BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of Southern California Edison Company (U 338-E) for Approval of Energy Efficiency Rolling Portfolio Business Plan.	Application 17-01-013 (Filed January 17, 2017)
Application of San Diego Gas & Electric Company (U 902-M) to adopt Energy Efficiency Rolling Portfolio Business Plan Pursuant to Decision 16-08-012.	Application 17-01-014 (Filed January 17, 2017)
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In the matter of the Application of Marin Clean Energy for Approval of its Energy Efficiency Business Plan.	Application 17-01-017 (Filed January 17, 2017)

NATIONAL ASSOCIATION OF ENERGY SERVICE COMPANIES COMMENTS ON THE THIRD-PARTY SOLICITATION PLANS OF SCE, PG&E, SDG&E, & SOCALGAS

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Pursuant to Rule 2.6 of the Rules of Practice and Procedure of the California Public Utilities Commission ("CPUC" or "Commission"), the National Association of Energy Service Companies ("NAESCO") hereby comments on the third-party solicitation plans of Southern California Edison Company (SCE), San Diego Gas & Electric Company (SDG&E), Pacific Gas and Electric Company (PG&E), and Southern California Gas Company (SoCalGas), which were filed on August 4, 2017. NAESCO appreciates the opportunity to submit these comments.

Summary of Comments

NAESCO's comments are summarized as follows.

1. The IOU solicitation plans show a surprising lack of coordination at this stage of the proceeding, given the Commission's emphasis on statewide programs and uniform PA administrative approaches.

2. The IOUs seem to still be unclear about the Commission's definition of third-party programs with respect to the purpose of the programs in the EE portfolio, and the role of the third parties in the design and implementation of their programs.

3. The IOUs Plans do not Conform to the Requirements of D.16-08-019.

4. The IOUs seem unclear about the proper role of the independent Evaluator (IE) and the Peer Review Groups (PRGs).

Discussion

NAESCO's arguments in support of its summary comments are given below.

1. **The IOU solicitation plans show a surprising lack of coordination at this stage of the proceeding, given the Commission's emphasis on statewide programs and uniform PA administrative approaches.**

NAESCO suggests that the disparate proposals by the IOUs on the fundamental aspects of how bidding programs will operate is a major problem. A few examples of this problem are as follows:

PG&E's Proposed "Platforms"

In its filing, PG&E proposes a new concept of statewide program coordination, as follows:

> "In addition, resource programs rely and draw from a set of statewide "platforms" that are founded on a consistent ruleset to calculate savings and incentivize customers to invest in energy savings opportunities, and/or promote increased and persistent savings (see Figure 1 for more information). PG&E believes the platforms align well with the statewide program model, wherein a lead program administrator would be assigned, and elements of the platform could be proposed, designed, and delivered by a third party. PG&E is coordinating with the other IOUs to explore the feasibility of this approach." (PG&E Solicitation Plans, page 4)

NAESCO agrees that the exploration of the use of statewide "platforms", as it understands PG&E's proposal, has merit, but suggests that PG&E is about a year late in proposing it. NAESCO believes that the "platform" concept should have been discussed during the early CAEECC meetings, and, if it passed muster there, should have been included in the IOU Business Plans filed in January. Unfortunately, PG&E's concept is still in a developmental stage: "a lead program administrator *would be assigned*" (emphasis added). Furthermore, the "platforms" that PG&E describes appear to be unique to PG&E. PG&E says it is "coordinating" with the other IOUs to "explore the feasibility of this approach," but the other IOUs' plans do not mention PG&E's statewide "platforms," in their filings even though the IOUs have known for a year the Commission direction on statewide programs. Finally, the proposed development of these "platforms" at this stage of the proceeding calls into question how much real thinking and planning the IOUs have done about statewide programs, if, as the proposal suggests, they have not developed "a consistent ruleset to calculate savings and incentivize customers."

PG&E proposes spending $12 to $26 million on this "approach" with no specified deliverables or timetable. (PG&E Solicitation Plans, Appendix 1, page 3) Given these specifications, NAESCO volunteers to explore the "platforms" concept for only $10 million, a significant savings to the ratepayers.

