

Decision PROPOSED DECISION OF ALJ GAMSON (Mailed 11/14/2006)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Pacific Gas and Electric Company (U 39-E), for approval of the 2006 - 2008 Energy Efficiency Programs and Budget.

Application 05-06-004
(Filed June 1, 2005)

Southern California Gas Company (U 904-G), for approval of Natural Gas Energy Efficiency Programs and Budgets for Years 2006 through 2008.

Application 05-06-011
(Filed June 1, 2005)

Southern California Edison Company (U 338-E), for approval of its 2006 - 2008 Energy Efficiency Program Plans and associated Public Goods Charge and Procurement Funding Requests.

Application 05-06-015
(Filed June 2, 2005)

San Diego Gas & Electric Company (U 902-E), for approval of Electric and Natural Gas Energy Efficiency Programs and Budgets for Years 2006 through 2008.

Application 05-06-016
(Filed June 2, 2005)

**ORDER APPROVING SOUTHERN CALIFORNIA EDISON COMPANY
PETITION FOR MODIFICATION OF DECISION 05-09-043, WITH
MODIFICATIONS**

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**ORDER APPROVING SOUTHERN CALIFORNIA EDISON COMPANY
PETITION FOR MODIFICATION OF DECISION 05-09-043,
WITH MODIFICATIONS**

1. Summary

Southern California Edison Company's (SCE) Petition for Modification of Decision (D.) 05-09-043, seeking authorization to spend \$18 million in unspent, uncommitted energy efficiency funds on the Palm Desert Project, is approved with modifications. SCE's request is reduced to \$14.0 million to reflect two years of program operation rather than 30 months, and reduced administrative costs.

2. Background

The Commission's D.05-09-043 authorized 2006-2008 energy efficiency portfolio plans and funding levels for Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), SCE, and Southern California Gas Company (SoCalGas). These plans placed cost-effective energy efficiency at the forefront of utility resource acquisition, consistent with the goals of our Energy Action Plan and energy efficiency policies.

On June 26, 2006, SCE filed a Petition for Modification (Petition) of D.05-09-043. SCE's Petition asks the Commission to authorize SCE to carry over \$18 million in unspent, uncommitted energy efficiency funding from prior program cycles to increase SCE's total 2006-2008 energy efficiency portfolio budget. Specifically, SCE seeks Commission approval of a demonstration partnership project with the City of Palm Desert (the Project). SCE also requests authorization for utilities to use the advice letter process for future requests to shift unspent, uncommitted funds from prior program cycles to the 2006-2008 budgets to fund new energy efficiency programs or incremental activities as part of existing, authorized programs.

PG&E responded on July 24, 2006. The Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN) jointly responded on July 26, 2006. SCE filed its reply on August 7, 2006. No party requested evidentiary hearings. On August 22, 2006, a Ruling from Administrative Law Judge (ALJ) Gamson requested more detailed information regarding the proposed demonstration partnership program with the City of Palm Desert. SCE answered on September 1, 2006. DRA/TURN (jointly) and Government Partners¹ responded to SCE's filing on September 19, 2006. SCE replied on September 26, 2006.

3. SCE-Palm Desert Partnership Project

A. Positions of Parties

i. SCE

SCE requests approval to implement the Palm Desert Project as part of SCE's 2006-2008 energy efficiency program portfolio, and requests authority to record up to \$18 million in project expenditures during 2006-2008 in SCE's Procurement Energy Efficiency Balancing Account (PEEBA). SCE proposes to use existing unspent/uncommitted energy efficiency monies to fund the 2006-08 Project costs, up to \$18 million.² In addition, SCE seeks the Commission's approval to fund thermal energy storage measures as part of the Project.

¹ Government Partners include the County of Los Angeles and the South Bay Cities Council of Governments.

² SCE has identified \$23.37 million in Public Goods Charge, Pre-1998 demand-side management (DSM) and Procurement Energy Efficiency funds collected by SCE for Commission-authorized energy efficiency activities in prior program cycles that, as of December 31, 2005, remain unspent and uncommitted. The amount includes interest accrued as of December 31, 2005 in SCE's PEEBA, the Public Goods Charge Balancing Account and the Pre-1998 DSM Balancing Account.

SCE states that Palm Desert has agreed to commit greater leadership and resources in support of the promotion and delivery of SCE's programs than energy efficiency community partnership programs would normally provide. In return, SCE will commit to a five-year, sustained campaign that will tap Palm Desert's DSM potential through aggressive targeted outreach, marketing, financing, and installation strategies available to all of Palm Desert customers. The Project will emphasize energy saving measures that also target peak demand reductions to maximize the value of measures to customers. The Project seeks to test the efficacy of early equipment replacement strategies, including central air conditioning. Over the five-year implementation period, the Project's objective is to reduce overall energy usage and peak load in Palm Desert by thirty percent (30%).

