

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

Application of Southern California Gas
Company (U-904-G) for Approval of
Natural Gas Energy Efficiency Programs
and Budgets for Years 2006 through 2008.

Application 05-06-____

APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY

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Attorney for:
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June 1, 2005

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Application 05-06-____

APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY

In accordance with Rules 23 and 24 of the California Public Utilities' Commission's ("Commission or CPUC") Rules of Practice and Procedure and Ordering Paragraph 3 of Commission Decision ("D.") 05-01-056, Southern California Gas Company ("SoCalGas") submits this Application for approval of a portfolio of energy efficiency ("EE") programs and related budgets for years 2006 through 2008 (the "Application").

As discussed in greater detail below and in the testimony attached hereto, the Application seeks Commission authority to: 1) implement a variety of gas and electric energy efficiency programs; 2) expend the associated program budgets necessary to implement those programs; and, 3) revise how SoCalGas allocates its gas and electric EE costs between customer classes.

**I.
BACKGROUND**

The Energy Action Plan ("EAP"), adopted by the Commission, California Energy Commission ("CEC") and the California Consumer Power and Conservation Financing authority ("CPA"), identifies six actions that are of critical importance in managing California's growing energy consumption. The EAP puts energy efficiency at the forefront of energy policy and

resource procurement in California. The Commission, in Decisions 04-09-060 and 05-01-055, translates EAP's action item on energy efficiency into concrete steps for utilities to implement in order to achieve the EAP's energy policies. D.04-09-060 mandated specific energy savings and demand reduction goals for the years 2006 through 2013, which will be updated every three years for use in subsequent program cycles.

On January 27, 2005, the Commission issued D.05-01-055, the Interim Opinion on the Administrative Structure for Energy Efficiency: Threshold Issues. Of significance here, D.05-01-055 returned Investor Owned Utilities ("IOUs") to the lead role for post-2005 energy efficiency program choice and portfolio management. The decision directed IOUs to file applications on June 1, 2005 for Commission approval of energy efficiency program plans and funding levels for a three-year program implementation and funding cycle beginning January 1, 2006.

SoCalGas' 2006-2008 portfolio proposed in this Application is the product of a coordinated and collaborative effort between SoCalGas, its Program Advisory Group ("PAG"), and members of the public with one main focus: achieving the aggressive energy savings and demand reductions mandated in D.04-09-060.

II. SUMMARY OF APPLICATION

The Application is supported by four SoCalGas witnesses: Patricia Wagner, Director, Customer Programs; Athena Besa, Energy Efficiency Administration and Policy Manager; Frank Spasaro, Marketing Strategy Manager; and, Yu Kai Chen, Economic Advisor. The witnesses' prepared direct testimony are attached hereto, incorporated in the Application by reference, and summarized below. Also attached to this Application (at Appendix E) is the Peer Review

Group's ("PRG") assessment of SoCalGas' overall portfolio plans including its competitive bidding process.

A. Policy (Chapter I)

SoCalGas witness Patricia Wagner describes SoCalGas' underlying policy behind the company's proposed Energy Efficiency programs. Ms. Wagner emphasizes SoCalGas' strong support of the EAP and belief that an integrated approach toward planning for the future energy needs of its customers will best meet the EAP's aggressive goals.

B. EE Proposals and Budgets (Chapter II)

The testimony of witness Athena Besa describes SoCalGas' proposed EE initiatives in detail including the budgets necessary to accomplish the programs' goals. Ms. Besa also provides the technical basis and explanation in support of the energy savings and demand reduction estimates presented in the portfolio.

C. On-Bill Financing (Chapter III)

SoCalGas witness Frank Spasaro addresses SoCalGas' proposal to institute an on-bill financing option for purchasing and installing energy efficiency measures.

D. Gas Cost Allocation (Chapter IV)

This Chapter, sponsored by witness Yu Kai Chen proposes updated cost allocation factors for SoCalGas to recover EE gas program costs.

**III.
RATE AND REVENUE IMPACTS**

The proposed gas energy efficiency program budgets in 2006-08 will increase from the current budget of approximately \$27.0 million to \$47.9 million; \$61.1 million; and \$73.5 million, respectively. The gas program budgets and funding proposal for years 2006-2008 are described

in further detail in the testimony of witness Athena Besa. Average gas rates by customer class will increase by 0.4 to 3.1 cents per therm over the three year program period as rates are set to reflect the targeted program expenditures to each customer class.

Gas rate impacts resulting from the proposed energy efficiency programs budgets and a new cost allocation methodology are presented in the testimony of witness Chen and in Section IV(E) below.

IV. STATUTORY AND PROCEDURAL REQUIREMENTS

A. Scoping Issues – Rule 6

Commission rule 6(a)(1) requires SoCalGas to state in this application “the proposed category for the proceeding, the need for hearing, the issues to be considered, proposed schedule.” SoCalGas proposes to categorize this application as a rate-setting. The issues to be considered are described in this Application and the accompanying testimony.

SoCalGas does not believe hearings will be necessary and supports the schedule set forth in the ALJ ruling, dated May 23, 2005.¹

B. Legal Name and Correspondence - Rules 15(a) and 15(b)

Southern California Gas Company is a public utility organized and existing under the laws of the State of California. SoCalGas is engaged in the business of providing gas service in a portion of Los Angeles County. SoCalGas' place of business and mailing address is 555 W. Fifth Street, Los Angeles, CA 90013.

Correspondence or communications regarding this application should be addressed to:

Joy C. Yamagata

¹ “Administrative Law Judge’s Ruling Regarding Scheduling Issues for June 1, 2005 Energy Efficiency Applications.

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C. Articles of Incorporation - Rule 16

A certified copy of SoCalGas' Restated Articles of Incorporation was filed with the Commission on October 1, 1998, in connection with SoCalGas' Application No. 98-10-012 and is incorporated herein by reference.

D. Financial Statement, Balance Sheet, and Income Statement - Rule 23(a)

SoCalGas' Financial Statement and Balance Sheet as of March 31, 2005, and Income Statement for the period ended March 31, 2005, are attached to this application as Appendix A

E. Present and Proposed Rates - Rule 23(b) and 23(c)

Present and proposed PPP gas surcharge rate impacts utilizing SoCalGas' proposed cost allocation factors are included in the tables below.

2006 PPP Surcharge Rate Impact

Customer Class	Non-CARE Customers			CARE Customers		
	Current	2006	% Δ	Current	2006	% Δ
	¢/th	¢/th		¢/th	¢/th	
Core						

Residential	3.80	4.07	7%	2.00	2.27	13%
Core C&I	3.44	4.49	31%	1.64	2.69	64%
Gas Air Conditioning	1.88	3.92	108%	0.09	2.12	2386%
Gas Engines	2.11	3.76	78%	n/a	n/a	n/a
Non-core						
Non-core C&I	1.83	2.06	13%	n/a	n/a	n/a

2007 PPP Surcharge Rate Impact

Customer Class	Non-CARE Customers			CARE Customers		
	Current ¢/th	2007 ¢/th	% Δ	Current ¢/th	2007 ¢/th	% Δ
Core						
Residential	3.80	4.27	12%	2.00	2.48	24%
Core C&I	3.44	5.21	52%	1.64	3.41	108%
Gas Air Conditioning	1.88	4.49	139%	0.09	2.70	3061%
Gas Engines	2.11	4.29	103%	n/a	n/a	n/a
Non-core						
Non-core C&I	1.83	2.12	16%	n/a	n/a	n/a

2008 PPP Surcharge Rate Impact

Customer Class	Non-CARE Customers			CARE Customers		
	Current ¢/th	2008 ¢/th	% Δ	Current ¢/th	2008 ¢/th	% Δ
Core						
Residential	3.80	4.47	17%	2.00	2.67	33%
Core C&I	3.44	5.89	71%	1.64	4.09	149%
Gas Air Conditioning	1.88	5.03	167%	0.09	3.23	3690%
Gas Engines	2.11	4.78	126%	n/a	n/a	n/a
Non-core						
Non-core C&I	1.83	2.18	20%	n/a	n/a	n/a

F. Description of Property and Equipment - Rule 23(d)

A general description of SoCalGas' property and equipment was previously filed with the Commission on May 31, 2004, in connection with SoCalGas' Application No. 04-05-008 and is incorporated herein by reference. A statement of account of the original cost and depreciation reserve attributable thereto is attached to this Application as Appendix B

G. Summary of Earnings – Rule 23 (e) and (f)

A summary of earnings is attached to this application as Appendix C.

H. Depreciation - Rule 23(h)

For financial statement purposes, depreciation of utility plant has been computed on a straight-line remaining life basis at rates based on the estimated useful lives of plant properties. For federal income tax accrual purposes, the Company generally computes depreciation using the straight-line method for tax property additions prior to 1954, and liberalized depreciation, which includes Class Life, and Asset Depreciation Range Systems on tax property additions after 1954 and prior to 1981. For financial reporting and rate-fixing purposes, "flow through accounting" has been adopted for such properties. For tax property additions in years 1981 through 1986, the Company has computed its tax depreciation using the Accelerated Cost Recovery System. For years after 1986, the Company has computed its tax depreciation using the Modified Accelerated Cost Recovery Systems and since 1982, has normalized the effects of the depreciation differences in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.

I. Proxy Statement - Rule 23(i)

A copy of SoCalGas' latest Proxy Statement was filed with the Commission on May 2, 2005, in connection with SoCalGas Application 05-05-004 and is incorporated herein by reference.

J. Service of Notice - Rule 24

SoCalGas will electronically serve a notice of availability of this Application and related Exhibits on all parties of record to Rulemaking ("R.") 01-08-028 and the State/Government agencies listed in Appendix D of this Application.

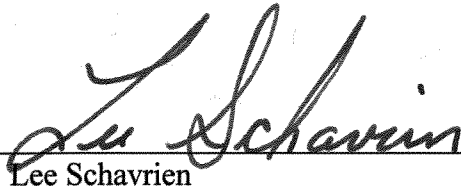
**V.
CONCLUSION**

SoCalGas respectfully requests that the Commission issue an order:

1. Finding that SoCalGas' Energy Efficiency gas programs and related budgets and rates are reasonable;
2. Adopting SoCalGas' proposed reallocation methodology for gas Energy Efficiency costs; and,
3. Granting such addition relief as the Commission may deem proper.

Respectfully submitted this 1st day of June, 2005.

By: _____


Lee Schavrien

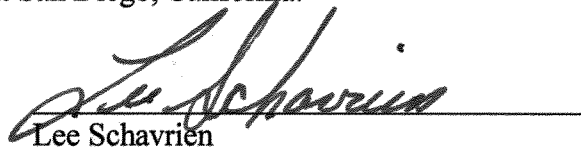
Vice President, Regulatory Affairs

Vicki L. Thompson
Attorney for
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VERIFICATION

I am an officer of the applicant corporation herein and am authorized to make this verification on its behalf. The content of this document is true, except as to matters that are stated on information and belief. As to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.

Executed on June 1, 2005 at San Diego, California.

A handwritten signature in cursive script, appearing to read "Lee Schavrien", is written over a horizontal line.

Lee Schavrien

Vice President, Regulatory Affairs

**BEFORE THE PUBLIC UTILITIES COMMISSION
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Application of Southern California Gas Company (U 904-G) for Approval of Energy Efficiency Programs and Budgets for Years 2006 through 2008.

Application 05-06-____

**NOTICE OF AVAILABILITY OF APPLICATION
OF SOUTHERN CALIFORNIA GAS COMPANY (U 904-G)**

The Application of Southern California Gas Company ("SoCalGas") for Approval of Electric and Natural Gas Energy Efficiency Programs and Budgets for Years 2006 through 2008 ("Application") filed with the California Public Utilities Commission (the "Commission") on June 1, 2005, is available to all interested parties and to the public. Consistent with Rule 2.3(c) of the Commission's Rules of Practice and Procedure, SDG&E is issuing this Notice of Availability of the above-referenced application. Because the **APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY (U 904-G)** and its related attachments exceed 75 pages in length, this Notice of Availability is being served on all parties in R.01-08-028. Any recipient of this Notice of Availability may request a copy of the above document.

A copy of the above document will be provided immediately upon the request of the party receiving this notice. All requests should be directed to:

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**BEFORE THE PUBLIC UTILITIES COMMISSION
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**NOTICE OF AVAILABILITY OF APPLICATION
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June 1, 2005

An electronic version of the above document can also be found at URL:

<http://www.socalgas.com/regulatory/cpuc.shtml>

Dated at San Diego, California this 1st day of June, 2005.

Respectfully Submitted,

By: 

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CERTIFICATE OF SERVICE

I hereby certify that I have this day served electronically a **NOTICE OF AVAILABILITY OF APPLICATION OF SOCALGAS (U-904-G)**, to all interested parties of record in Rulemaking 01-08-028.

Dated at San Diego, California, this 1st day of June 2005.


Lisa Fucci-Ortiz

CALIFORNIA PUBLIC UTILITIES COMMISSION

Service Lists

Proceeding: R0108028 - PUC - RULEMAKING POL

Filer: CPUC - ENERGY

List Name: NEW LIST

Last changed: May 31, 2005

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NORTHWEST ENERGY EFFICIENCY COUNCIL
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Top of Page

Back to INDEX OF SERVICE LISTS

Appendix A

SoCalGas' Financial Statement, Balance Sheet and Income Statement

SOUTHERN CALIFORNIA GAS COMPANY
FINANCIAL STATEMENT
MARCH 31, 2005

(a) Amounts and Kinds of Stock Authorized:

Preferred Stock	160,000 shares	Par Value \$4,000,000
Preferred Stock	840,000 shares	Par Value \$21,000,000
Preferred Stock	5,000,000 shares	Without Par Value
Preference Stock	5,000,000 shares	Without Par Value
Common Stock	100,000,000 shares	Without Par Value

Amounts and Kinds of Stock Outstanding:

PREFERRED STOCK

6.0%	79,011 shares	\$1,975,275
6.0%	783,032 shares	19,575,800

COMMON STOCK

91,300,000 shares	834,888,907
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(b) Terms of Preferred Stock:

Full information as to this item is given in connection with Application No. 92-08-018, to which reference is hereby made.

(c) Brief Description of Mortgage:

Full information as to this item is given in Application No. 93-07-012, 96-09-036 and 03-07-008 to which references are hereby made.

(d) Number and Amount of Bonds Authorized and Issued:

	Nominal Date of Issue	Par Value		Interest Paid in 2004
		Authorized and Issued	Outstanding	
<u>First Mortgage Bonds:</u>				
6.875% Series EE, due 2025	11-01-93	175,000,000	0	2,840,712
4.80% Series GG, due 2012	10-02-02	250,000,000	250,000,000	12,000,000
5.45% Series HH, due 2018	10-14-03	250,000,000	250,000,000	13,549,306
4.375% Series II, due 2011	12-15-03	250,000,000	250,000,000	6,380,208
Var% Series JJ, due 2009	12-10-04	100,000,000	100,000,000	0
<u>Other Long-Term Debt</u>				
6.375% SFr. Foreign Interest Payment Securities	05-14-86	7,877,038	7,877,038	502,157
5.67% Medium-Term Note, due 2028	01-15-03	5,000,000	5,000,000	283,500

**SOUTHERN CALIFORNIA GAS COMPANY
FINANCIAL STATEMENT
MARCH 31, 2005**

<u>Other Indebtedness:</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Outstanding</u>	<u>Interest Paid in 2004</u>
Commercial Paper & ST Bank Loans	11/01/04	01/03/05	2.25%	0	\$20,466

Amounts and Rates of Dividends Declared:

The amounts and rates of dividends during the past five fiscal years are as follows:

<u>Preferred Stock</u>	<u>Shares Outstanding @ 12-31-04</u>	<u>Dividends Declared</u>				
	2000	2001	2002	2003	2004	
6.0%	79,011	\$118,517	\$118,516	\$118,516	\$118,516	\$118,516
6.0%	783,032	1,174,548	1,174,548	1,174,548	1,174,548	1,174,548
	<u>862,043</u>	<u>\$1,293,065</u>	<u>\$1,293,064</u>	<u>\$1,293,064</u>	<u>\$1,293,064</u>	<u>\$1,293,064</u>

Common Stock

Amount	\$200,000,000	\$190,000,000	\$200,000,000	\$200,000,000	\$200,000,000	[1]
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A balance sheet and a statement of income and retained earnings of Applicant for the three months ended March 31, 2005, are attached hereto.

[1] Southern California Gas Company dividend to parent company, Sempra Energy.

**SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
MARCH 31, 2005**

1. UTILITY PLANT		<u>2005</u>
101	UTILITY PLANT IN SERVICE	\$7,121,586,201
102	UTILITY PLANT PURCHASED OR SOLD	-
105	PLANT HELD FOR FUTURE USE	-
106	COMPLETED CONSTRUCTION NOT CLASSIFIED	-
107	CONSTRUCTION WORK IN PROGRESS	130,009,303
108	ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT	(4,354,431,930)
111	ACCUMULATED PROVISION FOR AMORTIZATION OF UTILITY PLANT	(15,600,365)
117	GAS STORED-UNDERGROUND	57,031,531
TOTAL NET UTILITY PLANT		<u>2,938,594,740</u>

2. OTHER PROPERTY AND INVESTMENTS		
121	NONUTILITY PROPERTY	114,337,509
122	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY	(91,928,384)
123	INVESTMENTS IN SUBSIDIARY COMPANIES	-
124	OTHER INVESTMENTS	2,020,680
125	SINKING FUNDS	-
128	OTHER SPECIAL FUNDS	5,428,474
TOTAL OTHER PROPERTY AND INVESTMENTS		<u>29,858,279</u>

**SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
ASSETS AND OTHER DEBITS
MARCH 31, 2005**

3. CURRENT AND ACCRUED ASSETS

	<u>2005</u>
131 CASH	19,483,181
132 INTEREST SPECIAL DEPOSITS	-
134 OTHER SPECIAL DEPOSITS	5,537
135 WORKING FUNDS	103,105
136 TEMPORARY CASH INVESTMENTS	-
141 NOTES RECEIVABLE	855
142 CUSTOMER ACCOUNTS RECEIVABLE	531,725,928
143 OTHER ACCOUNTS RECEIVABLE	7,768,448
144 ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS	(5,911,071)
145 NOTES RECEIVABLE FROM ASSOCIATED COMPANIES	333,388,741
146 ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES	5,400,692
151 FUEL STOCK	-
152 FUEL STOCK EXPENSE UNDISTRIBUTED	-
154 PLANT MATERIALS AND OPERATING SUPPLIES	11,961,630
155 MERCHANDISE	13,326
156 OTHER MATERIALS AND SUPPLIES	-
163 STORES EXPENSE UNDISTRIBUTED	-
164 GAS STORED	5,068,133
165 PREPAYMENTS	2,521,103
171 INTEREST AND DIVIDENDS RECEIVABLE	31,439,229
173 ACCRUED UTILITY REVENUES	-
174 MISCELLANEOUS CURRENT AND ACCRUED ASSETS	2,127,363
175 DERIVATIVE INSTRUMENT ASSETS	650,117
176 LONG TERM PORTION OF DERIVATIVE ASSETS - HEDGES	-
	<hr/>
TOTAL CURRENT AND ACCRUED ASSETS	945,746,317

4. DEFERRED DEBITS

181 UNAMORTIZED DEBT EXPENSE	4,694,293
182 UNRECOVERED PLANT AND OTHER REGULATORY ASSETS	278,795,185
183 PRELIMINARY SURVEY & INVESTIGATION CHARGES	1,620,436
184 CLEARING ACCOUNTS	617
185 TEMPORARY FACILITIES	-
186 MISCELLANEOUS DEFERRED DEBITS	41,973,409
188 RESEARCH AND DEVELOPMENT	-
189 UNAMORTIZED LOSS ON REACQUIRED DEBT	42,866,166
190 ACCUMULATED DEFERRED INCOME TAXES	-
191 UNRECOVERED PURCHASED GAS COSTS	-
	<hr/>
TOTAL DEFERRED DEBITS	369,950,106

TOTAL ASSETS AND OTHER DEBITS	<hr/> <u>4,284,149,442</u>
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**SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
MARCH 31, 2005**

5. PROPRIETARY CAPITAL

	<u>2005</u>
201 COMMON STOCK ISSUED	\$834,888,907
204 PREFERRED STOCK ISSUED	21,551,075
207 PREMIUM ON CAPITAL STOCK	-
208 OTHER PAID-IN CAPITAL	-
210 GAIN ON RETIRED CAPITAL STOCK	9,722
211 MISCELLANEOUS PAID-IN CAPITAL	31,306,680
214 CAPITAL STOCK EXPENSE	(143,261)
216 UNAPPROPRIATED RETAINED EARNINGS	542,127,547
219 ACCUMULATED OTHER COMPREHENSIVE INCOME	<u>(4,329,361)</u>
 TOTAL PROPRIETARY CAPITAL	 <u>1,425,411,309</u>

6. LONG-TERM DEBT

221 BONDS	850,000,000
224 OTHER LONG-TERM DEBT	12,877,038
225 UNAMORTIZED PREMIUM ON LONG-TERM DEBT	-
226 UNAMORTIZED DISCOUNT ON LONG-TERM DEBT	<u>(1,168,191)</u>
 TOTAL LONG-TERM DEBT	 <u>861,708,847</u>

7. OTHER NONCURRENT LIABILITIES

227 OBLIGATIONS UNDER CAPITAL LEASES - NONCURRENT	-
228.2 ACCUMULATED PROVISION FOR INJURIES AND DAMAGES	70,568,909
228.3 ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	16,169,804
228.4 ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS	-
230 ASSET RETIREMENT OBLIGATIONS	<u>9,161,848</u>
 TOTAL OTHER NONCURRENT LIABILITIES	 <u>95,900,561</u>

**SOUTHERN CALIFORNIA GAS COMPANY
BALANCE SHEET
LIABILITIES AND OTHER CREDITS
MARCH 31, 2005**

8. CURRENT AND ACCRUED LIABILITES

	<u>2005</u>
231 NOTES PAYABLE	-
232 ACCOUNTS PAYABLE	392,781,210
233 NOTES PAYABLE TO ASSOCIATED COMPANIES	-
234 ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	16,079,483
235 CUSTOMER DEPOSITS	57,465,543
236 TAXES ACCRUED	53,536,639
237 INTEREST ACCRUED	14,940,384
238 DIVIDENDS DECLARED	323,266
241 TAX COLLECTIONS PAYABLE	23,378,010
242 MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES	506,180,337
243 OBLIGATIONS UNDER CAPITAL LEASES - CURRENT	-
244 DERIVATIVE INSTRUMENT LIABILITIES	122,406,865
245 DERIVATIVE INSTRUMENT LIABILITIES - HEDGES	-
	<hr/>
TOTAL CURRENT AND ACCRUED LIABILITIES	<u>1,187,091,737</u>

9. DEFERRED CREDITS

252 CUSTOMER ADVANCES FOR CONSTRUCTION	40,681,295
253 OTHER DEFERRED CREDITS	244,236,045
254 OTHER REGULATORY LIABILITIES	253,330,473
255 ACCUMULATED DEFERRED INVESTMENT TAX CREDITS	40,397,439
257 UNAMORTIZED GAIN ON REACQUIRED DEBT	-
281 ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED	-
282 ACCUMULATED DEFERRED INCOME TAXES - PROPERTY	135,391,736
283 ACCUMULATED DEFERRED INCOME TAXES - OTHER	-
	<hr/>
TOTAL DEFERRED CREDITS	<u>714,036,988</u>

TOTAL LIABILITIES AND OTHER CREDITS 4,284,149,442

**SOUTHERN CALIFORNIA GAS COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
THREE MONTHS ENDED MARCH 31, 2005**

1. UTILITY OPERATING INCOME

400	OPERATING REVENUES		\$1,242,855,298
401	OPERATING EXPENSES	\$1,010,481,670	
402	MAINTENANCE EXPENSES	24,470,514	
403-7	DEPRECIATION AND AMORTIZATION EXPENSES	65,708,923	
408.1	TAXES OTHER THAN INCOME TAXES	15,640,357	
409.1	INCOME TAXES	35,440,751	
410.1	PROVISION FOR DEFERRED INCOME TAXES	14,715,000	
411.1	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(2,210,000)	
411.4	INVESTMENT TAX CREDIT ADJUSTMENTS	(804,000)	
411.6	GAIN FROM DISPOSITION OF UTILITY PLANT	-	
	TOTAL OPERATING REVENUE DEDUCTIONS		1,163,443,215
	NET OPERATING INCOME		79,412,083

2. OTHER INCOME AND DEDUCTIONS

415	REVENUE FROM MERCHANDISING, JOBBING AND CONTRACT WORK	-	
417	REVENUES FROM NONUTILITY OPERATIONS	-	
417.1	EXPENSES OF NONUTILITY OPERATIONS	(27,717)	
418	NONOPERATING RENTAL INCOME	75,801	
418.1	EQUITY IN EARNINGS OF SUBSIDIARIES	-	
419	INTEREST AND DIVIDEND INCOME	374,288	
419.1	ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION	1,221,723	
421	MISCELLANEOUS NONOPERATING INCOME	192,210	
421.2	LOSS ON DISPOSITION OF PROPERTY	-	
	TOTAL OTHER INCOME	1,836,305	
425	MISCELLANEOUS AMORTIZATION	-	
426	MISCELLANEOUS OTHER INCOME DEDUCTIONS	823,084	
		823,084	
408.2	TAXES OTHER THAN INCOME TAXES	52,776	
409.2	INCOME TAXES	694,000	
410.2	PROVISION FOR DEFERRED INCOME TAXES	29,000	
411.2	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(409,000)	
420	INVESTMENT TAX CREDITS	(36,000)	
		330,776	
	TOTAL TAXES ON OTHER INCOME AND DEDUCTIONS	330,776	
	TOTAL OTHER INCOME AND DEDUCTIONS		682,445
	INCOME BEFORE INTEREST CHARGES		80,094,528
	NET INTEREST CHARGES*		10,967,579
	NET INCOME		\$69,126,949

*NET OF ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION. (\$345,812).

**SOUTHERN CALIFORNIA GAS COMPANY
STATEMENT OF INCOME AND RETAINED EARNINGS
THREE MONTHS ENDED MARCH 31, 2005**

3. RETAINED EARNINGS

RETAINED EARNINGS AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	\$523,323,863
NET INCOME (FROM PRECEDING PAGE)	69,126,949
DIVIDEND TO PARENT COMPANY	(323,265)
DIVIDENDS DECLARED - PREFERRED STOCK	(50,000,000)
OTHER RETAINED EARNINGS ADJUSTMENT	-
RETAINED EARNINGS AT END OF PERIOD	<u>\$542,127,547</u>

Appendix B

Statement of Original Cost & Depreciation Reserve

SOUTHERN CALIFORNIA GAS COMPANY

Plant Investment and Accumulated Depreciation

As of March 31, 2005

ACCOUNT NUMBER	DESCRIPTION	ORIGINAL COSTS	ACCUMULATED RESERVE
INTANGIBLE ASSETS			
301	Organization	\$ 76,457	\$ -
302	Franchise and Consents	515,639	
	Total Intangible Assets	<u>\$ 592,096</u>	<u>\$ -</u>
UNDERGROUND STORAGE:			
350	Land	\$ 5,289,613	\$ -
350	Storage Rights	17,338,835	15,588,101
350	Rights-of-Way	25,354	9,596
351	Structures and Improvements	23,842,117	15,135,469
352	Wells	164,346,437	111,812,047
353	Lines	80,489,124	83,845,131
354	Compressor Station and Equipment	95,194,579	63,279,257
355	Measuring And Regulator Equipment	2,210,264	1,214,908
356	Purification Equipment	73,559,216	51,467,641
357	Other Equipment	5,898,082	1,918,965
	Total Underground Storage	<u>\$ 468,193,621</u>	<u>\$ 344,271,115</u>
TRANSMISSION PLANT- OTHER:			
365	Land	\$ 2,012,666	\$ -
365	Land Rights	20,434,291	11,212,421
366	Structures and Improvements	27,733,735	18,838,419
367	Mains	715,053,348	450,959,656
368	Compressor Station and Equipment	157,661,955	81,449,634
369	Measuring And Regulator Equipment	41,319,506	25,133,845
371	Other Equipment	3,441,435	1,047,738
	Total Transmission Plant	<u>\$ 967,656,935</u>	<u>\$ 588,641,712</u>
DISTRIBUTION PLANT:			
374	Land	\$ 28,252,058	\$ -
374	Land Rights	2,557,798	12,264
375	Structures and Improvements	165,190,498	42,019,896
376	Mains	2,424,835,483	1,326,830,162
378	Measuring And Regulator Equipment	50,026,597	32,199,424
380	Services	1,712,430,769	1,362,825,544
381	Meters	348,546,663	130,000,396
382	Meter Installation	228,024,229	165,899,192
383	House Regulators	103,976,050	44,015,000
387	Other Equipment	22,550,378	14,929,349
	Total Distribution Plant	<u>\$ 5,086,390,522</u>	<u>\$ 3,118,731,227</u>
GENERAL PLANT:			
389	Land	\$ 1,414,274	\$ -
389	Land Rights	74,300	
390	Structures and Improvements	96,195,196	68,042,563
391	Office Furniture and Equipment	319,201,121	136,155,976
392	Transportation Equipment	1,701,669	1,524,034
393	Stores Equipment	768,778	663,584
394	Shop and Garage Equipment	48,158,806	20,255,664
395	Laboratory Equipment	7,011,481	3,471,413
396	Construction Equipment	95,317	60,996

SOUTHERN CALIFORNIA GAS COMPANY

Plant Investment and Accumulated Depreciation

As of March 31, 2005

ACCOUNT NUMBER	DESCRIPTION	ORIGINAL COSTS	ACCUMULATED RESERVE
397	Communication Equipments	118,828,237	71,311,203
398	Miscellaneous Equipment	5,200,202	(2,561,681)
	Total General Plant	<u>\$ 598,649,381</u>	<u>\$ 298,923,753</u>

Appendix C

Summary of Earnings

**SOUTHERN CALIFORNIA GAS COMPANY
SUMMARY OF EARNINGS
THREE MONTHS ENDED MARCH 31, 2005
(DOLLARS IN MILLIONS)**

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Operating Revenue	1,243
2	Operating Expenses	<u>1,164</u>
3	Net Operating Income	<u>79</u>
4	Weighted Average Rate Base	2,376
5	Rate of Return*	8.68%

*Authorized Cost of Capital

Appendix D

State/Government Service List

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STATE OF CALIFORNIA
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SACRAMENTO, CA 95814

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EL CENTRO, CA 92243

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CLERK OF THE BOARD
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ORANGE COUNTY
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DISTRICT ATTORNEY
SAN BERNARDINO COUNTY
175 W. 5TH ST.
SAN BERNARDINO, CA 92415

COUNTY CLERK
SAN LUIS OBISPO COUNTY
COURT HOUSE ANNEX
SAN LUIS OBISPO, CA 93408

DISTRICT ATTORNEY
SAN LUIS OBISPO COUNTY
COURT HOUSE ANNEX
SAN LUIS OBISPO, CA 93408

H. C. MENZEL
COUNTY CLERK
SANTA BARBARA COUNTY
105 E. ANAPUMA ST.
SANTA BARBARA, CA 93102

S. M. RODEN
DISTRICT ATTORNEY
SANTA BARBARA COUNTY
105 E. ANAPUMA ST.
SANTA BARBARA, CA 93102

JAY BAYLESS
COUNTY CLERK
TULARE COUNTY
CIVIC CENTER
VISALIA, CA 93277

WILLIAM A. RICHMOND
DISTRICT ATTORNEY
TULARE COUNTY
CIVIC CENTER
VISALIA, CA 93277

MICHAEL D. BRADBURY
DISTRICT ATTORNEY
VENTURA COUNTY
800 SO. VICTORIA AVE.
VENTURA, CA 93009

R. L. HAMM
COUNTY CLERK
VENTURA COUNTY
800 SO. VICTORIA AVE.
VENTURA, CA 93009

CITY ATTORNEY
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P.O. BOX 10
ADELANTO, CA 92301

CITY CLERK
ADELANTO CITY HALL
P. O. BOX 10
ADELANTO, CA 92301

CITY ATTORNEY
AGOURA HILLS CITY HALL
30101 AGOURA CT., #102
AGOURA HILLS, CA 91301

CITY CLERK
AGOURA HILLS CITY HALL
30101 AGOURA CT., #102
AGOURA HILLS, CA 91301

CITY ATTORNEY
ALHAMBRA CITY HALL
111 S. FIRST ST
ALHAMBRA, CA 91801

CITY CLERK
ALHAMBRA CITY HALL
111 S. FIRST ST.
ALHAMBRA, CA 91801

CITY ATTORNEY
ANAHEIM CITY HALL
P.O. BOX 3222
ANAHEIM, CA 92803

CITY CLERK
ANAHEIM CITY HALL
P.O. BOX 3222
ANAHEIM, CA 92803

CITY CLERK
ARCADIA CITY HALL
240 W. HUNTINGTON DR.
ARCADIA, CA 91006

CITY ATTORNEY
ARCADIA CITY HALL
240 W. HUNTINGTON DR
ARCADIA, CA 91006

CITY ATTORNEY
ARROYO GRANDE CITY HALL
214 E. BRANCH ST
ARROYO GRANDE, CA 93420

CITY CLERK
ARROYO GRANDE CITY HALL
214 E. BRANCH ST.
ARROYO GRANDE, CA 93420

CITY ATTORNEY
ARTESIA CITY HALL
18747 CLARKDALE AVE.
ARTESIA, CA 90701

CITY CLERK
ARTESIA CITY HALL
18747 CLARKDALE AVE.
ARTESIA, CA 90701

CITY ATTORNEY
ARVIN CITY HALL
200 CAMPUS DR.
ARVIN, CA 93203

CITY CLERK
ARVIN CITY HALL
200 CAMPUS DR.
ARVIN, CA 93203

CITY ATTORNEY
ATASCADERO CITY HALL
6500 PALMA AVE.
ATASCADERO, CA 93422

CITY CLERK
ATASCADERO CITY HALL
6500 PALMA AVE.
ATASCADERO, CA 93422

CITY ATTORNEY
AVENAL CITY HALL
919 SKYLINE AVE.
AVENAL, CA 93204

CITY CLERK
AVENAL CITY HALL
919 SKYLINE AVE.
AVENAL, CA 93204

CITY ATTORNEY
AZUSA CITY HALL
213 E. FOOTHILL BLVD.
AZUSA, CA 91702

CITY CLERK
AZUSA CITY HALL
213 E. FOOTHILL BLVD.
AZUSA, CA 91702

CITY ATTORNEY
BAKERSFIELD CITY HALL
1501 TRUXTUN AVE.
BAKERSFIELD, CA 93301

CITY CLERK
BAKERSFIELD CITY HALL
1501 TRUXTUN AVE.
BAKERSFIELD, CA 93301

CITY ATTORNEY
BALDWIN PARK CITY HALL
14403 E. PACIFIC AVE.
BALDWIN PARK, CA 91706

CITY CLERK
BALDWIN PARK CITY HALL
14403 E. PACIFIC AVE.
BALDWIN PARK, CA 91706

CITY ATTORNEY
BANNING CITY HALL
99 EAST RAMSEY ST.
BANNING, CA 92220

CITY CLERK
BANNING CITY HALL
99 EAST RAMSEY ST.
BANNING, CA 92220

CITY ATTORNEY
BEAUMONT CITY HALL
550 6TH AVE.
BEAUMONT, CA 92223

CITY CLERK
BEAUMONT CITY HALL
550 6TH AVE.
BEAUMONT, CA 92223

CITY ATTORNEY
BELL CITY HALL
6330 PINE AVE.
BELL, CA 90201

CITY CLERK
BELL CITY HALL
6330 PINE AVE.
BELL, CA 90201

CITY ATTORNEY
BELL GARDENS CITY HALL
7100 SO. GARFIELD AVE.
BELL GARDENS, CA 90201

CITY CLERK
BELL GARDENS CITY HALL
7100 SO. GARFIELD AVE.
BELL GARDENS, CA 90201

CITY ATTORNEY
BELLFLOWER CITY HALL
16600 E. CIVIC CENTER DR.
BELLFLOWER, CA 90706

CITY CLERK
BELLFLOWER CITY HALL
16600 E. CIVIC CENTER DR.
BELLFLOWER, CA 90706

CITY ATTORNEY
BEVERLY HILLS CITY HALL
450 NO. CRESCENT DR.
BEVERLY HILLS, CA 90210

CITY CLERK
BEVERLY HILLS CITY HALL
450 NO. CRESCENT DR.
BEVERLY HILLS, CA 90210

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CITY CLERK
BIG BEAR LAKE CITY
P. O. BOX 2800
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CITY CLERK
BLYTHE CITY HALL
200 NO. SPRING ST.
CITY OF BLYTHE, CA 92225

CITY ATTORNEY
BLYTHE CITY HALL
200 NO. SPRING ST.
CITY OF BLYTHE, CA 92225

CITY ATTORNEY
BRADBURY CITY HALL
600 WINSTON AVE.
BRADBURY, CA 91010

CITY CLERK
BRADBURY CITY HALL
600 WINSTON AVE.
BRADBURY, CA 91010

CITY ATTORNEY
BRAWLEY CITY HALL
400 MAIN ST.
BRAWLEY, CA 92227

CITY CLERK
BRAWLEY CITY HALL
400 MAIN STREET
BRAWLEY, CA 92227

CITY ATTORNEY
BREA CITY HALL
1 CIVIC CENTER CIRCLE
BREA, CA 92621

CITY CLERK
BREA CITY HALL
1 CIVIC CENTER CIRCLE
BREA, CA 92621

CITY ATTORNEY
BUENA PARK CITY HALL
6650 BEACH BLVD.
BUENA PARK, CA 90620

CITY CLERK
BUENA PARK CITY HALL
6650 BEACH BLVD.
BUENA PARK, CA 90620

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275 E. OLIVE AVE.
BURBANK, CA 91502

