**4-Year EE Budget Application Cycle - Proposal Outline**

*Prepared by the CAEECC Facilitation Team for the*

*4-Year Cycle Sub-WG of the EE Filing Processes WG*

*This document outlines the elements of the 4-Year Cycle Sub-Working Groups’ proposal, as discussed at the second 11/20/19 Working Group Meeting on EE Filing Processes. It is based on the original straw proposal developed by the Public Advocates Office, work products developed by Sub-Working Group #1 (Filing Content and Schedule) and Sub-Working Group #2 (Roles, Responsibilities and Regulatory Processes), and in discussion during full working group and sub-working group meetings and phone calls.*

*The document below includes (1) an outline of the 4-Year EE Budget Application contents, and explains the hybrid approach for program and non-program costs developed and broadly agreed to at the second 11/20/19 working group meeting; (2) an outline of the contents of the interim filing options still under consideration (mid-cycle Tier 1 AL, and trigger-based Tier 3 AL and/or PFM); and (3) Supporting documents (in Appendices as listed below) which provide background and more detail on application contents, schedule, and the stakeholder/PA/3P/ED/CPUC roles and responsibilities and regulatory processes.*

*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*

*Appendix D: Roles, Responsibilities and Regulatory Processes*

*This outline was prepared by the facilitation team for review and elaboration by Athena Besa (SDG&E) and Ryan Chan (PG&E). Per agreement at the meeting, and as captured in the meeting summary, Athena and Ryan will develop a more detailed proposal based on this document (including a timeline) by late December, which will then be distributed to the full sub-working group supporting a 4-Year Cycle*

*The full 4-Yr Cycle Sub-Working Group will then meet via phone call/webinar in early January to provide feedback/refinements on the proposal. The proposal will be further refined by mid-January for hand-off to the 6-yr work team (so that they can develop alternative language that follows a similar outline and level of detail—for the parts that would be different under their proposed alternative).*

**4-Year Budget Application Cycle with Interim Filings - Proposal Outline/Content**

1. **Introduction**

The following Working Group Members (and their organizations) support a 4-year budget application cycle:

* Athena Besa, SDG&E
* Ryan Chan, PG&E,
* Dan Buch, Public Advocates Office
* Lara Ettenson, NRDC
* Erin Brooks, SoCal Gas
* Jesse Feinberg, SCE
* Dan Suyeyasu, CodeCycle
* Dave Dias, SMW Local 104
* Raghav Murali, Center for Sustainable Energy

1. **Rationale for 4-Year Cycle**

This EE budget application filing proposal seeks to meet/balance the key goals of (1) budget certainty; (2) reduced regulatory churn; (3) implementer certainty; and (4) allowing for PAs responsiveness to market and policy changes. The major advantages of a 4-year cycle (as compared with the other sub-working group proposal for a 6-Year cycle, the current 10 year Business Plan and annual ABAL process, and the previous 3-Year cycle) are:

* Budget forecasting (zero-based budgeting with supporting testimony and proof of forecasted budgets, savings, and cost-effectiveness) would be more reliable than a longer timeframe.
* Thorough vetting of EE budget applications (with reliable forecasting) would allow for ministerial review of mid-cycle filings, as originally envisioned with Annual Budget Advice Letters in D.15-10-028[[1]](#footnote-1)
* Reliable budget forecasting and thorough vetting would allow for ministerial mid-cycle filings and thus reduced regulatory churn (note: a concern with a longer cycle is that budget forecasting is not reliable, so mid-cycle filings must be substantial, effectively turning a 6-year cycle into a 3-year cycle).
* A shorter 4-year (vs.6-year) cycle would allow PAs to be more responsive to market and policy changes
* Conversely, the 4-year cycle (as compared with the Annual Budget Advice Letter cycle) allows for longer planning time horizon
* And ???

*Note to 4 year WG—You may want to mention and then address these to strengthen your proposal*: some concerns with a 4-year cycle were posed during the Working Group process including:.

* Reduces implementer certainty, as compared with a 6-year cycle or the current Business Plan/ABAL cycle. Address this by allowing 3rd party implementation funds to rollover. (How should this be incorporated into the proposal?)
* If relevant policy advice is not stable in advance, regulatory churn will not be alleviated by a 4-year cycle w/robust reasonableness showing. Address this by ensuring stable policy framework 6-9 months in advance (as noted in the proposal below).
* Filings must begin two years before actual filings, so forecasts must actually forecast 6 years in advance, which does not allow for reliable forecasting. (Is this accurate/how address?)

