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January 5, 2020

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Southern California Gas Company
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Mr. Van der Leeden,

Energy Division approves Southern California Gas's (SCG) Annual Budget Advice Letter 5684-A, pursuant to the Annual Budget Advice Letter (ABAL) review criteria laid out in Decision (D.) 18-05-041, which addressed the energy efficiency business plans. Specifically, SCG's ABAL meets cost-effectiveness, budget and savings forecast requirements. Energy Division approves SCG's spending budget request of $106,195,000 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

SCG's supplemental filing received on November 24, 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, SCG filed its Annual Budget Advice Letter (ABAL) 5684. 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 SCG's ABAL 5684, while the California Efficiency and Demand Management Council (Council) filed its response. On October 8, 2020, SCG filed its response to the Council's response to, and Cal

[1] SCG's total proposed spending budget for 2021 is $106,195,000. The authorized total program administrator budget recovery request [SCG + Regional Energy Network (RENs)] is $104,432,000. Additionally, SCG's supplemental Advice Letter 5684-A reflects SCG's decision to reserve PY2020 unspent uncommitted funds for AB841 programmatic activity. Consequently, SCG's budget recovery request is not reduced by the carryover of those funds, as was done in prior program years via the ABAL process.

Advocates, and SBUA protests of, ABAL 5684. On November 24, 2020, SCG filed its supplemental, 5684-A, replacing 5684 in its entirety.[2]

2. Cal Advocates Protest and SCG Reply Comments

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

- Require SCG 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.
- Mandate that all program administrators (PAs) improve cost-effectiveness and reduce risk in their portfolios to respond to COVID-19-related uncertainties, including:
    - Requiring 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

In its protest filed October 1, 2020, Cal Advocates argued that SDG&E, SCG, and MCE have persistently underperformed relative to their forecasts and the likelihood of SDG&E's, SCG's and MCE's 2021 portfolios performing cost-effectively is undermined by the overly optimistic picture presented in their forecasts. According to Cal Advocates, PA forecasts and reported cost-effectiveness results are usually higher than the evaluated/claimed results, as shown in Table 1 of their protest below.

[2] SCG filed supplemental ABAL 5684-A on November 24, 2020, in which it: updated Statewide (SW) forecasts for certain programs based on lead IOUs' supplemental 2021 ABAL; updated local program forecasts based on SW adjustments; updated savings for water heater measures based on DEER updates; revised 2021 ESPI award to "0" in accordance with D. 20-11-013, and made minor budget adjustments based on SW program changes; SCG is still forecasting a portfolio TRC of 1.09 despite these changes. 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.

	Table 1 **Comparison of Reported and Evaluated TRC Ratios of Energy Efficiency Portfolios**					
	Change in Portfolio TRC Ratios (excluding Codes & Standards)					
PA	**2013-2015** Claimed to Evaluated	**2017** Forecast to Claimed	**2017** Claimed to Evaluated	**2018** Forecast to Claimed	**2019** Forecast to Claimed	**2020 (H1)** Forecast to Claimed
SDG&E	**-0.16**	+ 0.30	**-0.48**	+ 0.31	**-0.31**	**-1.07**
SoCalGas	**-0.17**	**-0.40**	**-0.14**	**-0.31**	**-0.49**	**-0.55**
MCE	+ 0.01	**-0.27**	NA	**-0.28**	**-0.77**	**-0.89**

In its reply, SCG stated that its ABAL contains the necessary and required information to justify its forecasted TRC. SCG believes the TRC values and savings projections presented in their filing are achievable and based on realistic assumptions.

To the point about historical underperformance, SCG stated that legacy statistics, and data points matter less when considering that SCG is shifting to a portfolio of new third-party programs. SCG further stated that its submittal is based on the best available information at the time it was submitted and the forecasting certainty that Cal Advocates seeks is just not feasible. Furthermore, SCG claimed that it has consistently been able to serve its customers' needs; when looking at the forecasts and actuals through a customer reach and therms saved lens, SCG claimed that it consistently outperforms.

Discussion

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. SCG's 2021 ABAL, as filed, is cost-effective on a benefit/cost ratio as measured by the TRC. Specifically, SCG's 2021 ABAL has a TRC of 1.09 (excluding savings from Codes and Standards programs)[4] which is above the 1.0 TRC threshold set by D. 18-05-041.

