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

December 20, 2019

Gary A. Stern, Ph.D.
Managing Director, State Regulatory Operations
Southern California Edison Company
8631 Rush Street
Rosemead, California 91770

Dear Mr. Stern:

Energy Division rejects Southern California Edison's (SCE) Annual Budget Advice Letter 4068-E and 4068-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, SCE 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, SCE's spending budget request of $147,395,384 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 SCE 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 SCE's budget recovery requests on behalf of Southern California REN (SoCalREN), Tri-County REN (3C-REN), and Lancaster 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 IOUs filed ABALs, as well as differences in how Investor Owned Utilities (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, SCE shall file a Tier 1 Compliance filing in which the recovery budgets on behalf of SoCalREN, 3C-REN, and Lancaster CCA align with their approved recovery budgets.

1. Background

On September 3, 2019, SCE filed its Annual Budget Advice Letter (ABAL) 4068-E. On September 23, 2019, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) filed its protest of SCE's ABAL 4068-E. On September 30, 2019, SCE filed its response to Cal Advocates' protest of ABAL 4068-E. On November 19, 2019, SCE filed its supplemental 4068-E-A.

---

[1] SCE's total proposed spending budget for 2020 is $147,395,384, less unspent and uncommitted funds from prior years of $118,726,484 resulting in an approved budget recovery of $28,668,900 for SCE's EE program administration.

2. Cal Advocates Protest and SCE Reply Comments

Cal Advocates' protest included 16 "*recommendations*" for the CPUC regarding all the energy efficiency PAs' 2020 ABALs, with an overarching theme of the need for the entire statewide energy efficiency portfolio, including the portfolio of RENs, to be cost-effective. Of these 16 recommendations, the 10 recommendations relevant to SCE are addressed below in 5 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 should require each PA to improve the net benefits of its portfolio*
- *The Commission must adopt remedies to improve the cost-effectiveness of all PAs' EE portfolios*

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]

In its reply, SCE argues that Cal-Advocates' position on the PA's statewide cost-effectiveness "diverges" from CPUC precedent. Evaluating cost-effectiveness on a statewide portfolio basis would require collaboration from all PAs, which raises legal and logistical issues. Furthermore, SCE argues that requiring cost-effectiveness on a statewide basis would require "resolution of several

[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, BayREN, SoCalREN, 3CREN, and Marin Clean Energy, but excluding budgets and savings from ESA programs and Codes and Standards, has a TRC of .89. Portfolio cost-effectiveness information available at https://cedars.sound-data.com/filings/list/.
[8] See Cal Advocates Protest, p. 46.

questions." These questions relate to policy and technical changes that "cannot be resolved in the disposition of SCE's ABAL."[9]

Discussion

The CPUC is rejecting SCE'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.

SCE'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, SCE's 2020 ABAL has a TRC of 0.76 (excluding Codes and Standards), which is below the 1.0 TRC threshold set by D.18-05-041. Because SCE'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 the 2012 decision cited by Cal Advocates, provided very clear and limited criteria under which Energy Division staff should review a PA's ABAL. 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.

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 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.[10]

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

[9] See *Reply of Southern California Edison Company to the Protest of the Public Advocates Office to Advice Letter 4068-E*, September 30, 2019, p. 5. (hereafter referred to as "SCE Reply")
[10] See. D.18-05-041, p. 71.

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.[11]

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 rejects SCE'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 SCE 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:

- 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 SCE's 2020 ABAL, should direct SCE to file a revised

[11] 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).

business plan application by the end of 2019, and should provide interim guidance relative to that application.