NAESCO suggests that the Commission should not approve any budget for "platforms" at this time. The proposed budget for concept exploration that PG&E proposes indicates an extended timeframe (1-2 years) for development of the concept, which implies (though PG&E does not identify) a significant delay in the roll out of third party bidding. How can a third party develop a program proposal using a statewide "platform" when "a consistent ruleset to calculate savings and incentivize customers to invest in energy savings opportunities, and/or promote increased and persistent savings" is not a key specification in any program bid solicitation? NAESCO suggests that if the IOUs are really interested in this concept, and the Commission wants to pursue it, that the Commission assign the concept development to the CAEECC on a fast-track timetable, with a mandate to the CAEECC to produce a consensus recommendation, with dissents noted as appropriate.

NAESCO experience in other states is that this kind of collaborative can produce consensus very quickly if proactively administered by the Commission. In New York several years ago, the Commission assigned the proceeding ALJ to convene a collaborative on the operating details of the ConEd (3P) Targeted DSM program. The ALJ told the collaborative members at the first meeting that he had to produce a consensus recommendation or he was in trouble with the Commission. The collaborative worked through some very difficult issues, such as the initial reluctance of ConEd to document its objections to CHP projects with the technical details of its system architecture (which was solved within a week with rigorous confidentiality agreements) and arrived at a consensus recommendation. The recommendation were adopted by the Commission and resulted in the 3P program which has delivered hundreds of megawatts of combined EE and DR projects, which allowed ConEd to defer hundreds of millions of dollars' worth of scheduled T&D upgrades.

Solicitation Process

PG&E, SCE and SCG all propose using a two-stage solicitation process—RFAs followed by RFPs for selected bidders—for bid proposals. SDG&E, in contrast, proposes a one-stage process. NAESCO believes that the two-stage process proposed by the majority of IOUs is the more efficient approach and lessens the time and expense for bidders to prepare responses to bid opportunities offered by the IOUs. Also, having a uniform process throughout the state is in line with the Commission's desire for statewide consistency. The Commission should adopt the approach proposed by PG&E, SCE and SCG for all the IOUs. If an IOU has a compelling reason for an exception to this two-stage process, they can discuss this with their respective PRGs and IEs. If the PRG and IE reach a consensus on an exceptional one-stage approach, the proposing IOU should be allowed to proceed.

Another example of the inconsistency among the IOUs with respect to statewide programs is the presentation of the proposed funding for the statewide program. Some of the IOUs showed the full statewide funding as the combined funding from all the IOUs while others only put their own IOU funding amount (*e.g.*, the SDGE statewide HVAC quality installation and quality maintenance program). The IOUs should be consistent and show the full statewide funding for each statewide program for which they are the designated PA, so that potential 3P bidders can prioritize their business development and bidding plans.

Coordination of EE, DR and DERs

The electric IOUs proposals also demonstrate no coordination with respect to Demand Response, Integrated Demand Side Management, or Distributed Energy Resources. The Commission has encouraged Energy Efficiency-Demand Response coordination for over a decade, yet the electric IOUs' plans indicate no serious attempts to further integrate these resources, which often use the same measures. Recent developments in the wholesale electricity market, with large increases in non-dispatchable renewable supplies, call for a much greater penetration of flexible demand side measures. The Commission should direct the electric IOUs to make a much more concerted effort to integrate new Energy Efficiency offerings with Demand Response, and provide much greater opportunities for Energy Efficiency, integrated with other demand side resources, to contribute to Distributed Energy Resources.

2. **The IOUs seem to still be unclear about the Commission's definition of third-party programs with respect to the purpose of the programs in the EE portfolio, and the role of the third parties in the design and implementation of their programs.**

The IOU solicitation plans demonstrate an ongoing misunderstanding of the Commission orders with respect to 3P programs. Examples of this misunderstanding include the following.

