PUBLIC UTILITIES COMMISSION
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SAN FRANCISCO, CA 94102-3298

December 18, 2020

Clay Faber
Director, Regulatory Affairs
c/o Gregory Anderson
San Diego Gas and Electric Company
8330 Century Park Court, CP31D
San Diego, CA 92123

Dear Mr. Faber:

Energy Division approves San Diego Gas and Electric's (SDG&E) Annual Budget Advice Letter (ABAL) 3599-E-A/2897-G-A, pursuant to the ABAL review criteria laid out in Decision (D.) 18-05-041, which addressed the energy efficiency business plans. SDG&E's ABAL meets cost-effectiveness, budget and savings forecast requirements. Energy Division approves SDG&E's spending budget request of $82,000,240 for 2021 to administer energy efficiency programs, effective January 1, 2021.[1]

Note, on September 30, 2020, the Governor signed AB 841, authorizing energy efficiency portfolio funding for the Schools Energy Efficiency Stimulus Program (SEESP) beginning in year 2021. Subsequently, on October 7, 2020, the California Public Utilities Commission (CPUC) issued a ruling in Rulemaking 13-11-005 seeking comments on the budget for the SEESP, indicating that the CPUC will decide through the formal proceeding AB 841 related budget issues. Given this, Energy Division will not delay authorization of the 2021 ABALs while the CPUC determines additional guidance on the SEESP budget pursuant to AB 841.

SDG&E's supplemental filing received on December 8, 2020 reflects it is reserving the unspent and uncommitted budget from PY2020 for the SEESP program until the CPUC provides additional guidance pursuant to the October 7, 2020 ruling.

1. Background

On September 1, 2020, SDG&E filed its Annual Budget Advice Letter 3599-E/2897-G. On October 1, 2020, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) and the Small Business Utility Advocates (SBUA) each filed their respective protests of SDG&E's ABAL 3599-E/2897-G, while the California Efficiency and Demand Management Council (Council) filed its response. On October 8, 2020, SDG&E filed its response to the Council's

[1] SDG&E's total proposed spending budget for 2021 is $82,000,240 less unspent and uncommitted funds from 2019 and prior years of $14,875,751, resulting in a total budget recovery request of $67,124,489. Additionally, SDG&E's supplemental advice letter reflects SDG&E's decision to reserve PY2020 unspent uncommitted funds for AB841 programmatic activity. Consequently, SDG&E's budget recovery request is not reduced by the carryover of those funds, as was done in prior program years via the ABAL process.

response to, and Cal Advocates, and SBUA protests of, ABAL 3599-E/2897-G. On December 8, 2020, SDG&E filed supplemental 3599-E-A/2897-G-A replacing 3599-E/2897-G in its entirety.[2]

2. Cal Advocates Protest and SDG&E Reply Comments

Cal Advocates' protest included three items directed at SDG&E's 2021 ABAL that ask the CPUC to:[3]

- Require SDG&E to file a supplemental ABAL substantiating their cost-effectiveness forecasts in light of persistent underperformance, to ensure the portfolio will be cost-effective on an evaluated basis, pursuant to D.18-05-041.[4]
- Mandate that all PAs improve cost-effectiveness and reduce risk in their portfolios to respond to COVID-19-related uncertainties, including:
    - Requiring Program Administrators (PAs) to reduce spending on sectors with low cost-effectiveness; and
    - Requiring PAs to reallocate this spending to the residential sector.
- Require PAs to standardize their accounting and reporting practices for unspent, uncommitted funds.

2.1. Substantiate Forecast due to Persistent Underperformance

Cal Advocates argues the likelihood of SDG&E's portfolios performing cost-effectively is undermined by the overly optimistic picture presented in its forecast. Cal Advocates presents comparisons of 2017, 2018, and 2019 forecast TRC versus claimed TRC, and present a year-to-date comparison of forecast versus claimed TRC for 2020. Cal Advocates argues that, "Repeatedly and most recently in their latest ABALs, SDG&E's…portfolios are significantly less cost-effective on a claimed basis than what they had forecast." Cal Advocates points out that a forecast TRC ratio of nearly 1.5 would be required to buffer against similar decreases going forward.

