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)

NATURAL RESOURCES DEFENSE COUNCIL (NRDC) COMMENTS ON ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENT ON MARKET TRANSFORMATION STAFF PROPOSAL

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I. INTRODUCTION

Pursuant to Rules 1.9 and 1.10 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, the Natural Resources Defense Council (NRDC) respectfully submits these opening comments on "Administrative Law Judge's Ruling Seeking Comment on Market Transformation Staff Proposal," August 29, 2018 (Ruling) including the "Energy Efficiency Market Transformation: A Staff Proposal DRAFT" ("Staff Proposal" or "Proposal"). NRDC is a non-profit membership organization with more than 95,000 California members who have an interest in receiving affordable energy services while reducing the environmental impact of California's energy consumption.

NRDC's comments below rely heavily on the Staff Proposal as the basis for modifications. We integrate ideas to ensure sufficient rigor while encouraging innovation and experimentation and we consolidate various stages to propose a streamlined approach to the Staff Proposal timeline. The largest modifications focus on: (1) the establishment of a facilitated collaborative group based on existing structures to replace many of the workshops and enable an opportunity to strive toward consensus, (2) a Market Transformation Initiative Account, which pools the funding allocation so that all PAs and/or non-PAs could propose programs, and (3) a modified step-process to align more closely with NEEA's "stage-gate" process.

II. COMMENTS ON ALJ RULING QUESTIONS

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?

The Staff Proposal offers many thoughtful components to help launch a comprehensive market transformation effort in California. We recognize that market transformation efforts have been occurring for decades, including programs in collaboration with regional and national partners. What is unique about the Staff Proposal is the opportunity to launch additional market transformation programs and to assess the value of such programs within a policy framework that is in line with the objective of market transformation initiatives.

While we have recommendations for improvements to many of these components, the Proposal elements that we are most supportive of include the following:

- The two-step process to identify market transformation concepts and then invest in the development of these concepts with stakeholder collaboration.[1]
- The acknowledgment that the energy-saving impacts of market transformation will need to be considered over a long period of time given that the "initiatives typically produce little savings in the early years."[2]
- The creation of a "collaboratively vetted forecast baseline" to use when assessing savings.[3]
- The use of milestones that "indicate market progress" (and not just energy savings metrics).[4]
- The creation of an "Initiative Review Committee" for each market transformation initiative that includes subject-matter and industry experts to help inform and guide progress.[5]
- The use of a logic model in the Market Transformation Accord ("Accord"): "Accords should draw a clear and logical link between the present state of the market, intervention strategies, and the desired future state of the market, and exactly how

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[1] Staff Proposal, page 26 in the PDF referring to a "development plan" followed by a "market transformation accord." **Note: NRDC refers to the page numbers in the PDF of the "Administrative Law Judge's Ruling Seeking Comment on Market Transformation Staff Proposal" as the Staff Proposal in the Ruling does not have page numbers.**

[2] Staff proposal, page 13 in the PDF.

[3] Staff proposal, page 13 in the PDF.

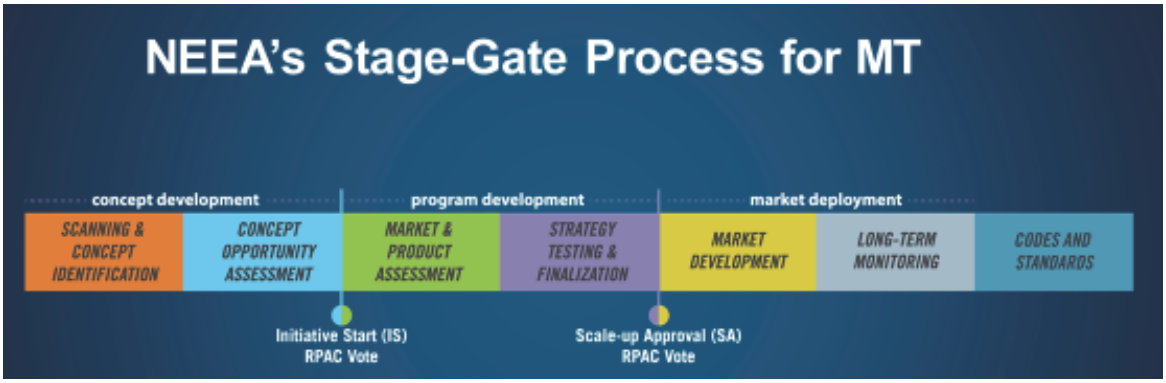
[4] Staff Proposal, page 17 in the PDF.

