Application No.:	26-03-
Exhibit No.:	SCE-01
Witnesses:	J. Bhakta G. Golden E. Gomez E. Keating E. Salazar E. Seilo

(U 338-E)

Exhibit 01 - Direct Testimony of Southern California Edison Company in Support of its Application for Approval of its Energy Efficiency 2028-2031 Portfolio Plan and 2032-2035 Business Plan

Before the

Public Utilities Commission of the State of California

Rosemead, California
March 16, 2026

SCE-01: Exhibit 01 - Direct Testimony of Southern California Edison Company in Support of its Application for Approval of its Energy Efficiency 2028-2031 Portfolio Plan and 2032-2035 Business Plan

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I.

EXECUTIVE SUMMARY

In compliance with Decision (D.) 21-05-031[1] and D.23-06-055,[2] Southern California Edison Company (SCE) is filing this Application for approval of its 2028–2031 Energy Efficiency (EE) Portfolio Plan and the 2032–2035 Business Plan (Application). This testimony presents a forward-looking framework designed to deliver more affordable, accountable, and effective EE outcomes for customers. This Application is also informed by the Governor's Executive Order (EO) N-5-24,[3] which directs state agencies to prioritize affordability and reduce ratepayer impacts, as well as the State's March 2025 audit of EE programs in California, which highlighted the need for stronger fiscal discipline, improved accountability, and better alignment between program costs and delivered benefits.

Taken together, this guidance underscores the need for a disciplined approach to portfolio design. Accordingly, SCE proposes a materially smaller EE portfolio budget, from approximately $1.67 billion in 2024-2027 to $997 million which reflects a 40 percent reduction.[4] Despite this substantial budget reduction, SCE forecasts delivery of approximately $874 million in Total System Benefits (TSB) over the 2028–2031 period, 135 percent of Commission goals, while reducing greenhouse gas (GHG) emissions by an estimated 6,882 million metric tons. SCE also forecasts achieving a cost-effective portfolio with an improved Total Resource Cost (TRC) ratio of 1.20, in the Resource Acquisition segment of the portfolio, demonstrating that lower costs and strong performance can coexist when the EE portfolio is appropriately sized and grounded in realistic delivery expectations.

The EE market is confronting a confluence of challenges: rising program administration and implementation costs, increasing regulatory complexity, growing customer affordability concerns,

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1 D. 21-05-031.
2 D. 23-06-055.
3 Governor Gavin Newsom, Executive Order N-5-24, dated October 30, 2024 (hereinafter EO N-5-24), *available at* https://www.gov.ca.gov/wp-content/uploads/2024/10/energy-EO-10-30-24.pdf.
4 This reduction does not reflect the increased budgets of the Regional Energy Networks (RENs) in SCE's service area, which is collectively approximately $440 million, plus $13.1 million in funds SCE disburses to Energy Division for Evaluation, Measurement & Verification (EM&V) activities for the RENs' portfolios that are included in SCE's budgets.

proliferation of overlapping EE program administrators (PAs) that create coordination challenges, and diminishing availability of cost-effective EE opportunities. At the same time, rapid technological evolution and shifting policy priorities require EE PAs and implementers to adapt more quickly than existing program structures allow. Collectively, these conditions increasingly constrain the market's ability to deliver scalable, cost-effective EE solutions at the pace needed to support California's decarbonization objectives.

In response to these market dynamics, SCE's 2028–2031 EE portfolio is structured around three foundational pillars that guide portfolio design and implementation: (1) Drive Affordability, (2) Modernize EE, and (3) Support Decarbonization. These pillars reflect a deliberate effort to balance near-term cost reductions with longer-term system and customer benefits emphasizing streamlined administration, more flexible delivery structures, and strategic integration of EE and decarbonization objectives. Together, these pillars and SCE's supporting policy reform proposals establish a framework for addressing current market constraints while positioning SCE to advance affordability and accountability goals, while delivering long-term emissions reductions.[5]

A. Pillar 1 – Drive Affordability

California and the nation are experiencing acute affordability pressures that are reshaping the energy landscape. Utility customers, particularly low- and moderate- income households and small- and mid-sized businesses, are facing increasing hardship from rising electric rates driven by state policies and public programs. Energy costs for the State have been rising faster than household incomes, with the California Public Utilities Commission (CPUC or Commission) projecting annual rate increases of 3.5 to 4.7 percent over this decade.[6] These rate pressures underscore the importance of ensuring that customer-funded EE programs deliver timely, measurable, and cost-effective value.

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[5] While SCE has forecasted to meet goals and compliance requirements, SCE believes it is more likely to achieve and possibly exceed its TSB and cost-effectiveness forecasts for the next portfolio cycle if the Commission adopts SCE's key policy proposals detailed in Chapter XI than if SCE had to operate under existing regulatory framework that does not account for the changing EE landscape.

[6] *See* CPUC Rates and Costs En Banc: Update on Affordability Metrics (June 2021) (forecasting bundled residential rate increases of approximately 3.5 percent per year for SCE and 4.7 percent per year for SDG&E between 2021 and 2030), *available at* https://ww2.arb.ca.gov/sites/default/files/2021-06/cpuc-

(*Continued*)

State leaders and regulators have recognized and raised alarms about the affordability challenges. On October 30, 2024, Governor Newsom issued EO N-5-24 to address California's electricity affordability crisis while maintaining the State's clean energy and carbon-neutrality goals. For EE programs, EO N-5-24 directed the Commission to review ratepayer-funded programs for cost-effectiveness and modify or eliminate underperforming or underutilized programs that do not deliver commensurate benefits to ratepayers.[7] In March 2025, the State's Audit Office "found the costs to operate efficiency programs frequently outweighed the resulting benefits" and emphasized the need for improved fiscal discipline, stronger oversight, and closer alignment between program funding and delivered benefits across EE portfolios.[8]

Consistent with the State's mandate to focus on affordability, SCE submitted its Mid-Cycle Advice Letter (AL 5670-E) (MCAL) proposing to reduce its 2026–2027 EE portfolio revenue collection by approximately $500 million, after determining that authorized collections exceeded realistic program needs in November 2025.[9] This proactive action demonstrated SCE's commitment to disciplined portfolio management, early identification of surplus collections, and protection of ratepayers from unnecessary costs, reflecting an affordability-first approach in practice, not just in principle.

The Application builds on those actions by incorporating affordability-driven proposals already implemented, while advancing additional policy and portfolio changes to enhance customer value on a sustained basis. SCE's proposed EE portfolio prioritizes cost-effective program delivery, tighter

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metrics_sp_kickoff-electricity_june2021.pdf. SCE expects its rates to increase less than the rate of inflation between now and 2030.

7 In the CPUC Response to Executive Order N-5-24, dated February 18, 2025 (hereinafter CPUC Response), *available at* https://www.cpuc.ca.gov/-/media/cpuc-website/industries-and-topics/reports/cpuc-response-to-executive-order-n-5-24.pdf , the Commission listed energy efficiency among programs contributing to rising ratepayer costs and committed to a renewed "focus on cost effectiveness" in the EE space. CPUC Response, pp. 14, 18, 31.

8 The California Public Utilities Commission: Without Improving Its Oversight, the Benefits of Energy Efficiency Programs May Not Be Worth Their Cost to Ratepayers." Report 2023-127, p. 1. published March 18, 2025 (hereinafter State Audit Report), *available at* https://www.auditor.ca.gov/wp-content/uploads/2025/03/2023-127-Report.pdf.

9 *See* SCE AL 5670-E: Energy Efficiency Program and Portfolio Mid-Cycle AL for Program Years 2024–2027 (submitted Nov. 4, 2025; pending disposition), p.19.

alignment between funding levels and achievable outcomes and streamlined administrative structures, while continuing to advance California's long-term clean energy and decarbonization objectives.

B. Pillar 2 – Modernize EE

Modernizing EE program administration is essential to advancing affordability and improving portfolio performance under current market conditions. Many existing EE administrative, evaluation, and procurement requirements were developed under earlier portfolio models and have not fully adapted to performance based, meter driven, and third-party delivered program structures. As a result, these requirements can introduce administrative rigidity, limit program scalability, and increase costs without commensurate customer or system benefits.

Under this pillar, SCE proposes targeted administrative and technical proposals to streamline program governance, reduce unnecessary process friction, and better align evaluation and oversight practices with how modern EE programs are designed and delivered. These efforts are intended to lower portfolio overhead/administrative costs, accelerate program deployment and expansion, and improve SCE's ability to respond to market conditions and performance risks in support of the affordability objectives.

C. Pillar 3 – Support Decarbonization

Energy efficiency continues to play a critical role in supporting California's decarbonization goals by reducing energy demand, enabling building electrification, and mitigating long term system costs. When deployed strategically, EE can help stabilize future rates by moderating infrastructure investment needs and improving grid utilization. However, the pace and scale at which decarbonization oriented EE strategies can be deployed within the EE portfolio are currently limited by existing cost effectiveness, evaluation, and attribution frameworks.

SCE's proposed portfolio prioritizes decarbonization measures and delivery approaches where they can be implemented cost effectively and integrated with complementary demand side resources. Under this pillar, decarbonization is positioned as a cost conscious, supporting objective—focused on measures and strategies that deliver near term customer value while contributing to long term emissions reductions and system resilience.

With these three pillars at the forefront, SCE recommends several targeted policy proposals aimed at updating the EE regulatory framework to enable more cost-effective and streamlined decarbonization. Key recommendations include:

- **Applying consistent cost effectiveness and other requirements across all PAs** (including non-Investor-Owned Utilities (IOUs) PAs such as the Regional Energy Networks (RENs)) to ensure uniform oversight and prudent and equitable use of ratepayer funds as directed in EO N-5-24.
- **Reducing the 60 percent third party outsourcing requirement** to allow PAs to select the most effectively designed and affordable delivery model for each program and market segment.
- **Modifying solicitation triggers for Tier 2 AL submittal requirements and streamlining the Procurement Review Group (PRG)** to reduce solicitation time and cost, allowing for faster program rollout/deployment.
- **Updating net-to-gross (NTG) methodologies and streamlining technical guidance** to better reflect current EE market dynamics and a predominantly third party driven portfolio and improve clarity and ease of implementation for third-party implementers.

These proposals will better align credited and verified savings, support fuel substitution, and reduce unnecessary administrative burden.

In developing this Application and the associated policy proposals, SCE engaged with a broad range of regulatory, industry, and other stakeholder perspectives to inform portfolio design and identify opportunities to improve affordability, performance, and accountability. This engagement included discussions with Commission staff, peer PAs, third-party implementers, educational institutions, and customer and advocacy interest groups, and helped shape SCE's understanding of current market conditions, delivery challenges, and areas where existing regulatory structures may constrain cost-effective outcomes. The resulting portfolio and policy recommendations reflect this informed dialogue and are intended to advance shared objectives of fiscal discipline, meaningful oversight, and durable customer value.

D. Regulatory Background

California's EE portfolios operate within a comprehensive regulatory framework established by the Commission through multiple EE rulemaking cycles and Commission decisions governing portfolio structure, delivery models, cost-effectiveness requirements, and performance accountability. SCE's Application has been developed to comply with these requirements while responding to evolving policy priorities and challenging market conditions that affect the feasibility and cost-effectiveness of EE delivery.

The Commission's current EE policy framework was developed in Rulemaking (R.) 13-11-005,[10] under which the Commission adopted foundational policies for statewide EE administration, long-term savings goals, cost-effectiveness requirements, and portfolio governance. In D.15-10-028,[11] the Commission established the rolling portfolio structure and four-year Business Plan cycle and required PAs to competitively solicit a significant portion of EE portfolios through third-party implementers. Subsequent decisions, including D.18-05-041[12] and D.20-02-029,[13] expanded third-party outsourcing requirements and refined solicitation, evaluation, reporting, and accountability rules that continue to shape how EE programs are designed and delivered. Last year, the Commission initiated R.25-04-010,[14] a successor EE rulemaking proceeding intended to address outstanding and emerging policy issues relevant to the 2028–2031 cycle and beyond. This new proceeding includes consideration of viable electric alternatives, cost-effectiveness inputs, and governance structures.[15] The outcomes of this rulemaking are expected to influence the longer-term evolution of EE portfolios and inform how PAs balance affordability, performance accountability, and decarbonization objectives.

More recently, the Commission adopted updated EE goals for the 2026–2037 period in D.25-08-034, establishing revised TSB targets for all PAs and increasing SCE's 2028–2031 goals

[10] R. 13-11-005, Order Instituting Rulemaking Concerning Energy Efficiency Rolling Portfolios, Policies, Programs, Evaluation, and Related Issues, issued November 14, 2013.
[11] D.15-10-028, pp. 40-92.
[12] D.18-05-041, p. 92.
[13] D.20-02-029, Order Modifying Decision 18-05-041 and Denying Rehearing Of Decision, as Modified, p. 5.
[14] R.25-04-010, Order Instituting Rulemaking for Oversight of Energy Efficiency Portfolios, Policies, Programs, and Evaluation, issued April 24, 2025.
[15] *Id.*

consistent with the Commission's adoption of a "High TRC" scenario. This Decision also incorporated updated market assumptions, including the impacts of federal Inflation Reduction Act incentives and evolving technology availability, further raising performance expectations for EE portfolios.

External policy and oversight developments further inform the regulatory context for this Application. The State Audit Report[16] and EO N-5-24[17] underscore the need for greater fiscal discipline, improved alignment between funding levels and achievable outcomes, and meaningful oversight of EE portfolios.

SCE's proposed portfolio reflects this regulatory context by aligning with existing Commission requirements while emphasizing affordability, disciplined forecasting, and objective performance metrics. The policy proposals described in Chapter XI seek to modernize elements of the current framework to better support cost-effective delivery and scalable decarbonization under current and emerging market conditions.

[16] *See* State Audit Report, pp. 1–4, 13–24.
[17] *See* EO N-5-24, pp. 1–3.

II.

PORTFOLIO SUMMARY

A. Service Area and Service Area-Related Factors

SCE is one of the nation's largest electric utilities, providing electric service to approximately 15 million people through more than five million customer accounts. SCE's service area spans approximately 50,000 square miles across Central, Coastal, and Southern California, encompassing portions of 15 counties and hundreds of cities and communities.

1. Climate Zones

SCE's service area includes a wide range of climate zones, which influence customer energy usage patterns, measure eligibility, and the cost-effectiveness of EE programs:

- Coastal and Mild Climate Zones (California Energy Commission (CEC) Zones 5, 6, 8, 9, 15, and 16): These zones include western portions of SCE's territory, such as Ventura County, coastal Los Angeles County, Orange County, and parts of Santa Barbara County. These areas generally experience mild winters and moderate summers with strong marine influence. While this can reduce peak heating and cooling loads, it supports year-round EE engagement opportunities.
- Inland and Warm Climate Zones (CEC Zone 10): These zones include inland valleys in Riverside and San Bernardino counties, characterized by hotter summers and drier conditions. Higher cooling demand in these areas increases the relevance of cooling-related EE measures and peak load management strategies.
- Desert and Hot Climate Zones (CEC Zones 13 and 14): These zones include the eastern portions of SCE's territory, such as the high desert areas of San Bernardino County and parts of Riverside and Imperial counties. Extreme heat and low humidity in these regions make load reduction, demand management, and customer resilience particularly important.

Climate variability across SCE's service area affects EE program delivery by influencing customer receptiveness, measure eligibility, outreach approaches, and performance expectations across sectors.

2. Socioeconomic Characteristics

SCE's service area includes a diverse socioeconomic landscape, with significant populations residing in disadvantaged communities (DACs) and customers that have other significant barriers to implementing EE measures. Factors such as income constraints, customer demographics, renter occupancy, language barriers, and limited access to capital can affect participation in traditional EE programs and influence program design and delivery considerations across sectors. Certain customers may reside in a DAC but not meet the income threshold requirements to participate in the Energy Savings Assistance (ESA) program. These customers may benefit from participating in an EE Equity program. For example, customers that live in the Interstate 710 corridor have been identified to reside in a DAC due to air quality impacts from the ports of Los Angeles and Long Beach; however, many of these customers do not qualify for ESA programs due to their income levels. These factors influence EE program delivery by shaping customer access, participation rates, and the feasibility of certain delivery mechanisms across sectors.

3. Other Program Administrators in the Service Area

SCE shares its service area with multiple other PAs, including RENs, Community Choice Aggregators (CCAs), and other IOUs.

Regional Energy Networks and Community Choice Aggregators: RENs and CCAs administer EE programs serving residential, commercial, industrial, agricultural, and public sector customers throughout California. Currently, no CCAs in SCE's service area administer EE programs, but several CCAs have submitted pending ALs to elect to administer EE programs, likely during the Application period. There are seven (7) RENs operating EE programs in California,[18] and the RENs were allocated approximately 18 percent of the State's budget for the 2024-2027 EE portfolios.

[18] The RENs outside of SCE's service area are Bay Area Regional Energy Network (BayREN), Northern Rural Energy Network (NREN), and San Diego Regional Energy Network (SDREN).

The RENs in SCE's service area are seeking to administer approximately 37 percent of the EE budget that would be allocated to SCE's customers for the 2028-2031 portfolio cycle. These RENs are:

- Central California Rural REN
- Inland REN
- Southern California REN
- Tri-County REN

Other Investor-Owned Utilities: SCE collaborates with Pacific Gas and Electric Company (PG&E), Southern California Gas Company (SoCalGas), and San Diego Gas & Electric Company (SDG&E) in the administration and funding of statewide EE programs. SCE and SoCalGas have overlapping service territories, with SCE providing electric service and SoCalGas providing natural gas service to many of the same customers.

The presence of multiple PAs within SCE's service area increases the need for clear program roles, alignment across offerings, and consistent customer pathways to minimize duplication and support cost-effective delivery. Coordination processes, roles, and practices among PAs are described in greater detail in Chapter VII.

4. Territory-Specific Considerations

Additional service area–specific characteristics relevant to EE portfolio planning include:

- **Wildfire Risk and Climate Vulnerability:** SCE's Climate Change Vulnerability Assessment identifies exposure to wildfires, extreme heat, storms, drought, and sea level rise across portions of its service area. These conditions can affect infrastructure planning, customer needs, and EE program deployment.[19]
- **Grid Readiness and Electrification Trends:** Electricity demand within SCE's service area is projected to grow significantly due to building[20] and transportation

[19] SCE's AL 4793-E, pp. 1-3.

[20] *See CPUC's Updates on Energy Efficiency and Fuel Substitution*, Presentation, Slide 21 (Aug. 25, 2025), TN-265764, *available at* https://efiling.energy.ca.gov/GetDocument.aspx?tn=265764&DocumentContentId=102614.

(*Continued*)

electrification[21] and statewide climate goals. These trends underscore the importance of effective EE strategies to support system reliability and manage long-term demand growth.

These conditions affect EE program delivery by influencing customer priorities, infrastructure readiness, and the pace at which savings can be achieved.

B. Application Summary Tables of Expected Performance Metrics Covering the 4-Year Budget Request and 8-Year Business Plan

The tables in this section summarize the proposed four-year (2028–2031) and eight-year (2028–2035) portfolio budgets, forecasted performance metrics, cost-effectiveness results, and compliance with statewide and third-party contribution requirements. Detailed portfolio strategies, sector approaches, and management practices supporting these forecasts are described in subsequent chapters.

Table II-1
4-year Portfolio Budget Forecast Summary (2028-2031)

	2028	2029	2030	2031	Total (4 years)
Total Portfolio Budget[1]	**$ 273,830.4**	**$ 288,783.8**	**$ 207,376.1**	**$ 227,223.3**	**$ 997,213.6**
Resource Acquisition[3]	$ 160,230.5	$ 173,364.7	$ 89,979.7	$ 106,583.4	$ 530,158.3
Market Support[3]	$ 67,336.5	$ 67,922.2	$ 71,689.2	$ 73,603.4	$ 280,551.2
Equity Segment[3]	$ 3,160.1	$ 3,151.7	$ 3,268.2	$ 3,246.1	$ 12,826.1
Codes and Standards[3]	$ 18,966.1	$ 19,277.7	$ 20,373.6	$ 20,628.2	$ 79,245.6
Evaluation, Measurement & Verification[4]	$ 13,639.6	$ 14,569.9	$ 11,567.8	$ 12,664.7	$ 52,442.0
Energy Division (ED) Portfolio Oversight	$ 497.6	$ 497.6	$ 497.6	$ 497.6	$ 1,990.4
On Bill Financing (OBF) Loan Pool[2]	$ 10,000.0	$ 10,000.0	$ 10,000.0	$ 10,000.0	$ 40,000.0

1. Does not include REN/CCA budgets from SCE's territory
2. OBF Loan Pool includes forecast new loans to be funded through current balance of unspent funds and loan repayments
3. Portfolio Support budget is included in Segment Budgets, excluding Evaluation Measurement & Verification (EM&V), based on the relative % for each segment
4. EM&V amounts include REN portions of ED EM&V. Amount based on REN forecasts supplied to SCE as of 3/5/26

and *California Public Utilities Commission, 2025 Annual Energy Efficiency (AAEE) & Annual Assessed Fuel Substitution (AAFS) Draft Results*, Presentation, Slides 41–42 (Nov. 12, 2025), TN-267171, *available at* https://efiling.energy.ca.gov/GetDocument.aspx?tn=267171&DocumentContentId=104330.

[21] *See* 2023 Integrated Energy Policy Report (IEPR), pp. 137-138 and California Public Utilities Commission, *Updates on Energy Efficiency and Fuel Substitution*, Presentation, Slide 10 (Aug. 26, 2025), TN-265765, *available at* https://efiling.energy.ca.gov/GetDocument.aspx?tn=265765.
and California Public Utilities Commission, *2025 AAEE & AAFS Draft Results*, Presentation, Slide 8 (Nov. 12, 2025), TN-267168, *available at* https://efiling.energy.ca.gov/GetDocument.aspx?tn=267168.

Table II-2
4-year Portfolio Forecast Summary (2028-2031)

	2028	2029	2030	2031	Resource Acquisition Segment Only (Total 4-year)	Entire Portfolio (Total 4-year)
Total System Benefit (TSB) ($000)	1,101,502	1,050,947	926,630	973,621	835,473	4,052,699
Total Resource Cost (TRC) Ratio - Total Portfolio	1.40	1.38	1.46	1.49	1.20	1.43
Program Administrator Cost (PAC) Ratio	4.30	3.88	4.91	4.69	1.55	4.39
Societal Cost Test (SCT) Base	1.98	1.96	2.09	2.13	1.61	2.03
Societal Cost Test (SCT) High	2.01	1.97	2.10	2.13	1.63	2.05
Ratepayer Impact Measure Test Ratio (RIM)	0.46	0.48	0.49	0.50	0.45	0.48
Lifecycle Net GWh	11,782	10,285	8,710	8,745	5,937	39,522
First Year Net MW	301	291	217	246	540	1,055
Lifecycle Net MMTHERMS	23	24	5	5	52	58
Lifecycle Net Electric CO2 Metric Tons	2,092,842	1,765,774	1,508,403	1,515,807	1,054,885	6,882,825
Lifecycle Net Gas CO2 Metric Tons	122,830	129,655	28,630	24,872	275,795	305,988

Table II-3
4-year Portfolio Budget Forecast Summary (2032-2035)

	2032	2033	2034	2035	Total (4-year)
Total Portfolio Budget[1]	**231,642.4**	**236,104.0**	**240,651.8**	**245,292.3**	**953,690.6**
Resource Acquisition[3]	108,715.0	110,889.3	113,107.1	115,369.3	448,080.7
Market Support[3]	75,075.4	76,576.9	78,108.5	79,670.6	309,431.5
Equity Segment[3]	3,311.0	3,377.2	3,444.8	3,513.7	13,646.7
Codes and Standards[3]	21,040.7	21,461.6	21,890.8	22,328.6	86,721.7
Evaluation, Measurement & Verification[4]	13,002.6	13,301.4	13,603.1	13,912.5	53,819.6
ED Portfolio Oversight	497.6	497.6	497.6	497.6	1,990.4
OBF Loan Pool[2]	10,000.0	10,000.0	10,000.0	10,000.0	40,000.0

1. Does not include REN/CCA budgets from SCE's territory

2. OBF Loan Pool includes forecast new loans to be funded through current balance of unspent funds and loan repayments

3. Portfolio Support budget is included in Segment Budgets, excluding EM&V, based on the relative % for each segment

4. EM&V amounts include REN portions of ED EM&V. Amount based on REN forecasts supplied to SCE as of 3/5/26

Table II-4
4-year and 8-year IOUs Total System Benefit Forecast (w/out Codes & Standards) vs. Goals

Year	Total System Benefit Forecast	Total System Benefit Goals	Percent of TSB Goal
2028	$ 254,882,613	$ 186,433,247	137%
2029	$ 276,445,827	$ 194,494,832	142%
2030	$ 151,699,417	$ 121,814,029	125%
2031	$ 190,669,957	$ 143,827,943	133%
Total (4 years)	**$ 873,697,815**	**$ 646,570,051**	**135%**
2032	$ 194,483,356	$ 160,949,931	121%
2033	$ 198,373,023	$ 174,302,268	114%
2034	$ 202,340,483	$ 181,510,710	111%
2035	$ 206,387,293	$ 191,298,035	108%
Total (4 years)	**$ 801,584,156**	**$ 708,060,944**	**113%**
Cumulative (8 years)	**$ 1,675,281,970**	**$ 1,354,630,995**	**124%**

Table II-5
4-Year and 8-Year Codes & Standards Forecast vs. Goals

Year	Energy Savings	Goals	Percent of Goal	Energy Savings	Goals	Percent of Goal
	GWh	MWh		MW	MW	
2028	689	689	100%	147	117	126%
2029	566	525	108%	128	94	135%
2030	523	459	114%	120	86	139%
2031	497	414	120%	117	82	143%
Total (4 years)	**2,275**	**2,086**	**109%**	**512**	**380**	**135%**
2032	447	372	120%	109	76	143%
2033	428	357	120%	105	74	143%
2034	336	280	120%	93	65	143%
2035	316	263	120%	86	60	143%
Total (4 years)	**1,527**	**1,272**	**120%**	**393**	**275**	**143%**
Cumulative (8 years)	**3,802**	**3,357**	**113%**	**905**	**655**	**138%**

Table II-6
Portfolio Statewide and Third-Party Contribution Percentage Requirements
(As Applicable)

Time Period	Budget Component	Qualifying Budget	Cumulative Total Budget w/o OBF Loan Pool and ED Portfolio Oversight	Contribution Percentage	Minimum Threshold
2028-2031 (4-years)	Statewide [1]	253,670	955,223	26.6%	20%
2028-2035 (8-years)	Statewide [1]	523,751	1,866,923	28.1%	20%
2028-2031 (4-years)	Third-party [2]	671,383	955,223	70.3%	60%
2028-2035 (8-years)	Third-party [2]	1,277,295	1,866,923	68.4%	60%

[1]D.16-08-019 (Decision 16-08-019) at 51; Conclusions of Law 24, 38–39; and Ordering Paragraphs 5–7, 10, 13.

[2] Third party program definition per D.16-08-019, OP 10, includes SW third-party budgets

III.

PORTFOLIO STRATEGIES

This chapter describes SCE's portfolio strategies for the 2028-2031 Portfolio Plan and 2032-2035 Business Plan periods. The strategies outlined in this chapter reflect how SCE will operate, manage, and evolve its EE portfolio within the existing regulatory framework, while advancing policy changes to further increase affordability, performance, and California's decarbonization objectives.

Consistent with the Energy Division's (ED's) guidance, each strategy describes SCE's planned approach over the full eight-year period covered by the Application, with more detail for the initial four-year period and a broader strategy outline for the subsequent four years. Where applicable, this chapter also identifies strategies that may be further enabled by new or updated policy. In those instances, the rationale for policy changes and SCE's recommended reforms is described in detail in Chapter XI.

A. Portfolio Strategies for the 2028–2031 and 2032–2035 Periods

EE programs remain a cornerstone of California's clean energy future – lowering overall energy costs, strengthening grid reliability, and reducing GHG emissions. Yet the framework guiding these programs has not kept pace with the changes in EE markets, technologies, and policy priorities. Because of this, SCE's current portfolio management strategies are unnecessarily constrained. SCE developed its portfolio strategy for the Application period assuming the Commission's current policies are in place, and SCE intends to meet its TSB and cost-effectiveness goals within the current EE framework. However, SCE also seeks to expand upon the current portfolio strategies to obtain more cost-effective TSB and to further the State's decarbonization goals through EE.

Accordingly, SCE's portfolio strategies are designed to evolve over the eight-year application period, and some are contingent on the Commission's adoption of the policy and rule changes outlined in Chapter XI. These proposals are intended to (1) address stagnation in EE markets and provide IOU PAs greater control over their portfolios and contracting flexibility; (2) modernize outdated and inconsistent practices to restore appropriate value and savings attribution to customers and PAs; and (3) establish a level playing field among all PAs to ensure prudent use of customer funds with

appropriate Commission oversight. Adoption of these reforms would foster an environment in which all PAs can achieve cost-effective TSB and enable SCE to deploy a broader set of portfolio tactics.

For example, SCE's proposed Net-To-Gross (NTG) policy reforms would modify existing discount values – based on outdated assumptions about free ridership – to align with actual market behavior, and therefore many measures that appear non-cost-effective today (i.e., TRC < 1.0) would appropriately qualify as cost-effective, allowing programs to deliver more holistic projects, offer higher-value incentives, and adopt innovative delivery approaches that can drive increased market participation. Similarly, third-party framework reforms would allow IOUs to respond more dynamically to changing market conditions, reduce duplicative roles and costs, and expand participation by a broader and more diverse set of vendors. The current third-party model often requires contractors to provide end-to-end services, which limits market entry, increases subcontracting, and constrains IOUs' ability to quickly pivot when new opportunities or market gaps emerge. Reducing the third-party implementer percentage requirement and/or adopting a more flexible definition of third-party program would enable faster and more targeted program deployment, leveraging existing IOU infrastructure where appropriate. In the interim, SCE will continue refining its portfolio within the confines of the current framework.

In managing the portfolio over the eight-year Application cycle, SCE will apply the three cross-cutting portfolio pillars described in the Executive Summary: advancing affordability for ratepayers, modernizing portfolio administration, and supporting California's decarbonization objectives. These pillars will continue to inform how SCE prioritizes resources, evaluates performance, and adapts strategies over time. The specific approaches to implementing these objectives are described in the individual strategies that follow.

During the first four-year period, SCE will focus on establishing and refining portfolio management practices that support affordability, optimize TSB, and stabilize performance across programs and segments. This includes building upon the achievements of the current cycle by strengthening program performance monitoring, enhancing program forecast accuracy, proactively identifying and addressing underperforming programs as early and efficiently as possible, and reducing avoidable administrative and delivery inefficiencies.

During the second four-year period and assuming adoption of the significant policy and rule changes proposed by SCE and other PAs, SCE will build on these foundational practices by scaling high-performing strategies, assessing and implementing the most efficient program design and implementation approaches, incorporating lessons learned and pivoting quickly when warranted. This evolution will support sustained affordability, improved cost-effectiveness, and durable customer and system benefits over the full eight-year horizon.

SCE has organized this section by the subsection headings provided in the ED's outline. As noted, several of these strategy topics overlap significantly, and SCE has responded to each question through the lens of its three pillars: affordability, modernizing EE, and decarbonization.

B. Portfolio Strategies By Topic

1. Advance Affordability And Mitigate Overall Rate Impacts

As described in the Executive Summary, SCE is committed to the objectives of the Governor's EO N-5-24 and to using ratepayer funds prudently and cost-effectively. To this end, SCE's budget request for the Application cycle is approximately 40 percent less than for the prior EE application cycle, and 12 percent less than SCE's EE budget for 2024-2027 requested in SCE's Mid-Cycle Advice Letter (MCAL), submitted in November 2025. The primary method to advance affordability is to make program-level cost effectiveness a guiding constraint for Resource Acquisition programs.[22] While this limits the number of programs and measures that can be offered in the Resource Acquisition portfolio, it is necessary both to advance affordability and to ensure that SCE can meet the Commission's requirement to deliver a Resource Acquisition portfolio with a TRC ratio of at least 1.0. With affordability being the top priority, SCE does not deem it prudent to administer Resource Acquisition programs that cannot forecast a TRC ratio of 1.0 or above,[23] particularly given PAs' ability to place up to 30 percent of programs into the Market support or Equity categories to achieve specific policy goals. SCE also notes that as an electric-only utility, SCE does not have the same opportunity in

[22] SCE will not require all market support and equity programs to meet a 1.0 TRC.
[23] SCE received extensive feedback from the PRG and ED that SCE should consider Resource Acquisition programs with forecast TRC lower than 1.0.

its local programs to augment underperforming programs with a significant amount of high-TRC gas measures, which are being phased out due to climate concerns.[24] Entering into contracts with implementers forecasting a TRC less than 1.0 would require other implementers, or SCE itself, to deliver more cost-effective programs to make up for any deficiency. This could create undue pressure on future third-party implementers and solicitations to require unrealistic outcomes or yield other unintended consequences such as risking non-compliance due to incorrect forecasts. Additionally, SCE is currently constrained by the 60 percent third-party implementer contracting requirement, which limits its ability to deliver an SCE-led program to address gaps or to revamp and relaunch underperforming programs.

Within the Equity and Market Support segments, SCE will prioritize addressing market gaps, which is the core function of these program areas. While these segments are not primarily driven by cost-effectiveness, SCE will continue to apply cost-conscious design and delivery approaches to improve affordability and enhance TSB performance where appropriate. In the Equity segment, SCE will also avoid duplication or overlap with RENs and other PA offerings, ESA program, to ensure that resources are targeted where they provide the greatest incremental value, as further discussed in Chapter XI. Taken together, these efforts support the long-term goal of improving not only near-term affordability but also long-term performance as the deployed measures mature.[25]

In addition to reviewing forecasted cost-effectiveness, SCE will continue to evaluate whether programs are on track to meet those forecasts and take action to modify or close programs that

[24] The fact that so many gas measures have high TRC supports the notion that utilizing TRC as the standard cost effectiveness tests omits consideration of important costs and benefits such as non-energy benefits.

[25] Market Support is defined as "Programs with a primary objective of supporting the long-term success of the energy efficiency market by educating customers, training contractors, building partnerships, or moving beneficial technologies towards greater cost-effectiveness." Equity is defined as "Programs with a primary purpose of providing energy efficiency to hard-to-reach or underserved customers and disadvantaged communities in advancement of the Commission's Environmental and Social Justice (ESJ) Action Plan;3 Improving access to energy efficiency for ESJ communities, as defined in the ESJ Action Plan, may provide corollary benefits such as increased comfort and safety, improved indoor air quality, and more affordable utility bills, consistent with Goals 1, 2, and 5 in the ESJ Action Plan.", *see* D.21-05-031, pp. 14-15.

are under-performing.[26] For the purposes of this EE Business Plan, performance is defined as demonstrating that programs are 1) cost-effectively achieving forecasted goals, 2) responding to market changes impacting their future ability to meet forecasts, 3) serving a defined market need, and 4) valued by customers.

To illustrate this evaluation methodology, SCE currently serves as the statewide lead for one program that is not achieving forecasted goals in a cost-effective manner and another that failed to receive viable cost-effective bids during the solicitation. After extensive analysis, SCE determined that continuing to administer these programs would not be in ratepayers' best interest for the next four-year period. Therefore, as outlined in Chapter IV Section B2, SCE is requesting closure of the Statewide Industrial Water/Wastewater (WISE) program after the third-party contract expires and recommends that each PA assess and determine whether and how water/wastewater EE projects are incorporated into their portfolios. SCE made this determination based on sustained underperformance of the existing statewide program, lack of water pump measures in the 2025 Potential and Goals (P&G) Study,[27] lower net to gross values that impact custom project cost-effectiveness and incentives, and reliance on local expertise and relationships to drive complex projects forward.

