

Comments of the Natural Resources Defense Council (NRDC) on Navigant's Proposed
Energy Efficiency Potential Study Model
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The Natural Resources Defense Council (NRDC) appreciates the opportunity to offer these comments on the California Public Utilities Commission's (CPUC) draft energy efficiency potential model. NRDC acknowledges the significant work done by all involved in developing the updated model proposal and offers our comments below. In sum, the recent legislative directives from SB 350 and AB 802 were intended to substantially scale up efficiency opportunities. While the Commission continues to set the rules for implementation and determine the energy saving goals, the potential study should ensure that the CPUC and stakeholders receive a full potential of what is possible before adjustments based on history.

I. Discussion

DECEMBER 9, 2016 DAWG WORKSHOP

- 1. Navigant should assess the potential for custom program savings rather than using historical savings estimates as a proxy for future potential.*

As noted on Slide 16 from the December 9, 2016 presentation, "History indicates ex-post net is 30% to 38% of ex-ante claim." However, using this value to inform the future would severely underestimate potential as a number of the approaches to assess the influence of the custom program are disputed by parties. The degree to which preponderance of evidence is required to assess attribution as well as other related concerns led to the development of the "T1 Working Group," which was charged with improving the process to assess influence (among other aspects) of the custom process. While the proposal has yet to be adopted by the Commission, this alone indicates that the future will likely be different than the past.

NRDC therefore recommends that the estimates of potential be an assessment of what is possible in the custom arena, relying on data from other regions as appropriate if no such data is available for California. At minimum, if Navigant proceeds with using historical estimated savings as the future potential, there should be an additional scenario that identifies savings estimates based on an improved realization rate and net-to-gross given the activity at the Commission to improve

the custom process. Such information would give stakeholders and the Commission a better understanding of what is possible without the constraints of the past, prompting investigation and possible modification into current policies and implementation practices to ensure that identified potential is in fact achieved.

- 2. NRDC supports the proposal for strategic energy management (SEM) estimates and requests clarification for how this potential will align with the recent CPUC SEM proposal.*

Slide 14 indicates a number of unknowns for SEM in California, prompting for a net-to-gross of 1 and a range of savings estimates for SEM measures. We support using that approach but note that SEM results in continual savings over time, not solely for one year (i.e., the potential should include the percent of savings per facility per year over X years). In addition, NRDC requests clarification for how Navigant plans to include SEM in the potential study given that Energy Division (ED) presented one particular SEM program for Program Administrators to test and indicated other “approaches” are not eligible for savings at this time.¹ We recommend that Navigant account for the envisioned program and account for how a variation on the program (e.g., components of SEM) could also lead to savings.

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- 3. NRDC urges Navigant to include an uncalibrated potential scenario to inform the goal-setting process and comply with Senate Bill 350.*

Slides 12-19 of the December 12, 2016 presentation indicate the value and need for calibration and the proposal to use budgets (instead of energy savings) to calibrate the study. As noted at the December 12, 2016 workshop, NRDC understands the rationale to use calibration from a modeling perspective but strongly recommends that Navigant include a non-calibrated version to show all available potential over the study period to inform the goal-setting process.

The intent of SB 350 was to set California on a trajectory that does not look like the past. The state cannot rely solely on the strategies that were employed in the past or what was previously accomplished to reach the goal of doubling efficiency by 2030. Navigant notes that calibration is

¹ See CPUC 12-16-16 presentation on Strategic Energy Management (not yet posted).

intended to adjust “model parameters such that model results align with observed data” in order to assure “credibility and confidence” in the model (12/12/16 Slide 12). However, in practice this approach artificially suppresses the amount of future potential to be more in line with past achievements. This circularity will ensure our future looks more like our past (even when the clear intent of the legislature says otherwise) making it difficult - if not impossible - to use innovative approaches or improved implementation models to scale up savings that are required to reach the state’s goal.