In this filing, SCE requests authority to incur expenditures associated with the first three years of the Project. SCE plans to submit a request for the final two years of the Project in SCE's 2009-2011 energy efficiency funding application.

SCE intends the Project's energy efficiency measures to comprise a substantial part of an overall comprehensive plan for Palm Desert. To achieve the energy savings and demand reduction objectives that SCE and Palm Desert have set for themselves, SCE proposes to increase existing approved measure incentive levels for some measures deployed in Palm Desert. SCE believes this will encourage penetration beyond historic participation levels and support early replacement strategies (including inefficient air conditioners) that will accelerate and increase the Project's energy savings and demand reductions.

SCE states residential electricity usage in Palm Desert is presently 50% higher than that for the average residential SCE customer, due to the hot

climate and the need for air conditioning. The greatest difference in consumption is in the single-family home and mobile home segments (where the usage in Palm Desert is nearly double the SCE system average) due to larger than average home sizes and higher air conditioner usage. In the case of mobile homes, the greater usage is almost entirely due to air conditioning.

SCE states that Palm Desert accounts for 0.8% of SCE's system electricity usage, but less than 0.4% of the customer base. Average residential summer peak usage in Palm Desert is 267% of off peak usage, far higher than the SCE system average, where residential summer peak is, on average, 147% of off peak residential usage. Nonresidential customers in Palm Desert face similar challenges in keeping their electric usage down during peak periods.

SCE notes that over the last two years, 15% of Palm Desert's residential accounts have participated in SCE's energy efficiency programs and received over \$870,000 in incentives. Heating, ventilation and air conditioning (HVAC) represents the largest single measure installed (over 800 units), and Palm Desert residents' participation in HVAC incentive offerings is double the rate of SCE's overall residential customer base. Palm Desert customers have also shown a willingness to make substantial investments to reduce their energy bills.

SCE proposes a model for community energy partnerships with Palm Desert's residents and businesses and their energy utilities, SCE and SoCalGas. Another partner for the Project would be The Energy Coalition, which has experience in assisting utilities and cities in coming together to bring energy efficiency offerings to communities using partnership principles.³ The estimated

³ Upon approval of the Project, SCE will work with the other Project partners to enter into an agreement to jointly implement the Project, by which each partner will agree to

Footnote continued on next page

budget for The Energy Coalition's services to the Project over the 2006-2008 implementation period is not expected to exceed \$1 million.⁴

Palm Desert's residents and businesses would continue to have access to all the programs currently offered under SCE's and SoCalGas' portfolios. However, under the Project, SCE and its partners propose to deliver these additional, incremental program offerings:

- A suite of comprehensive and cost-effective packages of DSM measures and educational and behavioral changes that also incorporate emerging technologies as they become commercially available for HVAC, lighting, refrigeration, and pumping;
- A focused, comprehensive HVAC program that maximizes on-peak energy savings and demand reduction by focusing on early replacement through higher incentives offered through special seasonal "sales" and aggressive promotion of services;
- Closely coordinated local education, training, marketing and outreach (including neighborhood "sweeps" and events) in which the partners work together to educate consumers and co-promote programs;
- Packaging financial incentive bundles that marry cost-effective utility incentive levels with various financing packages to facilitate customers' participation in energy efficiency programs; and
- Tying together Palm Desert's new energy codes and mandates that go beyond Title-24 with utility-offered

certain roles and responsibilities for implementing the Project, leveraging on each partner's experience, expertise and resources.

⁴ See the Project Implementation Plan at Section 10, pp. 6-7.

technical assistance and incentives to facilitate compliance.

SCE expects to achieve 84 gigawatt-hours (GWh) of annual, long-term energy savings and nearly 29 megawatts (MWS) of demand reduction in Palm Desert. During the 2006-08 implementation period, SCE expects to achieve approximately 40.2 GWh of energy savings and 12.3 MW of peak demand reduction in Palm Desert.

SCE seeks the Commission's approval to fund thermal energy storage (TES) measures and other load management strategies as part of the Project. Thermal energy storage is the storage of heat energy during utility off-peak times at night for use during the next day without incurring daytime peak electric rates. Although not currently identified as an energy efficiency measure under the Commission's energy efficiency policy manual, SCE believes load management strategies such as TES measures can help commercial facilities in Palm Desert reduce critical peak load. SCE proposes to offer a \$250 per kilowatt (kW) incentive for installing a TES system that provides space cooling during critical peak hours. Small commercial customers can take advantage of an ice storage TES system designed to reduce peak use of packaged units. For larger commercial facilities, chilled water TES systems have the capability of removing large cooling loads off SCE's grid during periods of high peak demand. SCE expects to achieve 609 kW peak load reduction from TES projects, representing 5% of total Project demand savings.

ii. DRA/TURN

DRA/TURN, participating jointly, recommend that the Commission deny SCE's request to modify D.05-09-043. DRA/TURN believe the Palm Desert Project is poorly designed and unsupported by adequate data for funding at the requested level, and the process SCE used to present the Project to the

Commission was flawed. Further, DRA/TURN say benefits that would result from the addition of the current Palm Desert Project to SCE's portfolio are not unique, and could be acquired elsewhere for less.

