PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

December 20, 2019

Clay Faber, Director
California and Federal Regulatory
San Diego Gas & Electric
8330 Century Park Court
San Diego, CA 92123

Dear Mr. Faber:

Energy Division approves San Diego Gas & Electric's (SDG&E) 2019 Annual Budget Advice Letter (3429-E-A/2797-G-A), with a budget spending request of $81,485,692, effective January 1, 2020, pursuant to the Annual Budget Advice Letter (ABAL) review criteria laid out in Decision (D.) 18-05-041, which addressed the energy efficiency (EE) business plans.[1] This approval is contingent on SDG&E refiling its California Energy Data and Reporting System (CEDARs) data to re-classify programs as "non-resource" within 60 days of the issuance of this disposition, per the discussion below in Section 2.3 Reduced Budget for Low Total Resource Cost (TRC) Programs.

## 1. Background

On September 3, 2019, SDG&E filed its ABAL 3429-E/2797-G. On September 23, 2019, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) filed its protest of SDG&E's ABAL 3429-E/2797-G. On September 30, 2019, SDG&E filed its reply to Cal Advocates' protest of ABAL 3429-E/2797-G. On November 15, 2019, SDG&E filed its supplemental 3429-E-A/2797-G-A which replaced SDG&E's ABAL 3429-E/2797-G in its entirety.

SDG&E's supplemental ABAL addresses a number of issues raised by Energy Division staff as well as in Cal Advocates' protest. In particular, SDG&E corrected its forecast of peak demand savings from the Home Energy Reports program, and adjusted rebate amounts to keep them within the bounds of measure costs. SDG&E also corrected remaining useful life and savings forecasts for certain accelerated replacement measures.

## 2. Cal Advocates Protest and SDG&E Reply Comments

Cal Advocates' protest included 16 "*recommendations*" for the California Public Utilities Commission (CPUC) regarding program administrators' (PAs) 2020 ABALs, with an overarching theme that the entire statewide energy efficiency portfolio, including the portfolio of Regional Energy Networks (RENs), to be cost-effective. Of these 16 recommendations, the 8recommendations relevant to SDG&E are addressed below in 5 sections.

### 2.1. Issues Regarding Cost Effectiveness

[1] SDG&E's budget spending request of $81,485,692, is approved, as is SDG&E's budget recovery request of $60,485,692.

This section addresses the following recommendations from Cal Advocates:

- *The Commission must ensure that the statewide EE portfolio is cost-effective*
- *The Commission cannot approve the PAs' proposed budgets because they will not produce a statewide portfolio that is cost-effective*
- *The Commission must adopt remedies to improve the cost-effectiveness of all PAs' EE portfolios*
- *The Commission should require each PA to improve the net benefits of its portfolio*

In its protest filed September 23, 2019, Cal Advocates argues that Public Utilities (PU) Code Section 381 (b)(1) "directs the Commission to allocate public purpose funds to cost-effective energy efficiency and conservation activities."[2] Cal Advocates also argues that prior CPUC Decisions, including D. 09-09-047[3], D. 12-11-015[4], and D. 14-10-046[5], state that:

- the CPUC may only allocate funds to activities that are cost-effective;
- EE portfolios must be cost-effective on both a forecast and evaluated basis;
- the CPUC may only approve an EE portfolio, including both utility and REN proposals, that is cost-effective overall.[6]

Cal Advocates concludes by stating that, in light of the PU Code as well as prior CPUC decisions, the CPUC may not in this instance approve any of the 2020 ABALs, as doing so would produce a statewide portfolio that is not cost-effective.[7] Instead, Cal Advocates recommends that the CPUC should require all PAs to collectively submit revised supplemental 2020 ABALs that "constitute a cost-effective statewide portfolio."[8]

In its reply, SDG&E does not specifically address the full breadth of Cal Advocates' argument that the entire energy efficiency portfolio should be cost-effective and PAs should file supplemental 2020 ABALs that constitute a cost-effective statewide portfolio.[9] However, SDG&E does assert it has provided "...well-reasoned and factual positions to meet or exceed the Commission's targets for cost effectiveness, savings and budget."[10]

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[2] See *The Public Advocates Office Protest of Energy Efficiency Annual Budget Advice Letters for Program year 2020 (September 3, 2019)*, p. 3. (hereafter referred to as "Cal Advocates Protest").

