

ALJ/ZK1/jt2

Date of Issuance 5/1/2019

Decision 19-04-010 April 25, 2019

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison
Company (U 338-E) for Approval of Its
Clean Energy Optimization Pilot.

Application 18-05-015

**DECISION APPROVING THE CLEAN ENERGY OPTIMIZATION PILOT AND
ADOPTING THE PARTIES' JOINT SETTLEMENT AGREEMENT**

Table of Contents

| Title | Page |
|---|------|
| DECISION APPROVING THE CLEAN ENERGY OPTIMIZATION PILOT AND ADOPTING THE PARTIES' JOINT SETTLEMENT AGREEMENT | 1 |
| Summary | 2 |
| 1. Factual Background..... | 2 |
| 1.1. Pilot Participants | 3 |
| 1.2. The Proposed Pilot Program | 7 |
| 2. Procedural History | 11 |
| 3. Issues Before the Commission | 12 |
| 4. Availability of Funding for CEOP and Funding Order Under the Cap-and-Trade Program..... | 13 |
| 5. CEOP Balancing Account and Budget | 19 |
| 6. Disadvantaged Communities | 20 |
| 7. Safety Considerations..... | 21 |
| 8. The Settlement..... | 21 |
| 8.1. Agreed-Upon Proposals..... | 22 |
| 8.1.1. CEOP as a Qualifying Clean Energy and Energy Efficiency Project..... | 23 |
| 8.1.2. Suitability for Funding through Cap-and-Trade Allowance Rather than Through Rates..... | 24 |
| 8.1.3. Whether the Performance Baseline will Reflect the Gradual Decarbonization of the Energy Grid | 25 |
| 8.1.4. Method of Accounting for Weather Variability..... | 25 |
| 8.1.5. Aggregating Emissions Factors by Time-of-Use Periods..... | 26 |
| 8.2. Demand Response Program Participation and Eligibility..... | 26 |
| 8.3. EV Charging Program Participation and Ramp-Up Period | 27 |
| 8.4. Emissions Intensity Factor | 28 |
| 8.5. Asset Life Assumptions | 28 |
| 8.6. Including Methane in Calculation of Carbon Intensity of Natural Gas..... | 29 |
| 8.7. Method for Calculating Energy Intensity of Buildings | 30 |
| 8.8. CEOP Performance Budget | 31 |
| 9. Settlement Standard of Review | 31 |
| 10. The Settlement Meets Our Standard of Review for Settlement..... | 32 |
| 11. Future Effects of Settlement | 33 |
| 12. Reporting Requirements of the Pilot to the Commission..... | 33 |

Table of Contents (cont.)

| Title | Page |
|---|-------------|
| 13. Change in Determination of Need for Hearing | 35 |
| 14. Admittance of Testimony and Exhibits into the Record..... | 35 |
| 15. Compliance with the Authority Granted Herein..... | 36 |
| 16. Comments on Proposed Decision | 36 |
| 17. Assignment of Proceeding | 36 |
| Findings of Fact..... | 36 |
| Conclusions of Law | 39 |
| ORDER | 40 |

Attachment A - Settlement Agreement

DECISION APPROVING THE CLEAN ENERGY OPTIMIZATION PILOT AND ADOPTING THE PARTIES' JOINT SETTLEMENT AGREEMENT

Summary

This decision approves Southern California Edison Company's (SCE) Clean Energy Optimization Pilot (CEOP) and adopts the December 4, 2018 Settlement Agreement between SCE, Public Advocates Office of the Public Utilities Commission, the Natural Resources Defense Council, Regents of the University of California and California State University. The Settlement Agreement resolves all disputes between the parties with respect to adoption of the CEOP, except for determining the CEOP's priority of funding over other clean energy and energy efficiency programs funded by Cap-and-Trade allowance proceeds.

This decision also approves a total budget capped at \$20.4 million for the CEOP, and establishes the CEOP's funding priority over available Cap-and-Trade allowance funding for the Disadvantaged Communities Green Tariff and the Community Solar Green Tariff programs. In addition, SCE is authorized to set up a CEOP balancing account to track project costs. This proceeding is closed.

1. Factual Background

The purpose of the Clean Energy Optimization Pilot (CEOP) is to develop a streamlined, technology-neutral method to calculate Greenhouse Gas (GHG) reductions from energy efficiency (EE) and clean energy measures using a pay for performance framework. The Pilot Participants are discussed in Section 1.1. The proposed pilot program is discussed in detail in Section 1.2.

1.1. Pilot Participants

The Regents of the University of California (UC) and California State University (CSU) are the two Pilot Participants in the CEOP. UC and CSU engaged collaboratively with Southern California Edison Company (SCE) to form the pilot as a means of addressing deep-decarbonization goals adopted by both entities.

UC

The UC system consists of 10 campuses, five medical centers and three national laboratories.¹ In 2013, the University of California's Carbon Neutrality Initiative (CNI) set an internal policy goal for the UC system of eliminating carbon emissions from its campus operations and purchased energy (Scope 1 and Scope 2 emissions)² by 2025.³

UC currently participates in EE, demand response, onsite generation (Self Generator Incentive Program and Net Energy Metering), electric transportation (e.g., Charge Ready program), early adopter technology evaluation programs (e.g., Emerging Technologies Program, code readiness program) and SCE's Local Capacity Requirements (LCR) Request for Offers (RFO).⁴ However, UC states that "there are currently no programs that specifically focus on comprehensive GHG reduction in support of the UC Carbon Neutrality Initiative."⁵ UC sees the

¹ Exhibit SCE-04 at 1.

² Scope 1 emissions are GHG emissions from sources owned or controlled by a regulated entity. Scope 2 emissions are GHG emissions from a regulated entity's purchased utilities. *See* Exhibit SCE-04 at 4, fn. 2-3.

³ Exhibit SCE-04 at 4-5.

⁴ Exhibit SCE-04 at 6.

⁵ Exhibit SCE-04 at 7.

CEOP as directly aligned with UC's carbon neutrality goals because it shifts the focus of incentives from measuring energy savings to measuring GHG reductions.⁶ In the absence of incentives promoting GHG emissions reductions, UC anticipates meeting its carbon neutrality goal through significantly increased purchases of off-site Renewable Energy Credits, which are cheaper than on-site measures.⁷

UC proposes implementing the CEOP at five participating UC campuses located in SCE's service territory, including UC Davis Veterinary Lab, UC Irvine Medical Center, UC Irvine, UC Los Angeles Medical Center- Santa Monica and UC Santa Barbara.^{8,9} An example of a proposed project in the UC system is replacement of aging boilers on UC Santa Barbara's campus with high efficiency boilers, including the potential electrification of three of the largest boilers.¹⁰

CSU

The CSU system consists of 23 campuses and eight off-campus centers.¹¹ The 2014 CSU Sustainability Policy established an internal policy goal of reducing Scope 1 and Scope 2 emissions to 1990 levels by 2020 and to 80% below 1990 levels by 2040. CSU already achieved its 2020 goal and is working towards its 2040 goal.¹² In addition, 15 of the 23 campuses, including Cal Poly Pomona,

⁶ Exhibit SCE-04 at 7.

⁷ Exhibit SCE-04 at 12.

⁸ Exhibit SCE-01 at 19-20.

⁹ The UC Santa Barbara and UC Irvine campuses participate in California's Cap-and-Trade compliance program pursuant to Assembly Bill (AB) 32 and SB 32.

¹⁰ Exhibit SCE-04 at 13.

¹¹ Exhibit SCE-05 at 1-2.

¹² Exhibit SCE-05 at 5.

voluntarily agreed to reduce their Scope 3¹³ emissions through a signed commitment with Second Nature, a non-profit organization.

CSU currently participates in SCE's EE, electric vehicle (EV) charging infrastructure, solar and battery installations, demand response, and SCE's LCR RFO programs.¹⁴ CSU also has, or is in the process of creating, energy and emission-reducing master enabling agreements (MEAs)¹⁵ to procure "on-site solar, third-party financed on-site battery energy storage, self-funded building-retrocommissioning, and self-funded energy information systems services."¹⁶ Finally, CSU has a Cal-Op grant from the California Energy Commission to complete a needs assessment and develop an MEA focused on procurement from distributed energy resources.¹⁷ CSU does not participate in, nor is it aware of, any program specifically designed to help CSU achieve its 2040 GHG reduction goal.¹⁸

CSU cites its large fleet of legacy buildings¹⁹ as a significant challenge to meeting its 2040 GHG reduction goals through existing programs. CSU asserts that its EE incentives applications receive reduced EE savings estimates as a result of consideration in the Database for Energy Efficiency Resources

¹³ Scope 3 emissions are from sources not owned or directly controlled by an entity but related to its activities, such as emissions from student and staff commuting.

