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11-IEP-1F	
DATE	<u>AUG 18 2011</u>
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August 18, 2011

California Energy Commission
Dockets Office MS-4
Re: Docket No. 11-IEP-1F
1516 9th Street
Sacramento, CA 95814-5512

Electronically submitted to: docket@energy.state.ca.us
cc: Kae Lewis, [klewis@energy.state.ca.us](mailto:kewis@energy.state.ca.us)

RE: **Docket 11-IEP-1F**
Draft Staff Report Achieving Cost-Effective Energy Efficiency for California 2011-2020

Sierra Club California appreciates the opportunity to provide comments on the August 11, 2011 **Staff Workshop on Achieving Cost-Effective Energy Efficiency for California 2011-2020 (Docket No. 11-IEP-1F)**, as an important component of the 2011 IEPR report

We presented our recommendations on improving energy efficiency (EE) programs in California to the Honorable Steven Bradford, Chair of the Assembly Committee on Utilities and Commerce on May 18, 2011. The letter and attachment present the detailed recommendations are attached. We believe that almost all of the recommendations are directly applicable to the publicly owned utilities (POUs), simply replace IOU (for investor owned utilities) with POU. The one major exception is the first point in the Attachment regarding shareholder profit incentives.

In addition to the attached general comments, we would like to focus some specific comments on the Los Angeles Department of Water & Power (LADWP) because it is the largest POU, not only in California, but also in the nation. Thus it should be setting an example for California and the nation for model energy efficiency (EE) programs and results. In addition, LADWP burns more coal than any other utility in California. Since the Mayor has proclaimed Los Angeles as the "greenest" big city in America, a greater emphasis must be placed on optimizing energy efficiencies and alternative, renewable energy sources in the new building and retrofitting sectors. Proven technologies and integrated systems exist for both end-use efficiency (energy efficiency) and carbon free energy resources (supply and demand side). It is past time for LADWP to implement plan that fulfills the mayor's proclamation.

First of all and much to our disappointment, LADWP did not even submit the required legally required reports and targets on their EE program. As the CEC report indicates, LADWP submitted neither revised savings potential nor targets since their 2006 report.¹

¹ CEC Draft Staff Report Achieving Cost-Effective Energy Efficiency for California 2011-2020, p. 41.

The CEC has proposed an EE target of at least 1% of sales and AB 2021 stated the Legislature's intent that "all load-serving entities procure all cost-effective energy efficiency measures so that the state can meet the goal of reducing total forecasted electrical consumption by 10 percent over the next 10 years." In order to reach the Legislature's intended goal, the utilities would need to reach annual energy savings of 1% compared to retail electricity sales consistently for the next ten years. But 1% seems too low since, according to the most recent data compiled by the American Council for an Energy Efficient Economy, the five states with the highest energy efficiency savings as a percent of sales have annual savings ranging from 1.1% to 2.6% of sales.²

While not including LADWP, since it failed to submit the required report on potential energy savings, the CEC reported that for other POU's, the technically feasible potential savings are 33% of base energy consumption in 2020, economic energy savings potential is estimated at 39%, and market savings potential at 23% of base energy consumption in 2020.³ This analysis implies that targets could be closer to 2% per year.

Yet, LADWP projected in its Integrated Resource Plan (IRP) average energy savings over the ten-year period that amount to 36% less than their 2007 target and average only 0.65% of sales.⁴ As the CEC report states, "POUs can better achieve the goals of AB 2021 by considering higher customer incentive levels for their energy efficiency programs."⁵

We also endorse the recommendations in the NRDC report, including, "Every POU should have independent evaluations of its energy savings." We ask the CEC to increase transparency through more detailed reporting. Future reports should include: (i) the industry-standard metric of savings as a percent of retail electricity sales, (ii) the net economic benefits of each utility's programs, and (iii) the average levelized cost of energy efficiency for each utility's portfolio.⁶

We call upon the CEC to do everything in its power to compel LADWP to fulfill the legal mandates. And we call up LADWP to implement the vision proclaimed by its mayor as the "greenest" big city in America.

Everyone recognizes that EE is the most cost-effective resource, as well as helping out the ratepayers by reducing customer bills. EE is also important to reduce its load, so that it can get off dirty coal power faster and reduce its impact on global warming.

It is time for LADWP to fulfill its responsibilities to the state, the environment, and its ratepayers by implementing an aggressive EE program with the high levels of customer incentive levels that the CEC recommends.

Thank you for your consideration,



Jim Metropulos
Senior Advocate

² NRDC Report: Public Power's Energy Efficiency Progress Over the Past Five Years, p. 34.

³ *ibid.*, p. 3.

⁴ *ibid.*, p. 32.

