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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)

REPLY COMMENTS OF THE CALIFORNIA ENERGY EFFICIENCY INDUSTRY COUNCIL (EFFICIENCY COUNCIL) IN RESPONSE TO THE ADMINISTRATIVE LAW JUDGE'S RULING ON UPDATES AND ADJUSTMENTS TO ENERGY EFFICIENCY AVOIDED COST INPUTS AND METHODOLOGY

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I. <u>Introduction and Summary</u>

The California Energy Efficiency Industry Council (Efficiency Council) respectfully submits this reply to comments submitted October 27, 2011 by parties in this proceeding in response to the "Administrative Law Judge's Ruling on Updates and Adjustments to Energy Efficiency Avoided Cost Inputs and Methodology" (ALJ Ruling), dated October 5, 2011. The ALJ Ruling presented an "Energy Division [ED] staff proposal to update the cost-effectiveness methodology." These reply comments are submitted in accordance with Rules 1.9 and 1.10 of the California Public Utilities Commission's (CPUC or Commission) Rules of Practice and Procedure. Although the ALJ Ruling originally requested reply comments by October 28, 2011, ALJ Farrar extended the due date for reply comments to November 7, 2011, via an email to the service list dated October 13, 2011.

The Efficiency Council is a statewide trade association of non-utility companies that provide energy efficiency services and products in California.[1] Our member businesses, now

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

numbering nearly 60, employ over 4,000 Californians throughout the state. They include energy service companies, engineering and architecture firms, contractors, implementation and evaluation experts, financing experts, workforce training entities, and manufacturers of energy efficiency products and equipment. The Efficiency Council's mission is to support appropriate energy efficiency policies, programs, and technologies that create sustainable jobs and foster long-term economic growth, stable and reasonably priced energy infrastructures, and environmental improvement.

The Efficiency Council appreciates the opportunity to provide these reply comments,[2] and it looks forward to continuing collaboration with other stakeholders to ensure California's continued progress toward achieving its energy efficiency goals. These comments are summarized as follows:

a) The Efficiency Council supports the Commission's schedule in the October 5, 2011 ALJ Ruling to quickly develop updated cost inputs so cost-effectiveness calculations can be established in advance of portfolio planning for the next bridge period or program cycle, but we acknowledge concerns by SDG&E/SCG, SCE, and DRA that the Commission did not provide enough detail in its proposals and time to appropriately evaluate the proposals or communicate with the other parties prior to providing comments. As a result, we support the other parties' recommendations that the Commission clarify some of the ED proposal's details, especially how some of the inputs will be used.

b) The Efficiency Council agrees with all of the other parties that energy efficiency (EE), demand response (DR), and distributed generation (DG) are each unique demand-side solutions, so adopting the inputs and methodology used for DR and DG for the purpose of consistency with EE avoided costs methodologies may not always be appropriate. We urge the Commission to consider the different characteristics and benefits of the various demand-side resources, especially the unique value of EE as primarily a baseload resource, in adopting the updated EE cost-effectiveness methodology.

c) Given that nearly all parties commented on the discount rate and few agreed on a solution, the Efficiency Council recommends that the Commission consider this issue further, although in order to remain on schedule, we support the Energy Division's proposal to use the after-tax WACC as an interim solution for input into the bridge period planning.

[2] Parties to which we respond in these reply comments include Division of Ratepayer Advocates (DRA), Natural Resources Defense Council (NRDC), Pacific Gas and Electric (PG&E), San Diego Gas and Electric (SDG&E) and Southern California Gas Company (SCG), Southern California Edison (SCE), The Utility Reform Network (TURN).

d) The Efficiency Council supports the recommendations of PG&E, SDG&E/SCG, SCE, and NRDC that the Commission account for the avoided cost of energy for pumping and treating water in measures that reduce water consumption. We also support NRDC and SDG&E/SCG recommendations to consider non-energy benefits and believe they should be addressed in advance of the next cycle during the second phase of the cost-effectiveness updates (CE-2) proposed in Commissioner Ferron's October 25, 2011ACR and scoping memo.

e) The Efficiency Council agrees with TURN and DRA that carbon prices should be reviewed periodically based on developments in the carbon market, but we urge the Commission to set long-term values to be used, with specific points of review in order to avoid planning interruptions caused by short-term swings in the market.

