SOUTHERN CALIFORNIA
EDISON
An EDISON INTERNATIONAL Company

Akbar Jazayeri
Vice President of Regulatory Operations

December 14, 2009

ADVICE 2417-E
(U 338-E)

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA
ENERGY DIVISION

SUBJECT: Southern California Edison Company's 2010-2012 Energy Efficiency Portfolio Implementation

PURPOSE

On September 24, 2009, the California Public Utilities Commission (Commission) issued Decision (D.) 09-09-047, authorizing Southern California Edison Company's (SCE's) 2010-2012 energy efficiency (EE) programs and budget. The purpose of this Advice Letter is to clarify SCE's interpretation of a number of specific issues related to this Decision prior to implementation of the authorized 2010-2012 portfolios. Consequently, SCE requests expedited treatment of this filing in order to obtain clarification by January 13, 2010.

Specifically, after discussions with the Commission's Energy Division, SCE is requesting the Commission to:

1) Adopt the budget definitions and cost categories defined in Attachment A for the 2010-2012 cycle;

2) Give SCE authority to execute all contracts for 2010-2012 programs with third party implementers and local government partners as early as January 1, 2012;

3) Give SCE authority to report any program funding modifications, including cancellations, resulting from contract negotiations through current Commission reporting requirements;

4) Clarify that the California Advanced Homes Program's $1,000 bonus should be offered to single family units only;

5) Clarify benchmarking requirements as detailed herein; and

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6) Clarify the eligibility requirements for SCE's EE On-Bill Financing sub-program.

BACKGROUND AND REQUESTED CLARIFICATIONS

SCE requests authority to implement the following:

1) Budget and Cost Category Definitions

D.09-09-047 ("Decision") directs the utilities to adopt budget caps and targets for planning, implementing, and reporting on the utility EE portfolios for the 2010-2012 program cycle. While the Decision and the allowable cost categories pre-established by the Commission help to define these categories, they are not inclusive of all costs. Through discussions with the Commission's Energy Division, the utilities have proposed a more detailed and complete set of definitions, appended in Attachment A, to avoid confusion regarding what expenses belong in what categories. SCE seeks authority to adopt these clarifying definitions for the 2010-2012 program cycle.

2) Third Party and Partnership Contracts

The Decision includes conflicting language around extension of existing third party implementer and government partnership contracts that have been approved for the 2010-2012 program cycle. The Decision language directs the utilities to continue existing contracts until March 1, 2010 or 60 days after the *effective date of this Decision,* whichever is later.[1] Ordering paragraph 46 of the Decision directs utilities to extend these contracts until March 1, 2010 or 60 days after the *approval of the compliance Advice Letter,* whichever is later.[2] Additionally, the Decision emphasizes the need to move as quickly as possible to enter into new contracts and begin programs on January 1, 2010 or as soon as possible thereafter.[3]

SCE wishes to clarify these directives and seeks authority to execute all contracts with new and existing third party implementers and local government and institutional partners as early as January 1, 2010, but no later than March 1, 2010 or 60 days after the approval of SCE's compliance Advice Letter, whichever is later, unless there are circumstances (e.g., extended contract negotiations, uncertainty surrounding non-DEER values, etc.) that prevent SCE from completing contracts within this timeframe.

SCE believes it is the Commission's intent that SCE execute contracts as expediently as possible and seeks to finalize contract negotiations on the earliest possible track, except in the event of extenuating circumstances that prevent completion.

[1] D.09-09-047, p. 322.
[2] D.09-09-047, Ordering Paragraph 46.
[3] D.09-09-047, pp. 321-322.

3) Program Modification Reporting

The Decision does not specifically order a process for the utilities to report program funding changes or program cancellations as a result of contract negotiations. As SCE conducts contract negotiations, SCE may determine it necessary to modify program funding levels or, in some cases, remove programs from the 2010-2012 program portfolio. The Commission currently requires that SCE file quarterly reports pursuant to The Administrative Law Judge's Ruling on Reporting Requirements Dated February 21, 2006. In these filings, SCE currently reports on fund shifts and program changes. SCE seeks Commission clarification that it has the authority to notify the Commission, through these quarterly reports of any funding modifications or program cancellations that may occur as a result of contract negotiations.

