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Additional submitted attachment is included below.



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California Energy Commission
Docket Office
1516 Ninth Street
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RE: January 23, 2017 Joint Agency IEPR Workshop on Energy Demand Forecast and Doubling of Energy Efficiency- Data and Analytical Needs, Docket No.16-IEPR-05

Dear Commissioners:

San Diego Gas and Electric (SDG&E) appreciates the California Energy Commission (CEC) and the California Public Utilities Commission (CPUC) providing updates on the Joint Agencies' progress on establishing the policy framework for doubling Energy Efficiency (EE) targets through the Joint Agency Workshop, as part of the *2016 Integrated Energy Policy Report (IEPR) Update* proceeding on January 23, 2016.

SDG&E supports California's effort to reduce greenhouse gas (GHG) emissions and is actively participating in the numerous proceedings across the state agencies that are developing the policy direction and the implementation of Senate Bill 350. SDG&E encourages the CEC and CPUC to consider the new Integrated Resource Planning (IRP) requirement¹, and how the deliverables from the IEPR proceedings should be changed to provide useful data to achieve the lowest cost GHG reductions. In summary, to achieve the state's GHG goals, the CPUC and the CEC need to reassess and provide guidance on how each of these proceedings is operating in concert and provide a consistent approach to cost-effectiveness.

With that said, SDG&E offers the following suggestions regarding the Staff Paper "Framework for Establishing the Senate Bill 350 Energy Efficiency Savings Doubling Targets."²

1. Cost-effectiveness

SDG&E supports a process where GHG reductions are driven by the most cost-effective activities first, that is the lowest cost GHG reduction measures. According to the Public Utilities Code (PU Code), there are a number of places where cost-effectiveness and feasibility are

¹ Senate Bill 350 Section 24.

² Staff Report available at http://docketpublic.energy.ca.gov/PublicDocuments/17-IEPR-06/TN215437_20170118T160001_Framework_for_Establishing_the_Senate_Bill_350_Energy_Efficienc.pdf.

included, such as creating the 10 year IEPR forecast--the methodology the CEC will use to establish statewide energy efficiency savings and demand reduction annual targets for achieving a cumulative doubling of statewide energy efficiency savings in electricity and natural gas final end uses of retail customers by January 1, 2030.

However, the Joint Utilities do not believe the CEC, acting alone, can determine which EE program will be cost effective for each and every load serving entity (LSE) or natural gas utility in the state. The state would be better served by the CEC concentrating its efforts on determining the feasibility, estimated impacts and costs of various EE options, and a consistent approach to cost effectiveness across the Air Resources Board (ARB), the public utility governing boards, and the CPUC. Cost Effectiveness would best be determined, in subsequent actions, by each LSE or natural gas utility as they address the specifics within their respective integrated resource plans. It appears that the CEC does acknowledge there are different cost effectiveness methodologies used by the different entities. The Staff Paper states,

“Staff also recognizes that the different components of AAEE (and enhanced savings going forward) have had and will continue to have different statutory and regulatory definitions of ‘cost-effective’ and ‘reliability’... The regulatory body overseeing each program will determine the methods for cost-effectiveness, feasibility and reliability assessment. ”

Different cost/benefit methodologies are employed by the CPUC and the ARB as evidenced by the cost effectiveness numbers in the ARB’s Draft Scoping Plan Update compared to the output of the IOU cost effectiveness tests. Different methodologies are being considered in various regulatory jurisdictions to determine whether a utility’s investment in distributed energy resources (DER) is cost-beneficial relative to a more traditional investment (e.g., incremental distribution or transmission infrastructure). Cost effectiveness criteria at the CPUC generally includes the Program Administrator Cost (PAC) Test, the Total Resource Cost Test, the Participating Customer Test, and the Non-Participants’ Cost Test (also sometimes known as the Ratepayer Impact Measure Test), though the TRC and PAC tests are primary with the cost of carbon reductions incorporated through the energy price and avoided renewable costs. The ARB, on the other hand, calculates the cost of GHG reductions after considering all other benefits as its measure of cost effectiveness, but without any “net-to-gross” calculation. The CEC should try to develop a consensus as to the methodology that should be employed as well as developing data for load-serving entities to use. A consensus methodology should be transparent and ensure that targets assigned to each LSE do not disadvantage other LSEs by imposing larger targets due to the disparate cost effectiveness methodologies used by different regulatory bodies overseeing the LSEs.

