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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Concerning Energy Efficiency Rolling Portfolios, Policies, Programs, Evaluation, and Related Issues.	Rulemaking 13-11-005

ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENT ON MARKET TRANSFORMATION STAFF PROPOSAL

Summary

The most recent Scoping Memorandum in this proceeding, issued April 26, 2018, identifies energy efficiency market transformation approaches as one of the priority items to be addressed in the remainder of this proceeding. To facilitate examination of the policies and framework surrounding market transformation, Commission staff has prepared a Staff Proposal (see Attachment to this ruling).

A workshop will be held on September 19, 2018 at 10:00 a.m. in the Commission's Courtyard Room in San Francisco to discuss the Staff Proposal and associated issues.

Interested parties are invited to file and serve comments on the Staff Proposal by no later than October 5, 2018. Reply comments are invited by October 22, 2018.

1. Background

Senate Bill (SB) 350, in creating Public Utilities Code Section 399.4 (d), provides that:

> The commission, in a new or existing proceeding, shall review and update its policies governing energy efficiency programs funded by utility customers to facilitate achieving the targets established pursuant to subdivision (c) of Section 25310 of the Public Resources Code [requiring the setting of goals to achieve a doubling of energy efficiency savings by 2030]. In updating its policies, the commission shall, at a minimum, do all of the following:
>
> Authorize market transformation programs with appropriate levels of funding to achieve deeper energy efficiency savings. [Emphasis added.]

The April 26, 2018 Scoping Memo in this proceeding anticipated the issuance of a Staff Proposal to facilitate further examination of the appropriate way to address these requirements.

2. Market Transformation Staff Proposal

The attachment to this ruling is a Staff Proposal. It generally presents a proposed policy framework to support the implementation of energy efficiency Market Transformation Initiatives in California, pursuant to the requirements of SB 350. The proposal calls for the energy efficiency program administrators (PAs) to develop a tailored "Market Transformation Accord" to govern each Market Transformation Initiative, where an Initiative may be characterized by a particular sector, measure, intervention strategy, or other defining characteristic addressing a particular market. When complete, the Accord for each Initiative will embody a comprehensive, detailed, long-term plan that will govern the Initiative throughout its lifecycle.

As conceived, the development of each Accord is expected to require several years of work. Staff proposes a two-stage approval process for each Initiative. Approval for the first stage would provide funding for the work necessary to complete a full Market Transformation Accord. Approval for the second stage would provide funding to implement the Initiative under the terms of the approved Accord.

The Attachment also proposes that initially, the funding and oversight of market transformation initiatives would be separate from the energy efficiency business plans and rolling portfolios. A maximum budget of $12 million would be allocated to each PA to fund the initial tranche of market transformation Initiatives. If the framework proved successful, the PAs could integrate ongoing Initiatives into their business plans at the next available business plan filing cycle. Once integrated with the business plan, the market transformation Initiative funding could be extended and new initiatives added to the portfolio.

3. Questions for Parties

Parties are requested to comment on the Staff Proposal in the Attachment to this ruling, and in doing so, respond to the following specific questions:

1. What are the best characteristics of the market transformation framework in the Staff Proposal? What attributes are the most valuable and should be retained?
2. Do you agree with the staff recommendation to begin the development of market transformation initiatives initially separately from the business plan portfolios? Why or why not?
3. Do you agree with the budget limit of $12 million per PA for operations outside of the business plan portfolios suggested in the Staff Proposal? Why or why not?
4. Should there be a limit to the time period for how long market transformation initiatives may operate outside of the business

plans before being integrated with the overall portfolio? If so, what is your proposed time limit? Explain your rationale.

5. Do you support the Staff Proposal elements with respect to cost-effectiveness? Why or why not? Describe in detail any changes you would suggest.
6. Do you support the concept identified in the Staff Proposal for Market Transformation Accords? Why or why not? Describe in detail your suggested improvements.
7. The Staff Proposal includes an allocation of funding for market transformation planning efforts. In some cases, such planning efforts may fail to produce a workable Market Transformation Accord. Should spending on such planning efforts be subject to separate budget caps or time limitations? If so, what should those limits be and why?
8. Do you agree with the Staff Proposal's recommendations with respect to the interaction with statewide and third-party program requirements in the business plan portfolios? Why or why not?
9. Do you support the Staff Proposal recommendation for how to conduct evaluation, measurement, and verification on market transformation initiatives? Why or why not?
10. Comment on the Staff Proposal's discussion of milestone-based performance assessments.
11. Do you support the Staff Proposal's recommendations for the administrative aspects of management of the Initiatives, particularly in Section 5 on procedural approach? Why or why not?
12. Are there other ways (besides those represented in the Staff Proposal) to engage and leverage stakeholder expertise effectively? If so, describe them.
13. Are there characteristics of market transformation initiatives that are not sufficiently embodied in the framework described in the Staff Proposal? If so, describe them and suggest ways these characteristics can be integrated into the framework or requirements.

14. Are there elements in the Staff Proposal that are missing or unclear? Describe.
15. Ultimately, do you recommend that the Commission adopt this framework, or a version of the framework with your suggested modifications described in answers to the above questions? Why or why not?
16. Include any other comments or recommendations not covered by the above questions.

IT IS RULED that:

1. Commission staff will host a workshop to discuss the Staff Proposal attached to this ruling, and associated issues, at 10:00 a.m. on Wednesday, September 19, 2018 in the Courtyard Room at the Commission in San Francisco.
2. Interested parties may file and serve comments on the Staff Proposal attached to this ruling and the questions contained in Section 3 of this ruling, by no later than October 5, 2018.
3. Interested parties may file and serve reply comments by no later than October 22, 2018.

Dated August 29, 2018, at San Francisco, California.

/s/ JULIE A. FITCH
Julie A. Fitch
Administrative Law Judge

ATTACHMENT

California Public Utilities Commission

ENERGY EFFICIENCY MARKET TRANSFORMATION

A STAFF PROPOSAL

DRAFT

PREPARED BY ENERGY DIVISION

AUGUST 28, 2018

Abstract
This paper presents a proposed policy framework to support the implementation of energy efficiency Market Transformation Initiatives in California pursuant to Senate Bill (SB) 350. This staff proposal calls for Program Administrators to develop a tailored "Market Transformation Accord" to govern each Market Transformation Initiative. When complete, each Accord will embody a comprehensive, detailed long-term plan that will govern the Initiative throughout its lifecycle. It will have limited flexibility, explicit methodologies, clear goals and accountability. The development of a complete Market Transformation Accord is expected to require several years of work. Staff proposes a two-stage approval process for each Initiative. Approval for the first stage provides funding for the work necessary to complete a full Market Transformation Accord. Approval for the second stage provides funding to implement the Market Transformation Initiative under the terms of the approved Accord.