¹⁴ Exhibit SCE-05 at 6.

¹⁵ MEAs are a set of contracts from a vendor pool.

¹⁶ Exhibit SCE-05 at 9-10.

¹⁷ Exhibit SCE-05 at 10.

¹⁸ Exhibit SCE-05 at 9.

¹⁹ 50% of CSU's buildings were constructed before 1978, when energy codes were first implemented.

(DEER)-Effective Useful Life (EUL) values. The DEER-EUL reduces the EE savings amount by the amount of savings achieved to bring a building up to code. However, reduced incentive funding makes it less likely CSU can fund needed capital improvement projects which would lower its on-site GHG emissions. As of March 2018, CSU's Facilities Condition Assessment of 66% of its buildings found that 90% of CSU's energy consuming equipment is beyond the age limits²⁰ eligible for incentives under DEER-EUL. CSU also cites current energy programs' prohibition of incentives for fuel switching as a challenge to CSU's reduction of significant on-site GHG emissions as a result of investments in cogeneration plants, boilers, and other equipment fueled by natural gas.²¹

CSU recognizes that it met its 2020 GHG emissions reduction goal in large part through reduced GHG emissions in purchased electricity as a result of state-level and systemwide efforts to increase renewable energy on California's electric grid.²² CSU anticipates that meeting its 2040 deep decarbonization goal will prove more challenging, and sees the CEOP as a pilot which could directly help CSU achieve its 2040 GHG reduction goal.²³

If the CEOP is approved, CSU proposes to commit \$3.3 million towards GHG reduction projects per year for each participating campus, for a total of up to approximately \$10 million per year.²⁴ Currently, two CSU campuses located

²⁰ CSU's systems are approximately 30.6 years old while the average DEER EUL for mechanical and electrical systems is 15.6 years. Exhibit SCE-05 at 8.

²¹ Exhibit SCE-05 at 13.

²² Exhibit SCE-05 at 5.

²³ Exhibit SCE-05 at 5, 16-17.

²⁴ Exhibit SCE-05 at 11.

in SCE's service territory (Cal Poly Pomona and CSU Dominguez Hills) plan to participate in the CEOP.²⁵ Examples of projects which CSU may implement through the CEOP are electrification of heating and cooling, installation of solar plus storage, installation of electrical vehicle charging stations, installation of interior Light Emitting Diode lighting and behavioral change measures.²⁶

1.2. The Proposed Pilot Program

The CEOP will be the first program proposing to provide incentive payments directly for GHG emission reductions, rather than for gas or electricity savings or directly for equipment. This program intends to create an opportunity to compare the relative costs and savings of multiple gas and electric demand-side energy resources using the common metric of GHG reductions.

SCE plans to implement the program over a four-year period, during which time participating campuses will be paid on a "first-to-perform, first-to-be-paid" approach.²⁷ Thereby, performance payments are not committed to any individual campus or project at the outset of the CEOP.²⁸ However, SCE forecasts the following budget based on the types of projects the Pilot Participants anticipate completing as well as anticipated administrative costs of administering and reporting on the pilot, as follows:

²⁵ Exhibit SCE-01 at 19-20.

²⁶ Exhibit SCE-05 at 12.

²⁷ Exhibit SCE-01 at 39.

²⁸ Exhibit SCE-01 at 39.

| Line No. | Performance Payments for Pilot Participants | Year 1 | Year 2 | Year 3 | Year 4 | Post-Pilot | Total |
|----------|--|---------------|---------------|---------------|---------------|---------------|---------------|
| 1 | Customer 1 - University of California | 3,075 | 3,899 | 3,793 | 2,593 | | 13,360 |
| 2 | UCSB | 717 | 977 | 531 | 535 | | 2,760 |
| 3 | UCI | 1,501 | 2,307 | 2,644 | 1,421 | | 7,873 |
| 4 | UCI Medical Center | 506 | 386 | 377 | 385 | | 1,654 |
| 5 | UC Davis Vetermerian Center | 136 | - | - | - | | 136 |
| 6 | UCLA Medical Center - Santa Monica | 215 | 229 | 241 | 252 | | 937 |
| 7 | Customer 2 - California State University | 409 | 773 | 1,243 | 89 | | 2,514 |
| 8 | Dominguez Hills | 161 | 627 | 153 | - | | 941 |
| 9 | Pomona | 248 | 146 | 1,090 | 89 | | 1,573 |
| 10 | Additional Electrification Opportunities | 697 | 933 | 1,007 | 537 | | 3,174 |
| 11 | 20% Distribution | 697 | 933 | 1,007 | 537 | | 3,174 |
| 12 | Subtotal | 4,181 | 5,605 | 6,043 | 3,219 | - | 19,048 |
| 13 | Administration Costs | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total |
| 14 | Evaluation Plan | 165 | 230 | 230 | 230 | 263 | 1,118 |
| 15 | Quantitative Analysis for GHG Emissions Reductions | 100 | 100 | 100 | 100 | 100 | 500 |
| 16 | Process Evaluation | 65 | 130 | 130 | 130 | 163 | 618 |
| 17 | Performance Payment Verification | 25 | 25 | 25 | 25 | 25 | 125 |
| 18 | Customer GHG Program Support | 100 | 100 | 100 | 25 | - | 325 |
| 19 | SCE Labor Costs | 141 | 145 | 149 | 154 | 158 | 747 |
| 21 | Subtotal | 431 | 500 | 504 | 434 | 446 | 2,315 |
| 22 | Grand Total for Budget | 4,612 | 6,105 | 6,547 | 3,653 | 446 | 21,363 |

Pilot Participants propose to implement a variety of clean energy measures across seven Davis campuses located in SCE's service territory, including:

- Energy efficiency, including building and lighting retrofits, operational, maintenance and behavioral initiatives;
- Smart load growth, and new construction;
- On-site renewables and energy storage;
- Electric Vehicle (EV) charging installations and electrification of bus fleets; and
- Building electrification and fuel switching.

At the start of the pilot, an initial GHG emissions baseline is established for each campus. Then, SCE will offer annual performance payments for both the incrementality and persistence of GHG reductions²⁹ achieved at each campus based on electricity and gas consumption measured at the meter against a baseline energy consumption for each campus from the prior year. A new

²⁹ 50% of the performance payment is based on the incremental reduction of GHG emissions from the prior year and 50% of the performance payment is based on persistence of the GHG emissions reductions achieved from the prior year. Exhibit SCE-01 at 35-36.

baseline is established each year against which incremental GHG reductions are measured the following year.

The proposed baseline calculation is as follows:³⁰

$$\left(\begin{array}{l} \text{Metered} \\ \text{Electricity} \\ \text{(kWh)} \end{array} \times \begin{array}{l} \text{Grid} \\ \text{Emissions} \\ \text{Intensity} \\ \text{(tCO}_2\text{/kWh)} \end{array} \right) + \left(\begin{array}{l} \text{Metered} \\ \text{Natural Gas} \\ \text{(Tb)} \end{array} \times \begin{array}{l} \text{Natural Gas} \\ \text{CO}_2 \\ \text{Intensity} \\ \text{(tCO}_2\text{/Tb)} \end{array} \right) + \left(\begin{array}{l} \text{Metered} \\ \text{Cogen} \\ \text{Natural Gas} \\ \text{(Tb)} \end{array} \times \begin{array}{l} \text{Natural Gas} \\ \text{CO}_2 \\ \text{Intensity} \\ \text{(tCO}_2\text{/Tb)} \end{array} \right) = \text{GHG Emissions} \\ \text{Baseline} \\ \text{(tCO}_2\text{)}$$