[5] Staff Proposal, page 14 in the PDF.

that will translate into energy savings."[6]

- Flexibility in identifying the relevant metrics to track (based on the specific initiative) and a projected forecast of energy savings unique to the initiative.[7]
- The acknowledgment that resource acquisition programs can be a useful component of a market transformation strategy, and the need to coordinate these efforts closely.[8]

Of these aspects, one of the most important Staff Proposal elements is the two-step process to identify market transformation concepts and then invest in the development of these concepts in collaboration with stakeholders. This is similar in function to the "stage-gate" process refined by the Northwest Energy Efficiency Alliance (NEEA) over decades, as described at the September 25, 2018 workshop and included in this graphic presented at the workshop:



As described below in our response to Question 6 we support a process that aligns with NEEA's well-established stage-gates, building off of the steps outlined in the Proposal. While the Staff Proposal provides many pieces of this process, we offer suggested refinements below. Our modifications are intended to help enable successful implementation of a targeted market transformation effort that brings forth the best ideas that align with California's long-term energy and climate goals.

[6] Staff Proposal, page 19 in the PDF.
[7] *Ibid*.
[8] Staff Proposal, page 23 in the PDF.

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?***

Market transformation and resource acquisition are integrally connected as part of an overarching approach to advancing technologies and/or behaviors in the market. As such, it is not productive to try to draw a distinct line between processes. We agree with party comments at the September 25, 2018 workshop that for this effort to be successful and to avoid additional market confusion as the new third-party solicitation launches, it must be closely aligned with the ongoing rolling portfolio activities.

We appreciate the challenge of launching a separate effort that has the possibility of overlapping with resource acquisition programs in the energy efficiency portfolio or that could result in further siloes within efficiency efforts. Regardless of whether the process remains separate or is integrated, the Commission will need to clearly articulate the key areas needed for successful coordination. NRDC plans to provide specific recommendations in response to opening comments.

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?***

As a starting point, $12 million per program administrator seems reasonable to initiate a limited number of market transformation programs. However, NRDC requests clarification regarding the total amount of possible funding and the timeframe for using the initial allocation as well as the process for how additional funds are to be requested. If the funding contribution is per PA, as noted in the Staff Proposal,[9] that would amount to about $100 million in total since there are currently eight authorized PAs in the rolling portfolio process. If, instead, it was intended to be IOU-PAs only, that would amount to approximately $50 million and exclude smaller PAs from potentially having the resources to submit proposals and/or run market transformation initiatives.

[9] Staff Proposal, page 11 in the PDF "A maximum budget of $12M would be allocated to each PA to fund the initial tranche of programs."

NRDC supports providing funding authorization for all PAs regardless of size, and an initial total budget of approximately $100 million for this effort, potentially allocated by PA load share to better account for the different sizes of the administrators. We note that some market transformation initiatives may cost more than $12 million over the lifetime of the effort or there may be additional viable proposals after initiating the first round of ideas. NRDC recommends that the Commission make additional funding available to support new opportunities as they arise and to continue to support existing initiatives over time.

Overall, the Commission should clarify: (1) how existing initiatives could request additional funding if needed as long as their programs are meeting the predetermined energy and non-energy milestones and (2) what will be the process for allocating additional funding for new initiatives. For PAs (or other entities with ideas) to invest in this process for the long-term, and to provide a market signal to the industry actors that are needed to make many initiatives successful, there needs to be direction and an expectation that ongoing funding will continue at substantial levels. There should also be clear expectations that continuation of funding for initiatives is contingent on demonstrating successful progress as outlined in the Staff Proposal's Accord process and further refined in our response to Question 6 below.

