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September 4, 2018

**ADVICE LETTER xx**

(San Diego Gas & Electric Company - U902 M)

Public Utilities Commission of the State of California

**SUBJECT**: **SAN DIEGO GAS AND ELECTRIC COMPANY’S 2019 ANNUAL ENERGY EFFICIENCY PROGRAM AND PORTFOLIO BUDGET REQUEST**

San Diego Gas & Electric (SDG&E) hereby submits its 2019 annual energy efficiency (EE) program and portfolio budget advice letter (ABAL) as directed by the California Public Utilities Commission (Commission) Decisions (D.) 15-18-05-041 and D.18-05-041. All necessary supporting documentation is incorporated as Appendix A and has been uploaded to CEDARS.[[1]](#footnote-2)

# BACKGROUND

Decision (D.)15-10-028 established the Rolling Portfolio process for regularly reviewing and updating EE portfolios following the approval of the Business Plan application. Specifically, D.15.10-028 Ordering Paragraph (OP) states:

4. Each energy efficiency program administrator must file a Tier 2 advice letter containing a budget for the next calendar year’s energy efficiency portfolio by the first business day in September. The Tier 2 advice letter shall contain a portfolio cost effectiveness statement and application summary tables with forecast budgets and savings by sector and program/intervention filed in paper, with an electronic query output available in an online tool. Additionally, the Tier 2 advice letter shall provide a report on portfolio changes, annual spending, and fund shifting.

SDG&E filed its Business Plan on January 17, 2018 (A.17-01-014) which was approved by the Commission on May 31, 2018. D.18-05-041 provided further detailed guidance on the requirements for the annual budget advice letters. D.18-05-041 requires the following:

1. Cost Effectiveness: The forecasted TRC during the “ramp” or transition years (i.e., 2018 – 2022) should meet or exceed a TRC of 1.00.[[2]](#footnote-3) If the forecasted TRC does not meet or exceed 1.25, the Program Administrator (PA) must submit to an additional process. [[3]](#footnote-4)
2. Savings Goals: The portfolio must meet or exceed Commission adopted net goals as adopted in D.17-09-025.
3. Proposed Budget: The forecasted budget must not exceed the PA’s annual budget in the approved business plans.[[4]](#footnote-5)

In addition to these requirements, D.18-05-041 requires the PA provide information on the above criteria based on Commission Staff developed templates. In addition the ABAL should include certain program and portfolio descriptive information:[[5]](#footnote-6)

1) Discussion of proposed program changes

2) Discussion of proposed portfolio changes

3) Any ABAL that includes a forecast portfolio TRC between 1.0 and 1.25 during the 2019-2022 ramp years should include:

* An explanation of why the PA is not proposing a portfolio that meets a 1.25 TRC;
* Why the PA is confident that it will meet the evaluated 1.0 TRC for that year; and
* How the PA intends to lower costs or increase savings going forward.

4) Any ABAL that includes forecasted energy savings that are lower than Commission established annual savings goals104 should include:

* Discussion or explanation for how the PA will ensure achievement of the overall savings goals, within the overall budget, during the business plan period (i.e., through 2025).

## Portfolio Program Budgets

SDG&E’’s approved annual portfolio budget in d D.18-05-041 is provided in Table 1 provides the authorized 2019 rolling portfolio budget as approved in D.15-01-023 and confirmed by D.18-05-041. Table 1 also includes the authorized Integrated Demand Side Management (IDSM) Demand Response (DR) budget.

### Table 1: Approved Rolling Portfolio Annual EE and DR Program Budgets ($000)



### A. 2019 Energy Efficiency Program Budgets

The Table 3 shows the 2019 SDG&E business sector budgets.

### Table 2: SDG&E 2018 EE Program Budgets by Business Sector



Notes:

1 SDG&E notes that program funding related to the Financial Pilots originally approved in D.13-09-044 that has not been fully expensed due to implementation delays is considered “committed” funding and will be carried over into 2018. In addition, these funds are not included in the 2018 EE portfolio as directed by D.17-03-026.

