

# Memorandum

**Date:** September 30, 2010

**To:** Jeanne Clinton, Simon Eilif Baker and Zenaida Tapawan-Conway, Energy Division

**From:** Athena Besa (Sempra), Don Arambula (SCE), Shilpa Ramaiya (PG&E)

**Subject:** Transmittal of PG&E, SCE and Sempra's Comments on Preliminary Energy Division-proposed Program Performance Metrics (PPMs) and Market Transformation (MT) Indicators

## **Purpose**

The purpose of this memo is to:

- (1) Transmit PG&E, SCE and Sempra's Comments on Preliminary Energy Division-proposed Program Performance Metrics (PPMs) and Market Transformation (MT) Indicators
- (2) Provide the Utilities' Perspective on How Adopted Objectives and Metrics Can Best Serve Customers
- (3) Recommend Procedural Next Steps.

## **Collaborative Process**

The IOUs appreciate the collaborative approach Energy Division has undertaken with respect to development and adoption of PPMs for 2010-2012 Energy Efficiency programs overseen by the CPUC (Commission). The IOUs look forward to continuing to work with the Energy Division to finalize the metrics. As a summary of events, the IOUs originally submitted PPMs on May 28, 2010 after many discussions with Energy Division. The Energy Division provided comments and revised PPMs on September 16, 2010. Energy Division then presented the PPMs and had a working session with the IOUs on September 20<sup>th</sup> and 21<sup>st</sup>. These meetings with Energy Division on September 20<sup>th</sup> and 21<sup>st</sup> were productive in fostering a deeper, mutual understanding of the benefits and challenges of finalizing meaningful PPMs and objectives. We appreciate that you took this important step.

## **Application and Use of the PPMs to Serve Customers**

Prior to the IOU/ED meeting of September 20-21, the Energy Division clarified its position concerning the potential use of PPMs in the Risk Reward Incentive Mechanism (RRIM) proceeding. The IOUs agree with Energy Division's view that the process of identifying Commission-adopted PPMs pursuant to D.09-09-047 does not prejudice the outcome of the RRIM 2010-2012 decision in R.09-01-019. If that decision adopts a RRIM structure tied to PPMs, then the Commission would need to consider which specific metrics may be appropriate for RRIM. The IOUs concur with Energy Division's recommendation that any final adopted PPMs in the resolution not be automatically considered for adoption into any future RRIM decision.

The IOUs believe the PPMs and the corresponding reporting requirements will be useful for informing the CPUC review of the 2010 – 2012 effectiveness as well as serving to shape future program designs for the benefit of energy consumers. These PPMs also provide the Commission with information towards meeting the Energy Efficiency Strategic Plan objectives. Ultimately, the energy savings (KWh and Therm) and demand reduction (KW) goals should serve as the fundamental basis for program evaluation.

The programs are still in the early stages of program implementation and, in some cases, are new and untried. The IOUs recommend that the Commission allow for PPM adjustment if there are significant program implementation changes such that the PPMs no longer apply or cannot be met due to the program changes.

### **Comments on Energy Division's Proposed PPMs**

The attached document includes comments that serve to convey the IOUs rationale for proposed changes to the PPMs in addition to specific proposals for final language. Generally, the IOUs comments can be categorized into the following categories.

- Accept as Proposed
- Modify, Consolidate and/or Clarify
- Remove

Whenever appropriate and practical, the IOUs have accepted the proposed PPMs. In certain cases, changes to the PPMs are proposed to better reflect the program objective, intended application, timeframe or to allow for development of baselines or other meaningful feedback mechanisms. In some cases, such as with IDSM, we propose consolidation of metrics under a single program while still acknowledging the reporting requirement under the appropriate program sectors. Finally, we recommend removal of certain PPMs and/or objectives in cases where the IOUs cannot obtain sufficient data due to confidentiality or other limitations, if they were duplicative or redundant, or where the proposed objective or PPM was out of scope for the 2010-2012 program cycle.

While the metrics may assist future development and evaluation of the programs, we must note that there are likely to be new costs and resource requirements associated with expansion of the PPMs, proposed new reporting and valuation requirements and corresponding development of additional baselines. These costs and resource needs have not been quantified and addressed. In addition, a deeper examination of this data collection's usefulness for future program planning and design should be considered in deciding where resources (both EM&V expenses and administrative effort) will be focused. We urge Energy Division to consider implementation costs and resource needs as they review the attached IOU proposal.

