**EE Filing Processes Sub-WG#1 – Frequency and Content of Filings**

***Emerging Proposals/Options***

**November 14, 2019**

*This document captures the EE Filing Process proposals/options developed by Sub-Working Group #1. These were informed by three documents (see below) developed by members of the Sub-WG, and discussion during two phone calls. Appendix A provides a useful reference as it further expands on the content of the filings (Options 1 and 2, Tier 1/3 Advice Letter, and Petition for Modification). The last two documents provide further background for better understanding the thinking that lead to support for elements of these proposals/options. The documents are provided in the Appendices below:*

*Appendix A: Public Advocates Office Straw Proposal on EE Application and Mid-Cycle Review Contents (10/30/2019)*

*Appendix B: 4 v. 6 Year Cycle: Pros/Cons and Assumptions for Discussion*

*Appendix C: EE Cycle Options*

**4-Year EE Budget Application[[1]](#footnote-1)**

*A 4-year cycle appeared to have broad support from Sub-WG#1, while a 6-year cycle attracted numerous concerns (see Appendix C: 4 v. 6 Year Cycle: Pros/Cons and Assumptions for Discussion).*

*The Sub-WG didn’t reach closure on Options 1 v. 2 (below) and is still considering the relevant merits of each****.***

**Option 1: Robust Reasonableness Showing with Full-Cycle Budget, Savings, and Cost-Effectiveness**

* Budget, savings, and CE forecasts – detailed testimony to demonstrate the reasonableness of forecasts
* Zero-based budgeting
* Applicant showing covers all four years

**Option 2: Robust Reasonableness Showing with Test Year and Attrition Years**

* Budget, savings, and CE forecasts – detailed testimony to demonstrate the reasonableness of forecasts
* Zero-based budgeting
* Applicant showing covers only the first year (known as the “test year”) of the application cycle
* Budgets for next 3 years (“attrition years”) based on approved budget for the first year, adjusted by a limited range of factors. Could include a small escalation factor.[[2]](#footnote-2)
* CPUC Decision would approve funding for the test year + attrition years

**Mid-Cycle Interim Filing with Trigger-Based Filing for Significant Changes**

*Sub-Work Group #1 recommends that there be two types of mid-cycle filings: (1) a Tier 1 Advice Letter to be filed 2 years after the 4-year EE Budget Application, and (2) a Tier 3 Advice Letter or Petition for Modification, to be filed if certain “triggers” occur.*

**Mid-Cycle Tier 1 Advice Letter**

* Would include changes to portfolio in response to updated Goals, DEER, ACC, or policy as of date certain[[3]](#footnote-3)
* Ministerial submission and should not affect budgets, savings, or cost-effectiveness forecasts
* 2 years after 4-year EE Budget Application

**Trigger-Based – Tier 3 Advice Letter (AL) or Petition for Modification (PFM):**

* Significant changes would trigger a Tier 3 AL or PFM filing. Triggers may be backward looking (i.e. based on past performance) and/or forward looking.[[4]](#footnote-4) Triggers could include:
	+ Applicant didn’t meet threshold
	+ Applicant not on track to meet savings goals
	+ Insufficient budget
* Type of the “trigger-based filing” (i.e. AL or PFM) and content of that filing would be determined by the type of trigger

**Appendix A: Public Advocates Office Straw Proposal on EE Application and Mid-Cycle Review Contents (10/30/2019)**

**Problem Statement**

The currently approved EE business plans contain limited information on and review of forecasted budgets, savings, and cost-effectiveness. This lack of detail in the approved business plans requires that the scope of ABAL review include non-ministerial factual and policy questions that are difficult for the Energy Division staff to resolve in a timely manner that is consistent with Commission decisions.

In order to make the Business Plan/ABAL construct more effective, the scope and level of detail in Business Plan application proceedings must increase substantially so that the Commission can resolve factual and policy disputes in these formal proceedings.