⁵ CEC Draft Staff Report Achieving Cost-Effective Energy Efficiency for California 2011-2020, p. 42.

⁶ NRDC Report: Public Power's Energy Efficiency Progress Over the Past Five Years, p. 8.

Attachment - Sierra Club California on revising California's Energy Efficiency Programs

For more information, please contact:

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Current IOU Efficiency Program Incentives have significant problems

IOUs rewarded for falling far short of targets. The current system is implicitly structured on the premise that the IOUs have the best ability to cost-effectively implement EE measures in their customer base. Shareholder profit incentives for efficiency programs—totaling \$211 million for the 2006-08 programs—are meant to overcome the resistance of IOUs to reducing sales of electricity that would occur if the IOUs meet their EE savings goals. However, for the 2006-08 programs, the IOUs were granted these bonuses, even when independent evaluations showed that they fell far short of their goals (which were already set too low, compared to other states). As energy efficiency is ordinarily the most economical method for reducing greenhouse gases and other forms of air pollution, the results are quite serious:

- Ratepayers paid hundreds of millions of dollar for shareholder profits without receiving the value of what was supposed to be delivered - undermining the normal economic benefit of efficiency;
- Current utility efficiency targets are already too low - other states have higher targets, and the current IOU goals are insufficient to meet AB 32 Scoping Plan requirements for efficiency.

The IOU efficiency program incentive structure overvalues baseload savings vis-à-vis peak demand savings. Bringing down the system peak demand is the most direct way to use EE to lower the need for expensive new power plant construction and speed decommissioning of older, inefficient plants. The current IOU efficiency incentive structure results in an over-emphasis on lighting measures, as opposed to more efficient air conditioning, insulation, white roofs and shade-tree measures that reduce the summer afternoon peak. At a minimum, these incentives need to be properly aligned to the social costs of peak generation needs versus baseload needs. At best, if EE resources were allowed to participate directly in supply capacity markets, savings would be valued at the time of day value of the resources they displace.

Other states are using other, better alternatives.

Texas has moved to “Standard Offer” (SO) programs, which reduce risk to ratepayers by paying only for savings achieved. These programs have a very fast turnaround — less than one year from planning to completion, compared to four or five years for California IOU programs. The Standard Offer programs generate many more jobs and build infrastructure, by providing opportunities for entry-level contracts on a first come, first served basis. Standard offer

Attachment - Sierra Club California on revising California's Energy Efficiency Programs

programs in Texas over 2006-08 achieved twice the energy savings per dollar and 4.5 times the peak demand savings per dollar as California IOU programs.¹

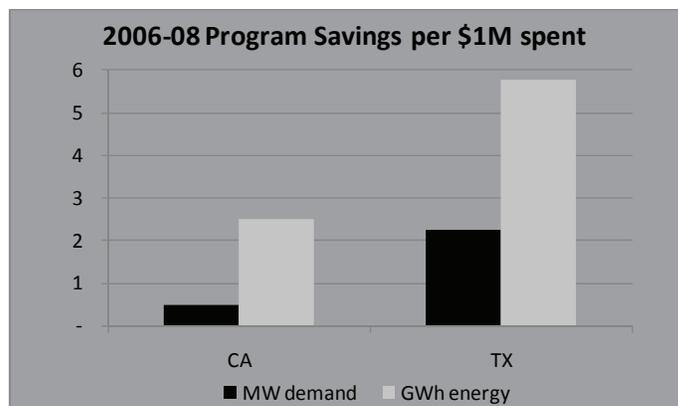


Figure 1: Program dollars go further under Texas's Standard Offer

ISO-New England has allowed EE to bid into resource RFOs. Taking the Standard Offer model one step further, ISO-New England developed guidelines that enable EE to bid in its resource supply auctions beginning four years ago. In the very first year it was allowed to bid, Energy Efficiency won the auction with a variety of EE resources totaling 1000 MW of peak capacity. This most cost-effective resource continues to win “procurement” contracts in the six states encompassed by ISO-New England.

Proposed Revised California Structure

We are advocating for a transition to treating EE programs as supply-side resources, administered and evaluated by an independent authority. We recognize that there will still be a need to encourage programs and projects that fall outside of the procurement process. We are advocating using a Standard Offer system, for both commercial and residential sectors, combined with other program structures, for a large portion of the Public Purpose Programs (PPP)² EE money, as well as for procurement requests for offers (RFOs).

