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)
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Application of Southern California Gas Company (U 904-G) for adoption of its Energy Efficiency Rolling Portfolio Business Plan and related relief.	Application 17-01-016 (Filed January 17, 2017)
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 FINAL COMMENTS ON THE BUSINESS PLANS OF SCE, PG&E, SDG&E, & SOCALGAS

Donald Gilligan
President
NAESCO
1615 M Street NW
Washington, DC 20036
Phone: 978-498-4456
E-mail: dgilligan@naesco.org

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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 submits its final round of comments on the Business 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 January 18, 2017. NAESCO appreciates the opportunity that the Commission and the staff have given stakeholders to submit multiple comments on the key issues in this proceeding, as well as the opportunity to submit these comments, which summarize the positions NAESCO has taken on key issues in this proceeding over the past year.

Summary of Comments

These comments summarize what NAESCO believes are its most important comments submitted during the nine-month course of this proceeding.

1. The Commission should not approve the IOUs' proposed Business Plans.
2. The Commission should approve the IOU 2018 Bidding Plans with several amendments.
3. The Commission should require the IOUs to re-submit their 10-year Business Plans with the full set of information required by the Commission.
4. The Commission should assign the development of new Workpapers to the CalTF.
5. The Commission should order the IOUs to bid out Payment Processing to a single statewide vendor.
6. The Commission should adopt an EE-specific Independent Evaluator and Peer Review Group that will review third party (3P) proposals for major statewide 3P Programs as soon as practicable in conformance with adopted metrics.
7. The Commission should clarify its baseline policy, which frustrates the accomplishment of longstanding state energy policy.

Discussion

NAESCO offers the following arguments for its comments.

1. The Commission should not approve the IOUs' proposed Business Plans.

NAESCO urges the Commission to reject the IOUs' proposed Business Plans for two reasons.

1.1 The IOUs' Proposed Budgets Are Seriously Flawed

The Business Plans for which the IOUs are seeking Commission approval include budgets of approximately $1 billion per year through 2025. As NAESCO point out in earlier comments (NASECO Response to the Applications of SCE, PG&E, SDG&E, and SoCalGas for Approval of Energy Efficiency Rolling Portfolio Business Plans and Related Matters, March 7, 2017, page 7) the IOUs have not provided any justification for their proposed budgets. Before the Commission approves Business Plans that involve such massive expenditures of ratepayers' money, the IOUs should provide justifications for their proposed expenditures by function, department and activity. These budgets, and functions, departments and activities should reflect the Commission's directive that programs are presumed to be designed and delivered by 3Ps, with more 3P and less IOU implementation over time. ORA made a similar observation in its Opening Comments (Opening Comments of the Office of Ratepayer Advocates on the Scoping Memo and Ruling of the Assigned Commission and Administrative Law Judges, June 22, 2017, pages 2 – 4, 7), noting that the IOUs' budgets give little indication of how they will re-deploy resources in response to their changing roles and responsibilities as 3Ps take greater responsibility for the design and delivery of energy efficiency programs. The Coalition for Energy Efficiency also observed that the IOUs provided no justification for their budgets. (Coalition for Energy Efficiency, Response to Attachment B of the Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judges, June 22, 2017, page 15)

As NAESCO stated in its Response, a basic analysis of the summary data that the IOUs provided raises serious questions about the reasonableness of the IOUs' costs:

> For example, in its budget submission, for the years 2017 - 2019, SCE proposes an administration budget of approximately $44.9 million. For the same period PG&E proposes an administration budget of $99.7 million, a 220% greater amount than SCE. PG&E's overall energy efficiency budget is higher than SCE's total budget, but comparing the percentages of the administration budget to total budgets, PG&E's administrative costs are 40% higher than SCE's (8% of total budget for PG&E versus 5.75% for SCE). With a larger budget, one would assume economies of scale, so budget percentages as a percent of total budget for larger budgets should be lower, not substantially higher. As noted above, PG&E provides no justification for this higher cost. In its budget proposal, SoCalGas did not even provide an administration budget.

For the 2017 to 2019 period, PG&E's marketing budget is approximately $56.7 million, compared to SCE's marketing budget of $10.2 million, a $46.5 million, or about 550%, difference.

ORA noted similar discrepancies among PG&E and SCE with respect to the time and costs of account representatives charged to the energy efficiency balancing account. Based on historical data, PG&E account representative costs for energy efficiency are 300% of SCE's. (ORA Rely Comments, June 29, 2017, pages 4 - 6). When asked to provide estimates of account representative costs after 2018, all the IOUs stated, in very similar language, that they did not forecast account representative needs with respect to energy efficiency for 2019 and beyond. In admitting this inability to forecast even basic program needs after 2018, the IOUs have conceded that they have no reasonable basis for post-2018 budgets.

