Decision 10-12-027 December 16, 2010

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U338E) for Approval of its Palm Desert Demonstration Partnership Through the 2010-2012 Energy Efficiency Program Cycle.	Application 10-07-004 (Filed July 2, 2010)
And Related Matter.	Application 10-07-006

DECISION APPROVING SOUTHERN CALIFORNIA EDISON COMPANY'S APPLICATION, AND DENYING SOUTHERN CALIFORNIA GAS COMPANY'S APPLICATION, TO CONTINUE PALM DESERT DEMONSTRATION PARTNERSHIP PROGRAM

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DECISION APPROVING SOUTHERN CALIFORNIA EDISON COMPANY'S APPLICATION, AND DENYING SOUTHERN CALIFORNIA GAS COMPANY'S APPLICATION, TO CONTINUE PALM DESERT DEMONSTRATION PARTNERSHIP PROGRAM

1. Summary

This decision approves the application of Southern California Edison Company (SCE) to continue the Palm Desert Demonstration Partnership (Partnership) program to the end of 2012. The Partnership, which involves SCE, Southern California Gas Company (SoCalGas), City of Palm Desert (Palm Desert) and the Energy Coalition, is intended to provide a variety of innovative energy efficiency and related services in Palm Desert in order to achieve significant reductions in energy usage and peak demand. Funding for the Partnership, provided by shifting funds from currently authorized energy efficiency programs, is approved at a level of $6.936 million, consistent with the current interim funding level. We will require SCE's Program Implementation Plan to be modified through an Advice Letter to clarify program goals and improve oversight, consistent with the recommendations of the Energy Division's Impact and Process Evaluations of the Partnership, and to conform to certain Commission directives.

The application of SoCalGas is denied, due to minimal benefits to date, high administrative costs and a low likelihood of improvement.

2. Background

Southern California Edison Company (SCE) and Southern California Gas Company (SoCalGas) proposed the Palm Desert Demonstration Partnership (Partnership) in 2006. On December 14, 2006, the Commission issued Decision (D.) 06-12-013, approving the utilities' request with certain modifications.

Specifically, this Decision authorized SCE to record up to $14 million in SCE's Procurement Energy Efficiency Balancing Account from existing unspent, uncommitted energy efficiency monies to fund Partnership expenditures during 2006-2008. D.06-12-013 specified project duration of two years, but also stated that SCE may seek an additional two years through future funding requests.

The Partnership was to be a collaboration among SCE, SoCalGas, the Energy Coalition and the City of Palm Desert (Palm Desert), who proposed to deliver these additional, incremental program offerings:

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

D.06-12-013 cautioned that the Commission would "carefully consider the results of ex post Evaluation, Measurement and Verification (EM&V) when it considers funding requests for this program during the 2009-2011 program cycle." (D.06 12 013 at 16.)

In their applications for the current (now 2010-2012) energy efficiency program cycle, SCE and SoCalGas requested a total of $23 million for the Partnership, before completion of the EM&V of the Partnership's energy savings to date. In D.09-09-047 at 271 (the Commission's September 24, 2009 decision authorizing the state's investor-owned energy utilities' current energy efficiency portfolios), the Commission limited funding authority for SCE for the Partnership to $3.90 million to continue program implementation through June 2010, and required SCE and SoCalGas to request any additional extension of the Partnership beyond June through a separate Application. (D.09-09-047, Ordering Paragraph 39.) That decision specified that an application to extend the program would need to provide detailed information documenting the Partnership's performance to date, as well as addressing specific pilot project criteria set by the Commission for all energy efficiency pilot projects.[1]

On April 22, 2010, SCE and SoCalGas jointly filed a Petition for Modification of D.09-09-047. SCE and SoCalGas requested that the Commission modify D.09-09-047 to authorize continuation of the Partnership on a month-to-month basis, at the then-currently authorized budget levels[2] of approximately

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[1] D.09-09-047 at 271, citing Section 4.3 (at 48-49). The criteria applicable to all pilot programs included ten specific elements which address cost-effectiveness, innovative design and partnerships, baseline metrics, methodologies for testing cost-effectiveness, as well as a budget and timeframe for completing the Project and obtaining results within a portfolio cycle.