IOUs Spending EE Funds for Customer Relations

At the beginning of its filing, PG&E describes its objectives for its solicitation plans. Among its primary objectives is "Retention of Customer Relationships". A lower set of objectives includes "A consistent, integrated energy efficiency portfolio" and "The delivery of innovative solutions." (PG&E Solicitation Plan, page 2). This priority order is counter to the objectives set forth by the Commission over the course of this and previous proceedings. The focus of the Commission on behalf of ratepayers has been the accelerated delivery of cost effective energy savings not the retention of customers for the IOU.

PG&E does not list "innovation" as one of the sample criteria it will use in evaluating program proposals (See PG&E Solicitation Plans, page 10). Neither does SCE. (SCE Solicitation Plan, pages A-16 to A-17) In response to the Energy Division's information request of July 28th, PG&E stated:

> PG&E will also maintain a certain level of customer outreach and support to ensure that energy savings goals and customer satisfaction expectations are met . . .PG&E plans to maintain some customer-facing workforce to complement program implementation and ensure energy savings goals and customer satisfaction expectations are met, such as account representatives who serve as PG&E's trusted energy advisors. PG&E will continue targeted local marketing outreach to drive customer awareness, interest, and participation in energy efficiency programs. (PG&E Solicitation Plan, Appendix 1, page 3)

PG&E's response to the Energy Division, and its bidding proposal, are consistent with its stated priorities. But PG&E's priorities are most assuredly not the same as the Commission's priorities.

PG&E stated that it's solicitation plan aims to empower third parties to propose, design, implement, and deliver programs. (PG&E Solicitation Plans, page 2.) PG&E's proposal to "maintain" customer outreach, a customer-facing workforce (*i.e.,* account representatives), and "targeted customer outreach" flies in the face of empowering third parties to design and deliver programs. ESCOs, for example, would not choose to retain utility account representatives to be the lead customer contact for a public buildings program, because the history of the ESCO business indicates this would be an expensive and inefficient way to market their programs. When electricity de-regulation started twenty years ago, many utilities started ESCOs because they thought that customers wanted a "bundled" offering of commodity energy plus EE. These ESCOs were often staffed from inside the utility, and account representatives were brought on as project salespeople. The bundled offerings turned out to be unattractive to customers, who didn't believe that a single entity was credible both selling energy and aggressively reducing energy use. The account representatives proved to be ineffective salespeople because they had been trained to provide services to all customers, not to quickly create a hierarchy of customer interest and concentrate sales and marketing efforts on the newly identified most likely near-term buyers of EE projects.

NAESCO therefore believes that this proposal is a misuse of energy efficiency funding, the purpose of which is to achieve cost effective savings, not to facilitate customer satisfaction as defined through the IOU prism of IOU customer connections. PG&E's priorities and its proposal to pay for account representatives and local marketing with energy efficiency funds would be a reallocation of funds away from programs that are designed to save energy and toward activities that support PG&E's corporate objectives. The Commission should therefore not approve these activities described above as part of PG&E's Solicitation Plan. NAESCO notes that ORA proposes a plan for IOUs to provide some account representative services to third parties, under certain conditions. (ORA Proposal, pages 3 – 4). As it has noted in previous comments, NAESCO does not object to proposals like this as long as it is clear that use of IOU account representatives, at their fully loaded costs, is entirely at a third party's discretion, perhaps as a non-tariffed service.

SoCal Gas takes a similar position to PG&E in its response to the Energy Division: " SoCalGas will retain the following components/functions in order to leverage its core competencies of customer engagement, data analytics, customer outreach, customer audits, rebate processing, engineering and effective contract management." (SoCalGas Solicitation Plan, page A-1). SoCalGas does not follow this sentence with a list of the components its refers to, but, as indicated by the part of Business Plan cited in a footnote, SoCal Gas, like PG&E, seeks to retain in house customer account representatives, local marketing and audits. SoCal Gas' position should be rejected for the same reasons that the Commission should reject PG&E's proposal. It is not consistent with, nor does it facilitate, the delivery of cost effective energy savings to ratepayers.