4) California Advanced Homes Program – Performance Bonus

D.09-09-047 directs[4] that the California Advanced Homes Program (CAHP) shall offer a $1,000 performance bonus for each unit that qualifies for the California Energy Commission's New Solar Home Partnership (NSHP).[5] It is unclear whether the Decision is meant to apply to single family units only, or to multi-family units as well. While multi-family units have been eligible for NSHP since it was established (July 2007 Standards), the $2,000 per unit incentive from the investor-owned utilities has only been available to single family homes.

SCE requests the Commission clarify that the $1,000 bonus is to be offered to single family units only. While SCE accepts the Commission's policy priorities to encourage high performance new construction in a recovering economy for single family homes, offering the same level of incentive for both single family and multi-family homes introduces considerable free-ridership concerns. The average typical incentive for multi-family homes is much lower than for single family homes, and thus a $1,000 bonus for multi-family homes is disproportionally high.[6] If the Commission adopts a performance bonus for multi-family units, offering a more proportional $200 incentive for multi-family units appropriately addresses this market segment.

5) Benchmarking

The Decision encourages SCE to "set a benchmark goal of 50,000 commercial and institutional buildings for the next program cycle."[7] The Decision later states "SCE is directed to model PG&E's cost-effective approach on benchmarking and to benchmark

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[4] D.09-09-047, Ordering Paragraph 24b.

[5] NSHP currently requires overall performance of at least 35% above Title 24 standards, a 40% reduction in cooling, all Energy Star appliances, and participation in the CAHP at the Tier 2 level of at least 1 kW in photovoltaic generation.

[6] For example, a typical single family home in climate zone (CZ) 10 would earn an incentive of $1,500, or 63% of the incremental measure cost (IMC) at $2,370. A typical multi-family unit in CZ 10 would earn an incentive of $600 or 69% of IMC at $864. Therefore, while adding $1,000 per unit is a bonus of 66% per single-family unit, adding $1,000 per multi-family unit is ***166% per multi-family unit or 185% of IMC.***

[7] D.09-09-047, p. 7. *See also* p. 153.

50,000 buildings at a per unit cost that approaches that of PG&E during the 2010-2012 program cycle."[8] Achieving this target is contingent on the number of customers participating in SCE's programs. Therefore, SCE requests confirmation that 50,000 buildings is an aspirational target.

6) Financial Solutions Element (On-Bill Financing)

The Decision approves the utility on-bill financing programs, with specified modifications, and authorizes loans to commercial and institutional customers.

While SCE's application originally proposed limiting commercial loans to small business customers, which was approved by the Decision, SCE requests authority to expand this offering to all commercial customers, regardless of size. This would allow greater program flexibility to account for the increased commercial loan cap of $100,000 mandated in the Decision. It would also align the program design with the offerings of the other investor-owned utility programs, which do not have customer size limitations for commercial customers.

Additionally, SCE would like clarification that:

1. Institutional customers include all SCE local government and institutional customers.

2. Commercial customers include commercial, industrial, and agricultural customers.

Summary

In summary, SCE requests Commission authority to:

1. Utilize the 2010-2012 energy efficiency program budget and cost category definitions discussed with the Commission's Energy Division, and appended hereto as Attachment A.

2. Execute all third party and local government partnership contracts as early as January 1, 2010, but not later than March 1, 2010 or 60 days after the approval of the Compliance Advice Letter, whichever is later, unless there are circumstances that prevent SCE from completing contracts within that timeframe.

3. Notify the Commission of program funding changes or cancellations resulting from contract negotiations through current Commission reporting requirements.

4. For the CAHP program, offer a performance bonus of $1,000 only to single-family units. If the commission decides to adopt a $200 bonus for multi-family

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[8] p. 153.

units, SCE requests that this requirement be clearly stated in the resolution addressing this advice letter.