• Executive Summary

This paper presents a proposed policy framework intended to support the implementation of energy efficiency Market Transformation Initiatives in California. This proposal is pursuant to Senate Bill (SB) 350, which directs:

> "The Commission, in a new or existing proceeding, shall review and update its policies governing energy efficiency programs funded by utility customers to facilitate achieving the targets established pursuant to subdivision (c) of Section 25310 of the Public Resources Code [requiring the setting of goals to achieve a doubling of energy efficiency savings by 2030]. In updating its policies, the commission shall, at a minimum, do all of the following:
>
> - Authorize market transformation programs with appropriate levels of funding to achieve deeper energy efficiency savings."[1]

Market Transformation as an Intervention Strategy

There has been much discussion and debate over many years about what constitutes a "Market Transformation" program. After all, incentive programs—referred to as "resource acquisition programs" in this paper—have been successfully transforming markets in California for many years. For example, California's utilities have been administering incentive programs to support energy efficient lighting since the late 1980's. By the mid-2000's, the market share of all screw-based lamps that were efficient technologies (i.e. CFLs) were twice as high in California than in other states.[2] Between 2007 and 2010, lighting energy use in California declined by 7 percent in the residential sector and 13 percent in the

[1] SB 350, Section 399.4 subsection (d) (1)

[2] California Residential Efficiency Market Share Tracking Study 2007, Itron Inc. http://www.calmac.org/publications/CA_LampReport_2007.pdf

commercial sector according to a 2014 report published by the California Energy Commission.[3] Although there may be no official measurement of the cumulative net effects of California's lighting programs, there is compelling evidence indicating they have been highly effective in transforming California's lighting market.

There are some circumstances in which significant barriers to adoption of a new technology are not limited to the first-costs of the product or service. In some cases, non-financial barriers to adoption compound the first-cost barrier, or even supplant it. Incentive programs cannot address all market barriers. In cases where there are significant financial *and significant non-financial* market barriers, a comprehensive intervention that addresses a full-spectrum of market barriers is needed.

Market Transformation offers a superior policy tool for markets facing both financial and non-financial barriers, and where key facilitating factors are present including market leverage points. The term "leverage point" refers to venues of concentrated market activity, where a large portion of market exchanges occur. At these points, a relatively small and strategic intervention can influence large numbers of transactions, decisions or behaviors far more efficiently and cost-effectively than individual incentives. These are the contexts in which market transformation intervention strategies have major advantages over other program designs. As a 2014 CPUC whitepaper on Market Transformation states,

> "Market Transformation interventions are designed to induce sustained increases in the adoption and penetration of energy efficient technologies and practices through structural changes in the market and in behaviors of market actors." [4]

For example, there are only a handful of companies that produce elevators for the California market. Consider the hypothetical situation where new elevator technologies become available that substantially improve efficiency. Changes would spread swiftly through this particular market if an intervention occurred with elevator producers rather than the building owners and property developers that purchase elevators (i.e. the end user). Further, consider the possibility that the new elevator technologies require user-training to learn new maintenance and operational requirements. Or, the new elevator technology was not well understood or accepted by building occupants. A market transformation intervention designed to address multiple barriers would be well-suited to effect change in this hypothetical situation.

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[3] California Energy Commission - Tracking Progress. http://www.energy.ca.gov/renewables/tracking_progress/documents/energy_efficiency.pdf

[4] *Building a Policy Framework to Support Energy Efficiency Market Transformation in California*. December 9, 2014, by Ralph Prahl and Ken Keating, Consultants to Energy Division, California Public Utilities Commission. Edited by Cathy Fogel and other Energy Division staff.

Based on reviews of related research and knowledge of program design concepts, staff concludes that Market Transformation interventions are likely to be effective where the following market conditions prevail:

- There are significant leverage points in the market, offering an opportunity to influence many transactions, choices or behaviors.
- Energy consumption varies widely across possible outcomes of these transactions, choices or behaviors. That is, there is compelling potential for energy efficiency savings in the target market.
- The barriers to achieving the potential savings involve more than unit cost or price-comparisons. Some examples of market barriers that go beyond price-comparisons include:
    - Initial investments (i.e. fixed costs) are required to make a change to a new product or operational practice (for example, employee training or facility re-tooling.) The fixed costs add uncertainty and risk because they represent an upfront commitment to a product or service that may not be well-established in the market.
    - Concerns regarding doing business with a new vendor.
    - Limited number of vendors offering the new product or service. In this case, there may be related concerns that the vendors will go out of business or stop carrying the product.
    - Fear of customer confusion and loss of business volume.
    - Misperceptions surrounding product performance or service reliability.
- At leverage points, the key market actors (e.g. the owner or operator of the elevator manufacturing company) can be reasonably expected to respond to program influence. (E.g. the company owner should find the program agenda transparent; its benefits compelling, and its implementation feasible.)

While there are many instances where incentives *are* the best strategy for market transformation, there are others where a more comprehensive suite of holistic interventions are more effective. This paper is focused on the potential for using market transformation as an *intervention strategy* for technologies when an incentive program alone may not suffice.

<u>Staff Market Transformation Proposal</u>

The Energy Division proposes establishing a framework for Market Transformation Initiatives that would remove some of the barriers currently impeding certain energy efficiency programmatic approaches and activities. Under these potential new rules, the Commission would invite the program administrators (PAs) to each submit one or two proposals for Market Transformation Initiatives for Commission approval.

Management and Budget

Initially, the funding and oversight of Market Transformation Initiatives would be separate from the Energy Efficiency Business Plans and Rolling Portfolio. A maximum budget of $12M would be allocated to each PA to fund the initial tranche of programs. If the framework progresses successfully, the Program Administrators could integrate ongoing Initiatives into their Energy Efficiency Business Plans, concurrent with a Business Plan refiling. Once integrated with the Business Plan Rolling Portfolio, Initiative funding could be extended, and new Initiatives added to the portfolio.

Measurable

A key and critical characteristic of the opportunities sought with this framework is "measurability." Outcomes and trends that underpin a Market Transformation Initiative must be reliably, consistently and robustly *measurable*. Although unmeasurable outcomes can be powerful, in the context of an overarching objective to enhance the breadth and tools of the energy efficiency portfolio, this proposal is tightly focused on measurable energy savings.

Geographical Scope and Program Administration

Given the broad nature of markets, staff recommends Market Transformation Initiatives operate on a statewide basis, or even a regional or national basis where possible. Market Transformation Initiatives should encompass all IOU service territories at minimum. Market Transformation Initiatives would benefit from consistent administration across the state, so staff recommends designating one lead Program Administrator for each Initiative.

