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REPLY COMMENTS OF THE UTILITY REFORM NETWORK RESPONDING TO THE ADMINISTRATIVE LAW JUDGE'S RULING INVITING COMMENTS ON DRAFT 2019 POTENTIAL AND GOALS STUDY

[PHASE III]

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I. INTRODUCTION

On May 1, 2019, the Commission issued *Administrative Law Judge's Ruling Inviting Comments on Draft Potential and Goals Study* (P&G Ruling), which may be used by the Commission to consider and adopt an appropriate set of post-2019 energy efficiency (EE) goals.[1] The P&G Ruling invites parties to respond to specific questions related to the draft 2019 Potential and Goals (P&G) Study, attached to the ruling and prepared by Navigant Consulting on behalf of the Commission, by May 21, 2019, with reply comments due May 31, 2019.[2] Accordingly, The Utility Reform Network (TURN) respectfully submits these reply comments.

II. REPLY COMMENTS

A. Question 1: Which scenario – either in the navigant study or an alternative recommendation – is most appropriate to inform 2020 – 2030 goals?

The draft P&G Study presents five scenarios for EE market potential, referred to as Reference, Alternative 1, Alternative 2, Alternative 3, and Alternative 4.[3] Most parties addressing this question recommend one of the first three scenarios, which differ only in the Total Resource Cost (TRC) test cost-effectiveness screening threshold applied to measures. The Reference scenario uses a 1.0 threshold for all measures, Alternative 1

[1] P&G Ruling, p. 3.

[2] P&G Ruling, p. 1.

[3] P&G Study, Table ES-1, p. 3.

uses a 0.85 threshold, and Alternative 2 uses a 1.25 threshold.[4]

Southern California Edison Company (SCE) and the Public Advocates Office recommend Alternative 2 because of the 1.25 threshold.[5] Pacific Gas and Electric Company (PG&E) and San Diego Gas & Electric Company (SDG&E) recommend the Reference scenario, with a 1.0 threshold, although PG&E is also supportive of Alternative 2.[6] Southern California Gas Company (SoCalGas) and the Natural Resources Defense Council (NRDC) recommend Alternative 1, with a 0.85 threshold.[7] The Bay Area Regional Energy Network (BayREN) advocates for Alternative 3 or 4, which have the largest potential because of more aggressive assumptions regarding marketing and Behavior, Retrocommissioning, and Operational (BRO) programs.[8] And the California Efficiency + Demand Management Council (The Council) opposes all of the scenarios because they rely solely on a TRC cost-effectiveness screen, rather than also weighing results from the Program Administrator Cost (PAC) test.[9]

TURN agrees with SCE and the Public Advocates Office that Alternative 2 is the most reasonable among the scenarios, as explained below. TURN also responds to the Council's objections to applying a screen based solely on the TRC.

[4] P&G Study, Table ES-1, p. 3.

[5] SCE, p. 2; Public Advocates Office, pp. 11, 16-17.

[6] PG&E, pp. 4-5; SDG&E, p. 2.

[7] SoCalGas, p. 2; NRDC, pp. 7-8.

[8] BayREN, p. 4.

[9] The Council, pp. 2-4.

1. The Commission Should Adopt Goals Based on Alternative 2 to Ensure that the Program Administrators Can Implement Cost-Effective Portfolios with Resource and Non-Resource Programs and Meet the Goals.

TURN recommends Alternative 2 for two reasons. First, because the 1.25 screen is significantly higher than the overall portfolio ex post cost-effectiveness requirement of 1.0, it creates "breathing room" around the goals, and thus in the portfolios, for non-resource programs, the costs of which are not accounted for by Navigant in the P&G process.[10] Non-resource programs put downward pressure on portfolio cost-effectiveness because they have costs but do not contribute to the energy savings goals (at least not directly). However, as SoCalGas notes, "[M]any of these programs support short and long-term program savings strategies that facilitate a customer's implementation of EE projects."[11] A lower cost-effectiveness screen, as used in the Reference and Alternative 1 scenarios, would not afford the Program Administrators the same opportunity to fund non-resource programs, or low TRC programs that may be meritorious because of equity, and still achieve total portfolio cost-effectiveness.[12]

While SoCalGas supports Alternative 1, which uses a 0.85 TRC screen, SoCalGas also recognizes that Navigant's estimates of portfolio cost-effectiveness are inaccurate because the costs related to non-resource programs are excluded.[13] SoCalGas proposes to

[10] *See* SCE, p. 3; Public Advocates Office, p. 10.