Independent Administration of EE programs. With over \$1 Billion per year in ratepayer money devoted to advancing EE in the state, independent oversight and verification are imperative to assure officials and stakeholders that funds are being well spent. We advocate that the CPUC or the Energy Commission (or a collaboration between them as currently exists) could fulfill the role of Interim Statewide Administrator, pending creation of a non-utility non-profit administrator other than CPUC or CEC. The legislature should designate the interim

¹ Texas savings and costs are available at: <http://www.texasefficiency.com/layout/inside.php?pgID=42&sn=Reports>
The California numbers are available from: <http://www.cpuc.ca.gov/PUC/energy/Energy+Efficiency/EM+and+V/2006-2008+Energy+Efficiency+Evaluation+Report.htm>

² The PPP is comprised of 1/3 Public Goods Charge and 2/3 “procurement” EE surcharge. On customers’ bills, they are combined into the single PPP line item.

Attachment - Sierra Club California on revising California's Energy Efficiency Programs

administrator and explicitly authorize creation of an independent statewide administrator (the lack of clear authorization doomed the attempt to create such an entity pursuant to AB 1890).

The Statewide Administrator should facilitate statewide information-sharing and provide a minimal amount of coordination, for example, to negotiate "upstream" incentives with manufacturers and retailers. One-size-fits-all "statewide" programs should be optional (instead of mandatory as they are today).

Integrate EE, DR, and DG programs where possible. The independent administrator should have the necessary authority to facilitate the programmatic coordination of EE, DR, and DG delivery channels and financial vehicles to enhance general cost-effectiveness and grid reliability. This concept has been discussed for over a decade, and is widely recognized as beneficial and supportive of the most economical delivery of energy efficiency programs.

Administrative costs. CPUC/CEC should receive 5% of EE Public Purpose Program funds for interim administrative duties. This would be in addition to the 5% of PPP funds CPUC currently gets for Evaluation, Measurement & Verification (EM&V).

Utilities' roles. Utilities would be allowed to apply to the CPUC for planning and contracting authority, and the EE Administrator for Public Goods Charge funding, to implement EE services in the same capacity as any other private entity. Payment for EE services performed by the IOUs would also be awarded on a similar basis as any other private entity, with a similar opportunity to recover costs and earn a profit based upon meeting the performance terms of the Standard Offer Contracts. Meeting or exceeding contract-based performance standards would be the basis for awarding profits to IOUs for EE services. Should publicly-owned utilities utilize the statewide administrator, they shall provide 5% of their EE program funds for administrative fees; similarly, they should be able to use EM&V services if they provide 5% of their funds for that purpose.

Evaluation, Measurement & Verification (EM&V) services for all EE programs should be provided by the CPUC, CEC or a future statewide administrator, either directly or with the assistance of an independent contractor that is free of conflict of interest. EM&V should focus first and foremost on ensuring the grid-reliability of EE measures, coordinating with the transmission and distribution grid operators and the ISO for this purpose, and should be conducted on an annual basis, or six months for Standard Offer programs. As noted above, the state should ban EE "shareholders incentives" for utilities, and ban the use of EM&V to determine these incentives. We recommend adoption of or adapting ISO New England's Manual³ for measuring demand resources. This will better equip California to substitute EE activities for supply side resources (and reduce expensive transmission and distribution build-outs).

³ ISO New England Manual for Measurement and Verification of Demand Reduction Value from Demand Resources (Manual M-MVDR), Revision: 2, Effective Date: June 1, 2010, which is posted with other ISO-NE manuals available from: [http://www.isone.com/rules_proceeds/isonel_mnlis/index.html]

Attachment - Sierra Club California on revising California's Energy Efficiency Programs

Improved database of deemed savings by measure. Over the past two EM&V cycles (2004-05 and 2006-08 programs) the CPUC and CEC have devoted funds and EM&V activity to the creation and expansion of the Database for Energy Efficient Resources (DEER). DEER “provides estimates of the energy-savings potential for these technologies in residential and nonresidential applications.”⁴ This project provides the basis for more accurate projections of EE potential in a region and for entities to bid EE programs into a Standard-Offer or Open RFO system with more accurate savings estimates. Studies led by a joint CEC/LBNL/SCE/KEMA team have also begun the groundwork for the ISO to create rules for measuring demand-reducing resources bidding into reserves markets.

Tie EE incentives/procurement costs to location of the programs. If a program or project offers relief to a highly loaded substation, or to a transmission-constrained area, the additional benefit of that resource should be accounted for in its rewards. This will encourage EE development in places where it is most needed, and realize savings in avoided or deferred costs for infrastructure.

Benefit to the California economy. In this period of economic recovery, the legislature can help create an environment that encourages energy efficiency and stimulates the formation of small and local businesses. By opening the Standard Offer and RFO processes to general bids, and having those project cycles stepped up to annual instead of the IOU 3-year cycle, there will be more opportunity for businesses to pursue EE opportunities across the state. Economic stimulus could be created by pairing the program with loan guarantees or other assistance for formation of many EE businesses in the state.