2. Feasibility

As with cost-effectiveness, the term “feasible” is used in multiple places in the Public Utilities Code, but the term is left undefined in the Staff Report and at the workshop presentation.³ Unlike “cost-effectiveness,” which clearly calls for an assessment by comparison to other options, “feasibility” is a more nebulous term that may warrant a specific definition. The dictionary definition of feasibility is “possible to do” or “capable of being carried out.” Looking through the lens of that definition, the CEC should more carefully scrutinize the inclusion of emerging technologies, so that only those technologies that currently exist in the marketplace or are realistically expected to infiltrate the marketplace are considered. If the forecast embeds technologies which are or will be unavailable, then the resulting targets will be inherently infeasible. Since the forecast is updated regularly, newly identified emerging technologies can always be added to feasible EE measures.

3. Annual Average Growth Rate for AAEE from 2026-2030

The Staff Report states,

“Unless substantial new information is developed through the two potential studies underway, the Energy Commission proposes that the 2014 AAEE study savings projections described in the CEDU 2015 be extended at an annual average growth rate of 3 percent per year for both electricity and natural gas in the 2026–2030 period. The Energy Commission also proposes that the 2013 POU savings projections that stop in 2023 also be extended using an annual average growth rate of 3 percent per year.”⁴

SDG&E interprets this to mean to grow incremental AAEE saving at 3%. SB 350 points to AAEE associated with the 2014 IEPR Update forecast as the base from which to develop EE Doubling targets. That AAEE came from 2013 IEPR Final, which ended in 2024 and was extended by extrapolating one more year to 2025. From this data the average annual growth rate for incremental saving is 2.4% for all IOU's taken together and 2.5% for SDG&E, over the years 2016 to 2025. Considering the proposed growth rate of 3% for years 2026 through 2030, SDG&E believes it is somewhat high but not unreasonable. However, in reviewing the AAEE that is associated with the CEC’s more recent forecast, 2015 IEPR Final, one can come to a different conclusion concerning the reasonableness of the 3% growth rate for extending AAEE from 2026 to 2030. Here, it can be seen that the CEC's estimate of AAEE savings growth has changed. The CEC’s more recent view of AAEE reflects an average annual growth rate for incremental AAEE saving to be 0.3% for all IOUs taken together and -0.8% for SDG&E, over the years from 2017 to 2026. Given this new information it does not seem reasonable to grow incremental savings at a 3% growth rate, especially when the 2014 Update forecast ended in 2025 with cumulative savings of 22,707 GWH for all IOUs and the 2015 IEPR forecast ended in 2025 with 16,600

³ “SB 350 Energy Efficiency Savings Doubling Targets,” January 23, 2017. The presentation is available at http://www.energy.ca.gov/2017_energypolicy/documents/.

⁴ Staff Report, p. 16.

cumulative GWH for all IOUs. Growing at 3% from the 2014 Update forecasts' 22,707 GWH would lead to setting targets that are far beyond what the CEC currently believes is most likely. SDG&E recommends that the CEC reconsider their proposed 3% growth rate and propose one that is more in line with the growth rate of AAEE in their 2015 IEPR Final forecast.

4. Fuel Substitution/Switching

The Staff Report provides the definition of fuel substitution measures as “measures [that] involve substituting one utility-supplied/interconnected” energy source (that is, electricity and natural gas) for another and recommends that these measures be counted as qualified EE measures.⁵ The CPUC established rules, referred to as the three-pronged test, to determine if fuel substitution measures are eligible for ratepayer-funded energy efficiency.⁶ These rules are intended to ensure that eligible fuel substitution projects are cost-effective, efficient, and do not adversely affect the environment. If projects do not pass the three-pronged test, they are not eligible for ratepayer-funded energy efficiency rules. SDG&E recommends that the CEC should explicitly align with the CPUC’s rules on fuel substitution in this regard.

We appreciate the opportunity to provide comments on the Joint Agency Workshop.

Please feel free to reach out for more information.

Sincerely,

____/s/ Tim Carmichael

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⁵ Staff Report, p. 19.

⁶ Energy Efficiency Policy Manual, Version 5, July 2013, p.24.