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Energy Efficiency Rolling Portfolios,
Policies, Programs, Evaluation, and Related
Issues.

Rulemaking 13-11-005
(Filed November 14, 2013)

**Comments of the Center for Sustainable Energy® in Response to the Ruling of
Assigned Commissioner and Administrative Law Judge Seeking Input on
Approaches for Statewide and Third-Party Programs**

Center for Sustainable Energy®

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The Center for Sustainable Energy® (CSE) appreciates the opportunity to provide these Comments in response to the *Ruling of Assigned Commissioner and Administrative Law Judge Seeking Input on Approaches for Statewide and Third-Party Programs* (Ruling) and offers the following recommendations:

I. Overall Regulatory Framework

1. In its policy pronouncements designed to meet Senate Bill 350 requirements for market transformation and pay-for-performance programs, the Commission should recognize the complementary and different functions of market transformation and resource acquisition interventions.
2. The Commission should give additional guidance for the Rolling Portfolio Cycle and Sector Business Plans in the areas of statewide and third-party programs prior to the submission of these plans in late 2016.
3. Requirements for statewide and/or third-party approaches should not apply to non-utility program administrators [e.g., community choice aggregators (CCAs), California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), Regional Energy Networks (RENs), CSE, etc.].

II. Statewide Programs

4. The Commission's statewide proposal is a step in the right direction but should be expanded to identify, design, and execute statewide market transformation strategies.

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OVERALL REGULATORY FRAMEWORK

1. In its policy pronouncements designed to meet Senate Bill 350 requirements for market transformation and pay-for-performance programs, the Commission should recognize the complementary and different functions of market transformation and resource acquisition interventions.

CSE thanks the Commission for its proposal to undertake significant changes to the energy efficiency portfolio, including the transition to truly statewide programs. CSE agrees with the Commission that these changes will make statewide programs easier for customers to access, reduce transaction costs for customers and market actors, and increase energy efficiency savings. CSE fully supports this effort and agrees that this transition will reduce portfolio overhead by eliminating redundant capacity and *can potentially* provide a bridge to more collaboration with the California Energy Commission (Energy Commission), California Air Resources Board (ARB), and public and municipal utilities (discussed in **Statewide Programs, Section 5**).

The proposed definition for statewide programs specifies they are “mainly designed to achieve market transformation and/or aimed at delivering new construction and cross-cutting (cross-sector) programs.” However, this transition to statewide programs alone will not result in market transformation, as required by Senate Bill (SB) 350.¹

Resource acquisition and market transformation initiatives are intervention approaches, rather than policy objectives. The distinct characteristics of each intervention strategy are provided in **Attachment A**. These two intervention strategies, one harvesting annual energy savings through programs and the other a broader, long-term market mobilization effort, can

¹ Senate Bill 350 (De León) at SEC.16, 399.4.(d) calls for the Commission to: “(1) Authorize market transformation programs with appropriate levels of funding to achieve deeper energy efficiency savings. (2) Authorize pay for performance programs that link incentives directly to measured energy savings.”

co-exist in the same policy framework but must be balanced and strategically deployed. As discussed in the *Building a Policy Framework to Support Energy Efficiency Market Transformation in California*² report:

“It is our view that resource acquisition and market transformation can and should co-exist in the same policy framework. It is critical, however, to acknowledge the ways in which these tools can undercut each other and to design the policy environment in a way that safeguards against this. Ensuring that resource acquisition and market transformation work well together and do not undercut each other requires attention to three principles: employing a portfolio management approach, recognizing the differences between resource acquisition and market transformation interventions, and focusing on strategic and market-appropriate interventions.”

With the transition to streamlined statewide program delivery, the Commission creates the opportunity to design, fund, and deliver statewide market transformation initiatives. However, these initiatives will need to be appropriately scoped and balanced with resource acquisition programs to avoid market confusion.

To do this, CSE urges the Commission to “ascribe a role to market transformation within [the] energy efficiency portfolio”³ in this current proposal, as a first step to developing a market transformation policy framework. By taking this initial step, the Commission creates a

² *Building a Policy Framework to Support Energy Efficiency Market Transformation in California*, Ralph Prah and Ken Keating, December 9, 2014.