In practice, this will mean that applicants will need to justify the reasonableness of budgets and savings and cost-effectiveness forecasts. This would include detailed showings of current and proposed expenditures and zero-based budgeting[[5]](#footnote-5) exercises as well as detailed testimony on forecasting inputs, methods, and results for the approval period.

**Proposed Scope**

* Information to be included in EE applications
* Required testimony for EE applications
* Required exhibits for EE applications

**Options for Application Structure and Contents**

Public Advocates Office proposes two different alternatives for the CAEECC’s consideration. Both proposals assume the developing CAEECC consensus for a shorter, fixed-term funding cycle.

***Option 1: Robust Reasonableness Showing with Full-Cycle Budget, Savings, and Cost-Effectiveness***

This option is similar in concept to the current budget, savings, and cost-effectiveness forecasts included in current and past EE applications, except that the Commission would require additional detail in the applicant showing to ensure a robust and sufficient record to inform Commission decisions.

As noted above, a cornerstone of the required showing for either proposed option is a zero-based budgeting exercise, wherein the applicant would justify in detailed testimony the reasonableness and prudence of all forecasted expenditures. This would include a detailed presentation of forecast costs in all significant cost categories (e.g. labor/non-labor/capital/contract costs; admin/implementation/marketing costs; sector by sector costs, etc.). While zero-based, the budget showing would also be required to include comparisons to recent program expenditures in the relevant budget categories in order to assess trends and adjust for changing circumstances. As in all application proceedings, the burden would rest with the applicant to demonstrate the reasonableness of the relief requested.

For this option, the detailed budget testimony and supporting workpapers and exhibits would cover all years in the full application cycle. Similarly, the savings and cost-effectiveness showings would require detailed testimony on the inputs, assumptions, and methods embedded in the forecast as well as the reasonableness of the forecast results. In addition, testimony and exhibits would be required to demonstrate the reasonableness of the forecasts in light of historical performance, including realization rates, impact evaluation adjustments, and other relevant information.

In this option, the Commission would approve funding for the full application cycle in its decision, including the associated revenue requirement for each year in the cycle.

For this option, one feature to note is that because this review and approval would cover all years in the cycle, the longer the cycle the more difficult it will be for the applicant to produce a credible forecast.

***Option 2: Robust Reasonableness Showing with Test Year and Attrition Years***

In this option, the applicant showing would similar in requirements to that outlined for Option 1, including zero-based budgeting, detailed testimony and showings on budget, savings, and cost-effectiveness. However, the detailed showing would only cover the first year (known as the “test year”) of the application cycle.

Budgets for subsequent years in the application cycle (also known as “attrition years”) would be based on the approved budget for the first year, adjusted by a limited range of factors. These would include significant known and planned adjustments (e.g. a measure or group of measures accounting for significant savings going into code) and could include an small escalation factor if appropriate.

In this option, the Commission would approve funding for the test year in its decision as well as any adjustments to that budget for subsequent years in the cycle and the associated revenue requirements for each year.

For this option, one feature to note is that it assumes that the test year is representative of full-cycle funding needs and that spending is largely stable over the course of the cycle. Significant changes in the EE ecosystem affecting budgets, savings, and cost-effectiveness may be challenging in a test year/attrition year format, particularly if they occur on different timescales than the application cycle.

**Options for Mid-Cycle Reviews and Filings**

Public Advocates Office proposes several different alternatives for the CAEECC’s consideration. The options in this section are not specifically tied to the application format chosen and can be mixed and matched as appropriate for the purpose at hand.

***Option A: Mid-Cycle Petition for Modification***

Petitions for modification (PFMs) are useful for allowing formal consideration (including record building) to support material changes to determinations made in the application proceeding decision. In terms of the application options above, a PFM may be an appropriate vehicle for the Commission to consider updated forecasts that affect budget, savings, and cost-effectiveness showings, particularly for longer budget cycles.

