Southern California Edison
BUSINESS FORUM with CEDMC
MARCH 17, 2022
TRANSCRIPT

Introduction, Welcome

Greg Wikler, Executive Director, CEDMC:
Good morning, glad to have you on the Business Forum with SCE. The recording will be available on the member portal after today's presentation. On today's call are **Chris Malotte** and **Ryan Bullard** from SCE to talk about the recently filed business plans.

Overview

Chris Malotte, SCE

We take our lead from the state on reducing GHG and decarbonizing. We will meet or exceed goals. How these objectives will be achieved will be for us to go to the market for innovative offerings. Steps to achieving the objectives:

1. Utilize 3rd Party Implementers first and foremost .
2. Utilize new segmentation criteria, splitting it between resource acquisition, market support equity. That's been really helpful for us in the segmentation in terms of being cost effective and allows us to focus on important things that meet policy objectives, but not necessarily deliver cost effective energy efficiency.
3. Coordinate across the portfolio. Across SCE's portfolio and also across the portfolio of non-EE programs. We have a building electrification filing, transportation electrification, ISA program, etc. Also, across the other PA's portfolio. We have in our area: 3CREN, SoCalREN, SoCalGas, and the new Inland Regional Energy Network and the newly filed rural REN.
4. Accelerate fuel substitution interventions. The writing on the wall from the new goal adoption is that fuel substitution is to be a large portion of our portfolio growing. Fuel substitution is across all 3 segments.

Additional things: leveraging traditional delivery methods by sector. Spurring innovation and market participation, aligning with social justice and environmental action, especially for Equity programs. We want a broader awareness and participation in the EE market and increasing penetration of measures in hard to reach, disadvantaged and underserved communities.

Question

Greg: On the TSB goals, what is the extent of Edison's plan to exceed TSB goals?

Chris: I'll have the numbers, but in the past year we see the shift from KWh goals to TSB goals. We are shooting for 3 things, and as we transition to TSB, we overshoot our goal by a substantial amount. When it was KWh, we weren't as high. As we switched to TSB, the goals were relatively low, so it looks high. Over time, it is likely to work itself over time as the goals are updated to reflect the portfolio.

Segment Goals and Outcomes 2024-2027

For resource acquisition, delivery of a 1.0 TRC, cost effective TSB goals, success of the EE marketplace by building awareness. For equity, provide EE to hard to reach and under-served customers and increase the penetration of the measures. Codes and standards, advocating for more stringent codes and standards and education.

Fuel Substitution, there are different things going on there. For SCE, we filed a building electrification in December. This shows how we intend to coordinate across proceedings. The 2 key takeaways are to coordinate where possible and incentive layering. A large portion of the BE application focuses on infrastructure incentives. If we can leverage the BE application to incentivize the BE upgrades and use the energy efficiency application do some of the measure incentives. The building decarb, there is an incentive layering approach that is fairly basic, but it will be following that approach as it is more thoroughly developed.

Changes to the EE Landscape

Over the past year, thank you to the members who helped make them happen. There is a fundamental shift on how we think about EE, it has enabled us to project a long-term sustainable EE portfolio for the next 10 years.

Question

Cody: How do you see the overlap with the market transformation initiatives that are supposed to launch?

Chris: That's a piece we are still assessing. I don't have a good lay of the land. I know the market transformation initiative is still in the solicitation stage. How those initiatives will pay out. There could be a role, the budget isn't going to be as big as the EE and BE space. The "market transformation" initiatives will be more targeted. To the extent we can leverage those funds, we will explore all possibilities.

Ryan: That's why we focused on HVAC as part of our application, we saw in previous years, in 2020 we have some uptake because HVAC has less barriers over water and heating. We named it fuel substitution, so it could grow into including other end uses as market transformation efforts.

Impacts to the Goal Changes and Impacts due to Segmentation

We struggled in the past because we had 3 things we shot for, the KWh, KW, and TRC. But the TSB allows us to closely optimize these things so we are not buying non-cost effective KWs in order to meet that goal. This approach will help with goals and an emphasis on fuel substitution. Examples include a refrigerant exchange program, or a program that maximizes TSB by load shifting. Not traditional EE, but can have benefits.

The last line, we are projecting that we will blow TSB out of the water, but as you look at KWh targets, it's not as much, only 140%. We think it will normalize over time when we get more clarity on how TSB is used.

Impacts tie to segmentation – It allows us to have a long-term sustainable EE program. We can focus on non-resource activities that were important but we had to trim down due to cost effectiveness concerns. We can also focus on underserved customers through our equity programs.