DRA/TURN specific concerns include:

1. Funding for the Palm Desert Project in comparison with other Local Government Programs.
DRA/TURN state no other local government partnership program in California approaches the proposed funding level of \$18 million. DRA/TURN note that the proposed Project budget nearly equals all of SCE's eight other government partnership programs combined at approximately \$20 million.⁵⁶
2. Free-ridership not reflected in program savings calculations. DRA/TURN contend SCE incorrectly applies a 1.0 Net-to-Gross ratio (NTG), implying that its programs will have no free-riders. Assuming levels of free-ridership equivalent to the other partnerships, the energy and peak savings drop, but the budget cost remains the same, decreasing the level of cost-effectiveness of the Project.

⁵ DRA/TURN originally uses a figure of \$18.9 million. This was corrected by SCE in its Response to ALJ questions, p. 7 to be \$21.2 million. The Commission's Energy Division calculates the total as \$19.6 million, as enumerated in Footnote 6 below.

⁶ The existing SCE Local Governmental Partnerships and budgets for the 2006-2008 cycle are:

• LA County Partnership	\$4.7 million
• Community Energy Partnership Program	\$6.5 million
• Bakersfield & Kern County Energy Watch	\$1.7 million
• San Gabriel Valley Cities (Pomona Inland Valley)	\$1.7 million
• Ventura County	\$2.3 million
• South Bay Partnership	\$1.4 million
• Santa Barbara Partnership	\$0.3 million
• County of Riverside Partnership	\$1.0 million
• Ridgecrest Partnership	\$0.5 million
• Mammoth Lakes Partnership	\$0.5 million

3. The Project's HVAC program is unlikely to achieve what it proposes. DRA/TURN say SCE proposes an HVAC program that depends largely upon the early retirement of equipment that is still useful. They see this as problematic because it is more cost effective to replace equipment at the time of normal burnout (or end of useful life). Palm Desert's residential HVAC effort is mainly early replacement with minimal additional HVAC savings projected from room AC units, window upgrades, and awnings. Also, the likely need to achieve higher and more aggressive penetration to achieve savings goals, particularly with the early retirement component, may create the need for higher rebates for HVAC programs to motivate customers.⁷ Further, the "Substituting-in" of high efficiency window replacements for dwelling units that have already had HVAC replacement is problematic given that the current general market standard on windows is already high-efficiency.
4. Budget Update. DRA/TURN contend the budget for the Project includes implementation of HVAC and other summer cooling measures that cannot ramp-up for the summer 2006 season. Accordingly, DRA/TURN call for the proposed Project budget to be updated to reflect program savings over a shorter time period.
5. Thermal Energy Storage not approved as an Energy Efficiency measure. DRA/TURN state that TES is not an approved energy efficiency measure, but is instead an energy intensive load-shifting process. While it may shift energy use away from peak, it may also require the use of more energy to do so. Currently it is precluded via Standard Practice

⁷ Program Implementation Plan, p. 5.

Manual (SPM) definition⁸ in the Energy Efficiency
Policy Rules.⁹ DRA/TURN believe the proper forum

⁸ The California SPM 2001, CEC, Chapter 1, Section: Demand-Side Management Categories and Program Definitions states:

“One important aspect of establishing standardized procedures for cost-effectiveness evaluations is the development and use of consistent definitions of categories, programs, and program elements. This manual employs the use of general program categories that distinguish between different types of demand-side management programs, conservation, load management, fuel substitution, load building and self-generation. Conservation programs reduce electricity and/or natural gas consumption during all or significant portions of the year. ‘Conservation’ in this context includes all ‘energy efficiency improvements.’ Fuel substitution and load building programs share the common feature of increasing annual consumption of either electricity or natural gas relative to what would have happened in the absence of the program.

“Categorizing programs is important because in many cases the same specific device can be and should be evaluated in more than one category. For example, the promotion of an electric heat pump can and should be treated as part of a conservation program if the device is installed in lieu of a less efficient electric resistance heater. If the incentive induces the installation of an electric heat pump instead of gas space heating, however, the program needs to be considered and evaluated as a fuel substitution program. Similarly, natural gas fired self-generation, as well as self-generation units using other non-renewable fossil fuels, must be treated as fuel-substitution. In common with other types of fuel-substitution, any costs of gas transmission and distribution, and environmental externalities, must be accounted for. In addition, cost-effectiveness analyses of self-generation should account for utility interconnection costs. Similarly, a **thermal energy storage device should be treated as a load management program when the predominant effect is to shift load.** If the acceptance of a utility incentive by the customer to, install the **energy storage device** is a decisive aspect of the customer's decision to remain an electric utility customer (*i.e.*, to reject or defer the option of installing a gas-fired cogeneration system), then the predominant effect of **the thermal energy storage** device has been to substitute electricity service for the natural gas service that would have occurred in the absence of the program.” (Emphasis added.)