Additionally, SCE recently submitted an AL to close the Statewide Plug Load and Appliance (PLA) program after its third-party solicitation did not result in any viable bids that met SCE's cost-effectiveness threshold. The PLA program was originally intended to be a $40 million midstream offering; however, bids came in significantly lower (less than $2 million) due to the limited

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[26] SCE's ability to address under-performing programs is somewhat contingent on the outcome of proposed policy reforms related to the requirement that at least 60percent of the portfolio budget be allocated to programs proposed, designed, implemented and delivered by third-party implementers. For example, if SCE wants to reduce a program's budget or terminate a contract, it must first determine whether such change will bring it out of compliance with the 60percent third-party implementer contracting requirement. Moreover, because those programs are proposed and designed by the implementers, SCE has limited ability to require the third parties to pivot to different measures or strategies mid-contract without amendments that may require costly concessions. If SCE were to contract upfront for the right to refocus or redesign the program depending on portfolio need, SCE does not believe it would meet the current Commission definition of "third-party implemented." *See* Chapter XI Sections B1 and B2.

[27] The 2025 P&G Study results indicate that retro-commissioning and whole-building approaches will contribute to the future TSB potential of the Industrial, Agricultural, and Commercial segments.

measures available that meet the definition of a Title-24 plug load appliance,[28] the very limited number of cost-effective permutations available under the eTRM and in line with the 2025 P&G study results. SCE sought feedback from participants of the solicitation who did not submit bids, and one respondent indicated that fewer than 10 percent of the PLA permutations were cost-effective (prior to accounting for administrative costs). Of those that were cost-effective, the options were narrow or low volume, often restricted by specific customer types or geographic regions.

By retiring Resource Acquisition programs that are not cost effective – and focusing on those programs that can deliver meaningful TSB -- SCE aims to fulfill the mandate of the Governor's EO by streamlining the EE portfolio and eliminating "underperforming or underutilized programs."

In parallel with SCE's program-level cost-effectiveness and affordability approach and the resulting closure of Resource Acquisition programs that are not able to demonstrate cost-effective performance, as described in Chapter XI, SCE is seeking policy reforms that ensure consistent cost-effectiveness criteria across all PAs, improve efficiency within the third-party implementer framework by minimizing compliance costs, and streamlining governance and oversight structures.

2. Optimize TSB Achievement and Cost Effectiveness, as well as TSB Achieved per Ratepayer Dollar Spent

Optimizing TSB and cost effectiveness is closely linked to improving affordability. As stated above, SCE will continue to structure its portfolio, including third-party solicitations and SCE-designed offerings, to emphasize programs capable of delivering cost-effective TSB. Program design and delivery approaches will be evaluated based on their ability to achieve forecasted savings, operate efficiently, and respond to market conditions.

SCE conducts ongoing performance monitoring to identify emerging risks to TSB achievement or cost-effectiveness and actively manages program-level TRC risks by evaluating cost

[28] Cal. Code Regs., tit. 24, pt. 6, § 100.1 (Definitions and Rules of Construction) (defining "PLUG LOAD" as "the energy consumed by any appliances or electronic device that is plugged into a receptacle or receptacle outlet" and stating that plug loads "are not related to general lighting, heating, ventilation, cooling, and water heating, domestic and service water system, renewable power, information technology equipment, computer room electronic equipment, and electric vehicle charging").

drivers, delivery efficiency, and measure performance. When performance gaps are identified, SCE will continue to pursue remediation and corrective actions such as delivery adjustments, budget reallocations, or contract amendments or terminations, consistent with contractual obligations and compliance requirements. Additional funding may be directed to high-performing programs capable of delivering incremental savings beyond contracted targets, where consistent with regulatory and contractual constraints.

Although SCE remains accountable for overall portfolio performance and outcomes, TSB delivery and TRC ratios are influenced by multiple external factors such as evaluation practices, market conditions, and technical rules. The current structural and administrative framework constrains SCE's flexibility to adjust delivery models and respond dynamically to market signals, which heightens portfolio risk. SCE's portfolio strategy is to operate within these existing constraints while actively managing risk through disciplined oversight and performance-based decision-making.

Greater portfolio flexibility and dynamism would enhance SCE's ability to pivot towards options that improve TRC performance or achieve equivalent TSB outcomes at lower cost.

3. Advance Building Decarbonization Activities in SCE's EE Portfolio

California's climate targets are ambitious and clear. Carbon neutrality by 2045 will require mass building electrification, as detailed in the California Air Resources Board's (CARB's) 2022 Scoping Plan.[29] SCE's EE portfolio supports California's building decarbonization objectives by advancing cost-effective electrification and fuel substitution strategies that reduce GHG emissions while delivering customer and system value. SCE will continue to incorporate building decarbonization activities into its EE portfolio in a manner that is coordinated, performance-focused, and consistent with applicable cost-effectiveness, attribution, and evaluation requirements.

SCE recognizes that there is a tension inherent in the pillars of advancing short-term affordability and focusing on the State's long-term decarbonization goals. While large-scale decarbonization may require a larger initial investment, it is expected to advance affordability – as well

[29] CARB, 2022 Scoping Plan, Figure 4-8: Final energy demand in buildings in 2022, 2030, and 2045, in the Scoping Plan Scenario, p. 213, *available at* https://ww2.arb.ca.gov/sites/default/files/2023-04/2022-sp.pdf.

as the State's climate goals – in the longer term. However, there are limitations in the EE framework that constrain a PA's ability to further electrification measures within EE programs. Therefore, SCE's approach to building decarbonization within its EE portfolio emphasizes strategic integration in all sectors rather than standalone deployment. Fuel substitution measures will be incorporated where they can be delivered cost-effectively, aligned with TSB, or coordinated with complementary demand-side and supply-side resources to maximize overall value. Priority will be given to measures and delivery approaches that demonstrate durable emissions reductions, meaningful customer value, and alignment with system needs. For example, coordinated deployment of multiple measures through multi-distributed energy resources (DERs) programs can improve customer value propositions and support greater participation where single-measure approaches may be insufficient.

SCE recognizes that electrification technologies, costs, and market conditions continue to evolve. SCE will monitor performance, market uptake, and cost-effectiveness of electrification offerings and will adjust delivery approaches as needed to reflect changing conditions and portfolio priorities. Where appropriate, SCE will leverage pilot efforts, targeted offerings, and emerging technology insights to inform future portfolio design and improve the effectiveness of decarbonization strategies within EE.

If the Commission seeks the PAs to perform more building decarbonization within EE, various policy changes will be required, including phasing out natural gas incentives and changes to cost-effectiveness tests to better account for the long-term benefits of electrification and the long-term risks of the status quo. Most if not all these changes will be required to take place outside of this EE Business Plan Application proceeding. Additionally, other reforms related to attribution rules, and coordination frameworks are required to remove at least some constraints on the ability of EE portfolios to scale electrification at the pace required to meet state climate goals. Certain elements of SCE's building decarbonization strategy may be further enabled by policy reforms related to evaluation and program coordination, as described in Chapter XI, Section E. SCE also recognizes that the Commission is considering these and related issues in various ongoing proceedings, and the results of those proceedings may affect SCE's portfolio strategies during the Application period. Across these proceedings, the Commission is evaluating major policy reforms including updates to cost-effectiveness

tests, program precedence, and the Viable Electric Alternatives framework.[30] These reforms will directly shape the viability and scale of building electrification within EE portfolios. These decisions, along with parallel work in the Building Decarbonization Order Instituting Rulemaking (OIR)[31] and Distributed Energy Resource Provider Interface's (DERPI's)[32] Avoided Cost Calculator updates,[33] are likely to significantly influence the cost-effectiveness, permissible design, and overall opportunity space for building electrification measures in the EE proceeding.

Coordination with parallel initiatives will support complementary deployment while ensuring that EE-funded activities remain aligned with portfolio objectives and compliance requirements.

4. Focus Electric Savings at Peak Times with High Avoided Cost and Total System Benefits

SCE's portfolio strategy emphasizes directing EE savings toward periods with the highest system value—particularly peak demand hours with elevated avoided costs—because electric savings delivered during these windows provide greater grid reliability, reduce system costs, and mitigate long-term infrastructure needs. To maximize TSB, SCE will prioritize measures, technologies, and delivery approaches that produce savings during high-value periods, including system peaks and other constrained hours identified through avoided cost methodologies. This emphasis will guide portfolio design, measure selection, and performance monitoring across customer segments. Where appropriate, SCE will also support solutions that shift, reduce, or better manage electric load during peak periods, particularly when paired with EE improvements that deliver durable baseline savings. Aligning efficiency investments with peak system needs enhances overall portfolio value and strengthens TSB performance.

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[30] R.25-04-010, Addressing cost effectiveness tests, program assessment framework, and a defined Viable Electric Alternatives framework would all increase the cost effectiveness and availability of measures in programs.

[31] R.19-01-011, Phase 4 Policy Framework coordination to avoid duplication, clarify permissible incentive stacking and attribution calculations would increase building electrification opportunities in SCE's portfolio.

[32] DERPI is the OIR to Consider Distributed Energy Resource Program Cost-Effectiveness Issues, R.22-11-013.

[33] R.21-06-017, Avoided Cost Calculator updates may have significant impact on EE program TRC and TSB calculation as well as available measures that can be offered through the portfolio.

SCE will pursue opportunities to integrate EE with complementary load flexibility strategies, such as permanent load shifting of EE and non-EE technologies such as batteries and electric vehicle (EV) charging infrastructure within the multi-DER framework,[34] where consistent with program rules and portfolio objectives. Coordinated deployment of efficiency and load management measures can enhance customer value propositions, improve adoption, and increase system benefits compared to standalone approaches.

SCE recognizes that peak periods, avoided costs, and system needs may evolve due to changes in load shapes, electrification trends, and grid conditions. SCE will monitor portfolio performance relative to peak alignment and TSB outcomes and will adjust delivery approaches as needed to reflect updated system value signals and market conditions. Where appropriate, SCE will incorporate insights from pilots, emerging technologies, and performance data to refine its approach to peak-focused savings and improve alignment with system needs over time.

Ensuring that portfolio strategies remain aligned with evolving system value signals will require cost-effectiveness and evaluation frameworks that can adapt to changing load shapes, avoided costs, and electrification-driven demand growth. Certain elements of this strategy may be further enabled by policy reforms related to NTG evaluation practices. The rationale for these proposed reforms and SCE's recommended policy changes are described in Chapter XI.

5. Use of Meter-Based Savings Measurement

SCE will continue to employ meter-based savings measurement as a core portfolio approach because it enables whole-building and facility-level energy management, improves measurement accuracy, and aligns program outcomes with actual customer usage. Meter-based methods also capture operational, behavioral, and system-level savings that traditional measure-based methodologies may not fully represent. SCE will use these approaches where customer characteristics,

[34] SCE's AL 5249-E, pp. 3-10, adopted via disposition on September 18, 2025, *available at* https://edisonintl.sharepoint.com/:b:/t/Public/TM2/IQAiZu6f6F0ORZYUO8BpaIFkAS4aY3u69GoJ7ErdBxn0a-k?e=XcbrDb.

data availability, and program objectives support reliable and transparent evaluation, expanding the range of eligible efficiency activities and reinforcing performance-oriented delivery models.

Meter-based savings will be applied across multiple customer segments using approaches such as Strategic Energy Management (SEM), Normalized Metered Energy Consumption (NMEC), and population-based NMEC. These methods are well suited for customers with sufficient interval data and relatively stable usage patterns, including large commercial and industrial customers as well as residential, public, and small business customers through aggregated or behavioral designs. By normalizing actual consumption data for relevant variables, these approaches provide flexibility in how customers achieve savings while maintaining rigorous evaluation standards.

Meter-based measurement also enables performance-based program design by assessing savings at the whole-building or portfolio level rather than at the measure level. This structure broadens participation, encourages operational and behavioral innovation, and supports integrated demand-side strategies. SCE will design these programs to reflect longer performance timelines and sustained customer engagement, and will incorporate appropriate monitoring, reporting, and evaluation practices into portfolio management. Insights from meter-based programs will inform future planning and strategy by helping refine targeting, improve delivery models, and identify opportunities to expand or adapt meter-based approaches where they demonstrate strong customer and system value.

6. Promote and Deploy Exempt Measures in the Equity Segment

SCE prioritizes the deployment of exempt EE measures within the equity segment by supporting third-party implementer performance and expanding access to existing equity-focused residential and commercial programs. Exempt measures—those that achieve gas savings without burning gas—include insulation, duct sealing, smart thermostats, faucet aerators, windows and doors, behavioral measures, and EE audits. These measures help advance equity objectives by enabling participation in cases where traditional cost-effectiveness requirements or market conditions may otherwise limit access to EE.

SCE's portfolio strategy focuses on addressing participation barriers for customers in DACs and other hard-to-reach (HTR) populations through targeted deployment of exempt EE measures.

This approach emphasizes delivery models, outreach, and customer engagement strategies tailored to the needs of equity customers, including small businesses and multifamily tenants, while remaining aligned with applicable program rules and portfolio objectives.

7. Increase Progress on CPUC's Environmental and Social Justice (ESJ) Action Plan Goals

SCE is committed to advancing the CPUC's ESJ Action Plan goals through targeted programs, strategic partnerships, and ongoing stakeholder engagement. SCE's efforts and programs have been designed to promote equity, affordability, and access to clean energy resources for priority communities, including DACs, tribal lands, low-income households, and low-income census tracts, and include efforts such as:

- Targeting HTR residential customers, including low income, renters, and residents in DACs, and providing personalized energy assessments and guidance to help customers reduce energy costs and improve comfort (supporting ESJ Goal 1 – integrate equity and access considerations).
- Focusing on public sector facilities, including schools, government buildings, and tribal community facilities, and delivering strategic energy management and efficiency upgrades (supporting ESJ Goal 2 – increase investment in clean energy).
- Encouraging increased participation in EE, demand response, and electrification programs among DAC and HTR customers by emphasizing face-to-face engagement at community events, in-language education, and partnerships with community-based organizations (CBOs) to build trust and awareness (supporting ESJ Goal 5 – enhance outreach and public participation).
- Supporting workforce development and providing resources for customers and contractors to adopt energy-efficient technologies (supporting ESJ Goal 7 – promote high-road career paths and economic opportunity).

SCE will strive to strengthen these efforts and align with ESJ principles, while balancing other key priorities such as supporting affordability, optimizing TSB, and stabilizing performance across programs and segments, by:

- Expanding Outreach: Building on the successful community engagement models of existing equity programs to ensure programs are accessible and culturally relevant.
- Collaborating on Metrics: Participating in the ESJ Working Group with California Energy Efficiency Coordinating Committee (CAEECC) stakeholders to define success metrics for equity segments and programs. SCE recognizes that the CPUC is still finalizing updated definitions and metrics for ESJ communities under Action Plan 2.0. While awaiting this guidance, SCE will continue to serve DACs and tribal lands through existing programs and stands ready to adapt its strategies once new criteria are established. This flexibility ensures SCE remains responsive to regulatory direction and community needs. Additionally, the new metrics will likely result in program adjustments and could result in new program solicitations.
- Integrating Non-Energy Benefits: Participating in meetings with research organizations such as Illume who develop robust criteria that integrate health, comfort, and resiliency benefits into program designs, to offer insight as a PA.
- Supporting Affordability and Reducing Duplication: Pivoting away from programs solely targeting low-income households, which can be better addressed by income qualified programs (IQP)/ESA programs and leveraging RENs to serve low-income census tracts effectively.

8. Integrated Demand-Side Management (IDSM)

SCE's legacy IDSM funding authority ended at the end of 2025 pursuant to D.18-05-041,[35] and SCE did not request an extension of that funding. Consistent with this transition,

[35] D.18-05-041, p. 37.

SCE is not proposing any programs or activities under the former IDSM framework for this portfolio cycle.

While SCE is not pursuing legacy IDSM activities, the company is advancing opportunities to integrate multiple demand-side resources through its emerging multi-DER efforts. These activities are being developed pursuant to Resolution E-5387.[36] This approach enables SCE to support customer-focused, integrated solutions in a manner consistent with current regulatory guidance while ensuring clear distinction from the legacy IDSM framework.

9. Increase Workforce Education and Training to Support Quality EE Delivery

A skilled and prepared workforce is essential to delivering high-quality EE outcomes and supporting customer adoption across all sectors. SCE's portfolio strategy includes targeted workforce education and training efforts that strengthen contractor and trade professional capabilities, improve installation and maintenance quality, and support effective program delivery.

SCE will prioritize workforce training aligned with portfolio needs, including emerging technologies, fuel substitution measures, and equity-focused delivery approaches. These efforts are intended to enhance workforce readiness, reduce implementation barriers, and support consistent program performance across customer segments.

Workforce education and training activities will be coordinated with broader portfolio strategies to ensure alignment with customer needs, market conditions, and program objectives. Detailed workforce strategies, including sector-specific approaches and implementation pathways, are described in Chapter VI.

10. Develop Joint Demographic Data Reporting

SCE proposes a cost-effective and scalable approach to demographic data reporting by relying primarily on publicly available geographic information—such as census tracts and block groups—to assess program participation without increasing burden on customers or implementers.

[36] CPUC Resolution E-5387, pp. 10-12, A-14-19.

This methodology is most relevant for Residential, Public, and Commercial programs and can be integrated with minimal changes to existing claims processes. Annual reporting of program metrics, supported by quarterly claims-based updates, will provide sufficient transparency for portfolio oversight. While public demographic data offers a strong starting point, SCE acknowledges limitations and supports additional data collection or sampling only where required by the Commission.

If individual-level demographic data is mandated, SCE recommends that collection occur through Evaluation, Measurement & Verification (EM&V) activities under an approved work plan, consistent with D.23-06-055,[37] which requires the development of joint demographic data reporting. Participation should remain voluntary, and data collection should not impede customer engagement or program performance. Demographic reporting should begin only after the CPUC issues clear requirements, with a proposed six-month implementation period to ensure consistent, accurate adoption across the portfolio. This approach balances efficiency, equity, and regulatory alignment while supporting improved service to DAC and HTR communities.

11. Overcome Sector- and Segment-Specific Challenges

SCE's portfolio strategy recognizes that EE delivery challenges vary across customer sectors and segments, including residential, multifamily, commercial, industrial, agricultural, public sector, equity, and market support customers. Differences in building stock, customer decision-making, ownership structures, access to capital, and operational constraints require tailored delivery approaches to effectively support participation and performance.

SCE will address sector- and segment-specific challenges through targeted portfolio strategies that reflect these differences while maintaining alignment with the portfolio's priorities. This includes adapting delivery models, outreach approaches, and incentive structures, where appropriate, to better reflect customer needs and market conditions across sectors.

SCE will monitor participation and performance across segments to identify persistent barriers and opportunities for improvement. Insights gained through portfolio oversight, stakeholder

[37] D.23-06-055, pp. 30-31.

engagement, and evaluation activities will be used to inform continuous refinement of segment-specific strategies over time. Detailed strategies addressing sector- and segment-specific challenges are described in Chapter VI.

12. Promote Responsible Refrigerant Management and Low-Global Warming Potential (GWP) Technologies

SCE's EE portfolio supports responsible refrigerant management and processing by promoting the adoption of low- GWP and ultra-low-GWP technologies where applicable. Refrigerant-related impacts are an important consideration for certain EE measures, particularly those involving heating, cooling, and refrigeration technologies.

In 2025, SCE launched a third-party–implemented program through its Comprehensive Commercial solicitation that addressed high–GWP refrigerants and reduced associated GHG impacts. The small-scale program was designed to generate insights for future potential program development. SCE will continue to consider refrigerant impacts in portfolio planning and program design, consistent with cost-effectiveness and TSB requirements. Where appropriate, SCE will align incentives, delivery methods, and technology eligibility with evolving refrigerant standards and market conditions to support emissions reductions and long-term system value.

13. Spur Innovation in Program Design, Delivery, and Market Approaches

EE technologies and markets have evolved in the last several years. First, available EE measures have dwindled – particularly measures considered "low-hanging fruit" – in large part due to the success of utility EE programs making those more efficient measures standard. This has contributed to a shift from favoring individualized measures, such as lighting, to a more whole-building focused approach, such as SEM. Second, the State's climate goals are focused on decarbonization, which requires more fuel substitution measures in order to phase out natural gas and advance electrification. While there are many long-term benefits to this approach, there are additional up-front costs, and the current EE framework does not promote electrification. Specifically, existing cost-effectiveness tests, net-to-gross assumptions, and measure attribution rules were developed primarily for incremental efficiency improvements and do not fully account for the long-term system and emissions benefits

associated with electrification. As a result, electrification measures can face structural barriers to qualifying as cost-effective within EE programs, limiting their deployment through the EE portfolio.

The Commission's policies and rules have not kept pace with the significant shifts in EE markets. Instead, in 2016, the Commission sought to spur innovation by moving to a third-party implementer model of EE.[38] In SCE's experience, third-party implementers face the same challenges as the PAs because the current EE technical and policy rules constrain innovation. Increasingly stringent measure verification requirements have added administrative burdens, making compliance more difficult for third-party implementers. SCE has proposed various policy changes that will alleviate some of these constraints, but innovation requires investment and risk, which is in tension with affordability and cost effectiveness principles.

With those limitations in mind, SCE's EE portfolio strategy supports innovation in EE by encouraging new technologies, delivery models, and market approaches that improve performance, reduce costs, and enhance customer value. Specifically, SCE recently incorporated new market access programs (MAP) into its portfolio that utilize population-based NMEC methodology to measure TSB. These programs provide flexibility in how customers achieve savings while maintaining rigorous evaluation standards.

However, under the current NTG policy framework, the ability to scale and replicate these innovative approaches is limited, particularly in advancing complex custom projects where incentives still play an important role. As discussed in Chapter XI, applying program-level NTG adjustments or conservative default values to new third-party, custom-driven programs introduces unnecessary uncertainty, undermines project feasibility, and inflates administrative costs without improving evaluation rigor or customer outcomes.

Accordingly, SCE proposes targeted NTG policy reforms that better reflect how modern EE programs operate in practice, including aligning NTG treatment with program-level attribution, establishing default NTG values of 1.0 for custom applications, and streamlining the application of NTG

[38] D.16-08-019, pp. 69-75.

where savings are already measured through robust statistical methods. These reforms would reduce friction for implementers, encourage innovation in program design, and allow program administrators to scale high-performing, cost-effective models more efficiently while preserving accountability and advancing California's long-term decarbonization and affordability goals.

SCE will apply lessons learned from prior portfolio cycles to actively guide program design, identify market gaps, and support targeted innovation where emerging needs or opportunities are not adequately addressed through solicitations alone. This may include smaller more sub-segment focused programs, working with regulators to identify opportunities to right size program rigor (e.g. small end-use customers vs. large end-use customers), transitioning high-cost early adopter intervention models (100 percent incentive Direct Install) to lower cost self-service models (deemed incentives) for maturing technologies, and further reduction of attribution costs by trying to bundle smaller customers (population-based NMEC).

SCE will also leverage dedicated innovation-focused offerings, such as Emerging Technologies and market support activities, to test and refine new approaches before broader deployment. Portfolio oversight and evaluation activities will inform decisions about scaling successful innovations or discontinuing approaches that do not deliver sufficient customer or system value. Further discussion of innovation-related policy considerations is provided in Chapter XI.

14. Incorporate Community-Based Program Design

SCE's role in supporting community-based approaches includes fostering collaboration across stakeholders, promoting market vitality, and ensuring that community-based strategies are aligned with broader portfolio goals related to affordability, performance, and accountability. To avoid duplicating work among existing initiatives and cooperatives, SCE promotes collaboration among customers, contractors, manufacturers, and CBOs through its Workforce, Education and Training, Contractor Demand Building, and Emerging Technologies programs. These efforts emphasize meaningful in-person engagement and are complemented by SCE's Energy Education Centers, which foster outreach—including demonstrations of innovative carbon-free technologies and information on EE and IQP—to communities with accessibility barriers or lower participation in traditional courses.

Additionally, CAEECC's Equity Advisory Council (EAC) will provide insight regarding equity best practices for PAs and could inform whether additional collaboratives are necessary. Segment-specific applications of community-based program design are described in Chapter VI.

IV.

FORECAST METHODOLOGY AND ZERO-BASED BUDGETING

This chapter outlines SCE's forecasting methodology and budget development for the 2028–2035 period. In line with Commission direction, SCE used zero-based budgeting to develop the 2028–2031 funding request and applied inflation-based escalation for 2032–2035. The approach aligns with Commission-adopted forecasting, cost-effectiveness, and evaluation frameworks, sizing the portfolio based on expected program activity, delivery feasibility, and anticipated customer and system value.

Section A below details how budgets and benefits are forecasted and allocated across portfolio segments and customer sectors. These methods incorporate the delivery types and measurement approaches to assess program feasibility and expected performance. The resulting forecasts are grounded in Commission requirements, historical trends, and forward-looking market conditions to ensure requested budgets reflect realistic implementation pathways and measurable outcomes rather than prior-cycle funding levels.

Section B below summarizes the proposed modifications to the 2024–2027 cycle, including adjustments for expiring contracts, updated portfolio segmentation and delivery models, and zero-based budgeting to reassess program needs. These modifications improve alignment with affordability objectives, strengthen program accountability, and position the portfolio to adapt to an evolving market.

Together, the methodologies and portfolio adjustments in this chapter demonstrate that SCE's proposed EE budget is grounded in disciplined analysis, fiscal responsibility, and alignment with California's affordability, reliability, and decarbonization objectives. The approach preserves the flexibility needed to adjust implementation strategies over the eight-year application period while ensuring that customer-funded investments deliver verifiable and cost-effective system benefits.

A. Demonstration of the Reasonableness of Request

SCE's requested 2028–2035 EE portfolio budgets and associated benefits are reasonable and reflect Commission requirements, historical performance, and forward-looking market and system conditions. Zero-based budgeting ensures each program and budget level is evaluated on expected performance rather than prior-cycle funding. This request incorporates lessons from the 2024–2027

cycle and aligns proposed investments with California's affordability, reliability, and decarbonization objectives.

SCE developed its forecasts using Commission-approved cost-effectiveness tests and the TSB framework, applying current ex ante assumptions, avoided cost values, and evaluation inputs. These methodologies translate expected program activity, delivery approaches, and customer participation into forecasted savings, benefits, and costs. Budgets and benefits were therefore estimated based on realistic program activity, applicable delivery models, and measurement methods, ensuring funding levels are tied to measurable outcomes rather than rolled-forward historical budgets.

Given that many third-party implementer contracts conclude at the end of the 2024–2027 cycle, SCE incorporated solicitation placeholders into its zero-based budgeting process. These placeholders reflect forecasted market needs, anticipated program activity for future solicitations, and extensions of incumbent programs, where applicable. Associated budget levels were developed using expected delivery capacity, historical performance of comparable programs, anticipated market demand, and applicable portfolio requirements, enabling continuity of service while preserving competitive procurement and allowing new program designs to emerge.

The proposed portfolio balances Resource Acquisition, Equity, Market Support, and Codes & Standards activities to deliver measurable customer and system value while meeting all applicable portfolio requirements. Forecasts incorporate delivery types, including third-party, utility-administered, and hybrid, and measurement methods, such as measure-based and meter-based approaches, to reflect feasible implementation pathways and savings realization timelines.

Together, these methodologies produce a budget request sized to expected program performance and system value and a portfolio that delivers cost-effective savings, advances equity objectives, and supports long-term system needs while maintaining accountability and fiscal discipline.

1. Forecast Methodologies by Portfolio Segment

SCE used segment-specific forecasting to allocate budgets and estimate benefits across the Resource Acquisition, Equity, Market Support, and Codes & Standards segments. While each

segment serves a distinct role, all forecasts were developed using a consistent analytical framework that accounts for delivery type, measurement approach, and expected contribution to portfolio objectives.

Resource Acquisition: Resource Acquisition forecasts are based on anticipated customer participation, measure availability, delivery channel capacity, and cost-effectiveness expectations under the TSB framework. Budget and benefit estimates reflect a mix of third-party and utility-administered delivery models, with savings measured through deemed, custom, and meter-based methodologies as appropriate by sector. Forecasts incorporate historical realization rates, evaluation timelines, and ramp-up periods to ensure projected benefits align with realistic implementation schedules.

Equity: Equity forecasts emphasize access, participation, and customer benefit delivery for DAC and HTR communities with budgets reflecting expected outreach intensity, delivery costs, and the use of exempt measures and tailored delivery approaches. Benefits forecasting incorporates deemed and meter-based methodologies and recognizes that equity programs may prioritize participation, access, and long-term customer value alongside traditional cost-effectiveness metrics, consistent with Commission direction.

Market Support: Market Support forecasts focus on activities that strengthen market infrastructure, support workforce readiness, and enable customer engagement. Budget allocations reflect expected program activities, delivery mechanisms, and coordination with complementary demand-side efforts. Benefits were forecast based on the expected contribution of Market Support activities to broader portfolio performance, particularly their role in enabling future Resource Acquisition outcomes, using measurement approaches appropriate for market support functions.

Codes & Standards: Codes & Standards forecasts were based on anticipated regulatory cycles, stakeholder engagement, and expected adoption timelines for proposed code and standards enhancements. Budget levels reflect the effort required to support technical analysis, outreach, and implementation activities. Benefits forecasting relies on Commission-approved methodologies for estimating long-term savings associated with Codes & Standards activities.

Across all portfolio segments, SCE's forecasting approach ensures consistency, transparency, and reasonableness. This segment-specific methodology supports a balanced portfolio by

aligning budgets and benefits with each segment's role while maintaining compliance with Commission requirements and fiscal discipline.

2. Forecast Methodologies by Sector

SCE developed sector-level budget and benefit forecasts using a consistent analytical framework applying common forecasting assumptions, cost-effectiveness inputs, and evaluation practices across sectors, while adjusting for sector-specific differences in customer characteristics, building stock, delivery approaches, and measurement methodologies. Sector allocations were informed by market potential,[39] historical participation and performance, delivery feasibility, and anticipated program activity over the application period.

Sector-level forecasts align portfolio category objectives with sector-appropriate delivery models and sector-specific conditions, ensuring that requested funding levels reflect feasible implementation pathways and achievable outcomes.

a) Residential Sector

Residential sector forecasts were developed based on expected customer participation, housing characteristics, and delivery channels, including single-family and multifamily offerings. Budget and benefit estimates reflect the mix of deemed, custom, and meter-based approaches used to deliver residential savings, including behavioral and whole-home strategies where applicable. Forecasts account for differences in participation drivers between homeowner- and renter-occupied housing, including decision-making authority, access to capital, and incentive sensitivity, as well as the role of equity-focused delivery approaches in supporting access and participation among hard-to-reach customers.

b) Commercial Sector

Commercial sector forecasts were informed by building size, use type, and operational characteristics, as well as expected delivery through both measure-based and meter-based

[39] Guidehouse Inc., 2025 Energy Efficiency Potential and Goals Study, pp. I-6-I-8, *available at* https://www.cpuc.ca.gov/industries-and-topics/electrical-energy/demand-side-management/energy-efficiency/energy-efficiency-potential-and-goals-studies/2025-potential-and-goals-study.

program designs. Budget allocations were informed by anticipated participation across small, medium, and large commercial customers, with delivery approaches selected to match customer size, operational complexity, and data availability. Measurement assumptions reflect the use of deemed savings where appropriate and custom, strategic energy management and NMEC methodologies for whole-building or performance-based approaches with longer project development and implementation timeframes.

c) Industrial Sector

Industrial sector forecasts are based on expected participation among energy-intensive customers, the availability of cost-effective project opportunities, and delivery through custom and meter-based approaches. Budget and benefit estimates account for longer project development timelines, higher per-project savings, and the use of site-specific engineering analysis and meter-based measurement. Forecasts also reflect the role of SEM and continuous improvement approaches in delivering durable, site-specific savings over longer time horizons.

d) Public Sector

Public sector forecasts reflect expected participation by local governments, schools, and other public entities, accounting for procurement timelines, capital planning cycles, and delivery through both measure-based and performance-oriented approaches. Budget allocations were informed by anticipated project pipelines, procurement and capital planning timelines, and coordination with complementary public-sector initiatives. Measurement methodologies include deemed and custom savings approaches, as well as meter-based measurement where whole-facility strategies are employed.

e) Agricultural Sector

Where applicable, agricultural sector forecasts are based on expected participation among irrigation and agricultural customers, technology adoption opportunities, and seasonal load characteristics. Budget and benefit estimates reflect delivery through deemed, custom, and meter-based approaches, with measurement assumptions aligned to sector-specific usage patterns and evaluation practices.

Across all sectors, SCE explicitly incorporated delivery type and measurement method assumptions into sector forecasts so that budget levels, expected savings, and realization timelines remain internally consistent and aligned with Commission-adopted evaluation practices.

3. Zero-Based Budgeting Methodology

SCE developed the 2028–2035 EE portfolio budgets using a zero-based budgeting methodology, consistent with D.21-05-031.[40] Under this approach, all proposed budgets were evaluated from a zero baseline and built based on expected program activity, delivery feasibility, and anticipated performance, rather than by carrying forward prior-cycle funding levels. Although this application covers an eight-year period (2028–2035), SCE applied zero-based budgeting principles specifically to the first four-year period (2028–2031), consistent with Commission direction and practical forecasting limitations. This two-step approach balances the Commission's zero-based budgeting objectives with the need for reasonable long-term planning assumptions, ensuring that the requested budgets remain grounded, transparent, and administratively feasible across the full eight-year application period.

Because a significant portion of third-party implementer program contracts conclude at the end of the 2024–2027 portfolio cycle, SCE incorporated the use of solicitation placeholders as part of its zero-based budgeting methodology. These placeholders represent forecasted market needs and anticipated program activity for future competitively solicited third-party implementer programs, rather than extensions of specific incumbent contracts, when applicable. Budget levels associated with solicitation placeholders were developed based on the historical performance of comparable program types, expected delivery capacity, anticipated customer demand, and applicable portfolio requirements, allowing SCE to request funding levels aligned with expected portfolio needs while preserving the integrity of the competitive solicitation process. This approach ensures continuity of service and program availability following the expiration of existing contracts, while allowing SCE to competitively procure program designs that best meet evolving market conditions and portfolio objectives during the application period.

[40] D. 21-05-031, Ordering Paragraph (OP) 8, Assessment of Energy Efficiency Potential and Goals and Modification of Portfolio Approval and Oversight Process.

Across both existing programs and solicitation placeholders, SCE incorporated delivery type, measurement approach, and expected realization timelines into its zero-based budgeting analysis. Budget estimates reflect differences between measure-based and meter-based programs, anticipated ramp-up periods, evaluation timelines, and the timing of savings realization. This ensures that requested funding levels are internally consistent with forecasted benefits and achievable within the application timeframe.

SCE's zero-based budgeting methodology supports a disciplined and transparent approach to portfolio development. By grounding budget requests in expected program activity, market needs, and performance assumptions—rather than historical precedent—SCE ensures that requested funding levels are reasonable, aligned with Commission requirements, and capable of delivering measurable customer and system value over the 2028–2035 period.

B. Program Modifications from 2024-2027 Portfolio Cycle

This section describes significant changes between SCE's 2024–2027 EE portfolio and the proposed 2028–2035 portfolio, including program modifications, closures, and new or placeholder programs that have not been addressed in the True-Up AL or MCAL. These changes reflect lessons learned from the current portfolio cycle, evolving market conditions, and Commission direction.

Because a substantial portion of third-party program contracts conclude at the end of the 2024–2027 cycle, the proposed portfolio includes both adjustments to existing programs and the introduction of new programs or program placeholders to ensure continuity of service while preserving competitive solicitation processes. Together, these changes are intended to improve portfolio performance, reduce administrative inefficiencies, and better align program offerings with customer needs and system priorities over the 2028–2035 period.

1. Significant Program Modifications from the 2024–2027 Portfolio Cycle

This subsection describes the material changes to program scope, structure, delivery approach, and budget allocation relative to the 2024–2027 portfolio. Modifications include updates to portfolio segmentation, program consolidations, shifts in delivery models, and targeted budget reallocations intended to improve performance, cost-effectiveness, and coordination. Since the prior

application, SCE has transitioned from relying solely on third-party data and forecast estimates, which were not always accurate to a more integrated forecasting approach. During the current cycle, SCE began incorporating internal program knowledge and market insights alongside third-party estimates. This enhanced methodology will continue in the new cycle to strengthen forecast accuracy and overall portfolio performance.

SCE focused portfolio modifications on areas where experience from the current cycle demonstrated opportunities to improve delivery efficiency, reduce duplication, and better align offerings with market conditions and customer needs. These changes are intended to strengthen accountability, enhance program performance, and support long-term portfolio stability.

