BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for Approval of Energy Efficiency Rolling Portfolio Business Plan.	A. 17-01-013 (Filed January 17, 2017)
And Related Matters.	A. 17-01-014 A. 17-01-015 A. 17-01-016 A. 17-01-017 (Consolidated)

RESPONSE OF THE JOINT PARTIES TO THE OFFICE OF RATEPAYER ADVOCATES' APPLICATION FOR REHEARING OF D.18-05-041

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I. Introduction

Pursuant to Rules 1.9, 1.10, and 16.1(d) of the California Public Utilities Commission's (Commission or CPUC) Rules of Practice and Procedure, the Natural Resources Defense Council, The California Efficiency and Demand Management Council, The Greenlining Institute, Marin Clean Energy, and The Small Business Utility Advocates (Joint Parties) submit this response on behalf of 27 additional parties and stakeholders[1] to the "Application of the Office of Ratepayer Advocates for Rehearing of Decision 18-05-041," (Application) filed July 5, 2018. Our comments are summarized below:

1. The Joint Parties urge the Commission to deny the rehearing of the cost-effectiveness orders as the final decision was based on a robust record of comments and

[1] The additional signatories include the following nonprofit organizations, local governments, and implementers (also included in Attachment A): 3C-REN, ABAG/BayREN, Association of Monterey Bay Area Governments, City/County Association of Governments of San Mateo County, City and County of San Francisco, City of Fresno, CLEAResult, Community Environmental Council, County of Los Angeles/SoCalREN, County of San Luis Obispo, Ecology Action, Energy Coalition, Fresno Economic Development Corporation, High Sierra Energy Foundation, Local Government Sustainable Energy Coalition, Redwood Coast Energy Authority, Rising Sun, San Bernardino Council of Governments, San Gabriel Valley Council of Governments, San Joaquin Valley Clean Energy Organization, Santa Maria Valley Chamber of Commerce, Sierra Business Council, South Bay Cities Council of Governments, University of California Office of the President, Valley Vision, Ventura County Regional Energy Alliance, and Western Riverside Council of Governments.

appropriately balances the need to protect customers with providing equitable service to all ratepayers.

2. A move back to requiring a forecast TRC of 1.25 will impact customers who need energy efficiency the most and result in undue burden on hard-to-reach, small business, and disadvantaged ratepayers who must continue to fund efficiency programs but in practice will likely have minimal – if any – services available to them.
3. ORA's claims that a Total Resource Cost (TRC) test value below 1.0 will burden ratepayers is inaccurate; there will be no additional burden on ratepayers as long as the portfolio Program Administrator Cost (PAC or PACT) test is above 1.0.
4. ORA's claim that "Cost-effectiveness forecasts substantially exceed reported and evaluated results" and that "nothing in the record shows that the utilities can deliver energy efficiency portfolios that meet or exceed their cost-effectiveness forecasts" is not applicable given the requirement to bid out at minimum 60 percent of the investor-owned utilities (IOU) portfolio by 2022.
5. Rehearing D.18-05-041 will delay bidding and/or increase risk for implementers while skewing bidding opportunities in favor of implementers who focus primarily on large energy-saving programs.

II. Discussion

The Joint Parties agree with the importance of ensuring that customer funds are prudently spent and that programs achieve their intended energy savings. However, returning to a forecast TRC requirement of 1.25 is not necessary to protect customers and will undoubtedly undermine the state's dual objectives of doubling energy efficiency and ensuring energy equity.[2]

We therefore urge the Commission to deny the rehearing of the cost-effectiveness orders as the Commission carefully evaluated this issue through a robust record,[3] this interim decision on cost-effectiveness is needed during a time of unprecedented outsourcing, and the final order appropriately balances protections of customers with the need to provide equitable service to all ratepayers.[4] Further, this application for rehearing highlights the critical importance of addressing the underlying issues with cost-effectiveness, which should be taken up by the

[2] California State Legislature, Clean Energy and Pollution Reduction Act of 2015, Senate Bill 350 (De Leon, 2015), October 7, 2015, https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB350.

