PUBLIC UTILITIES COMMISSION
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December 20, 2019

Erik Jacobson
Director, Regulatory Relations
c/o Megan Lawson
Pacific Gas and Electric Company
77 Beale Street, Mail Code B13U
P.O. Box 770000
San Francisco, CA 94177

Dear Mr. Jacobson:

Energy Division rejects Pacific Gas and Electric Company's (PG&E) Annual Budget Advice Letter 4136-G/5627-E and 4136-G-A/5627-E-A, 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. Specifically, PG&E has failed to submit a cost-effective 2020 portfolio of energy efficiency (EE) programs. Additionally, D. 19-08-034 adopted new energy efficiency goals for 2020-2030, and granted California Public Utilities Commission (CPUC) staff the authority to approve annual budgets for energy efficiency program administrators (PA) which are aligned with the new energy savings goals even in the event that a PA's ABAL is rejected. Accordingly, PG&E's spending budget request of $237,738,257 to administer energy efficiency programs for 2020 is approved, effective January 1, 2020.[1] As proposed by the utility, this budget is better aligned with the energy savings goals adopted in D.19-08-034 than the previously authorized, and otherwise default, 2019 authorized budget.

Regarding the amount PG&E 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 PG&E's budget recovery requests on behalf of San Francisco Bay Area REN (BayREN), Tri-County REN (3C-REN), and Marin Clean Energy (MCE) CCA, and the budget recovery amounts approved for these PAs in 2020. These discrepancies are due to updates made to budget recovery amounts by the RENs and CCAs 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, PG&E shall file a Tier 1 Compliance filing in which the recovery budgets on behalf of BayREN, 3C-REN, and MCE align with their approved recovery budgets.

1. Background

On September 3, 2019, PG&E filed its Annual Budget Advice Letter (ABAL) 4136-G/5627-E. On September 23, 2019, the Public Advocates Office at the California Public Utilities Commission (Cal

[1] PG&E's total proposed spending budget for 2020 is $237,738,257, less unspent and uncommitted funds from prior years of $13,324,000, resulting in an approved budget recovery of $224,414,257 for PG&E's EE program administration.

Advocates) filed its protest of PG&E's ABAL 4136-G/5627-E. On September 30, 2019, PG&E filed its response to Cal Advocates' protest of ABAL 4136-G/5627-E. On November 15, 2019, PG&E filed its supplemental 4136-G-A/5627-E-A.

2. Cal Advocates Protest and PG&E Reply Comments

Cal Advocates' protest included 16 "*recommendations*" for the CPUC regarding all the energy efficiency PAs' 2020 ABALs. These recommendations include an overarching theme that the entire statewide energy efficiency portfolio, including the portfolio of RENs, should be cost-effective. Of these 16 recommendations, the 9 recommendations relevant to PG&E 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."[2] Cal Advocates also argues that prior CPUC Decisions, including D. 09-09-047[3], D. 12-11-015[4], and D. 14-10-046[5], 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.[6]

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.[7] Instead, Cal Advocates recommends that the CPUC should require all energy efficiency PAs to collectively submit revised supplemental 2020 ABALs that "constitute a cost-effective statewide portfolio."[8]

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[2] 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").
[3] D. 09-09-047 approved 2010 to 2012 Energy Efficiency Portfolios and Budgets.
[4] D. 12-11-015 approved 2013-2014 Energy Efficiency Programs and Budgets.
[5] D. 14-10-046 Established EE Savings Goals and Approved 2015 EE Programs and Budgets.
[6] See Cal Advocates Protest, p. 4.
[7] 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/ .
[8] See Cal Advocates Protest, p. 46.

In its reply, PG&E does not specifically address the full breadth of Cal Advocates' argument that the entire energy efficiency should be cost-effective and PAs should file supplemental 2020 ABALs that constitute a cost-effective statewide portfolio.[9] However, PG&E does assert that its 2020 portfolio is cost-effective if savings from Codes and Standards are included.