2. Closed Programs

Program closures reflect SCE's assessment that the identified programs are no longer the most effective means of delivering EE benefits, due to factors such as limited market demand, overlap with other offerings, performance challenges, or changes in portfolio strategy. Where applicable, SCE has identified alternative delivery approaches or successor programs to maintain customer access to EE services.

In the absence of an established and Commission-approved Statewide Program Assessment Framework and recognizing that the PAs are submitting a proposed framework for Commission review concurrently with this Application, as discussed in Chapter V, Section E, SCE has evaluated the Statewide WISE Program based on available forecast and performance information, results from the 2025 P&G, lower NTG ratios, and reliance on local expertise and relationships and determined that the program should be closed. Consistent with SCE's strategy to prioritize cost effective programs and pending approval of the assessment framework, SCE requests authorization to close the Resource Acquisition Statewide WISE program upon expiration of the current third-party contract.

While the Statewide WISE program was intended to deliver cost-effective savings through a centralized statewide delivery model, forecasted performance indicates that the program is not cost effective and is not expected to materially improve over the remainder of the contract term. Closure of the statewide program will better enable PAs to address site-specific water and wastewater efficiency

opportunities tailored to customer conditions and local market dynamics and will eliminate issues related to statewide program precedence and overlap across the various PAs EE portfolios. SCE remains committed to advancing cost-effective water and wastewater efficiency and will continue to assess market needs and delivery opportunities through locally administered programs and future portfolio planning efforts.

Separately, SCE notes that the PLA Program is being addressed through the Commission's standard program closure process. SCE has submitted (AL5765-E) seeking authorization to close the PLA program, which is pending Commission approval.

Table IV-7 lists programs that are proposed to be closed as part of the transition from the 2024–2027 portfolio to the 2028–2035 portfolio, excluding programs that are ending solely due to completion of their original contract term or fulfillment of contractual commitments.

Table IV-7
Closed Programs from the 2024-2027 Cycle

Name of Closed Program	Segment	Sector	Unspent Budget of the Closed Program	Total EE budget from the 2024-2027 cycle[41]	Rationale for Program Closure	Underperformance and Remediation
Pending Program Closure						
Residential Energy Advisor (Resource)	Equity	Residential	N/A[42]	$8,458,565	Will be replaced with Home Performance Plus (Pilot)	Program did not meet performance goals. SCE and implementer mutually agreed to terminate program and launch a new pilot to test new approaches in the Residential and Equity segments.
Residential Energy Advisor	Equity	Residential	N/A[43]	$5,174,667	Will be replaced with Home	Program did not meet performance goals. SCE and implementer mutually agreed to

[41] From SCE's Mid-Cycle AL 5670-E, Appendix 1 - 2024 - 2027 Program Portfolio Budget and Targets.
[42] Unspent budget from Residential Energy Advisor (Resource) will be reallocated to support the expansion of the Disadvantaged Community Marketing and Outreach (DACMO) program for the addition of resource offerings.
[43] Unspent budget from Residential Energy Advisor (Non-Resource) will be reallocated to support the expansion of the Disadvantaged Community Marketing and Outreach (DACMO) program for the addition of resource offerings.

(Non-Resource)					Performance Plus (Pilot)	terminate program and launch a new pilot to test new approaches in the Residential and Equity segments.
Statewide Plug Load and Appliance Program	Resource Acquisition	Residential	N/A	$20,000,000[44]	No viable bids submitted. Not cost effective and limited potential in the market.	N/A
Statewide Water/ Wastewater Pumping Program	Resource Acquisition	Public	N/A[45]	$11,909,414	Program is not cost-effective or expected to improve. Closing Statewide program allows PAs to better deliver tailored, locally administered water and wastewater efficiency programs that more effectively meet market and customer needs.	N/A

3. New Programs and Program Placeholders

SCE is not proposing new programs in this Application. However, SCE does have program placeholders where future third-party solicitations are anticipated but final designs have not yet been determined. These placeholders enable SCE to forecast reasonable budget levels and expected benefits based on projected market needs and delivery capacity, while preserving the integrity of competitive procurement. Final program designs will be selected through Commission-approved

[44] Budget reflects 2024-2027 forecasted Plug Load and Appliance (PLA) Program Budget for the Statewide PLA (SCE_SW_PLA_AE) program submitted in SCE's Mid-Cycle AL 5670-E. SCE has since requested to close the program.

[45] Existing Statewide WISE program is still in operation. Unspent budget will be determined once the program closes.

solicitation and contracting processes. Chapter V Section C3 provides an overview of SCE's anticipated program placeholders and solicitation schedule.

V.

PORFOLIO MANAGEMENT

This chapter describes how SCE has designed and structured its EE portfolio for the 2028–2031 application period, with a high-level business outlook for 2032–2035, consistent with the Commission's established multi-cycle planning framework. SCE's portfolio design reflects Commission-adopted requirements, lessons learned from the 2024–2027 portfolio cycle, and the need to deliver measurable customer and system value during the four-year funding period, while supporting effective implementation, performance management, and oversight of proposed activities. Organized to advance affordability for ratepayers, modernize portfolio administration, and support California's decarbonization objectives, the portfolio structure informs how delivery approaches are selected and resources are allocated across segments, sectors, and customer types. This chapter further explains the rationale for SCE's portfolio segmentation and delivery framework and describes how the portfolio supports coordination, performance monitoring, and implementation flexibility during the funded period, consistent with Commission requirements related to cost-effectiveness, evaluation, equity, and oversight. The portfolio design described in this chapter establishes the organizational foundation for the detailed segment strategies, program descriptions, and implementation approaches presented in subsequent chapters. Together, these elements support a portfolio that is structured to deliver accountable results during the 2028–2031 funding cycle, while remaining responsive to evolving market conditions and system needs over the longer-term outlook period.

A. Overview for 4-Year Plan and 8-Year Plan: Key Metrics and Outcomes

During the 2028–2031 portfolio cycle, SCE's portfolio is designed to deliver measurable, accountable outcomes aligned with approved budgets and Commission requirements.

SCE's planned portfolio modifications also reflect its commitment to advancing affordability by applying a more stringent cost-effectiveness standard than currently required. While the Commission requires only that the Resource Acquisition ***segment*** achieve a TRC ratio of at least 1.0, SCE is holding itself and its portfolio to a higher standard than this requirement and will be requiring that each new Resource Acquisition ***program*** forecast at least a 1.0 TRC. As discussed in Chapter III and Chapter VI,

this program-level threshold is intended to ensure that customer-funded investments consistently deliver net benefits and do not shift affordability risks onto other programs or future solicitations. Experience from the 2024–2027 cycle demonstrated that programs forecasting sub-1.0 TRC ratios increase portfolio-level risk and require compensatory performance elsewhere. As the majority of the portfolio is now led by third-parties, SCE's ability to steer or influence course correction is limited. To mitigate these risks, SCE refined its forecasting approach by integrating internal operational knowledge and market insights with third-party estimates, enabling more accurate program-level assessments. These modifications strengthen accountability, reduce avoidable costs, and better align program design with SCE's affordability objectives and long-term portfolio stability.

Market Support outcomes emphasize enabling effective delivery of EE and clean energy solutions by strengthening market infrastructure, supporting workforce readiness, and advancing technologies toward greater cost-effectiveness. Market Support programs are designed to enable future savings and emissions reductions that cannot be fully captured through immediate, measure-level cost-effectiveness requirements, particularly for emerging technologies and electrification strategies. The value of these programs is therefore best understood through their contribution to future portfolio performance, technology readiness, and market maturity, rather than near-term savings metrics alone.

Equity outcomes during the application period will focus on providing access to EE benefits for underserved customers, including DACs and HTR populations that are not addressed by other providers and delivery channels, such as RENs and income-qualified programs, to avoid duplication and ensure efficient use of customer funds. Equity programs prioritize participation, customer benefit delivery, and alignment with objectives and metrics informed by CAEECC recommendations. To support affordability and avoid duplicative spending, SCE will prospectively assess overlap with other programs and delivery channels, such as RENs' equity programs and income-qualified offerings.

Codes & Standards outcomes during the funded period include development, technical assistance, advocacy, research, and coordination activities that support adoption, compliance, and implementation of more stringent building codes and appliance standards. While savings realization

extends beyond the application period, near-term outcomes include successful engagement in regulatory processes, improved compliance pathways, and readiness for future code adoption.

The 2032–2035 Business Plan reflects how outcomes achieved during the first four years of the Application cycle position the portfolio for sustained performance and system value over time. Programs and delivery approaches that demonstrate strong performance during 2028–2031 are expected to support continued TSB achievement and improved cost-efficiency as markets mature and delivery capabilities strengthen. Early Market Support and Equity investments are expected to contribute to improved trust and increased adoption of efficient and clean energy technologies in future portfolio cycles. Codes & Standards efforts undertaken during the application period are expected to yield long-lasting baseline improvements that support California's long-term clean energy and decarbonization goals.

1. Integrated Portfolio Outcomes

Across the entire eight-year Application period, SCE's portfolio outcomes are intentionally interdependent. Resource Acquisition programs deliver near-term, measurable savings; Market Support programs enable innovation and future scalability; Equity programs focus on providing access and participation for at risk customers; and Codes & Standards activities create durable system-wide impacts. The size, scale, and performance of Resource Acquisition programs establish the funding envelope within which Market Support and Equity activities operate, consistent with applicable portfolio caps and requirements.

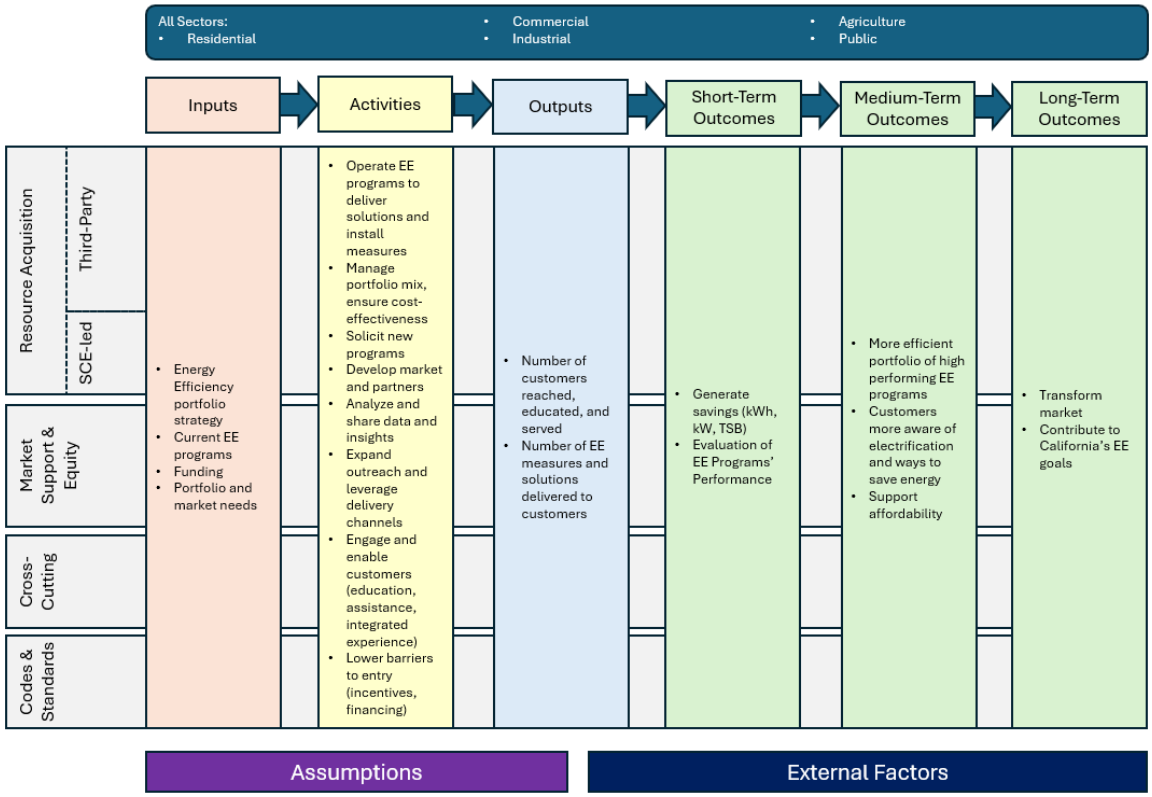
During the 2028–2031 period, SCE will continue to leverage proven intervention strategies while refining sector-specific approaches to improve affordability and effectiveness. Where gaps in market delivery exist, SCE will coordinate with overlapping program administrators to identify and manage areas of potential overlap and duplication when pursuing new or modified programs to the extent they are cost-effective, including competitively solicited third-party offerings and, where necessary and consistent with Commission requirements, utility-administered programs to ensure portfolio objectives are met.

Building electrification is a cross-cutting focus across portfolio segments and sectors. During the application period, SCE will prioritize delivery approaches that support cost-effective electrification opportunities, including targeted midstream strategies designed to increase contractor engagement and customer adoption. Under current cost-effectiveness and attribution frameworks, the pace and scale at which electrification outcomes can be achieved within EE portfolios remain constrained as described in Chapter III and Chapter XI with respect to cost-effectiveness requirements, continuing availability of natural gas incentives, and attribution rules that restrict fuel substitution within EE, none of which support state climate objectives. SCE's policy proposals in Chapter XI are intended to partially address these challenges by modifying elements of the EE framework to better align with evolving market conditions and the State's decarbonization goals, while focusing on affordability. SCE looks forward to continuing to work with the Commission and stakeholders to further address the challenges inherent in the current EE regulatory framework to better enable electrification measures within EE, consistent with the State's decarbonization goals.

Together, these interdependent outcomes will help ensure that the proposed Business Plan delivers cost effective and compliant results during the Four-Year Portfolio Plan period while laying the foundation for sustained affordability, equity, and system value over the longer-term Business Plan period. Where portfolio outcomes are constrained by an existing outdated evaluation model, inconsistent compliance requirements amongst PAs, or administrative frameworks, SCE identifies these limitations and corresponding reform recommendations in Chapter XI.

2. Portfolio Logic Model

Figure V-1
SCE EE Portfolio Logic Model



B. Strategies to Optimize Portfolio and Manage Risk

1. Use of TSB Goals and Cost-Effectiveness Metrics to Maximize Portfolio Performance

SCE's Four-Year Portfolio Plan is structured to maximize TSB and manage cost-effectiveness risk through active portfolio oversight, disciplined use of performance metrics, and targeted corrective actions. The portfolio balances near-term requirements for cost-effective EE with strategic investments that support longer-term clean energy adoption, equity outcomes, and market stability. This structure enables SCE to deliver measurable customer and system value while maintaining flexibility to respond to changing market conditions and performance risks.

SCE leverages the Commission's portfolio segmentation framework, Resource Acquisition, Market Support, Equity, and Codes & Standards to align program objectives with

appropriate performance expectations and risk profiles. This framework provides the ability to direct funding toward programs that deliver near-term, cost-effective savings while also supporting activities that generate future system value, such as electrification readiness, emerging technologies, workforce development, and equity-focused delivery, where immediate cost-effectiveness may not fully capture long-term benefits.

a) Portfolio Performance Metrics and Tracking

To monitor progress and manage performance risk, SCE uses a defined set of portfolio-level and segment-level metrics that inform ongoing management decisions. These include:

- TSB: The primary portfolio performance metric used to forecast, track, and manage overall system value.
- Resource Acquisition Cost-Effectiveness: Tracking segment-level cost-effectiveness to ensure compliance with Commission requirements and manage affordability risk.
- Third-Party Contract Performance: Monitoring contracted savings delivery, ramp-up timelines, and realization rates to identify underperformance early.
- Portfolio Segmentation and Budget Allocation: Tracking budget distribution across segments to ensure alignment with portfolio objectives and compliance caps.

These metrics are reviewed on an ongoing basis and reported through monthly and annual energy efficiency reports. They are used not only for reporting purposes, but as active management tools to assess whether programs remain on track to meet forecasted outcomes and to trigger corrective actions where needed.

b) Use of TSB Goals

TSB serves as the foundational metric guiding SCE's portfolio design and performance management. By monetizing avoided energy, capacity, and GHG costs, TSB captures the

full system value of EE and electrification activities, including the timing and location of savings.[46] This enables SCE to prioritize measures and delivery approaches that provide the greatest system value, rather than focusing solely on aggregate kilowatt-hour (kWh) or kilowatt (kW) reductions.

SCE's third-party contracts, which comprise the majority of the Resource Acquisition segment, are structured to meet forecasted TSB and cost-effectiveness goals, assuming third-party implementers deliver on their contracts. This emphasis encourages delivery of durable, high-value savings and supports alignment with evolving system needs. Portfolio forecasts and performance tracking are calibrated to ensure that TSB goals remain achievable within realistic implementation timelines.

2. Managing Cost-Effectiveness in the Resource Acquisition Segment

In developing the Resource Acquisition segment budget for the 2028–2031 period, SCE incorporated Commission-adopted goals, the 2025 P&G Study, and observed third-party pricing trends by sector and segment. SCE will continue to evaluate the mix of measures, delivery approaches, and program designs to cost-effectively meet savings and TSB goals while managing affordability risk.

Ongoing portfolio oversight includes monitoring forecast-to-actual performance and assessing whether cost drivers, market and regulatory conditions, or evaluation assumptions are affecting expected outcomes. Where appropriate, SCE may adjust program delivery, budgets, or solicitation strategies to maintain compliance and optimize portfolio performance.

3. Third-Party Contracting and Portfolio Flexibility

Consistent with D.18-01-004, SCE developed its portfolio to ensure compliance with third-party outsourcing requirements. Third-party delivery remains a central component of SCE's portfolio across sectors and segments, and SCE will continue to rely on competitive solicitations to access market expertise and delivery capacity and to support innovation where it can improve performance and customer value. At the same time, SCE recognizes that effective portfolio outcomes depend on clear performance expectations, disciplined oversight, and the ability to use the most

[46] D.21-05-031, p. 9 (defining TSB as "an expression, in dollar terms, of the lifecycle energy, capacity, and GHG benefits, expressed on an annual basis").

appropriate delivery approach for a given market need. As contracts expire or conclude, SCE will conduct competitive solicitations or pursue other compliant mechanisms to maintain required outsourcing levels.

At the same time, SCE manages third-party contracts with a focus on performance, affordability, and overall portfolio value. While SCE is fully accountable for achieving portfolio outcomes, existing structural requirements governing third-party program delivery can limit the speed and scope of corrective actions when programs underperform or market or regulatory conditions change, making it difficult to adjust. In these circumstances, SCE may pursue contract amendments, new solicitations, or alternative delivery approaches, consistent with Commission requirements to ensure portfolio objectives are met.

Greater flexibility in how program administrators deploy third-party, utility-administered, or hybrid delivery models would enhance SCE's ability to manage performance risk, reduce administrative friction, and direct resources toward the most effective solutions, particularly where performance issues require timely intervention to protect ratepayer value. Where existing requirements constrain these efforts, SCE identifies corresponding policy considerations and recommended reforms in Chapter XI.

4. Portfolio Optimization and Risk Management

SCE will actively manage portfolio risk through a structured optimization framework that includes:

- Identification of underperformance through regular monitoring of savings delivery, budgets, and realization timelines;
- Corrective actions in collaboration with third-party implementers and internal program teams to address root causes of underperformance;
- Budget and program adjustments, including shifting funds from lower-performing to higher-performing programs where additional savings opportunities exist, consistent with D.21-05-031;

- Lifecycle management of programs, supporting ramp-up, peak performance, and orderly ramp-down as market conditions evolve;
- Targeted gap-filling through new solicitations or program modifications where market needs are not adequately addressed;
- Coordination with other demand-side programs to avoid duplication and enhance system value; and
- Risk mitigation planning to address unplanned or disruptive events that may affect portfolio performance.

Through these practices, SCE ensures that portfolio strategies remain aligned with Commission goals, responsive to performance risks, and capable of delivering maximum value to customers.

5. Managing Risks of Underperformance

SCE employs a proactive, portfolio-level approach to identifying, managing, and mitigating the risk of underperformance across programs, sectors, and segments. Portfolio performance is monitored on an ongoing basis using forecast-to-actual tracking of savings, TSB, budgets, and delivery timelines. This monitoring enables identification of emerging risks and supports timely intervention to protect portfolio outcomes and ratepayer value.

Performance oversight occurs through regular internal reviews and structured engagement with program implementers. SCE reviews key indicators such as TSB realization rates, project pipelines, expenditure pacing, and delivery milestones to assess whether programs remain on track to meet contracted or forecasted outcomes. Where early warning signs are identified, SCE initiates targeted discussions with implementers to diagnose root causes and assess corrective options.

While these oversight and corrective action mechanisms are designed to restore underperforming programs to align with portfolio objectives, their effectiveness is inherently shaped by the structure and timing of third-party procurement and evaluation. As discussed in the following section, certain risks, particularly those related to forecasting uncertainty and ex-post evaluation, cannot always be fully mitigated through program level intervention alone.

a) Corrective Action Framework

When programs, sectors, or segments exhibit material underperformance, SCE may implement a corrective action plan tailored to the nature and severity of the issue. Corrective actions may include, but are not limited to:

- Contractual performance management, including enforceable milestones and performance expectations;
- Targeted program design or delivery adjustments to address market, regulatory, operational, or customer-facing barriers;
- Leveraging pay-for-performance structures, where applicable, to ensure that expenditures are tied to verified and claimable savings;
- Strategic budget or fund shifts to redirect resources toward higher-performing programs or segments; and
- Supplemental or replacement solicitations to address delivery gaps or access additional market capacity.

Corrective action plans are monitored closely to assess whether performance is improving within defined timeframes. SCE's objective is to restore programs to a trajectory consistent with portfolio goals while minimizing disruption and avoiding unnecessary administrative cost.

b) Escalation and Program Closure

If corrective actions do not result in improved performance, or if program underperformance presents a sustained risk to portfolio outcomes, SCE may escalate intervention. This may include contract amendment, early termination, or program closure, consistent with contractual terms and Commission requirements. Program-specific closures and remediation strategies are documented in the list of closed programs provided in Table IV-7.

SCE recognizes that timely program closure, while sometimes necessary, must be balanced with maintaining customer access and portfolio continuity. Accordingly, SCE evaluates closure decisions at the portfolio level to ensure that gaps in service are addressed in a manner that preserves affordability, customer access, and system value.

c) Portfolio Flexibility and Backstop Capacity

To manage portfolio-level risk, SCE designs its portfolio with sufficient flexibility and backstop capacity to absorb shortfalls from individual programs. This includes maintaining a diversified mix of delivery models, sectors, and segments, as well as the ability to procure additional resources or adjust delivery approaches if one or more programs experience challenges.

Where programs, sectors, or segments are underperforming or closed, SCE may pursue a range of responses, including issuing new solicitations, launching utility-administered offerings, or providing limited coverage where cost-effective opportunities are constrained. SCE prioritizes affordability and performance when determining how best to fill identified gaps.

Through these practices, SCE ensures that portfolio-level outcomes remain achievable even when individual programs face delivery challenges, protecting customers from undue risk and supporting the successful delivery of Commission-approved energy efficiency goals.

6. Procurement Practices and Portfolio Risk Management

SCE's procurement practices are designed to balance market-based innovation with disciplined risk management across forecasting, expenditures, program implementation, and regulatory compliance. At the time of filing this Application, SCE's portfolio reflects the results of multiple competitive solicitations across sectors and statewide offerings. Third-party implementer programs are planned to comprise approximately 73 percent of the portfolio in 2028, the initial year of the Four-Year Portfolio Plan.

a) How Procurement Practices Create Risk

Using primarily third-party implementers, as defined by the Commission, introduces certain inherent risks, particularly related to forecasting accuracy and delivery uncertainty. Because programs are proposed, designed, and implemented by external entities, forecasts rely on implementer-submitted assumptions regarding customer participation, measure mix, delivery timelines, and achievable savings. Variability in market and regulatory conditions, customer behavior, and implementation capacity can therefore affect realized outcomes relative to forecasted expectations.

While SCE's procurement practices are designed to align incentives and allocate delivery risk to the parties best positioned to manage it, the current evaluation and attribution framework limits the extent to which procurement alone can fully mitigate portfolio risk. Because savings claims are calculated/determined after expenditures have occurred, and often after corrective actions are no longer feasible, utilities have limited ability to reconcile program payments with final evaluated outcomes or to dynamically adjust delivery strategies based on emerging evaluation insights. For example, changing workpaper savings values may significantly modify the benefit structure for a third-party implementer, leading to a poor program outcome. A program designed around a comprehensive delivery of measures (e.g., NMEC) may be abandoned due to a particular measure becoming disproportionally cost-effective. This may lead to the third-party implementer focusing on delivering a single, quick-to-deliver deemed measure which maximizes profit margin in lieu of longer-term comprehensive savings at the participant's site.

This structural timing mismatch between procurement, implementation, and evaluation introduces residual risk at the portfolio level that cannot be fully addressed through competitive solicitations, contractual provisions, or performance-based mechanisms alone. As a result, utilities must manage this risk through diversification, contingency planning, and portfolio-level controls rather than through real-time program course-correction.

The Commission should address this misalignment through adopting the policy changes SCE recommends in Chapter XI, because they would improve accountability, enhance the effectiveness of performance-based procurement, and better align program incentives with long-term system value, particularly as portfolios increasingly rely on market-based delivery models and performance-oriented measurement approaches.

In addition, the structure of EE evaluation introduces timing-related risk that further constrains the IOUs' ability to mitigate risk inherent in the third-party implementer model. While implementers typically assume ex-ante delivery risk associated with designing and implementing programs to achieve forecasted savings, they do not assume ex-post evaluation risk. Impact evaluations occur after savings have been claimed, reported, and paid, and evaluation results may differ from ex-

ante assumptions without an opportunity to retroactively adjust expenditures or claimed savings. While this structure reflects commercial realities and Commission-adopted EM&V practices, it limits the ability of procurement and contract mechanisms alone to fully align expenditures with final evaluated outcomes. For example, a large program may deliver a substantial deemed TSB and pass the Ex-Ante Review process, at which point savings are claimed and the IOU compensates the third-party implementer. However, two years later, after the program has closed an Ex-Post evaluation may find that a majority of participants were free riders, reducing the program's Net-to-Gross (NTG) ratio from 0.60 to 0.25. While this outcome has a significant negative impact on the IOU's portfolio, the contract has already been closed, leaving no mechanism to address or remediate the underperformance with the third-party implementer, let alone the ability to address the financial impact to ratepayers.

C. Third-Party Programs

1. SCE's Support of Third-Party Implementers [47]

Consistent with Commission requirements, SCE relies on third-party implementers as a core program design and delivery mechanism for its EE portfolio. In D.16-08-019, the Commission articulated requirements for the IOUs to shift to EE markets in which third-party implementers have primary responsibility for program design, implementation, and delivery in pursuit of Commission-adopted goals.[48] The Commission's rationale at the time was that this third-party implementer model, with a pay-for-performance incentive structure, would spur innovation and reduce costs. As a result of this shift, the IOU PAs had to cede control over most of their portfolios to third parties, while remaining deeply involved in the administration of nominally independent third-party programs and ultimately accountable for overall portfolio performance. SCE has implemented this framework over multiple

[47] The ED's application template prompts IOUs to address "the responsibility of the IOUs to the third-party implementers." SCE supports the efforts of third-party implementers to deliver strong program performance. However, apart from managing third-party contracts as a portfolio administrator, SCE's primary responsibility is to its ratepayers, and not to for-profit, third-party companies that are contracted to deliver energy savings. SCE views its role vis-à-vis third-party implementers as ensuring that ratepayer funds allocated to EE programs are prudently spent and that the third parties operate within the Commission's regulatory framework. SCE's experience has shown that some PRG members nevertheless expect SCE to provide favorable terms and conditions to third-party implementers that do not protect ratepayers.

[48] D.16-08-019, pp. 2-3, 67-75.

portfolio cycles and gained substantial experience over the course of nearly a decade of administering a predominantly third party-delivered portfolio.

Through this experience, SCE has observed that severing program design and implementation from portfolio administration and responsibility created significant challenges (for both PAs and third-party implementers) and incongruities that should be addressed by the Commission. These issues become especially difficult to manage under certain market conditions, particularly during periods of portfolio transition, emerging technology deployment, and evolving policy requirements. Third-party implementers have faced difficulties standing up new programs, ramping delivery, or achieving forecasted savings within expected timeframes. For example, in 2025, SCE and a third-party implementer mutually agreed to an early termination of a program because it was not projected to be cost-effective over the full term. In addition to rising costs, the program's expected savings had declined, reflecting similar challenges faced by other IOUs administering similar programs that have struggled to generate sufficient savings. These challenges introduce delivery risk at the portfolio level and impair SCE's ability to meet Commission-adopted goals, even where implementers are acting in good faith and consistent with contractual obligations.

In response to these lessons learned, SCE is requesting changes to the Commission's policies regarding third-party programs, as set forth in detail in Chapter XI, Section B. Until new policies are adopted, SCE will continue to refine its approach to third-party engagement within the parameters of the third-party implementer requirements. Rather than relying exclusively on implementers to independently define program scope, objectives and projected savings – as the Commission might have envisioned when it directed the IOUs to outsource 60 percent of their portfolios – SCE has had to take a more active role in articulating portfolio needs, including priority segments, sectors, measure mixes, and performance objectives, while continuing to comply with the Commission's directives requiring third parties to primarily design and implement programs for a majority of the EE portfolio. This approach is intended to improve alignment between program design and portfolio goals, reduce start-up risk, and support more timely and consistent delivery of savings.

SCE will also continue to evaluate the most appropriate contractual and delivery structures on a program-by-program basis. While pay-for-performance models remain an important tool for aligning incentives and protecting ratepayers, SCE recognizes that a single payment structure may not be appropriate for all program types, market conditions, or customer segments. Selecting delivery and compensation structures that reflect program maturity, market readiness, and implementation complexity supports stronger outcomes and more effective risk management.

As prescribed by D.23-02-002,[49] SCE has and will continue to support third-party implementers' performance through a defined set of responsibilities, including:

- Ensuring implementer compliance with applicable CPUC regulations and program requirements;
- Providing access to customer data, subject to cybersecurity review and data protection requirements;
- Verifying compliance with safety standards and operational requirements;
- Coordinating with implementers during program implementation to address operational issues and support timely delivery; and
- Holding implementers accountable for contractual performance requirements, including kWh savings, TSB, cost-effectiveness metrics, and other critical obligations.

Through this approach, SCE seeks to preserve the benefits of third-party, market-based delivery while strengthening portfolio oversight, improving implementation outcomes, and driving accountability for customer-funded investments. SCE can continue to forecast and manage its portfolio to meet Commission requirements under the existing framework; however, the fact that compliance is possible does not mean the framework is optimized. SCE's Chapter XI policy proposals are intended to restore flexibility and reduce process-driven constraints that increase administrative cost and delay course corrections, thereby improving cost-effectiveness and outcomes for customers.

[49] D. 23-02-002, pp. 2-5.

2. Distribution of Underperformance Risk Between SCE and Third-Party Implementers

SCE's portfolio is designed to allocate performance risk between the IOU PA and third-party implementers in a manner that reflects each party's role, control, and ability to manage uncertainty. Third-party implementers assume primary responsibility for program design, delivery, and day-to-day execution, consistent with Commission direction, while SCE retains responsibility for overall portfolio performance, compliance, and stewardship of ratepayer funds.[50]

To support effective start-up programs and reduce early-stage delivery risk, SCE may provide limited launch or milestone payments. These payments are intended to enable implementers to establish operational infrastructure, engage trade allies, and initiate customer outreach without compromising accountability for performance. At the same time, SCE has revised its standard EE contract template to seek to reduce barriers to market participation or program agility, consistent with Commission direction to reduce procurement hurdles and support innovation. That said, SCE must balance shifting too much risk from implementers, who are in the best position to manage risk, and protecting ratepayers – particularly given the current affordability crisis.

Under pay-for-performance compensation structures, implementers bear direct financial risk for underperformance, as payments are tied to verified savings delivery. Where savings are not achieved, compensation is correspondingly reduced or withheld, providing protection to customers while preserving implementer flexibility in delivery approaches.[51]

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[50] D.16-08-019, pp. 69-75, OP 10, p. 111.

[51] While pay-for-performance models shield ratepayers from funding activities that fail to deliver contracted results, they also heighten the risk of sunk costs associated with soliciting programs and contracting with implementers whose programs ultimately do not succeed. Because third-party implementers are for-profit entities, they will not pursue programs that cannot generate a profit—whether due to shifting market conditions, evolving regulatory or technical requirements, or errors in forecasting or calculation.

a) Management of Third-Party Underperformance Compared to Portfolio-Level Underperformance

SCE manages third-party program underperformance differently from broader portfolio underperformance by focusing on timely identification, targeted intervention, and program-specific remediation rather than relying solely on aggregate portfolio adjustments.

SCE tracks a range of internal performance indicators designed to identify emerging program risks before savings shortfalls materialize. When these indicators suggest potential underperformance, SCE engages directly with the implementer to assess the root causes, likelihood of meeting contractual obligations, and available corrective options. This collaborative engagement allows SCE and the implementer to develop a mitigation plan tailored to the specific circumstances of the program.

Mitigation actions may include adjustments to delivery models, incentive structures, technologies, marketing approaches, or implementation timelines, as appropriate. Where feasible, SCE may amend existing contracts to support corrective action while maintaining accountability for results. Throughout this process, pay-for-performance structures continue to limit ratepayer exposure by tying compensation to realized benefits.

If program-level remediation is not sufficient or feasible, SCE may pursue additional actions to protect portfolio performance, including issuing targeted or streamlined solicitations to address identified gaps, transitioning delivery responsibility where appropriate, or reallocating funds to higher-performing programs. SCE's authority to fund-shift provides additional flexibility to support portfolio-level performance while corrective actions are implemented.

Through this layered approach, SCE distinguishes between individual program delivery challenges and systemic portfolio risk. This structure enables timely intervention at the program level while preserving the ability to manage overall portfolio outcomes and protect customer-funded investments.

3. Solicitation Strategy

SCE will continue to rely on competitive, market-based solicitations as the primary mechanism for procuring EE programs while meeting all applicable Commission compliance requirements.[52] Solicitation strategies are designed to support delivery of near-term portfolio outcomes within the Four-Year Portfolio Plan, while also maintaining flexibility to adapt to evolving market conditions and longer-term system needs reflected in the eight-year Application period.

To support these objectives, SCE's solicitation strategy will emphasize the following principles:

- Procurement of cost-effective TSB: Solicitations will prioritize programs capable of delivering cost-effective TSB consistent with Commission-adopted goals, ensuring that portfolio investments maximize system and customer value.
- Right-sized scopes and reduced program overlap: Solicitation scopes will be intentionally calibrated to avoid unnecessary duplication across programs, segments, or delivery channels. This includes limiting non-resource spending unless such investments are necessary to address identified market gaps or support longer-term electrification and decarbonization objectives.
- Staggered and targeted solicitation timing: Where appropriate, solicitations will be sequenced to allow SCE to respond to emerging performance trends, replace expiring or underperforming contracts, and address gaps identified during portfolio implementation rather than relying solely on large, infrequent procurement events.

[52] SCE uses "competitive, market-based solicitations" to mean competitive procurement generally, i.e., selecting third parties through an Request for Proposal (RFP)/ Request for Abstract (RFA) process to implement and deliver EE offerings whether the program is third-party designed or SCE-scoped/SCE-designed with third parties competitively selected to execute delivery. This statement is therefore not at odds with SCE's Chapter XI recommendations to reduce the 60 percent outsourcing requirement and/or revise the "third-party program" definition: those proposals seek to restore portfolio flexibility and reduce compliance-driven process requirements (including the current third-party program construct and associated oversight burdens), not to eliminate competitive procurement, which SCE expects to continue using as its primary tool to procure delivery capacity and specialized expertise.