[3] More than a dozen comments and reply comments discussed the issue on the record: https://apps.cpuc.ca.gov/apex/f?p=401:57:0::NO.

[4] D.18-05-041, p.135-136.

Commission (or through a stakeholder motion)[5] as soon as possible.

Specifically, the Commission should reject ORA's request for rehearing for the following reasons: (1) The claims that the decision burdens customers are either inaccurate or no longer applicable given recent Commission direction and will result in extensive cuts to programs that are critical to meeting Commission and state goals; (2) The Commission appropriately adjusted direction, on a temporary basis, to maintain customer protections while balancing the need to implement the extensive policy modifications that have been adopted since the 2012 cost-effectiveness decision and to minimize the immediate real-world impacts that a forecast TRC 1.25 would have on customers; and (3) Rehearing D.18-05-041 will delay bidding and/or increase risk for implementers while skewing bidding opportunities in favor of implementers who focus primarily on large energy saving programs.

A. The claims that the decision burdens customers are either inaccurate or no longer applicable given recent Commission direction and will result in extensive cuts to programs that are critical to meeting Commission and state goals.

1. ORA's claims that a TRC value below 1.0 will burden ratepayers is inaccurate given that it is the cost to the utilities that are borne by customers through rates (not the cost to participating customers); further, the Program Administrative Cost test that measures the utility costs against the benefits to customers has historically been above 1.0 on an evaluated basis.

The Joint Parties support striving for ever increasing cost-effective portfolios and agree that the Commission should ensure prudent investments that are "just and reasonable."[6] Counter to ORA's claims, D.18-05-041 does just this. In practice, the funding collected through rates equals the cost to the utilities to implement the efficiency portfolio. The PAC then compares this funding (collected in rates) to the benefits of the portfolio to assess impacts on customers. A value above 1.0 means the program portfolio provided more benefit to customers than cost to the utilities.

As seen in Table 1, the utilities' PAC values that were approved by the Commission are projected to be above 1.0 through 2020 without codes and standards. Therefore, ORA's statement that "approving energy efficiency portfolios based on marginally cost-effective forecasts risks burdening ratepayers" is inaccurate since the PAC values are not marginally

[5] D.18-05-041, p.75.
[6] California Public Utilities Code Section 451.

cost-effective.[7]

Table 1: Average Projected PAC Values Without Codes and Standards[8]

IOU	2018-2020
PG&E	1.27
SCE	1.98
SCG	1.47
SDG&E	1.19

Further, as aptly noted by ORA:

> "The purpose of the energy efficiency portfolio is to produce energy savings, which have economic value. Saving energy allows ratepayers to avoid the costs of constructing and operating generation plants, procuring natural gas, constructing and maintaining transmission and distribution infrastructure, and complying with state policies to mitigate climate change. Avoiding these costs allow utilities to keep rates lower."[9]

It is PAC that estimates the benefit of energy efficiency described in this passage, which is focused on optimizing utility spending to minimize ratepayer costs. Funding for an energy efficiency portfolio that has a PAC of 1.0 or greater will result in providing energy services to customers at a lower cost than if the utility would have to buy alternative energy resources to meet demand. This is further confirmed by the National Action Plan on Energy Efficiency:

> "A positive PACT indicates that energy efficiency programs are lower-cost approaches to meeting load growth than wholesale energy purchases and new generation resources (including delivery and system costs). A positive PACT indicates that the total costs to save energy are less than the costs of the utility delivering the same power. A positive PACT also shows that customer average bills will eventually go down if efficiency is implemented."[10]

In addition, as seen in Table 2, the PAC for each utility has also shown a cost-effective portfolio consistently over the past two CPUC evaluation studies, which span the 2010-2015 program years. Given the fact that the cost to the utilities is the determining factor for rates, and

