980 9th Street, Suite 1700
Sacramento, CA 95814
415/587-7343

MEMORANDUM

TO: LGSEC Membership

CC: LGSEC Board

FROM: Irene Moosen, Regulatory Consultant

SUBJECT: Final CPUC Decision Providing Guidance for Initial Energy Efficiency Rolling Portfolio Business Plan Filings, D.16-08-019 (Rulemaking 13-11-005)

DATE: August 26, 2016

This memo provides a summary of the California Public Utilities Commission's (CPUC) Final Decision (Decision) Providing Guidance for Initial Energy Efficiency Rolling Portfolio Business Plan Filings, issued on August 25, 2016.[1] The CPUC adopted a revised version of the Proposed Decision summarized in my July 25, 2016 memo. That memo is updated here to reflect the adopted changes to the Proposed Decision.

Issues addressed are 1) next steps for regional energy networks (RENs), 2) new default existing condition baselines policy effective January 1, 2017, 3) a statewide local government program will be considered when LGSEC submits a detailed proposal in a business plan. The proposed business plan will be initially submitted to the California Energy Efficiency Coordinating Committee (CAEECC) process, 4) transition for statewide and third party programs, and 5) changes to the evaluation and shareholder incentive frameworks.[2] The Decision adopted the January 15, 2017 deadline for filing business plans.

Details on upcoming LGC/LGSEC activities in preparation of a proposed statewide local government program implementation business plan are not outlined here, but will be presented in separately, as soon as possible.

<u>Background:</u> LGSEC filed comments in this proceeding in January (RENs), April (Baseline Calculations) and June (Statewide Administration.) We emphasized the need to move the RENs from "pilot" to "permanent" status and allow for new RENs to apply. LGSEC's Joint Comments with SoCalREN underscored the need for baseline calculations based on existing conditions, as AB 802 mandates. In June, LGSEC presented the proposal that the CPUC create a Statewide Energy Efficiency Local Government Program Area that would be administered by a single funding IOU Program Administrator with LGC as the responsible statewide Program Implementer.

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[1] The full text of this Decision can be found at: http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M166/K232/166232537.PDF

[2] LGSEC filed comments addressing the status of the RENS, joint comments with SoCalREN regarding baseline calculations and filed a new proposal that the CPUC create a new statewide local government program area (LGPA) with a single IOU administrator as a funding agent and LGC as the single statewide program implementer.

Executive Summary: Regarding the RENs, the Decision maintained the "pilot" status quo with further performance evaluation to occur prior to assessing the RENs' success. RENs are directed to coordinate their proposals with the other program administrators and then file them on January 15, 2017. REN proposals will be evaluated based on the three criteria adopted by the CPUC in D.12-11-015.

The Decision adopted a policy of using existing conditions as the default baseline, with few exceptions, as supported by joint SoCalREN and LGSEC in our filing.

The Decision did not adopt a statewide Local Government Program Area at this time but asked LGSEC to present a business plan with more detail to the CAEEC as the appropriate next step.

Specific Issues in the Final Decision

Regional Energy Networks
RENs continue in pilot status until further data and analysis can be gathered to assess performance. The Decision found that the REN programs offer the potential for unique and valuable program designs and should be allowed to continue to apply to the CPUC as program administrators. RENs are authorized to present business plans with proposed programs on January 15, 2017 to be coordinated with the other Program Administrators. The CPUC will evaluate each program individually.

The Decision stated that REN proposals should be evaluated against three criteria adopted in D.12-11-015: 1) activities that utilities cannot or do not intend to undertake; 2) pilot activities where there is no current utility program offering and where there is potential for scalability to a broader geographic reach, if successful; and 3) pilot activities in hard to reach markets, whether or not there is a current utility program that may overlap. The PD's conclusion that RENs focus on long-term cost-effectiveness was removed in the final Decision.

In addition, the Decision concluded that the REN program proposals should be discussed at the CAEECC prior to filing them concurrently with the business plans of other program administrators.

Baseline Calculation
The Decision adopted the default existing conditions baseline measurement with certain exceptions in compliance with AB 802, effective January 1, 2017, as presented in the PD. Exceptions that will use a "code and/or appliance standards baseline" were listed as follows:

1) New construction, expansions and added-load programs:
    a. Shell & Building System Add-on Equipment, and
    b. Normal Replacement measures;
2) Existing Buildings, including major alternations:

a. upstream and midstream measures for Shell & Building System Add-On Equipment and Normal Replacement, and
b. Downstream Normal Replacement measures.

Industrial and agricultural behavioral, retrocommissioning and/or operational programs use “existing conditions” baselines.

The Decision orders savings goals to be calculated on a net savings basis instead of gross savings. This change was adopted In order to avoid double-dipping due to free ridership and as well as to align with long-term procurement capacity need forecasting.