Through this approach, SCE uses solicitation design as a portfolio management tool—balancing stability and continuity in the Four-Year Portfolio Plan with the flexibility needed to respond to market evolution over the longer-term planning horizon.

a) Improvements to Solicitation Practices Based on PRG and Independent Evaluator Input

SCE has implemented several improvements to its solicitation practices in response to feedback from the PRG and Independent Evaluators (IEs), including observations documented in IE Semi-Annual Reports. These changes are intended to reduce administrative burden, expand market participation, and improve overall procurement efficiency while maintaining transparency and accountability. Key improvements include:

- Streamlining solicitation formats: SCE has simplified procurement by relying primarily on RFPs, using Requests for Abstracts (RFAs) only when necessary. This approach reduces complexity, cost, and time commitment for prospective bidders.
- Targeted and right-sized solicitations: SCE has launched solicitations that are intentionally narrower in scope and focused on clearly defined sub-segments. These targeted solicitations lower barriers to entry, broaden access for smaller firms, and enable more tailored program designs. This strategy will be more effective if the Commission streamlines the PRG process for smaller solicitations, as currently all solicitations require the same lengthy PRG review process. See Chapter XI, Section B for further details.
- Expanded award structures: By increasing the number of potential awardees, SCE promotes market diversity and reduces concentration risk associated with reliance on a small number of large implementers.
- Simplified contract structures: Where possible, SCE has streamlined and simplified the EE pro forma agreement provisions, easing certain contractual

requirements, consistent with PRG feedback, to reduce unnecessary barriers to participation while preserving core accountability mechanisms.

SCE will continue to evaluate solicitation practices based on PRG and IE feedback and will refine its approach to balance procurement efficiency, market access, and portfolio performance. SCE supports maintaining procurement safeguards while streamlining review timelines and administrative steps that can delay program launches and reduce market participation. At a high level, SCE recommends three key improvements to enhance solicitation/procurement efficiency, while maintaining robust oversight:

- Streamline and shorten the solicitation process, particularly by reducing excessive PRG steps, especially for smaller procurements.
- Adopt a tiered PRG engagement model that aligns the depth of review with solicitation size and decision criticality (instead of the current one-size-fits-all approach).
- Update the EE PRG Solicitation Guidelines (EE PRG Guidelines) through a Commission-convened working group to simplify requirements, clarify PRG and IE roles, and modernize oversight practices based on lessons learned.

Please refer to Section XI, for details regarding these recommendations.

b) Stakeholder Engagement on Solicitation Practices

SCE will continue to engage stakeholders on solicitation practices through established forums, including the PRG and CAEECC. These forums provide opportunities for ongoing dialogue, transparency, and feedback on procurement design, solicitation timing, and market conditions.

Stakeholder input will be used to inform continuous improvement of solicitation practices while maintaining compliance with Commission requirements and procurement safeguards.

c) Engaging a Diverse and Inclusive Implementer Market

SCE's solicitation strategy emphasizes engagement with a diverse range of businesses, including new entrants, small firms, diverse business enterprises (DBEs), and organizations from markets historically underrepresented in EE program delivery. Outreach efforts include:

- Broad solicitation visibility: All EE solicitations are publicly posted and distributed through SCE's Program Evaluation and Procurement Management Application (PEPMA), which currently includes more than 2,000 registered firms.
- Proactive outreach and education: SCE will continue to promote solicitations through webinars, stakeholder workshops, and engagement with external industry and trade organizations to increase awareness and participation.
- Targeted procurement strategies: SCE will use multiple awards, smaller solicitation scopes, and targeted procurements to encourage participation from smaller and innovative firms that may be unable to compete in large, consolidated solicitations.
- Vendor diversification considerations: In evaluating proposals, SCE considers existing contract concentration to broaden participation and provide opportunities for new and smaller implementers, particularly in sectors where a limited number of vendors have historically dominated.

SCE intends to establish a diversified portfolio of third-party contracts that supports innovation, resilience, and inclusive market participation while maintaining performance accountability. As discussed in Chapter XI, SCE will be better positioned to achieve this important objective if the Commission adopts targeted reforms to IE, PRG, and solicitation governance requirements that would streamline oversight, reduce administrative friction, and allow solicitations to be more appropriately tailored to program size, risk, and market conditions, while preserving transparency and Commission oversight.

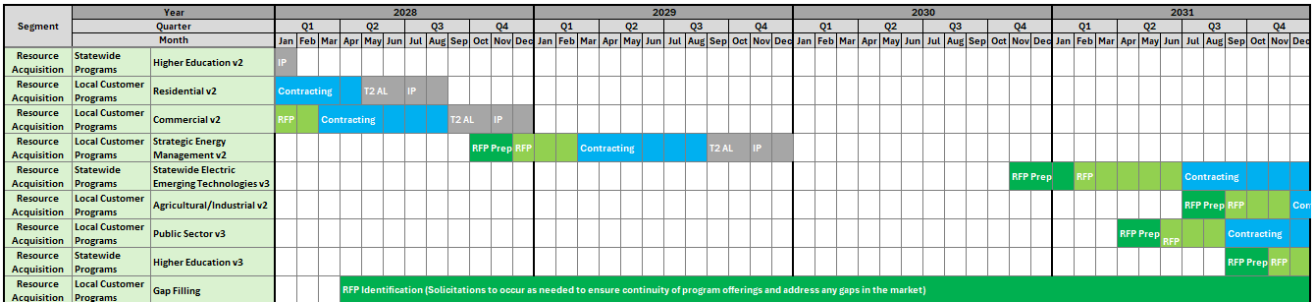
4. 2028-2035 Solicitation Schedule

SCE's proposed solicitation schedule for 2028-2031 Portfolio Plan and 2032-2035 Business Plan periods is designed to maintain continuity of high performing EE programs while preserving the flexibility to address evolving market needs, emerging technologies, and long-term system planning objectives. Consistent with the solicitation strategy outlined in Chapter V, Section 3,

SCE will use solicitation timing, scope, and design as active portfolio management tools to support both near-term delivery within the Four-Year Portfolio Plan and alignment with the broader eight-year Application cycle.

The proposed 2028–2031 solicitation schedule is provided below. Building on this foundation, SCE will continue to identify and pursue additional solicitations, as needed, throughout 2032–2035 to ensure continuity of successful EE programs, fill portfolio gaps, and respond to changes in market conditions, customer needs, and Commission requirements.

Table V-8
Solicitation Schedule



D. Statewide Programs

Statewide EE programs can help deliver consistent market signals, reduce duplication across PAs, and support upstream and midstream interventions that are most effectively implemented at scale. In D.16-08-019, the Commission established the definition and structure of statewide programs, directing that upstream and midstream interventions be delivered on a statewide basis through one or more implementers under contract to a Lead PA.[53] In D.18-05-041,[54] the Commission further clarified Lead PA responsibilities, assigning sole accountability for program vision, design, delivery strategy, procurement, implementer oversight, performance, customer satisfaction, and reporting. Non-Lead PAs provide limited input prior to procurement and receive proportional savings and benefits through the California Energy Data & Reporting System (CEDARS) based on their funding contributions.

[53] D.16-08-019, pp. 50-51.
[54] D. 18-05-041.

Consistent with this framework, SCE and the other PAs intend to continue outsourcing the proposal, design, implementation, and delivery of statewide programs to third-party implementers during the Four-Year Portfolio Plan period.

1. Statewide Programs Led by SCE

Pursuant to D.18-05-041, SCE is designated as the Lead PA for the Statewide Electric Emerging Technologies Program (SWEETP), Statewide WISE program, PLA program, and the Statewide Higher Education Energy Performance (HEEP) program. These programs are administered on behalf of all IOUs and are designed to deliver statewide consistency, scale, and market impact. A summary of SCE's statewide portfolio can be found in section Chapter V Section D5.

In this Business Plan Application, SCE will continue administering these statewide programs, with the exception of the PLA program, because SCE did not receive viable bids for the program and the WISE program, which SCE proposes to close at the end of its current contract term for the reasons discussed in Chapter IV, Section B2.

2. Statewide Programs Led by Other Program Administrators

As a non-Lead PA, SCE provides funding support to statewide programs administered by other Lead PAs and receives proportional savings and benefits achieved by those programs. For this Business Plan Application, SCE will continue to support the following statewide programs:

Table V-9
Non-SCE Led Statewide Programs

Statewide Program	Lead PA
State Appliance Standards Advocacy	PG&E
State Building Codes Advocacy	PG&E
National Codes & Standards Advocacy	PG&E
Institutional Partnerships: Department of General Services and Department of Corrections	PG&E
New Construction Non Res - All Electric	PG&E
New Construction Non Res - Mixed Fuel	PG&E
New Construction Res - All Electric	PG&E
Workforce Education & Training - Career Connections	PG&E
Workforce Education & Training- Career and Workforce Readiness	PG&E
HVAC All Electric Non-Residential	PG&E
Residential HVAC Quality Installation Quality Maintenance	SDG&E
Food Service Point-of-Sale	SCG
Midstream Comm Water Heating	SCG
Home Energy Score, California	BayREN

Detailed descriptions of these programs are provided in the respective Lead PAs' Business Plan Applications.

3. Coordination Management Across Statewide Programs

Given the scale and reach of statewide programs, particularly upstream and midstream offerings, coordination with downstream and locally administered programs is essential to avoid overlap, customer confusion, and inefficient use of ratepayer funds. SCE emphasizes the need for more robust processes to define program precedence, attribution, and coordination responsibilities across PAs prior to proposing new programs, especially where statewide midstream interventions intersect with local downstream offerings.

SCE supports the development of streamlined and clearer coordination protocols among PAs to ensure complementary deployment, consistent customer pathways, and appropriate attribution of savings and benefits. To support statewide program coordination efforts, SCE actively participates in

regular Statewide Energy Efficiency Team (SWEET) meetings, which provide a forum for PAs to share updates, provide forecasts, and discuss funding contributions.

4. Coordinated Support for SEM Programs

SEM programs rely on strong coordination among PAs and their third-party implementers to ensure consistency, quality, and continuous improvement across statewide and regional offerings. Key coordination mechanisms include:

- Regular ED / PA Update Meetings: These meetings provide a forum for PAs to share updates, discuss challenges, and highlight accomplishments. Each meeting participant presents SEM performance and progress, promoting transparency and alignment.
- Routine SEM Statewide Best Practices Meetings: These meetings bring together PAs, implementers, ED staff, and consultants to refine delivery practices, align methodologies, and support consistent SEM implementation across customer segments and regions.

These coordination structures support effective statewide delivery of SEM programs while enabling continuous learning and improvement across the portfolio.

5. Summary of Statewide Portfolio

SCE currently administers three active statewide programs: SW HEEP, Statewide WISE, SWEETP. While formal evaluation studies for Statewide HEEP and Statewide WISE have not yet been completed, SCE continues to identify opportunities to enhance affordability and efficiency through the program management practices described throughout this document. As mentioned in Chapter III, Section B1 and Chapter IV Section B2.

SWEETP underwent a comprehensive evaluation in September 2024, documented in the California Emerging Technology Program Progress and Effectiveness Evaluation Report prepared by Opinion Dynamics. Following this study, SCE collaborated with the third-party implementer to address key recommendations, focusing on improvements to the Technology Transfer process and information dissemination practices. These enhancements include an updated end-to-end process flow that integrates Technology Transfer objectives at the earliest stages of project scanning and screening. The revised

approach establishes a structured framework guiding projects through appropriate Technology Transfer support activities and targeted outreach events, ensuring effective engagement with identified stakeholders.

a) Future Statewide Programs

Future statewide programs will advance both 4-year and 8-year objectives by delivering cost-effective energy savings and supporting long-term market transformation. In the near term, programs will align with regulatory requirements and portfolio goals, ensuring measurable Resource Acquisition and compliance with cost-effectiveness standards of a TRC of 1.0 or greater. SCE will continue to review statewide program performance under its purview and may make adjustments based on affordability and program performance consistent with portfolio management strategies described throughout this document. Adjustments may include the sunsetting of programs that have limited participation, reduced cost effectiveness, or other factors that impact meeting targets. For the longer-term perspective, SCE will continue to evaluate the performance of the SWEETP program that focuses on developing innovative emerging technologies for their adoption into EE programs in later program years. This dual approach—focused on immediate results and future readiness—creates a coordinated framework that meets short-term targets while building the foundation for long-term success.

6. Changes to Statewide Funding Allocations

SCE is not proposing any changes to statewide funding allocations for the 2028–2031 Portfolio Plan period. The Application maintains the existing statewide funding structure and associated Lead PA responsibilities. SCE will continue to administer and contribute to statewide programs under the current allocation framework.

7. Changes to Lead PAs

SCE is not proposing any changes to the designated Lead Program Administrators for statewide programs during the 2028–2031 period.

8. Coordination Needs with Statewide Midstream Programs

SCE welcomes collaboration and coordination where it is practical and adds value. While coordination among program administrators can provide benefits, duplicative programs without clear differentiation or added benefit undermines cost-effectiveness and affordability objectives and may create customer confusion—particularly when one program already covers key activities such as customer recruitment and technical support. Multiple programs incurring similar costs for outreach and engagement does not align with affordability objectives and may ultimately increase costs to ratepayers. To advance affordability, SCE recommends that PAs seeking to explore new initiatives or address potential market gaps or customers not currently served by statewide or IOU programs coordinate with other PAs in their service areas prior to formally proposing new programs to avoid duplication and unnecessary overlap that increases cost. Upfront coordination that clearly defines the unique value of the proposed program, target customer segments, goals, and delivery mechanisms provides early visibility and clarity to all PAs, reducing downstream administrative efforts to coordinate or resolve potential overlap issues once programs are approved and operational. Additionally, SCE recommends that all PAs adhere to the same cost-effectiveness standards to drive affordability and maintain a level-playing field for all program implementers. SCE further discusses the impacts of inconsistent cost-effectiveness requirements on portfolio outcomes and corresponding reform recommendations in Chapter XI.

E. Statewide Assessment

Consistent with D.23-06-055,[55] the PAs propose a Statewide Program Assessment Framework to systematically evaluate existing and proposed statewide EE programs. PG&E led a multi-PA working group effort to develop the proposed framework, with participation from IOU, REN, and CCA PAs. SCE supports the framework because it establishes a structured, transparent assessment process designed to determine whether statewide administration is appropriate based on factors such as statewide suitability, delivery efficiency, alignment with Commission policy objectives, equity considerations, market impacts, and program performance.

[55] *See* D.23-06-055, Conclusion of Law (COL) 7 and OP 2.

At a high level, the assessment framework applies a series of gatekeeping and evaluation criteria that inform recommendations to maintain, redesign, transition to a regional program, sunset, transfer, or elevate programs, and to guide the selection or transition of lead Program Administrators where applicable. Absent a structured evaluation, SCE believes programs risk duplicating existing offerings among PAs, misallocating ratepayer funding, or failing to align with the State's policy objectives.

Additional details regarding the proposed assessment criteria, guiding principles, evaluation questions, and implementation considerations is provided in Appendix A, which includes the full Statewide Program Assessment Framework proposal developed through the PA working group process.

VI.

SEGMENTATION AND SECTOR STRATEGY

This chapter outlines SCE's sector and portfolio segmentation strategies for delivering cost-effective, accountable EE outcomes while supporting affordability, high performance, and California's decarbonization goals. These strategies align with Commission-adopted EE requirements for cost-effectiveness, evaluation, attribution, and program administration.

SCE's portfolio is structured to balance near-term measurable savings and TSB with targeted investments that expand customer access, develop markets, build workforce readiness, and advance long-term decarbonization objectives. Delivery approaches and program designs are tailored to the distinct needs of the residential, commercial, industrial, agricultural, public, and cross-cutting sectors. This chapter also describes how portfolio segmentation across Resource Acquisition, Market Support, Equity, and Codes & Standards supports differentiated performance objectives, risk management, and efficient allocation of customer-funded resources during the four-year funded period.

While the strategies described in this chapter are designed to be effective under current policy and regulatory structures, the scale, pace, and integration of certain outcomes are influenced by existing cost-effectiveness, evaluation, and coordination frameworks. Where these frameworks limit the ability to fully realize the Commission's longer-term affordability, reliability, and decarbonization goals, SCE identifies those constraints through practical application in this chapter and addresses corresponding reform recommendations in Chapter XI.

A. Portfolio Sector Strategy

SCE applies a consistent planning approach across all sectors: programs are designed to maximize cost-effective TSB, align delivery methods with customer decision-making and operational realities, and use competitive procurement wherever feasible to spur innovation, market participation, and accountability. Within each sector, portfolios may include a combination of Resource Acquisition, Market Support, and Equity programs, each playing a distinct role in achieving near-term savings and longer-term market outcomes.

SCE's overarching sector strategy relies primarily on competitive solicitations to design and deliver programs. Targeted RFPs are used to align program scope with sector-specific needs, maximize customer participation, and manage delivery risk. Where appropriate, SCE may engage multiple third-party implementers within a sector to expand market coverage, reduce reliance on any single vendor, and ensure continuity of service if performance issues arise. Consistent with Commission requirements,[56] SCE may also deploy utility-administered programs where doing so is justified because it, among other reasons, improves affordability, fills market or service gaps, or enhances delivery effectiveness.

1. Residential Sector

The Residential sector is the largest customer component of SCE's EE portfolio, consisting of approximately 4.5 million customer accounts across diverse climate zones and housing types. SCE's residential strategy focuses on increasing participation, maximizing customer value and affordability, and supporting California's building decarbonization goals. Programs are tailored to single-family homes, multifamily properties, manufactured homes, and new construction, with targeted approaches for DACs, HTR customers, and low-income households not served through other PAs in SCE's service area.

Residential programs prioritize high-impact end-uses such as space heating, cooling, and water heating, where measures contribute to longer-term affordability and California's decarbonization goals. Fuel substitution measures will also be available to residential customers. Delivery approaches emphasize simplicity, accessibility, and low customer burden. Direct install and downstream incentive programs remain the primary intervention strategies, as they reduce upfront costs and technical barriers for customers. Behavioral offerings, such as Home Energy Reports, complement these efforts by encouraging sustained energy-saving practices. Please see Table VI-10 for additional information on delivery strategies applicable to this sector.

[56] *See, e.g.,* D.16-08-019, pp. 73–74 ("In recognition of this proposal, as well as certain other functions that will require utility personnel in a portfolio design and coordination role, we will not require 100 percent outsourcing . . .); *see also* D.18-01-004, p. 29.

SCE coordinates residential offerings with low-income programs, Workforce Education and Training (WE&T), and Demand Response (DR) initiatives to avoid duplication and ensure customers receive coherent, complementary solutions. Third-party implementers play a central role in program design and delivery, while SCE evaluates performance and adapts strategies over time to reflect changing customer needs, market conditions, and regulatory requirements.

2. Commercial Sector

SCE's Commercial sector includes more than 500,000 customer accounts across a wide range of business types and facility sizes. Because energy use and decision-making vary significantly across this sector, SCE applies a segmented strategy that aligns delivery approaches with customer scale and operational complexity.

Large commercial customers are primarily served through SEM, NMEC, and custom programs that support facility-wide energy management and long-term savings and may also qualify for certain deemed measures. Small and medium-sized businesses are served through streamlined deemed, midstream, and downstream offerings that emphasize rapid deployment and simplified participation. Population-based NMEC programs provide an additional pathway to deliver savings across broad segments of the commercial market. Please see Table VI-10 for additional information on delivery strategies applicable to this sector.

Target populations include small and medium businesses in DACs and HTR communities that may face barriers to participation or lack access to tailored offerings from other administrators. Key end-uses include lighting, Heating, Ventilation, and Air Conditioning (HVAC), refrigeration, and process loads. SCE engages multiple third-party implementers with expertise in specific commercial sub-segments—such as hospitality, grocery, and healthcare—to ensure broad market coverage, reduce delivery risk, and maintain flexibility as conditions evolve.

3. Industrial Sector

The Industrial sector includes approximately 35,000 customer accounts across diverse manufacturing and processing industries. SCE's strategy has evolved toward performance-based approaches, primarily SEM and NMEC that support comprehensive, data-driven energy management for

large energy users. Custom offerings remain available for industrial customers; however, uptake has been limited due to project complexity, documentation requirements, and lower net-to-gross ratios compared to meter-based programs, which impact cost-effectiveness and incentive levels. For further details on net-to-gross considerations, please refer to Chapter XI.

Large industrial customers are served through direct-to-customer SEM, NMEC, and custom offerings that address site-specific processes, motors, and operational improvements. Mid-size and smaller industrial customers are served through a combination of downstream and emerging midstream programs designed to simplify participation and expand access to efficiency opportunities. These approaches reflect longer project development, higher per-project savings potential, and the need for sustained engagement to achieve durable results. Please see Table VI-10 for additional information on delivery strategies applicable to this sector.

4. Agricultural Sector

SCE's Agricultural sector serves approximately 28,000 accounts, including specialty crop producers, dairies, and other agricultural operations. The strategy focuses on delivering cost-effective savings through third-party Resource Acquisition programs while expanding access in underserved areas through Equity-focused offerings.

Key end-uses include irrigation, pumping, and controlled-environment agriculture. SCE prioritizes water-energy nexus opportunities, such as efficient pumping and irrigation system upgrades, that deliver both energy and water savings. SEM programs have been expanded to serve larger agricultural customers, while adapted delivery models support small and mid-size operations. Market Support activities, including Emerging Technologies and WE&T, help build sector capacity and support adoption of advanced solutions. Please see Table IV-10 for additional information on delivery strategies applicable to this sector.

5. Public Sector

The Public sector includes approximately 60,000 accounts across local, state, and federal entities, as well as special districts. SCE applies a comprehensive strategy that supports EE adoption alongside public-sector operational, fiscal, and GHG reduction goals.

Programs target end-uses such as lighting, HVAC, water and wastewater facilities, and electrification of public buildings, including schools. Public customers are served through streamlined deemed approaches along with SEM and NMEC pathways that can support facility-wide energy management and long-term savings. Please see Table VI-10 for additional information on delivery strategies applicable to this sector. SCE leverages available statewide programs and locally administered offerings, using competitive solicitations to deliver cost-effective solutions. Coordination with RENs will be necessary to avoid duplication, as certain overlap challenges exist that impact delivery and affordability. Please see Chapter XI for additional information.

Table VI-10
Sector Delivery Strategies

Delivery Strategy	Description	Applicable Sectors
Downstream Customer Incentives	Payments designed to encourage customers to adopt and install EE measures. Customer incentives will include incentives to comply with EE codes (i.e., "to code") and to go beyond codes (i.e., "above code")	Residential, Commercial, Industrial, Agricultural, Public
Direct Install / Turnkey	Programs remove technical and search burden by providing vetted vendors who can be leveraged for customer touch points	Residential, Commercial
Midstream Incentives	Financial incentives directly to vendors or distributors to buy down cost and increase sales of energy-efficient products	Commercial, Industrial
NMEC/Meter Based Savings	Incentives for customers to install comprehensive EE measures that will be measured at the meter	Commercial, Industrial, Agricultural, Public
SEM	A whole-facility approach that sets long-term energy savings goals and uses rigorous tracking and reporting systems to drive greater savings, reach across entire building portfolios, and institutionalize such practices to sustain long-term benefits	Commercial, Industrial, Agricultural, Public
Home Energy Reports (Behavioral)	Provide energy usage reports for customers to adopt behavior changes that save energy	Residential

6. Cross-Cutting Programs

Cross-cutting programs—Codes & Standards, WE&T, Emerging Technologies, and Finance—support EE delivery across all sectors by addressing barriers that cannot be resolved through individual customer programs alone.

- Codes & Standards advance adoption of and compliance with evolving building codes and appliance standards.

- WE&T builds contractor, trade professional, and customer capacity, with emphasis on underserved communities.
- Emerging Technologies identifies and evaluates new solutions with future savings potential.
- Finance reduces upfront cost barriers through On-Bill Financing and New Finance Offerings.

Together, these programs strengthen market readiness, improve delivery effectiveness, and support equitable access to EE investments.

Table VI-11
Budget Distribution by Sector

Budget	Sector									
	Residential	Commercial	Industrial	Agricultural	Public	Cross-cutting	EM&V[2]	Portfolio Support	On-Bill Financing Loan Pool	Total Portfolio Budget[1]
2028	66,675	83,770	25,704	1,818	6,119	44,708	14,137	20,899	10,000	273,830
2029	68,653	93,795	23,124	1,824	6,491	48,389	15,068	21,440	10,000	288,784
2030	66,836	46,773	6,133	1,540	6,617	36,361	12,065	21,051	10,000	207,376
2031	69,004	54,360	7,008	1,554	6,739	43,480	13,162	21,916	10,000	227,223
Total (4 years)	**271,167**	**278,698**	**61,969**	**6,736**	**25,965**	**172,939**	**54,432**	**85,306**	**40,000**	**997,214**
2032	70,384	55,447	7,148	1,585	6,873	44,350	13,500	22,354	10,000	231,642
2033	71,792	56,556	7,291	1,617	7,011	45,237	13,799	22,801	10,000	236,104
2034	73,227	57,687	7,437	1,649	7,151	46,142	14,101	23,257	10,000	240,652
2035	74,692	58,841	7,586	1,682	7,294	47,064	14,410	23,722	10,000	245,292
Total (4 years)	**290,095**	**228,532**	**29,462**	**6,534**	**28,329**	**182,793**	**55,810**	**92,135**	**40,000**	**953,691**
Cumulative Total (8 year)	**561,263**	**507,230**	**91,432**	**13,271**	**54,295**	**355,731**	**110,242**	**177,441**	**80,000**	**1,950,904**

1. Does not include REN/CCA budgets from SCE's territory
2. Includes ED Portfolio Oversight

a) Enabling Deeper Clean Energy Retrofits Through Financing

To further deliver sustained value to customers and advance its strategic goals for overcoming sector- and segment-specific challenges, SCE is proposing modifications to its On-Bill Financing (OBF) Program. The primary changes include increasing the maximum loan cap for business customers from $250,000 to $400,000 per service account and extending the maximum loan repayment period for business customers from five to seven years. These adjustments are designed to expand both the reach and effectiveness of the OBF Program, enabling deeper energy savings by encouraging more comprehensive retrofits. By raising the loan cap and extending the repayment term for business customers, SCE aims to directly address barriers to participation that customers face when their EE

projects exceed current financial limits. Additionally, these adjustments align with PG&E's OBF loan cap for business customers, promoting consistency across utility programs.

SCE also proposes to eliminate the $250,000 cap for OBF loans issued with incentives. This requirement has become obsolete due to recent administrative changes, specifically the outsourcing of program administration to third-party implementers. Outsourcing has diminished SCE's control and oversight of incentive payments, as third parties now manage these transactions. Shifts in the administration of EE incentive programs mean SCE no longer has the authority or visibility to enforce the legacy cap. OBF agreements remain between customers and SCE, but incentive agreements are now managed between customers and third-party implementers, with incentives sometimes not paid directly to customers. This further impedes the enforcement of the cap. Eliminating the $250,000 cap for loans that include incentives enhances project affordability and cash flow for participating businesses, aligns with the new administrative structure, and ensures compliance and operational efficiency. This change also acknowledges the decentralized nature of incentive management under third-party administration, where direct oversight by SCE is no longer feasible.

The proposed strategy for the OBF program is vital for maintaining its relevance and impact in the evolving EE landscape. These changes are intended to support broader participation, enable deeper energy savings, and improve affordability for customers. By adapting to the realities of third-party program administration, SCE strengthens its EE portfolio and continues to deliver sustained value to customers, advancing its strategic goals for affordability and rate impact mitigation.

In addition to supporting non-residential customers through its OBF program, and its continuous support to the New Finance Offerings, also known as GoGreen Financing programs, SCE is expanding its Financing Programs portfolio by introducing a Tariff On-Bill (TOB) Pilot designed to facilitate greater adoption of clean energy technologies by residential customers, thereby furthering

California's broader decarbonization objectives.[57] The Commission approved SCE's TOB proposal, with modifications pursuant to D.25-12-021, on December 23, 2025.[58] As part of the regulatory requirements, SCE must submit its TOB Pilot Tariff by the later of February 28, 2027 or 60 days after the issuance of the Department of Financial Protection and Innovation an interpretive opinion that TOB is not a loan or exempting it from the lending laws. Furthermore, SCE is required to open the TOB pilot for customer applications within 18 months of the Decision's issuance, or within 30 days following the approval of its AL by the Commission—whichever occurs later.[59]

The rollout of the TOB pilot program will serve as an important opportunity to evaluate the effectiveness of inclusive utility investment models in promoting the uptake of clean energy technologies within California's residential sector. Through this initiative, SCE aims to gather valuable insights that can inform future efforts to expand and optimize clean energy adoption statewide.

B. Portfolio Segmentation Strategy

Over the eight-year application period, SCE's segmentation strategy provides continuity and flexibility as market conditions, customer needs, and regulatory requirements evolve. While funding is requested for the initial four years, the outlook reflects how Resource Acquisition, Market Support, Equity, and Codes & Standards will adapt as programs mature and markets develop.

Resource Acquisition will remain the primary driver of portfolio savings and TSB, with improvements in cost-effectiveness expected as technologies and delivery approaches advance. Market Support and Equity investments in the early years will address barriers, expand access, and enable broader participation, ultimately reducing costs and transitioning successful strategies into Resource Acquisition where feasible. Codes & Standards will continue shaping future efficiency

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[57] *See* SCE's implementation s AL-5374-E/AL-5374-E-A, pursuant to D.23-08-026, OP 2, are *available at* https://edisonintl.sharepoint.com/teams/Public/TM2/Shared%20Documents/Forms/AllItems.aspx?q=5374&viewid=c9868ae1%2Df1cd%2D43b6%2Da712%2Dd734ff79e266&id=%2Fteams%2FPublic%2FTM2%2FShared%20Documents%2FPublic%2FRegulatory%2FFilings%2DAdvice%20Letters%2FApproved%2FElectric%2FELECTRIC%5F5374%2DE%2Epdf&parent=%2Fteams%2FPublic%2FTM2%2FShared%20Documents%2FPublic%2FRegulatory%2FFilings%2DAdvice%20Letters%2FApproved%2FElectric&parentview=7.

[58] D.25-12-021, p. 1.

[59] *Id*., OP 1., p. 99.

baselines and emissions performance, with early investments supporting long-term value through adoption and compliance.

SCE will maintain flexibility to adjust segments based on performance, market evolution, and emerging opportunities, including targeted solicitations and resource reallocations to protect affordability and portfolio outcomes. This approach ensures accountable results during the funded period while positioning the portfolio to adapt effectively over the long term.

1. Resource Acquisition

a) PA Strategy for the Resource Acquisition Segment

SCE's Resource Acquisition strategy prioritizes affordability through cost effectiveness requirements as the central principle guiding program design, procurement, and delivery. Through competitive solicitations, SCE selects third-party programs that deliver cost-effective energy savings and maximize TSB in alignment with Commission requirements. The proposed budget leverages existing contracts and active solicitations to ensure continuity while maintaining flexibility to adapt to market changes. Adaptive contracting practices—such as renewing high-performing agreements, re-soliciting for improved affordability, and reallocating funds—support affordability and mitigate delivery risk. Utility-administered programs and/or pilots may be pursued to fill a market gap and to increase cost effectiveness. Gap-filling solicitations and coordination with other demand-side portfolios further strengthen this approach, enabling robust, cost-effective outcomes while preserving flexibility to respond to evolving market conditions.

b) Sectors Served Within the Resource Acquisition Segment

SCE's Resource Acquisition strategy serves all major customer sectors—Residential, Commercial, Industrial, Agricultural, and Public—while prioritizing affordability and cost-effective delivery of measurable savings and TSB. Programs are designed for flexibility to adapt to market conditions and performance. In the Residential sector, scalable delivery models such as direct install, downstream incentives, and performance-based contracts reduce participation barriers and deliver affordable savings. For the Four-Year Portfolio Period, direct install programs are forecasted to serve approximately 12,000 multifamily customers annually and 9,000 single-family and manufactured

home customers annually, with electrification measures incorporated where cost-effective and supportive of TSB outcomes.

Commercial and Industrial efforts focus on high-impact savings from large energy users through SEM and NMEC approaches, while small and medium businesses benefit from NMEC, deemed savings, and direct install offerings. Agricultural and Public sectors receive tailored solutions targeting high-impact end uses such as irrigation, pumping, and public facilities. Across all sectors, SCE will continuously monitor participation, performance, and cost-effectiveness, adjusting strategies and solicitations as needed to sustain portfolio outcomes, protect customer value, and advance affordability as the central organizing principle.

c) Sector Targeting by Program Type

SEM is targeted primarily at large Commercial, Industrial, Agricultural, and Public customers with complex operations and significant energy use. This approach supports long-term, facility-wide energy performance improvement through structured energy management practices, ongoing engagement, and rigorous tracking and reporting. SEM is well-suited to customers with sufficient scale and internal capacity to sustain continuous improvement over time.

NMEC approaches at both the site and population levels are applied to large and medium Commercial, Industrial, Public and Agricultural customers. Meter-based measurement enables comprehensive capture of savings from bundled measures, operational improvements, and behavioral changes, and supports persistent savings where individual measure attribution is less practical. Population-based NMEC approaches also allow SCE to reach broader customer groups with similar usage characteristics while streamlining administration.

Deemed savings approaches are primarily used for Residential, small and medium Commercial, and Agricultural customers, where standardized measures and prescriptive incentives enable rapid deployment and streamlined participation.

Custom measurement is reserved for more complex projects in the Industrial and Agricultural sectors, where unique equipment, processes, or site conditions require tailored engineering analysis to accurately estimate savings and ensure cost-effectiveness.

Direct install programs are deployed across multiple sectors, with particular emphasis on Residential, small and medium business, Agricultural, and Public sector customers. These programs are especially effective for customers in DACs and HTR populations, as they reduce upfront cost, technical complexity, and participation barriers by providing turnkey delivery.

Together, these intervention strategies allow SCE to align delivery approaches with sector-specific needs while maintaining a focus on cost-effectiveness, measurability, and affordability. By applying the appropriate mix of SEM, NMEC, deemed, custom, and direct install strategies, SCE can efficiently serve diverse customer segments and sustain portfolio performance within the Resource Acquisition segment.

2. Market Support

a) Market Support Segment Strategy

SCE's Market Support segment is designed to strengthen the underlying conditions necessary for sustained delivery of cost-effective EE outcomes over time, consistent with Commission objectives.[60] This segment provides targeted flexibility to address market barriers, delivery constraints, and structural gaps that cannot be fully addressed through Resource Acquisition programs alone, but that materially affect the portfolio's ability to achieve TSB, affordability, and participation goals.

Market Support investments are intentionally structured to complement and enable Resource Acquisition performance by expanding customer readiness, improving delivery capacity, accelerating technology adoption, and reducing non-cost barriers that limit program uptake. Consistent with recommendations from the CAEECC Market Support Metric Working Group (MSMWG),[61] SCE's strategy is organized around five Market Support sub-objectives that collectively improve near-term portfolio execution and longer-term market viability.

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[60] D. 23-06-055, pp. 57-65.

[61] California Energy Efficiency Coordinating Committee (CAEECC) Market Support Metrics Working Group, Report and Recommendations to the California Public Utilities Commission and the Energy Efficiency Program Administrators, October 6, 2021.

SCE supports demand for EE by increasing customer awareness, understanding, and readiness to adopt EE solutions. Market Support programs provide decision-support tools, targeted education, and engagement platforms such as Commercial Energy Advisor and the California Analysis Tool for Locational Energy Assessment (CATALENA) that help customers identify cost-effective opportunities and navigate available offerings. These activities improve participation rates, reduce customer acquisition costs, and increase the likelihood that Resource Acquisition programs achieve forecasted savings and TSB.

To ensure that increased demand can be met effectively, SCE invests in expanding and stabilizing the supply of qualified contractors, vendors, and service providers. WE&T, Career Connections, and related initiatives build technical capacity, improve quality of installations, and reduce delivery bottlenecks. A more capable and diverse supply base directly supports Resource Acquisition performance by improving program scalability, reducing implementation risk, and supporting consistent delivery across sectors and customer types.

SCE develops partnerships with government agencies, CBOs, contractors, manufacturers, and other market actors to extend reach, improve coordination, and leverage complementary capabilities. These partnerships enable more effective customer outreach, improve program relevance for specific populations, and support equitable delivery. By aligning Market Support activities with trusted local and sector-specific partners, SCE improves participation outcomes and reduces duplication across portfolio segments.

SCE advances innovation and accessibility through Emerging Technologies programs and new program design pilots, which evaluate commercial ready or underutilized technologies and explore new program delivery models that are not yet ready for broad Resource Acquisition deployment. These efforts focus on identifying gaps and collaborating solutions with market participants by conducting targeted pilots or field installations, to achieve higher levels of cost-effectiveness and participation. Market Support investments in this area are structured to inform portfolio evolution, support future solicitations, and improve long-term savings potential.

