BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Concerning Energy Efficiency Rolling Portfolios, Policies, Programs, Evaluation, and Related Issues.	Rulemaking 13-11-005 (Filed November 14, 2013)

COMMENTS OF THE UTILITY REFORM NETWORK ON THE MARKET TRANSFORMATION WORKING GROUP REPORT

[PHASE III]

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I. INTRODUCTION

On April 10, 2019, the Commission issued *Administrative Law Judge's Ruling Seeking Comment on Market Transformation Working Group Report* (Ruling). As the Ruling explains, a working group convened by the California Energy Efficiency Coordinating Committee prepared a report that proposes a framework for energy efficiency (EE) market transformation initiatives in California.[1] The Ruling invites parties to comment on the Market Transformation Working Group (MTWG) report by May 6, 2019, and poses specific questions to guide comments.[2]

The Utility Reform Network (TURN) respectfully submits these comments on the MTWG report. TURN was a member of the MTWG and is delighted to reiterate our support for the recommendations presented in the report. TURN also offers our comments on some of the additional questions raised by the Ruling. TURN may address additional issues in reply comments.[3]

II. RESPONSES TO THE QUESTIONS IN THE RULING

A. Question 1: Please comment on the overall energy efficiency market transformation framework suggested in Attachment A and other consensus recommendations in the report. Should the Commission adopt this framework? Why or why not?

TURN recommends that the Commission adopt the consensus recommendations in the MTWG report. These recommendations reflect the careful consideration of the

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[1] *See* Ruling, Attachment A.
[2] Ruling, pp. 2-5.
[3] *See* Ruling, p. 5 (setting a due date for reply comments of May 20, 2019).

working group members, who came together with a shared purpose of designing a market transformation framework for developing, deploying, and monitoring energy efficiency market transformation initiatives in California. TURN encourages the Commission keep in mind the wide range of perspectives brought to this endeavor in its consideration of the framework proposed by the MTWG.

The MTWG members included ratepayer advocates, environmental organizations, labor unions and advocates, current EE program administrators (utilities and non-utilities), energy efficiency third party program implementers, some of whom have experience implementing market transformation initiatives in other jurisdictions, and current and former leaders of the Northwest Energy Efficiency Alliance (NEEA), a highly-esteemed trailblazer in EE market transformation initiatives. Moreover, each of the smaller groups created by the MTWG to take the lead on developing each element of the framework was comprised of members offering a diversity of perspectives and experiences.

Guided by skilled facilitators, the working group members collaborated (i.e.., educated one another, debated, pushed, pulled, scrutinized, and ultimately achieved an admirable degree of shared viewpoint) to craft a proposal that reflects both *policy ideals* and *real world pragmatism*. It is highly unlikely that any one stakeholder could have, or would have, proposed the framework that resulted from this process. Yet this combination -- policy ideals and real world pragmatism -- is what California needs to be successful at advancing EE market transformation through ratepayer-funded initiatives, while protecting ratepayers from unreasonable expenditures. TURN accordingly advocates adoption of the consensus recommendations in the MTWG report.

B. Question 3: Comment specifically on your preferred resolution of the first non-consensus issue identified in Attachment A (see pages 24-31) with respect to the appropriate choice for Market Transformation Administrator. Parties may also propose other alternatives, if there are administrative models that were not discussed in the report, but should be considered.

The MTWG presents two approaches to fulfilling the Market Transformation Administrator function. The first, referred to in the MTWG report as Option 1, would have the existing EE Program Administrators (PAs) each serve in this role, while Option 2 would have a Single, Independent Statewide Administrator serve as the Market Transformation Administrator.[4]

TURN supports Option 2, a Single, Independent Statewide Administrator. The MTWG report presents an extensive rationale for this option on pages A-35 to A-38. As the report explains, adopting a framework with a Single, Independent Statewide Administrator would avoid the shortcomings presented by the alternative approach, administration by the existing EE PAs. In sum, Option 2 would offer three overarching and interrelated benefits: (1) stability and focused expertise that flow from mission alignment with energy efficiency; (2) efficiencies associated with a natural statewide purview; and (3) agility associated with being a non-utility.