A PFM could be used for an incremental budgeting exercise in which the applicant requests modifications to the basis and results of the previously-approved budgets at mid-cycle in response to new or updated information.

***Option B: Mid-Cycle Tier 3 Advice Letter***

A mid-cycle Tier 3 advice letter would be an appropriate vehicle for making budget changes that do not require modification of the basis and result of the previously-approved budgets. For example, a Tier 3 advice letter could be used to change funding levels in response to a Commission decision in another proceeding such as an EE rulemaking that alter funding needs but do not fundamentally change the basis or results of the previously-approved application. This is particularly useful for adding or subtracting discrete activities at mid-cycle.

***Option C: Annual Tier 1 Advice Letter***

An annual Tier 1 advice letter would be an appropriate vehicle for reporting information to the Commission. It is a ministerial submission and should not affect budgets, savings, or cost-effectiveness forecasts. Potential uses include performance reporting and revising revenue requirements due to unspent funds. A Tier 1 advice letter could also be an appropriate vehicle for reporting on trigger events and informing the Commission if/when those triggers have been met.

**Appendix B: 4 v. 6 Year Cycle: Pros/Cons and Assumptions for Discussion**

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| --- | --- | --- |
| **Topic** | **4 Year Cycle** | **6 Year Cycle** |
|   | **Pro** | **Con** | **Pro** | **Con** |
| Reliability of forecast | More reliable |   |   | Less reliable |
| Sufficient time to develop, vet, approve any mid cycle filing.  |   | Mid-cycle review would result in back-to-back filings. (Start mid-cycle filing process ~Q2 of N+1 [~15 months into cycle] in order to file before start of N+2.)  | Sufficient time to file a mid-cycle review. Start mid-cycle filing process after N+2. Have 2 years of data to assess if/what goes in filing.  |   |
| Market certainty  |   | Less long term certainty for implementers | All else equal longer term budget “not to exceed” provides more certainty for implementers |   |
| Responsiveness to market and policy changes | More responsive (though a mid-cycle filing could also address how PA will adjust) |   |   | Slower to respond (though a mid-cycle filing could also address how PA will adjust) |

Assumption items for discussion:

* Hold ACC and goals at time of application constant for duration of cycle
* Should this apply to ISP and DEER at measure level as well?
* Code changes accounted for within the cycle

**Appendix C: EE Cycle Options**

General Assumptions

(1) Presents a general sketch of the 2 options, 4 year and 6 year cycles.

(2) Does not include all the Bus Stops, only those that are pertinent to the planning process.

(3) "N" represents the first year of portfolio implementation. It can be replaced with the year we agree is the start year for the new process.

(4) The schedule does not include the Stakeholder input process since we are addressing that topic separately. Once we agree to the process, it can be added to the schedule.

(5) Based on discussions, there are options for a biennial update AL during the cycle and an option to file an update AL based on triggers.





1. The term “EE Budget Application” is used here to represent a portfolio/budget/EE application that would replace what was previously called the Business Plan (the timing and details of the transition still to be discussed). The Business Plan was a type of application which had a specific format for a 10-yr cycle; the EE Budget Application would be for a shorter period and take a different format and level of detail. [↑](#footnote-ref-1)
2. Budgets for attrition years are usually decided up front in the application decision, so no additional filings would be required. An additional filing would only be needed if the PA was requesting a deviation from what was initially approved for the attrition years. [↑](#footnote-ref-2)
3. To be confirmed [↑](#footnote-ref-3)
4. The Sub-WG#1 would like to discuss with the Working Group the merits of using forward-looking vs. (or in addition to) backward-looking triggers. [↑](#footnote-ref-4)
5. Zero-based budgeting is a method of budgeting in which all expenses must be justified for each new period. The process of zero-based budgeting starts from a "zero base," and every function within an organization is analyzed for its needs and costs. [↑](#footnote-ref-5)