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OPENING COMMENTS OF THE LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION ON ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENT ON FUTURE OF REGIONAL ENERGY NETWORKS

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SUSTAINABLE ENERGY COALITION

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I. Introduction

Pursuant to the March 27, 2019 *Administrative Law Judge's Ruling Seeking Comment on Future of Regional Energy Networks* (ALJ Ruling), the Local Government Sustainable Energy Coalition (LGSEC) provides these responses to the questions posed. LGSEC represents more than 30 cities, ports, and government associations that have a keen interest in cultivating supportive state policy that advances energy sustainability at the local level. In 2012 LGSEC filed the original motion that led to California Public Utilities Commission (CPUC or Commission) adoption of the Regional Energy Networks (RENs) concept.[1]

Local Governments are where the rubber hits the road in terms of environmental impacts and opportunities. More than one-third of all carbon footprint abatement potential in California is embedded in activities that are at least partially within local governments' control.[2] Yet municipalities tend to be stretched thin, with multiple competing priorities, particularly in rural areas that have limited taxation capacity and responsibility over sprawling geographies. To be successful, especially in areas that are not historically central to local government's role – such as police, fire, health care, and services for families and the vulnerable – municipalities need apt organizations and consistent funding sources. In the energy management realm, they require program administrators like RENs, with attendant persistent state support.

California needs its local governments to be at the front line in energy management efforts. The state has ambitious greenhouse gas emission reduction goals, and faces increased fire risks prompted by a changing climate, with attendant requirements to reshape the electricity distribution system to protect against hazards while ensuring reliability. Simultaneously, new opportunities to extract additional value from energy management programs are emerging, through the distribution resource planning process and roll-out of time-variant utility rates.[3]

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[1] R.09-11-015 Motion of the Local Government Sustainable Energy Coalition to Establish and Fund Local Government Regional Energy Networks.

[2] Christopher M. Jones, et.al. "Carbon Footprint Planning: Quantifying Local and State Mitigation Opportunities for 700 California Cities," *Urban Planning*, Volume 3, Number 2, 2018.

[3] It is possible that California is on the cusp of rapidly rising electricity rates, which could abruptly make previously cost-ineffective energy efficiency programs valuable to secure customer bill savings. For example, Southern California Edison recently filed at the Federal Regulatory Commission to increase its return on equity from 11 percent to 17 percent, citing wildfire risks; Pacific Gas and Electric similarly submitted a CPUC application for a 2020 Cost of Capital change. Should these and other rate increasing actions be realized, the state will want to have access to "shovel-ready" programs and associated organizations to carry them out, to avoid energy users experiencing serve rate shock.

In this context, the CPUC's central question related to RENs should not be whether or not they are needed or should be expanded, but rather how to modify and support them in ways that best meet the future, including by reducing uncertainty caused by the potential for chronic funding reductions. RENs provide an essential vehicle to serve those who would otherwise not get assistance, due to an inability to reach them through investor-owned utility (IOU) programs and stringent cost-effectiveness requirements, while acting as incubators for innovative program designs. LGSEC shares other parties' concerns that downsizing Local Government Partnership (LGP) portfolios, if it and similar trimming continues, reflects the wrong policy direction.

RENs build local governments' capacity to effectively advance energy management projects and programs. CPUC evaluation of them should include the value of a long-term investment in building a statewide community of energy efficiency practitioners and associated supportive infrastructure, rather than paying for one-off energy efficiency projects, with attendant repetitive startup costs and time delays. Likewise, RENs offer unique services, such as energy code development, Property Assessed Clean Energy financing, and regional amenities that are not, and cannot, be provided by IOUs or LGPs.

RENs provide more consistency and presence than any other program administrator. Local governments are constant in communities, organically inclined to support affordability, homegrown resiliency and efficient resource use. It is structurally less natural for IOUs to invest in programs that reduce their retail sales.

RENs have an ability to provide a single-point-of-contact for non-energy efficiency subsidies, resources and services. Local governments can leverage other programs and funding sources to offer a suite of services through a REN that complement energy efficiency offerings. Local governments need support, services and funding for renewable energy, energy storage, energy resilience, electric vehicles, and even non-eligible energy conservation measures that provide customer benefits.

LGSEC would like to make two other separate introductory points. First, the Commission should reform its proceeding communication protocols, with an eye towards enhancing accessibility and transparency. For example, emails should include less than five sentence summaries of their content at the top, and lengthy service lists should be internalized, rather than sprawling over the entirety of an initial landing page.

Second, the Commission should seriously consider whether LGP bridge funding is needed in 2020 as a means to conserve local government capacity.