2 SDG&E's OBF Loan Pool is not included in the EE Portfolio budget. It is collected through its On-Bill Balancing Accounts.

### B. 2019 Integrated Demand Side Management (IDSM) Programs and Budgets

The following are the specific programs and budgets associated with the 2019 Demand Response Program (DRP) IDSM approved budget. These strategies are in response to directions provided for by D.18-05-041.

### Table 3: SDG&E 2019 IDSM DR Program Budgets

Insert Table here

**C. Revenue Requirements**

SDG&E provided its estimated gas and electric EE revenue requirements as reflected in the Budget Filing Appendix Table 2: Rates Revenue.[[6]](#footnote-7) No additional budget is requested to meet the newly adopted energy savings goals.

The final gas and electric EE revenue requirements will be incorporated in the annual electric and natural gas Regulatory Account Update advice letters, which will be filed subsequent to this advice letter in the last quarter of 2018.

# SDG&E Requested Portfolio Energy Savings Goals and Cost Effectiveness

SDG&E provides, in the following tables its forecasted energy savings goals/targets and portfolio cost-effectiveness.

**Table 4: 2019 EE Portfolio Energy Savings Goals & Targets**



**Table 5: 2019 EE Portfolio Cost Effectiveness**

|  |  |  |
| --- | --- | --- |
|  | TRC Ratio | PAC Ratio |
| Without Codes & Standards (C&S) | 1.30 | 1.95 |
| With Codes & Standards | 1.34 | 3.28 |

SDG&E’s TRC and PAC results reflect the following inputs:

1. Updated 2019 avoided costs and Greenhouse Gas adder consistent with Resolution E-4942.
2. Excludes Emerging Technology, OBF revolving loan pool, and credit enhancements;
3. Includes Market Effects (ME) based on D.12-11-015, which adopted 5% spillover for resource programs;
4. Includes estimated Energy Savings Performance Incentive payments of $3.5 million;
5. Includes indirect labor loaders adopted in SDG&E’s 2016 GRC D.16-06-054;
6. Savings estimates for potential third-party programs are provided.
7. Updated C&S savings.

# 2019 PORTFOLIO AND Business Sector CHANGES

SDG&E optimized its EE portfolio to the extent possible to meet the minimum cost effectiveness criteria and authorized budget level. These changes generally include:

1. Budget request for 2019 is less than the authorized annual budget.
2. Program funding changes were made to optimize the portfolio.
3. Updated the measure savings assumptions based on DEER2019, and all applicable deemed measure work paper dispositions;
4. Removed measures due to low cost effectiveness, changes in Codes & Standards, Lighting Dispositions, or lack of customer demand. For example, SDG&E has removed the current HVAC CAV to VAV measure from its forecast. However, SDG&E will accept projects with this measure provided that the project/measure is cost-effective under the custom measure category.
5. Updated incentive levels to address changes, e.g., changes in measure savings, measure costs, etc. SDG&E will focus on improving reporting measure cost to improve the accuracy of the TRC. SDG&E will continue to investigate transitioning “custom/calculated” measures to “deemed” measures. Furthermore, SDG&E will incorporate Commission direction regarding determination of incentive levels and Pay for Performance options into the solicitation process.
6. Transitioning to focusing on addressing customer needs holistically by reducing what was originally referred to as “programs” through consolidation of programs, introduction of new program strategies, and closing of underperforming programs within each business sectors. SDG&E will begin tracking and reporting at the Business Sector and Subsector levels.
7. Increased focus on application of the Normalized Metered Energy Consumption (NMEC) verification methodology to improve reported savings.
8. Consideration of cost classification of Independent Evaluator costs from administrative costs to implementation cost.

## A. Residential Sector

### 1. Single Family Subsector

#### a. Home Upgrade Program (HUP)

SDG&E is streamlining this offering to improve HUP cost effectiveness. This includes discontinuing the Basic Home Upgrade path to eliminate offering duplicate measures. SDG&E will reclassify the Advanced Home Upgrade path from a resource to non-resource program. This will allow continued program offerings to customers while SDG&E investigates methods to improve reporting of measure cost. These efforts contribute to improving the portfolio cost effectiveness. SDG&E expects a more cost-effective solution through its upcoming solicitation for this sector. Program offering will continue through PY 2019 or until budget is exhausted. An Request for Abstract (RFA) for this market is scheduled for Q1 of 2019 with a new program launching expected by Q2 of 2020.