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.***

As noted in Question 2, NRDC plans to more thoroughly respond to the issue of integration after reviewing the opening comments. However, if the Commission decides to keep the market transformation efforts outside of the business plans at the onset, there should not be any pre-determined time limit. Instead, the Commission should establish criteria for what would signal an appropriate time to integrate the market transformation framework into the business planning process and then assess the process at a set time (e.g., 2-3 years after the launch of the first initiative) to evaluate whether those criteria are met.

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.***

Based on our review of the Proposal and participation at the workshop, we observe that there may be multiple interpretations of the treatment of cost-effectiveness presented in the Staff Proposal as well as several outstanding items to resolve. In particular, we address five main components of determining cost-effectiveness in this section: (a) What counts as lifecycle savings? (b) Is the cost-effectiveness test applied to an individual project or to the portfolio of initiatives? (c) Which test would be used if there is not a timely decision in R.14-10-003 and/or the decision does not address outstanding policy questions that could continue to inhibit the advancement of long timeframe initiatives? (d) What is the process to determine net-to-gross? (e) If not solely through a cost test, how could we best ensure prudent use of funding?

We agree with the objective of achieving greater energy savings through market transformation initiatives and with ensuring prudent use of funds, but energy savings is only one component of a successful market transformation effort. Focusing primarily on a cost-effectiveness test that is based on forecasted savings 10-20 years in the future is extremely challenging and does not value the additional non-energy benefits that occur along the way (e.g., increased product availability, lower product cost, higher product adoption, etc.).

It is anticipated that successfully reaching non-energy metrics will ultimately lead to energy savings, (e.g., through incorporation into a code or standard). However, if the only initiatives that advance are those that are able to meet a predetermined threshold based on highly uncertain data, there is a high probability that the state will miss out on a number of viable initiatives and limit innovation.

To ensure prudent use of funding, strive for cost-effective energy savings, and enable flexibility, we suggest assessing each proposal based on a combination of energy savings (threshold of 1.0 with input modifications below) and other critical market performance indicators. This compilation of the proposed non-energy and energy metrics, agreed upon by the Market Transformation Subcommittee (MTS) of experts (described below in Question 6) and

ultimately approved by the Commission via Advice Letter, would be a more accurate assessment of the value of market transformation efforts across the entire lifetime of the program.

a. Determining Lifecycle Savings

A fundamental question is "which savings" will be counted when running a cost-benefit test. There appears to be two conflicting narratives in the Proposal. On the one hand, the Staff Proposal states that "this proposal is tightly focused on measurable energy savings."[10] This is difficult to square with the fact that, as discussed at the workshop, there are often few savings to "measure" early on in a market transformation initiative. On the other hand, the proposal talks about "a *forecast* cost-benefit ratio"[11] and "projected benefits over the lifecycle of the Initiative."[12] The proposal also acknowledges, correctly, that a new initiative "may involve multiple years during which the Initiative is not expected to produce net benefits."[13]

We strongly support a long-term forecast of energy savings and suggest using NEEA's methodology whenever feasible, which includes a broad array of benefits over the long-term rather than focusing on directly measurable savings in the near-term. We also strongly recommend that savings from codes and standards be included as part of the lifecycle assessment of savings, which differs from what was proposed at the September 25, 2018 workshop. Including codes and standards savings is critical to successfully meet the Staff Proposal's requirement for cost-effectiveness and for meeting the objective of maximizing energy savings.