In response, SDG&E argues that review and verification of ABAL filings should not be focused solely on the quantitative historical TRC information but should also consider the changes SDG&E has made to its 2021 portfolio. SDG&E cites the discussion of changes to its portfolio in the "Portfolio Planning Process" section of the ABAL which addresses onboarding of new third party programs, ramp-down non-cost effective programs, reduction in non-cost effective measures, and other program changes. SDG&E also states that it would be inappropriate for the CPUC to require a TRC forecast of 1.5 as this would represent a policy change and therefore should be proposed and discussed in the EE Rulemaking (R.13-11-005).

<u>Discussion</u>

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[2] SDG&E filed supplemental 3599-E-A/2897-G-A. on December 8, 2020, in which it: updated Statewide (SW) forecasts for certain programs based on lead IOUs' supplemental 2021 ABAL; revised 2021 ESPI award to "0" in accordance with D. 20-11-013; and excluded PY 2020 unspent/uncommitted funds from carryover funds. The supplemental advice letter was filed without a protest period, per Energy Division guidance.

[3] See *The Public Advocates Office's Protest of Energy Efficiency Annual Budget Advice Letters for Program Year 2021* (Cal Advocates Protest), September 1, 2020, p. 2.

[4] D.18-05-041, Ordering Paragraph 13.

The ABAL review criteria laid out in D. 18-05-041 requires a PA ABAL to meet energy savings goals, be cost-effective and propose a budget that is at or under the authorized budget cap for the program year. D.18-05-041 states that staff verification of ABAL forecast TRC shall consider 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.[5]

Looking back on the past two full years of SDG&E's forecast and claimed TRC, staff finds the differences to be equivocal. SDG&E outperformed its forecast in 2018 by the same amount that it underperformed it's forecast in 2019. Although 2020 year-to-date performance is not strong, mid-year performance statistics are only indicative of results but not conclusive. Moreover, it is reasonable to expect there to be some setbacks in portfolio performance due to COVID-19 and the shelter-in-place order that took effect in March 2020. Overall staff finds insufficient foundation to require SDG&E to file a supplemental substantiating its 2021 forecast TRC.

2.2. COVID-19 Impacts

In its protest, Cal Advocates argues that the COVID-19 pandemic requires:

- robust portfolios with minimal risks, and
- the CPUC to have all PAs modify their respective portfolios to improve cost-effectiveness by reducing spending on sectors with low cost-effectiveness and allocating more resources to the residential sector.[6]

Cal Advocates' protest argued that the economic hardship created by COVID-19 for California ratepayers has led to a significant increase in residential energy consumption and that the PAs and CPUC should ensure portfolio cost-effectiveness and maximize benefits for every dollar spent to ensure more customers realize energy savings and lower bills. Cal Advocates' protest also stated that the July Ruling "should not be interpreted as an invitation for leniency in meeting cost-effectiveness requirements."[7] Lastly, the protest stated that the CPUC should protect ratepayers by requiring modifications to create more robust energy efficiency portfolios and minimize the risk of underperformance during uncertain times and ratepayer funds being wasted on programs that deliver few benefits[8].

To that end, Cal Advocates' protest highlighted SDG&E's sector-level budgets[9] for 2021, noting that approximately $22.7 million (out of a total $78.3 million) is allocated to non-cost-effective programs (TRC < 1.0). Cal Advocates also emphasized the need to reduce the substantial risk of portfolio underperformance and protect ratepayer funds and asked the CPUC to require SDG&E (and all PAs) to reduce spending on non-cost-effective sectors and programs.[10] In order to achieve those ends, Cal Advocates recommended that SDG&E reduce Agriculture, Industrial and

[5] D.18-05-041 at 133.
[6] See Cal Advocates Protest, p. 6-7.
[7] Ibid.
[8] Ibid.
[9] See Cal Advocates Protest, Table 5, p. 9. (Sectors include Agriculture, Industrial, Commercial, Cross-cutting, Residential, and Public.)
[10] See Cal Advocates Protest, p. 9.