1.1 Workshop Merited

LGSEC agrees with other parties that it would be useful to hold an interactive workshop prior to any Commission decision regarding RENs' future. Of particular interest to LGSEC would be identification of benefits delivered by RENs outside the Commission's total resource cost (TRC) test, including achievement of environmental and energy goals, reaching underserved program participants and geographies, contributing distribution-level value, catalyzing innovation, and establishing long-term, localized, capacity and commitment to energy management efforts; whether RENs' portfolio can be usefully expanded to include a broader array of distributed energy resources as a means to serve vulnerable populations and geographies; and whether greater emphasis should be placed on IOU development of innovative tariffs and other incentives that reflect underlying place- and time-based service costs, in part as a means to motivate REN programs that can take advantage of cost-based next-generation tariffs.

In a period of pressures on the IOU model, in part due to a changing climate, and a state goal to transition the energy system to 100 percent renewables, the Commission could also workshop whether, in the case of RENs, a preferred long-term evaluation approach would be application of least-cost analysis or planning, oriented towards achieving environmental, energy, and equity goals. Least-cost planning is an analytical method that enables decisionmakers to identify the best pathways to achieve one or more goals, balancing, as needed, different interests, such as affordability, emission reductions, and social benefits. It differs from cost-effectiveness in that it is oriented toward attaining one or more goals at the lowest cost, rather than establishing a cost hurdle over which a given measure is considered ineffective. That is, with a least-cost approach, the emphasis is on progressing towards specific goals, selecting the best means of doing so.[4]

[4] See Moss, S, R. McCann, and M. Feldman, *A Guide for Reviewing Environmental Policy Studies, A Handbook for the California Environmental Protection Agency*, Cal-EPA (https://ww3.arb.ca.gov/research/apr/past/92-337a.pdf); and National Association of Regulatory Utility Commissioners, *Least-Cost Utility Planning*, Volume 1, October 1988.

1.2 RENs Provide Important Service Pathways to Underserved Ratepayers, and Can Spark Innovation

RENs are well situated to deliver energy efficiency services to rural and underserved ratepayers. RENs provide a platform to regionalize and localize program design and associated services while maintaining the economy of scales needed to help ensure productive resource provision. Regional and local programs that reflect geographic-specific cultural and communication preferences have a better chance of overcoming the barriers to energy management adoption that IOUs face. As has been acknowledged by the Commission, the benefits of locally-tailored approaches are difficult to capture through standard cost-effectiveness protocols.[5]

Non-IOU program implementors, like RENs and LGPs, provide valuable energy efficiency services to markets that have inadequate access to them. Eliminating local government implementers would risk a wholesale loss of capacity, that predates the American Recovery and Reinvestment Act, to effectively engage in underserved markets, leaving broad areas of the state and diverse population groups with insufficient entree to energy efficiency services. Such an outcome, at a time when environmental and potentially economic pressures suggest an "all-hands-on-deck" approach, could be more costly in the long-run.

Now is not the time to withdraw support from valuable, locally-based, energy management organizations. California has aggressive energy and greenhouse gas savings goals. Local governments can and should continue to play a key role in achieving them. RENs' regulatory freedom to design and implement innovative and gap-filling programs, without unrelenting pressure to deliver TRC test values of one or greater, creates opportunities for the Commission to cultivate longer-term, diverse, programs that can harvest energy management openings which would otherwise be stranded while simultaneously addressing energy inequities by attending to underserved populations.

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[5] Ann Speers, Aimee Powelka, Jayden Wilson, *A National Review of Community Based Energy Efficiency Program Designs: Finding Transferable Insights From 25 Unique Programs.* Accessed from the web April 10, 2019.

2. **Reponses to ALJ Ruling**
   1. **<u>Threshold REN Policy.</u> Are RENs still appropriate (new or existing) in light of likely geographic overlap, and/or portfolio overlap, with CCAs and LGPs? Why or why not? What unique value do RENs bring, if any, compared to CCA or LGP programs**?

Community Choices Aggregators (CCAs) have proliferated as load serving entities. It is likely that in the near future most new generation procurement will be secured by CCAs. The Commission should view the emergence of these local government agencies as a strong indication of Californians' desire for homegrown choice and program designs.

Importantly, however, CCAs have generally not applied or elected program administrator status under Public Utilities Code Section 381.1, furthered in D.14-01-033.[6] During this transitional period in the electricity industry, it would be misguided to count on CCAs to become the primary vehicles through which to promote regional and localized efficiency implementation efforts.[7]

CCAs have been widely supportive of RENs and LGPs. RENs offer the opportunity to leverage CCA and other municipal programs to create more expansive public benefits, including advancing energy equity. Likewise, RENs provide an essential means for local governments to coordinate, aggregate, innovate and scale efficiency services beyond what is possible for a CCA or LGP alone to achieve.