[7] Office of Ratepayer Advocates (hereinafter ORA), "Application of the Office of Ratepayer Advocates for Rehearing of Decision 18-05-041," July 5, 2018. p.4 (hereinafter "Application").
[8] CAEECC, "Business Plans," https://www.caeecc.org/business-plans-1.
[9] ORA, "Application," p.9.
[10] National Action Plan for Energy Efficiency (2008). *Understanding Cost-Effectiveness of Energy Efficiency Programs: Best Practices, Technical Methods, and Emerging Issues for Policy-Makers*. Energy and Environmental Economics, Inc. and Regulatory Assistance Project. <www.epa.gov/eeactionplan>

the PAC (measuring benefits to customers as compared to costs collected in rates) has consistently been above 1.0 on an evaluated basis, there has been no undue ratepayer impact even when the evaluated TRC calculations are below 1.0.[11] This will likely be true moving forward as well, reaffirming that the Commission decision sufficiently protects customers.

Table 2: Average Evaluated PAC Values Without Codes and Standards[12]

IOU	2010-2012	2013-2015
PG&E	1.44	1.38
SCE	1.81	1.27
SCG	2.52	1.42
SDG&E	1.41	1.12

It is important to note that the most influential reason that the TRC continuously falls below the PAC is due to the added cost borne by the participating customer who must contribute funds above the cost of the rebate to accomplish the program. Therefore, the TRC calculation includes the same benefits and costs as the PAC but adds the participating customer contributions in addition to the cost of the utility investment borne by customers through rates. This added cost is only experienced by the participating customer, who makes an independent choice to participate in the program (usually based on additional benefits beyond energy such as improved lighting, better resale, more comfort, less maintenance, etc.), not by the general ratepayer population.

In addition, determining what cost-effectiveness method fulfils the requirement of "just and reasonable" is within the authority of the Commission to decide. Based on the record, the Commission opted for a temporary cost-effectiveness approach that takes into consideration the realities of a changing policy landscape, the harsh impacts that a forecast TRC 1.25 requirement would have on customers across California, and the fact that the PAC values ensure prudent use of customer funds.

Therefore, ORA's claims that "customers will then be forced to bear the cost of programs which the commission cannot reasonably expected to produce net benefits" and that a

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[11] ORA, "Application," p.6.

[12] 2010-2012 PAC values from: CPUC, 2010-2012 Energy Efficiency Annual Progress Evaluation Report, March 2015. PAC Benefits and Costs. Appendix D. Table 12. 2013-2015 PAC values from: CPUC, Energy Efficiency Portfolio Report, May 2018. Table D-1.

TRC below 1.0 would "result in rates that are not just and reasonable, in violation [of] PU Code Section 451"[13] are both inaccurate. A TRC below 1.0 would not impact the broader customer base as long as the PAC is above 1.0, which it has been since 2010 on an evaluated basis and is expected to be through 2020.[14]

2. *Returning to a forecast TRC of 1.25 will result in greater burden to the most underserved ratepayers and create inequity within the customer base.*

If the Commission requires a forecast TRC of 1.25, the PAs will undoubtedly have to cut programs as has been discussed on the record as well as at a California Energy Efficiency Coordinating Committee (CAEECC) meeting.[15] While we agree that programs that are underperforming should be scrutinized for continuation, most of the program cuts would be in the areas of market transformation, residential, small commercial, local government, workforce, training, education, and hard-to-reach.[16]

These programs may offer low immediate energy savings and appear as though they are not producing benefits according to the current cost-effectiveness framework. In actuality, they provide either long-term savings or non-energy benefits that are currently not included in the cost-effectiveness calculation. Further, cutting dozens of programs will produce an enormous and potentially indefinite gap in services to customers as the utilities will have to shrink the overall portfolio to meet the cost-effectiveness requirement. Temporary gaps will also occur as the utilities will have to cut programs in the near-term to comply with the Commission's direction. However, most bids are expected to occur in 2019 meaning programs would launch in late 2019 or early 2020 since it takes substantial time to establish contracts and ramp up activities.

While some programs may be due for cancellation, it is also important to note that

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[13] *Ibid.*

[14] CAEECC, "Business Plans," https://www.caeecc.org/business-plans-1.

