STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
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Ms. Menon and Ms. Kaushik:

Energy Division approves Southern California Edison's (SCE) Program Year (PY) 2022-2023 Annual Budget Advice Letter (ABAL) #4633-E, as filed on November 8, 2021, and supplemented (#4633-E-A) on January 7, 2022[1], including budget spending and recovery amounts as reflected in Table 1 below.

Table 1. SCE PY2022-2023 Budget Recovery Request

SCE Recovery Breakdown	2022	2023
IOU Spending Budget	$312,200,891	$382,775,226
AB841 Collection[2]	$83,704,264	$74,673,970
REN/CCA Recovery Budget	$31,607,113	$31,750,881
Total Recovery Request	$427,512,268	$489,200,077

The Advice Letter is effective December 8, 2021.

[1] SCE filed AL 4633-E-A at the request of Energy Division in order to update certain assumptions related to fuel substitution measures in the CPUC's Cost-Effectiveness Tool and make other minor corrections.
[2] The delta between CPUC's Utility Audits Branch's audit of 2020 unspent and uncommitted energy efficiency funds and SCE's previously transferred funds to the California Energy Commission, plus an additional $2.2 million in 2020 unspent and uncommitted funds SCE identified, reduces the amount SCE should transfer to the CEC by $3,415,367.

Background

On November 8, 2021, SCE filed Advice Letter #4633-E with a request for PY2022 and PY2023 Energy Efficiency funding. On November 29, 2021, The Public Advocates Office (Cal Advocates) filed its protest of PG&E's, Southern California Edison's (SCE) and San Diego Gas and Electric's (SDG&E) Annual Budget Advice Letters. On December 6, 2021, SCE filed its response to the Cal Advocates protest. On January 7, 2022, SCE filed supplemental #4633-E-A, which was not protested.[3]

Cal Advocates Protest

In its protest, Cal Advocates recommends that the California Public Utilities Commission "carefully consider PG&E's, SCE's, and SDG&E's advice letters because they propose credible and achievable savings even if they do not meet the energy savings goals provided by D. 21-09-037."[4] Nevertheless, Cal Advocates specifically notes that SCE's resource acquisition segment TRC of .94 misses the Commission's required threshold of 1.0 for PY2022. Cal Advocates also notes that SCE's resource acquisition segment forecast misses the kWh and kW goals for PY2022 and the overall PY2022 kWh (resource acquisition + Codes and Standards) goal.

Although Cal Advocates is satisfied that SCE, like PG&E, describes "strategies in their portfolios intended to promote longer-term development of the market for fuel substitution measures and thus work toward achievement of Commission goals"[5] and compliments the IOUs for their "good faith"[6] forecasts, it does ask the CPUC to require SCE to reduce its resource acquisition segment budget in order to meet the CPUC's required TRC threshold of 1.0 for the segment.

In doing so, Cal Advocates acknowledges variations in cost-effectiveness depending on third-party program performance and the need for SCE to balance budget requests with the inherent uncertainty of those same third-party programs. However, Cal Advocates closes with the assertion that "SCE's requested 2022 budget exceeds third-party forecasts by over $61 million, a generous cushion relative to the $100 million forecast budget…." and that SCE "has other reasonable avenues available to meet its contractual obligations,"[7] including fund-shifting, to meet the 1.0 TRC threshold for its resource acquisition segment.

[3] In SCE AL #4633-E-A, submitted at the request of Energy Division in order to correct certain cost-effectiveness assumptions related to fuel substitution measures in the CPUC's Cost-Effectiveness Tool (CET), SCE's resource acquisition segment TRC dropped from .94 to .93. This disposition addresses the initial advice letter, which was protested by Cal Advocates, hence the references to the .94 TRC value throughout.
[4] See *The Public Advocates Office's Protest of Energy Efficiency Biennial Budget Advice Letters for Program Years 2022 and 2023* (Filed November 8, 2021), pp. 1-2.

[5] See *The Public Advocates Office's Protest of Energy Efficiency Biennial Budget Advice Letters for Program Years 2022 and 2023* (Filed November 8, 2021), p. 3.
[6] Ibid.
[7] See *The Public Advocates Office's Protest of Energy Efficiency Biennial Budget Advice Letters for Program Years 2022 and 2023* (Filed November 8, 2021), p. 4.