Staff finds SCG's TRC estimate to be questionable based on its historical confirmed TRC results as noted in CEDARs (see Table A below); While the confirmed TRC results, including codes and standards (C&S), over the last three years are in line with what SCG forecasts for 2021, staff notes that SCG's confirmed TRC rates for 2019 without C&S falls significantly below the required 1.00 threshold. Additionally, SCG's TRC ratio of .70 for the first half of 2020 leads to questions about whether SCG will be able to meet its TRC goal for 2020 as well. While it is possible for SCG to

[4] 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.

improve its TRC score by .30 for the remainder of the year, we note that uncertainties related to COVID-19 adds a significant degree of uncertainty.

Table A

SCG - TRC	2018*	2019*	2020**	2021***	2021****
TRC w/ C&S	1.78	1.62	1.61	1.60	1.60
TRC w/o C&S	1.07	0.69	0.70	1.13	1.09

*From CEDARs Quarterly Filings - Confirmed Claim Summary
**Represents the first 6 months of 2020
***SCG 2021 Forecast - AL 5684
****SCG 2021 Forecast - AL 5684-A

In light of the uncertainty described above, we draw from the CPUC's July Ruling which provided guidance for CPUC staff review of PAs' 2021 ABALs. The guidance allows budget recovery requests to be approved "whether or not they meet all of the criteria originally laid out in D. 18-05-041."[5] The CPUC also recognized the challenges that affect and diminish portfolio cost-effectiveness, which were initially acknowledged in D. 18-05-041, as well as the uncertainty attendant to the third-party transition process, all of which are affected by the economic challenges caused by the COVID-19 pandemic. Consequently, in the interest of sustaining energy efficiency program funding and continue program operations through 2022, as noted in the July Ruling, SCG's spending budget request for program year 2021 is approved.

2.2. COVID-19 Impacts

In its protest, Cal Advocates argued 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

[5] See Ruling, p. 9.
[6] See Cal Advocates Protest, pp. 6-7.
[7] Ibid.

deliver few benefits[8]. The table below, from Cal Advocates protest shows $48.3 million dollars SCG allocated to programs that are not cost-effective, representing 46% of SCG overall portfolio budget.

Table 4 **SoCalGas** **2021 EE Portfolio Budget by Sector**			
Sector	**Total Budget ($mm)**	**Budget for Programs with TRC less than 1.0**	
		$mm	**%**
Agricultural	$5.1	$0.06	**1%**
Commercial	$25.1	$4.1	**16%**
Cross-Cutting	$0.0	$0.0	**N/A**
Industrial	$12.5	$0.3	**2%**
Public	$9.2	$4.4	**48%**
Residential	$40.5	$27.7	**68%**
Portfolio Total	$104.0	$48.3	**46%**

Cal Advocates also emphasized the need to reduce the substantial risk of portfolio underperformance and protect ratepayer funds and asked the CPUC to require SCG (and all PAs) to reduce spending on non-cost-effective sectors and programs.[9] In order to achieve those ends, Cal Advocates recommended that SCG reduce its Commercial sector budgets by 13 percent and reallocate those funds (approximately $3.3 million) to the Residential sector.[10]

In its reply, SCG stated that, while it recognizes the impact that COVID-19 has had on its customers, SCG is doing all it can to help ensure its customers are not left in the cold because of the pandemic. SCG noted its customers are not just in the Residential sector and it has an obligation to serve all its customers that pay into the Public Purpose Program Surcharge; SCG claimed its portfolio is not merely for residential service and equal access to energy efficiency is important. SCG also stated it is not appropriate to shift money from one set of SCG's customers to another on the theory that the pandemic has disproportionately impacted one sector more than others. According to SCG, there are many opportunities in the non-residential sectors that exist because of unparalleled access during the change in building occupancies.

Discussion

In its July Ruling, the CPUC acknowledged that PAs face a significantly changed landscape due to COVID-19 and asked them 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. The CPUC also recognized the challenges that affect

[8] Ibid.
[9] See Cal Advocates Protest, p. 9.
[10] See Table 8, Cal Advocates Protest, p. 10.

and diminish portfolio cost-effectiveness including "how to define cost-effectiveness requirements, and how they should be applied in the setting of potential and goals and budget approval," as well as the uncertainty related to the third-party transition process, all of which are affected by the economic challenges caused by the COVID-19 pandemic. Furthermore, the Energy Division recognizes that, in its role as a PA and manager of its respective portfolio, SCG's 2021 Residential sector budget of approximately $40.9 million is suitable and designed to address the needs of customers at this time. SCG's 2021 Residential sector budget is 41 percent of SCG's total 2021 portfolio budget (excluding Codes and Standards). In looking at historical budgets and expenditures, staff notes that SCG already allocates the largest percentage of its budget to its residential sector.

