CALIFORNIA
Efficiency
+ Demand
Management
COUNCIL

October 1, 2020

Via E-Mail (EDTariffUnit@cpuc.ca.gov)
California Public Utilities Commission
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

RE: Advice Letters (ALs) 5936-E (Pacific Gas and Electric), 4285-E (Southern California Edison), 3599-E (San Diego Gas & Electric) and 5684 (Southern California Gas)
(Energy Efficiency Annual Budget Advice Letters for Program Year 2021)
RESPONSE OF CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL

Dear Energy Division Tariff Unit:

On September 1, 2020, Pacific Gas and Electric ("PG&E"), Southern California Edison ("SCE"), San Diego Gas & Electric ("SDG&E) and Southern California Gas ("SoCalGas") (collectively, the "IOUs") submitted their Energy Efficiency Annual Budget Advice Letters ("ABALs") for Program Year 2021. The California Efficiency + Demand Management Council ("The Council") appreciates the opportunity to respond to these ABALs.

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 member companies employ many thousands of Californians throughout the state. They include energy efficiency ("EE"), demand response ("DR"), and grid services technology providers, implementation and evaluation experts, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and manufacturers of EE products and equipment. The Council's mission is to support appropriate EE and DR policies, programs, and technologies to create sustainable jobs, long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvement.

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[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.

Overarching ABAL Comments

The Council is extremely disappointed to see the recent trend in declining IOU EE portfolio budgets and spend continuing for PY2021. Between PY2017 and PY2021, total filed budget requests across the IOUs declined by nearly 36%, from $963.9M to $619.1M.[2] This trend is unfortunate during any period –given the central role EE plays in the state's increasingly-ambitious climate and energy savings goals– but is especially counterproductive in the face of current COVID realities that further emphasize the need for critical, stimulative EE spending. Given the significant health and economic impacts on California's residents and businesses, The Council urges the IOUs to expand their programmatic offerings to drive invaluable bill reductions and job creation.

In parallel, it is absolutely essential that the Commission use its full regulatory mandate to enable the broadest possible deployment of EE during this incredibly difficult time. The Council exhorts the Commission to follow its own guidance laid out in the Assigned Commissioner and Administrative Law Judges' Amended Scoping Ruling Addressing Impacts of COVID-19:

> "While D.18-05-041 states that approval of ABALs is contingent on a program administrator meeting specific criteria tied to energy savings goals, cost-effectiveness, and budget caps, we understand that these may be difficult criteria to meet fully in the 2021 and 2022 ABALs; Commission staff will take these challenges into consideration when reviewing the ABALs."[3]

While it is impossible to predict how long the COVID-19 crisis will impact Californians, the duration of previous recessions (e.g. 2008) unquestionably demonstrate that it will extend through the duration of the PY2021 ABAL and at least through PY2022–PY2023 – if not much longer. Therefore, the Commission should not only encourage the IOUs to maximize discretionary EE spending, but should also undertake efforts necessary to expand the pool of programmatic activities. This includes, but is not limited to, reforming cost-effectiveness to broaden the scope of viable programmatic activities.

Response

Within SCE's 2021 ABAL submission, SCE has elected to request Commission Staff's approval to close three third-party implemented industrial programs to new enrollments at the end of 2020 including Primary and Fabricated Metals, Nonmetallic Minerals and Products, and Comprehensive Petroleum Refining programs. The stated rationale for closing these programs is that the programs, "…have not proven cost-effective…" and that, "…It is expected that these existing third-party implemented programs will be superseded by new program offerings obtained through SCE's third-

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[2] CEDARS California Energy Data and Reporting System data for PY2017 – PY2021.

[3] R.13-11-005, "Assigned Commissioner and Administrative Law Judges' Amended Scoping Ruling Addressing Impacts of COVID-19", at p. 10.

party solicitations."[4] The Council requests that the Commission reject SCE's requests to close these three programs until such time that new programs are contracted and available for customers to transition into. New programs are not yet available for customers and SCE's process to reach the basis for the decision to close existing programs raises key concerns as outlined herein.

I. Inputs for programs are not transparent and potentially incorrect

The Council is concerned about the unclear nature of the IOU process for determining the forecasted Total Resource Cost ("TRC") of 3rd party programs. It is our understanding that certain implementers have submitted forecasted project and measure mixes for their programs with program level TRCs above 1.0, but for which the IOUs are forecasting TRCs below 1.0. In some cases, the IOUs are not even providing the TRC forecast for programs they are terminating or making changes to.[5] If an implementer is able to provide a project or measure mix forecast for their program with a program level TRC above 1.0, and for which no new third-party program has been launched, the IOU should continue allowing new project applications.

