

SoCalGas Transition Plan To Achieve 60% Third-Party Requirement

Background

In Decision 16-08-019, the Commission set a minimum target of 60 percent of the utility's total portfolio budget, including administrative costs and EM&V, to be proposed, designed, and delivered by third parties by the end of 2020. SoCalGas' Business Plan Application is required to include a transition plan to effectuate at least this minimum level of third-party delivery for the Commission's consideration. In cases where utilities propose to continue staffing program design and/or delivery functions with utility personnel, the utility is required to explain why this continues to be necessary.

The 60 percent minimum requirement does not prohibit or discourage a collaborative approach between program administrators and implementers in program design. By necessity, the program administrator will be determining the needs for which a solicitation is being conducted in the first place. The new Commission directive simply requires that third-party programs be proposed and designed by non-utility entities. SoCalGas will utilize a solicitation process to obtain program proposals, however, in the contract negotiation and implementation of successful proposals, the expertise of utility personnel and third parties will be brought to bear to ensure the best possible energy efficiency program.

Purpose

To develop a transition plan that complies with the Commission's requirement to have 60 percent of the energy efficiency program portfolio budget be proposed, designed, and implemented by third-parties by the end of 2020. The plan will support a smooth transition that:

- Aligns with SoCalGas' core competencies of customer outreach and engagement, data analytics, natural gas focus, and safety;
- Achieves higher levels of energy efficiency for customers in support of California's aggressive goal to double energy efficiency by 2030; and,
- Creates a smooth, seamless transition to a new portfolio administrative structure that benefits customers, SoCalGas, and the energy efficiency provider industry.

To achieve the 60% third-party requirement and create a smooth transition, SoCalGas' plan identifies: (1) solicitation approach and schedule; (2) sector level sourcing strategy; and (3) SoCalGas operations to support energy efficiency programs.

1. Solicitation Approach and Schedule

The transition plan proposes to re-organize the portfolio to a set of integrated strategies and program offerings based on customer segments, as detailed in the Business Plan. This portfolio reset is consistent with the Commission's new sector-based approach. The transition plan

considers future energy efficiency potential, customer needs, market trends, current legislative and regulatory direction, and past energy efficiency program performance.

For 2017, SoCalGas' energy efficiency portfolio budget, including EM&V, is \$85.7 million, of which \$22.3 million, or 26 percent, is currently implemented by third-parties.¹ By the conclusion of this transition plan, at the end of 2020, programs that are proposed, designed, and implemented by third parties will increase to more than \$53.2 million or 62 percent of the annual portfolio budget, including EM&V activities.

Program solicitations will call upon the innovative proposals of the energy efficiency service provider community. Specific programs will be proposed, designed, and implemented in the appropriate market channel by third-party implementers. The scope of the request for proposals for programs will be guided by SoCalGas' Business Plan including the sector goals, sector-level strategies and the program intervention strategies. SoCalGas will collaborate with selected third-party implementers on program design and delivery to increase the likelihood of program success and integration with other energy efficiency programs within the portfolio.

To promote a healthy and vibrant energy efficiency ecosystem in California, for both large and small providers, including a focus on Diverse Business Enterprises (DBE), and to support a smooth transition and to provide minimal impact to SoCalGas' internal organizations (e.g., procurement, customer service), SoCalGas will conduct a three-phased approach. The solicitations will be staggered in three phases throughout the transition with last solicitation targeted to occur in the second quarter of 2019. The three phases will focus on the following areas:

- Phase I – In the initial phase of the transition plan, SoCalGas intends to refresh its current third-party program offerings by re-soliciting those programs. However, SoCalGas is not committed to offering the same programs in its portfolio, and looks forward to receiving new program design ideas from third parties. SoCalGas proposes that this initial phase commence in the second quarter of 2017 to allow for selections, contract negotiations, and execution prior to 2018. This will account for approximately 31 percent of the portfolio.
- Phase II – In the second phase, after approval of the Business Plan, Statewide programs will be put out for competitive bids, soliciting design ideas for operating programs on a statewide basis, through the lead program administrator. SoCalGas expects this phase commence in 2018 to allow for selections, contract negotiations, and execution prior to the start of 2019. After this phase, third-party programs will account for approximately 43 percent of the portfolio, cumulatively.
- Phase III – In the third phase, SoCalGas will solicit design ideas for energy efficiency program delivery for its Commercial, Industrial, and Agricultural sectors, including its

¹ 2017 budget, as filed in the SoCalGas 2017 Budget Advice Letter 5023, includes Statewide ME&O.

core calculated and deemed programs. In addition, SoCalGas will look at incorporating third-party implementers into its Local Government Partnership model and multifamily program offerings. SoCalGas expects this phase commence in 2019 to allow for selections, contract negotiations, and execution prior to the start of 2020. As a result, SoCalGas will achieve approximately 62% of the portfolio, cumulatively, by end of 2020.

