STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

December 20, 2019

Ronald van der Leeden
Director, Regulatory Affairs
Southern California Gas Company
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013

Dear Mr. Leeden:

Energy Division approves Southern California Gas Company's (SoCalGas) Annual Budget Advice Letter U904-G/5510-E, pursuant to the Annual Budget Advice Letter (ABAL) review criteria laid out in Decision (D.) 18-05-041, which addressed the energy efficiency business plans. Accordingly, SoCalGas budget spending request of $104,064,000 to administer energy efficiency (EE) programs for 2020 is approved, effective January 1, 2020.[1]

Regarding the amount SoCalGas is approved to recover in 2020 rates, its spending budget is adjusted both by the unspent and uncommitted funds from prior years (see footnote 1) and the amount of funds needed to be collected on behalf of Regional Energy Networks (RENs) and Community Choice Aggregators (CCAs) in its territory. Discrepancies exist between SoCalGas' budget recovery requests on behalf of Southern California REN (SoCalREN) and Tri-County REN (3C-REN), and the budget recovery amounts approved for these program administrators (PAs) in 2020. These discrepancies are due to updates made to budget recovery amounts by the RENs after the Investor Owned Utilities (IOUs) filed ABALs, as well as differences in how IOUs that share responsibility for budget recovery calculate the recovery amount for a REN that exists within multiple IOU territories. Thus, within 30 days of the issuance of this disposition, SoCalGas shall file a Tier 1 Compliance filing in which the recovery budgets on behalf of SoCalREN and 3C-REN align with their approved recovery budgets.

1. Background

On September 3, 2019, SoCalGas filed its ABAL U904-G/5510-E. On September 23, 2019, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) filed its protest of SoCalGas's ABAL U904-G/5510-E. On October 1, 2019, SoCalGas filed its reply to Cal Advocates' protest.[2]

2. Cal Advocates Protest and SoCalGas Reply Comments

Cal Advocates' protest included 16 "*recommendations*" for the California Public Utilities Commission (CPUC) regarding PAs 2020 ABALs. These recommendations include an overarching theme that

[1] SoCalGas's total proposed spending budget for 2020 is $104,064,000, less prior year unspent and uncommitted funds of $3,019,000, resulting in an approved budget recovery of $101,045,000 for SoCalGas' EE program administration.
[2] See SoCalGas' *Reply to Protest of from the Public Advocates Office regarding Advice Letter U904-G/5510-E, (SoCalGal's 2020 Energy Efficiency Annual Budget Advice Letter in Compliance with Decisions 15-10-028 and D. 18-05-041)*, pp. 1 (hereafter referred to as "SoCalGas Reply").

the entire statewide energy efficiency portfolio, including the portfolio of RENs, should be cost-effective. Of these 16 recommendations, the 7 recommendations relevant to SoCalGas are addressed below in 4 sections.

2.1. Issues Regarding Cost Effectiveness

This section addresses the following recommendations from Cal Advocates:

- *The Commission must ensure that the statewide EE portfolio is cost-effective*
- *The Commission cannot approve the PAs' proposed budgets because they will not produce a statewide portfolio that is cost-effective*
- *The Commission must adopt remedies to improve the cost-effectiveness of all PAs' EE portfolios*
- *The Commission should require each PA to improve the net benefits of its portfolio*

In its protest filed September 23, 2019, Cal Advocates argues that Public Utilities (PU) Code Section 381 (b)(1) "directs the Commission to allocate public purpose funds to cost-effective energy efficiency and conservation activities."[3] Cal Advocates also argues that prior CPUC Decisions, including D. 09-09-047[4], D. 12-11-015[5], and D. 14-10-046[6], state that:

- the CPUC may only allocate funds to activities that are cost-effective;
- EE portfolios must be cost-effective on both a forecast and evaluated basis;
- the CPUC may only approve an EE portfolio, including both utility and REN proposals, that is cost-effective overall.7

