BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

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

COMMENTS OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) TO ADMINISTRATIVE LAW JUDGE FITCH'S RULING SEEKING COMMENT ON MARKET TRANSFORMATION STAFF PROPOSAL

Elliott S. Henry

Attorney for
SOUTHERN CALIFORNIA GAS COMPANY
555 West Fifth Street, Suite 1400
Los Angeles, California 90013
Telephone: (213) 244-8234
Facsimile: (213) 629-9620
E-mail: ehenry@semprautilities.com

October 5, 2018

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Pursuant to the August 29, 2018, *Administrative Law Judge's Ruling Seeking Comment on Market Transformation Staff Proposal* in the above-captioned proceeding, Southern California Gas Company ("SoCalGas") hereby submits its opening comments to the California Public Utilities Commission ("Commission") on Energy Division's Proposal ("Staff Proposal") to facilitate the examination of the policies and framework surrounding market transformation.

I. INTRODUCTION

The Staff Proposal presents a framework to implement additional energy efficiency market transformation initiatives in California pursuant to Senate Bill ("SB") 350. The Staff Proposal separates Market Transformation from Program Administrators' ("PAs") Energy Efficiency Portfolios, directing PAs to develop a Market Transformation Accord that would govern market transformation initiatives at a maximum budget level of $12 million for each PA.[1] On September 25, 2018, Energy Division held a workshop on the Staff Proposal to provide an opportunity for the public to comment on the Staff Proposal presented at the workshop. SoCalGas appreciates the opportunity to provide comments on the Staff Proposal and presents recommendations for revising the proposal.

II. SUMMARY OF SOCALGAS' POSITION

Overall, SoCalGas appreciates the substantial effort that Energy Division has put into developing the potential framework in the Staff Proposal. However, SoCalGas believes that the

[1] Energy Efficiency Market Transformation – A Staff Proposal Draft, Prepared by Energy Division, August 28, 2018 (Staff Proposal), at pp. 1-3.

best way to achieve market transformation would be to incorporate some of the aspects of the Staff Proposal into the existing Energy Efficiency portfolio framework. There are three primary reasons for this: (1) the business plan structure, as it currently stands, is already mostly equipped and geared toward promoting market transformation in several ways, (2) a new bureaucratic framework would be unnecessarily cumbersome, and (3) the proposed market transformation system would take away from pre-existing, effective energy efficiency programs, such as resource acquisition programs.

First, SoCalGas supports market transformation initiatives that offer tools to address financial and non-financial barriers in the market; but, the Staff Proposal would unnecessarily place market transformation initiatives outside of the energy efficiency portfolios. In 2008, the California Long-Term Energy Efficiency Strategic Plan defined market transformation as "long-lasting sustainable changes in the structure or functioning of a market achieved by reducing barriers to the adoption of energy efficiency measures to the point where further publicly-funded intervention is no longer appropriate in that specific market."[2] SoCalGas' Energy Efficiency Business Plan relied in part on this directive as a touchstone to help shape the vision presented and adopted therein. This was essentially acknowledged in D.16-08-019, where the Commission noted that the developing Statewide Programs (further adopted in D.18-05-041), which have become part of the portfolios, are "*designed to achieve market transformation*."[3] Program Administrators' Energy Efficiency Portfolios, complemented by the upcoming third-party solicitations and virtually every resource and non-resource activity, are therefore already aiming to transform the market.[4]

Because of this pre-existing design and goals, the Staff Proposal has the potential to duplicate the efforts in the portfolios and the statewide and third-party direction provided by the Commission in D.16-08-019. The Market Transformation Proposal focuses on "the potential for using market transformation as an *intervention strategy* for technologies when an incentive program alone may not suffice."[5] SoCalGas believes that Market Transformation initiatives