CITY CLERK
BURBANK CITY HALL
275 E. OLIVE AVE.
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CALEXICO CITY HALL
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CALEXICO, CA 92231

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21000 HACIENDA BLVD.
CALIFORNIA CITY, CA 93505

CITY CLERK
CALIFORNIA CITY CITY HALL
21000 HACIENDA BLVD.
CALIFORNIA CITY, CA 93505

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101 NO. LAKE AVE.
CALIPATRIA, CA 92233

CITY CLERK
CALIPATRIA CITY HALL
101 NO. LAKE AVE.
CALIPATRIA, CA 92233

CITY ATTORNEY
CAMARILLO CITY HALL
601 CARMEN DRIVE
CAMARILLO, CA 93010

CITY CLERK
CAMARILLO CITY HALL
601 CARMEN DRIVE
CAMARILLO, CA 93010

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31532 RAILROAD CANYON RD, #101
CANYON LAKE, CA 92587

CITY CLERK
CANYON LAKE CITY
31532 RAILROAD CANYON RD, #101
CANYON LAKE, CA 92587

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CARPINTERIA, CA 93013

CITY CLERK
CARPINTERIA CITY HALL
5775 CARPINTERIA AVE.
CARPINTERIA, CA 93013

CITY ATTORNEY
CARSON CITY HALL
701 E. CARSON ST.
CARSON, CA 90745

CITY CLERK
CARSON CITY HALL
701 E. CARSON ST.
CARSON, CA 90745

CITY ATTORNEY
CATHEDRAL CITY CITY HALL
68625 PEREZ ROAD
CATHEDRAL CITY, CA 92234

CITY CLERK
CATHEDRAL CITY CITY HALL
68625 PEREZ ROAD
CATHEDRAL CITY, CA 92234

CITY ATTORNEY
CERRITOS CITY HALL
BLOOMFIELD AND 183RD ST.
CERRITOS, CA 90701

CITY CLERK
CERRITOS CITY HALL
BLOOMFIELD AND 183RD ST.
CERRITOS, CA 90701

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CHINO CITY HALL
13220 CENTRAL AVE.
CHINO, CA 91710

CITY CLERK
CHINO CITY HALL
13220 CENTRAL AVE.
CHINO, CA 91710

CITY CLERK
CLAREMONT CITY HALL
207 HARVARD AVE.
CLAREMONT, CA 91711

CITY ATTORNEY
CLAREMONT CITY HALL
207 HARVARD AVE.
CLAREMONT, CA 91711

CITY ATTORNEY
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1515 SIXTH ST.
COACHELLA, CA 92236

CITY CLERK
COACHELLA CITY HALL
1515 SIXTH ST.
COACHELLA, CA 92236

CITY ATTORNEY
COLTON CITY HALL
650 N. LACADENA DR.
COLTON, CA 92324

CITY CLERK
COLTON CITY HALL
650 N. LACADENA DR.
COLTON, CA 92324

CITY ATTORNEY
COMMERCE CITY HALL
5655 JILSON ST.
COMMERCE, CA 90040

CITY CLERK
COMMERCE CITY HALL
5655 JILSON ST.
COMMERCE, CA 90040

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COMPTON CITY HALL
205 SO. WILLOWBROOK AVE.
COMPTON, CA 90220

CITY CLERK
COMPTON CITY HALL
205 SO. WILLOWBROOK AVE.
COMPTON, CA 90220

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CORCORAN CITY HALL
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CORCORAN, CA 93212

CITY CLERK
CORCORAN CITY HALL
1033 CHITTENDEN AVE.
CORCORAN, CA 93212

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CORONA CITY HALL
815 W. SIXTH ST.
CORONA, CA 91720

CITY CLERK
CORONA CITY HALL
815 W. SIXTH ST.
CORONA, CA 91720

CITY ATTORNEY
COSTA MESA CITY HALL
77 FAIR DRIVE
COSTA MESA, CA 92626

CITY CLERK
COSTA MESA CITY HALL
77 FAIR DRIVE
COSTA MESA, CA 92626

CITY ATTORNEY
COVINA CITY HALL
125 E. COLLEGE ST.
COVINA, CA 91723

CITY CLERK
COVINA CITY HALL
125 E. COLLEGE ST.
COVINA, CA 91723

CITY ATTORNEY
CUDAHY CITY HALL
5240 SANTA ANA ST.
CUDAHY, CA 90201

CITY CLERK
CUDAHY CITY HALL
5240 SANTA ANA ST.
CUDAHY, CA 90201

CITY ATTORNEY
CULVER CITY CITY HALL
9770 CULVER BLVD.
CULVER CITY, CA 90230

CITY CLERK
CULVER CITY CITY HALL
9770 CULVER BLVD.
CULVER CITY, CA 90230

CITY ATTORNEY
CYPRESS CITY HALL
5275 ORANGE AVE.
CYPRESS, CA 90630

CITY CLERK
CYPRESS CITY HALL
5275 ORANGE AVE.
CYPRESS, CA 90630

CITY ATTORNEY
DANA POINT CITY
33282 GOLDEN LANTERN ST.
DANA POINT, CA 92629

CITY CLERK
DANA POINT CITY
33282 GOLDEN LANTERN ST.
DANA POINT, CA 92629

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DELANO CITY HALL
1015 11TH AVE.
DELANO, CA 93215

CITY CLERK
DELANO CITY HALL
1015 11TH AVE.
DELANO, CA 93215

CITY ATTORNEY
DESERT HOT SPRINGS CITY HALL
65950 PIERSON BL.
DESERT HOT SPRINGS, CA 92240

CITY CLERK
DESERT HOT SPRINGS CITY HALL
65950 PIERSON BL.
DESERT HOT SPRINGS, CA 92240

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DIAMOND BAR CITY
21660 E. COPLEY DR. #100
DIAMOND BAR, CA 91765

CITY CLERK
DIAMOND BAR CITY
21660 E. COPLEY DR., #100
DIAMOND BAR, CA 91765

CITY ATTORNEY
DINUBA CITY HALL
1390 E. ELIZABETH WAY
DINUBA, CA 93618

CITY CLERK
DINUBA CITY HALL
1390 E. ELIZABETH WAY
DINUBA, CA 93618

CITY ATTORNEY
DOWNEY CITY HALL
8425 2ND ST.
DOWNEY, CA 90241

CITY CLERK
DOWNEY CITY HALL
8425 2ND ST.
DOWNEY, CA 90241

CITY CLERK
DUARTE CITY HALL
1600 HUNTINGTON DR.
DUARTE, CA 91010

CITY ATTORNEY
DUARTE CITY HALL
1600 HUNTINGTON DR.
DUARTE, CA 91010

CITY ATTORNEY
EL CENTRO CITY HALL
1275 MAIN ST.
EL CENTRO, CA 92243

CITY CLERK
EL CENTRO CITY HALL
1275 MAIN ST.
EL CENTRO, CA 92243

CITY ATTORNEY
EL MONTE CITY HALL
11333 VALLEY BLVD.
EL MONTE, CA 91734

CITY CLERK
EL MONTE CITY HALL
11333 VALLEY BLVD.
EL MONTE, CA 91734

CITY ATTORNEY
EL SEGUNDO CITY HALL
350 MAIN ST.
EL SEGUNTO, CA 90245

CITY CLERK
EL SEGUNDO CITY HALL
350 MAIN ST.
EL SEGUNDO, CA 90245

CITY ATTORNEY
EXETER CITY HALL
P. O. BOX 237
EXETER, CA 93221

CITY CLERK
EXETER CITY HALL
P. O. BOX 237
EXETER, CA 93221

CITY ATTORNEY
FARMERSVILLE CITY HALL
147 E. FRONT ST.
FARMERSVILLE, CA 93223

CITY CLERK
FARMERSVILLE CITY HALL
147 E. FRONT ST.
FARMERSVILLE, CA 93223

CITY ATTORNEY
FILLMORE CITY HALL
524 SESPE AVE.
FILLMORE, CA 93015

CITY CLERK
FILLMORE CITY HALL
524 SESPE AVE.
FILLMORE, CA 93015

DEP. CITY CLERK
FONTANA CITY
8353 SIERRA AVE.
FONTANA, CA 92335

CITY ATTORNEY
FONTANA CITY HALL
8353 SIERRA AVE.
FONTANA, CA 92335

CITY ATTORNEY
FOUNTAIN VALLEY CITY HALL
10200 SLATER AVE.
FOUNTAIN VALLEY, CA 92708

CITY CLERK
FOUNTAIN VALLEY CITY HALL
10200 SLATER AVE.
FOUNTAIN VALLEY, CA 92708

CITY ATTORNEY
FOWLER CITY
128 SOUTH FIFTH
FOWLER, CA 23625

CITY CLERK
FOWLER CITY
128 SOUTH FIFTH
FOWLER, CA 93625

CITY ATTORNEY
FULLERTON CITY HALL
303 W. COMMONWEALTH
FULLERTON, CA 92632

CITY CLERK
FULLERTON CITY HALL
303 W. COMMONWEALTH
FULLERTON, CA 92632

CITY ATTORNEY
GARDEN GROVE CITY HALL
11300 STANFORD AVE.
GARDEN GROVE, CA 92640

CITY CLERK
GARDEN GROVE CITY HALL
11300 STANFORD AVE.
GARDEN GROVE, CA 92640

CITY ATTORNEY
GARDENA CITY HALL
1700 W 162ND ST.
GARDENA, CA 90247

CITY CLERK
GARDENA CITY HALL
1700 W 162ND ST.
GARDENA, CA 90247

CITY ATTORNEY
GLENDALE CITY HALL
613 E. BROADWAY
GLENDALE, CA 91205

CITY CLERK
GLENDALE CITY HALL
613 E. BROADWAY
GLENDALE, CA 91205

CITY ATTORNEY
GLENDORA CITY HALL
116 E. FOOTHILL BLVD.
GLENDORA, CA 91740

CITY CLERK
GLENDORA CITY HALL
116 E. FOOTHILL BLVD.
GLENDORA, CA 91740

CITY ATTORNEY
GRAND TERRACE CITY HALL
22795 BARTON ROAD
GRAND TERRACE, CA 92324

CITY CLERK
GRAND TERRACE CITY HALL
22795 BARTON ROAD
GRAND TERRACE, CA 92324

CITY ATTORNEY
GROVER CITY CITY HALL
154 SO. 8TH ST.
GROVER CITY, CA 93433

CITY CLERK
GROVER CITY CITY HALL
154 SO. 8TH ST.
GROVER CITY, CA 93433

CITY ATTORNEY
GUADALUPE CITY HALL
918 OBISPO ST.
GUADALUPE, CA 93434

CITY CLERK
GUADALUPE CITY HALL
21815 PIONEER BLVD.
GUADALUPE, CA 93434

CITY ATTORNEY
HANFORD CITY HALL
400 NO. DOUTY
HANFORD, CA 93230

CITY CLERK
HANFORD CITY HALL
400 NO. DOUTY
HANFORD, CA 93230

CITY ATTORNEY
HAWAIIAN GARDENS CITY HALL
21815 PIONEER BLVD.
HAWAIIAN GARDENS, CA 90716

CITY CLERK
HAWAIIAN GARDENS CITY HALL
21815 PIONEER BLVD.
HAWAIIAN GARDENS, CA 90716

CITY ATTORNEY
HAWTHORNE CITY HALL
4455 W. 126TH ST.
HAWTHORNE, CA 90250

CITY CLERK
HAWTHORNE CITY HALL
4455 W. 126TH ST.
HAWTHORNE, CA 90250

CITY ATTORNEY
HEMET CITY HALL
450 E. LATHAM AVE.
HEMET, CA 92343

CITY CLERK
HEMET CITY HALL
450 E. LATHAM AVE.
HEMET, CA 92343

CITY ATTORNEY
HERMOSA BEACH CITY HALL
1315 VALLEY DR.
HERMOSA BEACH, CA 90254

CITY CLERK
HERMOSA BEACH CITY HALL
1315 VALLEY DR.
HERMOSA BEACH, CA 90254

CITY ATTORNEY
HESPERIA CITY
15776 MAIN STREET
HESPERIA, CA 92345

CITY CLERK
HESPERIA CITY
15776 MAIN STREET
HESPERIA, CA 92345

CITY ATTORNEY
HIDDEN HILLS CITY HALL
6165 SPRING VALLEY RD.
HIDDEN HILLS, CA 91302

CITY CLERK
HIDDEN HILLS CITY HALL
6165 SPRING VALLEY RD.
HIDDEN HILLS, CA 91302

CITY ATTORNEY
HIGHLAND CITY
26985 BASE LINE
HIGHLAND, CA 92346

CITY CLERK
HIGHLAND CITY
26985 BASE LINE
HIGHLAND, CA 92346

CITY ATTORNEY
HOLTVILLE CITY HALL
121 W. 5TH ST.
HOLTVILLE, CA 92250

CITY CLERK
HOLTVILLE CITY HALL
121 W. 5TH ST.
HOLTVILLE, CA 92250

CITY ATTORNEY
HUNTINGTON BEACH CITY HALL
2000 MAIN ST.
HUNTINGTON BEACH, CA 92648

CITY CLERK
HUNTINGTON BEACH CITY HALL
2000 MAIN ST.
HUNTINGTON BEACH, CA 92648

CITY ATTORNEY
HUNTINGTON PARK CITY HALL
6550 MILES AVE.
HUNTINGTON PARK, CA 90255

CITY CLERK
HUNTINGTON PARK CITY HALL
6550 MILES AVE.
HUNTINGTON PARK, CA 90255

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IMPERIAL CITY HALL
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IMPERIAL, CA 92251

CITY CLERK
IMPERIAL CITY HALL
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INDIAN WELLS, CA 92210

CITY CLERK
INDIAN WELLS CITY HALL
44-950 EL DORADO DR.
INDIAN WELLS, CA 92210

CITY ATTORNEY
INDIO CITY HALL
150 CIVIC CENTER MALL
INDIO, CA 92202

CITY CLERK
INDIO CITY HALL
150 CIVIC CENTER MALL
INDIO, CA 92202

CITY ATTORNEY
INDUSTRY CITY HALL
15651 STANFORD ST.
CITY OF INDUSTRY, CA 91744

CITY CLERK
INDUSTRY CITY HALL
15651 STANFORD ST.
CITY OF INDUSTRY, CA 91744

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INGLEWOOD CITY HALL
1 MANCHESTER BLVD.
INGLEWOOD, CA 90301

CITY CLERK
INGLEWOOD CITY HALL
1 MANCHESTER BLVD.
INGLEWOOD, CA 90301

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IRVINE, CA 92713

CITY CLERK
IRVINE CITY HALL
P. O. BOX 19575
IRVINE, CA 92713

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IRWINDALE, CA 91706

CITY CLERK
IRWINDALE CITY HALL
5050 NO. IRWINDALE AVE.
IRWINDALE, CA 91706

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KINGSBURG, CA 93631

CITY CLERK
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1401 DRAPER ST.
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LA HABRA CITY HALL
CIVIC CENTER
LA HABRA, CA 90631

CITY CLERK
LA HABRA CITY HALL
CIVIC CENTER
LA HABRA, CA 90631

CITY ATTORNEY
LA HABRA HEIGHTS CITY HALL
1245 NO. HACIENDA BLVD.
LA HABRA HEIGHTS, CA 90631

CITY CLERK
LA HABRA HEIGHTS CITY HALL
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CITY ATTORNEY
LA MIRADA CITY HALL
13700 SO. LA MIRADA BLVD.
LA MIRADA, CA 90638

CITY CLERK
LA MIRADA CITY HALL
13700 SO. LA MIRADA BLVD.
LA MIRADA, CA 90638

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LA PALMA CITY HALL
7822 WALKER ST.
LA PALMA, CA 90623

CITY CLERK
LA PALMA CITY HALL
7822 WALKER ST.
LA PALMA, CA 90623

CITY ATTORNEY
LA PUENTE CITY HALL
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LA PUENTE, CA 91744

CITY CLERK
LA PUENTE CITY HALL
15900 E. MAIN ST.
LA PUENTE, CA 91744

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CITY CLERK
LA QUINTA CITY HALL
P. O. BOX 1504
LA QUINTA, CA 92253

CITY ATTORNEY
LA VERNE CITY HALL
3660 D STREET
LA VERNE, CA 91750

CITY CLERK
LA VERNE CITY HALL
3660 D STREET
LA VERNE, CA 91750

CITY ATTORNEY
LAGUNA BEACH CITY HALL
505 FOREST AVE.
LAGUNA BEACH, CA 92651

CITY CLERK
LAGUNA BEACH CITY HALL
505 FOREST AVE.
LAGUNA BEACH, CA 92651

CITY ATTORNEY
LAGUNA NIGUEL CITY
27821 LA PAZ ROAD
LAGUNA NIGUEL, CA 92656

CITY CLERK
LAGUNA NIGUEL CITY
27821 LA PAZ ROAD
LAGUNA NIGUEL, CA 92656

CITY ATTORNEY
LAKE ELSINORE CITY HALL
130 S. MAIN ST.
LAKE ELSINORE, CA 92330

CITY CLERK
LAKE ELSINORE CITY HALL
130 S. MAIN ST.
LAKE ELSINORE, CA 92330

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LAKEWOOD CITY HALL
5050 CLARK AVE.
LAKEWOOD, CA 90714

CITY CLERK
LAKEWOOD CITY HALL
5050 CLARK AVE.
LAKEWOOD, CA 90714

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LANCASTER, CA 93534

CITY CLERK
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119 FOX ST.
LEMOORE, CA 93245

CITY CLERK
LEMOORE CITY HALL
119 FOX ST.
LEMOORE, CA 93245

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LINDSAY CITY HALL
251 E. HONOLULU ST.
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CITY CLERK
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LOMITA, CA 90717

CITY CLERK
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24300 NARBONNE AVE.
LOMITA, CA 90717

CITY ATTORNEY
LOMPOC CITY HALL
100 CIVIC CENTER PLAZA
LOMPOC, CA 93438

CITY CLERK
LOMPOC CITY HALL
100 CIVIC CENTER PLAZA
LOMPOC, CA 93438

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LONG BEACH, CA 90802

CITY CLERK
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CITY ATTORNEY
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3191 KATELLA
LOS ALAMITOS, CA 90720

CITY CLERK
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3191 KATELLA
LOS ALAMITOS, CA 90720

CITY ATTORNEY
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LOS ANGELES, CA 90012

CITY CLERK
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CITY CLERK
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CITY CLERK
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CITY CLERK
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CITY CLERK
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CITY CLERK
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OJAI, CA 93023

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ORANGE, CA 92666

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ORANGE COVE, CA 93646

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555 SIXTH ST.
ORANGE COVE, CA 93646

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CITY CLERK
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305 W. THIRD ST
OXNARD, CA 93030

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PALM DESERT, CA 92260

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CITY CLERK
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708 EAST PALMDALE BLVD.
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CITY ATTORNEY
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PARAMOUNT, CA 90274

CITY CLERK
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16400 SO. COLORADO ST.
PARAMOUNT, CA 90274

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CITY CLERK
PARLIER CITY HALL
1100 E. PARLIER AVE.
PARLIER, CA 93648

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100 NO. GARFIELD AVE.
PASADENA, CA 91109