SCE's 2021 ABAL did not provide TRC values for programs that they intend to close but stated poor historical cost-effectiveness as the primary reason for program closures. By contrast, SCE provided TRC values for Non-Cost-Effective Resource Programs Continuing in 2021 (Table 11) that all show a TRC well below 1.

During ABAL preparation, third parties are required to provide inputs into the cost-effectiveness calculations but do not have visibility to the final determination of the program TRC values. Without transparency, it is impossible to evaluate the actual cost-effectiveness of current program activities and nor is it clear how to assess the rationale for the third-party program closures based on cost-effectiveness.

II. Programs are being planned retrospectively instead of prospectively

The Council worries the IOUs are closing programs, decreasing budgets of existing programs, and stopping new enrollments for programs based on past program cost-effectiveness. Policy and process changes which have been put in place during the lifetime of these programs have resulted in changes in project-level cost-effectiveness. For example, the creation of the Behavioral, Retrocommissioning, and Operational ("BRO") measure type has reduced Effective Useful Life ("EUL") on certain measures to 3 years, from previously-approved EULs that were much longer. In some cases, the Commission has required changes in BRO measure application types reducing claimable energy savings by 83%. For example, in a particularly confusing and challenging scenario for program implementers, in Resolution E-4952, the Commission changed the EUL of Duct Sealing from 18 years to 3 years as a result of measure

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[4] SCE AL 4285-E, page 22.
[5] _Id_., page 20-22.

application type reclassification to BRO.[6] Not even 2 years later, the Commission reclassified Duct Sealing as building weatherization in most buildings and increased the EUL to 18 years again.[7] These Commission-imposed changes alter cost-effectiveness in the middle of a program cycle, despite existing contracts to deliver those savings, and considerable investments by implementers to develop project pipelines with customers. In most cases, implementers are able to adapt their future project pipelines to accommodate changes in policy or process, but existing pipelines where investments have already been made by implementers or customers will result in lower cost-effectiveness as a result of the Commission or IOU changes.

The ABAL program closures, budget changes, and ramp-down decisions are based on past project and program cost-effectiveness rather than forecasted project pipelines based on current policy. Until new program offerings are made available to customers, implementers should be allowed to continue submitting cost-effective projects in existing programs even if those programs have lower TRCs in prior program years. The IOUs forecast project pipelines based on anticipated performance. Implementers should be asked to do the same and if they are able to show cost-effective project mixes for upcoming years, they should be allowed to continue submitting new project applications.

During SCE 2021 ABAL preparation exercises, The Council's members projected a program cost-effectiveness TRC of greater than 1.0; without the transparency provided, it appears that SCE is looking at retrospective performance without consideration for forward looking program activities. SCE states that none of these programs have proven to be cost-effective but provides no further explanation or TRC calculations to support this statement. Based on the information provided it appears 2021 projections of cost-effectiveness were omitted and no detailed discussion of the evaluation was provided.

III. The stop-start nature of this retrospective approach negatively impacts customers

As stated in our overarching ABAL comments, The Council has significant concerns that the IOUs have been progressively ramping down and closing programs through the ABAL process. Many programs have stopped accepting applications for over a year and the PY2021 ABALs are further reducing program support available to ratepayers. Until new offerings are available to customers, IOUs should allow existing programs to continue offering technical support and project incentives.

Following the recommendation to close these third party programs, SCE states that, "It is expected that these existing third party implemented programs will be

[6] Resolution E-4952, at A-37
[7] Resolution E-5082, at p. 14.

superseded by new program offerings obtained through SCE's third-party solicitation."[8] SCE estimates that contracts for new industrial sector programs will be executed by September 30, 2020. Even with this milestone, closing the current programs at the end of 2020 will result in a gap in the market and will negatively impact the customers in this segment.

It is important to be clear about the timing for this process. From contract signing, our members have observed an advice letter and start-up process that can take 180-210 days to achieve program launch. To illustrate this significant issue, the following illustrates a typical timeline to complete a contract signing:

- 30 days to complete the Advice Letter
- 60 – 90 days for the Commission to approve the Advice Letter
- 90 days start up
- Therefore, program launch = 180-210 days after contract signing

After program launch, there are lengthy customer engagement and project development activities for large custom projects targeted to large energy users. If the existing programs are shut down before a new program launches, there will be a significant gap in the continuity for customer participation.