Discussion

The CPUC is rejecting PG&E's 2020 ABAL on the grounds that it did not meet the ABAL review criteria laid out in D. 18-05-041. To summarize, D. 18-05-041 states that a PA's ABAL must meet energy savings goals, be cost-effective and propose a budget that is at or under the authorized amount for the program year.

PG&E's 2020 ABAL, as filed, forecasts a benefit/cost ratio, as measured by the Total Resource Cost (TRC) test, that is not cost-effective. Specifically, PG&E's 2020 ABAL has a TRC of 0.71 (excluding savings from Codes and Standards programs)[10] which is below the 1.0 TRC threshold set by D. 18-05-041. Because PG&E's ABAL filing does not meet one of the specific criteria identified in D. 18-05-041 for staff to consider when reviewing the ABAL, the ABAL is rejected.

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 D. 12-11-015, 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 Commission 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.

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 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

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[9] See *PG&E's Reply to Protest of from the Public Advocates Office regarding Advice Letter 4136-G/5627-E (PG&E's 2020 Energy Efficiency Annual Budget Advice Letter in Compliance with Decisions 15-10-028 and D. 18-05-041)*, p. 3-4 (hereafter referred to as "PG&E Reply").

[10] 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. Consequently, the CPUC rejects PG&E's argument that its portfolio is cost-effective with the inclusion of savings from Codes and Standards programs. PG&E's initial portfolio TRC, as filed on September 3, 2019, was 0.75; in its supplemental ABAL, filed November 15, 2019, adjustments to certain inputs resulted in a TRC value revised to 0.71.

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.[11]

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.[12]

The CPUC has acknowledged the 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 rejects PG&E'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. Issues related to filing a new business plan

This section addresses the following recommendations from Cal Advocates:

- *The Commission must reject PG&E's and SCE's ABALs because they do not meet the criteria for approval*
- *The Commission should direct PG&E to file a new business plan application by December 30, 2019*
- *The Commission should issue a non-standard disposition or resolution that provides interim guidance to PG&E and SCE*

As stated above, in D. 18-05-041, the CPUC established the criteria by which PA ABALs would be reviewed. In order to be approved, a PA must file an ABAL for a portfolio that:

[11] See. D. 18-05-041, p. 71.

[12] 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).

- is cost-effective;
- achieves energy savings goals; and
- is within an authorized budget-cap.

The failure to meet any one or all of these criteria requires the CPUC to reject an ABAL and also constitutes a "trigger" event, which requires the PA to file a revised business plan. In its protest, Cal Advocates argued that the CPUC must reject PG&E's 2020 ABAL, should direct PG&E to file a revised business plan application by the end of 2019 and should provide interim guidance relative to that application.

In its reply, PG&E acknowledges that its 2020 portfolio is not cost-effective and clearly states its intent to file a revised business plan, per D. 18-05-041. However, it disagrees with Cal Advocates' argument that PG&E can and should file a revised business plan by the end of 2019. PG&E argues that it should only file a revised business plan approximately six months after the completion of the third-party solicitation process. In doing so, PG&E states that it would thus be able to file a revised business plan that encompasses a complete portfolio, based on factual evidence that supports an achievable and credible forecast, and allows PG&E to avoid submitting a revised business plan forecast dependent on placeholders for future third-party programs.[13]

Discussion

In its response to Cal Advocates' protest, PG&E notes the impracticality of filing a business plan application before the close of 2019. PG&E argues that much if not all of what it will include in a revised business plan application is entirely dependent on the third-party solicitation process, which for PG&E will not conclude until the end of 2019.[14] While the CPUC understands the uncertainties attendant to PG&E's current third-party solicitation process, that cannot excuse the need for PG&E to file a revised business plan in a timely fashion and based on the best available information.

Consequently, while the CPUC rejects Cal Advocates' request that PG&E file a revised business plan by the end of 2019, PG&E will have to file a revised business plan by September 1, 2020, coincident with its ABAL filing for 2021 and subsequent to the annual update to avoided costs that occurs in July.

