BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

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OPENING COMMENTS OF THE CALIFORNIA EFFICIENCY + DEMAND MANAGEMENT COUNCIL ON ADMINISTRATIVE LAW JUDGE'S RULING INVITING COMMENTS ON THE DRAFT POTENTIAL AND GOALS STUDY

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I. INTRODUCTION

The California Efficiency + Demand Management Council (the "Council") respectfully submits these Opening Comments on the Administrative Law Judge's Ruling Inviting Comments on Draft Potential and Goals Study, issued in this proceeding on May 1, 2019 ("ALJ Ruling").[1]

We appreciate the analysis and effort that Navigant put into the development of the 2019 Energy Efficiency Potential and Goals Study ("Potential and Goals Study"). The basic process used to develop the Potential and Goals Study has been applied to inform energy efficiency policies and programs since the California Energy Crisis. As the Potential and Goals Study acknowledges, the report's findings influence the energy efficiency goals established by the California Public Utility Commission ("CPUC"), as well as energy forecasting models completed by the California Energy Commission ("CEC") and the California Independent System Operators ("CAISO"), and inform how the state is progressing towards achieving the energy efficiency doubling target established under Senate Bill ("SB") 350.

If California is going to achieve the goals identified in SB 350, SB 100 Executive Order ("EO") B-55-18, and maintain its title as a world leader in energy efficiency, it will have to update the policies and decisions that feed into Potential and Goals studies to ensure they are designed to achieve those objectives. In the comments that follow, the Council responds to the

[1] These Opening Comments are timely filed pursuant to the California Public Utilities Commission ("CPUC" or "Commission") Rules of Practice and Procedure and the ALJ Ruling.

questions identified in the Ruling, and requests that the Commission take action to focus future Potential and Goals studies on the most cost-effective means for efficiency to achieve the SB 350 doubling target and contribute to other Commission energy goals, rather than simply looking at whether efficiency is cost-effective relative to marginal units today.

II. BACKGROUND

The Council is a statewide trade association of non-utility businesses that provide energy efficiency, demand response, and data analytics services and products in California.[2] Our member companies employ many thousands of Californians throughout the state. They include demand response and grid services technology providers, implementation and evaluation experts, energy service companies, engineering and architecture firms, contractors, financing experts, workforce training entities, and manufacturers of energy efficiency products and equipment. The Council's mission is to support appropriate demand response and energy efficiency policies, programs, and technologies to create sustainable jobs, long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvement.

III. THE COUNCIL'S RESPONSES TO QUESTIONS IN THE ALJ RULING

The Council's responses to the questions posed in the ALJ Ruling are provided below.

1. **Commission staff proposed five scenarios that attempt to capture a reasonable range of energy efficiency potential for 2020-2030. Which scenario – either in the Navigant study or an alternative recommendation – is most appropriate to inform 2020-2030 goals? Justify your recommendation:**

The Council does not believe any of the scenarios accurately reflect the energy efficiency potential and associated savings that need to be achieved to meet the state's energy and climate goals. We strongly disagree with the premise of the question, which asks which scenario reflects a "reasonable range of energy efficiency potential for 2020 to 2030."

In passing SB 350, the legislature established a simple pathway for the state to double its energy efficiency savings by 2030. The CEC establishes "annual targets for statewide energy efficiency savings and demand reduction," and the CPUC establishes "energy efficiency targets consistent with these goals."[3]

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[2] Additional information about the Council, including the organization's current membership, Board of Directors, antitrust guidelines and code of ethics for its members, can be found at http://www.cedmc.org. The views expressed by the Council are not necessarily those of its individual members.

[3] https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160SB350

In 2017, the CEC released its report to the Legislature, "Senate Bill 350 Doubling Energy Efficiency Savings By 2030" ("2017 CEC SB 350 Report"), identifying the quantity of electricity and natural gas savings the state will need by 2030 to meet the doubling of energy efficiency goals of SB 350.[4] While the report clearly shows that the utility programs alone cannot achieve the state's goals, these programs serve as the foundation that additional state activities are to build upon.[5]

The Potential and Goals Study is a stark departure from the findings of the 2017 CEC SB 350 Report, with sharply reduced expectations from utility programs- in other words, dangerously undermining the foundation of the savings needed to comply with SB 350. If the Reference Scenario of the Potential and Goals Study is adopted, this failure to align utility program goals with the savings needed to attain the statutory target will undoubtedly be the topic of legislative inquiry, seeking to know why the Commission is so severely falling behind. The answer would be all too clear: instead of looking at how to achieve the statutory efficiency goal in the most cost-effective ways, the Potential and Goals Study overly relies on a single test- the Total Resource Cost ("TRC") - despite the clear admonition of the California Standard Practice Manual on the dangers of relying on a single test, and despite the TRC's punitive assessment of the private investment that California must leverage to achieve its goals.