Framework Components

Staff identified four key categories of rules that comprise the proposed framework:

- Cost-Effectiveness Schedules,
- Market Transformation Accords,
- Milestone-Based Performance Assessments, and
- Strategies for Addressing Risk and Uncertainty.

Cost-Effectiveness Schedule

Currently, the energy efficiency portfolio must meet annual cost-effectiveness requirements. This mandate is not well-suited to the longer-term nature of Market Transformation Initiatives, which typically produce little savings in the early years. For this reason, the cost-effectiveness of Market Transformation Initiatives should be handled separately from the rest of the energy efficiency portfolio. Cost-effectiveness of Market Transformation Initiatives should be addressed using different parameters, and on a different schedule than the rest of the portfolio. Market Transformation Initiative proposals should define a *schedule of progress toward cost-effectiveness* spanning multiple years, where meeting the milestones set forth in the schedule is expected to yield cost-effective savings over the life of the initiative. The envisioned proposals would offer year-on-year (or month-to-month) targets. The "cost effectiveness schedule" for a Market Transformation Initiative would be somewhat like an earnings projection done for a business enterprise.

Market Transformation Initiative Accord

One of the implications of a longer-term approach is the possibility that markets change in unexpected ways over time. It can become difficult to identify and isolate effects of a Market Transformation Initiative in a changing world. The primary method proposed to manage this risk is to require a detailed upfront "Market Transformation Accord" that governs the project throughout its lifecycle. The Market Transformation Accord would be filed as an advice letter with the CPUC and it would also ensure certain required commitments and sub-agreements have been made between PAs, per the details of this proposal.[5]

A key component of the envisioned Market Transformation Accord is a collaboratively vetted forecast baseline that represents a general agreement among stakeholders about long-term market trends and opportunities for energy efficiency. The initial forecast baseline adopted in the Market Transformation Accord should represent the best possible forecast of how the market would develop with and without the Market Transformation Initiative.

In addition to the forecast baseline, the Market Transformation Accord would set in place:

- long-term funding commitments,
- plans for coordination with related resource acquisition programs,
- a defined methodology to recognize attributable energy savings, and
- a schedule of milestones to indicate progress along the way.

Throughout the lifecycle of an approved Market Transformation Initiative, PAs would be required to meet milestones, goals and reporting requirements, and if cost-effectiveness milestones are not met then Initiatives not meeting milestones may be discontinued, protecting ratepayers from further investment risk.

Milestone-Based Performance Assessment

Staff proposes that there be a reward structure put in place to incentivize performance for the administration of successful Market Transformation Initiatives. As discussed above, specific progress metrics and a schedule of milestones will be defined upfront in the Market Transformation Accord and will serve to track progress of the Initiative over time. Some of these will simply track activities areas supporting the Initiative, while other milestones will indicate market progress and achievement of energy savings. The latter serve as critical markers of success, and the recommended basis of both future incentive rewards for the PAs as well as minimum performance standards for ongoing funding. Staff recommends performance incentive reward payments be made to the funding PAs based on the achievement of energy savings milestones. Staff recommends such incentive payments be capped at 9 percent of the Initiative budget overall, similar to the resource acquisition programs' Energy Savings Performance Incentive (ESPI) mechanism. Importantly, the Market Transformation Initiative performance incentives should remain separate from the existing ESPI process, which is tailored to the current energy efficiency portfolio and not readily adaptable to the proposed market transformation framework.

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[5] In the case of third party implementation, there would likely be an agreement between the lead PA and a third party. This is not required and would be outside the scope of the final Market Transformation Accord advice letter filed with Energy Division.

Staff recommends Market Transformation Initiatives performance incentives be founded on meeting pre-set energy-savings milestones, as defined in the Market Transformation Accord. Importantly, any milestones designated to potentially trigger an incentive payment, also must trigger Initiative termination where they fall substantially behind schedule. The particulars of the milestone and the criteria for triggering incentive payments and termination processes may vary across Initiatives and are to be defined in the Market Transformation Accord. For all approved Initiatives, the following components should be clear and have apparent logical relationships with one another:

- The amount of energy savings indicated by milestone achievement,
- The amount of PA incentive reward payment for achieving the milestone, and
- The maximum delay allowed for achieving the milestone before triggering potential program termination processes.

Market Transformation Priorities

Staff declines to recommend specific markets or objectives for Market Transformation Initiatives. That said, the proposed framework offers opportunities to pursue different types of market objectives. The framework achieves this not only by allowing extended timelines for achieving net benefits, but also by offering more flexibility regarding methodologies that can be applied to quantify market accomplishments. The latter attribute allows Market Transformation Initiatives to actively pursue benefits that do not fit neatly into a traditional energy efficiency framework, such as building electrification and fuel switching. Staff recommends PAs consider these new types of opportunities in prioritizing market transformation objectives.

Strategies for Addressing Risk and Uncertainty

Even with a well-specified upfront Market Transformation Accord, the long timeframe and the broad scope of Market Transformation Initiatives creates uncertainty. Staff proposes two strategies to address risk and uncertainty.

1) The *forecast* cost-benefit ratio[6] for Market Transformation Initiatives should meet a minimum threshold value of 1.50 or greater, to compensate for the higher risk associated with longer term initiatives.
    - In the event that Market Transformation Initiatives are successful and eventually integrated with the Rolling Portfolio, staff recommends the cost-effectiveness of Market Transformation Initiatives continue to be evaluated separately from the normal PA Business Plan portfolio.
2) An "Initiative Review Committee" will oversee the implementation of each initiative over the life of the effort. There would be one such Committee for each Market Transformation Initiative. Members would be selected and managed by the PA proposing to lead the Initiative. The Committee should consist of subject-matter and industry experts that are not involved in the

[6] Staff suggests using a modified Total Resource Cost test. Please see Section 3.4 for further details.

implementation or evaluation of the Initiative. The Committee would meet regularly to review progress and make recommendations to the PA, the CPUC and stakeholders.