1.2. The Commission does not need to approve budgets based on the Applications for new Third-Party Programs to go forward

Decision 15-10-028 directed IOUs to file annual budgets consistent with their business plans. (See page 43.) D.15-10-028 also stated,

> "If a calendar year ends before Commission disposition of a Program Administrator's advice letter with the budget for the next calendar year, then the prior year's budget shall remain in place until disposition of the pending advice letter. Electric corporations and gas corporations shall continue to recover costs, and to make transfers to community choice aggregators and regional energy networks, based on the prior year's authorized budget." (Ordering Paragraph 5)

Therefore, the Commission need take no action to maintain existing budgets. Given the lack of justification for the budgets proposed in the IOUs' Business Plans, and given the wide range of costs among the IOUs for the same functions, the Commission can and should maintain existing budgets until IOUs file new Business Plans with new budgets, as further described below in NAESCO Comment #3, and the Commission reviews and approves those new budgets.

2. The Commission should approve the IOU 2018 Bidding Plans with several amendments.

The California IOUs have been in a "bridge funding "mode since the end of 2012. As most stakeholders and CAEEC participants acknowledge, the California energy efficiency portfolio is badly in need of innovation. Under the procedures established by D.14-10-046 and D. 15-10-028, the IOUs now have sufficient funding and fund shifting flexibility to proceed with their proposed bidding plans for 2018. D.15-10-028 gave the IOUs extensive fund shifting flexibility without Commission approval. (D.15-10-028, page 91.) Therefore, NAESCO recommends that the Commission not wait until the IOUs have resolved the problems with the budgets in their Business Plans to proceed with the 2018 Bidding Plans in their June 4, 2017 filings, with several important amendments.

2.1. The Commission should not approve new IOU-implemented programs without the demonstration of need required by the Commission.

As NAESCO has previously noted, PG&E a proposes retaining some existing PG&E-implemented 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 program implementers 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 in 2018.

PG&E also seeks to keep implementation of the Retail Program Platform program in-house. But making this an IOU-implemented program also 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.

2.2. The Commission should order the IOUs to bid out several programs that are needed to fill substantial gaps in their portfolios

2.2.1. Residential Downstream Programs

The residential downstream market is particularly in need of innovation, given the poor results from the Energy Upgrade California program and its successors. The Commission should reject PG&E's proposal to keep its existing in-house Residential P4P program and in its stead order PG&E and the other IOUs to offer a statewide solicitation for a *3P* designed and implemented residential P4P program in 2018. The Commission should direct the IOUs to focus on residential end use technologies that have been successful in other jurisdictions but as yet have not been adopted in California, such as ductless heat pumps or heat pump water heaters, which have been successfully introduced throughout the northwest. A modest ductless heat pump and heat pump water heater program will help the state in its GHG reduction goals. As noted above, these types of programs have been successfully introduced into other jurisdictions, but given the lack of opportunities for innovation in California for the past five years, the state is lagging behind other states in introducing innovative programs. The state should initially use Workpapers adopted in other jurisdictions for measures that are new to California, with adjustments as appropriate for California (e.g., different climate zones). The ductless heat pumps and heat pump water heaters installed in such a program will provide additional in field data for Workpapers for a possible future expanded program.

The Commission should also order each PA to implement a new program for hard to reach and underserved ratepayers in manufactured homes (MH). This is a market segment that also has been largely neglected in recent years. Many MH homes are located in disadvantaged communities. Other parts of the country have cost effectively introduced innovative programs that could be successfully implemented in California. The Commission should order each IOU to issue an RFP for a 3P designed, administered and implemented MH program. Since this is an innovative program, new to California, the Commission should, as with the program focused on new technologies described above, provisionally allow adoption of Workpapers (or supporting documents for new programs) used in other jurisdictions for a period of two years while Workpapers are developed in California.

2.2.2. NON-RES Standard Performance Contracting (SPC) program with a focus on the MUSH Market

NAESCO urges the Commission to order the IOUs to establish a statewide SPC program that focuses on the state and local government market segment (commonly known as MUSH or Municipals, Universities, Schools and Hospitals) for the following reasons.

2.2.2.1. MUSH is an underserved market segment

The following two pages summarize data on EE investment needs in the MUSH market that NAESCO has presented in several previous comments in this proceeding, and which, to NAESCO's knowledge, have never been challenged by other parties in the proceeding.