Recognizing that upfront cost remains a significant barrier to participation, SCE supports access to capital through financing mechanisms such as OBF and New Finance Offerings (NFO). These tools improve affordability and participation for residential, commercial, and small business customers, including those in DACs, and enhance the effectiveness of both Market Support and Resource Acquisition programs by enabling customers to act on identified opportunities.

Market Support activities are coordinated with Resource Acquisition, Equity, and Codes & Standards segments to ensure alignment with broader portfolio objectives, avoid duplicative efforts, and maximize overall portfolio value. Performance is tracked using metrics aligned with the five sub-objectives, including indicators related to customer engagement, contractor participation, partnership effectiveness, technology readiness, and access to financing. These metrics inform ongoing portfolio management and help ensure that Market Support investments materially contribute to achieving Commission-adopted goals.

b) Market Support Sectors Served

SCE proposes to deploy Market Support activities across all major customer sectors, Residential, Commercial, Industrial, Agricultural, and Public to address cross-cutting market barriers that affect participation, delivery capacity, and program performance. Serving all sectors through Market Support reflects the role this segment plays in strengthening the conditions necessary for effective Resource Acquisition delivery, rather than delivering savings directly.

Market Support investments are targeted to sectors where non-cost barriers, such as limited customer awareness, workforce constraints, financing limitations, or insufficient market coordination materially affect the ability of EE programs to achieve forecasted participation and TSB outcomes.

(1) Residential Sector

In the Residential sector, Market Support activities target single-family, multifamily, and manufactured home customers through education, outreach, and access-to-capital initiatives. These efforts are designed to increase customer readiness, improve awareness of available offerings, and reduce informational and financial barriers that limit participation in downstream and

direct install programs. Market Support initiatives such as customer education platforms and financing tools are expected to support increased engagement among single-family and manufactured home customers by improving uptake of cost-effective measures delivered through Resource Acquisition programs.

(2) Commercial and Industrial Sectors

For Commercial and Industrial customers, Market Support activities provide workforce development, contractor training, benchmarking tools, and strategic partnerships that support program delivery and scalability. These activities strengthen market capabilities by addressing skill gaps—such as HVAC quality installation and advanced lighting controls—through standardized, competency-based training and manufacturer-aligned coursework that improves installation quality and program compliance. Small and medium businesses benefit, as Market Support reduces informational and operational barriers by improving access to trained contractors and decision-support resources. By enhancing workforce readiness, Market Support investments increase the effectiveness and reach of Resource Acquisition offerings such as deemed, Custom, NMEC, and SEM programs.

(3) Agricultural Sector

In the Agricultural sector, Market Support activities provide tailored outreach, technical assistance, and coordination with Emerging Technologies and WE&T initiatives. These efforts address sector-specific challenges related to operational complexity, geographic dispersion, and limited access to specialized expertise. Market Support investments are intended to improve program penetration and enable adoption of efficient technologies that can be scaled through Resource Acquisition programs where cost-effectiveness thresholds can be met.

(4) Public Sector

For Public sector customers, Market Support focuses on technical assistance, coordination with statewide programs, and partnership-based delivery models that support energy efficiency adoption across diverse facility types and governance structures. These activities help reduce administrative barriers, support project development, and improve alignment between public agency objectives and available EE offerings.

Across all sectors, Market Support activities are designed to complement Resource Acquisition programs by addressing barriers that affect participation, delivery, and long-term performance. By aligning strategies across the five Market Support sub-objectives, demand, supply, partnerships, innovation and accessibility, and access to capital, SCE uses this segment to improve portfolio execution, enhance affordability, and support equitable access to EE opportunities consistent with Commission objectives.

3. Equity

a) Equity Segment Strategy

SCE's strategy for the Equity segment is to reduce persistent barriers that limit access to EE benefits for customers who are less likely to participate in traditional Resource Acquisition programs, while ensuring that equity-focused investments support broader portfolio performance and affordability objectives. Equity programs are designed to address disparities in access, participation, and outcomes by tailoring delivery approaches, incentives, and outreach to customers facing structural, financial, or informational barriers.

Equity activities are structured to complement the Resource Acquisition and Market Support segments, as well as other PA offerings, by expanding participation among HTR, underserved, and DAC customers. Where feasible, Equity programs are designed to enable customers to transition into cost-effective Resource Acquisition offerings or to support measure adoption that contributes to portfolio-level savings and TSB.

SCE's Equity strategy is informed by the CAEECC Equity & Market Support Working Group (EMSWG) recommendations and the CPUC's ESJ Action Plan. Program design and evaluation emphasize customer-centered outcomes such as energy affordability, comfort, health, safety, resilience, and GHG reductions, recognizing that these outcomes may not always be fully captured through traditional cost-effectiveness metrics alone. Key strategies and activities include:

Table VI-12
Key Equity Strategies and Activities

Equity Strategies	Description
Downstream Incentives	Incentive structures are tailored to equity-eligible customers and applied to both code-compliant and above-code installations. These incentives are designed to reduce upfront cost barriers while encouraging adoption of efficient and, where appropriate, electrified end uses.
Direct Install / Turnkey	Equity programs prioritize delivery models that remove technical, administrative, and search burdens by providing vetted contractors and streamlined installation pathways. This approach supports participation among customers who may lack the time, capital, or technical capacity to navigate traditional program offerings.
Targeted and Intelligent Outreach	SCE uses data-driven outreach and analytics to identify eligible customers and deliver targeted communications that improve awareness and participation among HTR, underserved, and DAC populations. Outreach strategies are coordinated with other programs to avoid duplication and improve effectiveness.
Community and Market Partnerships	SCE collaborates with CBOs, local contractors, and trusted market actors to improve program reach, build customer trust, and support culturally and geographically appropriate delivery.
Enabling Strategies	Equity programs leverage financing tools, technical assistance, and simplified program offerings to reduce participation barriers and support sustained engagement where cost-effective opportunities exist.
Access to Information	Where appropriate, SCE supports access to customer data, benchmarking tools, and usage information to enable informed decision-making and improve the effectiveness of efficiency investments.

Equity programs are deployed across all major sectors, Residential, Commercial, Industrial, Agricultural, and Public with strategies tailored to sector-specific barriers and customer needs. This includes targeted support for single-family, multifamily, and manufactured home customers, as well as underserved non-residential customers that may not otherwise be reached through market-based delivery models.

Through this approach, SCE's Equity segment expands access to EE benefits while reinforcing portfolio performance by increasing participation, improving delivery effectiveness, and supporting long-term affordability objectives consistent with Commission direction.

b) Equity Subcategory Definitions

Clear, consistent, and operationally actionable definitions of the equity subcategories: HTR, underserved, and DACs, are essential to effective program design, targeting, delivery, and evaluation. While the current definitions provide a foundational framework for identifying priority populations, SCE's experience with implementation across programs has demonstrated that

these sub-categories require refinement to ensure alignment between policy intent with on-the-ground customer conditions and evolving community needs.

In practice, the current definitions for each "Equity" sub-category encompass far more customers than the underlying policy intent would suggest it should. Under the current definitions, more than half of SCE's customers qualify as equity or income-qualified. The consequence is that equity programs may be serving customers that could participate in a non-equity program, thereby leaving less resources for customers that are truly underserved.

Additionally, boundaries across HTR, underserved, and DAC classifications frequently overlap. Customer characteristics – such as income and energy cost burden, primary language and linguistic isolation, housing type and split-incentive conditions, digital connectivity, education and energy literacy, and geographic isolation – often intersect. These overlapping barriers create ambiguity in eligibility and lead to inconsistent application across implementers, limiting the reach and evaluability of equity-focused offerings. There is also confusion regarding what customers should be served by the IOU ESA programs, which offer free services, and Equity EE programs, which often include some cost to the customer.

To address these issues, SCE proposes refinements that more accurately reflect the multidimensional nature of customer barriers and ensure Equity programs can target and reach the intended customers. SCE recommends the following consolidated segment definition changes to support more effective statewide implementation:

1. **Define Residential Customer as Equity and HTR:** A residential customer should be classified as Equity/HTR if the customer resides in a rented or leased mobile home or multifamily dwelling that is located in a Disadvantaged or Low-Income Community. ESA-eligible customers should be excluded from EE equity eligibility to avoid duplication and customer confusion.
2. **Define Business Customer as Equity and HTR**: A business customer should be classified as Equity/HTR if the customer is either 1) a local government

entity, 2) a tribal business, 3) a DBE business, or 4) a small business with demand under 20 kW that operates from a rented or leased site located in a Disadvantaged or Low-Income Community.

3. **Simplify Equity and HTR definitions**. SCE recommends removing ESA eligibility, low-income customer criteria addressed through IQP, non-English primary language, Office of Management and Budget (OMB) designation, school lunch participation metrics, and employee count thresholds from the equity and HTR definitions, as they do not reliably indicate participation barriers and contribute to overlap with other programs. This would also support consistent statewide eligibility determination and reduce duplication across PAs, RENs, CCAs, and third-party implementers.

Clarifying and simplifying equity definitions will reduce duplication across EE, ESA, and IQP programs, improve administrative consistency, and better target resources to customers with genuine access barriers. These revisions are consistent with Database for Energy Efficient Resources (DEER) findings indicating no material differences in adoption or free-ridership rates between HTR and non-HTR customers.

SCE will continue collaborating and is open to discussing these changes with the Commission, CAEECC working groups, and stakeholders to support ongoing refinement of equity definitions. Through implementation, SCE identifies where current definitions limit scalability, reduce effectiveness, or hinder evaluability and addresses these considerations in Chapter XI. More operationally grounded equity definitions will expand access, improve consistency, and strengthen the ability of California's EE portfolio to deliver meaningful and equitable outcomes statewide.

c) Equity Segment – Sectors Served

As discussed in previous chapters, SCE's Equity segment is structured to deliver targeted EE support across all major customer sectors, Residential, Commercial, Industrial, Agricultural, and Public through a set of sector-specific programs designed to address persistent access, affordability, and participation barriers. This multi-sector approach ensures that equity-focused interventions are not

limited to residential customers alone but are available to underserved customers wherever meaningful energy and affordability opportunities exist.

(1) Residential Sector

The Residential sector represents the largest focus within the Equity segment. Programs prioritize customers who face structural barriers to participation, including renters, low-income households not served through income-qualified programs, and customers located in DACs or classified as HTR. Delivery strategies emphasize direct install and turnkey approaches, streamlined incentives, and trusted community partnerships.

For the Four-Year Portfolio Period, SCE forecasts serving approximately 9,000 equity customers per year through equity-focused direct install and downstream offerings and other sector-specific equity programs.

(2) Commercial and Industrial Sectors

Equity programs in the Commercial and Industrial sectors focus on small and medium businesses, nonprofits, and facilities located in DACs or serving essential community functions. These customers often lack access to capital, technical expertise, or dedicated energy management resources. Equity delivery in these sectors emphasizes simplified participation pathways, targeted outreach, and coordination with Market Support tools such as financing and technical assistance.

SCE anticipates selectively expanding equity-focused offerings in these sectors where gaps persist, particularly for customer segments not fully served by other Program Administrators or statewide offerings.

(3) Agricultural Sector

Equity efforts in the Agricultural sector prioritize small and mid-sized operations, particularly those located in underserved rural areas or facing water-energy nexus challenges. Programs focus on irrigation efficiency, pumping, and operational improvements delivered through direct install, SEM-informed approaches, and tailored technical assistance. Equity strategies in

this sector are designed to address geographic isolation, language barriers, and limited access to technical resources.

(4) Public Sector

Equity programs in the Public sector support local governments, schools, and special districts serving disadvantaged or underserved communities. Delivery emphasizes comprehensive facility upgrades, building electrification readiness, and alignment with public agency operational and climate objectives. Coordination with statewide programs and RENs helps avoid duplication while expanding access where gaps exist.

d) Portfolio Flexibility and Gap Filling

SCE anticipates that equity needs will continue to evolve over time. Accordingly, the Equity segment is designed to retain flexibility to expand into new sub-sectors, refine targeting within existing sectors, or withdraw from areas where equity objectives have been sufficiently addressed or where overlap with other providers is identified. Examples of potential gap-filling opportunities include enhanced outreach to niche residential populations, expanded support for small commercial customers in DACs, and targeted industrial offerings where equity-eligible customers face persistent participation barriers.

4. Codes & Standards

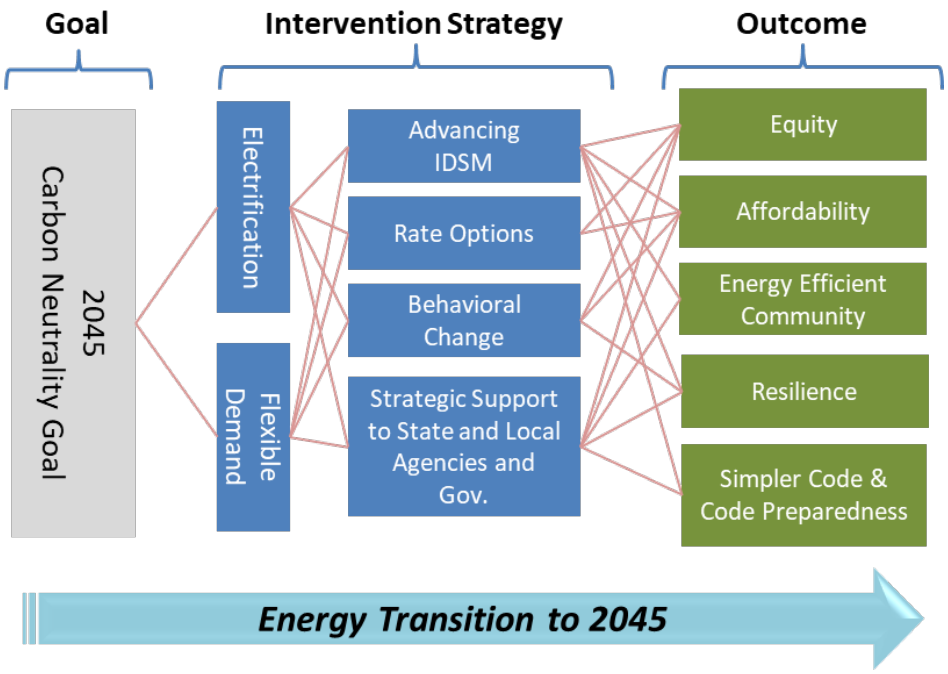
a) Strategy for the Codes & Standards Segment

SCE's Codes & Standards strategy for the 2028–2031 funded period, with a high-level outlook for 2032–2035, is centered on an SCE framework of Equitable Energy Efficient Building Decarbonization (EEEBD). This strategic focus reflects California's long-term climate and clean energy objectives and aligns with Commission direction, including D.23-04-035.[62] Figure VI-2 below illustrates the Codes & Standards Program's overarching EEEBD strategy, aligned with California's 2045 carbon neutrality goal. The figure depicts how coordinated intervention strategies support expected

[62] D.23-04-035, COL 12: "Pub. Res. Code Section 25402.7 requires electric and gas utilities to provide support for the CEC's building standards and other regulations. Because the CEC's building standards and other regulations address transportation electrification and building decarbonization, the IOUs' Codes & Standards programs and subprograms must support these broader clean energy goals."

outcomes related to equity, affordability, energy-efficient communities, climate resilience, and streamlined code preparedness.

Figure VI-2
Codes & Standards Strategy –
Equitable Energy Efficient Building Decarbonization (EEEBD)



Through EEEBD, the Codes & Standards portfolio advances integrated demand-side management by supporting coordinated improvements in EE, electrification readiness, flexible demand, and building–grid alignment across new and existing buildings.

The Codes & Standards Program promotes a decarbonized future by advancing compliance with energy regulations and supporting improvements to Codes & Standards at the international, federal, state, and local levels. Core strategic objectives include:

- Influencing regulatory bodies and code development processes, including efforts to simplify and modernize codes;
- Improving code compliance through education, technical assistance, and market engagement; and

- Supporting local governments in adopting reach codes that exceed statewide minimum requirements.

Consistent with the CEC's "AB 3232 Assessment Report,"[63] SCE's Codes & Standards activities emphasize coordination and planning across multiple initiatives to ensure alignment with broader affordability, equity, and clean energy goals. Key coordination areas include building electrification, affordable EE, distributed energy resources, flexible demand, low-global-warming-potential refrigerants, and embodied carbon. These efforts are undertaken in collaboration with federal and state agencies, local jurisdictions, and complementary programs such as Electric Program Investment Charge (EPIC), Emerging Technologies, WE&T, and applicable incentive programs.

SCE's Codes & Standards strategy supports Commission objectives in several critical areas:

(1) Equity and Affordability

SCE's EEEBD framework emphasizes inclusive access to EE and electrification technologies, with particular focus on ES&J communities and tribal communities. This approach aligns with legislative and policy directives, including Senate Bill (SB) 535, Assembly (AB) 1550, AB 841, and EO N-5-24. The Codes & Standards Program has historically delivered substantial economic value to Californians and SCE will continue building on this legacy by prioritizing affordability and equitable access in coordination with other market actors.

Decarbonizing California's existing buildings is a major challenge, and SCE's EEEBD framework tackles this by focusing on equity and affordability, where clear prioritization is needed. Codes & Standards support for Building Performance Standards (BPS) and the Home Energy Rating and Labeling programs play key roles by providing structured pathways to ensure that decarbonization efforts are fair and program participation is accessible across all existing buildings. Additionally, SCE's Building Inventory Geospatial (BIG) database enables data-driven decision-making by pinpointing areas with barriers to decarbonization adoption, such as high energy costs, affordability

[63] CEC Final Commission Report "California Building Decarbonization Assessment", August 2021, *available at* https://efiling.energy.ca.gov/GetDocument.aspx?tn=239311.

issues, and communities facing ESJ concerns. This information helps guide targeted outreach, education, incentives, and reach code development.

BPS are emerging as a central policy mechanism for decarbonizing California's existing building stock. To support effective, equitable, and cost-effective implementation of BPS, SCE recommends that the Commission establish a coordinated CPUC–CEC–IOU planning framework specific to BPS to proactively assess and map BPS policy implications into EE program rules and delivery structures ahead of formal compliance deadlines. Early coordination would provide clear planning signals to PA and the market, clarify EE's role in supporting BPS compliance, and reduce the risk of reactive or fragmented program adjustments as BPS requirements are finalized and implemented. Establishing this coordination now while legislative and regulatory elements of BPS continue to evolve would improve regulatory certainty, enhance market readiness, and ensure that EE portfolios are aligned to cost-effectively support building owners' compliance pathways over the long term.

(2) Market Transition and Grid Readiness

California is currently at the forefront of a fundamental power system transformation towards a cleaner, more diverse grid that integrates an ever-growing set of load modifying DERs and technologies that include building electrification, demand response, EV charging infrastructure, photovoltaic systems, and battery energy storage. Specific emphasis will be placed on EEEBD and grid flexibility, including SB 49's focus on flexible demand appliances. Codes & Standards activities support the transition toward carbon-neutral communities by enabling integration of DERs, flexible demand strategies, and building electrification. These efforts prepare buildings to contribute to grid reliability and resilience while supporting long-term clean energy adoption.

(3) Public Health and Environmental Benefits

The increased frequency of extreme weather conditions and natural disasters in California challenges our current understanding of how to increase resiliency. Research and coordination related to wildfire resilience, indoor air quality, and climate impacts support improved public health outcomes, particularly in vulnerable communities. Collaboration with agencies such as

California Air Resources Board (CARB) and South Coast Air Quality Management District (AQMD) further advances the responsible adoption of zero-emission appliances and low-GWP refrigerants.

(4) Structure of the Codes & Standards Portfolio

The Codes & Standards segment is implemented through six coordinated programs that collectively advance SCE's EEEBD strategy (three statewide programs and three SCE-led programs):

- Statewide Advocacy Programs (administered by PG&E):[64]
  - State Building Code Advocacy: Advocates for the development and adoption of California Title 24 building code changes by the CEC.
  - State Appliance Standards Advocacy: Advocates for the development and adoption of California Title 20 appliance standard changes by the CEC.
  - National Codes & Standards Advocacy: Advances the development and adoption of national building codes and appliance standards directly impacting California or used as precedents for California.
- SCE Led Programs:
  - Compliance Improvement: Enhances compliance with existing building codes and appliance standards through education, outreach, and technical support.
  - Reach Codes: Supports local governments in adopting ordinances that exceed statewide energy and decarbonization requirements.

[64] For information on the Statewide Advocacy Programs, please refer to testimony of PG&E. These efforts are closely coordinated across the state to ensure alignment of priorities and advancement of building codes and appliance standards.

- Planning and Coordination: Identifies technology and market gaps and supports strategic initiatives, including decarbonization and code preparedness.

These programs operate in coordination to support California's decarbonization goals through integrated and complementary activities.

b) Reach Codes Program

SCE's Reach Code Program supports local jurisdictions in adopting ordinances that exceed statewide building and appliance standards in both new construction and existing buildings.[65] The program emphasizes equitable energy-efficient building decarbonization by supporting all-electric construction, advanced EE measures, EV infrastructure readiness, building performance standards, and water efficiency strategies.

Recent legislative direction, including Assembly Bill (AB) 39, underscores the importance of local electrification planning.[66] SCE's Reach Code Program supports local jurisdictions (including tribal communities, k-12 school districts, and local AQMDs by providing technical assistance, cost-effectiveness analysis, and coordination with other IOUs and state agencies to advance local decarbonization objectives while maintaining affordability and consistency. In response to AB 130,[67] SCE will prioritize municipal and commercial ordinances for reach codes, leverage general plan exceptions to advance residential codes where allowed, and continue supporting existing reach codes with technical assistance and education to advance EE and decarbonization.

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65 Local Energy Codes Website: https://localenergycodes.com/

66 AB 39 (Zbur, 2025), §65302.13(a) mandates that on or after January 1, 2027 but not later than January 1, 2030, cities and counties shall prepare and adopt an electrification, decarbonization, community energy or another similar plan and integrate it into the next adoption or revision of the city's/county's general plan, *available at* https://legiscan.com/CA/text/AB39/id/3272191 See the chaptered tab.

67 AB 130 (2025), among other things, prohibits cities and counties from establishing more restrictive building standards and the commission or any other adopting agency from considering, approving, or adopting any proposed building standards affecting residential units unless certain conditions are met, *available a*t https://legiscan.com/CA/text/AB130/id/3260236 See the chaptered tab.

c) Compliance Improvement Program

The Compliance Improvement Program focuses on improving adherence to building codes and appliance standards by supporting market actors across the compliance chain through the use of a statewide consistent Energy Code Ace brand.[68] Activities include education, training, technical assistance, outreach, and development of tools that simplify compliance and improve understanding of energy codes.

The program prioritizes equity by expanding access to resources in ES&J communities and tribal communities, supporting rebuilding efforts following wildfire events, and strengthening workforce pathways related to building energy modeling and code compliance. Efforts include translation of materials to better reach non-English speakers within the building trades, partnering with reach code efforts and community organizations such as affordable housing providers, REN's, and technical colleges to coordinate training delivery to HTR populations, and development of materials to support jurisdictions in rebuilding efforts following wildfire losses by clarifying applicable code requirements and highlighting construction methods that improve efficiency and enhance resilience.

d) Planning and Coordination Program

SCE's Planning and Coordination (P&C) Program serves as the central organizing function for Codes & Standards activities, aligning initiatives across internal portfolios and external partners. P&C coordinates with programs such as Emerging Technologies, WE&T, Market Education & Outreach, EM&V, incentive programs (including BUILD and TECH), transportation electrification activities, and transmission and distribution (T&D) planning.

External coordination includes collaboration with the CEC, Department of Energy, Environmental Protection Agency, CARB, South Coast AQMD, national laboratories, Electric Power Research Institute (EPRI), EPIC research activities, and local governments, consistent with Commission direction in D.12-05-015. Ongoing coordination is further supported through participation

[68] Energy Code Ace Website is *available at* https://energycodeace.com/

in statewide forums such as the Energy Transition Coordinating Council (and Energy Transition Summits) and California Building Energy Modeling (CalBEM) working groups (and CalBEM Symposiums).

(1) Planning and Coordination Strategic Framework

The Planning and Coordination Program is organized around five matrixed activity areas grouped into three strategic focus areas and two ongoing cross-cutting functions.

Table VI-13
Planning and Coordination – Matrixed Activity Areas

Planning and Coordination Focus Areas				**On Going**
	Decarbonization	**Grid Harmonization**	**Code Harmonization**	
Strategic Planning and Coordination	• Develop and advance key initiatives within long-term focus areas • Increase "**Code Preparedness**" in key technology markets			Monitor and assess need for new Planning and Coordination focus areas
Program Coordination	• Coordinate implementation of key initiatives across relevant customer programs • Monitor markets and data from coordinating programs for adoption trends that may be useful for future Codes & Standards advocacy			Monitor technology adoption

This framework supports coordinated planning, market assessment, and initiative development across decarbonization, grid harmonization, and code harmonization.

(2) Key Coordination and Research Activities

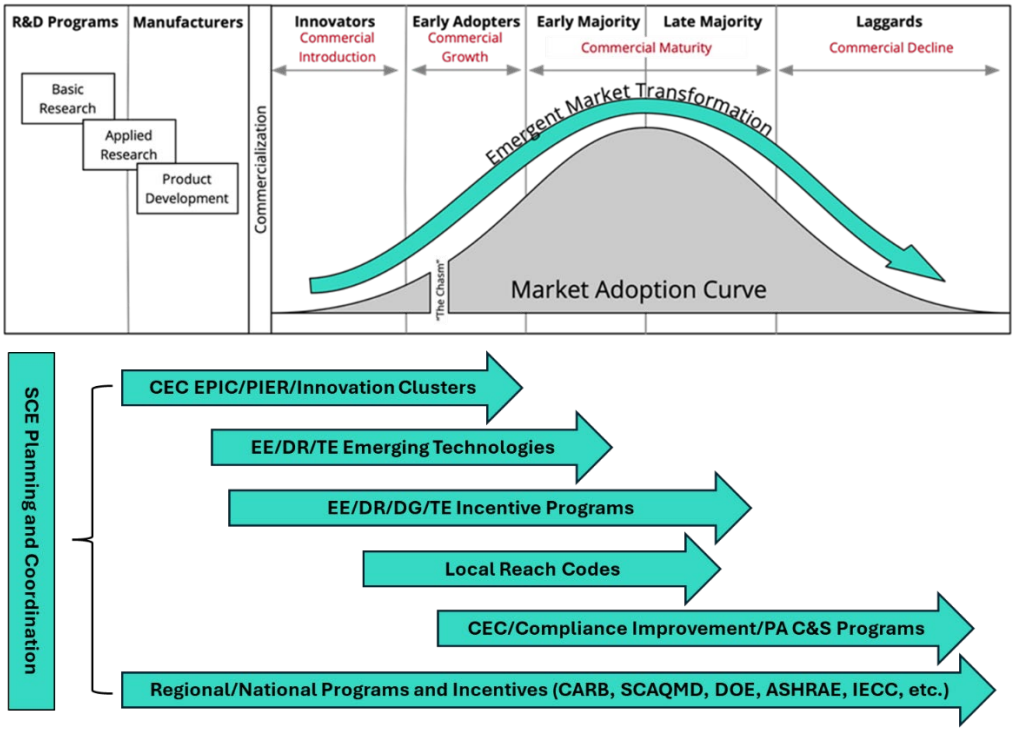
Through Planning and Coordination, SCE supports advanced modeling, research, and collaboration initiatives that inform code development, electrification readiness, and grid planning. These activities include enhancement of building energy modeling practices, support for statewide modeling coordination efforts, and targeted research addressing equity, affordability, wildfire resilience, building decarbonization, and flexible demand.

SCE also supports collaboration with affordable housing stakeholders, RENs, California Market Transformation Administrator (CalMTA), and other demand-side programs to reduce duplication and improve alignment across portfolios.

(3) Tracking Key Market Readiness

Planning and Coordination uses a market readiness approach to evaluate technologies and identify intervention gaps across: technology readiness (availability and performance), market readiness (customer awareness and supply chain capacity), and program readiness (supporting program and policy conditions). This framework supports equitable prioritization and helps inform future coordination needs, technical assistance approaches, and education strategies.

Figure VI-3
SCE P&C's Efforts within Overall Market



Planning and Coordination also supports code preparedness through research, stakeholder engagement, and "crosswalk" tools that help industry transition from current requirements to future versions oriented toward building decarbonization. Planning and Coordination coordinates building energy modeling (BEM) efforts (including CalBEM-related collaboration) to

improve modeling consistency, enhance compliance tools, and support better understanding of how technology adoption affects load shapes, demand flexibility potential, and affordability considerations, particularly for ESJ and tribal communities. In addition, P&C leverages data tools such as SCE's Building Inventory GIS (BIG) database to support targeted planning, sector prioritization, and equity-informed outreach and technical assistance.

(4) Sectors Served in Codes & Standards

SCE's Codes & Standards Planning and Coordination, Reach Codes, and Code Compliance Programs will continue to support all customer sectors (residential, commercial, industrial, agricultural, and public) through activities that strengthen code compliance, expand local reach code adoption, and improve market readiness for energy-efficient and flexible demand technologies. Codes & Standards efforts also include targeted engagement with tribal communities and ESJ communities, with an emphasis on practical pathways that expand access to energy-efficient technologies, reduce energy burdens, and support equitable electrification.

Across sectors, SCE's Codes & Standards Planning and Coordination, Reach Codes, and Code Compliance Programs focus on (1) improving compliance with existing building and appliance standards, (2) supporting local jurisdictions in adopting reach codes that exceed statewide minimums where allowable, and (3) providing technical assistance to market actors and stakeholders. These activities are intended to help overcome common barriers to the adoption of energy-efficient measures, electrification technologies (including heat pump space and water heating), and demand flexibility–enabling equipment that can support grid needs and customer bill management. California's statewide clean energy goals, including 6 million heat pumps in buildings by 2030, underscore the scale of market transformation that must be supported by coordinated readiness, education, and compliance infrastructure.

VII.

PORTFOLIO COORDINATION

SCE coordinates its EE portfolio across programs, sectors, and customer segments, as well as with other PAs and related demand-side initiatives, to ensure efficient use of ratepayer funds, clear customer pathways, and complementary offerings. These coordination practices support consistent portfolio delivery, minimize duplicative efforts, and enable shared learning while acknowledging differences in program design, funding, and statutory responsibilities.

Coordination is conducted through formal venues, structured workflows, and ongoing operational engagement, allowing SCE to identify potential overlap, resolve implementation issues, and respond to evolving market conditions. As multiple administrators increasingly serve the same customer segments through various delivery channels, effective coordination, particularly at the program proposal stage, remains essential to maintain accountability, reduce customer confusion, and manage portfolio risk.

This chapter outlines SCE's internal and external coordination practices, including interactions with other administrators and market transformation entities, as well as procedural mechanisms for identifying and mitigating program overlap. These activities support effective implementation under current policies and inform opportunities for improved alignment in future planning cycles.

A. Segment and Sector Specific Coordination

1. Coordination within the Same PA

SCE coordinates its EE programs across sectors and portfolio segments to ensure cohesive delivery, efficient use of customer-funded resources, and clear customer pathways. Internal coordination minimizes duplication, addresses gaps in service, and aligns program objectives across Resource Acquisition, Market Support, Equity, and Codes & Standards activities, enabling program adaption while maintaining comprehensive coverage and consistent access to EE opportunities for customers.

This process aligns program design, delivery strategies, and performance management across sectors to support affordability, accountability, and portfolio performance. SCE routinely reviews

program scopes, participation trends, and performance metrics to determine whether programs should be modified, expanded, consolidated, or retired, drawing on evaluation findings, implementation experience, and market conditions.

Coordination with other PAs in SCE's service area is addressed separately in Chapter 7 Section A2.

a) Program Specific Coordination

(1) Sector/Segment Specific Coordination

SCE coordinates internally across all customer sectors, Residential, Commercial, Industrial, Agricultural, and Public to ensure that programs are complementary and appropriately targeted. At the program level, SCE ensures that individual EE programs are designed and administered to complement one another and support consistent customer experiences across the portfolio.

- Residential Sector: Multiple programs operate within the residential sector, each targeting distinct customer needs. SCE coordinates residential EE activities with internal Equity, Market Support, Codes & Standards, Workforce Education and Training (WE&T), financing, and DR initiatives. This coordination avoids duplicative incentives, supports workforce readiness, aligns measure design with related demand-side programs, and streamlines customer participation through consistent engagement pathways. Residential offerings addressing building electrification, equity and direct installation are coordinated to provide comprehensive coverage while avoiding duplication. Program managers monitor contract terms and performance to ensure continuity of service through extensions, amendments, or new solicitations as needed.
- Commercial Sector: The commercial sector is served by multiple programs designed to reach different customer groups, including

small, medium, and large businesses. SCE coordinates commercial offerings with WE&T, financing, and data-access initiatives to support customer awareness and sustained energy management. Due to the size and diversity of the commercial sector, multiple SEM programs may operate concurrently, each targeting different subsets of commercial customers who benefit from multi-year, long-term energy management strategies. Program managers regularly assess coverage and performance, issuing targeted solicitations or modifying existing programs to address identified gaps.

- Industrial Sector: Industrial customers are served by a set of programs—including SEM—intended for different customer types and operational profiles within the sector. Coordination with Market Support, financing, and workforce initiatives ensures alignment across capital-intensive projects, meter-based savings approaches, and long-term operational improvements. These efforts reduce overlap and support effective deployment of technologies and training resources. Program managers monitor performance and adjust delivery strategies to ensure alignment with portfolio goals.
- Agricultural Sector: The agricultural sector is supported by several programs that target different end uses such as irrigation, pumping, and process loads. SCE coordinates these offerings with nonresidential programs, WE&T, and financing initiatives to ensure clear customer pathways and consistent messaging. This coordination reduces duplicative efforts and enhances the feasibility of agricultural projects requiring technical expertise or capital support. Agricultural programs, including local and equity-focused offerings, are coordinated to address the operational realities of different agricultural sub-sectors

and customer sizes, ensuring appropriate targeting and effective delivery.

- Public Sector: Multiple programs serve public sector entities, including municipalities, schools, and special districts, each focusing on different customer needs and project types. SCE coordinates across Resource Acquisition, Market Support, Equity, and Codes & Standards to align program offerings with public procurement processes, capital planning cycles, and policy objectives such as electrification and compliance with evolving building codes. This coordination ensures efficient service delivery and reduces the potential for program overlap. Statewide and locally administered public sector programs are coordinated internally to support municipal buildings, educational facilities, and community infrastructure. Program managers align delivery strategies to ensure coverage, consistency, and efficient use of resources.

SCE employs continuous improvement practices to evaluate program performance, identify service gaps, and adjust portfolio design over time. Internal gap analyses inform decisions to modify existing programs, issue new solicitations, or shift resources to higher-performing activities. Cross-cutting programs such as WE&T, Emerging Technologies, financing, and Codes & Standards are integrated into sector strategies to maximize impact, support market readiness, and enhance portfolio efficiency.

Through these internal coordination practices, SCE ensures that its EE portfolio functions as a cohesive and adaptive whole, capable of delivering accountable results during the funded period while responding to evolving customer needs and market conditions.

2. <u>Coordination with Other PAs</u>

SCE coordinates with other PAs to support portfolio alignment, reduce customer confusion, and minimize the risk of duplicative EE program offerings across shared customer segments

and geographic territories, where possible. Coordination utilizes the structured processes for information sharing, program-mapping, and issue resolution, consistent with Commission direction and established ALs.

a) Coordination Participants

SCE coordinates with the following PAs operating within overlapping geographic areas and customer segments:

- Southern California Regional Energy Network (SoCalREN), administered by the County of Los Angeles, whose service area spans the entirety of SCE's electric service area, creating broad overlap across residential, commercial, and public sector customers.
- Tri-County Regional Energy Network (3C-REN), administered by Ventura County, which overlaps with SCE's service area in Ventura and Santa Barbara counties.
- Inland Regional Energy Network (I-REN), led by the Western Riverside Council of Governments (WRCOG), which serves the Inland Empire region where SCE provides electric service.
- Central California Rural Regional Energy Network (CCR REN), administered by the County of San Luis Obispo, which includes portions of SCE's service area in Kern, Inyo, Tulare, and Mono counties.