We believe that these can be addressed/minimized as follows:

1. **4-Year EE Budget Application[[2]](#footnote-2)**

*At the end of the 11/20 WG Meeting, the group was leaning toward a hybrid approach of Options 1: Robust Reasonableness Showing with Full-Cycle Budget, Savings, and Cost-Effectiveness and Option 2: Robust Reasonableness Showing with Test Year and Attrition Years. In this hybrid approach, all PA and 3P “non-program costs” (aka administrative costs) would follow a test year/attrition approach and all PA and 3rd Party program costs would follow a forecast approach for the full application period.*

**Non-Program Costs: Robust Reasonableness Showing for Full-Cycle**

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

**Program Costs: Robust Reasonableness Showing for 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.[[3]](#footnote-3)
* CPUC Decision would approve funding for the test year + attrition years

1. **Interim Filings**

*The group agreed that trigger-based mid-cycle filings are needed. Some Members were unsure that a mid-cycle Tier 1 Advice Letter is necessary, though others stated that the Tier 1 Advice Letter as a purely ministerial a certification/stamp of approval that provides an opportunity for accountability and public scrutiny is also important.*

*Members agreed that a trigger-based filing for significant changes is needed, and that a Tier 3 Advice Letter is appropriate. Some Members questioned whether a Petition for Modification is an appropriate vehicle for trigger-based filings.*

*In addition, Members made changes in redline to the descriptions of the Mid-Cycle Tier 1 Advice Letter, and the Trigger-Based Filing options during the 11/20 meeting. The updated descriptions are below:*

**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. Check-points at 2 yrs and quarterly(?). Triggers could include:
  + Applicant not on track to or didn’t meet threshold (e.g. significant C/E drop) (what level?)
  + Applicant not on track to or didn’t meet savings goals (what level?)
  + 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

**Mid-Cycle Tier 1 Advice Letter**

* Ministerial submission and on track w/budgets, savings, or cost-effectiveness forecasts
* 2 years after 4-year EE Budget Application concurrent w/Annual Report

1. **Regulatory Processes**

*The group identified the following regulatory processes for the proposed filings. In particular, Members noted the CAEECC’s recommendation to the CPUC should state that briefs and testimony are recommended for the intial application, with the need for hearings determined by the content of those briefs and testimony. Members also emphasized that there is a need for the policy framework to be stabilized approximately 6 to 9 months prior to the application filing.*

**EE Budget Application:**

* Policy framework should be stable (6-9 months before filing) and inform applications.
* Application with testimony/briefs.
* ALJ/Assigned Commissioner decides whether hearings, but more likely hearings than current process.
* Assuming that this would need to take place in current 18 month required window (which could be expanded by CPUC).

**Mid-Cycle Filing (Tier 1 Advice Letter):**

* Effective when filed (i.e., Considered approved unless protested, which is rare)

**Trigger-Based Filing (Tier 3 Advice Letter):**

* Energy Division offers draft resolution, parties comment, and then Commission makes a decision.

**Trigger-Based Filing (Petition for Modification):**

* Proceeding is re-opened, and requires Commission vote if taken up.

1. **Roles & Responsibilities**

*The group identified the following roles and responsibilities for stakeholders/CAEECC, PAs and the Energy Division for the proposed filings.*

**Stakeholders/CAEECC:**

***EE Budget Application:*** Potentially four-elements of stakeholder engagement; A) Regular data-driven updates on how EE portfolio is doing (e.g., quarterly or every 6 months) at Full CAEECC: B) CAEECC joint problem-solving workshops on major cross-cutting issues/challenges related to upcoming applications (approximately 6 months ahead of filings) C) Pre-filing preview at CAEECC (2-3 months ahead of filing); and D) formal intervention once filed by interested stakeholders

***Trigger Based Filing (Tier 3 AL or PFM):*** CAEECC is apprised of trigger and consulted on approach(es) to addressing underlying trigger issue (roll into quarterly CAEECC discussions if possible)

***Mid-Cycle Tier 1 Advice Letter:*** Courtesy preview at CAEECC

**PAs:**

***EE Budget Application:*** Pre-filing stakeholder engagement; and filing w/budgets, savings, C/E forecasts for full budget cycle (program costs) /test year plus any attrition year adjustments (non program costs), and supporting testimony and exhibits.

***Mid-Cycle Tier 1 Advice Letter:*** Develop filing and file

***Trigger Based Filing (Tier 3 AL or PFM):*** Engage with stakeholders on approach(es) to addressing underlying trigger issue, develop filing and file

**Energy Division:**

***EE Budget Application:*** ED participates in CAEECC discussions as ex-officio members; Staff deep dive once filed

***Trigger Based Filing (Tier 3 AL or PFM):*** Same as current process (i.e., reviews and provides recommendations to decision makers)

***Mid-Cycle Tier 1 Advice Letter:*** Same as current process (i.e., reviews and provides recommendations to decision makers)

**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[[4]](#footnote-4) 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**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **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.