IOUs Should Not Perform Functions that Can Be Bid Out

In contrast, SCE states that it "anticipates performing solicitations for nearly all program implementation activities during the timeframe covered by its Business Plan." (SCE Solicitation Plan, page 1 – 1) NAESCO is encouraged by SCE's recognition of the benefits that competitively acquired services can bring to the energy efficiency portfolio. However, an "anticipation" to do something between now and 2025 is not a plan, and includes no metrics or specific targets. SCE, and the other IOUs, should work with the CAEECC between now and December to develop a concrete plan over the next two years to put out certain functions to bid. In its comments, ORA identified rebate processing, workpaper development, customer outreach, data analytics and audit delivery as functions that should be presumed to be competitively acquired from third parties. (ORA Response to Request for Solicitation Plans, page 2). NAESCO agrees that all of the activities can be competitively acquired, and suggests that the Commission make its highest priority rebate processing and workpaper development. Rebate processing for all the IOUs for the SGIP program is already provided by a non-IOU, so parties can look to this program as a model for best practices and procedures. The CalTF has been addressing statewide workpaper issues for some time. NAESCO suggests that the CalTF is the best forum in which to develop a comprehensive statewide workpaper proposal.

IOUs Should Not Retain Programs Without Demonstrating Need

PG&E also proposes retaining some existing programs, not making them subject to competition or third-party design, specifically the Residential Pay for Performance (P4P) Program and the Retail Products Platform. (PG&E Solicitation Plan, Appendix 1, page 1) As PG&E notes, it designed the P4P program along with NRDC, TURN and some Energy Division staff, all parties that have never implemented programs. This clearly is not a third-party program designed and proposed through a competitive solicitation by parties that, by virtue of their experience, can bring innovation and cost savings to the programs. The Commission should reject PG&E's proposal and in its stead order PG&E and the other IOUs to offer a statewide solicitation for a 3P residential P4P program. PG&E offers no reason for keeping implementation of the Retail Program Platform program in-house, other than calling it a "pilot". This is an insufficient justification, and does not meet the requirement of D.16-08-019 that IOUs demonstrate why a program "must" be implemented by an IOU. (D.16-08-019, page 73) This program should be put out to bid along with the rest of the portfolio to seek innovative, more cost-effective approaches for the retail residential market.

3. The IOUs Plans do not Conform to the Requirements of D.16-08-019

All the IOUs plans make numerous references to meeting the minimum 60% third party bidding requirement established by D.16-08-019. However none of the IOUs cite D.16-08-019 where it states that if the IOUs want to implement in-house designed programs, they need to explain why they "must" do so. (D.16-08-019, page 73). As NAESCO has noted in previous filings the IOUs can countermand the Commission's policy on third party bidding by simply not bidding out more than 60%, while ignoring any burden of proof for the remaining IOU-implemented programs. SCE states that it "plans to award approximately 50 percent of its portfolio to third parties in 2018. By 2019, SCE is expecting a 10 percent increase in third-party implemented programs. By 2020, SCE aspires to exceed the 60-percent third-party requirement. (SCE Solicitation Plan, page 1-3) SCE's "aspiration" to bid out more than 60% by 2020 is not any kind of plan or commitment. If SCE can bid out 50% of its portfolio in one year, it can surely bid out 100% in three years. SCE is telling the Commission and parties, "After we get to 60%, we'll do our best and see what else we can do." The Commission should not approve any "aspirational" bidding plan, any more than they would accept an "aspirational" plan to procure supply resources in response to the shutdown of Aliso Canyon or San Onofre. IOU solicitation plans must demonstrate a commitment to fully implementing D.16-08-016, including real justifications for IOU-designed and implemented programs. Since SCE has indicated that IOUs are indeed capable of bidding out 50% of their portfolio in one year, the Commission should hold all the IOUs to an expectation of bidding out significantly more than 60% over three years, with a showing of need for any proposed IOU-designed and implemented program.

4. The IOUs seem unclear about the proper role of the independent Evaluator (IE) and the Peer Review Groups (PRGs).

PG&E and SCE advocate using the existing supply side IEs to assist the PRGs and evaluate the IOUs bidding processes and outcomes. (PG&E Solicitation Plan, pages 22 – 23, SCE Solicitation Plan, pages A-12 – A-14).