1. Introduction

In accordance with the legislated energy efficiency goals of SB 350 and the scope of the energy efficiency proceeding, R.13-11-005, [7] Energy Division is considering alternative methods to support Market Transformation Initiatives as a way to increase energy savings. Longer-term initiatives, including market transformation, may offer opportunities to achieve substantially larger savings. They could help California meet the ambitious goal set in SB 350 of doubling energy efficiency savings by 2030. More specifically, SB 350 directs the CPUC to "authorize market transformation programs with appropriate levels of funding to achieve deeper energy efficiency savings."[8]

This staff proposal maintains a narrow focus on a set of potential new rules for California energy efficiency program administrators ("PAs") to identify and pursue opportunities for energy savings that are not currently captured in their portfolios because they require a longer-term and multi-faceted market intervention approach to effectively address barriers to achieve savings. This document is organized as follows:

- **Section 2, Context and Background**: This section presents a discussion of how market transformation concepts and policies have developed over time, and how they have been applied in California energy efficiency policies.
- **Section 3, Proposal Components**: This section provides deeper discussion of the components of the market transformation proposal.
- **Section 4, Content Guidance for Market Transformation Development Plans and Market Transformation Accords**: This section provides specific content guidance for the "Market Transformation Development Plans" and "Market Transformation Accords".
- **Section 5, Procedural Approach**: This section outlines a potential set of workshops and regulatory filings that could launch an initial set of Market Transformation Initiatives.
- **Section 6**, **Possible Future Market Transformation Advisory Board**: This section offers a discussion of a possible future Market Transformation Advisory Board that could provide guidance over a portfolio of Market Transformation Initiatives.

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[7] Order Instituting Rulemaking Concerning Energy Efficiency Rolling Portfolios, Policies, Programs, Evaluation, and Related Issues. Established November 14, 2013.

[8] SB 350, Section 399.4 subsection d) 1)

2. Context and Background

California has a long history of support for market transformation concepts and approaches. Market transformation approaches were a focus of energy efficiency policy in the late 1990s. CPUC Decision 95-12-063 called for energy efficiency spending to shift towards activities that would transform markets. The CPUC authorized utilities to perform statewide studies to assess the development and delivery of Market Transformation Initiatives. As part of this process, a set of statewide market assessment and evaluation studies were developed for the 1999 program year. However, the energy crisis of 2000/2001 diverted public and policy attention, and prompted a renewed emphasis on resource acquisition.

By the mid-2000s, policy makers began to turn back to market transformation concepts, making substantial efforts to reset energy efficiency policy to reflect long-term objectives and comprehensive strategies. In 2007, D.07-10-032 initiated the development of the 2008 California Long Term Energy Efficiency Strategic Plan (Strategic Plan). The Strategic Plan intended to shift energy efficiency policy beyond a focus on short-term activities and toward longer-term market transformation objectives.

The 2008 Strategic Plan set out comprehensive strategies and long-term goals for energy efficiency. The CPUC, with input from utilities and stakeholders, developed market transformation indicators to track progress of Strategic Plan goals. However, these indicators could not readily be tied to an incentive mechanism for Program Administrators, nor were they tied to a defined methodology for recognizing energy savings accomplishments. Thus, the mechanisms through which the Commission credited energy savings accomplishments to utilities and programs remained largely unchanged, and without established methods to reward longer-term market-level accomplishments, executing the needed shifts in programmatic approaches has been difficult.

California's current processes and protocols for recognizing the benefits of energy efficiency programs are heavily influenced by resource acquisition program models. Classically, resource acquisition programs incentivize end-users to select of higher-efficiency alternatives where there are a range of efficiency-level options available within an equipment category that offer similar service, such as water-heaters, furnaces, or air conditioners. This approach continues to serve as a valuable programmatic tool. Yet for some energy efficiency opportunities it would be more effective to apply a strategic combination of market interventions that address multiple barriers and that can evolve over time to achieve objective outcomes. Fundamentally, this proposal is intended to bring greater attention and innovation to the pursuit of these types of opportunities, where a strategic market approach offers substantial potential benefits to ratepayers and stakeholders.

<u>Recent Context</u>

Recent policy developments have helped to bring market transformation back into focus, and change its role and relevance:

1) Decision (D.)14-10-046 initiated the adoption of the Rolling Portfolio framework, establishing 10-year savings goals and annualized funding levels of approximately $1 billion per year during the first 10-year cycle (2015-2025). This long-term approach is consistent with the long-term nature of Market Transformation Initiatives.

2) SB 350 calls for the doubling of energy efficiency savings by 2030 and directs the Commission to authorize Market Transformation Initiatives to support this effort. Pursuing this greater level of savings necessitates deliberate market research and strategic intervention, and a corresponding longer-term view of cost-effectiveness.
3) Market transformation initiatives are a focus area for the forthcoming Phase III decision of the energy efficiency proceeding, R.13-11-005, per the Scoping Ruling[9] issued April 26, 2018.
4) Decision (D.)16-08-019 redefined the administration model for statewide programs. This new policy allows for a single Program Administrator to administer a program statewide.

3. Proposal Components Summary

The proposal is comprised of four key categories:

- Cost-Effectiveness Schedule,
- Market Transformation Initiative Accord,
- Milestone-Based Performance Assessments, and
- Strategies for Addressing Risk and Uncertainty.

3.1. Cost-Effectiveness Schedule

When private investors consider a business proposal, they review financial and market projections to assess the strength of the business case. Investors also pay close attention to the payback period, the estimated rate-of-return and the level of underlying risk. Staff sees an analogous situation emerging from Market Transformation Initiatives that could be proposed by Program Administrators and/or third parties, where the public-sector concept of cost effectiveness mirrors the private sector concept of profitability.[10] Staff views the ideal proposal for Market Transformation Initiatives as having the same level of rigor and comprehensiveness that investors would demand before committing capital to a new commercial enterprise. The cost-effectiveness schedule proposed for a new Market Transformation Initiative may involve multiple years during which the Initiative is not expected to produce net benefits. Also, the projected benefits over the lifecycle of the Initiative should far outweigh the costs and should be demonstrable through reaching a schedule of pre-determined cost-effectiveness milestones, i.e., milestones that indicate market progress and energy savings.

[9] Assigned Commissioner and Administrative Law Judge's Ruling and Amended Scoping Memorandum, April 26, 2018. http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M213/K120/213120755.PDF

[10] An approach like this is described in Navigant Energy, "Market Transformation Cost-Effectiveness Framework & Methodology: CPUC Energy Division Briefing, Appendix C: Researched Market Transformation C-E Options—Option 3—Business Plan Approach," November 10, 2011.

Staff recommends that in order for an ongoing Market Transformation Initiative to continue to receive funding and be in good standing it must meet agreed-upon cost-effectiveness milestones, per an agreed-upon schedule and other terms.

3.2. Market Transformation Accord

An important factor to consider in undertaking a longer-term programmatic approach is the possibility that markets change in unexpected ways. It can become difficult to isolate the effects of a Market Transformation Initiative in a changing world. The primary method proposed to manage this risk is to require the Market Transformation Accord to be executed upfront. The Market Transformation Accord would set up long-term funding commitments and a detailed long-term plan. This approach compels upfront strategizing and decision-making, and –although the plan may not be 100 percent perfect –it should represent a collective best effort, with well-researched forecasts and well-defined market objectives.