Colleges and Universities

- A 2014 report from the UC Office of the President estimates that the UC system alone will need between $536 and $767 million of investment (with a simple payback of about 11 years) for its deep energy efficiency and cogeneration plan.[1]
- According to a page on the PG&E website, California colleges and universities can save about 30% (about $650 million) of their $2 billion annual energy expenditures.[2] Assuming an average simple payback of 10 years for comprehensive projects, the investment requirement is about $6.5 billion. Assuming, for the sake of discussion, that a comprehensive project requires a 25% incentive, then the total amount of incentives required to meet the IOUs' identified savings is about $1.63 billion.
- *According to their December 2015 monthly reports (see eestats.cpuc.ca.gov), the four major IOUs spent about $36 million on their UC-CSU-IOU Partnership during the 2013-2015 program cycle. At this rate of expenditure, it will take about 45 years to meet the IOUs' savings target.*

Community Colleges

- According to a 2014 presentation from a representative of SCE, a representative of the CCC Chancellor's Office and two representatives from Southern California Community Colleges, the 10-year facility needs of California Community Colleges is about $35 billion.[3] Since about 67% of the CCC buildings are more than 25 years old and 46% of the buildings are more than 40 years old, we can assume that a significant portion of these investment needs are energy-related (the federal General Services Administration estimates up to 40%.)[4] For the sake of discussion, let's assume 20%, or about $7 billion. As noted above, assume that the CCC requires a 25% incentive (about $1.75 billion) to implement comprehensive projects.
- *To help meet this need, the CCC/IOU Partnership invested about $25 million (an average of about $2.5 million per year) from 2006-2015.[5] Prop 39 contributed another $116 million in its first three years. At this rate, it will take about 12.4 years to meet the EE needs of the CCC system.*

K-12 Schools

- According to a 2012 report from the California Department of Education, K-12 schools need about $117 Billion of infrastructure investment between 2013 and

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[1] "Deep Energy Efficiency and Cogeneration Study Findings Report," September 12, 2014

[2] See http://www.pge.com/en/mybusiness/save/rebates/bybusiness/colleges.page

[3] "The CCC/IOU Partnership and Proposition 39," presented to the Construction Management Association of America, SoCal Chapter, June 25, 2014

[4] D Gilligan notes from a GSA National Deep Energy Retrofit pilot program workshop

[5] CCC-IOU Flyer Draft 022316 v7

2023.[6] Repeating the same rough calculation described above, that means that the schools need about $23 Billion of EE improvements, which in turn require about $5.9 Billion of incentives.

- *To meet this need, Prop 39 will contribute about $1.8 billion over its five-year run. (It has contributed about $1.4 billion over the first four years according to the September 10, 2017 Proposition 39 K-12 Program Snapshot).[7] NAESCO cannot identify the amounts currently spent by the IOUs for K-12 projects, but ask the Commission to remember that the CPUC has not permitted the IOUs to provide the kind of enhanced rebates that they proposed to supplement the Prop 39 funding. It is also important to note that anecdotal evidence to date suggests that the Prop 39 funding is not being leveraged to the extent that the IOU incentive is typically leveraged (3:1 in this discussion example). The Snapshot indicates that 52% of the measures in the Prop 39 K-12 projects are lighting and another 11% are lighting controls, which seems to indicate that schools are paying cash for short-payback measures, which undermines the economics of comprehensive projects, and delivers a lower overall value to the customer.[8]*

State Facilities

- California state government facilities need at least $750 million of EE improvements.[9] Using the calculation method above, the state needs about $188 million in incentives to implement comprehensive projects.
- *The IOU programs provided about $10 million of incentives during the 2013-2015 program cycle for state buildings and the Department of Corrections, which means that it will take about 18 years to complete the improvements.*

2.2.2.2. The IOUs proposals for Public Sector programs don't adequately exploit the potential of the MUSH market

The IOUs propose to decrease their public-sector budgets maintain them at the same level, with the exception of Southern California Gas, which proposes a modest increase of about $3.8 million. NAESCO suggests that this approach does not exploit the immediate opportunities offered in public sector programs.

Public sector (MUSH) buildings (state, county, municipal, university, schools, hospitals, and low-income housing projects) account for about one-third of commercial electricity use and more than one-third commercial gas use. Maintenance and regular

[6] "California's K-12 Educational Infrastructure Investments: Leveraging the State's Role for Quality School Facilities in Sustainable Communities," Center for Cities and Schools, US Berkeley, 2012

[7] See: http://www.energy.ca.gov/efficiency/proposition39/documents/Prop_39_Snapshot.pdf

[8] "Mixing Appropriations and Private Financing to Meet Federal Energy Management Goals," John Shonder, ORNL, June 2012

[9] Private correspondence with H. Sacks, California DGS

capital improvements in public buildings have been underfunded for decades. They represent a high opportunity for to-code energy savings because they have minimal free ridership issues (see discussion below) and provide ancillary benefits to ratepayers by reducing operational costs for public services.