The Decision reversed the PD and reaffirmed that the utilities will get savings credit, will still receive funding and ESPI credit for codes and standards advocacy work. The CEC’s Demand Assessment Working Group (DAWG) will develop a policy to eliminate double counting of savings for codes and standards advocacy and program participation in programs utilizing an existing conditions baseline.

Statewide and Third Party Administration
The Decision found it premature to adopt LGSEC’s proposal to establish a new statewide Local Government Program Area with LGC as the authorized Program Implementer without consideration of a detailed implementation plan. The Decision asked that LGSEC present the proposal in a business plan and stated:

> Local Government Programs may be, but should not be required to be, handled in a statewide manner. We will consider LGSEC’s proposal in the context of the business plans, if brought forward through the CAEECC process. Regardless of the LGSEC proposal, all business plans should also include strategies for improving the consistency of LGP administration statewide.
> (Conclusion of Law 53)

New Finance Offerings remained a statewide program as well as Government Entity programs including the UC/CSU, California Community College and State of California and Department of Corrections and Rehabilitation programs. Home Upgrade and Commercial Energy Advisor were listed as pilot statewide programs with a single-administrator. No guidance was offered regarding how small and medium commercial programs would be addressed. The Decision clarified that statewide marketing, education and outreach program budgets and business plans would continue on a statewide basis but are not required to be addressed in the upcoming business plan filings. Instead, they will be addressed in a separate proceeding.

While endorsing midstream and upstream programs as most inherently amendable to statewide administration, the Decision ordered that program administrators include four program pilot proposals to establish statewide administration for downstream or customer facing energy efficiency, identifying the following as potential candidate programs: 1) Energy Upgrade California Home Upgrade program, 2) Commercial Deemed Incentives, 3)

Strategic Energy Management (any sector) and 4) Commercial Energy Advisor.

The Decision included detailed clarification on the assignment and role of program administrators for statewide programs. Each Program Area was not assigned a specific IOU program administrator. The CPUC directs the IOUs to either volunteer or establish program administrators by program area through consensus arrived at through the CAEECC or other process. The Decision also finds that non-utilities are also eligible to be statewide administrators, again, subject to the same CAEECC consensus selection process and Commission approval.

The Decision clarified that if consensus is not reached through the CAEECC process, program administrators should request resolution of issues from the Commission in order to select the appropriate lead administrator for each statewide program and resolve issues regarding modifications to or sun setting of particular programs.

The Decision also clarified that the lead statewide administrator, once established and approved by the Commission, should be the final decision maker with respect to the statewide program, but should consult and collaborate with the other program administrators either through the CAEECC process or through several sector and/or program-level coordination venues hosted by the lead administrator.

The Decision also clarified that a single administrator could decide to have multiple implementers for a statewide program area at the discretion of the lead program administrator.

Finally, each utility program administrator's total program portfolio budget should be comprised of at least 25 percent statewide programs, including at least the programs and subprograms listed in the Decision. This requirement reiterates the Commission's desire to consider additional statewide programs and subprograms beyond those adopted in the Decision.

It is important to note that the Decision found that existing successful programs and partnerships should not be discontinued or subjected to funding hiatus as a result of the determinations on statewide and third party programs. Program administrators are directed to ensure a smooth transition between existing programs and those that will eventually be proposed and approved in the business plan process.

"Third-Party programs" are defined as those that are proposed, designed, implemented and delivered by non-utility program administrators. Utility business plans must include 20 percent outsourcing of program activity to third parties. In addition, utility business plans must include a plan to reach a target of 60 percent of the utility's budgeted portfolio that will be third-party designed and delivered by the end of 2020.

The IOUs are encouraged to focus more on their role as determiners of "need" and portfolio design and less on their role as program designers and implementers. The

Decision notes that certain functional responsibilities within the utility portfolios can be and to some extent already are consolidated and outsourced for cost savings and scalability, such as “back office” rebate fulfillment, data capture and management and to some extent marketing.

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The Decision affirmed that the budget for EM&V activities will continue to be four percent of the total program budget, to be allocated up to 40 percent to the program administrators and 60 percent to Commission staff. EM&V budgets for non-IOU program administrators, including CCAs and RENs, will be allocated from among the 40 percent of the EM&V budget that goes to program administrators, on a proportional basis (based on each program administrator’s total program budget within the utility service areas where the non-IOU administrators operate.) Program administrators are directed to keep EM&V administrative expenses as low as possible and track and disclose them publicly as part of the collaborative process. The Decision found no need to change the responsibility for accountability for EM&V priorities between Commission staff and program administrators. Existing Energy Savings Performance Incentive caps will remain.

Next Steps

LGC and LGSEC will send out notice of upcoming activities, including member and other local government engagement, in preparation of a proposed business plan to implement a statewide local government program as soon as possible.

Feel free to contact me with any questions or comments.