[3] D. 09-09-047 approved 2010 to 2012 Energy Efficiency Portfolios and Budgets.

[4] D. 12-11-015 approved 2013-2014 Energy Efficiency Programs and Budgets.

[5] D. 14-10-046 Established EE Savings Goals and Approved 2015 EE Programs and Budgets.

[6] See Cal Advocates Protest, p. 4.

[7] The 2020 portfolio, including budgets and savings from the IOUs, RENs, and Marin Clean Energy (MCE), but excluding budgets and savings from ESA programs and Codes and Standards, has a TRC of 0.89. Portfolio cost-effectiveness information available at https://cedars.sound-data.com/filings/list/ .

[8] See Cal Advocates Protest, p. 46.

[9] The following sections of this non-standard disposition address issues raised by Cal Advocates' protest of SDG&E's 2020 ABAL to which SDG&E replied.

[10] Reply to Protest of Advice Letter 3429-E/2797-G - Implementation of SDG&E's 2020 Annual Energy Efficiency Program and Portfolio Budget Request, September 30, 2019, p.2.

## Discussion

The CPUC is approving SDG&E's 2020 ABAL on the grounds that it meets the ABAL review criteria laid out in D. 18-05-041, which addressed energy efficiency business plans. Specifically, D. 18-05-041 states that a PA's ABAL must meet energy savings goals, be cost-effective with a TRC equal to or greater than 1.0 and propose a budget that is less than or equal to the previously authorized amount for the program year.

SDG&E's 2020 ABAL, as filed in the November 15, 2019, supplemental, meets all three of the approval criteria. Specifically, it forecasts a benefit/cost ratio TRC of 1.26 (excluding codes and standards[11]), sets savings targets that are above goals, and proposes a spending budget of $81.5 million, an amount well below the authorized value.[12]

In citing D. 12-11-015, which states that "the Commission may only approve an EE portfolio, including both utility and REN proposals, that is cost-effective overall," Cal Advocates relies on general CPUC guidance provided prior to the onset of the Rolling Portfolio, the advent of expanded third-party administration designed to produce higher savings at lower cost, and lower energy efficiency goals reflecting reduced potential. Regardless, D. 18-05-041, which is the more recent decision than the 2012 decision cited by Cal Advocates, provided very clear and limited criteria under which Energy Division staff should review a PA's ABAL. Those limited ABAL review criteria do not include policy considerations from D. 12-11-015, as cited by Cal Advocates.

Furthermore, Cal Advocates' claim that a PA's ABAL could only be approved if the proposals from all PAs, together, demonstrate cost-effectiveness overall, is out of scope of Energy Division's ABAL review process. Energy Division staff's review process was conceived as ministerial, in which CPUC staff would narrowly address whether an ABAL meets the review criteria laid out in D. 18-05-041, rather than broader policy questions more suited for consideration in a proceeding.[13]

Additionally, while D. 12-11-015 stated the CPUC's general intent for portfolio approval *at that time* when energy efficiency was defined by limited-term, multi-year program cycle applications, D. 18-05-041 provided specific guidance for portfolio approval as it exists under the new Rolling Portfolio framework and the ABAL review process. Specifically, in D. 18-05-041, the CPUC acknowledged its concern regarding the cost-effectiveness of the PAs' respective portfolios in 2018, noting the "non-trivial amount of uncertainty regarding third-party programs and, relatedly, the IOUs reorienting their focus toward prudent portfolio management." Therefore, the CPUC opted to treat program years 2018-2022 as "ramp years," an *interim time* during which individual PA ABALs would be evaluated on their respective abilities to meet energy savings goals, be cost-effective, and stay within an authorized budget cap.[14]