SoCalGas argues categorically against the use of an IE. (SoCalGas Solicitation Plan, page 28) NAESCO urges the Commission to dismiss the SoCalGas non-proposal, as there is a broad consensus among energy efficiency stakeholders on the need for PRGs and IEs.

In arguing for using existing supply side IEs for evaluating energy efficiency bids, PG&E states "Supply side IEs bring the experience gained through the competitive procurement of supply-side resources to the process of identifying, evaluating, and contracting with EE implementers." (PG&E Solicitation Plan, pages 22 - 23) Whatever experience supply side IEs bring, the fact remains that the demand side is a completely different industry than the supply side, and requires a completely different skill set to be able to evaluate a large number of proposals. Without demand side experienced IEs, the IE function could easily become a mere paper exercise, consisting of check lists and superficial analyses. NAESCO has observed other jurisdictions try to use unqualified evaluators with very disappointing results.

PG&E proposes that each IOU "*may* conduct a competitive solicitation to select one or more IEs qualified to monitor their energy efficiency third party solicitations" (emphasis added, PG&E Solicitation Plan, page 26). In order to provide independent, value added evaluations, NAESCO believes that there should be a requirement that the IOUs *must* conduct competitive solicitations for demand-side qualified IEs. As part of that process, all PRG members should score the respondents too, with the Energy Division as Chair of the PRG overseeing the entire process. The IOUS should provide the list of respondents and their scoring to the Energy Division for its final approval. SCE seems to agree that the Energy Division will have the authority to approve IEs. (SCE Solicitation Plan, page A – 15).

PG&E, SCE and SDG&E also appear to misunderstand the true role of the PRG. They all state that the role of the PRG is to provide advice to the PAs. (PG&E, Solicitation Plan, page 24, SCE Solicitation Plan, page A -14), SDG&E Solicitation Plan, page 33) NAESCO disagrees. The primary purpose of the PRGs, and IEs, is to review bidding processes and outcomes for the Commission, and secondarily to provide advice to the PAs. NAESCO does agree with PG&E that to ensure that the review process for energy efficiency solicitations is sufficiently vigorous, the reviewers should be expanded beyond the existing PRG membership. (PG&E Solicitation Plan, page 22)

In a similar misunderstanding, the three IOUs that concede the need for an IE proposed an-IOU focused extraneous function for this role, including (1) assisting in mediating disputes that may arise during contract negotiations, (2) offering process improvement suggestions throughout the solicitation process, and (3) generating advisory reports which will be available to the PA and its PRG. (PG&E, Solicitation Plan, page 26, SCE Solicitation Plan, pages A-13, SDG&E Solicitation Plan, page 33) NAESCO strongly disagrees with the proposal to turn what is supposed to be an independent evaluation function into a dispute resolution function. If the IOUs want to engage consultants to provide dispute resolution services, there are many specialized firms that provide this service, and the IOUs can separately contract with them. But IEs should focus on providing independent evaluation to their respective PRGs and the Commission, including an annual written report to the Energy Division summarizing their observations, findings and recommendations. They may also provide process improvements and advisory reports to the PAs and the PRG, but those activities should be secondary to their function as IEs assisting the Commission.

Conclusion

NAESCO urges the Commission to take the following actions with respect to the IOU Solicitation Plans:

1. The Commission should direct SDG&E to use the two-stage bidding processes proposed by PG&E, SCE, and SoCal Gas.
2. The Commission should not allow IOUs to spend funds on customer retention, account representatives, marketing or other in-house functions that are part of third party program design and delivery.
3. The Commission should reiterate to the IOUs that the primary objective of the processes being proposed should be the delivery of cost effective energy savings not the retention of corporate marketing advantages.
4. The Commission should direct the IOUs to include in their bidding plans requests for proposals for third party statewide provision of rebate processing and workpaper development.
5. The Commission should direct the IOUs to develop bidding plans that meet the requirements of D.16-08-019 with respect to justifying programs that the IOUs intend to keep in house and not subject to third party provision through competitive solicitations.
6. The Commission should clarify the roles of the PRGs and IEs as first providing oversight and review for the Commission and secondarily to advise the IOUs on their bidding processes.

Respectfully submitted by,

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