[2] D.09-09-047, OP#39, authorized SCE and SoCalGas interim funding of $3.9 million. D.09-09-047 at 271, specifies this funding is for the first six months of the 2010-2012

Footnote continued on next page

$578,000 per month for SCE and $72,000 per month for SoCalGas until the Commission issued a decision on the then-forthcoming Applications for continuation of the Partnership for the remainder of the 2010-2012 cycle. D.10-06-039 granted the Petition for Modification to continue the Partnership on a month-to-month basis until the end of 2010, at reduced budget levels of $289,000 per month for SCE and $36,000 per month for SoCalGas, contingent upon each utility filing an Application by July 16, 2010 to continue the Partnership through 2012.

The Applications before us today were filed on July 1, 2010. The applications were protested by Division of Ratepayer Advocates (DRA) and The Utility Reform Network (TURN). At a Prehearing Conference on August 31, 2010, the Administrative Law Judge (ALJ) consolidated the proceedings. On September 8, 2010, the ALJ issued a Ruling requesting that parties supplement the record by responding to a series of questions about the Partnership. Parties responded to the Ruling on September 24, 2010, with replies on October 1, 2010.

3. Positions of Parties

SCE requests the Commission approve a continuation of the Partnership for the duration of SCE's energy efficiency 2010-2012 program cycle with a proposed incremental budget of $7.90 million (in addition to the $3.47 million authorized for SCE by D.09-09-047 and Advice Letter 2410-E) and the proposed fund shifts requested herein. SCE requests approval to fund the continuation of the Partnership by shifting $7.90 million in funds from the 2010-2012 budgets authorized in D.09-09-047. Specifically, SCE requests authority to shift

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cycle. This equates to $3.47 million for SCE and $0.43 million for SoCalGas for a six-month period, or $578,000 and $72,000 per month for SCE and SoCalGas, respectively.

$6,500,000 from the Residential Energy Efficiency Program, $722,000 from the Commercial Energy Efficiency Program, $200,000 from the Residential and Commercial HVAC Program and $478,000 from the Energy Leader Partnership Program to fund the Partnership. SCE contends these funds have already been authorized for recovery from customers by D.09-09-047, and thus approval of this Application will not result in an additional rate increase.

SCE proposes certain modifications to the Partnership, including new program offerings for the 2010 – 2012 energy efficiency cycle approved by D.09-09-047, and minor modifications to existing program elements. SCE also proposes discontinuance of the thermal energy storage program (which was not successful), the American Grid home monitoring system (due to minimal savings), and the Behavior Change Program (due to inconclusive results).

SCE claims the Partnership supports the California Long Term Energy Efficiency Strategic Plan's (Strategic Plan) goals of achieving significant reductions in residential and commercial energy use and implementing whole house retrofits, zero net energy projects, HVAC upgrades, new technologies, innovative financing, and the development of reach codes. SCE also claims the Application is responsive to new energy efficiency pilot requirements adopted in D.09-09-047.

SCE contends the Partnership serves as a model for other cities and utilities to utilize, as the Partnership has developed several innovative projects that are being considered for future replication. SCE also contends the Partnership has provided support for Palm Desert's involvement in the development of Assembly Bill (AB) 811 (Stats. 2008 Chap. 159) regarding financing of energy efficiency projects.

SCE asserts the Partnership has made significant progress toward achieving its goals in the four years since its inception, claiming over 7,000 residential home energy surveys have been conducted, resulting in over $19 million in paid rebates and incentives to customers for installation of energy efficient equipment. SCE also claims energy savings from this Partnership have reduced greenhouse gas emissions by 47,000 metric tons, equivalent to removing over 9,000 vehicles from California roadways.

SCE claims that through 2009 it and its partners have achieved 36.5 megawatt-hour (MWh) reductions for the Partnership, and 11.2 megawatts (MW) of peak reductions, accounting for 71% and 69%, respectively, of the electric energy savings and demand reduction goals established by the Commission.[3] SCE acknowledges that Palm Desert has set goals of 30% reductions in MWh, MW and therms, which equates to energy savings of 215,000 MWh, peak demand reduction of 48.7 MW, and natural gas consumption savings of 5.7 million therms. SCE states that through 2009 between it and Palm Desert, 43% of the MWh reduction goal and 54% of the peak MW reduction goal for the anticipated five-year period of the Partnership have been achieved.