SCG Historical Budget Allocations by Sector								
	2018		2019		2020***		2021	
Market Sector	Revised Operating Budget*	% of Total Budget	Revised Operating Budget*	% of Total Budget	Revised Operating Budget*	% of Total Budget	Proposed Budget**	% of Total Budget
Agriculture	$ 2,163,506.00	2%	$ 1,547,054.00	2%	$ 2,474,945.00	2%	$ 5,180,000.00	5%
Commercial	$ 18,367,875.00	19%	$ 25,811,456.00	25%	$ 24,290,969.00	23%	$ 25,399,000.00	25%
Cross-Cutting	$ 12,926,915.00	13%	$ 11,666,618.00	11%	$ 13,202,052.00	13%	$ 6,187,000.00	6%
Industrial	$ 7,754,344.00	8%	$ 4,405,840.00	4%	$ 14,764,428.00	14%	$ 12,609,000.00	13%
Public	$ 4,745,026.00	5%	$ 6,668,391.00	7%	$ 9,806,329.00	9%	$ 9,269,000.00	9%
Residential	$ 52,818,905.00	53%	$ 51,861,642.00	51%	$ 39,525,278.00	38%	$ 40,990,000.00	41%
	$ 98,776,571.00	100%	$ 101,961,001.00	100%	$ 104,064,001.00	100%	$ 99,634,000.00	100%
	*Data obtained from SCG Monthly Report Summaries on CEDARs for each sector and year							
	**SCG Draft ABAL Submitted to CAEEC							
	***Based on first 6 months of CEDARs reporting for 2020							

Additionally, in response to Cal Advocates claim that SCG should file a supplemental advice letter to further substantiate its forecasted TRC, as shown in Attachment E of SCG's filing, of the seventeen programs SCG has identified to close in December of 2020, thirteen had a claimed TRC of less than .50 in Q1 of 2020. This demonstrates that SCG is adjusting its portfolio accordingly to maintain an appropriate TRC based on the currently available data. As such, SCG is not required to file another supplemental advice letter for this purpose.

Consequently, SCG is not required to file a supplemental ABAL that reallocates budgets from non-residential sectors to the residential sector and SCG's 2021 ABAL 5684-A as filed and supplemented on November 24th is approved.

2.3. Standardized Accounting for Unspent and Uncommitted Funds

In its protest, Cal Advocates argued that the CPUC should require SCG to file a supplemental ABAL to standardize accounting and reporting of unspent and uncommitted funds and use of ABAL templates. Specifically, Cal Advocates pointed to SCG's inclusion of $5,000 of carryover funds from 2020 in Table 7 of its filing that failed to indicate that this figure is represented in the thousands.

In its reply, SCG stated Cal Advocates was incorrect in its read of the table and the PAs should not be punished for it. Per SCG AL 5684, Table 1 on page 3 of its filing clearly states that numbers are provided in thousands. SCG acknowledged that Table 3a in Attachment A of AL 5684 should have noted the numbers were presented in thousands. SCG also stated in its reply that it does not believe any change is necessary to correct Cal Advocates' misinterpretation of Table 3a but that it was amenable to submitting a substitute sheet for this appendix in Attachment A of its AL making this clarification. This substitution sheet was filed on October 15, 2020.

Discussion

In a review by CPUC staff, the substitution filing by SCG as noted above, and later supplemental advice letter 5684-A filed on November 24th, SCG does provide clarification that the $5,000 figure noted in Table 7 of its filing is in the thousands. Consequently, SCG adhered to current accounting and reporting requirements related to unspent and uncommitted fund and is not required to file an additional supplemental ABAL.

3. The Council's Response and SCG Reply Comments

The Council filed its response to the PA advice letters, including SCG's ABAL 5684 on October 1, 2020. In its response, the Council highlighted its concerns regarding decreased energy efficiency portfolio budgets since 2017 noting a general 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[11] to enable the "broadest possible deployment of EE during this incredibly difficult time" and reform cost-effectiveness, in part, in order to do so.[12]

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 claimed 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 not transparent and prevents an accurate cost-effectiveness evaluation of current programs and the rationale behind proposed program closures.[13]

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 expressed its 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

[11] R.13-11-005, "Assigned Commissioner and Administrative Law Judges' Amended Scoping Ruling Addressing Impacts of COVID-19", p. 10.
[12] See Response of California Efficiency + Demand Management Council (Council Response), October 1, 2020, p. 2.
[13] See Council Response, p. 3.

solicitation process. The Council believes this issue is compounded by COVID-19's effects on the portfolio at large and asks 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 3rd party implementers of any program set to shut down or ramp down since 2018.