In its reply, SCE argues that filing a business plan by the end of 2019 would be "counterproductive." SCE acknowledges that its 2020 portfolio is not cost-effective and clearly states its intent to file a revised business plan, per D.18-05-41. However, it disagrees with Cal Advocates' argument that SCE can and should file a revised business plan by the end of 2019. SCE argues that it should only file a revised business plan not less than one year prior to the end of funding, which under the current authorized funding period would be December 31, 2024. Further arguing that requiring a business plan in three months is not enough time to draft the plan, SCE proposes that the PAs must work with CPUC staff and stakeholders holding workshops before an application can be filed. SCE argues that a new plan would be more accurate after SCE has a better "understanding of new third-party proposed programs."[12]

Discussion

While the CPUC understands the uncertainties attendant to SCE's current third-party solicitation process, that cannot excuse the need for SCE 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 SCE file a revised business plan by the end of 2019, SCE 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 a 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.

Furthermore, the CPUC recognizes SCE as a PA and manager of its respective portfolio. While Cal Advocates argues that the CPUC should provide guidance to SCE on the content of its business plan, the CPUC recognizes SCE 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; SCE 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 Cal Advocates' protest request that the CPUC provide guidance to SCE regarding its business plan application; SCE is responsible for developing the content of what it shall file with the CPUC consistent with existing CPUC guidance.

---

[12] See SCE Reply p. 3.

Finally, in the near term, SCE 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, SCE 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 SCE, even as the CPUC rejects SCE'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.[13] Cal Advocates asserts that even as SCE 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.[14] Cal Advocates proposes that SCE should and could cut programs with the attendant budget savings of approximately $24.0 million and improved net benefits to the portfolio of approximately $11.1 million, all while still meeting energy savings goals.[15] Cal Advocates further posits that SCE 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, 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, SCE argues that Cal Advocates' request for SCE to cut programs with low cost-effectiveness is "misguided, premature and should not be adopted." SCE asserts that the PAs are responsible for managing a "cost-effective" portfolio, however, the years 2019 – 2022 are "transition years." SCE states it is "appropriate in these transition years" to maintain these non-cost-effective programs during the ramp-down years until it implements new third-party programs.[16] In D.18-05-041, the CPUC recognized the uncertainties regarding third-party programs during the years 2018 through 2022. SCE argues that its ramp-down approach is reasonable and aligns with this guidance.

Discussion

[13] See Cal Advocates Protest, p. 3-5.
[14] See Cal Advocates Protest, p. 49-50.
[15] See Cal Advocates Protest, p. 49-50, and Appendix A. Cal Advocates argues that SCE should cut programs with a TRC below 0.88, 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.
[16] See SCE Reply, p.6: SCE maintains that closing some programs would create "gaps" in measure offerings.

Although SCE's portfolio is not cost-effective, its 2020 energy efficiency budget of approximately $147.3 million is lower than the $271.2 million authorized for 2020 in D.18-05-041.

As stated previously, the CPUC recognizes SCE as a program administrator and manager of its respective portfolio. While Cal Advocates argues that the CPUC should require SCE to make additional program and budget cuts in order to improve cost-effectiveness, it does so based on the assumption that SCE 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 SCE is bound to for 2020 and beyond, it is unclear which combination of additional cuts SCE would undertake to improve cost-effectiveness and what actual "improved" TRC value would meet Cal Advocates' expectations. As noted previously, SCE 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 SCE's 2020 ABAL as well as Cal Advocates' request for SCE to make additional program and budget cuts to improve cost-effectiveness. In the event SCE decides to close additional programs for program year 2021, it will notify the CPUC of these decisions in the ABAL SCE files for 2021, per D.15-10-028.[17]

2.4. Issues regarding the Energy Savings Performance Incentive

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.[18] 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.[19]

In its Reply to Protest, SCE argues that "It would be inappropriate to make such a policy change through the disposition of SCE's ABAL."

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 of scope of the specific ABAL review process. In D.13-09-023, which

[17] In D.15-10-028, the CPUC contemplated a Joint Parties request that portfolio changes, including fund shifting, be included in the PAs' Annual Reports. However, the CPUC decided instead stated that a PA will notify the CPUC 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.
[18] See Cal Advocates Protest, p. 52.
[19] Ibid.

