ORA COMMENTS ON DRAFT BUSINESS PLANS

ORA appreciates the work that has gone into the draft business plan (BP) chapters so far, but is concerned that the work exhibited still requires large improvements before they can be submitted for approval. Specifically, the draft chapters have not integrated the guidance from D. 15-10-028 and the May 2nd, 2016 guidance document by Energy Division.[1] The review drafts had large gaps where analysis has not been completed.

Instead of commenting individually on each draft chapter, below we offer comments on the general shortcomings of the plans and suggestions we hope will serve useful to each of the Program Administrators (PAs) as they move forward with improving the draft chapters and drafting the other chapters. We also provide our analysis of PG&E's draft chapter on Agriculture, which comes closest among the chapters we received to achieving the aims of the business plan. We end with some general recommendations.

THE BUSINESS PLANS SHOULD PROVIDE A ROAD MAP FOR EACH PA'S STRATEGY DEVELOPING ENERGY EFFICIENCY PROGRAMS, AND PROVIDE CLEAR METRICS AND MILESTONES TO ALLOW FOR MEANINGFUL REVIEW.

Guidance as to how to structure BP chapters was provided by Energy Division and in D. 15-10-028, and has been summarized by the Natural Resources Defense Council (NRDC) along with a 'consensus outline' in a document posted on the CAEECC website. To the extent that the draft chapters followed prescribed guidelines, they did so in a highly formulaic way and so did not achieve the goal of providing a clear, compelling narrative supported by evidence and analysis to justify the use of Ratepayer money to make positive interventions in each of the prescribed EE sectors.

In almost every case, the draft chapters would be greatly improved if they provided a more clear and thorough analysis of background conditions in the sector before moving on to intervention 'strategies.' Each business plan should provide clear understanding of the existing state of the sector analyzed and how policy, economic forces, and technology are likely to affect the sector going forward.

[1] http://www.caeecc.org/business-plan-guidance

In this regard, PG&E's chapter on Agriculture is a notable exception and an example for other PAs to emulate when constructing their own sector analysis. Specifically:

- PG&E makes good use of existing evaluation and other studies and adds in-house data to provide a specific and detailed picture of the sector and specifically characterize market barriers. Their analysis includes a thorough discussion of global economic and policy changes affecting the sector *and* an analysis of end-use data describing barriers to energy efficiency (EE) and opportunities in the sector. This is supported by numerous citations.

- PG&E includes specific proposals for addressing real market barriers. The systematic listing and comparison with past intervention strategies (Tables 4, 5, and 6) are particularly useful as they provide the reader a baseline (what was done before) against which to evaluate the adequacy or innovative qualities of new proposals.

METRICS

In almost every draft chapter, the metrics (where they were addressed at all) lack clear definition, fail to focus on desired outcomes, lack targets and require data that may not be regularly available. Much greater attention needs to be given carefully defining metrics that are measurable and are focused on desired outcomes. Furthermore, baselines data against which a metric is compared need to be provided for the metric to be meaningful. Without credible and stable metrics, the success or failure of interventions cannot be accurately assessed.

For example:

- In Table 9 (page 37) of PG&E's draft chapter, one 'success metric' is the percent of Ag customers with access to a tool to decompose their energy use. While uptake of the 'tool' is important, <u>the ultimate goal of the program is energy savings</u> that are stimulated by these more informed customers. Metrics need to relate to the ultimate goal as well as intermediate goals. Furthermore, PG&E does not provide a reasonable target. Without a target, we have no benchmark to determine whether the program is under or over program or just performing as expected.

- Metrics also need to be aligned with the stated theory of the market. On P.34 of their chapter on the Public Sector, SCE shows the "# of projects receiving an incentive" increasing from 5 to 15% even while the stated goal is for incentives to decline to zero by year 10.

THE DRAFT BP'S DO NOT INCORPORATE THIRD PARTY PROCUREMENT REQUIREMENTS LAID OUT IN D.16-08-019.

The need to focus on a strong analysis of the market is reinforced by policy changes ordered by D.16-08-019 requiring programs to be put out to bid and allow for program design by the third party bidders.. D.16-08-019 gives a central role to *implementers* in designing programs presents a problem in terms of planning. For those parts of the portfolio that will be bid out to third parties, the specific 'tactics' or solutions for intervening in the market and procuring EE are no longer in the PA's hands. Within this model the role of the PAs can be conceived of as that of defining the problem to be solved (or 'asking a question') and evaluating the quality and fit of solutions put forward, while the role of the *market* is that of coming up with solutions (or 'answering the question').

At this point in time, none of the draft chapters reflect the requirement of implementer designed programs through a competitive bidding strategy. To be in alignment with the requirements of D.16-08-019 each of the BPs will need to focus on their background analysis (as detailed above) and analysis of market barriers and opportunities. This information will help frame solicitations and provide a benchmark against which the relative success of strategies can be understood. The BPs should also include a discussion of solicitation strategies, including timelines for various solicitation milestones.

BUDGETS

Proposed budgets need to align with program metrics. If a program proposes to transform the market so that incentives can be phased out after 10 years, year on year *increases* in the budget for the transformative program are not justifiable.

Business plan applications should take a zero-based budget approach to funding requests. The PAs have not submitted – and the Commission has not fully examined – energy efficiency budgets since D.12-11-015. In order to fulfill the Commission's mandate to ensure just and reasonable rates, the PAs must submit detailed budgets projections and supporting documentation in the business plan applications to enable effective review of the reasonableness of all proposed expenditures. The budgets should not be "change proposals" that assume prior spending levels with minor alterations; this is more appropriate for annual budget advice letters once long-term funding has been approved. Rather, the budgets in business plan applications should be "zero-based" and include justification for spending levels for all relevant budget line items such that the Commission can review and approve long-term funding.

Since PAs appear likely to propose continuing many program activities through current implementation arrangements for at least the first year of the ten-year budget cycle, PA budget proposals should have sufficient information to make detailed budget proposals for relevant line items and to justify budget projections using bottom-up analysis of need and projected costs. Areas in which PAs propose to hold solicitations in 2017 for which costs are uncertain should include a placeholder budgets that represent the PAs best estimate of the likely cost for third-party implementation. However, any in-house administrative cost projections for third-party programs should be accompanied by detailed, bottom-up analysis of need and projected cost.