Cal Advocates concludes by stating that, in light of the PU Code as well as prior CPUC decisions, the CPUC may not in this instance approve any of the 2020 ABALs, as doing so would produce a statewide portfolio that is not cost-effective.[8] Instead, Cal Advocates recommends that the CPUC should require all PAs to collectively submit revised supplemental 2020 ABALs that "constitute a cost-effective statewide portfolio."[9]

In its reply, SoCalGas argues that D.12-11-015 does not require overall cost-effectiveness on a statewide basis. SoCalGas cites Findings of Fact 19 from that decision, which states that "[t]he Commission should consider the REN and Marin Energy Authority proposals in concert with the utility portfolios to approve an overall cost-effective portfolio in each utility service territory on behalf of its ratepayers." SoCalGas further emphasizes that Ordering Paragraph 13 of D.18-05-041 specifies that "the investor owned utilities must achieve cost effective portfolios", thereby excluding RENs and the Marin Energy Authority from the requirement.

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[3] See *The Public Advocates Office Protest of Energy Efficiency Annual Budget Advice Letters for Program year 2020 (September 3, 2019)*, p. 3. (hereafter referred to as "Cal Advocates Protest").
[4] D. 09-09-047 approved 2010 to 2012 Energy Efficiency Portfolios and Budgets.
[5] D. 12-11-015 approved 2013-2014 Energy Efficiency Programs and Budgets.
[6] D. 14-10-046 Established EE Savings Goals and Approved 2015 EE Programs and Budgets.
[7] See Cal Advocates Protest, p. 4.
[8] The 2020 portfolio, including budgets and savings from the IOUs, RENs, and Marin Clean Energy (MCE), but excluding budgets and savings from ESA programs and Codes and Standards, has a TRC of 0.89. Portfolio cost-effectiveness information available at https://cedars.sound-data.com/filings/list/.
[9] See Cal Advocates Protest, p. 46.

Additionally, SoCalGas asserts that Cal Advocates is incorrect in concluding that the CPUC is legally responsible for managing the cost-effectiveness of a statewide portfolio. In D.18-05-041, the CPUC determined a cost effectiveness standard which would be utilized for "assessing whether the business plans [generated] cost-effective portfolios for each utility and among all the energy efficiency PAs."[10] SoCalGas argues that this language implies that cost-effectiveness standards are applied at an individual PA portfolio, rather than statewide, level.

Discussion

The CPUC approves SoCalGas's 2020 ABAL on the grounds that it meets the ABAL review criteria laid out in D. 18-05-041, which addressed energy efficiency business plans. Specifically, D. 18-05-041 states that a PA's ABAL must meet energy savings goals, be cost-effective with a Total Resource Cost (TRC) ratio equal to or greater than 1.0 and propose a budget that is less than or equal to the previously authorized amount for the program year.

SoCalGas's 2020 ABAL, as filed, forecasts a benefit/cost ratio, as measured by the TRC, that is cost-effective. Specifically, SoCalGas's 2020 ABAL has a TRC of 1.25 (excluding savings from Codes and Standards)[11] which is above the 1.0 TRC threshold set by D. 18-05-041. Additionally, SoCalGas meets or exceeds its 2020 energy efficiency savings goals and proposes a spending budget that is below the authorized budget cap.[12]

In citing D. 12-11-015, which states that "the Commission may only approve an EE portfolio, including both utility and REN proposals, that is cost-effective overall," Cal Advocates relies on general CPUC guidance provided prior to the onset of the Rolling Portfolio, the advent of expanded third-party administration designed to produce higher savings at lower cost, and lower energy efficiency goals reflecting reduced potential. Regardless, D. 18-05-041, which is the more recent decision than the 2012 decision cited by Cal Advocates, provided very clear and limited criteria under which Energy Division staff should review a PA's ABALs. Those limited ABAL review criteria do not include policy considerations from D. 12-11-015, as cited by Cal Advocates.