CITY CLERK
PASADENA CITY HALL
100 NO. GARFIELD AVE.
PASADENA, CA 91109

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PASO ROBLES, CA 93446

CITY CLERK
PASO ROBLES CITY HALL
801 4TH ST.
PASO ROBLES, CA 93446

CITY ATTORNEY
PERRIS CITY HALL
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PERRIS, CA 92370

CITY CLERK
PERRIS CITY HALL
101 NO. "D" ST.
PERRIS, CA 92370

CITY ATTORNEY
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6615 PASSONS BLVD.
PICO RIVERA, CA 90660

CITY CLERK
PICO RIVERA CITY HALL
6615 PASSONS
PICO RIVERA, CA 90660

CITY ATTORNEY
PISMO BEACH CITY HALL
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PISMO BEACH, CA 93449

CITY CLERK
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1000 BELLO ST.
PISMO BEACH, CA 93449

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CITY CLERK
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CITY CLERK
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CITY CLERK
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CITY CLERK
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REEDLEY, CA 93654

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#2 PORTUGUESE BEND RD.
ROLLING HILLS, CA 90274

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4045 PALOS VERDES DR.
ROLLING HILLS ESTS., CA 90274

CITY CLERK
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4045 PALOS VERDES DR.
ROLLING HILLS ESTS., CA 90274

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ROSEMEAD, CA 91770

CITY CLERK
ROSEMEAD CITY HALL
8838 E. VALLEY BLVD.
ROSEMEAD, CA 91770

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SAN BERNARDINO, CA 92418

CITY ATTORNEY
SAN BERNARDINO CITY HALL
300 NO. "D" STREET
SAN BERNARDINO, CA 92418

CITY ATTORNEY
SAN CLEMENTE CITY HALL
100 AVENIDA PRESIDIO
SAN CLEMENTE, CA 92672

CITY CLERK
SAN CLEMENTE CITY HALL
100 AVENIDA PRESIDIO
SAN CLEMENTE, CA 92672

CITY ATTORNEY
SAN DIMAS CITY HALL
245 E. BONITA AVE.
SAN DIMAS, CA 91773

CITY CLERK
SAN DIMAS CITY HALL
245 E. BONITA AVE.
SAN DIMAS, CA 91773

CITY ATTORNEY
SAN FERNANDO CITY HALL
117 MACNEIL ST.
SAN FERNANDO, CA 91340

CITY CLERK
SAN FERNANDO CITY HALL
117 MACNEIL ST.
SAN FERNANDO, CA 91340

CITY ATTORNEY
SAN GABRIEL CITY HALL
532 WEST MISSION DR.
SAN GABRIEL, CA 91778

CITY CLERK
SAN GABRIEL CITY HALL
532 WEST MISSION DR.
SAN GABRIEL, CA 91778

CITY ATTORNEY
SAN JACINTO CITY HALL
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SAN JACINTO, CA 92383

CITY CLERK
SAN JACINTO CITY HALL
209 E. MAIN ST.
SAN JACINTO, CA 92383

CITY ATTORNEY
SAN JUAN CAPISTRANO CITY HALL
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SAN JUAN CAPISTRANO, CA 92675

CITY CLERK
SAN JUAN CAPISTRANO CITY HALL
32400 PASEO ADELANTO
SAN JUAN CAPISTRANO, CA 92675

CITY ATTORNEY
SAN LUIS OBISPO CITY HALL
990 PALM STREET
SAN LUIS OBISPO, CA 93401

CITY CLERK
SAN LUIS OBISPO CITY HALL
990 PALM ST.
SAN LUIS OBISPO, CA 93401

CITY ATTORNEY
SAN MARINO CITY HALL
2200 HUNTINGTON DR.
SAN MARINO, CA 91108

CITY CLERK
SAN MARINO CITY HALL
2200 HUNTINGTON DR.
SAN MARINO, CA 91108

CITY ATTORNEY
SANGER CITY
1700 7TH STREET
SANGER, CA 93657

CITY CLERK
SANGER CITY
1700 7TH STREET
SANGER, CA 93657

CITY ATTORNEY
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22 CIVIC CENTER PLAZA
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CITY CLERK
SANTA ANA CITY HALL
22 CIVIC CENTER PLAZA
SANTA ANA, CA 92701

CITY ATTORNEY
SANTA BARBARA CITY HALL
DE LA GUERRA PLAZA
SANTA BARBARA, CA 93102

CITY CLERK
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DE LA GUERRA PLAZA
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23920 VALENCIA BLVD., #300
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CITY CLERK
SANTA CLARITA CITY
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SANTA MARIA CITY HALL
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SANTA MARIA, CA 93454

CITY CLERK
SANTA MARIA CITY HALL
110 EAST COOK ST.
SANTA MARIA, CA 93454

CITY ATTORNEY
SANTA MONICA CITY HALL
1685 MAIN ST.
SANTA MONICA, CA 90401

CITY CLERK
SANTA MONICA CITY HALL
1685 MAIN ST.
SANTA MONICA, CA 90401

CITY ATTORNEY
SANTA PAULA CITY HALL
970 VENTURA ST.
SANTA PAULA, CA 93060

CITY CLERK
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SANTA PAULA, CA 93060

CITY ATTORNEY
SEAL BEACH CITY HALL
211 8TH ST.
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CITY CLERK
SEAL BEACH CITY HALL
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SEAL BEACH, CA 90740

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SELMA CITY HALL
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SELMA, CA 93662

CITY CLERK
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1814 TUCKER ST.
SELMA, CA 93662

CITY ATTORNEY
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SHAFTER, CA 93263

CITY CLERK
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SHAFTER, CA 93263

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CITY CLERK
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14343 CIVIC DRIVE
VICTORVILLE, CA 92392

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VILLA PARK, CA 92667

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VILLA PARK CITY HALL
17855 SANTIAGO BLVD.
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CITY CLERK
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764 "E" STREET
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CITY CLERK
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CITY CLERK
YUCAIPA CITY
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YUCAIPA, CA 92399

CITY CLERK
WEST HOLLYWOOD CITY HALL
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WEST HOLLYWOOD, CA 90069

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4373 PARK TERRACE DR.
THOUSAND OAKS, CA 91361

CITY CLERK
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4373 PARK TERRACE DR.
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Appendix E

PRG Assessment

**Peer Review Group Assessment of
Southern California Gas Company's
Proposed 2006 – 2008 Energy Efficiency Portfolio**

Submitted to the California Public Utilities Commission

Prepared by the
Joint Southern California Edison/Southern California Gas Company Peer
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Cynthia Mitchell, Consultant for The Utility Reform Network
Christine Tam, Office of Ratepayer Advocates, CPUC

June 1, 2005

Executive Summary

The Joint Southern California Edison (SCE)/Southern California Gas Company (SoCalGas) Peer Review Group (PRG) respectfully submits to the California Public Utilities Commission (Commission) its assessment SoCalGas' proposed 2006-08 Energy Efficiency Portfolio of Programs plan.

This Joint SCE/SoCalGas PRG's assessment is based on draft versions of SoCalGas' proposed 2006-08 Portfolio of Energy Efficiency Programs Plan provided to the group by SoCalGas as of May 18, 2005. It contains an extensive summary of the information provided by SoCalGas portfolio administrators during the last three months of the energy efficiency planning process. Since then, SoCalGas continued to revise its portfolio beyond the date that the PRG began its assessment. Some of the observations or recommendations included in this assessment may not reflect SoCalGas' revisions to its portfolio after May 18, 2005 that SoCalGas' files on June 1, 2005.

We have attempted to include language in this assessment that reflects a consensus opinion, however, due to time constraints in writing this report, all members retain their right to submit individual comments to the Commission, or to provide recommendations to the Commission that are either outside of the scope of this assessment, or that differ from certain items or recommendations included herein.

During our discussions, we decided to create a placeholder or bin for recommendations drafted by PRG members that were not supported by all of the PRG members. Appendix E contains a listing of these recommendations that in some cases are designed to shake up the status quo and stimulate new lines of thought.

The Commission is expecting SoCalGas to more than double the annual therm savings achieved by its efficiency programs over a five-year period from 10 million therms/year in 2004 to 24 million therms/year in 2008. In the longer term, the utility is expected to triple its 2004 saving levels over the next ten years to 35.8 million therms/year in 2013. This PRG believes that SoCalGas' near-term program investments in advanced technologies and strategies are likely to contribute to SoCalGas meeting its longer-term savings goals.

This PRG believes that in the near term, for the 2006-08 cycle, SoCalGas' draft portfolio is likely to cost-effectively meet the Commission's targets. We find that the utility has maintained an adequate emphasis on programs with a proven track record of delivering savings, in addition to proposing innovative programs. Moreover, SoCalGas has built an adequate margin of error into its forecasted savings, although the margin of error is not large enough to make us entirely confident in its ability to meet the goals. In this assessment, we discuss our findings based on our review of SoCalGas' draft program portfolio plans, and provide our recommendations to ensure that SoCalGas will meet the Commission's near-term energy saving targets.

We believe SoCalGas has done a credible job of planning to produce a significant increase in likely future program savings. Throughout the PAG process, SoCalGas has done an

admirable job in reaching out to the effected private sector stakeholders to solicit input and recommendations. SoCalGas was responsive to a number of PAG recommendations to expend resources and make investments in the future. The utility has proposed to invest heavily in programs that are aimed at achieving long-term savings, but has provided little if any quantification of the savings opportunities. We are also concerned that SoCalGas has not devoted sufficient funds or programs to harvest the potential savings in the industrial sector and for the water heating end use in the residential and small commercial sectors. SoCalGas should continue to work with its PAG/PRG to jointly develop a vision of how to achieve the Commission's goals over next decade, and jointly develop strategies to get there.

One area that may have been shortchanged in the planning process was the exchange of information related to utility plans for running statewide programs with similar but not identical program designs. In D.05-01-055, the Commission directed the IOUs to form subgroups of their PAG members to closely collaborate and coordinate on statewide programs that cut across the IOU service territories. As part of statewide coordination, the Commission instructed PAGs and IOUs to collaborate on statewide program designs and implementation strategies that increasingly integrate energy efficiency with demand response and distributed generation offerings to end-users. While the IOUs have begun the process of addressing statewide coordination issues, the PRG believes that the process is far from complete. Generally speaking, the four IOUs appear to be developing two rather different approaches to IOU-implemented EE in their respective proposed portfolios. This may have lead to some of the confusion and inability to focus sooner and more clearly on statewide matters. Given the lack of discussion in coordinating statewide program designs, the PRG is unable to provide a meaningful assessment at this point. We recommend that the Commission direct the IOUs to continue the discussion with their PAG members and among themselves related to achieving similar designs and qualifying criteria for statewide programs.

The PRG generally supports SoCalGas's competitive bid plan, including the budget split between targeted and innovative program solicitations, the selected areas for targeted solicitations and SoCalGas's stated plan to consider replacing programs within the portfolio filed on June 1, 2005 if competitively bid programs can improve upon them. However, SoCalGas proposed a 2006 budget for 3rd party programs that represents 18.5% of the total portfolio budget when including the EM&V budget, and 20% of the total portfolio budget when excluding the EM&V budget. Based on D.05-01-055, the competitive bid requirement is stated as "a minimum of 20% of funding for the entire portfolio" (p. 83). Given the Decision's language, we recommend that the Commission require SoCalGas to adjust the budget for competitive bids to comply with the 20% minimum bidding requirement, with the EM&V funding included in the total portfolio budget.

The Commission asked the IOUs and their advisory groups to discuss and potentially recommend fund-shifting rules to govern what process, if any, the administrators should follow when shifting funds between programs over the next three years. In general, the PRG members support fund-shifting flexibility that will enable the utilities to meet the Commission's savings targets. We encourage the utilities to make use of this flexibility to

adjust the portfolio as market circumstances change and as it gauges the relative success of the programs within the portfolio. We also recognize that there may be situations when it would be necessary for the utility to quickly shift funds away from programs that are having difficulty meeting their savings goals without having to wait two to three months for Commission approval. However, some limits on fund-shifting flexibility may be desirable since (1) some of the program details, including cost-effectiveness information, remain vague, and in particular, we wish to ensure that utilities maintains an appropriate balance between programs that will provide near-term and long-term savings, and (2) there might be a tendency for some administrators to shift funds away from programs providing longer-term savings towards program focused solely on harvesting savings in the short-term. The PRG discussed two potential fund-shifting policies, but was not able to reach consensus on a recommendation to the Commission. We, therefore, outline the two options that the PRG discussed in Appendix I.

Table of Contents

Executive Summary.....	i
Introduction	1
Criteria	3
Likelihood That the Proposed Portfolio Will Meet Short-Term Savings Goals.....	3
Likelihood That the Proposed Portfolio Will Meet Long-Term Savings Goals	6
Statewide Coordination	18
Third Party Bid Solicitation Process	21
Fund Shifting.....	25
Conclusions	26
Appendix A.....	28
Appendix B.....	29
Appendix C.....	31
Appendix D.....	32
Appendix E	32
Appendix E	33
Appendix F	35
Appendix G.....	36
Appendix H.....	37
Appendix I	39

Introduction

By CPUC Decision (D.) 05-01-055, dated January 27, 2005, the Commission adopted an administrative structure for post-2005 energy efficiency programs that returns to the states' investor-owned utilities (IOUs) the lead role in program choice and portfolio management functions. With this new structure, the Commission also adopted quality control measures to ensure that the IOU program administrators select programs and manage them in a manner consistent with the Commission's objectives. The Commission directed the IOUs established an advisory group structure as safeguards against the potential for bias in the IOUs' program selection and portfolio management. The Commission envisions the advisory groups as a means to (1) promote transparency in the program administrator's decision-making process; (2) provide a forum to obtain valuable technical expertise from stakeholders and non-market participants; (3) encourage collaboration among stakeholders; and (4) create an additional venue for public participation.

The Commission directed the IOUs to establish three "Program Advisory Groups, or PAGs" drawing from the energy efficiency expertise of both market and non-market participants across the full spectrum of program areas and strategies. One PAG should be established for Pacific Gas & Electric Company's service territory, one for San Diego Gas & Electric Company's service territory, and one for the combined service territories of SCE/SoCalGas (Joint SCE/SoCalGas). The PAGs serve to provide guidance to the IOUs regarding region-specific customer and program needs, and provide a forum for input and collaboration with the local interests and stakeholders served by the programs.

Within each PAG, the Commission directed the IOUs to identify and select a subgroup of non-financially interested members with extensive energy efficiency expertise that are willing to serve as peer reviewers in their program planning and selection process. These subgroups are referred to as "Peer Review Groups (PRGs)." The Commission specified Energy Division to chair the PRG. The Joint SCE/SoCalGas PRG consists of the following representatives:

- Devra Bachrach, Natural Resources Defense Council (NRDC)
- Peter Lai, CPUC Energy Division (ED)
- Michael Messenger, California Energy Commission (CEC)
- Cynthia Mitchell, Consultant for The Utility Reform Network (TURN)
- Christine Tam, CPUC Office of Ratepayer Advocates (ORA)

As defined in D.05-01-055, the role of the PRG includes:

- a. Members of each PRG will participate in the ongoing PAG process.
- b. Review the IOUs' submittals to the Commission and assess the IOUs' (1) overall portfolio plans, (2) their plans for bidding out pieces of the portfolio per the minimum bidding requirement, (3) the bid evaluation criteria utilized by the IOUs, and (4) their application of that criteria in selecting third-party programs.

- c. The three PRGs are also expected to meet and assess the statewide portfolio (represented by the combination of the four IOUs separate portfolios) in terms of its ability to meet or exceed short and long-term savings goals in compliance with the Commission's policy rules.

The Joint SCE/SoCalGas PRG held three meetings (on April 5, April 20, and May 11, 2005) with the utilities to review and discuss the utilities' (1) overall portfolio plans, and (2) their plans for bidding out pieces of the portfolio per the minimum bidding requirement. During these meetings, the Joint PRG defined the assessment tasks, developed assessment criteria balancing cost effectiveness with other potential objectives, applied the criteria to the utility's proposed plan, identified strengths and weaknesses, and crafted a set of recommendations to enhance the proposed programs, portfolio, and third party process. Additionally the respective three PRGs met on a statewide level on March 10, and April 27, 2005 to discuss data expectations from the IOUs upon which the PRG assessment will be based.

This Joint SCE/SoCalGas PRG's assessment is based on draft versions of SoCalGas' proposed 2006-08 Portfolio of Energy Efficiency Programs Plan provided to the group by the utility as of May 18, 2005. Since then, the utility continued to revise its portfolio beyond the date that the PRG began its assessment. Some of the observations or recommendations included in this assessment may not reflect SoCalGas' revisions to its portfolio after May 18, 2005 that it files on June 1, 2005. Wherever possible, we have included language in this assessment that reflects a consensus opinion. All members retain their right to submit individual comments to the Commission, or to provide recommendations to the Commission that are either outside of the scope of this assessment, or that differ from certain items or recommendations included herein.

Our review of SoCalGas' proposed portfolio of energy efficiency programs plan includes (a) handouts provided at the PAG and PRG meetings, (b) our observations of how the administrators conducted these public meetings, and (c) Preliminary Program Application filings documents listed in Appendix A.

Criteria

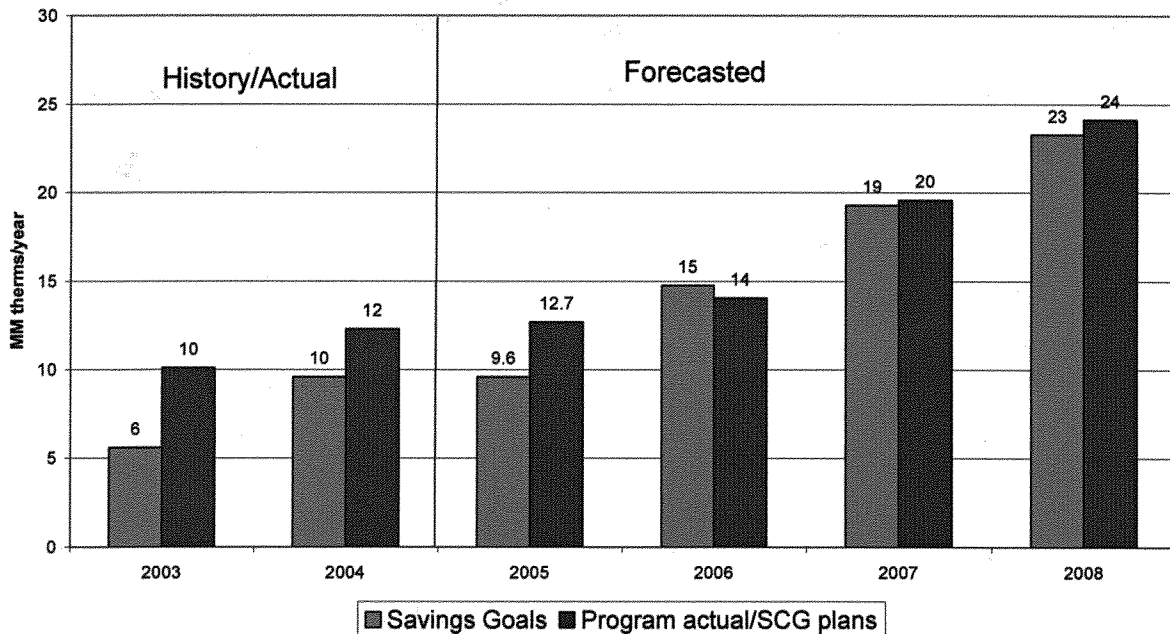
The Joint SCE/SoCalGas PRG established and provided both utilities in a memorandum dated April 14, 2005 a set of criteria that it used to evaluate their portfolio of energy efficiency programs to be submitted on June 1, 2005. The criteria are specific to the evaluation of SCE's and SoCalGas' portfolios, but are generally consistent with those proposed by other PRGs. Our criteria, listed in shorthand below, represent the PRGs' top priority criteria for assessing SoCalGas' portfolio, and are not intended to be a comprehensive list of criteria for the Commission's evaluation. A full explanation of each criteria and their impact of the ability to reach the Commission's savings goals are presented in the Appendix B.

