BEFORE THE PUBLIC UTILITIES COMMISSION OF

THE STATE OF CALIFORNIA

Order Instituting Rulemaking Concerning Energy Efficiency Rolling Portfolios, Policies, Programs, Evaluation, and Related Issues.	Rulemaking 13-11-005 (Filed November 14, 2013)

COMMENTS OF THE NORTHWEST ENERGY EFFICIENCY ALLIANCE ON ADMINISTRATIVE LAW JUDGE'S RULING SEEKING COMMENT ON MARKET TRANSFORMATION WORKING GROUP REPORT

Comments to CPUC on Market Transformation Working Group Proposal

Specific Questions from the CPUC

1. Please comment on the overall energy efficiency market transformation framework suggested in Attachment A and other consensus recommendations in the report. Should the Commission adopt this framework? Why or why not?

NEEA commends the CAEECC and the CPUC for a comprehensive proposal that addresses many of the issues left unresolved in the prior staff proposal. NEEA believes that the broad scope that includes emerging technologies as well as codes and standards is more aligned with the long-term nature of market transformation efforts. Having this broad scope allows market transformation initiatives to bring forward new emerging technologies as well as later-stage opportunities that target changes in codes and standards, all of which will be important in pursuit of the goals set out in SB 350.

NEEA also believes that the CAEECC proposal provides a thoughtful process that follows what we believe to be best practices in market transformation. The stage-gate process outlined in the proposal along with more definition of process related to entering and progressing through the process are similar to those used by NEEA. We believe this process and related components have been important elements for the success of market transformation in the Northwest.

2. What concerns, if any, do you have about the market transformation framework as proposed in the MTWG report? What aspects would you modify? What aspects would you keep?

NEEA believes that the proposal is sound as submitted, acknowledging that there are still significant issues to be resolved as indicated in the questions posed by the Administrative Law Judge.

3. Comment specifically on your preferred resolution of the first non-consensus issue identified in Attachment A (see pages 24-31) with respect to the appropriate choice for Market Transformation Administrator. Parties may also propose other alternatives, if there are administrative models that were not discussed in the report, but should be considered.

NEEA has no comment on this question.

4. Comment specifically on your preferred resolution of the second non-consensus issue identified in Attachment A (see pages 36-38) with respect to the cost-effectiveness threshold that should be required for market transformation initiatives? Parties may also propose other alternatives.

As noted in the proposal, cost-effectiveness assessment of market transformation initiatives (MTIs) is different in many dimensions from the methods traditionally used for resource acquisition (RA) programs. Factors such as the differential timing of costs and benefits, inclusion of non-energy benefits and use of a natural market baseline for counter-factual adjustments are just a few. In addition, most resource acquisition programs are not directly connected to codes and standards or emerging technology and do not include costs and benefits from these efforts even though they may be critical components helping to achieve full potential of the efficiency opportunity.

In our own work, NEEA has historically used cost-effectiveness as a threshold screening tool for entry into our portfolio of MTIs. In our experience, implementing these initiatives is a complex effort that carries risks that are best addressed through a portfolio approach. Accordingly, we manage the portfolio of MTIs towards an overall target of cost-effectiveness. Any individual initiative may be dropped from the portfolio and new ones added based on a variety of criteria, which includes, but is not limited, to cost-effectiveness. Once this threshold is cleared, the decision to enter the portfolio is made on other attributes of the MTI that are probably more significant, such as compelling market logic, value delivery to an underserved market or energy savings potential.

At the portfolio level, NEEA manages the group of MTI's and associated infrastructure costs to a target that ensures that the sum of benefits delivered by the portfolio exceed the costs of the portfolio by some margin. The margin is set based on goals that consider many factors including the maturity of the MTI's in the portfolio, risk levels of initiatives, and timing of savings delivery.

Given the differences between RA programs and MTIs, NEEA would recommend that the MTIs be managed as a separate portfolio of programs and not be combined or governed by cost-effectiveness criteria designed for managing individual RA programs. Instead, we recommend that a separate threshold be set for screening of MTIs for entry into the portfolio at Phase III; and that threshold be set in consideration of the risks and uncertainties associated uniquely with MTI programs.

In short, we would agree with the recommendation on the bottom of page A-46 to implement a portfolio level threshold and make it an integral part of the proposal at the start rather than waiting for a later determination.

5. To what extent can current cost-effectiveness tools and methods fully evaluate market transformation initiatives that would result in codes and/or standards? If current methods are insufficient, please comment on the two options outlined on page 35 of Attachment A and include any other recommendations on this topic.

Options for Codes and Standards inclusion in Cost-effectiveness Assessment.
NEEA's cost-effectiveness framework for market transformation includes a comprehensive, present-value based calculation of all societal costs and benefits over the entire life-cycle of an efficiency opportunity, from emerging technology through codes and standards (C&S). We believe that this framework is analytically the best practice given the long-term nature of MTIs; especially those that are directly targeting a change in C&S as the end-point of the intervention. In our framework, the savings for C&S post-adoption is credited to the MTI for a limited duration with an adjustment for attribution for the MTI's influence. In the case of standards, the natural market

baseline is also assumed to continue to increase over time to eventually reach the full rate of adoption occurring with the standard in effect.