The proposed emissions reduction calculation is as follows:³¹

$$\left(\begin{array}{l} \text{Metered} \\ \text{Electricity} \\ \text{(kWh)} \end{array} \times \begin{array}{l} \text{Grid} \\ \text{Emissions} \\ \text{Intensity} \\ \text{(tCO}_2\text{/kWh)} \end{array} \right) + \left(\begin{array}{l} \text{Metered} \\ \text{Natural} \\ \text{Gas} \\ \text{(Tb)} \end{array} \times \begin{array}{l} \text{Natural} \\ \text{Gas CO}_2 \\ \text{Intensity} \\ \text{(tCO}_2\text{/Tb)} \end{array} \right) + \left(\begin{array}{l} \text{Metered} \\ \text{Cogen} \\ \text{Natural} \\ \text{Gas} \\ \text{(Tb)} \end{array} \times \begin{array}{l} \text{Natural} \\ \text{Gas CO}_2 \\ \text{Intensity} \\ \text{(tCO}_2\text{/Tb)} \end{array} \right) - \left(\begin{array}{l} \text{Incremental} \\ \text{EV Metered} \\ \text{Electricity} \\ \text{(kWh)} \end{array} \times \begin{array}{l} \text{CO}_2 \\ \text{Savings} \\ \text{from EVs} \\ \text{(tCO}_2\text{/kWh)} \end{array} \right) = \text{Campus GHG} \\ \text{Emissions} \\ \text{Performance} \\ \text{(tCO}_2\text{)}$$

The emissions performance for each project is adjusted for its GHG intensity factor, with the exception of transportation projects,³² and controlled for weather and campus gross square footage.³³

The proposed adjustment for net campus emissions performance is as follows:

$$\left(\begin{array}{l} \text{Baseline GHG} \\ \text{Emissions} \\ \text{(tCO}_2\text{/sq ft)} \end{array} - \begin{array}{l} \text{Campus GHG} \\ \text{Emissions} \\ \text{Performance} \\ \text{(tCO}_2\text{/sq ft)} \end{array} \right) = \text{Net Campus} \\ \text{GHG Emissions} \\ \text{Performance} \\ \text{(tCO}_2\text{)}$$

SCE proposes to calculate performance payments as follows:

³⁰ Exhibit SCE-01 at 29.

³¹ Exhibit SCE-01 at 30.

³² GHG reductions as a result of electrification are adjusted using the GHG emissions reduction standard outlined in the California Air Resources Board’s Low Carbon Fuel Standard methodology.

³³ Exhibit SCE-01 at 30.

$$\left(\begin{array}{c} \text{Net Campus} \\ \text{GHG} \\ \text{Performance} \\ \text{(tCO}_2\text{)} \end{array} \right) \times \left(\begin{array}{c} \text{GHG} \\ \text{Valuation} \\ \text{(\$/CO}_2\text{)} \end{array} \right) \times \left(\begin{array}{c} \text{Asset} \\ \text{Life} \end{array} \right) = \begin{array}{c} \text{Performance} \\ \text{Payment} \\ \text{(\$)} \end{array}$$

GHG valuation uses the marginal cost of GHG abatement adopted by the Commission in Decision 18-02-018. SCE also proposes to adjust the performance payments to reflect the asset life of certain long-term technologies to encourage investment in technologies that provide GHG emissions reductions beyond the life of the CEOP.³⁴

To avoid duplicative funding of Pilot Participants, SCE proposes to make CEOP participants ineligible for funding from all EE Portfolio Programs other than the education-related funding supported by the UC/CSU Partnership Program and the Self-Generation Incentive Program.³⁵ Also, SCE proposes to isolate GHG reductions from the CEOP by adjusting the CEOP baseline to remove GHG reductions as a result of all existing incentive applications, UC/CSU Partnership programs, High Opportunity Programs and Projects, Automated Demand Response, Local Capacity Requirement Contracts and Non-SCE Utility Rebates.³⁶

In addition to the quantitative analysis involved in accurately measuring GHG reductions, the CEOP will qualitatively evaluate the Pilot Participants'

³⁴ Exhibit SCE-01 at 32.

³⁵ Exhibit SCE-01 at 23.

³⁶ Exhibit SCE-01 at 23.

experience by, for example, conducting interviews with them to understand changes to their emissions reduction plans as a resulting of the pilot.³⁷

SCE proposes to act as the administrator of the pilot and engage a third-party Evaluation Consultant to independently verify performance payment calculations.³⁸ The Evaluation Consultant is expected to participate in stakeholder engagement meetings and prepare annual, mid-term and final reports summarizing the results of the pilot.³⁹ Quarterly stakeholder meetings are also proposed.

SCE proposes to track recorded expenses in a balancing account, which would be subject to reasonableness review in SCE's annual Energy Resource Recovery Account (ERRA) compliance filings.

2. Procedural History

On May 15, 2018, SCE filed Application (A.) 18-05-015 requesting authority to use \$21.4 million from its Cap-and-Trade allowance revenues to conduct its CEOP and establish a CEOP balancing account to track project costs (Application). SCE's Application was filed with support from UC and CSU.

The Rural Hard to Reach Local Government Partnerships Working Group filed a response on June 14, 2018, which expressed support for the California Public Utilities Commission's (Commission) adoption of the CEOP. The Public

³⁷ Exhibit SCE-01 at 48-49.

³⁸ Exhibit SCE-01 at 33.

³⁹ Exhibit SCE-01 at 51-53.

Advocates Office of the Public Utilities Commission⁴⁰ (Public Advocates Office) filed a protest on June 18, 2018. SCE filed a reply to Public Advocates Office's protest on June 28, 2018.

The assigned Administrative Law Judge (ALJ) (ALJ Kline) held a prehearing conference (PHC) on July 6, 2018 to discuss the issues of law and fact, and determine the need for hearing and schedule for resolving the matter. At the PHC, ALJ Kline also granted party status to UC and CSU. Subsequently, the Natural Resources Defense Council (NRDC) was granted party status on August 2, 2018.

The Commission's Energy Division held a workshop on the CEOP on August 16, 2018. Parties filed post-workshop comments and reply comments on the CEOP on August 30, 2018 and September 10, 2018, respectively. SCE, Public Advocates Office, NRDC, UC and CSU (the Settling Parties) filed a motion for approval of a Settlement Agreement on December 4, 2018.⁴¹

3. Issues Before the Commission

The issues to be determined are the following:

1. Is the proposed pilot in compliance with applicable statutes related to the use of Cap-and-Trade allowance revenues for clean energy and energy efficiency projects, including Public Utilities (Pub. Util.) Code § 748.5(c)?

⁴⁰ The Office of Ratepayer Advocates was renamed The Public Advocates Office of the Public Utilities Commission pursuant to Senate Bill 854, which the Governor approved on June 27, 2018.

⁴¹ Motion for Approval of Settlement Agreement Between and Among SCE and the Public Advocates Office, NRDC, UC and CSU (Settlement Motion).

2. Does the proposed pilot meet Decision (D.) 14-10-033's requirement of clean energy and energy efficiency projects to:
 - a. Demonstrate that existing funds are available to fund the proposed pilot;
 - b. Explain why the project qualifies under Pub. Util. Code § 748.5(c);
 - c. Explain why the project is best funded to use GHG allowance revenues instead of ordinary recovery through rates;
 - d. Reference the Forecast Clean Energy Amount;
 - e. Explain why the proposed pilot is reasonable, including but not limited to consideration of:
 - i. Pilot budget levels;
 - ii. Baseline calculations methods;
 - iii. Justification for annual weather adjustment factor for baseline calculations;
 - iv. Incentive payment structure and timing;
 - v. Asset life assumptions;
 - vi. Methods for calculating the energy intensity of buildings and carbon intensity of natural gas; and
 - vii. Effectiveness of incentives to target GHG mitigation.
3. Consideration of any safety concerns.
4. Consideration of any impacts on disadvantaged communities.

4. Availability of Funding for CEOP and Funding Order Under the Cap-and-Trade Program

California's Cap-and-Trade Program sets a statewide cap on GHG emissions that declines over time. Allowances are the currency of the Cap-and-Trade program. Each allowance is a tradeable permit representing one metric ton of carbon dioxide gas equivalent.

