**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)

OPENING COMMENTS OF THE RURAL HARD TO REACH (RHTR) WORKING GROUP ON ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENT ON FUTURE OF REGIONAL ENERGY NETWORKS

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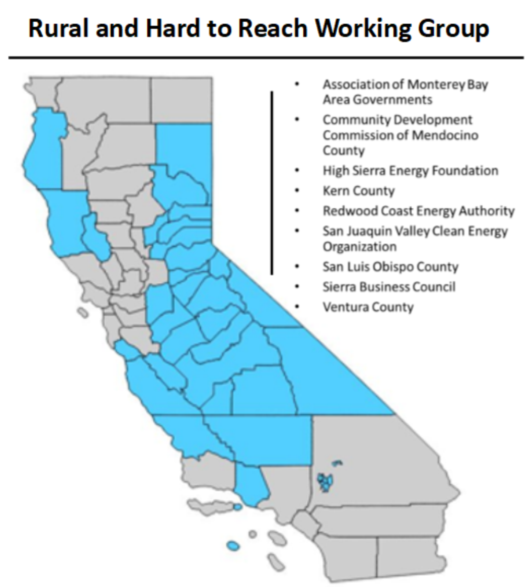
I. Introduction

Pursuant to the March 27, 2019 *Administrative Law Judge's Ruling Seeking Comment on Future of Regional Energy Networks* (ALJ Ruling), The Rural Hard-to-Reach Working Group (RHTR) hereby provides their responses to the questions posed. As noted in the ALJ Ruling, increasing challenges to delivering a balanced and cost-effective portfolio have led to a recent downsizing of the Local Government Partnership (LGP) portfolios. RTHR expresses concerns that without remedy, Rural and Geographically Hard-to-Reach LGPs' capacity to act will continue to decline with an expected 2020 sunset. RHTR puts forth the perspective that Regional Energy Networks (RENs) provide a viable pathway to continue to serve those hardest to serve, while advancing innovative and forward-thinking program designs that can benefit other parts of the state, as well. RHTR appreciates the opportunity to respond to the ALJ Ruling.



II. Discussion

RHTR posits that current (RENs) are even more applicable and necessary today than when the Commission originally introduced the concept through (D.) 12-05-015. To ensure continued

REN relevancy, the Commission should integrate observed energy efficiency implementation trends and stakeholder feedback into an updated vision of relevancy. This will reduce market uncertainty and advance varying California climate and energy goals. RHTR presents the following for consideration.

1. Workshops and stakeholder engagement

Given that there are many proceedings active at the CPUC, CEC, and other agencies, parties are resource-constrained and many may not be able to submit comments. To facilitate more comprehensive participation from affected stakeholders, RHTR requests that, at a minimum, a workshop be held and that stakeholder input provided therein be considered prior to a Commission decision regarding the future of RENs. RHTR recommends that the workshop also include but not be limited to the following questions for consideration:

1. Is there a new role for the RENs in light of the reduction of Investor-Owned Utility (IOU) LGP budgets and services to the LGPs?
2. What is the value of the RENs to the communities they serve outside of cost-effectiveness, e.g. achievement of statewide and local environmental goals, services to otherwise underserved program participants, job creation, economic sustainability, etc., and how can we better account for those benefits in the cost-effectiveness calculations, i.e. can we internalize the externalities in the analysis?
3. What are examples of how the RENs and CCAs have worked together to offer more holistic and impactful programs to their shared customer base?
4. Can RENs be a tool to effectively remove Hard-to-Reach from the portfolio Total Resource Cost (TRC) requirements to relieve the IOUs of the burden of providing these services in more costly rural and hard-to-reach areas?

2. RENs are effective service vehicles for Rural and Geographically Hard-to-Reach Communities

A REN is particularly well-situated to deliver energy efficiency services to Rural and Geographically Hard-to-Reach California Ratepayers. RENs offer an opportunity to regionalize and localize program design and associated service while maintaining an economy of scale necessary to maximize the cost-effective delivery of resources. Regional and local program design that integrates a wide variety of locational variables is critical to Rural and Geographically Hard-to-Reach implementation. For example, ratepayer locational values, beliefs and norms must be incorporated into program design otherwise long-term social structural barriers to success will emerge—historic LGP practices have largely filled this niche. As RHTR LGPs continue to be downsized both by budget and scope, we see a REN as an effective path to secure ongoing and applicable services as defined by the community, for the community.

RHTR expresses concerns that without a REN, or commensurate alternative, California runs the risk of a wholesale loss of Rural and Geographically Hard-to-Reach service capacity built from Direct Install, LGP, American Recovery and Reinvestment Act (ARRA), and Prop 39 implementation efforts to date.

3. RENs are viable and appropriate vehicles to deliver innovative and gap filling programs regardless of geography or HTR status

RENs' intentional regulatory freedom to design and implement innovative and gap-filling programs provides significant value to the ratepayer, albeit not one that is captured within the present TRC calculation methodology. RENs provide an appropriate and viable vehicle to serve those who would otherwise not get served due to cost-effectiveness requirements, while filling programmatic gaps and acting as incubators for new, innovative, and effective program design that can be scaled and replicated throughout the state.

