

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 18, 2020

Minh Le
Energy and Environmental Services General Manager
County of Los Angeles
1100 North Eastern Avenue
Los Angeles, CA 90063

Dear Mr. Le:

Energy Division approves the Southern California Regional Energy Network's (SoCalREN) Annual Budget Advice Letter 13-E-A/13-G-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. SoCalREN's ABAL meets its budget and forecasted savings target requirements. Energy Division approves SoCalREN's spending budget request of \$21,623,495 for 2021 to administer energy efficiency programs, effective January 1, 2021.¹

Lastly, 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.

1. Background

On September 1, 2020, SoCalREN filed its ABAL 13-E/13-G and supplemental 13-E-A/13-G-A on September 15, 2020. The supplemental 13-E-A/13-G-A replaced 13-E/13-G in its entirety. On October 1, 2020, the Public Advocates Office at the CPUC (Cal Advocates) and the Small Business Utility Advocates (SBUA) each filed their respective protests of SoCalREN's ABAL 13-E/13-G and supplemental 13-E-A/13-G-A. On October 8, 2020, SoCalREN filed its response to the Cal Advocates and SBUA protests of ABAL 13-E/13-G and supplemental 13-E-A/13-G-A.

2. Cal Advocates Protest and SoCalREN Reply Comments

Cal Advocates' protest included four items directed at SoCalREN's 2021 ABAL that ask the CPUC to:²

- Mandate that all 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

¹ SoCalREN's total proposed spending budget for 2021 is \$21,623,495 less unspent and uncommitted funds from 2020 of \$8,586,944 resulting in a total budget recovery request of \$13,036,551.

² 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.

- Requiring PAs to reallocate this spending to the Residential sector;
- Reject the RENs ABALs until they demonstrate progress towards cost-effectiveness;
- Order the RENs to reduce spending on sectors that have not demonstrated cost-effectiveness improvements over time; and
- Require PAs to standardize their accounting and reporting practices for unspent, uncommitted funds.

2.1. 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.³

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.⁴ Cal Advocates' protest also stated that the July Ruling "should not be interpreted as an invitation for leniency in meeting cost-effectiveness requirements."⁵ Lastly, the Cal Advocates claimed 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.⁶ Cal Advocates recommended that the PAs reduce spending in non-cost-effective programs in the non-Residential sectors and reallocate budgets to the Residential sector.

In its response, SoCalREN stated that as it outlined in its cost-effectiveness statement in the ABAL, the COVID-19 pandemic "has presented significant challenges to the energy efficiency industry resulting in significant loss regarding portfolio momentum achieved in 2019."⁷ SoCalREN added that in spite of this unexpected and uncontrollable situation, SoCalREN expects to recover from the 2020 dip in cost-effectiveness in 2021 and has forecasted annual increases in portfolio cost-effectiveness over the next five years.⁸ It concluded that for this reason the CPUC should reject the protest by Cal Advocates and approve SoCalREN's 2021 ABAL as submitted.⁹

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

³ See Cal Advocates Protest, pp. 6-7.

⁴ See Cal Advocates Protest, p. 6.

⁵ Ibid.

⁶ Ibid.

⁷ See SoCalREN ABAL 13-E-A/G-A, p. 10

⁸ See SoCalREN Response, p. 3.

⁹ See SoCalREN Response, p. 5.

and benefits, as well as budgets, that are necessary to address the current goals and strategies” in their respective program year 2021 ABALs.

Furthermore, Energy Division recognizes that, in its role as a PA and manager of its respective portfolio, SoCalREN’s 2021 Residential sector budget of approximately \$8.4 million is suitable and designed to address the needs of their customers at this time. SoCalREN’s 2021 Residential sector budget is nearly 40 percent of its total 2021 portfolio budget. The \$800,000 increase in its Residential sector budget from its 2020 budget is consistent with our expectation of a higher budget as the state lifted the COVID-19 shelter in place orders and we believe robust enough to help support the recovery of the residential energy efficiency market from the ongoing COVID-19 pandemic. While Cal Advocates argues that the CPUC should require SoCalREN to reallocate certain non-cost-effective sector-level budgets to the Residential sector, SoCalREN is the entity best suited to develop a “good faith” 2021 portfolio forecast that addresses competing needs of cost effectiveness and customers and sectors that are affected by these ongoing challenges.

