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)

SAN DIEGO GAS & ELECTRIC COMPANY'S (U 902 E) COMMENTS ON MARKET TRANSFORMATION STAFF PROPOSAL

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Pursuant to the *Administrative Law Judge's Ruling Seeking Comment on Market Transformation Staff Proposal*, dated August 29, 2018 ("Ruling"), San Diego Gas & Electric Company ("SDG&E") submits its comments on the Ruling's proposed market transformation framework contained in the Ruling's Attachment and responses to the Ruling's specific questions posed in Section 3.

I. GENERAL COMMENTS ON MARKET TRANSFORMATION STAFF PROPOSAL

A. Introduction

SDG&E appreciates the California Public Utilities Commission ("Commission") staff's commitment to market transformation and supports the need to identify innovative and incremental opportunities to achieve energy savings. This is, indeed, necessary to achieve the State's energy efficiency ("EE") and greenhouse gas ("GHG") emission reduction goals, as set forth in Executive Orders S-3-05[1] and B-30-15,[2] Assembly Bill ("AB") 32,[3] Senate Bill ("SB") 350,[4] and more recently SB 100.[5] Additionally, in its recently submitted Integrated Resource Plan, SDG&E adopted the Commission's assumption that 39% of the incremental new capacity

[1] Signed by Governor Schwarzenegger in June 2005.
[2] Signed by Governor Brown in April 2015.
[3] AB 32, Stats. 2006, Ch. 488.
[4] SB 350, Stats. 2015-2016, Ch. 547.
[5] SB 100, Stats. 2018, Ch. 312.

needed to achieve its 2030 GHG reduction goal should come from energy efficiency.[6] Given these policy and operational objectives, SDG&E is eager to incubate innovative approaches, measures and technologies to drive incremental savings in the coming years. With that in mind, SDG&E offers the following comments for Commission staff to consider with respect to the current version of the proposal. SDG&E respectfully requests that Commission staff convene a second workshop to collaborate on the next version with the aim of better leveraging existing resources and ensuring that, collectively, we are responsibly utilizing ratepayer dollars.

B. Commission Staff's Objectives for the Proposal are Duplicative of the Commission's Objectives for Third-Party and Statewide Implementation of EE Programs

SDG&E's primary concern with the proposal is that it creates an entirely separate portfolio framework, separate and apart from the investor-owned utility ("IOU") energy efficiency ("EE") portfolios. In D.16-08-019, the Commission provided guidance on the IOUs' rolling portfolio business plans, requiring the IOUs to bid out a minimum of sixty percent of their respective portfolios for third-party implementation and to administer a minimum of twenty five percent of their respective portfolios Statewide with the other IOUs. In justifying this approach, the Commission stated that its "rationale for third-party requirements has been *primarily based on innovation* and the potential for cost savings,"[7] and that the Statewide programs are "*designed to achieve market transformation*."[8] Given that the Commission identified innovation and market transformation as two of the primary purposes behind its recent direction for the IOUs to fundamentally shift their long-term energy efficiency portfolios,

[6] *2018 Individual Integrated Resource Plan of [SDG&E] (U 902 E)*, R. 16-02-007, August 1, 2018.
[7] D.16-08-019, Finding of Fact 19, p. 97 (emphasis added).
[8] *Id.* at 62 (emphasis added).

SDG&E questions the prudence of developing an entirely separate portfolio, funded with separate ratepayer dollars, for such similar purposes.