³ Keating and Prah provide eight key components of a supportive market transformation policy on page 8 of “Building a Policy Framework to Support Energy Efficiency Market Transformation, “...a supportive market transformation policy framework must, at minimum:

1. Ascribe a role to market transformation within an energy efficiency portfolio
2. Determine appropriate program administrator(s)
3. Manage the risks
4. Determine a process to identify and vet market transformation initiatives
5. Assess the cost-effectiveness of market transformation initiatives
6. Measure progress toward market transformation goals
7. Consider the need for market transformation performance incentives
8. Reflect market transformation opportunities in potential and goals studies.”

bridge to ensure that market transformation initiatives are not an afterthought to the development of a statewide portfolio but are a fundamental part of transitioning the portfolio to more targeted, effective, innovative strategies coordinated with the Energy Commission, ARB, and public and municipal utilities. The Commission can formally “ascribe a role” to market transformation by stating in its proposal framework that market transformation initiatives: 1) are a priority investment for ratepayer dollars; 2) are distinct from resource acquisition programs; and 3) will require additional considerations, such as appropriate administration, statewide and cross-agency coordination, multi-year timelines for cost-effectiveness, and others. We continue this discussion in **Statewide Programs, Section 4** of these comments.

2. The Commission should give additional guidance for the Rolling Portfolio Cycle and Sector Business Plans in the areas of statewide and third-party programs prior to the submission of these plans in late 2016.

CSE encourages the Commission to give additional guidance for the Rolling Portfolio Cycle and Sector Business Plans to the program administrators in the areas of statewide and third-party programs in advance of submission of these plans in late 2016. Specifically, CSE urges the Commission to require investor-owned utility (IOU) administrators to designate in their Business Plans which components will be issued for statewide implementer solicitation as well as for third-party solicitation, along with the bid solicitation protocols, as discussed on page 12 of the Ruling.

3. Requirements for statewide and/or third-party approaches should not apply to non-utility program administrators (e.g., CCAs, CAEATFA, RENs, CSE, etc.).

CSE concurs with the “Coalition”⁴ that non-utility program administrators should not

⁴ The “Coalition” includes the International Brotherhood of Electrical Workers, the National Electrical Contractors Association, Blue Green Alliance, Don Vial Center for Employment in the Green Economy, and others.

be subject to the same protocols as the IOUs for bidding out to third parties for statewide or local programs. Moreover, CSE encourages the Commission to provide guidance, before the delivery of Business Plans, that non-utility program administrators should not be subject to the same third-party bidding proposals as the IOUs. Local government implementers and administrators, including Local Government Partnerships (LGPs), RENs, and CCAs, are mission-driven public sector entities and are well-positioned to directly serve their local communities.

Similarly, initiatives that are already competitively bid to statewide program administrators should not be subject to the same protocols as the IOUs for bidding out all implementation roles to third parties. For example, CSE agrees with the Commission's proposal to continue to address Energy Upgrade California® – the statewide marketing, education and outreach (ME&O) initiative – in a separate proceeding. The competitive bid process for the statewide administrator and implementer role is already underway pursuant to Decision (D.)16-03-029. The Commission created a new process in this Decision for the statewide administrator and Parties to A.12-08-007, et al., to jointly participate in long-term and annual planning of ME&O efforts across demand-side resource proceedings.⁵

STATEWIDE PROGRAMS

4. The Commission's statewide proposal is a step in the right direction but should be expanded to identify, design, and execute statewide market transformation strategies.

The Commission's statewide proposal is an important step to introduce innovation, reduce redundancy, and transition the energy efficiency ratepayer portfolio to customer-focused solutions. However, the current statewide proposal does not include the elements needed to enable statewide market transformation initiatives.

⁵D.16-03-029, *Decision on Phase 3 Issues: Post-2016 Statewide Marketing, Education, and Outreach Activities*, March 17, 2016, page 79, Ordering Paragraph 4.

CSE recognizes that market transformation is scoped for Phase III of this proceeding and looks forward to substantive discussions about roles, appropriate budgets, and methods for identifying and executing successful market transformation initiatives in 2017. However, if the Commission seeks to enable market transformation, the current statewide proposal should be built to ensure statewide market transformation initiatives can be: 1) designed and executed for optimal effectiveness (which may require changes to competing resource acquisition programs); 2) evaluated for cost-effectiveness on longer (five, seven, or ten year) timelines;⁶ 3) coordinated with the Energy Commission, ARB, and public and municipal utilities; 4) appropriately funded; and 5) allowed to respond flexibly to dynamic markets and feedback from customers and industry.