5. Confirm that the benchmarking goal of 50,000 is contingent on customer participation in SCE's programs.

6. For the On-Bill Financing sub-program of SCE's Financial Solutions Program:

    a. Expand SCE's offering to all commercial customers, regardless of size.

    b. Define institutional customers to include all SCE's local government and institutional customers.

    c. Define commercial customers to include commercial, industrial, and agricultural customers.

No cost information is required for this advice filing.

This advice filing will not increase any rate or charge, cause the withdrawal of service, or conflict with any other schedule or rule.

TIER DESIGNATION

Pursuant to General Order (GO) 96-B, Energy Industry Rule 5.2, this advice letter is submitted with a Tier 2 designation.

EFFECTIVE DATE

This advice filing will become effective on January 13, 2010, the 30th calendar day after the date filed. SCE is requesting expedited treatment of this advice letter filing to ensure clarity around how to implement the 2010-2012 EE portfolio and comply with all directives from D.09-09-047 prior to implementation on January 1, 2010.

NOTICE

Anyone wishing to protest this advice filing may do so by letter via U.S. Mail, facsimile, or electronically, any of which must be received no later than 20 days after the date of this advice filing. Protests should be mailed to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, California 94102
E-mail: jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Copies should also be mailed to the attention of the Director, Energy Division, Room 4004 (same address above).

In addition, protests and all other correspondence regarding this advice letter should also be sent by letter and transmitted via facsimile or electronically to the attention of:

Akbar Jazayeri
Vice President of Regulatory Operations
Southern California Edison Company
2244 Walnut Grove Avenue
Rosemead, California 91770
Facsimile: (626) 302-4829
E-mail: AdviceTariffManager@sce.com

Bruce Foster
Senior Vice President, Regulatory Affairs
c/o Karyn Gansecki
Southern California Edison Company
601 Van Ness Avenue, Suite 2040
San Francisco, California 94102
Facsimile: (415) 929-5540
E-mail: Karyn.Gansecki@sce.com

There are no restrictions on who may file a protest, but the protest shall set forth specifically the grounds upon which it is based and shall be submitted expeditiously.

In accordance with Section 4 of GO 96-B, SCE is serving copies of this advice filing to the interested parties shown on the attached GO 96-B service list and A.08-07-021 et al. Address change requests to the GO 96-B service list should be directed by electronic mail to AdviceTariffManager@sce.com or at (626) 302-4039. For changes to all other service lists, please contact the Commission's Process Office at (415) 703-2021 or by electronic mail at Process_Office@cpuc.ca.gov.

Further, in accordance with Public Utilities Code Section 491, notice to the public is hereby given by filing and keeping the advice filing at SCE's corporate headquarters. To view other SCE advice letters filed with the Commission, log on to SCE's web site at http://www.sce.com/AboutSCE/Regulatory/adviceletters.

For questions, please contact Alyssa Cherry at (626) 633-3129 or by electronic mail at Alyssa.Cherry@sce.com.

Southern California Edison Company

Akbar Jazayeri

AJ:ac:jm
Enclosures

CALIFORNIA PUBLIC UTILITIES COMMISSION

ADVICE LETTER FILING SUMMARY
ENERGY UTILITY

MUST BE COMPLETED BY UTILITY (Attach additional pages as needed)

Company name/CPUC Utility No.: Southern California Edison Company (U 338-E)

Utility type:

☑ ELC ☐ GAS

☐ PLC ☐ HEAT ☐ WATER

Contact Person: James Yee

Phone #: (626) 302-2509

E-mail: James.Yee@sce.com

E-mail Disposition Notice to: AdviceTariffManager@sce.com

EXPLANATION OF UTILITY TYPE

ELC = Electric GAS = Gas

PLC = Pipeline HEAT = Heat WATER = Water

(Date Filed/ Received Stamp by CPUC)