The California Air Resources Board (CARB), the agency responsible for administering California's Cap-and-Trade program, distributes allowances through both direct (free) allocation and auction. CARB granted electric distribution companies, including investor-owned utilities and publicly-owned utilities, direct allocation of allowances for the purpose of protecting electricity customers and advancing AB 32 objectives. Under this allocation methodology, the investor-owned utilities receive an allowance allocation on behalf of all customers of the distribution utility, which includes direct access (DA) and community choice aggregation (CCA) customers. The investor owned utilities subject to the Commission's jurisdiction must consign all of their directly allocated allowances to auction with the proceeds to be used for the benefit of all ratepayers, including DA and CCA customers. The allocated allowances offset the cost of GHG compliance embedded in SCE customer rates.

The Commission may allocate up to 15% of GHG allowance proceeds for EE and clean energy projects.⁴² Within this 15%, SCE must allocate a portion of these proceeds to the Solar on Multi-family Affordable Housing (SOMAH) program until the end of fiscal year (FY) 2019-2020, with the Commission potentially extending the program to the end of FY 2025-2026 upon a finding that there is sufficient interest and participation in the program.⁴³ In addition, the Commission authorized funding of three new programs using the 15% allowance for EE and clean energy projects to incentivize solar in disadvantaged communities through 2030, which are the Disadvantaged Communities

⁴² Pub. Util. Code § 748.5(c).

⁴³ SB 92 § 83(c).

Single-family Solar Homes (DAC-SASH), Disadvantaged Communities Green Tariff (DAC-GT) and Community Solar Green Tariff (CSGT) programs.⁴⁴

Accounting for any true-ups from the prior year and the annual cost of customer outreach and administrative expenses, the remaining GHG allowance proceeds are returned to SCE's ratepayers in the form of 1) an annual CA Industry Assistance Credit for Emissions-Intensive Trade-Exposed (EITE) Customers, 2) Small Business Climate Credit, and 3) a biennial Climate Credit for residential households. As a condition of approving a new project funded by the 15% allowance for EE and clean energy projects, the Commission requires utilities to forecast the amount of funds other programs may appropriate for clean energy and EE programs (Forecast Clean Energy Amount) to demonstrate that sufficient Cap-and-Trade funds are available for Commission approval of any proposed clean energy and energy efficiency project.⁴⁵ SCE projected its available Cap-and-Trade proceeds would adequately fund the CEOP over the project's four-year span, as detailed in the table below.⁴⁶

| | 2019* | 2020 | 2021 | 2022 |
|---|-----------------|------------------|---------------|---------------|
| Estimated GHG Allowance Proceeds (100%) | \$408,536,000 | \$467,054,000 | \$543,462,000 | \$615,785,000 |
| 15% maximum set aside | \$61,280,000 | \$70,058,000 | \$81,519,000 | \$92,368,000 |
| SOMAH ** | \$40,854,000*** | \$46,705,400 | \$54,346,200 | \$61,578,500 |
| DAC-SASH | \$4,600,000 | \$4,600,000 | \$4,600,000 | \$4,600,000 |
| DAC-GT and CSGT | \$2,000,000 | To Be Determined | TBD | TBD |

⁴⁴ D.18-06-027.

⁴⁵ D.14-10-033 at 27-28.

⁴⁶ Exhibit SCE-01 at 14.

| | | | | |
|---|--------------|--------------|--------------|--------------|
| | | (TBD) | | |
| Funding Available for other Qualifying Projects**** | \$13,826,000 | \$18,752,600 | \$22,572,800 | \$26,189,500 |

* 2019 budget numbers reflect set-asides approved in SCE’s 2019 ERRRA Forecast Application 18-05-003. (D.19-02-024 at 16.)

** Projected SOMAH budgets for 2020-2022 reflect 10% of the projected proceeds from the sale of GHG allowances per D.17-12-022 Ordering Paragraph (OP) 4. Where the 10% set aside for the SOMAH budget collectively exceeds \$100 million for PG&E, SCE and SDG&E, the SOMAH budget will be adjusted to within the \$100 million budget cap. (D.17-12-022 at 69-70 (OP 7); D.19-03-015 at 2.) The projected SOMAH budgets beyond fiscal year (FY) 2019-2020 assume the Commission continues to authorize SOMAH through FY 2025-2026.

*** The 2019 SOMAH budget reflects \$40.854 million set-aside for SOMAH in SCE’s 2019 ERRRA Forecast. (D.19-02-024 at 19.)

**** Available funding for other qualified projects is based on available budgets for approved programs, and may be reduced by the amount of budget set-aside for the DAC-GT and CSGT program from 2020-2022.

The DAC-SASH program has an annual budget of \$10 million, to be apportioned between Pacific Gas and Electric Company (PG&E), SCE and San Diego Gas and Electric Company.⁴⁷ SCE’s portion of the annual DAC-SASH budget is \$4.6 million.⁴⁸ Neither the DAC-GT nor the CSGT program has a set annual budget, and both programs are funded by “available funding” within the Pub. Util. Code § 748.5(c) set-aside of Cap-and-Trade funding for clean energy and energy efficiency programs, with remaining program funding requirements for the DAC-GT and CSGT programs funded through the Public Purpose Programs.

⁴⁷ D.18-06-027.

⁴⁸ *Id.* at A-5 to A-6.

The assigned ALJ requested parties comment on the availability of funding for the CEOP in light of the new DAC-SASH, DAC-GT and CSGT programs approved in D.18-06-027, including the order of funding for CEOP compared to DAC-GT and CSGT for “available funding.” The Settling Parties could not come to agreement on this issue under the Settlement Agreement and request the Commission decide the order of CEOP funding under the current record. SCE requests the Commission direct a set-aside of \$20.4 million⁴⁹ for CEOP funding or allow CEOP to follow the SOMAH program in funding order for allocation of funding to clean energy and energy efficiency programs. NRDC supports SCE’s funding order proposal “so SCE can make clear and dependable incentive offers to attract participants.”⁵⁰ The Public Advocates Office contends that programs authorized by statute, which include the DAC-GT and CSGT, should be fully funded and therefore be funded before the CEOP.

Upon consideration, this decision finds that SCE’s portion of the DAC-SASH program budget is set at \$4.6 million and this amount is no longer “available” as a source of unused funds. The Commission grants the CEOP funding prior to funding for the DAC-GT and CSGT programs.

The Commission agrees with SCE and NDRC’s argument that approval of the CEOP should be commensurate with an adequate and predictable funding source, which Public Advocates Office’s proposal does not secure. Given the relatively short length of the CEOP compared the Commission’s ongoing funding commitment under the DAC-GT and CSGT programs, fully fund the

⁴⁹ Under the proposed settlement agreement, the total CEOP budget is reduced from \$21.4 million to \$20.4 million.

⁵⁰ Settlement Motion at 9.

CEOP for its four-year duration prior to funding the DAC-GT and CSGT programs will not undermine the legislative intent of AB 327 to increase renewable generation in disadvantaged communities. The DAC-GT and CSGT programs' alternative funding sources further incline the Commission to support funding for the CEOP prior to funding DAC-GT and CSGT.

To the extent Cap-and-Trade funding is no longer available for implementation and operation of the DAC-GT or CSGT programs, funding for any remaining portion of these programs will automatically be transitioned to public purpose program surcharge funding as authorized in D.18-06-027.⁵¹ All costs will be tracked in the respect company's appropriate balancing accounts and reviewed in future ERRA proceedings.⁵²

Finally, this decision rejects the Public Advocates Office's proposal to put the funding order of projects adopted by statute before the CEOP as inconsistent with the Commission's interpretation of the term "authorized by statute" in Pub. Util. Code § 748.5(c) to include EE and clean energy programs which may be authorized by the Commission's broad parameters in statute, since the Commission found that a restrictive reading of Pub. Util. Code § 748.5(c) to require every project funded by the GHG allowance for EE and clean energy projects to be specifically authorized by statute rendered the provision effectively

⁵¹ D.18-06-027 [r]equire[s] that the DAC-GT and CSGT programs first to be funded through available GHG allowance proceeds. If such funds are exhausted, the DAC-GT and CSGT programs should be funded through public purpose program funds. (D.18-06-027 at 54, 85.)

