BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking Concerning Energy Efficiency Rolling Portfolios, Policies, Programs, Evaluation, and Related Issues.	Rulemaking 13-11-005 (Filed November 8, 2012)

COMMENTS OF THE LOCAL GOVERNMENT SUSTAINABLE ENERGY COALITION ON ADMINISTRATOR FILINGS FOR 2015 ENERGY EFFICIENCY PORTFOLIOS

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FOR Local Government Sustainable Energy Coalition

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I. Introduction

In accordance with the Rules of Practice and Procedure of the California Public Utilities Commission's ("Commission") and the rulings of the Assigned Commissioner and Administrative Law Judge, the Local Government Sustainable Energy Coalition[1] ("LGSEC") submits these comments on the filings submitted by the Energy Efficiency Program Administrators ("Administrators") describing their proposals for the 2015 extension to the 2013-2014 Transition Period. The LGSEC perspective is informed in large part by our many members who participate in energy efficiency partnerships offered by the investor-owned utilities ("IOUs"). Overall, the LGSEC concurs with the proposals put forward by the program administrators for 2015, and appreciates that funding for 2015 will remain steady. We continue to urge the Commission to allow local governments and other implementers to use existing building conditions as the baseline for energy efficiency programs to bring those buildings up to code at a minimum, rather than require them to exceed code in order to qualify for incentives. The Commission should support stand-alone residential measures where whole-house approaches are experiencing weak adoption. Local governments would like to offer robust programs that address the water-energy nexus, given our responsibilities to respond to the drought. We also support upgrades to cost-effectiveness, and propose modifications to on-bill financing and Energy Upgrade California.

II. Funding for Local Government Partnership Programs Remains Steady

The utilities all propose continuing funding for local government partnership programs at the same level. This is consistent with our expectations. We remind the Commission that the

[1] The LGSEC is a statewide membership organization of cities, counties, associations and councils of government, special districts, and non-profit organizations that support government entities. Each of these organizations may have different views on elements of these comments, which were approved by the LGSEC's Board. A list of our members can be found at www.lgsec.org.

impacts of Title 24 2013 remain unknown and will likely require extensive program revisions following early observations. Title 24 is also expected to cause uneven impacts with some sectors witnessing the brunt of costs and a heightened risk to goal attainment.

Some local government partners would welcome increased budgets and the ability to implement more technologies (measures) for a wider range of customers, especially in hard to reach regions. It is the experience in some regions that customers are not being served because some third party providers do not reach the remote parts of the state. At least in PG&E's service territory, these third-party providers have the exclusive right to offer programs. Local governments should have the ability to craft third-party agreements to meet key local needs and characteristics. Often, those agreements are useful, but not *optimal*. Local government partners have the knowledge of the community necessary to make them optimal.

The utilities also all propose that 2013-2015 be treated as one program cycle, rather than isolate the 2015 funds from the earlier part of the program. The LGSEC wholeheartedly supports this approach. It is consistent with the Commission's stated intention to move to a Rolling Portfolio, and will facilitate smooth program delivery. It allows programs that got a late start due to delays in contracting or in final program approval to recover lost time.[2] We note the proposed contract terms submitted by the BayREN (for PG&E) and the SoCalREN (for SCE and SoCalGas) and support their inclusion in the final decision on 2015 funding.

III. Allowing Programs to Bring Buildings to Code Will Encourage and Result in True Energy Savings

PG&E proposes that customers replacing specific technologies be permitted to use existing conditions in their facilities as the baseline measurement.[3] SDG&E recommends that

[2] In addition to some partnership programs getting a late start, we note that SCE's Local Government Partnership Strategic Plan Pilots did not commence until January 2014.
[3] PG&E, *Pacific Gas and Electric Company's (U 39-M) Energy Efficiency 2015 Funding Proposal*, p. 25.

the appropriate baseline for Prop 39/school energy efficiency projects is the actual existing energy efficiency infrastructure conditions and energy use at a school, rather than a speculative, hypothetical lower level of energy use the school might have if it had already undergone retrofits to code.[4] The LGSEC supports this approach, and requests that it be expanded to include *all* facilities that are replacing working equipment and that are upgrades not otherwise required due to other factors, at least for local government facilities and other customers less than 200kW. We find a particular similarity between local government facilities and school facilities, and suggest that they should receive similar treatment. Customers below 200kW also show similarities that make it challenging for them to adopt efficiency measures without substantive incentives.