In addition, the IOUs note particularly with certain Market Transformation and Long-Term PPMs that the achievement of these metrics does not depend solely on the IOUs program efforts. Other parties, e.g., regulatory agencies (CEC, DOE, Energy Star, etc.), local governments, retailers, manufacturers and other stakeholders are crucial to meeting these Market Transformation and Long-Term PPMs. On the other hand, the IOUs reviewed and modified, as necessary, the short term PPMs to ensure that they are within their program control and the current program cycle.

## IOU Responses to Energy Division Findings as Stated in ED's September 15 2010

### Memorandum:

The IOUs believe that they have fully complied with the directives of D. 09-09-047 in that PPMs for all measurable SW programs were submitted and were of sufficient scope and take exception to portions of Energy Division's September 15, 2010 PPM transmittal letter. Specifically:

- **“PPMs were not submitted for all 12 statewide (SW) programs and associated subprograms** per the decision. For example, templates for one SW program (i.e., Lighting Market Transformation) and one subprogram (i.e., Home Energy Efficiency Survey) were missing from the filing; and no PPMs were included for most SW subprograms (e.g., no metrics were filed for subprograms in the Commercial, Industrial and Agricultural sectors).”

*IOU Response: The IOUs operated under the belief that, after numerous discussions with ED, ED supported the “rolling up” of PPMs from the subprogram to the program level whenever it was appropriate. The IOUs note that ED does seem to support this since page 5, second bullet, of ED's transmittal letter also stated that their PPMs followed the same rubric: “In some cases, objectives and metrics/indicators were proposed at the program level (rather than the subprogram level), where it made sense to do so.”*

*Furthermore, Appendix 2, page 2 of D.09-09-047 states that the IOUs should “attempt to develop a balanced [set] of performance indicators per program while avoiding redundancy or only tangentially related measures.” This direction, which was further clarified in discussions with Energy Division staff, suggests that IOUs ought to consider the tradeoffs of using duplicative sub-program PPMs, and instead opting for the “roll-up” option.*

*Page 92 of D.09-09-047 further supports the rolling up of metrics by stating, “We accept PG&E's position that in some cases, overarching market metrics that can track the success of several programs may be more appropriate than program-specific metrics. We have no objection to the application of one set of program metrics to several programs if the metrics are otherwise valid for each program.*

- **The scope of PPMs filed was insufficient to meet D.09-09-047 directives.** The filing included only one or two metrics per SW program, which does not meet the purposes for which D.09-09-047 intended PPMs to be developed, i.e.:
  1. To track California's progress towards achievement of Strategic Plan objectives, specifically the Big Bold Energy Efficiency Strategies (BBEES) (see p. 97-99)
    - *IOU Response: Per the instruction from ED to reduce the number of PPMs as communicated to the IOUs on April 20, 2010, the PPMs were redirected to focus on quantifying the Short Term Outcomes of the program logic models. The program logic models were high level even for the sub-programs because of scaling constraint. The program logic models were designed to diagram the main activities and main objectives of the programs in order to communicate the program logic in a concise manner.*

2. To inform portfolio development and necessary modifications in future portfolio decisions, including improving program design or eliminating non-performing programs (see p. 97-99)
  - IOU Response: *The IOUs explicitly reviewed each PPM candidate to see if that metric would be useful for program management purposes. An annually-reported PPM that would not, by itself, indicate a clear need to revise program design or to eliminate the program within the three year funding cycle was not considered a SMART PPM and thus not included. Program management decisions generally rely upon detailed impact and process evaluation studies that would capture complex interactions of customer actions and market changes. The IOUs felt that there were very few PPMs that, by themselves, would be able to inform decision making.*
3. To target the next generation of improvements, and thus, continue the cycle of market transformation (see p. 97-99)
  - IOU Response: *The IOUs interpreted the Decision, subsequent communications with ED, and the revised worksheets from ED as requiring SMART objectives for all PPMs. Additionally, the IOUs could not revise the **approved** programs in order to accommodate new objectives that were substantially different from those that had been approved. Because markets are affected by many non-IOU actors, market activity is not within the sole control of the IOUs and the IOUs were not able to determine SMART objectives for market transformation. PPMs that did not meet SMART objectives were not included in the IOU Advice Letter.*
4. To track pilot program effectiveness (see p. 42)
  - IOU Response: *Pilot program PPMs were filed with the pilot program Advice Letters, not with the statewide programs.*
5. To evaluate program-specific quantitative and qualitative measures through EM&V activities (see p. 300)
  - IOU Response: *The IOUs were clearly directed to develop PPMs that used data gathered as a part of normal program operations in order to minimize additional administrative burden and costs.*
- **Program objectives were unspecified and/or did not meet SMART<sup>1</sup> criteria.**<sup>2</sup> Appendix 2 (page 5) of the decision indicates that program objectives should be specified as and conform to the SMART convention. Rather than specify SMART program (and subprogram) objectives, the IOUs' filing indicated "see PIPs" in the required field of the PPM worksheet. Staff's review of the PIPs rarely turned up program objectives that meet SMART criteria.
  1. IOU Response: *It was not clear to the IOUs that ED had expected new project objectives to be added to the 2010-2012 programs that had already been approved by the Decision. Furthermore, the IOUs were clearly told, by Energy Division that*

