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CPUC Proposes Big Bonuses to Utilities for D Minus Savings

A proposed decision by the California Public Utilities Commission (CPUC) would award handsome 9 to 12% profits to utilities for energy efficiency — based largely on their *intentions* rather than their actual performance. It would also lower the minimum for which profits are “earned” to a D Minus achievement — only 65% of energy savings goals. (Formerly it was 85%.) The Commission plans to vote Jan. 31st.

WEM's Executive Director Barbara George stated, “These modifications to the ‘shareholders incentives’ decision of 2007 would force ratepayers to pay hundreds of millions of dollars in undeserved profits. It sends the wrong message to CA utilities — rewarding them for cynical exaggerations of energy savings and poor performance.”

The proposed decision allows utilities to pocket 50% of the profits mid-program, without having to wait until savings are measured by neutral parties in 2009, after the end of the 2006-08 program cycle. The interim payments would rely mostly on utilities' own estimates (filed in their program proposals) of what they *intended* to save. (The decision asserts that these estimates will be updated according to “best available data” but doesn't clearly identify data sources. The Commission has no routine procedures for updating data, and often backs down when utilities hotly dispute studies that make them look bad.)

WEM, a public interest party in CPUC proceedings, has complained since 2003 that utilities were grossly exaggerating their energy savings, especially for Compact Fluorescent Lights (CFLs), which constitute over half the savings in many programs. Other parties SESCO, CSBE and later TURN and DRA also objected to inflated claims.

In 2005, the official study of utilities' 2002-03 small business programs established that CFL savings in those programs were overstated by an astounding 400%. However, the Commission did not order a wide review, and allowed utilities to continue to file exaggerated savings claims in many 2006-08 program proposals.

The other shoe finally dropped when measurement studies of 2004-05 residential programs were published in fall 2007, revealing abominable utility performance (see *Measurement Studies*, below). This was the first set of studies conducted after CPUC decided to take control of measurement; previously, utilities were in charge of measuring their own savings. (WEM questions why 2004-05 studies were delayed for over a year. They were made public *after* the Commission's approved shareholders incentives.)

When the 2004-05 studies appeared, the utilities ran to Meg Gottstein, the Administrative Law Judge who wrote the 2007 shareholders incentives decision as well as a similar one in 1994. Utilities feared they would have to return interim payments if the final results for 2006-08 programs were as bad as 2004-05. They argued that they couldn't possibly foresee such reductions (ignoring four years of controversy), and complained that Wall

St. could not count on these profits, and therefore utilities would be less motivated to save energy. ALJ Gottstein met with utilities to coach them on their request for modifications, and retired Jan. 9th after drafting the proposed decision.

In addition to failing to insist on credible savings estimates, the Commission has ignored WEM's call for utilities to report *where* efficiency funds are spent and where savings are achieved. Ms. George explained: "Location data is essential to determine whether energy efficiency is actually reducing the need for new supply-side resources — power plants and wires — which are highly location-specific. In an era when we need to grapple seriously with climate change, it's sad that these programs are not really designed to 'defer or displace supply-side resources,' which is the Commission's justification for the expense of these programs and the shareholders incentives."

George added, "Having no requirement for utilities to report where they spend \$2.7 billion hands them an enormous political slush fund. Nothing prevents utilities from concentrating efficiency funds for self-serving ends, for example to counteract efforts by citizens and public officials to create Community Choice or public power jurisdictions. Utilities are also allowed to spend large amounts of this money for advertising and marketing which do little to save energy but are a bonanza for utility greenwashing."

George concluded, "The proposed decision perpetuates the Commission's long-time failure to protect ratepayers from utility gaming of energy efficiency. It caters to utilities and their investors at the expense of California's economy — hurting both business and residential ratepayers and sucking even more money out of California communities for ever-higher energy costs. WEM has always opposed shareholders incentives, because there is a much better way to improve efficiency: remove utilities' conflicts of interest with saving energy by removing utilities from control of these programs. Independent energy efficiency providers— cities, small businesses and non-profits — have no conflict of interest, and they demonstrated in a 2002-05 CPUC experiment that they save more energy per dollar than utilities."

2004-05 Final Measurement Studies – Major Residential Programs

Statewide Multifamily evaluation:

http://www.calmac.org/publications/1118-04_MultiFamily_Rebate_evaluation_-_Volume_I.pdf - achieved only 32% of kWh savings projections, 31% of peak demand savings, and 15% of natural gas (therm) savings (see p. 6-26)

Statewide Residential Retrofit Single-Family evaluation

http://www.calmac.org/publications/CPUC-ID_1115-04_2004-2005_SFEER_Eval_REPORT.pdf - achieved only 48% of kWh savings projections, 31% of "peak demand" savings, and 37% of natural gas savings (see p. 1-19)

(Statewide) CA Energy Star New Homes

http://www.calmac.org/publications/Final_Version_of_04-05_CAESNH_report-2.pdf - Low-rise multifamily new homes in coastal regions achieved *only* 3% of kWh projections; inland regions achieved 19%; coastal regions achieved only 27% of natural gas savings, Inland 28% (see p. 89). High rise was *minus 143%* (see p. 98).