1. Vision to Motivate Employees and Contractors and outline strategies to get there.
2. Clear Statement of Program Goals
3. Flexibility to Redeploy Resources to Meet Goals
4. Diversification of Program Approaches to reduce risks of not Meeting savings goals
5. Leadership to Engage Stakeholders
6. Promote and Reward Innovation
7. Integration of EE opportunities with demand response and renewable options
8. Reward Excellence
9. Leverage Program and Private Sector Efforts
10. Strategy to Meet Long-term Savings Targets
11. Best Program Implementation
12. Coordination of program implementer efforts
13. Develop and Implement a Continuous Improvement Plan
14. Compliance with Policy Rules and other Commission directives
15. Responsiveness to the Green Building Initiative Executive Order

Likelihood That the Proposed Portfolio Will Meet Short-Term Savings Goals

The Commission is expecting CoCalGas to more than double its annual therm savings achieved by its efficiency programs over a five-year period from 10 million therms/year in 2004 to 24 million therms/year in 2008. By 2013 annual program savings will need to triple to reach to 35.8MM therms/year goal adopted by the Commission. Figure 1 illustrates the steady progress made by SoCalGas in meeting these goals. SoCalGas has met its goals in each of the last 3 years by a significant margin. This section focuses on the probability that SoCalGas proposed program efforts would meet the 2006 to 2008 goals shown in this figure.

Figure 1
Comparison of SCG Energy Efficiency Program achievements
vs CPUC savings goals- 2003 to 2008



The PRG concludes that in the near term, for the 2006-08 cycle, SoCalGas’ proposed portfolio is likely to cost-effectively meet the Commission’s targets. We find that SoCalGas has maintained an adequate emphasis on programs with a proven track record of delivering savings (in addition to proposing innovative programs, as we discuss below). Moreover, SoCalGas has built an adequate margin of error into its forecasted savings, although the margin of error is not large enough to make us entirely confident in SoCalGas’ ability to meet the goals. In this section, we discuss our findings based on our review of SoCalGas’ draft application, and provide our recommendations to ensure that SoCalGas will meet the Commission’s near-term energy saving targets.

1. SoCalGas’ draft plan shows that they plan to almost reach the CPUC’s goals based on its core programs. This core estimate excludes the energy savings from the partnership programs, the non-utility run programs selected through competitive solicitations, and the savings from the low-income efficiency programs. Assuming the partnerships deliver about 800,000 therms/yr and the low-income programs deliver 950,000 therms/yr (as SoCalGas has indicated), and assuming that the third party programs are slightly less cost-effective on average than the total portfolio (due to an increased emphasis on innovation) and that they deliver about 2.2 million therms, we estimate that SoCalGas should have a 6% margin of error in meeting the Commission’s goal. While this provides a reasonable “buffer,” it is not so large that we feel entirely confident in the utility’s ability to meet the Commission’s goals.

Recommendation– The Commission should encourage its staff and parties to evaluate SoCalGas’ application to ensure that the additional savings from partnerships, low-income efficiency programs, and the targeted savings for the third party programs will provide an adequate margin of error to ensure that SoCalGas is able to meet the Commission’s goals even if unforeseen circumstances arise. The PRG and SoCalGas should work to ensure that the third party programs selected through the competitive bid provide at least the targeted level of savings.

2. Five of the programs proposed by SoCalGas provide the vast majority of the portfolio’s near-term gas savings: the Local Business Energy Efficiency Program, Express Efficiency, Savings By Design, and the Single Family and Multi Family Rebate programs. And just the first two of these programs provide more than half of the portfolio’s savings. As such, the utility’s success at meeting the goals will hinge on the success of these programs. Since these programs all have a proven track record, we are relatively confident in SoCalGas’s ability to meet the targets. In addition, we note that SoCalGas’s portfolio appropriately targets the industrial sector, an area with large remaining cost-effective potential. However, SoCalGas proposes to expand the Local Business Energy Efficiency Program to more than double the size of the program in the 04-05 cycle. While the program has some new elements that will contribute to additional savings, we are concerned that the prescriptive element of the program may overlap with the Express Efficiency program, and it is unclear how these two programs will be coordinated; it may be a challenge for this program to meet its targets.

Recommendation– SoCalGas, the PAG/PRG, and the Commission should closely monitor the interim results from the top five programs (in terms of savings), and in particular the Local Business Energy Efficiency and Express Efficiency programs to ensure that they are on track to meet their goals.

3. In its draft application, SoCalGas reports a TRC benefit cost ratio of 1.14 and a PAC ratio of 1.29. While these numbers would appear not to afford much margin for error, we are confident SoCalGas’ portfolio will be cost-effective for two reasons. First, these ratios are calculated using the entire budget but only part of the savings (as we discussed above, the savings for the partnerships and third party programs are not included). Second, the Commission’s new avoided costs will likely improve the cost-effectiveness ratios. Although we are confident that the overall portfolio is cost-effective, the PRG is concerned that the portfolio’s ratio of administrative costs to total costs at 25%, may be too high.

Recommendation- SoCalGas should carefully monitor the cost-effectiveness ratios of the mix of programs in its application and periodically (perhaps semi-annually) report back on any anticipated TRC changes to the PRG and PAG as the many assumptions and variables that feed into these calculations are revised to ensure that the portfolio remains cost-effective. Within the next three months, SoCalGas should meet with representatives of the Energy Division and/or PRG to help explain why its administrative costs are so high and are important to achieving its energy savings goals.

Likelihood That the Proposed Portfolio Will Meet Long-Term Savings Goals

As explained earlier, The Commission is expecting SoCalGas to more than double the annual therm savings achieved by its efficiency programs over a five-year period from 10 million therms/year in 2004 to 24 million therms/year in 2008. In the longer term, the utility is expected to triple the 2004 saving levels over the next ten years to 35.8 million therms/year. This review focuses on how SoCalGas near-term program investments in advanced technologies and strategies are likely to contribute to meeting the longer term savings goals. These goals ramp up from 27 Million therms/year in 2009 to 35.8 million therms/year in 2013.

To achieve the increases in long-term annual energy savings discussed above, we believe that the SoCalGas administrators should be developing a portfolio plan that includes the following components:

1. A vision or strategy of how to mobilize internal staff and the energy efficiency community to get from current savings levels to a 100% increase in savings for each market sector.
2. A clear statement of program goals and how progress toward these goals will be tracked over the next three years.
3. Strong Leadership that can guide and motivate the diverse elements of the energy efficiency delivery infrastructure into a coordinated effort to achieve common goals
4. A commitment to develop and implement innovative programs including new technologies and program approaches.
5. A plan to reward excellence for those customers, implementers and evaluators that contribute to reaching the savings goals.
6. A strategy to meet the long term savings targets (2009-2013) that clearly identifies near term program expenditures expected to yield significant savings in the outer years even though they will not contribute any significant reported savings in the short term.
7. An analysis of the risk of relying on specific technologies or strategies to achieve the bulk of the energy savings goals and a plan to diversify this risk.
8. A discussion of how the proposed programs will seek to leverage the resources of state and national energy organizations pursuing similar energy savings goals.
9. A plan to continuously improve program designs offerings to maximize the usefulness of ongoing tracking and evaluation studies.
10. A commitment from the highest levels of company management to “make it happen” by requesting the appropriate amount of program funding.

This section of the PRG report reviews the portfolio plans filed by So Cal Gas on May 9, 2005 and updated on May 16th, 2005 to determine if some or all of the elements listed

above are discussed and or completed in their plans.

A. Vision and Strategy-

“Vision is where tomorrow begins, for it expresses what you and others who share your vision will be working hard to create. Since most people don't take the time to think systematically about the future, those who do, and who base their strategies and actions on their visions, have inordinate power to shape the future. “

--Burt Nanus, author of Visionary Leadership

We believe SoCalGas has done a credible job of planning to produce a significant increase in likely future program savings. Throughout the PAG process, the utility has done an admirable job in reaching out to the effected private sector stakeholders to solicit input and recommendations. It was responsive to a number of PAG recommendations to expend resources and make investments in the future. For example, SoCalGas has proposed to search for new program ideas through its innovative Portfolio for the Future. In addition, it has proposed to invest heavily in programs that are aimed at achieving long-term savings. We estimate that 48% of the its program budget is planned to produce long term savings including Advanced Home Program, Codes and Standards, Emerging Technologies, On-bill Financing, Sustainable Communities, and Savings By Design. From a customer perspective, SoCalGas has committed to make it easier for customers to participate by developing online program applications and electronic databases of qualifying equipment. Furthermore, SoCalGas is experimenting with new approaches to incenting customers beyond the use of rebates. Promising approaches include community recognition, green certification and customized tracking of industrial process improvements

Positive signs of vision and leadership from SoCalGas observed to date-

1. SoCalGas has successfully partnered with SCE to bring a number of programs that save both gas and electricity to dual fuel customers with more than one service utility: These include the Advanced Home program, Savings by Design, Home Energy Surveys and Non residential surveys.
2. SoCalGas has developed programs designed to leverage the energy star and LEED benchmarks.
3. SoCalGas has spearheaded the effort to aggressively analyze and pursue opportunities to reduce gas usage in heating water.
4. SoCalGas proposes to further integrate its program offerings with municipal electric utilities to reach more customers and make it easier for them to participate.
5. SoCalGas Committed to make it easier for customers to participate by developing on line program application forms and electronic databases of qualifying equipment.
6. SoCalGas is experimenting with new approaches to motivating customers to invest in efficiency beyond just rebates. Promising approaches include community

recognition, green certification and developing customized tracking of the bottom line impacts of industrial process improvements

7. SoCalGas has developed several sets of interim milestones for key programs that will provide administrators with feedback they need to move funds to the programs that are “working”.
8. SoCalGas plans to partner with a number of organizations including CMTA, Association of Energy Engineers, US DOE and CEC to increase the breadth and scope of its program offerings in the industrial sector. Particularly important since 60% of economic potential for savings is in this sector.
9. SoCalGas is working cooperatively with SCE to field an ambitious Sustainable Communities program.
10. SoCalGas has adopted more sophisticated market segmentation strategies designed to target high-use customers, customers in pre-1970 homes, and rural home and small business owners in its audit programs;

Missing Component from the SoCalGas Plan that suggest or leave room for improvement:

1. Strategic Thinking- The challenges posed by the Commission’s accelerated savings goals require administrators to think differently about reaching out and engaging customers in the future. As we recommended during the planning process, SoCalGas needs to simultaneously increase:
 - i. its program’s reach to customers (breadth) and
 - ii. the level of the energy savings achieved per customer once contacted (depth) and
 - iii. the probability that these customers will maintain current savings and come back to SoCalGas or its representatives to achieve additional savings in future programs (repeat customers)

The PRG feels it is critical to develop quantitative metrics for each of these three objectives that will allow SoCalGas (and others) to judge if their programs are reaching new market entrants, or if they are achieving greater savings per customers (i.e., percent savings on bills) or if last years customers are becoming repeat customers. (i.e., percent of customers participating this year who have participated in any program over the last five years)

Recommendation 1- We recommend that SoCalGas work with its PAG to develop metrics that will allow them to track their progress in reaching a greater number of customers, at greater savings, and with a greater probability they will contact SoCalGas program reps again when making energy related investments. Representatives from the Flex Your Power organization and evaluation consultants should be asked to provide or help brainstorm metrics related to market reach, depth, and repeat business by attending these workshops.

2. Match of Proposed Program Plans to previous Estimates of Natural gas Savings potential

Figures 2 and 3 contrast estimates of economic potential from the Kema-Xenergy potential studies with SoCalGas' estimate of the savings to be achieved by their plan at the sector level. This review suggests SoCalGas program plans are not well matched to areas of potential identified in the Kema-Xenergy reports.

Figure 2

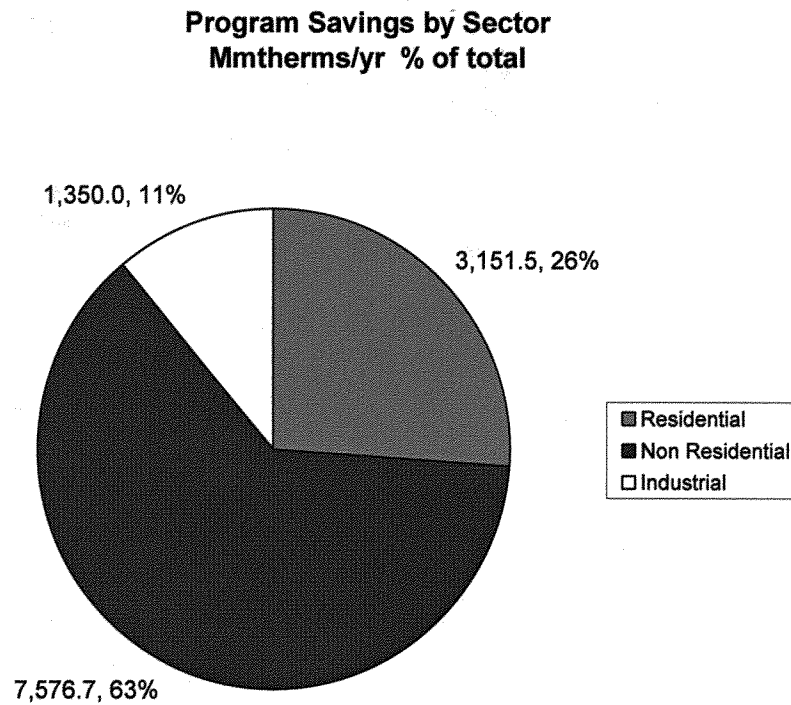
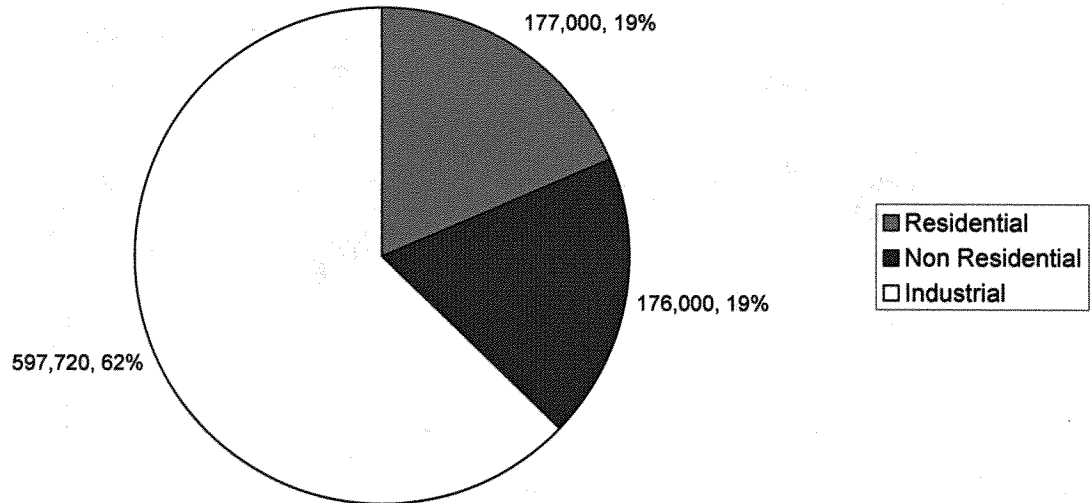


Figure 3

Economic Potential to save Natural Gas in SCG area
MM therms/yr and % of total



These figures suggest that the SoCalGas portfolio may be over-weighted to achieving savings in the residential sector while under investing in programs in the industrial sector. SoCalGas is devoting only 11% of its funds to the industrial sector to capture 15% of the total portfolio savings when the Kema-Xenergy study suggests that fully 62% of the potential to save energy at a cost lower than supply options resides in the industrial sector.

We note that there is some possibility that SoCalGas has lumped some industrial savings measures into its non-residential program measures but we still think this difference between economic potential and program targeting deserves to be more fully discussed.

Recommendation 2- SoCalGas should meet and confer with its PRG/PAG teams by July 1, 2005 to discuss whether it is desirable to move additional funds toward the industrial sector, either through shifting funds from other sector budgets or requesting additional dollars.

In addition to our concerns about the relative weight or allocation of program funding by sector, we are concerned that SoCalGas' portfolio of programs is over weighted toward producing savings from space heating applications and under investing in water

heating opportunities. For example, SoCalGas reports that it expects savings from water heating measures to account for 23% of its residential program savings but the Kema-Xenergy report completed in 2003 estimates that savings from water heating measures accounted for 58% of the potential savings in this sector for SoCalGas.¹ Part of the difference is that the Kema-Xenergy analysis suggested that savings from solar hot water heaters replacing natural gas fired unit was both cost effective and a significant portion of their economic potential (solar water heaters represent 16% of the residential economic savings total). Another reason may be that SoCalGas is waiting for the results from the statewide committee currently assessing technical and program opportunities to save gas and water in the near and far term.

Recommendation 3- The PRG continues to recommend that SoCalGas reserve additional funds to use in funding any promising program ideas and analysis that emerge from the Statewide hot water group report in mid July. SoCalGas' current hot water funding allocation of less than 10% of the program funds to an end use that represents fully 38% of natural gas usage in the residential and small commercial sectors does not on its face seem rational and in any event deserves more discussion. We recommend setting aside a funding level proportionate to the savings opportunity and then discounting this estimate in half to account for uncertainties, Since savings from water heating represent 50% of the savings potential in residential and commercial buildings, the appropriate budget would be 50% of the current budget, roughly \$20 million times 50% discount due to cost effectiveness uncertainty yields a \$5 million annual budget. SoCalGas can then pool these resources with the funds being provided by SDGE and PG&E as part of the statewide water-heating program.

3. Focus on Exploring, Estimating, and Tracking Future Savings Opportunities.

SoCalGas has allocated a significant amount of its budget to long-term programs but has provided little if any quantification of the savings opportunities. For example consider SoCalGas' discussion of emerging technologies program. We expected to see a more detailed list of cutting edge technology research or commercialization projects with the estimated energy savings per unit or per system application that could be achieved by if the technology was commercialized (e.g. the new technology is a certain percent more efficient than current technology). Instead SoCalGas, (and other program administrators to be fair) provided a process discussion of the numerous steps and pitfalls needed to bring an idea to fruition. Nor was there any factual data provided with respect to the success of previous technologies promoted by their 2002 or 2003 ET programs. The CPUC should expect more evidence than a promise to conduct useful research to commercialize emerging technologies before authorizing a \$6 million dollar budget.