<sup>1</sup> Specific, Measurable, Ambitious, Realistic, and Time-Bound

<sup>2</sup> Decision definition of SMART convention is (Specific, Measurable, Actionable, Relevant, Timely)

*“ED is not asking IOUs to revise the PIPs.” Adding new program objectives constitutes a change to the program and thus the Program Implementation Plans. The IOUs tried to find a common ground by proposing objectives that would be achievable within the Approved programs’ activities.*

- **Program logic models did not clearly link to Strategic Plan objectives.** While Strategic Plan objectives were often restated in the filing, the logic flow from program activities, outputs and outcomes to market outcomes and Strategic Plan objectives was faulty.

*IOU Response: The program logic models were designed to diagram the main activities and main objectives of the programs in order to communicate the program logic in a concise manner. For most of the statewide programs and subprograms, strategic plan support activities are encompassed within the program’s main objectives, thus they were not represented by the high level logic models. The strategic plan activities are described in the text of the PIPs, which should have been used as the main reference. It cannot be emphasized enough that there is no single logic model that will fulfill every EM&V, program management, strategic plan tracking, and communication need for a program. Logic models are communication tools, and not intended to substitute for detailed written descriptions of the programs themselves. Logic models should be created specifically for each communication need, so that more critical details can be captured. The IOUs do not recommend further embellishing the high level program logic models to address the tracking needs of strategic plan activities.*

- **The filing did not contain key data sources and MT indicators** per the decision. The IOUs chose to limit their proposed metrics to outcomes within utility control and did not propose PPMs for mid- and long-term outcomes described in the Logic Model. The IOUs did not propose market-wide goals for their programs in the AL filing, and suggested that the appropriate market-based PPMs be determined during 2010-2012 EM&V planning process between ED and the IOUs.<sup>3</sup>

**IOU Response:**

1. *The CEESP acknowledges that IOUs are not responsible for CEESP long term outcomes because there are other actors that affected the market. It was the IOUs’ understanding from ED that they supported the development of metrics only for those objectives that were within utility control.*
2. *Through ongoing collaboration between the CPUC’s Energy Division staff and the IOUs, the revised PPMs were developed with consideration toward tracking program effectiveness, administrative simplicity and cost effectiveness of tracking and reporting, as well as avoiding dependence on EM&V or market assessment studies. With that said, the metrics the IOUs submitted in the Advice Letter were based on activities directly linked to program implementation, as well as program outcomes (when baseline data was readily available). The reason for this approach was due to the fact that “outcome” metrics require market assessment or baseline*

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<sup>3</sup> See June 24, 2010, Joint utilities’ response to protest of Division of Ratepayer Advocates to the joint AL filing.

*studies – studies handled through EM&V, whereas “activity” metrics can be tracked by program management.*

### **Recommendations for Procedural Next Steps**

Given the extensive PPM changes proposed by Energy Division and the compressed time schedule for IOU review of the PPM document transmitted on September 16<sup>th</sup>, the IOUs believe that it would be most productive if the IOUs and Energy Division meet, in person, to discuss the proposed PPM changes after your staff has had adequate opportunity to review and discuss the proposed modifications.

The IOUs also propose that EM&V ED and IOU staffs be tasked immediately with reviewing the proposed PPMs so that the required baseline studies can be prioritized immediately.

We (Shilpa, Don and I) are still offering a follow up meeting with you if there are outstanding issues that you would like to resolve prior to finalizing these PPMs for inclusion in the upcoming resolution.

We appreciate this opportunity to provide feedback on ED’s proposed PPMs and look forward to continuing work on finalizing these PPMs.