Consequently, SoCalREN is not required to file a supplemental ABAL that reallocates budgets from non-Residential sectors to the Residential sector and SoCalREN’s 2021 budget is approved as filed and supplemented.

2.2. RENs progress towards cost-effectiveness

In their protest, Cal Advocates acknowledged that the CPUC does not require that the RENs meet any specific cost-effectiveness threshold. However, they noted that the CPUC authorizes ratepayer funds for REN programs with the expectation that they will provide “value (or promise of value) to ratepayers in terms of energy savings and/or market transformation results for energy efficiency”¹⁰ and be managed “with an eye toward long-term cost-effectiveness.”¹¹ However, Cal Advocates argued that the SoCalREN’s TRC forecasts and claims over the past several years indicate that they have failed to effectively manage their portfolios with an eye towards long term cost-effectiveness.¹²

In addition, Cal Advocates noted that SoCalREN’s portfolio has increased slightly in cost-effectiveness, from a 2017 TRC ratio of 0.33 to a 2021 TRC ratio of 0.37.¹³ Cal Advocates stated that while the positive trend in SoCalREN’s TRC ratio is encouraging, it still amounts to an increase in its TRC ratio of just over 10 percent over 5 years.¹⁴ Cal Advocates added that at this rate, it would take over 50 years for SoCalREN’s portfolio to become cost-effective, which they believe is too long for the ratepayers to continue to fund non-cost-effective programs.¹⁵

SoCalREN responded that it has achieved an increase in cost-effectiveness, while delivering on its requirement “that RENs should focus on filling gaps, piloting different or unique approaches that have the potential to scale and targeting hard-to-reach (HTR) customers.”¹⁶ SoCalREN added that it continues to drive energy efficiency in market segments that have not received program support from the Investor-Owned Utilities (IOUs) and has demonstrated that it possible to increase its TRC

¹⁰ See D.18-05-041, pp. 95-96.

¹¹ Ibid.

¹² See Cal Advocates Protest, p. 11.

¹³ See Cal Advocates Protest, p. 13.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ See SoCalREN Response, p. 3.

ratio, while also increasing participation of disadvantaged community (DAC) and HTR customers in energy efficiency programs.¹⁷

SoCalREN disagreed with the assertion by Cal Advocates that the “RENs must manage their portfolios with the goal of long-term cost-effectiveness.”¹⁸ SoCalREN added that Cal Advocates’ continued argument regarding REN cost-effectiveness policy is not aligned with current CPUC guidance for ABAL filings per D.18-05-041, nor with direction in D.12-11-015.¹⁹ SoCalREN noted that the CPUC has recognized that “the more limited scope of activities we authorize RENs to undertake, which results in a much lower ability to diversify their portfolios (relative to the IOUs), argues against holding them to a particular cost-effectiveness standard”²⁰ and that “the CPUC has not required RENs’ portfolio TRCs to meet a specific threshold.”²¹

SoCalREN also disagreed with the statement by Cal Advocates the SoCalREN’s “positive trend in TRC ratio... amounts to an increase of just 10 percent over five years and that at this rate, it would take over 50 years for the portfolio to become cost-effective.”²² As SoCalREN outlined in its cost-effectiveness statement in the ABAL, the unprecedented COVID-19 pandemic “has presented significant challenges to the energy efficiency industry resulting in significant loss regarding portfolio momentum achieved in 2019.”²³ SoCalREN added that in spite of this unexpected and uncontrollable situation, SoCalREN expects to recover from the 2020 dip in cost-effectiveness in 2021 and has forecasted annual increases in portfolio cost-effectiveness over the next five years.²⁴ SoCalREN also noted that the Cal Advocates statement also ignores that between 2017 and 2019, SoCalREN was able to increase the cost-effectiveness of its portfolio claims by 35 percent in two years.²⁵ SoCalREN concluded that it is committed to focus on pilots, HTR markets and filing in the gaps that may exist in utility portfolios, and will continue to do so while working to maximize benefits to all ratepayers.²⁶

Discussion

Energy Division is also concerned about the low cost-effectiveness of SoCalREN’s portfolio. However, the RENs are not required to be cost-effective and the rules around what type of programs that the RENs can run, which include offering programs that are not offered by other PAs and targeting HTR customers, make it nearly impossible for the RENs to design a cost-effective portfolio. D.19-12-021, adopted in December of 2019 reinforced that the RENs would not have to meet a cost-effectiveness threshold. We also note that while the CPUC did state in D.16-08-019 and later decisions “that we encourage the RENs to manage their programs with an eye towards long-term cost-effectiveness,”²⁷ this is not a criteria for approving ABALs (D.18-05-041, Section 7.3). Thus, Cal Advocates’ protest is rejected.