#### b. HVAC- Res Installation & Maintenance Program

The design for this strategy has been updated to include scaling up installation of existing measures and adding new measures (e.g. Smart Thermostats). To meet the new design, the budget was increased for this program with the goal of increasing cost-effectiveness.

#### c. Upstream Lighting

SDG&E has incorporated its Primary Lighting offering under its Single Family Subsector. The primary savings from this program comes for the residential sector and therefore it will be tracked and managed through this subsector. Although SDG&E continues to see cost effective savings benefits from these measures, it has reduced its offering over the last two years and is focused on specialty LED lighting measures to address increased market penetration of LEDs in today’s market. SDG&E program forecasted quantities have been reduced by approximately 20-30% from 2017 to 2018, and are forecasted to be additionally reduced by approximately 20% from 2018 to 2019. SDG&E is reducing is 2018 budget by approximately 60% for 2019. Program offering will focus on three LED measure types for 2019.

#### d. Support for Marketplace

SDG&E will continue to support its Marketplace through Energy Efficiency as directed by the Commission in Resolution E-4820 OP 1b:

b. Pacific Gas and Electric and San Diego Gas & Electric shall update the energy technology marketplaces on their websites to include all required measures listed in the draft Resolution that are relevant to Assembly Bill 793 by the Fourth Quarter of 2017. In addition, Southern California Edison and Southern California Gas shall create energy technology marketplaces on their websites that include Assembly Bill 793-relevant technologies by the Fourth Quarter of 2017.

### 2. Multi Family Subsector

SDG&E will consolidate its MFEER, MF -HOPPS, MF-EUC, and CMHP into one program offering to improve customer interfacing and gain cost efficiencies in program management. The 2018 combined budget for these four programs is approximately $10.6 million. The combined forecasted budget for 2019’s is approximately $4.6 million (47% reduction).

The current cost effectiveness is below a 1.0 TRC. Therefore, to improve cost effectiveness, SDG&E will explore custom calculated approach instead of using deemed savings. This will extend the HOPPs treatment that allows for savings determination using existing baseline while using the NMEC approach for verifying savings.

SDG&E will explore partnerships with its local water agencies to co-fund measures with water savings opportunities.

Program offering will continue through PY 2019 or until budget is exhausted. An RFA for this market is scheduled for Q2 of 2019 with a new program launching around Q3 of 2020.

## B. Commercial Sector

SDG&E has realigned its Commercial Sector forecast to remove Public Sector customers and savings opportunities (approximate 15% reduction) and transferring these customers to the Public Sector offerings.

SDG&E will continue to provide EE opportunities to its Commercial Port tenants in support of San Diego’s Port District AB628 requirements and as articulated in SDG&E’s application A.17-09-005.

In response to a recent Commission Staff Disposition regarding the current program tool, Energy Pro, used to estimate savings, SDG&E has adjusted its Commercial New Construction savings downward to reflect future adjustments for modelling updates.

### 1. Large Commercial Subsector

Program offerings for large commercial customers will continue as status quo for 2019. Per the solicitation schedule SDG&E anticipate signing a new third party contract at the end of 2019 with an implementer for this market.

### 2. Small Commercial Subsector

Lighting remains dominant end-use for this subsector, although lighting measures are experiencing reduced savings due to updates to lighting C&S. SDG&E is reintroducing certain measures (e.g., Network Power Management Software & Vending Machine Controllers) to improve portfolio cost effectiveness.

To address Commission direction regarding IDSM activities, SDG&E is adding $4 million to incorporate IDSM strategies per the decision with no immediate savings benefits, thus resulting in a TRC below 1.0 for this subsector.

Program offerings for small commercial customers will continue as status quo for 2019. Per the solicitation schedule we anticipate signing a contract at the end of 2019 with an implementer for this market and will start spending against this contract in 2020.