SCE also identifies several additional initiatives of the Partnership to date, including:

- AB 811 development support;
- Contribution to local government leadership;
- Simplified customer process (e.g., "one-stop-shop");
- Residential behavioral change program;

[3] Exhibit SCE-4, Revised Table II-1.

- Customized incentives and services;
- Marketing and outreach;
- Emerging technologies promotion; and
- Development of replicable projects.

SCE and SoCal Gas jointly contend that there was not sufficient data to complete a full analysis of the pilot to determine whether continued funding should be authorized, because analytical data was intended to be gathered over five years, not three years. They claim that some projects can demonstrate proof of concept (the ability to achieve energy savings or demand reduction), but there is not yet sufficient information to determine whether projects can be replicated or whether such replication would be cost-effective. The utilities also suggest that there has been a lack of communication between the Energy Division and the utilities on what should be the Partnership's metrics of success; they state a willingness to work further with Energy Division to resolve evaluation issues.

SoCalGas seeks approval to spend $2.1 million in funding to save 457,073 gross therms during the 2010-2012 energy efficiency program cycle. Funding would come from unspent uncommitted monies from the 2004 -2005 energy efficiency program cycles recorded in its Conservation Expense Account. Since these funds have already been collected from customers, SoCalGas states that its request will not require a rate increase.

DRA recommends that the Commission not authorize extension of or additional funding of SCE's participation in the Partnership unless the Commission's Energy Division confirms that lessons learned from the Direct Impact Evaluation Report and the Palm Desert Implementation Assessment have been incorporated into any future SCE participation in the Partnership.

DRA contends that the EM&V studies of SCE's participation in the Partnership revealed shortcomings in the implementation of the program, especially the collection of data to track results of a pilot program that is not held to the same cost-effectiveness standards of other energy efficiency programs, but is expected to yield information that may be useful in other settings. DRA points out that the Partnership was funded at a much higher level than other local government programs, and contends that therefore ratepayers should expect a greater level of rigor would be applied to demonstration of program design and monitoring of activities and expenditures.

Regarding SoCalGas' application, DRA notes that the Energy Division's Impact Evaluation concluded that the 768 therms of ex ante net savings from SoCalGas's participation in the Partnership were so small that "a minimum of evaluation resources were expended" in evaluating the program.[4] DRA points out that this is significantly less than the savings asserted in SoCalGas's Application. The Impact Evaluation on p. 73 further noted that it appeared that all gas efficiency measures in Palm Desert were reported through other SoCalGas programs, which means that the money spent marketing the SoCalGas Palm Desert Program was really being spent in support of other SoCalGas programs in the area. Therefore, DRA finds it difficult to conclude that SoCalGas's participation in the Partnership produced benefits commensurate with the funds expended.

Therefore, DRA recommends that if the Commission decides to authorize extension and continued funding of SoCalGas's participation in the program, it

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[4] Impact Evaluation at 72-73.

should ensure that the following recommendations (as well as others reflected in the EM&V reports) are incorporated into the design of the program:

- Clear explanation of the program logic that linked program actions to intended outcomes;
- Collection and submission on a timely basis of quantitative data to support the direct linking of program actions with outcome;
- Documentation to define or track the design innovations featured by the Palm Desert Partnership;
- Documentation, or tracking of program activities that could establish the effectiveness, replicability, and scalability of program activities to other jurisdictions; and
- A planning document that clearly articulates the specific responsibilities and goals for each partner.

TURN asks that the Commission not authorize SCE's proposed level of funding to be shifted towards the Partnership for the 2010-2012 program cycle. TURN contends SCE has failed to provide the type of information necessary to permit the Commission to conduct the type of review called for in past decisions, particularly D.09-09-047. Both EM&V studies of the Partnership and past Commission decisions have come to the conclusion that the Partnership has not been successful in generating certain desired outcomes for energy efficiency. In fact, TURN contends the Program Assessment was very clear when it observed that the level of funding afforded the Partnership was not met with a comparative level of rigor in the program's design, documentation and demonstration. TURN further cites the Program Assessment as stating, "as [the Partnership] is currently operated it is unlikely that the $48.8 million in requested funding between 2007 and 2012 will be cost effective or yield program design innovations that can be clearly defined, measured, and replicated elsewhere."

