BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Southern California Gas Company (U-904-G) for Approval of Palm Desert Partnership Program Funding Levels for 2010-2012.	Application 10-07-006 (Filed July 2, 2010)

PROTEST OF THE DIVISION OF RATEPAYER ADVOCATES TO APPLICATION OF SOUTHERN CALIFORNIA GAS COMPANY FOR APPROVAL OF PALM DESERT PARTNERSHIP PROGRAM FUNDING LEVELS FOR 2010-2012

I. INTRODUCTION

Pursuant to Rule 2.6 of the Commission's Rules of Practice and Procedure, the Division of Ratepayer Advocates (DRA) submits the following protest to the "Application of Southern California Gas Company for Approval of Palm Desert Partnership Program Funding Levels for 2010-2012" (Application).[1] Southern California Gas Company's (SoCalGas) Application requests approval to continue its Palm Desert Demonstration Partnership (Palm Desert Program) with the City of Palm Desert, Southern California Edison Company (SCE), and The Energy Coalition through the Commission's 2010-2012 energy efficiency program cycle and to spend an additional $2.1 million to achieve energy savings of 457,073 gross therms during the 2010-2012 Program Cycle.[2]

[1] SoCalGas filed its Application July 2, 2010 and it first appeared in the Commission's calendar on July 7, 2010, so DRA's Protest is timely filed, pursuant to Rule 2.6(a) of the Commission's Rules of Practice and Procedure.

[2] Application, p. 1.

The cost of energy savings achieved through SoCalGas's participation in the Palm Desert Program has been much higher than those achieved through other energy efficiency programs, but the documentation and record keeping that might justify the higher costs of a pilot program has been inadequate or nonexistent. The "Government Partnerships Programs Direct Impact Evaluation Report," was posted February 8, 2010; Chapter 8 of that evaluation, measurement and verification (EM&V) study evaluated results of the Palm Desert Program. The "Palm Desert Partnership & Demonstration Program Implementation Assessment," was posted June 1, 2010. The two EM&V studies raised serious concerns about the costs, benefits, and data collection practices of SoCalGas's participation in the Palm Desert Program. For example, the evaluation of SoCalGas's participation in the Palm Desert Program was primarily limited to review of program expenditures because SoCalGas did not report energy savings by the deadline for consideration by the evaluation.[3] Review of SoCalGas's Palm Desert Program expenditures revealed that $990.000 was spent on operating and administrative activities, with less than $6,000 on incentives.

DRA recommends that the Commission not authorize the extension of the SoCalGas's participation in the Palm Desert Program or the expenditure of additional ratepayer funds unless the Commission's Energy Division determines that the Application adequately responds to issues raised in recent EM&V studies of the Palm Desert Program. EM&V is a critical element to ensuring that ratepayer funds deliver reliable energy savings as cost-effectively as possible. Only by integrating the results of EM&V studies into ongoing program design will ratepayers receive the full benefit of their energy efficiency investments.

[3] Palm Desert Partnership & Demonstration Program Implementation Assessment, Summit Blue Consulting et al, June 1, 2010 (Palm Desert Implementation Assessment), p. 10.

II. DISCUSSION

A. Background

The Commission initially approved the Palm Desert Program in 2006 with a budget of $16.2 million,[4] notwithstanding the facts that the Palm Desert Demonstration Project as proposed was comprised largely of programs that were neither new nor innovative,[5] was less cost-effective than other local government programs,[6] and had a budget nearly equal to the combined budgets of all other local government partnerships,[7] yet served only a fraction of the people served by other local government programs.[8] The Decision approving the program cautioned, however, that the Commission would "carefully consider the results of ex post EM&V when it considers funding requests for this program during the 2009-2011 program cycle."[9]

SoCalGas requested authorization to participate in the Palm Desert Program in Advice Letter (AL) 3713. SoCalGas's AL 3713 requested a budget of $2.243 million and proposed measures included incentives for energy efficient natural gas furnaces and water heaters, early replacement furnace incentives, energy audits, comprehensive commercial retrofits, local code changes, and emerging technologies including solar water heating.[10] The Commission approved SoCalGas's participation in the Palm Desert Program via Resolution G-3402 on July 12, 2007.

