BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company for Approval of 2013-2014 Energy Efficiency Programs and Budget (U39M).	Application 12-07-001 (Filed July 2, 2012)
Application of San Diego Gas & Electric Company (U902M) for Approval of Electric and Natural Gas Energy Efficiency Programs and Budgets for Years 2013 through 2014.	Application 12-07-002 (Filed July 2, 2012)
Application of Southern California Gas Company (U904G) for Approval of Natural Gas Energy Efficiency Programs and Budgets for Years 2013 through 2014.	Application 12-07-003 (Filed July 2, 2012)
Application of Southern California Edison Company (U338E) for Approval of Energy Efficiency and Demand Response Integrated Demand Side Management Programs and Budgets for 2013-2014.	Application 12-07-004 (Filed July 2, 2012)

REPLY COMMENTS OF THE NATIONAL ASSOCIATION OF ENERGY SERVICE COMPANIES (NAESCO) ON THE PROPOSED DECISION IMPLEMENTING 2013-2014 ENERGY EFFICIENCY FINANCING PILOT PROGRAMS

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August 22, 2013

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NAESCO appreciates the opportunity to submit these Reply Comments in the above-cited matter. NAESCO joins the parties who earlier filed comments in their expression of appreciation for the work that Administrative Law Judge Darling has done in drafting the Proposed Decision and thus putting the critical issues in the launch of the financing pilots squarely before the parties.

Summary of NAESCO Comments

1. NAESCO supports the comments of many of the parties that the schedule for the launch of the Energy Efficiency Financing Entity (EEFE) is too aggressive and the proposed length of the pilot program is too short to adequately test the value of the new finance programs.

2. NAESCO supports the caution expressed by several parties about the costs of the proposed program startup, including the costs of the temporary EEFE and the costs of IOU billing IT investments in advance of demonstrated demand for the pilot program loans.

3. NAESCO supports the comments of SCE that the pilot programs require clear metrics for measuring their success or failure, and cautions that experience in other jurisdictions indicates that the failure of some of the pilot programs should be considered likely.

Discussion

NAESCO's detailed comments on these three issues are outlined below.

1. NAESCO supports the comments of many of the parties that the schedule for the launch of the Energy Efficiency Financing Entity (EEFE) is too aggressive and the proposed length of the pilot program is too short to adequately test the value of the new finance programs.

NAESCO supports the comments of a number of parties (LGSEC at 2-3, Joint Utilities at 6-7, PG&E at 2-3, SCE at 10-11) that the schedule proposed in the PD is unrealistically aggressive, given the legal issues involved in establishing the EEFE. NAESCO observes that the consequences of a few months delay in the launch of a well-structured program are not as potentially damaging as the premature launch of a defective program that will turn off lenders and customers. Given the necessary delays in the launch of the programs, it seems reasonable that the pilot programs should operate for two full years, to allow for a full test of the program hypotheses and execution (PG&E at 3).

2. NAESCO supports the caution expressed by several parties about the costs of the proposed program startup, including the costs of the temporary EEFE and the costs of IOU billing IT investments in advance of demonstrated demand for the pilot program loans.

NAESCO supports the comments of NRDC (NRDC at 2) and the Joint Utilities (Joint Utilities at 4-5) that the PD appears to require the IOUs to incur substantial expenditures that may be a waste of ratepayer funds. As NAESCO has previously commented, requiring the IOUs to invest in billing system modifications that are required to service a volume of loans before those loans actually materialize is not a sensible risk. NAESCO reminds the Commission that at the advent of utility deregulation, private companies spent hundreds of millions of dollars developing advanced billing systems to sell to utilities, on the theory that utilities would need such systems to service the billing of the tens of millions of customers that would choose non-utility energy supply. Almost all of that investment was lost, and the companies that made it disappeared, because the expected volume of customers never materialized. It would be a shame for the Commission to order the expenditure of ratepayer funds to build new IOU billing systems and find that the customers for those systems never appear.

Likewise, the Commission should not order SCG to build a "temporary" system to handle the functions that the Commission expects SCG to hand off to CAEATFA in a few months, because the value of the expenditures that SCG makes may not be transferable to CAEAFTA. NAESCO believes that it is more advisable for the Commission to order that the IOUs sort out the issues of having CAEATFA operate the EEFE, and then spend the ratepayer funds on the systems that CAEAFTA will need to perform its functions.

3. NAESCO supports the comments of SCE that the pilot programs require clear metrics for measuring their success or failure, and cautions that experience in other jurisdictions indicates that the failure of some of the pilot programs should be considered likely.

NAESCO supports the comments of SCE (SCE at 8) that the Commission should establish clear metrics for what constitutes the success or failure of the pilot programs in advance of the launch of those programs. NAESCO respectfully suggests that the Commission's belief that the availability of innovative financing will revolutionize the EE market and facilitate the accomplishment of the Commission's aggressive EE goals is an untested hypothesis, and the individual pilot programs represent, if you will, untested sub-hypotheses. The odds are very strong, as they are in all such innovative program efforts, that a number of the pilot programs will fail. In the venture capital world, two sustainable enterprises in ten investments is a sterling achievement. Given that the pilots will involve a number of community and regional organizations that are not necessarily accustomed to these harsh realities of business start-ups, NAESCO believes that the Commission should take extra care to establish clear metrics for program success, and obtain from the various program participants and stakeholders their explicit acceptance of those metrics, before any programs are funded. To proceed with vague metrics, or metrics that have more to do with political considerations than success in establishing sustainable financing business models is, in NAESCO's opinion, an unwise risk of ratepayers funds.

Conclusion

NAESCO therefore respectfully asks the Commission to rule as follows:

1. The Commission should establish a schedule for the launch of the pilot programs that is realistic and agreed by a consensus of the stakeholders that actually have to deliver the programs, and should allow the pilot programs to continue for a full two years after their launch.

2. The Commission should not require the IOUs to invest in billing system modifications to service the pilot programs unless/until the volume of customers in the pilot programs actually requires such modifications, and the Commission should not require SCG to make significant investments to function as a temporary EEFE.

3. The Commission should establish clear metrics for the success of the pilot programs and require that all pilot program participants (except customers) explicitly accept these metrics, in order to facilitate the orderly and timely shutdown of pilot programs that fail.

Respectfully submitted by

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