Lastly, Energy Division agrees that additional CPUC guidance is needed regarding whether and how all eight PAs would work together to create a single-statewide portfolio that is cost-effective. Commission staff will review PA ABALs according to the criteria established in D. 18-05-041,

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11 At this time CPUC policy requires portfolio cost-effectiveness to be measured in the absence of savings from Codes and Standards programs, regardless of their magnitude as a percentage of total portfolio savings.
12 See SDG&E 2019 Annual Budget Advice Letter 3267-E/2700-G: Table 7: 2019-2025 Budget True-Up. Available here: http://regarchive.sdge.com/tm2/pdf/3267-E.pdf.
13 See D. 15-10-028, p. 62: "'The question for Commission Staff in reviewing a budget advice letter should be "does this conform to the approved business plan?"'
14 See. D. 18-05-041, p. 71.

which include meeting individual energy savings goals, individual portfolio cost-effectiveness, and staying within the individual authorized budget cap(s). Larger questions related to collective portfolio cost-effectiveness among portfolios administered separately by different administrators, as cited by Cal Advocates in its protest, will be taken up in the rulemaking as the CPUC examines overall cost-effectiveness policy topics.[15]

The CPUC has acknowledged diminished portfolio cost-effectiveness of PA portfolios as well as the need to achieve savings goals. For example, recent CPUC actions set in place the support needed to improve PA portfolio cost-effectiveness, including:

- adopting updated energy efficiency savings goals that reflect changes to measures' cost effectiveness;
- allowing the IOU PAs to pursue greater third-party program administration with the intent to achieve higher savings at lower cost; and,
- opening a discussion on issues related to additional RENs.

The CPUC supports these actions to ensure that at the conclusion of the ramp years, IOU portfolios are cost-effective.

In summary, Energy Division approves SDG&E's annual budget advice letter pursuant to the ABAL review criteria identified in D. 18-05-041 which provided a limited scope under which Energy Division staff was to review the ABALs.

## 2.2. Substantiation of Forecast Values

This section addresses the following recommendation from Cal Advocates:

- *The Commission should require SDG&E, SoCalGas, and MCE to submit supplemental advice letters that substantiate their forecasts.*

Cal Advocates asserts in its protest that SDG&E (along with SoCalGas and MCE) have submitted implausible and unsubstantiated forecasts. Cal Advocates also states these PAs fail to provide a reasonable, credible explanation as to how these forecasts can be achieved. With respect to SDG&E, Cal Advocates notes that SDG&E's ABAL forecast assumes high cost-effectiveness from several measures without offering enough explanation.

In its reply, SDG&E notes that for 2020, SDG&E is leveraging statewide workpapers that have been recently approved by the CPUC. These measures provide new opportunities not previously offered in SDG&E's territory as well as measures that are more cost effective for SDG&E due to variable characteristics, including proposed rebates, delivery type, utility overhead, and targeted customer sectors.

Additionally, SDG&E's reply includes Attachments[16] that detail the characteristics of its 2020 ABAL cost-effective measures with TRCs greater than 2.0. The Attachments present data to demonstrate

[15] See D. 19-12-021, p. 40 ("Decision Regarding Frameworks for Energy Efficiency Regional Energy Networks and Market Transformation," approved by the CPUC on December 5, 2019).
[16] SDG&E Reply to Cal Advocates 2020 ABAL Protest, Attachment A and Attachment B.

that the aggregate forecast savings from these high-TRC measures are compatible with the 2019 EE Potential and Goals Study.