The singular use of the TRC as the primary Cost-Effectiveness framework test for energy efficiency, without balancing it against other cost-effectiveness tests as the California Standard Practice Manual strongly advises,[6] seriously undermines the Commission's abilities to achieve its own overall goals for a reliable, climate-protective, equitable and cost-effective energy system. Achieving the goals and targets identified in SB 350 will require substantial private investment in efficiency measures, but it is the deterrence of private investment that is the most harmful result of applying the TRC in an unweighted fashion in the 2019 Potential and Goals reference scenarios. While it may be difficult to determine the exact proportion of private investment made for comfort or other private goals, the TRC effectively presumes that

[4] CEC Final Commission Report Senate Bill 350: Doubling Energy Efficiency Savings by 2030, at p. 1.
[5] *Id*.
[6] "The tests set forth in this manual are not intended to be used individually or in isolation: The results of tests that measure efficiency, such as the Total Resource Cost Test, the Societal Test, and the Program Administrator Cost Test, must be compared not only to each other but also to the Ratepayer Impact Measure Test. This multi-perspective approach will require program administrators and state agencies to consider tradeoffs between the various tests." California Standard Practice Manual, 2001, at p.6

proportion is zero, which is demonstrably worse than any reasonable attempt to quantify the non-zero value. This dynamic is a root cause of the significant decline in potential seen in the report, as the "low-lying fruit" of savings that could be attained with minimal cost have been harvested and deeper savings require greater investment- albeit greater return. The TRC notoriously disfavors projects requiring larger investment relative to those that are cheaper, even where the value per program dollar spent is vastly more in deeper savings programs. Using the TRC without balancing it with the Program Administrator Cost ("PAC") to mitigate the TRC's penalty for private investment ignores research that consistently shows customers are willing to invest in energy efficiency projects to achieve a host of non-energy benefits, like improved comfort,[7] and that harnessing this investment to achieve policy goals can enable savings that would otherwise be unattainable. Failing to make use of this customer-driven investment essentially leaves ratepayer money on the table- money that is desperately needed for clean energy investment.

Instead of allowing this negative feedback loop to continue, the Commission should take immediate action to set California's utility programs back on a path that aligns with our state's energy and climate goals. The most immediate step the Commission should take to accomplish this goal is the inclusion of the modified PAC test in the 2019 Potential and Goals Study, on a weighted basis with the TRC.[8] While the inclusion of a modified PAC is not a panacea it will provide an important comparison data point that will inform the Commission about the amount of potential the state is abandoning in the name of supporting the singular approach of the TRC.

2. **Do you recommend alternative values for any the inputs or modeling used in the Navigant study? If so, specify the particular input or modeling (with section or page references, if applicable) and your recommendation for alternative values. Justify your recommendation and provide references. In particular, we invite responses regarding the following specific assumptions used in the Navigant study:**

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[7] *See, e.g.,*PG&E Whole House Program: Marketing and Targeting Analysis. Opinion Dynamics Corporation, 2014. CALMAC ID: PGE 0302.05; Energy Upgrade California–Home Upgrade Program Process Evaluation 2014-2015, EMI Consulting, 2015. CALMAC ID: PGE 0389.01; Impact Evaluation Report Home Upgrade Program–Residential Program Year 2017, DNV GL, 2019. Each of these studies quantifies the nature of customer investment in energy efficiency programs. In each study non-energy factors, including home comfort, resale value, and indoor air quality among others comprise a majority of perceived customer benefits.

[8] Unless the PAC is considered on a weighted basis, due to the way the tests are constructed, mathematically the TRC will always determine the result.

A. Do you agree with the cost assumptions used in the Navigant study? Explain why or why not, and (if applicable) provide references to alternative sources of information for specific cost assumptions used in the Navigant study.

The Council does not have a response at this time, but reserves the right to comment on parties' responses in Reply Comments.