C. The Proposal Will Compete with the EE Rolling Portfolios

In the near term, SDG&E is concerned that the proposal, as drafted, will have the unintended consequence of devaluing its EE portfolio and stifling the comprehensiveness and effectiveness of its soon-to-be launched solicitations. While the Commission's intent is for market transformation initiatives and resource acquisition programs to complement, rather than compete with, one another, SDG&E questions whether this is possible and, moreover, whether market transformation and resource acquisition programs need to be separated in the manner described in the proposal. To illustrate, SDG&E is the lead program administrator for the upstream and midstream Heating, Ventilation, and Air Conditioning ("HVAC") and Plug Load and Appliances ("PLA") Statewide programs. As such, SDG&E has spent considerable time and effort developing the third-party solicitations for these programs, the first of which is intended to be launched in the fourth quarter of this year. Though SDG&E cannot "design" these programs, per Commission direction, SDG&E envisions that successful proposals, beyond offering traditional resource acquisition aspects, will offer innovative and holistic solutions to address financial and non-financial barriers to drive market transformation. SDG&E's concern, in light of this proposal, is that implementers will no longer incorporate market transformation solutions as part of their proposals. This concern was reinforced by third-party implementers at the Commission's workshop on the proposal, where CLEAResult and Energy Solutions expressed concern that the proposal could, indeed, limit the scope of their prospective solicitation proposals and/or give rise to contractual issues down the road. As such, while the Commission may intend for the IOU EE portfolios and the market transformation portfolio to be complementary, they may already be competing with one another.

D. The Proposal Risks Stifling Near-Term Innovation

While this competition gives rise to operational issues for the IOUs, there are more significant public policy issues. If a separate market transformation proposal does indeed deter implementers from offering holistic and innovative responses to the IOUs' impending solicitations, as certain implementers suggested it would, then the proposal will have the result of stifling innovation in the near term to drive market transformation in the long-term. The Commission itself states that "the development of each Accord is expected to require *several years* of work,"[9] while SDG&E is within days of launching its first third-party solicitation.

E. A Separate Market Transformation Proposal Is an Imprudent Use of Ratepayer Funds

In addition, SDG&E asserts that creating a separate portfolio to drive market transformation, especially given the Commission's stated objectives for the recent - and significant - portfolio changes, represents an imprudent use of ratepayer funds. In D.16-08-019, the Commission stated, "our responsibility is to ensure that we utilize the limited ratepayer funds under our purview in the most targeted and effective way possible, to induce even more energy efficiency than we have in the past, especially in light of SB 350's goal of doubling the amount of energy efficiency in the economy."[10] Given this charge, the Commission should leverage the resources already dedicated to the existing EE portfolios. Specifically, the Commission should honor its own business plan objectives, and let the ratepayer funds allocated for the third-party programs and Statewide programs drive innovation and market transformation.

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[9] Ruling, p. 3 (emphasis added).
[10] D.16-08-019 at 23.

F. The Proposal Is Overly Bureaucratic

If Commission staff is invested in pursuing market transformation initiatives separate and apart from the Statewide and third-party programs that it designated for that purpose, then it should still seek to leverage existing portfolio resources, infrastructure, and institutions rather than create an entirely separate bureaucratic structure. The Commission has mandated multiple new institutions and processes to effectuate the rolling portfolios, such as business plan applications, annual budget advice letters, the California Energy Coordinating Committee, independent evaluators, and a peer review group. While SDG&E has been amenable to working with(in) these new regulatory processes and external groups to socialize and improve its portfolio, adding separate administrative layers solely for market transformation would be bureaucratic overkill. Specifically, adding a two-step accord process, an initiative development plan, an initiative review committee, resource acquisition program coordination plan, market transformation advisory board, and Delphi review committee would render the proposal administratively unmanageable.

II. RESPONSES TO QUESTIONS FOR PARTIES

1. *What are the best characteristics of the market transformation framework in the Staff Proposal? What attributes are the most valuable and should be retained?*[11]

SDG&E supports the Commission's backing of market transformation and the need to identify incremental energy savings. Additionally, SDG&E appreciates that the Commission acknowledges the need for this proposal to complement the existing energy efficiency portfolios, including that initiatives developed therein can count toward the twenty-five percent minimum statewide administration requirement and that savings derived therein can count toward portfolio savings goals. With that said, the Commission should clarify how, if these initiatives are in a

[11] Ruling, p. 3.

separate portfolio, they will count toward the twenty five percent when the denominator for the twenty-five percent is the EE business plan portfolio budget.