The upfront Market Transformation Accord is intended to reduce the possibility of ongoing disputes over methodologies, targets, schedules and the allocation of energy savings credit. Officially, the Market Transformation Accord would be an advice letter filed by the lead PA with Energy Division, but it would also embody related commitments and sub-agreements made between PAs. The Market Transformation Accord would govern Initiative funding, coordination with resource acquisition programs, milestone-based incentive payments and Initiative termination criteria. Moreover, the Market Transformation Accord would effectively serve as a comprehensive governing ruleset for the Initiative. It would detail the methods, processes and protocols that are planned for determining market progress and energy savings over the Initiative lifecycle.

Development of the Market Transformation Accord

Staff proposes a two-stage process for developing Market Transformation Initiatives. The first stage involves PAs bringing to the Commission –in the form of advice letters—one or two proposed Market Transformation "Initiative Development Plans." The Initiative Development Plan would be comprised of a work plan designed to yield a fully developed proposed Market Transformation Accord. The resulting Accord would serve as the governing document for the Initiative throughout its lifecycle. The intention of this two-stage approach is to institute a high degree of scrutiny and a high bar for the approval of Market Transformation Initiatives.

The execution of Initiative Development Plans is expected to be fairly costly and to carry some risk. For this reason, staff recommends the Commission institute policies that limit protracted losses from unsuccessful Development Plan efforts. Staff also recommends that the Development Plan costs be included in the cost-benefit forecasts and Total Resource Costs calculations for the full Market Transformation Accord. This approach bundles the risks and rewards of Initiative Development with the those of the Initiative itself, requiring Program Administrators to consider both elements from the outset.

Funding and Energy Savings

Staff proposes that PA funding commitments to Market Transformation Initiatives be made explicit in the Market Transformation Accord and that they generally mirror the load-share of each PA. In order to create greater consistency over the life of Initiatives, staff recommends that PA funding allocations remain static throughout the life of the Initiative. That is, funding shares allocated to each PA should not be adjusted based on market conditions, utility sales data or other variable factors over the period of Initiative deployment. Funding shares should remain as initially defined in the Market Transformation Accord.

Similar to the statewide administration model in the Rolling Portfolio Business Plan, all energy savings credit associated with Market Transformation Initiatives will be allocated to the PAs in proportion to their share of costs, and regardless of the service territory in which the savings occur. It is important to note that these energy savings are only to be applied to PA savings goals and are not counted for Energy Savings Performance Incentives ("ESPI").

Only well-established and reliable leading market indicators or other well-understood market metrics would be approved for use in Market Transformation Initiatives. The Market Transformation Accords should draw a clear and logical link between the present state of the market, intervention strategies, the desired future state of the market, and exactly how that will translate into energy savings. PAs would be eligible to count Market Transformation savings toward their portfolio savings goals and to the State's goals.

Staff recommends that the methods for tracking performance and energy savings for Market Transformation Initiatives be determined upfront, and clearly articulated in the Market Transformation Accord. An approved Market Transformation Accord should present the protocols for determining energy savings and provide a detailed process and approach for making any necessary adjustments to strategies or methods over time.

Energy savings arising from Market Transformation Initiatives may be quantified through well-founded analytical methods that translate market indicators and other market or transactional data into energy savings estimates. The "cost-effectiveness schedule" discussed earlier would use the energy savings methodology to develop key cost-effectiveness milestones that show the Market Transformation Initiative is on-track to achieve anticipated levels of energy savings. In addition, the Market Transformation Accord should articulate a detailed plan to periodically refine energy savings estimates and methods, with particular attention to market forecasts and forecast baselines. The plan needs to strike a balance between the need for ongoing verification and updates, and the need to maintain some consistency over time, and avoid wholesale revisions or "reinventing the wheel" periodically.

Energy Savings Performance Incentives ("ESPI")

Energy savings associated with Market Transformation Initiatives should not be included in the current ESPI structure, even if Initiative funding is eventually folded into the Rolling Portfolio.[11] Instead, Market

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[11] Successful Market Transformation Initiatives can be proposed for integration with the Rolling Portfolio concurrent with a refiling of the related Business Plan.

Transformation Initiatives could be eligible for milestone-based incentives, as described in greater detail in Section 3.3.

Forecast Baseline

Market Transformation Accords should include an initial forecast market baseline. This should reflect PA and stakeholders' collective and best estimate of how markets would evolve both with and without the proposed Market Transformation Initiative. Although these forecasts will not remain static over the life of the Initiative, they will serve as the basis for energy savings estimation methods and claims, and for assessing the degree of Market Transformation success over time.

As part of the process of adopting a proposed forecast baseline, staff recommends the Commission require the PAs to employ a "Delphi" process to finalize estimates, similar to the way "naturally occurring adoption" curves are set for Codes & Standards programs. Members of the Initiative Review Committee (discussed in Section 3.4) would serve on the Delphi panel, and Energy Division staff could appoint up to two additional members at its discretion.

The Delphi process should be repeated at regular intervals to update forecast baselines, but the scope of updates should be limited to recognizing substantial changes to market conditions. To the extent possible, various possible eventualities and contingency plans should be addressed specifically in the Market Transformation Accord. In other jurisdictions,[12] Market Transformation baseline projections are trued-up annually. Staff suggests the PA propose a schedule that is reasonable for the particular characteristics of their Initiative and consider one year as a suggested industry standard.

One of the most critical elements in any Market Transformation Initiative is a well-documented forecast baseline. Development of forecasts[13] should include statistical or analytical models that address market size and market share. The forecast development process should carefully address the drivers of demand and identify the primary sources of the forecast's uncertainty. Market forecasts used for business or investment planning generally employ the following standard practices, which are presented below for context:

1. Define the market and document details of models and methods used to estimate market size, and market share.
2. Divide total industry demand into its main components. Provide a description and evidence of the primary drivers of total demand and market share.
3. Forecast the drivers of demand in each segment and project how they are likely to change.

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[12] For example, the Northwest Energy Efficiency Alliance performs annual updates to forecast baselines.

[13] Harvard Business Review, Economics, July 1988 edition. https://hbr.org/1988/07/four-steps-to-forecast-total-market-demand

4. Conduct sensitivity analyses to understand the most critical assumptions and to gauge risks to the baseline forecast. Provide a thorough analysis of the sensitivity of aggregate demand and market share forecasts to changes in assumptions and other variables.

Program Attribution and "Net-to-Gross"

The forecast market baseline should represent a well-informed assessment of how the market would evolve without program intervention. As such, the forecast baseline reflects an estimate of how all of the non-program market forces and influencing factors would interact and evolve in the market over time if there were no Market Transformation Initiative in place. In other words, the baseline represents the naturally occurring levels of energy savings, similar in concept to "free ridership" in a resource acquisition program. Savings that are in excess of the forecast baseline are the program-attributable energy savings, sometimes referred to as "net savings."