⁹ D.05-04-051, Attachment 3: Energy Efficiency Policy Manual for Post-2005 Programs, Introduction. “The rules in this manual do not currently apply to: [bullet 3] Interruptible rate or load management programs.” Footnote: “Interruptible and load management programs are primarily being addressed in Rulemaking 00-10-002.”

to discuss TES would be through a Commission proceeding such as the updating of the Energy Efficiency policy rules¹⁰ and/or a workshop process. At minimum, DRA/TURN propose a pilot program should be developed and tested to determine the impact that TES has on peak savings vs. energy used before it is widely deployed.

6. Not a unique model program. DRA/TURN contend the uniqueness of the Project is not substantiated by its typical energy efficiency measures. Their review of the Project's E3 calculator¹¹ input worksheets demonstrate that of the 3.4 Gwh in projected lighting, 2.8 Gwh - or over 80% - are to be had from screw-in compact fluorescent lightbulbs (CFLs). This contrasts with SCE's portfolio as a whole, which projects that one-half of its lighting savings will come from screw-in CFLs. Further, DRA/TURN note there are already existing DSM programs including low-income, self-generation, and the California Solar Initiative; all of which are expected to be integrated into SCE's portfolio offering across its service territory. These are programs that Palm Desert could and should have access to through SCE's utility and third party programs and are not unique to the Project. Nor is the proposed HVAC early retirement program unique to the Project.

¹⁰ The Energy Efficiency proceeding has initiated a phase three of the new rulemaking R.06-04-010 to address updates to the Policy Rules.

¹¹ The E3 calculator is a computational tool used by the utility program administrators to evaluate and design energy efficiency programs, one of the outputs of which is the TRC (total resource cost) that provides a picture of program/portfolio cost-effectiveness by comparing the avoided cost of energy efficiency with supply side costs. A program with a TRC below 1.0, for example, is considered to not be cost-effective.

7. Errors in cost-effectiveness calculation. SCE reports a TRC (cost-effectiveness score) of 1.44,¹² relative to the SCE's current roster of government partnerships as a whole at a TRC of 1.75. The Palm Desert 1.44 TRC however, is before correcting for free-ridership. DRA/TURN contend the Palm Desert application also errs in the calculation of cost-effectiveness by carrying forward SPM related anomalies that work to inflate the TRC calculation when total measure incentive costs exceed incremental measure cost. DRA/TURN contend these matters should be corrected as directed by Commission decision D.06-06-063.
8. Inappropriate Administrative costs. DRA/TURN contend multiple layers of administrative costs including SCE, Palm Desert, the Energy Coalition, and program contractors look to be approximately a quarter of the Project budget including marketing and overhead. The Project proposes to pay \$1 million to The Energy Coalition for its service, equaling approximately 6% of the budget. The descriptions in this proposal do not establish that The Energy Coalition adds value to this Project, but rather adds layers of cost and administration.
9. Five-year time period of Project. DRA/TURN contend SCE inappropriately asks the Commission to approve funding for the Project for five years. Committing to a 5-year program this would bring the Project into the next Energy Efficiency cycle in 2009-11, actually making this an approximately \$25 million program commitment. DRA/TURN

¹² Note that the SCE petition represents a TRC score of 1.67 on page 12, yet the SCE E3 calculator output report (as well as corrections to D.05-09-043) represents a TRC score of 1.44. We have used the 1.44 TRC from the E3 calculator output, which SCE now agrees is correct.

believe it is inappropriate to pre-judge 2009-2011 portfolios, and such a process would be unfair to other government partnership programs that have not had the benefit of such favorable treatment.

iii. Government Partners

The County of Los Angeles and the South Bay Cities Council of Governments (known as Government Partners) filed a response to the August 21, 2006 ALJ Ruling. Their comments were limited to ensuring the Commission has accurate information about the past performance of local government partners, and recommendations on how the Commission can strengthen existing partnerships. Government Partners contend that SCE underreported how much of its budget County of Los Angeles spent in 2002-2003, with savings of 101.7% of the revised program goals. Also, Government Partners state that SCE incorrectly reported that in 2004-2005, the County exceeded its budget for the partnership because SCE excluded SoCalGas funds in the budget. Further, Government Partners state that the 2004-2005 South Bay Cities Council of Governments partnership program came in under budget and exceeded its target goals by more than 200%, as opposed to SCE's claim that it went over budget and achieved no savings.