⁵² D.18-06-027 requires, consistent with the DAC-GT and CSGT funding sources, SCE to file Tier 2 advice letters to create two-way DAC-GT and CSGT balancing accounts to track all costs related to implementation and operation of the DAC-GT and the CSGT programs. The balancing accounts are reviewed in SCE's annual ERRA proceedings.

meaningless.⁵³ The Commission recommended projects funded with GHG allowance revenue have GHG reductions as their primary goal, finding it appropriate to require GHG reductions as a stated and measurable goal of the project.⁵⁴ The CEOP meets the Commission's requirements to require GHG reductions as a stated and measurable goal and is on equal footing with projects approved by statute which compete for available funding.

Accordingly, SCE may set aside up to \$10 million annually over the CEOP's four-year duration from available Cap-and-Trade allowance funds to fully fund the CEOP, with a maximum total set-aside of \$20.4 million over the program's duration. A \$10 million annual set-aside ceiling will also limit the impact of the CEOP on funding for the DAC-GT and CSGT programs.

5. CEOP Balancing Account and Budget

D.14-10-033 requires utilities seeking approval to use Cap-and-Trade allowance revenue for clean energy and energy efficiency projects to track recorded expenses in an appropriate balancing account, and requires those expenses to be reflected in the utility's next ERRR forecast application and reconciled against the recorded Cap-and-Trade allowance revenues.⁵⁵

SCE requests authorization to establish a CEOP balancing account "to record the (1) annual transfer of GHG revenue funds from the GHG Revenue Balancing Account to the CEOP balancing account; (2) actual annual CEOP performance payments; and (3) incremental CEOP program administrative

⁵³ D.12-12-033 at 94-96.

⁵⁴ D.12-12-033 at 135.

⁵⁵ D.14-10-033 at 26-28.

expenses.”⁵⁶ SCE proposes the total program amount not exceed the total authorized amount.⁵⁷ SCE further proposes to return any unspent funds to the GHG Revenue Balancing Account.⁵⁸

SCE’s request to establish the CEOP balancing account to track CEOP project costs to record the balance of funds transferred from the GHG revenue Balancing Account, and to record CEOP performance payments and administrative costs complies with the requirement in D.14-10-033 to track clean energy and energy efficiency program expenses in an appropriate balancing account; and should be granted. SCE’s CEOP Balancing Account should be included in SCE’s ERRA proceedings. The CEOP budget is capped at \$20.4 million. SCE shall return any unspent CEOP funds to the GHG Revenue Balancing Account.

6. Disadvantaged Communities

This proceeding considers the potential impact of the CEOP on disadvantaged communities even though it is not a requirement for approval of EE and clean energy projects under D.14-10-033.

Three of the seven campuses who chose to participate in the CEOP are located in disadvantaged communities, including the UC Davis Veterinary School, Cal Poly Pomona and CSU Dominguez Hills.⁵⁹ SCE explains that “[t]he Pilot Participants [] have widespread locations representing multiple

⁵⁶ Application at 2.

⁵⁷ Application at 9. (“Any under-collection or over-collection recorded in any month should be carried over the duration of the CEOP program with the total spend not to exceed 21.4 million.”)

⁵⁸ Application at 5.

⁵⁹ Exhibit SCE-01 at 19-20.

demographics and climate zones, including disadvantaged communities that can be utilized to scale energy saving solutions across multiple locations.

7. Safety Considerations

The health and safety impacts of GHGs are among the reasons that the Legislature enacted AB 32. Specifically, the Legislature found and declared that global warming caused by GHGs “poses a serious threat to the economic well-being, public health, natural resources, and the environment of California.” Potential adverse impacts include “the exacerbation of air quality problems, a reduction in the quality and supply of water to the state from the Sierra snowpack, a rise in sea levels resulting in the displacement of thousands of coastal businesses and residences, damage to marine ecosystems and the natural environment, and an increase in the incidences of infectious disease, asthma, and other human health-related problems.”⁶⁰

This decision approves a pilot aimed at accelerating the reduction of GHG emissions through behind-the-meter performance incentives, which may be more widely adopted if successful. Reducing GHG for customers in SCE’s service area through clean energy and energy efficiency programs is a key aspect of the GHG reduction program envisioned by AB 32 and Pub. Util. Code § 748.5(c) and, as a result, will improve the health and safety of California residents.

8. The Settlement

The Settlement Agreement, included as Attachment A of this decision, resolves all disputes between the Settling Parties with the exception of assigning

⁶⁰ AB 32 § 38501(a).

priority of CEOP funding relative to programs approved in D.18-06-027, as discussed in Section 4.⁶¹

The motion for settlement includes a summary of agreed upon proposals, as discussed in Section 8.1, and resolution of the following issues through settlement:

- Demand Response Program Participation and Eligibility (Section 8.2);
- Electric vehicle charging program participation and ramp-up period (Section 8.3).
- Emissions Intensity Factor (Section 8.4)
- Asset Life Assumptions (Section 8.5);
- Including methane in calculation of Carbon Intensity of Natural Gas (Section 8.6);
- The method for calculating the energy intensity of buildings (Section 8.7); and
- The Performance Payment Budget (Section 8.8).

8.1. Agreed-Upon Proposals

The Settling Parties expressed little or no concern about the CEOP's qualification as a clean energy and energy efficiency project pursuant to Pub. Util. Code § 748.5(c) (Section 8.1.1) and the suitability of the Cap-and-Trade allowance for funding the CEOP (Section 8.1.2). Some parties initially expressed concerns regarding the CEOP's 1) reflection of the electrical grid's gradual decarbonization in the performance baseline, 2) the method for accounting for weather variability and 3) aggregating emissions factors by the time-of-use

⁶¹ Motion for Approval of Settlement Agreement Between and Among SCE and the Public Advocates Office, NRDC, UC and CSU (Motion for Settlement).

periods. Through additional discussion at the workshop and through settlement discussions, the parties came to agreement on these issues, as discussed in detail in Sections 8.1.3 to 8.1.5.

8.1.1. CEOP as a Qualifying Clean Energy and Energy Efficiency Project

Pub. Util. Code § 748.5(c), which enacted Senate Bill (SB) 1018, mandates the Commission may allocate up to 15% of Cap-and-Trade allowance revenue for clean energy and energy efficiency projects administered by an electrical corporation or a qualified third-party administrator approved by the Commission. To be eligible, the program must be 1) established pursuant to statute, 2) administered by an electrical corporation or a qualified third-party administrator approved by the Commission, and 3) not be otherwise funded.⁶²

SCE states that the CEOP is established pursuant the California Global Warming Solutions Act of 2006 (SB 535) and California Health and Safety Code § 38501(a)-(g), which authorizes the California Air Resources Board to coordinate with state agencies and stakeholders (utilities) in developing GHG emissions reductions measures. The CEOP qualifies as A program established pursuant to H&S Code § 38501 and Pub. Util. Code § 748.5(a) because it develops an emissions reduction methodology through behind-the-meter performance incentives which, if successful, may be more widely adopted by SCE or the Commission.⁶³ SCE states that the CEOP meets Pub. Util. Code § 748.5(c)'s

⁶² Pub. Util. Code § 748.5(c).

⁶³ See Application of SCE for Approval of its Clean Energy Optimization Pilot (Application) at 8.

remaining requirements because it is administered by SCE, an electrical corporation, and is not otherwise funded.

The Settling Parties agree that the CEOP is a qualifying clean energy and energy efficiency project pursuant to Pub. Util. Code § 748.5(c) and no party objected to the CEOP qualifications.⁶⁴

8.1.2. Suitability for Funding through Cap-and-Trade Allowance Rather than Through Rates

The Commission requires electrical utilities requesting authority to implement a new clean energy and energy efficiency program to explain why the project was best funded through GHG allowance revenues rather than through rates.⁶⁵ SCE states that the CEOP is currently a pilot, and funding through Cap-and-Trade allowance proceeds rather than through rates ensures that the pilot does not increase rates for SCE's customers.⁶⁶ If the pilot is effective, SCE argues the learnings from the pilot can be applied on a programmatic level to a broader base of customers, which would be better suited to funding through rates.⁶⁷ The Settling Parties agree that the CEOP is suitably funded by Cap-and-Trade allowance proceeds.⁶⁸

⁶⁴ Motion for Settlement at A-7.

⁶⁵ D.14-10-033

⁶⁶ Exhibit SCE-01 at 14-15.

⁶⁷ See Application at 8; Exhibit SCE-01 at 15.