TURN notes that although SCE contends that the requested funds for 2010 through 2012 for the Partnership have already been authorized for recovery from customers, permitting the utilities to spend these authorized funds means less funds to be spent on more cost-effective and meritorious residential programs. For example, the proposed $6.5 million reallocation from the Residential Energy Efficiency Program is 2.7 % of that program's current program budget for the 2010-2012 program.

4. The Impact Evaluation and Process Evaluation

Regarding the Partnership, D.09-09-047 at 269-270 stated:

> While we might reasonably expect there to be less savings per dollar spent when innovative measures are being piloted, the preliminary review of program data in the Commission's 2006-2008 impact evaluation has shown that the majority of measures found in the SCE portion of the Palm Desert program are not innovative measures, but rather are standard measures that are offered routinely by SCE in other energy efficiency programs, with the exception of the early retirement of residential air conditioning systems.

With these concerns, and the lack of final ex post EM&V reports on the Partnership, the Commission declined to make the Partnership a part of SCE's and SoCalGas' 2010-2012 energy efficiency portfolios, but extended funding for six months pending a new application. The Commission stated that SCE and SoCalGas would need to reapply for any funding if they wished to continue the Partnership beyond the first six months of 2010. The decision specified that an application to extend the program would need to provide detailed information documenting the Partnership's performance to date, as well as addressing specific pilot project criteria set by the Commission for all pilot projects.[5]

There have now been two evaluations of the Partnership performed under the aegis of the Energy Division. The first evaluation is the Government Partnership Programs Direct Impact Evaluation Report (known as the "Impact Evaluation") prepared by Summit Blue Consulting. The Impact Evaluation was publicly posted on the Commission's Evaluation web site on February 8, 2010.[6] The Impact Evaluation describes the evaluation activities related to energy efficiency Local Government Partnerships, including the Palm Desert Partnership.

The Impact Evaluation for SCE focused on three particular measures: residential air conditioner (AC) early retirement; refrigerant charge and airflow (RCA); and commercial AC RCA. The Impact Evaluation states that the RCA program was in the early phases of implementation when evaluated, but notes that "RCA realization rates were found to be exceedingly low" due to several factors, including insufficient documentation, little evidence of substantial improvements for most sites, and inadequate quality control.[7]

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[5] D.09-09-047 at 271, citing Section 4.3 (at 48-49). The criteria applicable to all pilot programs included ten specific elements which address cost-effectiveness, innovative design and partnerships, baseline metrics, methodologies for testing cost-effectiveness, as well as a budget and timeframe for completing the Project and obtaining results within a portfolio cycle.

[6] The final impact evaluation report is posted at the following site: http://www.energydataweb.com/cpucFiles/topics/10/Final_0608_LGP_Impact_Evaluation_Report_020810.pdf

[7] Impact Evaluation at 102-103.

Regarding early retirement of residential AC units, the Impact Evaluation found "relatively low realization rates" as a result of low net-to-gross ratios. The Impact Evaluation also found that "(g)ross savings of the early retirement program were significantly higher than ex ante projections."[8]

The Impact Evaluation recommended improved documentation of RCA measures, a higher level of oversight and quality control of installation contractors and other improvements for the three SCE programs evaluated.[9]

The Impact Evaluation states that the SoCalGas portion of the Partnership did not receive any rigorous impact analysis because of very little program activity.[10]

The second evaluation is known as the "Process Evaluation,"[11] issued on June 1, 2010. The draft process evaluation was designed to address the following research topics:

- What measures were installed and what were the energy and demand accomplishments of the program relative to objectives stated in the program planning documents?
- What were the costs of the program and how did this compare to other programs?
- What was innovative about the program and what can be replicated elsewhere?

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8 *Id.* at 103.

9 *Id.* at 104.

10 *Id.* at 100.