B. Discussion

i. Time Period of the Project

SCE proposed the Project to commence in mid-2006 and last through 2008. SCE plans to submit a request for the final two years of the Project in SCE's 2009-2011 energy efficiency funding application. Because the petition was not

filed by SCE until June 26, 2006,¹³ it was not possible for the Commission to review the filing until after the summer of 2006. Therefore the Project cannot begin until at least early 2007. SCE's estimates of costs and benefits assume the Project will last for 30 months. The Project will instead last no more than 24 months. As DRA/TURN note, SCE has missed an entire summer savings period for a program that is specifically designed around savings from reductions in summer peak usage. Therefore, the benefits and costs of the Project will necessarily be lower than as presented by SCE.

SCE agrees that should the Project be substantially delayed into 2007, it might be necessary to modify the Project energy and demand savings targets and budget. SCE proposes that, if an adjustment is warranted, SCE should be directed to file an updated Program Implementation Plan or an advice letter making such adjustments.¹⁴ We will reduce the Project budget by 20% to account for the reduction in duration from 30 months down to no more than two years. This change reduces the budget from \$18 million to \$14.4 million.¹⁵ We will require SCE to file an updated Project Implementation Plan within 30 days of the date of this decision to update Project energy and demand savings targets, and to reflect the modified budget.

¹³ On May 10, 2006, SCE filed an advice letter seeking a Commission resolution authorizing SCE to fund and implement the Palm Desert Project that is the subject of this application. On June 5, 2006, the Commission's Energy and Legal Divisions informed SCE that D.05-09-043 did not authorize using the advice letter process to fund the Project with unspent or uncommitted funds from previous program cycles. SCE was instructed to file this Petition instead.

¹⁴ SCE Reply Comments on ALJ Ruling, p. 2.

¹⁵ The final budget is \$14.0 million, reflecting other changes from this Order.

ii. Cost-Effectiveness

Our policy is to promote cost-effective energy efficiency programs as a first priority in resource planning. However, we generally do not approve energy efficiency projects which are not cost-effective, unless part of an overall cost-effective portfolio. We will first consider whether SCE's proposal is cost-effective as proposed.

DRA/TURN recommends that SCE be asked to revise its TRC cost-effectiveness calculations to apply a Net-to-Gross ratio of 0.80 instead of 1.0. As DRA/TURN point out, it is faulty to assume that everyone who participates in the Project would not have implemented some measures in absent of the program. We agree with DRA/TURN that there is nothing unique about the offerings in the Project other than TES. Under the Database for Energy Efficient Resources (DEER): "All existing programs not listed below shall also use a default value of 0.8; Appliance early retirement and replacement use a value of 0.80." This pilot program is not listing in DEER. Thus, a net-to-gross ratio of 0.80 is appropriate.

SCE calculates the cost-effectiveness of the Project at a TRC of 1.44 (after corrections). With the change in the net-to-gross to 0.8, SCE calculates the cost-effectiveness at a TRC of 1.29.¹⁶ DRA/TURN raise an issue that the Palm Desert application also errs in the calculation of cost-effectiveness by carrying forward SPM related anomalies that work to inflate the TRC calculation when total measure incentive costs exceed incremental measure cost.

¹⁶ SCE reply to 8/21/06 ALJ Ruling, Question 9.

DRA/TURN are correct that these matters should be corrected as directed by D.06-06-063. Doing so reduces the cost-effectiveness to a TRC of 1.26.¹⁷

With the duration of the Project now two years instead of 30 months, we must consider whether this time change affects the cost-effectiveness calculation. SCE claims no cost-effectiveness update is needed for a six-month implementation delay.¹⁸ We have no basis to disagree. We find the proposal to be cost-effective as proposed.

We note that the EM&V protocols adopted by the Commission will require review and verification of savings from this and all other programs implemented during the program cycle. The Commission will carefully consider the results of ex post EM&V when it considers funding requests for this program during the 2009-2011 program cycle.

iii. Comparative Scope of Program

As noted, DRA/TURN believe the Project is excessive in comparison with other SCE local government programs. Certainly, the scope of the Palm Desert proposal is larger than any other governmental partnership programs in SCE's portfolio. For example, SCE's partnership program with the County of Los Angeles is a proven partnership program. Yet, the County of Los Angeles (with a population of several million) is currently receiving about \$4.7 million, as compared to the proposed \$18 million for Palm Desert (with less than one percent of the population of the County of Los Angeles). In and of itself, the dollar amount of the Palm Desert Project does not automatically disqualify it from our consideration. The large comparative scope, however,

¹⁷ SCE reply to 8/21/06 ALJ Ruling, Question 11 and Attachment A.

¹⁸ SCE reply to 8/21/06 ALJ Ruling, p. 2.

raises the issue of whether this \$18 million of leftover funds are best spent on this program, even if the Project is meritorious. In other words, are there better uses within the energy efficiency world, or within the subset of local governmental partnerships?