Policy Recommendations

1. A phase down of gas appliance incentive programs where there is a viable electric alternative, this last part is important. It is time to start thinking of how to change from gas to electric.
2. Single stage solicitation where appropriate. We've done the major solicitations now, so the solicitations going forward will be gap filling or ones that redo the programs we already have, so re-solicitation. For those, the RFP is the better route to go while still allowing for RFA and RFP if necessary.

Question

Greg: I'm trying to understand the specifics of phasing down gas appliance incentives. There is an electrification strategy that includes heat pumps, a market approach to changing out gas space heating for heat pumps. Is your strategy dependent on also eliminating the appliance incentives?

Chris: No, we think they are 2 different things. It is more of a policy discussion. No, we are not saying eliminate gas incentives, we are saying to think about how to. To make sure it is in their goals appropriately, start to wind them down over time and reflect them in their goals.

Question

Cody: One of SoCalGas was to support fuel switching, rather than just fuel substitution. Does Edison have any proposals on including fuel switching?

Chris: We didn't propose anything like that in our application. Fuel switching makes some sense, we are still in the early stages and we as a company haven't made up our mind. Making the switch to propane is the better way to go than the intermediate step of the gas side of things, but we are still assessing. We will file comments if and when we get there

Cody: There are a lot of customers that don't have access to natural gas, so fuel switching is really interesting

Chris: Yes, I'm with you, I think going to the electric side of things is an interesting concept and we will look into it.

Statewide Policy Program Changes

1. CPUC should assess the changes in the statewide programs. We set up who the statewide leads were, and now we are going to reanalyze. Is it still the best split? Are there programs that should be eliminated or added statewide? Do we switch a statewide to local program? A more formal assessment is recommended.
2. Eliminate the 25% statewide budget requirement. All of the programs have been solicited now, and we think that it is clear that we are committed to a statewide approach, but the budget should be set based on what is most feasible for each program. We have a lot of 3rd party programs, which drives up our budget, so we aren't meeting the 25% threshold.
3. Discontinue of the statewide lighting program upon contract completion. The last part is important, in the potential and goals is about 15% that was in the program is going to be left. It is best served by doing local programs as opposed to statewide. Once it is over, we want to move it to local programs and discontinue.
4. IOUs have the ability to offer local programs with midstream or upstream if the lead PA or implementer doesn't offer measures in the corresponding statewide program. We don't want to see gaps and not be able to offer a midstream or up program just because it's in a statewide (whatever) program. We don't want it to block the potential. We want more wiggle room, if there is a gap, the IOUs can fill it through a local offering.

Modifications of hard-to-reach definition to include the public sector. This is from the CAECC underserved working group, they looked at residential, small and medium businesses that were underserved, and also the public sector. This public makes sense, a lot of constituents and business are underserved, so it makes sense they wouldn't have the same resources. It allows for greater net to gross on resource acquisition.

Sunset and modify EE compliance requirements. There were 8 that we recommend to sunset or modify. They are the ones that were envisioned before the shift to 3rd party. There is an appendix that has the justification for each.

Question

Greg: On single stage solicitation, are you looking at this because of Edison's observation that the current 2-stage process takes too long? Is it to try to speed it up? It is time to switch to a single stage?

Chris: Yes, it is a timing move and we are getting to a spot now where it will be more targeted, so faster. There won't be 150 people bidding on a tailored program, so it doesn't make sense to whittle down via RFA and then do the RFP. Mostly it's driven by time, and we also want the smaller bidders to be able to bid. When we say smaller bidders, this includes DBE bidders.

That concludes the policy recommendations.

Application Summary

This slide is in millions. The top is the budget year over year, it's about 3.2B over the 8 years. Mostly to 3rd parties. Then the TSB without codes and standards. With codes and standards, we are substantially higher than what we are spending, so it's a cost-effective portfolio overall.

Question

Greg: On the Portfolio Cost Effectiveness box to the right, 0.88 TRC, is that inclusive of market support and equity, is that a compliance requirement?

Chris: It shows truly the impact of what the segmentation approach does to the portfolio, where we were struggling to meet a TRC of 1.0, now we can cost-effectively meet our resource acquisition TRC. We should show the TRC comprehensively with the codes and standards, it is above 1, but we haven't been able to include that historically.

Greg: The BBAL TRCs were inclusive of the other costs, and yet had 2020 avoided costs. This portfolio has 2021 avoided costs, which were lower. It seems like the TRC would have eroded more, but it seems to have held its category as the BBAL portfolio TRC.

