To: CAEECC
From: Donald Gilligan
Re: NAESCO Comments on PG&E, SDG&E and SoCal Gas' October 18 Draft Business Plan Filings
Date: November 21, 2016

NAESCO appreciates the opportunity to offer these comments on the draft Business Plans (BPs) that the IOUs submitted to the CAEECC in late October. While the BPs contain much useful information about various market segments, the overall approach suffers from the same defects that NAESCO and other parties pointed out in their comments to the draft BP chapters. We don't see much evidence that the IOUs are responding to the comments on the draft BP chapters, which makes it appear to NAESCO that the IOUs are only paying lip service to the CAEECC collaborative process, attending the CAEECC meetings and listening to the discussion, but not altering their BPs in response to the legitimate concerns of the stakeholders. It appears to NAESCO that the critical sections of the BPs could have been, and may well have been, written before D.16-08-019 was issued.

Summary of NAESCO Comments

We offer comments in six major areas, as outlined below. As with our comments on the draft BP chapters, our comments on the full draft BPs focus on the Public Sector chapters, because the public sector is where the vast majority of NAESCO member activity occurs, and where we think we have significant expertise to contribute to the development of the BPs, because ESCOs have implemented several billion dollars worth of comprehensive public sector EE projects in California during the past two decades.

1) The BPs offer no explanation or justification for the selection of the lead administrators for statewide programs.

2) The draft BPs appear to ignore the explicit Commission direction in D.16-08-019, which was reinforced by ALJ Fitch's extraordinary November 15 response to questions posed by CAEECC facilitator Ted Pope, that Third Party (3P) programs are to be <u>designed and implemented</u> by third parties.

3) The draft BPs do not appear to offer the detailed bidding plans that the Commission requires.

4) The draft BPs appear to offer no plan or schedule for the implementation of the clear mandate of AB 802 that the measurement of EE program savings be reset to existing baselines and that the measurement of savings be based on normalized energy meter (NEM) analysis.

5) The draft BPs appear to offer no realistic approach to the mandate of SB 350 that the California EE programs double their production of energy savings and their reduction of GHG emissions.

6) The draft BPs appear to be incomplete, in that they do not include all of their currently planned EE programs and activities.

NAESCO has discussed these comments with other CAEECC participants, and we do not appear to be alone in our reaction to the draft BPs. The CAEECC process seems to us to be heading away from the collaborative development of the next decade of EE programs and into a confrontation between the IOUs and many, if not most, of the other parties in the proceeding. NAESCO has been a strong supporter of IOU administration of EE programs for the past two decades. We urge the IOUs to change their apparent course, and to quickly respond to the concerns of the CAEECC stakeholders. Otherwise, NAESCO and other parties will have no recourse except to protest the BPs and petition the Commission for hearings at which we can introduce alternative BPS that we think better meet the Commission requirements and the needs of California ratepayers.

Discussion

NAESCO offers the following arguments in support of its comments.

1) The BPs offer no explanation or justification for the selection of the lead administrators for statewide programs.

NAESCO believes that explaining to the CAEECC stakeholders why particular Program Administrators have been assigned to manage particular programs is a basic demonstration that the IOUs are not serious about collaborating with other CAEECC stakeholders. There was obviously a fair amount of discussion among the IOUs about these assignments, from which the CAEECC stakeholders were excluded, thus depriving the stakeholders of their opportunity to help optimize the assignments, and depriving the Commission of the stakeholders' insights, based on decades of program experience and observation, on the administration of these programs.

2) The draft BPs appear to ignore the explicit Commission guidance in D.16-08-019, which was reinforced by ALJ Fitch's extraordinary November 15 response to questions posed by CAEECC facilitator Ted Pope, that Third Party (3P) programs are to be <u>designed and implemented</u> by third parties.

NAESCO believes that the guidance given by D. 16-08-019 is clear:

We clarify our definition of third party that to be designated as a third-party program, the program must be <u>primarily designed and presented to the utility by the third party</u>, in addition to delivered under contract to a utility. (emphasis added) (p. 70)

This guidance was further reinforced in an November 15 email that ALJ Fitch wrote in response to question posed by Ted Pope, the CAEECC facilitator, which is excerpted below.