The intent is for the revised business plan and the 2021 ABAL to use the same inputs for 2021 forecasts and beyond, rather than have a revised business plan submitted prior to the avoided costs update, which would result in forecasts for the same year(s) relying on different inputs, thus resulting in different and incomparable outputs. However, while the filed ABAL should align with the revised business plan in terms of 2020 updated inputs, it may not rely on any policy changes proposed for consideration in the revised business plan itself and must instead be developed based on current energy efficiency policy as of September 1, 2020.

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[13] See *PG&E's Reply to Protest of from the Public Advocates Office regarding Advice Letter 4136-G/5627-E (PG&E's 2020 Energy Efficiency Annual Budget Advice Letter in Compliance with Decisions 15-10-028 and D. 18-05-041)*, p. 3-4 (hereafter "PG&E Reply").
[14] See PG&E Reply, p. 2-3.

Furthermore, the CPUC recognizes PG&E as a PA and manager of its respective portfolio. While Cal Advocates argues that the CPUC should provide guidance to PG&E on the content of its business plan, the CPUC recognizes PG&E as the entity best suited to determine which aspects of its existing business plan will need to be revised in order to file a revised business plan application, in light of both the current inability to meet cost-effectiveness and the uncertainties attendant to the current third-party solicitation process. D. 15-10-028 exposits at length about the substance of the PA business plans; PG&E can and should review that decision, as well as its current portfolio, along with D.16.08-019, which provided guidance on initial business plan filings, and determine which aspects of its business plan require updates. Consequently, Energy Division rejects the Public Advocates' protest request that the CPUC provide guidance to PG&E regarding its business plan application; PG&E is responsible for developing the content of what it shall file with the CPUC consistent with existing CPUC guidance.

Finally, in the near term, PG&E must also host a stakeholder workshop, as D. 18-05-041 states that if "a PA's ABAL submitted for program year 2019 (September 4, 2018) through program year 2022 (September 1, 2021) fails the ABAL review criteria, then staff will reject that PA's ABAL and direct the PA to hold a workshop to explain why it failed to meet the approval criteria." At that workshop, PG&E shall share its budget development process with stakeholders, including how it determines which programs receive specific funding amounts, portfolio cost-effectiveness targets, and why programs with high TRC values did not receive additional budget to drive cost-effective savings.

2.3. Issues regarding low-performing programs

This section addresses the following recommendation from Cal Advocates:

- *The Commission should require SCE and PG&E to cut low-performing programs while still achieving their goals*

In its protest, Cal Advocates argues that the CPUC should require PG&E, even as the CPUC rejects PG&E's ABAL filed on September 3, 2019, to file a supplemental advice letter that would reflect additional budgets cuts tied to "low-performing" programs and consequently forecast a 2020 portfolio with an improved cost-effectiveness.[15] Cal Advocates asserts that even as PG&E fails to meet the cost-effectiveness threshold, it appears to include many resource programs that have high costs and low benefits and, consequently, are a drag on portfolio performance while contributing little to nothing to achieving energy savings goals.[16] Cal Advocates goes so far as to identify which programs PG&E should cut along with the attendant budget savings of approximately $38.5 million and improved net benefits to the portfolio of approximately $30 million, all while still meeting energy savings goals.[17] Cal Advocates further posits that PG&E should come as close to being cost-effective as possible, even if an ABAL supplement reflecting these proposed additional cuts is still rejected. Cal Advocates predicates its request on the larger argument, based on D. 12-11-015,

[15] See Cal Advocates Protest, p. 3-5.
[16] See Cal Advocates Protest, p. 49-50.
[17] See Cal Advocates Protest, p. 49-50, and Appendix A. Cal Advocates argues that PG&E should cut programs with a TRC below 0.57, with two exceptions. Cal Advocates estimates that the entire statewide portfolio, with a TRC of 0.89, has net negative benefits of $84.9 million. Cal Advocates estimates each PA's share of the net benefits by multiplying their respective budgets, absent Codes and Standards, by their respective share(s) of statewide spending. Thus, PG&E's budget of $202 million, multiplied by its share of the total statewide budget (36 percent), results in the need to improve net benefits by $30 million.