Ryan: The difference between the ABAL and Business Plan Application, ABLA has funding cycles, if it was below the budget, if we had a contract that was below the total budget, we need to request the additional budget in case. Without those saddled costs, and over 4 years, we didn't need to budget for any weird exceptions for contract costs. There was a reduction. And also, was for 3rd party implementers to be able to change their measure mix and move things around and focus on more cost-effective measures. It wasn't an easy 1.0, but we managed it.

Application Summary Continued

Chris: Market support and equity percentages seem lighter, but in terms of real dollars, they are large. We structured programs. Equity is about 8%. Because our resource acquisition is so large because of 3rd party contracts, the percentage may seem lighter, but in real dollars, it is large. We structured the programs to be most appropriate.

Programs in the Applications

Statewide programs are on the bottom, the rest are on top. Under local programs for market support, there were 5 sub-objectives, so they were split on how to assess building supply, building demand, partnerships, emerging tech and lastly finance.

New programs are contractor program and program design pilots. Most of the programs on the slide should be familiar.

On Equity, there are 5 new programs (as of this year): residential, small-med business, small-med ag, small-med industrial, public equity and statewide.

Codes and standards, the 3 local programs and 3 statewide programs.

Resource Acquisition

The budget is up top, and we are about 250-300% of TSB's goal. It was because we built these budgets based on the KWh goal, as it normalizes over time, we will be more in line with the goal. If there is some underachievement of the 3rd party programs, we will still meet those targets. This is important for planning and we are still meeting the goal if there is underachievement.

Question

Greg: Can you help me with the math, what is 311%?

Chris: The goal is $100 million by 2024, so we are projecting to have $318M of TSB, which is 311% of the TSB goal.

Greg: The $100M was pre-set by the CPUC?

Chris: correct, back in the fall of last year it was set.

Segment Objectives

Cost effectively metered TSB goals, the primary is TSB goal, but we have all the metrics from the common metrics, which is in Exhibit 3 if you want to dive into all 250, they are there.

3rd Party, focus on innovation, targeted solicitations for gaps, and tight coordination across portfolios.

Chat Question

Siva: Just to clarify the original CPUC TSB goal would have meant a TRC way less than 1.0, right?

Ryan: In the goals, there is a cost effectiveness screen set 0.85, and we want it set at 1.0. And while some individual measures have 0.85 screens that passed through, in general the CPUC's portfolio will still show over 1.0 cost effectiveness because other measures exceed 1.0.

Question

Ryan: If you look at a budget that is $254M, and the TSB of $100M, that would indicate at much lower if we are TSB instead of TSB, they are disproportionate ratios.

Chris: If we were shooting for 100%, then our budget would be set closer to the $100 million range, and the budget would go higher because we would remove least cost-effective measures. We have these measures to deliver cost effectiveness, we want to fund them. Even if it's above the goal, that's our plan.

Greg: Leave it to the CPUC to create fuzzy math. It sounds like a PAC test to me, if you compare the cost which is just the budget, it includes incentives and admin costs, that's the denominator of the PAC test, and the benefits are TSB, so that equates to a PAC test.

Ryan: There could be a few more rows that would help, like TRC costs, net benefits, to really flush out this conversation.

Equity Segment

Deliver programs to disadvantaged and underserved is the definition from the ESJ Action Plan. The primary focus is the number of customers or residences served by these programs. There will be more specific indicators. In Exhibit 3 is number served, there will be more metrics in the advice letter. We want 3rd party implementers to provide community engagement in low education households and put contractors in the community served by these. Direct installation and turnkey is the approach we think is best, but we will see in the solicitations.

Market Support Programs

We have programs targeting each of the 5 sub objectives in Exhibit 3. They are: building supply, building demand, partnerships, innovation, accessibility, access to capital. There are programs targeting each of these. Metrics for each of these in Exhibit 3. The majority are already collected through the common metrics for workforce training, emerging tech and finance, these are the supplemental ones for the newer programs. We are trying to push fuel substitution and training contractors of the benefits of fuel substitution.

New Programs

Resource acquisition: New HVAC fuel substitution midstream to push HVAC into the field. Market support: a new contractor demand building program to push fuel substitution and education of contractors. We will provide coupons to participate in education and training fuel substitution modules. New program design pilots are to get new designed programs that aren't ready for 3rd parties, but are innovative. To test it out in this environment, then if it is effective, we stand up a targeted solicitation on the resource acquisition side. We will be conducting a request for information to get some innovative ideas.

For 5 new equity programs, we split the budget half residential and half nonresidential. Commercial, industrial, ag and public is based on size. Industrial is pretty small, but the small and medium is small relative to the other ones. Commercial has the majority of the small and medium.