III. 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?

New and existing RENs continue to be appropriate and necessary to provide ratepayer services across the state while fostering new and innovative programs that can be replicated and scaled.

- It is correct to state that CCAs have proliferated throughout the California market as load serving entities.
- CCAs as a cohort, outside of Marin and Lancaster, have not applied or elected program administrator (PA) status under Public Utilities Code Section 381.1 and furthered in D.14-01-033.
- CCAs, like their IOU program administrator counterparts, are required to meet specific cost effectiveness criteria.

- Local governments, including RENs and LGPs, should be encouraged to maximize public benefit while minimizing incremental service costs through the leveraging of match funding. For example, many CCAs prioritize program areas around transportation electrification, building electrification, solar, storage and demand response. The CCA cohort's generalized priority set cannot be funded with energy efficiency funds. However, CCA locally funded programs can and do bridge existing efficiency programs. Where applicable, RHTR notes that LGPs and RENs are likely best situated to collaborate and leverage locally funded CCA programs.
- A variety of factors – including but not limited to annualized budgeting and goal setting, cost-effectiveness tests, performance contracting, 2020 DEER load shapes, and ex-poste dispositions – influence program administration in a way that prioritizes short-term gains and programmatic and measure-level low-hanging fruit over long-term strategy, equitability, and comprehensive deep-reaching savings. This phenomenon has most recently been expressed in the reduction of LGP services and is expected to further limit services to only those areas that can show the greatest opportunity as measured strictly by avoided costs and implementation/participant costs.
- Without change, we expect LGP relevance to continue to decline as PA's seek to rebalance their portfolios to be as cost-effective as possible under the current TRC calculation methodology.
- Increased local government interest in RENs is a response to the observed and forecasted service reductions across PAs and various geographic and hard-to-reach communities.

REN geographic and/or portfolio overlap with CCAs is an asset to the state and to the portfolio.

- Non-PA CCAs have shown a desire to leverage but not duplicate existing programs to maximize local benefit. Locally funded CCA programs should not be of concern to this ruling.
- Where REN and CCA services overlap, such as in Marin for example, Joint Cooperation Memos (JCM) should continue to be required.

- As additional CCAs elect or apply to become PAs, they will face similar cost-effectiveness programmatic constraints as the IOUs. Thus, portfolio overlap will likely be minimal anyway, as CCA structural functions are simply different from RENs.

RENs provide a unique pathway for local governments to coordinate, aggregate, innovate and scale efficiency services beyond what is possible for a CCA or LGP to achieve. In addition, RENs now provide a pathway for LGPs to continue to work in the Energy Efficiency (EE) space while leveraging the capacity built over time.

- It is RHTR's opinion that IOU-implemented LGP programs are likely coming to an end due to current cost-effectiveness constraints.
- California has aggressive energy and greenhouse gas savings goals and local governments can and should continue to play a key role in supporting the realization of those goals across all California Energy Efficiency Coordinating Committee (CAEECC) sectors and all geographies.
- CCAs are not and likely will not cover all areas throughout California and should not be seen as **the** vehicle to continue to promote regional and localized efficiency implementation efforts.
- As noted previously, CCAs will face similar programmatic limiters as IOUs when it comes to innovative program design.

RENs are uniquely situated to advance regionalized innovative program designs that create an economy of scale. RENs should be and will be an important EE delivery vehicle for years to come.

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

No, RENs have played and can continue to play a critical role in California's efficiency market by providing services where (1) utilities cannot or do not intend to undertake efficiency programs, (2) where utilities will not seek innovation as the perceived risk of delivering non-cost-effective outcomes outweighs the benefit of exploring new program design, and (3) where utility-funded programs simply will not serve hard-to-reach communities, regardless of programmatic overlap, due to cost-effectiveness constraints. Examples include but are not limited to: Local Government Partnerships, residential services and direct install services to those in geographic, disadvantaged, low-income and hard-to-reach communities.

While some efforts have been made by IOUs to reach rural and geographically underserved populations, continued pressure on IOUs to improve cost-effectiveness have meant more emphasis on targeted markets that have abundant and scalable savings potential and less emphasis on rural and hard-to-reach markets. Additional cost-effectiveness pressures are expected in 2020 and beyond for example, DEER load shapes and diminishing returns on LED lighting measures.

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?**

RENs should be expanded through a pragmatic approach. Clarification on how RENs engage and bridge to IOU and CCA PA programs should be provided. In addition, an iterative and pragmatic approach to REN policy should be taken that balances the need to fill short-term programmatic gaps with the need to support and advance medium- to long-term energy efficiency strategy goals.

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?**

The existing thresholds for review are still appropriate. We recommend that the Commission add a fourth threshold test that acknowledges the fact that CCAs and IOUs are held to different standards than RENs as relating to cost-effectiveness. Recommended language could include:

i. Activities that IOU/CCA program administrators 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 IOU/CCA program administrators cannot, it should be considered.

ii. Pilot activities where there is no current IOU/CCA PA 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 traditional administrators in the future.

iii. Pilot activities in hard-to-reach and/or underserved markets, whether or not there is a current IOU/CCA/REN program 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) 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 for a wider delivery by RENs and/or traditional administrators elsewhere.