[2] California Long-Term Energy Efficiency Strategic Plan, January 2011 Update, at 4.
[3] D.16-08-019, at 62 (emphasis added).
[4] It is also worth noting that the 10-year view for market transformation espoused by Northwest Energy Efficiency Alliance is the same as that of the EE Business Plans and the rolling portfolio framework, which was intended to consist of a 10-year period. Market Transformation Workshop, September 25, 2018.
[5] Staff Proposal, at 11 (emphasis added).

already have the potential for growth through existing Energy Efficiency framework by increasing acceptance and awareness of technologies through programs that work to educate and result in behavior change. As SoCalGas and other IOU PAs launch solicitations, third-party implementers may be able to bring forward new program ideas that can lead to market transformation energy efficiency programs. The Staff Proposal notes that the proposed new rules can help program administrators and/or third-parties identify and pursue opportunities for energy savings that are not currently captured in PAs portfolios[6] – but the Commission should instead treat programs in the portfolio that could be classified as market transformation initiatives separately from overall portfolio requirements, similar to carve-outs for Statewide Marketing Education & Outreach or Statewide Finance Pilots.

Second, particularly in light of the foregoing, the Staff Proposal would create an unnecessary bureaucratic framework for promoting market transformation. It is clear that significant effort went into the Staff Proposal and SoCalGas does not intend at all to belittle that effort. However, the energy efficiency proceeding as a whole is administratively substantial. SoCalGas believes that the Staff Proposal creates an additional, unnecessary separate administrative structure,[7] and recommends the Commission look to the existing Energy Efficiency framework to allow for market transformation programs to be implemented in concert with the current portfolios.

Third, modifying the current business plan structure in lieu of creating a new mechanism for market transformation is also preferred because the Staff Proposal adds requirements onto programs which limit their viability to continue to operate. Resource acquisition programs are the clearest example of this. Energy Division notes that the Staff Proposal is an attempt to synergize all interventions for programs, and Market Transformation initiatives would essentially complement resource programs. However, the additional requirements promoting market transformation initiatives could complicate already approved, contracted, and implemented third-party programs (and also future programs). For example, under the Staff Proposal, new resource programs that may directly compete or interfere with Market Transformation initiatives may not

[6] Staff Proposal, at 15.

[7] It should be noted that although SB350 requires that the Commission "Authorize market transformation programs," the legislation does *not* require that the Commission create a completely separate procedure for meeting such goals. *See* Pub. Util. Code § 399.4(d)(1).

be initiated. Also, resource programs that agree to coordinate with market transformation initiatives will be ineligible for market effects of any spillover energy savings credit.

SoCalGas recommends the Commission look to incorporate aspects of the proposed framework (i.e., a cost-effectiveness schedule for resource programs that may involve multiple years during which the program is not expected to produce net benefits) into the existing Energy Efficiency portfolios to provide PAs and third-party implementers greater flexibility to successfully implement market transformation energy efficiency programs within the current portfolio. In order to measure and quantify the successes of market transformation initiatives within the current energy efficiency portfolio, the Commission should adopt metrics that can appropriately measure and place a greater focus on the current efforts taken to implement market transformation energy efficiency programs.

III. RESPONSES TO QUESTIONS

SoCalGas provides the following responses to questions posed in the Ruling.

1. *What are the best characteristics of the market transformation framework in the Staff Proposal? What attributes are the most valuable and should be retained?*

The Staff Proposal presents initial consideration of how such initiatives will coordinate with Energy Efficiency programs within the rolling portfolios. Additionally, the Staff Proposal correctly acknowledges that there is a need for a comprehensive intervention that addresses a full-spectrum of market barriers, particularly those that are significant financial and non-financial market barriers. However, as discussed above, SoCalGas is concerned with the limitations the proposal places on the current energy efficiency portfolios, new program designs that can be introduced during solicitations, and the additional level of risk onto third-party implementers who currently contract with the IOUs. The Commission should instead look to incorporate aspects of the proposed framework (i.e., a cost-effectiveness schedule for resource programs that may involve multiple years during which the program is not expected to produce net benefits) into the existing Energy Efficiency portfolios to provide PAs and third-party implementers greater flexibility to successfully implement market transformation energy efficiency programs within the current portfolio.