Advice Letter (AL) #: 2417-E Tier Designation: 2

Subject of AL: Southern California Edison Company's 2010-2012 Energy Efficiency Portfolio Implementation

Keywords (choose from CPUC listing): Energy Efficiency

AL filing type: ☐ Monthly ☐ Quarterly ☐ Annual ☑ One-Time ☐ Other

If AL filed in compliance with a Commission order, indicate relevant Decision/Resolution #:

D.09-09-047

Does AL replace a withdrawn or rejected AL? If so, identify the prior AL:

Summarize differences between the AL and the prior withdrawn or rejected AL[1]:

Confidential treatment requested? ☐ Yes ☑ No

If yes, specification of confidential information:
Confidential information will be made available to appropriate parties who execute a nondisclosure agreement.
Name and contact information to request nondisclosure agreement/access to confidential information:

Resolution Required? ☐ Yes ☑ No

Requested effective date: 1/13/10 No. of tariff sheets: -0-

Estimated system annual revenue effect: (%):

Estimated system average rate effect (%):

When rates are affected by AL, include attachment in AL showing average rate effects on customer classes (residential, small commercial, large C/I, agricultural, lighting).

Tariff schedules affected:

Service affected and changes proposed[1]:

Pending advice letters that revise the same tariff sheets: None

[1] Discuss in AL if more space is needed.

Protests and all other correspondence regarding this AL are due no later than 20 days after the date of this filing, unless otherwise authorized by the Commission, and shall be sent to:

CPUC, Energy Division
Attention: Tariff Unit
505 Van Ness Ave.,
San Francisco, CA 94102
jnj@cpuc.ca.gov and mas@cpuc.ca.gov

Akbar Jazayeri
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IOU Proposed Mapping of CPUC Adopted Definitions, Caps, and Targets

1. Utility Administrative Activities - 10% Cap[i]

This activity includes:

- Responding to data requests (p. 50[1])
- Responding to financial and regulatory audits (p. 50)
- Support related to regulatory filings (monthly & quarterly reports and annual reporting) (p. 50)
- Human resources support (p. 49)
  - Payroll taxes[2]
  - Payroll support
- Membership dues
- Travel and conference costs (labor, fees, lodging, transportation, etc.) (pp. 49-50). IOU Sponsorship ("platinum," "gold," "silver," level etc.) is prohibited as an EE allowable travel cost. Such costs should be recouped in the GRC. However, IOUs may join membership-based issue-specific (e.g., HVAC) trade organizations that include as a component of membership benefits (e.g., free sponsorship) entry into conferences. Other staff travel costs to participate in EE conferences are also allowable administrative costs.
- Information technologies support and services (p. 50)
  - Note: licensing fees or IT development cost for program specific applications for implementation are part of direct implementation (e.g., benchmarking tool, project management tool)
- Accounting support (p. 50)
- Strategic planning administrative and logistical costs related to workshops (p. 57)
- Vacation and sick leave related to administrative labor – follows labor charges (p. 50)
- Supply management function activities to ensure oversight of contractors (p. 50)
- Administering contractor payments for services which are non-incentive related (p. 50)
- Reporting database (e.g., CRM, Track It Fast, Program Builder, SMART, etc.) (p. 50)
- Facility related costs
- Administrative assistant activities (pp. 49, 50)
- Utility administrative cost associated with local government partnerships & third party programs

2. Administrative Costs for third party and local government partnership direct cost- 10% Target (separate from utility cost to administer these programs)[ii]

3. Marketing Activities (within programs) – 6% Target[iii]

See CPUC allowable cost category definitions and ***other related Decision language.***[iv]

This activity includes:

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[1] All page numbers reference D.09-09-047.

[2] With the exception of SCE payroll taxes, which are accounted for in SCE's General Rate Case.