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?

Just one. Requiring RENs to meet all three hard-to-reach criteria is contrary to the Policy Manual, which only requires RENs to meet a single criterion, and would limit RENs' abilities to fill the gaps left by IOUs. There is no reasonable justification for revising this portion of the Policy Manual nor limiting the RENs from filling gaps where services are not being adequately provided.

The intention of these criteria were to prevent duplication of services. With the addition of a JCM, PAs are already working together to ensure program overlap is addressed and services are delivered by the entity best suited for the participant. RENs are a key part of that coordination and add value and choice in service delivery. The issue has already been addressed and the current requirement of just one criterion along with the JCM adequately raises awareness of, establishes precedent for, and prevents duplication.

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

Yes. As outlined in our response to question 4 above, an additional threshold test acknowledging that CCAs and IOUs are held to different cost-effectiveness standards than RENs, would help to address this question. Regardless of the recommended threshold addition, localized innovation that prioritizes long-term alignment with state goals should not be limited. RENs will have different areas of expertise and interest, and that innovative thinking should be incubated. JCMs can be introduced, where appropriate, to minimize impacts while encouraging close collaboration. Overlapping RENs can leverage and build upon existing statewide models currently embraced by the IOUs.

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?**

At any point—however, REN launch must be done in coordination with existing budgeting and stakeholder engagement schedules. We recommend that the Commission consider the following draft schedule, where years in parentheses provide an example:

- Calendar Year XXXX (2019) Q2 = REN applications accepted
- Calendar year XXXX (2019) End of Q4 = Approved/Rejected by CPUC; draft business plans submitted to CAEECC members
- Calendar year XXXX (2020) Q1 CAEECC meeting = REN presents and seeks business plan feedback from CAEECC
- Calendar year XXXX (2020) Q3 ABAL filings for subsequent funding year are submitted and internalizes CAEECC feedback where applicable
- Calendar year XXXX (2021) Q1 = RENs launch.

RHTR encourages the Commission to closely evaluate whether or not LGP bridge funding is needed in 2020. Note that there is an increasing chance that the investments made in local government, realized as capacity to act, will be lost if there is no plan for how to support existing programs while these ongoing issues are more fully addressed.

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 so long as the thresholds for review are met. REN programs should demonstrate that they fill a gap and help the state achieve its energy-related policy goals, particularly those hindered by the various constraints on IOU program design. Because these gaps may change over time, it is premature to determine specific sector limits for the RENs.

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

No, the RENs should not be limited to offering a certain type of program or within a specific sector. RENs should be allowed to offer and implement a variety of programs, resource and non-resource across all sectors, assuming they meet one of the threshold criteria in D.12-11-015. The communities they serve need access to services across all program and sector types, just like in other parts of the existing IOU territories.

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?

We believe RENs should be held accountable for running programs effectively. However, they should be evaluated using metrics that weigh their success per public goods charge resource spent meeting state and local policy goals that the IOUs cannot meet alone. The evaluation of resource effectiveness should include a metric that is specific to those policy goals. The TRC is not the appropriate metric and is the reason why some policy goals are unattainable by the IOUs. Note this same logic will hold true to CCA PAs and is why RENs are needed to fill gaps.

Applying a TRC requirement would undermine the purpose of the RENs.

There are a number of mechanisms that may be viable treatments to (a) secure the long-term ability for RENs to innovate while delivering services that by default fill gaps and (b) to do it in a way that benefits the localized or regional ratepayer. However, the Societal Cost Test (SCT) most closely aligns with the priorities of RHTR. The SCT, as proposed may be a powerful tool to further demonstrate value while unlocking potential funding from varying agencies, which would, in turn, further amplify the impact of the CPUC ratepayer dollar. RHTR believes it is necessary to wait for the SCT to be available for use within the energy efficiency portfolio before considering any cost-effectiveness threshold for the RENs.

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

We urge the CPUC to consider studies and other efforts that would better inform the collective understanding of the value of the RENs. These efforts should focus not on the REN programs themselves, but rather on what policies and associated customer segments the PAs collectively are or are not serving. A "Policy and Program Alignment Assessment" for example could focus on questions such as:

- What programs are disappearing as the LGPs are defunded?
- What customer segments are not being served by 3rd party programs?
- What strategic high-value state policy goals (for example, deep retrofits of existing residential buildings) are not being met by PAs?

This type of assessment could provide valuable information not only for the evaluation of REN programs (i.e., what gaps are they successfully filling) but also for the development of new programs that would cleanly fit within the approved REN criteria.

IV. Conclusion

RHTR looks forward to working with the Commission to explore this timely and important subject. In addition, RHTR requests that the Commission rapidly address the continued and likely defunding of existing LGPs. Defunding will result in a loss of capacity to serve that took many years to build and will take many years to rebuild.

The RHTR thanks the Assigned Commissioner and the ALJ for the opportunity to submit these comments on the future of Regional Energy Networks.

Dated: April 16, 2019

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