## C. Industrial Sector

SDG&E will continue to provide EE opportunities to its Industrial Port tenants in support of the San Diego’s Port District AB628 requirements and as articulated in SDG&E’s application A.17-09-005.

Program offerings for Industrial customers will continue as status quo for 2019. Per the solicitation schedule SDG&E anticipates signing a contract in the middle of 2021 with an implementer for this market.

## D. Agricultural Sector

The primary agriculture sector offering is currently a third party implemented program. The program utilizes concierge approach to help these customers through the entire EE process.

The current focus with this program is on specialty vegetative lighting, VFDs, HVAC controls and greenhouse siding measures to improve cost effectiveness. Program offerings for the customers will continue as the status quo for 2019, and possibly through 2020 to ensure customers in this sector continue to be served during the ramp down period. Per the solicitation schedule SDG&E anticipates signing a contract late 2020 with third party implementer for this market, and may start spending against that contract early in 2021.

## E. Public Sector

The Public Sector focuses services to the following subsectors: K-12, federal, state, local public agencies and local government partnerships. As stated in the Commercial Sector, the forecasted savings for this sector is based on previous performance when the public sector was classified under the commercial sector.

Program offerings for Public Sector customers will continue as status quo for 2019, including its current Local Government Partnerships. Per the solicitation schedule SDG&E anticipates signing a contract at the end of 2019 with an implementer for this market and will start spending against this contract in 2020.

SDG&E will also participate in the statewide procurement and deployment of the Energy Atlas as directed by D.18-05-041 OP 32.

32. As part of their local government and public sector implementation plans, the utility program administrators shall select among themselves a lead to oversee statewide deployment of the Energy Atlas and competitively solicit a third party to implement the deployment, maintain data quality, consistency and security, continue development of the Energy Atlas’ capabilities, and encourage and support local governments that choose to participate. Commission staff is authorized to oversee the procurement process and implementation of the Energy Atlas statewide deployment and ongoing management. The utility program administrators shall allocate up to $2 million to expand the Energy Atlas, and include annual Energy Atlas management and maintenance costs in their annual budget advice letters proportionally according to relevant energy efficiency program budgets.

### 1. Educational Institutions

Prop 39 is sunsetting, therefore momentum on EE upgrades may start slowing down for SDG&E’s K-12 and California Community Colleges.

### 2. Local Government Partnerships

Current LGPs are currently operating under their existing contracts. Although, SDG&E’s LGPs are non-resource partnerships, as the savings installed for these partners are tracked and reported through SDG&E’s deemed and custom programs. SDG&E expects that once the contracts expire, new contracts would follow the new LGP contracts with CPUC-approved standard and modifiable terms.

### 3. Federal Government:

The last few years have seen lower participation from the military bases since there are many vacancies at decision-making levels for project engagement and support. These same vacancy-impacts are also seen in other areas such the post offices and other federal agencies.

### 4. Tribal Nations:

Currently the Tribal Nations in SDG&E’s service territory have good participation levels in the areas of new construction and retrofits (upgrades, maintenance, etc.). SDG&E expects to see continued steady participation from these customers.

## F. Workforce Education & Training (WE&T)

SDG&E will continue to manage this program with non-SDG&E support such as collaborations with other organizations that support different aspects of WE&T.

SDG&E’s WE&T Integrated Energy Education and Training (formerly Centergies) has two subcomponents: Core Energy Education (CEE) and Technical Upskill. The CEE will increase reach through an improved process with formal collaboration with community colleges, trade schools, and educational institutions. On the other hand, Technical Upskill will deliver technical training, continuing education, and industry recognized certification to ensure a skilled workforce can implement quality energy savings projects.

## G. Financing Programs

### 1. On-Bill Financing (OBF):

OBF is a local program that will be coordinated to support the SW financing pilots under CAEFTA’s administration. SDG&E has reduced its non-incentive budget to allocate to other programs to improve portfolio cost-effectiveness. With the increase in third party implementation (solicitations), SDG&E will coordinate with third party implementers to continue to make OBF available to qualified program participants.