> *So, the answer to your question hinges on the degree to which third parties are invited by the lead program administrator to propose the DESIGN of statewide programs. The presumption of Ordering Paragraph 5 is that third parties should be involved in the design of statewide programs by the new definition. If they are, then those programs would also count as third party programs by the terms of Ordering Paragraph 10. If that is not yet happening for some aspects of statewide programs or subprograms, then those programs or subprograms would not count as third party.*
>
> *Regardless, the decision's and Commission's expectation is that more statewide programs (and indeed more programs overall) would move toward being third party DESIGNED and implemented over time.*
>
> *My key guidance in this area would be that the program administrators be careful to present in their proposals the rationale and logic behind the choices they are making for statewide and third party approaches. The business plan evaluation process overall will benefit from a clear and compelling articulation of the reasoning behind the proposals. Since the trend by the terms of D.16-08-019 is intended to be moving toward more third party program design over time, if a program administrator proposes that third parties not be invited to present design proposals for statewide programs, the proposal should explain why that approach is not advisable in the particular circumstance.*

It appears to NAESCO that the BPs propose a very different approach from that directed by the Commission. The IOUs offer prescriptive program proposals {"strategies and tactics") that perhaps third parties may bid on.

For example, on page 30 of its Industrial Business Plan, SoCal Gas proposes using its account representatives as part of Industrial program implementation. Planning on using an IOU representative in program in this way prejudges the outcome of a potential 3P program design, and may impede the innovation that the Commission seeks. NAESCO's suggests ESCOs have significantly more successful experience than the IOUs in managing the marketing and development of major industrial, commercial and public sector projects, as evidenced by the failure of many US utilities to develop competitive ESCO business units a decade or more ago.

So we think that it is more appropriate, in this example, for SoCal Gas to propose the option for third parties to use SoCal Gas account representatives in their program marketing, at the discretion of the 3Ps, and to propose the costs that 3Ps would pay for their use. This would allow 3Ps flexibility to optimize their program design and make program cost effectiveness more transparent to the Commission evaluators.

A second example of the fact that the BPs do not conform to the Commission guidance is their Strategic Energy Management (SEM) as a program, rather than as a strategy that can be applied in a number of different programs. As discussed at the November 2nd CAEECC meeting, a statewide administrator should approve SEM as a strategy, and let 3Ps implement it as part of their programs in the commercial and industrial markets as the 3Ps see fit.

In summary, NAESCO suggests that instead of attempting to design and micromanage programs, in order to comply with D.16-08-019 the IOUs should set targets by market segments and ask 3Ps to propose their own program designs and budgets. We expect that the IOUs' targets to include locally constrained areas that have particularly pressing needs, for which the IOUs give local cost and usage information to facilitate targeted 3P proposals.

3) The draft BPs do not appear to offer the detailed bidding plans that the Commission requires.

The BPs do not contain detailed descriptions as to how the IOUs will achieve the 60 percent of the entire portfolio budget minimum spending on third party programs. Again, the Commission's direction in D.16-08-019 is clear:

> *Utility program administrators shall present their transition plans to effectuate at least this minimum level [*i.e., the 60 percent of total budget] *of third party delivery in their business plans for the Commission's consideration. In cases where utilities propose to continue staffing program design and/or delivery functions with utility personnel, they should explain why this continues to be necessary. (p. 74)*
>
> *The utility program administrators should be required to present in their business plan filings a plan to transition to a majority of third party or "outsourced" programs by the end of 2020. In cases where utility program administrators propose to continue staffing program design and/or delivery functions with utility personnel, they should explain why this continues to be necessary. (Conclusion of Law 58)*

The BPs are lacking both a plan to get to the minimum described in the decision, and a rationale for any IOU-implemented programs that they propose.

To demonstrate compliance with the Commission's order, the BPs must include detailed bidding plans by year. Only SDG&E provides a high level time line for some bidding in its BP, but the information that they provide is insufficient to demonstrate that it has a meaningful plan to implement the Commission's directives.

The bidding plans should include programs to be bid out for 3P design and implementation, and, if the IOUs desire to retain implementation for some programs, why it is necessary that they do so. The plans should also include schedules for bidding for 2017, 2018, 2019 and 2020, and a detailed description of bidding processes, especially key milestones (*e.g.,* RFP issuance dates, Bid Acceptance dates, Award dates, Contract Implementation dates).

Furthermore, we believe that a meaningful plan that demonstrates achieving the 60% minimum target, the IOUs should provide preliminary pro forma annual budgets (see discussion below), by month, for 2018 through 2020, broken out by major cost category: administration, implementation, marketing, and EM&V. Implementation and marketing should be further broken out by IOU and 3P expenditures. NAESCO also recommends that these budgets show direct and fully loaded labor costs and number of Full Time Equivalents for all IOU employees funded by the energy efficiency balancing account in the categories of (1) administration (2) program management; (3) account services; (4) marketing; and (5) EM&V; and (6) other. In order to facilitate comparisons among IOUs, NAESCO recommends that the IOUs develop a common budget template

4) The draft BPs appear to offer no plan or schedule for the implementation of the clear mandate of AB 802 that the measurement of EE program savings be reset to existing baselines and that the measurement of savings be based on normalized energy meter (NEM) analysis.