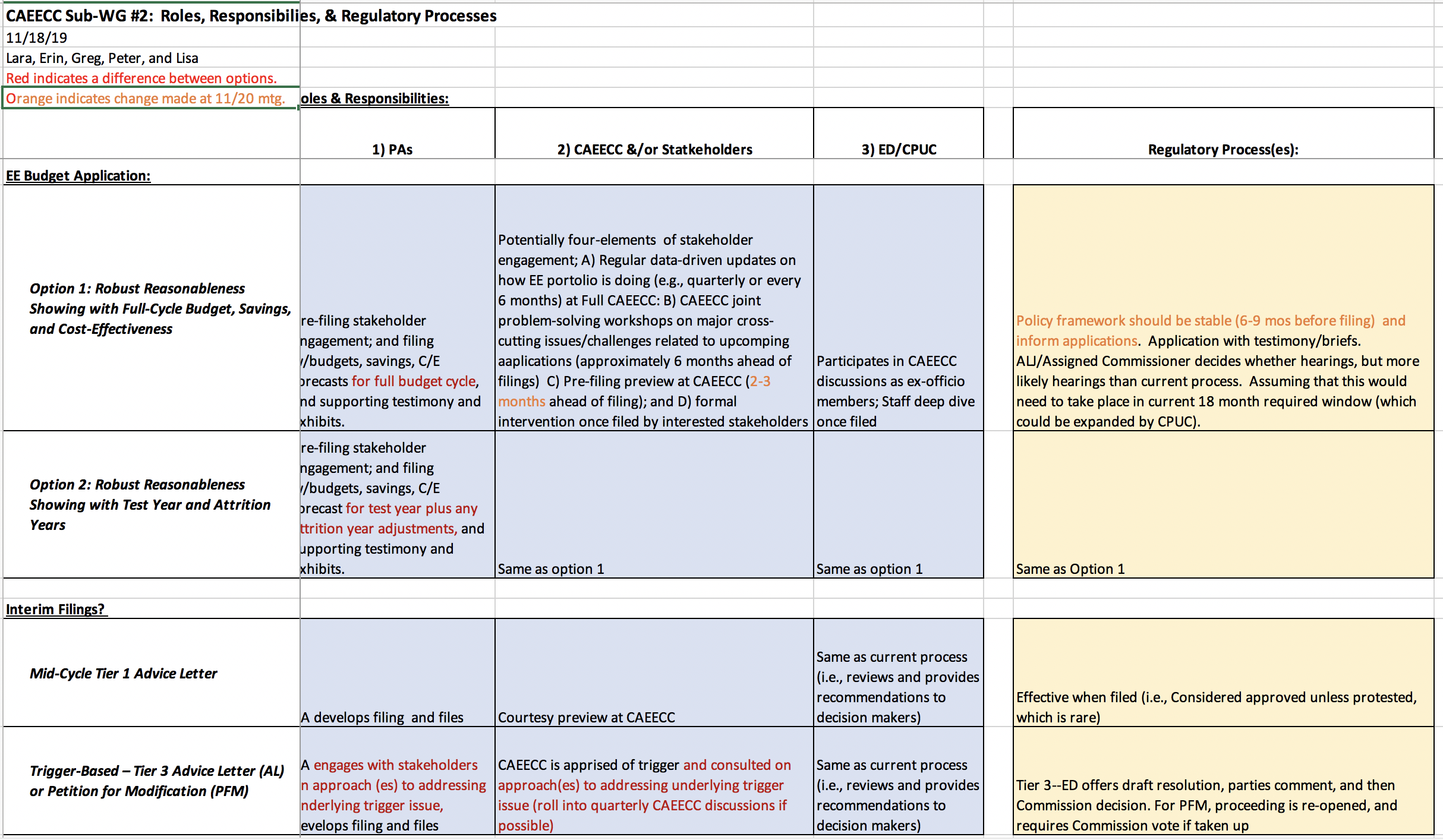
(3) "N" represents the first year of portfolio implementation. It can be replaced with the year we agree is the start year for the new process.

(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.





**Appendix D: Roles, Responsibilities, and Regulatory Processes**

1. “The annual budget filings and their associated review should be relatively ministerial. The question for Commission Staff in reviewing a budget advice letter should be “does this conform to the approved budget application?” The annual budget filings are *not* designed to create a forum for debating the merits of particular programs; that is for the business plan proceeding.” D.15- 10-028, p.62 [↑](#footnote-ref-1)
2. 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-2)
3. 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-3)
4. 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-4)