11 The formal title of the process evaluation is "Final Palm Desert Partnership and Demonstration Project Implementation Assessment." This study covers the program years 2007 and 2008. The study can be found at http://www.energydataweb.com/cpuc.

In its overall evaluation conclusions for SCE, the Process Evaluation states:

> Overall the SCE program performed on a par with other SCE local governmental program (LGP) resource programs, achieving utility reported ex-ante savings of 87% of the goal established in the Program Implementation Plan (PIP). The SCE program performed many of the activities stated in the PIP, such as focusing on measures that target peak demand reduction and achieving incremental savings beyond those reported by SCE territory-wide (core) programs also operating in Palm Desert area. The SCE [Partnership] had the highest approved budget and final recorded cost of all LGP programs, statewide, and the per capita budget for the [Partnership] program was $320 compared to the average per capita funding of $14 for 38 other LGP programs reviewed statewide. The SCE [Partnership] program cost of $0.403 per ex-ante reported kilowatt-hour (kWh) saved was in line with the average SCE LGP resource program cost of $0.388 per ex-ante reported kWh.[12]

The process evaluation provided mixed reviews on other aspects of the Partnership for SCE. On the positive side, SCE was found to have achieved 71% of energy savings and 69% of demand reduction (compared to its 2006 goals) in only two years out of an anticipated five years, using only 67% of funds. In addition, the evaluation found "anecdotal" evidence that the program value was greater than the sum of its parts. On the other hand, the evaluation found that it was "unlikely" the pilot would be cost-effective even if allowed to run a full five years. Additionally, there were concerns about poorly defined program design. Regarding innovation, the evaluation was hampered by "the absence of a clear explanation of the program logic that linked program actions to intended actions" and "the absence of detailed quantitative and qualitative data to

[12] Process Evaluation at 2.

support the direct linking of program actions with outcomes." The evaluation could not conclude whether or not many of the strategies used in the pilot by SCE "are successful or replicable."[13]

For SoCalGas, the Process Evaluation was "limited primarily to reviewing the program expenditures because SoCalGas did not report savings accomplishments within the CPUC Energy Division deadline." The Process Evaluation states: "Because the complete results for the SoCalGas [Partnership] were not provided to [Energy Division] by the March 2009 deadline established by the Energy Division for utilities to submit their final 2006-2008 program tracking databases, the SoCalGas component of the pilot program is excluded from this evaluation. Essentially there was nothing presented by SoCalGas to evaluate."[14] The Process Evaluation also noted a particular concern that "nearly all of the SoCalGas [Partnership] program costs of $990,000 were spent on operating and administrative activities, with less than $6,000 paid in incentives."

On September 24, 2010, SCE and SoCalGas jointly filed their informal responses to the Impact Evaluation and the Process Evaluation.[15] These responses detail specific concerns the utilities had over particular elements of the studies. Many of the comments are of a technical nature. For the Process Evaluation, the exhibit shows that Energy Division responded to each of the concerns raised by SCE and made a number of improvements to the study based on comments. However, in a number of instances, Energy Division did not agree

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[13] *Id.* at 3-4.

[14] *Id.* at 21.

[15] The responses to the Impact Report are Exhibit ALJ-3. The responses to the Process Evaluation are Exhibit ALJ-4.

with the concerns or criticisms raised by SCE. SoCalGas provided ten specific counterpoints to the Process Evaluation, calling the evaluation "clearly biased to highlight perceived negatives."[16]

5. Discussion

The utilities have provided their concerns and critique of the Impact and Process Evaluations. We have reviewed their comments, which point out certain imperfections in the reports (some of which were acknowledged and corrected by Energy Division) and raise a number of methodological questions. Nevertheless, we perceive no biases and have no reason to question the basic findings of these reports. As we said we would do in previous decisions, we rely to a large degree on these evaluations to determine the future of the Partnership. Based on the evaluations, DRA and TURN take as their main position that the Partnership should end now, based on less than hoped-for results, high total costs relative to other local governmental partnerships, and poor data collection efforts. SCE and SoCalGas take as their main positions that the Partnership should continue with minor changes through a total of five years (as originally proposed in 2006), based on some positive findings and despite some negative findings in the evaluations.