¹ Source of SoCalGas program estimates, spreadsheet from SoCalGas and ckm "SoCalGas "W heat and industrial.xls": Source of economic potential estimates – Kema Xenergy , Residential Sector potential study, July 2003

Recommendation 4- SoCalGas should work together with the other portfolio administrators to re-file its emerging technology program description by October 1, 2005 to include the following items:

- a. Initial list of technologies/software/services to be explored over next three years
 - b. Estimated percent increase in efficiency for the new technology, system or service relative to existing practice in a typical application
 - c. Range of estimated additional natural gas savings that could occur if the ET projects are successful- probabilistic analysis
 - d. Cost reduction goals for each technology/service if applicable.
4. Develop a Plan to Reward excellence- In early April, PRG members had requested that SoCalGas develop a plan to motivate program implementers, internal staff and contractors. In addition we suggested in a PRG memo to SoCalGas dated April 14, 2006 (Appendix B) that the utility seek to reward customers who had successfully reduced their bills through program participation with publicity and or case studies of their peers achieving success. No such plan was identified in the May 17, 2005 draft filing.

Recommendation 5- We look forward to working with SoCalGas to help develop a plan to reward excellence for its internal staff, third-party implementers, and trade allies in the coming weeks. The plans should be developed presented to PAG for comment and then finalized by September 1, 2005.

Summary of Overall Vision-

SoCalGas should continue to work with its PAG to jointly develop a vision of how to achieve the Commission's goals over next decade, and jointly develop strategies to get there. Appendix F provides an example of elements of an energy efficiency vision and how the visions might be developed and implemented in a workshop process.

B. Clear Statement of Program Goals-

SoCalGas has done a good job in its application of describing its short and long term goals clearly. SoCalGas over arching goals are clearly stated as shown below:

- *Achieve or exceed the energy savings targets established by the Commission*
- *Provide programs integrating energy efficiency and renewable technologies*
- *Make it easy for our customers*
- *Create innovative offerings that will develop future savings streams*
- *Ensure that residential customers have access to a comprehensive range of technologies, information sources, and incentives*

- *Involve our communities and valued service providers by developing partnerships with various communities, and by utilizing third-parties to provide innovative technologies and marketing approaches*

These five overarching goals are then followed by eight market specific goals or priorities to guide program implementation². We commend SoCalGas for providing specific and concrete goals for selected market sectors. We suggest this process be repeated when the new information on water heating and process opportunities is brought to the PRG meetings this summer

C. Leadership-

“Leadership is the art of accomplishing more than the science of management says is possible” Colin Powell

SoCalGas exhibited strong signs of leadership in the planning process. SoCalGas recognizes that the Commission’s goals will require SoCalGas to commit itself to a multi year effort to triple its annual savings levels. Rather than criticize the goals, SoCalGas has gone out of its way to partner with a variety of different program managers and companies to achieve more savings. SoCalGas representatives appeared open to suggestions from its citizen PAG members and went out of their way to follow up on their ideas. The only problem PRG identified was a lack of SoCalGas customer representatives at PRG meetings. We were expecting SoCalGas to round up some customers and have them express their views at the PAG meetings.

Recommendation 6- We suggest SoCalGas consider testing some of its new program designs and strategies for the mass market in focus groups and share the results at the next quarterly PRG meeting.

- D. Plan to Stimulate and Reward Innovation- We applaud SoCalGas for proposing several innovative programs including Sustainable Communities, an On-Bill Financing Pilot, Portfolio for the Future, and Advanced Home programs. The On-Bill Pilot description from the May 17, 2005 program description could be improved by clearly stating the criteria that will be used to define pilot success, what types of measures will be financed, and what conditions must be met or exceeded before SCE will be willing or able to expand on bill financing to other sectors.

Recommendation 7- SoCalGas should consider creating a small subcommittee of its PAG to guide the On-Bill Pilot and provide advice on setting up reasonable research objectives and methods to improve pilot performance.

² See Appendix B for a list of these priorities.

Recommendation 8- SoCalGas should increase funding for the Sustainable Communities Program. It's unclear from the write-up whether the current funding request is just for the single Santa Monica project or for a few projects over the three-year cycle. This program has a significant potential to increase long-term savings by planning for efficient use of natural resources (electricity, gas, water, materials flow) at the community level and should be emphasized further.

- E. Develop a Balance between investments designed to create additional savings opportunities in the long run and funding for short run program acquisition efforts.

Developing this balance requires an understanding of the current funding split between short and long run programs and the expected energy savings from each category. We have enough data now to estimate the funding splits but lack the data necessary to even develop a range of expected savings from spending on long-term programs. This information will be needed to achieve a balance and a strategy to get there.

We estimate that roughly 27 % of SoCalGas' budget is targeted at achieving long-term saving through programs such as Advanced Homes, Emerging Technologies and Savings By Design.³ SoCalGas has chosen to devote a higher fraction of its budget toward long-term savings than other utilities (e.g. 20% for SCE). The PRG supports this decision because of the tremendous need to create more savings opportunities over the next three to five years in the SoCalGas area.

Unfortunately long run savings estimates were not provided from the following key programs:

- a. Emerging technologies
- b. Codes and Standards
- c. Many of the Partnership proposals
- d. Third party solicitations.

Recommendation 9- The Commission should order the administrators to provide long-term savings estimates for each of these programs before August 15, 2005 and work with its PRG/PAG members to develop such estimates. Completing this analysis will require a systematic look at the probabilities that projects within the emerging technology programs, codes and standards and other long term programs will yield savings over a three to five year time frame.

- F. SoCalGas' long-term plans should include more efforts to encourage improvements in future building efficiency standards.

This PRG supports SoCalGas' Advanced Homes Program and the concept of using a tiered approach to incent more savings, but the write-up lacks sufficient detail. If

³ This estimate is uncertain because we were unable to split marketing, training or third party budgets with any accuracy. See Appendix D see for the derivation of these estimates.

successful, this program will make it much easier to commercialize new technologies and encourage their adoption into the building standards. SoCalGas appears to be planning to rely primarily on a prescriptive approach for the Residential New Construction Program that encourages projects to take a modest, but meaningful, step beyond the state's minimum building efficiency standard. In this context, a prescriptive approach runs the danger of limiting the creativity of the marketplace to respond to the desired challenge of exceeding code.

In addition SoCalGas has proposed a relatively small budget to fund the Codes and Standards support program, \$ 300,000/year compared to \$ 1.5 million/year for SCE.

Recommendation 10- SoCalGas should consider increasing its three year budget for Codes and Standards Programs after meeting with CEC staff to determine if there are some important analysis projects or CASE studies needed for the next round of building standards. In addition, there should be a performance component in the Residential New Construction Program to ensure that the whole house approach is utilized.

- G. Risk Analysis- SoCalGas did a credible job in this area. In Section 3.1.8 of the portfolio plan, SoCalGas identifies the market and external risks to achieving its goals and identifies clear steps to mitigate those risks.
- H. Plan to Leverage other national and state efforts- SoCalGas produced a complete description of its effort to leverage national efforts. See section 3.1.9.
- I. Continuous Improvement and funding flexibility- Very good description of SoCalGas' continuous improvement plan.

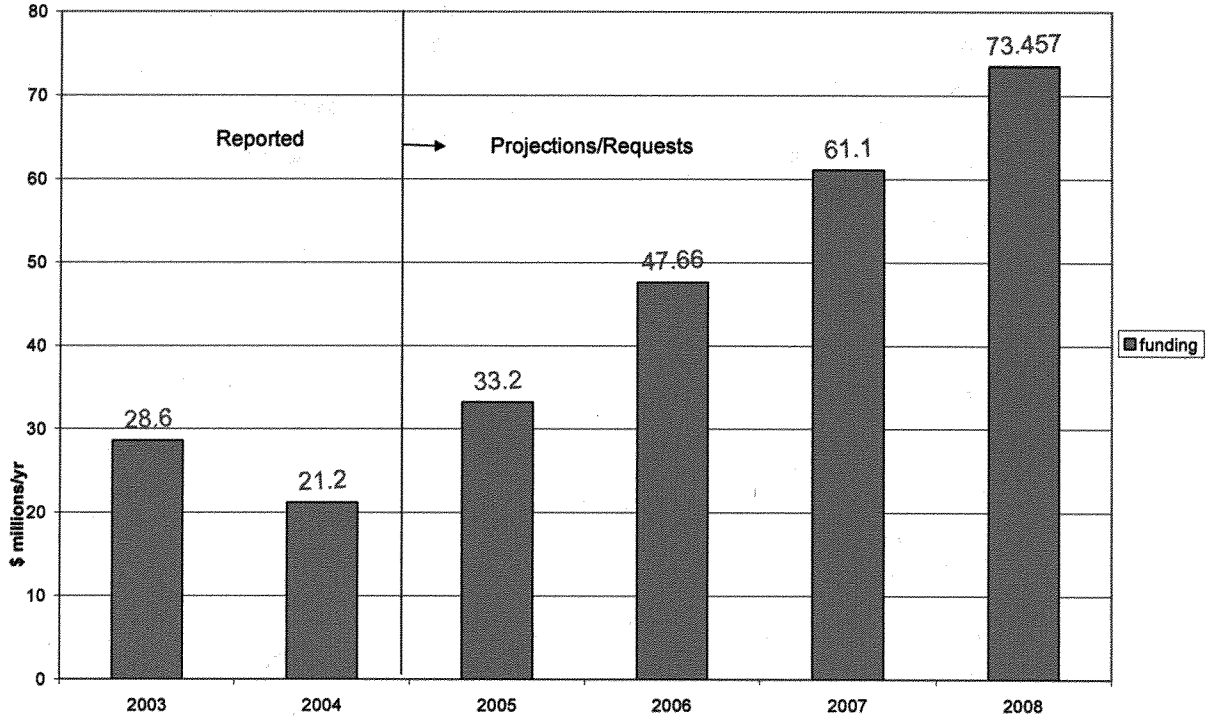
Recommendation 11- SoCalGas should coordinate closely with ED on ongoing changes to program design. (Also, see the section on Fund Shifting in Appendix I)

- J. Sufficient staff and funding resources to achieve long-term (2009 to 2013) savings goals.

SoCalGas appears to have requested sufficient funding to meet its long-term goal but has experienced some difficulty in spending all available funds in the last year. For example program spending dropped by 26% between 2003 and 2004. Figure 4 shows program spending over last three years and SoCalGas' request for the next three years.

Figure 4

SCG Efficiency Program funding over time



We are concerned that SoCalGas may not have enough staff to manage the significant expansion of program funding from \$22 million spent in 2004 to \$47 million planned spending in 2006 to \$73 million in 2008. This concern is particularly acute given our earlier observations that SoCalGas reports one of the highest ratios of administrative costs to total costs (25%) of all four administrators.

Recommendation 12- PRG members should meet with SoCalGas administrators, perhaps at next quarterly meeting, to try and understand the reasons for the 30% drop in program spending between 2003 and 2004 and the high administrative cost ratio. After this, the administrator and PRG members can determine if any steps need to be taken to increase SoCalGas' ability to deploy programs.

Table 1 below presents a summary of our overall assessment of SoCalGas' long-term portfolio plans.

Table 1
Overview of PRG Assessment of Portfolio Plans from SoCalGas

Planning Criteria	So Cal Gas
Vision & Strategy	Satisfactory
Clear Program/Mkt Goals	Excellent
Strong Leadership	Satisfactory
Cultivate and Reward Innovation	Satisfactory
Reward Excellence in Execution	Not Provided
Balance between savings potential estimates and program savings plans by sector and end use	Not Provided
Balance between short and long run program funding	Satisfactory
Completed Risk Analysis to Increase Probability of meeting goals	Excellent
Plan to Leverage outside resources	Satisfactory
Continuous Improvement plan	Satisfactory
Management Commitment to Achieve Goals	Satisfactory
Likely to Meet Short Term Savings Goals	Yes
Likely to Meet Long Term Savings Goals	Probably

Guide to Understanding the Ratings

1. Excellent- Plan exceeds expectations and will contribute to more long term savings
2. Satisfactory-Plan met our expectations and will not necessarily contribute to the long run
3. Needs improvement- Plan did not meet PRG expectations and chances of reaching savings goals will increase if administrator takes the time to pursue PRG recommendations
4. Not Provided- No information was presented in filings on this topic leading to high risk that overall long term savings goals will not be met. However PRG believes there is sufficient time to pursue and remedy these issues before the 2006 cycle begins

Statewide Coordination

One area that may have been shortchanged in the planning process was the exchange of information related to utility plans for running statewide programs with similar but not identical program designs. In D.05-01-055, the Commission directed the IOUs to form subgroups of their PAG members to closely collaborate and coordinate on statewide programs that cut across the IOU service territories. As part of statewide coordination, the Commission instructed PAGs and IOUs to collaborate on statewide program designs and implementation strategies that increasingly integrate energy efficiency with demand response and distributed generation offerings to end-users.⁴ While the IOUs have begun the process of addressing statewide coordination issues (two statewide PAG meetings have been held to date on April 7, 2005 and April 29, 2005), the PRG believes that the process is far from complete.

The proposed IOUs' portfolios are largely a product of regional planning and lack details on statewide coordination. Even so, Table 1 reflects that the IOUs will continue to allocate a significant portion of funds to statewide programs and rely heavily on statewide programs for the majority of savings.⁵

Projected Funding by Geographical Scope (\$ millions)								
	PG&E 2006		SCE 2006-08		SDG&E 2006		SoCalGas	
	% T	% T	% T	% T	% T	% T	% T	% T
	Budget	Savings	Budget	Savings	Budget	Savings	Budget	Savings
Statewide	n/a	n/a	65%	83%	45%	47%	48%	n/a
Local			35%	17%	55%	53%	52%	

Table 1: Projected Funding by Geographical Scope (\$ millions)								
	PG&E 2006		SCE 2006-08		SDG&E 2006		SoCalGas	
	% T	% T	% T	% T	% T	% T	% T	% T
	Budget	Savings	Budget	Savings	Budget	Savings	Budget	Savings
Statewide	n/a	n/a	65%	83%	45%	47%	48%	n/a
Local			35%	17%	55%	53%	52%	

PAG and PRG members have offered a plethora of suggestions on statewide activities and programs. Many of these ideas and recommendations have been picked up by the IOUs and incorporated in various places throughout their proposed portfolios. While this is a positive step forward, it still does not go to the heart of the matter, which is:

Certain fundamental aspects of economies of scale and scope in the manufacture, distribution, and purchase, of energy-using equipment and appliances call for a consistent, coordinated, and leveraged, statewide approach.

Generally speaking, the four IOUs appear to be developing two rather different approaches to IOU-implemented EE in their respective proposed portfolios. This may

⁴ D 05-01-055 1/27/2005. *Interim Opinion on the Administrative Structure for EE: Threshold Issues*, page 93-94.

⁵ PG&E has not yet proposed a state/local allocation; information was not provided in SoCalGas May filing.

have lead to some of the confusion and inability to focus sooner and more clearly on statewide matters.

SCE, SCG, and SDG&E are largely maintaining the existing framework of programs (with program enhancements and some new programs) defined along customer categories. (e.g. Single-family and Multifamily Retrofit Rebate Programs, Express Efficiency (small commercial) Standard Performance Contracting (larger commercial), etc. On the other hand, PG&E is in their words “blowing up all the boxes” and establishing one very large “mass market” program category, (encompasses primarily SF and MF existing, and existing Express Efficiency program, small commercial) that will rely largely on deemed savings, with then a dozen or so programs targeted at specific market sectors and customer categories such as schools and colleges, retail stores, office buildings, medical facilities, etc. (somewhat the current Standard Performance Contracting Program niche) that will work largely with calculated savings.

Regardless of the apparent two different approaches to utility-delivered EE, (enhance existing customer-centric program categories or define new programs along market categories) certain fundamental aspects of customer approaches to energy efficiency, market opportunities for interacting with the customer, market barriers, and strategies to overcome barriers, remain.

For instance, each time consumers face a market choice involving energy use it is a golden opportunity to engage consumers in assessing energy usage and efficiency potential on a comprehensive basis, and developing plans and strategies for carrying out those improvements. The critical junctures in the marketplace to positively engage consumers, businesses, and communities in energy efficiency are:

- In the design and construction of new homes and buildings; and the manufacture and distribution of equipment and appliances.
- At the point of purchase and point of installation of equipment and appliances.
- During the retrofit and refurbishment of existing homes and businesses, and the operation and maintenance of equipment and appliances.

Given the lack of discussion in coordinating statewide program designs, the PRG is unable to provide a meaningful assessment at this point. We recommend that the Commission direct the IOUs to continue the discussion with their PAG members and among themselves related to achieving similar designs and qualifying criteria for statewide programs. Specifically we recommend the IOU's provide more details in their subsequent filing to the Commission in the following areas:

1. Statewide marketing and outreach.

The IOUs and Efficiency Partnership should submit a joint plan on statewide marketing and outreach initiatives. Currently that is a general lack of knowledge and confusion on how the IOUs local marketing and outreach efforts will integrate without duplicating or confusing statewide activities. A joint statewide plan would help mitigate these problems. The plan should address issues including: co-branding with 3rd party programs, coordination with both IOU and non-IOU program-specific marketing activities (particularly for non-resource programs), and marketing targeted at hard-to-reach segments (this includes the activities carried out by Runyon Saltzman & Einhorn and Univision Television Group funded in the 2004-05 program cycle).

2. Statewide manufacture, distribution, and retail programs.

A coordinated statewide manufacture, distribution, and retail program should be considered the starting point for making energy efficiency California's first loading order resource. Statewide marketing and outreach as noted above is part and parcel.

Upstream programs promote higher production levels and more aggressive distribution of high efficiency equipment through midstream contractor and downstream consumer demand. Upstream equipment and appliance efficiency programs have been practiced by many utilities throughout the country for a number of years. Through such programs, manufacturers and distributors often agree to discount the cost of higher efficiency equipment based on improved certainty of larger scale market demand. Also, but not always, manufacturers and distributors are offered financial incentives for increased production and distribution of higher efficiency equipment.

As a first step, PAG and PRG members encouraged the IOUs to develop a full menu of energy saving equipment and appliances, assess whether increasing the production and distribution of the mass market measures is most workable at the manufacturer level, distribution level, or both. It was suggested that a summary possibly in a matrix format would be helpful, along with a discussion of what works, and why and why not. The IOUs did some of this (albeit very late in the PAG process) largely demonstrating certain aspects of consistency, with coordination and market leverage, largely unaddressed.

Coordination and market leverage (exertion of market power) are concepts the IOUs are familiar with, and the PRGs hope that such advancements are happening "off line".

The IOUs should coordinate upstream programs targeting manufacturers and distributors to best leverage their combined market power. SDG&E currently plans to competitively bid out the Upstream HVAC/Motor Distributor Rebate program. It remains unclear how SDG&E and the other utilities will coordinate on the negotiations with manufacturers and distributors. Ideally, the utilities

should jointly pursue any upstream efforts, or designate a single third-party to represent all the utilities in the negotiation and implementation process.