II. Responses to Comments Submitted by Parties in Response to the Oct. 5, 2011 ALJ Ruling and Energy Division Proposal

a) The Efficiency Council supports the Commission's schedule in the October 5, 2011 ALJ Ruling to quickly develop updated cost inputs so cost-effectiveness calculations can be established in advance of portfolio planning for the next bridge period or program cycle, but we acknowledge concerns by SDG&E/SCG, SCE, and DRA that the Commission did not provide enough detail in its proposals and time to appropriately evaluate the proposals or communicate with the other parties prior to providing comments. As a result, we support the other parties' recommendations that the Commission clarify some of the ED proposal's details, especially how some of the inputs will be used.

The Efficiency Council believes that it is important to complete the initial phase of straightforward cost-effectiveness/avoided cost input updates in time to support portfolio planning for the proposed bridge period, as also proposed by Commissioner Ferron's "Assigned Commissioner's Ruling And Scoping Memo Regarding 2013-2014 Bridge Portfolio And Post-Planning, Phase IV" (ACR), dated October 25, 2011. We acknowledge, however, the joint concerns of San Diego Gas and Electric (SDG&E)/Southern California Gas Company (SCG), Southern California Edison (SCE), and the Division of Ratepayer Advocates (DRA) that the Commission is moving extremely fast while not providing enough detail in the Energy Division's proposal. The combination of these two factors makes it difficult for the parties to evaluate the proposals and provide meaningful input. In addition, it prevents the parties from effectively exchanging ideas with each other, which could increase the value of comments to the Commission.

We urge the Commission to remain on the planning schedule as proposed by Commissioner Ferron's October 25, 2011 ACR, and we therefore believe that there may not be time for workshops as suggested by some of these parties. However, we do support these other parties' suggestions for the Commission or Energy Division to provide clarification on how it plans to use some of the inputs, which would be helpful for the understanding of all parties.

b) The Efficiency Council agrees with all of the other parties that energy efficiency (EE), demand response (DR), and distributed generation (DG) are each unique demand-side solutions, so adopting the inputs and methodology used for DR and DG for the purpose of consistency with EE avoided costs methodologies may not always be appropriate. We urge the Commission to consider the different characteristics and benefits of the various demand-side resources, especially the unique value of EE as primarily a baseload resource, in adopting the updated EE cost-effectiveness methodology.

The Efficiency Council, along with all of the other commenting parties, commented that the Commission may have inadvertently put consistency ahead of other goals when proposing the alignment of energy efficiency (EE) avoided cost inputs with those for demand response (DR) and distributed generation (DG). DRA, Natural Resources Defense Council (NRDC), Pacific Gas and Electric (PG&E), SDG&E/SCG, SCE, and The Utility Reform Network (TURN) all commented on the uniqueness of each of these demand-side energy solutions and the need for the Commission to treat each appropriately. As PG&E indicated, the Commission must "be mindful that each of the DSM products…is unique and requires that the consistent set of avoided cost inputs be applied…in a manner that appropriately values the…characteristics of the resource" (p. 2). Similarly, SDG&E/SCG commented, "Consistency should consider the unique characteristics of DR and DG and not blindly adopt methods used in those cost effectiveness analyses that are not equally applicable to EE" (p. 3).

As pointed out by the other parties, while some elements of these various demand-side solutions are similar, energy efficiency is the lowest-cost resource available, and as a baseload resource, program savings impacts occur broadly, including during peak and non-peak demand periods. As SCE pointed out, "When differences exist, the avoided cost methodology and/or cost effectiveness methodology should take such distinctions into consideration" (p. 3). We support the alignment of data inputs as much as possible, but the cost-effectiveness of different resources should be calculated with different frameworks and agree with TURN that "[t]he appeal of consistency across demand side resources should not be valued above sound reasoning" (p. 10). While we understand the Commission's desire to adopt methodologies that have already been vetted and approved in Commission policy in order to have consistency and speed the process, we urge the Commission to ensure that the different resources continue to be calculated with frameworks that appropriately value their role and unique benefits in the energy system.

c) Given that nearly all parties commented on the discount rate and few agreed on a solution, the Efficiency Council recommends that the Commission consider this issue further, although in order to remain on schedule, we support the Energy Division's proposal to use the after-tax WACC as an interim solution for input into the bridge period planning.