[15] CAEECC, "Ad Hoc Meeting re Status of Third-Party Solicitation Opportunities," November 28, 2017. https://www.caeecc.org/11-28-17-ad-hoc-re-tp-solic-n-opps and opening/reply comments on the record: https://apps.cpuc.ca.gov/apex/f?p=401:57:0::NO.

[16] PG&E, "Supplemental: PG&E's 2018 Energy Efficiency Annual Budget Advice Letter in Compliance with Decision 15-10-028, Ordering Paragraph 4," November 22, 2017. Attachment 5. SCE, "Supplemental Filing to Advice 3654-E, Southern California Edison Company's 2018 Energy Efficiency Program and Portfolio Annual Budget," November 22, 2017. Table 14; and SDG&E, "Supplemental - San Diego Gas And Electric Company's 2018 Annual Energy Efficiency Program And Portfolio Budget Request," November 22, 2018. p.6-7.

cutting programs to meet the CPUC requirement of a forecast 1.25 TRC does not automatically mean the programs are wasteful or that the costs are far greater than the benefits as ORA notes.[17] This is especially true for programs where there are extensive benefits beyond energy savings (e.g., increased comfort, improved health, additional workforce development opportunities, services to underserved communities that are costly to provide for this often left behind sector, support for small and medium businesses, technical assistance, among others). In addition, the Commission explicitly recognized the importance of benefits beyond energy savings when they ordered the utilities to quantify co-benefits and local economic benefits of local government energy efficiency programs in hard-to-reach and disadvantaged communities.[18] Therefore, the Commission should not accept ORA's narrow view of benefits, especially given that state law and CPUC direction require a broader view of the value of these programs.

Furthermore, if the PAs need to cut extensive programs to reach the forecast 1.25 TRC requirement, it would leave the portfolio focused on:

- Low-hanging fruit instead of deep energy savings;
- Large commercial programs that can yield the savings needed to offset the costs instead of programs that reach small and medium business customers (regardless of a required penetration rate since the decision may be interpreted to prioritize cost-effectiveness compliance over all other metrics);[19]
- Programs for customer classes and demographics that are more likely to participate rather than those in disadvantaged communities or are considered hard-to-reach who would not upgrade their buildings and homes without intervention; and
- Programs that focus mainly on mature technologies since emerging technologies can cost more to introduce and implement.

In practice, by requiring a forecast TRC of 1.25, the Commission would limit the state's ability to advance deep energy saving opportunities, fall short of serving disadvantaged communities, and would not provide for energy equity as directed by Senate Bill 350. It would also create undue burden on those customers who need support the most as they would be required to continue funding the energy efficiency portfolio without having many – or any – programs available to them.

[17] ORA, "Application," p.10.
[18] D.18-05-041, Conclusion of Law 69 at page 180 and Ordering Paragraph 30 at page 188.
[19] D.18-05-041, p.28 and p.133.

3. *ORA's claim that the past predicts the future is no longer an appropriate comparison given recent Commission direction.*

ORA notes that "Cost-effectiveness forecasts substantially exceed reported and evaluated results" and that "nothing in the record shows that the utilities can deliver energy efficiency portfolios that meet or exceed their cost-effectiveness forecasts." This argument is not accurate based on the previous discussion of the evaluated PAC values and does not hold moving forward regarding TRC since the utilities must bid out - at minimum - 60 percent of the investor-owned utilities (IOU) portfolio by 2022. This was something that ORA supported in the hopes to "encourage market discovery, creative program ideas, as well as competitive program costs."[20] Cost-savings was also included as part of the rationale for moving to this framework in the final decision on the matter.[21]

Since the bidding process was intended to yield more cost-effective programs and the utilities are now only in charge of identifying energy saving needs and running solicitations - no longer are they in the role of program design - the position that past TRC accomplishments predict the future is no longer valid.

B. The Commission appropriately adjusted direction, on a temporary basis, to account for the extensive policy modifications since the 2012 cost-effectiveness decision and the real-world impacts that a forecast TRC requirement of 1.25 would have on California customers.