Preliminary potentials estimates could be readily calculated working with annual sales data, assuming normal replacement or retrofit, point of sale discounts (no consumer rebate processing increasing consumer participation), and possibly varying levels of manufacturer incentives. Program design and potentials estimates should work to achieve broad retail market participation in point of sale efforts.

3. Statewide collaboration to integrate energy efficiency with demand response and distributed generation offerings to end users.

The market integration of demand-side programs is a new program concept that affects all market sectors. By exchanging ideas and soliciting comments from the PAG members, we expect that the IOUs will be able produce a more concrete strategy that delivers demand-side programs at the most cost effective manner without adding more confusion from the customer perspective.

4. Statewide Emerging Technology program planning.

The IOUs should jointly develop a detailed plan for the 2006-08 Emerging Technology program. The plan should include a target list of technologies/software/services to be explored over the next three years, estimated time to commercialize each item on the target list, as well as the range of estimated aggregate savings from the target list.

5. Statewide Codes & Standards program planning.

The IOUs should jointly develop a detailed plan for the 2006-08 Codes & Standards program. The plan should include a target list of case studies, projected timeline for adoption by the CEC, and the estimated aggregate savings.

Third Party Bid Solicitation Process

The PRG reviewed SoCalGas's proposed budget for competitive solicitations, areas for targeted solicitations, process for soliciting third party bids, and criteria to evaluate the bids. SoCalGas proposed a 2006 budget for 3rd party programs that represents 18.5% of the total portfolio budget when including the EM&V budget, and 20% of the total portfolio budget when excluding the EM&V budget. Based on D.05-01-055, the competitive bid requirement is stated as "a minimum of 20% of funding for the entire portfolio" (p. 83). Given the Decision's language, we recommend that the Commission require SoCalGas to

adjust the budget for competitive bids to comply with the 20% minimum bidding requirement, with the EM&V funding included in the total portfolio budget.

Aside the 3rd party program budget, we generally support SoCalGas's competitive bid plan, including the budget split between targeted and innovative program solicitations, the selected areas for targeted solicitations and SoCalGas's stated plan to consider replacing programs within the portfolio filed on June 1st if competitively bid programs can improve upon them. Our detailed comments on SoCalGas's plan and our recommendations for improvements are discussed below.

Comments on Projected 3rd party Program Budget:

1. Within the 3rd party program budget, 76% is allocated to Targeted solicitations and 24% to the Innovative Program Idea Solicitation (refer to Appendix G for summary of SoCalGas's competitive bid plan). The PRG believes this is an appropriate balance between the areas, given that many of the Targeted programs are a result of the PAG recommendation process and represent key areas with large potential savings.
2. Within the Targeted program budget, \$2 million is allocated to the Residential HVAC upstream and midstream program, \$1 million to the Comprehensive Coin-operated commercial clothes washing replacement, and \$.55 million to the Comprehensive Water Heating replacement program (refer to Appendix H for summary of SoCalGas' targeted program solicitations). Given the energy savings potential (nearly half of the remaining potential in the residential sector is in water heating) and the scope of the Comprehensive Water Heating replacement program, which covers upstream and midstream incentives to manufacturers, distributors and contractors as well as advance technology demonstration, the PRG recommends that SoCalGas increase the funding allocation to this program.

Recommendations: SoCalGas should increase the funding allocation to the comprehensive Water Heating replacement program.

Comments on Areas Selected for Targeted Solicitations:

1. SoCalGas has provided a thumbnail sketch of each targeted solicitation, along with the anticipated funding level and expected energy savings. The PRG generally supports the areas identified for targeted competitive solicitations and believes that they will contribute to improvements and innovation within the portfolio. In its RFP, SoCalGas should make it clear that the brief descriptions it has provided for each competitive solicitation are very general, and that bidders should seek to improve upon them. For example, providing kiosks in the lobbies of financial institutions may not be the best way to reach the market at the time of financing or re-financing if many people conduct this business online or by phone rather than in person; bidders should be free to propose other ways to reach the same market.

Recommendations: SoCalGas should clarify that bidders should not limit their program design based on the proposed program description given for each targeted solicitation area.

Comments on the RFP process:

1. The PRG recommends that SoCalGas and SCE jointly solicit third party bids in as many areas as possible that can logically target both gas and electric savings. In particular, we recommend joint solicitations for the following areas as targeted solicitations: retrocommissioning and time-of-sale home inspection. By consolidating the solicitation process for these program areas, the IOU administrators will benefit from reduced administrative overhead and avoiding duplicative efforts by third parties targeting the same customers within the SoCalGas/SCE service territories.
2. Upstream rebate programs targeting manufacturers and distributors should be closely coordinated across the utilities to best leverage their combined market power. We recommend that SoCalGas separate the upstream incentive components from the Comprehensive HVAC and Water Heating programs to further refine the details of statewide coordination. Furthermore, should the utilities decide to use a 3rd party to manage the relationships with upstream market actors, there should be a single entity contracted to represent all the utilities.

Recommendations: SoCalGas should coordinate with SCE to jointly solicit third-party bids for local programs that target both gas and electric savings. For upstream incentive programs, SoCalGas should coordinate with the other utility administrators to ensure that there is a single entity coordinating all activities with manufacturers and distributors.

Comments on RFP schedule:

1. SoCalGas currently expects to issue the RFP in September. The PRG notes that any delays in the launch date of programs may jeopardize the ability of the program implementers to meet their program goals and may cause a delay in any future portfolio evaluation activities. To ensure that there is adequate time to select 3rd party program bids and to allow them to begin implementation by the first of the year, the PRG recommends that the Commission bifurcate its decision on this application and authorize SoCalGas to begin the RFP and bid screening process as soon as possible and prior to the Commission's approval of SoCalGas' full application.
2. In SoCalGas' proposed solicitation schedule, the utility has scheduled only one discussion with the PRG after its review of the stage two proposals. The PRG recommends that SoCalGas review its selection of stage one abstracts with the PRG prior to notifying bidders to submit full proposals.

- For the Innovative Program Idea Solicitation, SoCalGas proposed to allow the winning bidders up to two years to implement and complete their programs. However, it is unclear whether SoCalGas plans to conduct additional program solicitations beyond 2005. The PRG is supportive of a staggered solicitation schedule to encourage third parties to submit innovative program proposals throughout the program cycle. To that end, we recommend that SoCalGas conduct program solicitations in 2006 and 2007, and designate one-year contract provisions for selected programs which may be extended based on the demonstrated performance.

Recommendations: The PRG recommends that the Commission bifurcate its decision on SoCalGas' application and authorize SoCalGas' competitive solicitation process as soon as possible and prior to the Commission's approval of SoCalGas' full application. We further recommend that SoCalGas reviews its selection of stage one abstracts with the PRG prior to noticing the stage one selection results. The PRG also recommends that SoCalGas conduct 3rd party program solicitations in 2006 and 2007, and designate one-year contract provisions for selected programs.

Comments on the Program Solicitation Criteria:

- The PRG generally supports the weights assigned to the categories of (i) kWh and kW Potential, (ii) Cost Effectiveness, (iii) Cost Efficiencies, (iv) Program Implementation and Feasibility, (v) Program Innovation, and (vi) Minimizing Lost Opportunities for the Targeted resource and non-resource 3rd party programs. However, for the Innovative Program Idea Solicitations, we recommend that SoCalGas place more emphasis on the Program Innovation criteria. As such, the PRG recommends the weights presented in the table below:

Criteria	Innovative Program Idea Solicitation – Resource Programs	Innovative Program Idea Solicitation – Non-Resource Programs
kWh and kW Potential	20%	na
Cost Effectiveness (for resource programs)/ Cost Efficiencies (for non-resource programs)	20%	25%
Program Implementation and Feasibility	15%	15%
Program Innovation	30%	45%
Skill and Experience	10%	10%
Minimizing Lost Opportunities	5%	5%

- The first stage screening process described in the draft portfolio application provided to the PRG seems to be too subjective. We recommend that the criteria that will be used in screening Stage I submissions be more explicitly defined.

3. SoCalGas's proposed bid evaluation criteria provides a detailed breakdown of the criteria it proposes to use in evaluating individual bids, and states that the utility's portfolio managers will ensure that all programs and technologies fit into its overall portfolio. This proposed bid selection process provides inadequate detail on the portfolio-level criteria SoCalGas will use to evaluate bids and assemble the final portfolio. We suggest that SoCalGas further clarify these portfolio-level criteria, such as ensuring that the portfolio is cost-effective, comprehensive, reaches a diversity of target markets, does not result in overlapping or competing programs, adequately lays the groundwork for reaching the Commission's long-term savings targets, etc.

Recommendations: The PRG recommends that SoCalGas modify the stage two bid evaluation criteria weights for the Innovative Program solicitations as above. Furthermore, we recommend that SoCalGas provide a more explicitly defined set of criteria for screening stage one submissions as well as clarify the stage two portfolio-level criteria.

Comments on the Continuation of Successful Non-IOU Programs:

1. While D.05-01-055 explicitly instructed the IOUs to continue successful non-IOU programs, there is no common definition of "success" across the IOUs in their assessment of ongoing non-IOU programs. Of the eight existing third party programs operating in its territory, SoCalGas proposed to continue only the CUWCC Pre-rinse Spray Head Installation Program. However, as of the date this PRG assessment began, SoCalGas did not have a program description for this program in its draft June 1 filing; as such, it will remain unclear as to whether this third party can reasonably expect to be part of the 2006-08 portfolio or whether it should bid into the competitive solicitations. At the same time, other programs that have met their program targets, delivered high quality work, and are deemed cost effective will need to re-bid in the 2005 solicitation process as part of SoCalGas's plan to develop more comprehensive programs. The PRG is concerned that SoCalGas did not use a sufficiently robust process to select existing programs to continue in the 2006-08 program cycle.
2. We believe that a "mainstreaming" process to move successful third-party programs into the "80%" portfolio needs to be further refined. The PRG plans to continue working with the IOUs to establish a process to move innovative programs into the core (80%) portfolio and replace existing programs with third-party programs that are more cost effective and/or comprehensive in the program approach.

Recommendations: SoCalGas should continue to work with the PRG to develop a more robust process to mainstream non-IOU implemented programs.

Fund Shifting

The Commission asked the PRG to discuss and potentially recommend fund-shifting rules to govern what process, if any, the administrators should follow when shifting funds

between programs over the next three years. In general, the PRG members support fund-shifting flexibility that will enable the utilities to meet the Commission's savings targets. There may be situations when it would be necessary for the utility to quickly shift funds away from programs that are having difficulty meeting their savings goals without having to wait two to three months for Commission approval. However, some limits on fund-shifting flexibility may be desirable since (1) some of the program details, including cost-effectiveness information, remain vague, and in particular, we wish to ensure that utilities maintains an appropriate balance between programs that will provide near-term and long-term savings, and (2) there might be a tendency for some administrators to shift funds away from programs providing longer-term savings towards program focused solely on harvesting savings in the short-term. The PRG discussed two potential fund-shifting policies, but was not able to reach consensus on a recommendation to the Commission. We, therefore, outlined the two options that the PRG discussed in Appendix I⁶.

Conclusions

We have attempted to include language in this assessment that reflects a consensus opinion, however, due to time constraints in writing this report, all members retain their right to submit individual comments to the Commission, or to provide recommendations to the Commission that are either outside of the scope of this assessment, or that differ from certain items or recommendations included herein.

The PRG concludes that in the near term, for the 2006-08 cycle, SoCalGas' draft portfolio is likely to cost-effectively meet the Commission's targets. We find that the utility has maintained an adequate emphasis on programs with a proven track record of delivering savings, in addition to proposing innovative programs. Moreover, SoCalGas has built an adequate margin of error into its forecasted savings, although the margin of error is not large enough to make us entirely confident in its ability to meet the goals. In this assessment, we discussed our findings based on our review of SoCalGas' draft program portfolio plans, and provided our recommendations to ensure that SoCalGas will meet the Commission's near-term energy saving targets.

We believe SoCalGas has done a credible job of planning to produce a significant increase in likely future program savings. Throughout the PAG process, SoCalGas has done an admirable job in reaching out to the effected private sector stakeholders to solicit input and recommendations. SoCalGas was responsive to a number of PAG recommendations to expend resources and make investments in the future. The utility has proposed to invest

⁶ Although Energy Division does not endorse either of the PRG recommendations, it does not wish to impinge upon the PRG's freedom to request an expanded role, or to request that it be vested with the following responsibility. However, Energy Division may deem it as part of its responsibility to advise the Commission to make a recommendation on a fund-shifting request and approval process that differs from that suggested by this PRG. Energy Division has not yet determined what the staff position will be as it has not yet reviewed the filings or yet consulted with Commission decision makers on their desired level of staff oversight of utility portfolio administration and expenditures, however ED might have concerns about the feasibility and propriety of the recommended process. Energy Division does not wish to either undermine the PRG process by seeming obstructionist or appear duplicitous.

heavily in programs that are aimed at achieving long-term savings, but has provided little if any quantification of the savings opportunities. We are also concerned that SoCalGas has not devoted sufficient funds or programs to harvest the potential savings in the industrial sector and for the water heating end use in the residential and small commercial sectors. SoCalGas should continue to work with its PAG/PRG to jointly develop a vision of how to achieve the Commission's goals over next decade, and jointly develop strategies to get there.

One area that may have been shortchanged in the planning process was the exchange of information related to utility plans for running statewide programs with similar but not identical program designs. In D.05-01-055, the Commission directed the IOUs to form subgroups of their PAG members to closely collaborate and coordinate on statewide programs that cut across the IOU service territories. As part of statewide coordination, the Commission instructed PAGs and IOUs to collaborate on statewide program designs and implementation strategies that increasingly integrate energy efficiency with demand response and distributed generation offerings to end-users. While the IOUs have begun the process of addressing statewide coordination issues, the PRG believes that the process is far from complete. Generally speaking, the four IOUs appear to be developing two rather different approaches to IOU-implemented EE in their respective proposed portfolios. This may have lead to some of the confusion and inability to focus sooner and more clearly on statewide matters. Given the lack of discussion in coordinating statewide program designs, the PRG is unable to provide a meaningful assessment at this point. We recommend that the Commission direct the IOUs to continue the discussion with their PAG members and among themselves related to achieving similar designs and qualifying criteria for statewide programs.

The PRG reviewed SoCalGas' proposed budget for competitive solicitations, areas for targeted solicitations, process for soliciting third party bids, and criteria to evaluate the bids. We generally supports SoCalGas' competitive bid plan. However, we recommend that the Commission require SoCalGas to adjust the budget for competitive bids to comply with the 20% minimum bidding requirement, with the EM&V funding included in the total portfolio budget. Furthermore, we recommend that SoCalGas increase the funding allocation to the comprehensive Water Heating Replacement program and coordinate with the other utilities on joint solicitation for local programs targeting both gas and electric savings as well as statewide upstream incentive programs.

The Commission asked the PRG to discuss and potentially recommend fund-shifting rules to govern what process, if any, the administrators should follow when shifting funds between programs over the next three years. In general, the PRG members support fund-shifting flexibility that will enable the utilities to meet the Commission's savings targets. The PRG discussed two potential fund-shifting policies, but was not able to reach consensus on a recommendation to the Commission. We, therefore, outlined the two options that the PRG discussed in Appendix I.

Appendix A

1. SoCalGas: 2006-08 Energy Efficiency Program Concept Papers – May 9, 2005
2. SoCalGas' Portfolio Application Outline, Energy Efficiency Program Year 2006-08, provided on May 9, 2005
3. SoCalGas' Energy Efficiency Summary Tables, June 1st Filing (Excel Workbook file), revised May 16, 2005
4. SoCalGas' May 18, 2005 response to PRG's data request

Appendix B

April 14, 2005

To: Utility Energy Efficiency Portfolio Managers
From: Mike Messenger, CEC
Devra Bachrach, NRDC
Cynthia Mitchell, TURN
Zenaida Tapawan Conway, CPUC Staff
Peter Lai, CPUC staff
Christine Tam, ORA

Subject: Criteria for evaluating the portfolio of energy efficiency programs to be submitted on June 1, 2005.

In the interests of full disclosure and no surprises, here are the criteria we plan to use in assessing whether the utility portfolio manager submittals on June 1st, 2005 are consistent with the Commission's energy efficiency policy goals.

1. **Vision-** The utility administrators should present a strategic vision and set 3 year stretch goals for each market segment (beyond just the quantitative energy saving goals set by the Commission) that will motivate employees, stakeholders and the regulatory community. This vision should include a thoughtful analysis of how today's emerging trends will effect program opportunities between now and 2008.
2. **Clear Statement of Program Goals-** Maximize cost effectiveness or achieve energy and peak savings goals or others? Also, the application should contain a clear description of how the programs in the portfolio will minimize lost opportunities and reflects "best practices" drawing upon experience and information to date on both IOU and non-IOU implemented programs.. In addition, the application should demonstrate that it is designed to displace or defer more costly supply-side resources by demonstrating that the portfolio of programs is cost effective.
3. **Flexibility-** Plan should contain the milestones to verify that the programs are on track to achieve savings goals and mechanisms to shift program funding as market circumstances change and evaluation results become available.
4. **Diversification of Program Savings Risk-** Discuss how the portfolio diversifies risk, and how the elements of portfolio are divided on the spectrum between "tried and true" programs and new programs to "test the waters." Provide an expected value analysis of the risks of over reliance on specific programs or measures for to achieve large portions of the portfolio savings goals. Demonstrate that the plan provides an adequate margin of error in meeting the Commission's targets, and identify the key uncertainties in savings estimates that must be confirmed over time.
5. **Leadership-** Provide evidence that portfolio managers have worked hard to bring ideas and concepts from various stakeholders and PAG members into finished program concepts within the application and bringing successful ideas from third party programs into the main stream.
6. **Innovation-** Explore end uses where energy savings have not been significant over the past ten years (e.g., gas water heaters), new end uses (e.g., home entertainment

- systems), and new approaches (e.g., on bill financing, feedback from utility bills, and co branding).
7. **DSM Integration** - Integration of EE opportunities with demand response and renewable options as part of program delivery options.
 8. **Reward Excellence**-Define a process to develop a plan to reward excellent execution from program planners and implementers under contract to the portfolio manager.
 9. **Leverage** – Demonstrate that the portfolio is leveraging national efforts through participation with CEE, Energy Star, etc. and statewide efforts through coordination with other utilities (including municipal utilities, water utilities, etc.) and agencies (e.g. the CEC).
 10. **Strategy to Meet Long-term Targets** – Demonstrate that the portfolio “plants the seeds” for a future ramp-up in savings in order to meet the more aggressive targets beyond 2008 and capture *all* cost-effective savings. Describe the balance of long-term vs. short-term programs within the portfolio. Demonstrate that the portfolio builds the energy efficiency infrastructure to achieve greater future savings.
 11. **Best Program Implementation** – Explanation of how the areas to be competitively bid and the funding levels were chosen in order to meet the Commission’s goal of improving programs and spurring innovation.
 12. **Coordination** – Clear plan to coordinate all program implementers (both utility and non-utility) to ensure the success of the entire portfolio, and a plan to help *all* program implementers be successful.
 13. **Continuous Improvement Plan** – Outline a plan to continually improve the portfolio of programs through process evaluations, market assessments, etc. and ongoing portfolio planning and stakeholder input (i.e. the portfolio planning process should not rush now and then cease in 2006, it should be ongoing to make mid-course changes and to take the time necessary to plan an even better portfolio for 2009 and beyond).
 14. **Compliance with Policy Rules and other Commission directives** – demonstrate how the portfolio/programs comply with the policy rules (expected to be adopted on April 21) and other directives set forth in prior Commission decisions, as applicable.
 15. **Responsiveness to the Green Building Initiative Executive Order** – Demonstrate how the portfolio/programs address the goals set forth in the Executive Order with respect to improving energy efficiencies in state and commercial buildings, and informing building owners/operators about energy efficiency

Please contact Mike Messenger if you have any questions about these criteria or how we plan to apply them. Thanks.