Commercial sector budgets by 87 percent, 3 percent, and 9 percent, respectively, and reallocate those funds (approximately $2.5 million) to the Residential sector.[11]

In its reply, SDG&E stated that it has been working to address program concerns as well as market participants and customers' concerns since the beginning of COVID-19; and that its plans to address COVID-19 are presented in the ABAL and were discussed with stakeholders in the CAEECC[12] meeting of August 6, 2020. SDG&E also stated that it is open to consideration of Cal Advocates' recommendations vis a vis COVID-19, but that those should not impact the ABAL.

In response to Cal Advocates' recommendation to increase spending on cost-effective programs in the residential sector, SDG&E pointed out that the forecast TRC for the residential sector is 1.10. SDG&E goes on to provide details on the cost-effectiveness of its residential programs and justification of the decision to retain certain non-cost-effective residential programs.[13] Lastly, SDG&E highlighted that the budget allocation to the residential sector has increased from nine percent in 2019, to 19 percent in 2020, to 20 percent in 2021, and that SDG&E believes the 2021 residential budget is adequate.

Discussion

In its July Ruling, the CPUC acknowledged that PAs face a significantly changed landscape due to COVID-19 and asked PAs to include "accurate and good faith estimates of energy efficiency costs and benefits, as well as budgets, that are necessary to address the current goals and strategies" in their respective program year 2021 ABALs. As is apparent in SDG&E's reply to the Cal Advocates protest, there are many changes taking place in the residential portfolio designed to improve cost-effectiveness. Changes include adding new third-party program, adding new statewide programs, and making program design and process changes to existing programs. Note that the TRC forecasts for the residential sector were less than 1.0 in both 2019 and 2020, while the forecast for 2021 is 1.10. Energy Division finds it would be imprudent to direct SDG&E to allocate additional funding to its 2021 residential portfolio, given the inherent uncertainty and challenge of managing extensive portfolio changes.

Moreover, the CPUC recognizes SDG&E as the entity best suited to develop a "good faith" 2021 portfolio forecast that addresses competing needs of cost effectiveness requirement and customers and sectors as they are affected by the ongoing challenges of COVID-19. Consequently, SDG&E is not required to file a supplemental ABAL that reallocates budgets from non-residential sectors to the residential sector, and SDG&E's 2021 ABAL is approved as filed.

2.3. Standardized Accounting for Unspent and Uncommitted Funds

In its protest, Cal Advocates argued that the CPUC should require SDG&E to file a supplemental ABAL to standardize accounting and reporting of unspent and uncommitted funds and use of ABAL templates. Cal Advocates points out that the Budget Filing Appendix Table 3a contains a line for unspent/uncommitted program carryover funds from 2020, and that some PAs have altered this

[11] See Table 9, Cal Advocates Protest, p. 11.
[12] California Energy Efficiency Coordinating Committee
[13] See SDG&E Reply to Protest, p 4

line in their 2021 filings. Cal Advocates points out that SDG&E uses this line item to account for carryover funds from "Pre-2021".

In its reply SDG&E agrees there should be continuing discussions to standardize the accounting and reporting of all EE financials, including unspent and uncommitted funds. However, SDG&E asserts this should not impact the approval of SDG&E's ABAL, and that these issues are in scope of Phase III of R.13-11-005[14] and there are discussions in the CAEECC proposal for the new application process to address improving EE financial accounting and reporting.

Discussion

In a review by Energy Division staff, the Appendix that accompanies SDG&E's PY 2021 ABAL[15] reports all requested funding source elements of the PY 2021 appropriately and in a manner conforming to the template. The format of Table 3a indicates that line 8 should be the difference between line 6 (2021 spending budget) and line 7 (available carryover funds). SDG&E's adjustment to the line 7 label was an appropriate clarification reducing any potential ambiguity.