We understand the DRA/TURN view; the Partnership has been flawed and imperfect in many ways. We do not agree with the utilities that the Partnership was envisioned by the Commission to last five years. In fact, D.06-12-013 provided funding only through 2008, anticipating a further review in the next energy efficiency portfolio application. Still, we are not convinced

[16] Exhibit ALJ-4 at 1-3 of SoCalGas comments.

that a conclusive determination of the success or failure of the Partnership is possible at this time. The Partnership has shown some value to the Palm Desert community, and the energy efficiency community in California as a whole. As a pilot program, the Partnership was not expected to be cost-effective (although such an outcome would be desirable), but could provide value in other ways. SCE appears to have made significant strides (about 70%) towards energy savings and demand reduction goals set in 2006, although the savings are not verified. SCE claims to have made less progress (about 39%) toward Palm Desert's 30% savings goals. While it is unclear that the efforts of the Partnership are replicable in other areas of California, further efforts may provide a basis for replication.

The costs for the Partnership have been much higher than for other local governmental partnerships, and clear benefits from innovation have been elusive. At the same time, there has been significant enough progress made, and significant enough potential exists, to merit the continuation of the portion of the Partnership involving SCE for two more years as long as certain improvements are made at this point to assist our understanding of the Partnership's results. We discuss funding levels and implementation below.

We will deny SoCalGas' request to continue its role in the Partnership. For SoCalGas, the evidence of progress is very minimal. The natural gas efforts in the Partnership have been administratively-heavy, producing few energy savings, and providing little useful data for evaluations. SoCalGas should focus its energy efficiency efforts on its main programs authorized for 2010 – 2012 in D.09-09-047.

SoCalGas claims in comments on the proposed decision that it has in fact shown significant savings in the partnership. SoCalGas claims that, while it admittedly did not provide timely data to Energy Division for evaluation, such data exists. SoCalGas points to a draft Energy Division report from November 2010 as support for this claim.

We will not revise the proposed decision based on these unsupported claims. SoCalGas has made no effort to place updated data into the record, and DRA has had no opportunity to review SoCalGas' claims. Even if such updated data were part of the record, SoCalGas itself claims a very low cost-effectiveness ratio of 0.5. Therefore, there is a reasonable likelihood that, had SoCalGas' claims been in the record, the outcome would have been the same.

DRA recommends that, if the Commission authorizes further funding for the Partnership, it should do so only after the Energy Division has reviewed and revised the Program Implementation Plan (PIP) to ensure that all the finding and recommendations of the two EM&V studies have been incorporated into the program design. We agree with DRA that elements of the Partnership should be updated to reflect the evaluations. In addition, we note that D.09-09-047 at 285, prohibited the investor-owned utilities (IOUs) from any "direct involvement of the utilities in community financing program development" including AB 811 programs, with certain exceptions. We will require SCE to file an Advice Letter to update the Partnership PIP, reflecting the finding of the evaluations and conformance with D.09-09-047 prohibitions against AB 811 support activities. The Advice Letter must be filed within 45 days of the effective date of this decision.

SCE's proposed Partnership funding is taken from other energy efficiency programs approved in D.09-09-047. We agree with DRA and TURN that shifting funds from successful non-Partnership programs to unproven Partnership programs may not be the best use of energy efficiency funds. However, the alternative funding mechanism – increasing rates – is not satisfactory. By continuing the Partnership, it is our hope that value for ratepayers will emerge through improvements in the Partnership programs and future replication. We will approve SCE's request to shift funds from other programs, at levels consistent with funding levels approved in D.10-06-039, or $289,000/month. This is approximately a 12% reduction from SCE's request of $329,000 per month (based on SCE's request of $7.90 million for 24 months). This small reduction is warranted because concerns remain about the value of the pilot program. While we hope further evaluation will determine that the pilot has shown more success than has been shown to date, it is prudent to limit ratepayer funding in the event that this is not so.

6. Comments on Proposed Decision

The proposed decision of ALJ Gamson 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. Comments were filed on November 30, by SCE and SoCalGas. We make no substantive changes to the proposed decision, but note SoCalGas' comments in the discussion herein. We also clarify that SCE's Advice Letter filing should address issues concerning AB 811.