Notwithstanding the requirement that continued ratepayer funding was contingent on consideration of ex post EM&V results, SCE and SoCalGas requested a total of

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[4] D.09-09-047, p. 268. The $16.2 million included $14 million for SCE, as well as $2.2 million additional funding for SoCalGas's participation in the Palm Desert Program.

[5] D.06-12-013, p. 11.

[6] D.06-12-013, p. 17.

[7] D.06-12-013, Finding of Fact 4, p. 25.

[8] D.06-12-013, p. 16.

[9] D.06-12-013, p. 16. Subsequently, the Commission revised the energy efficiency program cycle from 2009-2011 to 2010-2012.

[10] Advice Letter 3713, submitted by SoCalGas February 14, 2007.

$23 million for the Palm Desert program for the current (2010-2012) program cycle, before completion of the EM&V of the Palm Desert Program's energy savings for 2006-2008. The Commission in D.09-09-047 authorized continuation of the Palm Desert program through June 30, 2010 at a reduced funding level of $650,000 per month to prevent disruption to potentially successful programs. The Commission directed SoCalGas and SCE to "reapply in a separate application for further funding of the Palm Desert program" and required that the application "provide detailed information documenting the pilot's performance to date and …substantively address all pilot project criteria outlined in Section 4.3 of this decision."[11]

Rather than filing an application for a new program before the Palm Desert Program's June 30, 2010 expiration date, SoCalGas (and SCE) filed a Petition for Modification of D.09-09-047 that requested continued funding for the Palm Desert Program beyond the June 30, 2010 deadline established in D.09-09-047. In D.10-06-039, the Commission authorized SoCalGas to spend $36,000 per month for the Palm Desert Program and directed SoCalGas to file an Application no later than July 16, 2010.[12] D.10-06-039 provided that the interim funding authorized in that decision would end when the Commission issued a decision on a new application filed by SoCalGas or December 31, 2010, whichever occurred first. The $2.1 million that SoCalGas seeks in the current Application includes the month-to-month spending authorized in D.10-06-039" but is incremental to the budget approved for SoCalGas's other energy efficiency programs.[13]

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[11] D.09-09-047, p. 271.

[12] D.10-06-039.

[13] SoCalGas Palm Desert Application, Chapter 1, Prepared Direct Testimony of Frank Spasaro, submitted July 2, 2010 (Spasaro Testimony), p. 1:6-8.

B. SoCalGas A.10-07-006

1. Energy Savings

The Palm Desert Program has a goal of saving 30% of the overall energy used in Palm Desert, including electric usage, electricity demand and overall natural gas usage.[14] SoCalGas's role in the Palm Desert program is to help achieve the 30% reduction in gas use.[15] SoCalGas expects to achieve the reduction in gas use through "aggressive targeted outreach, marketing, financing and installation strategies available to all Palm Desert customers."[16] According to SoCalGas, its assigned target for the Palm Desert Program is 1,104,683 therms for 2007-2009.[17]

However, while SoCalGas contends that the Palm Desert program "has made tremendous progress toward achieving the aggressive goals that were established at its inception,"[18] the gas utility claims that the program achieved only a total reduction of 87, 424 therms by the end of 2009, or barely 8% of the goal. SoCalGas further claims that it achieved an additional savings of 416,524 therms "from core program participation during the 2007-2009 program cycle,"[19] but this is irrelevant to achievements of its pilot program.

SoCalGas makes additional claims of success based on activities that were neither assigned target goals, and in the absence of evidence that such achievements were the direct result of the pilot program. For example, SoCalGas claims that "additional savings have been achieved via the behavioral campaigns employed by the City."[20] SoCalGas also claims that the Palm Desert Program "achieved natural gas savings of 1.94 million

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[14] Spasaro Testimony, p. 4:17-18.