For all of the reasons set forth in the report, TURN recommends that the Commission incorporate a Single, Independent Statewide Administrator into the EE market transformation framework.

[4] Ruling, Appendix A, pp. A-29 to A-35 (Option 1); pp. A-35 to A-39 (Option 2).

C. Question 4: Comment specifically on your preferred resolution of the second non-consensus issue identified in Attachment A (see pages 36-38) with respect to the cost-effectiveness threshold that should be required for market transformation initiatives? Parties may also propose other alternatives.

The MTWG report presents two options for a cost-effectiveness threshold for market transformation initiatives, both of which would rely on the Total Resource Cost Test and Program Administrator Cost Test.[5] Option 1 would apply a 1.25 threshold to each market transformation initiative, while Option 2 would apply a 1.50 threshold.[6]

TURN supports Option 1, under which a 1.25 cost-effectiveness threshold would apply to market transformation initiatives on an ex ante basis. As the MTWG report explains, this is the same threshold generally applied to the EE rolling portfolio to provide a hedge against forecast uncertainty (and increase the likelihood that the portfolio will be cost-effective as implemented). However, applying a 1.25 threshold to each market transformation initiative is a different standard than applied to individual EE programs. The Commission does not require individual EE programs to meet any cost-effectiveness standard; only the portfolio as a whole is subject to the cost-effectiveness threshold. This difference is appropriate because of the greater risk associated with market transformation initiatives, given the longer time horizon before savings are expected to occur.[7]

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[5] Ruling, Appendix A, pp. A-47 to A-48.
[6] *Id.*
[7] *See* Ruling, Appendix A, p. A-47.

D. Question 6: Should a budget allocation to market transformation be incremental to the rolling portfolio budgets, or should a portion of the energy efficiency rolling portfolio budgets be redirected to market transformation? Why?

The MTWG report recommends that the market transformation budget be incremental to the currently authorized budget levels within the EE rolling portfolios.[8] TURN supported this approach as part of the MTWG as a matter of principle, as explained below. However, as a practical matter, redirecting funds may not have any adverse impact and should also be evaluated by the Commission.

Redirecting a portion of the EE rolling portfolio budgets creates a risk that the PAs might be unable to meet their EE goals in the near-term years because of the way in which the budgets were derived. The current EE rolling portfolio budgets are based on the PAs' forecasts of the budgets necessary to cost-effectively meet the Commission's EE goals each year, while also addressing the Commission's other policy objectives. If the Commission were to redirect a sum of money from the rolling portfolios to market transformation initiatives, those dollars *might* yield fewer savings in the early years than they would generate through the rolling portfolio, thus jeopardizing the PAs' opportunity to achieve the EE goals, all else being equal. This is why TURN supported the MTWG's recommendation that the market transformation budget be incremental to the rolling portfolio budgets.

Of course, the actual impact of redirecting funds would depend on what rolling portfolio programs would lose dollars to market transformation activities. Redirecting funding away from a cost-effective resource acquisition program to a market

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[8] Ruling, Appendix A, p A-40 (Section 6: Budget).

transformation program would almost certainly result in a net loss in savings in the near term. However, other ways of reallocating funds might have a more negligible impact on energy savings and thus on achievement of the EE goals. Furthermore, the PAs do not always spend their full budgets, and their savings claims have comfortably exceeded the EE goals (at least on an ex ante basis) with funds remaining.[9] This may indicate that some budget could be redirected without any impact on savings or the achievement of other Commission-adopted metrics.