Public sector K-12 school projects can also demonstrate the leveraging of ratepayers' funds that the Commission wants, blending Proposition 39 funding, or local school bonds, with ratepayer incentives for deep energy reduction projects. Proposition 39 funds are spread so thin that many of the energy efficient retrofits identified in the Proposition 39 energy analyses are not implemented, so that more than 60% of the implemented measures are lighting and lighting retrofits.[10]

2.2.2.3. Performance contracting delivers Commission goals for comprehensive projects

During the past twenty years, NAESCO member companies have implemented several billion dollars' worth of comprehensive energy efficiency, demand response, renewable energy and distributed generation projects for government, industrial, commercial, institutional and residential customers in California. Nationally, NAESCO member projects have produced:

- $50 billion in projects paid from savings
- $55 billion in savings – guaranteed and verified
- 400,000 person-years of direct employment
- $35 Billion of infrastructure improvements in public facilities
- 450 million tons of CO2 savings at no additional cost

These projects meet the Commission goals for comprehensive, whole building retrofits, by implementing the full range of fossil fuel and electric EE, DR, and customer-sited RE technologies, delivering energy savings and substantial GHG reductions. The savings from these projects have been monitored and verified with the long-term application of the IPMVP protocols or the Federal Energy Management Program (FEMP) M&V protocols (a derivative of the IPMVP), which the Energy Division has designated as an acceptable methodology for compliance with AB 802 mandates for project M&V using normalized meter readings.

[10] See: http://www.energy.ca.gov/efficiency/proposition39/documents/Prop_39_Snapshot.pdf

2.2.2.3. The IOUs have a history of successful SPC programs

The type of program that NAESCO is proposing is not new to California. The IOUs implemented Standard Performance Contract (SPC) programs for about a decade in the late 1990s and the early 2000s. These programs delivered significant savings, but were discontinued because they had low GRR and NTG scores. NAESCO suggests below that these analyses are no longer valid, and that there is no reason why the programs cannot be re-started in early 2018, with statewide 3P administration (see below) because the program old rules and operating procedures will need only minor modifications.

2.2.2.4. The new MUSH SPC program should be a 3P program

NAESCO believes that the new MUSH SPC program should be statewide a 3P program, because a statewide program can operate more efficiently and with lower administration costs than single-IOU programs. The IOUs should designate a lead IOU and issue an RFP for a program administrator. NAESCO believes that there is a robust national competitive marketplace of experienced program administrators, and we expect that the statewide MUSH SPC program would draw significant interest from these firms.

2.2.2.5. Previous NTG and GRR analyses are obsolete

It is widely recognized that the national infrastructure of public buildings needs hundreds of billions of dollars' worth of capital investment to bring the buildings up to current building codes and the current standards for energy efficiency. It is also recognized that the capital maintenance and improvement budgets for these buildings has been reduced to the point that it is grossly inadequate, due to ongoing state and local government budget shortfalls. (see estimates for California MUSH buildings above). Given this state of affairs, NAESCO suggests that the standard NTG analyses, which are designed to identify "free riders," are not very useful in the MUSH market today. The underlying theory of free ridership is that the building owner is making a choice between investing in energy efficiency or using the money for other expenditures. NAESCO suggests that this theory is not applicable to public buildings that are scraping for money to provide essential public services, and have no financial resources to use for energy efficiency investments.

2.3. Bidding Schedule

The Commission, after ruling on the roster of programs to be bid, would then adopt a detailed bidding schedule through the end of 2020 for all the PAs. Therefore, the 3P solicitation process can begin quickly after the Commission's final decision at the end of 2017 or the beginning of 2018.

2.4. Bidding Evaluation Criteria

The PAs should publish their bid evaluation criteria and their weightings in any RFPs or bid solicitations in order to clearly communicate desired outcomes and create a more efficient bidding process. The IE/PRG can review the proposed bid evaluation criteria and process for timely feedback to the PAs.

2.5. Standard Terms and Conditions

The PAs, with the input of the CAEECC and the IE/PRG, should promulgate standard contract terms and conditions (T&Cs), which should include evaluation standards, for statewide and local 3P programs administered by PAs These standardized T&Cs should be part of every bid solicitation, so that the PAs and the 3Ps can properly calibrate their bids and proposals, and so the Commission's work in evaluating program results will be simplified and facilitate the comparison of results from different programs. NAESCO suggests that the Commission should also issue orders or guidance on the following specific contract issues and terms.

- Contracts should have an initial length of 3 to 5 years
- For statewide programs administered by PAs, there should be contracts only between the selected PA administrator of a program and the program implementers. Sub-contracts between the PA administrator and the other PAs, or contracts between non-lead PAs and implementers, should not be allowed, as this blurs the lines of accountability for program results and undermines economies of scale.
- The PAs should have the discretion to extend the contracts for 3P programs, and the discretion to terminate and re-bid 3P programs in the event of program failure or market changes, after review and concurrence by the IE and PRG.