SCE also coordinates with other investor-owned utilities (PG&E and SoCalGas) where joint administration, co-funding, or shared REN coordination responsibilities apply.

(1) Coordination Structure and Frequency

SCE uses several formal coordination venues to engage with other PAs, including RENs and IOUs:

Joint Cooperation Memos (JCMs):[69] JCMs serve as the primary formal mechanism for documenting coordination commitments among PAs. These memos include program mapping by sector, coordination protocols, data-sharing expectations, and escalation pathways for overlap concerns. JCMs are submitted biennially in accordance with Commission direction. Because JCMs are typically finalized after key portfolio and program design decisions have been made, they are less effective in addressing program duplication or overlap that may arise during program development or implementation.

Current JCMs include agreements among SCE, SoCalREN, SoCalGas, I-REN, and 3C-REN for the 2024–2025 cycle, as well as a separate JCM involving 3C-REN, PG&E, SoCalGas, and SCE. SCE is also actively working to finalize a JCM with CCR REN.

Program Administrator Sector Coordination (PASC) Meetings: PASC meetings are typically held quarterly and provide a recurring forum for coordination across customer sectors. These meetings include standing agenda items for program updates and implementation coordination. Participation generally includes portfolio managers, sector leads, program managers, and implementation staff from participating PAs. Facilitation rotates on a voluntary basis among PA staff.

Ad Hoc Working Groups and Bilateral Meetings: Between formal meetings, SCE and other PAs convene ad hoc discussions as needed to address and obtain feedback regarding emerging coordination issues, program changes, or implementation challenges.

Statewide Energy Efficiency Team (SWEET): SWEET meetings are held bi-weekly and focus on coordination of statewide EE programs delivered by third-party implementers. Participants include program leads from IOUs and, as appropriate, REN representatives. Topics include co-funding, budgets, forecasts, implementation plan changes, and true-ups. Meetings follow antitrust protocols and include documented agendas and minutes.

[69] D.19-12-021, p. 6, COL 7, p. 84; D.23-06-055, pp. 24-25, 88, 91, 121, 130.

(2) Coordination Practices (Overlap Identification and Mitigation Workflow)

SCE employs the definitions for identifying "substantively similar" programs developed in coordination with the other PAs pursuant to D.23-06-055, OP 32[70] to identify potential overlap or duplication among EE programs administered by different PAs. SCE implements practices included in joint cooperation memos (JCMs) through established coordination venues, data review, and ongoing inter-PA engagement.

(3) Overlap Identification

Consistent with the Joint AL, SCE evaluates potential overlap based on whether programs are "substantially similar,"[71] meaning they target the same customer segments, end uses, measures, delivery mechanisms, and geographic areas in a manner reasonably likely to result in customer confusion or duplicative use of ratepayer funds. In practice, SCE applies this framework using a combination of qualitative judgment and available data, including:

- similarities in targeted customer segments, end uses, and measures;
- overlapping geographic service territories;
- alignment in program timing and delivery periods;
- comparison of program design elements, eligibility criteria, and incentive structures; and
- review of prior customer participation data, where available.

Potential overlap may be identified proactively during program planning and solicitation development or reactively as programs are launched or modified by other PAs.

(4) Escalation and Review

When potential overlap is identified, SCE brings the issue to established coordination venues consistent with the processes described in the Joint AL. These venues include

[70] D.23-06-055, p. 129, OP 32.

[71] Final definitions for the terms "similar", "program overlap", "substantively similar" and "program duplication" are provided in Table 7 of the OP 32 Report. D.23-06-055, OP 32 Report, Southern California Regional Energy Network, (October 1, 2024), pp. 20-21, *available at* https://www.pge.com/tariffs/assets/pdf/adviceletter/GAS_4980-G.pdf.

PASC meetings, JCM discussions, and ad hoc bilateral or multilateral meetings among affected PAs. These forums are used to exchange program information, clarify intended scope and objectives, assess whether offerings are complementary or duplicative, and identify potential mitigation actions. The timeline for escalation and resolution is generally aligned with the cadence of the applicable coordination forum, with follow-up discussions occurring as needed to support timely implementation decisions.

Where overlap concerns are confirmed, SCE and other PAs may employ a range of mitigation tools consistent with those contemplated in the Joint AL, including:

- Refining customer eligibility or sector focus;
- Adjusting program scope, measures, or delivery channels;
- Coordinating customer referrals between programs;
- Sequencing outreach and marketing activities;
- Modifying implementation approaches to reduce redundancy; and
- Documenting agreed-upon roles and responsibilities through JCMs.

These tools are intended to preserve customer choice, reduce confusion, and promote efficient use of customer-funded resources while maintaining appropriate portfolio coverage.

(5) Ongoing Assessment and Need for Additional Guidance

While the Joint AL complied with OP 32, PG&E subsequently filed a response on November 4, 2024, recommending additional analysis to support Commission decision-making regarding program precedence, particularly for statewide midstream and statewide versus local downstream delivery channels.[72]

Consistent with that response, PG&E and SCE are currently co-leading a separate program overlap assessment to more thoroughly examine the extent of overlap between

[72] *See* Pacific Gas And Electric Company's Response To The Joint Advice Filing (20-E / 20-G) By SoCalRen – Southern California Regional Energy Network Filing On Behalf Of The Energy Efficiency Portfolio Administrators For Program Overlap Analysis.

statewide midstream programs and statewide and local downstream programs. These areas of overlap were largely unaccounted for in the OP 32 report but were identified as a potential area of ratepayer risk in an IOU-led study conducted in 2022 as described in PG&E's response to The Joint Advice Filing (20-E / 20-G) .[73]

SCE's experience administering a large, third-party-delivered portfolio indicates that, in the absence of clear, Commission-adopted guidance on program precedence, overlap resolution often relies on negotiated outcomes that may vary by region or program. While SCE continues to coordinate in good faith using existing tools and processes, additional ED guidance on program precedence would improve consistency, transparency, and administrative efficiency across portfolios and reduce the risk of duplicative spending.

3. Coordination with Market Transformation

SCE will actively coordinate its EE portfolio with statewide Market Transformation activities, including those administered by CalMTA and TECH Clean California, to ensure complementary roles across program design, delivery, and market engagement. This coordination is intended to avoid duplicative offerings, leverage shared insights, and accelerate the adoption of emerging technologies that support California's energy efficiency, affordability, and decarbonization objectives.

The California IOUs and CalMTA are jointly developing a coordination framework that will formalize processes for collaboration related to approved Market Transformation Initiatives (MTIs). This framework is expected to address information sharing, program alignment, and coordination practices to support transparency and effective integration between market transformation activities and IOU-administered portfolios. To facilitate meaningful collaboration while protecting confidential information, SCE has executed a Non-Disclosure Agreement with CalMTA, enabling secure data sharing to support joint analysis, planning, and sequencing of market interventions.

[73] *See Id. at* Appendix A.

SCE also participates in formal coordination venues, including the Market Transformation Advisory Board (MTAB) and associated working groups, where IOUs provide input on MTI design, implementation considerations, and interaction with existing EE and Codes & Standards programs. Through these forums, SCE collaborates on initiatives such as Room Heat Pumps and Induction Cooking, as well as on emerging MTIs under development, to clarify roles and ensure that market transformation efforts complement rather than displace or duplicate portfolio-funded programs.

In addition, SCE will coordinate with TECH Clean California to support customer adoption and market readiness for building electrification technologies, particularly heat pumps. Coordination focuses on aligning market education, contractor readiness, and customer pathways so that market transformation efforts reinforce, rather than overlap with EE Equity, and Codes & Standards activities.

Through these coordination mechanisms, SCE seeks to ensure that MTI and IOU-administered portfolios operate in a complementary and disciplined manner addressing structural market barriers while maintaining clear program roles, minimizing customer confusion, and supporting efficient use of customer-funded resources.

4. Coordination with ESA Program

SCE coordinates its EE portfolio with the ESA program to support complementary delivery, manage potential overlap, and promote efficient use of ratepayer funds, particularly where programs serve overlapping customer populations. Because EE Equity and ESA may engage similar customers, especially in the residential sector, coordination helps maintain clear customer pathways while supporting affordability objectives.

Coordination focuses on implementation-level alignment rather than changes to program structure or policy. These efforts may include information sharing on program scope, consideration of outreach and engagement approaches, and identification of opportunities to reduce duplicative activities that could increase administrative or delivery costs. Where overlap occurs, it is addressed through delivery practices and coordination processes.

SCE recognizes that some degree of overlap across demand-side programs is inherent given shared policy objectives and customer needs. Accordingly, SCE's approach emphasizes practical coordination tools to manage interactions between EE and ESA in a manner that supports effective delivery, limits unnecessary costs, and preserves program flexibility.

This Application does not propose changes to ESA eligibility, governance, or program design, nor does it seek to restructure EE Equity offerings. Instead, it reflects SCE's intent to continue coordinating, as appropriate, to support affordability, maintain program clarity, and align with Commission guidance.

5. Coordination with Other Demand Side Programs

Effective coordination across demand-side management (DSM) programs is essential to achieving California's clean energy and decarbonization goals. As customers adopt EE measures, the value of those investments is amplified when paired with DR capabilities that support grid reliability and enable flexible demand. This is evident in residential direct-install programs, where integrating DR enrollment at the point of EE installation reduces customer acquisition costs and improves DR participation rates. SCE's portfolio design and solicitation materials place increasing emphasis on integrated approaches that streamline DR enrollment and maximize the combined grid and customer benefits of EE and demand flexibility. Implementers and SCE may also promote non-residential customers enrolling in demand response programs when EE investments are being made, leveraging project touchpoints to streamline DR enrollment where applicable.

Additionally, SCE may implement the Multi-DER Permanent Load Shift (PLS) framework approved by the Commission in Resolution E-5387. As outlined in SCE AL 5249-E, specific program proposals would be filed separately from this Business Plan via AL[74] and include the proposal's strategy, including technologies, target customer engagement tools, etc.

[74] SCE AL 5249-E, p. 2.

VIII.

STAKEHOLDER ENGAGEMENT

SCE actively sought stakeholder feedback in alignment with D.21-05-031, which encouraged PAs to consult "early and often" throughout the development process to ensure stakeholder priorities are considered before filing this Application.[75] Consistent with this Decision guidance, SCE engaged a diverse group of stakeholders through approximately 50 or more meetings, including IOUs, Cal Advocates, the Natural Resource Defense Council (NRDC), Sierra Club, Earth Justice, Central California Rural REN, Inland REN, Southern California REN, 3C-REN, Implementers, California Lighting Technology Forum, Cadmus, and the California Efficiency and Demand Management Council (CEDMC). Through these engagement activities, SCE has connected with stakeholders, sharing SCE's vision for its EE portfolio and soliciting feedback on the following key policy proposals in this Application:

- Advance Affordability
- Modernize Administration
- Support Decarbonization

Stakeholder feedback was carefully reviewed and considered in developing this Application. SCE engaged stakeholders through multiple forums leading up to this application which included individual meetings initiated by SCE or stakeholders, participation in the Q4 Full CAEECC Meeting, and regular discussions during IOU and Monthly All PA calls. Across these engagements, stakeholders widely agreed that affordability remains a top priority, while acknowledging varying perspectives on how to best address it. Most stakeholders expressed alignment with SCE's affordability focus, and several PAs reported integrating similar considerations into their own applications. While some perspectives varied, stakeholders agreed that timely and meaningful action is needed. For example, SCE presented its Net-to-Gross proposal, discussed in Chapter XI, as part of its affordability focus, which

[75] D.21-05-031, p. 48.

received strong support from most implementers. The feedback received through this engagement directly informed the proposals included in this Application.

IX.

EVALUATION, MEASUREMENT & VERIFICATION

SCE's EM&V activities are developed in coordination with other PAs, the ED and its assigned lead evaluation contractor and is published in the Research Roadmap available at the Commission's Energy Efficiency Evaluation, Measurement, and Verification site or on other authorized repositories.

In addition to supporting SCE's program offerings, the EM&V team responsibilities include coordinating with the Commission staff and their evaluators to facilitate successful ex post evaluations, providing evaluation and strategic support through data collection, data analyses, and knowledge dissemination for business and compliance insights, and conducting assessment of SCE's programs using CPUC approved methods to support the portfolio's success, as needed.

SCE's EM&V activities will continue to support the following: (1) maximizing cost-effective energy savings that provide TSB to support affordability (aligns with the Resource Acquisition segment); (2) providing research that provides EE market support and enables new EE and GHG emissions reduction technology adoption and customer support (aligns with Market Support segment); and (3) supporting underserved customers, including DAC and HTR customers using objectives and metrics that align with the CAEECC working group's recommendations (aligns with Equity segment).

EM&V long term efforts include support and funding for California Electronic Technical Reference Manual (ETRM), CEDARS and ongoing DSM tool development. These efforts will enable accurate *ex ante* forecasting.

Additionally, there is interest among EM&V leads to provide formative research on overall Core, 3P and Pilot program performance, a key objective of ED research going forward.

A. Resource Acquisition and Portfolio Support Research

1. NMEC Based Support

SCE recognizes that a significant portion of Resource Acquisition programs will utilize the NMEC framework – both site level and population. As such, SCE will stand up and support research efforts which will increase the reliability and cost effectiveness of site and population based NMEC. While residential NMEC continues to show strong performance due to the homogeneity of residential

households, other market segments can still benefit from substantial evaluation to guarantee cost effective savings. As such, we will advocate for research efforts such as feasibility studies to understand procedural and analytical issues regarding the application of population level NMEC and expansion of site level NMEC.

D. 21-12-011, directed SCE and other PAs to implement Market Access Programs that will utilize a Population NMEC approach in both Residential and Commercial sectors.[76] SCE has some experience with our Summer Reliability Program which will help reduce performance uncertainty going forward and will recommend an evaluation of the program to ensure these learnings.

SCE will continue to support research that seeks to understand customers' behavioral motivations and reasons for engagement with energy efficiency-related products (e.g., technology, information, services) provide opportunities to develop more effective programs, increase adoption, reduce excess energy consumption, and elevate customer satisfaction.

2. Behavior-Based Support

Behavioral programs have been one of the most cost-effective ways for SCE to generate savings. The best example is SCE's Home Energy Reports (HERs) Program, which reaches millions of SCE customers, brings steady and persistent savings, and for numerous years has contributed successfully to SCE's portfolio goals as an important tool to motivate customers to save energy. In fact, the program continues to generate about one to two percent savings per participant household.

Previously, SCE EM&V led studies that investigated the persistence of these savings among the matured customer (having received HERs over a period of time), and the results of these studies demonstrated savings persistence as high as 98 percent after the first year of the program's cessation of paper HER. Additional EM&V-led research will seek to provide sufficient evidence to support lifting the one-year cap, which will benefit our customers who fund this program, SCE, and the state's climate and savings goals.

[76] D.21-12-011, Finding of Fact (FOF) 5-8, p 53 and OP 1, pp. 59-60.

SCE also forecasts increased utilization of behavioral programs in nonresidential settings, which have a few examples across the country. Therefore, EM&V will lead similar analytical efforts in non-residential settings for behavioral programs that have been underutilized due primarily to the heterogeneity of this sector, which is one of the barriers for implementers to engage in behavioral programs in the non-residential sector. Accordingly, EM&V plans to lead research efforts that will mitigate this barrier—particularly establishing a methodological approach that will be accepted to properly design and deal with analytical issues to ease the deployment of behavioral programs using experimental or quasi-experimental methods.

Furthermore, to meet the state's aggressive EE goals, SCE needs to understand its customers and their unmet needs in the EE sphere, the barriers, and opportunities for improvement in our program offerings and program design. This includes maximizing behavioral-based impacts with equity markets including low income, disadvantaged, and HTR customers for whom energy efficient measures alone may not provide sufficient bill and energy savings.

3. Advanced Analytics using Innovative Data Techniques

With the advancement of cloud computing and data analytics techniques and tools, as well as by using the existing data sets and advanced user experience interview techniques to speak to customers, SCE can build upon current research to provide data-driven recommendations at the very granular level. These data-driven recommendations will assist program planners in developing innovative and compelling offerings.

To support these efforts, SCE's EM&V team will advocate pilot studies that support effective program design and implementations. These pilots must include clear metrics for evaluation, and "evaluability" will be a key part of the pilot design.

Since SCE's Resource Acquisition portfolio reflects the new segmentation framework developed by the Commission, SCE will undertake research to support the successful development of this approach including one or more process evaluations related to the segmented delivery approach SCE is planning to implement. Because this segmentation approach is relatively new, and also

emphasizes working with third-party implementers, this research will be useful to stakeholders, including SCE.

In D.18-01-004,[77] the Commission required the IOUs to increasingly, over a transition period, contract with third-party implementers to design, deliver and implement the EE portfolio to encourage innovative ideas with the intent of achieving EE savings and policy goals at the lowest cost to California customers. SCE has supported Commission-led research to evaluate the effectiveness of this framework and has planned research in earlier Research Roadmaps to examine how this framework has affected the energy efficiency market.

Additionally, SCE's EM&V will continue to verify the savings submitted by the third-party implementers to ensure that submitted savings and verified savings align. Considering that these programs will be implemented primarily through pay-for-performance contracts, verification of savings will be the crucial steps toward meeting our goals and protecting our customers.

a) Codes & Standards

SCE has led recent research that examines the Codes & Standards evaluation framework and looks forward to working with the Commission on upcoming efforts. SCE plans to continue research that will support the Codes & Standards program including:

- Baseline studies to provide baseline data against progress toward code compliance and enable tracking of reach code development,
- Customer research to understand the wants and needs of various market actors, and program metrics research which is essential to continued improvement of implementation efforts.

[77] D.18-01-004, OP 1.

B. Process Evaluations to Gauge Program Delivery and Provide Opportunities for Improvement,

1. Market Characteristics

a) Market Support Research

Both the transition to majority third-party implemented programs and the efforts of the CAEECC and MSMWG require appropriate market intelligence to deliver reliable savings and support success of the EE market. SCE will continue to support awareness, attitude and usage research planning to support the research needs presented by the MSMWG. The research will also include process and market studies to understand the programs being offered, how they impact key customer metrics, and if any service or performance gaps need attention. SCE expects to examine the effectiveness of Marketing, Education and Outreach (ME&O) efforts, as well as customer understanding of program benefits and incentives.

SCE anticipates research that facilitates the transfer of new technologies to customers as measures, by providing market intelligence and through program evaluation support. Process evaluations can be useful in this regard as well as research that specifically examines how non-resource activity is treated within the evaluation protocols. Finally, recent research on the performance of the Statewide Finance Pilots provides valuable insights that SCE will integrate into both process and market studies to support this sub-objective.

b) Equity Research

SCE will work with implementers, the Joint Utilities and ED as we specify upcoming research for the Equity Segment. We expect research to primarily focus on non-energy benefits of our equity programs, although the specific focus of this research will be determined in the approved Research Roadmap.

C. PA/ED Budget Allocation & Justification

SCE continues to maintain the same budget allocation of 27.5 percent for SCE's EM&V activities and 72.5 percent for ED directed EM&V work. The total EM&V budget included in SCE's application includes four percent (4 percent) of SCE's total portfolio budget, along with the ED portion

of EM&V based on the total budget of the four RENs. SCE includes an additional amount for the RENs to facilitate invoicing and fund transfers for ED.

X.

COST & COST RECOVERY

A. On-Bill Financing Program Loan Pool

SCE will continue to offer its OBF Program, which provides eligible customers with zero-interest financing for the purchase and installation of qualifying energy-efficient measures. Loans are available to qualifying nonresidential customers, including commercial, industrial, government, and institutional customers who repay their OBF loan as a line item on their electric bill. SCE is authorized to use funds recovered in the current year to fund loans committed during the current year. The Commission has previously granted SCE the authority to retain funds from prior EE and OBF program cycles and repayments collected from previous loans to be used in subsequent program cycles.Consistent with this precedent, SCE is requesting authority to retain all unspent/uncommitted OBF funds from prior program years previously collected, and any future loan repayments in the Energy Efficiency Financing Program Balancing Account (EEFPBA) from prior funding cycles to use for the period of the application within the OBF program only. SCE anticipates this to be $10 million per year during the application cycle. SCE requests that if in subsequent years additional funds are required to fund loans for additional projects, SCE will be able to submit a Tier 2 AL to request recovery of the additional funds.

B. Funding Forecast

SCE is requesting approval to recover the revenue requirements associated with $1.20 billion on an annual basis for the period from 2028-2031 as shown in Table X-14 below. The total expected recovery for the full period of this Application for 2028-2035 is $2,660 million. SCE's budget forecast includes funds to be requested by SoCalREN, I-REN, Central California Rural-REN and 3C-REN in their respective applications.

Table X-14
Budget and Cost Recovery
(in millions)

Year	Request
2028	$ 309
2029	$ 335
2030	$ 263
2031	$ 293
2032	$ 352
2033	$ 361
2034	$ 369
2035	$ 378
Total Request	**$ 2,660**
Request 2028-2031	**$ 1,200**

1. REN revenue requirement is based on budget forecasts received from the various RENs as of 3/5/26. Their forecasts could change prior to final submittal

SCE proposes to record the revenue requirements for the Four-Year Portfolio Plan in two existing EE balancing accounts. First, SCE proposes to use the Statewide Energy Efficiency Balancing Account (SWEEBA) to track and monitor the activities related to any statewide programs for which SCE is the Lead PA, as authorized in this Application. Second, SCE proposes to use the Procurement Energy Efficiency Balancing Account (PEEBA) to track and monitor all other activities, with the exception of activities related to the OBF Loan Pool and New Finance Offerings Credit Enhancements. Table X-15 shows the requested revenue by balancing account to be recovered for the period of 2028-2035 on an annual basis.

Table X-15
Budget and Cost Recovery by Funding Source
(in millions)

	PEEBA				SWEEBA	EEFPBA			
	SCE	REN[1]	Unspent	Total PEEBA	SCE	SCE	Unspent	Total	Total PPPAM
2028	$ 249	$ 94	$ (49)	$ 294	$ 13	$ 12	$ (10)	$ 2	**$ 309**
2029	$ 263	$ 106	$ (49)	$ 320	$ 13	$ 13	$ (10)	$ 3	**$ 335**
2030	$ 181	$ 115	$ (49)	$ 247	$ 13	$ 13	$ (10)	$ 3	**$ 263**
2031	$ 201	$ 125	$ (49)	$ 277	$ 13	$ 13	$ (10)	$ 3	**$ 293**
Total 4 Yr	**$ 894**	**$ 441**	**$ (198)**	**$ 1,137**	**$ 52**	**$ 51**	**$ (40)**	**$ 11**	**$ 1,200**
2032	$ 205	$ 130	$ -	$ 335	$ 13	$ 13	$ (10)	$ 3	**$ 352**
2033	$ 209	$ 135	$ -	$ 344	$ 14	$ 13	$ (10)	$ 3	**$ 361**
2034	$ 213	$ 139	$ -	$ 352	$ 14	$ 13	$ (10)	$ 3	**$ 369**
2035	$ 218	$ 143	$ -	$ 361	$ 14	$ 13	$ (10)	$ 3	**$ 378**
Total 8 Yr	**$ 1,740**	**$ 987**	**$ (198)**	**$ 2,529**	**$ 108**	**$ 104**	**$ (80)**	**$ 24**	**$ 2,660**

1. REN revenue requirement is based on budget forecasts received from the various RENs as of 3/5/26. Their forecasts could change prior to final submittal

SCE's total authorized required funding includes all funding for the four RENs currently approved as PAs. Table X-16 below reconciles SCE's funding forecast to the amounts submitted through CEDARS. As described in the in the following section, no additional funds will be requested to fund the OBF Loan Pool at this time.

Table X-16
SCE's 2024-2027 CEDARS Budget Reconciliation
($000)

	2028	2029	2030	2031
Rate Recovery	$ 308,799	$ 335,339	$ 262,795	$ 293,212
Plus PEEBA Unspent Funds	$ 49,420	$ 49,420	$ 49,420	$ 49,420
Less Collection for RENs+	$ (94,389)	$ (105,976)	$ (114,840)	$ (125,410)
Less Portfolio Oversight	$ (498)	$ (498)	$ (498)	$ (498)
CEDARS Budget	$ 263,333	$ 278,286	$ 196,878	$ 216,726

1. REN revenue requirement is based on budget forecasts received from the various RENs as of 3/5/26. Their forecasts could change prior to final submittal

C. Revenue Requirements and Cost Recovery

In the Application, SCE is requesting funding for the 2028-2031 portfolio cycle to support the EE Programs, EE Financing, and Statewide EE proposals as addressed herein. SCE requests that the Commission adopt a total EE revenue requirement of $1.2 billion, consisting of $1,137 million for EE programs, $11 million for EE Financing Programs, and $52 million for Statewide EE Programs, excluding Franchise Fees and Uncollectibles (FF&U)[78] expense. Approximately $760 million of the requested revenue requirement supports SCE's energy-efficiency programs, while $440 million would

[78] A gross-up for FF&U will be added to the revenue requirements when put into customer rate levels.

fund the budget requests of the four RENs operating within SCE's service area.[79] SCE will utilize its existing PEEBA, EEFPBA, and SWEEBA to ensure that SCE recovers no more than the actual EE portfolio costs up to the amounts authorized in this proceeding.

D. Revenue Requirements for EE Program Proposals

As noted above, starting in 2028, SCE's proposed total EE Portfolio revenue requirement to be recovered in rates is $1.20 billion over the 2028-2031 program cycle. SCE will include the proposed annual EE Portfolio revenue requirement in its Public Purpose Programs revenue requirement and recover the authorized amount via its Public Purpose Programs Charge (PPPC) rate levels, which apply to all customers.[80] The 2028-2031 proposed EE revenue requirements for all EE Programs and SCE's EE Financing Programs and Statewide EE Programs are shown in Table X-17 below.

Table X-17
Proposed EE Programs 2028-2031 Revenue Requirements
(in millions)

Funding Source	2028	2029	2030	2031	Total
EE Program Funding	$ 294	$ 320	$ 247	$ 277	$ 1,137
EE Financing Program Funding Amount	$ 2	$ 3	$ 3	$ 3	$ 11
Statewide EE Program Funding Amount	$ 13	$ 13	$ 13	$ 13	$ 52
Total EE Portfolio Revenue Requirement	$ 309	$ 335	$ 263	$ 293	$ 1,200

1. REN revenue requirement is based on budget forecasts received from the various RENs as of 3/5/26.

E. Ratemaking Treatment

1. EE Program Ratemaking

SCE's ratemaking proposal associated with the EE Program funding includes: (1) the recovery of the authorized EE Program revenue requirement through the operation of the Public Purpose

[79] SCE is required to collect from ratepayers and pass through to the Commission-authorized EE budgets for RENs operating in SCE's service area Commission-authorized budgets for the RENs' EE portfolios. *See* D.23-06-055, Conclusion of Law 13 ("The IOU role as a fiscal agent for the CCAs and RENs operating within its territory should be limited to collecting and disbursing funds under the direction of the Commission and should not include a compliance and monitoring function.").

[80] SCE will transfer the authorized EE Portfolio revenue requirement from the Public Purpose Programs Adjustment Mechanism (PPPAM) to the PEEBA. Subsequently, SCE will transfer the authorized EE Financing Program and Statewide EE Program revenue requirements from the PEEBA to their respective balancing accounts, as detailed in sections 2 and 3 below.

Programs Adjustment Mechanism (PPPAM); and (2) recording the difference between the authorized EE Program revenue requirement and actual incurred EE Program activities[81] in the one-way PEEBA. On a monthly basis, SCE records its actual EE Program expenses in the PEEBA. From this amount, SCE deducts one-twelfth of the authorized EE Program revenue requirement to determine the monthly over- or under-collection recorded in the PEEBA. Since the PEEBA is a one-way balancing account, any under-collections existing at the end of the 2028-2031 program cycle will not be eligible for recovery from customers.[82] Any unspent funds (over-collection) remaining in the PEEBA at the end of the 2028-2031 program cycle are refunded to customers upon approval by the Commission.

2. EE Financing Program Ratemaking

SCE's ratemaking proposal associated with the EE Financing Program funding includes: (1) transfers of the authorized revenue requirement from PEEBA to fund SCE's EE Financing Program; and (2) recording the difference between the authorized EE Financing Program revenue requirement and actual incurred EE Financing Program activities in the one-way EEFPBA. On a monthly basis, SCE records its actual EE Financing Program expenses in the EEFPBA. From this amount, SCE deducts one-twelfth of the authorized EE Financing Program revenue requirement to determine the monthly over- or under-collection recorded in the EEFPBA. Since the EEFPBA is a one-way balancing account, any under-collections existing at the end of the 2028-2031 program cycle will not be eligible for recovery from customers.[83] Any unspent funds (over-collection) remaining in the EEFPBA at the end of the 2028-2031 program cycle are refunded to customers upon approval by the Commission.

3. Statewide EE Program Ratemaking

SCE's ratemaking proposal associated with the Statewide EE Program funding includes: (1) funding from the IOUs for programs in which SCE is Lead PA; (2) transfers of the authorized revenue requirement from the PEEBA to fund SCE's contribution to the Statewide EE Programs and market transformation activities; and (3) administration and market transformation expenses. SCE will

[81] Excluding activities related to the OBF Loan Pool and New Finance Offerings Credit Enhancements.
[82] *Monthly* under- or overcollections role forward in the PEEBA until the end of the 2028-2031 program cycle.
[83] *Monthly* under- or overcollections role forward in the EEFPBA until the end of the 2028-2031 program cycle.

continue to record in the SWEEBA funding received from the IOUs to support the authorized Statewide EE Programs and repay any IOU remaining share balance, including interest, at the end of each program year. SCE's share will be transferred back to its PEEBA. The final disposition of SCE's share of the remaining SWEEBA balance (if any) will be addressed in a Tier 2 AL or Energy Efficiency proceeding.

4. PPPAM Ratemaking

Through the operation of the PPPAM, SCE records on a monthly basis the difference between the recorded PPPC revenue and the authorized PPPC costs, including the authorized EE Program, EE Financing Program, and Statewide EE Programs revenue requirements. Any year-end over and under-collections recorded in the PPPAM are refunded to or recovered from customers through PPPC rate levels in the subsequent year through the January 1 consolidated revenue requirement change.

F. Revenue Requirement and Cost Recovery Conclusion

SCE respectfully requests the Commission to approve its proposed $1.20 billion revenue requirement to fund its 2028-2031 total EE Program, EE Financing Program, and Statewide EE Program cycle. Once this Application is approved, SCE will submit a Tier 1 AL to implement the annual authorized revenue requirements and make any necessary clarifications in SCE's preliminary statements.

1. Estimated Rate and Bill Impacts

Table X-18 compares SCE's current bundled average rate (i.e., rates in effect as of January 1, 2026) by customer group to proposed bundled average rates if SCE's peak revenue requirement[84] for EE Programs, EE Financing Program, and Statewide EE Programs over the 2028-2031 cycle of $335 million, without FF&U, is approved. This represents a revenue requirement decrease of $148 million relative to the $483 million currently in rates.[85] This will result in a system average rate (SAR) decrease of approximately 0.6 percent for bundled service customers relative to current rates.

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[84] The peak revenue requirement is the highest revenue requirement of the $1.20 billion total revenue requirement for 2028-2031 in Table 17 above.

[85] This analysis does not reflect SCE's pending MCAL filing (Advice 5670-E). If approved, SCE's authorized 2026 and 2027 EE budget revenue requirements would decrease by approximately $465 million in total. Any subsequent rate increase resulting from the MCAL's implementation would not stem from SCE's 2028–2031 EE portfolio budget request set forth in this Application, but rather from the need to collect revenues to fund the EE budgets of the RENs operating within SCE's service area.

Table X-18
Estimated Customer Rate and Bill Impacts

Bundled Average Rates (¢/kWh)				
Customer Group	**Current Rates (1/1/26)**	**Proposed Decrease**	**Proposed Rates**	**% Change**
Residential	34.5	(0.2)	34.2	-0.6%
Lighting - Small and Medium Power	30.5	(0.2)	30.3	-0.6%
Large Power	20.3	(0.1)	20.2	-0.6%
Agricultural and Pumping	24.3	(0.2)	24.1	-0.8%
Street and Area Lighting	36.4	(0.2)	36.2	-0.7%
Standby	15.1	(0.1)	15.0	-0.8%
Total	**28.9**	**(0.2)**	**28.7**	**-0.6%**

Residential Bill Impact ($/Month)				
Description	**Current (1/1/26)**	**Proposed Decrease**	**Proposed**	**% Change**
Non-CARE residential bill	$187.56	($1.18)	$186.38	-0.6%
CARE residential bill	$112.40	($0.77)	$111.63	-0.7%

Based on an incremental estimated average annual revenue requirement decrease of $148.1 million; assumes average usage of 500 kWh per month in baseline region 9, and excludes climate dividend (i.e., GHG credits).

A typical California Alternate Rates for Energy (CARE) residential customer using 500 kWh per month could see a monthly bill decrease of $0.77, (a decrease of approximately 0.7 percent). Similarly, typical non-CARE residential customer using 500 kWh per month could see a monthly bill decrease of $1.18, (a decrease of approximately 0.6 percent).

2. Use of Unspent and/or Uncommitted Funds

SCE's OBF budget forecast includes utilization of $40 million in forecast unspent/uncommitted funds and repaid On-Bill Financing loans to offset revenue requirement for new loans to be issued in the 2028-2031 program cycle. SCE's EE Program Funding revenue forecast includes utilization of forecast unspent/uncommitted program funds and interest collected from program cycles between the years 2017 and 2023 in the amount of $198 million. These funds will be utilized to offset revenue collection across 2028-2031 in the amount of $49 million per year to further reduce SCE's four-year revenue requirement. Since the 2024-2027 authorized funds can be utilized in any year, SCE won't have a forecast of unspent funds for this time period until filing of the True-up AL in September 2027.

XI.

EE POLICY RECOMMENDATIONS

In recognition of the changing EE landscape, SCE encourages the Commission to consider several important modifications to California's established EE regulatory framework so that it better reflects current EE market conditions (such as the participation of multiple non-IOU PAs operating in the same market but under different rules, the shift to a primarily third party, pay-for-performance model, etc.). These reforms would enable SCE to better manage costs, reduce unnecessary administrative barriers, deliver more cost-effective EE, and advance the State's clean energy objectives. As described throughout this testimony, increasing affordability pressures and heightened expectations for program performance require that EE portfolios be delivered with greater discipline, flexibility, and accountability. The Governor's EO and the State Auditor Report have further underscored the importance of ensuring that EE regulatory requirements enable timely course correction, cost-effective delivery, and clear alignment between ratepayer funding and verified outcomes.

As discussed in earlier chapters, SCEs proposed 2028-2031 Portfolio Plan and 2032-2035 Business Plan emphasizes targeted resource deployment, administrative efficiency, and continuous portfolio management informed by evaluation results and implementation experience. The IOUs now also have more than seven years of experience administering portfolios under the Commission's third-party-focused EE framework and have completed multiple solicitation and delivery cycles under existing cost-effectiveness, evaluation, and governance requirements. This experience has highlighted specific areas where current EE policies constrain portfolio optimization, create inconsistent obligations across portfolio administrators, or add administrative complexity and costs without improving results.

Accordingly, this chapter presents SCE's recommendations for new or modified EE regulatory rules intended to support SCE's strategies described in this testimony by advancing affordability, strengthening accountability, incorporating lessons learned from implementation, and reducing avoidable inefficiencies, thereby enabling effective delivery of the 2028–2035 portfolio and future program cycles.