### Discussion

SDG&E's 2020 ABAL references measure-level assumptions that comply with current CPUC-approved workpapers and provides aggregate forecast values of installations and savings that comport with the recent Potential and Goals Study at an end-use level. Energy Division staff cannot disallow PAs from utilizing approved measures with high TRC, provided the assumed measure attributes comply with workpapers and comport with service territory characteristics and potential. Consider Decision 18-05-041, which states:

> Verification of a PAs ability to meet their TRC or saving shall include review of actual evaluated TRC for two previous years and analysis of provided program/ portfolio information so an energy efficiency expert would reasonably conclude the forecast will be achieved.[17]

A review of SDG&E forecasts, claims and evaluated results for the two previous years support a reasonable expectation that SDG&E will meet goals and achieve a TRC of 1.0. In both 2017 and 2018, SDG&E's claimed (reported) TRC exceeded its forecast TRC.[18] Although the evaluated TRC in 2017 fell slightly below 1.0, at TRC of 0.97. Evaluated performance was 84 percent of the forecast TRC of 1.16. It is reasonable to expect the 2020 portfolio will be cost effective on an evaluated basis since applying the 0.84 adjustment factor to the 2017 forecast TRC (1.26 without codes and standards) yields a an expected evaluated TRC of 1.05. Thus, past performance indicates it is reasonable to conclude that SDG&E's 2020 portfolio will meet goals and be cost-effective. Energy Division finds the explanation and rationale provided by SDG&E regarding high-TRC measures to meet the requirements of the ABAL, and for these reasons declines to adopt Cal Advocates' recommendation to require additional substantiation of SDG&E's 2020 portfolio forecast.

## 2.3. Reduced Budget for Low TRC Programs

This section addresses the following recommendations from Cal Advocates:

- *The Commission should require SoCalGas and SDG&E to reduce spending on programs with low cost-effectiveness.*

In its protest, Cal Advocates argues it is necessary to improve the net benefits of Southern California Gas's (SoCalGas) and SDG&E's portfolios to balance out the other PAs' performance. Cal Advocates' protest goes on to state that SDG&E could reduce its spending by $15.4 million and improve its forecasted portfolio net benefits by $11.3 million. Cal Advocates notes these reductions would have minimal impact on SDG&E's forecast savings, and adds that the CPUC should direct SDG&E to explain, in a supplemental ABAL, why there are resource programs in its proposed portfolio that do not forecast energy savings.

[17] D. 18-05-041, p. 133.

[18] Budget Filing Detail Report accessed from CEDARS on November 30, 2019, https://cedars.sound-data.com/filings/download-bfdr.

In its reply, SDG&E notes that it is not a valid or an appropriate solution to ask PAs who are already meeting the stated goals set by the CPUC for Annual Budget Advice Letter approval, to reassess or otherwise modify their respective portfolio(s) to compensate for the filings of other PAs. Moreover, there is no existing requirement to do so.

In response to Cal Advocates' claims that SDG&E has programs within its portfolio that appear to be "resource" programs but have no forecast energy savings, SDG&E notes that the programs in question procure savings for other existing programs already in place within the portfolio. SDG&E goes on to note that it has made several program changes in order to improve portfolio cost effectiveness.

## Discussion

As program administrator, SDG&E is responsible for building a portfolio of programs to meet portfolio cost-effectiveness threshold and savings goals. SDG&E's forecast portfolio reflects adjustments to the measure and program offerings needed to meet the cost-effectiveness threshold requirements set by the CPUC. Directing specific adjustments to compliant measures and programs goes beyond the scope of the ABAL review process, as outlined in D.15-10-028 and D.18-05-041. Specifically, according to D.18-05-041 the "standard of review for staff disposition of the ABALs does not include review of PAs' decisions on reducing, cancelling, expanding or adding individual programs or program areas."

Cal Advocates also points out that SDG&E has programs within its portfolio that are categorized as resource programs but have no energy savings forecast for program year 2020. Energy Division reviewed and confirms this to be the case for 13 Local Government Partnerships and Institutional Partnerships, as well as the Plug Load and Appliance Program (SDGE3203) and Energy Upgrade California (SDGE3209). With regard to its local and institutional partnerships, SDG&E clarifies that these programs are tasked with procuring savings for the portfolio, but the claims are routed through other existing non-residential resource programs.[19]

Energy Division agrees with Cal Advocates that SDG&E's choice to categorize government and institutional partnerships that do not claim savings as 'resource' programs is questionable and should be corrected. Additionally, this explanation does not apply to the two residential sector programs (Plug Load and Appliance, and Energy Upgrade California) since SDG&E would not be expected to utilize non-residential resource programs as a vehicle for savings claims.