3. The Commission Should Order the IOUs and other PAs to File Updated Business Plans, Including Budgets, by the End of the First Quarter of 2018

As part of the ten-year rolling portfolio process, the Commission created a "trigger" mechanism that would result in PAs filing revised business plans before the end of the rolling portfolio period. Ordering Paragraph 2 of D.15-10-028 states that one of the ways a trigger happens is when the Commission calls for new applications for any reason. The Commission has a number of reasons for calling for new Business Plan applications in 2018:

a. The Commission will have adopted new energy savings goals by the end of 2017. This alone should be sufficient reason for new Business Plans, since energy savings goals are a key driver of portfolio design, and a fundamental element of resource planning.

b. The Commission has adopted a Green House Gas adder for energy efficiency avoided costs in D.17-08-022, significantly changing a key driver in program design.

c. It is expected that the Commission will have addressed the Working Group 2 baseline issues by year end. Baselines for custom projects significantly impact the industrial, agricultural and commercial segments.

d. As noted above, and as noted by many parties in various filings in this proceeding, the IOUs have not provided justification for their budgets

e. As also noted by many parties to this proceeding the IOUs bidding plans do not include a clear commitment to put their portfolios to a market test, beyond the 60 percent minimum specified in D.16-08-019. In so doing the IOUs have ignored the requirement of D.16-08-019 that, for IOU-designed and implemented programs, the IOUs need to demonstrate why they must be the program implementer.

f. The IOUs intend to fund account representatives and IOU marketing campaigns out of the energy efficiency budgets, when these functions and costs are part of program design and implementation, which is a 3P function. The Commission should not approve any business plan that is not consistent with D.16-08-019.

As part of its order directing the IOUs to file updated Business Plans by the end of the first quarter of 2018, the Commission should provide the IOUs with a common, more detailed budget template that will allow parties and the Commission an opportunity to analyze the IOUs' budgets. In those budgets, the IOUs should break out any costs they propose for IOU-designed and implemented program, including account representative and marketing costs. The updated applications will provide the IOUs an opportunity to work with the CAEECC to refresh their bidding plans for 2019 and 2020 based on the new goals, baselines and avoided costs described above. In the new Business Plans, along with updated bidding plans, the Commission should order the IOUs to provide substantial justification for any programs that they believe must be designed and implemented by IOUs, and the Commission should clarify what burden of proof it requires for an IOU-designed and implemented program.

4. The Commission Should Assign Development of Workpapers to the CalTF

The April 14, 2017 Scoping Memo raised the issue of IOU retention of selected portfolio functions, justifications for not bidding them out, and potential cost implications of a new approach. (Scoping Memo, page 6.) As NAESCO has noted before, at the CPUC workshop on the IOUs' bidding plans held June 16th, PG&E's representative also seemed to endorse this approach and encouraged third parties to propose ideas for statewide "platforms" that could support all IOU programs. PG&E reiterated its position in its August 4th filing on its bidding plans: "PG&E believes the [statewide] 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 August 4, 2017 comments, page 4) NAESCO supports consideration of this approach, and suggests that the development of Workpapers is an immediate candidate for statewide consolidation in 2018.

The development of Workpapers should be a statewide function, with a single statewide lead entity, selected by the Commission, responsible for competitively bidding out the development of Workpapers to non-PA third parties. The current system of having four IOUs responsible for Workpapers adds unnecessary cost and time, and is a vestige of the previous structure of IOU-specific portfolios. The current system has proved to be a serious barrier to innovative 3P programs as only an IOU could submit a Workpaper. As a result, an IOU can veto an innovative program idea simply by inaction. Even when a third party is given the ability to submit a Workpaper, it has to incur the expense of creating the Workpaper. IOUs, in contrast, still have Workpapers paid for out of ratepayer funds. This continuing un-level playing field will continue to hamper innovation.

NAESCO suggests that a more efficient and equitable system would be to make the CalTF the entity responsible for Workpaper development. Any PA or third party which wants to develop a Workpaper for a new product can present its case to the CalTF and apply for approval of independent development of its proposed Workpaper, following a standard process developed by the CalTF. The CalTF would screen all requests for Workpapers. Once the CalTF members have agreed that a request is reasonable, the CalTF would issue a solicitation to a list of previously qualified contractors. Once a Workpaper contractor is selected, he or she would present his or her work plan for the Workpaper to the CalTF for feedback. After the Workpaper was completed, the CalTF would review and comment on the Workpaper and recommend approval or rejection by the Energy Division, which would retain its approval authority. NAESCO believes that this reorganization of Workpaper development will spur badly needed innovation, increase program accountability, reduce time and costs for development of new Workpapers. and simplify Commission review of program results. Consistent with PG&E's statewide platform concept, centralizing Workpaper development with a single statewide entity aligns with the Commission's statewide energy efficiency delivery model.