For SoCalGas, the annual third-party program provider targets will be as follows:

Third-Party Program Schedule (\$ in millions)

2018	2019	2020
31%	43%	62%
\$26.8	\$36.5	\$53.2

By staggering the solicitations, it will also allow the third-party service provider community with ample time to design and propose effective programs for our consideration. SoCalGas will release a series of competitive solicitations, on annual basis, to allow for continuous opportunities for the energy efficiency service provider community and to encourage ongoing innovation within the program portfolio. SoCalGas plans to launch the first set of program solicitations in 2017 in expectation of Commission approval of the Business Plan Application.

2. Sector Level Sourcing Strategy

SoCalGas’ Business Plan presents a cadre of program strategies to address market barriers and encourage customers to significantly increase their adoption of energy efficiency solutions. These strategies will be directed at five specific customer sectors and target customer segments and sub-segments with higher energy efficiency potential. The sectors include: residential, commercial, industrial, agricultural, and public. Additionally, there is a cross-cutting sector that includes strategies that support all of the customer segment delivery offerings.

Third-party energy efficiency service providers will be called upon to propose, design and implement specific programs in support of the Business Plan. SoCalGas, as the portfolio manager, will assist third-party program providers with customer account management support and other customer services to improve the program offerings, avoid administrative redundancies and realize the results expected. The following is a sector-level summary of the rationale of the strategies where SoCalGas will seek program proposals from third-party providers to help reach the mandatory minimum threshold of 60 percent by end of 2020.

The sector strategies discussed below are intended to leverage the core competencies of all stakeholders to develop a customer-centric model that best-positions SoCalGas to achieve its energy efficiency goals. SoCalGas’ core competency is assisting customers in optimizing the management of their energy usage, while the competencies of third-party implementers are to provide technical assistance and manage energy efficiency projects. The following table provides a list of program intervention strategies which third-party providers should leverage in

proposing new program design ideas in each sector. These strategies and their sector-specific variations are detailed in each sector chapter of the Business Plan.

Program Intervention Strategies	Residential	Commercial	Industrial	Agricultural	Public
Partnering	✓	✓	✓	✓	✓
Intelligent Outreach	✓	✓	✓	✓	✓
Technical Assistance		✓	✓	✓	✓
Homeowner Resale	✓				
Strategic Energy Management		✓	✓	✓	✓
Customer Incentives	✓	✓	✓	✓	✓
Direct Install	✓	✓	✓	✓	✓
Midstream Energy Efficiency	✓	✓	✓	✓	✓
Financing	✓	✓	✓	✓	✓
Commissioning					✓

Residential Sector

By 2019, most of SoCalGas residential programs will be delivered by third-party program providers, including both local and statewide offerings. SoCalGas is seeking effective and efficient program designs to enhance and/or replace existing residential programs. For example, to date, the Home Upgrade program has seen an increase in customer participation, however, the program costs far outweighs the ratepayer benefit. SoCalGas will be searching for a more cost-effective program design to address the comprehensive whole home approach. Additionally, SoCalGas will be looking for innovative strategies to address the multifamily segment, which continues to have significant energy efficiency potential, especially in the water heating end-use. This is an ideal candidate for a co-delivery approach between SoCalGas, a partner electric utility, and water agencies, to offer comprehensive measure solutions to our large and diverse customer base using third-party program providers.

Recently, the Commission has categorized the Point of Sale (POS) component of the Plug Load & Appliance program (PL&A POS) as a midstream program, which will be proposed, designed, and implemented statewide by one or more third-party providers. In order to decrease program and retailer costs, SoCalGas will implement a residential downstream customer rebate program which will not be connected to the midstream delivery channel. Advances in consumer hand-held devices, coupled with lower retailer interest in midstream incentive offerings, creates an opportunity to deliver on-demand rebates to consumers more efficiently and cost-effectively. SoCalGas proposes to expand upon its current offerings and deliver this strategy to customers as it possesses the infrastructure in place to integrate customer data systems, customer and retailer outreach, and rebate processing technology to conduct this activity successfully and cost-efficiently.

Residential HVAC, Residential New Construction, and PLA POS are residential sector programs that are required to be delivered Statewide by third-parties, with solicitations for each program

targeted in 2018. SoCalGas annual budget for third-party residential sector programs will be approximately \$21 million by the end of 2020.