With the current plan to enforce new codes as baseline for IOU-eligible savings, the Commission must recognize that expected savings claimed will be less than claimed in previous program cycles. We suggest instead that field conditions should form the baseline for ALL programs (including residential). Using new Title 24 standards as the baseline is not only artificial, but wholly disengaged from market conditions. The "achievement gap" between Title 24 guidelines and whatever "reach" level attainable is minor compared to the overwhelming gap between field conditions and the new Title 24 criteria. That energy efficiency gap represents the highest savings, the broadest potential market, and greatest movement toward market transformation.

We note that the California Energy Commission in its most recent *Integrated Energy Policy Report* identified the need to rethink how incentives have historically been awarded:

> One barrier to full investment in energy efficiency upgrades in existing buildings is the practice of viewing building energy efficiency standards requirements as a "bright line" threshold, below which no public incentives are made available. This

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[4] SDG&E, *San Diego Gas & Electric Company (U 902 M) 2015 Energy Efficiency Program Portfolio Changes Pursuant To The Assigned Commissioner's Ruling And Scoping Memorandum Regarding 2015 Portfolios (Phase 1 Of Rulemaking 13-11-005)*, pp. 9-10.

> can be dysfunctional in two ways: 1) failure to motivate the act of compliance such that many projects are completed without building permits and without code enforcement because the marketplace does not provide clear benefits for compliance; and 2) failure to achieve the savings that would occur from upgrading inefficient equipment and building materials because only the incremental improvement above the standards is eligible for incentives. These conditions lead to purposeful avoidance of building permits and standards compliance, and to decisions to postpone upgrade projects. This prolongs the wasteful energy impact of inefficient equipment and materials, and discourages participation in energy efficiency programs because program requirements are too high and incentives are too low.[5]

The LGSEC agree with this. The decision for a local government or school district is not to what degree to implement the energy efficiency project, but whether to implement it at all. Projects without incentives (monetary or otherwise) do not typically get implemented.

The CEC also recognized the need for a different approach to incentives:

> It is important to note that as energy efficiency codes and standards continue to improve, energy efficiency savings from incentives programs may diminish unless those programs continue to expand beyond traditional efficiency measures. To accomplish this, the state may need to modify its incentive mechanisms to provide value for both compliance with the standards and the total energy savings from upgrading inefficient equipment and building measures.[6]

As mentioned above, there is concern about the potentially devastating impact of the new Title 24, now scheduled to go into effect on July 1, 2014, on energy efficiency programs. The LGSEC joined other parties at the start of this proceeding in requesting that incentives must remain available for projects that bring a building from existing conditions up to or beyond current code, not just for the incremental additional savings achieved from exceeding code.[7] Having the ability now to identify buildings that are energy hogs and help them increase their efficiency, even if it does not bring them to the point where they exceed code, continues to be a

[5] California Energy Commission, *2013 Integrated Energy Policy Report*, CEC-100-2013-001-CMF, pp. 31-32.
[6] *Ibid*., p. 27.
[7] LGSEC, et al., *Prehearing Conference Statement Of The Local Government Sustainable Energy Coalition, The San Francisco Bay Area Regional Energy Network, And The Southern California Regional Energy Network Prehearing Conference Statement*, p. 2.

top priority for the LGSEC. The Commission might consider adopting a tiered incentive, which includes technical support, calculation assistance, etc. as incentive for "up to code" savings and then a monetary incentive for any savings above code.

The State of California has been a leader in taking action to address the realities of Climate Change by establishing very aggressive goals for Greenhouse Gas reductions, including zero net energy buildings. Bold and effective energy efficiency initiatives that eliminate artificial restraints are essential for meeting that goal. This is an opportune time for the Commission to restructure its long-standing practice of using existing code as the baseline for energy savings to justify any incentive. There was a time when this was a reasonable guideline, but today it has proven to be an impediment to removing the most energy-intensive and CO2-producing equipment from operation. Greenhouse gases are cumulative and long-lasting, so every day the older equipment operates, the impact is compounded. The LGSEC membership faces the same daunting goals in their respective communities and would strongly welcome an update of the rules governing incentive eligibility to meet today's critical challenges.

The LGSEC understands the guidance provided in the January 22, 2014 *Scoping Memo* to focus on specific technologies, projects in specific locations, and projects being undertaken by school districts with funds from Proposition 39. And we respectfully submit that local governments will be able to deliver more energy savings in the near term if we are allowed to use actual conditions as baseline.