We note that the TRC calculation (as adjusted above) for the Palm Desert program (1.26) is lower than the average TRC for SCE's local governmental partnership portfolio (1.75). Therefore, it is reasonable to conclude that \$18 million proposed for Palm Desert project potentially could be used more effectively elsewhere. On the other hand, we have not evaluated SCE proposed Project as a part of its overall energy efficiency proposal. Therefore, we cannot say whether the Project would have been approved as part of an overall portfolio. Not all of SCE's current programs have projected cost-effectiveness levels above 1.26; in fact, some of SCE's current programs may not be strictly cost-effective on a stand-alone basis.

SCE is asking for approval of one project, with a set of specific programs. As discussed above, we have limited SCE's expenditures to be more consistent with the timeframe of the Project. While we could defer consideration of this project to our review of SCE's 2009-2011 energy efficiency programs, any benefits from the Project would be lost or deferred for two years or more.¹⁹ Since we have no basis to determine that the comparatively larger scale of the proposal is unreasonable, and we have found the Project to be cost-effective, we will consider the Project at this time on its merits.

¹⁹ Alternatively, DRA/TURN suggest SCE could allow all local governments to submit energy efficiency proposals for the \$23 million in pre-1998 funds through a competitive bidding process. (DRA/TURN response to SCE's Response to ALJ questions, p. 12.)

iv. Specific Elements of the Project

1. Thermal Energy Storage

Thermal Energy Storage system produces ice at night and uses it during peak periods for cooling. This reduces energy usage during peak periods, with the concomitant reduction in overall energy costs. As DRA/TURN point out, as a load-shifting technology, TES currently is precluded as an energy efficiency measure via SPM definition in the Energy Efficiency Policy Manual. In our Demand Response Rulemaking, Application 05-06-006 *et al.*, we may consider permanent load shifting as a demand response program. In that proceeding, TES may qualify as a demand response program.

The current definition of energy efficiency programs, while not including TES, does not prevent us from considering TES under the Project as a pilot. The issue is whether there is potential value in this pilot. SCE has shown that a significant peak reduction may be possible in Palm Desert under a TES pilot. SCE claims TES can improve cooling system efficiency by up to 25% (energy savings), and reduce cooling system related peak electrical demands by 60% to 80% (load reduction) on the hottest summer afternoons by shifting major air conditioning related electrical loads to the night from the afternoon.²⁰ On the other hand, DRA/TURN's point that TES may also require the use of more energy to shift energy use away from peak raises a significant concern, one that is acknowledged by SCE.²¹

²⁰ SCE Reply to DRA/TURN Response to SCE Petition for Modification, p. 8.

²¹ SCE response to 8/21/06 ALJ Ruling, pp. 3-4.

SCE states that TES in the Project is not proposed as an energy savings measure,²² and therefore it is not an energy efficiency measure. Generally, energy efficiency funds should not be used for non-energy efficiency projects. However, bureaucratic boundaries, when unconstrained by statute or other binding legal authority, should not be used to limit our discretion to conduct a pilot program with potentially beneficial results. We do not know for certain that TES will be beneficial either in Palm Desert or on a wider scale. We do know that there are both potential benefits from reducing peak load (one aspect of energy efficiency) and potential downsides to TES. Here, we have before us a specific, limited, pilot proposal to test the viability of TES through SCE's Project without regard for whether it should be categorized as "energy efficiency," "demand-side management" – or either or neither. We consider TES to be a potentially innovative technology for the future. It is reasonable to test TES in the context of the Palm Desert Project.

We will approve the TES pilot as part of the Project. We emphasize that our approval here of this pilot is not intended as a precedent. Specifically, we do not approve TES by default as an energy efficiency measure or allow it to be implemented as an energy efficiency measure in SCE's or any other investor owned utility's (IOU's) portfolio.

2. HVAC

DRA/TURN express a number of concerns about SCE's HVAC proposals. These concerns include early retirement and possible need for higher rebates for HVAC programs. SCE defends HVAC early retirement as a way to encourage customers to replace older, worn, inefficient units. SCE states that it is

²² *Id.*

not necessarily true that it is more cost-effective to replace an air conditioner at the end of its useful life, and there is a “tremendous opportunity to achieve immediate and long-term savings through early retirement.”²³ SCE forecasts 6.78 MW and 15.37 GWh of savings from HVAC programs as part of the Project.²⁴ These figures will likely be reduced to account for the shorter duration of the Project. However, DRA/TURN present no conclusive data to challenge SCE’s forecasts, and we do not wish to micromanage SCE’s Project elements absent specific concerns. We will not require any changes to these program elements.

