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# **Southern California Edison Energy Efficiency Business Plan**

**Supplemental Information:  
Statewide Program Administration  
Procurement Strategy  
Market Transformation  
High Level Strategies**

**DRAFT October 28, 2016**

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## I. Procurement Strategy

SCE continues to aggressively pursue new sourcing and delivery strategies in an effort to capture innovation, improve the customer experience, and improve the cost-effectiveness of its demand-side offerings. In pursuit of this objective, Southern California Edison (SCE) has pioneered new market-based Demand Side Management (DSM) procurement methods such as an "all source" Local Capacity Requirements (LCR) solicitation and a Preferred Resource Pilot (PRP). These methods test SCE's ability to procure and deliver cost-effective preferred resources from third parties through market-based DSM power procurement mechanisms (that is, request for offers [RFOs]) as compared to traditional customer-style programs.

Since 2008, SCE has reviewed over 300 abstracts or proposals for new program ideas and launched over 90 innovative programs. Since 2014, SCE has reviewed over 500 ideas and launched over 100 new measures or technologies and various pilots through the Proposal Evaluation & Proposal Management Application (PEPMA) process.<sup>1</sup> SCE also uses third parties for many "back office" functions supporting its energy efficiency (EE) programs, such as application review, inspections, and rebate processing. SCE will continue to explore expansion of these activities to reduce costs and improve customer satisfaction.

In preparation for 2018, SCE will hold a Solicitation for Innovation in Q1 2017 (or earlier) where successful bidders will be awarded contracts to implement their proposed program designs or resource acquisition strategies. SCE intends to maintain an open solicitation with contracts to be awarded in Q1 and Q3 of each year. It is anticipated that the solicitation will remain open every year unless SCE determines that the total EE Portfolio budget has been fully allocated and will be under contract for an extended period of time. Contract terms are anticipated to be for three years with optional renewals for one year, up to a maximum of two years. In addition, contracts will primarily be on a pay-for-performance, normalized metered energy consumption basis; however, such an approach will not be applicable for all intervention strategies and associated contracts. SCE needs to retain the flexibility to decide the length of contracts based on past performance and results. SCE may also include in its solicitation a request for resources or programs to help meet any grid-related needs in specific geographic locations for which a premium may be offered depending upon the specific need and associated mitigation costs. We will accomplish all of the "idea-gathering" objectives during this solicitation for innovation process. We intend to cast a wide net, collect innovative program ideas in each segment with abstracts, pair down to viable options, then take those to the next round which asks for more detailed information (detailed pricing and proposal plus Cost Effectiveness Tool [CET]). For sectors where little to no interest is received, alternative solutions can be considered to ensure that energy savings for that sector can be achieved based upon the identified market potential. This could include either

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<sup>1</sup> <http://on.sce.com/ideas>.

more targeted solicitations for particular programs or the option for SCE to directly implement programs to address this gap where there is little third-party interest.

Criteria for selection will be based on the following:

1. Achieving balance among cost-effectiveness.
2. EE goal achievement potential.
3. The California Public Utility Commission's (CPUC or "Commission") expectation that utility Program Administrators (PAs) will transition at least 60% of their EE portfolios to third parties by 2020.

In addition, SCE will also be seeking new approaches for marketing and delivering EE (for example, hybrid and turnkey approaches).

SCE anticipates including language in its solicitation for innovation to address the following:

- Capturing new, innovative, and best-practice DSM opportunities through the latest in program design and implementation
- Reliably capturing cost-effective energy savings and on-peak demand reduction opportunities through effective program design and implementation
- Achieving market penetration goals per sector by the implementation of a resource program documenting kWh savings and kW reduction, and
- Developing strategies to overcome market barriers, to promote program participation, and reduce free-ridership.

SCE will continue to refine this procurement strategy based upon stakeholder input and as sector strategies evolve.

