SOUTHERN CALIFORNIA EDISON
An EDISON INTERNATIONAL Company

December 10, 2019

Attention:
Energy Division
California Public Utilities Commission

SUBJECT: Comments on the October 30-31st "Assessing Energy Efficiency (EE) Potential and Goals" workshop

Southern California Edison Company (SCE) appreciates the opportunity to provide informal comments on the California Public Utilities Commission's (CPUC) "Assessing Energy Efficiency Potential and Goals" workshop.

The current Potential and Goals modeling methodology was constructed in the mid 1990's to estimate EE potential energy and peak demand savings derived from the installation of EE measures. Hence, this general modeling methodology has been used in California to estimate EE potential and Goals in 2004[1], 2010[2], 2013[3], 2015[4], 2016[5], 2018[6], and in 2019[7]. The methodology basically uses a decision choice model that was designed to estimate customer EE measure adoptions.

SCE seeks to ensure that the EE potential and goal methodology mimics the EE Programs' ability to capture EE measure level savings, follows CPUC rule and practice, Public Resource/Public Utility code requirements, and California's Strategic Plans/Energy Action Plans, as well as California's Senate and Assembly Bills.

CPUC's Energy Division (ED) has requested the submission of informal comments via email by December 10, 2019. SCE submits the following comments:

[1] D04-09-060
[2] D09-09-047
[3] F12-05-015
[4] D14-10-46
[5] D15-10-048
[6] 17-09-025
[7] D19-08-034

I. Aligning energy efficiency goal setting and avoided cost inputs will enable a more accurate reflection of energy efficiency program performance

There has been a long-standing scheduling misalignment between the bi-annual Potential and Goals study and the annual Avoided Cost Calculator (ACC) updates where ACC values used to develop and set goals are different from updated ACC values used to evaluate annual program performance.

The effect of this scheduling misalignment was realized in July 2018 when a different GHG adder from Table 6 of D.18-02-018[8] in the Integrated Resource Planning (IRP) proceeding and other avoided cost updates were incorporated into the ACC through the adoption of Resolution E-4942, after the 2019 goal was set in the Decision Adopting Goals for 2018-2030[9] which used 2016 ACC values and an interim GHG adder. Since the 2016 ACC with the GHG Adder isn't available in the CPUC's Cost-Effectiveness Tool (CET), the 2017 ACC (called "2018" Avoided Costs in the CET) is the closest available ACC to the 2016 ACC with the interim GHG Adder. So with 2017 ACC as a proxy for 2016 ACC with the interim GHG Adder, the unintended consequence of these misaligned schedules resulted in a net impact of negative $31M Benefits (or -8.9%) to SCE's 2019 EE portfolio cost-effectiveness without a change in portfolio composition. This will continue to negatively impact SCE's reported portfolio cost-effectiveness when compared with forecast cost effectiveness[10].

While IOUs have historically been able overcome this performance disadvantage created during the goal setting process, rapidly declining avoided cost benefits will continue to exacerbate the issue and pose greater threats to future goal achievements if not addressed.

To rectify the issue of different avoided cost values being used to set goals than are subsequently used to design programs and assess annual program performance, Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (SCE), and Southern California Gas Company (SoCalGas) (collectively, the

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[8] D. 18-02-018 p. 118.

[9] D.17-09-025 Adopting Energy Efficiency Goals for 2018-2030, *available at* http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M196/K685/196685174.pdf

[10] The level of impact was based on SCE's 2019 Supplemental Annual Budget Advice Letter and will differ from other Program Administrators based on portfolio composition.

Joint Utilities) in reply comments[11] to the Integrated Distributed Energy Resources Proceeding (IDER), recommended that "annual program performance be assessed under one set of avoided costs, including setting goals, annual budget advice letter filings, and program evaluations."

SCE urges the Commission to consider and adopt the Joint Utilities' recommendation to more accurately align the EE goal setting process with EE program requirements, rules and practices.

II. Allocating administrative and marketing costs at the measure level would provide greater alignment with the program's ability to capture savings.

The Potential and Goals Study (P&G) currently allocates administrative and marketing costs to the measure level based on energy savings proportions on an averaged $/kWh basis. This cost allocation method could potentially overstate a measure's cost-effectiveness as it paints alike measures with the same cost allocation even though in practice, similar measures can be found in different programs containing drastically different administrative and marketing costs.

For instance, a SEER 14 heat pump may be found in both a residential and a commercial program requiring different administrative and marketing costs to accelerate customer adoption in each sector. To avert this issue, the current methodology should account for these cost sensitivities by appropriately allocating administrative and marketing costs at the measure level.

III. The Potential and Goals Study should not attempt to accommodate portfolio objectives beyond resource energy efficiency programs

Currently, EE Potential and Goal studies are designed to estimate savings and costs exclusively for resource programs while EE Program portfolios are required to be cost effective inclusive of non-resource and other regulatory driven program activities and costs. This misalignment between the goal setting process, portfolio objectives, and CPUC policy on portfolio evaluation should be rectified.