We support inclusion of codes and standards for two reasons. First, we heard at the September 25, 2018 workshop from NEEA, an entity successful for decades at advancing multiple market transformation efforts, that they would not have been able to launch their initiatives without counting expected savings from codes and standards. By omitting those savings, California will likely exclude several fruitful and viable market transformation

[10] Staff Proposal, page 12 in the PDF.
[11] Staff Proposal, page 14 in the PDF.
[12] Staff Proposal, page 17 in the PDF.
[13] *Ibid.*

opportunities. Second, if the objective, as outlined by the Staff Proposal, is to achieve energy savings, codes and standards is where you get the largest amount of savings at the lowest cost. Using resource acquisition programs to bridge the gap from emerging technologies to codes and standards will yield energy savings, but at a fraction of what is feasible through codes and standards.

Further, the focus should be on whether to implement the initiative. Any issue of double counting could be addressed in planning and forecasting as well as through the Accord, vetted through the stakeholder process described below in Question 6, and approved by the CPUC through the advice letter process.

b. Assessing benefits and costs of a portfolio of initiatives

The Proposal recommends a cost-effectiveness threshold of 1.5 (specific test yet to be determined) for each individual market transformation initiative. Given the long-time frame of market transformation efforts and the fact that the CPUC is launching a new framework with many uncertainties, NRDC recommends extending the current rule of assessing cost-effectiveness on a portfolio basis to this market transformation framework as well, especially if the Commission moves forward with the numeric threshold presented in the Staff Proposal.

c. Establishing an appropriate cost test

The Staff Proposal defers to the forthcoming decision in R.14-10-003 regarding which cost test to use.[14] However, it is unclear when such a decision will be issued and if the decision will cover the key areas that are critical to enabling a long-term market transformation effort. Further, if a decision does not come out in the timeframe needed, it appears that the Total Resource Cost (TRC) test may be the test used with a 1.50 threshold. NRDC has commented numerous times about the shortcomings of the TRC and would strongly oppose a 1.50 TRC being the threshold for market transformation, especially if the Commission proceeds with a

[14] Staff Proposal, p.26 in the PDF.

TRC focused predominately on energy savings as the requirement for an initiative to progress.[15]

d. Establishing a free ridership baseline from market data in lieu of a net-to-gross ratio

NRDC strongly supports using the baseline approach outlined in the Staff Proposal. Under this approach, any market adoption occurring above the established curve would be attributable savings to the effort. If savings did not exceed the curve, no savings would be attributed. This method is consistent with the Pacific Northwest and is our preferred approach to establishing "what would have happened without the intervention."

Measurement of free-ridership should be assessed in this manner and not via a net-to-gross ratio input into the cost-effectiveness test. The baseline approach must be agreed upon ahead of time – as proposed in the Staff Proposal – and be reviewed over time to include updated market data as appropriate. As described below, we recommend this process rely on the experts of the California Technical Forum (CalTF) to establish a well-vetted forecast baseline.[16]

As discussed at the September 25, 2018 workshop, existing data should be used to determine a proposed baseline (e.g., an industry forecast produced for another purpose). Since Delphi processes attempt to establish an unknown baseline by balancing out expert opinions (which are often quite varied), it can be difficult to determine a reliable basis for measuring additional savings that are a result of market transformation efforts. However, if there are no other data options available for a particular initiative proposal, then Staff and the MTS could consider a Delphi process proposal as the method to determine a baseline.

e. Ensuring prudent spending through real-time evaluation and measurable milestones

For market transformation initiatives, it is critical to *encourage* innovation, to allow flexibility, and to take a long-term perspective since transformation typically can take many years to achieve. Mandating a higher cost-effectiveness bar for these programs will make it much harder to launch programs. Instead, the near-term focus should be on clear milestones that

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[15] Joint Parties. "Response of the Joint Parties to the Office Of Ratepayer Advocates' Application for Rehearing of D.18-05-041," July 20, 2018.

