campaign lack focus. While I believe that effective marketing and outreach is a key part of promoting Energy Efficiency, I cannot support spending large amounts of scarce ratepayer money on this campaign without clear evidence that it is well thought out or likely to produce success. This too will be the subject of my close examination as my work on EE continues.
4. Our focus is too much on low cost programs in which the EE benefits have short term payback, but where the market has already transformed and there are now ample markets for these products. In short, we give out too many lightbulbs and fund too much appliance recycling. In both of these areas, in my preliminary view, we are subsidizing markets that have already been transformed and no longer need ratepayer support. Big box retailers routinely offer appliance recycling with the purchase of a new appliance. Lightbulbs – especially compact florescent giveaways – certainly deliver energy savings, and the programs to give these away most certainly help the utilities deliver on their efficiency goals. But subsidizing lightbulbs does little to spur real change in the many homes and buildings around the State which lack of fundamental energy efficiency measures and does virtually nothing to reduce peak load. Further, legal requirements that incandescent lighting be phased out will ensure that, to the extent the market is not already fully transformed, it will become so.
5. Finally, we also need to actively look at ways that we can bring in private capital to help fund EE measures - - in particular, retrofits of existing buildings. Here the energy efficiency gains are superior but - - in this financial environment - - people do not have the access to capital to fund the up-front costs of refitting. I will continue to work with staff here at the CPUC as well as in the Treasurers Office and with third parties to investigate how to effectively leverage ratepayer money with private funding to get greater bang for the buck.

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In the end, with my alternate I have tried to send a clear and consistent signal to the marketplace. I believe that to drastically curtail gas EE programs all in one year because gas EE program funds are held in public accounts seems terribly unfair to parties – such as the University of California and Cal State University systems – that are counting on such funding.

I assure you, however, that I plan to take a very close look at our EE programs, especially in the areas I outline here, and others. For today, however, I urge your yes vote on item 33a. I want to thank Judge Farrar for his work on the proposed decision.