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[11] Joint Utilities Reply Comments on Assigned Administrative Law Judge's Ruling Directing Responses Regarding a Process for Annually Updating the Avoided Cost Calculator, *available at* http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M266/K859/266859793.PDF

SCE and the California Public Advocates Office[12] have raised concerns about how cost-effectiveness screens in the P&G do not fully reflect all portfolio requirements such as non-resource activities and to a large extent, Regional Energy Networks' (REN) activities and their administration, the upcoming Market Transformation activities, as well as the growing complexity of statewide administration of programs.

The Potential and Goals Study was constructed to estimate resource measure-level adoptions, costs, and savings over time and was not designed to accommodate additional portfolio objectives and costs. As such, rather than attempting methodological changes to the Potential and Goals process to reflect multiple portfolio objectives, SCE urges the Commission to initiate policy changes to portfolio requirements to truly enable alignment between the resource energy efficiency objective of EE portfolios and the modeling capabilities of the Potential Study. Bifurcating these portfolio objectives will facilitate a clear focus on optimizing resource energy efficiency potential within the P&G process while allowing for a more efficient approach to meeting other non-resource and mandated objectives.

SCE recognizes that a broader framework would need to be developed to support additional activities not truly reflected in the P&G process that the commission warrant as necessary. The framework to support these activities would need to be developed outside of the P&G and aligned with appropriate goals and budgets, cost-effectiveness analysis, implementation strategies, and evaluation metrics that support the specific portfolio objective.

<u>Questions for Consideration</u>

1. **What should be the primary objectives of the Potential and Goals study?**

As noted above, the primary objective of the EE Potential and Goals study should be to inform resource energy efficiency savings potential while adhering to CPUC policy to align the goal setting process with the EE program's ability to achieve goals.

2. **Topic-specific considerations: Do you agree with the considerations discussed at the workshop regarding the issues below? Why or why not? Please propose specific**

[12] Comments of the Public Advocates Office on Administrative Law Judge's Ruling Inviting Comments on Draft Potential and Goals Study. P.11.

methodological improvements if you feel any are needed. Please refer to the Navigant-produced abstracts including the methodological considerations, key questions and data needs described for each topic.

a) Energy efficiency-demand response analysis

SCE generally agrees with the concept of co-benefits laid out in the Commission Staff paper, however, joint cost-effectiveness assessments and the ability to claim deemable savings from DR adoptions remain a significant barrier to full integration.

b) Fuel Substitution

Fuel Substitution measures are increasingly being integrated in workpapers and thus the CPUC approved workpaper values should serve as the basis for forecasting fuel substitution savings in the next potential study.

Realizing there is limited historical data for fuel substitution programs, the next potential study could leverage recent studies and reports to assist in identifying Fuel Substitution opportunities, costs, and savings.

3. Overall Methodology:

SCE does not recommend deviating from the current measure-based methodology to determine resource energy efficiency savings potential as the current methodology mimics the EE Programs' ability to capture savings.

However, as noted above, the Commission should address portfolio evaluation policies to enable better alignment between the resource energy efficiency objective of EE portfolios with goal setting process.

4. Energy Efficiency – Integrated Resource Planning Incorporation Opportunities:

SCE recommends that the Commission proceed with caution in continuing down the path outlined in the EE/IRP whitepaper[13]. The whitepaper bifurcated EE savings into selectable and load modifying resource groups. Selectable savings would be in competition with supply side

[13] Staff Proposal for Incorporating Energy Efficiency into the SB 350 Integrated Resource Planning Process. Available at: https://pda.energydataweb.com/api/view/2083/EE-IRP_white_paper_draft_v_OUT3.pdf

alternatives for resource acquisition, and Load Modifying resources (BRO's, C&S, and Low Income) would be captured without being in competition with supply side alternatives.

The notion of selectable EE savings puts EE savings at a competitive disadvantage as EE programs are designed and built to maximize cost effectiveness. Conversely, IRP take a vastly different cost effectiveness approach (levelized cost). CPUC policy differences between EE Programs and IRP/resource acquisition should be aligned prior to including EE in the IRP as a selectable resource.

5. **The Evolving Energy Efficiency Portfolio:**

   a) *What policy-level changes (if any) should the CPUC begin to consider related to energy efficiency goal setting, to best align energy efficiency programs with the needs of California's clean energy future?*

Aligning energy efficiency programs with the needs of California's clean energy future will require, amongst other things, the removal of non-resource and regulatory driven activities (e.g. Workforce Education & Training, AB793, etc.) from portfolio cost-effectiveness calculations and the creation of a portfolio framework that appropriately pairs resource energy efficiency objectives, non-resource objectives, and regulatory driven activities with their own goal setting process, cost-effectiveness analysis, budget, and implementation strategies. This approach will enable the existing P&G process to continue its focus on resource energy efficiency and allow for the full optimization of energy efficiency portfolios unrestrained by costs and activities that do not add quantifiable value to resource portfolios.

In addition, as noted above, California should move to better align the assumptions utilized to establish energy efficiency potential and goals with the measurement of success in meeting these goals. Most notably, but not limited to, the avoided costs utilized to develop energy efficiency goals have decreased significantly by the time goals are measured for success. This misalignment creates the perception that the customer energy efficiency programs were not successful in achieving the state's energy efficiency goals, when in fact the tools to measure success differ between forecasting and reporting results.

IV. CONCLUSION:

SCE appreciates the California Public Utilities Commission's consideration of these responses and looks forward to continuing collaboration.