From our perspective, we believe that Option A, with the combined costs and benefits from both pre- and post-C&S activities would constitute a best practice approach. We are unclear on the benefits of splitting these apart as suggested as part of Option A and are concerned that the parsing out could possibly discourage or delay transition of the MTI to C&S as early as possible. On the contrary, we believe that combining pre- and post- C&S costs and benefits encourages MTIs to include strategies that target C&S and accelerate the quickest possible transition to C&S; increasing the realization of full energy savings potential within a shorter timeframe. We also believe that there are existing best practices to deal with attribution for post-C&S adoption and should not present a barrier for using a combined approach in Option A.

We believe that Option B is possible in theory, but that in practice it would be difficult and potentially contentious without any real benefit over Option A with combined benefits and costs. This is especially true if the MTIs are managed as a separate portfolio from RA programs, as mentioned earlier.

Other Cost-effectiveness Considerations: Treatment of Non-Energy Benefits.
NEEA's framework uses a total societal cost perspective that is somewhat different from the California approach as it includes a robust consideration of directly attributable and quantifiable non-energy benefits. A common MTI intervention strategy is to bundle efficiency with other product features that are highly valued by consumers who would not be that motivated to purchase based on efficiency alone. These non-energy related features deliver value to the end customer that may come in a variety of non-energy forms; e.g. water savings from more efficient clothes washers. Unfortunately, the bundling of both efficiency and non-efficiency features into a single product makes it difficult to parse out the incremental costs associated with the efficiency compared to a baseline efficient product. In these circumstances, the best we can do is to represent all incremental costs and all incremental benefits, including non-energy related costs and benefits, in an aggregated benefit-cost analysis. Without full consideration of non-energy benefits, some efficiency measures with large non-energy benefits would not be considered cost-effective. ironically, these same measures would be excellent candidates for MTIs because of the market opportunities embodied in those non-energy benefits.

6. Should a budget allocation to market transformation be incremental to the rolling portfolio budgets, or should a portion of the energy efficiency rolling portfolio budgets be redirected to market transformation? Why?

NEEA has no comment on this question.

7. How much should the initial funding allocation be for market transformation, and for what duration?

NEEA has no comment on this question.

8. **How should the coordination between resource programs and market transformation initiatives be managed?**

a. Would a cooperation agreement between market transformation initiatives and resource programs be useful?

b. What should be the required and modifiable terms of such an agreement?

NEEA has experience coordinating market transformation initiatives (MTIs) with resource acquisition (RA) programs implemented by utilities in our region. Most of this coordination happens without a formal agreement. In our experience, market adoption can be significantly accelerated when the MTI and RA programs are highly coordinated. Conversely, uncoordinated efforts can confuse market actors and delay or slow market progress. Given the rapid change that occurs within markets, we would recommend that any formal agreements allow for adaptive program management in response to these changes.

9. Once a market transformation initiative is approved, what should be the process for updating or amending key terms (e.g., metrics, milestones, targets, schedules, and savings methodologies) during implementation?

In our own practice, we conduct an annual review that is supported by a number of data sources including market progress evaluation reports, data collected through the program, and supplemental market research as needed. These inputs and the maturity of the MTI are then considered in the review process to determine a variety of possible changes to the MTI. Potential changes could include modifying some components, rethinking fundamental logic, transitioning to long-term monitoring, or stopping altogether. These choices are all subject to - and somewhat determined by - the dynamics at play in each market.

10. If a market transformation initiative, once approved, begins to perform poorly:

a. How will the Commission become aware there is a problem?

b. What should the process be to determine if a market transformation initiative with questionable performance should be amended or terminated?

For NEEA, our current best practice is grounded in the structured logic model, corresponding market progress indicators (MPIs) and frequent market progress evaluation reporting (MPER) for each MTI. The MPERs are conducted by third-party independent evaluators and are posted on the NEEA website available to the public. The MPERs and any recommendations are also shared with NEEA stakeholder advisory committees that include regulatory commission staff. Changes that are made in response to these recommendations are developed by NEEA staff but then vetted with the advisory committees if they rise to the level of substantive change to the program. When an MTI is recommended for termination, that decision is reviewed with advisory committees and shared with NEEA's Board of Directors.

While NEEA's experience is shaped by our own needs and processes, we believe that the fundamental elements are instructive and relevant to the CAEECC proposal. We believe that the NEEA process could be adapted for use within the CAEECC proposal. But the key elements, including the foundational market transformation logic, MPIs and periodic MPERs are all necessary elements to ensure that any process is effective in flagging potential problems

11. The MTWG report references "financial commitments to the target market(s)" (see page 17) and a market transformation plan that "solidifies a commitment to the market and relevant actors" (page 18). What kinds of commitments should a market transformation initiative make to the market(s) and market actors? What kinds of commitments are not appropriate, if any?

In our experience, a stable, long-term commitment to a market is crucial to the ability to effectively engage with market actors and effect real change. The duration of that commitment is a function of the market conditions that determine the need. In our experience, the minimum time commitment would be three years and the optimal would be five or more. These time frames allow for establishment of a working relationships with individual market actors or associations, specific actions and engagements, implementation of those actions and then an opportunity to assess the success of those engagements, and adjustments as needed based on actual market response.

12. Are there other issues not addressed in Attachment A that the Commission should consider as part of its decision establishing a framework for energy efficiency market transformation?

NEEA has no comment on this question.

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Respectfully submitted,

By: *____/s/ Jeff Harris____*

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