¹⁷ Ibid.

¹⁸ See Cal Advocates Protest, p. 14.

¹⁹ See SoCalREN Response, p. 4.

²⁰ D.18-05-041, p. 95.

²¹ D.18-05-041, p. 161.

²² See Cal Advocates Protest, p. 13.

²³ See SoCalREN ABAL 13-E-A/13-G-A, p. 10

²⁴ See SoCalREN Response, p. 3.

²⁵ Ibid.

²⁶ Ibid.

²⁷ D.16-08-019, p. 12.

2.3. Spending on sectors that have not demonstrated cost-effectiveness improvements over time

Cal Advocates noted that the RENs must manage their portfolios with the goal of long-term cost-effectiveness.²⁸ They added that it is reasonable to assume that REN portfolios will not meet this goal if individual programs fail to show cost-effectiveness improvements over time – particularly because the RENs have smaller portfolios and thus fewer programs that could compensate for lower performing programs in terms of TRC ratios.²⁹ They requested that the CPUC should not approve REN portfolios that devote significant funding to programs with poor cost-effectiveness trajectories.³⁰

Cal Advocates noted that SoCalREN's Multifamily Residential Program requests a budget increase, without a similar increase in the program's TRC ratio.³¹ In Table 11 of Cal Advocates protest they recommended a revised budget for SoCalREN of \$14.6 million, down from SoCalREN's request of \$21.6 million, which would fully fund the SoCalREN's Cross Cutting and Public sectors, but would reduce the budget for the Residential sector by 88% from the SoCalREN's request of \$7.9 million to \$0.9 million.³² Therefore Cal Advocates requested that the CPUC reject SoCalREN's ABAL and require the SoCalREN to refile its ABAL with the reduced spending that Cal Advocates recommended on sectors in their protest.³³

In its reply, SoCalREN argued that Cal Advocates' recommendation to nearly eliminate funding for the SoCalREN Residential sectors directly conflicts with the goals of the RENs to undertake activities that utilities cannot or do not intend to undertake, and activities in HTR market, whether or not there is a current utility program that may overlap.³⁴

SoCalREN further noted that the COVID-19 pandemic has left many multifamily tenants working from home, with higher utility bills in a time of high unemployment and uncertainty.³⁵ SoCalREN pointed out that Cal Advocates identifies that "Residential customer energy use in the three large electric IOU service territories has increased by 8.9 to 12.4 percent in 2020 and overall natural gas demand is up 6 percent."³⁶ SoCalREN added that Cal Advocates clearly understand the need for Residential sector programs when they stated that "Residential ratepayers are in greater need than ever for effective energy efficiency programs that can help alleviate COVID-19-induced financial strain, by delivering meaningful energy savings and other benefits."³⁷

SoCalREN concluded its Multifamily program will play a critical role for this underserved and HTR customer segment in 2021.³⁸ SoCalREN noted that the program will have increased importance as SCE proposes in its 2021 ABAL to close its Multifamily program "due to the absence of any future cost-effective measures for the multifamily property

²⁸ See Cal Advocates Protest, p. 14.

²⁹ Ibid.

³⁰ Ibid.

³¹ See Cal Advocates Protest, p. 16.

³² See Cal Advocates Protest, p. 16.

³³ See Cal Advocates Protest, p. 17.

³⁴ See SoCalREN Response, p. 4.

³⁵ See SoCalREN Response, p. 5.

³⁶ See Cal Advocates Protest, p. 6.

³⁷ See Cal Advocates Protest, p. 9.

³⁸ See SoCalREN Response, p. 5

segment, which will leave a gap in the region.³⁹ For these reasons SoCalREN believes the CPUC should approve SoCalREN's 2021 ABAL at the submitted funding levels and reject the reduced spending on programs as requested by Cal Advocates.