4. *If Navigant must present a calibrated model in addition to what is required by SB 350, calibrating by historical budget is not a strong indicator of future savings.*

Slide 15 from the December 12, 2016 workshop indicates that Navigant proposes to adjust the potential based on past budgets given the fact that a number of policies have changed making it difficult to use past energy savings as an input for calibration. Navigant should reassess this approach for two reasons. First, calibrating the potential study based on the past is out of line with the intent of SB 350. As noted on Slide 3, SB 350 requires the following: “In assessing the feasibility and cost-effectiveness of energy efficiency savings ... the Public Utilities Commission shall consider the results of energy efficiency potential studies that are not **restricted by previous levels of utility energy efficiency savings.**” The intent of the legislation was to ensure there was a full assessment of potential - unadjusted by past experience - to inform a newly envisioned future.

Second, it does not make sense to base the estimate of potential savings on past budgets given the requirement to double efficiency, the likely modifications to the cost test (which should unlock additional savings opportunity), and the opportunity to increase the budget to achieve deeper and longer lived savings. While we appreciate the presented flexibility in the model to adjust changing budgets in the future, it is still unclear how the information from such an activity could provide meaningful information about future estimates for energy savings potential.

5. *The cost-effectiveness scenario should include the Societal Cost Test (SCT) as being contemplated by the CPUC, not limited to a “modified TRC.”*

Slide 23 presents a proposal to use different cost-effectiveness tests to run additional potential scenarios. NRDC agrees with assessing the potential using the PAC as well as the SCT. However, we do not agree with the presentation that the SCT is essentially a “modified TRC” that

includes only the addition of the cost of carbon. The discussion at the Cost-Effectiveness Working Group (CEWG) also discussed the proposal for a societal discount rate to be used as well as health benefits from reduction in emissions. The potential study scenario should use the CPUC's forthcoming proposal (anticipated to mail in Q1 of 2017) as inputs for running the SCT scenario until a more formal CPUC decision on the SCT is available.

In addition, the Energy Savings Assistance Program (ESAP) uses a different cost-effectiveness approach, which should also be considered through the potential study runs. If a scenario is not the appropriate place to explore different approaches for the low income potential, NRDC recommends holding a workshop specifically on the methodologies Navigant plans to use to update the low income potential and solicit public feedback on assumptions similar to the December workshops.

6. NRDC recommends adding a scenario that assesses energy efficiency potential based on different delivery channels.

In line with comments and discussion at the December 12, 2016 workshop, NRDC recommends that Navigant run an additional scenario that assesses the energy savings potential based on various delivery channels (e.g., upstream, midstream, downstream). The results would not only inform the goal setting process but could also provide information for Program Administrators to determine which strategy is likely to yield the greatest energy savings.

7. NRDC supports relooking at the 50 percent policy for re-participation and requests further discussion regarding the methodology used to determine the degree to which a particular technology is replaced after decay.

Slide 32 presents an approach to count cumulative savings assuming some percentage of the savings that decay are captured by "re-participation" of customers that install at least the same level of efficient technology. Based on the information-to-date, NRDC agrees with the modification from past models that only incorporated "first time adopters" to now assume that "re-participants re-adopt measures at the same rate as new participants" (Slide 31).

This approach modifies the arbitrary determination that 50 percent of decayed savings would be recaptured through codes and standards or common practice and replaces it with a model to determine what the likelihood is that previous customers would reinstall products at similar or

greater efficiency than the burned out measure without program intervention. While we agree this approach is more analytical than the previous policy, NRDC requests further discussion to better understand how the “rate” of re-participation is derived and what the implications might be on goals when re-participation savings included in the potential are not the result of program intervention.

II. Conclusion

NRDC supports the CPUC’s efforts to update the efficiency potential model, especially given recent legislative and policy modifications such as the goal to double efficiency by 2030. We recognize that this is a complex but important process and look forward to providing additional detailed feedback on the next phase of the project. This exercise is critical to ensure the CPUC has the most accurate energy savings potential information available in California from which the goals can be derived. We appreciate the opportunity to comment and thank the CPUC for considering our recommendations.