⁶⁸ Motion for Settlement at A-7.

8.1.3. Whether the Performance Baseline will Reflect the Gradual Decarbonization of the Energy Grid

SCE's application has a performance baseline based on aggregated master-metered energy usage data and corresponding emissions intensities, controlling for campus gross square footage and weather.⁶⁹ Though initially indicating additional investigation was warranted, the Public Advocates Office determined that SCE's performance baseline adequately accounted for the projected decarbonization of the electrical grid after discussion in the workshop and review of discovery requests.⁷⁰

8.1.4. Method of Accounting for Weather Variability

SCE's application accounted for the weather variability using annual weather adjustment factors for electricity, natural gas for end use consumption and cogeneration plant consumption; which is calculated "based on the ratio of expected annual energy consumption from actual weather data verse[sic] the typical meteorological year."⁷¹ In its protest to the Application, the Public Advocates Office expressed concern regarding SCE's method of accounting for weather variability in the GHG reductions calculations.⁷² After discussion through the workshop and review of additional discovery, the Public Advocates

⁶⁹ Exhibit SCE-01 at 28-30.

⁷⁰ Comments of the Office of Ratepayer Advocates on Email Ruling Setting Questions for Party Comment on CEOP Workshop (Public Advocates Office Comments on Email Ruling) at 2; Motion for Settlement at 6.

⁷¹ Exhibit SCE-01 at 29, fn. 47.

⁷² Protest of Public Advocates Office at 5

Office agreed that SCE's method of accounting for weather variability was reasonable.⁷³

8.1.5. Aggregating Emissions Factors by Time-of-Use Periods

SCE proposes to aggregate emissions factors by Time-of-Use periods using a straight average.⁷⁴ After discussion with NRDC and the Public Advocates Office regarding the application of hourly emissions factors, NRDC and the Public Advocates Office agreed that calculating the emissions factors by Time-of-Use period was reasonable for implementing the CEOP.⁷⁵

8.2. Demand Response Program Participation and Eligibility

SCE's pilot proposal did not account for Pilot participants' payments from participation in existing demand response programs.⁷⁶ The Public Advocates Office argued that Pilot Participants' participation in demand response programs constituted double payment and should be accounted for.⁷⁷ SCE contended that the current demand response program budgets did not account for the avoided costs of GHG emissions reductions to determine the incentives or administrative budgets of those programs.⁷⁸

In the Settlement Agreement, the Settling Parties acknowledge the potential for double payment of GHG emissions reductions is real, but Settling

⁷³ Public Advocates Office Comments on Email Ruling at 2.

⁷⁴ Motion for Settlement at 7.

⁷⁵ Motion for Settlement at 7.

⁷⁶ Exhibit SCE-01.

⁷⁷ Protest of Public Advocates Office at 9-10.

⁷⁸ SCE Reply to Comments to E-Mail Ruling at 7-10.

Parties agree that the effects of double counting in this pilot are *de minimis*.⁷⁹ Therefore, Settlement Agreement proposes the CEOP should proceed without accounting for GHG emissions reductions already incentivized through the Pilot Participants' participation in existing demand response programs.⁸⁰

8.3. EV Charging Program Participation and Ramp-Up Period

SCE proposes to pay incentives for GHG reductions as a result of charging in the Pilot Participants' existing EV charging stations, including EV charging stations funded by SCE's Charge Ready program, commensurate with the start of the CEOP.⁸¹ The Public Advocates Office argued that the Program Participants should not receive up-front payments reflecting anticipated GHG reductions for the entire asset life of the measure; rather the pilot design should account for a ramp-up period to measure the baseline prior to starting incentives or provide payment after measurement of asset performance.⁸² The Public Advocates Office also expressed concern that the Pilot Participants may receive duplicative incentives for participation in the CEOP and other EV incentives, such as SCE's Charge Ready program.⁸³ CSU and UC object to Public Advocates Office's proposal as detrimental to program participation.⁸⁴

The Settling Parties agree that 1) all existing and new, public and fleet charging stations will be eligible for performance payments without a ramp-up

⁷⁹ Motion for Settlement at 9.

⁸⁰ Motion for Settlement at 9.

⁸¹ SCE Reply to Comments on E-Mail Ruling at 6.

⁸² Protest of Public Advocates Office at 5-6.

⁸³ Public Advocates Office Comments on Email Ruling at 7-10.

⁸⁴ Reply Comments of CSU at 1-2; UC Reply to Comment to E- Mail Ruling at 1-2.

period, and 2) CEOP participants will be eligible for some but not all rebates and incentives, as outlined in the Settlement Agreement.⁸⁵

8.4. Emissions Intensity Factor

SCE proposes to evaluate GHG reductions in the CEOP using Clean Net Short (CNS) methodology and average hourly emission factors aggregated to their time-of-use periods to evaluate GHG emissions.⁸⁶ NRDC questioned why SCE used CNS factors instead of the long run marginal emission factors developed through the 2018 avoided cost calculator.⁸⁷ The Public Advocates Office suggested SCE use hourly emissions factors.⁸⁸ After discussion, the Settling Parties agreed that SCE's proposal to use CNS emission factors was reasonable.⁸⁹

8.5. Asset Life Assumptions

SCE proposed an incentive payment structure that rewarded Pilot Participants for actual GHG emissions savings as well as eight years of anticipated future emissions reductions using a determined average asset life of eight years for all interventions.⁹⁰ The Public Advocates Office opposed the CEOP's upfront payment structure and suggested that SCE provide incentives at

⁸⁵ Motion for Settlement at A-4 to A-5, and Attachment A (Settlement Agreement) Attachment 1 (CEOP: Electric Vehicles Component).

⁸⁶ Exhibit SCE-01 at 29.

⁸⁷ Comments of the NRDC on the ALJ's Ruling Providing Questions of the CEOP Workshop at 2-3.

⁸⁸ Motion for Settlement at 6.

⁸⁹ Motion for Settlement at 7.

⁹⁰ Exhibit SCE-01 at 26-36.

the end of the pilot, or after the initial measurement and evaluation.⁹¹ The Pilot Participants argued that upfront incentives were required to make the capital investments and they assumed too much risk if no upfront payments were provided.⁹² CSU also proposed an 11-year asset life as reasonable.⁹³

In the settlement agreement, the Settling Parties agreed SCE will use a seven-year performance payment calculation rather than an eight-year calculation.⁹⁴

8.6. Including Methane in Calculation of Carbon Intensity of Natural Gas

SCE's pilot proposal did not include a method for evaluating GHG reductions from the abatement of methane leaks. The Public Advocates Office argued that SCE's pilot proposal should incorporate a method for calculating the reduction of methane leaks in order to create a more robust method of accounting for GHG reductions.⁹⁵ SCE initially objected to incorporating the methane accounting methodology, stating that this is currently under consideration in the Commission's methane leak abatement proceeding (Rulemaking 15-01-008).⁹⁶ UC did not oppose accounting for methane leakage⁹⁷ and CSU agreed to account for methane leakage in its pilot.⁹⁸

⁹¹ Protest of the Public Advocates Office at 5-6.

⁹² UC Reply to Comments to E-Mail Ruling Setting Questions for Party Comment on CEOP Workshop at 3; Reply Comments of CSU at 2.

⁹³ Reply Comments of CSU at 3.

⁹⁴ Motion for Settlement at A-5 to A-7.

⁹⁵ Protest of Public Advocates Office at 8-9.

⁹⁶ SCE Reply to Comments to E-mail Ruling for Party Comment on CEOP Workshop (SCE Reply to Comments to Email Ruling) at 7; Motion for Settlement at 4.

Under the Settlement Agreement, the Settling Parties agreed to account for methane leakage by adding a natural gas leakage rate Southern California Gas Company's Compression and Loss and Unaccounted for rates (as published in the Commission's Avoided Cost Calculator) into the CEOP carbon intensity factor to calculate performance payments.⁹⁹

8.7. Method for Calculating Energy Intensity of Buildings

SCE's pilot proposal included a single variable to account for the relative change in energy usage between indoor and outdoor covered spaces.¹⁰⁰ The Public Advocates Office argued SCE should develop a separate methodology to account for GHG in indoor and outdoor covered spaces.¹⁰¹

Under the Settlement Agreement, SCE will "remove all unconditioned space from the control factor for calculating performance payments."¹⁰² SCE will calculate the performance payments instead using the Basic Gross Square Footage¹⁰³ in the CEOP square footage control factor.¹⁰⁴

⁹⁷ UC Reply Comments to Email Ruling Setting Questions for Party Comment on CEOP Workshop at 6.