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

SCG's reply to The Council's comments indicated that it agrees with The Council and has requested the maximum budget in its Annual Budget Advice Letter (ABAL), so its budget is not in decline. Regardless, SCG agreed and supports the idea that more funding should be allocated to EE. Additionally, SCG believes more EE penetration into the market is a key component of California's climate change mitigation and energy usage reduction strategies and making more EE available now to customers would provide an immediate benefit to those hit hardest by the global COVID-19 crisis.

Discussion

The Council's protests are similar to concerns they 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."[13]

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.

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 SCE and PG&E portfolio management, as well as custom projects review.

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.

Additionally, SCG's proposed program closures for 2021 appear to be reasonable. In a spreadsheet submitted as Attachment E to SCG's 2021 ABAL, SCG lists seventeen programs to be closed as of December 31, 2020. In place of these seventeen programs will be 20 new third party or statewide programs. These closed programs have a combined 2020 budget of approximately $15.4 million. Thirteen of the seventeen programs to close have claimed TRC values of less than .50 as of Q1 in 2020. The three programs that have greater than a 1.0 TRC will continue in 2021 as a new Statewide or Local 3P program.

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

4. SBUA Protest and SCG Reply Comments

SBUA's protest raised two issues that are related to SCG's 2021 ABAL:

- Investor-owned utilities must collaborate with RENs to ensure the needs of small business customers are being met, and
- PAs should breakdown data by customer subclasses

4.1. IOU/REN Collaboration to Meet the Needs of Small-Business Customers

In its protest, SBUA argued that meeting the needs of Hard-to-Reach (HTR) customers is not the sole responsibility of the Regional Energy Networks (REN). SBUA highlights D. 18-05-041 to support its assertion that the IOUs and RENs may "propose programs to serve HTR customers even if these programs overlap."[14] SBUA stated that commercial HTR customers have historically low program participation rates and, as a critical customer class, should be targeted like residential customers. In order to achieve these ends, SBUA asked that Energy Division to require the IOUs and RENs to comply with D. 18-05-041 and refile their respective ABAL "with an analysis and plans that demonstrate coordination and effective plans to serve commercial HTR customers"[15]

In its reply to SBUA's comments SCG stated that the ABAL is not the appropriate document to discuss REN collaboration; the purpose of the ABAL is to seek approval of a budget. Cooperation between IOUs and RENs is documented by way of the joint cooperation memos (JCMs) that are submitted as advice letters to the CPUC each year as required by D.18-05-041.

<u>Discussion</u>

SCG is correct when it describes the annual JCM as the primary source for information that SBUA asks for in its protest. These memos are filed annually by each PA that has RENs and/or CCAs in its territories and describes how each entity will cooperate and coordinate in the coming year to ensure that ratepayer funds are providing the best service possible to the ratepayers in their respective overlapping territories. Consequently, SCG is not required to file a supplemental ABAL

[14] See "Protest of Small Business Utility Advocates to the Energy Efficiency Annual Budget Advice Letters for Program Year 2021", October 1, 2020, p. 3.
[15] Ibid

that describes cooperation between it and the appropriate RENs, as this would be duplicative of the JCM process.

4.2. 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 requested 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 CPUC staff understanding of whether and how PA program activities are targeting customer classes that face significant participation barriers.[16]

In its reply, SCG stated that the ABAL is not the appropriate venue to raise policy issues and Energy Division should not give any weight to SBUA's comments which attempt to raise policy issues through the ABAL process. Requiring new showings is a policy issue that should be addressed in the proceeding itself. Furthermore, SCG already provided a breakdown of bill payer impacts by subclass. This information is included in Table 2b of Attachment A in AL 5684-A.

Discussion

Energy Division agrees with SCG that the ABAL process, which is explicitly envisioned as a "ministerial"[17] sector-level budget recovery request exercise tied to review criteria laid out in D. 18-05-041 is not the proper forum for issues better suited to PA data collection and reporting. Consequently, Energy Division did not ask SCG to break down customer data by sub-class as part of the ABAL review. Instead, Energy Division will work with the IOU PAs to determine the most feasible manner for which this revised data reporting provision may be achieved.

Please direct any questions regarding Energy Division's findings in this non-standard disposition to Lisa Paulo (lisa.paulo@cpuc.ca.gov).

[16] See SBUA Protest, pp. 7-8.
[17] See D. 15-10-028, p. 60

Sincerely,

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