Furthermore, Cal Advocates' claim that a PA's ABAL could only be approved if the proposals from all PAs, together, demonstrate cost-effectiveness overall, is out of scope of Energy Division's ABAL review process. Energy Division's review process was conceived as ministerial, in which CPUC staff would narrowly address whether an ABAL meets the review criteria laid out in D. 18-05-041, rather than broader policy questions more suited for consideration in a proceeding.[13]

Additionally, while D. 12-11-015 stated the CPUC's general intent for portfolio approval *at that time* when energy efficiency was defined by limited-term, multi-year program cycle applications, D. 18-05-041 provided specific guidance for portfolio approval as it exists under the new Rolling Portfolio framework and the Annual Budget Advice Letter review process. Specifically, in D. 18-05-041, the CPUC acknowledged its concern regarding the cost-effectiveness of the PAs' respective portfolios

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[10] D.18-05-041, p. 67

[11] At this time CPUC policy requires portfolio cost-effectiveness to be measured in the absence of savings from Codes and Standards programs, regardless of their magnitude as a percentage of total portfolio savings.

[12] See SoCalGas 2019 Annual Budget Advice Letter U904-G/5510-E. Available here: https://www.socalgas.com/regulatory/tariffs/tm2/pdf/5510.pdf.

[13] See D. 15-10-028, p. 62: "The question for Commission Staff in reviewing a budget advice letter should be "does this conform to the approved business plan?""

in 2018, noting the "non-trivial amount of uncertainty regarding third-party programs and, relatedly, the IOUs reorienting their focus toward prudent portfolio management." Therefore, the CPUC opted to treat program years 2018-2022 as "ramp years," i.e. an *interim time* during which individual PA ABALs would be evaluated on their respective abilities to meet energy savings goals, be cost-effective, and stay within an authorized budget cap.[14]

Lastly, Energy Division agrees that additional CPUC guidance is needed regarding whether and how all eight PAs would work together to create a single-statewide portfolio that is cost-effective. CPUC staff will review PA ABALs according to the criteria established in D. 18-05-041, which include meeting individual energy savings goals, individual portfolio cost-effectiveness, and staying within the individual authorized budget cap(s). Larger questions related to collective portfolio cost-effectiveness among portfolios administered separately by different administrators, as cited by Cal Advocates in its protest, will be taken up in the rulemaking as the CPUC examines overall cost-effectiveness policy topics.[15]

The CPUC has acknowledged diminished portfolio cost-effectiveness of PA portfolios as well as the need to achieve savings goals. For example, recent CPUC actions set in place the support needed to improve PA portfolio cost-effectiveness, including:

- adopting updated energy efficiency savings goals that reflect changes to measures' cost effectiveness;
- allowing the IOU PAs to pursue greater third-party program administration with the intent to achieve higher savings at lower cost; and,
- opening a discussion on issues related to additional RENs.

The CPUC supports these actions to ensure that at the conclusion of the ramp years, IOU portfolios are cost-effective.

In summary, Energy Division approves SoCalGas's annual budget advice letter pursuant to the ABAL review criteria identified in D. 18-05-041 which provided a limited scope under which Energy Division staff was to review the ABALs.

2.2. Substantiation of Forecast Values

This section addresses the following recommendation from Cal Advocates:

- *The Commission should require SDG&E, SoCalGas, and MCE to submit supplemental advice letters that substantiate their forecasts.*

Cal Advocates argues that SoCalGas submitted implausible and unsubstantiated forecasts and that they should be required to submit a supplemental advice letter.[16] Cal Advocates posits that SoCalGas's forecast includes assumptions regarding cost effectiveness, longevity, or volume of

[14] See. D. 18-05-041, p. 71.
[15] See D. 19-12-021, p. 40 ("Decision Regarding Frameworks for Energy Efficiency Regional Energy Networks and Market Transformation," approved by the CPUC on December 5, 2019).
[16] Cal Advocates Protest, p. 17.

installations which were unreasonable. Specifically, Cal Advocates claims that SoCalGas's forecasts for industrial measures are unobtainable.[17] Furthermore, Cal Advocates states that SoCalGas did not provide a credible explanation for how the forecasts could be achieved.