As discussed in the Keating and Prahl whitepaper, the Commission should consider “who makes the decisions about market transformation priorities and resources, and ultimately directs the initiative?” CSE believes that the process of identifying appropriate initiatives, designing and planning with diverse stakeholders and multiple agencies, delivering multi-pronged strategies, and adapting strategies to meet market needs would benefit from a central administrator, such as a California Market Transformation

⁶ Market transformation initiatives are planned based on an adoption curve model that generally assumes two to three years for initial uptake, after which cost-effectiveness drastically improves. Requirements to show annual cost-effectiveness will undercut the design and delivery of market transformation initiatives that can, over their life, deliver significantly more cost-effective savings than resource acquisition programs. Keating and Prahl address this on page 23: “Market transformation initiatives are best aimed at attempting to create structural change in narrowly defined markets. As such, the relevant timeframe is not a first year set of benefits and costs, nor even the costs and benefits measured in a single portfolio or program cycle. Market transformation can take anywhere from two to ten years to be fully effective, and the administrative costs of market transformation initiatives occur early – they are ‘front-loaded,’ with measurable impacts potentially a year or more away. Energy impacts of a size to justify the resources invested may take a number of years of market growth to fully realize.”

Administrator (CalMTA).⁷

To be clear, a CalMTA *would not* replace resource acquisition portfolio administration functions held by the utilities or supplant local activities. Rather, this entity would need to work closely with utilities, CCAs, RENs, local governments, and stakeholders to ensure that California leverages the power of its statewide market (the largest in the United States) by deploying a limited portfolio of strategic, transformative initiatives.

For statewide market transformation programs, the role of program administrator should be bid to a mission-driven public sector or nonprofit entity. A study commissioned by the CPUC found that the entities that have been most successful in carrying out market transformation initiatives “are explicitly tasked with market transformation as a key organizational objective” and “are also not trying to make a profit, but to carry out their mission.”⁸

Furthermore, CSE notes that not all statewide programs are appropriate for market transformation initiatives. Such efforts only succeed where there is currently an unmet efficiency opportunity that could benefit from a new or rising technology, standard, or practice to establish widespread and sustained adoption, or where there are barriers that must be overcome for an existing technology to meet its savings potential. A successful transformation strategy targets a market that is ripe for long-lasting structural changes and ideally includes non-energy benefits and/or small individual savings with each transaction, making it a better candidate for longer-term, broad intervention rather than direct-to-customer resource acquisition.

Therefore, CSE encourages the Commission to ascribe a role for market transformation

⁷ The California Market Transformation Administrator (CalMTA) was proposed in Senate Bill 765 (Wolk). This administrator would be an entity delegated the responsibility to develop and deliver statewide market transformation initiatives, working in coordination with program administrators.

⁸ Prahl and Keating study for the California Public Utilities Commission, *Building a Policy Framework to Support Energy Efficiency Market Transformation in California* (December 2014), at 15.

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within the energy efficiency portfolio by stating in its proposal framework that market transformation initiatives are: 1) a priority investment for ratepayer dollars; 2) distinct from resource acquisition programs; and 3) will require additional considerations, such as appropriate administration, statewide and cross-agency coordination, and multi-year timelines for cost-effectiveness. CSE urges the Commission to provide in its Decision a path forward to have these in-depth discussions within Phase III of this proceeding, beginning in early 2017.

CONCLUSION

CSE appreciates the opportunity to provide these Comments in response to the Ruling. We look forward to continuing to work with the Commission and stakeholders to ensure that the State's energy efficiency portfolio delivers deep energy savings.

June 17, 2016

A handwritten signature in black ink, appearing to read "Sachu" followed by a stylized, cursive signature.

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Attachment A

From *Building a Policy Framework to Support Energy Efficiency Market Transformation in California*, Ralph Prahl and Ken Keating, December 9, 2014.

Table 1: Distinctions between Resource Acquisition Programs and Market Transformation Initiatives⁹

	Resource Acquisition	Market Transformation
Scale	Program	Entire defined market
Target	Participants	All consumers
Goal	Near-term savings	Structural changes in the market leading to long term savings
Approach	Save energy through customer participation	Save energy through mobilizing the market
Scope of Effort	Usually from a single program	Results from effects of multiple programs or interventions
Amount of Program Administrator's control	PAs can control the pace, scale, geographic location, and can identify participants in general	Markets are very dynamic, and the PAs are only one set of actors. If, how, where, and when the impacts occur are usually beyond the control of the program administrators.
What is tracked, measured, and evaluated	Energy use and savings, participants, and free-ridership	Interim and long term indicators of market penetration and structural changes, attribution to the program, and cumulative energy impacts.
Timeframe for cost-effectiveness	Usually based on 1st year or cycle savings	Is usually planned over a 5 -10 year timeframe

⁹ Derived from Keating, et al., *ops cit.*, and Sebold et al., 2001. For more detail, see Keating, et al.