CALIFORNIA Efficiency + Demand Management COUNCIL

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Via U.S. Mail and Electronic Mail

Hon. Marybel Batjer
President
California Public Utilities Commission
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San Francisco, CA 94102
E-mail: marybel.batjer@cpuc.ca.gov

Hon. Liane M. Randolph
Commissioner
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
E-mail: liane.randolph@cpuc.ca.gov

Subject: Urgent Request for Commission Action to Reverse Budget Cuts to Energy Efficiency Programs

Dear President Batjer and Commissioner Randolph:

On behalf the California Efficiency + Demand Management Council (The Council), I am writing to express the deep and urgent concerns from our membership about the state of energy efficiency (EE) programs overseen by the Commission. As I outline in this letter, California is on the verge of facing unprecedented reductions in EE funding levels from two of the largest investor-owned utilities (IOUs) in the state, Pacific Gas and Electric Company (PG&E) and Southern California Edison Company (SCE). These reductions are leading to a significant and irreparable erosion of the EE labor force's capability to deliver EE services throughout the State and thus put in jeopardy California's ability to meet its ambitious carbon reduction goals mandated by California law. We are asking for an immediate intervention by the Commission to order both PG&E and SCE to immediately reverse course and reinstate existing contracts at past funding levels until new programs are launched and available to consumers.

1. Background

The Council is a statewide trade association of non-utility businesses that provide energy efficiency, demand response, and data analytics services and products in California.[1] Our more than 70 member companies employ many thousands of Californians throughout the State. They include energy efficiency and demand response

[1]Additional information about the Council, including the organization's current membership, Board of Directors, antitrust guidelines and code of ethics for its members, can be found at http://www.cedmc.org. The views expressed by the Council are not necessarily those of its individual members.

technology providers, implementation and evaluation experts, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and manufacturers of energy efficiency products and equipment. The Council's mission is to support appropriate energy efficiency and demand response policies, programs, and technologies to create sustainable jobs, long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvements.

In early December 2019, both PG&E and SCE began notifying EE program implementers that there would be significant budget reductions for the 2020 program year. These reductions are across the board and are impacting nearly all existing EE programs, including those programs that are above required cost-effectiveness thresholds. On September 3, 2019, both IOUs submitted to the Commission their Annual Budget Advice Letters (ABALs). Both ABAL submittals were ultimately rejected by the Commission's Energy Division (ED) on December 23, 2019 because both companies had failed to submit cost-effective 2020 portfolios of EE programs. In anticipation of their ABAL rejections, PG&E and SCE began scaling back their entire EE program portfolios in order to meet new budget authorizations that are roughly **40%** below spending levels authorized by the Commission in Decision (D.) 19-08-034.

These pending reductions will have an immediate and dire impact on California's EE program delivery infrastructure. Many of the affected EE program implementers are member companies of the Council. Many of the Council's Member companies are right now in the process of repositioning employees to other states, and in some instances are left with no other alternative except to lay off their California employees due to this dire situation. Rehiring and training energy efficiency professionals can take many years, and the expertise we have built in California through our leadership is actively being lost to other industries and other states due to the lack of continuity created by these budget reductions, schedule delays, and overly burdensome rules. Customers who have had commitments for EE projects are now being told by implementers that those commitments will not be honored due to the EE program budget cutbacks. In the short-term, these reductions are creating significant damage to California's EE program and project delivery infrastructure that will take many years to recover from should these actions be allowed to move forward. These reductions will drastically erode California's ability to deliver on its carbon reduction goals set forth through legislative efforts including Senate Bill (SB) 350 and SB 100.

2. Actions Taken by the Council

We have expressed our deep concerns and offered recommendations directly to senior management at both IOUs. Both explained that while they are sympathetic to the situation, there is little they can do given that the reduced goals set forth by the Commission in D.19-08-034 have led to non-cost effective ABALs and that Commission policy stipulates that program administrators must maintain cost-effective portfolios at all times. Further, the IOUs report that in order to improve the cost-effectiveness of their portfolios, these budget cuts must be imposed. They have noted that forthcoming solicitations will allow for new and innovative programs to be defined by third-party implementers which will ultimately facilitate the growth of EE programs by late 2020. Unfortunately, both PG&E and SCE have **substantially** delayed the schedules of the new solicitations, which means the earliest timeline for the launch of new EE programs resulting from these solicitations will be Q1 and Q3 2021, respectively. Furthermore, both IOUs have imposed onerous bidding requirements that were never seen before in previous EE bid cycles, have not offered any transparency to bidders throughout the process, and have been woefully inadequate in their communications of Request for Offers (RFO)/Request for Proposals (RFP) status and schedules.

We also expressed these same concerns and made recommendations to the ED's senior management. We strongly recommended that the IOUs be required to allow existing cost-effective EE programs to remain in place over the next 12-24 months to ensure a smooth transition to new programs resulting from the delayed solicitation process in accordance with previous Commission guidance. We were advised that the ED must follow procedures set forth by various Commission decisions and that they are not authorized to require the IOUs to maintain existing programs that fall outside of the parameters set forth by Commission policies. We have articulated to ED staff the root causes for why we have arrived at this unfortunate situation (i.e., outdated methods for deriving EE potential and goals, erroneous interpretations of cost-effectiveness methods,[2] inclusion of non-resource programs in cost-effectiveness tests, challenges getting procedural workpapers approved for important new programs that could deliver cost-effective savings, and overly punitive rules governing baselines, cost-effectiveness, and custom projects). While the ED has acknowledged these problems and is proactively addressing possible ways to fix them, improvements have been slow, and solutions will not be forthcoming in time to reverse the current situation.

3. Request of the Commission

The Council is requesting the following actions be immediately taken up by the Commission in order to ensure that California's EE program delivery infrastructure is maintained:

1. Order PG&E and SCE to immediately restore all EE third-party program funds and existing third-party programs to 2019 levels for a 2-year period beginning on January 1, 2020 while they continue conducting solicitations currently underway. Failure to preserve funding these levels for EE, which are in alignment with California's energy and climate policies, would have long-term devastating consequences to the State's EE program delivery infrastructure and capability. Furthermore, existing third-party programs administered by PG&E and SCE must not be terminated or transitioned until new third-party programs are awarded, launched, and made available to customers for each affected segment.
2. Order ED to launch an immediate review into the root causes of the current situation and propose immediate solutions. As outlined above, we have identified a number of issues that we believe have led to the current situation. We recommend that the Commission direct the California Energy Efficiency Coordinating Council (CAEECC) to manage the review and that CAEECC and the ED develop an action plan that clearly lays out the immediate fixes by no later than March 31, 2020.

If you have any questions, feel free to reach out to me by email at gwikler@cedmc.org or by phone at 925-286-1710.

Sincerely,

Greg Wikler
Executive Director
California Efficiency + Demand Management Council

Cc (Via E-mail):

Commissioner Martha Guzman Aceves (martha.guzman-aceves@cpuc.ca.gov)
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Service lists for R.13-11-005 (EE Rolling Portfolio) and A.17-01-013, et al. (EE Business Plans)

[2] Note that in D.14-10-046 (at pp. 3-4), the Commission ordered a review and possible reset of the savings baselines in the energy efficiency proceeding (R.13-11-005). That decision was handed down more than five years ago, and the review/reset still has not happened.