However, it is not without precedent that some programs within a PA's portfolio will not claim savings directly but are valuable to the portfolio due to their role in providing support and services to drive higher levels of participation and savings for resource programs. It is within the purview of the PA to fund 'non-resource' programs. In approving non-resource programs historically, the CPUC recognizes the value of programs that provide general support to overall portfolio performance.

For the reasons discussed above, Energy Division:

[19] Reply to Protest of Advice Letter 3429-E/2797-G - Implementation of SDG&E's 2020 Annual Energy Efficiency Program and Portfolio Budget Request, September 30, 2019, p. 4.

- will not direct SDG&E to adjust its measure offerings to improve forecast TRC or cut programs.
- will direct SDG&E to refile program data on CEDARS [20] to reclassify their local government partnerships, institutional partnerships, as well as the Plug Load and Appliance Program and the Energy Upgrade Program as "non-resource" programs. In particular, the following programs shall be reclassified as "non-resource" programs within 60 days of the issuance of this disposition:
  - SDGE3203 SW-CALS-Plug Load and Appliances-HEER
  - SDGE3209 SW-CALS-EUC WHRP - Advanced
  - SDGE3266 LInstP-CA Department of Corrections Partnership
  - SDGE3267 LInstP-California Community College Partnership
  - SDGE3268 LInstP-UC/CSU/IOU Partnership
  - SDGE3269 LInstP-State of California /IOU
  - SDGE3270 LInstP-University of San Diego Partnership
  - SDGE3271 LInstP-San Diego County Water Authority Partnership
  - SDGE3272 LGP- City of Chula Vista Partnership
  - SDGE3273 LGP- City of San Diego Partnership
  - SDGE3274 LGP- County of San Diego Partnership
  - SDGE3275 LGP- Port of San Diego Partnership
  - SDGE3276 LGP- SANDAG Partnership
  - SDGE3277 LGP- SEEC Partnership
  - SDGE3278 LGP- Emerging Cities Partnership

## 2.4. Require Higher Cost-Effectiveness for Procurement of Third-Party Programs

This section addresses the following recommendations from Cal Advocates:

- *The Commission should prohibit SDG&E from procuring third-party programs that fall short of the net benefits that SDG&E assumes.*

Cal Advocates states that SDG&E's forecasts for the commercial and residential sectors assume that current third-party solicitations will produce highly cost-effective programs, and that this approach to forecasting depends on the outcome of third-party solicitations. Cal Advocates concludes that it is therefore critical that SDG&E only sign contracts for cost-effective third-party programs and recommends the CPUC direct SDG&E to only sign contracts for third-party programs that meet or exceed the net benefits that SDG&E forecasts.

In its reply, SDG&E states that its plan is to select only those proposed programs which will achieve savings and net benefit targets, with a level of cost-effectiveness that aligns with the CPUC's goals. SDG&E also affirms its intent to adhere to comprehensive evaluation criterion as agreed upon and approved by the Procurement Review Group and Independent Evaluators during the EE Solicitation Process, a process intended to validate the outlook and cost-effectiveness of the selected programs.

SDG&E agrees with Cal Advocates that achieving its portfolio forecasts depends on the outcome of current solicitations, including SDG&E's decisions regarding bidder selection and contracting.

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[20] California Energy Data and Reporting System. https://cedars.sound-data.com/.

SDG&E also agrees with Cal Advocates that it is critical to only sign contracts for cost-effective third-party programs.