Appendix C

SoCalGas market level goals

1. By 2013, SoCalGas will replace all standard coin operated laundry machines with high efficiency clothes washers and dryers.
2. By 2013, SoCalGas will perform energy efficiency surveys on every home in our service area built before 1960.
3. By 2013, every SoCalGas residential customer will have an interactive electronic assessment device that will provide real time energy consumption and site-specific energy conservation/efficiency recommendations. (Virtual Auditor).
4. By 2013, every commercial kitchen in SoCalGas ' service area will produce 20% more product for the same gas input in 2004.
5. By 2013, inefficient natural gas-related industrial plumbing designs will be eliminated.
6. By 2013, hybrid natural gas/electric space cooling systems will be a viable solution for electric-peak load reduction in the residential and small commercial segments.
7. By 2013, residential space heating energy consumption in SoCalGas' service area will be the same as that recorded in 2004.

Appendix D

Short and Long Run Efficiency Program Budget

SCG Budget and Savings	Long-term Budget	\$12,832,295
<i>source: May9DR_SCG_June1Filing(revised 5-</i>	Portfolio Budget	\$47,868,782
	Long-term as Percent c	27%

Program	Budget	Category	
3rd party programs	\$8,864,589	long-term at 50%	\$4,432,294.50
SCG3501 CS4-Codes & Standards Program	\$300,000	long-term	
SCG3502 EED4-Advanced Home Program	\$2,250,000	long-term	
SCG3506 ETP4-Emerging Tech Program	\$1,000,000	long-term	
SCG3511 NEW4-Savings By Design	\$1,500,000	long-term	
SCG SCE Program	\$1,000,000	long-term	
SCG3512 NEW5-Savings By Design	\$1,000,000	long-term	
SCG Muni Program	\$1,250,000	long-term	
SCG3514 OBF4-On-Bill Financing for Energy Efficiency Equipment	\$4,000,000	long-term at 20%	\$800,000.0
SCG3515 PP4-Partnership Programs	\$300,000	long-term	
SCG3516 SCD4-Sustainable Communities Demo/City of Santa Monica	\$1,800,000		
SCG3503 EET4-Education & Training Program	\$1,000,000		
SCG3504 EMO4-Energy Efficiency Marketing & Outreach	\$3,545,836		
SCG3505 EMV4-Evaluation Measurement & Verification	\$5,308,050		
SCG3507 EXP4-Express Efficiency Rebate Program	\$2,013,043		
SCG3508 FYP4-Flex Your Power	\$600,000		
SCG3509 HES4-Home Energy Efficiency Survey	\$2,500,000		
SCG3510 MFR4-Multi-Family Rebate Program	\$6,137,264		
SCG3513 NRF4-Local Business Energy Efficiency Program	\$4,500,000		
SCG3517 SFR4-Home Efficiency Rebate Program	\$47,868,782		
Portfolio			

Appendix E

Recommendations from PRG members that were not universally supported by all PRG members

The following is a list of recommendations that some PRG members felt were potentially important but did not enjoy the support of all PRG members. They are reprinted because the PRG members from the CEC and TURN felt they raise interesting issues that the Program Administrator may decide to address in the short or long term. Other PRG members, including NRDC and ORA, intend to address their individual issues through their comments on the utilities' applications after June 1, 2005.

A. Promote comprehensive savings— SoCalGas should emphasize the need to achieve greater depth or a higher percentage reduction in a customer bill once they are engaged or participating in a program. The current SoCalGas program descriptions contain very little if any discussion or description of how their audit, rebate or new construction programs will encourage deeper or more comprehensive savings once at the customer site.

Recommendation: Explore possible approaches to encouraging more depth or comprehensive savings at the next PAG meeting. Opportunities for participating customers include routine follow up emails, visits, recognition of customers or customized feedback on energy bills after investments are made.

B. Cultivate repeat customer business- Repeat efficiency Customers are cheaper to acquire than new ones. It is an accepted fact in the business world that it is both easier and cheaper to cultivate repeat business by devoting effort to ensure customers are satisfied and have an easy way to get back in touch for future needs. This is clearly cheaper than trying to reach new customers again through mass media and marketing campaigns. In fact, satisfied customers who confirm that they have achieved bill savings are SoCalGas' best way to increase the prospects for additional long-term savings.

Recommendation: The portfolio administrators should make a strong effort to cultivate positive relationships with participating customers to reduce costs and to maximize word of mouth opportunities. SoCalGas should track the number of repeat customers by class in an interactive data base and report how many customers are actually repeat customers on an annual basis. In addition, SoCalGas should consider giving some form of recognition to successful efficiency customers such as handing out energy efficiency hero cards that can be used for future product discounts or contacting host utility when the customer is making their next energy related investment.

C. Financing, On- and Off-bill, as a supplement and/or alternative to rebates.

There is a strong need for low- and no-interest financing of residential and small commercial energy efficiency equipment such as HVAC and major efficiency retrofit and refurbishments as an effective mechanism to overcoming significant market barriers that exist in inducing the majority of homeowners and businesses to invest in saving energy.

Financing is also one of way to effectively address the split-incentive landlord-tenant barrier at least in the commercial sector. Energy saving measures with a payback period less than the length of the tenant's lease are ripe for financing, with additional options including the ability to transfer an existing financing contract to the next tenant.⁷

The new federal standards for residential central air conditioning units effective 2006 heighten the need for financing. As lower-cost (lower efficiency) units are no longer available, customers may increasingly delay replacement. Appropriate financing could prevent the decline in replacement of older, less efficiency systems.

While all the utilities to one degree or another are testing on-bill financing,⁸ off-bill financing – part and parcel to all or most of the IOUs, third-party, and partnership energy efficiency programs and services – provides an excellent bridge as California hopefully moves closer to on-bill.

⁷ United Illuminating Company's *Small Business Energy Advantage*
http://www.uinet.com/your_business/sbea.asp

⁸ In D. 04-09-060 September 23, 2004 *Interim Opinion: Energy Savings Goals for Program Year 2006 and Beyond*, the CPUC directed the IOUs to submit proposals for on-bill financing. Page 34: "For this purpose, we encourage the program administrator(s) to aggressively develop program design options during the next program cycle that will address major barriers to energy efficiency deployment. We expect program administrator(s) to submit for our consideration an analysis of a wide range of promising options to remove barriers to rapid energy efficiency deployment, including on-bill financing of energy efficiency measures. In doing so, program administrator(s) should look to the practices used in other states to resolve the ratemaking, cost allocation and consumer protection issues raised by the parties in this proceeding regarding on-bill financing."

Appendix F

An example of an Energy Efficiency Vision and Questions to Explore at a Visioning Workshop

1. Customers routinely seek to confirm the gas savings achieved from previous programs by looking at their monthly bill, or asking the utility to perform a quick confirmation analysis and return it via email or asking for an automatic verification check from their new interval meter
2. Small and large business owners track the energy component of their monthly expenses through simple benchmarking programs and compete to be best in the trades.
3. Utilities set up self sustaining web sites where customers rate the quality of major contractor installation jobs and allow skilled home doctors to flourish.
4. Tradable carbon market makes it profitable for SoCalGas to sell their savings to other countries and stimulates a “brain drain” of efficiency experts to the Far East.
5. Large industrial customers routinely consult with portfolio administrators when they are considering major plant retrofits or relocation to new areas.

Questions to Explore at Visioning Workshops

1. What are the key trends in micro-electronics and how are they likely to effect opportunities for energy savings in the future?
2. How will the installation of interval meters affect program opportunities to save energy?
3. What are key trends in natural gas intensive process industry and how will they affect program savings opportunities?
4. What will be the effect on programs of the eventual downturn in home sales in next three years?
5. What will be the impact of move toward decentralized or renewable generation sources on savings opportunities for SoCalGas? Will more waste heat be available in urban areas?

Appendix G

Summary of SoCalGas' plan for competitive bidding

Third-party bid category	Projected Budget	Bid Rationale	Bid Schedule
Targeted *	\$6,770,000	SoCalGas believes all areas of the portfolio should gain from competitive bidding to meet the continuous innovation and improvement objectives. Furthermore, the selected 3P programs should conform to SoCalGas' seven long range EE priorities.	Unspecified
Innovative Program idea Solicitation		Patterned after SCE's IDEEA program, this is a general solicitation to seek new program designs that may include commercialization/ demonstration projects for emerging technologies that have a potential for cost-effective energy savings.	Unspecified.
Total 3P program budget **	\$8,864,589		
SoCalGas 2006-08 Portfolio	\$47,868,782		

*source for Targeted 3P program budget: SoCalGas program concept papers submitted on 5/9

**source for Total 3P program budget: "May9DR_SoCalGas_June1Filing(revised 5-16).xls"

Appendix H

Summary of SoCalGas's Third-Party Target Program Solicitations

Program Name	Program Budget*	Bid Amount *	Bid rationale*
Affordable Housing innovative outreach and measure installation	\$250,000	150,000 thms	Hard-to-reach segment. EE measures will excl. HVAC measures.
Mobile/manufactured home innovative outreach and measure installation	\$250,000	150,000 thms	Hard-to-reach segment within the residential market
Residential upstream central heating replacement, and midstream duct testing and sealing and quality installation assurance	\$2,000,000	800,000 thms	SoCalGas does not have the expertise and resources in-house to execute a comprehensive HVAC program; complements the SCE program (SCE program targets customers with both central heating and A/C; SoCalGas program targets customers with central heating only)
Residential Advanced Home Remodeling/Renovation	\$500,000	200,000 thms	Complements the residential new construction program
School-Based Residential Energy Efficiency	\$200,000	160,000 thms	School-based education is not addressed in the SCT portfolio
Used Equipment Education and Incentive Program	\$100,000	n/a	Education program targeting foodservice equipment vendors and customers
Small-Medium Industrial Customer Process Improvement	\$120,000	30,000 thms	Target small-medium sized industrial customers that have been underserved
Comprehensive Coin-operated commercial clothes washing replacement	\$1,000,000	700,000 thms	Specialized niche market for energy and water savings
Comprehensive/ innovative upstream/ midstream/ downstream water heating replacement	\$550,000	400,000 thms	Need to expand approach to reach upstream and midstream market actors.
Portfolio of the Future	\$500,000	n/a	Seek to incorporate advanced technologies into existing programs and to develop new programs for these technologies
Energy Efficiency Finance-Kiosk Pilot	\$300,000	n/a	Energy Efficiency mortgages or loan programs targeting at homeowners and small businesses

Energy Efficiency Equipment Exchange program	\$500,000	350,000 thms	A clearing house to connect potential buyers and sellers of used equipment that meet minimum EE standards.
Energy Efficient Ethnic Outreach Program	\$500,000	n/a	Increase outreach to ethnic communities via CBO, FBO, and other venues.

Appendix I

Fund-shifting

The Commission asked the PRG to discuss and potentially recommend fund-shifting rules to govern what process, if any, the administrators should follow when shifting funds between programs over the next three years. In general, the PRG members support fund-shifting flexibility that will enable the utilities to meet the Commission's savings targets. There may be situations when it would be necessary for the utility to quickly shift funds away from programs that are having difficulty meeting their savings goals without having to wait two to three months for Commission approval. However, some limits on fund-shifting flexibility may be desirable since (1) some of the program details, including cost-effectiveness information, remain vague, and in particular, we wish to ensure that utilities maintains an appropriate balance between programs that will provide near-term and long-term savings, and (2) there might be a tendency for some administrators to shift funds away from programs providing longer-term savings towards program focused solely on harvesting savings in the short-term. The PRG discussed two potential fund-shifting policies, but was not able to reach consensus on a recommendation to the Commission; we outline the two options that the PRG discussed below.

Option A:

The Commission, and other parties with more of a long-term focus, may be the only effective advocate for maintaining funding for programs with a long-term focus, particularly if administrators are having difficulty meeting some of their short-term savings objectives. To guard against the tendency for administrators to shift funds from programs designed to achieve long run savings to short term programs that are short of their annual goals, we suggest that the Commission itself must approve any proposed reduction for long-term programs that exceeds 10% of the program budget. Administrator's requesting such a shift would have to file an advice letter and obtain Commission approval .

All other proposed fund shifting during the three-year planning cycle, either between programs within sectors or across sectors, would require notification of both the PRG and the Energy Division and a short comment process with each utilities' PRG, but would not require Commission action. Party comments on fund shifts would automatically become part of the next earnings assessment process that parties would be given the opportunity to show, after the fact, the impact of any fund shifting that they opposed. This step of linking administrator actions and comments on them to actual savings results will ultimately make the administrators more accountable for their actions. We believe administrators should remain open to suggestions from PRG members about the timing and wisdom of funding shifts AND should be held accountable for their funding allocation choices during the assessment of whether or not the Commission's savings goals have been met and the recommendation below attempts to strike this balance.

Recommendation:

The utility should consult with the PRG at least 15 days prior to any significant shifts in program funding. We define a fund-shifting to be **significant** if it exceeds any of the threshold criteria listed below.

- Fund shifting among programs exceeds 25% OR \$8.5 million of the initial authorized program budget, whichever is less, on an annual basis.
- Fund shifting among programs exceeds 50% on a cumulative basis.
 - Approved budget for codes and standards, emerging technologies, statewide marketing and outreach, or EM&V is reduced by more than 1%.
 - The percent of portfolio funding allocated to non-utility implementers falls below the Commission's mandated 20% for a calendar year.
 - Proposed Implementation of a new program outside of the competitive solicitation process.

Recall that any proposed funding reduction in the budget of any long-term program (See Appendix D for the list) in excess of 90% would automatically trigger an advice letter process.

Fund shifting actions below these thresholds would not trigger the need to notify or consult with the PRG, or the Energy Division.

Significant funding shifts would require the utility to notify PRG members of the proposal by email and request comments in no less than 15 days from the date of the email. The comments should clearly state whether the PRG member is supportive of the shift, against the funding shift, or simply wants more information. The administrator would then have the responsibility to review these comments and decide if there was a need for either a follow up phone call or meeting to discuss the comments before moving ahead with the proposed action. After making this decision and pursuing any necessary follow ups, the administrator should notify all of the PRG members and the Energy Division of their final fund shifting decision and append a summary of the comments received on this item.

As much as possible, the utility's consultations with the PRG on potential fund shifts should occur at quarterly meetings, but the utility would not be precluded from bringing items to the PRG at other times using means of communication such as e-mail, conference calls, or meetings. At the quarterly PRG meetings, the utility should review the status of the programs and the portfolio with the advisory group, and discuss any funds shifted within that period.

A summary of the funding shift actions taken and the comments received on them should

be made available on an annual basis to all parties and the CPUC when it is reviewing each administrator's savings achievements as part of the annual AEAP. Parties will be allowed to comment, if they want to, on the wisdom or propriety of any fund shifting actions taken by the administrator and explicitly address if the actions taken were consistent with achieving the commission's short- or long-term savings goals. The Commission then would be free to take any action it wanted, if they were convinced that the fund shifting actions taken were not consistent with their policy directions.

In this way, portfolio administrators can be held accountable for the results or consequences of their fund shifting decisions within the context of what Commission should really care about: achievement of the short- and long-term energy savings goals. This process avoids both the need to construct an elaborate advice letter process and the delays that may occur in the process of securing commission approval for fund shifting proposals. In sum we believe fund-shifting decisions should be the administrator's responsibility. The best way to evaluate if the administrators are making the "proper" fund shifting decisions is to examine their impact on the bottom line, energy savings achieved in the short and long run.

Consistent with the process outlined above, this option encourages the Commission to grant the utility full flexibility in administering a portfolio of programs to meet or exceed the Commission's energy saving targets. It encourages the utilities to make use of this flexibility to adjust the portfolio as market circumstances change and as it gauges the relative success of the programs within the portfolio. It encourages the portfolio administrators to take advantage of its PRG to receive input on program design changes and to continue the collaborative process it has begun in the past few months.

Option B:

With a few exceptions (notably Codes and Standards, Emerging Technologies, EM&V, relative IOU versus non-IOU funding), the utilities has proposed unlimited fund shifting flexibility. In general, the PRG members support fund-shifting flexibility that will enable utilities to meet the Commission's savings targets. However, limits on fund-shifting flexibility are required since some of the program details, including cost-effectiveness information, remain vague, and in particular, we wish to ensure that utilities maintains an appropriate balance between programs that will provide near-term and long-term savings.

Recommendation:

If any of the thresholds listed below are reached, utilities should consult with the PRG at least 15 days prior to its proposed action. If the PRG is in consensus with the utility regarding the action, then no formal PUC process is needed (other than complying with the Commission's reporting requirements). **If such consensus is not reached by the PRG, then the utility should file an advice letter.** Prompt action on the advice letter by the PUC is absolutely essential to ensure that the utility is able to use its best judgment as portfolio administrator to meet the savings goals for which the Commission will hold the utility accountable and upon which its resource portfolio managers are relying. This

process would be triggered if the utility's proposed action exceeds the following thresholds:

- Administrative costs exceed 105% of the approved costs at the portfolio level.^[1]
- Fund shifting among programs exceeds 25% OR \$8.5 million, whichever is less, on an annual basis.
- Fund shifting among programs exceeds 50% on a cumulative basis.
- Funding for codes and standards, emerging technologies, statewide marketing and outreach, or EM&V is reduced.
- The percent of portfolio funding allocated to non-utility implementers falls below 20%.
- Implementation of a new program outside of the competitive solicitation process.

As much as possible, the utility's consultations with the PRG should occur at quarterly meetings, but utilities would not be precluded from bringing items to the PRG at other times using means of communication such as e-mail, conference calls, or meetings. At the quarterly PRG meetings, utilities should review the status of the programs and the portfolio with the advisory group, and discuss any funds shifted within that period.

Other than the guidelines outlined above, the PRG encourages the Commission to grant utilities full flexibility in administering a portfolio of programs to meet or exceed the Commission's energy saving targets. We encourage utilities to make use of this flexibility to adjust the portfolio as market circumstances change and as it gauges the relative success of the programs within the portfolio. We encourage utilities to take advantage of its PAG and PRG to receive input on program design changes and to continue the collaborative process it has begun in the past few months.

^[1] By "administrative costs" we refer to true administrative costs, rather than the definition of administrative costs used in the TRC test.