Consequently, Energy Division finds that SDG&E adhered to current accounting and reporting practices and CPUC-issued templates as they relate to unspent and uncommitted funds, and SDG&E is not required to file a supplemental ABAL.

3. The Council's Response and SDG&E Reply Comments

The Council filed its response to SDG&E ABAL 3599-E/2897-G on October 1, 2020. In its response, the Council highlighted its concerns regarding decreased energy efficiency portfolio budgets since 2017, noting a 36 percent decline from 2017 to 2021 forecasts, which it finds troublesome in light of the COVID-19 impacts on California ratepayers. The Council's overarching comments recommend that the CPUC adhere to its interpretation of the July Ruling to enable the "broadest possible deployment of EE during this incredibly difficult time", and reform cost-effectiveness, in part, in order to do so.[16]

Additionally, the Council expressed concerns about the unclear nature of the IOU process for determining the forecasted cost-effectiveness (TRC) of third-party programs, claiming that it understands "that certain implementers have submitted forecasted project and measure mixes for their programs with program level TRCs above 1.0, but for which the IOUs are forecasting TRCs below 1.0." The Council also claims that "the IOUs are not even providing the TRC forecast for programs they are terminating or making changes to," though this is a specific reference to Southern California Edison (SCE). The Council asserted that if an implementer forecast is cost-effective, project applications should be allowed to continue, arguing that the process is non-transparent and

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[14] R.13-11-005, Assigned Commissioner and Administrative Law Judge's Ruling and Amended Scoping Memorandum (Regarding Remainder of Phase III, April 26, 2018, at 10.

[15] SDG&E filed supplemental 3599-E-A/2897-G-A. ABAL 4303-G-A/5936-E-A on December 8, 2020, in which it: updated Statewide (SW) forecasts for certain programs based on lead IOUs' supplemental 2021 ABAL; revised 2021 ESPI award to "0" in accordance with D. 20-11-013; and excluded PY 2020 unspent/uncommitted funds from carryover funds. The supplemental advice letter was filed without a protest period, per Energy Division guidance.

[16] See Response of California Efficiency + Demand Management Council (Council Response), October 1, 2020, p. 2.

prevents an accurate cost-effectiveness evaluation of current programs and the rationale behind proposed program closures.[17]

The Council's response also cited its concerns regarding proposed program closures that are based on prior program performance, highlighting policy and process changes that affect project-level cost-effectiveness, including reduced Effective Useful Life (EUL) parameters. The Council argued that while in certain instances, these changes can be overcome, they often occur in the middle of an existing contract and reduce the cost-effectiveness of projects that have already incurred significant investments on the part of implementers and/or customers.

Lastly, the Council expresses concerns over what it perceives as program gaps as the IOUs ramp down existing programs to make room for new programs developed via the ongoing third-party solicitation process. The Council believes this issue is compounded by COVID-19's effects on the portfolio at large, and asked the CPUC to:

- immediately allow existing programs to submit new cost-effective project applications, and
- allow all projects with forecasted PACs above 1.0 to be submitted by third-party implementers of any program set to shut down or ramp down since 2018.

The Council recommends that the IOU 2021 ABALs be "modified" to incorporate the Council's proposed changes.

In response, SDG&E points out that none of the Council's concerns are expressly directed at SDG&E's 2021 ABAL. Therefore SDG&E asserts that it cannot provide a specific response. SDG&E further asserts that it has provided all the required information regarding its portfolio cost effectiveness assumptions with supporting details available on CEDARS. SDG&E states that its 2021 ABAL explains how it is incorporating its new third party programs and ramping down SDG&E overlapping programs, and how it is addressing COVID-19.