[16] CalTF: http://www.caltf.org/

indicate the project is on task and worth pursuing based on all benefits. As noted above, we suggest assessing cost-effectiveness as a package of benefits (energy and non-energy) instead of relying on a discrete cost test threshold of 1.5 to determine if an idea should advance.[17]

To ensure customer funding is being prudently spent, the Commission should establish rigor by: (1) focusing on what *can* be measured (e.g., market indicators that follow from the initiative Logic Model), (2) requiring real-time third-party evaluation and feedback as is done in the Pacific Northwest, (3) developing a more robust and inclusive process for generating and selecting market transformation initiative proposals, and (4) using existing expert collaborative groups to help guide the portfolio of market transformation programs and provide feedback on energy saving estimates and other technical assumptions, as described in our response to Question 6.

6. Do you support the concept identified in the Staff Proposal for Market Transformation Accords? Why or why not? Describe in detail your suggested improvements.

NRDC agrees with the proposal to identify the key aspects of an initiative up-front, and we support the majority of the elements of the Accord as outlined in the Staff Proposal.[18] However, we do not agree that most Accords should take "several years of work."[19] If they do, many opportunities will have passed or significantly changed given the extended timeframe and it will be difficult to partner with other regions or industries that require more timely and predictable planning horizons.

In addition, our recommendations are intended to align with existing best practices where possible, improve coordination, enable the prompt development of proposals, and rely on the use of an advisory group with a trained facilitator to help stakeholders strive toward consensus to enable timely advancements of strong proposals.

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[17] Staff Proposal, page 25 in the PDF. "Staff also recommends that for upfront planning purposes Market Transformation Initiatives be required to demonstrate in their Market Transformation Accord, a projected lifecycle benefit-to-cost ratio of 1.50 or higher."
[18] Staff Proposal, p.18-19.
[19] Staff Proposal, p.1.

a. Align with NEEA when possible to leverage expertise

NRDC proposes an alternative stage-gate process, similar to that presented by NEEA at the CPUC September 25, 2018 Market Transformation Workshop, which largely aligns with the Steps identified in the Staff Proposal (Section 5).[20] For example, as outlined in the Staff Proposal there are six steps to launching an Market Transformation Initiative ("Initiative"), led entirely by the PA. We propose a modification to narrow the discrete steps needed to advance an idea, enable a broader range of possible participants in the idea generation stage, and ensure more frequent and coordinated expert stakeholder engagement with facilitator support.

b. Use existing stakeholder engagement processes, with modifications if needed, as a stepping stone to a possible market transformation board with delegated authority

While NRDC ideally supports a market transformation authority or board (preferably statewide), we understand the challenges with initiating such a large effort at this stage of the process. We therefore suggest the following stepping stone approach that uses a facilitated stakeholder process and could ultimately be evolved into a broader market transformation board with delegated authority.

In the interim, we propose leveraging existing stakeholder groups (e.g., the Emerging Technologies Coordinating Council, the California Technical Forum, and the California Energy Efficiency Coordinating Council), adjusting membership as needed, to vet which ideas should advance at each stage-gate. This is akin to the proposed "Initiative Review Committee" and is intended to bring the right experts and interested stakeholders together at key stages of review, use funding and existing structures from current efforts, rely on facilitation and negotiation expertise already contracted for, and enable a clear and transparent process to advance initiative ideas in a timely manner.

NRDC suggests leveraging the CAEECC to support the market transformation initiative development process, as the Staff Proposal effort falls squarely in line with the current CAEECC goals and the original intent proposed by the nearly twenty diverse stakeholder groups that

[20] *Ibid.*

conceived of the collaborative, which was based on previous Commission efforts and referenced in D.15-10-028 that approved the California Energy Efficiency Coordinating Committee (CAEECC).[21] In particular, CAEECC was envisioned to: (1) Provide an ongoing forum for stakeholders to bring ideas for consideration; (2) Leverage what is working; (c) Identify and aim for resolution and/or propose recommendations for CPUC consideration on timely and critical issues; (d) Seek to find efficiencies in the process; and (e). Coordinate activities important to implementing a "rolling portfolio."