- Preparing collateral
- Distributing collateral
- Support related to outreach events
- Participating in outreach events
- Advertising, media, radio, newspaper, website, and magazine-related marketing activities
- Local government partnership marketing & outreach related to long term strategic planning support
- Vacation and sick leave related to marketing labor – follows labor charges (p. 50)
- Marketing-specific IT costs
- Staff travel to undertake marketing-specific work activities (excluding conference participation)

4. Direct Implementation Activities-20% Target[3v]

This activity includes:

- Employees who have a direct interface with the customer (e.g., account executives, auditors, engineers, processors, inspectors, call center representatives) (p. 50)
- Processing rebate applications (p. 50)
- Inspecting rebated/incentivized measures (p. 50)
- Engineering-related activities (p. 50)
- Measurement development (p. 50)
- Education and training contractors/partners/customers (p. 50)
- Project management activities (e.g., planning scope of work, working with contractors and customers, setting goals, reviewing goals, reacting to market conditions, and customer calls) (pp. 50, 57)
- Program planning, development, and design (p. 57)
- Emerging Technologies program management activities (p. 50)
- WE&T program management activities (p. 50)
- On-Bill Financing program management activities (p. 50)
- Customer support (p. 50)
- Energy audits and Continuous Energy Improvement (pp. 50, 192)
- Market transformation and long-term strategic plan support (p. 51)
- Compiling and maintaining information for projects (pp. 50, 57)
- Licensing fees or IT development cost for program specific applications for implementation (e.g., benchmarking tool, project management tool)
- Vacation and sick leave related to direct implementation labor – follows labor charges (p. 50)
- Direct implementation-specific IT costs
- Staff travel to undertake direct implementation-specific work activities (excluding conference participation)

[3] For purposes of reporting costs, audit, incentive, and rebate costs are categorized as direct implementation costs (these costs are categorized differently in the Total Resource Cost test per the CPUC's EE policy manual).

5. Non-resource Support Costs- 20% Target
This activity includes:
- Direct implementation non-incentive costs associated with incentive-based programs, such as education and training, engineering support and project management, and long term strategic plan support (p. 6)

6. EM&V Activities
This activity includes:
- All staff travel to participate in strategic plan workshops
- Market, cost assessment, and other studies as relevant to or suggested in the Strategic Plan

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[i] D.09-09-047, p. 49. *See also* OP#13a.

[p. 49]
We impose a 10% cap on total administrative costs, defined as overhead (General and Administrative (G&A) Labor and Materials), labor (Management and Clerical), Human Resources (HR) Support and Development, Travel and Conference Fees (Administrative Costs).

Administrative costs are a necessary component of implementing energy efficiency programs. Utilities have a number of administrative duties including reporting to the Commission, internal management controls, and oversight of contractors which must be funded in order to carry out their required programs. Administrative costs,30 as we have defined them, include:

• Overhead (G&A Labor/Materials): administrative labor, accounting support, IT services and support, reporting databases, data request responses, CPUC financial audits, regulatory filings support and other ad-hoc support required across all programs.
• Labor (Managerial & Clerical): This category includes utility labor costs related to either management or clerical positions directly related to program administration. SDG&E and SCG also add payroll taxes.
• Travel and Conference fees: This includes labor, travel and fees for conferences.

These Administrative Costs categories do not include EM&V or Marketing and Outreach. Direct Implementation costs for delivering programs, which are defined as "costs associated with activities that are a direct interface with the customer or program participant or recipient (e.g., contractor receiving training)," are also excluded.[31] Direct Implementation includes non-resource programs such as Emerging Technologies, WE&T, Lighting Market Transformation, Zero Net Energy Pilots, local & statewide DSM integration and On-Bill Financing. Also included are direct implementation non-incentive costs associated with incentive-based programs. These costs include engineering project management, customer support, certain sub-programs (e.g., Energy Audits and Continuous Administrative costs are necessary to well-functioning programs, it is our duty to ensure that administrative costs are reasonable and limited to those overhead and labor costs that are truly required to implement quality programs, so that ratepayer funds are used to the greatest degree possible for the programs themselves.