7. Categorization and Assignment of Proceeding

This proceeding is categorized as Ratesetting. The assigned Commissioner is Dian M. Grueneich and the assigned ALJ is David M. Gamson.

Findings of Fact

1. D.09-09-047 found that the majority of measures found in the SCE portion of the Palm Desert Partnership are not innovative measures, but rather are standard measures that are offered routinely by SCE in other energy efficiency

programs, with the exception of the early retirement of residential air conditioning systems.

2. The Impact Evaluation did not conduct any rigorous impact analysis of the SoCalGas portion of the Partnership because of very little program activity.

3. The Impact Evaluation for SCE found: a) RCA realization rates were exceedingly low; b) there were relatively low realization rates for early retirement of residential AC units; and c) gross savings of the early retirement program were significantly higher than ex ante projections. The Impact Evaluation recommended improved documentation of RCA measures, a higher level of oversight and quality control of installation contractors and other improvements for the three SCE programs evaluated.

4. The Process Evaluation excluded the SoCalGas component of the pilot program from evaluation because there was essentially nothing presented by SoCalGas to evaluate. The Process Evaluation found that nearly all of the SoCalGas Partnership program costs of $990,000 were spent on operating and administrative activities, with less than $6,000 paid in incentives.

5. SCE's claim to have achieved 71% of energy savings and 69% of demand reduction (compared to its five-year goals established in 2006) through 2009 is unverified.

6. The Process Evaluation found anecdotal evidence that the Partnership's program value was greater than the sum of its parts.

7. The Process Evaluation found that it was unlikely the Partnership would be cost-effective even if allowed to run a full five years.

8. The Process Evaluation found concerns about poorly defined program design. Regarding innovation, the Process Evaluation was hampered by "the absence of a clear explanation of the program logic that linked program actions

to intended actions" and "the absence of detailed quantitative and qualitative data to support the direct linking of program actions with outcomes."

9. The Process Evaluation could not conclude whether or not many of the strategies used in the Partnership by SCE are successful or replicable.

10. The utilities' critique of the Impact and Process Evaluations appropriately point out certain imperfections in the evaluations and raise a number of methodological questions. However, the specific issues raised do not undermine the basic findings of these reports.

11. A full evaluation of the Partnership is not yet possible, due to both data problems and the potential for future benefits from improvements in the Partnership.

12. The Partnership has shown value to the Palm Desert community, and the energy efficiency community in California as a whole, as a means to test a wide variety of energy efficiency strategies in one geographic location.

13. While it is unclear that the efforts of the Partnership are replicable in other areas of California, further efforts may provide a basis for replication.

14. The Partnership proposes certain support activities for AB 811 program development, which may be in violation of D.09-09-047 at 285, unless they conform to certain exceptions provided in that decision.

Conclusions of Law

1. It is reasonable to rely on the Impact and Process Evaluations to determine the future of the Partnership.

2. SoCalGas' participation in the Partnership should not continue, due to minimal benefits, high administrative costs and a low likelihood of improvement.

3. SCE's participation in the Partnership should continue, based on a reasonable level of benefits to date and a reasonable likelihood of further improvements.

4. SCE's Program Implementation Plan should be modified to take into account recommendations found in the Impact and Process Evaluations, and to provide additional information about the Partnership including a demonstration of how proposed AB 811 development support activities conform to D.09-09-047.

5. It is reasonable to allow SCE to shift funds from other approved energy efficiency programs to fund the Partnership through 2012.

6. It is reasonable to continue funding levels for the Partnership at levels consistent with the funding approved in D.10-06-039.

O R D E R

IT IS ORDERED that:

1. Southern California Edison Company is authorized to shift a total of $6.936 million, from the following energy efficiency funds approved in Decision 09-09-047, to the Palm Desert Demonstration Partnership for 2010 through 2012:

   a. $5,744,000 from the Residential Energy Efficiency Program;

   b. $638,000 from the Commercial Energy Efficiency Program;

   c. $176,600 from the Residential and Commercial Heating, Ventilation and Air Conditioning Program; and

   d. $422,000 from the Energy Leader Partnership Program.