B. Do you agree with the assumptions in the used in the BROs section of the Navigant study? Explain why or why not, and (if applicable) provide specific references to alternative sources of information for specific assumptions used in the Navigant study. In particular:

i. HERs represent a significant amount of incremental electric savings in 2020. Do you agree with the assumptions used to forecast HERs energy savings in this study?

The Council does not have a response at this time, but reserves the right to comment on parties' responses in Reply Comments.

ii. The Navigant study includes new items in BROs forecasting, which indicate significant savings potential. Do you agree with the building benchmarking and universal audit tool assumptions used to calculate BROs savings?

The Council does not have a response at this time, but reserves the right to comment on parties' responses in Reply Comments.

C. Whole Building rebate programs represent a significant portion of potential savings. Whole Building rebate portion of potential savings. Whole Building rebate programs encompass elements from multiple technology types and construction measures. Do you agree with the assumptions used in the Whole Building section of the Navigant study? Explain why or why not, and (if applicable) provide specific references to alternative sources of information for specific assumptions used in the Navigant study.

The Council does not have a response at this time, but reserves the right to comment on parties' responses in Reply Comments.

D. Do you agree with the assumptions used in the Low-Income section of the Navigant study? Explain why or why not, and (if applicable) provide specific references to alternative sources of information for specific assumptions used in the Navigant study.

The Council does not have a response at this time, but reserves the right to comment on parties' responses in Reply Comments.

3. Should the Commission adopt goals that include energy savings potential form the low-income sector? Explain why or why not?

The Council does not have a response at this time, but reserves the right to comment on parties' responses in Reply Comments.

4. In D. 10-04-029, the Commission adopted a different process for crediting savings from comparative energy use (e.g., HERs) programs, prohibiting the utilizes from submitting workpapers for ex ante numbers to project savings for these programs; instead, savings from these programs can only be credited after the Commission verifies them. Results from HERs program impact evaluations have been consistently high for the past several (approximately seven) years. Should the Commission evaluate home energy report behavior programs that have had consistent evaluation results for several years?

Since 2011, the Commission has completed annual evaluations of comparative energy use programs implemented by the Investor Owned Utilities ("IOUs") in the form of Home Energy Reports ("HERs") and by select Community Choice Aggregators ("CCAs") in the form of Home Use Reports. These evaluations have consistently shown that these programs, when utilizing sound statistical algorithms, can consistently achieve savings on a year over year basis. In addition to the energy savings achieved, these programs provide additional benefits, including participants who are "more engaged, receptive, participate more in programs, and adopt new technologies in higher proportional" than nonparticipants.[9] The Council believes a 6-year track record of data is enough to justify a shift in Commission policy towards a less stringent review process.

With that said, the Council acknowledges that the comparative energy use marketplace in California is likely to change in the coming years. These changes are being driven by the state's evolving energy goals, the shift to third-party implementation, and the ongoing progression of technology. If a comparative energy use provider shifts the program in dramatic fashion compared to what has been historically implemented, there will be a need to do a comprehensive evaluation once again.

[9] DNV GL 2017 Impact Evaluation Report - Home Energy Reports - Residential Program Year 2017 http://www.calmac.org/publications/CPUC_Group_A_Res_2017_HER_finalCALMAC.pdf

5. **What are the impacts of reduced energy savings goals, if adopted by the Commission? Should reduced energy savings goals results in smaller portfolio budgets, going forward? Explain why or why not, and (if applicable) how much smaller.**

The impacts of the reduced energy savings goals if adopted by the Commission would be dramatic, further depressing California's languishing energy efficiency industry, and would take California further off course from achieving the goals established in SB 350. If adopted, the Potential and Goals Study would make it nearly impossible, and far more expensive, for California to achieve its SB 100 and E- B-55-18 objectives as well. The failure to make progress towards California's energy goals in this critical sector of the energy economy will certainly subject the Commission to increasing scrutiny, due to the threat it poses to prospects for a climate-friendly, equitable, cost-effective and reliable energy system.

The Council urges the Commission to utilize the utility program targets established by the CEC as the starting for all future Potential and Goal Studies. This change, focusing on how to cost-effectively achieve the Commission's policy goals rather than conducting a bottom-up analysis while hobbled by a flawed cost-effectiveness approach, is necessary to ensure the goal setting process actually serves its intended purpose: if metrics and methods are not tailored to objectives, the only reasonable expectation is that the enterprise will fail to meet those objectives .

