SCE Informal Comments: AB 802 Implementation Workshop
(January 26-27, 2016)

Introduction

SCE appreciates the opportunity to speak at the CPUC's AB 802 implementation workshop and provide informal follow-up comments. The policy-making effort that lies ahead for Commission Staff (Staff) is significant, and full of uncertainties that must be navigated over the course of an accelerated timeframe. Staff's desire to seek specific answers to the questions asked throughout the workshop is understandable, and SCE has many of the same questions. SCE hopes to answer several of these questions through implementation of HOPPs efforts. At this time, SCE would like to instead share the guiding principles that we are using to shape our own AB 802 and HOPPs implementation, alongside our evolving internal thinking on the role of energy efficiency in California grid planning. Building a policy-making framework that is defensible, complete, and linked to a longer-term vision is what we believe to be the key consideration at this time.

Staff has rightfully identified several key elements of their own that should form the basis of a policy-making framework. Those elements, which we treat as principles, are as follows:

> *1) Ensure reliability of savings;*
> *2) Savings captured are incremental to what is already occurring;*
> *3) Ensure investments are cost-effective;*
> *4) Balance efficiency of deployment with need for review*[1]*.*

In the comments that follow, SCE provides material on how we believe to best engage with Staff principles while adding one missing principle, all in order to highlight key considerations for effective policy-making in the months ahead. It is SCE's hope that Commission Staff adopts material that follows as additions or modifications where needed to their internal policy- and decision- making processes in support of implementing AB 802. SCE's key recommendations are as follows:

1. Align EE savings reliability concerns with grid reliability expectations;
2. Avoid introducing double-counting of energy efficiency (EE) savings;
3. Support incremental behavioral, retrocommissioning, and operational(BROs) program opportunities, and select stranded opportunities stemming from past policy uncertainties such as industry standard practice (ISP);
4. For the incremental and stranded opportunities described above, prioritize the development of policy requirements that support cost-effective solutions to support grid reliability needs;
5. Prevent the pursuit of perfection becoming the enemy of the good;
6. Simplify programs rules and offerings for customers.

[1] Paula Gruendling, "Staff Workshop on Normalized Metered Energy Consumption," slide 9.

SCE Comments on Commission Staff Guiding Principles

1) Ensure reliability of savings

As energy efficiency becomes more of a resource for meeting system-wide and local grid needs, SCE supports efforts that enhance the long-term reliability and persistence of EE savings. SCE believes that in order to be effective, AB 802 implementation should be designed to help maximize the value of EE as a resource for *grid* reliability. This requires a comprehensive mindset that considers EE's varying value propositions within grid planning activities. Utilizing meter-based savings for monitoring and measuring performance dependability and pay-for-performance incentive structures to manage performance risks serve as useful example AB 802 implementation tools that can provide resource and grid planners with greater certainty about the existence and persistence of the grid-level savings of EE. SCE urges staff to further align EE reliability concerns with related grid reliability expectations evolving within R.16-02-007.

2) Savings captured are incremental to what is already occurring

SCE supports Staff's second principle assuming the scope in which incremental is being considered extends beyond current Demand Side Management (DSM) activity. With California's enhanced focus on GHG reduction through the passage of SB350, SCE is viewing our energy and capacity resource acquisition efforts from an integrated planning perspective. This means developing GHG-minimizing resource portfolios for SCE that are also least cost and best fit for the needs of the grid.

Maximizing acquisition of the most economically viable EE to fill our resource portfolios is a key consideration for SCE. From an integrated planning perspective, it is important that as we seek to expand a wedge of the pie representing EE program savings, we are not double-counting savings that are already attributable to market forces such as naturally occurring savings or adoption of building codes or appliance standards. Doing so risks overestimating the total impacts of all sources of EE, which in turn distorts our energy and capacity planning and procurement efforts. SCE believes there may be cost-effective opportunities for incremental energy reductions within the BROs areas that were previously not deemed eligible for savings. SCE is interested in exploring these areas further to yield economically viable energy and load reductions.

Additionally, SCE believes there may be limited stranded opportunities for Program Administrator (PA) EE programs to target and deploy measures and equipment to customers who are not naturally turning over their equipment. These customers have higher energy consumption baselines or unrealized savings than what is estimated for code or industry standard practice. Some of these unrealized savings may be due to indefinite delays in retrofitting inefficient existing equipment, leading to delays in code adoption. Incentivizing customers based on existing conditions would be beneficial in helping to drive EE into "stranded" buildings. Retrofit measures currently under review by ex ante Staff for eligibility per D.14-

10-046[2] and other past Decisions represent one potential opportunity if PAs are given clear direction on changes in eligibility due to AB 802.