5. The Commission Should Order the IOUs to Bid Out Payment Processing to a Single Statewide Vendor

For downstream programs, there is no need for four IOUs to process rebate applications separately. According to the IOUs June 12 filings, based on 2018 data, they collectively plan to use 88 FTEs for payment processing. This is in addition to the 43.5 FTEs they plan to use for IT. Some of these 131.5 FTEs may be used for processing other than downstream rebates, but in any case, the IOUs are using very large number of FTEs used for a business process that is very mature. This large number of FTEs, with their attendant costs, indicates great opportunities for ratepayer savings.

Also, payment processing is not an IOU monopoly function, and requiring one statewide implementer for downstream rebate application, chosen via a competitive bid process, allows for price discovery and can achieve lower costs through economies of scale that are not possible with the current balkanized system. Along with Workpaper development, payment processing is a natural candidate for PG&E's statewide platform approach in support of statewide 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." Parties do not need to spend a year studying this function, either. Payment processing is a common business function that many businesses regularly outsource to specialized firms created to provide this function efficiently. In the Self Generation Incentive Program (SGIP) the Commission has successfully used third-party payment processing for the IOUs for years for hundreds of millions of dollars of rebates. The Commission should choose one IOU to be the statewide lead on payment processing and order that IOU to issue a request for proposals in the first half of 2018.

6. The Commission should adopt an EE-specific Independent Evaluator and Peer Review Group that will review (3P) proposals for major statewide 3P Programs as soon as practicable in conformance with adopted metrics.

NAESCO believes that it is essential for the Commission to recruit and appoint an Independent Evaluator and Peer Review Group (IE/PRG) composed of EE procurement experts to oversee the 3P process and outcomes.

6.1. Recommended Process for Selecting and Managing Energy Efficiency IEs.

NAESCO supports the process proposed by the CEE for selecting energy efficiency IEs: Each PRG member should review the evaluation criteria and weightings in the bidding process for IEs, and vote to accept or not accept them. Each PRG member should vote on the IEs to be selected, presumably along with the IOU. The CPUC Energy Division should review the entire process and after its approval of the outcome, the IOU would enter into contracts with the selected IEs. (CEE Comments on IOU Bidding Plans, August 18, 2017, page 3) As many parties have noted the PRG, which is chaired by a representative of the ED, includes non-market participants who represent environmental groups, ratepayer advocates, disadvantaged communities, environmental justice advocates, and labor. NAESCO supports compensation for the PRG members under the Commission's compensation rules.

Ideally, IEs would be under contract to the Commission. However, given state bidding and contracting requirements, in the interests of time, most parties have acknowledged that, at least in the short run, IEs will have to be under contract to the IOUs. NAESCO has noted before the IOUs' inherent conflicts that result from the IOUs' evaluating and selecting third-party programs that might compete with IOU-designed and implemented programs. (NAESCO Reply Comments to Responses to Attachment B of the Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judges, June 29, 2017, page 6). NAESCO therefore supports the protections that NRDC proposes as a result of the IOUs' holding contracts with IEs: "a straightforward safeguard would be for the IE to report to the ED representative and PRG instead of the IOUs." (NRDC Comments on IOUs' Bidding Plans, page 3) NAESCO agrees that this is a reasonable step to take to help ensure true independence. NRDC also states "Another option is to have the approval of invoices be delegated to a non-IOU entity (or non-contract holder) as is the case with the CAEECC facilitator." (NRDC Comments on IOUs Bidding Plans, page 3) NAESCO agrees that this, too, is a reasonable precaution. However, NAESCO urges the Commission to adopt this procedure in addition to NRDC's first suggestion, and not as an alternative.

In summary, the selection and use of IEs would follow the following process:

a. Each IOU issues bid for IEs, overseen by ED, PRG
    i. ED and PRG review selection criteria, weightings
    ii. Once consensus is reached, IOUs issue bid solicitations
    iii. PRG members and IOUs score bids
    iv. IOU provides results to ED, which approves or disapproves selection
b. Selected IEs reports to ED
    i. ED assigns IEs to review bids
    ii. IEs review IOU bid process and outcomes
    iii. IEs provide analyses to their respective PRGs and an annual report to the Commission
c. IEs invoices are reviewed and approved by non-IOU

i. Follows successful precedent established by CAEEC

ii. Non-IOU reviewer chosen by PRG

6.2. IEs Need Substantial EE Experience

Using the existing supply side IE/Procurement Review Group members and process will not provide the oversight that the Commission needs since participants in that process have significantly different skill sets and will not add value.