Statewide Administration and Third Party Program Status

Staff envisions Market Transformation Initiatives would eventually become part of the statewide energy efficiency program portfolio once they are integrated with the Rolling Portfolio. Staff recommends the following attributes be consistent with the Rolling Portfolio statewide administration model:

- Market Transformation Initiative budgets will be counted toward the 25 percent minimum budget allocation requirement to Statewide Programs, per D.16-08-019.[14]
- Energy savings credit is tied to the budget commitment of each PA, and not to the service territory where the savings occurs.
- There can be only one lead IOU-PA, and that PA has final decision-making authority for the statewide Market Transformation Initiative.
- All IOU-PAs will be required to participate in all Market Transformation Initiatives, and funding shares should generally reflect projected load-shares over the Initiative time-horizon.

Staff recommends one modification relative to the Rolling Portfolio statewide administration model, as follows:

- The upfront cost-sharing agreement established in the Market Transformation Accord should remain static over the lifecycle of the Initiative. There should be no possibility of mid-stream adjustments to funding or proportional savings-credit allocations.

Third Party Program Status

In Decision (D.) 16-08-019[14] the Commission redefined third party programs and set new standards for their integration in the energy efficiency portfolio. Per the new definition, a program must be

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[14] Decision Providing Guidance for Initial Energy Efficiency Rolling Portfolio Business Plan Filings. August 2016. Ordering Paragraph 6, page 110, "Utility energy efficiency program administrators shall be required to include in their business plans to be filed January 15, 2017 proposals for statewide programs and/or subprograms that comprise at least 25 percent of their portfolio budgets."

implemented *and designed* by third parties in order to qualify as a third party program. In addition, in Decision (D.)18-01-004[15] the Commission directed the PAs to increase the budget allocation to third party programs in the portfolio, from then-current levels of about 20 percent of the total portfolio budget to a minimum threshold of 60 percent by December 2022.

Staff recognizes there are significant potential benefits from leveraging third party program design and implementation expertise in the market transformation field. If Market Transformation Initiatives are eventually integrated with the Rolling Portfolio, staff recommends the Initiatives be eligible for third party program status for purposes of meeting budget thresholds in D. 18-01-004. To achieve this, the PA could set a high-level goal or intention (e.g. to address potential in a certain customer segment, building type or technology) and then conduct a third party solicitation to develop more detailed program designs.

PA-Led Evaluation, Measurement and Verification

The lead PA for any Market Transformation Initiative must include in its Market Transformation Accord a plan to conduct evaluation, measurement and verification (EM&V) activities to monitor market developments and gather feedback on program effectiveness. More specifically, the lead PA would include in their Market Transformation Accord a budget and plan to retain an evaluation firm that is not involved in program implementation to perform the following services at regular intervals:

- Monitor market developments and update forecast baseline projections.
- Validate and refine program theory and logic models.
- Gather data and report leading market indicators and Initiative milestones.
- Examine program processes and gather feedback to refine implementation strategies.

Market Transformation Accords must incorporate plans and budgets to address these EM&V needs and should establish a process for making adjustments to strategies as circumstances evolve over time. They must offer a plan to periodically monitor market developments and the performance of intervention strategies at regular intervals throughout the initiative deployment. Market Transformation Accords should also account for contingencies and plan for adjusting course mid-stream if needed.

CPUC-Led Evaluation, Measurement and Verification

The CPUC may choose to actively evaluate and verify the value of ongoing Market Transformation Initiative-related activities. Eventually there may be a portfolio of Market Transformation Initiatives, and an opportunity to consider the best methods for balancing the portfolio—i.e. to minimize portfolio risk while maintaining high levels of cost-effective energy savings. Such an evaluation could also report on challenges, lessons learned and best practices for Initiative-specific design and implementation. At this early stage in the Market Transformation framework development it is unclear whether such an evaluation would be warranted, or when it should take place. The Market Transformation Accord shall

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[15] Decision Addressing Third Party Solicitation Process for Energy Efficiency Programs. January 2018

provide access to Commission staff to all data and information pertaining to the Market Transformation Initiative.

The evaluation and assessment should also be designed to yield recommendations for how to conduct ongoing oversight and evaluation of Market Transformation Initiatives going forward. The assessment could also result in a recommendation to expand the Market Transformation programs or conversely discontinue further application of the Market Transformation framework.

Coordination with Resource Acquisition Programs

Resource acquisition programs can be a useful component of a market transformation strategy. At the same time, it is important that the two program types not compete for savings credit or interfere with one another's progress. For this reason, we recommend that resource acquisition programs be allowed to operate in markets targeted for Market Transformation Initiatives, provided the proposal makes a strong case that the resource acquisition activities would not interfere or inhibit the progress of Market Transformation Initiatives, and that instead they complement the Market Transformation Initiative.

Staff suggests that Market Transformation Accords include a comprehensive "Resource Program Coordination Plan" addressing overlapping resource acquisition programs. In agreeing up front to the Coordination Plan, the PAs for the resource programs would pledge support for the Market Transformation Initiatives, and agree to scale back or modify their resource programs as needed to serve the Market Transformation Initiative. In return, the resource programs may receive some important benefits, including a negotiated net-to-gross adjustment that would apply to the resource program for a limited period of time, as described in more detail below.

To be eligible for approval, Market Transformation Accords must present evidence of support and coordination with PAs running resource acquisition programs that affect measures or markets that are targeted by the proposed Market Transformation Initiative. More specifically, the Coordination Plan should:

- Provide a comprehensive inventory of existing and planned resource acquisition programs that would operate in the market targeted by the Market Transformation Initiative.
- Present a convincing case that resource acquisition programs will be complementary to the Market Transformation Initiative.
- Demonstrate that the PAs of the resource acquisition programs have pledged their support for the Market Transformation Initiative and agree to manage those programs in a symbiotic and coordinated fashion.
- Demonstrate that all PAs agree not to initiate new resource programs that would directly compete or interfere with the Market Transformation Initiative.
- Set a pre-determined (i.e. fixed) level of free ridership for the resource acquisition programs for a limited period of time, perhaps several years.
- Set a schedule and process for adjusting resource acquisition free ridership levels over the Market Transformation Initiative.
- Provide a schedule and process for evolving roles and/or phasing out the resource acquisition components of the initiative, in-sync with the progress of the Market Transformation Initiative.

By the end of the Market Transformation Initiative, the resource acquisition components of the initiative should be phased out completely in most cases.