2. *Do you agree with the staff recommendation to begin the development of market transformation initiatives initially separately from the business plan portfolios? Why or why not?*[12]

No, SDG&E does not agree with this recommendation. While SDG&E understands the difficulty of incubating new, holistic, initiatives that may not be – initially at least – cost-effective within the IOU portfolios, it should be incumbent on the Commission and portfolio administrators to find a way to drive market transformation from within the new rolling portfolio model. Indeed, the Commission cited "innovation" and "market transformation" as two of the primary objectives for directing the shifts toward third-party and Statewide administration. Rather than create a separate market transformation portfolio, with a separate ratepayer funding stream, and a separate bureaucratic structure, SDG&E recommends that the Commission allow for the third-party and Statewide programs within the EE business plan portfolio to drive market transformation. If the Commission is intent on separating market transformation initiatives, then it should authorize incremental funding to do so within the EE business plan portfolio, relieved from portfolio cost-effectiveness requirements, and subject to the same regulatory and stakeholder engagement processes that currently exist.

3. *Do you agree with the budget limit of $12 million per PA for operations outside of the business plan portfolios suggested in the Staff Proposal? Why or why not?*[13]

No, SDG&E does not agree with the budget limit of $12 million per PA per market transformation initiative. Rather, the IOUs should leverage existing funding to drive market transformation through the third-party and Statewide programs that the Commission has directed

[12] *Id.*
[13] *Id.*

them to administer for that very purpose. Allocating an additional (up to) ninety-six million ratepayer dollars for these separate initiatives is an imprudent use of those funds and undermines the Commission's own charge to utilize ratepayer funds "in the most targeted and effective way possible."[14] If, however, the Commission is intent on separating market transformation initiatives, it should authorize incremental funding within the EE business plan portfolio, relieved from cost-effectiveness requirements, that varies depending on the nature of the initiative rather than a set budget cap. Providing budgetary flexibility is in line with the Northwest Energy Efficiency Alliance's ("NEEA's") description of the budget variability of its own market transformation initiatives at the workshop.

4. *Should there be a limit to the time period for how long market transformation initiatives may operate outside of the business plans before being integrated with the overall portfolio? If so, what is your proposed time limit? Explain your rationale?*[15]

SDG&E believes that market transformation initiatives should not be incubated in a separate portfolio. If the Commission is intent on doing so, then there should be a timeline for how long those initiatives may operate outside of the business plan before being integrated into the portfolio. As NEEA described at the workshop, each initiative may have different lifecycles, so a one-size-fits-all time limit would not make sense. Rather, such a transition should be integrated into "milestone-based performance assessment" in the proposal. Metrics and milestones for successful transition should be laid out so that once an initiative is deemed "successful," there are still untapped savings left to be gleaned through the portfolio.

[14] D.16-08-019 at 23.
[15] Ruling, p. 3.

5. *Do you support the Staff Proposal elements with respect to cost-effectiveness? Why or why not? Describe in detail any changes you would suggest.*[16]

SDG&E appreciates the Commission's acknowledgement that, with respect to market transformation initiatives, cost-effectiveness must be treated differently than the EE business plan portfolio as a whole. Specifically, SDG&E believes a cost-effectiveness schedule such as the one described in the proposal is reasonable and will allow an initiative to develop without the constraints of portfolio cost-effectiveness. Further discussions should occur, however, around what an appropriate market transformation cost-effectiveness threshold should be, as SDG&E does not understand why the initiatives would be required to ultimately achieve a higher TRC than the current EE portfolios, particularly where successful initiatives are intended to be integrated into the EE portfolios. Further, SDG&E stresses the importance of making the necessary updates to the avoided cost calculator to accurately capture the cost-effectiveness of the initiatives. Finally, SDG&E believes that the above cost-effectiveness allowances can and should be made from within the existing EE business plan portfolios.