⁹⁸ Reply Comments of CSU at 2.

⁹⁹ Motion for Settlement at A-6.

¹⁰⁰ Exhibit SCE-01 at 42, fn. 64.

¹⁰¹ Protest of Public Advocates Office at 8.

¹⁰² Motion for Settlement at A-6.

¹⁰³ "Basic Gross Square Footage includes (1) Assignable Square Footage, which includes interior occupied spaces such as labs and classrooms, (2) Non-Assignable Square Footage, which includes spaces such as corridors and restrooms, and (3) spaces occupied by interior walls." Motion for Settlement at A-6.

¹⁰⁴ Motion for Settlement at 8.

8.8. CEOP Performance Budget

The Settling Parties agreed to reduce the CEOP performance payment budget by \$1 million, from \$19.1 million to \$18.1 million, to reflect 1) the reduction in asset life from eight to seven years (*see* Section 8.5), and 2) the inclusion of methane reduction in the CEOP carbon intensity factor, which is used to calculate performance payments (*see* Section 8.6).¹⁰⁵

9. Settlement Standard of Review

In order for the Commission to consider a proposed settlement in this proceeding as being in the public interest, the Commission must be convinced that the Settling Parties have a sound and thorough understanding of the application and all of the underlying assumptions and data included in the record. This level of understanding of the application and development of an adequate record is necessary to meet our requirements for considering any settlement. These requirements are set forth in Commission Rules of Practice and Procedure (Rules) Rule 12.1(a). The Commission will not approve settlements, whether contested or uncontested, unless the settlement is reasonable in light of the whole record, consistent with the law, and in the public interest. Rule 12.5 limits the future applicability of a settlement.¹⁰⁶ As discussed below, the Settlement Agreement meets the Commission's requirements for settlement.

¹⁰⁵ Motion for Settlement at A-7.

¹⁰⁶ Rule 12.5 ("Commission adoption of a settlement is binding on all parties to the proceeding in which the settlement is proposed. Unless the Commission expressly provides otherwise, such adoption does not constitute approval of, or precedent regarding, any principle or issue in the proceeding or in any future proceeding.").

10. The Settlement Meets Our Standard of Review for Settlement

The settlement overall is reasonable in light of the record. The record consists of the filed application; party comments and reply comments on the application and the August 16, 2018 workshop; SCE's testimony, and the Motion for the Settlement Agreement (which includes the Settlement Agreement). The settlement resolves the concerns raised by parties in their protests or responses, addresses many issues within the scoping memo and provides sufficient information to permit the Commission to discharge its regulatory obligations. It represents a reasonable compromise of the Settling Parties positions. The settlement is also unopposed. Furthermore, the Commission has repeatedly conveyed a policy preference of favoring settlements.¹⁰⁷

The terms of the settlement do not contravene statute or Commission decisions. The settlement also resolves parties' disputes related to the measurement and evaluation of the CEOP in a manner consistent with the Commission's objective of reducing GHGs in an efficient and cost-effective manner, with the exception of assigning priority of funding for the CEOP. In addition, the Settling Parties complied with the Commission's Rules of Practice and Procedure, Rule 12.

The settlement can be said to serve the public interest because resolving the protest is the result of negotiation by parties who have a thorough understanding of the issues and can make informed decisions in the settlement process. By reaching agreement, the parties also avoid the costs of further litigation such as preparing for and participating in evidentiary hearing and

¹⁰⁷ See e.g. D.14-01-011 at 13.

preparing post-hearing briefs presenting arguments on disputed issues. The time and resources saved are beneficial to ratepayers, not only in terms of dollars saved, but the time resources of the Settling Parties and the Commission can be reallocated to other matters.

11. Future Effects of Settlement

Rule 12.5 limits the applicability of a settlement. Under Rule 12.5, adoption of a settlement does not constitute precedent or have binding effect regarding any principle or issue in any future proceeding, unless the Commission expressly provides otherwise.

In the Settlement Agreement, parties did not request to resolve any principle or issue in future proceedings. In fact, the Settling Parties expressly indicated an intent to limit the terms regarding the method of calculating GHG reductions at EV charging stations to the CEOP pilot.¹⁰⁸ The Commission finds no compelling reason to impose a binding effect on any principle or issue of this Settlement Agreement outside of the CEOP approved in this decision, and declines to impose any.

12. Reporting Requirements of the Pilot to the Commission

SCE plans to prepare annual, mid-term and a final CEOP evaluation report to stakeholders

that will inform whether a pay-for-performance incentive framework was effective in accelerating GHG emission reductions through on-site (behind-the-meter) measures, whether the streamlined and simplified pay-for-performance structure resulted in increased consumer satisfaction with the program, and whether

¹⁰⁸ Motion for Settlement at 10.

the method of using meter-based data to measure GHG emissions reductions warrants the Commission considering a customer-funded program that can be scaled up to include other customers and industry categories.¹⁰⁹

The Commission recognizes that the calculation methods to count baseline and incentive payments were designed to limit the uncertainty, complexity and risk for the capital planning of the Pilot Participants. While incentive payments for the pilot will be based on the counting methods established the settlement, the Commission also requires the program evaluation report to include a detailed analysis of the EV charging baseline, carbon emission factors and asset life assumptions as follows:

- Calculation of total program savings based on the estimated savings from an individual investment's asset life;
- Calculation of GHG emissions reductions using an emissions factor that calculates marginal emission intensities of all generation, both emitting and GHG-free resource, applying an hourly load shape to the emissions factors;¹¹⁰ and
- Calculation of EV charging emissions reductions by accounting for existing EV ownership and the impact EV charging stations have on encouraging new EV ownership.
- SCE should maintain regularly scheduled program progress reporting with the Energy Division. The progress reporting shall include submission of the annual and mid-term written progress reports to the Commission's Energy Division as a Tier 1 Advice Letter and submission of the final report as a Tier 2 Advice Letter.

¹⁰⁹ Application at 7.

¹¹⁰ CNS hourly emissions intensities, applied as TOU periods, do not effectively represent the GHG emissions that result from energy reductions in the CEOP. CEC produces emissions factor analyses that quantify the marginal emission intensities of all generation (and imports and exports), both emitting and GHG-free, would better reflect emissions reductions from this Pilot.

13. Change in Determination of Need for Hearing

In Resolution ALJ 176-3417, dated May 31, 2018, the Commission preliminarily categorized this application as ratesetting as defined in Rule 1.3 and anticipated that this proceeding would reasonably require hearings. A PHC was held on July 6, 2018, and a scoping memo and ruling indicating that hearings were necessary was issued. However, the parties thereafter agreed that evidentiary hearings were not necessary. Given that no hearings were held in the current proceeding, we change our preliminary and scoping memo determination regarding hearings to no hearings necessary.

14. Admittance of Testimony and Exhibits into the Record

Since evidentiary hearings were not held in A.18-05-015, there was no opportunity to enter prepared testimony and exhibits into the record. In order to fairly assess the record, it is necessary to include all testimony and exhibits served by SCE. In its motion of November 15, 2018, SCE requested, pursuant to Rule 13.8 of the Commission's Rules of Practice and Procedure,¹¹¹ that the Commission receive its Exhibits into the record of A.18-05-015. Therefore, we identify SCE's supporting testimony and workpapers as Exhibits SCE-01, SCE-02, SCE-03, SCE-04, SCE-05 and SCE-06.¹¹² Given the necessity of SCE's

¹¹¹ All future references to "Rule" or "Rules" hereinafter shall refer to the Commission's Rules of Practice and Procedure.

¹¹² Exhibit SCE-01, Southern California Edison Company's (U338-E) *Testimony in Support of Its Application for Approval of Its Clean Energy Optimization Pilot: Volume 1*, dated May 15, 2018. Exhibit SCE-02, Southern California Edison Company's (U338-E) *Testimony in Support of Its Application for Approval of Its Clean Energy Optimization Pilot: Volume 2*, dated May 15, 2018. Exhibit SCE-03, Southern California Edison Company's (U338-E) *Testimony in Support of Its Application for Approval of Its Clean Energy Optimization Pilot: Volume 3*, dated May 15, 2018.

