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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking to Examine the Commission's Post-2008 Energy Efficiency Policies, Programs, Evaluation, Measurement, and Verification, and Related Issues.	Rulemaking 09-11-014 (Filed November 20, 2009)

ASSIGNED COMMISSIONER'S RULING REGARDING 2010-2012 ENERGY EFFICIENCY PROGRAM CYCLE

1. Introduction

The November 17, 2010, Assigned Commissioner's Ruling solicited comments and recommendations from parties regarding the schedule for the Commission's establishment of post-2012 energy efficiency savings goals and other portfolio planning matters. This ruling determines that the 2010-2012 program cycle should be extended through at least 2013, but that a number of issues raised by the parties need to be further evaluated. To address these issues we will hold workshop(s) and/or request further input by subsequent ruling(s). We anticipate a decision in 2011 establishing the schedule for the next portfolio cycle and providing other guidance, as necessary.

2. Background

Decision (D.) 08-07-047 gave the assigned Commissioner and/or Administrative Law Judge (ALJ) authority to "adjust the schedule for updating and establishing new energy savings goals for 2012 through 2020." The November 17, 2010 Assigned Commissioner's Ruling (ACR) exercised this authority and extended the timeframe for a goals update until a time to be determined by a later ruling or decision. The ruling also issued an Energy Division staff white paper, which:

1. Evaluated two options for the scope and schedule of the 2010 energy efficiency goals update ordered in D.08-07-047 and other planning activities: "Option A" proposes that the Investor Owned Utilities (IOUs) adhere to expectations for a 2013-2015 energy efficiency (EE) portfolio, and continue administering EE portfolios on a three-year cycle. "Option B" proposes that the IOUs modify work plans to allow for extension through 2013 of the 2010-2012 programs, shift to a permanent four-year portfolio cycle, and plan for a 2014-2017 portfolio;

2. Describes Energy Division's interpretation of the California Energy Efficiency Strategic Plan update ordered in D.08-09-040 and the California Energy Efficiency Strategic Plan Progress Report called for in D.09-09-047; as well as relevant updates to avoided cost data inputs and methodologies in related Commission proceedings; and

3. Makes three recommendations:

   a. That the Commission extend 2010-2012 energy efficiency programs through the end of 2013;

   b. That the Commission adopt four-year energy efficiency portfolio cycles on a going forward basis, beginning with a prospective 2014-2017 energy efficiency portfolio; and

   c. That, prior to commencing analyses to update efficiency potential and goals, the Commission and/or assigned Commissioner adopt selected updates to cost-effectiveness data inputs and methodologies to maintain consistency with relevant updates in other Commission energy proceedings

Eight parties filed comments: Natural Resources Defense Council (NRDC), Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE), San Diego Gas & Electric Company /Southern California Gas Company (SDG&E/SCG), The Utility Reform Network (TURN), Local Government Sustainability Council (LGSC), Division of Ratepayer Advocates

(DRA), Proctor Engineering, and California Energy Efficiency Industry Council (CEEIC). CEEIC filed a motion requesting party status on December 3, 2010, which was approve on December 16, 2010. Proctor Engineering filed a motion requesting party status on December 7, 2010 which was approved on December 9, 2010. Reply comments were filed December 10, 2010.

3. Discussion on Extending Portfolio Program Cycle

Most parties expressed unequivocal support for Option B, while some parties expressed conditional support. However, LGSC opposes making a decision at this time pending further review and consideration of the issues. LGSC states:

> It is not clear that the Commission needs to render an opinion now on changing the current program cycle, or expanding the next cycle to four years. The Commission should take the next six months to examine the issues identified with an expansion of the program cycle, both in the White Paper and in the comments on the White Paper.[1]

While additional time is necessary to consider the issues raised by parties' comments, Option A provides insufficient time to conduct a six month review of issues identified in parties' comments (as LGSC proposes) before completing a goals study and planning the IOUs' portfolios. It would, therefore, be impossible to both examine these issues and remain on the current schedule.

TURN, NRDC, LGSC and CEEIC support an extension to the 2010-2012 cycle provided that a mechanism for mid-cycle portfolio changes is incorporated.[2] Specifically, these parties recommend a mid-cycle review and

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[1] *Comments of LGSC on November 17, 2010 ACR* at 9.

[2] Comments on November 17 2010 ACR by TURN at 4; LGSC at 3-5; and NRDC at 3-6.

stakeholder process in order to cancel programs that are not cost effective and to initiate new programs, with greater transparency to the non-utility parties. NRDC suggests a rolling RFP process to allow new programs into the utility portfolio. D.09-09-047 updated the Energy Efficiency Policy Manual on issues related to fund shifting and portfolio review for the 2010-2012 portfolio cycle.[3] Energy Division shall work with parties to determine how to apply this direction and, if necessary, to further develop the record regarding whether additional midterm adjustment mechanisms are necessary.