While NRDC acknowledges the need for energy efficiency-qualified IEs, it seems to leave open the possibility of using existing supply-side IEs for some evaluation (NRDC Comments, page 4), even as it states, "it has yet to be determined whether the existing IEs have sufficient skills for an EE-PRG process." (NRDC Opening Comments, page 3) However, the CEE found during its investigation of the IOUs' existing supply-side IEs, "that the vast majority of the existing supply-side IEs have little to no demand side experience." (CEE Comments, page 3) As the CEE notes, demand side evaluation and supply side evaluation require very different skills. (CEE Comments, page 3) The California Energy and Demand Management Council (CEDMC) argues that some existing supply side IEs have "some knowledge" of energy efficiency policy and are therefore qualified to evaluation energy efficiency solicitations. (CEDMC Comments on Solicitation Process Proposals, page 11) NAESCO disagrees. Having "some knowledge" of policy is not a sufficient qualifier for an Independent Evaluator of procurements of a major resource that has significantly different technical and business characteristics from a supply-side resource. If the Commission wants meaningful independent evaluations, it should require use of IEs who have real energy efficiency industry experience. Given the significant bidding that IOUs will be initiating early next year, it is necessary that they be reviewed by qualified IEs. The Commission should clarify that only IEs who have been picked for their demand side experience should be used for demand side evaluation, and should immediately require targeted bids for new, energy efficiency-qualified IEs.

7. The Commission should clarify its baseline policy, which frustrates the accomplishment of longstanding state energy policy.

NAESCO has repeatedly commented, in this proceeding and related proceedings, that the Commission is making it almost impossible to meet the state's energy policy goal – to supply energy capacity needs by implementing all cost-effective energy efficiency before turning to other resources – by eliminating much of the cost-effective energy efficiency from consideration. Two recent developments highlight this problem.

The first is the release of the T2WG report. The T2WG "was originally asked to recommend improvements to guidance on industry standard practice (ISP) and to propose opportunities to streamline California custom programs,"[11] issues that have vexed the PAs and program implementers for a number of years. The T2WG has worked diligently for several months since mid-April, logging 18 formal meetings and a number of additional informal meetings between participants, and produced a 140-page report that does not address the topics originally assigned by the Commission, because the Commission assigned four additional topics to the T2WG in the interim. The result is that the issues that have vexed the program remain untouched. The report, however, did address the four issues subsequently assigned by the Commission, and produced the following as a definition of the baseline for calculating energy efficiency savings:

> ***T2WG Proposed Standard Practice Baseline Definition***
>
> ***Background***
> *The Standard Practice Baseline is synonymous with a "code" baseline and is generally [endnote 1] used as the single baseline for Normal Replacement (including New Load and New Construction) measures as well as the second baseline [endnote 2] for Accelerated Replacement (AR) measures. This document" only details the baseline selection process; it does not discuss measure eligibility or the review and verification of the selected baseline.*
>
> ***Definition***
> *The Standard Practice Baseline is an estimate of the activity or installation that would take place absent the energy efficiency program, as required by code, regulation, or law, or as expected to occur as standard practice.*
>
> *The Standard Practice Baseline activity or installation must meet the anticipated functional, technical, and economic needs of the customer, building, or process and provide a level of service comparable to that provided by the energy efficiency (EE) measure. Savings claims shall be generated based on equipment choices that operate at*

[11] Track 2 Working Group Final Report on Tasks 1-4, September 7, 2017, Page 7

a level of service comparable to that provided by the EE measure. If there is not a viable and comparable baseline solution that offers a comparable level of service as the EE measure, the energy use of the baseline solution must be adjusted to provide a level of service comparable to that provided by the EE measure.

Selection Process
The following describes the process that a project developer must step through to determine the Standard Practice Baseline for a given measure. While the project developer must substantiate each step of this process, the program administrator (PA) and/or CPUC may accept or contest any baseline selected through this process. Project developers are encouraged to collaborate with the PA on this selection process for larger projects.

Step 1. Consider and apply any applicable and current CPUC published Standard Practice documents relevant to the anticipated functional, technical, and economic needs of the customer, building, or process. Such documents, which may include ISP study reports, DEER baseline values, or CPUC-issued memoranda or dispositions, will be publicly available on a single website with a date of issuance, applicability, and effective dates [endnote 3]. If applicable baseline information within these documents is found, apply it and stop here. If applicable information is not found, review and follow the ISP Guide document. When appropriate proceed to Step 2.