Footnote continued on next page

testimony to our assessment of the CEOP, the Commission admits SCE's six exhibits into evidence.

15. Compliance with the Authority Granted Herein

SCE shall submit a Tier 1 advice letter to the Commission's Energy Division to establish the CEOP balancing account within 30 days of the effective date of this decision.

16. Comments on Proposed Decision

The proposed decision of ALJ Kline in this matter was mailed to the parties in accordance with Section 311 of the Public Utilities Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. The Settling Parties jointly filed comments on March 4, 2019, supporting the proposed decision and urging the Commission to adopt the proposed decision without revision. No parties filed reply comments.

17. Assignment of Proceeding

Michael Picker is the assigned Commissioner and Zita Kline is the assigned ALJ in this proceeding.

Findings of Fact

1. On May 15, 2018, SCE filed A.18-05-015 for approval of its CEOP and to establish a CEOP balancing account to track project costs.

Exhibit SCE-04, *University of California's Testimony in Support of Southern California Edison's Application for Approval of Its Clean Energy Optimization Pilot: Volume 4*, dated May 15, 2018.
Exhibit SCE-05, *California State University's Testimony in Support of Southern California Edison's Application for Approval of Its Clean Energy Optimization Pilot: Volume 5*, dated May 15, 2018.
Exhibit SCE-06, *Workpapers in Support of Southern California Edison's Application for Approval of Its Clean Energy Optimization Pilot*, dated May 15, 2018.

2. In Resolution ALJ 176-3417, dated May 31, 2018, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were necessary. In the scoping memo, the assigned Commissioner stated that evidentiary hearings would be held if necessary. No hearings were held.

3. The DAC-SASH program budget is not a source of available funds for new clean energy and energy efficiency programs.

4. The DAC-GT and CSGT programs compete with the CEOP for available Cap-and-Trade allowance funding.

5. The DAC-GT and CSGT programs may use available Cap-and-Trade funds, with any additional revenue requirement for the programs funded through SCE's Public Purpose Programs.

6. Granting priority to the CEOP over the DAC-GT and CSGT will not undermine AB 327's legislative intent to increase renewable generation in disadvantaged communities.

7. Setting the annual set aside from the GHG Revenue Balancing Account for the CEOP at up to \$10 million over the four years of the program's duration will minimize the impact of the CEOP on DAC-GT and CSGT funding availability.

8. The Settlement Agreement reduces the performance payment budget by \$1 million, which reduces the total CEOP budget from \$21.4 million to \$20.4 million.

9. SCE will use the CEOP balancing account to track funding transfers from the GHG allowance revenue funds, CEOP incentive payments and administrative costs.

10. The CEOP will be implemented in two CSU campuses (Cal Poly Pomona and CSU Dominguez Hills) and five UC campuses (UC Davis Veterinary Lab,

UC Irvine Medical Center, UC Irvine, UCLA Santa Monica Medical Center and UC Santa Barbara) located in SCE's service territory.

11. Cal Poly Pomona, CSU Dominguez Hills, and UC Davis Veterinary Lab are located in areas that have disadvantaged communities.

12. SCE, NRDC, Public Advocates Office, UC and CSU entered into a voluntary settlement agreement to resolve all pending disputed issues, with the exception of the priority of CEOP funding relative to funding for the DAC-GT and CSGT programs in the annual funding available through the 15% set aside in the Cap-and-Trade revenue allowance for clean energy and energy efficiency programs.

13. The settlement agreement does not include the Rural Hard to Reach Local Government Partnerships Working Group, which supported the CEOP in its response to the Application.

14. The active parties fairly reflect the interests affected by this proceeding.

15. The settlement agreement finds common ground, resolves many of the contested issues in this proceeding, and is a reasonable compromise between the Settling Parties.

16. The Commission has repeatedly conveyed a policy preference of favoring settlements.

17. We know of nothing in the Settlement Agreement that contravenes statute or prior Commission decisions.

18. The Settlement Agreement complies with all applicable statutes of the Pub. Util. Code.

19. The Settling Parties complied with Commission Rules of Practice and Procedure, Rule 12.

20. Without the Settlement Agreement, the Settling Parties would have spent additional time and resources preparing for and participating in an evidentiary hearing and preparing post-hearing briefs presenting arguments on the disputed issues.

21. The Settlement Agreement conserves party and Commission resources.

22. Time and resources are beneficial to ratepayers.

23. SCE requested to admit its exhibits into evidence pursuant to Rule 13.8.

Conclusions of Law

1. CEOP qualifies as a clean energy and energy efficiency project within the meaning of Pub. Util. Code § 748.5(c).

2. It is suitable to fund the CEOP through Cap-and-Trade allowance funds rather than through rates.

3. The CEOP balancing account complies with D.14-10-033's requirement for tracking costs incurred through clean energy and energy efficiency projects and tracking them through ERRRA.

4. The Settlement Agreement is reasonable in light of the record.

5. The Settlement Agreement is consistent with the law.

6. The Settlement Agreement is in the public interest.

7. The Settlement Agreement resolves many disputes between the parties with respect to the Application.

8. The Settlement Agreement proposed by the Settling Parties meets the requirements of Commission Rules of Practice and Procedure, Rule 12.

9. The December 4, 2018 motion filed by SCE to adopt a Settlement Agreement between and among the Settling Parties should be granted.

10. SCE should file a Tier 1 advice letter establishing its balancing account to track costs associated with the CEOP.

11. SCE's request to admit testimony and workpapers included with its application into evidence should be granted.

12. The categorization of this proceeding should be changed to no hearings necessary.

13. The Commission should close this proceeding.

O R D E R

IT IS ORDERED that:

1. The Clean Energy Optimization Pilot is approved, as modified by the Settlement Agreement and this decision.

2. The Settlement Agreement filed on December 4, 2018 between and among Southern California Edison Company, The Public Advocates Office of the Public Utilities Commission, Natural Resources Defense Council, The Regents of the University of California, and the California State University is approved. The Settlement Agreement included in this decision as Attachment A.

3. The budget for the Clean Energy Optimization Pilot is capped at \$20.4 million, with an annual budget of up to \$10 million each year for the pilot's four-year duration.

4. The Clean Energy Optimization Pilot budget shall have priority over available funding under Southern California Edison Company's Cap-and-Trade allowance funding for the Disadvantaged Communities Green Tariff and the Community Solar Green Tariff programs.

5. Southern California Edison Company shall file a Tier 1 advice letter setting up the Clean Energy Optimization Pilot (CEOP) balancing account to track CEOP costs within 30 days of the date of this decision.

6. SCE shall return any unspent CEOP funds to the GHG Revenue Balancing Account.

7. SCE shall submit its annual and mid-term written progress reports to the Energy Division as a Tier 1 Advice Letter.

8. Southern California Edison Company (SCE) shall submit its final Clean Energy Optimization Pilot Evaluation Report (final report) as a Tier 2 Advice Letter. In addition to the subjects proposed for inclusion in SCE's final report, SCE shall include the following:

- Calculation of total program savings based on estimating the savings from an individual investment's asset life;
- Calculation of greenhouse gas (GHG) emissions reductions using an emissions factor that calculates marginal emission intensities of all generation, both emitting and GHG-free resource;¹¹³ and
- Calculation of electric vehicle (EV) charging emissions reductions by accounting for existing EV ownership and the impact EV charging stations have on encouraging new EV ownership.

9. This decision changes the determination to no hearings necessary.

¹¹³ CNS hourly emissions intensities do not effectively represent the GHG emissions that result from energy reductions in the CEOP. CEC produces emissions factor analyses that quantify the marginal emission intensities of all generation (and imports and exports), both emitting and GHG-free, would better reflect emissions reductions from this Pilot.

10. Application 18-05-015 is closed.

This order is effective today.

Dated April 25, 2019, at San Francisco, California.

MICHAEL PICKER

President

LIANE M. RANDOLPH

CLIFFORD RECHTSCHAFFEN

GENEVIEVE SHIROMA

Commissioners

I dissent.

/s/ MARTHA GUZMAN ACEVES

Commissioner