Date of Hearing: May 4, 2011

ASSEMBLY COMMITTEE ON UTILITIES AND COMMERCE
Steven Bradford, Chair
AB 904 (Skinner) – As Amended: April 14, 2011

SUBJECT: Energy efficiency.

SUMMARY: Requires the California Public Utilities Commission (PUC) to evaluate the efficacy of the energy efficiency programs. Specifically, this bill:

1) Requires the PUC to ensure energy efficiency programs do the following:

   a. result in real reductions in energy consumption;

   b. examine alternatives to traditional administration, delivery, and evaluation mechanisms for energy efficiency services, and

   c. examine the establishment of a program for on-bill financing for residential retrofit and improvement of heating, ventilation, and air conditioning.

2) Requires the PUC to consult and coordinate with the California Energy Commission (CEC) in achieving these results.

EXISTING LAW:

1) States that PUC has regulatory authority over public utilities.

2) Authorizes PUC to fix the rates and charges for every public utility and requires those rates and charges to be just and reasonable.

3) States the Public Utilities Act requires the PUC to review and adopt a procurement plan for each electrical corporation in accordance with specified elements, incentive mechanisms, and objectives.

4) States the Public Utilities Act requires that an electrical corporation's proposed procurement plan include certain elements, including a showing that the electrical corporation will first meet its unmet needs through all available energy efficiency and demand reduction resources that are cost effective, reliable, and feasible.

5) States the Public Utilities Act requires the PUC, in consultation with the CEC, to identify all potentially achievable cost-effective electricity efficiency savings and to establish efficiency targets for electrical corporations to achieve pursuant to their procurement plan.

6) Requires the CEC to establish, by March 1, 2010, a regulatory proceeding to develop a comprehensive program to achieve greater energy savings in the state's existing residential and nonresidential building stock.

7) Requires the PUC, by March 1, 2010, to open a new proceeding or amend an existing proceeding to investigate the ability of electrical corporations and gas corporations to provide various energy efficiency financing options to their customers for the purposes of implementing the CEC program.

FISCAL EFFECT: Unknown.

COMMENTS: According to the author, this bill seeks to discover whether energy efficiency programs, which encompass billions of dollars for the investor-owned utilities, are run efficiently. The author states that the IOUs have received incentive payments on these energy efficiency dollars, even though in the view of the Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN), they did not effectively and efficiently meet their energy savings goals.

1) Background: Energy efficiency is the first priority in California's loading order for energy resources. Energy efficiency typically refers to the installation of energy efficient technologies or tools to reduce energy usage and eliminate energy losses in homes, businesses, or in new construction. An energy efficient home or business can help you reduce your energy usage while maintaining comparable service, thereby saving money on your utility bill.

Since the 1970s, the PUC has overseen the funding and design of energy efficiency programs in California. These programs promote cost-effective, environmentally beneficial investments in energy saving products and technologies. The energy efficiency programs provide numerous benefits to California and its residents by reducing energy bills, conserving valuable resources for future generations, and preserving the environment.

California's energy efficiency programs have historically encompassed some of the largest and most effective programs in the United States, providing a model for utility programs across the country. At their peak, the expenditures for California's energy efficiency programs rose to $400 million in 1993 and 1994. Investments in energy efficiency declined during the '90s as the electric utilities prepared for industry restructuring, but are again increasing, from $247 million in 1999 to $292 million projected in 2000, with an additional $72 million for the Summer Initiative.

With the restructuring of California's electricity market under AB 1890 (Brulte, Chapter 854, Statutes of 1996) the PUC established a new policy framework for energy efficiency programs in 1998. Recognizing the need to reduce market barriers for energy saving products and technologies, the PUC has focused on developing a sustainable, competitive market for energy efficient products and services, as well as saving energy and peak demand.

2) Strategic plan: In 2008, the PUC adopted the landmark California Energy Efficiency Long Term Strategic Plan. The programs and budgets authorized in this decision will make significant progress toward the PUC's Strategic Plan goals and its adopted Big, Bold Energy Efficiency Programmatic Initiatives, including taking the next steps towards achieving zero net energy homes in California as standard practice by 2020 and zero net energy commercial buildings by 2030.

3) IOUs EE programs: Each of California's utilities administers energy efficiency programs

designed specifically for their customers' needs. The utilities oversee a set of programs to decrease energy use in lighting and appliances, heating, ventilation, air conditioning (HVAC) systems and motors.

The lighting and appliance programs are designed to improve consumer awareness of the energy and non-energy benefits of efficient lighting and appliances, increase the availability and demand for these products, and promote emerging technologies.

Programs focused on the HVAC systems seek to encourage the replacement of inefficient systems with efficient ones, increase consumer recognition of ENERGY-STAR products, increase training of trade professionals in efficient HVAC systems, encourage design using the "whole-systems" approach, and support the improvement of efficiency standards. These programs accomplish these goals by: 1) educating consumers through bill inserts and call centers; 2) providing training and technical assistance to HVAC contractors and distributors; 3) providing financial incentives to distributors and installers for stocking and installing efficient units, 4) managing Standard Performance Contract (SPC) programs for commercial customers, and 5) providing financing to residential customers for energy efficient HVAC projects.

The motors programs endeavors to promote optimal motor system design and sizing, facilitate consumer purchase of efficient motors and increase the understanding of motor life-cycle costs. These programs accomplish these goals by offering training and technical assistance to encourage optimal system design and life-cycle cost analysis, supplying on-site motor efficiency tests, managing Standard Performance Contract (SPC) programs, and providing financial incentives to motor distributors to stock and sell greater numbers of high-efficiency motors.