Using this procurement strategy, SCE anticipates that it will not only meet but likely exceed the Statewide (SW) Program and Third Party Program requirements established in Decision (D.) 16-08-019.<sup>2</sup>

## **II. Market Transformation**

D. 16-08-019 requires SW programs to be designed to achieve market transformation.<sup>3</sup> In addition to this guidance, a recent Energy Division (ED) EE

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<sup>2</sup> Cite (D.16-08-019 Ordering Paragraphs 6, 11, 12. Need page numbers)

<sup>3</sup> The California EE Strategic Plan defines market transformation as, "Long-lasting, sustainable changes in the structure or functioning of a market achieved by reducing barriers to the adoption of energy efficiency measures to the point where continuation of the same publicly-funded intervention is no longer appropriate in that specific market. Market transformation includes promoting one set of efficient technologies, processes or building design approaches until they are adopted into codes and standards (or otherwise substantially adopted by the market), while also moving forward to bring the next generation of even more efficient technologies, processes or design solutions to the market." California Energy Efficiency Strategic Plan (2011), p. 120.

market transformation policy whitepaper further argues that the most effective approach to market transformation is through targeted market transformation initiatives (TMTIs).<sup>4</sup> That whitepaper states that TMTIs, "Are designed to induce sustained increases in the adoption and penetration of energy efficient technologies and practices through structural changes in the market and in behaviors of market actors."<sup>5</sup> The whitepaper, however, points out that market transformation is inherently risky and specifies that certain policies in California would need to be changed or put into place to give market transformation its best chance to succeed. These policies must do the following:

1. Ascribe a role to market transformation within an EE portfolio.
2. Determine appropriate PA(s).
3. Manage the risks.
4. Determine a process to identify and vet market transformation initiatives.
5. Assess the cost-effectiveness of market transformation initiatives.
6. Measure progress toward market transformation goals.
7. Consider the need for market transformation performance incentives.
8. Reflect market transformation opportunities in potential and goals studies.<sup>6</sup>

SCE strives to offer a balanced portfolio of resource acquisition, market transformation, and non-resource programs. The ED market transformation whitepaper emphasizes that, "Only certain energy efficiency equipment markets are in need of, or predisposed to, being 'transformed.' Some markets may function well without any public intervention. Others may be extremely challenging to transform due to intractable market barriers such as split incentives or their size and complexity. Still others may suffer from a lack of effective leverage points or allies to work with within the market."

TMTIs must be identified by "thorough consideration of which specific markets have leverage points that will yield to market transformation." SCE conducts these types of assessment, as policy is being revised, to identify the most likely technology candidates and markets for TMTIs.

### **III. Statewide Administration of Programs**

D.16-08-019 requires the PAs to include proposals in the Business Plans to administer all upstream and midstream, and four downstream programs, under a new SW administration model. The new model requires that a lead PA will manage contractor(s) responsible for implementing the program across the state. This is a

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<sup>4</sup> Ralph Prah and Ken Keating, "Building a Policy Framework to Support Energy Efficiency Market Transformation in California," Energy Division, California Public Utilities Commission (Dec, 2014). Available at: <http://www.energydataweb.com/cpuc/>.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

significant departure from previous program practices. The PAs are well-positioned to manage through this change, but there will be challenges.

To support a cohesive SW approach, the PAs have established the following key guiding principles:

- Support the State's EE Policy goals. Orient portfolio design around State and Regulatory objectives and act in the best interests of all customers.
- Do no harm. Make decisions that preserve our collective ability to meet energy savings goals, achieve cost-effectiveness goals, and minimize impacts to existing local and downstream programs.
- Advocate for all PAs. Recognize that the whole is greater than the sum of its parts. Be willing to collaborate with other PAs in planning and decision-making efforts.
- Assume best intentions. In an environment of shared goals and shared directives, be humble in the approach and ambitious for the broader group's success.
- Be good listeners. Take responsibility for the environment by which decisions are made such that all participants have the opportunity to participate.
- Take a stand for customers. Take into consideration the customer experience and strive for simplicity, clarity, and ease.
- Wisely pursue change. Demonstrate open-mindedness to changes in design, delivery, and administration.