[11] SoCalGas, p. 4.

[12] *See* Small Business Utility Advocates (SBUA), p. 3 (suggesting that reduced energy savings goals could "provide flexibility to target hard-to-reach customers in EE programs," who are "more costly" to serve).

[13] SoCalGas, pp. 3-4.

remedy this problem by modifying Navigant's cost assumptions to include these costs, rather than using a higher TRC screen.[14] Although SoCalGas's approach has intuitive appeal, it was previously rejected by the Commission in D.17-09-025 as beyond the scope of the P&G study.[15] Building in a buffer for real portfolio costs that are excluded from the study by using a higher TRC measure screen is a reasonable alternative towards the same end.

Second, a 1.25 cost-effectiveness screen provides a built-in hedge against the risk that portfolios will be less cost-effective on an ex post basis than forecast. This hedge is reasonable to account for the unknowns surrounding the portfolio transition to much greater third party design and implementation, as noted by SCE, and the common "slippage" in cost-effectiveness from forecast values to evaluated results, explained by the Public Advocates Office.[16] These are the same reasons underlying the Commission's general policy of requiring the EE portfolios to meet a 1.25 TRC on a forecast basis, and more recently, requirements for a heightened showing of confidence for forecasts between 1.0 and 1.25, so that they will be cost-effective as implemented.[17]

TURN acknowledges that previous P&G Studies set the measure cost-effectiveness screen at 0.85, much lower than the 1.25 screen in Alternative 2. But that threshold "overestimated the savings potential that investor-owned utilities (IOUs) could

[14] SoCalGas, p. 4.

[15] D.17-09-025, p. 35 ("SoCalGas suggests the usefulness of estimating the full portfolio spending, i.e., inclusive of non-resource costs, in the study's budget projections. However, the Potential Study does not model non-resource interventions, so this change is not within scope of the study.").

[16] SCE, pp. 2-3; Public Advocates Office, pp. 7-8.

[17] D.18-05-041, pp. 69-72, 129.

realistically claim," according to PG&E.[18] That overestimation was acceptable, PG&E suggests, "in part because of the existence of highly cost-effective measures, such as lighting, that counterbalanced the impact of lower Total Resource Cost (TRC) measures."[19] Things are different today. As PG&E instructs,

> With recent changes to lighting standard practice baselines and upcoming Title 20 code changes to residential general service lamps, these high-TRC measures are now limited or have transitioned entirely to Codes & Standards. Therefore, transitioning to a C-E measure screening threshold of *at least 1.0* would more accurately reflect the ability of the IOUs to achieve portfolios with TRCs greater than 1.0 to (1) meet policy mandates and (2) ensure that the Navigant Study informs goals that will drive cost-effective energy efficiency that will be beneficial to ratepayers.[20]

PG&E prefers the Reference scenario's 1.0 screen because it provides a "more gradual transition" to the higher 1.25 screen in the future.[21] But a 1.0 screen introduces more risk that the resulting goals will not be achievable through cost-effective portfolios.

SDG&E, the other advocate for the Reference scenario, worries that the "increase in TRC to 1.25 may increase value to ratepayers but constrains the amount of overall energy savings and GHG reductions possible" and "restricts what program administrators can offer."[22] TURN is perplexed by SDG&E's comments. The Commission's EE goals are not intended to function as a ceiling on the extent of cost-effective EE that can be captured by the portfolios; the goals are a floor.[23] Moreover, the Commission has never

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[18] PG&E, p. 4.

[19] PG&E, p. 4.

[20] PG&E, p. 4 (emphasis added).

[21] PG&E, p. 5.

[22] SDG&E, p. 2.

[23] *See* D.17-09-025, pp. 23-24 ("We also emphasize here that the goals adopted in this decision are a floor; if the IOUs and other program administrators can develop strategies for deeper energy

required the Program Administrators to go after the aggregate EE potential underlying the goals by pursuing the exact same measures, in the exact same quantities, through the exact same strategies, assumed by Navigant in its bottom-up approach to building the estimate of potential.[24] If SDG&E can administer a cost-effective portfolio that exceeds the goals adopted by the Commission for 2020 and beyond and satisfies the other policy requirements for the portfolios, SDG&E should by all means do so. The fact that the Commission might have used a 1.25 cost-effectiveness measure screen to develop reasonably achievable goals should not reduce the opportunities actually available to SDG&E in the field.