Crucially for these programs, when a new program launches there are several milestones that will further delay the realization of 2021 industrial customer savings even if customers interested in participating can begin on January 1, 2021. At minimum, a high-level process includes a required Project Description to be submitted 60 business days before the pre-installation inspection followed by a Pre-installation inspection of 30 business days before a customer can begin construction. This 4.5-month process does not account for any Commission ex-ante review or other delays. Typically, custom projects have a long lead development cycle time on an average 12 – 18 months from project identification to project implementation.

By closing existing programs at the end of 2020, and prior to the launch of new programs, customers will be prevented from participating and limited savings will be achieved across this sector in 2021. The Council has observed that the start-stop nature of program funding negatively impacts customers and program savings realization as it not only creates gaps in program services but also hampers the ability to build program pipeline for future years.

SCE is proposing to continue "…its customized and deemed agricultural programs in 2021, although they are not cost-effective, to allow agricultural customers to submit energy efficiency projects without a gap in the market."[9] The Council respectfully requests that the Commission consider the gap that will similarly arise for customers in the industrial sector with the premature closure of existing third party

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[8] SCE AL 4285-E, at p. 22.

[9] *Id*., page 29

programs. This is amplified by the fact that SCE staff supporting core programs are not conducting field visits until at least the end of 2020 as a result of COVID-19.

IV. There appears to be an inconsistency between forecasting between third-party programs and IOU-administered programs

ABALs are meant to forecast the budget and savings for the upcoming program year. For third party programs however, the IOUs appear to be looking at past project performance rather than future project performance when making portfolio decisions to close or ramp down programs. Existing programs with no alternative customer offerings should be allowed to continue submitting new project applications provided those projects demonstrate a PAC result above 1.0 or at least a TRC result above 0.85, based on current policy.

Based on the language provided in SCE's 2021 ABAL it appears that there may be an inconsistency in how program cost-effectiveness of existing programs and future programs are evaluated. If this is occurring, the mix of retrospective and prospective evaluation may unfairly represent the opportunities brought through the third-party programs as compared to other programs that are proposed to remain open.

V. The methodology proposed by SCE creates a programmatic gap, which is especially impactful during COVID-19

The unexpected and unprecedented COVID-19 pandemic has dramatically decreased program access to customer sites. Many customers across all sectors are working remotely with lower budgets. IOUs have also reduced field staff and increased the number of employees working remotely. More than ever, customers are in need of financial and technical support to prioritize energy efficiency. Third party programs are designed to support customers, and are able to adapt to the current situation if enabled by the IOUs and the Commission. In many scenarios where IOU staff are unable to support a customer, implementer field engineers (trained to mitigate the risks of the COVID-19 pandemic) can support customers to ensure energy efficiency investment opportunities are not missed.

The ABAL process has allowed IOUs to close and ramp down programs on an annual basis without replacing them with new offerings. Although the onerous solicitation process created by the IOUs and the Commission has been ongoing for years, no new programs have launched. This has created a gap in program availability to customers.

The further closure and ramp down (i.e. no new applications, as stated earlier in this Response) of existing programs in the 2021 ABALs –at a time where IOU field engineers are working remotely and directed to not go out to customer sites– will create an even greater gap in available services to ratepayers funding these programs. This is further compounded by the proposed closure of the listed third-party programs that will leave a gap in industrial customer support between program shutdown at the end of

2020 and the launch of new 3P solicitations sometime in 2021. Due to the nature of the industrial program project long install cycle, this gap will further impact the ability for realization of savings in 2021 and 2022. The only option for all SCE custom projects will be through SCE's Core Calculated Program. Due to COVID-19, SCE internal staff is unable to perform customer visits till at least the end of 2020, but there is no means of predicting how long the suspension of site visits will persist.

The Commission should immediately allow existing programs to submit new cost-effective project applications. The Commission should further consider allowing all projects with forecasted PACs above 1.0 to be submitted by 3rd party implementers of any program set to shut down or ramp down since 2018. Any project with a forecasted PAC above 1.0 will have a positive impact on ratepayers and is forecasted to reduce rates for all ratepayers.

CONCLUSION

The Council recommends that the Advice Letters be modified to make the changes recommended above.

Respectfully submitted,

October 1, 2020

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cc: Courtesy Electronic Service to Service List in R.13-11-005 (Energy Efficiency Rolling Portfolio) and A.17-01-013, et al. (Energy Efficiency Business Plans)