Since 2012 when the Commission directed a required forecast TRC of 1.25, numerous policies that impact the composition of the portfolio have been implemented without any updates to the cost-effectiveness inputs or framework (with the exception of avoided costs). Specifically, many policy changes have led to requiring programs that are very beneficial to customers, but that add substantial cost without yielding comparable energy savings. These changes include (but are not limited to):

1. AB 758 focus on improving the energy efficiency workforce;[22]
2. SB 350 focus on disadvantaged programs;[23]

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[20] ORA, "The Office of Ratepayer Advocates' Response to the Administrative Law Judge's Ruling Regarding Comments on Phase I Workshop 3," p.10.

[21] D.16-08-019, Finding of Fact 19.

[22] CEC. "2016 Existing Buildings Energy Efficiency Plan Update," December, 2016 p.50 http://www.energy.ca.gov/ab758/.

[23] CEC: http://www.cpuc.ca.gov/discom/.

3. SB 350 requirement to pursue Market Transformation efforts;[24] and
4. Commission direction to focus on small and medium business.[25]

The sum of these actions results in a TRC value that is no longer able to be driven by only highly cost-effective resource programs, yet the cost-effectiveness framework continues to focus primarily on avoided energy use. This creates an extensive imbalance between what the Commission and state law directs the PAs to do and how we measure the value and reasonableness of those investments when evaluating cost-effectiveness.

The Commission appropriately balanced the need for prudent use of funding (as described in Section A) with the reality that these new policies require a different portfolio composition than previous iterations. Further, the Commission has plans to address many of the underlying issues with how we value efficiency in R.13-11-005. For those cost-effectiveness matters that are not included, the Commission has allowed for stakeholders to address such issues by a motion.[26] Addressing these issues should be prioritized in the coming year to allow for more accurate assessment of efficiency costs and benefits in compliance with state law.

C. Rehearing D.18-05-041 will delay bidding and/or increase risk for implementers while creating an inequitable opportunity for implementers.

If the Commission were to rehear this particular issue, the overdue and much needed bidding activity would be delayed given that the PAs would need to take time to readjust their approach based on updated direction. In addition, since the utilities will go out to bid to comply with the existing decision, the implementers would experience increased regulatory risk as the future composition of the portfolio would be unknown if this decision is reheard and ultimately modified. It is possible that bidders either in the middle of the solicitation process or with a fully executed contract could find themselves with programs that are no longer suitable and could face cancellation despite extensive investment of time and money.

Since one of the hopes of bidding was to find cost efficiencies, the Commission should maintain its decision to allow for a forecast TRC 1.0 requirement during the transition to third-party bids. Imposing a restrictive TRC early in the bidding process – especially when customers are protected as long as the PAC is 1.0 - will limit the potential for portfolio innovation that

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[24] SB 350: https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201520160SB350.
[25] D.18-01-004, p.52-53.
[26] D.18-05-041, p.75.

could result in significant cost savings.

Furthermore, such a decision would unduly reduce the number of third-party implementers bidding into markets that are traditionally hard and expensive to serve and/or those with low savings potential, thereby stranding ratepayers in those sectors. Solicitations targeting hard-to-reach and small commercial sectors, disadvantaged communities or whole-building upgrades will likely have low bidder participation, and in the absence of local government intervention (programs that would likely be cancelled to reach the threshold of a forecast TRC 1.25), these customers will likely remain unserved or underserved.

Instead of a diverse cross-section of third-party implementers, the Commission will likely see only those implementers that have the capacity for savings-rich programs that serve already robust sectors such as large commercial and upstream programs. Constricting the TRC threshold will have a direct impact on the composition of bidders - and subsequently the diversity and breadth of programs - thereby yielding an imbalance in market participation, stranded sectors, and a lack of innovation.

III. Conclusion

The Joint Parties appreciate the opportunity to provide this response. We reiterate our recommendation that the Commission not rehear D.18-05-041 and instead allow for the much-needed bidding to occur while addressing the underlying cost-effectiveness issues as soon as possible.

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