Programs Need to be Equitable. Funds should be distributed to various ratepayer classes in approximate proportion to what they pay — i.e. residential, government, commercial, industrial, and agricultural. Currently, less than 1/5 of the \$1.2 billion annual EE expenditures benefit residential ratepayers, though they pay 2/5 of the costs. IOUs typically have individual account representatives for their large commercial and industrial customers. That, combined with the large size of these accounts, makes it easier to target these customers. A more local feet-on-the-ground organization is necessary to penetrate *residential* markets, and this is costly for a large, centralized IOU, as much of this work is contracted out in the programs they “administer”. Residential and small commercial customers can be well served by local small EE businesses, if properly incentivized by an open EE program structure. This approach could also work better to reach the less-densely populated Central Valley, which has high potential peak-hours energy savings due to the heavy use of air-conditioning.

Establish a revolving fund for On-Bill Financing of peak-reducing measures. Many current EE programs risk failure to meet goals because customers can't afford the “customer share” of EE costs — which can run as much as 95% of the total cost of an efficiency measure or service — and have great difficulty accessing loans in this poor economy. “On-Bill Financing” (OBF) removes this barrier by providing 100% of up-front costs as a loan, and then adds a charge for

⁴ The Database for Energy Efficient Resources is available from: [<http://www.deeresources.com/>]

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the customer's efficiency measures on the bill until repayment is completed. The extra charge is partly or entirely offset by the energy savings during the repayment period, and after repayment the bill is reduced to reflect the new, lower energy usage.

Residential OBF programs have proved successful in other states, and should be launched in California without delay. Currently, the only OBF programs are for small businesses (PG&E only recently launched a small OBF program; SDG&E and SCE have had successful programs for several years). We also recommend: allowing CCAs and other local government programs to have the right for customers sign up for voluntary on-bill financing of EE and other demand side measures.

Enforce compatibility with community choice law AB 117 (2002). The legislature should make it clear that the role of Statewide Administrator is to enhance, not override AB 117 (2002), which provided for "any party" including cities, counties, Community Choice Aggregators, non-profits and small-medium businesses to apply to administer cost-effective energy efficiency programs. The most important role of the CPUC/CEC interim administrator and a future non-profit statewide administrator is to oversee an application process for EE administrators as promised by AB 117; since 2003, the CPUC has failed to provide this opportunity. Community Choice offers important opportunities for local administration of power, which need to be supported.



SIERRA CLUB
CALIFORNIA

May 18, 2011

The Honorable Steven Bradford
Chair, Assembly Committee on Utilities and Commerce
State Capitol
Sacramento, CA 95814

Re: AB 723: Energy Efficiency: Stakeholder Meeting May 16, 2011

Dear Assemblymember Bradford:

Sierra Club California observes that the current California policy structure is not meeting the needs of Californians, and that new action is necessary to continue California's commitment to being a national leader in energy efficiency and regulatory innovation. We believe that the state's objectives should be to maximize ratepayer and emissions-reduction benefits of public monies, while maintaining their equitable distribution, and to leverage these programs to create jobs that will contribute to our recovery from the economic downturn.

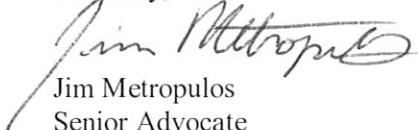
California is widely viewed as a leader in the nation, and the world, for energy efficiency. However, \$2 billion of rate payer money spent on Investor-Owned Utility (IOU) energy efficiency programs in 2006-08 fell far short of stated goals, and current IOU goals are insufficient to meet the efficiency requirements set forth in the AB 32 Scoping Plan. Meanwhile, other states have forged new paths: the Texas Standard Offer system provides their ratepayers twice the benefits per energy efficiency dollar, and New England's Independent System Operator (ISO-NE) allows energy efficiency providers to bid directly into the power markets at lower cost than buying electricity.

California needs to adopt major changes to improve its energy efficiency programs:

1. Require that Energy Efficiency (EE), Demand Response (DR), and Distributed Generation (DG) resources be incorporated directly into the IOU procurement and resource planning processes;
2. Replace the conflict-of-interest that exists with IOU-administration of EE programs with a structure that allows for localized, small-business and entrepreneur-led EE solutions to be administered by an independent agency;
3. Support the integration of EE, DR, and DG programs, where possible, by an independent administrator to enhance program economics and grid stability;
4. Ensure EE programs maintain California's commitments to equitable spending of public resources and compatibility with state community choice aggregation law.

The attachment to this letter outlines the specifics of our proposal to improve energy efficiency in California and the issues surrounding it. We thank you for convening these stakeholder meetings.

Sincerely,



Jim Metropulos
Senior Advocate

cc: Assemblymember Das Williams