Commercial Sector

The commercial sector can be implemented through various strategies to maximize portfolio cost-effectiveness while achieving energy savings and strategic goals. Energy efficiency program participation in the commercial sector in SoCalGas' service territory has been dominated by the healthcare, food service, and laundry segments based on the 2010-2015 energy savings program performance. Energy service companies are integral part in supporting energy efficiency projects within these segments. SoCalGas will complement the energy service companies' role by soliciting for third-party program design that will address the commercial customers through program intervention strategies. SoCalGas will leverage its core competencies in order to facilitate customer engagement in commercial energy efficiency programs. As trusted energy advisors, SoCalGas will provide a laser focus on the customer through the leveraging of long-standing customer account executive relationships and a focus on data access and analytics, facilitation of customer audits, and local outreach opportunities, which altogether, enable an intelligent outreach platform for which to engage customers and allow for third-party implementers to provide the technical assistance needed to complete projects.

Savings By Design, Non-Residential HVAC, and the Midstream Foodservice Rebate Program are commercial programs that are required to be delivered Statewide by third-parties, with solicitations for each program targeted in 2018. SoCalGas annual budget for third-party commercial sector programs will be approximately \$10 million by the end of 2020.

Industrial Sector

The industrial sector continues to offer the largest potential for energy efficiency in SoCalGas' service territory, as it represents the most gas consumed by any sector. To encourage greater participation in energy efficiency programs within the industrial sector, SoCalGas will solicit new program designs for this sector. The industrial chapter of the Business Plan includes a combination of proven and newer program strategies coupled with inventive approaches to efficiently identify customers with the greatest energy efficiency opportunities using data analytic advancements enabled by SoCalGas' advanced meter capabilities. Using data analytics and traditional outreach approaches, SoCalGas will offer an integrated set of program strategies that meet the customer's unique energy efficiency needs.

The industrial sector offers an abundance of energy savings opportunities for the customer including operational changes in production processes and improvements to operations and maintenance (O&M) practices. Specific program strategies will be offered to the customer to permanently capture these energy savings. As with the commercial sector, SoCalGas will facilitate customer engagement in industrial energy efficiency programs through customer account executive relationships, facilitation of customer audits, and local outreach opportunities. Altogether, this approach enables an intelligent outreach platform for which to

engage customers and allow for third-party implementers to provide the technical assistance needed to complete projects.

SoCalGas annual budget for third-party industrial sector programs will be approximately \$8 million by the end of 2020.

Agricultural Sector

The agricultural chapter of the Business Plan includes a combination of proven and newer program strategies coupled with inventive approaches to efficiently identify customers with the greatest energy efficiency opportunities using Intelligent Outreach, a data analytics strategy enabled by SoCalGas' advanced meter capabilities. To encourage greater adoption of energy efficiency among all agricultural customer segments, SoCalGas will seek to offer third-party programs based on a simple, low-cost suite of strategies that are tailored to the unique customer characteristics of the agricultural sector. A targeted focus will also be applied to agricultural customers who operate in disadvantaged communities throughout the service area, which includes most rural communities.

Similar to the commercial and industrial sectors, SoCalGas will facilitate customer engagement in agricultural energy efficiency programs through long-standing customer account executive relationships, facilitation of customer audits, and local outreach opportunities. Altogether, this approach enables an intelligent outreach platform for which to engage customers and allow for third-party implementers to provide the technical assistance needed to complete projects.

SoCalGas annual budget for third-party agricultural sector programs will be approximately \$2 million by the end of 2020.

Public Sector

SoCalGas will look to integrate third-party providers into its local government partnership (LGP) model, beginning in 2019. The current LGPs rely heavily upon third-parties to assist in program delivery. This will be expanded upon to allow third-parties to propose, design, and deliver the next generation of LGPs as well as institutional partnerships (IPs). The future LGPs and IPs will continue to be supported by SoCalGas representatives, both account executives and project managers, to facilitate the partnership between the utility, the local government, and the implementer. This key role will provide support to enhance and expand upon the customer relationship, provide program and/or project outreach, and resolve customer issues. In addition, the public sector will create additional partnering opportunities with other customer segments such as unified school districts and water districts. For example, SoCalGas will work with local water agencies to coordinate AMI data to better inform customers on energy and water efficiency solutions. Such programs are considered local and are ideal candidates to be jointly implemented by Publicly Owned Utilities (POUs) and Southern California Edison within SoCalGas' service territory. A technical assistance program offering will be a key element to support public sector customers. Technical assistance will also be delivered through a third-party energy efficiency service provider.