In its reply, SoCalGas states that its 2020 ABAL contained all the required information to justify its forecast and that the forecasts are based on realistic assumptions. In addressing measures which Cal Advocates claimed were unrealistic, SoCalGas states that cost effectiveness estimates for tankless water heater and tank insulation measures were developed using CPUC-approved statewide workpapers.

Discussion

SoCalGas' 2020 ABAL references measure-level assumptions when forecasting TRC. The assumed measure attributes must comply with workpapers and comport with service territory characteristics and potential. Energy Division finds that the assumptions comply with current CPUC-approved workpapers and provides aggregate forecast values of installations and savings that comport with the recent Potential and Goals Study at an end-use level. Energy Division staff cannot disallow PAs from utilizing measures with approved forecasted (i.e. ex-ante) savings values that result in high TRC.

Energy Division also considered performance trends, per D. 18-05-041, which states:

> Verification of a PAs ability to meet their TRC or saving shall include review of actual evaluated TRC for two previous years and analysis of provided program/ portfolio information so an energy efficiency expert would reasonably conclude the forecast will be achieved.[18]

A review of SoCalGas' forecasts and claims for the previous two years create concern that SoCalGas may not meet goals and achieve a TRC of 1.0. While SoCalGas filed portfolios with forecasted TRCs well above 1.0 in both 2017 and 2018, SoCalGas' 2017 claimed and evaluated TRCs were below 1.0.[19] The TRC evaluated to forecasted ratio for 2017 is 0.55 the evaluated portfolio TRC for 2018 is not yet available, but applying the same evaluated to forecasted ratio would suggest the evaluated TRC will fall below 1.0. However, this assumes SoCalGas did not make key adjustments to troubled programs based on 2017 program learnings. Without a 2018 evaluated portfolio TRC, the CPUC is unable to confirm a trend and determine that SoCalGas will not achieve a cost-effective portfolio TRC on an evaluated basis.

In the 2020 ABAL, it is evident that SoCalGas took steps to remedy programs which drove forecasting inaccuracies in 2017. In 2017, SoCalGas had six programs which achieved a TRC claimed to forecasted ratio less than 0.50. In 2017, the filing budget for these six programs accounted for approximately 29% of the total portfolio filing budget. The following table displays those programs:

[17] Cal Advocates Protest, p. 29.
[18] D. 18-05-041, p. 133.
[19] Budget Filing Detail Report accessed from California Energy Data and Reporting System (CEDARS) on November 30, 2019, https://cedars.sound-data.com/filings/download-bfdr.

Table 1: 2017 Forecasted and Claimed TRC

Program Name	Forecasted TRC	Claimed TRC	Claimed/Forecasted Ratio
AG-Calculated Incentives	2.51	0.27	0.11
RES-On Demand Efficiency	1.72	0.46	0.27
3P-IDEEA365-ODE for Campus Housing	1.71	0.50	0.29
IND-Calculated Incentives	3.59	1.20	0.33
RES-Manufactured Mobile Home	1.81	0.85	0.47
IND-Deemed Incentives	2.24	1.05	0.47

In 2018, claimed performance for the Agricultural (AG) Calculated Incentives program and Residential (RES) Manufactured Mobile home program both improved. The calculated claimed / forecasted ratio for these programs was 1.29 and 1.03 respectively. SoCalGas discontinued the Third Party IDEEA 365 On-Demand Efficiency (3P-IDEEA365-ODE) for Campus Housing program in 2018. The Residential On-Demand Efficiency program continued in 2018, but again under-performed and received a calculated claimed / forecasted ratio of 0.30. The Residential On-Demand Efficiency program was not included in SoCalGas' 2020 ABAL.