[15] Spasaro Testimony, p. 4:17-18.

[16] Spasaro Testimony, p. 3:1-2.

[17] Spasaro Testimony, p. 4:17-18

[18] Spasaro Testimony, p. 1:23-24.

[19] Spasaro Testimony, p. 4:18-19.

[20] Spasaro Testimony, p. 4:20-21.

therms in overall reduction against the baseline year of 2005, representing 34% of the 30% savings goal."[21] As discussed below, it is difficult to match these claims with the EM&V reports of the SoCalGas's participation in the program.

2. Other accomplishments

In addition to its alleged "progress toward targeted energy savings goals," SoCalGas claims various other "innovative projects, program design elements, and initiatives" that have focused on "ongoing energy savings benefits"[22] that have resulted from its participation in the Palm Desert Program, including Assembly Bill (AB) 811 Development Support. According to SoCalGas, Palm Desert further evolved a concept pioneered by Berkeley, and as a result of the Partnership's "innovative and aggressive efforts, AB 811 was signed into law in the summer of 2008."[23] AB 811 allows California cities and counties to make low-interest loans to property owners for energy saving upgrades.[24]

It is unclear, however, the role that SoCalGas played in the development and passage of the law. This type of activity is not described in AL 3713 or the program implementation plan, nor do either of the EM&V reports evaluating Palm Desert's performance provide information regarding SoCalGas's role in the legislated program. It is similarly unclear what specific role SoCalGas has played in many of the other Palm Desert Program accomplishments, including "Contribution to Local Government Leadership." Although many of Palm Desert's actions appear geared toward meeting its

[21] Spasaro Testimony, p. 4:24-26.

[22] Spasaro Testimony, p. 5:9-12.

[23] Spasaro Testimony, p. 6:2-4.

[24] Although the future of AB 811 lending programs is currently uncertain because of challenges under federal lending laws, such programs have wide support, including by two members of the Commission. For example, on July 13, 2010, President Michael Peevey and Commissioner Dian Grueneich wrote a letter to members of the California Congressional Delegation requesting their assistance to ensure that AB 811 funding, an "innovative local government tool that eliminates the upfront cost associated with energy efficiency, renewables, and water conservation retrofits" does not fail because of the recent actions of the Federal Housing Finance Agency.

aggressive energy efficiency goals, SoCalGas's description of its role is cursory: "Partnership programs and other SoCalGas programs support many of the City's actions."[25] The Palm Desert Implementation Assessment found that while SoCalGas (and SCE) staff supported the development of many Palm Desert policies, it is unclear "whether, or to what extent, program funding was used to implement policy."[26] Thus, SoCalGas's assertions about its role in achieving changes in Palm Desert policies are unverified.

C. Evaluation, Measurement, and Verification of SoCalGas's Palm Desert Program Results

The Commission's Energy Division oversaw two EM&V studies that examined the Palm Desert Program's accomplishments for both SoCalGas and SCE. Chapter 8 of the "Government Partnerships Programs Direct Impact Evaluation Report" (Direct Impact Evaluation Report) concluded that the 768 therms of ex ante net savings from SoCalGas's participation in the Palm Desert Program were so small that "a minimum of evaluation resources were expended" in evaluating the program.[27] This is significantly less than the savings asserted in SoCalGas's Application. The Direct Impact Evaluation Report further noted that it appeared that all gas efficiency measures in Palm Desert were reported through other SoCalGas programs, which means that the money spent marketing the SoCalGas Palm Desert Program was really being spent in support of other SoCalGas programs in the area.[28] Based on the results of the Direct Impact Evaluation Report, it is difficult to conclude that SoCalGas's participation in the Palm Desert Program produced benefits commensurate with the funds expended.

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[25] Spasaro Testimony, p. 8:17-18.