Energy codes are a critical tool for state and local governments to advance building energy efficiency. However, numerous studies have indicated significant non-compliance rates, as high as 100 percent,[8] diminish the gains from code development and adoption. High

[8] Southern California Edison, "Statewide Codes & Standards Market Adoption and Noncompliance Rates", (Quantec, May 10, 2007), page 6.

incremental costs for construction or retrofit; insufficient local government resources for code enforcement; and knowledge gaps among key stakeholders about energy code requirements are the frequently cited market barriers to code compliance. The focus on realizing deep energy savings from code compliance is timely in light of the upcoming new Title 24. The Institute for Market Transformation's study on code compliance suggests that the new code requirements could be "overlooked or misinterpreted by unprepared engineering and construction professionals."[9]

The magnitude of the energy code non-compliance offers a tremendous opportunity to achieve widespread and cost effective energy savings through training events, outreach campaigns, or third-party inspections. Research suggests that each dollar invested in compliance can achieve $6 in energy savings.[10] Toward this end, the LGSEC advocates for the following actions. We note that the BayREN offers a codes and standards program that includes many of these elements:

1. Target education and training efforts at code compliance in the areas of building design, construction and commissioning that would be targeted at building owners, architects and the engineering and construction communities.
2. Provide supporting resources for local governments' code enforcement, including a possible third-party inspection system for code plan review and on-site inspections.
3. Allow attribution of on-bill energy savings due to program efforts to improve code compliance.

IV. Water-Energy Nexus Programs Are a High Priority for Local Governments

Local governments are deeply concerned about responding to California's drought. Local governments play a critical role in the water-energy nexus (through programs that include Property Assessed Clean Energy, Residential Energy Consumption Ordinances, Climate Action Plans, and water/wastewater services). Many of us are instituting drastic policies, through our

[9] Sarah Stellberg, "Assessment of Energy Efficiency Achievable from Improved Compliance with U.S. Building Energy Codes: 2013-2030", (Institute for Market Transformation, Feb 2013), page 4.
[10] "Policy Maker Fact Sheet Building Energy Code Compliance", (Institute for Market Transformation. 2010).

governing boards and municipal water and wastewater utilities. We are therefore extremely interested in robust programs that will allow our constituents to reduce both energy and water consumption.

The LGSEC strongly urges the Commission to support an appropriate level of technical and project assistance funding for water agencies that manage the storage and supply of water throughout the State to implement leak loss detection programs, pump efficiency testing and pump retrofit/replacement, source meter accuracy testing and replacement, and other effective best management practices. These measures will reduce water loss and reduce energy use during this critical time of drought.

The LGSEC notes the existing and growing relationships between local governments and their regional water districts and agencies, most of which are public utilities. Because of our shared governance structures (in many cases the governing board of a municipal water district is the same board or council that governs a city or county) and our shared goals of serving the public without concern for shareholder profits, there are natural synergies of which local governments can take advantage to realize both energy and water efficiency.

Further, local governments should not be precluded from offering programs that also promote the transmission and distribution goals of the utilities. After all, these programs reduce the need for expanded transmission and distribution infrastructure through efficiency. This is a shared objective.

SDG&E proposes to increase the number of high efficiency water measures in its residential programs and coordinate rebates, audits, and marketing, education, and outreach ("ME&O") efforts with the San Diego water agencies.[11] SDG&E says it will continue to work with the San Diego water agencies to identify energy efficiency opportunities to streamline water

[11] SG&E, *loc. cit.*, p. 12.

processes and water-energy nexus projects. The Commission should direct SDG&E to coordinate with local government partners on energy-water nexus programs.

PG&E proposes to add an additional 10 percent incentive for water-saving measures to support water conservation and account for additional energy savings associated with water and wastewater treatment and transport. The LGSEC supports this pragmatic approach to cost-effectiveness.[12] While PG&E suggests that this methodology be used only until a successor methodology is adopted in the ongoing water-energy nexus process (R.13-12-011), the LGSEC suggests that this simple approach will be easier to explain to customers and to calculate, and the Commission should consider using this simplified approach in general.

While we appreciate that Southern California Edison is going to offer a water-energy nexus program, its proposal is vague and appears to consist primarily of expanding current programs.[13] The Commission should request specific details about how the SCE program would provide incentives for savings. We believe there is much more potential in the water-energy sector than SCE's proposal would uncover. If SCE is not going to propose a substantive program, perhaps the Commission should solicit ideas directly from local governments on programs. Or, before SCE puts out an IDEEA 360 solicitation, perhaps the Commission should direct it to solicit ideas from its local government partners. We note that the Bay Area Regional Energy Network successfully operates the Pay As You Save® program, and suggest the Commission might consider expanding it as an alternative to vague proposals from SCE.

V. Direct Install Programs Should Include Expanded Eligibility

SDG&E proposes to modify the eligibility criterion for its direct install program from

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[12] PG&E, *loc. cit.*, p. 31.
[13] Southern California Edison, *Southern California Edison Company's (U 338-E) Request For Funding Of Energy Efficiency And Demand Response Integrated Demand Side Management Programs And Budgets For 2015*, pp. 5-8.