To avoid confusion, staff recommends the energy savings claims of the resource program components be excluded from Market Transformation Initiative energy savings and cost-effectiveness calculations. Conversely, we recommend that resource programs be ineligible for market effects or any "spillover" energy savings credit normally credited to resource programs. The methods for recognizing energy savings outlined in the Market Transformation Accord are expected to encompass all of the market effects and resource-program spillover savings credit associated with the Market Transformation Initiative.

The intention of this construct is that the cost-effectiveness of Market Transformation Initiative will be evaluated separately from resource programs while not prohibited from leveraging resource acquisition programs as a tool for Market Transformation. As a result, the savings garnered from Market Transformation Initiatives that are not related to resource acquisition programs must be sufficient to rationalize the Initiative funding over its lifecycle. This will limit Market Transformation Initiatives to market opportunities where non-incentive-based strategies are expected to yield substantial energy savings.

3.3. Milestone-Based Performance Assessments

A Market Transformation Initiative would be subject to a system of checks and balances largely dependent on meeting pre-determined targets for metrics and milestones. For purposes of maintaining a good program standing, staff recommends that key market metrics –i.e., those related directly to the recognition of energy savings—be treated differently from other metrics. It is expected that some metrics may relate to activity levels (such as completing marketing campaigns or trainings) and some to interim accomplishments (such as an increased number of manufacturers). There will also be metrics that relate directly to energy savings and cost-effectiveness. Staff recommends the savings-related metrics be used as the basis of both incentive rewards for the PAs, as well as minimum standards for ongoing Market Transformation Initiative funding. More specifically,

- If savings-related milestones are achieved on schedule, then pre-determined financial incentive reward payments could be made to the funding PAs. We propose tying savings-milestones to reward payments to ensure better alignment of interests and very clear goals. Staff recommends the milestone incentive payments be capped over the life of the program at no more than 9 percent of program expenditures.
  - The particulars of how the incentive payments would be distributed over time, or across PAs will need to be developed further in cooperation with stakeholders, as we further develop this framework.
- Conversely, delays in achieving saving-related milestone can indicate a Market Transformation Initiative is not progressing satisfactorily and should be terminated. For all milestones designated to trigger an incentive payment, there should be a corresponding maximum allowable delay for achieving that milestone. The maximum allowable delay should be defined in the Market Transformation Accord. Delays in excess of the pre-set maximum will trigger a

program termination process. If a milestone falls behind the maximum allowable schedule delay, one of the following events will occur:

1) The PA may choose to terminate the program by filing a Tier II advice letter. The advice letter should summarize successes and lessons learned with an eye toward improving future efforts.
2) Alternatively, if the PA believes the Initiative should not be terminated despite milestone delays, then the PA may choose to file a Tier III advice letter justifying the continuation of the program and adjusting milestone schedules and cost-effectiveness forecasts accordingly.

3.4. Strategies for Addressing Risk and Uncertainty

Initiative Review Committee

Staff proposes the PAs include in their Market Transformation Accord a group of designated subject matter and industry experts to form an "Initiative Review Committee." There would be a separate committee appointed for each Market Transformation Initiative made up of named individuals that are willing to commit time over the lifecycle of the proposed Initiative. The PA would have latitude to select the members of the Committee and would be responsible for managing and organizing the Committee's meetings, agendas, and activities. Energy Division staff may add up to two additional members at its discretion. If there are stakeholder objections to the suggested membership, then Energy Division staff may recommend additional changes to the Committee membership, or make those changes a contingency of Market Transformation Accord approval.

Members of the Committee should have no direct role in the implementation or evaluation of the Market Transformation Initiative and should receive compensation for their participation in the Committee from the lead PA. The primary function and responsibility of the Committee is to provide support to the lead PA, Commission staff and stakeholders, by offering expertise, recommendations and guidance; particularly if there are indications that strategies need adjustment, or where an initiative is not performing as expected.

Cost-Effectiveness Requirements and Metrics

Initially, Market Transformation Initiatives will be managed separately from the main energy efficiency Rolling Portfolio. If the framework is successful and Initiatives are integrated with the Business Plans,[16] staff recommends that the cost-effectiveness of Market Transformation Initiatives continue to be assessed separately from the regular energy efficiency portfolio. Staff also recommends that for upfront planning purposes Market Transformation Initiatives be required to demonstrate in their Market Transformation Accord, a projected lifecycle benefit-to-cost ratio of 1.50 or higher.

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[16] Initiatives can be integrated with the Rolling Portfolio through a re-filing of the PA Business Plan.

There is ongoing work within the Integrated Distributed Energy Resources (IDER) Rulemaking[17] to develop a cost-effectiveness metric that will be broadly applicable to all distributed energy resources including energy efficiency. Staff recommends the cost-effectiveness metrics for Market Transformation Initiatives be consistent with what is adopted in the IDER proceeding. The Energy Efficiency Rolling Portfolio is currently required to maintain an annual forecast TRC of 1.25.[18] Longer-term forecasts are inherently more uncertain, and for this reason staff suggests an increase in the required value to 1.50 but also recommends the Commission revisit this value periodically, as we gain experience with Market Transformation Initiatives.

4. Content Guidance for the Market Transformation Development Plans and Market Transformation Accord

This section offers a preliminary list of suggested elements for inclusion in the Market Transformation Development Plan and the full Market Transformation Accord.

4.1. Market Transformation Development Plan Content

The Development Plan stage is intended to provide time and funding for PAs to complete the detailed requirements and planning needed to complete a full Market Transformation Accord. In other words, the Development Plan is simply a work plan for completing the Accord, and not the Accord itself. Each Development Plan should address the following:

- Identify a target market that is clearly defined and manageable.
- Define target technologies, behaviors, sectors, applications.
- Assess product (or behavior) performance, including an assessment of energy savings potential and non-energy benefits.
- Assess competing (not energy efficient) products, and the costs and benefits associated with those products.
- Describe the supply chain, product demand and delivery methods, the role of each market actor and how the market operates and functions.
- Present a preliminary assessment of market drivers and barriers.
- Present a preliminary program theory and logic model, identifying market leverage points and intervention strategies.
- Describe potential strategies and available, or preliminary data for sizing the market and for projecting a naturally occurring adoption curve, i.e. baseline forecast for the market.

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[17] Rulemaking 14-10-003

[18] Per Decision 18-05-041 Decision Addressing Energy Efficiency Business Plans (May 31, 2018), the Program Administrators annual forecasted TRC must meet or exceed 1.25 in the Annual Budget Advice Letter, except during program years 2019 – 2022.

- Describe additional research and/or market assessments needed to finalize the proposal and set an initial baseline forecast that extends over the projected timeline of the program.