Step 2. Identify the options presented by the project developer, or that the customer considers functionally, technically, and economically feasible to implement, including any known options that are presently and commonly implemented. Options must comply with all codes, standards, and other requirements, with consideration for:

A. Applicable minimum building energy efficiency requirements (e.g., CA Building Energy Efficiency Standards (Title 24—Part 6) or ASHRAE Standard 90.1), and

B. Other applicable federal, state, and local regulations or requirements, e.g., Title 20, CARB Regulations, Federal Appliance Standards, and

C. Providing a comparable level of service as the EE measure for the EUL of the EE measure.

Functional, technical, and economic feasibility are perceived and defined by the customer but should take into account the need for performance and reliability, as well as any relevant operational, maintenance, and energy costs. The customer must consider any options considered under this step as reasonable to implement.

Step 3. If Step 2 yields only one feasible option, that option establishes the standard practice baseline.
In this case, the measure is ineligible for Normal Replacement, and there is no second baseline savings for Accelerated Replacement. If Step 2 yields two or more feasible options, the option that is the lowest first-year cost to implement establishes the standard practice baseline.

Costs included in this process may be estimates, but their basis must be substantiated. Costs should include: "...the cost of any equipment or materials purchased, including sales tax and installation; any ongoing operation and maintenance costs; any removal costs (less salvage value); and the value of the customer's time in arranging for the installation of the measure, if significant." [endnote 4]

Endnotes

[1] For example, the baseline used for energy efficiency savings reporting and incentives shall not regress to a lower efficiency than the existing equipment.

[2] The second baseline applies to the time period from the end of the remaining useful life (RUL) of replaced equipment to the effective useful life (EUL) of the measure

[3] For example, the CPUC Ex Ante Review Custom Process Guidance Documents page at: http://www.cpuc.ca.gov/General.aspx?id=4133

[4] California Standard Practice Manual, Economic Analysis of Demand-side Programs and Projects, October 2001, www.cpuc.ca.gov/WorkArea/DownloadAsset.aspx?id=7741

NAESCO does not disparage the effort of the T2WG participants, who worked through a virtual obstacle course posed by the ED and its consultants to produce their recommendations. But NAESCO respectfully suggests that this definition does not meet the goal of simplifying the process for customers or implementers. It is not reasonable to expect that an industrial plant manager or facility engineer, for whom energy efficiency is probably a secondary consideration, will understand how this definition translates into a dollar incentive. And this is before he/she becomes acquainted with the arcane project review process that might take six months and be conducted by consultants with little knowledge of the technologies involved in the project. We also suggest that this definition frustrates the mandate of AB 802 that savings baselines be based on existing conditions and that savings be determined by normalized meter readings.

NAESCO further suggests that the real-world consequences of this Commission-ordered process are illustrated in the recent report of the CAISO that evaluated the alternatives to the proposed 260 MW El Puente natural gas plant to address a projected 2022 supply deficiency.[12] Energy efficiency is not even mentioned in this study. NAESCO suggests, based on previous LCR procurements in adjacent areas, that there is significant energy efficiency available in this area, at lower cost than either the gas plant or the solar + storage alternatives that were evaluated, which range from \$1.14 million (gas plant) to \$2.65 million (solar PV) per MW. An example of

[12] Moorpark Sub-Area Local Capacity Alternative Study, CAISO, August 16, 2017

the available EE resource is T12 fluorescent fixtures in Class B office buildings, which ESCOs have bid into LCR procurements, and which were judged not acceptable under Commission rules. We suggest that the omission of EE from the CAISO analysis is due to the fact that, in light of the Commission's complex definitions of acceptable EE and the uncertain timeframe for resolution of key issues in the verification of EE, the CAISO does not view EE as a predictable and reliable resource. The Commission is apparently even resisting the solutions to this dilemma mandated by the legislature in AB 802, which were designed to eliminate the artificial Commission barriers to the implementation of all available EE and to standardize the verification of EE between the Commission and the CAISO by instituting the transparent calculation of savings based on normalized meter readings.

Conclusion

NAESCO appreciates the opportunity to submit these comments, which summarize the positions it has taken on key issues in this proceeding over the past year. NAESCO urges the Commission to accept its recommendations as follows:

1. The Commission should not approve the IOUs' proposed Business Plans.
2. The Commission should approve the IOU 2018 Bidding Plans with several amendments.
3. The Commission should require the IOUs to re-submit their 10-year Business Plans with the full set of information required by the Commission.
4. The Commission should assign the development of new Workpapers to the CalTF.
5. The Commission should order the IOUs to bid out Payment Processing to a single statewide vendor.
6. The Commission should adopt an EE-specific Independent Evaluator and Peer Review Group that will review (3P) proposals for major statewide 3P Programs as soon as practicable in conformance with adopted metrics.
7. The Commission should clarify its baseline policy, which frustrates the accomplishment of longstanding state energy policy.

Respectfully submitted by,

Donald Gilligan
President, NAESCO
1615 M Street NW, Washington, DC 20036
Phone: 978-498-4456
E-mail: dgilligan@naesco.org