100 kW to 150 kW for small-medium business customers. The LGSEC strongly supports this modification due to the importance that the direct install program plays in our members' Green Business and other business outreach initiatives.

SCE similarly proposes to expand its direct install program to medium sized users (up to 500 kW). However, the list of eligible measures is stale and should be updated, at least in light of the new Title 24 standards. There may be opportunities to coordinate this work with programs focused on the water-energy nexus, for example by including water distribution and water treatment equipment in the direct install program.

VI. The LGSEC Supports Updates to Improve Cost-Effectiveness

SDG&E proposes two recommendations to avoided costs that will improve program cost effectiveness.[14] The first would update the Resource Balance Year to 2015, and the second would update the weighted average cost of capital discount rate for 2015 to the most recent value - to more accurately reflect the true value of the programs and increase overall portfolio cost effectiveness. SDG&E notes that it did not implement these recommendations in its cost effectiveness results at this time, but will update these values in a subsequent 2015 compliance filing if the CPUC approves these revisions. It seems like this would benefit all energy efficiency programs in SDG&E's resource-constrained territory in meeting the cost effectiveness threshold. The LGSEC supports the approval of these modifications in the near term.

VII. Proposition 39 Projects Should Leverage Existing Relationships between Local Governments and School Districts

The utilities all detail how they intend to assist school districts with programs to leverage funds from Proposition 39. Some local governments are working actively with school districts in their areas to conduct energy efficiency audits and complete paperwork for the CEC, for example

[14] SDG&E, *loc. cit.*, pp. 4-8.

the County of Marin. It is important that these savings materialize so local governments can receive savings credit from those projects, when they are part of a local government partnership program. The Commission should ensure that any utility work helping school districts leverage Prop 39 funds accommodates existing working relationships between local governments and their local school districts. Stronger relationships between local governments and school districts will encourage future collaboration, stimulate a pooling of expertise and resources, and promote energy management as a broader discipline within the public sector.

VIII. On-Bill Financing Can Be Made More Attractive

The utilities all propose continuing their on-bill financing ("OBF") programs. The LGSEC supports this. We do, however, question the 30 percent administrative cost associated with PG&E's on-bill financing program, particularly now that the program is up and running. We note that OBF is now included in EnergyInsight, which should streamline the process and reduce PG&E administrative costs.

Lighting is a major technology in the small to medium business sector, often approaching or exceeding 50 percent of savings potential. Direct install programs continue to observe the loss of energy-saving opportunities following the elimination of T12 retrofit measures. Customers willing to address the incentive gap with financing could pursue OBF as long as they still met payback requirements, but in 2013 OBF rulings restricted lighting measures to no more than 15 percent of a total project. We respectfully submit that, beyond allowing the use of existing conditions for determining savings, that lighting technology restrictions be removed for small to medium business OBF projects.

Deemed savings awards will inevitably vary from observed savings. Observed savings afford a greater likelihood of bill neutrality for participants when determining loan terms, but are currently time-intensive to process. We propose an expedited observed savings pathway for OBF projects targeted to qualified small to medium businesses with an estimated incentive less than $5,000. The goal is to reduce implementer overhead, provide more accurate estimates, increase customer satisfaction, increase OBF participation, and reduce utility administration costs.

IX. Energy Upgrade California Is Improved, with Room to Do More

PG&E proposes modifications to the Energy Upgrade California ("EUC") program. The LGSEC appreciates the focus on addressing costs associated with non-energy benefits of the EUC program. An additional modification that would make this program more successful would be to add back more individual, stand-alone energy savings measures. We note that the Regional Energy Networks have recently modified their EUC programs to have a more flexible incentive structure that better aligns the rebate amount with the energy efficiency measures installed. We encourage the utilities to do the same, as the REN EUC programs are available in certain areas at this time.

X. Codes and Standards

For cases where using existing conditions would be double-counted with savings credited to Codes and Standards, PG&E proposes subtracting the savings from codes and standards total. The LGSEC supports that approach. It allows the utilities to support "to code" incentives. Another simple solution would be to disallow some or all codes and standards savings claimed from the local government or education sectors.

PG&E also mentions investigating alternatives to reach codes that exceed T24 by a certain percentage.[15] The LGSEC notes that support for reach codes is specific to local governments. If the utilities are interested in working on this, the LGSEC would be happy to collaborate on how to best frame future reach codes.

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[15] PG&E, *loc. cit.*, pp. 17-18.

Respectfully submitted,

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