4.2. Content Guidance for the Market Transformation Accord

Complete Market Transformation Accords should include the following elements:

- Define a target market that is well-understood and manageable.
- Define target technologies, behaviors, sectors and applications.
- Present current product performance data and/ or relevant behavior research.
- Address energy savings potential, competing products, and the costs and benefits associated with target and competing products.
- Describe the supply chain, product demand and delivery methods, the role of each market actor and how the market operates and functions.
- Present a thorough assessment of market drivers and barriers.
- Present a clear program theory and logic model, identifying market leverage points and intervention strategies. This should draw a clear and logical link between the present state of the market, the contemplated intervention strategies and the desired future state of the market.
- Describe strategies and data for sizing the market and projecting a naturally occurring adoption curve or baseline for the market.
- Appoint members of the Initiative Review Committee.
- Complete a Delphi process to finalize the initial baseline projection over the life of the initiative.
- Specify a plan for updating the baseline forecast using a Delphi processes at regular intervals.
- Present a resource acquisition coordination plan that demonstrates support from, and coordination with, all related resource acquisition programs. This plan would offer a fixed free-ridership rate for the resource programs for an interim period. This plan will also present a schedule and process for updating free ridership assumptions and for phasing out the resource programs altogether over the longer-term, in sync with the progress of the Market Transformation Initiative.
- Articulate the data and methods that will be used to determine energy savings attributable to the program over its lifecycle.
- Present a forecast of energy savings over the lifecycle of the initiative, as well as a budget, and a schedule of cost-effectiveness.
- Carefully define interim market indicators and milestones that will track progress, and a data collection plan to support their measurement.
- Specify which milestones would be associated with PA-incentive reward payments.
- For each milestone that triggers a PA-incentive payment, define a maximum allowable delay for achieving that milestone. (Delays that exceed of the maximum allowable time will trigger program termination processes, as described in section 3.3.)
- Provide a detailed plan for ongoing evaluation, measurement and evaluation to track progress, adjust strategies or metrics if needed, and to substantiate savings claims.

- Characterize the amount of risk associated with the effort and how it would be distributed across stakeholders. Describe risk mitigation strategies.
- Describe the desired end state of the market, and define the program exit strategy.
- Specify when and how progress reports will be shared with the Commission and stakeholders that detail Initiative activities, results and progress against milestones.

5. Procedural Approach

Staff recommends that shortly after issuance of this proposal for public comment, that Energy Division staff host a workshop to clarify content and discuss issues.

Following this workshop and receipt of public comment on the staff proposal, we anticipate the Commission may choose to adopt a Market Transformation framework through Commission Decision. If this occurs, staff proposes there be a series of PA-hosted workshops and advice letter filings to manage the remainder of the Initiative launching process, as described below.

Step 1: PAs Host an Initiative Development Plan Workshop

In this workshop Stakeholders and PAs would discuss, clarify and perhaps refine the standards and requirements for Market Transformation Development Plans. In this workshop, PAs will summarize the requirements outlined in this staff Proposal for stakeholders, and answer questions, discuss concerns and hear suggestions for potential refinements. As an option—if PAs are prepared and interested—PAs may present early outlines for specific Market Transformation Development Plan proposals. If PAs elect to share these ideas, stakeholders could weigh in on the relative merits of the proposal, and also consider the adequacy of proposal requirements in the context of specific proposed cases.

Step 2: PAs Hold Workshop(s) to Present Market Transformation Development Plans to Stakeholders

Step 2 would occur after Commission adoption of the Market Transformation framework through a Decision. Staff recommend that PAs electing to submit an Initiative Development Plan first present those plans in a public forum, such as the California Energy Efficiency Coordinating Committee (CAEECC) or at a publicly noticed workshop hosted by a PA. PA-proposed Market Transformation Development Plans should have a fixed budget and a schedule of activities designed to yield a complete Market Transformation Accord. The resulting Market Transformation Accord would then be eligible to receive long-term approval and funding.

Step 3: PAs File Market Transformation Development Plans as Tier I Advice Letters

Following Commission adoption of the framework through a Decision, and PAs holding discussions with stakeholders as described above, the PAs would be invited to submit their proposed Market Transformation Initiative Development Plans to Energy Division in the form of Tier I advice letters.

At the conclusion of the Development Plan, and if the development activities indicate support for pursuing the Market Transformation Initiative, then the PA would be invited to submit the complete long-term Market Transformation Accord for CPUC approval. We recommend the lead PA for each Initiative again hold a workshop to present key components of their proposed Market Transformation

Accord. In this workshop, the PA would present the details of the findings from the Initiative Development Planning phase, as well as the details of the Market Transformation Accord that they plan to submit for CPUC approval. That is, the PAs would present findings from their research and other work completed during the execution of the Initiative Development Plan, and the details of their resulting Market Transformation Accord.

Step 4: PAs File Market Transformation Accords as Tier III Advice Letters

Complete Market Transformation Accords would be filed with the Commission through a Tier III advice letter.

Step 5: Monitoring Ongoing Market Transformation Initiatives

Once approved, progress of the Market Transformation Initiatives would be reported to the public on a regular basis, perhaps annually. These reports would detail progress against milestones, metrics and provide feedback and updates on the status of the Market Transformation Initiative and related activities. As discussed previously, the Market Transformation Accord will define the maximum allowable delay for key milestones. If a key milestone is not achieved within the specified timeframe, the PA may choose to end the Initiative by filing a Tier II advice letter, per "Step 6". If the PA believes the Initiative is still worth pursuing, and will still be cost-effective over its lifecycle, the PA would need to file a Tier III advice letter to justify revised cost-benefit forecasts and extension of the Initiative efforts.

Step 6: Closing a Market Transformation Initiative

Each Market Transformation Accord shall include a plan for ending the Initiative efforts, i.e. an exit strategy. Initiatives that are successful would reach their intended goals and would conclude activities in accordance with this plan. The final step for each Market Transformation Initiative –successful or not—is for the lead Program Administrator to file a Tier II advice letter indicating the Initiative has ended. This Tier II advice letter should detail successes and lessons learned from the efforts in order to improve prospects of future Initiatives.

6. Possible Future Market Transformation Advisory Board

In the future the Commission could consider the formation of a Market Transformation Advisory Board to guide the development and monitor the progress of Market Transformation Initiatives. We envision this Board would be made up of a limited number of positions and would reserve some seats for selected members of regional or national non-profit organizations or members of public agencies in neighboring states such as Oregon and Washington.

The functions and duties of the envisioned Advisory Board would be to make recommendations to the lead Program Administrator and to the Commission regarding key decisions related to the development, adoption and implementation of all of the Market Transformation Initiatives. The Advisory Board would meet on a regular basis (e.g. once per calendar quarter) to hear status of ongoing initiatives and pending proposals.

END OF ATTACHMENT