If and when incentivizing retrofits, SCE also believes it is critical that assessments of stranded potential captured in the retrofitted buildings are factored into CPUC EE potentials and goals and CEC baseline loads adjustments. Capturing the extent to which the stranded potential is addressed cannot be done currently, since it requires more granular information about EE measures, expected useful lives (EULs), and actual and assumed turnover rates in the CEC forecasts. Addressing this gap through planned study enhancements focused on assessing stranded potential existence in customer segments is a critical need to ensure successful implementation of AB 802.

3) Ensure investments are cost-effective

SCE agrees that cost-effective considerations are a critical component to determining how to implement AB 802. SCE recognizes the potential benefits of meter-based and pay-for-performance approaches that could result in administering upfront costs for delayed savings claims opportunities—but this approach needs to be weighed against increased program complexity and costs. Staff and other stakeholders are familiar with the challenges currently faced by PAs in maintaining an overall EE portfolio TRC greater than one. A key consideration for SCE in our exploration of AB802 and HOPPs implementation involves pursuing opportunities that support economically viable portfolios into the future. The rigor of measurement and valuation (M&V) ultimately determines the level of accuracy in any given savings claim for meter-based savings—but SCE believes that future policy requirements should consider the purpose that an EE project is serving when determining the need for accuracy. For example, if a customer's project is one of thousands, and it is simply supporting overall system reliability, the requisite level of accuracy is likely lower than that of a single instance EE deployment providing local grid reliability support. Policy should support adopting less rigorous, less costly, M&V approaches where viable and acceptable for grid planning purposes.

Another source of unwanted cost impacts is tied to potential double-counting of savings. Targeting program savings opportunities outside of stranded and incremental DSM opportunities—which are currently assumed to occur without utility incentive programs—can increase overall costs for utility operation if supporting policy lacks implementation flexibility. Overly restrictive program requirements

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[2] D.14-10-046,
-At 57: "Utility EE programs (with limited exception…) need to produce savings above code."
-At 61: "We have authorized utilities to spend EE dollars advancing more stringent codes and standards, and recently set separate goals and provided shareholder incentives to the utilities for performing this work. The premise for these shareholder incentives was that customers will largely comply with codes and standards. We have attributed savings on that same premise. To now allow credit for savings for to-code programs would appear to 'double-count' those savings, and reward shareholders twice for the same savings."
-At 62: "To credit PAs with savings for below-code savings risks a resultant failure to get the incremental energy savings needed for reliable service."

to capture these types of savings would result in less than optimal use of ratepayer dollars, uncaptured savings due to cost barriers, or both. Given the lack of changes to cost-effectiveness inputs and current lack of HOPPs results, SCE recommends that Staff treat cost-effectiveness considerations as a limiting factor or opportunity driver in its policy-making decisions in support of AB 802 implementation.

4) Balance efficiency of deployment with need for review

SCE understands this final principle is meant to highlight how review concerns should be carefully weighed against potential administrative complexity. In the search for the right balance, however, SCE believes an important simplification opportunity cannot be lost. Meter-based verification of savings for customized, whole-building, and other types of applicable projects has the potential to simplify the process for claiming EE savings relative to current policy-driven or existing condition baselines. Incorporating embedded M&V introduces approaches that can be replicated and verified, with potential simplicity and transparency, if implementation expectations maintain a focus on relatively standardized approaches. PAs would help manage risk associated with ratepayer dollars in part through incentive approaches like pay-for-performance. SCE urges Staff continue to assess how their review process can minimize PA, implementer, and customer impacts, so that perfection does not once again become the enemy of the good.

5) Additional Principles Needed

An additional principle that should guide implementation of AB 802 is as follows: *Simplification of program rules and offerings for customers.* If the customer experience with EE gains further complexity due to AB 802 implementation, then customer participation rates and cost-effectiveness ratios could suffer at a time when increasing energy efficiency is a priority for the State of California. Simplifying customer interaction with savings verification plays a critical role in this final principle, which should sit alongside other principles focused.

6) Conclusion

SCE aims to take a measured approach to AB 802 and HOPPs implementation, with an integrated planning perspective in mind. SCE encourages Staff to apply the key considerations and principles for guiding AB 802 implementation discussed above to an outcome that places relevant grid planning objectives and value propositions as central to their policy design in the months ahead. SCE recommends that Staff adopt a comprehensive mindset extending beyond EE for its policy design, with a measured approach that offers administrators simplicity and flexibility in how they can pursue to-code savings opportunities not already captured through DSM or other activities.