IPs are public sector programs that are required to be delivered Statewide by third-parties, with solicitations for each program targeted in 2018. SoCalGas annual budget for third-party public sector programs will be approximately \$4 million by the end of 2020.

Crosscutting Sectors

SoCalGas will look to third-parties to propose programs for significant portions of the codes & standards, emerging technologies, workforce education & training, and financing sectors. The successful IDEEA365 approach will continue as an ongoing offering to capture innovative new program proposals throughout the duration of the rolling portfolio timeframe.² As identified above as the key areas where SoCalGas will leverage its core competencies to enable customer engagement in energy efficiency, SoCalGas will continue to provide on-bill financing, local outreach and training services through its dedicated Energy Resource Center, and support local codes & standards work in collaboration with local municipalities throughout its service territory.

SoCalGas annual budget for third-party crosscutting sector programs will be approximately \$2 million by the end of 2020.

3. SoCalGas Operations to Support Energy Efficiency Programs

Portfolio Management and Oversight

As stated by the Commission, the utilities will now focus more on their role as determiners of “need” and energy efficiency portfolio design, and less on their role as program designers and implementers. Utility program administrators, with Commission approval, will still retain discretion in their portfolios with respect to the budget allocations to each type of activity, based on the overall needs in their service territories. While retaining all the program administrative responsibilities such as customer interface, rebate processing, and contract management, SoCalGas will need to expand its role as a “collaborator” with third-party program providers, other program administrators, key market actors (e.g., industry groups) and the customer. For example, collaboration will be necessary with program implementers during the program selection process including any necessary modifications to third-party program design to ensure the overall portfolio achieves SoCalGas’ energy efficiency goals. As roles and responsibilities of the program administrator are further refined, adjustments to SoCalGas’ portfolio management responsibilities will occur as well.

Customer Recruitment and Engagement

Individual programs will be proposed, designed, and implemented by third-party providers based on the program intervention strategies presented in the Business Plan. In order to provide an effective engagement platform to support the successful program implementation by third-party providers, SoCalGas will leverage its core competencies of customer engagement. SoCalGas will sharpen its focus on the following areas in order to implement effective strategies that utilize its understanding of the customer, effectively engage the

² The IDEEA365 approach will not be used for solicitations of Statewide programs identified in Business Plans.

customer, and facilitate customer participation in cost-effective and comprehensive energy efficiency:

- **Customer Engagement:** As a trusted energy advisor to customers, leveraging SoCalGas' connection to customers is paramount for success. SoCalGas' customer account executives play a foundational role in engaging customers in demand-side management solutions, including energy efficiency. This engagement will provide the valuable connection needed between SoCalGas, the customer, and the third-party implementers in order to motivate customers to pursue energy efficiency and provide the technical assistance needed to complete projects. SoCalGas also markets its On-Bill Financing (OBF) program primarily through its account executives. By enabling qualified customers to complete energy efficiency projects with no up-front costs, OBF eliminates one of the major barriers to participation in energy efficiency, resulting in greater customer engagement in energy efficiency programs.
- **Data Analytics:** As the energy service provider, SoCalGas has extensive database information on customers, including real time advanced meter data that provides accurate and actionable usage and behavioral metrics. SoCalGas' expertise in data mining and analytics will facilitate the identification of energy efficiency opportunities that will allow for intelligent outreach and effective engagement based on specific customer needs.
- **Customer Outreach:** Leveraging data analytics and targeted understanding of customer behavior will facilitate local outreach, including marketing efforts to drive customer awareness, interest, and participation in energy efficiency programs.
- **Customer Audits:** Connecting the engagement opportunities afforded by customer account executives with meaningful data analytics will allow for targeted customer facility audits that assist customers to quickly identify energy savings opportunities. Leveraging "on the ground" experience in customer facilities, SoCalGas is best positioned to facilitate the customer audit, which will result in continued energy management engagement in order for SoCalGas to identify the necessary technical assistance expertise provided by third-party implementers.

Portfolio Oversight

SoCalGas ultimately has the fiduciary responsibility in administering the energy efficiency portfolio, including the assurance that ratepayer funds are utilized properly. This responsibility requires a portfolio and program oversight role, including performing inspections, engineering review, quality assurance and quality control (QA/QC), and effective contract management. In addition, SoCalGas will leverage its established infrastructure which includes rebate processing, and the utilization of IT systems to track program participation and enable reporting to the Commission.