The utilities also administer programs that target customers when investment decisions are made during retrofits and renovations and during the new construction on buildings and homes. The retrofits and renovations programs are designed to: 1) increase energy efficient investments at the time of retrofit, renovation, or sale of a home; 2) link interested customers with providers of energy retrofit services, and 3) increase the training of professionals who perform energy efficient retrofits.

Many different market participants can increase the likelihood of an energy efficiency retrofit. These programs not only target residential and commercial customers who either own or are buying a building (including multifamily houses, large energy customers, and governments) but also trade professionals (including engineers, designers, contractors, and energy consultants), real estate agents, mortgage professionals, and home inspectors.

The utilities' retrofit and renovation programs include: 1) providing information to customers planning to buy, sell, or renovate a building on retrofit providers and ENERGY-STAR windows, equipment, lighting, appliances, etc.; 2) making energy audits available to customers to assist them in determining their efficiency retrofit needs; 3) providing training and technical assistance for trade professionals through libraries and trade shows, and 4) provide financing and residential customers for energy efficient projects.

The new construction programs seek to increase the number of energy efficient new homes and buildings being built, promote the ENERGY-STAR New Homes brand, raise awareness of the existence and benefits of energy efficient home mortgages, promote energy efficiency in the professions of architecture and engineering, and promote construction exceeding Title 24 building standards.

This bill seeks to address whether there exists a more innovative round of policies which can lead to actual reductions in energy consumption throughout the system.

4) Incentive mechanism controversy: In 2005, the PUC approved the utilities' request to spend $2 billion of ratepayer dollars on energy efficiency programs with the expectation that the investment would reap $2.7 billion in net benefits for customers.

In December 2010, the PUC voted 3-2 to award Pacific Gas & Electric Company (PG&E), Southern California Edison (Edison), San Diego Gas & Electric Company (SDG&E) and Southern California Gas Company (SoCalGas) a combined $68 million in shareholder incentives for the utilities 2006-08 energy efficiency programs. These bonuses came in addition to $143.7 million in incentives already paid to the utilities for the same underperforming programs.

An independent PUC staff report released in April 2010, found that on average the utilities' reached only 70 percent of their 2006-08 PUC prescribed energy savings targets. According to a press release issued by the Division of Ratepayer Advocates, PG&E, Edison, and SDG&E underperformed enough to trigger shareholder penalties. DRA's press release further notes that the PUC's analysis showed that the portfolios of SDG&E and SoCalGas actually cost ratepayers more money than the benefits they delivered, which is inconsistent with the PUC's obligation to oversee cost-effective energy efficiency portfolios. In contrast, the utilities' self-reported achievements claim they achieved 160 percent of their goals. Despite the staff analysis, the PUC awarded the additional bonuses and allowed the utilities' shareholders to keep the previously awarded incentive payments.

5) IOUs 2010-2012 EE portfolio: On September 24, 2009, the PUC approved funding and programs for the 2010-2012 energy efficiency program cycle. The PUC authorized $3.1 billion in funding for energy efficiency programs that are projected to save 7000GWh, 3460MW, and 150 MMTherms. The funding is 42% higher than the prior three-year cycle and will support programs designed to produce deeper and more comprehensive savings that the PUC believes California's utilities can and will achieve. According to the PUC, these programs and related energy savings are a key component of California's broader energy policies and greenhouse gas mitigation strategies.

6) Things to consider: This bill would require the PUC to ensure energy efficiency programs result in real reductions in energy consumption. It is unclear how the author is defining "real reductions". Therefore, the author and this committee may wish to amend the bill to direct the PUC to seek to ensure real absolute reductions in energy consumption. Furthermore, the author and this committee may wish to amend this bill to clarify that the energy efficiency programs to be evaluated are those within the jurisdiction of the PUC. This bill should be amended to add clear definition of terms, timeframes, the scale at which this mandate should be assessed, and baseline year(s) against which to assess absolute consumption reductions.

Presently, the PUC has ongoing proceedings which focus on various aspects of energy efficiency. The author and this committee may wish to amend this bill to require the PUC to incorporate the provisions of this bill into an existing PUC proceeding on energy efficiency.

Additionally, this bill requires the PUC to examine the establishment of a program for on-bill financing for residential retrofit and heating, ventilation, and air conditioning (HVAC). This provision may be duplicative of Public Utilities Code Section 381.2 pursuant to AB 758 (Skinner, Chapter 470, Statutes of 2009). This bill required the PUC to open a new or amend an existing proceeding to investigate the ability of the utilities to provide energy efficiency financing options for comprehensive residential and commercial retrofit programs to be established pursuant to Public Resources Code Section 25943. This has been underway since September 2009 when Decision 09-09-047 directed the PUC to undertake comprehensive research on energy efficiency financing gaps and needs for California and to produce a comprehensive energy efficiency financing report. The PUC has hired new staff and secured consultant support in early 2010 in order to advance this goal. The resulting comprehensive energy efficiency financing report is expected out before the end June 2011. As such, the author and this committee may wish to strike this provision that requires the PUC to establish a program for on-bill financing for residential retrofit and HVAC.

REGISTERED SUPPORT / OPPOSITION:

Support

California Advocacy Committee of the United States Green Building Council (USGBC CAC)
California Association of Realtors
Division of Ratepayer Advocates (DRA)

Opposition

PacifiCorp (unless amended)

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