SCE Response to Cal Advocates Protest

On December 6, 2021, SCE filed its response to the Cal Advocates protest. In its response, SCE argues three points:

- SCE's PY2022 Budget Is Necessary to Meet Contractual Obligations;
- Regulatory Mechanisms May Not be Sufficient to Act Timely;
- Actual Program Expenses Will Alleviate Impacts to the TRC.

SCE's response to Cal Advocates' protest did not address the goals issue.

SCE's PY 2022 Budget Is Necessary to Meet Contractual Obligations

In its response, SCE defends its PY2022 resource acquisition segment budget request, acknowledging that "third-party implementers forecasted savings that are significantly lower than what those implementers could achieve based on the commercial terms of the contracts.[8]" SCE argues that although third party implementer forecasts may be lower than savings that may be achieved pursuant to the contract, SCE must still budget as if those higher savings specified in the contract actually materialize and SCE must pay for them.

SCE argues that "the CPUC should approve budgets based on SCE's potential contractual payment obligations, not implementers' forecasted savings, especially given that the funds will not be spent if SCE ultimately is not required to make the payments.[9]

Regulatory Mechanisms May Not be Sufficient to Act Timely

SCE's response goes on to reject Cal Advocates argument that SCE can reduce its resource acquisition segment budget to reach a 1.0 TRC and fill any potential shortfalls in third-party contract program performance payments via either fund-shifting or by filing a Tier 2 advice letter for additional budget recovery to meet those obligations.[10] SCE argues that both proposals are insufficient – fund shifting (within the constrained budget envisioned by Cal Advocates) may not allow SCE to meet all contractual obligations, while a Tier 2 advice letter is not always timely and may be delayed, resulting in SCE missing contractual payment obligations if third party programs exceed their forecasts.[11] SCE prefers to present a prudent budget to the CPUC in its PY2022-23 budget advice letter that includes costs attendant to savings that may exceed forecasts, while conservatively excluding those excess savings from actual portfolio forecasting.[12]

[8] See *Reply to Protest of Advice Letter 4633-E, Southern California Edison Company's Energy Efficiency Program and Portfolio Annual Budget Advice Letter for Program Years 2022 and 2023,* December 6, 2021, p. 2.
[9] Ibid.
[10] See *Reply to Protest of Advice Letter 4633-E, Southern California Edison Company's Energy Efficiency Program and Portfolio Annual Budget Advice Letter for Program Years 2022 and 2023,* December 6, 2021, *p. 3.*
[11] Ibid.
[12] Ibid.

Actual Program Expenses Will Alleviate Impacts to the TRC

SCE's response provides some details regarding the forecast and cost-effectiveness. Specifically, SCE explains that its PY2022 resource acquisition budget includes $61 million in costs (assumed payments to third party implementers for savings that exceed contractual program forecasts) without including the potential savings tied to those programs in the actual forecast filed by SCE, thus resulting in a diminished PY2022 TRC of .94.[13]

SCE argues that this budget approach is prudent, in that SCE's resource acquisition segment TRC will surpass 1.0 through one of two possible outcomes:

- third-party programs will over-perform, leaving SCE to pay out the $61 million dollars but also realize program savings that it did not include in the PY2022 forecast; or,
- third-party programs will under-perform, leaving the $61 million unspent and thus reducing portfolio costs.[14]

Discussion

Criteria for review of EE Annual/Biannual budget advice letters

In D.21-05-031 (Assessment of Energy Efficiency Potential and Goals and Modification of Portfolio Approval and Oversight Process), the CPUC made changes to ABAL requirements and set the review criteria for the PY 2022-2023 ABAL as follows:

- Forecasted energy savings for 2022 and 2023 shall meet the annual energy savings goals adopted for those program years.[15]
- Budget requests must stay under the cap authorized in D. 18-05-041 for the current business plan period.
- The Total System Benefit (TSB) metric of the portfolio shall be included but will not be considered a basis for the rejection of the ABALs.
- Cost-effectiveness ratios, for both the Total Resource Cost (TRC) and Portfolio Administrator Cost (PAC), shall be included for the entire portfolio, but these overall portfolio TRC and PAC ratios will not be a basis for rejection of the ABALs.
- TRC and PAC cost-effectiveness ratios shall also be calculated on only the resource acquisition portion of the portfolio and must exceed 1.0 on a forecast basis.