2. *Do you agree with the staff recommendation to begin the development of market transformation initiatives initially separately from the business plan portfolios? Why or why not?*

SoCalGas does not agree with the Staff Proposal to develop market transformation initiatives outside of the Energy Efficiency Business Plan Portfolios. As similarly stated above, Energy Efficiency programs *are* market transformation initiatives. The sole intent of energy efficiency market transformation programs is to drive the market to a point where the adoption of cost-effective energy efficiency is a standard practice. SoCalGas believes that market barriers can be permanently reduced through energy efficiency program intervention strategies so that customers can achieve higher levels of energy efficiency. SoCalGas' Business Plan identified sector-specific problem statements with corresponding resolutions or desired outcomes; and sector-specific program strategies that will reduce current market barriers.[8] Further, SoCalGas' Business Plan's intervention strategies invite market transformation initiatives, embedding market transformation as a program objective in many sectors.

Rather than adopting the proposed market transformation framework as separate from the energy efficiency portfolios, SoCalGas recommends the Commission integrate this framework into the existing portfolio, with some specific relaxed requirements to allow these initiatives to develop over time. In addition, third-party implementers can continue to introduce their energy efficiency market transformation program ideas through the solicitation process, beginning this year.

3. Do you agree with the budget limit of $12 million per PA for operations outside of the business plan portfolios suggested in the Staff Proposal? Why or why not?

Should the Commission adopt the proposed market transformation framework, SoCalGas is concerned that a large portion of the budget for market transformation initiatives may be required for development of such initiatives. It is unclear at this time what the level of effort will be to develop market transformation initiatives, but the proposed framework places a significant amount of focus on administrative work which may require a substantial portion of the budget. Additionally, in the September 25th workshop, Northwest Energy Efficiency Alliance ("NEEA") presented information that market transformation initiatives greatly varied in time and budget requirements. Rather than specifying a $12 million budget for market transformation initiatives, SoCalGas recommends the Commission encourage program administrators and third-party implementers to focus on market transformation programs through the third-party solicitation process in the current energy efficiency portfolio and allow program administrators and third-

[8] Energy Efficiency Business Plan, Southern California Gas Company, January 17, 2017.

party implementers the flexibility to propose the budgets they deem necessary to implement initiatives within the portfolio.

4. *Do you support the Staff Proposal elements with respect to cost-effectiveness? Why or why not? Describe in detail any changes you would suggest.*

SoCalGas believes that the portion of Energy Division's proposal allowing for a milestone cost-effective approach is adequate. However, in line with SoCalGas comments above, the Commission should incorporate a milestone approach into the energy efficiency portfolio for market transformation initiatives that may not otherwise meet the cost-effectiveness standards of the Energy Efficiency Business Plan Portfolios. Further, should a market transformation initiative result in adoption into codes and standards, SoCalGas recommends this be included in the long-term cost-effectiveness forecast.

5. Do you support the concept identified in the Staff Proposal for Market Transformation Accords? Why or why not? Describe in detail your suggested improvements.

SoCalGas appreciates the Energy Division's efforts in outlining a framework that considers important aspects of a market transformation approach. However, the Market Transformation Accords process as outlined is overly administrative. The Staff Proposal requires several workshops, advisory groups, and regulatory filings that are overly bureaucratic and have the potential to require PAs to spend the bulk of their time dedicated to administrative work rather than implementation of initiatives. Further, the Staff Proposal indicates that the accord is intended to reduce the possibility of ongoing disputes over methodologies, targets, schedules and the allocation of energy savings credits. It also does not consider the discussions PAs must have prior to submitting an advice letter, and to the extent the process for reaching resolution if agreement between PAs and stakeholders cannot be made; the potential for protests on an advice letter can delay approval. There is a need for flexibility in developing the accords, particularly in the early years of development. SoCalGas recommends that, should the Commission adopt a market transformation framework, the Commission should remove the two-stage process for developing initiatives, and instead, allow PAs to propose initiatives in a detailed Tier 2 advice letter filing. PAs should be encouraged to discuss with Energy Division and stakeholder their proposals prior to filing to ensure that questions are clarified, and concerns may be addressed to limit to potential for further delays in the approval of the advice letter.