When the CPUC adopted D.12-11-005 many municipalities had robust local government partnerships with their associated IOU. One of the Commission's intentions in approving the REN model was for it to be additional to, not instead of, LGPs[8]. Further, LGPs were typically managed and directed by the IOUs, with limited capabilities to design, direct or innovate program resources.

Notably, this Ruling takes place in a period of increased local government interest in RENs in response to unfolding service reductions in energy efficiency programs, particularly as

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[6] The exceptions are Marin Clean Energy and Lancaster Choice Energy.

[7] That said, where and when REN and CCA services do overlap, Joint Cooperation Memos should continue to be required.

[8] D.12-05-015, at page 13.

applied to specific geographically hard to reach and underserved communities. Southern California Edison Company alone may terminate more than 20 LGPs at the end of this year. Given this context, and the potential destabilizing consequences to RENs, the Commission should consider REN expansion to include some or all of the activities previously implemented by LGPs in their territories, at the election of the LGP.

New and existing RENs are essential to providing ratepayer services in specific regions and for particular programs, especially tailored to underserved populations and areas; and to incubate innovative programs that can be productively adopted in other service areas and/or by additional providers. RENs are uniquely situated to advance regionalized innovative program designs at scale. RENs should be cultivated as an important part of the energy efficiency delivery eco-system for years to come.

2. **Existing REN policy. Should the Commission consider cancelling REN programs after the expiration of the current business plan period? Why or why not?**

No.

First, a variety of factors, including but not limited to, annualized budgeting and goalsetting, cost-effectiveness tests, performance contracting, and 2020 Database for Energy Efficient Resources load shapes encourage IOUs to focus on achieving short-term gains and harvest low-hanging energy efficiency fruit. This is an appropriate approach as applied to profit-motivated entities oriented towards creating shareholder value. RENs are more suitable as vehicles to pursue longer-term goals, advance equity, and reap benefits that require deeper, persistent, engagements.

Second, RENs have and continue to play a role in California's efficiency market by providing services in cases where, as indicated in D.12-11-015,

> Activities that utilities cannot or do not intend to undertake; 2. Pilot activities where there is no current utility program offering, and where there is potential for scalability to a broader geographic reach, if successful; and 3. Pilot activities in hard to reach markets, whether or not there is a current utility program that may overlap. [9]

[9] The full instructions are as follows:

> 1. Activities that utilities cannot or do not intend to undertake. The rationale for this should be obvious – if a REN can deliver a service to the market that the utilities cannot, it should be considered. 2. Pilot

Third, it is premature to consider cancelling REN programs. As noted in the request for comments, there is presently a lack of "conclusive evaluation results…" for RENs and "the established RENs have had some successes."[10] Such a situation does not suggest the need to hurry to terminate RENs. Instead, as recommended elsewhere herein, the Commission should hold a workshop to provide a forum for deeper discussion of the best approaches to advancing RENs, and consider engaging in further studies of potential REN benefits.

3. **New REN policy. Should the Commission consider discontinuing the opportunity for formation of new RENs? Or should the Commission consider new REN proposals? Why or why not?**

There is no reason to shut the door on new REN formation; no yellow caution light is blinking that would suggest it would be prudent for the CPUC to discontinue consideration of this vehicle. New RENs should be allowed to proceed in parallel to, as recommended in LGSEC's response to Question 2, workshops and additional studies. These activities, in turn, should provide the basis for the Commission to issue additional guidance on where, in what capacity, and over what time horizons RENs are most needed, including to bridge programs offered by others and help achieve long-term energy efficiency goals; and further solidify a process to evaluate proposed new RENs.[11]

4. **Criteria for REN evaluation. Are the criteria adopted in D.12-11-015 and reaffirmed in D.16-08-019 still the appropriate criteria to apply to RENs and their programs? Or should new or different criteria be developed and applied?**

activities where there is no current utility program offering, and where there is potential for scalability to a broader geographic reach, if successful. In this case, the concept would be to test program delivery that is different or unique, for potential to be scaled up to a statewide approach delivered either by RENs and/or by utilities in the future. 3. Pilot activities in hard to reach markets, whether or not there is a current utility program that may overlap. These activities may or may not be intended to be scalable to a larger area. The rationale is that hard-to-reach markets (including multi-family and low- to moderate-income residential, as well as small commercial)4 need all the help they can get to achieve successful energy efficiency savings. A piloted approach may work well in a particular geographic region because of its specific characteristics, or it may be appropriate. Page 17.

[10] Page 5.

[11] For example, the Commission could work with the California Energy Efficiency Coordinating Committee to develop a selection process similar to IOU third party solicitations.