30 *A list of allowable administrative costs is attached to the December 2008 Assigned Commissioner's Ruling, at attachment 5-A.*
31 *February, 2006 ALJ Ruling in R.01-08-028 on reporting requirements for the utility energy efficiency programs.*

[OP# 13a]
a. Administrative costs for utility energy efficiency programs (excluding third party and/or local government partnership budgets) are limited to 10% of total energy efficiency budgets. Administrative costs shall be closely identified by and consistent across utilities. Administrative costs shall not be shifted into any other costs category. Utilities shall not reduce the non-utility portions of local government partnership and third party implementer administrative costs, as compared to levels contained in budgets approved herein, unless those levels exceeded 10% in the July 2009 utility supplemental applications in this proceeding;

[ii] D.09-09-047, p.63.
An administrative cost cap of 10% on third party programs and local government programs is also an important component of containing total portfolio administrative costs. However, imposing a 10% administrative cost cap for each program within these categories would be excessively burdensome for utilities, third party contractors and government partners. Therefore, we direct the utilities to seek to achieve a 10% administrative cost target for third party and local government partnership direct costs (i.e., separate from utility costs to administer these programs). As combined total program categories, third party and local government program administrative costs should strive toward the 10% total administrative cost target. In addition, we agree with comments by LGSEC and CCSF on the Proposed Decision that utilities should not be permitted to unduly shift administrative cost cuts onto local government partnership and third party implementers. Therefore, we direct the utilities to not reduce the non-utility portions of local government partnership and third party implementer administrative costs, as compared to levels contained in the budgets proposed by the utilities in their

July 2009 applications and approved herein, except where these costs as filed exceed the 10% cost target level.

[iii] D.09-09-047, pp. 238-239.

iv D.09-09-047, p.73. *See also* OP#13b.

[p.73]
Using this data as a guideline for our programs, we reduce the ME&O budget to 6% of the adopted portfolios, which is a reduction from the proposed levels of around 8%, but still above national trends (excluding Vermont as an outlier). This is not a hard cap, as with administrative costs, but a budget target. This target is reasonable. As discussed in the ME&O section, the centerpiece of our ME&O program—the statewide ME&O branding and outreach program— has a budget of $60 million, with additional funding coming from already approved budgets for the LIEE and Demand Response programs. This reduction is also consistent with the direction of D.07-10-032, in which we noted our concerns about the increasing ratepayer costs of ME&O for California's demand side programs and directed a statewide, integrated approach.

[OP #13b]
Marketing, Education and Outreach costs for energy efficiency are set at 6% of total adopted energy efficiency budgets, subject to the fund-shifting rules in Section II, Rule 11 of the Energy Efficiency Policy Manual

[v] D.09-09-047, pp. 6, 50, 57. *See also* OP#13c.

[p.6]
Similarly, we place a target of 20% on non-resource support costs.[7]

7 This activity includes direct implementation non-incentive costs associated with incentive-based programs, such as education and training, engineering support and project management, and long term strategic plan support.

[p.50]
Direct Implementation costs for delivering programs, which are defined as "costs associated with activities that are a direct interface with the customer or program participant or recipient (i.e., contractor receiving training)," are also excluded.[31] Direct Implementation includes non-resource programs such as Emerging Technologies, WE&T, Lighting Market Transformation, Zero Net Energy Pilots, local & statewide DSM integration and On-Bill Financing. Also included are direct implementation non-incentive costs associated with incentive-based programs. These costs include engineering project management, customer support, certain sub-programs (e.g., Energy Audits and Continuous Energy Improvement), market transformation and long term strategic plan support.

31 February, 2006 ALJ Ruling in R.01-08-028 on reporting requirements for the utility *energy efficiency programs.*

[p.57]
We therefore clarify here that we accept utility categorization of program planning, design and project management costs as direct implementation non-incentive costs and direct our staff to issue a revised guideline describing the details of administrative costs versus direct implementation costs.

[OP #13c]
Non-resource costs (excluding non-resource direct implementation costs) are set at 20% of the total adopted energy efficiency budgets.