

Pacific Energy Policy Center

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To: CAEECC EE business plan facilitators and review staff:

From: Don Wood

Subject: Preliminary Comments on pending Energy Efficiency Business Plans

My name is Don Wood. I currently serve as Senior Energy Policy Advisor to the Pacific Energy Policy Center.

At the end of 2005, I retired from San Diego Gas and Electric after a 23 year career designing and managing successful residential, commercial and industrial customer energy efficiency programs. As part of that experience, I designed and won CPUC approval to implement the first ratepayer funded utility energy efficiency program in the state; SDG&E's low income Direct Weatherization Program, in 1980. The program, through local community based organizations and private weatherization contractors, audited and installed energy efficiency measures in the homes of elderly and poor SDG&E customers.

This initial EE program was replicated by the other three major California investor owned utilities under mandates from the CPUC. Later these initial utility EE programs were expanded to serve all other customer classes through a range of direct installation, rebate and incentive program. Over time, a cottage industry of consultants grew up to help the Commission and the utilities measure and evaluate the costs, energy savings and other benefits of these programs. The Commission also adopted rules and procedures that allowed IOU shareholders to be rewarded for effective EE program management, receiving a small percentage of the costs avoided by the utilities due to not having to build new power plants because of lower demand caused by the EE programs operated by the IOUs.

In the 1990s, the set of energy efficiency programs we developed and managed for SDG&E made the energy efficiency department the company's biggest profit center, at a time when CEO Tom Page had committed to changing SDG&E from an energy generation company to an energy management company. SDG&E was also, on a per customer basis, the most effective energy efficiency program manager in the state, based on shareholder incentives rewarded by the Commission based on measured energy savings and avoided costs.

This background is provided in order to frame some comments I have about the energy efficiency program planning process. Among other duties and trained new department staff on the components required to develop a portfolio of effective energy efficiency program plans. I hope you might find these comments and principals useful when evaluating new energy efficiency business plans as they are submitted by the utilities and other parties.

Remember that any business plan dealing with EE programs should not just be a general discussion of current market conditions and long term visions. It must be made up of building blocks of specific program plans with all their required components; otherwise you could end up with a collection of bland assertions and statements, with nothing to back them up. As you review EE business plan submissions, you should always ask "where's the beef".

Like any other market program plan, and effective EE program plan must include specific program goals directly tied to measured energy savings, timelines and deadlines. It must also answer the basic components of news reporting, the who, what, when, where and how much. So far, draft business plans I've seen circulated have only provided general discussions of existing customer market conditions in each IOUs service area. That is a good and necessary beginning to developing a marketing plan, but it's only a first step.

A good program marketing or business plan must include Who: details on specific market partners the IOUs propose to work with, how large an staff will be developed and trained to implement and manage the program, both

within the IOUs and any program contractors they plan to work with, what specific tasks those staff people will be doing to achieve program goals. It also details what other internal departments within the utility or its contractors will have to be dealt with as the program is being developed; who will handle program outreach and advertising, who will work directly with the targeted customers in the field, etc. These is also where key “do or buy” decisions should be detailed, explaining why a utility proposed to implement and manage a proposed new program using internal staff or outside agencies or contractors, and how the economics of those decisions will impact the programs bottom line.

Business plans just also detail goals in terms of specific measurable changes in those existing market conditions that the plans hope to produce, including details on the specific programs the utilities and other parties propose to field to bring about those changes. That is the “What” component of any creditable business or marketing plan. How will the lives of targeted customer homes or business be changed by the proposed new program? Who will these changes produce measured long term energy savings and bill savings for program customers? How will those changes be measured and evaluated? This kind of detailed planning has to be done before any new program is implemented, not at the end of program.

The When component of any EE program business plan must detail when major tasks will be done, and when specific program milestones will be achieved, including proposed adjustments that can be made to the program in response to any missed deadlines.

Where deals with the individual communities or subareas of an IOUs service area that will be targeted by each program and where program implementers will operate. It should also detail where The major customers targeted by the program are located within each programs service area. This is also where a more detailed analysis of targeted customer industry or business conditions should be provided.

The Why component of any EE program or business plan should explain why the utility or other party proposing any new programs believe that the customer segment to be addressed by the plan present the best

opportunity for achieving measured energy savings and other customer benefits, instead of diverting limited EE program funds to other customer segments. The law requires that EE programs not only reduce customer energy usage in a measurable manner, it also mandates that new programs also be evaluated based on other tangible customer benefits tied to health and safety.

How much, refers not only to proposed program costs. It also included detailed program energy savings and other key customer benefits the program proposes to achieve, along with measureable changes in the operations of targeted customers operations. This is where detailed program planning is required up front, in order to make sure that decision makers know what dollar costs and resources will be needed to implement and manage a proposed new program over its lifetime. It is also where program goals are quantified in detail, so that regulators and other decision makers know what energy savings and customer benefits will be produced if the program is approved and implemented. It is also where any projected program benefits to utility shareholders should be addressed. What profits will a given new program provide to IOU shareholders to help offset the reduced energy bill revenues the company may realize when the program succeeds? It is also where the decision makers learn which program designs provide the most energy savings and customer benefits for each ratepayer dollar spent.

Gaining this information at the front end will allow regulators to determine which set of programs making up proposed business plans offer the most efficient opportunities to achieve measured energy savings and key customer benefits for the least cost in terms of manpower costs and resources.

Again I remind you that any proposed “EE business plan” cannot be just a standalone description of general market conditions and fuzzy vision statements. EE Business plans must provide decision makers with all the detailed individual EE program building blocks that make up the end product.

Without this kind of detailed component EE program plans, EE business planning and development can be meaningless, or devolve into political

gamesmanship; aka “buying buddies”, spending limited ratepayer EE program money to subsidize political allies, ignoring the end results. EE business plans must be evaluated based on hard outcomes, not on how each business plan might benefit different political interest groups. If things come to that, the regulatory agencies would be further damaging their own reputations and wasting ratepayer money on things that do not provide the highest per ratepayer energy savings and benefits per dollar expended.

I hope you will find these comments useful as you continue to assess business plan proposals submitted to the CAEECC by the IOUs and other interested parties.

Sincerely,

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