SDG&E explains that its approach to third party forecasting was to determine a minimum level of net benefits for the third-party programs, and then construct a portfolio of measures consistent with those net benefits. SDG&E also adds that its intention is not to bias the third parties toward bids using these measure mixes. SDG&E argues the inherent uncertainty of using this approach is consistent with CPUC guidance. SDG&E cites excerpts from D. 19-08-034[21] where the CPUC directs the PAs to use methodology similar to what is applied to custom programs[22], and where the CPUC acknowledges the inherent uncertainty in forecasting savings for not-yet-procured third party programs by stating, "While it is yet to be seen whether new implementers or new programs will generate evaluated savings results that are comparable to their corresponding forecasts, we are more inclined at this time to assume that they will than that they will not."[23]

## Discussion

Cal Advocates and SDG&E agree that the feasibility of SDG&E's 2020 forecast hinges on the outcome of the solicitation process and the ability to procure cost-effective third-party programs. However, while Cal Advocates suggests that the CPUC add requirements to the third-party procurement process, SDG&E simply confirms its intention to procure cost-effective third-party programs and to adhere to the CPUC's directives and processes for solicitations. Furthermore, exacting a change to the procurement process that would apply to only one IOU PA could disrupt bids that are in-process, and would likely create perceptions of regulatory-based market uncertainty. The third-party procurement guidelines have been developed over multiple CPUC decisions,[24] and through the work of many stakeholders and stakeholder groups, including the EE Procurement Review Groups. Changes to the developed procurement guidelines and processes go well beyond the scope of this ABAL disposition and beyond the role of Energy Division staff with respect to the directives of the energy efficiency proceeding.

Energy Division finds the discussion within D.19-08-032 to demonstrate that while the CPUC is aware of the inherent uncertainty in forecasting future third party programs that are not yet procured, for the time being the CPUC is generally willing to accept those forecasts:

> ...as noted in D.18-05-041, the IOUs are in a state of transitioning an increasing proportion of programs to third-party implementers, among other changes to their portfolios. While it is yet to be seen whether new implementers or new programs will generate evaluated savings results that are comparable to their corresponding forecasts, we are more inclined at this time to assume that they will than that they will not.[25]

Thus, Energy Division will not amend the third-party procurement guidelines based on SDG&E's third-party program performance forecasts. However, staff will continue to monitor the procurement processes and SDG&E's commitment to procure cost-effective third-party programs and to adhere to the CPUC's directives regarding third-party program solicitations.

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21 D.19-08-034 - Decision Adopting Energy Efficiency Goals For 2020-2030.
22 D.19-08-034, p. 30.
23 D.19-08-034, p. 14.
24 D.16-08-019, D.18-01-004, D.18-05-041, D.18-10-008.
25 D.19-08-034, p. 14.

## 2.5. Suspend Energy Savings Performance Incentive (ESPI) Payments

This section addresses the following recommendations from Cal Advocates:

- *The Commission should suspend Energy Savings Performance Incentive (ESPI) payments*

Cal Advocates argues that anticipated ESPI payments of approximately $25.9 million within the larger 2020 IOU ABAL forecasts are an unreasonable burden on ratepayers that also diminish portfolio cost-effectiveness.[26] Cal Advocates subsequently asks that the CPUC either suspend payments until the statewide EE portfolio is cost-effective or that the IOUs voluntarily forgo ESPI payments as one way to improve the overall cost-effectiveness of their portfolios.[27]

### Discussion

Cal Advocates' request for either the CPUC to suspend ESPI payments or have the IOUs voluntarily forgo ESPI payments in order to improve portfolio cost-effectiveness is a policy question that is outside of the scope of the specific ABAL review process. In D. 13-09-023, which adopted the ESPI mechanism, the CPUC did not require an overall portfolio cost-effectiveness as a condition of ESPI payments. Consequently, Energy Division rejects Cal Advocates' protest request that the CPUC suspend ESPI payments at this time.

Please direct any questions regarding Energy Division's findings in this non-standard disposition to Christina Torok (christina.torok@cpuc.ca.gov).

Sincerely,

(for)

Edward Randolph
Deputy Executive Director for Energy and Climate Policy/
Director, Energy Division

Cc: Service Lists R. 13-11-005 and A.17-01-013
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[26] See Cal Advocates Protest, p. 52.
[27] Ibid.