Most parties generally support the proposal to shift to a four-year cycle,[4] however LGSC and TURN support the four-year cycle on the condition that a mid-cycle review and correction mechanism is incorporated.[5] CEEIC emphasizes that regardless of the length of the cycle, setting a schedule that will allow the portfolio cycle to start on time is a high priority.[6] NRDC and SDG&E/SCG recommend extending the cycle to five years, arguing the 2009 bridge year still did not provide time to plan,[7] while PG&E and SCE are in agreement that neither Option A nor B provide sufficient time for portfolio planning.[8] They state that the development of the energy efficiency portfolios has historically required a year, while the timelines for both options propose that energy efficiency portfolio

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[3] *See* D.09-09-047, Ordering Paragraph 43.

[4] DRA at 2, SCE at 5, NRDC at 2, CEEIC at 3-11.

[5] LGSC at 2 TURN at 4-14.

[6] CEEIC at 5.

[7] NRDC at 2, SDG&E/SCG at 3.

[8] PG&E at 3-4 and SCE at 7.

development will be completed and applications filed in approximately six months. More specifically, SCE argues that:

> Despite the unprecedented effort of collaborating to overcome numerous resource and timing issues, [the procedural delays in 2009] illustrate the challenge that Energy Division and the IOUs have faced in comprehensively implementing a current program cycle according to Commission direction, while also beginning the planning for the next cycle with the appropriate analysis, strategic planning, and development. It is doubtful that these challenges will subside prior to the application process for the next program cycle.[9]

The NRDC, SDG&E/SCG, PG&E and SCE comments seem to indicate that a two-year extension may be necessary. However, it seems reasonable to postpone the decision whether to extend the current cycle by one versus two years and whether to permanently shift to a four-year cycle (or longer) until after workshop(s) and other record development occurs to fully understand the implications and choices for the Commission. At this time, based on the record, it is clear that the current cycle will need to be extended by at least one year. An advantage of making that determination now is that all parties can plan for this change well in advance, as compared to the 2009 bridge funding decision.

4. Discussion on Updating Cost-Effectiveness Inputs

There is general agreement among parties that the cost effectiveness inputs should be updated with the most recent methodologies that were adopted in the distributed generation proceeding in Decision 09-08-026. However, the parties did not agree that it would be sufficient to adopt "straightforward" updates from that proceeding. NRDC, CEEIC, and SCE argue that further adjustments beyond

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[9] SCE Comments at 9.

the straightforward updates are necessary and that parties should be allowed to comment on each proposed change to the values.[10] SCE and PG&E also state that the updated inputs from the Demand Response proceeding (Rulemaking 07-01-041) should also be included.[11] Furthermore, NRDC and CEEIC argue that there are additional inputs that need further consideration, such as non-energy benefits, as well as revisions to the broader cost-effectiveness framework.[12] SCE states that the Commission should not update the cost effectiveness inputs for the current portfolio cycle but rather for the next cycle.[13] SCE also states that, in accordance with D.09-09-047, all ex ante values including the avoided cost inputs shall remain frozen at the levels set when the portfolio cycle started.[14] PG&E supports updates as long as these do not create further delays in the overall planning process.

We share the IOUs' concerns that cost-effectiveness review not further delay portfolio filing, therefore we will be cautious in our approach to cost-effectiveness, and giving the utmost consideration to methodologies already adopted by the Commission. We are not convinced that non-energy benefits can be adequately examined and brought to a decision in the time available. Energy Division will work with the ALJ and parties to further develop the record on

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[10] NRDC Comments at 8-9; CEEIC, SCE at 10.

[11] SCE Comments at 11-12, PG&E at 8.

[12] NRDC at 9, CEEIC Comments at 13.

[13] SCE at 11.

[14] D.09-09-047 at 42.

concrete cost-effectiveness proposals by mid-2011. Based on the existing record, the following aspects of cost-effectiveness seem reasonable to assess at this time:

- The appropriate cost tests to apply to the range of progress considered in the portfolio planning process;
- Update to the discount rate;
- Inclusion of avoided RPS cost based on an appropriate methodology;
- Updates to data inputs, as identified in the November 17, 2010 staff proposal; and
- Update to the generation capacity cost methodology, as identified in the November 17, 2010 staff proposal.

Parties provided a number of additional recommendations related to the issues to be resolved regarding guidance for the next portfolio, including specific work activities, schedule implications, the basis for goals-setting, and coordination with the Strategic Plan and the Energy Commission's Demand Analysis Working Group. The ALJ and Energy Division staff shall initiate further discussion and fact-gathering via workshops or other means to develop more specific information and choices, upon which the Commission can issue future guidance.

IT IS RULED that:

1. Pursuant to the authority granted in Decision 08-07-047 Ordering Paragraph 5, the timeframe for a goals update decision is extended until the second quarter of 2012 (or later).

2. The Energy Division and the ALJ shall develop the necessary record regarding the implications of extending the 2010-2012 portfolio, and planning issues needed to guide preparation of the next efficiency portfolio, as discussed

above and including goals-setting, cost-effectiveness, and other preparation activities and schedules.

Dated December 23, 2010, at San Francisco, California.

/s/ANDREW SCHWARTZ for
Dian M. Grueneich
Assigned Commissioner

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Dated December 23, 2010, at San Francisco, California.

/s/ JOYCE TOM
Joyce Tom

N O T I C E

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