The current CAEECC charter outlines the following goals, that have been vetted publicly and finalized by the CAEECC membership, and would be applicable to a market transformation initiative process: (1) Support the development and expansion of high-quality energy-efficiency programs that reduce greenhouse-gas emissions in line with state climate and energy goals while responding to customer needs and market dynamics, (2) Provide meaningful and useful input to the Program Administrators (PAs) in the development and implementation of their energy-efficiency business plans, (3) Improve collaboration and communication among parties and with the California Public Utilities Commission (CPUC) on energy-efficiency matters, and (4) Resolve disagreements among stakeholders whenever possible to reduce the number of matters that need to be litigated before the CPUC. [22]

However, it is important to have the right people around the table to assess the various initiatives. To do so, we suggest supplementing the current CAEECC membership with experts from academia, individuals, or other organizations focused on market transformation, such as the Emerging Technologies Coordinating Council (ETCC),[23] which is an existing collaboration across IOUs, LADWP, SMUD, and the California Energy Commission. This expanded group

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[21] D.15-10-028, p.68

[22] CAEECC: https://docs.wixstatic.com/ugd/849f65_75fad5fb80844cdc92e3260c730fd17d.pdf

[23] ETCC. https://www.etcc-ca.com/about-etcc "The ETCC provides a collaborative forum for its members to exchange information on opportunities and results from their Emerging Technologies activities. Efforts are focused on identification, assessment, and support for commercialization of energy-reducing technologies, such as advanced lighting, water heating, space heating and air-conditioning systems, for residential, commercial, agricultural and industrial customers"

would form the basis of a subcommittee of the California Energy Efficiency Coordinating Committee (CAEECC).

We agree with the Staff Proposal that market transformation opportunities could include more options than advancing specific technologies, such as addressing behavior or other methods of moving the market. Therefore, any membership composition should represent a wide range of expertise relevant to market transformation. It will also be critical to rely on existing technical expertise – such as the California Technical Forum (CalTF) – at key steps in the proposal development stage to ensure technical components of proposals are well-founded and feasible, such as when establishing the market forecast baseline.

Our proposed Market Transformation Subcommittee (MTS) would rely on the current CAEECC infrastructure and facilitation team to enable an open, transparent, and collaborative process that is conducted in a timely manner. The process could use the protocols, charters, and expectations that the PAs and CAEECC members have agreed to through a public process, adjusted as needed for the specific goals of the MTS. This group would strive for consensus at each stage and narrow disagreements whenever possible. Where consensus on a particular issue is not forthcoming, the MTS could forward two or more options including detailed descriptions, rationale, and supporters of each option.

Alternatively, the CAEECC MTS could update existing protocols as needed, including the development of a balanced voting process to advance ideas when consensus is not achieved. This could be applied at any stage where a decision needs to be made or at minimum for advancing ideas from the "development plan stage" outlined in the Staff Proposal[24] where presentation of various options is not a feasible means of advancing an idea to the next level.

c. *Establish a "Market Transformation Initiative Account" to enable broader coordination*

Under the current Proposal, it appears that each individual PA will have autonomy over the $12 million to pursue ideas as it so chooses. However, there is not currently a process to

[24] Staff Proposal, page 26 in the PDF

assess the proposals against one another to determine which should advance to the "program development" stage (akin to the Accord development stage). To address this, NRDC proposes that the total funding allocation be collected in a "Market Transformation Initiative Account" that will be used to fund various program ideas that are generated by any PA or non-PA through the process described below.

We also suggest that the stakeholder group be responsible for determining reasonable levels of funding, with a dedicated utility as the responsible party for distributing the funds. For early stages in the process, this could occur potentially via a recommendation to Energy Division or other process as the current CAEECC does not have delegated authority. Funding for latter stages would be determined through the advice letter process.

d. Modified stage modifications

In our proposal, many of the Staff Proposal components are reorganized or modified into fewer stages to enable additional coordination of proposals, allow for a broader set of entities to submit proposals, streamline the vetting process, and better facilitate how ideas advance.

i. <u>Stage 1 – Concept Development and Initial Selection</u> (equivalent to Steps 1-3 in Staff Proposal, and Concept Development and Initiative Start in the NEEA model):

At this stage, PAs or non-PAs (e.g., third-party implementers, non-profits, etc.) propose initial concepts for market transformation initiatives and develop what the Staff Proposal terms "The Development Plan."[25] The concept proposers could leverage the MTS or otherwise solicit early feedback on their idea.