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**Table 1. Proposed Statewide Administration Leads – EE Rolling Portfolio**

Revised by Proposed Program Categories	
Pacific Gas & Electric (PG&E)	SCE
<p><b>Codes and Standards</b></p> <ul style="list-style-type: none"> <li>• Building Codes Advocacy</li> <li>• Appliance Standards Advocacy</li> </ul> <p><b>Government Partnerships - State</b></p> <ul style="list-style-type: none"> <li>• State of California</li> <li>• Department of Corrections</li> </ul> <p><b>Financing</b></p> <ul style="list-style-type: none"> <li>• New Finance Offerings</li> </ul> <p><b>Workforce Education and Training</b></p> <ul style="list-style-type: none"> <li>• K-12 Connections</li> </ul> <p><b>Marketing Outreach and Education</b></p> <ul style="list-style-type: none"> <li>• Energy Upgrade California (EUC) Campaign</li> </ul>	<p><b>Emerging Technologies – Electric Lighting</b></p> <ul style="list-style-type: none"> <li>• Primary Lighting</li> <li>• Lighting Innovation</li> <li>• Lighting Market Transformation</li> </ul> <p><b>New Construction</b></p> <ul style="list-style-type: none"> <li>• Savings by Design</li> </ul> <p><b>Government Partnerships - Institutional</b></p> <ul style="list-style-type: none"> <li>• Community Colleges</li> <li>• UC/CSU</li> </ul>
San Diego Gas & Electric (SDG&E)	Southern California Gas Company (SoCalGas)
<p><b>HVAC</b></p> <ul style="list-style-type: none"> <li>• Heating, ventilation, air conditioning (HVAC) – upstream / midstream</li> </ul>	<p><b>Residential</b></p> <ul style="list-style-type: none"> <li>• Plug Load and Appliances</li> <li>• New Construction</li> </ul> <p><b>Emerging Technologies – Gas</b></p>

## A. Downstream Programs

[TBD]

## B. Governance Structure

The PAs will create an Advisory Group consisting of senior leadership, portfolio managers, and policy managers to ensure that the agreed-upon structure is implemented collaboratively and consistently.

## C. Roles and Responsibilities

In a collaborative and inclusive process, identification of key PA responsibilities and the corresponding roles between the Lead SW PA, "Consulting" or sub lead PAs, and Implementer(s) are essential in the successful management of SW programs. In addition to this high level overview, SCE is preparing a detailed document that will outline the expected functions of all entities. It is expected that the assigned duties will vary among upstream, midstream, and downstream programs. However, maintaining the connectivity between the investor-owned utility (IOU) and their

customers is considered critical for success. Customers will largely continue to engage in EE programs through the local utility website, through the use of local marketing campaigns, local outreach efforts, and engagement from account executives.

Following are some key principles governing the relationship between the Lead and Consulting PAs:

- The SW administrator has lead responsibility for program design and delivery, procurement, contract administration (including co-funding agreements where appropriate), invoicing, and contract payments. Final decisions regarding program design and delivery, in collaboration with Implementer(s), shall be agreed upon by all IOU administrators with guidance from the Advisory Group as necessary.
- The SW administrator is responsible for overseeing implementer performance, including the achievement of contract goals, meeting cost-effectiveness criteria, and achieving customer satisfaction service levels in all IOU service territories.
- The SW administrator should support all local High Opportunity Projects and Programs (HOPPs) and program partnerships, which address local issues or location constraints.
- The SW administrator (or implementer) shall provide regular reports including energy savings accomplishments, energy savings forecasts, recorded costs, forecasted costs, and other relevant metrics to IOU administrators.
- The SW administrator is not authorized to exceed approved IOU service territory budgets without written consent of all IOU administrators through the Advisory Group, as necessary.
- SW Lead responsibility does **not** mean that a single entity has sole responsibility for executing all functions, only that the lead is responsible for making sure that the functions are executed according to a plan using the most efficient resources and/or consulting program administrative support.
- All IOUs may propose changes in program funding or cancellation of program activity, based on local concerns or portfolio needs — including fund shifting — at any time. Changes should be approved by the IOU administrators through the Advisory Group.

## **D. Intervention Strategies**

The primary barriers to EE investment are individual discount rates (customer's value EE less than society), lack of cash and/or credit, and lack of information. This is why intervention strategies shown in Table 2 below include incentives, information programs, customer advisory programs, and direct installation for low-income or hard to reach customers.