2. Southern California Gas Company's Application is denied.

3. Southern California Edison Company shall file an Advice Letter no later than 45 days after the effective date of this decision to revise the Palm Desert Demonstration Partnership Program Implementation Plan, consistent with D.09-09-047 and recommendations of the Energy Division Impact and Process Evaluations. The Advice Letter shall also include information responsive to the items in Appendix A to this decision.

This proceeding is closed.

Dated December 16, 2010, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
TIMOTHY ALAN SIMON
NANCY E. RYAN
Commissioners

Appendix A

The Advice Letter referenced in Ordering Paragraph 3 of this decision shall include the following information:

1. **Budget Allocation** - Provide a line item budget that details the funding allocation to each resource and non-resource program element represented in the Program Implementation Plan (PIP). Account for all ratepayer funds requested. Describe how the funds will be used for the program elements.
2. **Savings Source** - Provide a breakdown of where projected savings are expected to come from, accounting for all of the projected savings. Include a line item for technologies where appropriate, and statewide or third party resource programs funded under the demonstration program budget (e.g., pool pumps, higher than normal incentives, or Whole House Retrofit Program, Energy Efficiency Upgrade Program, etc.)
3. **Links Statewide** - Provide a detailed description of whether the resource programs listed in the program description are statewide programs, third party programs, or programs uniquely offered by the Palm Desert Demonstration Partnership (Partnership). What is the relationship of these programs to the Palm Desert Demonstration Partnership? (e.g., which elements in the partnership do they leverage, or how does the partnership leverage them?) Describe where and how the notable technologies referred to in the program description are being offered in other parts of Southern California Edison Company (SCE) territory.
4. **Making Sense of Logic Model** - A large array of resource, non-resource and policy elements are presented briefly in the pilot description. The logic model does not discretely show how each of these various elements relate

to each other, and to intended program outputs and outcomes. Identify individual program components and describe which program outputs, outcomes or goals they will impact and how.

5. **Partner Roles** - Provide a detailed description of the roles, responsibilities and goals of the City of Palm Desert, utility staff, and Energy Coalition, and any other partner for each of the program components. Note which if any program elements are predominantly or solely the responsibility of a non-utility partner, such as the City of Palm Desert. Describe the management and decision-making structure, noting who holds ultimate responsibility for the demonstration, or for which parts of it. Include in the line item budget requested above the allocation for each of the partners, including Energy Coalition.
6. **Data and Tracking** – The impact and process evaluations of the 2007-2008 Palm Desert Partnership & Demonstration Program cited deficiencies and made recommendations regarding program reporting and tracking. Further, a Commission evaluation of 2006-2008 local government partnership non-resource program elements found a general lack of targets and tracking of referral, audit and training components among local government partnerships statewide. This indirect impact evaluation provided a template tool to facilitate a standardized method of tracking and capture of basic program and participant information, and several concrete recommendations. Explain how the pilot is addressing these needs and recommendations. In addition, provide a detailed description of how SCE is structuring program reporting and tracking for resource and non-resource elements in order to capture data that supports a) assessment of success of program strategies, b) the direct linking of individual

program actions with outcomes, c) timely reporting and feedback, d) assessment of the demonstration nature of the pilot, including replicability and scalability, and e) cost-effectiveness based on budgeting detailed enough to allow for a cost-benefit analysis of individual strategies. How will SCE insure data is captured correctly and in a timely manner, in order to support assessment of success?

7. **Evaluation Plan** – Explain what data (identified above) and methods will be used to evaluate the pilot. How will SCE determine whether program elements are successful, and whether they can be scaled up for broader use in larger locales? Which strategies (such as elevated incentive levels) need to be assessed early in the cycle? How will SCE insure there is no double counting of energy savings? Identify the need for baseline setting, and performance metrics. (Per Decision 09-09-047 pilot project criteria.)
8. **AB 811 Development Support** – Demonstrate how the specific AB 811 support activities funded through the Partnership conform to one or more of the three exceptions to the Commission's "general prohibition against utility direct involvement of the utilities in community financing program development" (D.09-09-047 at 285). If specific activities cannot be shown to conform with D.09-09-047 prohibitions, then these activities should be eliminated from the PIP and any funding through the Partnership.

(End of Appendix A)