6. Comment on the Staff Proposal's discussion of milestone-based performance assessments.

Should the Commission approve the Staff Proposal, the milestone-based performance assessment should remain. This reward structure appropriately provides PAs with the necessary incentives to support market transformation initiatives that would impact program administrators' spending on energy efficiency programs that can affect the financial position of an IOU.

7. Do you support the Staff Proposal's recommendations for the administrative aspects of management of the Initiatives, particularly in Section 5 on procedural approach? Why or why not?

SoCalGas does not support Energy Division's recommendations for the administrative management of market transformation initiatives. As previously stated in response to question 6 of the Ruling, the Staff Proposal is particularly bureaucratic, placing too much focus on the development of initiatives which may impede actual implementation. The number of advice letters and stakeholder engagements outlined in the framework create opportunities for delaying approval of potential initiatives and changes to initiatives that may result in unsuccessful market transformation programs. The proposal limits the flexibility of implementing any initiative by creating what seems to be a regulatory hurdle that PAs must go through in order to make even minuscule changes to an initiative.

8. Are there elements in the Staff Proposal that are missing or unclear? Describe.

At the Market Transformation Workshop, Energy Division indicated that the Market Transformation framework was technology agnostic, focused on proposal for Energy Efficiency market transformation only, and initiatives would be required to go through the three-prong test. These points are not outlined in the Staff Proposal. To ensure clarity, Staff should ensure the inclusion of these in any final framework that is adopted. Further, Energy Division should clarify that Market Transformation initiatives should result in energy efficiency and remove the reference recommending PAs consider building electrification and fuel switching opportunities in prioritizing market transformation objectives.

9. Ultimately, do you recommend that the Commission adopt this framework, or a version of the framework with your suggested modifications described in answers to the above questions? Why or why not?

SoCalGas does not recommend the Commission adopt the proposed framework as is. As discussed above, the Energy Efficiency Business Plans have outlined strategies for market transformation within each sector of the energy efficiency portfolio with the intent and understanding that the third-party solicitations will result in energy efficiency programs that address market transformation. The Commission would be sending mixed signals to PAs, and the market if it adopts a proposal that would essentially roll back its directive to increase the level of third-party implemented programs and place limitations on forthcoming proposals by third-party implementers in the upcoming third-party solicitations. Instead, the Commission should incorporate certain aspects of the Staff Proposal, including the cost-effectiveness schedule, and allow energy savings claims without incentives into the current Energy Efficiency portfolio, allowing the PAs and third-party implementers to complete third-party solicitations that will bring forth new program ideas that can lead to market transformation energy efficiency programs.

IV. CONCLUSION

SoCalGas appreciates the opportunity to comment on the Staff Proposal. SoCalGas recommends that the Commission provide for additional workshops or working groups for stakeholder participation, to come to a consensus on the appropriate approach for Market

Transformation initiatives. An additional workshop should be conducted before reply comments are submitted on October 22, and the Commission should consider the need for future workshops or working groups before adopting a final Staff Proposal.

Respectfully submitted on behalf of
SOUTHERN CALIFORNIA GAS COMPANY

By: */s/ Elliott S. Henry*
Elliott S. Henry

ELLIOTT S. HENRY

Attorney for
SOUTHERN CALIFORNIA GAS COMPANY
555 West Fifth Street, Suite 1400
Los Angeles, California 90013
Telephone: (213) 244-8234
Facsimile: (213) 629-9620
E-mail: ehenry@semprautilities.com

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