As noted previously, and discussed subsequently below, SCE fails to meet certain savings goals and cost-effectiveness requirements in its PY2022-2023 ABAL.

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13 Ibid. Also note that in its supplemental filing, to correct errors in the CPUC's Cost-Effectiveness Tool, SCE's RA segment TRC decreased to .93.
14 Ibid.
15 See "Discussion" below for additional context for PG&E's PY2022-2023 ABAL.

SCE Portfolio TRC

The IOUs are in the midst of a major transition to third-party program administration and implementation. In 2022, the IOUs will have at least 60 percent of their respective portfolios administered by third-party implementers. Inherent in this new paradigm are the uncertainties attendant to third-party budgeting and forecasting for what will essentially be new programs "starting from scratch". As SCE notes in its response to the Cal Advocates process, the annual budget advice letter process (i.e. annual, one-year forecasting and budgeting), conceived prior to the CPUC's decision to expand third-party program administration, does not readily align with "new" IOU portfolios consisting largely of multi-year, third-party pay-for-performance programs that may not initially meet the CPUC's cost-effectiveness requirements (i.e. first-year) but are forecast to be cost-effective over the full life of the contract(s). Specifically, while SCE's resource acquisition segment forecast does not meet a 1.0 TRC threshold in PY2022, due to the conservative nature of SCE's forecasting approach noted earlier (budgeting for maximum savings, but excluding those potential savings from actual TRC calculations), SCE forecasts a 1.14 TRC[16] for that same segment in PY2023 as programs ramp up and savings materialize.

As the CPUC noted in its Assessment of Energy Efficiency Potential and Goals and Modification of Portfolio Approval and Oversight Process (D. 21-05-031), the annual budget advice letter process "has not provided as many benefits to our oversight process as we expected when it was approved."[17] In that same decision, recognizing the shortcomings of the annual budget advice letter process, the CPUC established a four-year budget authorization (program cycle) that will begin in 2024, as "assessing cost-effectiveness and goal-setting on an annual basis is one of the key processes the Commission was trying to avoid by adopting a rolling portfolio process."[18] This two-year budget advice letter reflects a transitionary period in the move to a multi-year portfolio application process that will not require single-year cost-effectiveness.

Cal Advocates' protest, as noted previously, "supports the PAs' good faith efforts to provide credible savings forecasts and, in the case of PG&E and SCE, build portfolios that work toward the Commission's fuel substitution goals in the longer term."[19] In the case of SCE, the "good faith" forecast includes a PY2022 resource segment TRC of .94[20]. We would be remiss to acknowledge that good faith forecast, as well as the support it has from Cal Advocates, only to reverse course and ask SCE to subsequently alter a single-year forecast in a multi-year advice letter. Doing so would be shortsighted as we move forward to a new multi-year portfolio authorization process that does not require that any single program year be cost-effective.

Consequently, we will not ask SCE to re-engineer its PY2022 resource acquisition segment budget and forecast.

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16 SCE's PY2023 resource segment TRC was unchanged in the supplemental #4633-E-A.

17 See D. 21-05-031, pg. 28, at https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M385/K864/385864616.PDF

18 Ibid.

19 See *The Public Advocates Office's Protest of Energy Efficiency Biennial Budget Advice Letters for Program Years 2022 and 2023* (Filed November 8, 2021), p. 3.

20 As noted previously, this disposition reflects the initial advice letter filed by SCE (#4633-E) and protested by Cal Advocates. SCE's AL #4633-E-A includes a resource acquisition segment TRC of .93 as a result of updated cost-effectiveness assumptions related to fuel substation measures. SCE AL #4633-E-A was not protested.

Savings goals and Total System Benefit

In D. 21-05-031 the CPUC adopted the Total System Benefit (TSB) metric, which is an expression, in dollar terms, of the lifecycle energy, capacity, and GHG benefits, on an annual basis. In doing so, the CPUC noted widespread agreement among parties to the energy efficiency proceeding that:

> "the current focus on first-year energy savings only, in the form of kWh, kW, and therm savings, does not capture all of the policy goals and benefits of energy efficiency…The value of energy efficiency varies significantly based on the hour, season, GHG benefits, climate zone, and lifecycle savings of each measure…Of particular concern is that the current first-year savings goals do not adequately encourage longer-duration energy savings. This potentially creates a policy misalignment that encourages optimization of portfolios to meet or exceed forecasted net annual first-year energy savings, regardless of potential longer-term benefits to the system."[21]