For all of these reasons, TURN recommends that the Commission use Alternative 2 to develop the EE goals (with all reasonable adjustments proposed by TURN and other parties to the measures and assumptions included in the model).

2. The Goals Should Be Derived from an Estimate of EE Potential that Is Based on the Same Cost-Effectiveness Test as Applied by the Commission in Evaluating the EE Portfolios.

The Council argues that using only the TRC, which includes a "penalty for private investment," ignores research that customers invest in EE projects to "achieve a host of non-energy benefits" that are not reflected in the TRC.[25] The Council recommends adding the PAC to the screen to preserve more potential, thus increasing the goals in support of the "doubling goal" for EE set forth in Senate Bill 350.[26]

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savings, we expect to count those towards the doubling goal.").

[24] *See* D.15-10-028, p. 38.

[25] The Council, p. 4.

[26] The Council, p. 3.

TURN agrees with the Council that the TRC includes some extent of participant costs that should be removed from the TRC because they are associated with non-energy benefits. This is an EE cost-effectiveness methodological issue that TURN and other parties have raised for several years.[27] However, TURN disagrees with the Council's proposal to screen for cost-effectiveness in the P&G Study using a weighted mix of the TRC and PAC tests. Using this approach would result in a "mismatch" between the goals and the portfolio cost-effectiveness requirements, an outcome rejected by the Commission in D.17-09-025.[28]

In D.19-05-019, the Commission determined that the TRC will be the primary cost-effectiveness test used in all distributed energy resources proceedings, including EE, as of July 1, 2019 (except those where the Legislature or Commission has required a different test).[29] The Commission also required consideration of the PAC and Ratepayer Impact (RIM) tests, but only as providing supplemental information.[30] In reaching this conclusion, the Commission rejected the same argument that the Council offers here, namely that the TRC discourages the use of private capacity to invest in distributed energy resources by including all participant costs but excluding many non-energy benefits that motivate participants to incur some of those costs.[31]

As long as the TRC remains the primary cost-effectiveness test applied by the Commission in evaluating and approving EE portfolios, the TRC should likewise be the

[27] *See, e.g.,* D.14-10-046, pp. 98-100.

[28] D.17-09-025, pp. 17, 21.

[29] D.19-05-019, p. 24.

[30] D.19-05-019, p. 24.

[31] D.19-05-019, pp. 23-24.

cost-effectiveness screen applied in the P&G Study. Otherwise, the Program Administrators may not be able to achieve the goals with portfolios that satisfy the Commission's cost-effectiveness requirements.[32]

B. Question 5: What are the impacts of reduced energy savings goals, if adopted by the commission?

SCE explains that there "is not a direct linear relationship between reductions in the goal and corresponding changes in the portfolio budget."[33] One reason cited by SCE is the presence of non-resource programs that do not contribute to the goals but are funded through the portfolio budget.[34] SCE suggests, "Support of these non-resource programs from a different budget (such as income qualified programs) could increase the responsiveness of the EE budget to reductions in the EE goals."[35]

TURN appreciates SCE's implicit point: that the Commission might conclude that some programs currently funded through the rolling portfolios could be funded instead through income qualified programs. Such a change would relieve some of the pressures faced by Program Administrators to achieve the rolling portfolio cost-effectiveness requirements. At the same time, it could enable more focused attention on the low-income customer equity purposes of programs that currently face constraints in the rolling portfolios because of low cost-effectiveness.

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[32] In D.17-09-025, the Commission rejected the PAC as a screen for cost-effectiveness for additional reasons, including the fact that the P&G Study at issue there showed "diminishing returns for the PAC and large increases in projected expenditures" through 2030. D.17-09-025, p. 22.

[33] SCE, p. 12.

[34] SCE, p. 12.

[35] SCE, p. 13.

TURN recommends that the Commission explicitly explore this issue at some point in the near future. For example, the Commission could invite the Program Administrators to identify specific programs or activities within their portfolios that could be good candidates for funding through income qualified programs and discuss why any proposed alternative funding source(s) would be appropriate for consideration. The Commission could invite this showing in a compliance filing or the 2020 ABAL submissions. Alternatively, the Commission could instruct the California Energy Efficiency Coordinating Committee (CAEECC) to convene a working group to prepare a report for the Commission's consideration. Careful coordination with existing low income program stakeholders would be important, as well.

III. CONCLUSION

For the foregoing reasons, TURN recommends that the Commission use Alternative 2 to inform the EE goals. The Commission should also explore whether any activities currently funded through the rolling portfolios could instead be funded through income qualified programs.

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