NAESCO appreciates the fact that the apparent resistance of the Commission's consultants to the mandates of AB 802 makes it more difficult for the IOUs to effectively plan for their implementation. But we believe that the BPs should at least offer an outline of the process, and a schedule, similar to the one for bidding that we outlined in #3 above, for the implementation. NAESCO suggests that the large commercial, public and industrial sectors can implement the AB 802 mandate with a minimum amount of work, because of the 20-year experience of ESCOs in using the IPMVP, which was explicitly recognized in the staff White Paper as a valid methodology for implementation of AB 802.

5) The draft BPs appear to offer no realistic approach to the mandate of SB 350 that the California EE programs double their production of energy savings and their reduction of GHG emissions.

California state policy for the last decade has defined the EE target market as all cost-effective energy efficiency, and SB 350 has mandated that California EE programs double their production during the next decade. We appreciate that the IOUs may not be able to offer final budgets at this time, but the draft BPs should offer their best thinking to date. The blank budget tables offered in the draft BPs indicate that either the IOUs have not begun to think about budgets, which seems unlikely, or that they don't want to expose their current budget thinking to the CAEECC stakeholders, which we respectfully suggest is a violation of the collaborative mission of the CAEECC.

NAESCO believes that the issue of budgets must be on the table for discussion by all of the CAEECC stakeholders, because it is critical that the IOUs present a credible financial strategy for reaching the mandated EE goals. As the IDEEA program has demonstrated over the past few years, a reasonable process for developing new program concepts is essentially meaningless unless there is adequate funding for the new concepts. In the absence of draft budgets, NAESCO assumes that the IOUs intend to propose budgets for their BPs that continue the $1 billion per year funding levels of EE programs during the last two program cycles. NAESCO respectfully suggests that this is not a credible approach, unless and until the IOUs can demonstrate in detail how they can get twice the production from their current budgets.

In the meantime, NAESCO suggests that California's approach to EE seems almost schizophrenic. We all know that EE, like a healthy diet, is a better (cheaper, more reliable and less environmentally damaging) than new generation. But we arbitrarily limit our energy diet to a fraction of healthy EE and then binge out, spending much more than necessary, on the energy equivalent of junk food for the majority of our future energy resources. There is no apparent reason not to break through the $1 billion/year threshold. Massachusetts currently spends almost five times as much, on a per capita basis, as California. And California's current EE production, about 1% annual incremental savings (as a percent of retail sales) apparently lags not only Massachusetts (about 2.5%) but also the Arizona (about 1.5%).

Given the AB 802 mandate to reset savings baselines to existing conditions, we know that there are tens of billions of dollars of cost-effective energy savings available. For example, in its comments on the draft BP chapters, NAESCO, offered a simple analysis, based on studies conducted by state university and K-12 school organizations, that suggests the public sector alone needs perhaps $50 billion of EE retrofit investments. We agree with the Commission and other stakeholders that "market forces" will hopefully provide the bulk of this investment.

But we also suggest that one of the missing market forces is an appropriate level of ratepayer EE investment. We respectfully suggest that the Commission should listen to the market. The owners of the potential EE resources, California homes and businesses, are saying that they are not interested in selling at the prices (incentive levels) currently offered. A market response is to offer the sellers more money, not convoluted explanations about why they should sell at the prices offered. We respectfully suggest that the leading rationale for not offering more and higher incentives – that such incentives are unfair to early adopters and constitute an ongoing "moral hazard" -- flies in the face of what all consumers know. Early adopters of new technologies – LED bulbs, smart watches or 4D televisions -- always pay more than laggards; that's the way our markets work.

6) The draft BPs appear to be incomplete, in that they do not include all of their currently planned EE programs and activities.

Finally, although they contain much useful information, it is not clear that the IOUs have included in their business plans all their proposed future energy efficiency activity. PG&E announced last summer its plan to close the Diablo Canyon nuclear power plant and replace its output, in part, with an additional $1.3 billion in energy efficiency spending. Since PG&E has filed its closure plan before the CPUC, its BP should include two distinct scenarios, one assuming that the Commission accepts PG&E's proposal and one that assumes that it does not. These scenarios are critically important to demonstrate that there is no double counting of savings and that PG&E has realistic plans to achieve the aggressive Diablo Canyon-related goals. Similarly, SCE has issued separate energy efficiency Requests for Offers (RFOs) outside of the energy efficiency portfolio. If SCE plans to issue similar RFOs in the future, it should include an additional scenario with those RFOs in its BP.