While energy savings goals and potential will be continue to be adopted on a bi-annual basis by CPUC for purposes of the demand forecast and Codes and Standards programs, beginning in 2024 the IOUs' respective resource acquisition programs will be required to meet their respective TSB goals, as opposed to specific energy savings metrics.[22]

SCE Goals and TSB Forecast

In its PY2022-2023 budget advice letter, SCE provides energy savings forecasts (relative to CPUC-adopted energy savings goals) and TSB forecasts for PY2022 and PY2023. Although SCE's resource acquisition segment forecast is not cost-effective for PY2022 and misses the kWh and kW goals for PY2022 and the overall PY2022 kWh (resource acquisition + Codes and Standards) goal, its portfolio, even in the absence of potential savings from third-party programs, easily surpasses the TSB forecasts in the Potential and Goals Study adopted by the Commission in D. 21-09-037.[23] Specifically, SCE forecasts:

- a portfolio TSB (excluding Codes and Standards) of $243 million for PY2022, compared to a TSB forecast of $143 million in the Potential and Goals Study.[24]
- PY2022 Codes and Standards Programs that achieve 108 percent and 110 percent, respectively, of SCE's kWh and kW Codes and Standards goals[25], emphasizing that the

[21] See D. 21-05-031, p. 8, at: https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M385/K864/385864616.PDF.
[22] TSB forecasts (for PY2022-23) and goals (for PY2024 and beyond) were recently adopted by the Commission in D. 21-09-037, at https://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M411/K177/411177185.PDF . Energy savings goals remain in place for IOU Codes and Standards programs.
[23] See Section J-3 for PY2022-23 IOU TSB values in the Potential and Goals Study at https://pda.energydataweb.com/api/view/2531/2021%20PG%20Study%20DRAFT%20Report%202021_Final.pdf. SCE TSB forecasts for PY2022-2023 are found in its PY2022-2023 ABAL.

[24] SCE TSB forecast for PY2022 cited here are from supplemental 4366-E-A. However, SCE's initial ABAL 4633-E included TSB forecast for PY2022 of $247 million.
[25] See SCE's PY2022 filing dashboard at https://cedars.sound-data.com/filings/dashboard/SCE/2022/ .

combined shortfall as noted by Cal Advocates is inherent to the resource acquisition segment forecast described earlier.

Cost effectiveness

As noted previously, although SCE's PY2022-2023 ABAL misses certain energy savings goals and cost-effectiveness requirements for PY2022, its resource acquisition segment is cost-effective in PY2023 with a TRC (excluding Codes and Standards) of 1.14.

Budget

The CPUC requires SCE's PY2022-2023 budgets to be under the budget caps authorized in D. 18-05-041. As filed, SCE's PY2022-2023 spending budgets are higher than prior program year budgets and exceed the program-year cap authorized for PY2022-2023 in D. 18-05-041, due to anticipated third-party program performance. However, SCE remains under the cumulative 10-year budget cap authorized in D. 18-05-041. We find this budget forecast to be reasonable and in "good faith" in that the CPUC afforded SCE the leeway to adjust annual program year spending budgets up or down, so long as SCE's cumulative budget remains under the authorized cumulative cap.

Conclusion

Consequently, although SCE does not meet traditional PY2022 resource acquisition energy savings goals and cost-effectiveness, we nevertheless agree with Cal Advocates that SCE's "good faith"[26] forecast, coupled with the CPUC transition to the TSB metric, leaves it poised to achieve CPUC goals in the longer-term, as evidenced by its TSB forecasts for PY2022.

We therefore approve SCE Advice Letter #4633-E/4366-E-A, effective December 8, 2021.

If you have any questions, please contact Peter Franzese (peter.franzese@cpuc.ca.gov) and Sasha Merigan (alexander.merigan@cpuc.ca.gov).

Sincerely,

Simon Baker
Interim Deputy Executive Director for Energy & Climate Policy, CPUC /
Interim Director, Energy Division

[26] See *The Public Advocates Office's Protest of Energy Efficiency Biennial Budget Advice Letters for Program Years 2022 and 2023* (Filed November 8, 2021), p. 3.