Discussion

While Cal Advocates argued that the CPUC should require SoCalREN dramatically reduce the budget for its Multifamily program, Energy Division believes that SoCalREN is the entity best suited to develop a "good faith" 2021 portfolio forecast that addresses the competing needs of its HTR customers while also working towards becoming more cost-effective. Finally, we note that this request by Cal Advocates is out of scope of the review criteria that the CPUC adopted in D.18-05-041, Section 7.3 on the "Criteria for Approving Annual Budget Advice Letters", which states: "Standard of review for staff disposition of the ABALs does not include review of program administrators' decisions on reducing, cancelling, expanding or adding individual programs or program areas."⁴⁰ Consequently, SoCalREN is not required to refile its ABAL with any reduced spending on programs as requested by Cal Advocates.

2.4. Standardized Accounting For Unspent and Uncommitted Funds

In its protest, Cal Advocates argued that the CPUC should require PAs to file a supplemental ABAL to standardize accounting and reporting of unspent and uncommitted funds and use of ABAL templates. Cal Advocates pointed specifically to discrepancies in Pacific Gas and Electric (PG&E), San Diego Gas & Electric (SDG&E), Southern California Edison (SCE) and Southern California Gas (SoCalGas) approach in completing Table 3a of ABAL Appendix.

Discussion

In a review of Table 3a and Table 9 in Appendix that accompanies SoCalREN's PY 2021 ABAL, Energy Division found that SoCalREN adhered to current accounting and reporting practices and CPUC-issued templates as they relate to unspent and uncommitted funds. SoCalREN is not required to file a supplemental ABAL.

3. SBUA Protest and SoCalREN's Reply Comments

SBUA's protest raised eight issues, four of which were specific to SoCalREN's 2021 ABAL:

- SoCalREN fails to target all HTR customers as required by the CPUC;
- IOUs have to collaborate with RENs to ensure the needs of small business customers are being met;
- PAs should breakdown data by customer subclasses; and
- Low TRC values for RENs should not be held against them.

³⁹ Southern California Edison Advice Letter 4285-E, Attachment E-1.

⁴⁰ See D.18-05-041, p. 134.

3.1. Targeting all HTR customers

SBUA stated that they support the REN's focus on HTR residential customers, but that RENs need to target all HTR customers, which includes the commercial sector.⁴¹ They added that D.18-05-041 indicates that the "RENs must pilot activities in HTR markets, whether or not there is a current utility program that may overlap."⁴² Therefore, they requested that Energy Division should suspend the SoCalREN's ABAL and require them to each propose a pilot program that targets HTR commercial customers.⁴³

In response, SoCalREN agreed that with the statement by SBUA that RENs are to serve all HTR customers.⁴⁴ SoCalREN noted that it did propose a small commercial program for HTR customers to be administered through the SoCalREN portfolio in Advice Letter filing 12-E/12-G, which was subsequently withdrawn due to direction by Energy Division.⁴⁵ SoCalREN concluded that it welcomes the opportunity, should Energy Division allow, to either refile its original Advice Letter requesting a small Commercial program, or to submit a supplemental filing to its 2021 ABAL that would include the small Commercial program and proposed budget.⁴⁶

Discussion

When the CPUC approved SoCalREN's Business Plan in D.18-05-041, it approved allowing SoCalREN to offer Finance, Public, Residential and WE&T sector offerings. We also note that when SoCalREN submitted its Energy Efficiency Business Plan in January of 2017 it did not propose to offer any Commercial sector programs. Thus, SoCalREN has no CPUC approval to offer Commercial sector programs until the CPUC receives a new application from SoCalREN which requests funding for Commercial sector offerings and the CPUC approves those offerings. We note that SoCalREN is expected along with all other PAs to submit new applications to the CPUC in September of 2021. Should SoCalREN wish to offer commercial services, that application would be the only appropriate avenue for them to obtain approved budget for a Commercial sector. That is why Energy Division requested that SoCalREN withdraw Advice Letter 12-E/12-G, which proposed a Commercial program through an Advice Letter and not an application. Thus, since SoCalREN has no approved Commercial Sector, SBUA's protest to suspend SoCalREN's ABAL until it offers pilots targeting HTR customers in the Commercial sector is rejected.