### 2. Statewide Financing Pilots

These Financing Pilots are still part of the 2013-2014 EE program cycle. These pilots are budgeted and tracked accordingly and therefore no 2019 budget allocation for these pilots are required at this time. These pilots will be promoted within SDG&E’s portfolio and with new third party implementers as applicable.

## H. Integrated Demand Side Management Programs

SDG&E’s IDSM programs funded through IDSM Demand Response and EE portfolio. SDG&E’s approved IDSM DR budget is $4.640 million. D.18-05-041 requires the following for IDSM efforts:

* For the residential sector, the energy efficiency and demand response integration efforts should be focused, initially, on HVAC technologies and facilitating automatic response to new time-varying rates, possibly involving customer education on the rates and thermostats. Each IOU shall budget a minimum of $1,000,000 annually from its IDSM budget, to test and deploy such strategies in the residential sector.
* For the non-residential sector, including small commercial customers, the energy efficiency and demand response integration efforts should be focused initially on HVAC and lighting controls. At least $20 million annually in IDSM funds shall be divided among the IOU PAs.
* Ensure participating customers are enrolled in a DR program.

These IDSM requirements will be incorporated within the respective sectors, Residential and Commercial, and will be included in the solicitations for these sectors. In 2019, SDG&E will incorporate these requirements within the current third party contracts. For example, commercial IDSM requirements will be incorporated into its Commercial Small Business subsector offering of Business Energy Savings (BES) program the required HVAC/EMS/Lighting Controls integration.

Residential customers will receive a combined instant rebate and demand response incentive at the time of purchase for qualifying smart thermostats. In partnership with device manufacturers, SDG&E will offer the IDSM-rebate for preconfigured smart thermostats with time of use rate optimization algorithms and opted into SDG&E’s energy efficiency and demand response programs. SDG&E outreach teams will educate customers on optimized smart thermostats, demand response programs, time-of-use rates, and energy-efficiency benefits.

Integrated energy efficiency and demand response outreach and education activities funded by IDSM and supported by SDG&E’s local Outreach teams will continue in 2019 such as community events, trade shows, and energy solutions partnerships with local community organizations. In addition to these activities, outreach and education will also be provided in support of the Commission requirements for IDSM noted in the 2019 Program Changes section of this document, along with the residential IDSM-TOU optimization discussed below.

SDG&E will also continue its IDSM residential behavior program and Nonresidential audit programs that identify both EE and DR opportunities.

## I. SDG&E Status of Statewide Programs

Most solicitations for SW programs will begin in 2019 and are not expected to be in implementation phase until 2020. SDG&E SW program budgets are forecasted to match current expected levels of performance prior to outsourcing to the SW programs.

## J. 2019 Program Closures

On September 1, 2017, SDG&E filed Advice Letter 3111-E/2607-G putting forth its 2018 EE Program and Portfolio Budget Request. Subsequently, on November 1, 2017, at the request of the Commission’s Energy Division, SDG&E filed Advice Letter 3111-E-A/2607-G-A to supplement its 2018 EE Program and Portfolio Budget Request. As part of its filing, specifically Table 6, SDG&E described its 2018 program changes including program closures. On May 31, 2018, the Commission adopted D.18-05-041which rejected SDG&E’s 2018 annual budget advice letter. As a result, SDG&E is requesting approval to close the following EE programs as outlined in Table 6 of Advice Letter 3111-E-A/2607-G-A. In anticipation of these closing, these programs did not have budget allocations for 2018 and there has been no new activity since January 2018.

### 1. Statewide Workforce, Education & Training (WE&T) – Strategic Planning (SDGE 3267)

SDG&E proposed to close the WE&T Strategic Planning and Implementation Subprogram because the current statewide framework for planning, coordinating and implementing WE&T activities and recommendations to meet the WE&T goals in the state’s Strategic Plan are misaligned with future program plans.