Solicitation Schedule

This was at the last CAECC meeting. Key things are ag and public programs, the Als have been submitted for the local programs. For higher ed, we are developing an advice letter. Waste water, water pumping, we are in contract negotiations, for reliability, we are in RFP prep, that solicitation will come out at the end of this month.

Question

Greg: On the Reliability, is that an open solicitation or is it a pre-screened list?

Chris: I'll double check, but it will be open, noticed through the traditional solicitation PEPMA process.

Question

Greg: On the last 3 rows of the chart on equity and market support, one of your recommendations is to go to single stage, does the CPUC require the 2-stage approach for the other program categories?

Chris: Yes, that has been what we heard. If we want to call them 3rd party, we need to go through the 2-step process unless we justify the deviation.

Greg: Why would we call market support and equity 3rd party programs, there are performance metrics that are in the development stage. I find it hard to understand how the CPUC could require a pay for performance metric for these.

Chris: We want 3rd party designed programs with less of an emphasis on pay for performance. I think there are ways to pay for performance that you are paying for cost effective KWh, in these spaces, there may be interest to pay for whatever, number of customers served, etc. Looking for less pay for KWh and more pay for something else that includes value. That's the logic to it.

Ryan: Pay for performance can be for multiple deliverables.

Greg: It's our hope that SCE's procurement people will also know there are other criteria than pay for performance. The current seems to be toward more for procuring resource acquisition has been pretty rigid on the SCE side.

Chris: Yes, I hear you, thank you for the feedback.

Equity Programs

Standing up residential and small-medium business in mid-April. It will all be noticed through PEPMA, an RFA, RFP approach. Market support and market gap programs, if there are gaps in the market, we do solicitations later this year. We continue to do RFAs on an ongoing basis, if we identify gaps, we will then put out a solicitation. At the end of 2024, as the programs are ending contract periods, we will be standing up new solicitations to replace them.

END OF PRESENTATION

Q&A

Question

Greg: We like to see how things have changed organizationally.

Chris: Yes, apologies, we didn't include that, we will add an organizational chart slide to the presentation before it goes out.

Organization

Chanel Parsons is Director, with Tony Fontino(?) is program operations and solicitations, David Richie has the reporting, and Alok Singh is engineering, emerging technology.

On the outside, the Codes and Standards are under Karen Kreepack (?) and Michelle Thomas.

Question

Greg: On the engineering side, we have been talking with Alok Singh and his team about improving the custom review process. To what extent do you expect a reliance on custom approach and NMEC to achieve the savings? Have you looked at the custom/NMEC vs deemed?

Chris: The majority of the design is going to be done by third parties. It is easier to use deemed approaches, but there is more savings potential in NMEC. It is up to the 3rd parties to determine what the best makeup is to meet their contractual obligations.

Ryan: We are seeing a good mix from the 3rd parties. We are happy to see them trying things out and pushing the envelope.

Question

Mark: Is there any thought in the budget for supply change issues and high inflation? It looks like inflationary numbers are going to continue. As a 3rd party, we see increased salaries.

Chris: It is a very fair question, and I don't have a good answer. Because we are so high above the TRC, we have wiggle room. It depends on 3rd parties, if they are having trouble, we do a targeted solicitation. It is something we are going to have to struggle through. Hopefully in 2024 it will be more resolved and less inflationary pressures.

Question

Greg: Electrification strategy and volume of heat pumps to meet 2035 goals, there are things outside of anyone's control. For example, the infrastructure and electrification are going to be made in America. Heat pumps are mostly foreign produced. The fact we don't have the supply chain set up for the goals they are looking toward.

Chris: It's not just about the supply of heat pumps. As we are building out this newer heat pump space, we do it in America. Build out the contractor and customer base to drive up the building of heat pumps. We put aside a fairly large amount of money for fuel substitution module training for contractors. Folks within Edison who wanted to electrify, it is hard to get contractors to install them. A major emphasis is pushing it in the portfolio and pushing demand for it in the marketplace.

Greg: A little outside the business plans, but still relevant.

Chris: Because of COVID and shipping, it would be interesting to see if there is a shift to doing it closer to the US market to ease those pain points.

Question

Siva: Can you elaborate a little more about the New Finance Offerings that you have listed within Market Support?

Chris: The REEL and the CHIEF are the on-bill repayment programs.

Greg: We don't have any more questions from our members. Ryan and Chris, thank you so much. We have been collecting our thoughts to put together a set of comments when they are due. Our mode of operation is to be helpful and constructive in the comment process. We value the opportunity to engage with you today to help us understand.

Chris: This is a 2-way street, please reach out if you have questions along the way.

END OF SCE-CEDMC Business Forum