3. The Energy Coalition

DRA/TURN raise specific concerns about the proposed administrative role of The Energy Coalition, contending that The Energy Coalition adds an unnecessary extra layer of administrative cost to the Palm Desert project. As DRA/TURN state, “SCE should be capable of having a direct relationship with the City of Palm Desert without having to either utilize or pay The Energy Coalition as a liaison, especially at such an expensive cost.”²⁵ SCE states The Energy Coalition “will facilitate communications between SCE and The City of Palm Desert” involving “convening meetings with the City and SCE, as well as meeting the City and SCE individually to facilitate Project development.”²⁶ In addition, SCE says The Energy Coalition will define task

²³ SCE Reply to DRA/TURN Response to SCE Petition for Modification, p. 7.

²⁴ SCE Petition for Modification, pp. 10-12.

²⁵ DRA/TURN Response to SCE Petition for Modification, p. 20.

²⁶ *Ibid*, p. 10.

resources, create and maintain a set of flexible methods for Project tracking, and document the design, demonstration and implementation processes.²⁷

We partially agree with DRA/TURN. SCE has the experience to work with and guide Palm Desert in this partnership, and the City should provide the unique expertise that the government partner brings to the table. SCE's description of functions to be provided by The Energy Coalition is vague. While The Energy Coalition has experience in utility/government partnership programs, it is unclear what expertise The Energy Coalition brings to this specific Project that cannot be provided by SCE or the City of Palm Desert. On the other hand, SCE has shown that The Energy Coalition was instrumental in developing the Project, has worked with the City of Palm Desert on energy efficiency issues and could bring its expertise to bear on an ongoing basis. While, in its comments, SCE has provided some information explaining what specific value The Energy Coalition would bring to this particular Project, a specific delineation of forward-looking tasks remains incomplete. We will reduce SCE's Project budget by 50%, or \$400,000,²⁸ to reduce unnecessary administrative duplication. This reduces the overall budget of the Project to \$14.0 million.

4. Other Project Elements

DRA/TURN challenge other elements of the Project, such as the value to be had from screw-in CFLs. As with the HVAC program elements, we do not wish to micromanage SCE's Project at this level. SCE has shown to a

²⁷ *Ibid*, p. 11.

²⁸ The Project will last no more than 24 months instead of the proposed 30 months. The overall Project budget is reduced by 20%. A 20% reduction in the \$1 million expected cost for The Energy Coalition to \$800,000 reflects the shorter duration of the Project. A 50% reduction for costs relating to The Energy Coalition equals a \$400,000 reduction.

reasonable level of satisfaction that its Project is cost-effective. We will allow SCE to manage the Project along with Palm Desert as proposed, with the amendments discussed herein.

4. Advice Letter Proposal

SCE acknowledges that D.05-09-043 does not expressly provide for the shifting of existing unspent/uncommitted energy efficiency funds from previous program cycles to fund 2006-2008 energy efficiency activities. Nevertheless, SCE believes that in D.05-09-043 the Commission stated its intent to review fund shifting proposals while also enabling the IOUs to add new programs and make other portfolio modifications without undue restriction or delay:

[W]e believe that a single and consistent advice letter procedure for the review and approval of fund shifting proposals should be established for 2006 and beyond. We believe the advice letter procedures adopted in D.05-01-032 are appropriate for this purpose. Those procedures call for a 20-day comment period and a 30-day initial review period by Energy Division. In our view, this provides a reasonable timeframe for interested parties and Energy Division staff to review and respond to the large shifts in funding or new program proposals that trigger review under today's adopted fund shifting rules. At the same time, they provide a mechanism for the proposed changes to go into effect relatively quickly. . . . [O]ur objective is to enable the program administrators to make program funding modifications without undue restriction or delays, but at the same time to require the appropriate level of review for major changes in program allocations. . . .²⁹

SCE requests that the D.05-09-043 be modified to expressly authorize the IOU program administrators³⁰ to use the advice letter process to seek Commission authorization to shift existing unspent, uncommitted energy

²⁹ D.05-09-043 at p. 153-54. *See also* the Commission's objectives for fund shifting guidelines at p. 144.

³⁰ The IOU program administrators are SCE, PG&E, San Diego Gas & Electric Company, and Southern California Gas Company.

efficiency funds from previous program cycles to the 2006-2008 portfolio budgets to fund new energy efficiency programs or incremental energy efficiency activities as part of existing, authorized energy efficiency programs.

PG&E supports SCE's request for approval of an advice letter process to handle shifting of prior years' unspent, uncommitted funds. DRA/TURN do not object to SCE's request. However, DRA/TURN point out that D.05-09-043 in its fund shifting guidelines directed the utilities to confer with their program advisory groups. DRA/TURN suggest that we require the utilities, before fund shifting advice letters are filed, to confer and seek input from their peer review groups (PRGs), and the PRGs be required to make an assessment to the Commission of whether funds are being spent appropriately. SCE supports obtaining program advisory group, including PRG inputs. SCE believes a written PRG assessment should not be required, because a PRG assessment is only necessary for initial competitive solicitations.

We modify D.05-09-043 to allow fund-shifting proposals as proposed by SCE, with the additional requirement of upfront consultation with utility program advisory groups and PRGs.