3.2. IOU collaboration with RENs

SBUA stated that the purpose of the RENs is to serve all HTR customers and that the RENs have the ability to leverage local partnerships to serve these customers that the IOUs have struggled to serve.⁴⁷ However, SBUA claimed that this does not mean that the responsibility to ensure HTR customers are being served lands entirely on the RENs.⁴⁸ Thus, SBUA stated that SoCalREN has to

⁴¹ See "Protest of Small Business Utility Advocates to the Energy Efficiency Annual Budget Advice Letters for Program Year 2021", October 8, 2020, p. 2.

⁴² D.18-05-041, p. 41.

⁴³ See SBUA Protest, p. 3.

⁴⁴ See SoCalREN Response, p. 7.

⁴⁵ Ibid.

⁴⁶ Ibid.

⁴⁷ See SBUA Protest, p. 3.

⁴⁸ Ibid.

collaborate with SCE and SoCalGas to ensure that there are programs targeting commercial HTR customers.⁴⁹ SBUA recommended that Energy Division require the IOUs and RENs to comply with D.18-05-041 by refiling their respective Advice Letters with an analysis and plans that demonstrate coordination and effective plans to serve commercial HTR customers.⁵⁰

SoCalREN did not respond to this protest by SBUA, however PG&E and the IOUs did. PG&E's reply asked that the CPUC reject SBUA's request. PG&E refers to the Joint Cooperation Memos (JCMs), which are filed annually by each PA (except SDG&E), per CPUC guidance. JCMs describe the exact coordination activities between IOU PA and the RENs that SBUA requests in its protest. PG&E asked that PA coordination not be duplicated in the ABAL process.⁵¹

Discussion

PG&E is correct when it described the annual JCM as the primary source for information that SBUA asks for in its protest. These memos are filed annually by each PA (except SDG&E), and describe the means by which 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, SoCalREN does not need to file a supplemental ABAL that describes cooperation between it and the REN, as this would be duplicative of the JCM process.

3.3. Customer Sub-class Data

In its protest, SBUA described how PA report on funding requests, savings, etc., by general customer class, including residential, commercial, industrial, and agricultural. SBUA asked the CPUC to require PAs to break down 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 the PAs should adopt SDG&E's approach and present information on rate impacts for each customer sub-class, which SBUA argues would improve stakeholder and CPUC staff understanding of whether and how PA program activities are targeting customer classes that face significant participation barriers.⁵²

Discussion

Energy Division notes that the ABAL process, which is explicitly envisioned as a “ministerial,”⁵³ sector-level budget recovery request exercise tied to review criteria laid out in D.18-05-041, is not the proper forum for issues related to PA data collection and reporting. Consequently, SoCalREN

⁴⁹ Ibid.

⁵⁰ See SBUA Protest, p. 4.

⁵¹ See PG&E Reply, p. 6.

⁵² See SBUA Protest, pp. 7-8.

⁵³ See D. 15-10-028, p. 60

is not required to break down customer data by sub-class as part of the ABAL review. Instead, Energy Division will work with stakeholders and the PAs to determine the most feasible manner in which this revised data reporting provision may be achieved.

3.4. Low TRC values for RENs

SBUA noted that in 2020, SoCalREN experienced a drop in its TRC values. They noted that while the RENs describe how they plan to increase their TRC scores in their ABALs, SBUA believe that leeway is warranted for the RENs as TRC scores may not increase in the next year due to the ongoing global pandemic and the high number of catastrophic wildfires impacting customers statewide.⁵⁴

Discussion

Energy Division agrees with SBUA and notes that the CPUC has never required that the RENs be cost-effective.

Please direct any questions regarding Energy Division's findings in this non-standard disposition to Nils Strindberg (nils.strindberg@cpuc.ca.gov).

Sincerely,

Handwritten signature of Edward Randolph in black ink, followed by the text "(for)" in parentheses.

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
Pete Skala, Energy Division
Jennifer Kalafut, Energy Division
Alison LaBonte, Energy Division
Nils Strindberg, Energy Division
Michael Campbell, The Public Advocates Office
Shelly Lyser, The Public Advocates Office
Ivan Jimenez, Small Business Utility Advocates

⁵⁴ See SBUA Protest, p. 9.