### 2. Residential Heating, Ventilation, Air Conditioning (HVAC) Code Compliance Incentive (SDGE 3303):

The Residential HVAC Code Compliance program was designed to increase the number of permits filed for new residential HVAC installations. The program experienced extremely low customer participation in 2015, 2016, and 2017. Additionally, the recent impact evaluation (Final Report: 2014-16 HVAC Permit and Code Compliance Market Assessment Volume 1, Appendix D, June 26, 2017), has not shown statistically significant differences in energy performance between permitted and non-permitted residential HVAC installations. SDG&E expects that future needs in this area will be addressed in the upcoming Statewide HVAC program.

### 3. Mid‐Market Dynamic Energy Efficiency Program (SDGE 3323):

The Mid-Market Dynamic Energy Efficiency Program design and proposed savings were a result of a proposal from IDEEA 365, Round 4 in 2016. The vendor and SDG&E anticipated that 70% of the program’s savings would come from a key measure, the Rooftop Unit Fan Variable Frequency Drive. As SDG&E and the vendor worked together for several months to update the proposed work paper to adapt it to SDG&E’s service territory and to update the savings calculations, it was determined that the work paper could not be adapted without considerable expense. Because the remaining measures would not generate sustainable savings for the program or support the vendor’s costs to run the program, it was mutually agreed upon by the vendor and SDG&E that the program should not be implemented.

### 4. Locational Energy Efficiency (LEE) Program (SDGE 3313):

This program was concluded with the completion of the LEE final report that was made available to the R.13-11-005, R.13-09-011, and R.14-10-003 proceeding stakeholders on October 11, 2017. SDG&E intends to incorporate lessons learned from this program to future strategies as noted in SDG&E’s EE Business Plan in coordination with other relevant activities in R.13-09-011 and R.14-10-003. Therefore, SDG&E formally requests to remove the LEE Program from the Residential Energy Efficiency Portfolio.

# 2017 Metrics Results

SDG&E submitted its final metrics and targets on August 6, 2018. SDG&E provides the 2017 metric results in Appendix B.

**EFFECTIVE DATE**

SDG&E believes this filing is subject to Energy Division disposition and should be classified as Tier 2 (effective after staff approval) pursuant to GO 96-B and D.15-10-028 OP4. SDG&E respectfully requests that this filing become effective on January 1, 2019, which is more than 30 days from the date filed.

In the event that this advice letter is not approved in time for January 1, 2019 implementation, D.15-10-028 OP 5 provides for 2018 program continuation until such time as the advice letter is approved.

**PROTEST**

Anyone may protest this Advice Letter to the California Public Utilities Commission. The protest must state the grounds upon which it is based, including such items as financial and service impact, and should be submitted expeditiously. The protest must be made in writing and must be received no later than September 25, 2018 which is 20 days of the date this Advice Letter was filed with the Commission. There is no restriction on who may file a protest. The address for mailing or delivering a protest to the Commission is:

CPUC Energy Division

Attention: Tariff Unit

505 Van Ness Avenue

San Francisco, CA 94102

Copies of the protest should also be sent via e-mail to the attention of the Energy Division at EDTariffUnit@cpuc.ca.gov. A copy of the protest should also be sent via both e-mail and facsimile to the address shown below on the same date it is mailed or delivered to the Commission.

Attn: Megan Caulson

Regulatory Tariff Manager

E-mail: mcaulson@semprautilities.com

**NOTICE**

A copy of this filing has been served on the utilities and interested parties shown on the attached list, including interested parties in A.17-01-014 and R.13-11-005, by providing them a copy hereof either electronically or via the U.S. mail, properly stamped and addressed. Address changes should be directed to the emails or facsimile numbers above.

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 CLAY FABER

 Director – California & Federal Regulatory

1. CEDARS is available at <https://cedars.sound-data.com/>. [↑](#footnote-ref-2)
2. D.18-05-041, p. 71. [↑](#footnote-ref-3)
3. *Id*., p..135-137. [↑](#footnote-ref-4)
4. Id., p. 133. [↑](#footnote-ref-5)
5. Id., pp. 128-129. [↑](#footnote-ref-6)
6. The appendix is available at <https://cedars.sound-data.com/>. [↑](#footnote-ref-7)