A. All PAs Should Be Subject to the Same Cost-Effectiveness and Other Portfolio-Specific Regulatory Requirements

In 2012, the Commission authorized RENs to administer EE programs with ratepayer funds alongside the IOUs. The Commission defined the RENs' role in the EE marketplace narrowly: filling gaps in IOU-administered programs, serving HTR communities and DACs, and undertaking EE activities that IOUs could not or would not implement.[86] Reflecting the limited intended role of the RENs, the Commission allocated approximately 3.4 percent of the total EE budget to RENs in the 2015 EE business plan decision.[87] At the same time, the Commission articulated a clear principle of regulatory parity across EE program administrators and implementers:

> In general, we agree with TURN that it is fair to apply the same rules, if they are relevant and not specific to utilities, to all implementers of energy efficiency programs and/or portfolios. The metrics used to evaluate cost-effectiveness, directions about program implementation plans, reporting requirements, and policy guidance all apply to all program implementers, including not only RENs, but also utilities.[88]

However, in the same decision, the Commission also determined that RENs need not be subject to the same minimum cost-effectiveness requirements and oversight that apply to IOU PA portfolios. The Commission made this determination, in part, because "many of the [EE] rules may require learning and capacity building for the RENs to fully comply."[89] At the time, the RENs were newly authorized, relatively small in scale, and intended to operate as smaller administrators focused on filling gaps to complement the IOUs' portfolios rather than delivering their own core Resource Acquisition portfolios. Exempting those nascent programs from certain requirements reduced administrative burden and provided flexibility as the REN model was still being tested and established. The Commission further stated: "We trust that by 2015, current REN and CCA proponents will have mastered these [EE] requirements, but will be somewhat lenient with new applicants, offering Commission staff and consultant assistance where needed and useful."[90] It has now been more than a decade since the RENs

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86 D.12-11-015, p. 17.
87 D.14-10-046, pp. 126-128.
88 D.12-11-015., p. 14.
89 *Id.,* pp. 15-16.
90 *Id.*

were expected to master EE requirements, and the Commission's initial rationale for exempting the RENs from EE requirements applicable to IOU PAs no longer holds. In addition, while the RENs were originally subject to a degree of oversight by the IOU PAs, the Commission has since determined that the RENs should operate independently, with the IOUs being relegated to mere fiscal agents to disburse ratepayer funds to the RENs.[91]

Since 2012, REN portfolios have expanded far beyond their original scope. In the D.23-06-055 authorizing PA budgets for the 2024-2027 EE cycle, the RENs were allocated approximately 18 percent of the statewide EE budget, or more than a fivefold increase in less than a decade. The proposed budgets of the RENs in SCE's service area for the current application cycle (2028-2031) have increased significantly from the last application, and now collectively exceed 44 percent of SCE's EE budget request[92] and 37 percent of SCE's total revenue requirement for 2028-2031.[93] Table XI-19 shows the change in the RENs in SCE's service area and SCE's budget requests between the last EE application cycle and this one.[94]

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91 *See* Decision Authorizing Energy Efficiency Portfolios for 2024–2027 and Business Plans for 2024–2031, D.23-06-055, at 91 (June 29, 2023) (clarifying that IOUs' role with respect to non-IOU portfolio administrators, including RENs, is limited to fiscal functions rather than program implementation).

92 For the 2028–2031 period, SCE's ESA program request totals approximately $434 million, while the RENs operating within SCE's service area collectively request approximately $454 million in EE funding. Although ESA and EE programs operate under different statutory requirements, the near parity in funding levels directed toward substantially overlapping customer populations reflects a material shift from the Commission's original conception of the RENs' role as gap filling- administrators.

93 The RENs' budget share of the total revenue requirement would be even higher if their budgets included the $13.1 million in SCE's budget that is allocated to the CPUC to perform EM&V activities for the RENs' portfolios. SCE includes this amount in its budget because it transfers the funds directly to the Commission, not to the RENs; however, the funds are directly attributable to the RENs.

94 SCE does not have the data to calculate the share of the total statewide budget the collective RENs and CCAs are seeking in the current application cycle, once all PA applications are submitted, SCE will calculate those proportions.

Table XI-19
Comparison of Revenue Requirement Changes between 2024-27 vs 2028-2031
(in millions)

	2024-27 Portfolio Plan ($000)[1]	% of Total	2028-31 Portfolio Plan ($000)	% of Total	% Change
SCE Budget	$ 1,666		$ 997		**-40%**
Less Unspent funds	$ (187)		$ (238)		
Net SCE Revenue Requirement	**$ 1,479**	**81%**	**$ 760**	**63%**	**-49%**
RENs' Budgets	$ 346		$ 441		**27%**
Less Unspent funds	$ (10)		$ -		
Net REN Revenue Requirement	**$ 336**	**19%**	**$ 441**	**37%**	**31%**
Total	**$ 1,815**		**$ 1,200**		**-34%**

1. From Table 9, Pg 95, D.23-06-055, I-REN Budget was added based on the authorized amounts from D.21-11-013 and 77.5%

In parallel, several CCAs have expressed their intent to elect to administer EE programs in SCE's territory. Despite the significant expansion of non-IOU PAs, the regulatory framework has not evolved to ensure consistency and equal accountability across California's PAs. For example, the RENs still are not subject to cost-effectiveness requirements for their portfolios, nor are the RENs required to meet enforceable performance obligations in terms of delivering EE savings. And although the Commission has encouraged the RENs to coordinate with the IOUs to avoid program overlap and duplication when they operate in the same geographic areas as the IOUs, such informal coordination has not prevented the RENs from targeting the same customers and effectively competing with the IOUs' third-party implementers. Because the RENs have an inherent advantage over the third parties, they can offer more generous incentives, not limited by cost-effectiveness requirements. At least one of SCE's third-party implementers cited unfair competition with the RENs as a key reason for its program failure and subsequent program closure. This situation has become untenable, given the affordability crisis facing California.

Absent consistent requirements across PAs, the Commission risks perpetuating a patchwork EE management structure in which ever-expanding portions of the ratepayer-funded EE portfolio budgets

are insulated from the cost-effectiveness and oversight standards that apply to IOU PAs, even as the non-IOU portfolios continue to grow in scale and scope. The Commission should apply consistent, portfolio-specific requirements – and establish minimum cost-effectiveness standards – for all PAs administering Resource Acquisition EE programs utilizing ratepayer funds. Doing so, would realign the EE regulatory framework with the Commission's longstanding principles of fairness, accountability, and prudent use of ratepayer funds.[95] Additionally, if non-IOU PAs are subject to the same requirements as the PAs, many of the complex program precedence and potential conflicts that SCE has raised in the past[96] may be resolved by creating a fair and transparent EE market. Alternatively, if such consistency is not adopted, REN portfolio budgets should be reduced and spent solely on limited gap-filling and equity-focused programs, and/or the RENs should seek non-ratepayer sources of funding for their EE portfolios.

Requiring all PA Resource Acquisition segments to meet a minimum cost effectiveness threshold would advance multiple Commission objectives: it would strengthen affordability, accountability, and portfolio consistency. Thus, SCE proposes that all PAs be subject to a minimum TRC requirement of 1.0 for the Resource Acquisition segment of their portfolios, consistent with IOU Resource Acquisition segments. Applying a uniform cost-effectiveness threshold would ensure that all Resource Acquisition portfolios, regardless of administrator, deliver net benefits to ratepayers and are aligned with the Commission's long-standing emphasis on cost-effective resource acquisition. The RENs and the CCAs are using ***the same ratepayer funds as the IOUs*** to administer their EE programs, and therefore, they

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[95] The Commission's own independent ratepayer advocates' division shares SCE's position: "To prevent non-cost-effective spending from increasing, ***the Commission should impose the same cost effectiveness standards applied to SDG&E to the other PA(s).*** That way, the Commission avoids more costly, less effective programs from replacing SDG&E's programs." Public Advocates Office, Rebuttal Testimony on San Diego Gas & Electric Company's Application to Revise Its 2024-2031 Energy Efficiency Rolling Portfolio Business Plan, pp. 1-9:14-18, A.25-04-014, filed February 18, 2026 (emphasis added).

[96] *See* Application of Southern California Edison Company (U338E) for Approval of Its 2024–2031 Energy Efficiency Business Plan and 2024–2027 Portfolio Plan, Application (A.) 22-03-007, filed March 4, 2022 (raising concerns regarding program precedence, overlapping program administration, and potential conflicts among energy efficiency program administrators); **and** Southern California Edison Company's Opening Brief in Response to Application of San Diego Gas & Electric Company to Withdraw from Regional Energy Efficiency Program Administration, Application (A.) 25-04-014, filed May 29, 2025 (discussing risks of program overlap, administrative conflicts, and the need for clear, consistent requirements across portfolio administrators).

should be subject to the same fiscal responsibility and oversight as the IOUs. While the State Auditor Report focused on the IOUs' EE portfolios, the same concerns apply with equal force to the RENs. The State Auditor Report warned that "without stronger monitoring and enforcement, ratepayers risk continuing to fund energy efficiency programs whose benefits may not justify their costs."[97] SCE now has a cost-effective Resource Acquisition portfolio and is taking numerous steps – as described herein – to further increase the portfolio's cost effectiveness and reduce overall costs. In the same way, the Commission should advance affordability by ensuring that RENs and CCAs administering Resource Acquisition programs deliver net benefits to customers.

SCE recognizes that the RENs and CCAs can play (and have played) an important and constructive role in advancing localized engagement in HTR and DAC communities, providing niche sector-specific expertise and experimenting with innovative approaches as active participants within California's EE landscape. However, they simply are not delivering affordable, cost-effective TSB to the IOUs' ratepayers. SoCalREN, which is operating in SCE's service area, forecasted in its 2023 True-Up AL to spend approximately twice as much as SCE to achieve the same benefits for SoCalREN's Resource Acquisition programs that would be offered to the similar customers:

> In summary, this AL requests a four-year portfolio budget of ***$227,597,351***, which will achieve $103,422,805 in Total System Benefits (TSB), and savings forecasts of 126,114,470 net kWh and 2,487,095 net therms. The forecasted four year portfolio Total Resource Cost (TRC) test for the Resource Acquisition segment is 0.50, and the TRC for the portfolio as a whole is 0.30.[98]

For the current application cycle, SoCalREN is requesting roughly ***$360 million***—an increase of nearly 37 percent from the previous cycle at a time when affordability is a key priority for California and its residents. Similarly, SDREN's initial EE budget request for the 2024-2027 cycle was $124,274,206, with a forecasted TRC for its Resource Acquisition programs of 0.39. The most recently available

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[97] California State Auditor, The California Public Utilities Commission: Without Improving Its Oversight, the Benefits of Energy Efficiency Programs May Not Be Worth Their Cost to Ratepayers, Report No. 2023-127, pp 1–2.

[98] SoCal REN 2024-2027 True Up Advice Letter, October 16, 2023; *available at* https://socalren.org/sites/default/files/SoCalREN%202024-2027%20True-Up%20Advice%20Letter_17E_17G_10162023.pdf The average yearly budget for this period is approximately $57 million per year.

recorded data in CEDARS shows that in 2024 some RENs and CCAs spent between 200 to 500 percent more per dollar of TSB for their Resource Acquisition programs than the average of the IOUs' costs per dollar of TSB in their respective Resource Acquisition portfolios.

Allowing non-cost-effective Resource Acquisition programs administered by the RENs, which tend to compete with the IOUs' cost-effective Resource Acquisition programs, is detrimental to ratepayers. This structure also skews the EE market to drive potential EE customers to non-cost-efficient REN programs (which can offer higher incentives), rather than IOU programs delivered at a lower cost. The RENs are clearly expanding with more and more ratepayer dollars being spent on non-cost-effective EE programs as a result. Given the affordability crisis in California, SCE believes that the Commission should hold the RENs to the same accountability standards as the IOU PAs – either by requiring the RENs to deliver cost-effective Resource Acquisition programs, or, in the alternative, by limiting the RENs role to delivering equity programs with much smaller budgets, as the Commission originally intended. Adopting this common-sense reform proposal would support transparency, regulatory consistency across IOU PAs, and, most importantly, responsible stewardship of ratepayer funds.

Requiring the RENs to deliver Resource Acquisition programs cost effectively also serves as a practical mechanism to balance the EE market and reduce program overlap. Programs that substantially duplicate existing IOU offerings, target already saturated markets, or provide limited incremental value are less likely to meet a cost-effectiveness threshold. Applying a cost-effectiveness requirement to RENs' Resource Acquisition segment would therefore encourage clearer differentiation, better coordination on gap-filling strategies, or complementary delivery models, rather than parallel programs competing for the same customers and measures. Thus, establishing consistent expectations across all PAs will not only create a level playing field, but will also improve administrative efficiency by reducing inefficient overlap and duplication of EE programs. At the same time, it would preserve flexibility for the RENs to pursue innovative and community-focused strategies in their Market Support and Equity programs.

SCE's proposal builds directly on the framework established in the Joint PA AL addressing "substantially similar" programs pursuant to D.23-06-055, OP 32. While that framework provides a

process for identifying and discussing program overlaps, it does not resolve underlying structural asymmetries in regulatory requirements that contribute to duplication risk. As noted elsewhere in this Application, SCE and PG&E are co-leading additional analytical work to better understand the extent of overlap between statewide and local delivery channels, particularly in midstream and downstream Resource Acquisition programs. That work is in its early stages and is intended to inform future Commission decision-making. In the interim, applying a consistent cost-effectiveness requirement represents a prudent, near-term safeguard for ratepayer value.

Finally, to the extent that non-IOU PAs utilize ratepayer funds for EE delivery, they should be subject to the same solicitation and other regulatory requirements with which the IOUs must comply. For example, the RENs Equity and Market Support segments should be capped at 30 percent of their EE portfolio as it is for the IOU PAs. SCE recognizes that the RENs were established to address market gaps and serve HTR and underserved customers, consistent with D.16-08-019. However, if the Commission authorizes more than $400 million in REN funding, it should also set limits on how much of that funding may be directed to activities exempt from cost effectiveness- requirements. Without such limits, RENs could shift most or all of their portfolios from Resource Acquisition to Market Support or Equity, effectively avoiding cost effectiveness- standards that apply to IOU programs and undermining the Commission's directive in D.18-01-004 that portfolios remain balanced and cost-effective.[99]

When non-IOU PA budgets were less than four percent of the total ratepayer-funded EE budget, it may have made sense to exempt them from oversight and other requirements. However, now that non-IOUs administer nearly 20 percent of the State's EE portfolio budget —and are seeking to administer substantially more in this cycle—and the IOUs no longer oversee the REN programs,[100] the Commission should ensure the same monitoring and oversight applies equally across the PAs. Accordingly, SCE respectfully requests that the Commission require all PAs to meet a minimum TRC

[99] *See* D.21-05-031 (adopting a new energy efficiency portfolio framework and limiting the combined budgets for the Market Support and Equity segments to no more than 30 percent of a Program Administrator's total portfolio budget, subject to limited exceptions for the RENs); *see also* D.23-06-055 (implementing and carrying forward the portfolio segmentation and budget cap framework established in D.21-05-031).

[100] *See* D.21-05-031 (establishing a new energy efficiency portfolio framework and limiting investor-owned utilities' roles primarily to fiscal functions, with program implementation conducted by third parties).

threshold of 1.0 for the Resource Acquisition segments of their EE portfolios, comply with all other regulatory requirements that currently only apply to IOU PAs, and clarify that coordination mechanisms are intended to complement, not substitute for, baseline EE cost-effectiveness and performance requirements.

B. Revamp the Third-Party EE Framework

This section recommends targeted modifications to the Commission's third-party EE framework to better align policy design with portfolio performance, affordability, and accountability. Third-party implementers remain essential to California's EE delivery model, but SCE's experience administering multiple portfolio cycles under the current framework demonstrates that several requirements now function more as compliance constraints rather than performance-driven tools.

As affordability pressures intensify and EE markets and technology evolve more rapidly, PAs must be able to manage portfolios dynamically, intervene when programs underperform, and deploy resources where they deliver the greatest customer and system value. Rigid third-party requirements – *e.g.*, that 60 percent of programs in the IOUs' EE portfolios must be proposed, designed, implemented, and delivered by for-profit third parties – limit the IOUs' control over the performance of their portfolios and make it challenging for the IOUs to pivot in response to changing circumstances.[101] The recommendations in this section are intended to better balance these needs with the Commission's objectives for transparency, competition, innovation, and oversight by reducing unnecessary administrative friction, allowing the accountable PAs more flexibility in how they meet Commission-directed portfolio goals, while maintaining robust oversight and shifting competition toward outcomes rather than process compliance.

In D.16-08-019, the Commission sought to transform EE program design and implementation by ordering the IOU PAs to solicit programs that were "proposed, designed, implemented, and delivered" by third-party companies for at least 60 percent of their respective EE portfolio budgets (referred to herein as "the Third-Party 60 percent Requirement"). The Commission's chief rationales for adopting

[101] *See* D.19-12-021, p. 28 (quoting Cal Advocates' observation that "the utilities [are] no longer [] in control of most of the programs in their portfolios . . . .").

this policy were "encouraging innovation and producing program delivery cost savings."[102] The Commission specified that while utilities could collaborate with implementers after receiving proposals, third-party entities must exercise meaningful discretion and control over program design and implementation, rather than operate as subcontractors on utility-directed programs.[103] The Commission also expressed a strong preference for "pay-for-performance" models, where possible, to reduce ratepayer risk by tying third parties' compensation to delivered, measurable savings. The Commission subsequently refined third-party requirements, directed the use of IEs and PRGs in solicitations,[104] and adopted mandatory and modifiable contracting terms.[105]

SCE interpreted these major Commission decisions as a directive to fundamentally change how it administered EE programs. During the 2018–2022 transition period, SCE shifted its internal roles, developed expertise in EE solicitations, and restructured its approach so that third-party implementers—rather than SCE—were responsible for designing and fully delivering the majority of EE programs in SCE's portfolio and assuming more of the associated risks.

SCE has now gained significant experience administering a large, diverse EE portfolio under these third-party requirements, as well as coordinating with the non-IOU PAs who are not subject to the same requirements.[106] Although implementing the third-party program requirements has produced some benefits, the rigid structure imposed by these requirements has outlived its usefulness. Strict adherence to third-party mandates limits the ability of both PAs and implementers to adapt to market conditions, innovate, and deliver cost-effective TSB, impeding timely portfolio adjustments, increasing administrative burden, and elevating procedural compliance above portfolio outcomes. Therefore, the

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[102] D.16-08-019, p. 70.

[103] *Id.*, pp. 69-70 (clarifying that to count as a third-party program, "the program must be primarily designed and presented to the utility by the third party, in addition to delivered under contract to a utility")

[104] *See* D.18-01-004 and D.18-10-008.

[105] *See* D.18-10-008 and D.23-02-002.

[106] The Commission made clear that third-party solicitation and contracting requirements do not apply to non-IOU PAs. D.16-08-019, p. 70. As SCE discusses in Section XI.A, now that the RENs are established players in the EE marketplace, with experience administering large EE portfolios and reporting to the Commission, there is no rational basis for having different rules for the IOUs and non-IOU PAs. Non-IOU PAs are spending the same ratepayer funds and launching similar programs in the IOUs' service area, so they should be subject to the same rules that govern the IOU PAs, including any third-party regulatory requirements. This will ensure that the EE markets are fair and consistent across the State.

Commission should give IOU PAs more control over EE portfolios (commensurate with the IOUs' responsibility for achieving EE goals) and modify third-party program requirements that are no longer necessary and that act as an impediment to forward progress, while retaining elements of the third-party framework that benefit ratepayers and ensure the Commission has meaningful oversight of all PAs' EE portfolios.

In this Section, SCE (1) recommends reducing the Third-Party 60 percent Requirement from 60 percent to 20 percent of the EE portfolio budget, and (2) offers an alternative proposal to modify the definition of "third-party program" so that the IOUs retain the ability to propose and design programs in its own portfolio.

1. The Commission Should Reduce the Third-Party Portfolio Requirement from 60 Percent to 20 Percent to Decrease Costs and Increase PA Flexibility to Optimize Portfolio Performance.

The Third-Party 60 percent Requirement has transformed the IOUs' EE portfolios in many respects, as envisioned by the Commission. Approximately 70 percent of SCE's committed portfolio budget consists of third-party programs. Thus, irrespective of any policy changes the Commission adopts, third-party implementers will remain an important component of California's EE framework. SCE values the role that third-party, for-profit companies play in advancing customer access and program diversity with their market and technical expertise and delivery capacity across customer sectors. At the same time, the rigid rules requiring the majority of EE funds to be allocated to third-party programs – coupled with a narrow definition of "third-party program" – undermines portfolio performance, cost, and customer value.

SCE therefore recommends that the Commission reduce the Third-Party 60 percent Requirement to 20 percent. This policy change would allow IOU PAs – who remain accountable to the Commission for portfolio compliance and performance and thus assume most of the risk – to determine the appropriate mix of programs for most of the EE portfolio based on customer needs, third parties' capabilities and expertise, technical and policy changes, and market conditions. At the same time, this

proposal would still preserve the third-party model developed by the Commission and stakeholders for at least 20 percent of the portfolio.

SCE's proposal is rooted in Commission precedent. In D.05-01-055, the Commission required the IOUs to identify a minimum of 20 percent of funding for the entire portfolio to competitively bid to third parties for the purpose of soliciting innovative ideas and proposals for improved portfolio performance.[107] At the same time, the Commission sought to avoid a situation where "program selection and day-to-day management decisions are 'handed down' to the IOUs to incorporate into their resource plans and resource adequacy projections . . . or left to the private market to determine."[108] Then, in D.12-05-015, the Commission directed the IOUs "to expand their commitment to third-party program implementation," but did not set a specific numerical target.[109] Finally, in D.16-08-019, the Commission considered several options, including an option to eliminate strict third-party contracting quotas and instead "allow utilities to determine the appropriate delivery actors for each program."[110] The Commission ultimately adopted the Third-Party 60 percent Requirement, along with a strict definition of "third-party program," with the intent to spur innovation and reduce costs.

In practice, the Third-Party 60 percent Requirement has functioned as a somewhat artificial compliance-driven constraint rather than a performance-based policy. Due in part to administrative complexity, this strict third-party outsourcing policy has not delivered the hoped-for cost savings for ratepayers. Rather, instead of prioritizing cost-effectiveness, implementer expertise and capability, market readiness, or customer need, the IOU PAs must design their portfolios around meeting the outsourcing percentage and ensuring compliance with the Commission's definition of "third-party program." As an example, in the last several years, SCE administered two successful EE programs that were proposed and designed by SCE, but that were entirely delivered by third parties.

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[107] D.05-01-055, p. 94.
[108] *Id*., p. 62.
[109] D.12-05-015, p. 22.
[110] D.16-08-019. p. 68.

Yet, due to the Commission's restrictive "third-party program" definition in D.16-08-019,[111] SCE was unable to count those programs toward the Third-Party 60 percent Requirement until after SCE went through the process of soliciting new program designs and ultimately re-contracting with the incumbents (who had the highest scoring bids) for substantially similar programs. This exercise to convert successful third-party delivered programs into "third-party programs" within the meaning of D.16-08-019 yielded limited, if any, benefits for participating customers or general ratepayers; it did, however, require significant expenditure of time and resources for SCE, the PRG, the IE, and the third parties – all at ratepayer expense.

Importantly, the Commission's primary objectives in adopting the Third-Party 60 percent Requirement – innovation and cost reduction through competition – have not materialized. The Commission recognized this risk in 2012:

> The Commission supports expanding the number and quality of energy efficiency programs implemented by third parties, but believes the process of soliciting those programs has not consistently led to the stated purpose – the development of innovative ideas and proposals which improve portfolio performance. As such, we believe it prudent to move forward incrementally by extending existing, effective third-party programs, gathering information to better inform future decision making, and [proposing third-party reforms].[112]

Over the last several years, it has become evident that third-party implementers cannot simultaneously innovate, comply with complex EE regulatory and technical requirements, remain cost-effective, and earn a profit. SCE's experience shows that implementers that attempted to innovate were unable to launch successful programs under these constraints. Instead, the most successful implementers rely on a small set of highly efficient and profitable measures, rather than diversifying or pursuing innovation. As for-profit entities, third parties are understandably reluctant to pivot based on market needs or emerging opportunities without assurance of a profit. This dynamic is not a failure of the third-party implementer community, but rather a natural outcome of the complex EE technical and regulatory

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[111] D.16-08-019, pp. 69-70 ("We clarify our definition of third party that to be designated as a third-party program, the program must be ***primarily designed and presented to the utility by the third party***, in addition to delivered under contract to a utility.") (Emphasis added).

[112] D.12-05-015, p. 22.

framework, the limited availability of cost-effective EE measures, and the risks created by regulatory changes to measure and program rules that often occur mid-contract.[113]

The Third-Party 60 percent Requirement also has not reduced program delivery costs. First, the cost and complexity of the solicitations drive down competition and decrease the overall portfolio TRC. Every third-party solicitation, no matter the size of the program, must go through the same extensive solicitation process. This lengthy solicitation process limits the number of companies that can participate, particularly without assurance of an executed contract. For example, the one-stage solicitation process averages 13 months, with an additional 4-6 months after execution to complete the Tier 2 AL requirements. The solicitation process delays EE deliveries to the market, and the carrying cost of the solicitation and subsequent regulatory process is a significant hurdle, particularly for small bidders. These costs deter some potential bidders and drive up the contract price – costs ultimately passed to ratepayers – for those that have the wherewithal to participate.

Additionally, substantial duplication of effort and other inefficiencies are unavoidable because while third parties must propose, design and fully implement EE programs, SCE remains ultimately responsible for its portfolio compliance and performance. As the regulated entity, SCE acts as a de facto liaison between third-party implementers and the Commission. Both the implementers and SCE must track and interpret all regulatory and compliance requirements, and SCE must independently verify that all savings claims meet the Commission's complex technical standards, even though the implementers have already incorporated these tasks into their bids. As just one example, although third-party implementers are required to perform Ex-Ante readiness reviews, Commission staff have directed IOU PAs to fully perform these reviews as well. In early 2025, ED staff issued a guidance memo regarding a third-party commercial heat pump water heater program, directing IOU PAs to "do due diligence to make sure customer expectations of energy savings are realistic," even though the PAs do not directly engage with individual customers participating in third-party programs and thus would not

[113] For more discussion on this topic, *see also* Chapter III, Section B.13.

have visibility into the customers' expectations.[114] Duplicative costs and processes are inherent in the current structure where IOU PAs are ultimately accountable for technical accuracy of savings claims, yet EE programs must be proposed, designed and implemented by third parties independently of the IOUs.

SCE's suggested reforms, applied uniformly across PAs, would shift competition toward performance-based outcomes rather than evaluating third-party implementers based on their ability to navigate a complex regulatory process. Third-party implementers would continue to compete for delivery contracts, be evaluated and paid primarily based on performance, and bring their specialized expertise to program execution. Program delivery models would be selected based on cost-effectiveness, scalability, and customer impact, enabling faster deployment and improved portfolio performance. At the same time, clearer alignment between accountability and control would enable PAs to manage portfolios strategically, intervene when necessary, and ensure programs remain aligned with affordability, performance, and decarbonization goals.

SCE finds value in retaining, at least for now, a 20 percent third-party requirement to ensure a smooth transition and to preserve enhanced oversight for larger, more complex third-party programs. For the remainder of the portfolio, however, returning to the IOUs the discretion in how to contract with third parties – and importantly the determination of what role the PA versus the third party will play in program design and implementation – would reduce procurement complexity, shorten program delivery timelines, and lower costs. These efficiencies would accelerate the delivery of EE benefits to customers and improve cost-effectiveness without reducing third-party participation. Customers would benefit from earlier access to EE solutions, while the Commission would retain oversight grounded in measurable results rather than prioritizing procedural adherence. This flexibility is particularly important now, given the complexity of the EE markets, the PAs' ultimate responsibility for

[114] *See* CPUC ED Memorandum, Guidance for Large Commercial Heat Pump Water Heater, Commercial and Multifamily, Fuel Substitution Measure Package SWWH028 for Capacity and Energy Savings Claims, February 26, 2025. After the IOUs raised concerns about this language, the Memorandum was revised to remove it, but it is illustrative of the concern that the IOU PAs are often expected to engage in oversight or other activities that duplicate what the third-party implementers are already contractually required to do.

portfolio performance, the moratorium on the Energy Savings Performance Incentive (ESPI), and other complications inherent in long-term contracting in a world of fast-changing EE technologies and policies.

2. <u>In the Alternative, The Commission Should Broaden the Definition of "Third-Party Program" to Give PAs More Control Over their Portfolios.</u>

SCE maintains that reducing the Third-Party 60 percent Requirement to 20 percent and allowing the PAs to determine the best mix of programs for a majority of their EE portfolios is the simplest and most logical way to address the challenges described. Under that approach, SCE will continue to engage in robust EE solicitation and to hire third-party companies to deliver all or portions of its EE programs but would no longer be constrained by excessive portfolio design requirements that do not advance affordability or produce cost-effective savings.

However, if the Commission prefers a more incremental approach, it should revise the definition of a "third-party program" from current "third-party proposed, designed and implemented" to "third-party delivered," meaning "a program that is executed in whole or in part by a third party pursuant to a contract with an EE portfolio administrator." This proposed definition would preserve the option for SCE to contract with third parties that have the capabilities to propose, design, and implement programs, but would also allow for ***other types of third-party arrangements*** and require only that third parties "deliver" the EE measures to be considered a "third-party program." At a high level, bifurcating the responsibility for program proposal and design from the responsibility for portfolio management and performance has introduced unnecessary distortions and complexity into the contracting process. Thus, this proposed definition change would ensure that most programs continue to be executed by third-party implementers through competitive solicitations or direct awards, as appropriate, preserving third parties' market participation, while allowing PAs more flexibility and greater involvement in program design, integration, and performance management.

The proposed change would also resolve potentially inconsistent application of the current definition of "third-party program." In D.16-08-019, the Commission noted that the third-party program definition does not prohibit or otherwise discourage "a collaborative approach between

administrators and implementers in program design,"[115] but also made clear that ***the third party*** must design, implement, and deliver the program for it to count as part of the Third-Party 60 percent Requirement.[116] As noted throughout this testimony, this has caused a significant duplication of effort, contributed to higher administrative costs, as well as confusion about how much utility involvement is appropriate given the Commission's admonition that the third-party implementer – and not the IOU PA – should be primarily in charge of program design and implementation.

Additionally, the "third-party program" definition constrains competition because a limited number of independent, for-profit companies in the California market possess the expertise, staffing, and financial capacity required to operate structurally and technically complex EE programs. Allowing third parties to deliver EE measures without necessarily having to design, propose, and then implement (or subcontract) every aspect of a program would broaden opportunities for smaller companies, who typically do not have the capacity to make the significant upfront investment required to design and fully implement a program. These same companies, however, are often well-equipped to perform installations or marketing functions that would benefit customers. At least some potential bidders have indicated that the broad work scope required by implementers in the current framework has been a hurdle to their participation. Thus, broadening what constitutes a "third-party program" would enable more participation – and it would enable SCE to engage in more frequent and targeted solicitations accessible to a broader array of companies, which will encourage competition to the benefit of ratepayers.

In at least some instances, a hybrid implementation and delivery model—in which SCE proposed, designed, and/or implemented certain components of a program, while contracting with a third-party implementer to deliver program elements aligned with its expertise—would have produced better results. However, the narrow definition of "third-party program" has prevented this more flexible structure. For example, SCE's experience in the SEM space is that several companies have significant expertise in sales and customer engagement, but do not have the technical and review capability of the

[115] D.16-08-019, p. 74.
[116] *Id.*

IOUs. Few companies are equipped to design and implement an entire SEM program, and thus participation in those solicitations has been limited. While SCE has taken steps within existing rules to improve coordination with third-party implementers—such as assisting with and guiding program design after bids are submitted, providing technical and forecasting assistance during the negotiation phase and closer collaboration during implementation—this approach has resulted in significant duplication of effort.

Third-party implementers are incentivized to design programs that maximize their profit margins rather than the TRC ratio, TSB, or overall ratepayer value. For example, a third-party "comprehensive" program may prioritize quick, certain deemed measures over deeper but longer-term calculated projects. While this approach ensures implementer cash flow in the short term, it may not be the most cost-effective way to deliver meaningful long-term savings. Third-party implementers that design programs targeting deeper or more uncertain savings often remain hesitant to assume the associated risks, even though—as both designer and implementer—they are best positioned to manage them. When SCE sought to include additional ratepayer protections (e.g., pay-for-performance structures, damages for breach of contract, and performance assurance), market interest declined, or prices increased to offset the higher risk.

In sum, if adopted, SCE's proposal to broaden the definition of "third-party program" to include programs that are executed, in whole or part, by third parties (but not necessarily proposed and designed by third parties) would allow the IOUs to participate more directly in program proposal, design, and implementation to reduce overall portfolio risks, as well as enable timely course corrections so that the IOUs can respond quicker to evaluation findings, customer feedback, and market shifts. This flexibility is especially important for scaling high-performing programs and addressing underperformance before significant ratepayer funds are expended.

C. Eliminate Statewide Percentage Requirement

Beginning in 2016, the Commission required that at least 25 percent of utility EE budgets be allocated to programs that are administered statewide to "offer the opportunity for more streamlined

customer interface and economies of scale for EE programs."[117] Later, in D.23-06-055, the Commission reduced this requirement to 20 percent for all IOUs (except SoCalGas which must allocate 10 percent of its EE budget to statewide programs).

SCE is currently meeting its statewide program percentage requirement, and, in this Application, SCE forecasts that it will narrowly continue to meet the requirement. However, this rigid requirement should not be retained going forward because doing so could drive the IOUs' portfolio designs in ways that are not most beneficial to customers. IOUs could end up pursuing a statewide program not because it is the most cost-effective option or in response to market demand, but to comply with the Commission's 20 percent statewide requirement. The IOUs' portfolios should be outcome-driven, not designed around ensuring that the IOUs meet a rigid quota that may not reflect current market conditions. Moreover, the ability of any one IOU to meet this goal is heavily dependent on the actions of the other IOUs, as well as the success of statewide programs that are largely outside their control (because they are administered by another PA and implemented by a third party).

As an example, when determining whether it should close non-performing statewide programs, SCE had to consider whether it and the other IOUs will continue to meet the 20 percent statewide program percentage requirement. It is SCE's understanding that at least one IOU may dip under the required percentage after such closures. The IOUs should not be at risk of not meeting a Commission requirement because statewide programs are not successful. At the same time, no IOU should not retain in its portfolio a non-performing, non-cost-effective statewide program simply so that all the IOUs can meet the statewide percentage requirement.

For this reason, SCE recommends that the Commission eliminate the statewide percentage requirement altogether. If the Commission continues to find value in encouraging or requiring EE programs to be administered statewide, it should require the PAs to administer them on a case-by-case basis based on unique characteristics of a customer segment, rather than mandating an arbitrary budget allocation that may not align with ratepayer benefit.

[117] D.16-08-019, OP 6, p. 65.

D. Streamline Third-Party Solicitation Process and Associated Oversight/Administrative Requirements

1. At Minimum, the Commission Should Refine the PRG Process to Shorten and Streamline Third-Party Program Solicitations

As noted in Section XI.B.1, the current solicitation process takes more than a year to complete and requires at least eight (8) distinct steps of PRG review. If the Commission adopts SCE's recommendation in Section XI.B.1 to reduce the Third-Party 60 percent Requirement to 20 percent, the corresponding administrative burden on the PRG, the IOUs and bidders would decrease substantially. While some third-party proposed programs would still follow the formal and lengthy EE solicitation process, SCE could also contract more quickly with other third parties – whose roles are limited to program delivery for example – through its robust internal RFP process or, where appropriate, through direct awards.[118] If the Commission does not adopt the proposed 20 percent third-party requirement, SCE recommends, at minimum, implementing the targeted refinements below to shorten and streamline third-party solicitations using the PRG process. These targeted improvements to solicitation and oversight processes will streamline contracting, reduce costs, and support timely delivery of energy savings under any third-party structure adopted by the Commission.

a) Streamline PRG Engagement for Smaller Third-Party Solicitations

As part of the transition to a largely third-party-implemented EE framework, the Commission established detailed solicitation and oversight requirements, including the use of IEs and PRGs for all third-party programs, ***regardless of size or complexity***.[119] While these requirements provided important transparency and oversight during the initial transition to the third-party EE model, SCE's experience demonstrates that applying the same level of PRG engagement to every solicitation – particularly for smaller procurements – now introduces unnecessary complexity, cost, and time, without delivering commensurate benefits.

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[118] As discussed herein, SCE proposes to continue to brief the PRG, as well as the ED separately, on all third-party contracting activity.

[119] *See* D.18-01-004, pp. 35-39.