6. *Do you agree with the Staff Proposal's recommendations with respect to the interaction with statewide and third-party program requirements in the business plan portfolios? Why or why not?*[17]

No, SDG&E believes that market transformation should be driven by the third-party and Statewide programs rather than developed in an entirely separate portfolio. The Commission stated that its "rationale for third-party requirements has been *primarily based on innovation* and the potential for cost savings,"[18] and that the Statewide programs are "*designed to achieve market transformation*."[19] As such, the Commission should allow the third-party and Statewide

[16] *Id.*, p. 4.
[17] *Id*. (Ruling question No. 8).
[18] D.16-08-019 at Finding of Fact 19, p. 97 (emphasis added).
[19] *Id*., p.62 (emphasis added).

programs that it pursued for this very purpose to deliver the intended results, rather than create a separate – and potentially competing framework – on the brink of the IOUs' first solicitations.

7. *Comment on the Staff Proposal's discussion of milestone-based performance assessments*.[20]

Should the Commission approve the Staff Proposal, the milestone-based performance assessment should remain. This reward structure appropriately provides IOUs with the necessary incentives to support market transformation initiatives that would impact program administrators' spending on energy efficiency programs that can affect the financial position of an IOU.

8. *Do you support the Staff Proposal's recommendations for the administrative aspects of management of the Initiatives, particularly in Section 5 on procedural approach? Why or why not?*[21]

SDG&E appreciates the attention to detail that is evident in the proposal. However, the process described is overly bureaucratic. Specifically, a two-step accord process, an initiative development plan, initiative review committee, resource acquisition program coordination plan, market transformation advisory board, and Delphi review committee would render the administrative process slow and unmanageable. Rather, the Commission should leverage frameworks already in existence and only recently implemented for the rolling portfolios, such as business plan applications, annual budget advice letters, the California Energy Coordinating Committee, independent evaluators, and a peer review group. The bureaucratic process described in the proposal, layered on top of those already mandated for EE business plan portfolio purposes, would effectively straitjacket the IOUs with red tape.

[20] Ruling, p. 4 (Ruling question No. 10).
[21] *Id*. (Ruling question No. 11).

9. *Are there elements in the Staff Proposal that are missing or unclear? Describe.*[22]

SDG&E appreciated that, at the workshop, Commission staff articulated the utilization of Emerging Technology pilots as an incubator to drive market transformation. However, the proposal itself is silent on the role that Emerging Technologies will play. SDG&E recommends that the Commission make this explicit in the next iteration of the proposal.

10. *Ultimately, do you recommend that the Commission adopt this framework, or a version of the framework with your suggested modifications described in answers to the above questions? Why or why not?*[23]

SDG&E appreciates the Commission's attention to market transformation. However, it does not recommend that the Commission adopt this framework, or another version of the same. Rather, SDG&E recommends that the Commission allow the IOUs to utilize the third-party and Statewide EE programs to spur "innovation" and "market transformation," the Commission's own stated objectives. If those stated objectives are not met through the third-party and Statewide programs, then the Commission should propose an alternative framework at that point. To implement a separate market transformation portfolio on the heels of IOU solicitations risks compromising the quality of solicitation proposals, stifling near-term innovation, and misusing ratepayer funds.

III. CONCLUSION

SDG&E appreciates the Commission's focus on market transformation, and for the thoughtfulness and attention to detail that is evident in the staff proposal. Notwithstanding, SDG&E respectfully recommends that staff rely on the third-party and Statewide EE programs, which were created to spur innovation and market transformation, for the purposes they were intended. SDG&E specifically recommends that the next iteration of the proposal speak to the

[22] *Id*., p. 5 (Ruling question No. 14).
[23] *Id*. (Ruling question No. 15).

role that the Emerging Technologies program can serve to incubate new technologies and drive market transformation. If staff is intent on carving out market transformation initiatives from existing third-party and Statewide programs, it should authorize incremental funding for such purposes within the portfolio, relieved from portfolio cost-effectiveness requirements, and within the same regulatory and bureaucratic framework that was only recently created to implement the rolling portfolios. SDG&E respectfully requests that Commission staff convene a second workshop to discuss the next iteration of the proposal.

Respectfully submitted,

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