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.

2.5. Issues regarding the disproportionate costs for codes and standards program budgets

This section addresses the following recommendation from Cal Advocates:

- *The Commission should require SCE to reduce its disproportionate costs for codes and standards*

Cal Advocates argues that SCE should file a supplemental advice letter that reduces its disproportionately high costs for the statewide Codes and Standards Advocacy programs and the local (as opposed to statewide) Planning and Coordination program. Specifically, Cal Advocates states that SCE's administration costs for the statewide program should be reduced to no more than six percent of its contribution to the program, a level proportionate to the other PAs. In its reply SCE clarifies that the "disproportionate budget" for administration of the statewide codes and standards advocacy program for the 2020 ABAL includes "direct implementation" costs for activities that began in early 2018 and are expected to continue into 2020. These activities were initiated in order to avoid any gaps in advocacy work leading up to California Energy Commission's 2022 Title 24 code. SCE argues that those costs are appropriate. [20].

Cal Advocates also argued that the Planning and Coordination (P&C) sub-program's budget should be reduced to a level proportionate to the other PAs' analogous local programs. In its reply, SCE "understands" the confusion when comparing SCE's budget with other PAs, but asserts that the PAs Planning and Coordination budgets are not analogous to other PAs' programs with the same name.[21]

Discussion

Energy Division staff notes that the direct implementation of Codes and Standards Advocacy by SCE does not qualify as a statewide administered program under current guidelines, per D.16-08-019. Contracts for statewide administered programs are managed by the lead PA, which in this case is PG&E.

To resolve this, Energy Division directed SCE to re-classify the budget for the 2018 Codes and Standards Advocacy contracts directly managed by SCE under the previous program ID. SCE filed a supplemental advice letter on November 19, 2019, reflecting this reclassification of the 2018 Codes and Standards Advocacy contract budget. By reclassifying this way, the statewide administered budgets now reflect activities that comport with the current statewide administration model. Energy Division understands that there may be overlap between the previous 'statewide' programs and new statewide administered programs and does not object to some such overlap during a reasonable transition period. Energy Division expects SCE's direct implementation to cease and the 2018 Codes and Standards Advocacy contract budget to be exhausted by the end of 2020 and not renewed.

[20] See SCE Reply, p.7.
[21] Ibid.

With respect to the administration budget for the current statewide administered program led by PG&E, SCE's reclassification of direct implementation efforts brings the SCE's program administration for statewide to within the 10 percent administration guideline set by the CPUC per D.09-09-047. Given the reclassification of prior years' contract budget, and an appropriate administration budget for the new statewide Codes and Standards programs, Energy Division finds no reason to direct further change to SCE's 2020 ABAL with respect to Codes and Standards Advocacy.

Regarding SCE's local Planning and Coordination (P&C) program budget, D. 18-05-041 provides a standard for staff review:[22]

> Standard of review for staff disposition of the ABALs does not include review of program administrators' decisions on reducing, cancelling, expanding or adding individual programs or program areas.

Energy Division respects SCE as the administrator of its own portfolio. Energy Division did however request an explanation and rationale of the budget and program activities for SCE's local Planning and Coordination program on December 10, 2019. SCE provided a written response on December 11, 2019. Staff review did not reveal information that would trigger staff to direct changes to the budget given clear and limited criteria under which Energy Division staff should review a PA's ABAL. For transparency, SCE should provide their explanation and rationale at the required workshop following this disposition.

Please direct any questions regarding Energy Division's findings in this non-standard disposition to Mona Dzvova (mona.dzvova@cpuc.ca.gov).

Sincerely,

(For)

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
Pete Skala, Energy Division
Jennifer Kalafut, Energy Division
Alison LaBonte, Energy Division
Peter Franzese, Energy Division
Michael Campbell, The Public Advocates Office
Daniel Buch, The Public Advocates Office
Henry Burton, The Public Advocates Office

---

[22] D.18-05-041, p.134.