Discussion

The Council's response is similar to concerns it expressed to the CPUC in a letter dated December 30, 2019. Specifically, that letter described the Council's concerns regarding program closures, the larger third-party solicitation process, and decreased portfolio budgets as reflected in the IOUs 2020 ABALs. On February 4, 2020, Commissioner Lianne Randolph responded to the Council's letter noting that declining budgets do not indicate less ongoing investments in energy efficiency but, rather, "signal the success of prior energy efficiency investments that have led to increasing amounts of energy efficiency that will be achieved through the Codes and Standards established by the California Energy Commission."[18]

Commissioner Randolph reminded the Council that the most recent Potential and Goals Study, published in August 2019, reflected a one-third decrease in energy efficiency potential as compared to the 2017 study and that, although goals are lower, IOU program savings in combination with Codes and Standards savings are still supportive of the state energy and climate goals.

[17] See Council Response, p. 3.
[18] See CPUC Letter to California Efficiency + Demand Management Council, February 4, 2020, pp. 1-2.

Further, the Commissioner's letter also highlighted the IOUs' responsibility to consider portfolio design trade-offs in order to meet cost-effectiveness requirements, including the ability to close certain programs as warranted, and described CPUC-IOU-stakeholder interactions to occur in 2020 regarding the ongoing third-party solicitation process, including actions specific to PG&E and SCE portfolio management, as well as custom projects review.

Additionally, SDG&E's proposed program closures for 2021 appear to be reasonable. In a supplemental spreadsheet submitted as Attachment C to SDG&E's 2021 ABAL, SDG&E lists programs to be closed as of December 31, 2020. SDG&E lists ten programs to be closed as of December 2020. Seven of the 10 programs will be replaced by new third party or statewide programs, and the remaining three are closing because the contracts are expiring. These programs have a combined 2020 budget of approximately $12 million and 2020 claimed TRC values that range from 0.00 to 0.23. SDG&E is also phasing out seven local government partnerships, which will be replaced through SDG&E's public sector solicitation scheduled for 2021. These programs will remain open to serve current commitments.

Lastly, all CPUC efficiency savings parameter updates go through the Database for Energy Efficient Resources (DEER) update process, in which stakeholders have the opportunity to review and comment on the proposed parameters updates, and the final updates are adopted via CPUC resolution. The DEER parameters updates do not go into effect immediately, but are instead applied to programmatic activity two years after they are approved by the CPUC. For example, the parameter updates approved by the CPUC in the August 2020 DEER resolution do not go into effect until program year 2022.

Consequently, SDG&E is not required to modify its 2021 ABAL to reflect changes requested by the Council.

4. SBUA Protest and SDG&E Reply Comments

SBUA's protest raises no issues specific to SDG&E's 2021 ABAL, and one general issue pertaining to all PAs:

- PAs should breakdown data by customer subclasses

4.1. Customer Sub-class Data

PAs currently report on funding requests, savings, etc., by general customer class (residential, commercial, industrial, and agricultural). In its protest, SBUA requests that PAs be required to break out data for residential and commercial customers into subgroups:

- res-single-family
- res-multi-family
- small commercial
- medium, and
- large commercial.

In addition, SBUA recommended that PAs be required to adopt SDG&E's approach of presenting information on rate impacts for each customer sub-class, which SBUA argued would improve stakeholder and Energy Division staff understanding of whether and how PA program activities are targeting customer classes that face significant participation barriers.[19]

Discussion

The ABAL process is explicitly envisioned as a "ministerial,"[20] exercise tied to review criteria laid out in D. 18-05-041. As such, it is not the proper forum for issues such as data collection and reporting requirements, which should be litigated within the energy efficiency proceeding.
Moreover, SBUA finds SDG&E's approach to sector level reporting to be a "model" for what SBUA envisions. Therefore, Energy Division finds no rationale within SBUA's protest to reject SDG&E's 2021 ABAL on the basis of SDG&E's sector level reporting approach.

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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Greg Wikler, California Efficiency + Demand Management Council

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19 See SBUA Protest, pp. 7-8.
20 See D. 15-10-028, p. 60