The Energy Division's proposal for adopting the after-tax weighted average cost of capital (WACC) solicited strong responses by many parties, with almost none agreeing on a solution. SCE (p. 7) and PG&E (p. 4) supported the after-tax WACC (p. 7), SDG&E/SCG (p. 8) and TURN (p. 9) indicated preference for a before-tax WACC, DRA proposed its own recommendation for a rate between 1.4% and 7% based on societal and ratepayer discount rates (p. 10-11), and NRDC supported the post-tax WACC for PAC test but a lower societal discount rate of 3% for the TRC test (p. 4). The Efficiency Council, in our opening comments, also suggested that the Commission begin assessing options for using a societal discount rate but we supported the use of the after-tax WACC as a near-term improvement.

Given the wide variety of views on discount rate, the Efficiency Council continues to recommend that the Commission consider this issue and particularly the potential use of a societal discount rate further, especially as it reviews cost-effectiveness inputs for the next portfolio planning period. However, for the near-term, with the release of the tight schedule for bridge period planning in Commissioner Ferron's ACR and Scoping Memo on October 25, 2011, the Efficiency Council recommends that the Commission adopt the after-tax WACC now as an interim input into cost-effectiveness calculations for the proposed efficiency potential study and proposed 2013-2014 bridge period planning decisions coming in December 2011 and January

2012. As PG&E states, the after-tax WACC discount rate "more accurately represents the net present value of utility avoided costs of EE activities than the pretax WACC" (p. 4).

d) The Efficiency Council supports the recommendations of PG&E, SDG&E/SCG, SCE, and NRDC that the Commission account for the avoided cost of energy for pumping and treating water in measures that reduce water consumption. We also support NRDC and SDG&E/SCG recommendations to consider non-energy benefits and believe they should be addressed in advance of the next cycle during the second phase of the cost-effectiveness updates (CE-2) proposed in Commissioner Ferron's October 25, 2011ACR and scoping memo.

PG&E, SDG&E/SCG, SCE, and NRDC all recommended that the Commission include the avoided cost of energy for pumping and treating water when calculating the avoided costs related to measures that reduce water consumption. We support the addition of such costs since they are not accounted for in the calculations today even though energy consumed for water purposes is a significant portion of energy consumption in the state. We recommend that the Commission determine and pursue the policy changes needed to add this factor into the calculations and considerations for future energy efficiency programs.

The Efficiency Council also supports NRDC and SDG&E/SCG's recommendations to consider non-energy benefits. NRDC also recommended including the value of risk mitigation, benefits from free riders and the effects of spillover (p. 5). SDG&E/SCG recommended considering the water savings as well (p. 8). We agree that the Commission should consider these other benefits and these broader cost-effectiveness updates should be addressed in advance of the next cycling during the second phase of the cost-effectiveness updates (CE-2) that are proposed in Commissioner Ferron's October 25, 2011 ACR and Scoping Memo.

e) The Efficiency Council agrees with TURN and DRA that carbon prices should be reviewed periodically based on developments in the carbon market, but we urge the Commission to set long-term values to be used, with specific points of review in order to avoid planning interruptions caused by short-term swings in the market.

TURN (p. 2) and DRA (p. 8) both comment that carbon prices need to be updated as the carbon market develops since there is significant uncertainty regarding the market today. The Efficiency Council supports the recommendation for a plan to update the values, especially if the greenhouse gas (GHG) compliance cost forecasts adopted for the RPS MPR in 2009 don't extend past 2020 (an issue we raised in our opening comments on p. 6). We also recommend the Commission consider long-term marginal costs of carbon, instead of just short-run market costs. However, we urge the Commission, in planning for updates to carbon prices, to establish a schedule for review that allows for long-term planning and implementation horizons for the coming portfolio cycles. Too frequent carbon price updates could cause interruptions in the planning of energy efficiency programs if there are short-term swings in the carbon market as it is established over the next several years.

III. Conclusion

The Efficiency Council appreciates the opportunity to offer this reply to comments on the ALJ Ruling and Energy Division proposal for updates to the avoided costs and cost-effectiveness methodologies. As California captures more and more efficiency savings and moves up the efficiency supply curve to meet its energy and greenhouse gas emissions goals, it is essential that the Commission consider the best inputs and assumptions for cost-effectiveness calculations, as well as begin to consider longer-term improvements, to ensure that it encourages continued energy efficiency advancements. The Efficiency Council looks forward to working with the Commission and other stakeholders to ensure the continuity in the state's energy efficiency programs.

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Respectfully submitted,

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