When ready, the proposers would submit "The Development Plan," to the CAEECC MTS. In a public meeting led by a facilitator, the MTS would vet the plan and strive for consensus to advance the initial proposal. If consensus is not achieved, the process at this stage would follow a balanced voting approach (e.g., super majority) to determine which ideas advance to the next stage.

The successful proposals from this stage would receive seed funding from the Market Transformation Initiative Account to further develop the program and Accord. This would be in lieu of filing a Tier 1 Advice Letter and is estimated to take approximately 6 months.

[25] Staff Proposal, page 26 in the PDF (Section 4.1)

ii. Stage 2 – Program Development (equivalent to Steps 3-4 in Staff Proposal, and the same as NEEA's Program Development phase):

The proposers who advance to this stage would develop the full Accord for consideration by the MTS, including the program concept, proposed metrics (e.g., market progress indicators), cost-effectiveness assessment, budget, and other components as outlined in the Staff Proposal with modifications recommended in these comments.

The proposer could leverage the expert group to pre-vet ideas to increase the chance of advancing to the next stage, if they so choose. The MTS would strive for consensus but at this stage, if consensus is not achieved, either a vote or an approach that compares the different opinions could be developed and included in the forthcoming advice letter process.

The proposer would submit their Accord to the CPUC via a Tier 2 Advice Letter (in lieu of filing a Tier 3 advice letter). NRDC recommends a Tier 2 advice letter to align with the traditional process of introducing a new program into the energy efficiency portfolio (or the new process of a Tier 2 advice letter for programs more than $5 million or longer than 3 years).[26]

The Commissioners do not currently approve specific programs in either R.13-11-005 or A.17-01-013 et al., and we do not recommend initiating a Tier 3 advice letter process for market transformation programs. However, filing a Tier 2 advice letter will provide the opportunity for parties to protest and the Commission Staff to assess the reasonableness of the proposal (although the objective of the MTS process would be to resolve as many disagreements as possible to reduce the review and approval time of an advice letter).

This stage is estimated to take about 1-2 years, including the efforts to develop, vet, pass the MTAG, and go through the Advice Letter process.

iii. Stage 3: Market development and ongoing monitoring (equivalent to Steps 5-6 in Staff Proposal, and Market Development in the NEEA model):

This stage is where implementation begins, using the budgets approved through the Tier 2 advice letter process and in-line with the Accords that were vetted by the MTS. Each initiative would also have a real-time evaluation plan, similar to the evaluation process used by NEEA.

The market development stage is expected to take approximately 3-5 years but will vary by initiative. The CAEECC MTS would get periodic reports from the implementer (PA or otherwise) and the third-party evaluator on the progress of the initiative. The MTS would determine whether or not the program is on track. If the initiative is falling short of key agreed upon performance indicators, the group would assess whether or not the program needs to be modified or discontinued.

[26] D.18-01-004, Ordering Paragraph 2.

7. ***The Staff Proposal includes an allocation of funding for market transformation planning efforts. In some cases, such planning efforts may fail to produce a workable Market Transformation Accord. Should spending on such planning efforts be subject to separate budget caps or time limitations? If so, what should those limits be and why?***

To enable creative thinking, the Commission should focus on a workable process that allows for new ideas to be vetted and tested. With NRDC's modified stage-gate approach coupled with an expert facilitation team through the CAEECC process, we anticipate the risk of an extensive accord planning process that completely fails would be low. Therefore, we do not anticipate a need for a cap or time limitations at this juncture.