The Industrial Calculated Incentives program and the Industrial Deemed Incentives program under-performed in both 2017 and 2018 and are included in the 2020 ABAL. Energy Division respects SoCalGas as the administrator of its own portfolio. Energy Division finds the explanation and rationale provided by SoCalGas regarding industrial measures to meet the requirements of the ABAL[20], but is concerned by multiple instances of high forecasting and under-performance. Energy Division expects SoCalGas to consider the results of all recent evaluations and the 2020 forecasts of these programs and adjust for the 2021 portfolio cycle, if necessary.

Though concerning, the CPUC concludes that SoCalGas' 2020 ABAL should not be rejected based on the doubt created by the 2017 evaluation cycle alone.

2.3. Reduced Budget for Low TRC Programs

This section addresses the following recommendation from Cal Advocates:

- *The Commission should require SoCalGas and SDG&E to reduce spending on programs with low cost-effectiveness.*

Cal Advocates asserts that the CPUC should require SoCalGas and SDG&E to reduce or eliminate spending on low-performing programs. Cal Advocates states that, even though SoCalGas and SDG&E forecast that their respective portfolios will be cost effective, the forecasts are not credible, and the portfolio net savings could be improved. Specifically, Cal Advocates argues that cutting non-cost-effective programs could reduce SoCalGas's overall spending by $13.0 million and increase the

[20] SoCalGas Response to Cal Advocates' Protest, p.5.

net benefits of its portfolio by $14.5 million.[21] In its reply, SoCalGas does not directly respond to Cal Advocate's argument.

Discussion

SoCalGas is the PA is responsible for building a portfolio of programs to meet portfolio cost-effectiveness threshold and savings goals. SoCalGas' forecast portfolio reflects adjustments to the measure and program offerings needed to meet the cost-effectiveness threshold requirements set by the CPUC. Directing specific adjustments to compliant measures and programs goes beyond the scope of the ABAL review process, as outlined in D.15-10-028 and D.18-05-041. Specifically, according to D.18-05-041 the "standard of review for staff disposition of the ABALs does not include review of PAs' decisions on reducing, cancelling, expanding or adding individual programs or program areas."

For the reasons discussed above, Energy Division will not direct SoCalGas to adjust its measure offerings to improve forecast TRC or cut programs.

2.4. Suspend Energy Savings Performance Incentive (ESPI) Payments

This section addresses the following recommendation from Cal Advocates:

- *The Commission should suspend Energy Savings Performance Incentive (ESPI) payments*

Cal Advocates argues that anticipated ESPI payments of approximately $25.9 million within the larger 2020 IOU ABAL forecasts are an unreasonable burden on ratepayers that also diminish portfolio cost-effectiveness.[22] Cal Advocates subsequently asks that the CPUC either suspend payments until the statewide EE portfolio is cost-effective or that the IOUs voluntarily forgo ESPI payments as one way to improve the overall cost-effectiveness of their portfolios.[23]

Discussion

Cal Advocates' request for either the CPUC to suspend ESPI payments or have the IOUs voluntarily forgo ESPI payments in order to improve portfolio cost-effectiveness is a policy question that is not outside the scope of the ABAL review process. In D. 13-09-023, which adopted the ESPI mechanism, the CPUC did not require an overall portfolio cost-effectiveness as a condition of ESPI payments. Consequently, Energy Division rejects Cal Advocates' protest request that the CPUC suspend ESPI payments at this time.

Please direct any questions regarding Energy Division's findings in this non-standard disposition to Jessica Allison (jessica.allison@cpuc.ca.gov).

[21] Cal Advocates Protest, p. 50.
[22] See Cal Advocates Protest, p. 52.
[23] Ibid.

Sincerely,

Edward Randolph,
Deputy Executive Director for Energy and Climate Policy/
Director, Energy Division

Cc: Service Lists R. 13-11-005 and A.17-01-013
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