D. 14-10-046, and D. 18-05-041, that the entire statewide EE portfolio must be cost-effective in order to be approved by the CPUC.

In its reply, PG&E argues that Cal Advocates' request for PG&E to cut programs with low cost-effectiveness is untenable. PG&E asserts that, in its recognized role as PA and portfolio manager, it has maximized to the fullest extent possible, while continuing to meet energy savings goals and positioning its portfolio for the future, the budget cuts and program closures necessary to improve cost-effectiveness.[18] PG&E does acknowledge the need for further program cuts, but neglects to make those cuts at this time, arguing that those programs exist in 2020 in order to meet outstanding customer commitments. Additionally, PG&E states that decisions regarding program cuts and closures are better made through a portfolio balancing process that will occur in 2020 and coincide with the increased role of third-party programs.[19]

Lastly, PG&E provides context for the programs Cal Advocates targeted for closure in its protest. PG&E notes that more than half ($15.8 million) of the projected net benefits are attributable to placeholders for as-yet unidentified third-party and statewide programs expected to launch in 2020. PG&E states that it cannot eliminate these programs to save money and improve short-term cost-effectiveness while also meeting the requirements for greater third-party administration, as laid out in D. 16-08-019 and D. 18-01-004.[20]

Discussion

Although PG&E's portfolio is not cost-effective, its 2020 energy efficiency budget of approximately $238 million is 37 percent lower than the $347 million authorized for 2020 in D. 18-05-041. This budget cut reflects a similar, though not exact, cut in PG&E's energy efficiency savings goals for 2020 (from 2019), which were lowered by 40 percent and 37 percent for electric and gas energy savings respectively.

As stated previously, the CPUC recognizes PG&E as a program administrator and manager of its respective portfolio. While Cal Advocates argues that the CPUC should require PG&E to make additional program and budget cuts in order to improve cost-effectiveness, it does so based on the assumption that PG&E has not previously considered the myriad ways to improve portfolio cost-effectiveness, perhaps including those proposed by Cal Advocates, before filing its 2020 ABAL. In light of the uncertainty around these proposed cuts from Cal Advocates, as well as the third-party requirements PG&E is bound to for 2020 and beyond, it is unclear which combination of additional cuts PG&E would undertake to improve cost-effectiveness and what actual "improved" TRC value would meet Cal Advocates' expectations. As noted previously, PG&E shall share its budget development process with stakeholders in a workshop, including how it determines which programs receive specific funding amounts, portfolio cost-effectiveness targets, and why programs with high TRC values may not receive additional budget to drive cost-effective savings. Consequently, the CPUC rejects PG&E's 2020 ABAL as well as Cal Advocates' request for PG&E to make additional program and budget cuts to improve cost-effectiveness. In the event PG&E decides to close

18 See PG&E Reply, p. 5-6: PG&E has "already made significant budget and overhead reductions in both 2019 and 2020 in an attempt to be as cost-effective as possible while still positioning the portfolio to be cost-effective in the future."
19 Ibid.
20 Ibid.

additional programs for program year 2021, it will notify the CPUC of these decisions in the ABAL PG&E files for 2021, per D. 15-10-028.[21]

2.4. Issues regarding the Energy Savings Performance Incentive

This section addresses the following recommendations from Cal Advocate:

- *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 outside the scope of the specific 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 Peter Franzese (peter.franzese@cpuc.ca.gov).

Sincerely,

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

Cc: Service Lists R. 13-11-005 and A.17-01-013
Pete Skala, Energy Division
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[21] In D. 15-10-028, the Commission contemplated a Joint Parties request that portfolio changes, including fund shifting, be included in the PAs' Annual Reports. However, the Commission decided instead stated that a PA will notify the Commission of any portfolio changes, including fund shifting, "via the same advice letter that contains the PA's budget". See D. 15-10-028, p. 60.
[22] See Cal Advocates Protest, p. 52.
[23] Ibid.

Peter Franzese, Energy Division
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