Existing thresholds for review remain largely appropriate, pending further discussion and study. However, related to the third criteria, "Pilot activities in hard to reach markets, whether or not there is a current utility program that may overlap," in response to the revised definition of hard-to-reach reflected in D.18-05-041 LGSEC endorses the Bay Area Regional Energy Network's proposal that this standard be extended to include the "underserved." RENs can effectively assist underserved segments, such as multifamily residential and small and medium businesses. While these customers pay their fair-share of public goods charge, this contribution is not fully reflected in their participation in IOU energy efficiency programs.

RENs play a unique role in the energy management constellation, serving especially challenging populations. In this context, LGSEC recommends that the Commission continue to acknowledge that cost-effectiveness is an inappropriate standard by which to measure REN performance, while, as previously endorsed, consider adoption of a least-cost approach predicated on:

i. A gap analyses of programs; as well as the need to provide services to hard to reach and/or underserved markets, including multi-family and low-to moderate-income residential and small commercial customers. Such an examination, which should be conducted regularly, would address the fact that while RENs are approved to undertake "[a]ctivities that utilities cannot or do not intend to undertake", there is no mechanism available to clearly identify those activities.

ii. Pilot undertakings that have the potential for portability or scalability, testing innovative program delivery models.

iii. Opportunistic efforts, that leverage other municipal resources and capacity.

iv. Encouraging the adoption of time- and geographically-based tariffs that provide distribution benefits.

5. Application of REN criteria. Should REN programs be required to meet all of the criteria from D.12-11-015 and not just one? Why or why not?

Each of the D.12-11-015 criteria reflect a singular and important service gap, that merits specific attention. From that perspective, REN programs should be required to meet at least one of them.

6. **<u>New REN geography.</u> Should the Commission consider proposals for formation of new RENs that overlap with existing or other new REN proposals? Why or why not?**

In general, localized innovation that advances achievement of state goals should not be constrained. RENs will have different areas of expertise and interests; these attributes should be seen as opportunities by the Commission, and be incubated where possible.

7. **<u>New REN timing.</u> If you recommend that the Commission consider formation of new RENs, when during the rolling portfolio cycle should such proposals be considered?**

REN formation should generally be coordinated with ongoing CPUC budgeting and stakeholder engagement schedules, while the Commission should acknowledge that under D.14-01-033 first-time applicants' proposals are to be reviewed at any time; new RENs should enjoy equal treatment.[12]

The Commission should be mindful of local government decision-making processes, which can require lengthy public notices and legislative approval of proceeding submissions, when scheduling dockets.

8. **<u>REN sector limitations.</u> Should RENs be limited to delivering programs in specific sectors (e.g., the public sector, or multi-family buildings) or to specific populations (e.g., hard-to-reach communities)? Explain your rationale.**

No. RENs should not be limited to specific sectors, though programs that cater to public sector, multi-family, hard-to-reach and/or underserved communities, and other unique or neglected demographics should be prioritized. As previously discussed, REN programs should generally fill gaps and help the state achieve its energy-related policy goals. Holes are likely to shift over time, particularly given the existing chaotic energy market environment.

[12] Decision Enabling Community Choice Aggregators to Administer Energy Efficiency Program.

9. REN program types. Should RENs be limited to offering certain types of programs only (e.g., non-resource programs or resource programs)?

No. RENs should not be limited to offering a certain program type, for similar reasons as discussed in 8. RENs should be allowed to advance a variety of programs, resource and non-resource, across all sectors, so long as they meet D.12-11-015 or ensuing Commission-endorsed criteria.

10. Cost-effectiveness requirements. Should RENs be required to meet a certain cost-effectiveness threshold in order to be approved or continued? If so, what level, and why?

RENs are not subject to the same cost-effectiveness test as IOUs, principally because of limitations on the programs that they can offer.[13] Specifically, RENs are charged with implementing the most difficult plans to design and deploy, programs that the IOUs do not want to extend.

RENs should be held accountable for running their programs effectively. As previously discussed, this may best be evaluated through use of least-cost analysis, based on meeting state and local policy goals. The Societal Cost Test may also provide an appropriate tool to evaluate value while unlocking funding from other sources, thereby amplifying beneficial ratepayer impacts. Both approaches should be examined as part of the previously recommended workshop process.

11. REN evaluations. Are there specific studies that the Commission should undertake to more directly evaluate the effectiveness of the REN programs thus far? Please describe

As indicated in LGSEC's response to Question 4, studies that examine the benefits produced by RENs would be useful, as would an expansive gap analysis, including further identification of customer segments that are not being effectively served, what state goals need

[13] See e.g. D.12-11-015.

additional efforts to be met, and what municipal institutions, collectively and collaboratively, would best help California meet its energy future.

3. Conclusion

LGSEC appreciates this opportunity to provide comments to the Commission. We look forward to continuing to productively engage in these issues.

Respectfully submitted,

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