[26] Palm Desert Implementation Assessment, p. 48.

[27] Government Partnerships Programs Direct Impact Evaluation Report, Summit Blue Consulting, LLC, et al, February 8, 2010 (Direct Impact Evaluation Report), pp. 72-73.

[28] Direct Impact Evaluation Report, p. 73.

The Palm Desert Implementation Assessment was similarly constrained by SoCalGas's failure to submit data for consideration in that study.

> "Of special note is the absence of SoCalGas results from this evaluation. Because the complete results for the SoCalGas PDP&D were not provided to ED by the March 2009 deadline established by the Energy Division for IOUs to submit their final 2006-2008 program tracking databases, the SoCalGas component of the pilot program is excluded from this evaluation. Essentially there was nothing presented by SoCalGas to evaluate."[29]

The Palm Desert Implementation Report explained that:

> "[a] focus of the evaluation has been upon the incremental benefits accruing from the [Palm Desert] Program]. In other words, what are the benefits resulting from this program that are *above and beyond* those that would have otherwise been attained without the program."[30]

SoCalGas did not submit data that would allow evaluation of that question, but going forward, if the Commission decides to authorize extension and continued funding of SoCalGas's participation in the program, it should ensure that the following recommendations (as well as others reflected in the EM&V reports) are incorporated into the design of the program.

- Clear explanation of the program logic that linked program actions to intended outcomes;
- Collection and submission on a timely basis of quantitative data to support the direct linking of program actions with outcome;
- Documentation to define or track the design innovations featured by the Palm Desert Program program;

[29] Palm Desert Implementation Report, p. 21.

[30] Palm Desert Implementation Report, p. 5.

- Documentation, or tracking of program activities that could establish the effectiveness, replicability, and scalability of program activities to other jurisdictions;

- A planning document that clearly articulates the specific responsibilities and goals for each partner.

SoCalGas claims that its Application addresses the concerns raised in the report, and that "the Partnership has updated the EM&V logic model and data tracking to satisfy extensive program evaluations going forward."[31] While DRA is encouraged by SoCalGas's recognition of the serious shortcomings of its Palm Desert Program design to date, it should be Energy Division, and not SoCalGas, who determines whether the lessons learned from the Palm Desert Program evaluation to data are adequately reflected in SoCalGas's Application to continue the program.

D. Procedural matters

DRA agrees with SoCalGas that the proceeding is appropriately characterized as rate setting. DRA does not believe that hearings are necessary, and does not intend to submit testimony on the Application.

III. CONCLUSION

The EM&V studies of SoCalGas's participation in the Palm Desert Program revealed serious shortcomings in the implementation of the program, especially the collection of data to track results of a pilot program that is not held to the same cost-effectiveness standards of other energy efficiency programs, but is expected to yield information that may be useful in other settings. The Palm Desert Program was funded at a higher level than other local government programs, ratepayers should expect "a greater level of rigor would be applied to 'demonstration' program design and monitoring of activities and expenditures. In contrast to this expectation, it appears that this program

[31] Spasaro Testimony, p. 17:16-19.

was not treated as a 'demonstration' or 'pilot' platform."[32] SoCalGas claims that the Palm Desert Program "serves as a replicable model"[33] for other programs, but what should not be replicated are the data tracking and collection practices of the Palm Desert Program to date.

Integrating EM&V studies into programs in order to improve results is important for ensuring that ratepayer-funded energy efficiency programs produce maximum results. DRA therefore recommends that the Commission not authorize extension of or additional funding of SoCalGas's participation in the Palm Desert Program unless the Commission's Energy Division confirms that lessons learned from the Direct Impact Evaluation Report and the Palm Desert Implementation Assessment have been incorporated into any future SoCalGas participation in the Palm Desert Program.

Respectfully submitted,

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August 3, 2010

[32] Palm Desert Implementation Report, p. 48.

[33] Spasaro Testimony, p. 1:18.