This one-size-fits-all solicitation framework limits SCE's ability to pursue smaller, targeted "gap-filling" solicitations aimed at addressing specific market gaps or underserved segments. Because every third-party solicitation must follow same extensive process, even modest procurements face an administration burden that can outweigh their value, discouraging high-impact, niche opportunities that could diversify and strengthen portfolio performance. These rigid requirements also disadvantage smaller or more specialized implementers that may lack the resources to absorb the fixed costs and extended timelines associated with the current complex solicitation process. These constraints are structural in nature and reflect the design of the existing framework, rather than the merits or capabilities of potential implementers.

In addition, under the current EE PRG Guidelines,[120] PRG meetings are held on a recurring schedule throughout the solicitation lifecycle, even when no key decisions are pending. These meetings often involve extensive participation from SCE, ED staff, PRG members, and IEs, and often produce duplicative report-outs, including parallel presentations by SCE and the IE that cover the same material. This dynamic often leads to additional follow-up and revisiting of previously addressed topics, increasing administrative effort and extending procurement timelines without enhancing transparency or outcomes.

To better align oversight with risk and materiality and reduce solicitation costs and duration to allow EE programs to launch more quickly, SCE proposes a tiered PRG engagement model in which the level and depth of review is commensurate with the program's dollar value and portfolio impact. This streamlined approach is also consistent with other SCE procurement activities that involve PRG oversight, most notably energy procurement, where PRG engagement is limited to two to three defined review points for large solicitations, supplemented by quarterly PRG meetings.

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[120] *See* Energy Efficiency PRG Solicitation Guidelines, Version 3 (July 2023), §§ 2.1.1, 2.2.6 and Appendix A. Section 2.1.1 establishes a standing monthly PRG meeting schedule for each IOU. Section 2.2.6 requires IOUs to invite all Independent Evaluators assigned to solicitations on the agenda to attend the entire PRG meeting. Appendix A identifies PRG meeting activities spanning the full solicitation lifecycle, including "Non-PRG Activity," during which IOUs and Independent Evaluators provide updates even when no PRG action is required.

Under SCE's proposal, solicitations valued at $25 million or greater would continue to follow the current PRG process, including regular PRG meetings and comprehensive IE and PRG engagement across all stages of the solicitation lifecycle, as these procurements tend to be more complex and have greater customer and portfolio implications. Solicitations for contracts valued below $25 million would undergo a more streamlined PRG review appropriate to their scale, where they remain subject to PRG review, but with frequency of PRG engagement reduced and a different reporting format. Specifically, SCE proposes focusing formal PRG meetings on the following three critical decision points, while using written updates and defined comment periods for other stages:

(1) Scoring Criteria and Evaluation Methodology – Review and discussion of the proposed evaluation framework and scoring criteria prior to solicitation launch.

(2) Bidder Shortlist – Review of SCE's scoring results and recommended shortlist following receipt and evaluation of proposals.

(3) Final Selection – Review of final selections following negotiations and prior to contract award.

For all other stages of the solicitation process, including program introduction, solicitation document review and other launch activities, completeness and conforming checks, contract negotiations, and interim status updates, SCE would provide written briefings and updates via email, accompanied by a defined comment window. IEs would continue to prepare and circulate their own reports, coordinated closely with SCE, without requiring a formal PRG meeting.

Consistent with the directive in D.18-01-004 for third-party program solicitations, the PAs would continue to work closely with the assigned IE to develop and align written materials and reports, reducing duplication and ensuring that PRG members receive clear, consistent information. While SCE would remain open to convening additional PRG meetings on an as-needed basis, monthly in-person or virtual meetings would no longer be the default expectation for non-decision stages of smaller solicitations.

This consolidation proposal reflects where PRG input meaningfully informs procurement outcomes, while avoiding repeated discussion of informational updates that do not require formal deliberation. For solicitations under $25 million, this targeted engagement model would:

- Reduce procurement cycle times by eliminating delays associated with recurring PRG meetings when no decisions are pending;
- Lower administrative costs by minimizing large, multi-party meetings that require extensive preparation and duplicative reporting;
- Reduce burden on PRG members, ED staff, IEs, and SCE personnel by avoiding continuous revisions of presentation materials or discussions on previously addressed topics; and
- Maintain transparency and Commission oversight through regular written updates and structured comment opportunities throughout the solicitation process.

By aligning the level of PRG engagement with solicitation size, impact and decision criticality, this proposal preserves the intent of the Commission's oversight framework while improving efficiency, accelerating program delivery, and reducing unnecessary costs borne by ratepayers. To ensure the process remains transparent, fair, and subject to appropriate oversight, SCE will continue providing mandatory written briefings and IE reports. These materials will keep the PRG informed of solicitation progress in real time and allow the PRG to offer guidance to SCE without requiring the solicitation process to pause for the next scheduled meeting. In addition, SCE will maintain regular touchpoints with ED staff and management to share updates, address questions, and respond to any concerns. Together, these practices will help ensure that stakeholders remain fully informed and engaged throughout the solicitation process.

SCE notes that effective streamlining of PRG engagement, particularly for solicitations under $25 million, also depends on clearer expectations for how the PRG and IEs participate in the process. SCE addresses this through proposed updates to the EE PRG Guidelines in the following section.

b) Establish a PRG Working Group to Update the EE PRG Guidelines and Align Reporting with Current Needs

The EE PRG Guidelines, consisting of 83 pages of detailed compliance requirements, were developed in 2018, prior to the launch of any third-party solicitations. The EE PRG Guidelines were intended to be refined over time as implementation experience grew. Although updates have been made, SCE recommends that the Commission convene a working group to revisit the EE PRG Guidelines with the goal of simplifying the solicitation process, shortening procurement timelines, and clarifying roles and responsibilities.

After multiple EE solicitation cycles, the IOUs, ED staff, PRG members, and IEs have gained substantial practical experience. These lessons learned indicate that the EE PRG Guidelines can be simplified without compromising transparency, fairness, or accountability. Today, the PRG review process often involves more than eight separate steps from strategy development through contract execution. A collaborative working group would allow the Commission and stakeholders to recalibrate oversight processes for third-party solicitations based on demonstrated experience and identify opportunities to reduce duplicative reporting, appropriately scale the review process, and shorten procurement timelines, while preserving essential ratepayer protections and ultimately lead to reduced costs for ratepayers.

SCE also recommends clarifying the role and scope of IEs within the PRG process to ensure consistency, efficiency, and alignment with the Commission's oversight objectives. In SCE's experience, IE input at times has expanded beyond assessing the integrity of the solicitation process into advocating positions on program design, performance criteria, or contractual risk allocation. In some cases, IEs not assigned to a solicitation have provided extensive input despite an IE already being fully engaged. In other cases, IEs have offered conflicting or policy-oriented recommendations beyond their intended role as neutral reviewers of procurement fairness and transparency. These situations have resulted in increased risk to ratepayers, uncertainty, or unnecessarily protracted negotiations, including instances where IEs supported counterparty-favorable terms that had

not been disputed and when IEs encouraged advancing bids that failed to meet minimum TRC thresholds or scalable program requirements.

To support more consistent and effective oversight envisioned by D.18-01-004, and most recently the Governor's EO and the State Audit, SCE recommends that the Commission direct the working group to update the EE PRG Guidelines as follows:

- Clarify that the primary role of IEs is to assess the fairness, transparency, and integrity of the solicitation process;
- Establish appropriate boundaries for IE involvement in substantive program design and contract negotiations;
- Set expectations for coordination among IEs to avoid duplicative or conflicting input; and
- Reinforce alignment between IE recommendations and ratepayer risk management principles.

Clarifying these roles would improve consistency, reduce unnecessary re-work, and ensure that IE participation continues to add value to the procurement process while supporting timely, cost-effective delivery of EE programs.

As part of updating the EE PRG Guidelines, SCE also recommends revisiting the frequency of IE reporting. IEs currently prepare semi-annual reports in addition to solicitation-specific IE reports. While valuable during the initial transition to the third-party framework, the semi-annual reports now provide limited incremental value given the reduced number of active third-party solicitations and the administrative effort they require. To better align IE reporting with current oversight needs and the reduced volume of solicitations, SCE proposes shifting from semi-annual to annual IE reports. This change would reduce duplicative efforts without affecting solicitation-specific reports or IE participation at key PRG milestones consistent with the Commission's objectives for transparency, efficiency, and ratepayer protection.

2. Modify the Triggers for Tier 2 Advice Letter Submittal

In addition to the extensive PRG process and the use of IEs for all solicitations, D.18-01-004 adds an additional layer of oversight by requiring that IOUs submit Tier 2 ALs to ED for approval of all third-party contracts with a value of over $5 million and/or with a term of more than three years.[121] In that decision, the Commission sought to mitigate potential contracting risk by requiring Commission review and approval of contracts, but at the same time the Commission acknowledged the likely downsides of this requirement:

> There are also risks associated with requiring Commission approval of all or a large portion of the third-party contracts. The main risk in this regard is delay, as the Commission may not have the time or ability to exercise judgment about such a large number of third-party contracts in a way that ensures program and contract success.[122]

Applying the Commission-adopted thresholds over the last eight years has indeed resulted in SCE submitting ***all but two*** of its third-party contracts for Commission approval. One of those two contracts was later also submitted to the Commission because an amendment triggered the AL submittal requirement. Accordingly, the Commission should re-evaluate the criteria for submitting Tier 2 ALs to address the "risks associated with requiring Commission approval of all or a large portion of the third-party contracts."[123]

Given SCE's and the other IOUs' extensive experience with third-party solicitations, and for the reasons explained herein, SCE recommends the Commission increase the contract value threshold and require contract ALs to be submitted **only for contracts valued at $25 million or more**. The $25 million trigger is reasonable because it will more appropriately align the level of Commission oversight with ratepayer risk, reduce inevitable delays associated with a formal regulatory approval process, and reduce the overall cost of third-party solicitations for all stakeholders.[124] This modification would, for example, require an Tier 2 AL submission for contracts that average $5 million or more per

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[121] D.18-01-004, OP 5.
[122] *Id*., p. 32.
[123] *Id.*
[124] To put the proposed higher threshold for Tier 2 ALs in context, for SCE's portfolio, this change would mean that Tier 2 ALs are submitted for third-party contracts valued at roughly 2.5 percent or more of SCE's proposed four-year portfolio budget.

year assuming a five-year contract,[125] rather than $5 million over the entire term. To ensure that this Tier 2 AL modification yields meaningful benefits, SCE also recommends eliminating contract term length (currently set at three years) as an independent trigger because the level of oversight should be based on ratepayer spend – not contract duration. The length of contract term is not a meaningful indicator of associated risk in the EE space. Retaining the three-year trigger also would continue to force most, if not all, contracts into the Tier 2 AL process, even if the dollar value threshold is increased. This is because SCE's third-party EE contracts almost always exceed three years, given the time required to ramp up and launch an EE program.[126]

Two key factors support increasing the AL submission threshold: sufficient controls exist without the submittal of a Tier 2 AL for contracts under $25 million, and the AL process has resulted in significant delays.

First, even without the formal Tier 2 AL process, ED staff always has the ability to "review any contract informally at any time."[127] Through avenues such as informal meetings and discussions with the IOUs, Commission staff have and will continue to have sufficient visibility into any potential issue or controversy associated with a particular contract or solicitation without the need for a Tier 2 AL submittal, which unnecessarily strains ED staff resources. ED has developed a checklist for IOU PAs to follow when opening or closing a program, which includes notifying the EE service list and holding a public webinar where stakeholders can ask questions or raise any concerns. The IOUs also include a list of third-party contracts in their EE annual report, and the list is maintained on PEPMA and

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[125] Based on extensive experience administering third-party programs, SCE has found that longer program terms—approximately five years—are most effective given the significant ramp-up and launch time required for many EE programs.

[126] For example, it is possible to have a small value contract with a long duration, where the risk to ratepayers is minimized because the spend is low. If the Commission adopts SCE's proposed third-party program definition which will allow smaller companies with specialized expertise to deliver EE measures, this could result in more third-party programs with lower contract value but longer contractual terms.

[127] California Public Utilities Commission, *Energy Efficiency Policy Manual*, Version 6 (2020) (EE Policy Manual), Section 4, "Energy Division Review of Solicitations." The Commission has long relied on ED staff to oversee implementation and evaluation of IOUs' EE programs and portfolios. *See, e.g.,* D.09-09-047, pp. 91-92, 96-98, 300-301 (directing ED staff to oversee program implementation, evaluation, and reporting) and D.12-11-015, pp. 96-98 and 120-121 (continuing to direct ED oversight of portfolio implementation, monitoring, and evaluation activities).

CEDARS for additional transparency. Taken together, these controls provide transparency and are sufficient for the Commission and the public to monitor contracts under $25 million. This conclusion is further supported by the fact, to date, that no third-party contract submitted by SCE via the Tier 2 AL process has been rejected by the ED, and no party or intervenor – including other bidders participating in the same solicitation – has protested or even commented on any SCE Tier 2 AL seeking approval of third-party contracts.

Second, requiring Tier 2 AL submittals has delayed program launches and, where approval of an amendment was required, interrupted ongoing programs, just as the Commission had anticipated when it considered this oversight requirement in 2018. The AL process delays program launches by an average of three to six months, as work by implementers cannot reliably begin until ED approval is secured, or implementers must elect to start work without having assurance of payment or that their contracts will be approved. SCE has also amended certain contracts due to implementer overperformance, typically when the value of specific measures changes or new measures become available in ways not anticipated at the time of initial contracting. Although these amendments are necessary to keep contract terms accurate, the low $5 million AL trigger has slowed—or in some cases halted—the work on affected programs while the AL seeking approval of the amendment is pending.

By increasing the contract value trigger to $25 million and removing the alternative contract term trigger altogether, ED staff can refocus on larger contracts where the third-party implementer is delivering a more sizable portion of a PA's budget. This shift would allow staff to provide more meaningful oversight of contracts valued at or above $25 million, regardless of the length of contract term. In sum, while formal ED review and approval has been valuable during the initial transition to a third-party-based EE model (and may remain appropriate for larger third-party contracts), it is no longer necessary for all contracts over $5 million (or with a three-year term). For the reasons detailed above, SCE recommends that the Commission raise the value trigger for Tier 2 AL submittal to third-party program contracts valued at or over $25 million (or amendments that increase the contract value from under $25 million to over $25 million or increase the contract value by $25 million or more). The Commission should also eliminate the contract term-based trigger, as the term length is not an

independent indicator of risk in the EE space and most third-party contracts are longer than three years in duration.

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Taken together, SCE's proposed third-party reforms will better align the EE regulatory framework with how programs are designed and delivered in a more mature third-party environment. The IOUs, the third-party implementer community, and the broader market have learned considerably since the Commission first established a third party-centered EE framework, making these common-sense reforms both practical and necessary to update the existing third-party rules to reflect that considerable progress. By simplifying the solicitation process and recalibrating oversight thresholds to focus Commission and PRG review on higher-risk, higher-value contracts, the Commission can significantly reduce administrative burden and strengthen the accuracy, transparency, and credibility of reported outcomes. These changes will enable PAs and third-party implementers to focus resources on delivering verifiable savings and system benefits, rather than navigating unnecessary administrative complexity or rework. They will also provide greater certainty to market actors, support more timely program deployment, and improve the Commission's ability to assess portfolio performance using consistent, defensible metrics.

E. Technical Policy Reforms to Modernize EE Governance, Improve Portfolio Performance and Reduce Administrative Costs

SCE recommends that the Commission adopt a coordinated set of technical policy reforms to modernize the governance, administration, and evaluation of EE programs. These reforms are intended to better align EE technical requirements with a predominantly performance-based, third-party-delivered portfolio, while reducing administrative burden, improving regulatory certainty, expediting program deployment, and strengthening the alignment between credited savings, verified outcomes, and ratepayer value.

As discussed throughout this Application, the EE landscape has changed significantly over the past decade, and even more so since the 2005-2006 timeframe when the Commission set up the existing EE administrative framework. However, many elements of the technical framework governing measure

development, delivery classification, and savings attribution remain rooted in legacy program designs. In practice, these outdated technical requirements increase administrative costs, introduce uncertainty for third-party implementers and customers, and constrain the ability of PAs to deploy EE resources efficiently and cost-effectively. Accordingly, this section addresses: (1) targeted updates to Net-To-Gross discounting policy to better align credited savings with program influence;(2) refinements to simplify program classification into two delivery types (Customer-Based and Sales-Based) to improve consistency across evaluation and reporting tools; (3) eliminating a de facto cap on EE customer incentives for third-party programs to allow for a market-based assessment of incentive levels needed to achieve contract and program objectives; and (4) timing adjustment for savings claims to improve reporting accuracy, planning certainty and program continuity. These recommendations are intended to build on – rather than replace – existing Commission policy and evaluation practice by ensuring that technical requirements remain fit-for-purpose as EE delivery models continue to evolve.

1. Aligning NTG Policy with Current EE Market Realities

The NTG ratio is an evaluation metric used in California EE programs to estimate the portion of observed energy savings attributable to program influence,[128] after accounting for program participants who "would have purchased the energy savings measure even if the program did not exist."[129] In other words, the NTG ratio is intended to account for free ridership. NTG ratios are applied to gross program savings to determine net savings attributable solely to the program, which in turn affect credited TSB and cost-effectiveness results. In adopting the ESPI mechanism, the Commission established that shareholder earnings and performance assessments must be based on net savings and net benefits, rather than gross activity, reflecting the Commission's determination that utilities should not be

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[128] *See* California Public Utilities Commission, Energy Division, *Custom Project Review Continuous Improvement Work Plan* (June 10, 2024), *available at* California Public Utilities Commission, Energy Division, Custom Project Review Continuous Improvement Work Plan (June 10, 2024), available at: https://pda.energydataweb.com/api/view/3987/CPUC%20GroupD%20CPR%20Continuous%20Improvement%20Workplan.pdf. Program influence refers to the extent to which an EE program intervention through technical assistance, financial support, or both materially affects a customer's project decision, resulting in the adoption of a more energy-efficient alternative than would reasonably have occurred in the absence of the program.

[129] Administrative Law Judge's Ruling Addressing Compliance Filings Pursuant to D.06-06-063, p. 10.

compensated for savings that are not attributable to program intervention.[130] The Commission originally incorporated NTG into EE cost-effectiveness and savings attribution frameworks at a time when programs were predominantly measure-based, utility-designed, and tied to shareholder incentives through ESPI. In that context, adjusting (or discounting) for savings not associated with program activity was appropriate to ensure ratepayer protection. Since then, EE portfolios have evolved toward performance-based, meter-based, and predominantly third party-delivered models, while shareholder incentive mechanisms such as ESPI have been suspended for over five years.[131] Under these more complicated and mature EE models, program influence is a given because customers often would not be able to implement an EE project without the assistance of an EE program implementer or contractor. As a result, the continued application of legacy, measure-level NTG assumptions is at odds with how modern EE programs are designed, evaluated, and managed. Because the legacy NTG ratio is no longer a proxy for free ridership, applying it undervalues program performance.

In this context, SCE proposes targeted updates to NTG policy to better align evaluation practices with modern, performance-based third-party program structures. These updates are intended to refocus performance assessment on verified savings, while maintaining appropriate safeguards for cost-effectiveness and accountability.

a) Default Program-Level NTG of 1.0 for New Programs Until Free Ridership Empirically Demonstrated

SCE proposes that new EE programs be assigned a default NTG ratio of 1.0 at the program level – *i.e.*, no discounting of program savings – until those programs are evaluated through ex-post evaluations. New programs should not be subject to an upfront free-ridership discount absent empirical evidence that free ridership is actually occurring. At the time of program launch, there is no

[130] D.07-09-043 does not itself define free ridership or the NTG concept in narrative terms but rather incorporates NTG implicitly through its reliance on "net savings" and "net benefits" as the basis for shareholder earnings under the ESPI mechanism. Explicit definitions of free ridership and NTG as savings that would have occurred without program intervention are developed in subsequent Commission decisions, evaluation protocols, and ED guidance addressing EM&V.

[131] *See* D.20-11-013, Decision Imposing Moratorium on Efficiency Savings and Performance Incentive Program, OP 1–2 (Nov. 5, 2020) (imposing a moratorium on ESPI awards effective beginning with the 2021 program year, pending further Commission action).

basis to presume that customers would have undertaken the same actions without program intervention, particularly for performance-based and custom programs where implementer involvement is integral to project development and execution.

Accordingly, the appropriate starting assumption for new programs is that program influence is complete. Any adjustment to NTG should occur only after evaluation results demonstrate otherwise and applied on a prospective basis consistent with long-standing Commission practice[132]. This approach aligns NTG treatment with evidentiary standards and avoids premature discounting of savings before program performance can be assessed.

The current practice of assigning legacy, deflated NTG values does not reflect how modern EE programs are designed or managed. Applying NTGs derived from prior evaluation periods results in immediate and artificial discounting of savings that have not yet been delivered or evaluated. Within SCE's Custom Solutions Codes program, more than 95 percent of measures carry NTG ratios of 0.6 or lower, leaving a substantial portion of verified savings uncredited. To illustrate, if an implementer proposes a program with a forecasted TRC of 1.30, automatically applying a legacy 0.60 NTG ratio to most or all of the program's proposed measures renders the new program non-cost-effective (i.e., a 0.78 TRC ratio). This automatic discount – based on prior evaluation periods and derived from different programs – constrains new program design and limits measure diversity by preventing implementers from proposing cost-effective EE programs with a broader range of measures. Once a program is launched, low NTG values can also discourage customer participation, as incentive levels may need to be reduced to maintain cost-effectiveness.

These distortions are illustrated by the SCE-led Statewide WISE Program, where a 2024 pump overhaul project achieved gross savings of 195,130 kWhs, but only 87,808 kWhs were credited as net savings due to the combined application of a 0.5 NTG ratio and a 0.9 realization rate. This more than 50-percent discount was applied despite the fact that the implementer marketed the program to the participating customers and was involved in all stages of implementation, clearly

[132] *See generally,* D.12-05-015, OPs 6–13.

demonstrating program influence. Such gaps between verified and credited results complicate program design, obscure actual performance, and undermine confidence in program participation.

Finally, SCE notes that the continued emphasis on ex-ante NTG discounting is rooted in an incentive framework that is no longer operative. NTG ratios historically served to calibrate shareholder incentives under the ESPI mechanism,[133] which has been under moratorium for more than five years.[134] In the absence of an active incentive mechanism, legacy NTG assumptions primarily function to suppress reported savings and TSB before programs have even been implemented or evaluated. Defaulting new programs to an NTG of 1.0 until program-specific evaluation results are available better reflects the current policy environment (no shareholder incentives) while preserving the Commission's ability to recalibrate NTG values prospectively based on empirical findings tied to specific programs.

SCE recognizes the ED's ongoing efforts to improve the timeliness of NTG evaluations, including the early stages of a 2025 NTG pilot intended to produce more current and responsive NTG assumptions. To ensure appropriate ratepayer protections, SCE supports measures to improve NTG accuracy, including expedited post-claim project review within three to six months and higher evaluation sampling rates. These accommodations preserve accountability for free-ridership while reducing implementation friction and enabling high-performing custom programs to scale efficiently. Given that this work is still in its early stages, SCE proposes that the default program-level NTG of 1.0 be adopted as an interim approach until the NTG pilot has matured and is fully implemented, at which point updated evaluation practices can inform future NTG applications.

Assigning a uniform NTG ratio of 1.0 at the program level would foster innovation by encouraging third-party implementers to bring forward innovative program designs and

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[133] *See* D.07-09-043,§§ 6, 8 (explaining that shareholder earnings under ESPI are calculated based on net benefits derived from EM&V parameters, including net-to-gross ratios); *see also* Administrative Law Judge's Ruling Addressing Compliance Filings Pursuant to D.06-06-063, R.06-04-010, at §§ 1, 3 (Dec. 21, 2006) (describing net-to-gross ratios as an ex ante adjustment used in cost-effectiveness calculations forming the performance basis for the Commission's energy efficiency risk/reward incentive mechanism).

[134] D.20-11-013, OPs 1–2 (imposing a moratorium on ESPI awards effective beginning with the 2021 program year, pending further Commission action).

delivery models that might otherwise be discouraged by early-stage NTG uncertainty, while supporting customer participation and preserving the Commission's ability to adjust NTG values based on ex-post evaluation results. Once programs have been evaluated by the Commission, the NTG for each evaluated measure would prospectively be modified based on the evaluation results.

b) Default NTG of 1.0 for Custom Projects Approved Through Custom Project Reviews

SCE further recommends assigning a default NTG ratio of 1.0 to all custom projects approved through the Custom Project Review (CPR) process. During the CPR process, Commission staff conducts detailed engineering and influence reviews to confirm that project savings are technically sound and attributable to program participation (not free ridership). Projects that fail to demonstrate influence are disqualified. Where CPR approval is granted, program influence has already been affirmatively established and accounted for through Commission review.

Applying NTG ratios below 1.0 to projects that have already passed this rigorous process is inconsistent with the intent of CPR and artificially reduces recognized savings. As noted above, more than 95 percent of SCE's Custom Solutions Codes projects currently carry NTG ratios of 0.6 or lower, even when the project has gone through the CPR process and received CPUC staff's approval. This practice undervalues verified benefits, increases administrative complexity, and discourages implementer and customer participation in high-impact custom projects that often deliver deep, durable savings.

Assigning a NTG of 1.0 to CPR-approved projects would align credited savings with Commission determinations, reduce unnecessary discounting, and support greater customer engagement in custom offerings—advancing both affordability and decarbonization objectives.

2. Consolidate Program Delivery Types into Two Standard Categories

SCE proposes simplifying the EE delivery framework by consolidating existing delivery types into two standard categories: Customer-Based Delivery and Sales-Based Delivery.

Under the current framework, programs are divided into multiple delivery types, Upstream,[135] Midstream Retail,[136] Downstream,[137] and Direct Install,[138] that often differ more in administrative labeling than in functional design. This fragmentation has resulted in inconsistent application of program rules, reporting requirements, and cost-effectiveness treatment, depending on how an implementer frames its program. In practice, identical program activities may be classified differently based solely on the implementer-customer agreement structure, leading to misaligned oversight, inconsistent NTG application, and unnecessary administrative burden. For example, a program designed to influence customer purchases through a market platform may modify its contractual structure to be treated as a downstream deemed program, even though the program functionally operates as an upstream intervention. This classification shift can result in the application of downstream deemed measurement and performance requirements to a market transformation-style activity, creating misalignment between program design and evaluation expectations. Overseeing and evaluating programs with so many possible delivery types – each with different technical rules – also introduces unnecessary administrative complexity to program administration.

A two-category structure would streamline administration and reporting, while more accurately reflecting how programs operate in practice. Customer-Based Delivery would apply where the end-use customer is the program participant and data is collected at the site where the measure is purchased or installed. Sales-Based Delivery would apply where the participant is a manufacturer, distributor, or retailer, and where the end-use customer is not directly known. Aligning delivery definitions with participant relationships, rather than vague administrative constructs would eliminate opportunities for "delivery-type arbitrage," in which delivery classifications are selected to achieve more favorable cost-effectiveness outcomes or NTG treatment. Standardization would improve transparency,

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[135] *EE Policy Manual*, Appendix B (Glossary).

[136] CEDARS Delivery Type Definitions, defining "Mid-Retail" and "Mid-Distributor" delivery types (classifying programs that provide incentives through retailer or distributor market actors rather than directly to end-use customers), *available at* https://cedars.cpuc.ca.gov/cet_ui/spec/deliverytype.

[137] *EE Policy Manual*, Appendix B (Glossary).

[138] *Id.*

ensure consistent regulatory treatment across programs, and support more equitable evaluation of performance.

In addition, a simplified delivery framework would improve the consistency and efficiency of reporting systems such as CEDARS and the Cost Effectiveness Test (CET) tool, which currently require different logic and data inputs depending on delivery type. Aligning these systems under a unified structure would reduce administrative burden and strengthen portfolio-wide performance tracking.

3. Eliminate the Incremental Measure Cost Cap from the Third Party Pay-For-Performance Model.

SCE recommends that the Commission rescind its guidance limiting customer incentives to the Incremental Measure Cost (IMC)[139] cap for downstream measure packages unless the ED approves an exception. In practice, the IMC cap has led to incongruous results and market dysfunction without achieving the stated intent of the policy. In D.06-06-063, the Commission reasoned that "a direct install program where the utility or its contractor performs the installation of a measure should not be more cost-effective from a TRC perspective than a rebate program that provides a cash rebate to the customer up to the full cost of the installation."[140] It also emphasized the importance of "ensur[ing] that program administrators and implementers do not spend more on rebates/cash incentives than absolutely necessary to achieve TRC net benefits."[141] Notably, the Commission disclaimed any "inten[t] to cap incentives in any manner" or otherwise limit "design of programs."[142] Notwithstanding this language, IMC has been applied as a cap on incentives in accordance with the EE Policy Manual: "[I]t is expected that incentives offered for the installation of a measure ***will not exceed the incremental***

[139] Incremental Measure Cost refers to "[t]he additional cost of installing a more efficient measure calculated from the price differential between energy-efficient equipment and services and standard or baseline state. These costs include any direct or indirect incremental cost that is attributable to the energy efficiency activity. EE Policy Manual, Appendix B, Common Energy Efficiency Terms and Definitions.

[140] D.06-06-063, p. 72.

[141] *Id.,* pp. 72-73.

[142] *Id*., p. 74. The Commission reasoned that there is a "need to ensure that the program cost components and transfer payments are properly entered into the E3 calculator (or in other platforms for calculating and reporting cost-effectiveness results) consistent with the SPM formulas and definitions, ***rather than the need to cap incentive payments*** . . . ." (Emphasis added).

cost of the measure" such that "activities that pass the TRC test normally will also pass the PAC test." [143]

IMC is a legacy construct developed by the Commission in 2006 – more than a decade before the shift to third-party, pay-for-performance model of EE program delivery – and should be revisited. IMC was meant to limit what the IOUs could pay in rebates/incentives to participating customers to ensure cost effectiveness of ***IOU-implemented*** programs, not to constrain third party implementers in how they choose to allocate the compensation they receive from IOU PAs for delivering cost-effective EE savings. The IMC cap is unnecessary in a primarily third-party implemented EE framework. Specifically, in a pay-for-performance structure, implementers are compensated based on delivered outcomes, which may be tied to installed equipment, verified energy savings, TSB, TRC, or other contractual deliverables. Imposing an IMC cap in this context can disadvantage customers by limiting the portion of performance payments that may be passed through as incentives, effectively increasing the share retained by the implementer. Where an implementer elects to provide customer incentives above the IMC cap using its own performance compensation, that decision should remain within the implementer's discretion and not require Commission approval each time a measure package is updated.

In practice, the distinction between deemed downstream delivery (where the IMC cap applies) and deemed direct install delivery (where it does not) is minimal, which has resulted in gamesmanship by some third-party implementers trying to avoid the IMC cap by recasting their programs as "direct install." As discussed in Section E.2 above, this creates inconsistent treatment across delivery types without a meaningful difference in program execution. Additionally, the IMC cap introduces significant administrative complexity, as IMC values vary by norm unit, building type, climate zone, and other measure-specific attributes, resulting in numerous different caps for similar equipment. This complexity transforms incentive setting into a burdensome engineering exercise rather

[143] *See* EE Policy Manual (emphasis added). To the extent the requirements set forth in the EE Policy Manual are inconsistent with a Commission decision, the decision governs: "This Policy Manual is a summary of CPUC rules for energy efficiency. It does not supersede any CPUC Decision. . . . If there is any conflict between this Policy Manual and a CPUC decision, the CPUC's decision controls."

than a straightforward market-based assessment of the incentive levels needed to achieve contract and program objectives. While the IMC concept was originally developed to protect ratepayers from IOUs overspending on incentives, its rigid application as a cap in the context of third-party designed programs may inadvertently limit the effectiveness of Equity and HTR customer-focused programs that require higher incentives to address non-cost barriers.

4. Aligning Savings Claim Date with Payment Approval Date Rather Than Installation Date.

Under the current EE framework, the PAs are required to claim savings for regulatory reporting purposes based on the installation date of a measure. This requirement was first adopted by the Commission in D.04-09-060, clarified and reiterated in D.05-04-051, D.05-09-043, and again in Resolution G-3510.[144] While claiming savings based on installation date made sense two decades ago for traditional IOU downstream, measure-based programs with short and observable installation, verification, and compensation timelines, it is now misaligned with modern EE programs, particularly third-party pay-for-performance and evaluation-based programs that currently dominate the EE market. Because EE reporting takes place on a calendar-year basis, this misalignment creates ongoing challenges for program administration and reporting consistency related to savings attribution - at times resulting in unclaimed savings if the installation occurred in a different annual reporting period than the verification and payment date.

More specifically, under the existing savings attribution rules, savings claims are tied to an installation date that may occur months, or even years, before payment is issued, depending on the program type, delivery channel, and whether the project is selected for additional Commission review. Because PAs cannot calculate or claim savings until a project has been verified and paid, a measure may be "installed" in one year but produce no claimable savings in that same year. In subsequent years, once savings can finally be calculated, it is too late to attribute those savings to the earlier installation without reopening that prior year.

[144] D.04-09-060, p. 33, FOF 14; D.05-04-051, p. 55, FOF 36-42, COL 3, OP 17; D.05-09-043, p. 84; Resolution G-3510, p. 13.

Additionally, in many EE programs, including upstream, midstream, NMEC, SEM, population-based, and behavioral offerings, installation may occur over time, be indirectly observed, or not be tracked at the individual participant level at all. As a result, the PAs must rely on proxy assumptions, estimates, or retrospective adjustments to reconcile installation timing with program payments and savings claims, introducing complexity and uncertainty into program reporting and inconsistencies across PAs.

Requiring savings to be claimed based on installation date under these circumstances creates a disconnect between when savings are credited and when performance is complete – after the project has been reviewed, verified, and compensated. Even where the installation date is straightforward, projects installed toward the end of a calendar year will likely not be approved for savings calculation purposes until the next program year. The requirement to claim savings based on the installation date therefore produces outcomes that are inconsistent with the Commission's pay-for-performance framework and weakens the alignment between credited savings and verified outcomes. This misalignment creates several practical challenges:

- Installation timing assumptions vary by program, delivery model, and implementer, resulting in inconsistent application of claim rules across programs governed by the same performance-based contracts.
- Partial, delayed, or non-installation scenarios require proxy assumptions that increase reconciliation effort and reduce transparency.
- Annual reporting and portfolio oversight are delayed because payment and verification often occur months after the nominal installation date.

At the same time, the four-year program cycle used for goal measurement fundamentally reduces the importance of aligning savings attribution with the year of installation, because portfolio performance is assessed on a cumulative, multi-year basis rather than through discrete annual accountability. In this context, there is limited policy justification for anchoring savings claims to an installation date that may be uncertain, estimated, or inconsistently defined.

This issue is compounded by the fact that "installation dates" lack a single, objective definition across PAs. In practice, installation timing is often left to interpretation, varying by program type and delivery channel, which can result in inconsistent savings attribution across PAs for functionally similar activities. Accordingly, SCE proposes aligning the savings claim date with the payment approval date – the date on which a PA approves request for payment of a project resulting in the savings. Payment approval date represents a clear, administratively verifiable, and uniformly applied trigger.

Under pay-for-performance structures, payment approval is the point at which required documentation has been reviewed, performance has been verified, and savings are deemed eligible for compensation. Aligning savings claim dates with payment dates therefore directly aligns savings attribution with verified third-party performance, reinforcing rather than weakening the Commission's pay-for-performance framework.

This proposal does not change the definition of the program year, nor does it alter EM&V standards or evaluation rigor. Instead, it improves data integrity by ensuring that savings are credited only once performance has been validated and approved, while also providing a consistent claim trigger that can be applied uniformly across all PAs.

* * *

In sum, SCE recommends a focused set of common-sense technical reforms to update and streamline technical guidance, reduce administrative costs, and align evaluation tools with how EE programs are actually designed, delivered, and measured. Collectively, these reforms would direct Commission and PA resources toward highest-impact activities, improve predictability for implementers, and strengthen the integrity of cost-effectiveness and savings claims. Further, these recommendations are consistent with Governor Newsom's Executive Order N-5-24, as they prioritize efforts that provide demonstrable value to customers and reinforce prudent, efficient, and affordability-focused use ratepayer funds.