There could be times where an Accord does not get completed for other technical or market reasons (e.g., the market moved faster than the regulatory and stakeholder process), which should not be seen as a failure as the intent of this effort is to test bold new ideas and use the Accord process to determine if such ideas are viable. Even if Accords are completed, under NRDC's proposal some may not continue past that stage (e.g., if the MTS does not believe it is viable). The stage-gate approach limits spending on ideas that are not likely to prove successful and provides the Commission the confidence that funding is being prudently spent.

8. ***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?***

NRDC plans to address this question in reply comments.

9. ***Do you support the Staff Proposal recommendation for how to conduct evaluation, measurement, and verification on market transformation initiatives? Why or why not?***

NRDC recommends following best practices identified in the Pacific Northwest, in which a third-party evaluator collects information on market transformation initiative implementation and troubleshoots and/or advises the program and the MTS in real-time.

10. ***Comment on the Staff Proposal's discussion of milestone based performance assessments.***

NRDC agrees with Staff's proposed framework of assessing program performance based

on agreed upon progress metrics and milestones. These program metrics, as stated in the Staff Proposal, are not limited to energy savings achievement; energy savings are just one of a suite of progress metrics that would be identified at the time of development of the full Accord.

As noted above, NRDC recommends that assessment of initiatives be based on a comprehensive set of progress indicators and milestones and not solely on the achievement of energy savings milestones. To accurately gauge the performance of a market transformation initiative, the appropriate metric needs to be analyzed at the appropriate time (e.g., to determine if early market intervention is working, assessing the availability of a product should be conducted earlier in the process than other metrics). Although achievement of energy savings metrics is critical to assess a *mature* market transformation initiative, other metrics (e.g., product-awareness, reduction in cost, workforce capabilities, etc.) are better indicators of future program success for *nascent* initiatives.

11. 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?

See NRDC comments on Q6. We agree in concept but propose modifications and consolidation of various aspects of Section 5 in the Staff Proposal.

12. Are there other ways (besides those represented in the Staff Proposal) to engage and leverage stakeholder expertise effectively? If so, describe them.

NRDC strongly agrees with the importance of including experts throughout the various market transformation processes as well as with providing stakeholders opportunities to participate. See Q6 for NRDC's proposal for an expert advisory group and stakeholder process using existing infrastructure.

13. Are there characteristics of market transformation initiatives that are not sufficiently embodied in the framework described in the Staff Proposal? If so, describe them and suggest ways these characteristics can be integrated into the framework or requirements.

NRDC plans to address this question in reply comments.

14. Are there elements in the Staff Proposal that are missing or unclear? Describe.

NRDC plans to address this question in reply comments.

15. 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?

We agree with the Staff Proposal's objective to identify a discrete opportunity to advance market transformation. We therefore recommend that the Commission adopt the framework as modified by NRDC.

16. Include any other comments or recommendations not covered by the above questions.

We agree that incentives are a policy lever that can be used to incentivize clean energy investment akin to the return on investment utilities get when they invest in traditional infrastructure. We also understand that the proposal to include incentives for milestones is intended to motivate the IOUs to actively participate. However, NRDC has concerns in this instance with how such an incentive would be implemented. In the current proposal, it is likely that an incentive would distract from the task at hand more than it would contribute to its overall success.

Given that the Proposal suggests an incentive based on achieving energy-saving milestones, which are inherently uncertain, and given that energy-saving assessments for incentive awards have historically led to disagreements, it is unclear how such an approach could be implemented to yield the intended motivation without detracting attention and resources from ensuring strong market transformation initiatives.[27] Furthermore, as we heard from NEEA at the September 25, 2018 workshop, energy savings may not materialize until year 5 or later, which makes incentive payments based on energy savings extremely uncertain. We plan to provide additional comments on this matter in response to opening comments.

[27] Staff Proposal, p.13 in the PDF. "Staff recommends performance incentive reward payments be made to the funding PAs based on the achievement of energy savings milestones."

III. CONCLUSION

NRDC appreciates the hard work it took launching a Staff Proposal and looks forward to working with stakeholders and the Commission to implement a successful approach to market transformation.

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Respectfully submitted,

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