6. **Given the changes in the potential for 2020, should there be any changes to the required components of annual budget advice letters (ABALs) due from PAs in September 2019, and/or to the process or criteria for reviewing the September 2019 ABALs (Sections 7.2 and 7.2 of D. 18-05-041)? Explain why or why not. Any recommendations in response to this question should focus on new ideas and not repeat recommendations previously made and that the Commission has already dismissed.**

The Council does not have a response at this time, but reserves the right to comment on parties' responses in Reply Comments.

IV. Identify and Resolve Policy Barriers to Achieving Savings.

Where programs are heavily influenced by Commission policies and processes, the failure to produce projects or positive results must raise a red flag- and lead to a serious examination of the extent to which those policies and processes contribute to those results. This is particularly true where the technical potential- as shown in the 2017 CEC SB 350 Report -

demonstrates that there are savings to be harvested, but that those savings are not materializing or being shown in the model outputs.

One policy that has challenged the industry for years now, and is contributing to the study's very low potential outcome, is the Custom Review Process for the industrial and agricultural sector custom measures. As defined in the report, custom measures are measures found in the industrial and agricultural sector that cannot be individually "defined and rather represent a wide array of niche technologies."[10] Approval of funding for projects that fall into this category involves a lengthy and resource-intensive review process that requires establishing "Industry Standard Practice," receiving approval for the sponsoring IOU, and potentially a secondary review by Energy Division Staff before an approval to proceed is issued. While this may not be the venue to attempt to fix the process, the results of the Potential and Goal Study should send a clear alarm, and trigger both examination and corrective action. It is undeniable that the process has led to a dramatic decline in large customer participation since the earlier 2010s. In fact, Southern California Edison ("SCE") has seen a 90% decrease from 2014 to 2018 from its large business customers.[11]

Another example of a Commission policy that has resulted in dramatically lowered potential in Potential and Goals Study was the approval of DEER 2020 Resolution E-4952, which made LED lighting standard practice baselines throughout the non-residential sector. While the Council respects the significant work that went into the resolution and the consideration of its adoption. we have a concern that the findings' wholesale application throughout the nonresidential sector inadvertently harms the sector's potential. While it may be true that LED is standard practice in the commercial office sector, and high turnover segments of the nonresidential marketplace, in on other sectors like the Small-Medium Size Business the practice does not appear to be true- meaning low-cost, material savings are not being captured. When presumptions are made regarding standard practice, it is fundamental that the presumption is tested and- if found to be unjustified, in whole or in part, revisited and adjusted for real-world conditions. The Potential and Goals Studies cannot be accurate if they do not consider nuances between sectors and paints with too broad a brush. The Council requests that Commission:

[10] 2019 Potential and Study Draft, at P.14 - http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M285/K712/285712609.PDF

[11] Southern Cal Edison Advice 3992-E, at p. 2 - https://www1.sce.com/NR/sc3/tm2/pdf/3992-E.pdf

- Require future consultants to highlight in the study the challenges existing policies are having on the industry and the identifiable market potential; and
- Appropriately fund market research to better inform future studies.

V. CONCLUSION

The Potential and Goals study has long been the foundation upon which IOU Energy Efficiency goals are established, programs are developed, and California's energy efficiency industry has historically thrived. Unfortunately, the Potential and Goals findings are no longer in alignment with California's goals, which have evolved through SB 350, SB 100 and EO B-55-18 and the Commission's own policies while the analytical structure of the Potential and Goals study have essentially stayed static and fallen behind. If these findings are adopted by the Commission, without correction, it will cause significant harm to California's energy efficiency industry, lead to the elimination of industry jobs, and make it unlikely, if not impossible that we will achieve the state's goal of doubling energy efficiency in ten years.

The Council requests that the Commission take several steps to correct this increasingly serious issue. In the immediate future, to minimize the harm that is likely to come from this report, the Commission should approve the applying the PAC test on a weighted basis with the TRC in one of the 2019 reference models, to allow for a thoughtful engaged conversation about the cost-effectiveness approaches that most accurately reflects the savings that must be achieved. On the longer term, the Council asks the Commission to align future Potential and Goals Studies with the targets identified by the CEC, identify areas where Commission policies are minimizing potential, and begin a set of policy interventions to enable efficiency better to contribute to achieving the state's goals.

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Respectfully submitted,

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