E. Question 7: How much should the initial funding allocation be for market transformation, and for what duration?

The MTWG report recommends that the Commission adopt an unspecified "not to exceed" budget for all market transformation initiatives administered by the Market Transformation Administrator(s) over a multi-year period of time, without pre-determining budgets for individual market transformation initiatives.[10] Working within this budget, the Market Transformation Administrator(s) would submit Tier II Annual Budget Advice Letters (ABAL), detailing estimated spending on market transformation activities for the upcoming program year. The ABAL would include activities such as market transformation initiative (MTI) concept scanning, soliciting, and development (referred to as Phase I activities in the report), as well as activities associated with specific MTIs that have been approved (Phase II and III activities).[11] The MTWG report

[9] *See, e.g.,* 2018 SCE Energy Efficiency Programs Annual Report, Technical Appendices Table 1 (claiming GWh net savings of 140% of 2018 Goals and MW net savings of 139% of 2018 Goals); Table 3 (showing about $33 million in program budget remaining (excluding EM&V and On-Bill Financing Loan Pool)); 2018 PG&E Energy Efficiency Programs Annual Report (claiming net savings equal to 131% of its GWh goals, 168% of its MW goals, and 97% of its MMth goals, with about $79 million in program budget remaining).

[10] Ruling, Appendix A, p A-40.

[11] Ruling, Appendix A, p A-40.

anticipates that annual funding requirements will vary considerably as MTIs are approved or sunset or as modifications are made to approved MTIs.[12]

TURN supports this approach because it provides flexibility for the Market Transformation Administrator(s), as well as regular oversight by the Commission. TURN additionally offers the following recommendations regarding funding amount and duration.

Funding Amount

TURN recommends that the "not to exceed" budget be set at a level between 5% and 10% of the total budget for energy efficiency activities overseen by the Commission, excluding low-income energy efficiency programs. In the initial funding allocation, 5% may be more appropriate. The purpose of limiting the market transformation budget to a small fraction of the total EE rolling portfolio budget is to manage the risks attendant to market transformation initiatives through a balanced portfolio of EE activities.[13] Because resource acquisition programs are less risky, the vast majority of ratepayer dollars devoted to EE should be invested in those programs.[14]

Funding Duration

TURN recommends that the "not to exceed" budget be tied to the same time period specified in the authorization for the Market Transformation Administrator(s).

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[12] *Id.*

[13] *See* Prahl, R. and Keating, K. (2014): "Building a Policy Framework to Support Energy Efficiency Market Transformation in California," prepared for the CPUC Energy Division, p. 17.

[14] Prahl, R. and Keating, K. (2014): "Building a Policy Framework to Support Energy Efficiency Market Transformation in California," prepared for the CPUC Energy Division, p. 17. Prahl and Keating explain that the budget for the Northwest Energy Efficiency Alliance is 10% of the total spent on EE in the region, although they do not recommend any specific allocation between resource acquisition and market transformation activities in California.

The MTWG proponents of having a Single, Independent Statewide Administrator recommend an initial four-year contract for this entity, subject to renewal based on a performance evaluation in year three.[15] Under this approach, it would make sense for the Commission to also adopt a market transformation "not to exceed" budget for four years. If the Commission were to instead conclude that the Existing PAs should function as the Market Transformation Administrators, TURN still believes that a four-year funding authorization would be appropriate, given the nature of market transformation activities.

Irrespective of how the Commission resolves the issue of who should function as the Market Transformation Administrator, TURN recommends against adopting a market transformation "not to exceed" budget covering fewer than four years of activities. The purpose of authorizing a multi-year budget with ABAL submissions is to have a long enough term to support the longer lead time required for MTI, while providing accountability during that term. A four-year term is slightly shorter than the time period employed by NEEA. NEEA receives 5 years of funding at a time, based on an approved 5-year Business Plan.[16] Similar to the MTWG's proposed approach, the proportion of funding attributed to each year is reviewed and approved as part of NEEA's annual operations planning process.[17]

III. CONCLUSION

For the foregoing reasons, TURN recommends that the Commission adopt the consensus recommendations of the MTWG, plus (1) a single, independent statewide

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[15] Ruling, Appendix A, p A-39.

[16] *See* NEEA Strategic & Business Plans 2020-2024, p. 85, available at https://neea.org/img/documents/NEEA-2020-2024-Strategic-and-Business-Plans.pdf.

[17] *Id.*

administrator; and (2) a 1.25 cost effectiveness threshold for each market transformation initiative. TURN additionally recommends that the initial funding for market transformation be capped at an amount equal to between 5-10% of the total rolling portfolio budgets and cover no fewer than four years of market transformation activities.

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Respectfully submitted,

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