5. Assignment of Proceeding

Dian M. Grueneich is the assigned Commissioner and David M. Gamson is the assigned Administrative Law Judge in this proceeding.

6. Comments on Proposed Decision

The proposed decision of the ALJ in this matter was mailed to the parties in accordance with § 311 of the Pub. Util. Code and Rule 14.2(a) of the Commission's Rules of Practice and Procedure. Comments were filed on December 4, 2006, and reply comments were filed on December 11, 2006 by SCE,

SoCalGas, Government Partners and DRA/TURN. Comments of The Energy Coalition were also received as Attachment A of SCE's comments.

Findings of Fact

1. The Palm Desert Project will last no more than two years, from early 2007 through the end of 2008, instead of the 30 months proposed in SCE's Petition for Modification of D.05-09-043. SCE may seek an additional two years through future funding requests.

2. Under DEER, all existing programs not listed must use a default net-to-gross value of 0.8 to take into account free-ridership. SCE's Palm Desert project is not listed in DEER.

3. When corrected for free-ridership and errors related to incentive measures cost, SCE's proposal has a TRC value of 1.26.

4. The SCE Palm Desert Project proposed \$18 million budget is nearly as large as the approximately \$19-20 million budget for all other SCE local governmental partnership programs.

5. Thermal Energy Storage is not an energy efficiency program under adopted Commission guidelines.

6. Thermal Energy Storage may decrease peak demand, and may or may not increase energy usage.

7. The Energy Coalition was instrumental in developing the Palm Desert Project.

8. It is unclear what expertise The Energy Coalition brings to this specific project that cannot be provided by SCE and the City of Palm Desert.

9. D.05-09-043 does not encompass SCE's Palm Desert Project as an authorized energy efficiency program.

10. D.05-09-043 does not allow IOU program administrators to use the advice letter process to seek Commission authorization to shift existing unspent, uncommitted energy efficiency funds from previous program cycles to the 2006-2008 portfolio budgets to fund new energy efficiency programs, or incremental energy efficiency activities as part of existing, authorized energy efficiency programs.

Conclusions of Law

1. A two-year Palm Desert Project should be funded at a 20% lower level than in SCE's 30 month proposal.

2. The cost-effectiveness of SCE's Palm Desert Project should be calculated using a net-to-gross value of 0.8 to take into effect free ridership and adjusted for other errors as directed by D.06-06-063.

3. After adjustments for free-ridership and other factors, and taking into account a shorter duration of the Project than proposed, SCE's Palm Desert Project is cost-effective.

4. The large relative size of SCE's Palm Desert Project does not disqualify it from consideration on its own merits.

5. SCE's Palm Desert Project is reasonable as a two-year project and should be adopted, as modified herein.

6. Thermal Energy Storage, while not an energy efficiency program under adopted Commission guidelines, can and should be allowed as a non-precedential pilot program as part of the Palm Desert Project.

7. It is reasonable to reduce the authorized funding for the Palm Desert Project by \$400,000 associated with The Energy Coalition, in addition to the overall 20% reduction for the Project.

8. D.05-09-043 should be modified to authorize SCE to record up to \$14.0 million in SCE's PEEBA from existing unspent, uncommitted energy efficiency monies to fund Palm Desert Project expenditures during 2006-2008.

9. D.05-09-043 should be modified to allow IOU program administrators to use the advice letter process to seek Commission authorization to shift existing unspent, uncommitted energy efficiency funds from previous program cycles to the 2006-2008 portfolio budgets to fund new energy efficiency programs, or incremental energy efficiency activities as part of existing, authorized energy efficiency programs. Utilities should be required to consult with utility program advisory groups and peer review groups before filing such advice letters.

O R D E R

IT IS ORDERED that:

1. Decision (D.) 05-09-043 is modified to authorize Southern California Edison Company (SCE) to record up to \$14.0 million in SCE's Procurement Energy Efficiency Balancing Account (PEEBA) from existing unspent, uncommitted energy efficiency monies to fund Palm Desert Project expenditures during 2006-2008.

2. D.05-09-043 is modified to allow Southern California Gas Company and the electric investor-owned utility program administrators to use the advice letter process to seek Commission authorization to shift existing unspent, uncommitted energy efficiency funds from previous program cycles to the 2006-2008 portfolio budgets to fund new energy efficiency programs, or incremental energy efficiency activities as part of existing, authorized energy efficiency programs. Utilities should be required to consult with utility program advisory groups and peer review groups before filing such advice letters.

3. SCE shall file an updated Project Implementation Plan with the Energy Division within 30 days of this Order reflecting the two-year duration of the Palm Desert Project, a \$14.0 million budget, and updated energy and demand reduction projections.

4. Application (A.) 05-06-004, A.05-06-011, A.05-06-015, and A.05-06-016 are closed.

This order is effective today.

Dated _____, at San Francisco, California.