## 1. Conduct Pilot Programs and Pilot Delivery Models

SCE will continue to pilot programs and delivery models to better understand the precise capabilities of various distributed energy resources (DER) and DSM deployments to address distribution-planning issues and reduce infrastructure costs. DSM can reduce or mitigate the growth of distribution, transmission, and generation capacity needs in specific locations. State law (AB327) now requires utilities to consider DER/DSM as a possible alternative to capital investments in their distribution systems. Consequently, the CPUC is now moving toward evaluating all DER as an integral part of the planning process through the AB327 Distributed Resource Plan (DRP) proceedings. As we identify constrained substations and circuits, we need to provide a rich set of DSM opportunities and programs that have the right load shapes and penetration potential to alleviate unique constraints on distribution circuits. This will require detailed knowledge of customer and grid needs in targeted areas. Furthermore, in certain critical cases, contract structures will need to be designed and implemented to provide certainty to grid operators that the resources being relied upon to defer local grid investment will indeed be made available by their owners when called upon to perform.

## 2. Lessons Learned

[TBD]

## 3. Expectations: the Future of Interventions

Because the goal of EE programs is market transformation, over time, SCE expects that interventions will be replaced by advisory, training, and information programs supporting California building and appliance standards.

## 4. Justification for any Changes

Changes are based solely on cost-effectiveness and program performance. This will be demonstrated in the following sector chapters.

## 5. Portfolio Adjustments

[TBD]

- **Compare/Contrast with Past Cycles:** In general, the proposed portfolio reduces expenditures on less cost-effective measures and programs.
- Portfolio Meets Commission Guidance

[TBD]

## E. Performance Metrics

[TBD]

## F. Justification for Significant Portfolio Changes

In general, significant changes in the proposed portfolio result from changes in cost-effectiveness due to the following:

- Low natural gas prices
- The CPUC decision to move SW programs to SW administration, and
- Internal priorities to improve the cost-effectiveness of the portfolio as part of a company-wide focus on operational efficiency, locational needs, and experience in the field.

## G. Relevant Previous Findings to Justify Changes in Strategy

[TBD]

# IV. High-Level Strategies

## A. Overall Range of Intervention Strategies and Tools

SCE's intervention strategies run the full range of alternatives from direct installation of measures to passive information programs.

The following table explains the primary intervention strategies currently employed by SCE:

**Table 2. SCE's Current Primary Intervention Strategies**

<b>Interventions</b>	<b>Overview</b>
<b>Customer Incentives</b>	Payments designed to encourage customers to adopt and install EE measures. Customer incentives will continue to be available to customers.
<b>Delivery Channel</b>	Identify and target specific delivery channels for EE products to reach specific hard-to-reach audiences and minimize free-ridership.
<b>Demos</b>	Demonstrate best practices and disseminate technical expertise in order to overcome knowledge gaps for market actors or industry.
<b>Direct Install</b>	Access to Direct Install or Turnkey Programs allows customers to benefit because these programs remove technical and search burden by providing vendors that have already been vetted and can be leveraged for customer touch points.
<b>Financing</b>	Designed to assist customers in acquiring the capital necessary to procure and install EE measures.

Interventions	Overview
<b>Intelligent Outreach</b>	A targeted marketing approach using analytic tools to deliver specific messages to specific customer groups in order to increase EE adoption
<b>Midstream Incentives</b>	Financial incentives allocated directly to vendors or distributors to buy down cost and increase the sales of energy-efficient products.
<b>Partnering</b>	Identification and recruitment of key partners and market actors needed to support and reach various customer groups and drive adoption of EE.
<b>Quality Assurance</b>	Working with key market actors in order to improve EE products and services to meet industry specification and practices
<b>Single Point of Contact</b>	Streamline program offerings for market actors in order to reduce burden to participate in program offerings.
<b>Strategic Energy Management</b>	An organization-wide strategic energy management approach that sets long-term energy savings goals and uses rigorous tracking and reporting systems can drive greater savings, reach across entire building portfolios, and institutionalize such practices to sustain long-term savings.
<b>Sustainable Offerings</b>	Reduces intervention cost overhead or improves intervention cost-effectiveness.
<b>Upstream Incentives</b>	Financial incentives allocated directly to manufacturers to buy down the cost and increase the sales of efficient products and reducing hassle for high volume products.

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